

PARLIAMENTARY JOINT COMMITTEE ON TRADE AND INVESTMENT GROWTH

INQUIRY INTO THE PRUDENTIAL REGULATION OF INVESTMENT IN AUSTRALIA'S EXPORT INDUSTRIES

Westpac Banking Corporation

Question:

Hansard, page 15

CHAIR: Alright. The question to everyone else, which the ANZ has already answered, is: what is your total investment in the Australian coal sector, including power stations, mines, rail and port facilities, if you have it? If you don't have it, I'm happy for you to take it on notice. But we might begin with NAB and go on.

Mr Miller: The current exposure to pure thermal coal companies is just under \$250 million. It's always been a very, very small proportion of our total loan book.

CHAIR: Because others didn't give those supporting and supply chain sectors—I appreciate you might not have that info now, but, if you want to get back to the committee on that at a future time, you'll have the opportunity.

Hansard, page 20

CHAIR: ... I want to drill down into exposure. Some of you have already told me about that with thermal coal. Can I ask you to take this away and bring it back to us on notice: what's the value of your coal loan book in total? Again, could you split that into thermal and metallurgical—you've already told us about thermal, but please repeat that in writing. What proportion of total coal-sector financing is provision of bonding for rehabilitation and biodiversity offsets, and how much is capital provision and lending?

Answer:

Westpac's exposures as at 2 August 2021 are shown in the following table:

Total Committed Exposure	\$m
Total Direct Coal Lending	435.1
Thermal Coal	249.8
Metallurgical Coal	185.3
Bonding	5.9
Lending	429.2
Associated infrastructure (e.g. ports, rail)	652.4
Coal Fired Power Generation	289.5
Total Sector Exposure	1,376.9

PARLIAMENTARY JOINT COMMITTEE ON TRADE AND INVESTMENT GROWTH

INQUIRY INTO THE PRUDENTIAL REGULATION OF INVESTMENT IN AUSTRALIA'S EXPORT INDUSTRIES

Westpac Banking Corporation

Question:

Hansard, pages 18-19

Senator Van: I want to follow on from Dr Mulino's question and some statements Ms Bligh made earlier this morning on behalf of your industry around a lot of these changes. Ms Bligh was talking largely about how a lot of your changes in policy around particularly the coal industry, but also resources more generally, were driven by the demands of your investors. Can each of you give me a quick snapshot of which investors are demanding this? Are they institutional? Are they retail? Which sectors? Are they the Australian super funds? Which ones are being the most vocal on this?

...

Mr Miller: I'd probably say that we should bring our investor relations team to you, because they will have the line-by-line feedback from investors. But Andrew is absolutely right: it's broad based. The international firms are far more direct with us. The Australian superannuation fund pool is definitely engaging on the topic, and we definitely get impressions and feedback from a broader retail investor base about the importance of not just climate but ESG. So Andrew's observations around modern slavery, the way we source services and the way we operate are important for broader investors as well. So it's broad based.

CHAIR: If that team you talked about wanted to give that feedback to the committee later, that would be good. We'll take that on notice.

Answer:

As at 10 August 2021, Westpac has over 600,000 shareholders. Around 52% of Westpac shares are held by institutional investors which include Australian fund managers, industry and other large corporate superannuation funds, and global institutional investors. The remaining 48% of Westpac shares are held by retail investors, which are predominantly Australian-based individual shareholders and self-managed super funds. Geographically, around 76% of Westpac's shareholders are Australian with 24% held by international investors.

Investors of all types are active in encouraging Westpac to take action on climate change.

Retail investors have been a key driver of questions on this issue. At our 2020 AGM, around 30% of the questions submitted by shareholders prior to the meeting were related to climate change. In addition, we continually hear from large superannuation funds that their

members are demanding their funds to demand more action on climate change from the funds they invest in.

Australian institutional investors have also been active in seeking that Westpac take action on climate change. The degree of engagement varies between institutions. However, in general the specialist sustainability funds are the most active, followed by the industry funds and then other active Australian fund managers. Funds want Westpac to have clear plans and disclosure.

There are no large Australian fund managers that actively seek Westpac to take an alternative view on climate change, lending to fossil fuels or our lending to climate change solutions.

The majority of our offshore institutional investors have an indexed mandate and so do not regularly engage with us. However, some of these firms have indicated that they could vote against Board recommendations or directors at the AGM if their sustainability expectations are not met.

There are also several coalitions of institutional investors focussed on encouraging companies to proactively manage the risk of climate change. These include:

- UN Principles for Responsible Investment (PRI), made up of more than 2,700 global investors responsible for more than US\$103 trillion assets under management.
- the Investor Group on Climate Change (IGCC), made up of Australian and New Zealand institutional investors responsible for over \$2 trillion in assts under management; and
- Climate Action 100+, comprising more than 545 global investors responsible for more than \$52 trillion in assets under management encompassing large global as well as local investors.

In addition, some proxy firms who advise institutional investors also engage with companies on climate change, these include the Australian Council of Superannuation Investors (ACSI), Regnan and EOS at Federated Hermes.

PARLIAMENTARY JOINT COMMITTEE ON TRADE AND INVESTMENT GROWTH

INQUIRY INTO THE PRUDENTIAL REGULATION OF INVESTMENT IN AUSTRALIA'S EXPORT INDUSTRIES

Westpac Banking Corporation

Question:

Hansard, pages 19-20

Senator RENNICK: My question is for Westpac. Does Westpac still purchase carbon offsets from the bioenergy plant powering the menthol factory at Nectar Lifesciences in Chandigarh, India, as reported in the *Australian Financial Review* on 22 July?

Mr Miller: I'll have to circle back to be absolutely sure, but I think the answer is no. Let me circle back for you. Obviously we're disappointed about that, but I'll circle back on it.

Senator RENNICK: No worries. You may need to take this one on notice as well: how much did Westpac pay for those de facto offsets?

Mr Miller: I'll have to come back to you on that, to give you precision.

Senator RENNICK: Sure. Why didn't Westpac spend the money buying verified and credible Australian carbon offsets?

Mr Miller: Again, that was brought to light a week and a half ago. I'll have to go back, get the details and come back to you on why, in terms of purchasing that and not something else. I'll come back to you.

Senator RENNICK: How does Westpac square this approach with its approach of limiting finance to lawful coal businesses here in Australia?

Mr Miller: Our approach to coal opportunities in Australia is just around a risk assessment. We look at the position of the miner, the type of coal that it mines—met or thermal coal—its position in the sector, its position in the price curve and our outlook for the product. All of that weaves into a decision around whether this is good risk for the bank. That informs our decision around whether we will or won't support a particular opportunity or a particular client.

Senator RENNICK: Westpac's 2020 sustainability report spends seven pages outlining the various actions that the bank is taking on climate change: not financing thermal coal, targeting agribusiness and increasing focus on oil and gas companies. Yet despite Westpac's child exploitation problems, highlighted in the banking royal commission, the same report spends just three pages talking about human rights. Why is that?

Mr Miller: The emphasis is not intended to highlight one over the other or devalue one over the other. That's absolutely not the case. AFIA were humbled by the experiences of the royal commission, and the subsequent work that we've had to undertake is all about improving us as a bank and making sure we meet the standards that people want of us—investors, regulators and communities.

Senator RENNICK: Can you indicate where in Westpac's sustainability report it refers to the purchase of the menthol factory tobacco offsets from India?

Mr Miller: I'll have to go back and try to find that, understand where that's referenced and respond to you directly.

Senator RENNICK: Sure. If the report fails to mention it, why did it fail to mention it?

Mr Miller: Again, I will have to drill into that for you to give you precision.

Senator RENNICK: Okay. Thank you.

Answer:

The article published in the Australian Financial Review on 21 July 2021 is in reference to 99,277 Verified Carbon Standard (VCS) credits purchased in 2019 from a small-scale biomass project. We now know that this biomass project helped power a Nectar Life Sciences menthol production factory in India. The menthol has various uses (pharmaceutical, therapeutic and cosmetic) including as a smoking tobacco additive.

Credits were sourced through a third party in line with National Carbon Offset Scheme requirements. Under the VCS Program, auditors (validation/verification bodies - VVBs) assess projects against the VCS Program rules and the requirements of the applied methodology. VVBs are qualified, independent third parties approved by VCS to perform validation and verification. This independent assessment process is critical to the integrity of the projects registered with the VCS Program.

The credits were procured and retired in FY19. We no longer have any credits relating to this project.

We are working to source higher regulated credits to meet Westpac carbon offset commitments for FY21-FY23. We also continue to focus on delivering Westpac's transition to renewable energy by 2025, which will reduce Westpac's reliance on the retirement of carbon credits to meet its carbon neutrality commitments.

PARLIAMENTARY JOINT COMMITTEE ON TRADE AND INVESTMENT GROWTH

INQUIRY INTO THE PRUDENTIAL REGULATION OF INVESTMENT IN AUSTRALIA'S EXPORT INDUSTRIES

Westpac Banking Corporation

Question:

Hansard, page 20

CHAIR: ... Secondly, in the past five years how many coal refinance opportunities has each bank participated in? Has that exposure increased or decreased?

Answer:

Since 2017, Westpac Institutional Bank has participated in seven direct coal mine lending transactions which either maintained or increased our aggregate lending exposure.

PARLIAMENTARY JOINT COMMITTEE ON TRADE AND INVESTMENT GROWTH

INQUIRY INTO THE PRUDENTIAL REGULATION OF INVESTMENT IN AUSTRALIA'S EXPORT INDUSTRIES

Westpac Banking Corporation

Question:

Hansard, page 20

CHAIR: ... How are your decisions on whether to invest in or refinance coal reached? Is it purely on a business case—commodity, price outlook et cetera—or is there other decision-making that's taken into account for specific refinance and lending requests that come to you? For instance, is there branding or marketing that's taken into account? If you can elaborate on that process, that would be very interesting.

Answer:

In deciding whether to lend to any business, Westpac will consider a range of factors, which may include:

- Target market: we assess whether the customer is within our target market from a business strategy perspective and risk appetite perspective (which includes consideration of WBC internal and external position statements).
- Customer needs assessment: we consider what requirements the customer has and whether the product/loan will assist in meeting these requirements.
- Risk and mitigants: we consider relevant risks and mitigants across:
 - Macroeconomic environment;
 - Industry risks (e.g. stability, environmental risk, structural challenges, outlook etc);
 - Customer specific risks (e.g. market positioning, product diversity, customer concentrations, geographic concentrations, refinancing risk, ESG risks etc).
- Customer risk grade: we then determine a customer risk grade using financial and non-financial information, referenced against internal policy metrics. This is our estimate of the potential for default by the customer.
- Security: we then consider what security we will get from the customer as this assists to determine the amount we may lose in the event the customer defaults on payments to us.
- Product: we consider what appropriate terms and conditions of the underlying loan may be, including tenor.
- Pricing: we assess whether the pricing that can be agreed with the customer provides sufficient return to our shareholders given the risks associated with the proposed transaction.

Ultimately we are seeking to ensure that we are lending in a responsible manner, to a customer that has a management team that we believe has the appropriate character and business acumen, and that the customer has an underlying financial position and expected

financial performance for the foreseeable future to provide us with sufficient confidence that the relevant financial commitments will be met by the customer.

Specifically for a coal mining customer we consider issues including:

- Does the customer meet our position statements around coal, including considering:
 - whether the customer is a new customer or an existing customer;
 - the type of coal mined i.e. thermal and/or metallurgical;
 - the location of the mine; and
 - the calorific value of the coal mined.
- Does the customer require the funding and for what will the funding be used?
- How does the tenor of the funding relate to the useful life of the mine?
- Does the customer have clear ownership and control of mine output?
- What off-take arrangements does the mine have in place?
- What is the geological risk profile of the mine / deposit?
- What are the capital expenditure requirements during the proposed term of funding?
- What is the pricing outlook on coal?
- What is the customer's break-even cost of mining relative to the coal price outlook?
- What are the other terms on the loan?
- What is the residual re-financing risk at the maturity of the loan?
- Does the loan pricing provide sufficient return to our shareholders given the risks associated with the proposed transaction?

PARLIAMENTARY JOINT COMMITTEE ON TRADE AND INVESTMENT GROWTH

INQUIRY INTO THE PRUDENTIAL REGULATION OF INVESTMENT IN AUSTRALIA'S EXPORT INDUSTRIES

Westpac Banking Corporation

Question:

Hansard, page 20

CHAIR: ... Have any of the banks entered into any agreement that would forbid or place obstacles in the way of your bank investing in export industries such as coal or intensive agriculture? If so, can you point to those agreements and explain why they were entered into and whose decision it was to enter into them?

Answer:

Westpac is not party to any current binding agreements with third parties that would forbid or place obstacles in the way of investing in export industries such as coal or intensive agriculture.

PARLIAMENTARY JOINT COMMITTEE ON TRADE AND INVESTMENT GROWTH

INQUIRY INTO THE PRUDENTIAL REGULATION OF INVESTMENT IN AUSTRALIA'S EXPORT INDUSTRIES

Westpac Banking Corporation

Question:

Hansard, page 20

CHAIR: ... Finally—and you can probably answer this now, and I'm happy for whoever wants to take a bite at it to answer it—what's the resale value of a house in a defunct coalmining region? Are you worried about stranded housing assets in regional Australia, particularly in areas where banks could see coalmine closures because they have failed to loan to those viable businesses?

Answer:

We are acutely aware of the impact that a mine closure or industry closure can have on the value of residential property in these communities. We also want to assist people to buy homes in those locations and to this end we work to strike a balance between protecting our balance sheet through prudent lending criteria and helping customers. We are also conscious of the impact this can have on investors and rental demand.

Within our Consumer and Business Division, we do not have any specific restriction on mortgage lending in coal mining regions. However, we identify towns that are dependent on a single industry, which in some locations, will include coal mining. When lending to customers buying properties in these locations we complete a current full valuation inspection by an independent registered valuer to assess current market value and then limit the maximum amount of lending to 70% of the current market value to provide a minimum 30% level of equity buffer in the event of a market price correction. In locations that are not subject to these, or other, restrictions, we would typically lend up to 80% of the current market value and, in some cases, up to 95% where mortgage insurance is applied. For property investor loans in single industry towns we also apply an additional discount to the allowable amount of rental income we will put toward the application income assessment given the greater volatility in the value of rental incomes in these locations.

PARLIAMENTARY JOINT COMMITTEE ON TRADE AND INVESTMENT GROWTH

INQUIRY INTO THE PRUDENTIAL REGULATION OF INVESTMENT IN AUSTRALIA'S EXPORT INDUSTRIES

Westpac Banking Corporation

Question:

Hansard, pages 20-21

Senator VAN: Yes. I'll be very quick. Obviously coal and other fossil fuels are not the only contributors to carbon emissions and, therefore, climate change. I'd like each of you to set out for the committee on notice please your plans to divest out of other industries that contribute, such as transport, airlines, agriculture et cetera. I assume you're going to be consistent across all emitting industries, not just one.

Answer:

Westpac's approach to climate change and criteria in relation to specific industries are outlined on pages 5-7 of our Climate Change Position Statement (attached).

Action 1. Help customers and communities respond to climate change.

Help business customers.

We provide our business customers¹ with a range of innovative sustainable finance structures including green deposits, green bonds and sustainability-linked loans.

We acknowledge that our own commitments to operate our business in line with the goals of the Paris Agreement mean that we must clearly set out expectations for our customers, recognising that our financing activity must align with activities that support efforts to keeping a global temperature rise this century to well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 degrees Celsius.

We continue to evolve our sustainable finance approach, recognising the role financial institutions can play in facilitating the transition to a low carbon economy, and helping customers to manage the range of impacts they are likely to experience from climate change.

We will:

- Support solutions and technology that accelerate the transition to a low carbon economy, aiming to provide \$3.5 billion of new lending to climate change solutions over the next three years, and \$15 billion in the next 10 years to 2030²;
- Engage customers, particularly those operating in the most emissions intensive and climate-vulnerable sectors, to develop financing strategies that can support their response to climate change impacts, with a focus on our largest and most material customer relationships;
- Be transparent about our ESG policies and Sector Criteria, articulating the conditions under which we will and will not provide finance to certain sectors. Our current sector criteria are described in further detail below; and
- Engage with industry and government initiatives that support a climate-resilient economy.

Sector Criteria.

Our approach to financing emissions-intensive sectors is grounded in the principles, benchmarks and underwriting standards established in this Position Statement.

It is based on a thorough assessment and understanding of the industry life-cycle of the particular sector, and the implications of climate change science.

We will:

- Guide business customers in, or reliant on, emissions-intensive and climate-vulnerable sectors to:
 - assess the financial implications of climate-related risks and opportunities in their business, including how their strategies are likely to perform under various forward-looking scenarios; and
 - demonstrate a rigorous approach to their governance, strategy setting, risk management, and reporting on climate-related risks and opportunities.
- Develop Paris-aligned financing strategies and portfolio targets, particularly for sectors representing the majority of our financed emissions, working in collaboration with our customers and industry experts and providing annual updates on progress.

1. Customers from our Institutional, Corporate and Commercial segments.

2. Targets are currently for Institutional, Corporate and Commercial segments and informed by analysis of capital investment required for a “well below 2-degrees” outcome. ‘New lending’ is incremental and does not include refinancing. Targets will be reviewed at least every three years to reflect changes in technology, policy, climate science and investment assumptions and as our approach evolves. Our climate change solutions definition can be found in the glossary of our Sustainability Performance Report. We will continue to provide six-monthly updates on our Total Committed Exposure to climate change solutions.

We have conducted preliminary analysis of our financed emissions profile and in addition to the criteria for the energy system and agribusiness outlined below, we expect to include property, manufacturing and transport in our future work on sector-based approaches.

Energy system.

Our focus on the energy system recognises its critical role in the transition to a low carbon economy. Given their significant contribution to emissions, we have set criteria for mining and electricity generation financing activities.

Mining.

Westpac's Total Committed Exposure (TCE) to mining represented around 1% of Group TCE at 31 March 2020. Coal mining was around 0.06% of Group TCE. In New Zealand our lending to coal mining is zero and we have no plans to recommence financing this sector in our New Zealand business.

Thermal coal mining.

Our thermal coal mining portfolio reflects long-standing efforts to manage our lending to this sector in line with strict quality requirements.

We will:

- Continue to support our existing thermal coal mining customers³, managing our portfolio in line with a commitment to reduce our exposure to zero by 2030.
- In the interim, we will:
 - not establish relationships with new thermal coal mining customers;
 - limit support for thermal coal mines or projects to existing basins; and
 - maintain strict quality criteria⁴.

Metallurgical coal mining.

We will:

- Continue to provide financing for metallurgical coal mining and seek to support technological developments and industry initiatives that reduce the dependence of the steel industry on coal; and
- Require that any material component of production from new metallurgical mines that is used for the purposes of electricity generation meets our existing standard.

Oil and gas.

We will continue to assess the role of oil and gas in the transition to a low carbon economy and to develop Paris-aligned financing strategies and portfolio targets for emissions intensive sectors, working with our customers. In the interim we will continue to provide finance to the sector in line with our ESG policies and commitment to the Paris Agreement⁵.

3. Including subsidiaries of existing customers, with thermal coal mining customers defined as those generating more than 25% of revenues from the sale of thermal coal, or in the case of a stand-alone mine, more than 35% of volumes from thermal coal. All other coal mining or mines are deemed as metallurgical.

4. Average calorific value on a Gross As Received basis must be at least 5,700 kCal/kg for existing mines; and at least 6,300 kCal/kg Gross As Received for new mines.

5. This includes not providing project finance to oil and gas exploration and development in high risk frontier basins such as Arctic and Antarctic refuges, and for oil sands development.

Electricity generation.

We recognise that the reduction of the emission intensity of electricity networks is critical for the economy to reach net zero emissions by 2050.

To date we have actively managed the emissions intensity of our exposure to the electricity generation sector. As a result:

- The share of renewables in our exposure to the electricity generation sector was 75%; and
- The emissions intensity of our electricity generation portfolio in Australia was 0.26 tCO₂e/MWh, well below the National Electricity Market benchmark of 0.75 tCO₂e/MWh.

Our analysis of the Australian electricity market under Paris-aligned scenarios to 2050 showed:

- Demand for thermal coal generation declining;
- Gas playing a role over the medium term, particularly to provide 'firming' for intermittent renewable energy sources and use in industrial processes, before a stronger trend to lower-cost renewables;
- New investment in solar and wind, supported by grid-scale storage technologies, bringing the renewable energy mix in the Australian electricity grid to around 90% by 2050; and
- Demand for electricity continuing to rise as other sectors decarbonise through the electrification of energy.

In considering financing decisions in the electricity generation sector we will:

- Take into account the intersecting requirements of emissions reduction, affordability, energy security and reliability, and the feasibility of emerging low emissions technologies (e.g. carbon capture and storage);
- Consider the impact of the transition on vulnerable households, regional communities and trade-exposed industries; and
- Ensure our financing supports Paris-aligned transition pathways to a net zero emissions economy by 2050 including by reducing the emissions intensity of our electricity generation portfolio in line with the following targets:
 - 0.23t CO₂e/MWh by 2025; and
 - 0.18t CO₂e/MWh by 2030.

Agribusiness.

Agribusiness plays a fundamentally important role in providing food and other essential goods to people, driving economic growth, reducing poverty and supporting livelihoods and communities.

The agribusiness sector has an important role to play in managing and mitigating the risks and opportunities associated with climate change.

In line with our **Agribusiness Position Statement** we will:

- Assist customers to meet the challenge of both transition and physical risks associated with climate change, and to maximise opportunities to reduce greenhouse gas emissions arising from the adoption of new technologies and farming techniques; and
- Undertake further analysis to build on our understanding of the short, medium and long-term climate change risks and opportunities in our major agribusiness portfolios, and how we can continue to support our customers to respond.