

Joint Standing Committee on Trade and Investment Growth

Inquiry into the prudential regulation of investment in Australia's export industries

CHAIR: I have a truckload of questions, but we're out of time. I'm going to ask representatives to take these questions on notice if they can. 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?

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

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: The Commonwealth Bank publishes our exposure to energy-related assets in our Annual Report.

As at 30 June 2021, the total value of our direct exposure to coal mining was approximately \$0.33 billion. That is comprised of:

- \$0.3 billion exposure to thermal coal mining; and
- \$0.03 billion exposure to metallurgical coal mining.

Our exposure to bonding for rehabilitation and biodiversity offsets was approximately \$134 million. Accordingly, from a total exposure of \$0.33 billion, approximately 40% relates to bonding for rehabilitation and biodiversity offsets.

In relation to coal refinancing opportunities, the relationship between the Bank and our potential, existing or past customers and other external parties is confidential and our practice is not to comment on or name any such relationships.

In relation to the factors we take into consideration when deciding about lending to a business, as outlined in our submission, when making a decision about whether to lend to a business, we take a range of risk considerations into account. Front of mind will be the level of confidence we have that the business will be able to repay the loan – this is important for our shareholders, important to protect our prudential standing, and critical from the point of view of the business themselves, so that they can access capital to grow, without the risk of over committing and indebtedness. The range of factors taken into account include:

- Track record and cash flow of the business;
- The terms and conditions of any proposed financing;
- Management and business plan;
- Stability of the sector;
- Commonwealth Bank's overall exposure to the sector;
- Flexibility of the business – for example, if a business is heavily exposed to one overseas market, what risks might that pose; and
- Refinance risk.

We also consider the sector in which the business operates, and how the company relates to the broader macro environment. In this context, the major current and emerging risks Commonwealth Bank has identified that could materially impact our ability to serve our customers or deliver on our strategy include:

- The macroeconomic environment;
- Cyber security and data management;
- Financial crime;
- Digital disruption;
- Business resilience;
- Skills and capabilities;
- Trust and reputation; and
- Climate change.

Our Environmental and Social Framework commits us to restrict lending to coal, as outlined in our Annual Report.

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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: We have committed to reducing the emissions intensity of our business lending portfolio over time and we will work with our emissions intensive clients to identify possible new technology and business models that will support their transition.

Our Environmental and Social Framework applies across the Commonwealth Bank Group. Institutional Bank loans, as well as large loans in other business units, are evaluated through our Environmental, Social and Governance (ESG) risk assessment tool.

We report estimates of the financed emissions associated with our business lending in our Annual Report.