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Committee Secretary
Joint Standing Committee on Trade and Investment Growth
PO Box 6021
Parliament House
CANBERRA
Canberra ACT 2600

Via email: jsctig@aph.gov.au

10 May 2021

Dear Committee Secretary

Re: Inquiry into the Prudential Regulation of Investment in Australia's Export Industries

At Commonwealth Bank (CBA), our purpose is to improve the financial wellbeing of our customers and communities. Our objectives include contributing to the prosperity of all Australians and to the success of the broader economy; outcomes we believe consistently align with CBA's long-term success.

Our recently refreshed strategy includes an enhanced focus on business lending, one important way to help Australia emerge strongly from the economic downturn.

Our commitment to businesses has been reflected in our role as active participants in the Government's Small and Medium Enterprise Loan Guarantee initiative, funding over \$1.5 billion in loans, or around fifty percent of loans under that Scheme. We have also grown our overall lending to business considerably, at a rate well above the rate for lending to that segment in the economy overall.

In 2020 Commonwealth Bank was a founding member, with the Australian Government and other lenders, of the Australian Business Growth Fund, which aims to support fast growing businesses with capital, without their having to give up control of their business.

An important part of growing our business lending and supporting the national economy is financing businesses that are exporters of Australian goods and services. We have customers across key Australian export industries, including agriculture; resources; education and tourism.

Australia as an exporter

Australia is a leading global exporter with a deep and diverse array of goods and services exports. Our economy benefits from its proximity to the ultra-fast growing Asian region, with many of Australia's principal export partners located in Northeast Asia and Southeast Asia; while a network of 14 free trade agreements gives Australian companies preferable access to these fast-growing markets.

A number of Australia's most important exports are outlined in Table 1, over.

Table 1. Value of selected Australian good and service exports, by export or category of export, 2019-20

Export	Value (\$ billion), 2019/20
Iron ore	102 ¹
Agricultural goods	48 ²
Gas	47 ³
Education	38 ⁵
Tourism	31 ⁴
Metallurgical coal	34 ⁶
Gold	24 ⁷
Thermal coal	20 ⁸
Copper	10 ⁹

1,3,6-9: *Resources Energy Quarterly*, Dept. of Industry, December 2020; 2: ABS, *Agricultural commodities: March quarter 2021*; 4: ABS, cat.5368; 5: ABS, cat.5249

Commonwealth Bank lending to export industries

CBA has customers in largely all the major industry segments that are Australia's largest exporters. CBA also lends to a wide variety of businesses that provide goods and services to exporters, across the economy and in every Australian jurisdiction.

CBA's is a significant lender to agribusiness in Australia, having grown this exposure 17 percent for 12 months ended March 2021. Around two thirds of Australia's agricultural output is exported, making this a key source of export revenue and related employment.

CBA also lends to Australia's largest service export industries, being tourism and education, with approximately \$3.4 billion in business loans approved for those sectors over the past two years.

Exposure to Australian resource companies, while not insignificant, is smaller in relative terms. This reflects a number of factors, including relatively lower levels of industry gearing, strong internal cash flow generation enabling capital expenditure and investment, and broad ranging access to non-bank funding including debt capital markets and alternative finance including private equity.

Exposure to leading export industries is outlined below.

Table 2. Commonwealth Bank, commercial lending exposure (Australian based), selected industry segments

Industry segment	Commercial lending exposure billion dollars, March 2021
Agribusiness	17.7
Entertainment, leisure and tourism	13.3
Education	3.2
Oil and gas extraction	1.5
Gold ore mining	1.0
Food and beverage processing	0.6
Agribusiness supply chain	0.5
Industrial (includes paper and packaging)	0.4
Iron ore mining	0.3
Thermal coal	0.2
Nickel mining	0.2
Bauxite mining	0.1
Other mining services	0.6



CBA has worked to help exporters develop markets off-shore. As one example, in 2019 CBA nominated a client in meat processing for an annual award through the Hong Kong Australia Business Association, an award the client won. These initiatives form part of broader efforts to give profile to high quality Australian agricultural product through markets in the region.

CBA has explored innovative approaches to supply chain management, in one instance arranging shipping of seventeen tonnes of almonds from Victoria to Germany in a blockchain-based collaboration between Commonwealth Bank and five Australian and international supply chain leaders. In that experiment, conducted in 2018, partners were able to view and track the location of the shipment as well as the conditions, such as temperature and humidity inside the container, via four 'Internet of Things' devices. This level of data provided partners in the supply chain with a greater level of transparency and efficiency regarding the location, condition and authentication of the goods being transported.

CBA also provides options for exporters to manage working capital requirements, through its trade finance business, as well as helping exporters manage risk through commodity trading products.

Managing risk

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;
- Management and business plan;
- Stability of the sector;
- CBA'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.¹

The risk management framework supports the Board and senior management in obtaining an appropriate view of the Group's overall risk profile. Particular attention is paid to identifying risks throughout the Group which, in combination, may have a material impact on it, as well as the risk of contagion arising from issues identified with related parties (including any non-APRA-regulated activities).

In addition to the above list, in the context of exporters in particular, geopolitical risk is also a key focus, to the extent this can impinge on market access for Australian goods and services, as we have seen in recent months.

Risks continue to evolve, meaning our approach to managing risk must be constantly reviewed and updated. This process of review, undertaken by management and overseen by the Board, takes in expert input from a variety of external sources. It must also incorporate a well-informed understanding of emerging economic and financial developments, as well as evolving expectations of customers, investors and the broader community. All of these can lead to changes in the legislative and regulatory framework that are material to business strategy.

In making these decisions, Commonwealth Bank aims to be as transparent as possible at a macro level about the rationale for its decisions, while at the same time reporting clearly and regularly on the actions it is taking to mitigate those risks, as outlined most recently in the Annual Report 2020.²

Regulatory framework

The regulatory framework governing the provision of financial services includes multiple obligations relating to the governance of risk, through legislation, regulatory instruments, and interaction with key regulators, including foremost APRA, ASIC and the RBA.

Risk governance refers to the formal structure used to support risk-based decision making and oversight across all operations.³ APRA administers a framework requiring institutions to have a risk management framework that is consistent and integrated with the risk profile and capital strength of the organisation, supported by a risk management function and subject to comprehensive review. These obligations also dovetail with the fiduciary obligations on directors through the Corporations Act⁴, which include requirements for them to act with care and diligence, in good faith and in the interests of the Corporation.

In summary, we remain committed to growing our lending to businesses, thereby contributing to the economic recovery. Within that, we expect export industries will continue to represent an important part of our business lending portfolio.

Should you have any questions or require more information regarding the information provided, do not hesitate to contact me.

¹ Commonwealth Bank Annual Report, pp.58-61

² Commonwealth Bank Annual Report, pp.58-61

³ Australian Regulatory Prudential Authority, *CPS 220 Risk Management*, April 2018; p.6

⁴ Corporations Act, s.181



Yours sincerely



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