Update note: *Financed emissions, 'Unburnable Carbon' Risk and the Major Australian Banks, ACCR, 2014*[1]

1. Recap

Last year the ACCR published research on the exposure of top four major Australian banks to carbon risk. Based on that research the ACCR engaged with each of the banks seeking improved disclosure. Following that engagement the ACCR and other supportive shareholders:

- Requested WBC distribute a statement with its notice of meeting for the 2014 AGM noting of the four major banks in regard carbon risk WBC "had the best disclosure, is the least exposed and the best prepared" and encouraging WBC to target reductions in financed emissions[2];
- lodged a resolution for consideration at the NAB AGM seeking improved disclosure. However, soon after announcement of the resolution to the NAB made commitments to act substantially in accord with the proposed resolution so it was withdrawn[3];
- lodged a resolution for consideration at the CBA AGM. At first, CBA claimed the disclosure sought by the resolution was all too hard. However, two weeks prior to the AGM they made commitments to stagger improve disclosure over the following 18 months. The resolution went to the meeting and attracted the support of 3.2% of the vote[4];
- lodged a resolution for consideration at the ANZ AGM. At the AGM the ANZ chairman announced immediate and planned future disclosure improvements. The resolution went to the meeting and attracted the support of 3.1% of the vote[5];

Since the release of the ACCR report each of these banks has improved the quality of their disclosure on this issue. To the extent ACCR is in a position to form a judgement commitments made in regard 2015 disclosure have, to date,been observed. Some of the commitments involved participation in groups endeavouring to improve standardised reporting and ACCR is not in a position to judge adherence to those commitments. Section 2 below uses the improved disclosure available to update the estimates of on balance sheet exposure to highly carbon intensive businesses provided in the original report.

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[1] See http://www.accr.org.au/bigbankreport .
[2] See http://www.accr.org.au/wbc .
[3] See http://www.accr.org.au/nab .
[4] See http://www.accr.org.au/cba .
[5] See http://www.accr.org.au/anz .

2. Update of the estimates of on-balance sheet exposure to carbon intensive businesses in Appendix B

This section updates the calculations used to obtain the estimates in table 2 of *Financed emissions, 'Unburnable Carbon' Risk and the Major Australian Banks* of on balance sheet loan exposure to coal miners, oil and gas extractors, coal and gas fired power generators and coal export ports.

The table below sets out the original and current estimates. The main reasons the figures have changed are:

- the original estimates were based on September 2013 data, where available the new estimates are based on March 2015 data;
- the original estimates were, for some parameters, for some banks based on industry averages. As a consequence of the resolutions proposed by the ACCR to some of the banks seeking better disclosure all of them improved their disclosure. The current estimates reflect that improve disclosure.

Table 1: Updated estimates of bank on-balance sheet exposure to carbon intensive business ($b & % of equity)

Bank	Original estimate[6] $b	Original estimate as % of equity[7]	New estimate[8] $b	New estimate as % of equity[9]
ANZ	17.5	38%	21.6	42%
CBA	8.3	18%	19.2	38%
NAB	6.1	13%	10.9	22%
WBC	6.3	14%	7.6	15%

The most significant change from the original estimates involves CBA. The original figures underestimated the exposure of CBA because industry averages were used in the absence of disclosure by the company. Since then, CBA has significantly improved its disclosure and the accuracy of the estimate has likewise improved.

There is no material change in the ranking of the Australian banks in regard on balance sheet exposure. ANZ is the most exposed, CBA is close behind ANZ. The exposure of these two banks is about double that of NAB and WBC though the original estimates for both of these were understated.

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[6] See Table 2 *Financed emissions, 'Unburnable Carbon' Risk and the Major Australian Banks,* ACCR, 2014 p 9 and also p 18. The ranking in order from most to least accurate was ANZ, WBC & NAB then CBA.
[7] As at 2013 Annual Report.
[8] See Appendix A below. The ranking in order from most to least accurate is now ANZ, CBA and NAB then WBC.
[9] As at 2015 half yearly report.

3. Conclusion

ACCR's engagement and resolution lodgement in 2014 has contributed to significantly improved disclosure of exposure to carbon intensive businesses on balance sheet. However, disclosure has not improved in regard wealth management operations.[10] Each of the banks has committed to work towards better standardised reporting of aggregate exposure but, at least publicly, this work has little to show for it to date. On balance sheet, ANZ & CBA are most exposed.

[10] This is particularly anomalous as portfolio carbon footprinting services are readily available from external consultants, see for example, http://www.thesouthpolegroup.com/news/south-pole-group-and-caer-partner-to-offer-investment-climate-impact-assessment-services-1 .

Appendix A

There are two data sources for each bank - but each has its own significant weaknesses. Market Forces[11] assembled flow data from the trade press to estimate project finance during the period 2008 to 2014 in Australia. This source is an underestimate of balance sheet stocks because it excludes international exposure, other (ie non project finance) and loans extended prior to 2008 but an overestimate because it excludes repayments. Each bank produces "Exposure at default" (EAD) or "Total Credit Exposure" (TCE) industry classification data itself but the granularity of industry coverage varies, also EAD and TCE include undrawn commitments. The figures used in the table below are based on the EAD/TCE figures except that the Market Forces estimate of finance for coal ports is used for all the banks except CBA.

1. ANZ

Market Forces: $12.6b. Coal ports accounts for 19% ie $2.4b.

ANZ: Exposure at default (EAD)[12] total = $991b

Estimate[13] = 1.93% = $19.2b excluding coal ports.

= 2.2% = $21.6b[14] including MF estimate for coal ports.[15]

Electricity, gas and water = 1.4% [16] of which 50.5% [17] is in oil, gas and coal; Mining = 2.2% [18] of which 56% is in oil, gas and coal [19]

2. CBA

Market Forces: $9.9b. Coal Ports accounts for 25% = $2.5b.

CBA disclosure[20]: $1.7b at Dec 2014.

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[11] Identified loan finance extended during 2008 to 2014 to fossil fuel businesses/projects (coal, coal fired power generation, coal port facilities, gas fired power & LNG plants) in Australia. See http://marketforces.org.au/banks/map/ .

[12] See ANZ Basel III Pillar 3 disclosure March 2015, p 24

[13] of exposure to coal, oil and gas in the resources and power generation industries, excludes coal ports.

[14] Using project finance flow identified by Market Forces, assumes there is no international exposure to coal port finance.

[15] Coal ports are included in ANZSIC code 6622 in Transport and Storage rather than mining or electricity, gas & water.

[16] ANZ's lending portfolios for the energy sector is split 27% gas-fired and 34% coal fired. See http://www.anz.com/resources/9/1/91f06033-a0fb-4155-bd4b-973bbd642b99/coal_industry.pdf?MOD=AJPERES

[17] As at Mar 2015, see http://www.asx.com.au/asxpdf/20150505/pdf/42yc2qj34ly747.pdf p 78.

[18] As at Mar 15, see http://www.asx.com.au/asxpdf/20150505/pdf/42yc2qj34ly747.pdf p 59

[19] As at Mar 15, see http://www.asx.com.au/asxpdf/20150505/pdf/42yc2qj34ly747.pdf .

[20] See https://www.commbank.com.au/.../2015-02-05-group-energy-exposure . Note that unlike the three other banks CBA disclosure is based on 'TCE' Total Credit Exposure' rather than 'Exposure at Default'.

CBA: Total credit exposure (TCE)[21] total = $920b

Actual = 1.88% = $17.3b excluding coal ports.

= 2.1% = $19.0b including coal ports.

Energy = 0.9%[22] of which 73% is in oil, gas and coal generation[23]

Mining = 1.8%[24] of which 68% is attributable to coal, oil and gas.[25]

3. NAB

Market Forces: $8.3b. Coal ports accounts for 11% = $0.9b.

NAB: Exposure at default (EAD)[26] total = $975b.

Estimate = 1.04% = $10.1b excluding coal ports

= 1.1% = $11b including coal ports

Mining exposure at March 2015 was 1.05% of EAD of which 45% is identified as Coal, Oil and Gas,[27], EAD to coal mining, oil and gas extraction is then 0.47%.

Power generation is 1% of EAD with 57% non-renewable. EAD to coal and gas fired power generation is then estimated as 0.57% of EAD.

4. WBC

Market Forces: $5.9b 22.6% is in coal ports = $1.3b.

WBC: Exposure at default (EAD)[28] total = $896b

Estimate = 0.7% = $6.3b excluding coal ports.

= 0.8% = $7.6b incl. Australian coal ports

Electricity, gas and water & communications = 1.5%[29]. In Australia and New Zealand as originated by Westpac Institutional Bank finance for coal and

[21] See https://www.commbank.com.au/content/dam/commbank/about-us/shareholders/pdfs/results/FY15/30-june-2015-basel-III-pillar-3-asx.pdf p 21.
[22] See https://www.commbank.com.au/content/dam/commbank/about-us/shareholders/pdfs/results/FY15/30-june-2015-basel-III-pillar-3-asx.pdf p 21.
[23] Private email from CBA Investor relations dated 13/11/14
[24] As at June 2015.
[25] See https://www.commbank.com.au/.../2015-02-05-group-energy-exposure .
[26] See NAB Pillar 3 Report March 2015, p 16 at http://www.nab.com.au/content/dam/nab/about-us/shareholder-centre/regulatory-disclosures/documents/march-2015-pillar-3.pdf .
[27] See http://www.nab.com.au/content/dam/nab/about-us/shareholder-centre/financial-results/documents/2015-half-year-results-investor-presentation.pdf p 112.
[28] See WBC Pillar 3 Report March 2015, p 28.
[29] ibid

gas fired power generation is 41.4% of $3.2b [30] ie 0.15% of EAD. This figure may be understated due to non-institutional bank or non-Australasian exposure to coal and gas fired power generation. Utilities exposure is 65% Australian.[31] So, ignoring New Zealand exposure and ignoring non institutional bank exposure total fossil fuel generation utilities exposure is estimated as 0.23% of EAD, ie 41.4% * $3.2 /0.65 = 0.23%.

Mining = 1.4%[32] of which 33.6% is attributable to coal, oil and gas, ie 0.5% of EAD.[33]

5. Emissions intensity of financed electricity generation in Australia

Any comparison across banks based on the figures described above implicitly assumes all coal and gas fired power generation financed by each bank has the same average emissions intensity. Similarly, it assumes similar fractional ownership within coal, oil and gas extraction of each industry subsector and that each subsector financed has the same carbon intensity. Some information has been provided by some of the banks to address this issue in regards financing of electricity generation in Australia. The table below sets out the figures available. Even though ANZ devotes a larger fraction of its book (0.7%) to financing carbon intensive power generation than CBA (0.66%) the carbon intensity of the generators financed by CBA exceeds that of ANZ so the level of financed emissions attributable to finance for power generation in Australia by ANZ may not exceed that of CBA. Until arrangements for disclosure of financed emissions improve it is not feasible to extend this conclusion.

Table 2: Carbon intensity of the Australian grid and power generation recently financed by each of the four banks in Australia

	tCO_{2e}/MWh	% below Australian stock average
Australian grid	0.86	
Most recently commissioned coal fired power station[34]	0.82	5%
Most recently	0.51	41%

[30] See http://www.westpac.com.au/about-westpac/sustainability-and-community/reporting-our-performance/stakeholder-impact-reports/ . See Customer Factpac 2014 p 6.

[31] Ibid p 1.

[32] See WBC Pillar 3 Report March 2015, p 28

[33] See http://www.westpac.com.au/about-westpac/sustainability-and-community/reporting-our-performance/stakeholder-impact-reports/ . See Customer Factpac 2014 p 6.

[34] In the eastern states 'NEM', Kogan Creek.

commissioned major gas-fired power fired station[35]		
ANZ[36]	0.69	20%
CBA[37]	0.77	9%
NAB	na	na
WBC[38]	0.41	52%

However, some of these banks have endeavoured to highlight the fact the weighted average emissions intensity of their project financing is beneath that of the Australian grid. This fact means little viewed from the perspective of shareholders concerned about a bank's exposure to carbon risk. The weighted average intensity of the Australian grid reflects the intensity of power plants financed decades ago. A bank which had solely financed the most recent coal fired power station on the eastern seaboard Kogan Creek (commissioned in 2009) would be financing a power station with an emissions intensity of 0.82 ie 5% below the grid average. A bank which solely financed the most recent gas fired power station Mortlake (commissioned in 2012) would be financing a power station with an emissions intensity of 0.51 ie 41% below the grid average.[39]

[35] Mortlake in Victoria.

[36] See http://www.asx.com.au/asxpdf/20150505/pdf/42yc2qj34ly747.pdf p 78.

[37] Note that for CBA figures are also available for the emissions intensity of project financed coal, oil and gas operations. See https://www.commbank.com.au/.../2015-02-05-group-energy-exposure .

[38] See http://www.westpac.com.au/about-westpac/sustainability-and-community/reporting-our-performance/stakeholder-impact-reports/ . See Customer Factpac 2014 p 6.

[39] See https://www.google.com.au/#q=aemo+emissions+intensity+of+generation .