CLIMATE ENERGY FINANCE

Green (Buildings) Wash?

Big banks' ~$400bn sustainable finance target misses mark on driving enormous net zero opportunity by disproportionate allocation to minimally energy-efficient property asset class

Only 7% of Big 4's sustainable finance goes to renewables & decarbonising industry

[Media release with author quotes]

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1. Introduction

In Australia's pursuit of net zero by 2050, rolling out the necessary industry abatement technologies and transitioning the energy system is estimated to require a cumulative investment of $625bn.

Subsequent gains to the economy are expected to be nation-building, with the 2023 NAB All Systems Go report identifying a $435bn GDP uplift for Australia from trading in global decarbonisation to 2050.

As major lenders within the Australian economy, our big 4 banks represent $4tn in assets and are key actors in mobilising capital at scale towards the achievement of this outcome – and in achieving the shorter and medium terms goals of rapid decarbonisation this critical decade to 2030, if we are to honour our Paris obligations in line with the climate science.

With Macquarie Group included, they are five of the top 10 ASX-listed companies and wield immense market power to influence and shape the transition.

This report focuses on the big 4 commercial banks, which have all established sustainable finance targets (SFTs) aimed at contributing to climate change mitigation.

CEF's research quantifying the SFTs of the big 4 banks reveals a collective target of $385bn (and growing) this decade, proving there is no shortage of private capital to fund the domestic energy transition. To date, each bank has been ahead of track to hit their target and has acted quickly to establish new, more ambitious SFTs, a testament to the capital waiting and ready to be deployed at scale to support decarbonisation and sustainability goals.

CBA has allocated a massive $45bn over three years towards its $70bn SFT.

NAB hit its $70bn in environmental financing over seven years to financial year 2022, and promises to establish a new more ambitious target this year.

Westpac last year achieved $13bn total committed exposure (TCE), increasing its balance sheet growth ambition in climate solutions from $15bn to $55bn TCE by 2030, plus $40bn in bond facilitation.

ANZ began with a $50bn SFT in FY2020 and last year extended "at least" an additional $100bn in support of 'environmental and social outcomes' this decade. Its cumulative SFT allocation to date is $56bn.

However, CEF's research reveals that this capital is not being mobilised sufficiently nor strategically enough to capture the enormous investment, trade and employment opportunity at hand, nor to effectively underpin Australia's national decarbonisation goals, due to the over-concentration of banks' sustainable finance activities in one asset class – 'green buildings'.

2. Sustainable finance allocation by asset class

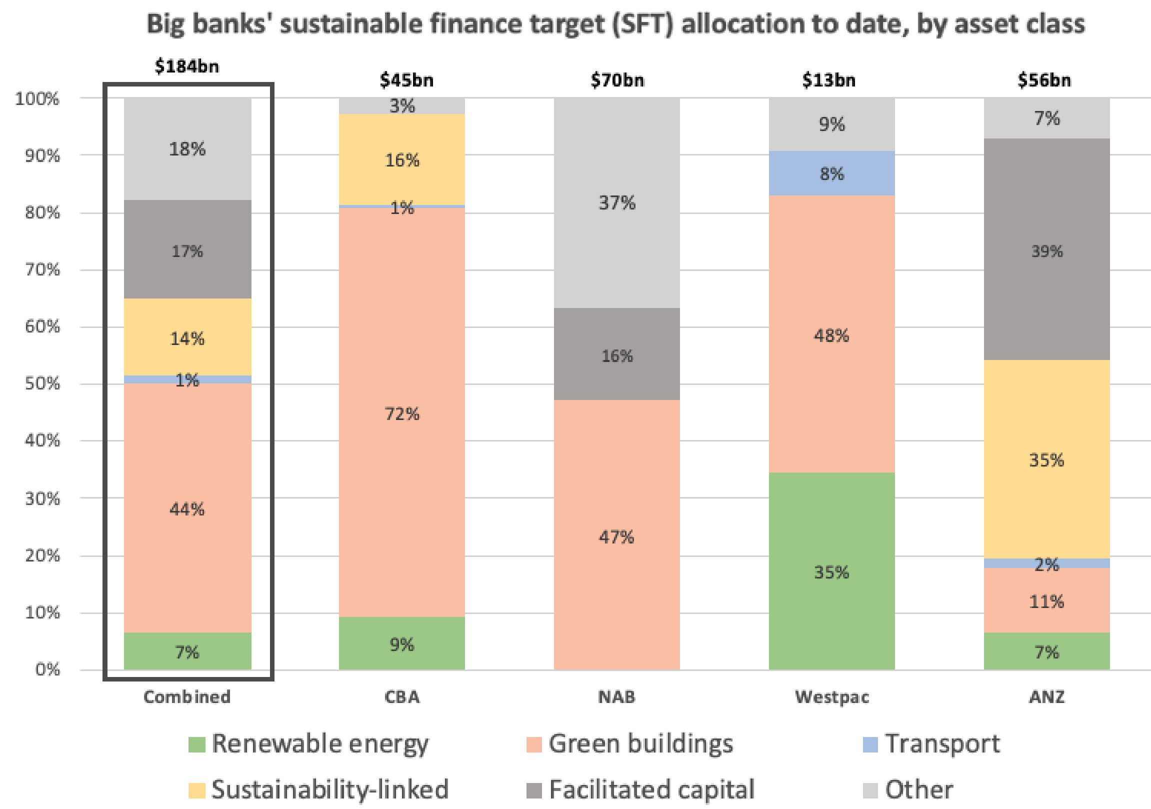

Figure 1 – CEF modelling on big banks' sustainable finance allocation to date[1]

Instead, we find that only 7% of big 4 banks' sustainable finance goes to renewables and decarbonising industry, while the majority of capital is being channelled into BAU buildings that meet minimum energy efficiency requirements under the National Construction Code.

While energy efficient buildings are necessary to reduce grid demand during peak summer and winter months, buildings are only truly green once they are fully electrified, the grid is producing zero emissions electricity, and building materials are decarbonised. That requires concerted action and capital allocation to retrofit gas appliances with electric, build firmed utility-scale renewable energy, and reduce emissions in hard-to-abate sectors like steel, cement, and aluminium.

Trumpeting climate action based on the low hanging fruit is not enough.

[1] The 'combined' view is not an average of the banks' individual asset class allocation, but illustrates the proportion each asset class comprises of the $184bn cumulative allocation to date. Facilitated capital typically refers to the underwriting, advising or arranging of syndicated deals.

CBA

We applaud CBA's leadership in educating and nudging consumers towards financing electrification and solar, a $2tn Australian opportunity to 2050 and necessary demand-side decarbonisation stimulus, however we note that this activity is not captured under its SFT. Instead, CBA boasts the worst renewable energy to green building financing ratio, investing nearly $8 into minimum regulatory-grade buildings for every dollar it invests in renewables.

NAB

NAB's major focus looks to have been a green property play comprising almost 50% of its total SFT allocation to FY2022 with little transparency in other decarbonisation sectors. Given this, we were unable to discern the bank's allocation to renewables, transport or hard to abate sectors. In a rapidly warming climate with forthcoming climate-related finance disclosure regulations, greater transparency over NAB's SFT allocation by sector will be material information.

Westpac

Westpac is by far the closest to getting the balance right, with a higher proportion of financing going towards renewable energy and low carbon transport than the other banks. It is clear Westpac is leaning in with the right mindset to its SFT, aiming to grow its balance sheet and measure its real contribution to climate change mitigation. Its new and impressive Sustainable Finance Framework will underpin Westpac's SFT reporting from this year, in which green residential buildings will be required to meet above minimum-regulatory standards. It will be superseded by the Australian Sustainable Finance Institute's (ASFI) new science, industry and government agreed sustainable finance taxonomy as it is finalised by the end of the year.

Westpac's 'total committed exposure' (TCE) measurement is distinct from the other banks, measuring the stock of capital at a point in time rather than the cumulative flow. It means Westpac's cumulative financing over time will be more than its stated 2030 balance sheet target of $55bn TCE.

ANZ

ANZ has the largest sustainable finance target of $150bn cumulative financing this decade, which is really strong, but a combined 64% drives its capital markets facilitation and sustainability-linked facilities.

The relative opacity of these instruments make it difficult to identify its contribution to real world outcomes. Capital could be facilitated or allocated to companies without credible decarbonisation pathways hence supporting companies that are misaligned to the transition. Certainly this is a risk given ANZ's client base, board composition (see Figure 2) and its continually high fossil fuel exposures whilst being the only big 4 bank without a substantive policy to restrict financing to new oil and gas.

3. Key Findings

In CEF's view, more needs to be done to mobilise the banks' ~$400bn SFTs towards leveraging corporate balance sheets, decarbonising our energy system at utility scale and building future-facing sectors, instead of the current over-emphasis on green buildings masquerading as as a comprehensive response to climate and decarbonisation imperatives.

Australia enjoys world-leading reserves of the critical minerals key to the new zero-emissions global economy and superabundant sun and wind resources to power processing and manufacturing here using green energy – a once in a century opportunity to secure our future economic prosperity and our leadership position in the rapidly emerging new economic order by exporting 'embodied decarbonisation'.

However, a recent report by Climate Integrity, a new Australian eNGO, studied 10 of the highest-emitting ASX companies finding none had a fully costed plan for reducing their emissions in line with a scientific pathway – a worrying sign that the banks are not yet effective in exerting their financial power to enable their customers to transition.

Australia's upcoming sustainable finance taxonomy, due for release at the end of year, will provide more consistent definitions across asset classes captured within the banks' SFTs, but is unlikely to turn this bleak picture around at the speed and scale the climate science demands.

Alongside private capital, a key enabler to delivering this transformation is strategic and patient public-interest investment. The Clean Energy Finance Corporation, Australia's 'green bank', last year reported that it attracted an impressive $5 of private capital for every $1 it invested into projects, up from 2.8x since inception.

CEF estimates that an additional $100bn public policy investment into Australia's generational opportunity in zero-emissions energy and industry would catalyse $200-$400bn of private capital, with a large part of this coming from the banks' SFTs. This level of investment is needed to underpin an Australian response to the US "green new deal" Inflation Reduction Act incentives and other major decarbonisation investment programs amongst economies the world over. In this context, the banks need to be strongly advocating for the right policy and state investment settings to support their – and their customers' – swift transition.

Further, at this critical juncture, the over-representation of fossil fuel interests and underrepresentation of future-facing expertise on Australian banks' boards – when decarbonisation capital allocation experience should be the prerequisite – is highly likely to be one factor undermining the credible pivot of finance to zero-emissions opportunities.

A [recent article by FT's The Banker](#) found that for every independent director with clean energy experience sitting on the boards of Australia's big 4 banks, there are 5.5 independent directors with ties to fossil fuel companies. ANZ and CBA have the most fossil fuel connections on the board, and three board chairs are linked to fossil fuel-dependent businesses.

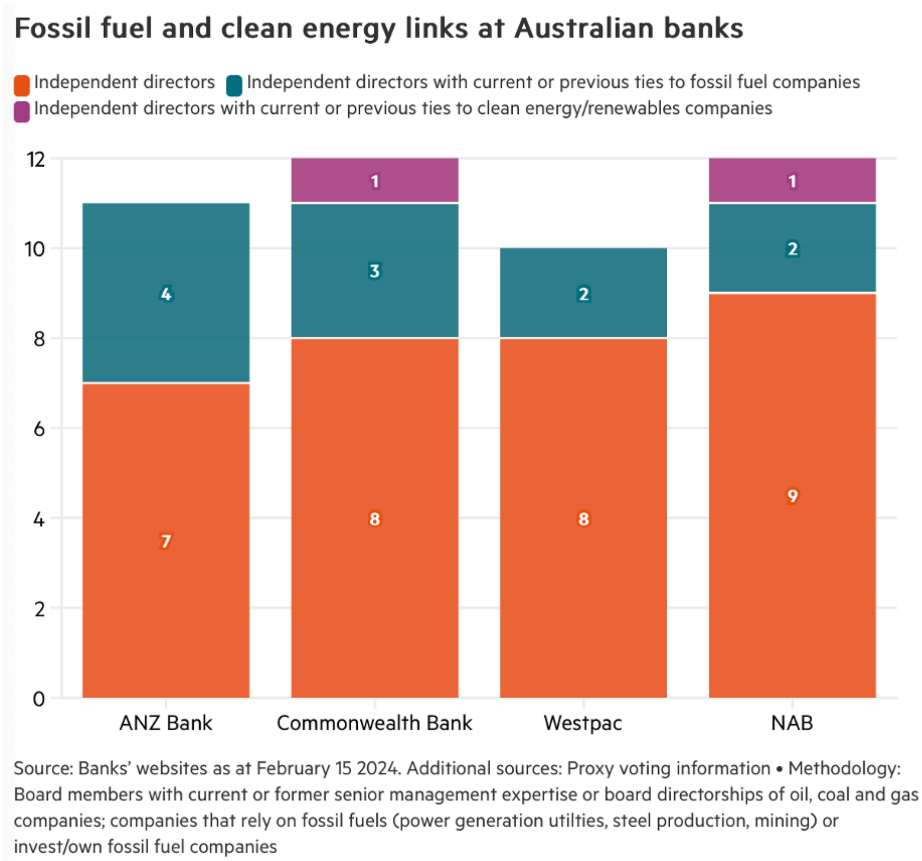

Figure 2 - Independent directors on Australian bank boards with fossil fuel and clean energy ties

The incumbent power of the fossil fuel industry and its 'donations' is pervasive across Australia's political system and clearly in our financial sector.

CEF argues that it is incumbent on the banks, as key enablers of decarbonisation with disproportionate influence through control of capital flows, to advocate for more ambitious and coordinated policy, regulatory and investment settings that reflect and enable our national climate and sustainable economic growth goals, including by collaborating to better inform government policy.

To achieve this, banks must remove the undue influence of fossil fuels on their boards and recruit zero emissions expertise to drive credible capital allocations.

And critically, as our analysis shows, the big banks must, as a priority, expand their commitment to and capabilities in executing clean energy infrastructure deals to support decarbonisation of our domestic energy sector, rapidly increase their share of financing in future-facing sectors, including transport and decarbonised heavy industry, and commit to enabling a fossil fuel phase-out across their financed emissions exposures.

They must extend their influence and sustainable finance activities well beyond the current concentration in minimally efficient green buildings, and put their money where their mouth is.

4. Appendix – The data and assessment method

Each bank is unique across a multitude of factors in the way they measure and define SFT allocations. It makes it difficult to compare the dollar-value of allocation between the banks, hence the approach taken in Figure 1 is to juxtapose the composition of each bank's financing underpinned by their own asset class definitions.

The table below provides a snapshot of the key differences in SFT measurement and definitions:

Bank	CBA	NAB[2]	Westpac[3]	ANZ
Outcomes inclusions				
Environmental	Y	Y	Y	Y
Social	Y			Y
Finance inclusions[4]				
On-book lending	Y	Y	Y	Y
Off-book facilitation		Y		Y
Measurement				
Finance/refinance	New financing and refinancing	New financing and refinancing	New financing only	New financing and refinancing
Flow or stock	Cumulative new finance flow	Cumulative new finance flow	Total committed exposure, i.e. stock	Cumulative new finance flow
Green building definitions				
Residential	6-Stars+ NatHERS	6-Star NatHERS	N/A	Unclear
Commercial	5-Stars+ NABERS	Top 15% emissions intensity per CBS[5]	5-Stars+ NABERS	Unclear

Table 1 - SFT measurement and definitions by bank

[2] NAB aggregates much of its reporting under headings such as specialised lending, asset finance and green term deposits which are grouped under 'other' in Figure 1.
[3] Note, Westpac's definitions are based on its previous methodology which it reported under until FY2023, consistent with the data used to depict Figure 1. It will begin reporting under its new Sustainable Finance Framework this year, which lifts the ambition in the way the bank defines eligible activities.
[4] On-book lending leverages the banks' balance sheet to provide loans to projects or companies. Off-book capital markets facilitation usually refers to the underwriting, advising or arranging of syndicated deals.
[5] Climate Bonds Standard for buildings.