



Speech

Bangkok Sustainable Banking Forum 2018

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“Journey towards sustainable banking”

Check against delivery

Good afternoon

I would first like to express my gratitude towards the following organisations that have made today possible.

- The Bank of Thailand - for taking a leadership role
- Thai Bankers' Association
- The Association of International Banks
- The other organisations who are supporting collaboration through this sustainable banking forum today

I'm delighted to be back here in Bangkok, one of my favourite cities in the world, as part of my new role, as the General Manager for Asia Pacific for Westpac Banking Corporation.



I'm incredibly humbled to be here speaking to you today on a topic that I have become increasingly passionate about.

Like many of you here before me, I am a parent. And one of the things that motivate me is ensuring my girls grow up in a world where they can live in cities without congestion, see blue sky, breathe fresh air.

And my message to you today reflects that of Dr Veerathai Santiprabhob's opening remarks: ***"the World wins, we all win"***.

I believe we are at a real tipping point. Twenty-seven years ago when Westpac launched an Environment Policy, we stood alone as a bold first-mover. Now sustainability is top of mind everywhere – from east to west. From the World Economic Forum in Davos; the IMF in Washington; the 19th party congress in Beijing, and of course here in Thailand as we're seeing today.



It has become one of the defining forces of our time – alongside the Asian century, rapid urbanisation and fast-evolving technologies and digitalisation.

We are seeing demand for sustainability driven by our customers and people in our communities. Today I'm delighted to share my thoughts with you on 4 core themes:

- 1) Our role and the world's role
- 2) Westpac's journey and high level approach
- 3) The current state of sustainability in Asia
- 4) The challenges we see and the future outlook

Our role and the world's role

So what is sustainability, and what does it have to do with us? The original definition of sustainable development, published by the United Nations around 30 years ago, is: development that meets the needs of the present generation, without compromising the ability of future generations to meet their own needs.¹



Now that may take some time to digest – and many other definitions of sustainability have been developed since then. The point I want to make is that though sustainability is often used to refer to environment or climate-related issues, in reality it covers a lot more ground. It's about all the elements that go into building societies that will be fit for purpose in the future, from the environment to social infrastructure like healthcare and education. In other words – we have a lot of work to do.

This means as institutions and an industry we have to think about sustainability holistically, not just, say, looking at how to finance clean energy projects, but standing ready to support a wide range of initiatives that have a positive impact on the fabric of the societies in which we operate - whether it's helping fund an educational system or developing more affordable housing. That's why at Westpac we've taken great strides to develop both green and social financing programs.



Of course since sustainability involves entire societies, banks can't do it alone. Governments and regulators have a prominent role to play by shaping policies to encourage the adoption of sustainability standards and practices, and to help dispel some of the uncertainty and cost concerns that can hold back the adoption of sustainable finance. Investor involvement is also vital to filling the demand side of the equation.

To this point, earlier this year, Larry Fink, the CEO of Blackrock sent a letter to the S&P 500 CEOs, it read like this: "a company's ability to manage ESG matters demonstrates the leadership and good governance that is so essential to sustainable growth, which is why we are increasingly integrating these issues into our investment process."



And it's compelling to see that Thailand has Southeast Asia's most sustainable stock exchange. Sustainability reporting is not mandatory in Thailand for its 741 companies — yet Thai firms outnumber their Asean peers in the latest Dow Jones Sustainability Indices report².

And showing another positive signal to the market, earlier this month, The Stock Exchange of Thailand (SET) joined forces with Thailand's Government Pension Fund (GPF) to promote sustainable investment in a landmark cooperation³. As I'll further explain later, there's an increasing amount of optimism.

The Paris Agreement of 2016, of which Thailand is a participant, which aims at the very least to keep any global temperature rise this century to below 2 degrees Celsius above pre-industrial levels, was a definitive sign that sustainability is no longer about pledges or aspirations, but hard targets — and that we as banks, governments, businesses and entire societies will increasingly be judged in terms of performance. These targets will present challenges.



But they will also motivate many different parties to action and create massive opportunities for banks and for the global economy as a whole.

I'm reminded of that phrase again – The World Wins, we all win.

Our journey and high level approach

I'd like to provide some more details on how Westpac is approaching these sustainability challenges and opportunities – hopefully giving you a bit of inspiration in the process. To quote our CEO, Brian Hartzler: “We believe that as one of Australia’s largest companies, we have a strong role to play in helping to create positive social, economic and environmental impact for the benefit of all.”



In other words, sustainability isn't just a concept or an aspiration – it involves real things for real people and the person on the street.

It's our vision to be one of the World's great service providers, helping our customers, communities and people to grow and prosper.

And we are very proud of our successes – to be ranked as the world's most sustainable bank in the Dow Jones Sustainability Index ten times – and currently Australia's most sustainable bank.

Our Sustainability approach is underpinned by the 17 United Nations Sustainable Development Goals. And some exciting news that I want to share with you, is that in September Westpac will be hosting in its Singapore office, the United Nations Finance Initiative working group meeting, together with 27 global and peer Banks, from five continents, representing 16 trillion US dollars in assets. This meeting will be used to draft new principles to set the global benchmark for responsible and sustainable banking.



These Principles will be announced in November by our CEO, together with other 27 Bank CEOs and will be a valuable tool for you in your journeys.

As a key pillar of society, Banks play a vital role as financial intermediaries in enabling economic activity. But we're also increasingly being called upon to meet growing sustainability challenges and demands.

A key milestone in our journey was our 200th birthday last year, when Westpac re-launched its leading Climate Change strategy, as part of our commitment to helping limit global warming to less than two degrees. Our leadership role on this is helping shape Australia's transition.



Our climate change targets aren't arbitrary – they are based on the current outlook for investment in climate solutions that are required to remain on a credible pathway to net zero emissions by 2050.

These targets include:

- Raising lending target exposure to climate change solutions to \$25 billion by 2030
- Facilitating up to \$3 billion in climate change solutions by 2020, for example, green bond issuance and arrangement.

Renewables

We're also playing an active role in renewables, which are growing at a rapid rate. As many of you know investment in renewables leads that of investment in fossil fuels.



In just over a decade, concerted investment has increased the proportion of world electricity generated by wind, solar and other renewable sources from around 5 per cent to 12 per cent, and this is expected to increase exponentially over the next few years⁴.

And it's not just Europe – China leads the world in renewables investment⁵. And we see this each day with our customers, as we work with many of our Chinese customers, who are transforming their operations and investments.

For example;

- We've supported a leading Chinese renewable company and two of China's leading power producers on their solar and wind projects in Australia

And our work with our Australian companies:

- We are the leading financier of renewables projects in Australia;



- We've financed Australia's largest single-state solar farm;
- And one of the country's largest wind farms;
- We've helped Charles Sturt University become Australia's first carbon-neutral university through solar power at its Wagga campus;
- And last financial year, we provided funding commitments to support over 2,100 megawatts worth of renewable energy projects, enough to power 1.1 million homes – as part of our strategy to help Australia transition to a carbon neutral economy.

Of course, it's essential to us that we practise what we preach. And as part of this, we're actively installing solar panels across our own office in Kogarah, south west Sydney.



Diversity & Inclusion

At Westpac Sustainability is also about our people as much as it is about the environment. Inclusion is a strategic imperative. Why you may ask?

Because it enables our vision, through connecting with our diverse customer base and engaging with our diverse communities, so no community or person is left behind. And again we are proud of our leading achievements in this space:

- In our 200th birthday year, we reached our goal of 50% of women in leadership;
- And 28% of our workforce identify from a non-Western background.

Both of these reflect our diversity in our nation and why it makes sense for our organisation.



The Current State of Sustainability in Asia

Now I hope to put some of these issues in the regional context. The green bond market plays a vital role in financing climate change solutions. In my previous role I was heavily involved in this space.

We've seen substantial progress in global bond markets over the past few years – there is almost US\$900bn of climate-aligned bonds outstanding.

Green bond issuance has surpassed US\$285billin, with 20+ dedicated funds set up globally, and US\$1trillion is expected by 2020.⁶

Asia has played a huge role in this. Last year alone China was the second-largest green bond issuer globally, and issuance from India doubled. And it was very encouraging to see TMB Bank recently issuing the first green bond here in Thailand, which will help fund renewable energy projects.

Importantly, this rise in issuance is aligned with regional investor demands. A recent poll in this region found 90% of issuers and 73% of investors are considering sustainability issues in their organisations. There's growing interest in social bonds as well. In fact around a quarter of investors said they already have a dedicated ESG mandate, and 40% plan to implement one in the next couple of years.

From our point of view the implications are clear – sustainable finance isn't a 'nice to have' or a CSR exercise; banks will have to be actively involved in the market to remain competitive.

We've certainly made green bonds a priority. We brought the first Green Bond to Australia when we arranged the World Bank's kangaroo green bond. Since then we've issued four green bonds (in AUD, USD and EUR) and arranged 2 social benefit bonds.

Importantly, we continue to have strong relationships with a wide range of dedicated green and ESG investors globally.



On the social front, we've taken a leading role in social and affordable housing, lending \$1.34 billion to the sector. We've also partnered with charities and state government in Australia to finance initiatives supporting young people at risk of homelessness, and at-risk families, through a social benefit bond vehicle.

If I can shift our attention for a moment away from bonds, and to take a look at the green loan market. This market by definition, most certainly trails the green bond market. In 2017 we saw deals in Europe and in 2018 we saw some deal flow in Asia. Whilst not at the level of green bonds, we are encouraged and with introduction of green loan principles in 2018, we can expect to see this market boom.



The Challenges we see and the Future Outlook

For all the incredible progress that's been made around sustainability issues in recent years, it's important to keep things in perspective.

The entire green bond market makes up less than 1 percent of the global bond market. And according to the Global Sustainable Investment Alliance, just 0.8 percent of the assets managed in Asia are being managed under sustainable investment strategies, compared to over half in Europe.

So this isn't a transition that will happen overnight. Instead we'll see incremental developments that create lasting change. And for that change to happen, it's important that sustainable finance addresses issuer and investor concerns about costs and performance.

The survey I mentioned earlier, for example, found almost 60% of borrowers saw the costs to set up and the time needed to implement new borrowing structures as barriers to issuing sustainable debt. Despite the fact that it's not always clear sustainable bonds come with a price advantage, we should remember that sustainable bonds typically attract greater investor diversity and lead to better execution, which is important when markets are volatile.

There are also significant issues around how sustainability is defined, assessed and reported. Most companies, and investors, now recognise that climate-related risks can impact financial performance, and initiatives like the Task Force on Climate-related Financial Disclosures (or TCFD), the Climate Bonds Initiative, and the European Commission are making great strides in encouraging companies to examine and quantify those risks.



Yet research shows only a minority of companies are rising to this challenge. To take an example close to home, a survey by Alaya Consulting in Hong Kong found only 17 percent of the city's largest listed companies were disclosing data on all key environmental performance indicators recommended by the Hong Kong Stock Exchange.

In pursuing sustainability, we also need to recognise the realities of a region where markets are at different stages of development. For countries trying to take care of basic infrastructure needs, it won't always be possible to immediately grasp the most sustainable solution, and progress may come in the form of compromise.

Looking at energy, for example, by most estimates coal will continue to be an important energy source in Asia for decades to come.⁷

Rather than expecting countries to abandon coal altogether, it may be more realistic to encourage adoption of cleaner, more energy-efficient approaches to coal-based power generation.

Close and Summary

Again, there's no shortage of difficulties to confront. But there's absolutely no doubt in my mind we've reached a tipping point – and if there's one thing the past few years have shown us, it's that change will very likely be faster and more extensive than any of us expect, just like we've experienced with digital technology. We've all



seen in our daily lives how transformative technology can be – not always in a good way, because now we can get e-mail on vacation.

It's my view that emerging technologies have similar potential to advance sustainability in the region and globally.

As I touched on earlier, two of the biggest challenges to the growth of sustainable assets are data and costs.

Technology can be a game-changer in terms of collecting and analysing data on ESG targets, practices and performance, and making that data more accessible and transparent.

Digital solutions have already been successful in bringing financial and other services to people or regions where they've not always been available. These could play a similar part in extending access to sustainable investment opportunities, or enabling innovative financing models for green or social projects.

At the same time, we should never lose sight of the fact that ultimately sustainability is about people, and securing a better future



for all of us. This starts with us as individuals, championing sustainability in our own organisations.

As banks we have an obligation to our employees, shareholders, regulators and the broader community to respond to the growing call for a more sustainable approach to financial services. As I hope I've made clear today, and Westpac's experience has clearly demonstrated, beyond the feel-good factor and reputational advantages, there is a clear business case for making sustainability a core part of corporate strategy; not an occasional consideration, but a factor that's woven through everything the bank does.

Fortunately, I know Westpac, and the other prominent institutions gathered here, are doing just that – and the fact that we've come together for this incredibly important event today, where sustainability is top of the agenda, proves my point. My thanks again to all of you for your attention.

Thank you

