# Can the Resources industry still bank on support from Big 4?

## Declining support for Natural Resources by Aussie banks over the last decade may require new capital funding solutions to support energy transition

### Key Insights

- Australian bank support was crucial in the last Resources boom (mid 2015 demand peak) when exposure more than doubled to A$65bn
- This has now declined to levels not seen since 2013, in contrast to overall balance sheet growth and rising value of Resources exports
- As financial capital available from banks has waned, so has specialist human capital required to support Resources lending activity
- Multiple factors have contributed, including reduced ESG and reputational risk appetite
- Australian banks appear less capable of meeting equivalent future demand for debt capital, which will require the industry to target new sources of capital and a wider range of markets

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### Funding the last Resources Boom

Historically the capital-intensive Natural Resources industry in Australia has been largely funded through equity (in the form of retained earnings and equity capital) and bank debt, with some contribution from bond markets for larger rated borrowers and minor contribution from alternative capital sources.

Australian banks traditionally played a key role leading and anchoring bank debt transactions for resources companies and projects, and represented the largest lenders to the sector.

This played out very clearly during the last Resources boom. Aggregate exposure[1] to the sector by the Big 4 Banks (ANZ, Commonwealth Bank, National Australia Bank and Westpac) more than doubled from A$29.5bn in 2012 to a peak of A$64.7bn in 2015. Over this period, Resources also grew as a proportion of the total exposure of the Big 4 Banks, from an aggregate 1.1% in 2012 to 1.7% in 2015. This capital support was an essential enabler of the Resources boom.

This extraordinary growth was not merely a function of the elevated demand for capital, but leveraged essential key factors within the Big 4 Banks no longer in place. These included a deliberate strategic focus on Resources, clear commitment to the industry, strong investment in people and capability, accommodating risk appetite settings, resilience to the sector's inherent volatility and cyclicality, led by senior executives with industry expertise.

> *Capital support from Australian banks was an essential enabler of the last Resources boom*

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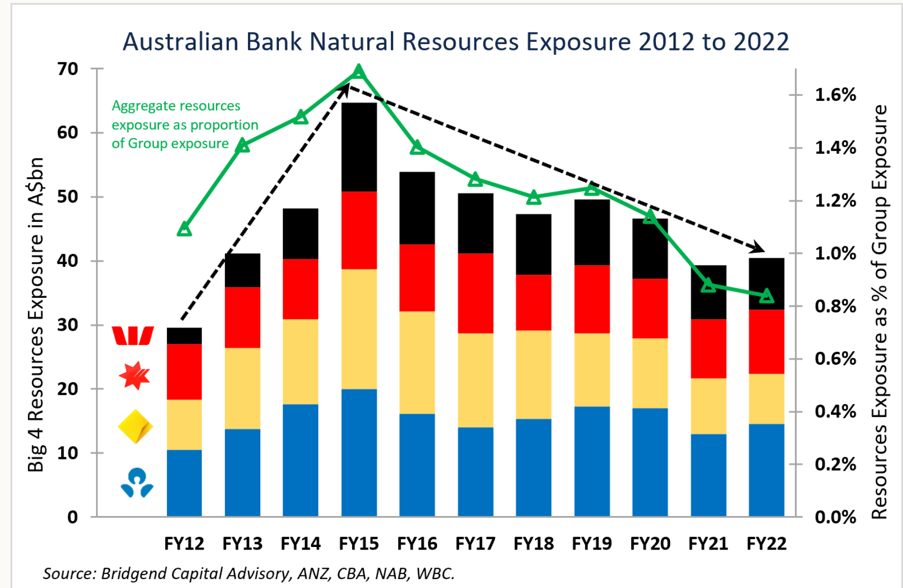
## What has played out in the years since?




Source: Bridgend Capital Advisory, ANZ, CBA, NAB, WBC.

Since peaking in 2015, aggregate exposure to Resources by the Big 4 Banks has declined steadily to A$40.4bn in 2022, nearly A$25bn (37%) below the peak to levels not seen since 2013. This decline has occurred despite strong overall balance sheet growth by the Big 4 Banks. Resources exposure has declined as a proportion of total bank exposure from 1.7% in 2015 to 0.8% in 2022, and the gap is widening.

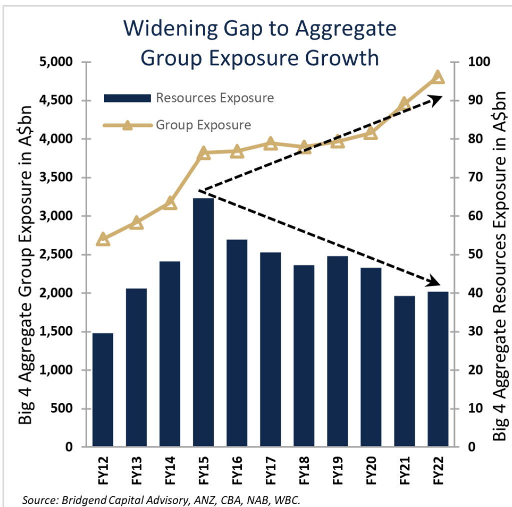
This decline in lending exposure also is in contrast to the strong growth in the volume and value of Australian Resources exports over this period. From 2015 to 2022, the value of these exports increased 140%[2] while exposure to the industry by the Big 4 Banks declined 37% over this same period.

As financial capital committed to the industry by the Big 4 Banks has reduced, so has much of the specialist human capital required to support Resources lending activity. Specialist Resources teams have been downsized or subsumed into other sector teams. In-house technical teams of geologists and mining engineers, once an essential mainstay in managing technical risks in Resources lending, have been disbanded. Many of the most seasoned Resources bankers, project financiers, and commodity traders who led activity during the last boom are no longer with the Big 4 Banks.

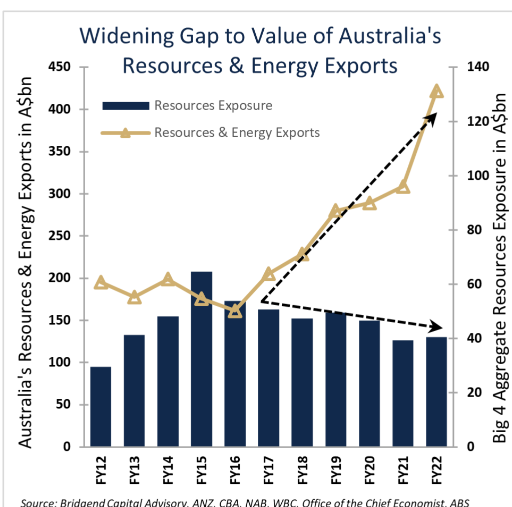
The decline is partly accounted for through usual cyclical trends such as lower capital expenditure by the industry and deleveraging of projects post-construction, and deliberate bank strategies to reduce exposure to fossil fuels or activity outside of Australia. However, it is not clear this has translated to increased capacity or willingness to support new projects, different commodities, or more of Australia's domestic producers.

The decline is more fully explained by a larger shift in focus away from Resources towards other sectors such as agribusiness, infrastructure, renewables, and funds, compounded by reduced risk appetite for Resources and loss of the institutional "know-how" and conviction necessary to support and grow Resources lending activity through cycles.

This reduction in risk appetite is less about conventional credit risk settings, with loan impairments for Resources at the Big 4 Banks being negligible over the past 10 years, and more a function of perceived environmental, social and governance (ESG) and reputational risks.




Source: Bridgend Capital Advisory, ANZ, CBA, NAB, WBC.




Source: Bridgend Capital Advisory, ANZ, CBA, NAB, WBC, Office of the Chief Economist, ABS

### Implications for Resources industry and next capital investment cycle

Key geo-political and macro-economic factors are conspiring to create near perfect conditions for another Resources boom in the years and potentially decades ahead.

- The war in Ukraine and tensions with Russia have exposed vulnerabilities in key supply chains, energy markets and important sources of commodities
- While China is likely entering a lower-growth phase (albeit still high relative to historical OECD growth levels), the forces of urbanisation and industrialisation in other key population centres in India, South-East Asia and parts of Africa and Latin America, have yet to run their course and will drive commodity demand.
- The global march towards decarbonisation and net zero emissions requires a complete transformation of the world's energy and transportation systems and many industrial processes, which will drive unprecedented demand for materials essential for this transition

Australia's Resources industry is well placed to capitalise on these key trends and remain a reliable and cost-competitive supplier of key commodities and technical expertise to world markets. However, the capital equation is vastly different today than in the last Resources boom a decade ago. The Big 4 Banks appear less likely to play the same fundamental role in meeting the coming demand for capital with no indication the declining trend is changing and with banks now depleted of the specialist human capital needed to reverse the trend at scale.

This is evidenced by the growing role of government funding vehicles such as the Northern Australian Infrastructure Facility (NAIF), Clean Energy Finance Corporation (CEFC) and Export Finance Australia (EFA) needed to fill the capital gap left by declining industry capability and support from commercial banks, and alternative debt capital supporting recent transactions likely able to be financed by the Big 4 Banks during the last boom.

What this means for Resources companies and project sponsors is an increasing need to target new sources of capital and a wider range of markets in order to finance operations, meet project funding requirements and sustain growth. The capital landscape is now more complex and the interplay between different sources and classes of capital requires careful navigation. The availability and cost of capital for Resources may yet become a key challenge in Australia realising the full potential of this new era of commodity demand and supporting global energy transition.

*"The capital landscape is now more complex and the interplay between different sources and classes of capital requires careful navigation"*

### *Footnotes*

*(1) Exposure refers to either Exposure at Default (EAD) or Total Commitment Exposure (TCE) as disclosed by Australian banks. EAD and TCE are comparable but not identical measures of exposure.*

*(2) According to the Office of the Chief Economist, Resources exports grew from A$175.0bn in 2014/15 to A$421.9bn in 2021/22.*

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