Assessed Emissions of the Group's Business Lending Portfolio – FY17.

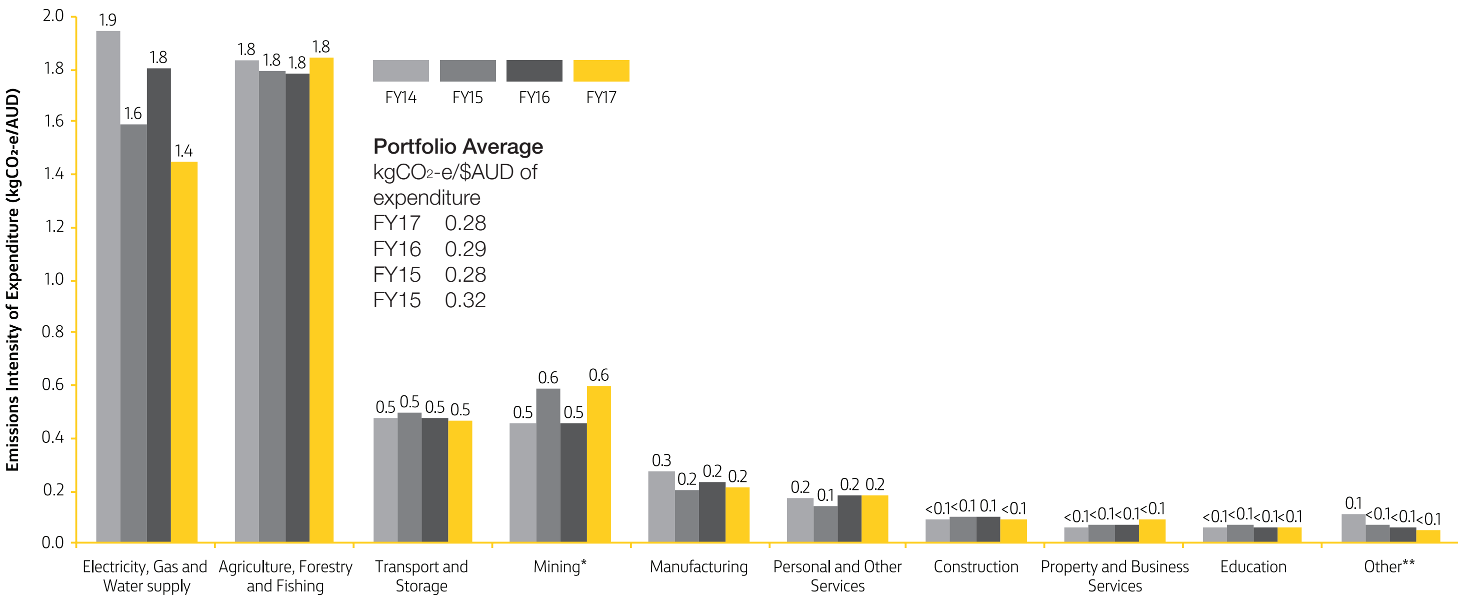
As a major provider of lending services, the Commonwealth Bank plays a crucial role in supporting economic and social development. The projects and industries we lend to also have impacts on the environment, and in accordance with our Environmental, Social and Governance Lending Commitments we are committed to assessing and mitigating these impacts. Therefore, we continue to assess the emissions arising from our business lending. These insights, and the detailed diagnostics behind them, provide us with a robust quantitative basis to identify and act on key opportunities to reduce the emissions of our business lending portfolio.

In this fourth iteration of assessment, the emissions intensity of the overall CBA business lending portfolio is 0.28 kgCO2-e/$AUD of expenditure. The Agriculture, Forestry and Fishing sector, along with the Electricity, Gas and Water Supply sector, represent the most emissions intensive part of the CBA lending portfolio.

The emissions intensity of expenditure in the Transport and Storage, Electricity, Gas and Water Supply, Manufacturing and Construction sectors declined compared to FY16 (Figure 1). The emissions intensity of expenditure increased in the Agriculture, Forestry and Fishing, Mining, Personal and Other sectors. The emissions intensity of expenditure in the Mining sector increased, with the main contributor to this change being the sourcing of published emissions data for our largest client in this sector. However, emissions allocated to our Mining sector clients fell by around 18% from last year, mainly due to reduced exposure to the sector.

Figure 1.

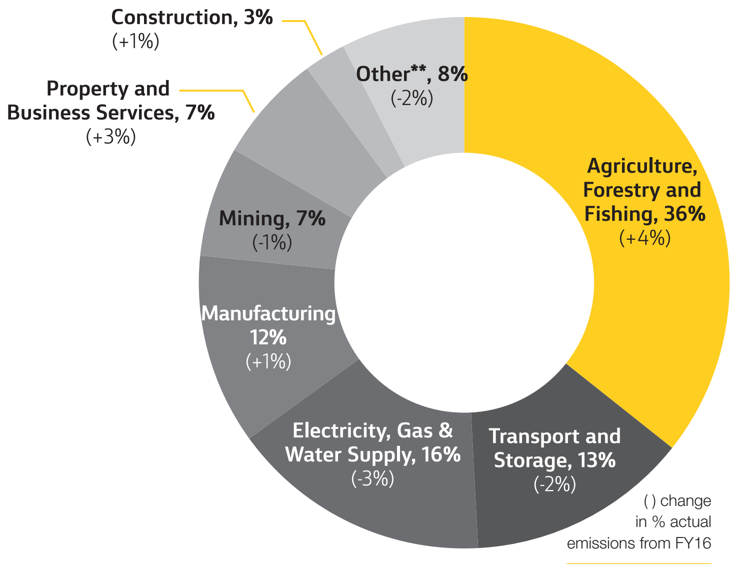
CBA Group Business Lending - Emissions Intensity of Expenditure ($kgCO_2$-e/AUD)



CBA's emissions profile (Figure 2) shows the industry sectors that account for the majority of CBA's emissions arising from business lending. The Agriculture, Transport, Electricity, Manufacturing and Mining sectors account for over 80% of business lending portfolio emissions.

Figure 2.

CBA Group Business Lending - % of actual emissions in each sector (FY17)



* The emissions intensity of expenditure in the mining sector in FY16 has been amended to account for updated client-specific emissions data for that year.

**Other includes Wholesale Trade; Retail Trade; Cultural and Recreational Services; Communication Services; Accommodation, Cafes and Restaurants and Health and Community Services, as well as exposures to clients not allocated to a specific sector.

Weighted Average Emissions Intensity of Expenditure includes a double count of electricity Scope 1 emissions across sectors.

Sector classifications defined by ANZSIC main business activity.

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Method.

The financed emissions analysis was conducted by EY, as informed by the principles set out in the Greenhouse Gas Protocol's (GHG Protocol) Corporate Value Chain (Scope 3) Accounting and Reporting Standard. The approach is consistent with earlier analysis, which draw on the protocols being discussed through the GHG Protocol and United Nations Environment Programme Finance Initiative (UNEP FI) working group.

Financed emissions method

In estimating the emissions arising from its lending activities, the Group used client-specific emissions where available, and modelled sector-specific emissions intensity data for its remaining lending exposures.

Client-Specific Emissions - The Group focussed on identifying client-specific emissions for those clients to which the Group has a material exposure, and for emissions-intensive industry sectors. Emissions data were sourced from the Australian National Greenhouse and Energy Reporting scheme, the Australian National Greenhouse Gas Inventory, publicly available reports and other company disclosures and known performance measures. The proportion of CBA debt exposure for which client-specific emissions data was available differed by sector.

Sector-Specific Average Emissions – For each Australian and New Zealand Standard Industrial Classification (ANZSIC) code at the class level, an emissions intensity value was derived. This was calculated based on the emissions intensity of expenditure in the sector, through the use of the Eora multi-regional input-output model, owned by KGM & Associates. Input-output models use national economic data to model financial (and other) flows within the economy. The Eora model also includes country-specific emissions data to determine an emission intensity value at each ANZSIC class level. Our analysis utilised country-specific data for Australia, New Zealand and the United States of America, and region-specific data for Europe and Asia. Where clients were domiciled in countries other than these, Australia-specific intensity data was used.

Construction emissions - Where the Group's exposure is to a client engaged in construction activities (e.g. constructing a wind farm, road, LNG export facility, etc.), the results are based on the emissions arising from the construction activity itself, rather than the emissions arising from the ongoing operation of the facility or sector. Construction emissions were obtained from client publications (e.g. environmental impact statement), peer review publications (e.g. the Intergovernmental Panel on Climate Change), or were based on sector-specific average emissions for construction.

Allocation of emissions to the Group

For larger entities, and where emissions and financial data were available, client emissions were allocated in proportion to the Group's June 2017 debt exposure to the client, as a percentage of the client's total enterprise value (debt plus equity).

- The Group's debt exposure is defined as the committed exposure of the bank to the client, less adjustments for derivative exposures (which were not included in the debt exposure). This data includes CBA, ASB and Bankwest.
- Total enterprise value was calculated using the equity, and current and non-current borrowings, reported on the balance sheet and through available financial databases.
- For construction activities, emissions were amortised over the period of construction, with the annualised construction emissions allocated to the Group on the basis of Group exposure to the client as a proportion of client enterprise value (or if not available, the total capital costs of the construction).

For other clients where emissions or financial data were not available, a debt-to-expenditure relationship was developed to relate the Eora emissions intensity of expenditure data to the CBA debt exposure data. This was carried out by using data from IBISWorld to establish average debt-to-expenditure relationships for key sectors, and across the economy. This dataset was supplemented with additional data obtained by CBA for high-emissions sectors; however, as publicly available information was utilised, there were different levels of data availability for different sectors. Agriculture in particular had a very low level of data availability. In this case, the debt-to-expenditure relationship was estimated using data from the FY17 Australian Agricultural and Grazing Industries Survey (AAGIS) and the FY17 Australian Dairy Industry Survey (ADIS).

Measures

kgCO_2-e/AUD expenditure: Emissions allocated to CBA per dollar of client expenditure. Client expenditure is the sum of capital and operating expenditure as reported or derived from financial databases.

Percentage of total portfolio emissions: CBA's allocated emissions for key sectors as a proportion of total estimated emissions.

Limitations and estimation

Each client loan is assigned to an ANZSIC code based on the main business activity of the client. As such, client-specific emissions and sector-specific emissions are applied against the entity's total financial data and are not further broken down, for example, by relative percentage contribution of products or services (which could sit within different ANZSIC codes). There were some cases where Group clients were not assigned to a specific ANZSIC code. An uplift amount has been applied to emissions arising from these clients, based on a weighted average emissions intensity of the total Group portfolio. Debt exposure to the Finance and Government ANZSIC divisions was excluded from the analysis.

Eora sector-specific emissions intensity values are inclusive of both Scope 1 and Scope 2 emissions. As such, the Scope 1 emissions created by the electricity generation sector are included in the total Scope 2 emissions across all other sectors. In order to fairly present emissions arising within each sector, we have included this 'double-count' within our reporting.

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