COMMONWEALTH BANK OF AUSTRALIA IS REQUIRED TO DISTRIBUTE THE BELOW STATEMENT REQUESTED BY SHAREHOLDERS IN ACCORDANCE WITH SECTION 249P OF THE CORPORATIONS ACT

Supporting Statement

Our company, the largest in Australia, has a market capitalisation in excess of AU$140 billion and alone represents almost 9% of the S&P ASX 200. The health and strength of our company is intertwined with that of the Australian economy.

In the interests of all shareholders, and all Australians, our company requires sound and stable governance, and a preparedness to manage the most pressing financial risks facing CBA and the broader economy. To this end, we move this special resolution to embed the effective management of climate change risk into the constitution of our company.

There is a growing appreciation among leaders in and regulators of the finance sector about the severity, breadth and immediacy of climate change risk.

Bank of England Governor Mark Carney said in a 2015 speech[1] that "once climate change becomes a defining issue for financial stability, it may already be too late [to effectively manage]".

In a February 2017 speech[2], APRA Executive Board member Geoff Summerhayes asserted that "many of these [climate-related] risks are foreseeable, material and actionable now. Climate risks also have potential system-wide implications that APRA and other regulators here and abroad are paying much closer attention to".

The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), in releasing its Final Recommendations Report[3], acknowledged that "climate-related risks and the expected transition to a lower-carbon economy affect most economic sectors and industries".

Given our company's broad economic exposure, it is reasonable to expect that Commonwealth Bank is exposed to a myriad of physical, transition and legal risks as the economy moves to limit global warming to less than two degrees, in accordance with the Paris Climate Change Agreement[4].

Commonwealth Bank and climate change

CBA's Group Environment Policy[5], released in November 2015, committed our company to the goal of holding global warming to below two degrees, acknowledging that "we play a role in supporting the transition to a low carbon economy".

However, subsequent actions and policies fail to align our company with this commitment. For instance:

- Dozens of banks operating in international credit markets have introduced lending restrictions to highly carbon-intensive forms of energy such as coal mining, coal power, tar sands oil and deepwater oil extraction, or LNG[6]. Commonwealth Bank has introduced no such policy.

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[1] http://www.bankofengland.co.uk/publications/Pages/speeches/2015/844.aspx
[2] http://www.apra.gov.au/Speeches/Pages/Australias-new-horizon.aspx
[3] https://www.fsb-tcfd.org/publications/final-recommendations-report/
[4] http://unfccc.int/paris_agreement/items/9485.php
[5] https://www.commbank.com.au/about-us/docs/sustainability-20151103-group-environment-policy.pdf
[6] http://priceofoil.org/content/uploads/2017/06/Banking_On_Climate_Change_2017.pdf

- A recent study[7] calculates CBA's lending to coal, oil and gas at $6 billion since November 2015, four times our lending to renewable energy. Among the fossil fuel projects financed are several that would expand the sector, adding approximately 2.8 billion tonnes of CO_2 to the atmosphere over their lifetimes. This would be sufficient to negate Australia's 2005-2030 emission abatement effort more than twice over.

- When asked by the House of Representatives Economics Committee whether CBA accounts for the impact of sea-level rise on property values when issuing mortgages, CEO Ian Narev said the bank has no policy to do this[8]. ANZ's Shayne Elliott indicated that ANZ would take into account sea-level rise risks to property in future[9].

- Our first ever Climate Policy Position Statement[10], released in August 2017, fails to remedy any of the points above and leaves Commonwealth Bank without a roadmap for aligning our company's operations with the goal of holding global warming below two degrees.

These examples are not exhaustive, but are cause for concern that our company lacks the competency and/or interest in managing climate change as a systemic, present and enduring financial risk.

<u>Managing climate risk and holding global warming below two degrees</u>

While this resolution is not intended to prescribe specific actions, a growing body of material provides guidance on limiting global warming to less than 2°C, and management of climate risk.

The inconsistency of building new fossil fuel or carbon emitting energy generators beyond 2017 and meeting the 2°C limit has been pointed out by the IEA 2011 World Energy outlook[11] and the Oxford Martin School in 2016[12].

The IEA now says that to offer a 50 per cent chance of keeping global warming to below 2°C, the world must reach net zero emissions by 2060[13]. In this scenario, 1,285GW of coal fired power capacity would be forced to retire early.

Mr Summerhayes' speech refers to the estimate that "in order to have a two-in-three chance of keeping global warming below 2°C, we need to restrict future global emissions to around 800 gigatons of CO_2, equivalent to around 25 years or so of current annual global emissions". This is consistent with the findings of a working paper from the Stockholm Environment Institute[14].

Further guidance on managing climate risk can be found from several sources, including:

- Mr Summerhayes' speech from February 2017,

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[7] https://www.marketforces.org.au/campaigns/banks-new/twodegrees/ Accessed 25 July 2017
[8] http://www.afr.com/business/banking-and-finance/bank-inquiry-cbas-ian-narev-anzs-shayne-elliott-20170306-guroob
[9] http://www.news.com.au/national/breaking-news/farmers-bank-slam-lack-of-carbon-policy/news-story/7958a834f9ea9fdb0f1f804d3b13f172
[10] https://www.commbank.com.au/content/dam/commbank/assets/about/opportunity-initiatives/CBA-Climate-Policy-Position-Statement.pdf
[11] https://www.iea.org/publications/freepublications/publication/WEO2011_WEB.pdf
[12] http://www.sciencedirect.com/science/article/pii/S0306261916302495
[13] http://www.iea.org/etp2017/summary/
[14] https://www.sei-international.org/mediamanager/documents/Publications/Climate/SEI-WP-2016-09-Australia-1-5C-climate-goal.pdf

- The Task Force on Climate-related Financial Disclosures, and
- A legal opinion released in 2016, outlining the obligations of directors to consider climate risk[15]. This was followed by a similar opinion in July 2017 applying to managed superannuation products such as Colonial First State and Commonwealth Group Super, confirming that Trustees were required to consider climate change as a financial risk and record considerations of climate risks[16].

We note that Commonwealth Bank is currently facing legal action over our failure to consider climate change as a material business risk in the 2016 Annual Report[17]. Further, both Commonwealth Group Super and Colonial First state have been categorised in a recent study as disclosing no or "inadequate" evidence of climate change risk consideration[18], potentially putting these entities at further risk of litigation.

Adopting this resolution would provide certainty to investors that Commonwealth Bank will align itself with the globally agreed goal of holding global warming below 2°C, embedding climate change risk management into every relevant aspect of its operations, and positioning our company to be resilient to the myriad legal, transitional and physical risks it poses.

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[15] https://cpd.org.au/wp-content/uploads/2016/10/Legal-Opinion-on-Climate-Change-and-Directors-Duties.pdf
[16] http://superswitch.org.au/wp-content/uploads/2017/07/170615-Market-Forces-Memorandum-Superannuation-Trustee-Duties-and-Climate-Change-Risk-Hutley-Mack-.pdf
[17] http://envirojustice.org.au/sites/default/files/files/170807%20Concise%20Statement%20(as%20filed).pdf
[18] http://superswitch.org.au/riskybusiness/

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