Spotlight series
2018

A better future

Working towards a low carbon future

CommonwealthBank

Transitioning to a low carbon economy

A snapshot of FY18

Reducing our emissions

Australia-based emissions went **down 12%** in FY18

52.5% less Group emissions since 2009

47 bank branches **have solar panels**

Sustainable finance

Lending to renewable energy projects **$3.7 billion**

More than **$2 billion** of green and sustainability notes for global clients

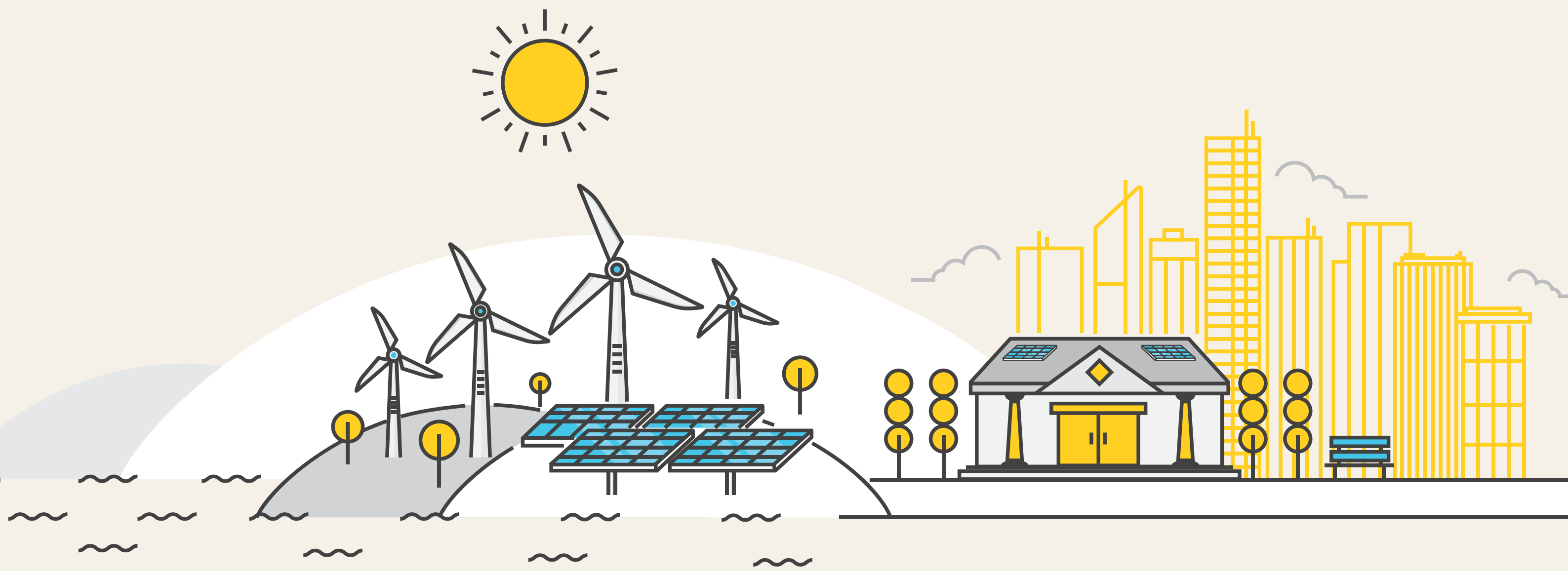
$15 billion 2025 low carbon target for lending

2025 **$15bn**
2018 **$7.3bn**

Products and services

Global green bond fund added to Colonial First State FirstChoice platform for retail investors

$300 million partnership with the Clean Energy Finance Corporation for energy efficient equipment financing



Source: Commonwealth Bank 2018 Annual Report.

Working towards a low carbon future

Climate change poses significant risks to the environment, the economy, and society. At Commonwealth Bank, we are committed to playing our part in limiting climate change to well below two degrees in line with the Paris Agreement, and supporting the responsible global transition to net zero emissions by 2050.

The exact timing and severity of the effects of climate change are difficult to estimate. To help address this we have undertaken comprehensive analysis over the financial year to assess how the Bank would fare under different global warming scenarios.

Our scenario analysis is a key recommendation of the Taskforce on Climate-Related Financial Disclosures and is guiding our approach to assessing climate change risks, as well as identifying any opportunities associated with transitioning to a low carbon future.

At Commonwealth Bank we are tackling climate change to:

- support our customers and people in the transition to a low carbon economy
- better understand the impacts of climate change on the Bank
- increase the resilience of our business to climate risks
- take advantage of opportunities created by climate change.

“There is no doubt that investors, customers and communities are concerned about the risks of climate change. Our climate scenario analysis is part of a phased approach to transitioning to a low carbon future.”

Kylie Macfarlane, General Manager, Corporate Responsibility, Commonwealth Bank

“Aside from the level of transparency our reporting brings, we are – more importantly – using the analysis to build the right capabilities and responses for our customers and communities and to take advantage of the opportunities a carbon-constrained world brings.

Ultimately, we know that no single technology or product can tackle climate change alone – whether that’s sustainability bonds or energy efficiencies – because climate change is systemic in nature. This is why we’re taking a holistic and phased approach to make sure we get it right in the long term”, says Kylie Macfarlane, General Manager Corporate Responsibility, Commonwealth Bank.

Progress over the financial year

We are preparing our business, customers and communities for an increasingly carbon-constrained world by:

- supporting our customers’ efforts to reduce their exposure to climate-related risks through the right products and services
- mobilising capital toward projects that facilitate and support the transition to a low carbon economy – such as renewable energy projects and low carbon initiatives
- reducing our own greenhouse gas emissions and improving energy efficiencies across the Group.

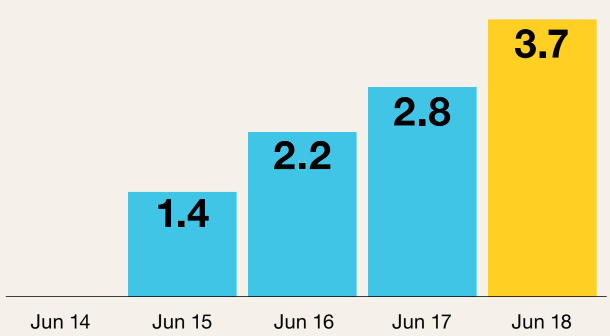
Over the financial year we led more than $2 billion of green and sustainability notes for clients across the globe, and helped Australian businesses improve their energy efficiencies through our partnership with the Clean Energy Finance Corporation.

Our lending to renewable energy projects increased by almost $1 billion over 12 months, totalling $3.7 billion at the end of June 2018. Our analysis shows the downward trend in our exposure to the coal sector continued, across mining, infrastructure and electricity generation.

Moreover, we reduced our Australia-based direct emissions by 12%, and saw longer-term reductions of 52% over a nine-year period. Almost 50 of our bank branches and offices now have solar panels installed with a total capacity of 750kW.

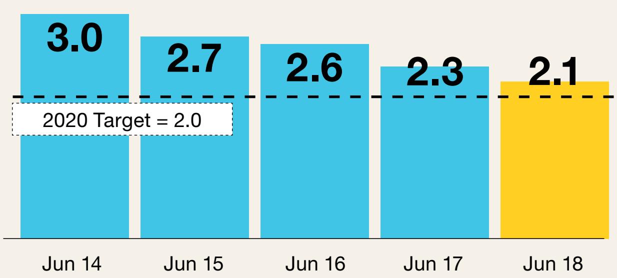
Our renewable energy lending

Lending exposure ($bn)

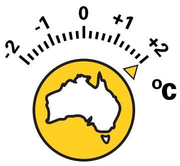


Our operation emissions intensity

Emissions per FTE, Scope 1+2, Australia (CO_2-e/FTE)*



* Scope 1 and 2 emissions, and full time equivalent (FTE) employees for Australian operations.



Identifying the risks of climate change

Climate-related financial disclosures

According to the Financial Stability Board, the transition to a lower-carbon economy will require investments of approximately $1 trillion per annum for the foreseeable future. The transition will require significant – and in some cases – disruptive changes across economic sectors and industries in the near term to reduce emissions over the long term.

This is our first year reporting in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures which look at climate-related governance, strategy, risk management and metrics and targets.

Over the year, we partnered with external consultants and climate change experts to identify the impact of transition and physical risks and opportunities across some of the Bank's largest portfolios.

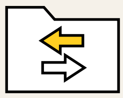
Firstly, we analysed our retail lending and insurance portfolios for physical impacts resulting from changing weather patterns; and secondly, we looked at how our business lending and wealth portfolios are positioned to transition to a carbon constrained economy. We have considered both 2 and 3-4 degree scenarios, noting that transition impacts are greater under 2 degrees, and physical impacts are greater under a 3-4 degree scenario.

The analysis of our home lending and insurance portfolios indicate that the impact of physical climate risk varies greatly across geographic locations, as well as the vulnerability of each property. In terms of transition risk analysis, we found that our lending and wealth portfolios are broadly resilient under a 2 degree scenario.

What is scenario analysis?

Climate scenario analysis allows us to estimate how we are positioned to withstand various levels of global warming, over different time periods and pathways.

In doing so, we can see what is needed to increase the resilience of our business in the transition to a low carbon economy.



Transition risks

Are associated with the financial impacts of policy, legal, technology, reputation and market changes needed to transition to a low carbon economy.

Physical risks

Are associated with extreme weather events, for example, storms, floods, droughts, and longer-term shifts in climate patterns – such as rising temperatures. These can result in financial costs due to direct damage to assets and indirect impacts from disruption to businesses and their supply chains.

In 2017 we became the first Australian bank to provide long-term financing for large-scale domestic renewable projects

Shaping our response to climate change

The analysis is shaping our strategic response to climate change. For example, we are strengthening our due diligence processes, considering our range of products and services, and expanding the coverage and depth of our scenario analysis.

In response to the initial findings, our Environmental, Social and Governance (ESG) Fundamentals and ESG Risk training courses now include detail on physical and transition risks to help our people identify climate change risks and mitigating actions. The training is compulsory for all institutional and business banking client-facing roles, along with credit risk teams.

We publicly report on our performance and progress to hold ourselves accountable and demonstrate our commitment to reducing our exposure to carbon-related assets.

Full details on the approach, findings and strategic response can be found in the Commonwealth Bank Annual Report on www.commbank.com.au.

Low carbon opportunities

Sustainable finance

Our lending to renewable energy generation continues to increase. Over the financial year, we completed a number of significant and landmark transactions in Australia and overseas. In the space of 12 months, our lending exposure to the renewable energy sector grew 32%; and over three years lending grew 164% as of June 2018.

Lending to renewable energy projects

$3.7 billion

(1) IJ Global, Renewables League Table, FY18, by transaction value and market share by volume.

Gaining recognition

Our growth in lending to renewable energy projects has been recognised globally. We recently ranked number one for Mandated Lead Arranger financing roles of renewables projects in Australia and 18th globally, reflecting our expertise in, and commitment to, this important and burgeoning market.[1]

In the first half of 2018 we joined the US renewables league tables for the first time and moved into the top ten financiers for the Americas based on Dealogic's review of Mandated Lead Arrangers. These deals, and our ongoing work across the United Kingdom, Europe, and the Asia Pacific region, have helped increase our total global exposure to renewable energy projects over the year.

Supporting Australian solar power

Victoria's first large-scale solar farm entered commercial operation at Gannawarra in April 2018, just over one year after financing was committed. With almost 210,000 solar panels, the solar farm has capacity to supply power for more than 25,000 homes.

The project is one of three solar farms that renewable energy companies Edify Energy and Wirsol Energy are developing across the country, through financing we committed in March 2017.

In August 2017, we extended our partnership with Edify Energy through a syndicated debt facility, to finance an additional two solar farms in Queensland. The project saw two million solar panels installed north of Collinsville.

Together, the five solar farms will generate enough electricity to power approximately 160,000 homes.

"The team visited the Victoria and Queensland sites and it was extraordinary to see the size and scale of these projects. It's extremely gratifying to support projects that are making a real difference to Australia's energy mix and the future energy supply in the country."

Michael Thorpe, Managing Director
Infrastructure and Utilities, Commonwealth Bank

Harnessing the sun's energy

In 2006, businessman John Cole had an epiphany: he wanted to help save the planet.

12 years on, he now oversees one of Australia's largest independent renewable energy companies, Edify Energy.

Commonwealth Bank's long-term debt funding of five solar farms developed by Edify Energy has helped ensure that millions of solar panels are harnessing the sun's energy. "Commonwealth Bank has given Edify Energy a real launchpad," says John.

John is proud of the contribution Edify Energy is making to local communities. "In some ways it's job creation and in some ways it's upskilling local workforces," John says.

The real excitement for John is that Edify Energy is well on the way to powering thousands of Australian homes with clean, green electricity.

We are a signatory to the Equator Principles, a set of voluntary guidelines for sustainable project finance
equator-principles.com

Climate bonds

In 2018 we established a Sustainable Finance Committee to focus on identifying other low carbon opportunities, such as climate bonds.

As a partner of the Climate Bonds Initiative (CBI) we are working towards increasing large-scale investment in climate bonds to deliver low carbon energy. Over the financial year we led $2 billion of green and sustainability notes for clients across the globe.

In 2017, we issued the largest Australian dollar climate bond from an Australian bank at $650 million, demonstrating best practice in the climate and green bond market. The bond is backed by Australian renewable and low carbon assets; including wind power, green buildings, and low carbon transport projects.

“We recognise the long-term challenge of addressing climate change, and climate bonds are an important part of the solution in driving capital towards renewable energy and other low-carbon projects”, says Simon Ling, Managing Director Debt Markets, Commonwealth Bank.

“Our corporate and government client base has shown active interest in climate bonds, and we look forward to working with the CBI and its partner members in future, to accelerate the development for climate and green bonds.”

Low carbon target

We have set ourselves a target of financing $15 billion in low carbon projects by 2025. Our progress to date shows our exposure to low carbon projects as at 30 June 2018 is $7.3 billion, which is strong progress for our first year.

Eligible projects include renewable energy, 6-star rated commercial green buildings, energy efficiency and low carbon transport. We have aligned our low carbon target eligible projects with the green project categories identified in the Green Loan principles.(2)

Global environmental markets

When it comes to the global environmental markets, we have a key role to play in supporting clients as they transition to a net zero emissions economy. In particular, we seek out clients who have a transition strategy in place, and in turn, provide tailored financing and risk management environmental market solutions to meet their specific requirements. This includes facilitating liquidity across global environmental markets.

What is a climate bond?

Climate bonds are a relatively new segment of the bond market.

As with a conventional bond, a climate bond involves an investor providing upfront funding to the issuer with the issuer promising to repay the principal plus interest over a pre-agreed time period. Its proceeds are used to fund climate change projects.

First of its kind

This year we added the Affirmative Global Bond Fund (Fund) to the Colonial First State FirstChoice platform.

The Fund invests in global green bonds and uses ESG screens to deliver medium to long-term investment returns. It is the first of its kind available to retail investors in Australia.

(2) The Green Loan Principles were launched in March 2018 by the Loan market Association, in conjunction with the Asia Pacific Loan Market Association, and supported by the International Capital Market Association. It is a high level framework for the wholesale green loan market.

> **“We recently updated the EEEF program to be wholly funded by the Bank as it continues to provide great opportunities for businesses to invest in energy efficient, low emissions and renewable energy technologies”.**
>
> **Sylvia Terry, Managing Director Asset Finance, Commonwealth Bank**

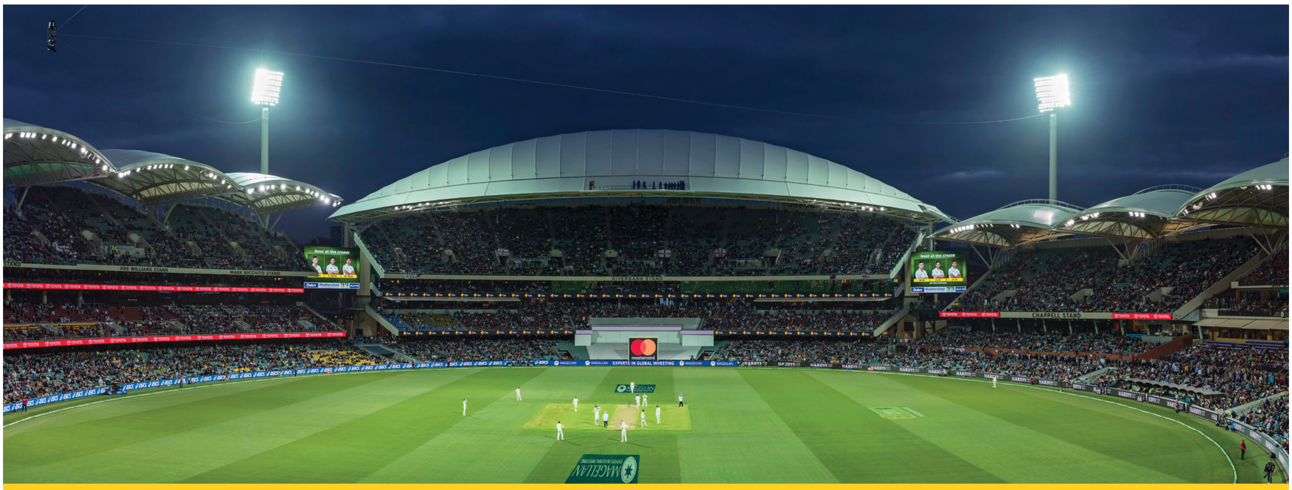
Energy Efficient Equipment Finance program

Over the financial year we continued our partnership with the Clean Energy Finance Corporation to deliver our $300 million Energy Efficient Equipment Finance (EEEF) program across Australia.

We’re proud to have helped many businesses and not-for-profit organisations reduce their energy costs, upgrade equipment, and invest in technology to improve efficiencies and cut their carbon emissions. The program provided a discount on the Bank’s standard asset finance rate for qualified assets ranging from $10,000 to $5 million.

“Whilst energy efficient assets help reduce operating costs; businesses are becoming increasingly aware of other benefits such as a smaller carbon footprint, increased brand value, and improved productivity. The program makes a real difference.

Going forward we will continue to offer a fully funded discount for a wide range of qualifying vehicles, equipment, lighting and solar projects.” says Sylvia Terry.



Lights on for Adelaide Oval

Cricket fans got a world-class experience at Adelaide Oval’s historic day-night Ashes test thanks to a new, energy efficient upgrade to its lighting and sound equipment.

The upgrade, financed by Commonwealth Bank and the Clean Energy Finance Corporation not only makes for a better spectator experience, but has reduced the stadium’s energy use by up to 35%.

More than 220 energy efficient LED lights were installed throughout the grandstands, as well as atmospheric feature LEDs, high-definition ribbon boards and audio visual equipment upgrades.

Adelaide Oval’s upgrade was delivered through Commonwealth Bank’s EEEF program, which helps businesses fund energy efficient vehicles, equipment and projects. The EEEF program has provided approximately $50 million in lending for energy efficient projects in South Australia alone since launch.

“Finding simple ways to improve energy efficiency is a win-win for our business customers, as it helps them to reduce their environmental impacts and ongoing costs, so they can focus on running their business”, says Sylvia Terry, Managing Director Asset Finance, Commonwealth Bank.

$50 million

in lending for South Australian businesses since the program launched

Our real-time public portal tracks the energy production across the network cbasolarpower.com.au

Building a green property portfolio

Over the year, we reduced our direct impact on the environment by monitoring and reducing greenhouse gas emissions and energy use through our Sustainable Property Strategy.

Managing operations efficiently

We continue to build on our track record of reducing energy use, and subsequent emissions, in our branches and offices across the country. Since 2009, we have reduced our direct emissions by 52.5%. During that same time period, our emissions intensity has reduced from 5.0tCO_2-e per FTE to 2.3tCO_2-e. We have set a target to reduce these emissions to 2.0tCO_2-e by 2020 and committed to sourcing renewable energy for 25% of our power needs by 2020.

Certified branch and office design

We are proud to have been the first Australian financial institution to achieve 5-Star Green Star certification for our retail design standards and we have completed certification for 15 Commonwealth Bank and Bankwest branches. More than 80% of our commercial office space is rated by the National Australian Built Environment Rating System (NABERS) for its environmental performance, which considers energy efficiency and water usage.

This year, we were named the CitySwitch National Signatory of the Year in recognition of our efforts to improve office tenancy energy and waste efficiency. The CitySwitch program is led by state governments to support office tenants to improve efficiency.

A carbon positive road map

We are a Carbon Positive Partner with the Green Building Council of Australia (GBCA). We supported the release of *A Carbon Positive Roadmap* for the built environment, which includes a proposal that new and existing Green Star rated buildings will have no greenhouse gas emissions by 2030. It promotes policies to retrofit existing buildings, improve new buildings, increase the supply of renewable energy, and phase out fossil fuel use.

Plugging into solar energy

We continue to invest in onsite renewable energy generation across our branch network and currently have a capacity of 750 kilowatts (kW) installed at 47 Australian sites. The effectiveness of our network is illustrated at our Margaret River branch, where the combination of onsite solar energy generation and in-branch energy efficiency has resulted in an 80% reduction in energy use and emissions.

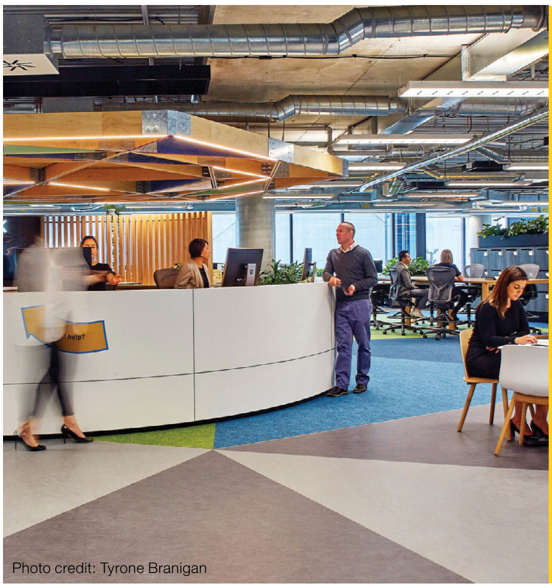


Photo credit: Tyrone Branigan

Commonwealth Bank Square

Our commitment to delivering globally leading, sustainable workplaces is evident in our new workplace Commonwealth Bank Square, which is part of the wider Darling Harbour precinct. This year we moved 3,000 Sydney employees into this workplace which meets the highest sustainability ratings of 6-Star Green Star for both the building and its interiors. We expect this building to use 70% less energy than the average Australian office building, thanks to initiatives in design, construction and operation.

During the design and construction phase, we diverted more than 90% of construction waste from landfill, sourced timber from certified sustainable forestry, installed rooftop solar power generation, and maximised natural light and people connectivity through a central atrium. We also use high levels of fresh air, numerous plants and natural materials to improve indoor air quality for our employees, harvest rainwater for internal use and separate waste streams at the source.

What’s next?

The impacts of global warming vary considerably across Australia and the findings of our scenario analysis signal an opportunity for us to strengthen our climate change strategy and build resilience for our business, customers, and communities.

Looking forward, we will broaden our scenario analysis to look at the physical risks associated with our business lending and agriculture portfolios, and the transition risks of our insurance and home lending portfolios. Moreover, we will expand our analysis of the wealth business over the coming year to include transition risk analysis of other asset classes, such as fixed income and direct assets.

“The transition to a low carbon economy is ongoing and we are evolving our approach to match the risks and opportunities identified through our scenario analysis”. says Kylie Macfarlane.

“The 2018 financial year firmly demonstrates our commitments in action – whether that’s through reducing our emissions, supporting renewable energy projects or delivering products and services to clients as they seek to reduce their carbon footprint.” Kylie Macfarlane, General Manager Corporate Responsibility, Commonwealth Bank

Contact us

commbank.com.au
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If you would like to provide feedback, or you have questions on this report or our corporate responsibility initiatives, please contact us at **sustainability@cba.com.au**