

Assessed Emissions of the Group's Business Lending Portfolio – FY19

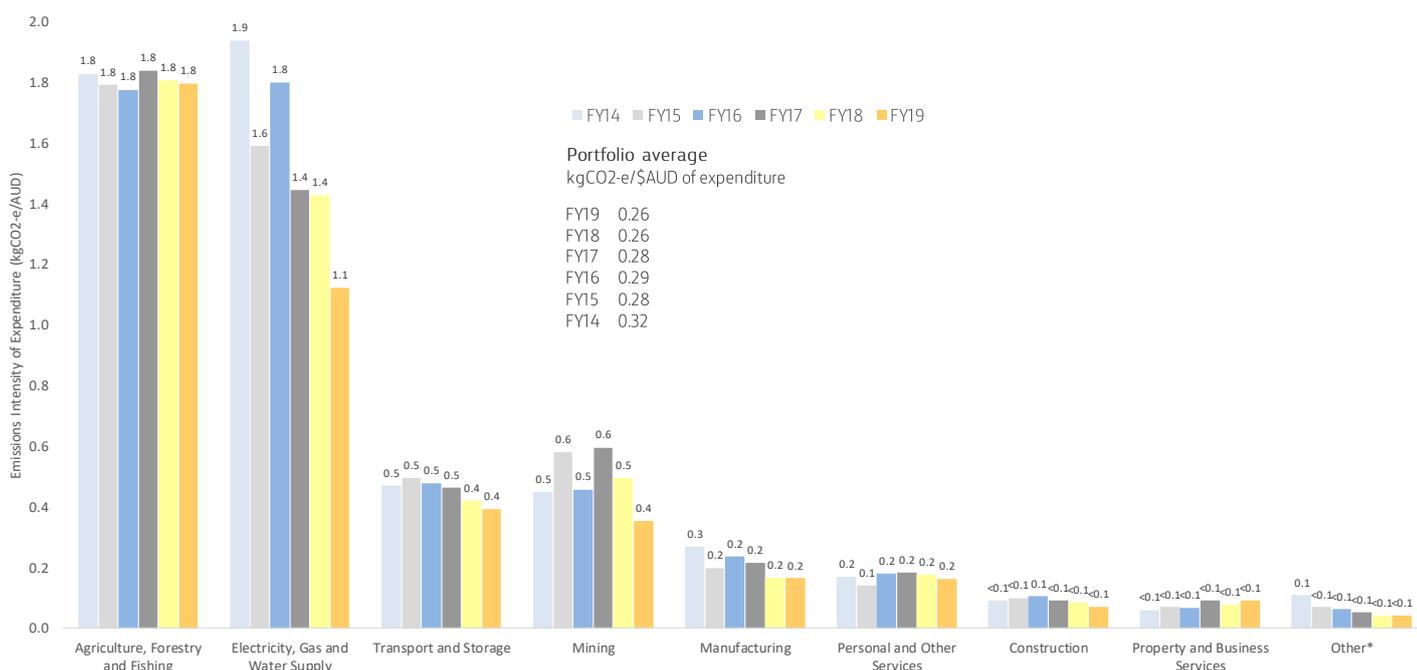
As Australia's largest financial institution, the Commonwealth Bank ("CBA" or "Group") plays a crucial role in supporting economic and social development. We continue to assess the emissions arising from our business lending across the Commonwealth Bank, ASB and Bankwest. The insights garnered from this analysis provide us with a quantitative basis to identify key priorities to reduce the emissions arising from our business lending portfolio.

Our sixth iteration of this annual assessment has demonstrated overall stability in the emissions intensity of the Group's business lending portfolio, at 0.26kgCO₂-e/\$AUD of expenditure. With the exception of Property and Business Services, the emissions intensity of expenditure in each sector across our portfolio decreased in FY19. The Agriculture, Forestry and Fishing, and Electricity, Gas and Water Supply sectors continue to represent the most emissions intensive sectors in the Group's lending portfolio (see Figure 1).

An increase in the proportion of our lending exposure to the Agriculture, Forestry and Fishing sector offset the broader decline in other sectors' emissions intensity. The Electricity, Gas and Water Supply sector's emissions intensity continues to decline year-on-year, partially driven by reduced exposure to coal electricity generation. In addition, several renewable energy projects became operational, and this phase is typically less carbon intensive than the construction phase. Within the Mining sector, metal ore mining had the largest drop in emissions intensity. The Group's exposures to thermal coal mining also decreased in the period.

Figure 1.

Group Business Lending – Emissions Intensity of Expenditure (kgCO₂-e/\$AUD)

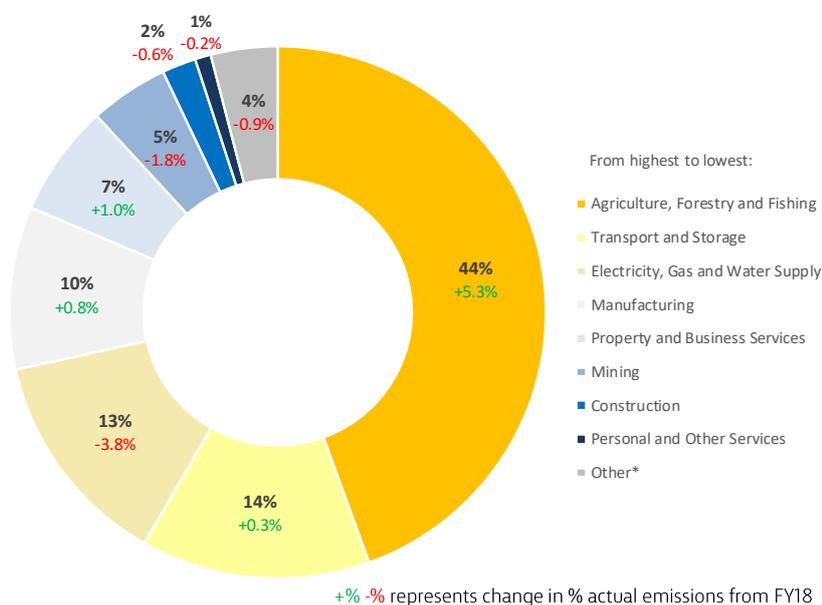


* Other includes Education; Wholesale Trade; Retail Trade; Accommodation, Cafes and Restaurants; Communication Services; Health and Community Services; and Cultural and Recreational Services.
Sector classifications are defined by ANZSIC main business activity.

The Group's emissions profile shows the industry sectors that account for the majority of emissions arising from CBA's business lending (see Figure 2). The Agriculture, Forestry and Fishing sector continues to account for the highest proportion of all emissions (44%). In FY19, the Agriculture, Forestry and Fishing, Transport and Storage, Electricity, Gas and Water Supply, and Manufacturing sectors accounted for over 80% of emissions arising from CBA's business lending portfolio.

Figure 2.

Group Business Lending – % of assessed emissions by sector (FY19)



Assessed Emissions Methodology

The assessed emissions analysis was conducted by EY, as informed by the principles set out in the Greenhouse Gas Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

Assessed 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 2019 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. Given the generally low availability of individual client-level financial data in the Agriculture sector, the debt-to-expenditure relationship was estimated using data from the FY19 Australian Agricultural and Grazing Industries Survey (AAGIS) and the FY19 Australian Dairy Industry Survey (ADIS).

Measures

kgCO₂e/\$AUD expenditure: Emissions allocated to CBA per Australian 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 earnings from different 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, and the Scope 2 emissions have been adjusted to better reflect the current electricity generation mix in the relevant country or region.