Commonwealth Bank of Australia
(UK) Staff Benefits Scheme

Statement of Investment Principles: DB Section

This is the Statement of Investment Principles (the "Statement") made by the Commonwealth Bank of Australia (UK) Staff Benefits Scheme Trustee Company Limited, (the "Trustee") as Trustee to the Defined Benefit Section of the Commonwealth Bank of Australia (UK) Staff Benefits Scheme (the "Scheme") in accordance with the Pensions Act 1995 (as amended). The Statement is subject to periodic review at least every three years and without delay after any significant change in investment policy.

In preparing this Statement, the Trustee has consulted with the employer to the Scheme and has taken and considered written advice from the Investment Practice of Hymans Robertson LLP.

SCHEME OBJECTIVE

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis.

The Trustee's over-riding funding principles for the Scheme are to set the investment strategy and the level of the employer contribution which are sufficient:

- To build up assets to provide for new benefits of active members as they are earned;
- To recover any shortfall in assets relative to the value placed on accrued liabilities over the longer term; and
- To ensure that there are always sufficient assets of the Scheme (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

For employee members, benefits are based on service completed but take account of future salary increases. The value of liabilities is calculated on the basis agreed by the Trustee and the Scheme Actuary. The funding position is monitored regularly by the Trustee and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

INVESTMENT STRATEGY

The Trustee has translated its objectives into a suitable strategic asset allocation benchmark for the Scheme, investing 12.5% in growth assets and 87.5% in matching/income assets. The strategic benchmark is reflected in the choice and mix of funds in which the Scheme invests. The Scheme benchmark is consistent with the Trustee's views on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The investment strategy takes due account of the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners and non-pensioner members), together with the level of disclosed surplus or deficit (relative to the funding bases used) and the Trustee's view of the covenant of the principal employer.

The Trustee monitors strategy relative to its agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Scheme but will normally be reviewed annually. Written advice is received as required from professional advisers.

The Trustee monitors the performance of Scheme investments relative to agreed criteria on a regular basis. The Trustee has delegated all day to day investment decisions to authorised investment managers.

To achieve its objectives the Trustee has agreed the following:

CHOOSING INVESTMENTS

Given the size and nature of the Scheme, the Trustee has decided to invest on a pooled fund basis; any such investment is effected through a direct agreement with an investment manager and/or through an insurance contract. The investment managers appointed by the Trustee is authorised under the Financial Services and Markets Act 2000 to undertake investment business. Investment in funds is subject to the funds having a track record of at least three years, however the Trustee reserves the right to waive the criteria in appropriate circumstances.

Some of the pooled funds in which investment is made are managed on an active basis, whilst others are managed on a passive (or index tracking) basis. The manager of an active fund seeks to exceed the performance of the stated benchmark or target of the fund. The manager of a passive fund seeks to match, rather than exceed, the performance of a benchmark index by investing in stocks in such a way as to replicate, as closely as possible, the composition of the benchmark index.

The Trustee is satisfied that these arrangements are consistent with the objectives of the Scheme, particularly in relation to diversification, risk, expected return and liquidity.

The Trustee reviews the nature of Scheme investments on a regular basis, with particular reference to suitability and diversification. The Trustee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Trustee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification. While it may not be possible to quantify all risks and rewards, the Trustee will not invest in any security or product it does not understand.

KINDS OF INVESTMENTS TO BE HELD

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Scheme may also make use of derivatives (or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. The Trustee considers all of these classes of investment to be suitable in the circumstances of the Scheme.

BALANCE BETWEEN DIFFERENT KINDS OF INVESTMENTS

The Scheme's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks or return targets. Within each major market, each manager will maintain a diversified portfolio of stocks.

The manager of the passive funds in which the Scheme invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

RISK

The Scheme is exposed to a number of risks which pose a threat to the Scheme meeting its objectives. The principal risks affecting the Scheme are:

FUNDING RISKS

- Financial mismatch

    1. The risk that Scheme assets fail to grow in line with the developing cost of meeting the liabilities.

    2. The risk that unexpected inflation increases the pension and benefit payments and Scheme assets do not grow fast enough to meet the increased cost.

- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost of the Scheme benefits.

- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Scheme's liabilities.

The Trustee measures and manages financial mismatch in two ways. As indicated above, the Trustee has set a strategic asset allocation benchmark for the Scheme (12.5% growth, 87.5% income/matching). The Trustee assesses risk relative to that benchmark by monitoring the Scheme's asset allocation and investment returns relative to the benchmark. The Trustee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Trustee keeps mortality and other demographic assumptions, which could influence the cost of benefits, under review. These assumptions are considered formally at triennial valuations.

The Trustee seeks to mitigate systemic risk through a diversified portfolio, but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

ASSET RISKS

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Scheme cannot meet its immediate liabilities because it has insufficient liquid assets. At current time the Scheme does not hold investments in illiquid assets. The Scheme is cashflow negative following the implementation of the new recovery plan, with regular outgo exceeding regular contributions. While the Scheme is drawing income from its credit mandate to help meet the benefit outgo, as well as disinvesting from other investments from time to time, the Trustee is set to agree a new contribution schedule with the principal employer effective from 1 July 2019 which would resolve the current negative cashflow position. The Scheme is closed to new entrants and over time as the Scheme matures, contributions (particularly deficit contributions) are expected to fall further and benefit payments are expected to rise further over time, meaning the Scheme is expected to revert to the cashflow negative position. At some point in the future, a large proportion of the investments will need to provide regular income to ensure that regular outgo is covered, and the Scheme will need to hold sufficient liquid assets to meet unanticipated outgo and avoid forced sales of assets at potentially unfavourable prices.
- Currency risk – The risk that the currency of the Scheme's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Trustee manages asset risks as follows. The Trustee provides a practical constraint on Scheme investments deviating greatly from the intended approach by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within their expected parameters. By investing across a range of assets, including quoted equities and bonds, the Trustee recognises the need for some access to liquidity in the short term. The risk of manager underperformance is mitigated to some extent by the inclusion of passive investment mandates within the investment portfolio. In appointing several investment managers, the Trustee has considered the risk of underperformance by any single investment manager.

OTHER PROVIDER RISK

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Trustee seeks professional advice.
- Custody risk - The risk of losing economic rights to Scheme assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Trustee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Scheme, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds).

EXPECTED RETURNS ON INVESTMENTS

The investment strategy aims to achieve a return on Scheme assets which taken in conjunction with contributions is sufficient over time to match growth in the Scheme's pension liabilities.

REALISATION OF INVESTMENTS

The majority of the Scheme's investments may be realised quickly if required.

SOCIAL, ENVIRONMENTAL AND GOVERNANCE CONSIDERATIONS

Consideration of financially material factors in investment arrangements

The Scheme is a long-term investor, which aims to deliver a sustainable pension fund ensuring that it is affordable, delivers financially to meet the objectives of the Scheme employers and is invested responsibly.

The Trustee's fiduciary responsibility is to act in the best interest of its members. The Trustee recognises that environmental, social and governance issues can both adversely and positively impact on the Scheme's financial performance and should be taken into account in the funding and investment strategies. Accordingly, the Trustee integrates the consideration of environmental, social and governance (ESG) issues throughout the funding and investment decision making process.

The Trustee has made an explicit allowance for ESG issues in the Scheme's equity portfolio by investing in an ethical equity fund which excludes companies scoring poorly on various ESG factors. The LGIM Ethical UK Equity fund excludes companies which manufacture or produce tobacco, weapons systems, components for controversial weapons and coal.

Each fund manager is required to submit an annual report to the Trustee, to outline any ESG considerations or analysis that have arisen, and to explain any controversial investments, as well details on engagement and voting.

The Trustee expects its appointed fund managers to support and apply internationally accepted standards of responsible investment practice including being a signatory to the PRI and to provide the Trustee with their annual assessment ratings and statements of compliance.

Consideration of non-financially material factors in investment arrangements

Other than within the LGIM Ethical UK Equity Fund, there are no exclusions or restrictions applied to investment arrangements based on non-financially material factors.

CLIMATE RISK POLICY

The Trustee believes that climate change presents a global systemic risk to ecological, societal and financial stability. Climate change therefore has the potential to impact the Scheme's beneficiaries in a number of ways including the value of the Scheme's assets.

Managing Climate Risk

The Trustee has not made explicit allowance for climate change in framing their strategic asset allocation, however as the Scheme's assets are managed and advised by third parties, the Trustee expects its delegated asset managers to:

- Integrate climate risk and opportunities in their investment strategies and make progress towards understanding and taking action on the climate risks in the Scheme's chosen portfolios and provide evidence this through specific examples in manager review meetings and annual reports.

- Actively engage, with specific objectives and key performance indicators, with highly, (above benchmark average), carbon intensive companies in portfolios and provide this analysis on a regular basis (no less than annually) to the Trustee.
- Seek out alternative (non-fossil fuel) sources of energy and invest in them where risk/return justifies such investment.
- Engage with investee companies to promote the adoption of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.
- Use proxy voting to support the Schemes Climate Risk and ESG Policies with investee companies and support shareholder resolutions, and co-filings where practicable and provide the Trustee with an annual report on climate related proxy voting activity.

The Trustee also expects it professional advisers to:

- Have a publicly available climate risk policy, and;
- Provide the Trustee with regular updates as to how their own advice, tools, processes and skills and knowledge support the Scheme's policy with respect to managing the financial implications of climate change.

CORPORATE GOVERNANCE AND PROXY VOTING

For the Scheme's listed equity investments, the Trustee aim to exercise the Fund's voting rights in all markets, where practicable. The Scheme's external fund managers can generally vote all the Fund's shares at their discretion. Before appointment, the Scheme's fund managers have to confirm that they subscribe to the principles of good corporate governance and, when voting at company AGMs, take them into account.

In respect of investments in the UK this requires its managers to have due regard to the UK Corporate Governance Code and, in respect of overseas investments, have due regard to relevant recognised standards. The Trustee also requires its managers to apply (and confirm annually that they do so) the UK Stewardship Code or similar applicable standards for overseas managers.

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

The Trustee gives members the opportunity to invest in AVC vehicles at the member's discretion via the funds that are available under the Defined Contribution section of the Scheme.

Signed for and on behalf of the
Commonwealth Bank of Australia (UK) Staff Benefits Scheme Trustee Company Limited

K Cochrane

Trustee Director

C Lovell Good

Trustee Director

Appendix 1 – DB Manager Arrangements

Details of the funds in which the Scheme invests are set out in the table below:

Manager	Asset Class	Fund	Benchmark	Annual Manage-ment Charge %	Total Expense Ratio %
Legal & General ("L&G")	Cash	Sterling Liquidity Fund	7 day LIBID	[redacted]	
	Passive Gilts, Index-Linked Gilts	2024 Gilt	2024 Single Stock	[redacted]	
		2027 Gilt	2027 Single Stock		
		2034 Gilt	2034 Single Stock		
		2049 Gilt	2049 Single Stock		
		2050 Index-Linked Gilt	2050 Single Stock Index Linked		
		2055 Index-Linked Gilt	2055 Single Stock Index Linked		
		2068 Index-Linked Gilt	2068 Single Stock Index Linked		
	Passive Leveraged Gilts, Index-Linked Gilts	2038 Leveraged Gilt	Leveraged Return of 2038 Gilt	[redacted]	
		2042 Leveraged Gilt	Leveraged Return of 2042 Gilt		
		2049 Leveraged Gilt	Leveraged Return of 2049 Gilt		
		2055 Leveraged Gilt	Leveraged Return of 2055 Gilt		
		2060 Leveraged Gilt	Leveraged Return of 2060 Gilt		
		2068 Leveraged Gilt	Leveraged Return of 2068 Gilt		
		2024 Leveraged Index-Linked Gilt	Leveraged Return of 2024 Index-Linked Gilt		
		2030 Leveraged Index-Linked Gilt	Leveraged Return of 2030 Index-Linked Gilt		
		2034 Leveraged Index-Linked Gilt	Leveraged Return of 2034 Index-Linked Gilt		
		2037 Leveraged Index-Linked Gilt	Leveraged Return of 2037 Index-Linked Gilt		
		2042 Leveraged Index-Linked Gilt	Leveraged Return of 2042 Index-Linked Gilt		
	Passive Equities	Ethical UK Equity Index	FTSE4Good UK Equity Index	[redacted]	

Investec	Active Equities	Global Equity Fund	MSCI AC World Net Return	[redacted]	[redacted]
Baillie Gifford	Active Equities	Global Alpha	MSCI AC World Index	[redacted]	[redacted]
M&G	Multi Credit	Alpha Opportunities Fund	1 month LIBOR +3%-5% p.a.	[redacted]	[redacted]

Notes

1. The Annual Management Charge for L&G Sterling Liquidity Fund is calculated using a stepped basis based on the aggregate value of the holdings, as follows:

   For the first £5m: [redacted]
   For the next £5m: [redacted]
   For the next £20m: [redacted]
   For the balance over £30m: [redacted]

   The Total Expense Ratio is equal to the Annual Management Charge.

Scheme Allocation

The table below sets of the target allocations for the DB Scheme assets as at 31 March 2019.

Strategic Allocation

Asset class	Target Proportion % (excluding IPA[1])
Growth	12.5
Matching & Income	87.5
Total (excluding IPA[1])	100.0

[1]Insured Pension Assets

Manager Allocation

Fund	Target Allocation %
Baillie Gifford Global Equity	4.5
Investec Global Equity	4.5
L&G Ethical UK Equity	3.5
M&G Alpha Opportunities Fund	23.0
L&G Gilts	62.0
L&G Index Linked Gilts	
L&G Leveraged Gilts	
L&G Leveraged Index-Linked Gilts	
L&G Sterling Liquidity Fund	2.5
Total (excluding IPA)	100.0