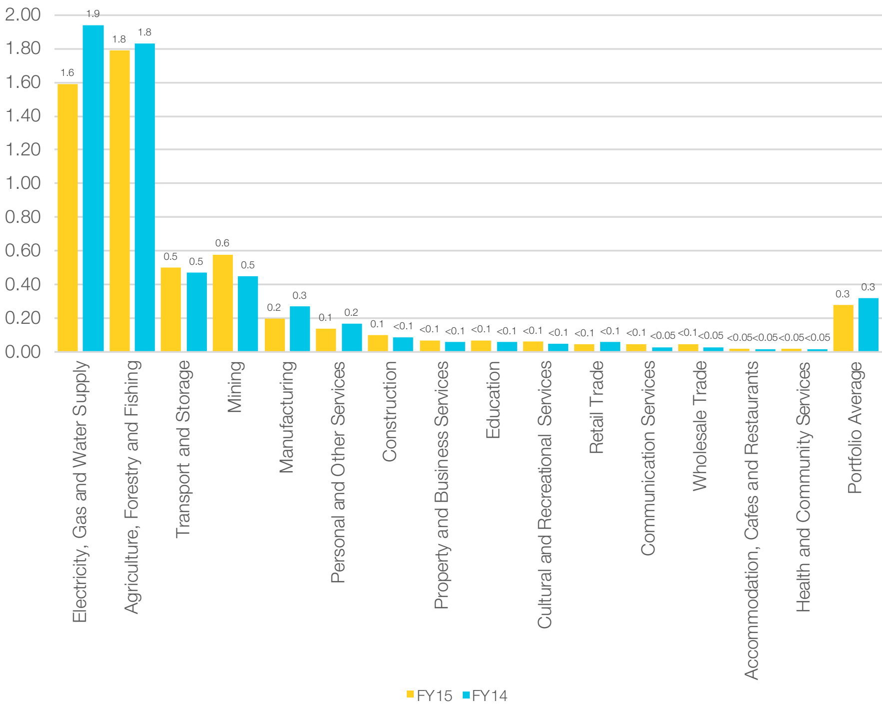
ASSESSED CARBON EMISSIONS OF THE GROUP'S BUSINESS LENDING PORTFOLIO.

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. We have therefore undertaken to assess the carbon emissions arising from our business lending. These insights, and the detailed diagnostics behind them, provide us with a measured scientific basis to identify and act on key opportunities to reduce the carbon emissions of our business lending portfolio.

This second iteration of measurement shows a 10% decline in the carbon intensity of the CBA business lending portfolio.

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 carbon intensity of the Electricity, Gas and Water Supply sector declined over the period for CBA (Figure 1).

Figure 1.
CBA Group Business Lending – Emissions Intensity (EI) of Expenditure (kgCO_2-e/AUD)

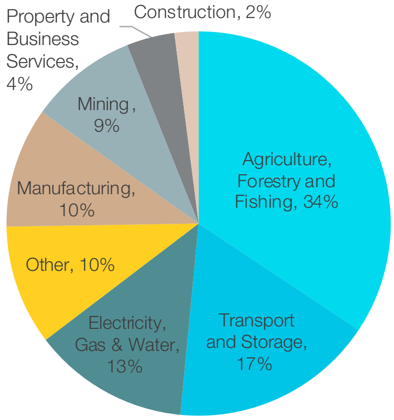


Weighted average EI of expenditure includes a double count of electricity scope 1 emissions across all sectors.
Sector classification defined by ANZSIC main business activity.

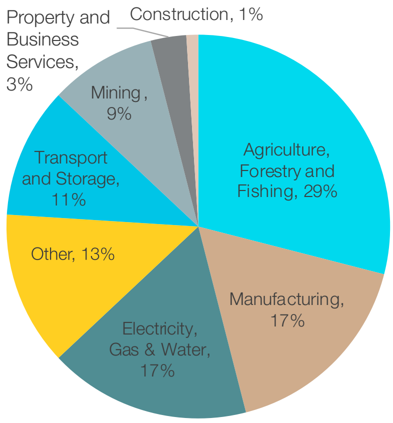
CBA's emissions profile (figure 2) shows the industry sectors that account for the majority of CBA's emissions arising from business lending. The Agriculture, Transport, Electricity, Manufacturing and Mining sectors account for over 80% of business lending portfolio emissions.

Figure 2.
CBA Group Business Lending

FY15 – % of actual emissions in each sector



FY14 – % of actual emissions in each sector



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METHODOLOGY

The financed emissions analysis was conducted by EY, as informed by the principles set out in the GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard. This approach draws on the emerging protocols being discussed through the Greenhouse Gas 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, 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.

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 2015 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). The FY15 data includes CBA, ASB and Bankwest[1].
- 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 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 low level of individual data availability. In this case, the debt-to-expenditure relationship was estimated using comprehensive data from the FY15 Australian Agricultural and Grazing Industries Survey (AAGIS) and the FY15 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, Scope 1 emissions created by the electricity generation sector are representative of 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.

[1] Inclusion of Bankwest in the FY15 results produces a 2% decline in total carbon intensity of CBA's lending portfolio compared to prior year, in addition to the 10% total decline in intensity reported overleaf.