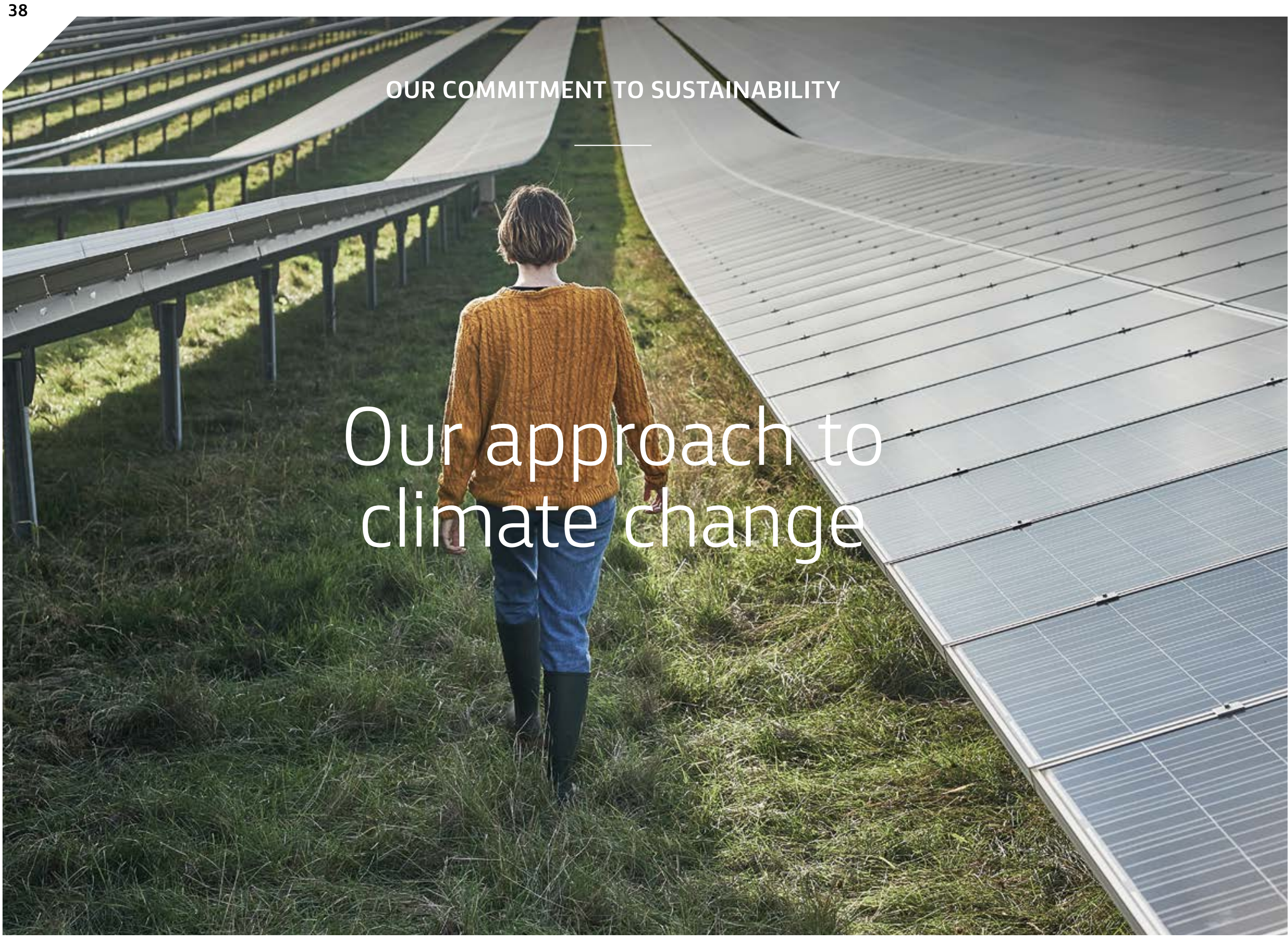



Climate change poses a significant risk to our environment, our economy and our community, and is a source of both risks and opportunities for the Bank. We are committed to playing our part in limiting climate change in line with the goals of the Paris Agreement and supporting the responsible global transition to net zero emissions by 2050.

To achieve the goals of the Paris Agreement, action over the next decade to 2030 is crucial while supporting the financial wellbeing of our customers, communities and the Australian economy.

Since 2018 we have been disclosing our progress, performance and plans in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The first three phases of our approach to climate change focused on establishing the governance and deep analysis required to better understand climate risks and opportunities. In the current fourth phase, we are focused on incorporating climate considerations into our strategy across all business units, and enhancing our approach to risk management.

The recent bushfires resulted in heightened attention from customers, investors, regulators and the community on the role businesses play in addressing and managing environmental and social impacts. This year, we have continued to take proactive steps to support our customers and clients, and contribute to economy-wide initiatives that support a sustainable and resilient economy.

**Phase 1**

Pre-FY18

Policy, due diligence, governance

**Phase 2**

FY18

Analysis of portfolio risks and opportunities

**Phase 3**

FY19

Extending scenario analysis, developing strategic responses, capability building

**Phase 4**

FY20–21

Embedding climate considerations into strategy, business and risk management processes

# Our progress

| | | Phase 1–2 | Phase 3 | Phase 4 | |
|---|---|---|---|---|---|
| | **Action** | **Pre-FY19** | **FY19** | **FY20** | **FY21** |
| **Governance** | Oversight of climate risks by the Board Risk & Compliance Committee and Executive Leadership Team (ELT) through the Risk Management Framework | Complete | | | |
| | Group Environmental and Social (E&S) Policy clarifying Board and subsidiary Boards' oversight and Management accountability for E&S risk, including climate change | | Complete | | |
| | Group E&S Framework outlining climate commitments (reviewed on an ongoing basis) | | Ongoing | Ongoing | Ongoing |
| | Review and update Responsible Investment Policy in Colonial First State (CFS) | Complete | | Complete | |
| **Strategy** | Commitment to support the objectives of the Paris Agreement | Complete | | | |
| | Climate scenario analysis: | | | | |
| | • Business lending: transition risks. Home lending and insurance: physical risks. FirstChoice Australian Share Fund: transition risks. | Complete | | | |
| | • Agribusiness lending: physical risks. | | Complete | | |
| | • Business lending: physical risks. | | | | Future activity |
| | • Retail (home lending) and insurance: transition risks. | | | | Future activity |
| | Develop and integrate strategic responses to address climate change through our own business actions, as well as through our broader role with our customers and communities | Ongoing | Ongoing | Ongoing | Ongoing |
| **Risk management** | Climate incorporated into the Risk Management Framework as a strategic risk and a driver of financial and non-financial risks | Complete | | | |
| | Group Risk Appetite Statement annual review | | | Complete | |
| | Update our business lending policies in the E&S Framework to support the responsible transition to a net zero emissions economy by 2050 | | Complete | | |
| | Undertake analysis of emissions intensity of our business lending portfolio and Energy Value Chain to track performance of supporting the transition to a net zero emissions economy | Ongoing | Ongoing | Ongoing | Ongoing |
| | Ongoing development and evolution of our ESG Risk Assessment tool for business lending | Ongoing | Ongoing | Ongoing | Ongoing |
| | Expansion of climate change metrics aggregated across the entire CFS portfolio | | | Complete | |
| **Metrics and targets** | Emissions reduction targets (Scope 1 and 2) | Ongoing | Ongoing | Ongoing | Ongoing |
| | RE100 commitment to source 100% renewable energy by 2030 (achieved for Australian operations) | | Ongoing | Ongoing | Ongoing |
| | Targeting an average emissions intensity decrease of our business lending portfolio | Ongoing | Ongoing | Ongoing | Ongoing |
| | Set new emissions reduction targets: • Science-based emissions reduction target (Scope 1 and 2) • Scope 3 emissions reduction target | | | | Future activity |

Key: Complete Ongoing Future activity

OVERVIEW
HOW WE CREATE VALUE
DIRECTORS' REPORT
FINANCIAL REPORT
ADDITIONAL INFORMATION

# Climate governance

The Board oversees the management of climate-related risks and opportunities, as outlined in the Board Charter. Specifically, the Board:

- Sets, approves and oversees the Group's approach to managing risk, including the management of financial and non-financial risks and of strategic and emerging material risks.
- Considers the social, ethical and environmental impact of the Group's activities.
- Approves with input from management, the strategic, business and financial plans to be implemented by management.
- Approves climate-related disclosures.

The Executive Leadership Team (ELT) is responsible for climate-related matters, including:

- Directing the development and implementation of environmental and social policies.
- Overseeing of progress, performance and reporting.
- Leading external engagement and advocacy.

The Group E&S Policy released in August 2019 outlines the governance and oversight in place to support embedding environmental and social considerations into our business processes and decision-making. This is supported by the Group E&S Framework outlining the minimum standards, targets and commitments we are working towards. Accountabilities for the E&S Policy are set out in the relevant Business Unit and Support Unit Procedures.

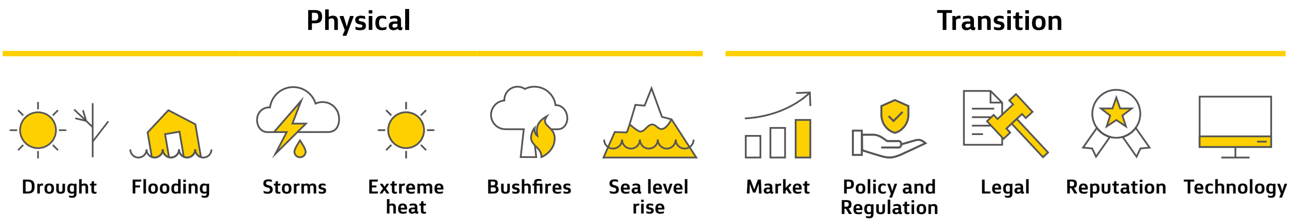
The E&S Policy also prescribes the process for subsidiary Board oversight.

See our E&S Framework at commbank.com.au/policies

# Climate strategy

We are committed to playing our role in the responsible transition to a net zero emissions economy by 2050. To achieve this, we remain focused on reducing our own emissions and continuing to progress our actions in the institutional bank, ensuring our business lending activities are aligned and supporting our clients. Going forward, we recognise the opportunity to leverage our business banking and retail banking franchise to support our customers to reduce their emissions and adapt to the impacts of climate change. We will continue to evolve our approach over time. In 2018 and 2019, we undertook scenario analysis to better understand the climate change impacts, risks and opportunities for the Bank and to build the resilience of our customers and business. The insights from the analysis inform our approach to managing the short and medium term impacts, and having the right tools in place to reshape each of our portfolios to be more resilient to the long-term impacts identified.

## Scenario analysis – areas of focus




| Grains, livestock and dairy agriculture portfolios | Building insurance policies | Home loan portfolio | FirstChoice Australian Share Fund | Business lending portfolio |
|---|---|---|---|---|
| Potential impacts on profitability and adaptation options to reduce impact. | Potential impacts on insurance claims and affordability of insurance. | Potential damage to properties at an aggregated level due to natural perils.<br>Home loan portfolio exposure concentrations. | Exposure of fund to growth and contraction sectors. | Economic growth and contraction by sector.<br>Sector heat maps.<br>Exposure of portfolio to growth and contraction of sectors. |

More information on our climate scenario analysis is available at commbank.com.au/TCFD2018 and commbank.com.au/TCFD2019

We are addressing climate change through our own business actions as well as our broader role with customers and communities.

We are aligning our business lending portfolio to a net zero emissions economy by 2050 by:

- Developing climate-related products and increasing our lending to low carbon projects, tracked through our Low Carbon Target.
- Partnering with our clients and incentivising measurable action through sustainability-linked loans.
- Supporting increased renewable energy generation, while reducing our exposure to coal over time.
- Using the business lending assessed emissions analysis to identify priority areas for reducing emissions (see page 44 for details).

## Supporting our customers and clients

We are developing innovative climate-related products to help customers with mitigation and adaptation. We have launched a green term deposit pilot for wholesale clients in Australia. The investment proceeds contribute to the Bank's pool of funding used to finance 'green' assets certified by the Climate Bonds Initiative. In New Zealand, ASB has developed and launched two new Positive Impact Funds available through the ASB KiwiSaver Scheme and ASB Investment Funds for customers who want a stronger approach to responsible investment. The funds have a preference for assets making a positive social and environmental impact with a lower carbon intensity than the wider market.

### Sustainable finance

This year, the Bank was a joint lead manager for the AUD300 million QIC Shopping Centre Fund (QSCF) Green Bond, certified by the Climate Bonds Initiative. QSCF has committed to achieve a minimum 4-star NABERS energy rating for its core retail assets by 2023 and are targeting zero net emissions by 2028.

### Supporting our agribusiness customers

Last year, we undertook climate scenario analysis to better understand the potential impacts that a changing climate may have on farm productivity and the long-term outlook for the sector. Separately, we have also used historical industry data to map productivity levels for regions in Australia for the grains, livestock and dairy sectors. A closer focus on productivity levels across these three sectors and regions helps us understand and better support individual customers' needs and circumstances. We used these insights to guide our approach to agribusiness lending for these sectors, to help our customers manage sustainability through agricultural cycles.

### Green mortgage initiative

To help home loan customers benefit from more affordable and sustainable energy, we ran a pilot offering $500 cash-back to our retail customers with an installed and certified solar PV system of five kilowatts (kW) or greater.

During the six-week offer period, 4,703 customers took up the offer. The initiative prompted 16% of participating customers to install new solar panels.

### Incentivising the transition to a low carbon economy

Sustainability-linked loans tie a borrower's cost of funding to their environmental and social performance. In July 2019, we provided $150 million of debt funding to Queensland Airports Limited (QAL) for the Gold Coast Airport redevelopment, with $75 million provided in the form of a sustainability-linked loan. The Gold Coast Airport financing is the first in Australia to be directly linked to a reduction in carbon emissions, aligning to a widely adopted carbon emission industry framework, the Airport Carbon Accreditation Program.

# Playing our role in creating a resilient and sustainable economy

## Supporting community recovery and resilience

This year's extreme weather events including drought, floods and bushfires, tested the resilience of the communities impacted. The Bank's Emergency Assistance package provided immediate support to our customers. We also supported recovery efforts for communities. See pages 32–33 for more information.

We are actively collaborating with other organisations to lift national resilience. This work allows us to proactively invest in building resilient communities, disaster reduction and disaster response.

## Collaborating on new banking and industry standards

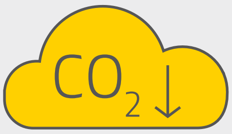
We are a member of the Australian Sustainable Finance Initiative, which supports the development of a roadmap to a more resilient and sustainable economy for Australia. In New Zealand, ASB has joined with more than 100 companies as part of the Climate Leaders Coalition.

We are actively contributing to the Climate Measurement Standards Initiative. Through the initiative, Australian banks, insurers, scientists and asset owners have been developing open-source technical and business standards for the assessment and disclosure of physical climate risks on infrastructure and real estate assets.

The Bank is also a signatory to the Equator Principles III (EPIII) – a global set of principles and guidance to assess, mitigate, manage and monitor environmental and social risks in project-related financing. CBA co-leads the Climate Change Working Group to develop additional climate change assessment requirements in the next iteration of the Equator Principles (EPIV). This will include deeper guidance to support implementation of the principles by global financial institutions.

## Responsible business lending

All Institutional Bank loans, as well as large loans in other business units, are evaluated through our compulsory ESG risk assessment tool. Medium or high ESG risk profiles are subject to additional due diligence and escalated depending on the level of risk. We continue to provide guidance to our bankers on executing the business lending commitments in the E&S Framework. This year's ESG training provided bankers with prompts to understand clients' plans for climate transition and resilience to physical climate risks.




## Responsible investing

Colonial First State (CFS) is the Group's investment and superannuation business. CFS assesses climate-related risks in line with its Responsible Investment Policy.

To monitor the climate-related risks of its investments, CFS assesses two metrics for the equity allocation of Assets Under Management (AUM) at a whole of portfolio level[1]:

- Carbon emissions footprint per $100,000 invested: 20.77t$CO_2$e/$100k AUD (FY20).
- The weighted average carbon intensity per US$M sales: 235.47t$CO_2$e/$1M sales USD (FY20).

Equities comprise approximately 60% of CFS' total AUM.

CFS also measures the carbon emissions of its investments by assessing forward-looking metrics such as low carbon transition and emissions management scores. This information is reported to the CFS Board Investment Committee. As CFS investments are managed by external investment managers, CFS monitors the climate-related risk within individual funds and aggregated portfolios at the selection, appointment and monitoring stages of portfolio management.

1 Excluding Avanteos Investments Limited (AIL) and Bankwest bank deposits.

# Climate risk management

Environmental and social risk, including climate change, is a strategic risk managed under the Group's Risk Management Framework and has the potential to impact the achievement of our purpose and strategy.

In December 2019, we updated our Group Risk Appetite Statement to provide greater clarity on non-financial risk indicators and capture the importance of environmental and social risks as a driver of franchise value.

To support a strategic and coordinated response on E&S matters across all business areas, we are developing an E&S Risk Roadmap, focusing initially on climate risk.

More information about the Bank's current risk priorities including climate change and the key actions we are taking is on page 61.

## Monitoring our exposures

Our E&S Framework outlines our climate commitments, including:

- Continuing to reduce our exposures to thermal coal mining and coal fired power generation, with a view to exiting the sectors by 2030, subject to Australia having a secure energy platform.
- Only providing Banking and Financing activity to new oil, gas or metallurgical coal projects if supported by an assessment of the environmental, social and economic impacts of such activity, and if in line with the goals of the Paris Agreement.
- Recognising and supporting gas as a transition fuel, while working with our customers in accordance with our own climate scenario analysis, which is informed by the Intergovernmental Panel on Climate Change guidance.

The energy value chain graphic below shows our exposure to energy-related assets.

Our support for the transition to a low carbon economy is reflected in our declining exposure to coal, and our increasing exposure to renewables. The increase in oil-related exposures is substantially due to foreign exchange movements in derivative hedging exposures for a single existing client.

## Energy value chain exposures as at 30 June 2020[1]

Key: +/– change since FY19

### Natural resources[2]

- Gas: $1.2bn (–6%)
- Thermal coal: $0.35bn (–6%)
- Thermal coal within diversified miners[3]: $0.16bn (–25%)
- Uranium: $0.0bn
- Oil[4]: $2.3bn (+7%)

### Infrastructure

- LNG terminals: $2.2bn (–22%)
- Coal terminals: $0.9bn (–5%)

### Electricity generation

- Gas: $0.6bn (–13%)
- Renewables: $4.2bn (+14%)
- Coal: $0.004bn (–13%)
- Nuclear: $0.0bn

### Network and retailers

- Electricity and gas transmission, distribution and retailing[5]: $5.2bn (+4%)
- Oil distribution and refining: $1.1bn (+41%)

1 All figures are Total Committed Exposures (TCE) excluding Commitment at Offer as at 30 June 2020. Figures represented have been specifically derived based on material client exposures, and have not been netted off against any insurance or guarantees that mitigate the Bank's risk exposure to clients. Not included are 'Other energy-related' exposures ($0.1 billion) which comprise smaller loans and exposure to energy trading entities.
2 Exposures to metallurgical coal mining ($0.02 billion), and metallurgical coal mining within diversified miners ($0.06 billion) not included.
3 Thermal coal exposure within each diversified miner is calculated as the Group's exposure to the miner, excluding exposure to coal subsidiaries, multiplied by the percentage EBITDA contribution of thermal coal in its latest annual financial statements. Exposures to coal subsidiaries of diversified miners, i.e. subsidiaries whose business activities are predominantly related to coal mining, are allocated to thermal coal.
4 Exposures in Oil (Natural resources) for 30 June 2019 have been revised due to reclassification of some clients, which impacts the year-on-year change percentages.
5 Electricity and gas transmission, distribution and retailing includes exposures to companies that operate across the electricity and gas supply chain, including vertically integrated gentailers; exposures to entities that operate domestic gas pipeline, processing and storage facilities; and exposures to companies that provide retail electricity and gas products to end-customers.

# Measuring the emissions intensity of our business lending

We continue to assess the emissions arising from our business lending across 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 0.26kg$CO_2$-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 Bank's lending portfolio.

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.

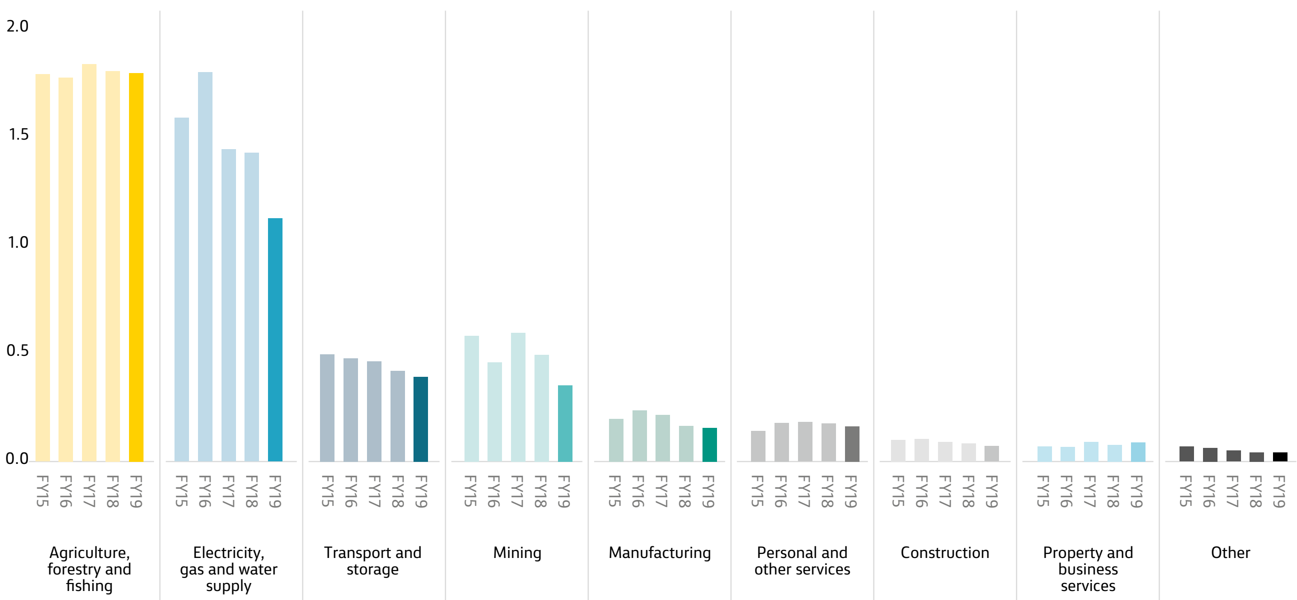
Within the Mining sector, metal ore mining had the largest drop in emissions intensity. The Bank's exposures to thermal coal mining also decreased in the period.

## Group business lending

% of assessed emissions by sector (FY19)

| | |
|---|---|
| Agriculture, forestry and fishing | 44% |
| Transport and storage | 14% |
| Electricity, gas and water supply | 13% |
| Manufacturing | 10% |
| Property and business services | 7% |
| Mining | 5% |
| Construction | 2% |
| Personal and other services | 1% |
| Other | 4% |

## Group business lending emissions intensity of expenditure (kg$CO_2$-e/$AUD)




The full assessed emissions analysis including the detailed findings and methodology is available at commbank.com.au/CRreporting

# Metrics and targets

We are committed to continually reducing the environmental impact of our operations and aim to reduce our emissions by investing in smart technologies and practices. Key milestones achieved this year include:

- Reaching our target to source 100% of our electricity needs from renewable sources for Australian operations, consistent with our 2030 RE100 commitment.
- Increasing our onsite renewable energy generation capacity using solar photovoltaic (PV) panels to 1,510kW at 80 sites across the country, exceeding our 2020 target of 1,250kW.
- Our New Zealand operations (ASB) have achieved Toitū carbonzero certification from Toitū Envirocare. The certification validates ASB as a carbon neutral organisation for its 2019 operational emissions.

We continue to track the overall performance of our Scope 1 and 2 emissions reduction target, and have committed to setting science-based emissions reduction targets for Scope 1 and 2, as well as a Scope 3 emissions reduction target.

We remain committed to offsetting unavoidable emissions to achieve carbon neutrality, and intend to achieve Climate Active carbon neutrality certification for our Australian FY21 emissions.

## Supporting the low carbon economy

In February 2020, we released our Green, Social and Sustainability Funding Framework outlining the governance and asset eligibility criteria for Sustainable Funding Instruments issued by CBA. This framework provides the guidelines to support capital deployment toward new sustainable products, services and business models.

In the 2017 financial year we set a Low Carbon Target to make $15 billion of funding available to Low Carbon Projects by 2025. Eligible projects include renewable energy, 6-star rated commercial green buildings, energy efficiency projects and low carbon transport.

| Metric | Target | FY19 | FY20 | Progress |
|---|---|---|---|---|
| Emissions per FTE | 2.0t$CO_2$-e/FTE by 2020 | 2.1t$CO_2$-e/FTE | 1.9t$CO_2$-e/FTE | Complete |
| RE100 – renewable energy (Australia) | Sourcing 100% renewable energy by 2030 | 65% | 100% (1 Jan 2020) | Complete |
| Low Carbon Target | $15 billion by 2025 | $5.13 billion committed exposure | $5.37 billion committed exposure | Commenced |
| Assessed emissions in our business lending portfolio | Net zero by 2050 | 0.26kg$CO_2$-e/$ of expenditure (2018 financial year) | 0.26kg$CO_2$-e/$ of expenditure (2019 financial year) | Commenced |

Key: Complete Commenced