

**Commonwealth Bank Australia**

Commonwealth Bank of Australia, A.B.N, 48 123 123 124



Incorporated in Australia with limited liability

**U.S.\$70,000,000,000\***

## **Euro Medium Term Note Programme**

*\*Combined programme limit for the Euro Medium Term Note Programme of ASB Finance Limited and Commonwealth Bank of Australia. This Supplement relates to Notes to be issued under such programme by Commonwealth Bank of Australia only.*

This supplement (the “**Supplement**”) comprises a supplement for Commonwealth Bank of Australia (the “**Issuer**” or the “**Bank**”) to the Programme Circular dated 3 July 2017 as supplemented on 14 August 2017, 12 September 2017, 21 December 2017 and 7 February 2018 (as so supplemented, the “**Programme Circular**”). The Programme Circular is a base prospectus prepared in connection with the Euro Medium Term Note Programme (the “**Programme**”) established by the Issuer. This Supplement constitutes a supplementary prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000 (the “**FSMA**”).

Terms defined in the Programme Circular have the same meaning when used in this Supplement. This Supplement is supplemental to, and should be read in conjunction with, the Programme Circular and any other supplements to the Programme Circular issued by the Issuer. A copy of this Supplement will be made available for inspection at the offices of the Issuer and at the offices of any Paying Agent in the United Kingdom for so long as the Programme remains in existence. This Supplement will be published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

The Issuer accepts responsibility for the information contained in this Supplement. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

The purpose of this Supplement is to update the Programme Circular to reflect the (i) orders made by the Federal Court of Australia on 22 March 2018 relating to the proceedings filed by the Australian Transaction Reports and Analysis Centre in the Federal Court of Australia on 3 August 2017; (ii) conclusion of the strategic review of the Bank’s global investment management business, Colonial First State Global Asset Management, announced by the Bank on 17 April 2018; (iii) confirmation by the Bank that it will implement all of the recommendations contained in the Report of the Prudential Inquiry released by the Australian Prudential Regulation Authority on 1 May 2018; and (iv) in-principle settlement agreement reached between the Bank and the Australian Securities and Investments Commission in the legal proceedings in relation to claims of manipulation of the Bank Bill Swap Rate on 9 May 2018.

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Programme Circular by this Supplement and (b) any other statement in or incorporated by reference in the Programme Circular, the statements in (a) above will prevail.

Save as disclosed in this Supplement and any supplement to the Programme Circular previously issued, there has been no other significant new factor, material mistake or inaccuracy relating to information included in the Programme Circular since the publication of the Programme Circular.

### **Update to the Programme Circular**

The following paragraphs are added to the end of the paragraph entitled “*Recent Developments*” in the section entitled “*Commonwealth Bank of Australia*” on page 69 of the Programme Circular (as inserted in the supplement to the Programme Circular dated 12 September 2017 and amended in the supplement to the Programme Circular dated 8 February 2018):

#### *“Update on the AUSTRAC Proceedings*

On 22 March 2018, the Bank announced that the Federal Court of Australia made orders (the “**Orders**”) relating to the proceedings filed by the Australian Transaction Reports and Analysis Centre (“**AUSTRAC**”) in the Federal Court of Australia on 3 August 3 2017 (the “**AUSTRAC Proceedings**”). The Orders were made at the request of both AUSTRAC and the Bank, and include orders for the AUSTRAC Proceedings to be referred to mediation, with that mediation to occur by 25 May 2018. The Orders also require that AUSTRAC file and serve any reply to the Bank’s amended defence by 6 April 2018 and set a timetable for evidence in the AUSTRAC Proceedings in the event that mediation is unsuccessful.

#### *Outcome of Strategic Review of CFSGAM*

On 17 April 2018, the Bank announced that it had concluded the strategic review of its global investment management business, Colonial First State Global Asset Management (“**CFSGAM**”), and decided to pursue an initial public offering of CFSGAM by the end of calendar year 2018.

#### *The Bank to implement all recommendations of APRA’s Prudential Inquiry and enters into enforceable undertaking*

The Bank confirmed on 1 May 2018 that it will implement all of the recommendations contained in the report of the Prudential Inquiry (the “**Report**”) that was also released by the Australian Prudential Regulation Authority (“**APRA**”) on 1 May 2018.

An overview of the recommendations contained in the Report, which focus on “APRA Levers of Change” is as follows:

#### *APRA Levers of Change*

- More rigorous Board and Executive Committee level governance of non-financial risks;
- Development of exacting accountability standards reinforced by remuneration practices;
- Undertaking a substantial upgrading of the authority and capability of the operational risk management and compliance functions;
- Injection into the Bank’s DNA of the

#### *CBA Change Priorities*

- Strengthening the governance and management of non-financial risks at the Board and executive level;
- Changes to remuneration policies and practices to ensure greater accountability for risk, compliance and customer outcomes;
- Strengthening capability in operational risk and compliance throughout the CBA group supported by positive, transparent regulatory relationships;

- “should we?” question in relation to all dealings with and decisions on customers; and
- Cultural change that moves the dial from reactive and complacent to empowered, challenging and striving for best practice in risk identification and remediation.
- Renewed focus on listening to customers and improved systems and procedures for reporting and resolving customer complaints; and
- Empowering staff with the tools and processes they need to manage risk better including embedding three lines of accountability as a consistent operating model.

In response to the Report, the Bank has also entered into an Enforceable Undertaking with APRA (the “**Undertaking**”). The key terms of the Undertaking involve:

### **Remedial Action Plan**

- (i) Establishing an APRA-agreed remedial action plan within 60 days with clear and measurable responses to each of the Report’s recommendations supported by a timeline and executive accountabilities for completing each remedial action.
- (ii) Appointing an independent reviewer, approved by APRA, to report to APRA every three months commencing 30 September 2018, on compliance with the Undertaking and on those items in the remedial action plan that the Bank considers are nearing completion.

### **Remuneration**

- (i) reporting to APRA by 30 June 2018 on how the findings of the Report have been reflected remuneration outcomes for current and past executives.
- (ii) Ensuring accountability for completing items in the remedial actions is given significant weight in the performance scorecards of the senior executive team and other staff as relevant.

### **Capital Adjustment**

- (i) APRA will apply a capital adjustment to the Bank’s minimum capital requirement by adding A\$1 billion to the Bank’s operational risk capital requirement (the “Capital Adjustment”). The effect of this adjustment equates to 29 basis points of the Bank’s Common Equity Tier 1 (“CET1”) capital and reduces the Bank’s CET1 ratio as of 31 December 2017 from 10.4 per cent. to 10.1 per cent.
- (ii) The Bank may apply for removal of all or part of the Capital Adjustment when it believes it can demonstrate compliance, to APRA’s satisfaction, with the Undertaking and commitments in the remedial action plan.

In early July, subject to finalisation with APRA, the Bank expects to provide a public update on its agreed remediation plan. The Bank expects to disclose an estimate of the expected financial cost of this programme for the 2019 financial year on 8 August 2018. In addition, the Bank expects to report on its progress in addressing the recommendations of the APRA Report. The form of this public reporting is subject to agreement with APRA.

*The Bank and ASIC Agree In-Principle Settlement over BBSW*

On 9 May 2018, the Bank announced it had reached an in-principle agreement with ASIC to settle the legal proceedings in relation to claims of manipulation by the Bank of the Bank Bill Swap Rate (“BBSW”).

As part of the in-principle settlement, the Bank will acknowledge that, in the course of trading on the BBSW market in Australia on five occasions between February and June 2012, the Bank attempted to engage in unconscionable conduct in breach of the Australian Securities and Investments Commission Act 2001. The Bank will also acknowledge that it did not have adequate policies and systems in place to monitor the trading and communications of its staff in order to prevent that conduct from occurring.

Subject to approval of the settlement by the Federal Court of Australia, the Bank has agreed to pay a A\$5 million penalty to ASIC, A\$15 million to a financial consumer protection fund and A\$5 million towards ASIC’s costs of the litigation and its investigation. The impact of this settlement will be reflected in the Bank’s results for the financial year ended 30 June 2018.

The Bank has also agreed to enter into an enforceable undertaking with ASIC, under which an independent expert will be appointed to review controls, policies, training and monitoring in relation to its BBSW business.

The Bank and ASIC will make an application to the Federal Court of Australia for approval of the settlement.”