

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*

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**”) to the Programme Circular dated 3 July 2017 as supplemented on 14 August 2017 (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: (a) that on 3 August 2017, the Australian Transaction Reports and Analysis Centre (AUSTRAC) commenced civil penalty proceedings against the Bank; (b) that on 28 August 2017 APRA announced its intention to establish an independent prudential inquiry into the Bank; (c) that the Managing Director and Chief Executive Officer, Ian Narev, will retire by the end of the 2018 financial year; and (d) the changes to the Board that have been announced.

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.

Updates to the Programme Circular

A new risk factor entitled “*The Issuer is subject to risk arising from civil penalty proceedings by AUSTRAC*” shall be inserted in the section entitled “*Risk Factors*” after the risk factor entitled “*Substantial legal liability or regulatory action against the Issuer could negatively impact the Issuer’s business*” on page 14 of the Programme Circular as follows:

“The Issuer is subject to risk arising from civil penalty proceedings by AUSTRAC

The Issuer is currently subject to civil penalty proceedings brought by the Australian Transaction Reports and Analysis Centre (“AUSTRAC”) relating to alleged past and ongoing contraventions by the Issuer of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth) (the “Act”), and may in the future be subject to additional regulatory actions, litigation, investigations and governmental proceedings emanating from the conduct that AUSTRAC alleges occurred, which could result in penalties and costs, reputational damage, contractual damage claims, class actions or other claims by impacted stakeholders of the Issuer. While the Issuer does not currently consider the AUSTRAC proceedings to be material in the context of its financial position, the proceedings and other potential consequential actions and impacts, including potential reputational damage could have a material adverse effect on the Issuer’s business, reputation, results of operations and financial condition (see “*Recent Developments – AUSTRAC Civil Proceedings*”).”

A new paragraph entitled “*Recent Developments*” shall be inserted in the section entitled “*Commonwealth Bank of Australia*” after the paragraph entitled “*Audit Committee*” on page 69 of the Programme Circular as follows:

“Recent Developments

AUSTRAC Civil Penalty Proceedings and APRA prudential inquiry

The Bank is currently subject to civil penalty proceedings brought by AUSTRAC in the Federal Court of Australia on 3 August 2017 relating to alleged past and ongoing contraventions by the Bank of the Act, and may in the future be subject to additional regulatory actions, litigation, investigations and governmental proceedings emanating from the conduct that AUSTRAC alleges occurred, which could result in penalties and costs, reputational damage, contractual damage claims, class actions or other claims by impacted stakeholders of the Bank. While the Bank does not currently consider the AUSTRAC proceedings to be material in the context of its financial position, the proceedings and other potential consequential actions and impacts, including potential reputational damage, could have a material adverse effect on the Bank’s business, reputation, results of operations and financial condition (see “*Risk Factors – The Issuer is subject to risk arising from civil penalty proceedings by AUSTRAC*”).

AUSTRAC’s statement of claim relates to alleged past and ongoing contraventions of four provisions of the Act. Specifically, AUSTRAC asserts that:

- The Bank failed to comply with its Anti-Money Laundering/Counter-Terrorism Financing (“AML/CTF”) Program, as required by the Anti-Money Laundering and Counter-Terrorism Financing Rules Instrument 2007 (No. 1) (the “Rules”), in connection with the roll out in May 2012 of Intelligent Deposit Machines (“IDMs”), a type of ATM that accepts deposits in both cash and checks. AUSTRAC alleges that the Bank failed to carry out a money laundering and financing of terrorism risk assessment before introducing the IDMs in accordance with its AML/CTF Program. Further, AUSTRAC asserts that the Bank has not introduced appropriate risk-based systems and controls to mitigate and manage the higher money laundering and financing of terrorism risks faced by providing designated services through the IDMs. AUSTRAC alleges that the Bank has failed to comply with its AML/CTF Program on nine occasions.
- The Bank failed to provide threshold transaction reports (“TTRs”) within the timeframe required by the Act. A TTR is a report of a transaction involving the transfer of physical currency in the amount of

A\$10,000 or more (a “threshold transaction”). Reporting entities, like the Bank, are required to submit a TTR to AUSTRAC within 10 business days after a threshold transaction occurs. AUSTRAC alleges that approximately 53,000 TTRs were lodged late and that each failure to submit on a timely basis constitutes a separate contravention of the Act.

- The Bank failed to provide suspicious matter reports (“SMRs”), either on time or at all, as required by the Act, on 174 occasions and AUSTRAC alleges that each failure to submit on a timely basis constitutes a separate contravention of the Act. Reporting entities, like the Bank, are required to submit an SMR to AUSTRAC within three business days after providing a person with a designated service if the reporting entity forms a suspicion on reasonable grounds that it holds information that may be relevant to the investigation or prosecution of an offence.
- The Bank failed to monitor customers in relation to the provision of designated services with a view to identifying, mitigating and/or managing money laundering and terrorism financing risks reasonably faced, as required by the Act, with respect to 71 customers.

During the relevant period, the alleged contraventions carried a penalty of up to A\$18 million for each contravention, other than one alleged contravention which carried a penalty of up to A\$21 million.

The Bank is reviewing the allegations in AUSTRAC’s statement of claim and at this time it is not possible to reliably estimate its possible financial impact on the Bank. Accordingly, no loss provision has been made. While the Bank does not currently consider the AUSTRAC proceedings to be material in the context of its financial position, AUSTRAC’s claims could result in substantial penalties and costs and the proceedings and other potential consequential actions and impacts described below, including potential reputational damage, could have a material adverse effect on the Bank’s business, reputation, results of operations and financial condition.

The Bank takes the allegations made by AUSTRAC very seriously and intends to file a defence in relation to this matter by December 2017, with AUSTRAC’s response expected to be filed by March 2018. The Bank can provide no assurance with respect to whether it will be able to successfully defend the allegations made in the proceedings.

The Board has established a committee of four directors to oversee the response to AUSTRAC’s statement of claim and the ongoing execution of a “program of action”, which consolidates a range of previously established and newly formed initiatives focussed on strengthening the Bank’s policies and processes relating to its obligations under the Act and under anti-money laundering and counter-terrorism financing laws in other jurisdictions in which the Bank has operations. Since the second half of the 2015 calendar year, when the alleged issues relating to TTRs in connection with the use of IDMs were brought to the attention of the Board, the Bank believes that it has made progress on the program of action by:

- Fixing the coding error relating to the IDM TTRs;
- Changing senior leadership in relevant key roles;
- Recruiting more than fifty financial crime compliance professionals;
- Strengthening the Bank’s Know Your Customer (“KYC”) processes, with a specialist hub providing what the Bank believes is consistent and high quality on-boarding of customers;
- Upgrading the financial crime technology used to monitor accounts and transactions for suspicious activity. The new technology is expected to be fully delivered over the next twelve months; and
- Commencing the upgrade of additional fraud monitoring technology for use by the team that provides further security assurance to customers by identifying fraudulent activity.

Although the Bank provides updates to AUSTRAC and its other regulators on the program of action, there is no assurance that AUSTRAC or its other regulators will agree that the Bank's program of action will be adequate or that the program of action will effectively enhance the Bank's compliance programs.

Recently, ASIC announced that it was investigating the Bank for potential violations of its continuous disclosure and financial reporting obligations under the Corporations Act relating to the allegations raised in AUSTRAC's statement of claim. Further, on 28 August 2017, APRA announced its intention to establish an independent prudential inquiry into the Bank focusing on governance, culture and accountability frameworks and practices within the Bank. The goal of the prudential inquiry is to provide the Bank with a set of recommendations for organisation and cultural changes. The prudential inquiry will be conducted by an independent panel, appointed by APRA. On 8 September 2017, APRA confirmed that it has appointed Dr John Laker AO, Professor Graeme Samuel AC, and Jillian Broadbent AO to undertake the inquiry. The panel will provide a final public report containing its recommendations to APRA by 30 April 2018, with a progress report due on 31 January 2018. The Bank will bear the costs of this prudential inquiry.

While the Bank is not aware of any other investigation or action by other domestic or foreign regulators relating to the allegations raised by AUSTRAC (or similar matters) as of the date of the Supplement dated 12 September 2017, by which this "*Recent Developments*" section is included in the Programme Circular (the "September Supplement"), there can be no assurance that the Bank will not be subject to such investigations or actions in the future. Any settlement or adverse judgment in connection with the proceedings launched by AUSTRAC, or any other formal or informal proceeding or investigation by other government or regulatory agencies (domestic or foreign), may result in additional litigation, investigations or proceedings by other regulators or private parties. This risk is evidenced by the recent announcement on 23 August 2017 by Maurice Blackburn Lawyers and litigation funders IMF Bentham of their investigation of a potential shareholder class action against the Bank. The claims being investigated by Maurice Blackburn Lawyers and IMF Bentham relate to the Bank's continuous disclosure and financial reporting obligations in relation to the contraventions alleged by AUSTRAC. Additionally, the Bank is a party to various contractual arrangements. In some of the Bank's contractual arrangements, the Bank provides representations and warranties regarding its compliance with the Act and other applicable anti-money laundering and counter-terrorism rules and regulations. Because of the recent allegations contained in AUSTRAC's statement of claim, the Bank may be exposed to potential claims from its contractual counterparties to the extent such counterparties believe that the Bank has breached the applicable representations and warranties contained in the Bank's contractual arrangements with them and have suffered loss as a result of any such breach. While the Bank is not aware of any such claims as of the date of the September Supplement, such claims could arise in the future. Such investigations, actions, claims or proceedings, including the recent investigation announced by ASIC and the prudential inquiry announced by APRA, could result in penalties, fines and costs, reputational harm, remediation costs and other losses that, individually or collectively, could have a material adverse effect on the Bank's business, reputation, results of operations and financial condition.

Chief Executive Succession Process and changes to the Board

Managing Director and Chief Executive Officer, Ian Narev, will retire by the end of the 2018 financial year, with the exact timing dependent on the outcome of an ongoing comprehensive internal and external search process.

Non-executive Directors, Launa Inman and Harrison Young, will retire from the Board at the conclusion of the Annual General Meeting on 16 November 2017 and at that meeting non-executive Director, Andrew Mohl, at the request of the Board, will stand for re-election and serve one more year on the Board. Rob Whitfield was appointed to the Board as a non-executive director effective from 4 September 2017."

A new paragraph shall be inserted at the end of the section entitled "*Directors of Commonwealth Bank of Australia*" on page 73 of the Programme Circular as follows:

"Robert Whitfield

Mr Whitfield has been a member of the Board since September 2017.

He has significant banking and finance and senior management experience in the private and public sectors. He is a Director of New South Wales Treasury Corporation (“NSW Treasury”) and was previously its Chairman. He is a former Secretary of NSW Treasury and NSW Industrial Relations.

Prior to NSW Treasury, Mr Whitfield had a 30 year career with Westpac Banking Corporation (“Westpac”) and held various senior management positions, including Chief Executive Officer of the Institutional Bank, Chief Risk Officer, Group Treasurer and Chairman of the Asia Advisory Board. At Westpac, Mr Whitfield developed a deep knowledge of equity and capital markets and was instrumental in developing Westpac’s risk management function and strategies. He is a former Deputy Chair of the Australian Financial Markets Association.

Other Directorships and Interests: Director of NSW Treasury.

Qualifications: BCom (UNSW), Grad Dip Banking, Grad Dip Fin, AMP (Harvard), SF Fin, FAICD.

Mr Whitfield is a resident of New South Wales. Age 52.”