

# ASX Announcement

## CBA to implement all recommendations of APRA's Prudential Inquiry and enters into Enforceable Undertaking

**Significant change underway to strengthen governance, culture, accountability, customer outcomes**

**Tuesday, 1 May 2018:** Commonwealth Bank of Australia (CBA) today confirmed it will implement all the recommendations contained in the Report of the Prudential Inquiry released this morning by the Australian Prudential Regulation Authority (APRA).

CBA Chairman Catherine Livingstone said: "Addressing the findings of the Report is a key focus for the Board and management to ensure that our governance, culture and accountability frameworks and practices are significantly improved and meet the high standards expected of us.

"Changes have been underway throughout 2017 at Board and operational levels, and have continued this year, helping to rebuild customer and community trust. This includes the process of Board renewal. Together they represent a significant change program and the APRA Report provides us with a clear roadmap for the hard work still ahead of us.

"The Board will now oversee a comprehensive response to APRA, using the Report to assess the adequacy of steps already underway, and to address the additional improvements needed to implement all its recommendations. We will also appoint an agreed, independent reviewer to report to APRA on our progress.

"We understand the scale of change which is necessary and its seriousness in order for us to become a better, stronger bank for our customers, staff, regulators and shareholders."

CBA Chief Executive Officer Matt Comyn said: "We have embraced the Report as a critical but fair assessment of the issues facing us and we will act on its recommendations, and the requirements of the Enforceable Undertaking, in an open, transparent and timely way.

"Our current change priorities are consistent with the Report's recommendations. We now have a detailed roadmap for ongoing change and we will work with APRA to ensure we implement all of the Report's 35 recommendations."

### APRA Prudential Inquiry into CBA: Overview of Recommendations and CBA Change Priorities

APRA Levers of Change*	CBA Change Priorities
<ul style="list-style-type: none"> <li>• More rigorous Board, Executive Committee level governance of non-financial risks.</li> <li>• Development of exacting accountability standards reinforced by remuneration practices.</li> <li>• Undertaking a substantial upgrading of authority and capability of the operational risk management and compliance functions.</li> <li>• Injection into CBA's DNA of the "should we" question in relation to all dealings with and decisions on customers.</li> <li>• Cultural change that moves the dial from reactive and complacent to empowered, challenging, striving for best practice in risk identification and remediation.</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthening the governance and management of non-financial risks at the Board and executive level.</li> <li>• Changes to remuneration policies and practices to ensure greater accountability for risk, compliance and customer outcomes.</li> <li>• Strengthening capability in operational risk and compliance throughout the Group supported by positive, transparent regulatory relationships.</li> <li>• Renewed focus on listening to customers and improved systems and procedures for reporting and resolving customer complaints.</li> <li>• Empowering staff with the tools and processes they need to manage risk better including embedding three lines of accountability as a consistent operating model.</li> </ul>

\* APRA Prudential Inquiry into CBA, p4. The full APRA Prudential Inquiry Report can be found at [www.apra.gov.au](http://www.apra.gov.au).

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

**1. Remedial Action Plan**

- 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.
- Appointing an independent reviewer, approved by APRA, to report to APRA every three months commencing 30 September 2018, on compliance with the EU and on those items in the remedial action plan that CBA considers are nearing completion.

**2. Remuneration**

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

**3. Capital Adjustment**

- APRA will apply a capital adjustment to CBA's minimum capital requirement by adding \$1 billion to the Bank's operational risk capital requirement. The effect of this adjustment equates to 29 basis points of Common Equity Tier 1 capital and reduces CBA's 31 December 2017 CET1 ratio from 10.4% to 10.1%. (See appendix for details of capital impact.)
- CBA 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 specific EU undertakings and the commitments in the remedial action plan.

Mr Comyn said: "Change starts with acknowledging mistakes. I apologise to the Bank's customers and staff, our regulators, our shareholders and the Australian community for letting them down.

"We will make the necessary changes to become a better bank and we will be transparent about our progress. This includes establishing a much higher level of accountability and consequence for our actions and the impact we have on customers. This starts with me."

CBA will release its Third Quarter Trading Update on 9 May 2018. In early July, subject to finalisation with APRA, CBA will provide a public update on its agreed remediation plan. An estimate of the expected financial cost of this program for the 2019 financial year will be disclosed as part of CBA's Annual Results announcement on 8 August 2018.

CBA will report on its progress in addressing the recommendations of the Prudential Inquiry's report. The form of this public reporting is subject to agreement with APRA on reporting mechanisms.

Commonwealth Bank remains in a strong financial position as acknowledged by the APRA Report which notes: "the undoubted financial strength and acumen of CBA, its global standing and avowed commitment of staff to servicing customers."

Since it was announced in August 2017, APRA's Prudential Inquiry into CBA has received the Bank's full co-operation and active support.

An interview with Mr Comyn regarding the APRA Report and the Bank's response can be found in the CBA Newsroom at [www.commbank.com.au/personal/newsroom](http://www.commbank.com.au/personal/newsroom).

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## Appendix: Impact of APRA Capital Adjustment on Common Equity Tier 1 (APRA)

<b>Risk Weighted Assets Impact</b>	<b>\$M</b>
Additional Operational Risk Regulatory Capital (ORRC)	1,000
Risk weighted assets impact <sup>1</sup>	12,500

## Impact of APRA Capital Adjustment on Common Equity Tier 1 (APRA)

Common Equity Tier 1 (APRA) as at 31 December 2017	Actual	Pro forma	Pro forma vs actual
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
<b>Common Equity Tier 1</b>	<b>45,942</b>	<b>45,942</b>	-
<b>Risk weighted assets</b>			
Credit risk	366,985	366,985	
Operational Risk	41,078 <sup>2</sup>	53,578	12,500
Interest rate risk in the banking book	27,944	27,944	
Traded market risk	4,829	4,829	
<b>Total risk weighted assets</b>	<b>440,836</b>	<b>453,336</b>	<b>12,500</b>
<b>Common equity Tier 1 (%)</b>	<b>10.4%</b>	<b>10.1%</b>	<b>29 bps</b>

<sup>1</sup> Risk weighted asset impact is the ORRC impact multiplied by 12.5 in accordance with APRA Prudential Standard APS110.

<sup>2</sup> Operational risk RWA per page 51 of the 31 December Pillar 3 Report.