



# ASX announcement

## CBA announces agreement to sell 55% stake in Colonial First State to KKR

**Wednesday, 13 May 2020 (SYDNEY):** Commonwealth Bank of Australia (**CBA**) today announced it has entered into an agreement to sell a 55% interest in Colonial First State (**CFS**) to KKR, a global investment firm with US\$207 billion of assets under management as at 31 March 2020.

The transaction implies a total valuation for CFS on a 100% basis of \$3.3 billion,<sup>1</sup> which will result in CBA receiving cash proceeds of approximately \$1.7 billion from KKR. The sale price represents a multiple of 15.5x<sup>2</sup> CFS's pro forma net profit after tax of approximately \$200 million.<sup>3</sup>

The transaction is consistent with CBA's strategy to focus on its core banking businesses and to create a simpler and better bank, while allowing CFS to become a more focussed standalone business and deliver a wide range of benefits for members.

Together, CBA and KKR intend to undertake a significant investment program, strengthening the position of CFS as one of Australia's leading retail superannuation and investments businesses.

### Member benefits

The proposed investment program for CFS is intended to deliver a range of substantial benefits over time for its member base of over one million Australians, including:

- a simplified product offering, with competitive pricing and choice for members;
- an improved service experience across multiple channels, including accelerated investment in digital channels;
- modernised technology systems to deliver a market leading superannuation service to members; and
- better access to member education, support and self-service tools, to help Australians navigate the complexities of the superannuation and pension system.

In addition, the transaction is expected to enhance the tools provided and the ease of doing business with CFS for financial advisors.

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<sup>1</sup> Includes an estimated pro forma surplus capital of \$173 million as at 30 April 2020 and is subject to completion adjustments. CBA will also continue to benefit from the earnings of CFS until completion of the transaction.

<sup>2</sup> On a 100% basis (excluding surplus capital).

<sup>3</sup> Based on CFS's underlying run rate cash earnings as at 30 April 2020, adjusted for the impact of expected margin changes, product closures and estimated operating cost uplifts on a standalone basis.



CBA Chief Executive Officer, Matt Comyn, said: “We are confident that together with KKR, we can provide CFS with an increased capacity to invest in product innovation, new services and its digital capabilities. We have a shared vision for CFS to be one of the leading superannuation and investment businesses in Australia, offering members greater choice and better value.”

CFS Chief Operating Officer, Michael Venter said: “We are excited about the future opportunities this transaction is expected to deliver for our members. Further investment over the coming years will result in a better member experience and we expect the investment will deliver a wide range of benefits for all of our stakeholders.”

Partner and Head of KKR Australia, Scott Bookmyer, said: “KKR is honoured to have the opportunity to invest alongside CBA to further the success of this leading platform. CFS is one of the most respected providers of investment and superannuation services in Australia with a highly regarded product and service offering to members and advisors. Partnering alongside CBA, we look forward to accelerating CFS’s transformation and further strengthening its market position to deliver long-term benefits to its member base.”

Partner and KKR Australia’s Head of Private Equity, David Lang, said: “CFS is a major superannuation and investment platform with a premium brand and a very important role managing the superannuation and personal wealth of over one million Australians. We are pleased and privileged to have the opportunity to partner with CBA and invest in CFS’s ambitions to drive innovation and deliver a best-in-class offering. We look forward to working closely with CFS to enable it to thrive as a standalone business and for us to consider new and exciting opportunities together.”

KKR expects to make its investment in CFS primarily from its Asian private equity fund.

### **CBA financial impacts**

The sale price is estimated to result in a post-tax gain on sale of approximately \$1.5 billion, which includes estimated post-tax separation and transaction costs for CBA of approximately \$180 million. Upon completion, the transaction is expected to deliver an increase of approximately \$1.4-1.9 billion of Common Equity Tier 1 (**CET1**) capital, resulting in a pro forma uplift to the Group’s CET1 ratio of approximately 30-40 basis points on an Australian Prudential Regulation Authority (**APRA**) basis as at 31 March 2020.<sup>4</sup>

The transaction represents the final stage of CBA’s previously announced planned exits from various wealth management activities over recent years. The estimated financial impacts of the transaction are subject to the final outcomes relating to the capital structure of CFS at completion, accounting adjustments, taxation impacts and separation costs.

### **Remediation update**

CBA remains committed to delivering on the undertakings it made following the Royal Commission. The transaction is not expected to have any impact on ongoing remediation activities that relate to CFS, which will continue as planned. CFS will also continue to assist the Australian Securities and Investments Commission (**ASIC**) and APRA with existing and any future investigations.

Upon completion, CBA will indemnify CFS for certain pre-completion conduct, including liabilities relating to remediation activities, regulatory actions and third-party claims.

### **Timing and conditions**

Completion of the transaction is subject to APRA and Foreign Investment Review Board (**FIRB**) regulatory approvals. Completion is expected to occur in the first half of calendar year 2021.

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<sup>4</sup> The CET1 capital benefits principally comprise the post-tax gain on sale plus a reduction in CET1 capital reductions from accounting goodwill and investment in net tangible assets. The estimated CET1 capital benefit assumes CFS is deconsolidated from an accounting perspective and a full CET1 deduction is applied for the remaining 45% interest in CFS.



## **CBA's medium-term intentions**

CBA is committed to working with KKR in the medium-term to achieve a range of objectives that will create value for all stakeholders through the successful separation of CFS from CBA and the creation of a standalone business. CBA intends to maintain its shareholding in CFS throughout this period and will further assess its longer-term intentions thereafter.

## **About CFS**

Established in 1988, CFS is a provider of superannuation, investment and retirement products to individuals and corporate and superannuation fund investors, as well as being the operator and administrator of investment platforms. As at 30 April 2020, CFS had approximately \$135 billion of funds under administration.

## **About KKR**

KKR is a leading global investment firm that manages multiple alternative asset classes, including private equity, energy, infrastructure, real estate and credit, with strategic partners that manage hedge funds. KKR aims to generate attractive investment returns for its fund investors by following a patient and disciplined investment approach, employing world-class people, and driving growth and value creation with KKR portfolio companies. KKR invests its own capital alongside the capital it manages for fund investors and provides financing solutions and investment opportunities through its capital markets business. References to KKR's investments may include the activities of its sponsored funds. For additional information about KKR & Co. Inc. (NYSE:KKR), please visit KKR's website at [www.kkr.com](http://www.kkr.com) and on Twitter @KKR\_Co.

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