PUBLIC VERSION

ANZ proposed acquisition of SBGH Limited

Suncorp Group Limited submission in response to ACCC's Statement of Preliminary Views

17 May 2023

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1 Executive summary

> The overlapping markets in which Suncorp and ANZ compete are competitive and dynamic, driven by technological developments, transparency in pricing, increasing use of brokers and third party product comparison sites, and changes in consumer preferences. In these markets Suncorp Bank does not have a material market share position, and is not a significant price-maker or product innovator.
>
> The Proposed Acquisition will not give rise to a substantial lessening of competition or impact the level of competition and service or have a detrimental impact on the competitive environment for customers.
>
> The only relevant counterfactual is Suncorp Bank remaining part of Suncorp Group. Since the date the Proposed Acquisition was announced by Suncorp Group and ANZ, the operating conditions for banks internationally and within Australia have changed. Such changes are relevant as they relate to issues of funding, scale and competitiveness in Australian banking markets. There is no alternative sale counterfactual and no reasonable likelihood of an acquisition by BEN of Suncorp Bank.
>
> The Proposed Acquisition, a cash sale, will provide Suncorp with an opportunity to be a stronger insurer. Other transactions will not achieve this same result. Insurance businesses in Australia play an integral role in the Australian economy yet they face significant challenges given volatility in global reinsurance markets and increased insurance capital requirements. Suncorp operating as a pureplay insurer will deliver significant public benefits to Queensland and Australia and comes at a time when the value of insurance businesses in Australia such as Suncorp has never been greater.

1 In its Statement of Preliminary Views (**SOPV**), the ACCC:

(a) identifies that the supply of agribusiness banking, small and medium-sized enterprise (**SME**) banking and the supply of home loans and retail deposits (including transactions and savings accounts and term deposits) have the most potential to raise competition concerns;

(b) refers to assertions by Bendigo and Adelaide Bank (**BEN**) and the Bank of Queensland (**BOQ**) that transactions other than the Proposed Acquisition could be available and attractive to Suncorp Group Limited (**Suncorp** or the **Group**); and

(c) indicates its preliminary view that the information currently before it is insufficient to substantiate the nature, likelihood and extent of the claimed public benefits.

1.1 There will be no substantial lessening of competition in the identified product segments

2 The Proposed Acquisition will not cause a price increase or diminution in quality in any material respect. Suncorp has not been a driver of price or innovation in any relevant product segment.

3 Brokers play a significant role in home lending with almost [redacted] of new home loans originated through mortgage brokers, and brokers playing an increasing role in the supply

of commercial products to agribusiness customers with over [redacted] of agri-business loans originated through brokers.[1] Suncorp's experience is that customers who use brokers are less sticky to their financial service provider. The impacts of this are enhanced where Suncorp Bank is not a customer's main financial institution.

4 Customer behaviour has evolved, with customers increasingly interacting with their bank via digital channels. Currently, as part of Suncorp Group, capital allocations to fund growth and investments in the business must be prioritised between the Group's insurance businesses and Suncorp Bank. [redacted]

5 Having regard to the ACCC's identified product segments:

(a) (**Agribusiness banking**) There is strong competition in agribusiness banking. Suncorp Bank does not drive price, innovation or product development and is no more vigorous or effective than any other competitor.

Rabobank and National Australia Bank (**NAB**) are key competitors in agribusiness and Suncorp's main competitors in initially winning agribusiness customers. Suncorp's competitive proposition is based on its relationship service offering, which is not unique to Suncorp and is readily replicable[2].

There is plenty of choice in agribusiness for customers. When Suncorp customers switch away from Suncorp due to price consideration, they may go to any of the Major Banks,[3] Rabobank or other providers of specialist services.

(b) (**SME**) Suncorp Bank's SME product and service offering [redacted]

(c) (**Home loans and retail deposits**) Suncorp Bank, with its ~2.39% national share of supply in home lending and its ~2.47% national share of supply in retail deposits, does not drive price, innovation or product development in the supply of home loans or retail deposit products.

The switching data provided to the ACCC by Suncorp and ANZ shows a high level of switching across the range of banks. Suncorp does not play a disproportionately strong role and does not feature in a way that might be expected if Suncorp were a material competitive constraint on the four major banks.

Further, there is a significant volume of publicly available information about the strong competition existing in the supply of home loans and retail deposits.

Banks, such as Macquarie Bank and ING Bank Australia, which have adopted a focussed and targeted approach have been a much more significant competitive force than Suncorp or any of the mid-tier banks.

In addition, technology platforms are becoming an increasing source of competition to the banks through the introduction of many innovations in

[1] SOPV at p. 14, Figure 4.

[2] First statement of Clive van Horen dated 25 November 2022 at [68(b)] and [89]-[105].

[3] Being the four largest providers of banking services: Australia and New Zealand Banking Group Limited (**ANZ**); Commonwealth Bank of Australia (**CBA**); NAB; and Westpac.

[4] First statement of Clive van Horen dated 25 November 2022 at [88].

payments, including the entry of global technology companies such as Apple and Google into customer's payments experiences.[5]

1.2 There is no real commercial likelihood of an alternative transaction

6 There is no real commercial likelihood[6] of an acquisition by BEN or any other mid-tier bank of Suncorp Bank and, in any event, such a combination would not lead to BEN being a more effective competitor.

7 The combination of BEN's and Suncorp Bank's customer bases do not give rise to any meaningful scale.

8 A combined BEN and Suncorp Bank (**BEN-SUN**) would face greater challenges than Suncorp Bank would face being owned by Suncorp Group:

[redacted]

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[5] Further statement of Clive van Horen dated 17 May 2023 at [17(f)].

[6] *ACCC v Pacific National Pty Limited* [2020] FCAFC 77 at [161].

[7] S&P report dated 11 May 2023.

[8] Second statement of Steven Johnston dated 17 May 2023 at [92(f)].

[9] Second statement of Steven Johnston dated 17 May 2023 at [71] and [92(f)].

[10] Expert report of Moz Ali dated 17 May 2023 at [67] and [215].

[redacted]

1.3 Public benefits

9 The Proposed Acquisition, a cash sale, will provide Suncorp with an opportunity to be a stronger insurer and shareholders will benefit from a return of over $4 billion distributed across the broad Suncorp Group base of shareholders including circa $1 billion distributed to over 158,000 'retail' / 'mum and dad' shareholders holding in excess of 340 million shares, representing over 37% of the issued shares. Other transactions would not achieve this same result. Suncorp operating as a pureplay insurer will be a significant public benefit:[12]

(a) the sale of the Bank comes at a time when insurance businesses in Australia face significant challenges given volatility in global reinsurance markets and increased insurance capital requirements[13] and capital consumption of both the Bank and the insurance businesses are increasing.[14] Simplifying the Group as an organisation will allow for greater focus on Suncorp's insurance business, products and services at a time when there are increasing affordability and accessibility challenges for Australian insurance customers and facilitate technology innovation with follow on benefits for customers;[15]

(b) by divesting Suncorp Bank, Suncorp Group will benefit from improved access to sources of funding;

(c) by combining with ANZ, Suncorp Bank will benefit from better access to capital and funding markets, as well as technology investment, which will allow Suncorp Bank to fill the gaps in its banking offering. This means that Suncorp Bank customers will benefit from access to a wider range of products and services and will allow Suncorp Bank to fill the gaps in its banking offering;[16] and

(d) for Suncorp Bank's staff, career opportunities will be enhanced through the combination with ANZ.[17]

10 Further, Suncorp has committed to the delivery of a series of investment and employment commitments that will lead to a number of public benefits in Queensland specifically as part of the Proposed Acquisition. These commitments would not be made absent the Proposed Acquisition.[18]

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[11] First statement of Steven Johnston dated 25 November 2022 at [69]; Second statement of Steven Johnston dated 17 May 2023 at [92(g)].

[12] First statement of Steven Johnston dated 25 November 2022 at [88]-[92]; Second statement of Steven Johnston dated 17 May 2023 at [119]-[124].

[13] First statement of Steven Johnston dated 25 November 2022 at [88]-[92]; Second statement of Steven Johnston dated 17 May 2023 at [119]-[124].

[14] First statement of Steven Johnston dated 25 November 2022 at [88]-[92] and second statement of Steven Johnston dated 17 May 2023 at section D.1.

[15] Second statement of Steven Johnston dated 17 May 2023 at [121].

[16] First statement of Clive van Horen dated 25 November 2022 at [121]-[122].

[17] First statement of Steven Johnston dated 25 November 2022 at [100].

[18] Third statement of Steven Johnston dated 17 May 2023.

1.4 Overall assessment of the Proposed Acquisition

11 ANZ will continue to be constrained in its pricing, output and related commercial decisions post-acquisition by a wide variety of banks and other lenders who compete for supply of products.

12 Suncorp Group submits:

(a) that the Proposed Acquisition will not give rise to a substantial lessening of competition or impact the level of competition and service or have a detrimental impact on the competitive environment for customers; and

(b) that the Proposed Acquisition will result in the public benefits identified in the Application. Suncorp Group refers to the Application for detail.

2 The Australian retail banking industry

13 Suncorp's experience is inconsistent with the notion in the SOPV that the banking industry is not competitive. The Productivity Commission's analysis contained in its 2018 report is not consistent with Suncorp's experience in 2018 or since. The underlying data used in that report would be significantly out of date now and forms a flawed basis for the analysis. In contrast, the information and evidence made available to the ACCC shows that:

(a) the supply of banking services is highly competitive;

(b) large financial institutions (including banks) do not have the ability to exercise market power over their competitors and consumers; and

(c) there is considerable switching between financial products or providers of financial products.

2.1 The Australian banking industry is competitive

Long-term trends

14 The Australian banking industry is competitive. This is evidenced by a number of long-term trends that have developed as a direct result of sustained competition between the major as well as second-tier banks, including the impact of banks, such as Macquarie Bank and ING Bank Australia, which have adopted a focussed and targeted approach in their customer offering ultimately benefitting customers.

15 First, there has been a long-term decline in net interest margins (**NIMs**) and returns on equity which involve a transfer of value from banks' shareholders to customers. The Reserve Bank of Australia's (**RBA**) own analysis shows that the NIM of the Major Banks has declined from 3.3% in 1999 to below 2.0% in 2022.[19] This decline in the NIM is an indicator of strong and sustained competition between the banks over the long-term that has delivered better interest rates (i.e. lower borrowing costs and/or higher deposit rates) to customers.

16 Second, the significant increase in the proportion of mortgages being originated by mortgage brokers has spurred strong competition between bank and non-bank lenders in the supply of home loan products. In its June 2018 Inquiry Report into Competition in the Australian Financial System, the Productivity Commission noted that just over 50% of all

[19] Further statement of Clive van Horen dated 17 May 2023 at [17(a)].

new home loans were originated through a mortgage broker.[20] In less than five years, this has increased by 20% with it now estimated that almost 70% of new home loans are originated through mortgage brokers.[21] In Suncorp's recent experience, approximately [redacted]% of its new home loans have been originated through mortgage brokers.

17 Third, technology – in particular, digital platforms including payment platforms such as Apple and Google – has made it much easier and less costly for consumers to acquire products from banks (with many customers now banking with more than one financial institution) and to transact with vendors.

18 These trends lead Suncorp to make the following submissions regarding the state of the Australian banking industry:

(a) While the Major Banks account for a sizeable portion of the supply of banking products and services to customers, they, as well as all other banks, compete vigorously for customers' business;

(b) Large financial institutions, including banks, do not have the ability to exercise market power over their competitors and consumers; and

(c) There is a considerable degree of switching by consumers between the banks for the acquisition of banking products and services.

The supply of banking services is competitive

19 The ACCC, by referring to the statistics published by APRA that indicate that Australia's Major Banks collectively account for 72% of banking system assets (as at 28 February 2023), seeks to infer that such a concentrated industry is not competitive.

20 This is simply not the case. As the ACCC itself acknowledged, high market concentration and stable market shares of the Major Banks does not necessarily result in weak competition.[22]

21 Suncorp acknowledges that Australia's Major Banks account for a sizeable share of the market for the supply of a number of individual financial products and services. However, it is inappropriate to equate market concentration with there being an absence of competition.

22 In fact, the market shares of the Major Banks have fluctuated over the past few years. In particular, in the national home loan market, between 2012 and 2022, the combined market shares of the Major Banks decreased from 85.26% to 75.25%.[23]

23 Fluctuating market shares indicate customer switching from one supplier to another. Further, it indicates active competition between the suppliers of financial products and services. Even stable market shares do not necessarily mean that there is no customer switching or that there is a lack of competition as a bank might gain as many customers that is loses over a period of time.

24 The existence of strong competition between the banks is also evidenced by the numerous market announcements recently made by both the large and small Australian banks. For example:

(a) **BOQ**, in its 2023 half year results presentation noted the "*slowing housing growth and continued heightened mortgage competition with pricing below the cost of capital*" as well as "*Volatility in wholesale markets and the RBA TFF maturities continuing to drive high competition for customer deposits as well as customers switching to higher yielding deposit products*" and that it expected to

[20] Productivity Commission, *Competition in the Australian Financial System – Inquiry Report*, June 2018 at p. 19.

[21] SOPV at p. 14, Figure 4.

[22] SOPV at [2.3].

[23] Based on the data set out in Table 12 of the Authorisation Application dated 2 December 2022 at p. 131.

see "*heightened mortgage competition continuing as well as escalated deposit competition*";[24]

(b) **BEN**, in its 2023 interim financial result announcement noted that it expected "*the accelerated pace of change from the last few years to continue. Customer expectations will continue to grow and competition will intensify*";[25]

(c) **Westpac,** in its 1H23 result announcement commented that "*Intense mortgage competition is expected to negatively impact industry and Westpac's margins in the next half*";[26]

(d) **CBA,** in its recent 3Q23 Trading Update advised that its NIM was 2% lower than the quarterly average of 1H23 and noted "*volume growth offset by lower net interest margins primarily from continued competitive pressure in home loan pricing and customers switching to higher yielding deposits. Competition for home loans has remained intense in Australia and New Zealand*". CBA's CEO was also quoted by the Australian Financial Review (**AFR**) on 9 May 2023 saying that "*It's a competitive market, We're certainly not immune to what's going on – people are much more aggressive on price, more aggressive on cashback. We've been very conscious that some of our competitors have wanted to win share. We haven't necessarily wanted to hand that to them*";[27] and

(e) **ANZ**, in its recent economic outlook commented that "*Competition in retail banking is as intense as it has ever been, both in Australia and New Zealand*".[28]

25 Additionally:

(a) CBA has admitted that it had been writing unprofitable loans as it fights off aggressive competition for market share from Macquarie Bank, ANZ and Westpac.[29]

(b) Similarly, Westpac's CEO Peter King recently stated that he was witnessing, "*the most competitive market I've seen in mortgages in my career*".[30]

(c) NAB's Group Executive for personal banking, Rachel Slade, recently stated that, "*like mortgages, there's plenty of competition in the deposit market … there are plenty of returns for customers available above about 4 percent*".[31]

2.2 There is considerable switching between financial products and providers of financial products

26 Customers are increasingly switching between financial products and between providers of financial products to secure the products and services that meet their needs. Switching is easy and quick for customers to do, especially given customers can conduct their banking through digital means; brokers have reduced search costs; real-time payments can be made through the New Payments Platform; the PayTo service allows customers and service providers to nominate their PayID (a universal code), rather than bank

[24] BOQ, *2023 Half Year Results for the period ended 28 February 2023,* 20 April 2023 at p. 30.

[25] BEN, *2023 Interim Financial Result ASX Announcement*, 20 February 2023 at p. 3.

[26] Westpac, *ASX Announcement 1H23 Result*, 8 May 2023 at p. 2.

[27] CBA, *ASX Announcement 3Q23 Trading Update,* 9 May 2023 at p. ii.

[28] ANZ, *2023 Half Year Results & Proposed Dividend News Release*, 5 May 2023 at p. 3.

[29] AFR, 'Banks fight for customers in "crazy" home loan war' (24 February 2023).

[30] AFR, 'Intense banking competition spreads to business loans, deposits' (28 March 2023).

[31] AFR, 'Intense banking competition spreads to business loans, deposits' (28 March 2023).

account, for payment requests; and CDR reforms. Suncorp Group refers to the Authorisation Application for detail.[32]

27 In 2017, ABA research found that more than three million Australians had switched banks over the past three years with two-thirds finding it an easy process.[33] Roy Morgan research into the source of new MFI customers for the 12 month period to June 2022 also shows that approximately 56% of new MFI customers were switchers.[34]

28 However, switching levels do not tell the full story as they do not factor in competitive responses when customers threaten to switch but the bank is able to retain those customers. For example, a customer might look at what is on offer by competing banks but decide to refinance with the customer's existing bank. The customer will not have switched suppliers but will have achieved a more favourable result due to the existence of competition in the relevant product market. The threat of switching can be sufficient for a customer's existing provider to provide better pricing to the customer.

29 Given the high levels of switching it can be inferred that the banks are competing not only to attract customers but also to retain customers once they have joined the bank.

2.3 Regulatory settings

30 The current regulatory settings that apply to financial service providers do affect market structure and dynamics, as set out in the submission from the Bank of Queensland dated 24 February 2023.[35] These regulatory settings exist with and without the Proposed Acquisition and are not affected by the Proposed Acquisition.

3 Market conditions since the announcement of the Proposed Acquisition

31 Since the date the Proposed Acquisition was announced by Suncorp and ANZ, the operating conditions for banks internationally and within Australia have materially changed. Such changes are relevant as they relate to issues of funding, scale and competitiveness in Australian banking markets. In the United States, there has been the high-profile failures of Silicon Valley Bank (**SVB**) and Credit Suisse. More recently, First Republic Bank failed and was purchased by JP Morgan Chase following intervention by US government authorities.[36]

32 Such events, whilst having occurred offshore, have had impacts on banking in Australia. While the potential for similar circumstances to arise in Australia is generally considered to be low, the volatility in financial markets and the importance of maintaining confidence in bank stability has been noted by Australian financial regulators such as the RBA and APRA.[37]

33 The actual impact, following the failure of SVB, however, saw a tightening of funding markets for several weeks and an increase in wholesale funding costs of approximately 30 basis points. Even short-lived episodes such as this have an impact on the ability of a

[32] Au horisa ion Application dated 2 December 2022, paras 5.44 – 5.46.

[33] Au horisation Application dated 2 December 2022, para 5.44 citing Australian Banking Association, *3 million people make the switch* (23 September 2017) https://www.ausbanking.org.au/3-million-people-make-the-switch/.

[34] Au horisation Application dated 2 December 2022, para 7.64 citing Roy Morgan, *Sources of New MFIs – latest trend update* (June '22 quarter) (Annexure 14).

[35] Bank of Queensland submission to the ACCC dated 24 February 2023 at pp. 5 and 6.

[36] Further statement of Clive van Horen dated 17 May 2023 at [18(a)].

[37] Further statement of Clive van Horen dated 17 May 2023 at [18(b)].

bank such as Suncorp Bank to continue to compete effectively in the market. These events demonstrate the speed at which a bank's position can change. For example, due to the ease with which customers can withdraw deposits via digital channels, one quarter of SVB's total funding base (or $42 billion) was withdrawn by its customers in less than 24 hours.[38]

34 It is important, in any Second-Tier Merger Counterfactual (such as Suncorp Bank being acquired by BEN) to consider how the market conditions following these events would impact on the ability of the combined entity to attract and raise funding at economically efficient prices.

4 Future with and without the Proposed Acquisition

4.1 The only relevant counterfactual is Suncorp Bank remaining part of Suncorp Group

35 The SOPV considers the scenarios that may occur in the future without the Proposed Acquisition, including:

(a) Suncorp Bank continuing to operate under the ownership of Suncorp Group (**No-Sale Counterfactual**), or

(b) Suncorp Bank merging with another second-tier bank (**Second-Tier Merger Counterfactual)**.

36 There is no evidentiary basis for the ACCC's preliminary view in paragraph [3.15] of the SOPV that there is a real commercial likelihood of a merger with a second-tier bank. It is purely speculative.

4.2 Second-Tier Merger Counterfactual

37 The SOPV refers to assertions by BEN and BOQ that transactions other than the Proposed Acquisition could be available and attractive to Suncorp Group.

38 The SOPV provides some information about the transaction BEN asserts to have been preparing to offer and BEN has lodged a submission containing some further detail about that proposed transaction. Suncorp addresses those matters in Sections 4.3 to 4.11 below.

39 Suncorp has not been provided with any details about any other alternative counterfactual involving another second-tier regional bank including BOQ. There is material in BOQ's submission that has been redacted and from the surrounding context would not seem to provide any credible basis for assuming a potential transaction between BOQ and Suncorp and no approach has been made to Suncorp in this regard.

4.3 The counterfactual asserted by BEN

40 BEN asserts that an acquisition by BEN of Suncorp Bank (**combined BEN-SUN entity**) is a more commercially likely counterfactual than the Group continuing to own and operate the Bank in the absence of the Proposed Acquisition. BEN further asserts that its indicative proposal for acquiring Suncorp Bank was not lacking in detail nor speculative but provides no evidentiary basis for this, as discussed further in Section 4.3 below.

[38] Further statement of Clive van Horen dated 17 May 2023 at [18].

41 BEN also points to what it considers to be the consequences of a combined BEN-SUN entity:

(a) A combined BEN-SUN entity would significantly increase BEN's scale and efficiency and asserts that it would, "*increase its revenue base and drive efficiency gains whilst also potentially reducing funding costs through a credit rating uplift … which would better enable BEN to compete on price by offering lower rates on home loans to consumers and business customers (including SMEs)*".[39] However, BEN provides no evidentiary basis for this position.

(b) An acquisition would lift BEN's "*prudential capital standards, resulting in lower capital requirements and reducing overall cost of capital for the merged entity*"[40]. However, BEN provides no evidentiary basis for this position.

(c) BEN's acquisition of Suncorp would "*likely improve its credit ratings*" and asserts that a strengthened credit rating, "*would reduce its wholesale funding costs and improve access to these markets, thereby enhancing its ability to challenge the Major Banks on pricing*"[41]. However, BEN provides no evidentiary basis for this position.

42 These assertions by BEN are not supported by any evidence specific to BEN and only includes references to the Productivity Commission's now out of date 2018 report. Suncorp deals with each of these assertions below.

43 There is no realistic prospect of an acquisition by BEN of Suncorp Bank and such a combination would not lead to a more effective competitor. BEN's proposal to Suncorp was lacking in detail and not a proposal that would be seriously contemplated.

4.4 Scale considerations

44 Suncorp does not consider there to be any real advantages of scale in a combined BEN-SUN entity. While a merger with Suncorp Bank would double BEN's scale, the combined entity would still be significantly smaller than the Major Banks.[42]

45 Using data that was current as at September 2022, a combined BEN-SUN entity would be approximately 40% the size of ANZ, the smallest of the Major Banks in the core home lending business. It would be only approximately 20% the size of CBA, the largest of the Major Banks. A combined BEN-SUN entity would be only slightly bigger than Macquarie Bank which has approximately 4.8% of the home lending market compared to approximately 5.22% for a combined BEN-SUN entity.[43] Doubling BEN's market share will still leave it as a relatively small bank with all the challenges that entails when compared to the Major Banks, and which BEN has articulated itself including:

(a) "*smaller banks … smaller scale is a structural impediment to organic growth of their businesses, significantly inhibiting their ability to grow by competing to take significant market share from the Major Banks*";[44]

(b) "*the Major Banks pric[e] aggressively for 'high quality' customers, which smaller banks cannot compete with for reasons including their much smaller scale*";[45]

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[39] BEN public submission dated 3 March 2023 at Section 5.3.

[40] BEN public submission dated 3 March 2023 at Section 5.4.

[41] BEN public submission dated 3 March 2023 at Section 5.5.

[42] Further statement of Clive van Horen dated 17 May 2023 at [56].

[43] Further statement of Clive van Horen dated 17 May 2023 at [56].

[44] BEN public submission dated 3 March 2023 at Sec ion 1.

[45] BEN public submission dated 3 March 2023 at Section 5.2.

(c) "*smaller banks' lack of scale limits their opportunities to become a more significant competitor to the Major Banks*";[46]

(d) "*Major Banks have a significant scale advantage over non-Major Banks, including in relation to operating cost efficiency and cost of funding. The Major Banks generally operate at cost to income ratios well below the non-Major Banks and have access to lower cost funding. The higher funding costs impact the ability of non-Major Banks to compete on price in lending products*";[47]

(e) "*In BEN's experience, smaller banks such as BEN and Suncorp Bank cannot compete on price alone against the Major Banks due to the significant structural disadvantages…*".[48]

46 [redacted]

[46] BEN public submission dated 3 March 2023 at Section 5.2.

[47] BEN public submission dated 3 March 2023 at Section 5.3.

[48] BEN public submission dated 3 March 2023 at Section 5.6.

[49] First statement of Steven Johnston dated 25 November 2022 at [66]–[69]; Statement of Adam Bennett dated 16 May 2023 at [42]-[52].

[redacted]

[50] First statement of Steven Johnston dated 25 November 2022 at [69].

[redacted]

4.5 Prudential capital standards and capital requirements

47 An acquisition by BEN of Suncorp Bank [redacted]

48 [redacted]

49 A plausible long-term outcome of a combined BEN-SUN entity is that it could pursue an advanced status IRB rating. An advanced status IRB allows an accredited ADI to use its own internal models to determine risk weights for credit exposures. These risk weights are tailored to the internally assessed risks of the asset and institution and are more granular than standardised risk weights. Achieving IRB accreditation requires a strong and sophisticated risk management framework and capacity.[53]

50 [redacted]

[51] Further statement of Clive van Horen dated 17 May 2023 at [67]. See also: https://www.apra.gov.au/news-and-publications/apra-applies-additional-capital-requirements-to-three-major-banks-response-to.

[52] Further statement of Clive van Horen dated 17 May 2023 at [67].

[53] Treasury, *Financial System Inquiry Final Report*, November 2014 at p. 60.

[54] Further statement of Clive van Horen dated 17 May 2023 at [68].

[55] Further statement of Clive van Horen dated 17 May 2023 at [68].

4.6 Credit rating considerations

51 BEN asserts that "*…a merger with Suncorp Bank would likely result in a credit rating uplift through increased scale and revenue base*" and states that a strengthened credit rating "*would reduce its wholesale funding costs and improve access to these markets, thereby enhancing its ability to challenge the Major Banks on pricing*".[56] However, BEN provides no evidence to support this assertion. A similar assertion was made in 2007 when Bendigo Bank merged with Adelaide Bank. The Adelaide Bank Scheme Book dated 5 October 2007 stated that the "*stronger business profile of the merged Adelaide Bank and Bendigo Bank may result in a positive credit re-rating in the future for the Merged Group in comparison to Adelaide Bank.*"[57] A potential upgrade was also noted in an investor presentation released by Adelaide Bank and Bendigo Bank on 9 August 2007.[58] No upgrade eventuated following completion of that merger.

52 [redacted]

53 [redacted]

Issuer Credit Ratings

54 Credit ratings issued by independent ratings agencies apply at both an institutional level for senior, unsecured issuances of debt, and to specific security types such as residential mortgage-backed securities where ratings have regard to the income streams and

[56] BEN public submission dated 3 March 2023 at Sec ions 5.3 and 5.6.

[57] Adelaide Bank Scheme Book dated 5 October 2007 at pp. 38, 73 and 95.

[58] "Merger of Adelaide Bank and Bendigo Ban" investor presentation dated 9 August 2007 at slide 11.

[59] Expert report of Dr David Howell dated 17 May 2023 at [17].

[60] Expert report of Dr David Howell dated 17 May 2023 at [17].

[61] Expert Report of Mr Ali dated 17 May 2023 at [146].

collateral associated with those securities. Typically banks have risk-based limits on the amount of various security types they can issue, based on APRA's prudential standards.

55 The credit rating of a bank directly impacts the availability of funding that it can raise in wholesale markets as well as the cost of that funding. This is because investors are guided by their credit policies when making investment decisions. For example, investors often have limited capacity under their credit policies to invest in BBB+ rated entities.[62]

[redacted]

56 [redacted]

57 [redacted]

58 [redacted]

59 [redacted]

Dr Howell's report

60 Dr Howell has provided an expert report on the likely issuer rating for a hypothetical combination of Suncorp Bank and BEN having regard to the methodology adopted by ratings agencies S&P, Moody's and Fitch Ratings.

61 In Dr Howell's opinion:

(a) having regard to the ratings methodology used by Moody's, the estimated issuer credit rating of a combined BEN-SUN entity would be [redacted]

(b) having regard to the ratings methodology of S&P, Dr Howell estimates that the S&P rating of a combined BEN-SUN entity would be [redacted]

[62] Further witness statement of Clive van Horen dated 17 May 2023 at [79]-[80].

[63] See: https://www.spglobal.com/ratings/en/products-benefits/products/ratings-evaluation-service-res-.

[64] Second witness statement of Steven Johnston dated 17 May 2023 at [28].

[65] Second witness statement of Steven Johnston dated 17 May 2023 at Tab 2 of Confidential Exhibit SJ-3.

[66] Expert report of Dr Howell dated 17 May 2023 at [17].

[67] Expert report of Dr Howell dated 17 May 2023 at [18].

(c) having regard to the ratings methodology of Fitch, Dr Howell estimates that the Fitch credit rating of the combined BEN-SUN entity would be [redacted]

62 The credit ratings of a hypothetical combined BEN-SUN entity are [redacted] The current rating from the most recent Credit Opinions of for Suncorp Bank under Suncorp Group ownership is:

(a) on the basis of Moody's current credit opinion, A1 (which includes a two notch uplift on Suncorp Bank's standalone credit rating due to potential support from the Suncorp Group);[69]

(b) on the basis of S&P's credit opinion, A+ (uplifted three notches from Suncorp Bank's Standalone Credit Profile due to potential support from the Suncorp Group);[70] and

(c) on the basis of Fitch credit opinion, A (uplifted one notch from Suncorp Bank's standalone Viability Rating of a-).[71]

63 Represented in the table below is Suncorp Bank's current issuer rating, BEN's current issuer rating and the issuer rating of a hypothetical combined BEN-SUN entity.

[redacted] **Table 1: Issuer ratings of Suncorp Bank, BEN and a hypothetical combined BEN-SUN**

	Suncorp Metway current	BEN current	Hypothetical SUN/BEN
Moody's issuer rating	A1	A3	[redacted]
S&P issuer rating	A+	BBB+	
Fitch issuer rating	A	A-	

Suncorp Group's experience

64 [redacted]

65 [redacted]

[68] Expert report of Dr Howell dated 17 May 2023 at [19].

[69] Expert report of Dr Howell dated 17 May 2023 at [53], table 3.

[70] Expert report of Dr Howell dated 17 May 2023 at [116], table 13.

[71] Expert report of Dr Howell dated 17 May 2023 at [152], table 16.

[redacted]

66 [redacted]

67 [redacted]

68 [redacted]

4.7 Access to, and costs of, funding

69 BEN has not provided any evidentiary foundation for its assertions that a combined BEN-SUN entity "*would reduce* [BEN's] *wholesale funding costs and improve access to these markets*". There is no underlying analysis of BEN's wholesale funding costs or how it views improvements to wholesale funding consequent on a combined BEN-SUN entity.

70 [redacted]

71 [redacted]

72 [redacted]

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[72] [redacted] are at Tabs 21 and 22 of Confidential Exhibit SJ-1 to the First statement of Steven Johnston dated 25 November 2022.

[73] Further statement of Clive van Horen dated 17 May 2023 at [79].

[74] Further statement of Clive van Horen dated 17 May 2023 at [81]; First statement of Steven Johnston dated 25 November 2022 at [60].

[75] Expert report of Dr Howell dated 17 May 2023 at [17].

[76] Expert report of Mr Ali dated 17 May 2023 at [146].

[redacted]

Availability of long-term wholesale debt

73 [redacted]

74 [redacted]

Availability of long-term wholesale debt

75 [redacted]

[77] Expert report of Mr Ali dated 17 May 2023 at section 5.

[78] Expert report of Moz Ali dated 17 May 2023 at [47].

[79] Expert report of Moz Ali dated 17 May 2023 at [47].

[80] Expert report of Moz Ali dated 17 May 2023 at [47].

[81] Expert report of Moz Ali dated 17 May 2023 at [48].

[82] Expert report of Moz Ali dated 17 May 2023 at [48].

[83] Expert report of Moz Ali dated 17 May 2023 at [48].

[84] Expert report of Moz Ali dated 17 May 2023 at [99].

76 [redacted]

[redacted]

Availability of short-term wholesale debt and wholesale term debt

77 [redacted]

[85] Expert report of Moz Ali dated 17 May 2023 at [75] and [231], Tables 4.1 and 9.1.

[86] Expert report of Moz Ali dated 17 May 2023 at [63].

[87] Expert report of Moz Ali dated 17 May 2023 at [63].

[redacted]

78 [redacted]

79 [redacted]

80 [redacted]

Incremental cost of short-term wholesale debt and wholesale term deposits

81 [redacted]

82 [redacted]

83 [redacted]

Overall implications

84 [redacted]

85 [redacted]

[88] Expert report of Moz Ali dated 17 May 2023 at [63].

[89] Expert report of Moz Ali dated 17 May 2023 at [65].

[90] Expert report of Moz Ali dated 17 May 2023 at [66].

[91] Expert report of Moz Ali dated 17 May 2023 at [67].

[92] Expert report of Moz Ali dated 17 May 2023 at [71].

[93] Expert report of Moz Ali dated 17 May 2023 at [72].

[94] Expert report of Moz Ali dated 17 May 2023 at [74].

[redacted]

86 [redacted]

4.8 [redacted]

87 As noted in the SOPV (at [3.12]), Suncorp Group's position is that a Second-Tier Merger Counterfactual presents "*execution and integration complexity risks that makes a combination challenged*". [redacted]

88 BEN submits Suncorp's position is "*patently inconsistent with well-known facts*" but fails to identify any facts to support its position. Further, BEN's assertion that it has "*examples of successful past integrations*" is lacking in detail and overly simplistic. The second statement of Mr Johnston and the statement of Mr Bennett, Chief Information Officer of Suncorp Group, provides further detail about these technology challenges.

Suncorp has first-hand experience of technology integration challenges

89 There would be significant challenges in the necessary technology integration for a merger between Suncorp Bank and BEN based on Suncorp's experience of its program of work designed to migrate customers from the Hogan platform, which was Suncorp Bank's core banking platform at that time, to a new and heavily customised version of the Oracle Banking Platform (**OBP**).

90 Consolidating core systems is an extremely large task and very complex, and has implications at all levels of the business, including at a user level. The delivery of this project suffered from delays in project delivery and a requirement to significantly increase the project budget over the period from 2012 to 2018.[98]

91 In that time Suncorp was unable to complete its core banking platform integration work, despite extending the timeframes for delivery and significant cost increases in budget which increased from the original budget for that program of work [redacted]

[95] Second statement of Steven Johnston dated 17 May 2023 at [72].

[96] First statement of Steven Johnston dated 25 November 2022 at [60].

[97] First statement of Steven Johnson dated 25 November 2022 at [66].

[98] Second statement of Steven Johnston dated 17 May 2023 at [75].

[99] Second statement of Steven Johnston dated 17 May 2023 at [75].

92 During the migration period, Suncorp was only able to successfully implement the rollout of the Retail Lending, Personal Loans and Customer Collections modules on the OBP. A decision was ultimately made to write down the carrying value of these modules and recognise an impairment charge for FY20.[100]

93 This has meant that since April 2017, the OBP has been Suncorp's core banking platform to support home loan origination, servicing and product ledger, collateral, and collections only and the Hogan platform has supported other services.[101]

Technology integration patterns

94 BEN's assertion that the integration challenges noted by Suncorp are "*patently inconsistent with well-known facts*" ignores the real and specific challenges that arise in these large scale technology integration projects.

95 Mr Bennett gives evidence that technology integration work in an acquisition will typically conform to one of three patterns:[102]

(a) **Pattern A**, which represents the simplest approach where customers and products are migrated to the technology platforms of the acquiring business. This requires that the acquirer possess a modern technology solution with multi-brand capability and scalability to support the additional volumes. This approach typically results in the greatest cost and operational synergies, but can be complex and time consuming to achieve depending on the scale of the business being acquired and the capabilities of the acquirer's technology;

(b) **Pattern B**, which is a situation of continued operation of the acquired technology. In the absence of a migration-ready technology platform, Pattern B is to take over the technology operations of the acquired business. This pattern is viable only where the technology solutions of the acquired function are totally standalone from the seller. There is minimal operational efficiency benefit from this approach, as all technology remains intact and costs duplicated; or

(c) **Pattern C** which involves de-integration and re-hosting. Pattern C is the most likely scenario for the partial sale of a larger organisation and requires that the technology of the acquired business be de-integrated and re-hosted. Whereas Pattern A and Pattern B can be executed relatively quickly, Pattern C strategies can take many years and are the most complex and time consuming, requiring significant organisational capability and funding commitment. Pattern C also underscores the need for synergy realisation to make the economics of the acquisition viable.

BEN's technology capabilities

96 [redacted]

97 Having regard to publicly available materials:

(a) As at FY19, BEN had eight core banking platforms. In the three year period from FY19 to FY22, BEN has rationalised just one of these platforms and [redacted]

[100] Second statement of Steven Johnston dated 17 May 2023 at [75].

[101] Second statement of Steven Johnston dated 17 May 2023 at [76].

[102] Statement of Adam Bennett dated 16 May 2023 at [25]-[31].

[103] Statement of Adam Bennett dated 16 May 2023 at [35]-[41].

[redacted]

(b) BEN has committed to other ambitious outcomes within 18 months, including near doubling of its cloud capacity, 30% increase in API reuse, 90% reduction in home loans decision time and 700% increase in automated credit-decisioning in home loans.[105]

[redacted]

(d) In 2022, BEN spent less than 10% of its project spend on growth and productivity, with 90% of effort assigned to "lifecycle, compliance and foundational technology" work.[107]

Likely approach to integrating a combined BEN-SUN entity

98 An acquisition of Suncorp Bank by BEN would result in an approximately 52% increase in customers. This would require a corresponding increase in product capabilities, performance and capacity of BEN's technology stack. [redacted]

99 [redacted]

100 [redacted]

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[104] Statement of Adam Bennett dated 16 May 2023 at [37]-[38].

[105] Statement of Adam Bennett dated 16 May 2023 at [39].

[106] Statement of Adam Bennett dated 16 May 2023 at [40].

[107] Statement of Adam Bennett dated 16 May 2023 at [41].

[108] Statement of Adam Bennett dated 16 May 2023 at [42]-[44].

[109] Statement of Adam Bennett dated 16 May 2023 at [45].

[redacted]

101 [redacted]

102 BEN also asserts that a combined BEN-SUN entity would "*provide BEN with a larger scale platform to accelerate its growth*" and enable it "*to provide a more compelling alternative offering on price, service and innovation*". [redacted]

BEN's integration experience

103 BEN asserts that it "*has a demonstrated track record of operating and successfully integrating acquisitions*", which it lists at [4.7] of the BEN public submission. However, as Mr Bennett observes:[115]

(a) The First Australian Building Society (**FABS**) merger (2000): was a small, simple Pattern A migration over 20 years ago. At that time, FABS only had ~165,000 customers, 47 branches, and $1.6 billion worth of assets.

(b) Adelaide Bank merger (2007): BEN states that Adelaide Bank integration is planned to be completed by FY24, more than 15 years after the merger, [redacted] At that time,

[110] Statement of Adam Bennett dated 16 May 2023 at [44].

[111] Statement of Adam Bennett dated 16 May 2023 at [46].

[112] Statement of Adam Bennett dated 16 May 2023 at [50(a)].

[113] Statement of Adam Bennett dated 16 May 2023 at [50(b)].

[114] Statement of Adam Bennett dated 16 May 2023 at [50(c)].

[115] Statement of Adam Bennett dated 16 May 2023 at [51(a)-(e)].

Adelaide Bank only had ~180,000 customers, 25 branches, and a $27.4 billion loan portfolio and $3.5 billion worth of funds under management.

(c) Bank of Cyprus (**BOCAL**) acquisition (2011): BEN took over 10 years to complete the migration of this business (significantly smaller than Suncorp Bank) to BEN systems, achieving this in FY22, [redacted] At that time, BOCAL only had 14 branches and a diversified loan book of $1.4 billion.

(d) Rural Finance Corporation of Victoria (**RFC**) acquisition (2014): BEN states that Rural Bank integration is planned to be completed by FY24, 10 years after the acquisition [redacted] At that time, RFC only had 3,300 customers, 11 branches and a loan portfolio worth $1.7 billion (and, only supplied agribusiness products).

(e) ANZ Investment Lending Portfolio (2022): BEN's most recent acquisition is a small, single product portfolio conforming to Pattern A. At the time of the announcement, the portfolio only had 11,900 customers with a value of $715 million.

104 [redacted]

4.9 Synergies analysis

105 A regional merger would only make commercial sense if significant cost synergies could be extracted.

106 Based on the benchmarking work that the Group has done to date [redacted]

Branch consolidation

107 BEN has a branch footprint larger than ANZ despite having less than half the number of customers and ~16% of its revenue. A combined BEN-SUN entity would create an even larger combined branch footprint. [redacted]

108 In this regard, while the customer shift to digital channels continues, the political focus on branch closures has heightened in recent months. The Senate's inquiry into regional branch closures commenced on 8 February 2023, which included a request directly to all bank CEOs to pause any branch closures until such time as the inquiry has been concluded. Several banks (including Suncorp Bank) have agreed to comply with this request. These developments highlight the fact that any large-scale branch closures [redacted] in the future will run into significant challenges from a political perspective and at the

[116] First statement of Steven Johnston dated 25 November 2022 at [62]; April 2022 SGL Board Insight Paper at Tab 2 of Confidential Exhibit SJ-1.

[117] Further statement of Clive van Horen dated 17 May 2023 at [53].

very least, will defer the realisation of any savings from unprofitable or overlapping branches.[118]

109 [redacted]

4.10 Divergent risk appetites

110 Suncorp Bank has been on a journey of simplification and de-risking of Suncorp Bank's product portfolio and customer mix following the Global Financial Crisis as well as the divestment of seven businesses since February 2019, including its wealth (superannuation) business (sold to LGIAsuper).[120]

111 BEN refers to itself on its website as 'one of Australia's biggest banks' and 'the better big bank' and offers a complex portfolio of businesses. Whilst BEN states that is also focused on simplification, its current portfolio composition is significantly more complex than Suncorp Bank's. [redacted]

112 In other words, BEN currently offers the following products that Suncorp Bank does not:, superannuation, personal lending, Homesafe (a quasi reverse mortgage business), financial advice, share trading and margin lending, and white-labelled mortgages through various channels.

113 A combined entity that includes these businesses and product offerings would be inconsistent with Suncorp's journey of simplification and [redacted] It would also be inconsistent with the significant program of work that Suncorp Bank has deliberately undertaken to "de-risk" and "future proof" its banking business. It is unclear whether BEN would elect to divest these businesses, and if they did, any divestment process would add additional challenges and complexity to any integration.[122]

114 BEN has recently added to its complexity by acquiring the ANZ Investment Lending Portfolio (**ANZIL**). This is a margin lending business which ANZ sold and is being integrated into BEN's Leveraged Equities business. BEN considered this to be "a core business", whereas ANZ divested it as part of its simplification process. [redacted]

115 Additionally, as noted earlier, BEN also operates a large network of community-owned branches, as well as owning the UP digital bank and equity stakes in various companies.

[118] Further statement of Clive van Horen dated 17 May 2023 at [54].

[119] First statement of Steven Johnston dated 25 November 2022 at [63].

[120] First statement of Steven Johnston dated 25 November 2022 at [69].

[121] First statement of Steven Johnston dated 25 November 2022 at [69].

[122] First statement of Steven Johnston dated 25 November 2022 at [69].

[123] Further statement of Clive van Horen dated 17 May 2023 at [97].

[redacted]

4.11 Requires brand and culture alignment to be successful

116 Any bank integration requires brand and culture alignment to be successful, whereas there are significant risks to brand and reputation for a combined BEN-SUN entity.

Brand considerations

117 A combined BEN-SUN entity would need to combine and rationalise branding appropriate for its customer base. There are complexities and challenges in the short-to-medium term (including licensing arrangements and brand positioning) in developing branding that would resonate with consumers and position a combined entity for success. In this regard, BEN currently operates 10 different brands across its retail, business and wealth banking services. Branding changes need to be managed carefully to minimise customer disruption and churn across both customer bases, which would impact upon the ability of the combined entity to successfully compete.

Cultural alignment

118 The combination of BEN-SUN would require not only brand alignment but also consideration of BEN's community branch model. Suncorp considers that governance associated with BEN's community branch model adds a further level of complexity to a BEN-SUN combination.

119 BEN operates a large network of community-owned branches, whereas Suncorp Bank has moved to reduce its branch footprint in recent years. BEN has 466 branches of which 307 are Community Bank branches operated by 224 Community Bank companies, 135 are branches owned and operated directly by BEN, 14 are Alliance Bank branches and 10 are Rural Bank and private franchise sites. This complexity of ownership model, organisation structure and branding, is in sharp contrast to Suncorp Bank's simple structure of 64 branches, all with the same operating model and brand.[124]

120 As noted above, merging parties will always look for opportunities to reduce duplicated costs, which includes head office consolidation and branch consolidation. It is not clear, however, whether a combined BEN-SUN entity would realise these cost synergies across community owned branches given the operating model for those BEN branches.[125] [redacted]

5 There is no commercial likelihood of an acquisition by BEN of Suncorp Bank

5.1 BEN's proposal was high level

121 [redacted]

[124] Further statement of Clive van Horen dated 17 May 2023 at [46].

[125] Further statement of Clive van Horen dated 17 May 2023 at [45].

[redacted]

122 [redacted]

5.2 BEN's proposal

123 A transaction with BEN needs to be assessed quantitatively from a financial perspective before it can be recommended to the Board for approval. For Suncorp, there are several steps in this process.

124 First, a **benchmark valuation exercise** in which Suncorp benchmarks the shareholder value creation of inorganic options relative to the delivery of the organic plan.[128]

125 If a potential transaction is attractive compared with the other options, in particular, the delivery of the organic plan, there is then a further process undertaken in which transaction specific considerations are taken into account. This can be thought of as a type of reverse due diligence process and involves an assessment of the merger parties, particularly if the transaction involves scrip in the acquiring entity being issued to Suncorp Group shareholders in contrast to the dollar value of the ANZ Proposed Acquisition.

126 The second stage **merger partner historical performance** assessment involves Suncorp considering a range of merger partner key metrics[129] including:

(a) Net Interest Margin (**NIM**) and risk adjusted NIM;

(b) Cost to income (**CTI**) ratio;

(c) Stable customer funding;

(d) Return on equity (**ROE**); and

(e) Price to book value.

127 The third step then involves a consideration of whether the transaction is **executable**. This involves considering matters such as funding challenges, technology integration challenges, M&A structuring, culture and governance considerations in addition to any conditions associated with the transaction.

128 A transaction that does not produce returns above the cost or capital is unlikely to meet the first threshold.

Benchmarking analysis

129 [redacted]

[redacted]

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[126] First statement of Steven Johnston dated 25 November 2022 at [83]-[85]; Second statement of Steven Johnston dated 17 May 2023 at [17]-[18].

[127] Second statement of Steven Johnston dated 17 May 2023 at [17].

[128] Second statement of Steven Johnston dated 17 May 2023 at [21(a)].

[129] Second statement of Steven Johnston dated 17 May 2023 at [21(b)].

130 [redacted]

131 [redacted]

132 [redacted]

133 [redacted]

134 [redacted]

Merger Partner Historical Performance

135 The financial target metrics, commonly considered by industry, and that would need to be evaluated as part of assessing a transaction with BEN are described below.[130]

Net Interest Margin (NIM) and risk adjusted NIM

136 The NIM is a measure of a bank's profitability, reflecting interest income generated by assets less interest paid on funding divided by average interest earning assets. The risk adjusted NIM uses average credit risk weighted assets as the denominator as a measure of net interest income generated per dollar of credit risk taken on by a bank.

137 As set out in the figure below, for FY22 BEN's and BOQ's risk adjusted NIM was [redacted]%, which was below Suncorp Bank's risk adjusted NIM of [redacted]% and even further below the average of the Major Banks' risk adjusted NIM of [redacted]%.

[redacted]

138 A lower risk adjusted NIM indicates a higher risk investment (all else being equal) as shareholders are receiving less compensation for the credit risk they bear. What this means is that [redacted]

Cost to income (CTI) ratio

[130] Second statement of Steven Johnston dated 17 May 2023 at paragraphs [34]-[63].

139 The CTI ratio is a measure of operational efficiency used by bank management and shareholders. The CTI ratio is calculated by dividing total operating expenses by total income.

140 As set out in the figure below, BEN's CTI ratio has been consistently higher than the Major Banks and BOQ over a long period of time (16 years) and higher than Suncorp Bank's CTI ratio for 14 of these 16 years.

[redacted]

141 The higher the share of revenue required to cover operational expenses, the less efficient an entity will be (all else being equal).

142 [redacted]

Stable customer funding as a share of total funding

143 Stable customer funding is calculated by dividing unweighted stable deposits (as defined by the Australian Prudential Regulation Authority's Prudential Standard APS 210 Liquidity) by total retail and small to medium entity unweighted deposits.

144 As set out in the figures below, as at December 2022 for BEN and Suncorp Bank, and as at February 2023 for BOQ:

(a) BEN sources a higher proportion of total funding from customer deposits ([redacted]) than Suncorp Bank ([redacted]) while BOQ ([redacted]) [redacted]; however

(b) Suncorp Bank has a [redacted] of stable deposits as a share of total funding ([redacted]) [redacted]

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[131] Including Adelaide Bank (2007), 40% of Rural Bank (2010), Bank of Cyprus (2011), Rural Finance (2014), the Key start mortgage portfolio (2016) and Ferocia (2021).

[132] Second statement of Steven Johnston dated 17 May 2023 at paragraph [52].

[redacted]

[redacted]

145 The more stable the customer funding of a bank is, the more valuable it is to a bank given the ability for the bank to fund higher return, longer term and/or less liquid assets.

146 BEN's lower share of stable deposits as a share of total funding compared to Suncorp Bank means that it has less ability to fund higher return, longer term and/or liquid assets, compared to Suncorp, even if it wanted to do so.

Return on equity (ROE)

147 ROE is a measure of profitability and organic capital generation. An entity with a lower ROE is less competitive (all else being equal) given it implies a higher cost of equity which increases the cost of funds, and lower organic capacity to fund balance sheet growth and investment. The ROE is calculated by dividing net profit after tax by average shareholders' equity.

148 As set out in the figure below, [redacted] and that over the last eight financial years [redacted] Suncorp Bank's ROE. For FY22, BEN's ROE was [redacted]%, BOQ's ROE was [redacted]%; Suncorp Bank's ROE was [redacted]% and the average ROE of the Major Banks was [redacted]%.[133]

[133] Second statement of Steven Johnston dated 17 May 2023 at paragraph [56].

[redacted]

149 BEN's ROE figures [redacted]

Price to book value

150 Price to book value is a measure of the equity market's value of total future shareholder returns (i.e. the present value of cash flows) relative to total shareholders' equity. Price to book value is calculated by dividing total market capitalisation by total shareholders' equity.

151 As set out in the figure below, as at 21 April 2023, BEN's and BOQ's shares are trading on a multiple of [redacted] book value respectively (i.e. BEN's and BOQ's shares are trading at a discount to book value), Suncorp Group's shares are trading on [redacted]x book value and an average of the Major Banks' shares are trading on a multiple of [redacted]x book value (i.e. Suncorp Group's and the average of the Major Banks' are trading at a premium to book value).

152 BEN's shares have traded on a lower multiple of book value than Suncorp Bank, over the last 15 years.

[redacted]

153 A ratio below 1.0x [redacted] indicates an expectation that total future shareholder returns will be below shareholders' target rate of return. This is not an attractive proposition from a shareholder perspective.

154 [redacted]

Conclusion regarding key target metrics

155 The outcomes of the metrics described above (summarised in the table below) do not support the Suncorp Board recommending a transaction with BEN. In fact, the metrics show clearly that a transaction with BEN would not be in the interests of Suncorp Bank or its shareholders.

156 In particular, BEN's [redacted]

[redacted]

Executability – Transaction structure

158 Separately, it would also be necessary to find a structure for a proposed acquisition by BEN of Suncorp Bank. Any such structure would likely require at least a BEN shareholder vote and potentially also a Suncorp shareholder vote. [redacted]

[redacted]

159 This potential transaction structure would present a number of issues, including:

(a) (**Valuation**) by the nature of the scrip consideration proposed by BEN, it would have been necessary to consider the valuation of a combined BEN-SUN entity and the value of BEN shares, which would have required Suncorp undertaking a detailed due diligence of BEN;

(b) (**Conditionality**) BEN's proposal would have been likely to be subject to a number of conditions, including: BEN shareholder approval under ASX Listing Rule 7.1 to issue shares to Suncorp; Suncorp shareholder approval under section 256C of the *Corporations Act* 2001 (Cth) in respect of any reduction in the capital of Suncorp [redacted] ASIC relief by Suncorp so that the takeover rules in the Corporations Act would not apply to the acquisition by Suncorp of new shares in BEN before those were distributed to Suncorp shareholders; and other potential ASIC and ASX relief and/or waivers, depending on the arrangements

160 [redacted]

5.3 Public detriments

161 BEN's submission that a combination of BEN and Suncorp Bank would result in greater public benefits, including through making additional community investments is not specific to a combination with Suncorp, [redacted]

162 By contrast, for the reasons detailed above, [redacted]

163 In addition, amendments to the Metway Merger Act would be necessary and BEN would need to engage with the Queensland Government on this issue.

[134] Second statement of Steven Johnston dated 17 May 2023 at [80].

[135] Second statement of Steven Johnston dated 17 May 2023 at [38] and [93].

6 Suncorp Bank remaining part of Suncorp Group

164 If the Proposed Acquisition did not proceed, the No-Sale Counterfactual remains the likely counterfactual and is supported by the following evidence.

6.1 Suncorp Group remains committed to Suncorp Bank

165 [redacted]

166 [redacted]

6.2 Suncorp Bank under current Bank leadership

167 Suncorp Bank's business has materially improved under the current Bank leadership. The simplification work the current Bank leadership has undertaken has contributed to that success. The simplification work carried out over FY21 and into FY22 includes:[139]

(a) the decision by Suncorp Bank to exit personal lending in November 2020 and redirect resources to home lending;

(b) ceasing offering new share trading services from August 2021, transferring customers from June 2022 to CMC Markets Stockbroking Limited and ceasing to offer new trading accounts;

(c) rationalisation of products by removing from sale approximately 50% of its deposit products and approximately 40% of its home loan products; and

(d) divesting the Suncorp Wealth business (which originally formed part of Dr van Horen's accountability) to LGIAsuper.

168 In Suncorp Group's first half 2023 Financial Results presented on 8 February 2023, Suncorp Bank announced continued growth in its home and business lending portfolios and customer deposits.[140] In particular, Suncorp Bank's home lending was up $2.6 billion over the half or 10.4% (annualised), its net interest margin was 2.03%, up 13 basis points, and cost-to-income ratio reduced to 49.9%.[141] Business lending grew 1.8% in the half, predominantly driven by commercial lending across several industries.[142]

[136] Second Statement of Steven Johnston dated 17 May 2023 at [20].

[137] Second Statement of Steven Johnston dated 17 May 2023 at [38], [90] and [93].

[138] Second Statement of Steven Johnston dated 17 May 2023 at [34]-[63].

[139] First Statement of Clive van Horen dated 25 November 2022 at [38]

[140] Suncorp Group 2023 half-year financial results ASX Announcement dated 8 February 2023 at p. 2.

[141] Second statement of Steven Johnston dated 17 May 2023 at [91].

[142] Second statement of Steven Johnston dated 17 May 2023 at [91].

169 These results show that the Bank continues to maintain a high quality and conservatively positioned home and business lending portfolios. This growth, together with the results of the Group, mean that the Group remains on track to achieve FY23 targets.[143]

170 These results demonstrate the ongoing viability of Suncorp Bank under Suncorp Group ownership. [redacted]

6.3 Future of Suncorp Bank under Suncorp Group ownership

171 However, as described in the first statement of Mr Johnston,[144] [redacted]

172 Suncorp's FY22 Total Capital usage across both general insurance and banking businesses of [redacted] within the general insurance business while continuing to invest in technology upgrades across both businesses and supporting all three key business lending portfolios in Suncorp Bank.[145] [redacted]

7 Business banking market

7.1 Market definition

173 There is a national market for business banking. The underlying products and services are the same regardless of whether they are being supplied to SME, agribusiness or commercial property customers, with the exception of farm management deposit accounts (**FMDAs**).

174 FMDAs are a tax driven deposit product that other financial institutions, in addition to Suncorp Bank, also provide. FMDAs are best described as a business banking product with a particular tax advantage that can be supplied to primary producers, rather than one of a series of products specifically designed by Suncorp for its agribusiness customers as suggested at paragraph [4.28] of the Authorisation Application.

175 Suncorp has one credit policy and one pricing assessment framework which applies to all its Business Bank customers nationally, regardless of any regional differences in the

[143] Second statement of Steven Johnston dated 17 May 2023 at [91].

[144] First statement of Steven Johnston dated 25 November 2022 at [89].

[145] Second statement of Steven Johnston dated 17 May 2023 at [125].

[146] Second statement of Steven Johnston dated 17 May 2023 at [126].

profile of agribusiness customers due to differences in the commodities produced and offered by customers, the climate and weather patterns that affect their commodity offering which arise by reason of their geographic location. From an operational perspective, [redacted]

176 There are economies of scope in administering the same products and services to all business banking customers through the same IT infrastructure and via the same organisation teams that sit within the one division led by the EGM of Business Banking. The centralised supply of the same products and services to all business banking customers also means that there is supply side substitution.

177 While some specialised knowledge sits as the sales representative level – that knowledge can be built over time and that is not sufficient to delineate a separate market. Suncorp's business bank recruits personnel to work in its agribusiness portfolio based on their overall business banking technical competency not their technical knowledge of agricultural or rural environments.

178 While having a direct relationship with a relationship manager is considered important by some business customers, business customers and banks, depending on the sophistication of their digital capabilities, interact with each other digitally and over the phone, and banks compete with each other on pricing and non-pricing factors on a national basis.

179 The features described above are not unique to Suncorp Bank. BEN identifies at pages seven of its results presentation for the half year ended 31 December 2022 the "*continued alignment of Business Bank and Rural Bank including centralising in-business function.*"

180 The competitive effects analysis reflects specific products sub-segments to algin with the SOPV. While Suncorp does not think that this is the correct framework for analysis, for the reasons set out below, the Proposed Acquisition will not substantially lessen competition in these narrower markets and therefore there are no concerns in a broader business banking market.

7.2 Competitive effects – agri-business banking

181 The statement in the SOPV that Suncorp Bank "appears to focus on agribusiness banking in Queensland and northern New South Wales"[147] is incorrect. Suncorp Bank's presence in Queensland and northern New South Wales is due to historical factors. In fact, the business bank has made changes to its target operating model which has included re-organising its agribusiness portfolio so that it is divided into separate units for northern and southern portfolios and includes other regional customers.[148] [redacted]

182 Rabobank and NAB are key competitors in agribusiness and Suncorp's main competitors in initially winning customers. When Suncorp customers switch away from Suncorp due to price consideration, they may go to any of the Major Banks, other banks or other providers of specialist services.

[147] SOPV at [4.30].

[148] First Statement of Clive van Horen dated 25 November at [67].

183 Suncorp does not lead on price in agribusiness banking. Its competitive proposition is based on the relationship service offering which is not unique to Suncorp and is readily replicable, as set out in first statement of Dr van Horen.

184 Over the last three to four years, brokers have become increasingly important in this segment and originate approximately [redacted] of Suncorp's agribusiness lending as at June 2022, up from [redacted] in June 2015.[149]

185 Most of Suncorp Bank's agribusiness customers acquire services from at least one other bank, with a small number of exceptions, including that Suncorp Bank tends to provide mainly lending products to its agribusiness customer as its customers' secondary bank.

7.3 Competitive effects – SME banking

186 The statement in the SOPV that Suncorp Bank "appears to be proportionally more significant in SME banking in Queensland than nationally"[150] is not correct.

187 Suncorp Bank has a long history in Queensland, with Metway Bank originally being a Queensland-based bank and the Suncorp Group having a significant Queensland presence through its insurance operations. However, Suncorp Bank does not have a specific strategy to focus on Queensland.[151]

188 In SME lending, the Major Banks compete strongly because of their capability and/or risk appetite to offer, at scale, the transactional banking products necessary to meet these customers' requirements.[152] Brokers play a significant role in this area, originating approximately [redacted] of Suncorp Bank's SME lending.

189 The historic performance of Suncorp Bank's SME portfolio is not consistent with it being a particularly strong competitor in local or regional areas and its SME product and service offering is far from market leading. [redacted]

190 [redacted]

[149] [redacted]

[150] SOPV at [4.40].

[151] First Statement of Clive van Horen dated 25 November at [30].

[152] [redacted]

[153] [redacted]

[154] [redacted]

[155] First Statement of Clive van Horen dated 25 November 2022 at [88].

8 Home loans market

8.1 Market definition

191 The ACCC has previously considered transactions involving retail banks in the context of a national market for the supply of home loans.[156] There is no basis for a different approach to be taken when considering the Proposed Acquisition.

192 The way Suncorp organises its home lending business is consistent with it competing in a national home loan market:

(a) Suncorp supplies its home lending products throughout Australia with brokers playing a significant role connecting customers with home loan suppliers. In FY22, approximately [redacted] of Suncorp's home loans were originated through the broker channel, approximately [redacted] through Suncorp's branch network and approximately [redacted] through Suncorp's digital channel. In FY21, approximately [redacted] of Suncorp's home loans were originated through the broker channel and approximately [redacted] through Suncorp's branch network;[157]

(b) Suncorp develops and prices its products applying risk frameworks on a national basis;

(c) Suncorp applies the same national pricing to its home lending products;[158]

(d) Suncorp advertises and markets its home lending products on a national basis; and

(e) Suncorp monitors its competitors on a national basis.[159]

8.2 Competitive effects

193 The Proposed Acquisition will not have the effect or likely effect of substantially lessening competition in the national market for the supply of home loans. The home loan market is intensely competitive and not concentrated; and will remain so post-acquisition. As previously noted by the ACCC, both mortgage brokers and aggregators play a key role as a distribution channel for home loan products, especially for the non-major lenders.[160] Brokers and aggregators will continue to facilitate competition between market participants.

194 Suncorp Bank is no more vigorous or effective than other competitors in the supply of home loans and has not been a key driver of pricing, innovation or product development in the market.[161] Suncorp Bank sets its prices for its home loan products [redacted]

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156 Commonwealth Bank of Australia - proposed acquisition of remaining issued capital of Aussie Home Loans (March 2013); Commonwealth Bank of Australia – proposed acquisition of BankWest and St Andrew's Australia (December 2008); Westpac Banking Corporation – proposed acquisition of St George Bank Limited (August 2008).

157 [redacted] This is consistent with national statistic: in the first quarter of 2022, the MFAA reported that 69.5% of all new home loans in Australia were broker originated during the period January to March 2022: see Authorisation Applica ion dated 2 December 2022 at [6.19].

158 First Statement of Clive van Horen dated 25 November 2022 at [49].

159 First Statement of Clive van Horen dated 25 November 2022 at [49].

160 Australian Finance Group Ltd – proposed acquisition of Connective Group Pty Ltd (June 2020).

161 Authorisation Application dated 2 December 2022 at para 7.28.

162 First Statement of Clive van Horen dated 25 November 2022 at [49].

195 ANZ is the fourth largest national supplier of home loans, with only a 13.02% share of the market.[163] Suncorp is considerably smaller as the ninth largest national supplier of home loans with a 2.39% shares of the market.[164] Suncorp Bank's efforts to improve its business momentum and its efforts in maintaining its position in a highly competitive market [redacted] As a result of the Proposed Acquisition, ANZ's share of the market will only increase by a de minimis amount.[166] The relevant HHI will increase as a result of the Proposed Acquisition by 62, to a post-merger HHI of 1,646.[167]

196 Suncorp Bank is also not a close competitor to ANZ. Suncorp home loan customers refinance to a range of other lenders, including the Major Banks, Macquarie Bank, St George, BankWest, ING, HSBC, BOQ and BEN. ANZ will continue to face considerable competition from its many competitors who will act to constrain ANZ's post-acquisition behaviour.[168]

9 Market for deposit products to retail customers

9.1 Market definition

197 The ACCC has previously considered transactions involving retail banks in the context of a national market for the supply of deposit products to retail customers.[169] There is no basis for a more disaggregated approach, such as considering sub-market for transaction accounts, savings accounts and term deposit products, to be taken when considering the Proposed Acquisition.

198 The way Suncorp organises its deposits business is consistent with it competing in a national retail deposits market:

(a) Suncorp supplies its deposit products to retail customers throughout Australia;

(b) Suncorp offers the same products nationally;

(c) Suncorp prices its products (i.e. offers the same rates of interest) nationally;

(d) Suncorp advertises and markets its products on a national basis; and

(e) the importance of having a physical presence has significantly reduced.

9.2 Competitive effects

199 The Proposed Acquisition will not have the effect or likely effect of substantially lessening competition in the national market for the supply of deposit products to retail customers.

[163] ANZ has also experienced an appreciable decline in market share from 15.60% in 2012 to 13.02% in 2022, as set out in the Authorisation Application dated 2 December 202, Table 12 at p. 131.

[164] Suncorp Bank's market share has been relatively static over the 10 years to 2022, decreasing from 2.79% in 2012 to 2.39% in 2022, as set out in the Authorisation Application dated 2 December 202, Table 12 at p. 131.

[165] First statement of Clive van Horen dated 25 November 2022 at [53] and [87].

[166] Their combined amount represents 15.41%, which trails (by significant margins) CBA (25.8%) and Westpac (21.54%) and marginally exceeds NAB (14.89%).

[167] Authorisation Application dated 2 December 2022 Table 11 at p. 127.

[168] The MFAA reported that 69.5% of all new home loans in Australia were broker originated during he period January to March 2022: see Au horisation Application dated 2 December 2022 at [6.19].

[169] Commonwealth Bank of Australia – proposed acquisition of BankWest and St Andrew's Australia (December 2008) and Westpac Banking Corporation – proposed acquisition of St George Bank Limited (August 2008).

The retail deposit market is characterised by a number of ADIs and is competitive[170] and will remain so post-acquisition. Customers have significant choice and multi-bank.

200 Suncorp Bank is no more vigorous or effective than other competitors in the supply of deposit products and it does not routinely drive pricing, innovation or product development.[171] Suncorp is also not ANZ's closest competitor in the supply of retail deposit products to customers.[172]

201 ANZ is the fourth largest national supplier of deposit products to retail customers with only a 12.07% share of the market. Suncorp's overall position in deposits has declined over the last 20 years.[173] Suncorp is considerably smaller than ANZ and the eighth largest national supplier of deposit products to retail customers, with a 2.47% share of the market.[174] As a result of the Proposed Acquisition, ANZ's share of the market will only increase by a de minimis amount (2.47%). The relevant HHI will increase as a result of the Proposed Acquisition by 60, to a post-merger HHI of 1,601.[175]

10 Public benefits – Stronger Insurer

10.1 Stronger insurer

Challenges facing insurance businesses in Australia

202 As described in the First and Second Statements of Mr Johnston, insurance businesses in Australia are facing a number of challenges, including due to:

(a) increases in natural hazard costs. Suncorp's general insurance business is subject to significant natural hazards risk due to the geographical profile of its business and the nature of the products it provides. The increasing cost of natural hazard events puts upward pressure on both the size of the NH Allowance[176] and the cost of reinsurance, which may lead to higher consumer pricing.[177] In addition to this, the available capacity/capital to support this risk from the reinsurance market has reduced recently [redacted]. This may upward pressure on consumer pricing;[178]

(b) there is increased volatility in global reinsurance markets, which has resulted in a reduction in reinsurance markets and sources of capital for reinsurers, increasing premiums on the reinsurance and a shift in the burden of loss from reinsurers to primary insurers;[179] and

[170] There are 80 ADIs in Australia the majority of which offer retail deposit products: Authorisation Application dated 2 December 2022 at [5.10] and [7.59].

[171] Authorisation Application dated 2 December 2022 at para 7.69.

[172] Authorisation Application dated 2 December 2022 at paras 7.1(d), 7.31-7.32, 7.37 and 7.42.

[173] First Statement of Clive van Horen dated 25 November 2022 at [56].

[174] Between 30 June 2002 and 30 June 2019, Suncorp Banks share of total deposits (as reported to APRA) reduced from 3.1% to 1.9% and in February 2022, Macquarie Bank overtook Suncorp Bank in household deposits: Authorisation Application dated 2 December 2022 at [7.70].

[175] Authorisation Application dated 2 December 2022, at para 7.57.

[176] General insurance businesses are facing increased pressures in relation to natural hazard costs. Suncorp's general insurance business is subject to significant natural hazards risks due to the geographical profile of its business and the nature of the products it provides. Part of his risk is retained by Suncorp and makes up its Natural Hazard Allowance (NH Allowance) and the remaining part of it is reinsured to external entities for a cost (Reinsurance Cost). See Second statement of Steven Johnston dated 17 May 2023 at [101].

[177] Second Statement of Steven Johnston dated 17 May 2023 at [104].

[178] Second Statement of Steven Johnston dated 17 May 2023 at [104].

[179] First Statement of Steven Johnston dated 25 November 2022 at [34].

(c) [redacted] global reinsurance markets reassess risk caused by several global and domestic factors.[180]

203 [redacted] To the extent that reinsurers are moving to transfer risk to primary insurers like Suncorp, some of this risk will, in turn, need to be passed on to consumers of insurance products.[182]

204 As a consequence of the sale of the Bank to ANZ Suncorp Group will be able to better focus on the insurance business, products and services at a time when the value of insurance to customers has never been greater.[183] The following paragraphs describe those benefits and how they arise as a consequence of the Proposed Acquisition.

Public benefits arising and response to SOPV on public benefits from pureplay insurer

205 In response to paragraphs [5.17] to [5.19] the ACCC's SOPV Suncorp Group submits the public benefits that arise from Suncorp Group's pureplay general insurance are consequent on the Proposed Acquisition and will deliver improvements to the performance of the Group compared to a future without the Proposed Acquisition.

206 As a consequence of the Proposed Acquisition, Suncorp Group will embark on the proposed comprehensive, multi-year strategy to sustain the performance of its insurance entity and improve outcomes for current and prospective insurance customers. The plan, is designed to ensure Suncorp's leadership in a sustainable insurance industry.[184]

207 As a result of the Proposed Acquisition, Suncorp will be in a position to move more quickly to invest in core systems that deliver digital solutions to insurance customers. Core system investments include:

(a) modern pricing engines and underwriting enhancements;

(b) the movement to a cloud based, 'out of the box' claims system, policy administration system and enhanced data storage that prioritises privacy and integrity.

208 These comprehensive initiatives would need to be assessed very differently from a timing and sequencing perspective if the Group needed to 'trade-off' these investments against a similar suite of capital investments in Suncorp Bank and these investments are likely to look different in any alternative counterfactual situation [redacted]

[180] Second Statement of Steven Johnston dated 17 May 2023 at [105], [109] and [115].

[181] Second Statement of Steven Johnston dated 17 May 2023 at [106].

[182] Second Statement of Steven Johnston dated 17 May 2023 at [109] – [113].

[183] First Statement of Steven Johnston dated 25 November 2022 at [86].

[184] Second Statement of Steven Johnston dated 17 May 2023 at [120].