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STATEMENT IN SUPPORT OF APPLICATION FOR MERGER AUTHORISATION

SBGH LIMITED

Target Company

Statement of	**Clive van Horen**
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Date	17 May 2023

This document contains confidential information which is indicated as follows: **[CONFIDENTIAL TO SUNCORP]** [ ]

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A. INTRODUCTION

1. I am the Chief Executive Officer (**CEO**) of Suncorp Metway Limited (**Suncorp Bank**).

2. This statement has been prepared in support of the application by Australia and New Zealand Banking Group Limited (**ANZ**) for authorisation of its proposed acquisition of 100% of the issued share capital in SBGH Limited (the entity which owns Suncorp Bank) from Suncorp Group Limited (**Suncorp Group**), either directly or via a related body corporate of ANZ, in accordance with a share sale and purchase agreement between ANZ and Suncorp executed on 18 July 2022 (the **Proposed Transaction**).

3. This statement is to be read in addition to my statement made on 25 November 2022 (**Initial Statement**).

4. In preparing this statement, I have reviewed the Australian Competition and Consumer Commission's (**ACCC**) Statement of Preliminary Views (**SOPV**) in relation to the application by ANZ and Suncorp for merger authorisation and the public version of the submission made by Bendigo and Adelaide Bank Limited (**BEN**) (**BEN Public Submission**).

5. Exhibited to me at the time of signing this statement is a bundle of confidential documents marked **CVH-3** (which contains documents in respect of which a claim of confidentiality is made by Suncorp Bank) and a bundle of non-confidential documents marked **CVH-4**. The documents in these exhibits are true and correct copies of the documents referred to in this statement. I have reviewed those documents prior to signing this statement.

6. The matters set out in this statement are true to the best of my knowledge and belief and are based on my knowledge of Suncorp Bank's operations, my review of Suncorp Bank's business records, my involvement with Suncorp Bank's business in my current role, my previous experience (detailed below and in my Initial Statement) and my review of publicly available information.

Overview

7. In this statement, I address the following topics:

   (a) First, my experience which informs the views I express in this statement.

   (b) Second, the market conditions which Suncorp Bank is facing as a mid-tier bank at both a macro level and on a more localised level.

   (c) Third, current and future plans for Suncorp Bank under Suncorp Group ownership.

   (d) Fourth, based on my experience described at paragraphs [10] to [15] below, my assessment of the challenges that would be associated with a merger between BEN and Suncorp Bank (**BEN-SUN**), including issues concerning:

      (i) the likely complexity of integrating the two banks, particularly in relation to technology; and

      (ii) the challenges inherent in branch consolidation.

   (e) Fifth, based on my experience described at paragraphs [10] to [15] below, my assessment of the benefits of the Proposed Transaction that would be absent under a merged BEN-SUN entity, including:

      (i) the challenges of continuing to be sub-scale for a merged BEN-SUN entity;

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(ii) no benefits of scale for additional funding for a merged BEN-SUN entity;

(iii) higher costs of capital for a merged BEN-SUN entity;

(iv) the status and relevance of credit ratings, including (the role of credit ratings in funding considerations, the benefits that Suncorp Bank derives from being part of Suncorp Group for its credit rating, and the circumstances surrounding the June 2022 downgrade of Suncorp to A+;

(v) customer-focused technology investment will not be increased under a merged BEN-SUN entity; and

(vi) incompatibility between Suncorp Bank's and BEN's strategies and execution.

(f) Finally, based on my experience described at paragraphs [10] to [15] below, my assessment of how a merger between Suncorp and BEN would compare with the Proposed Transaction, including the benefits arising from scale under ANZ ownership and why these same advantages would not arise under a BEN merger.

Assessment of potential counterfactuals

8. Having regard to these considerations (and as expanded upon below), while the BEN Public Submission asserts (at Section 4) that the likely future without the Proposed Transaction is a merged BEN and Suncorp Bank entity, my view remains that the most likely future without the Proposed Transaction is Suncorp Bank continuing to exist independently under Suncorp Group ownership. The BEN-SUN merger is an inferior option to the counterfactual scenario of the Bank staying within the Suncorp Group.

B. EXPERIENCE IN LARGE-SCALE BANK PROGRAMS AND ACQUISITIONS

9. In my banking career, I have been involved in dozens of large-scale change programs involving people, technology, processes, risk and governance as detailed in paragraphs [10] to [15]. A large part of my current role as CEO of Suncorp Bank is to lead change across the Bank. In this section I summarise some of my experience which informs my views on the challenges which would arise in any BEN-SUN merger.

10. I have had direct experience of various banking mergers including the acquisition in 2002 of a mid-sized bank, BoE Bank, by a big four bank, Nedbank, in South Africa. South Africa's banking system at the time had many similarities to Australia's system with four large banks and a second tier of much smaller banks. The Nedbank-BoE transaction resulted in a complex integration and I played a number of leadership roles in the ensuing eight years which involved merging and integrating multiple businesses. The roles I had during this period in the Nedbank Group included Managing Director of BoE Private Clients, and Managing Director of Retail Banking Services. The integrations included merging significant non-major bank brands including NBS and Peoples Bank, into the acquiror, Nedbank. These integrations involved hundreds of bank branches and several thousand employees.

11. While at Nedbank I also led the integration of six separate private banking/wealth management businesses into a single business, called BoE Private Clients, with 500-600 employees, multiple brands, cultures, technology platforms, and processes. In each case, these integrations were complex and spanned several years because the businesses had many competing priorities: to simultaneously serve customers, retain staff, achieve commercial efficiencies, rationalise and simplify technology and processes, and ensure sound risk management. While we at Nedbank were managing these competing priorities, our competitors were in a position to focus on their businesses without distractions of this type. This meant that we were, in practical terms, trailing

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our competitors in new developments during this period. These experiences inform my current views on the Proposed Transaction and various counterfactuals.

12. During my decade working for the Commonwealth Bank of Australia (**CBA**), most of my roles involved leading the product teams in retail and business banking: home lending, retail deposits, business lending and deposits, credit cards, personal loans, and payments. In those roles, I regularly monitored competitor banks. In my Initial Statement, I noted that competitor banks included all the major and mid-tier banks, and this is evidenced by numerous papers and data sources provided to the ACCC as part of its current investigation.

13. Whilst leading CBA's various product teams, I worked in close proximity to Bankwest following its acquisition by CBA. My teams and I generally considered Bankwest to be a competitor day-to-day notwithstanding the common shareholding. Bankwest's product teams were separate from CBA product teams for all of my time at CBA (which was at least 12 years after Bankwest was acquired). This meant that Bankwest determined its own customer propositions such as pricing, product, process and marketing, whilst operating on largely separate technology platforms. Bankwest operated within overall risk and governance parameters set by the CBA Board, but their operational execution was independent of my CBA product teams.

14. Towards the end of my time at CBA, a strategy was pursued to migrate all customers of Bankwest's business banking division [redacted] [CONFIDENTIAL TO SUNCORP] [redacted]

15. At various stages during my career I have been closely involved in a number of large-scale technology transformation programs. In addition to the merger-related migrations referred to in paragraphs [10] to [14], these included the migrations of over five million retail customers from legacy platforms to the future state SAP core banking platform at CBA; similarly, the migrations of several hundred thousand CBA business customers from legacy platforms to the SAP banking platform. In addition, I have led or been involved in dozens of technology programs to build new digital experiences, foundational platforms, and risk management technology solutions for new or existing customers.

C. MARKET CONDITIONS AND THEIR IMPACT ON MID-TIER BANKS

16. In this section I address:

(a) the competitive dynamics I have experienced during my career in Australia between the four major banks and more broadly across the banking industry, particularly in recent times. As described below, my experience is that the four major banks compete aggressively with one another, there are increasing sources of competition from non-traditional banking providers, and Suncorp Bank does not drive competitive responses from the four major banks; and

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(b) the macro-economic conditions which are having an impact on the risks being faced by the banking industry generally but particularly on mid-tier banks, which makes it more difficult for mid-tier banks to be competitive.

Competitive dynamics

17. My experience during my time at CBA, and subsequently, was that competitive intensity between the major banks, as well as with mid-tier banks, was very high. Whilst competitive intensity inevitably ebbed and flowed over time, my own experience during this time was that competition between the major banks, supplemented by competition from mid-tier banks, was consistently high. In my view, data points which support this view include:

    (a) the long-term decline in net interest margins (**NIM**) and returns on equity, which fundamentally reflect a shift in value from shareholders to customers. This is seen in the analysis undertaken by the Reserve Bank of Australia (**RBA**) which shows that major banks' NIM declined from 3.3% in 1999 to under 2.0% in 2022.[1] This is a significant reduction in margins (and therefore profitability and returns on capital, all other things equal), and is a very clear indication of strong competition between banks over an extended period. The net effect of this is that customers have benefited from materially better interest rates (lower borrowing costs and/or higher deposit rates); conversely, bank shareholders have carried the cost of this value shift. Suncorp Bank's experience over this period has been consistent, given its position as a price taker;

    (b) the growth in mix of the mortgage broker channel, which has driven increased competition across price, process and service propositions:

        (i) on an industry-wide basis, the mortgage broker channel accounted for approximately 44.2% of all new loans in the March quarter of 2013[2] increasing to 69.5% in the March quarter of 2022;[3] and

        (ii) within Suncorp Bank, the mortgage broker channel accounted for approximately [CONFIDENTIAL TO SUNCORP] [redacted] of new loans in the September quarter of FY21; [CONFIDENTIAL TO SUNCORP] [redacted] in the September quarter of FY22 and [CONFIDENTIAL TO SUNCORP] [redacted] in the September quarter of FY23.[4]

    (c) the ease with which customers can open fee-free bank accounts and move savings within minutes to benefit from more attractive interest rates. This is true for opening new accounts with a new bank; new accounts with a customer's existing bank; or moving funds between existing accounts at a customer's existing bank. In all cases, these are very simple and frictionless processes, at zero cost to customers, enabling very rapid switching. Consumer advocacy organisation CHOICE noted the prevalence of fee-free personal transaction accounts available to consumers, compiling a list of all the fee-free personal transaction accounts consumers can sign up for. A copy of the CHOICE article dated 11 November 2022 and setting out all fee-free personal transition accounts is at **Tab 2 of Non-confidential Exhibit CVH-4**. Mozo's website has a search feature

[1] See: https://www.ausbanking.org.au/insight/net-interest margins-2001 21/, see also Developments in Banks' Funding Costs and Lending Rates' https //www.rba gov.au/publications/bulletin/2023/mar/pdf/developments-in banks funding-costs and lending rates pdf at p.71 and RBA Banking indicators chart pack https://www.rba.gov.au/chart-pack/banking-indicators.html.

[2] As reported by Mortgage and Finance Association of Australia in its "Exclusive Finance Broker Benchmarking Report" for the period 1 October 2016 to 31 March 2017, a copy of which is at Tab 1 of Non-confidential Exhibit CVH-4.

[3] As set out at paragraphs 33, 5.58 and 6.19 of the Authorisation Application dated 2 December 2022

[4] [CONFIDENTIAL TO SUNCORP] [redacted]

that allows consumers to compare Australian bank accounts in its comparison database based on whether they offer "no monthly fee".[5] Whilst in its infancy, the Customer Data Right ('open banking') will also accelerate this switching.

(d) the material cash incentives paid by banks (in addition to mortgage broker commissions) to attract home lending customers of other banks and the associated high refinancing rates between all banks. Enclosed at **Tab 3 of Non-confidential Exhibit CVH-4** are newspaper articles addressing recent market offers;

(e) the removal of ATM withdrawal fees for customers using ATMs of any bank (not just their own);[6] and

(f) the introduction of many innovations in payments, including the entry of global technology companies such as Apple and Google into customers' payments experiences. I noted these in the Suncorp Bank FY23-25 Plan which was **Tab 8 of Confidential Exhibit CVH-1** (see page 5). These include 'big tech' companies such as PayPal, Apple, Google, Amazon, and Meta (formerly Facebook) who have been disrupting the payments industry with digital wallets and payment functionality integrated into their own online platforms:

(i) The RBA noted in its Payment System Board Annual Report 2021 that "*an increasing share of payments are being made through mobile wallets offered by large technology companies, such as Apple Pay, Samsung Pay and Google Pay…The [RBA's] 2019 [Consumer Payments Survey] showed that consumer use of mobile wallets had been growing strongly, accounting for 8 per cent of in-person card transactions in 2019. As noted above, industry data indicate that growth in the use of mobile wallets has picked up considerably throughout the pandemic period.*" A copy of the RBA's Payment System Board Annual Report 2021 is at **Tab 4 of Non-confidential Exhibit CVH-4**.

(ii) The Governor of the RBA, Dr Philip Lowe, in his Address to the Australian Payments Network Summit 2021 on 9 December 2021 noted the growing involvement of the 'big techs' in payments. Dr Lowe stated "*The platforms used by these firms give them large networks that can be leveraged to quickly build a payments business. They are also able to combine payments data with other data from their platforms, often with cutting-edge technology. Some already provide digital wallets and are exploring how these digital wallets could be used for non-traditional payment methods. So it is highly likely that we will continue to see new business models emerge.*" A copy of Dr Lowe's 9 December 2021 address is at **Tab 5 of Non-confidential Exhibit CVH-4**.

(iii) The ACCC acknowledged the increased competition and innovation that fintechs have driven in online payments when considering NAB's acquisition of 86 400. The ACCC stated *"Innovative fintechs play an increasingly critical role in the market, challenging the established banks, leading to more innovative and cheaper banking for consumers"*. A copy of the ACCC's media release dated 30 March 2021 is at **Tab 6 of Non-confidential Exhibit CVH-4**.

(iv) Fintech Australia notes a five-fold increase in the number of fintech companies in the last five years, with Australia's largest segment in digital payments (43%),

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[5] See: https://mozo.com.au/bank accounts.

[6] See Commonwealth Bank cuts ATM withdrawal fees (commbank com au) https://www.westpac.com.au/about-westpac/media/media releases/2017/24-september/; NAB https://news.nab.com.au/news/nab-removes-atm-withdrawal-fees/; https://thenewdaily.com.au/finance/finance-news/2017/09/24/atm fees-abolished/ (accessed 25 April 2023).

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followed by lending (30%). A copy of the article published by Fintech Australia in July 2022 is at **Tab 7 of Non-confidential Exhibit CVH-4**.

Macro-economic conditions

18. Since making my Initial Statement, I have observed the operating conditions for banks internationally and within Australia encountering significant disruptions which are relevant to issues of funding, scale, and competitiveness. In particular:

(a) There have been the high-profile failures of (amongst others) Silicon Valley Bank (**SVB**) and Credit Suisse. Following the failure of SVB, there were significant concerns about potential systemic liquidity problems across the industry (a 'run' on other banks' deposits). A degree of stability was restored after US authorities effectively guaranteed all deposits of all banks, which was an unprecedented measure, aiming to restore confidence and trust in the banking system. Notwithstanding this, regional US banks such as First Republic Bank continued to experience significant liquidity and solvency pressures, including after government authorities facilitated deposits from the largest US banks of US$30bn to strengthen First Republic's funding position. Notwithstanding this support, First Republic Bank subsequently failed and was purchased by JP Morgan Chase, facilitated by government authorities. I regard these events as very relevant to the competitive position and sustainability of smaller banks in Australia because they highlight how important trust, confidence, and credibility are for the ability of banks to fund their balance sheets. These disruptions have further underlined to me how quickly circumstances can change, especially when customers can withdraw their deposits instantly through digital channels. SVB's failure was finally triggered by the withdrawal of US$42bn of depositor funds (a quarter of its total funding base) in less than 24 hours. The fact that these offshore developments had the potential to cause negative knock-on impacts for Australian banks was reflected in the Australian Prudential Regulation Authority's (**APRA**) response. [CONFIDENTIAL TO SUNCORP] [redacted] In my view, these measures taken by APRA were prudent and appropriate, given the volatility in global markets and the potential disruption to Australian banks.

(b) To date, the loss of confidence by investors and depositors in offshore markets has had modest impacts on Australian banks but the potential for this to occur has been widely noted and contributed to heightened commentary from Australian regulators and government:

(i) APRA Chair John Lonsdale in his speech to the AFR Banking Summit 2023 on 28 March 2023 referred to the collapse of SVB and subsequent takeover of Credit Suisse stating that such events have highlighted the *"importance of confidence in maintaining bank stability"* (at page 1). The APRA Chair also described the differences between the regulatory requirements for Australian banks compared with overseas banks, indicating that Australia's regulatory requirements "*give us confidence that the banking system here is among the best equipped in the world to handle a crisis*" (at page 4). A copy of the APRA Chair's 28 March 2023 speech is at **Tab 8 of Non-confidential Exhibit CVH-4.**

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(ii) The RBA noted on 4 April 2023 that *"volatility in Australian financial markets has picked up but markets are still functioning"*.[7] A copy of the RBA's 4 April 2023 meeting minutes is at **Tab 9 of Non-confidential Exhibit CVH-4.**

(iii) Funding markets tightened for several weeks and wholesale funding costs increased by ~30 bps for a short period in the immediate aftermath of the SVB failure. **[CONFIDENTIAL TO SUNCORP]** [redacted] While the longer-term effects are uncertain at this stage, these disruptions underline the points made in my Initial Statement that in periods of market instability, smaller banks are at a relatively larger disadvantage from a funding cost perspective. This means they are less able to compete, especially in volatile markets. I believe this disadvantage would also apply to the BEN-SUN counterfactual because that merged entity would remain a 'smaller' bank and would not benefit from a higher credit rating than Suncorp Bank currently has.

19. I believe Australia's sound and conservative prudential regulations are an important strength of the country's banking system relative to other countries. This reduces the risk of systemic liquidity problems in our banking system, however, these risks remain relevant and continue to exist for all Australian banks, especially smaller banks. In addition, considerations of scale, credit ratings, quality of deposits – which are very relevant to the Proposed Transaction and counterfactuals – lend support to the Proposed Transaction **[CONFIDENTIAL TO SUNCORP]** [redacted]

20. The increase in wholesale funding costs, which are reflected in wholesale markets in Australia and internationally, has affected the ability of Suncorp Bank to offer as competitive pricing in its products given the higher costs it is facing.

21. These considerations are not unique to Suncorp. Bank of Queensland (**BOQ**) noted in its most recent half-year financial results that the Group's outlook is for "*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*". A copy of BOQ's half-year financial results for the period ended 28 February 2023 is at **Tab 10 of Non-confidential Exhibit CVH-4**. I would expect the same considerations to apply to other smaller banks including BEN. These factors make it more difficult for smaller banks to compete with the four major banks.

D. CURRENT AND FUTURE PLANS FOR SUNCORP BANK UNDER SUNCORP GROUP OWNERSHIP

Execution of the Suncorp Bank FY23-25 Business Plan

22. Suncorp Bank continues to successfully execute its FY23-25 Business Plan, a copy of which is at **Tab 8 of Confidential Exhibit CVH-1** to my Initial Statement. On 8 February 2023, Suncorp Group released its half-year results to 31 December 2022, a copy which comprises the investor pack and results presentation is at **Tabs 11 and 12 of Non-confidential Exhibit CVH-4**.

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[7] RBA, *Minutes of the Monetary Policy Meeting of the Reserve Bank Board*, 4 April 2023 https //www rba gov au/monetary-policy/rba board minutes/2023/2023-04-04 html.

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23. The results documents included a report on Suncorp Bank's performance during the half-year to 31 December 2022. As recorded in those results documents, the financial performance of the Bank included revenue growth of 14.2%, flat expenses and net profit after tax growth of 28% (all comparisons to 31 December 2021). It was also reported that the NIM of 203 bps had been elevated by deposit margins but is expected to fall back in the second half as competitive pressures increase in both lending and deposits.

Current planning cycle and plans for Suncorp Bank under continuing Suncorp Group ownership

24. As CEO, I have overall responsibility for preparation and execution of Suncorp Bank's Business Plan. I am currently overseeing preparation of the FY24-26 Business Plan [CONFIDENTIAL TO SUNCORP] [redacted]

25. [CONFIDENTIAL TO SUNCORP] [redacted]

26. As described at paragraph [23] of my Initial Statement, the FY23-25 Business Plan included [CONFIDENTIAL TO SUNCORP] [redacted]

27. [CONFIDENTIAL TO SUNCORP] [redacted]

28. The result of this was [CONFIDENTIAL TO SUNCORP] [redacted]

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E. INTEGRATION CHALLENGES OF A MERGER WITH BEN

Technology and platform integration

29. I consider a merged BEN-SUN technology integration and migration to be highly complex and costly.[8]

30. An important driver of cost and complexity, and therefore the ease or difficulty of migration and integration, is the extent to which the applications' ecosystem exhibits modernised and simplified attributes. Simplistically, these attributes include consolidated and reusable platforms with greater use of software providers' cloud technologies that are more easily kept current, as well as leveraging reusable Application Programming Interfaces (**APIs**). This is in contrast to an older, more traditional ecosystem where banks own the software and hardware for all their applications. Those applications are often duplicated, customised, and deeply integrated into connected systems, and this makes them difficult and costly to keep up to date. Similarly consolidation, changes, and integration to those traditional platforms is more complex and slower to execute. In this context, BEN reports that at 31 December 2022 only 29% of its applications are in the cloud, as well as still having seven core banking systems to consolidate after years of M&A activity.[9] This compares with over [CONFIDENTIAL TO SUNCORP] [redacted] of applications on the cloud for Suncorp Bank and Suncorp Bank having just 2 main core banking systems. [CONFIDENTIAL TO SUNCORP] [redacted]

31. My view based on my experience is that [CONFIDENTIAL TO SUNCORP] [redacted]

32. [CONFIDENTIAL TO SUNCORP] [redacted]

33. [CONFIDENTIAL TO SUNCORP] [redacted]

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[8] BEN, *Submission in response to Proposed Transaction*, 3 March 2023 (**BEN Public Submission**) at p 16 BEN acknowledges that "*successful integration of technology platforms [is] often a key challenge in banking mergers*".

[9] BEN, "Results Presentation for the half year ended 31 December 2022" at p 10 https://www.bendigoadelaide.com.au/globalassets/documents/bendigoadelaide/investorcentre/results-and-reporting/investor-presentations/half_year-results-presentation-2022-23.pdf (**BEN HY23 Results Presentation**)

[10] BEN HY23 Results Presentation at p 10.

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[redacted]

34. [CONFIDENTIAL TO SUNCORP] [redacted]

35. Third, as BEN acknowledges in its submission, its "*smaller scale is a structural impediment*" that "*significantly inhibit[s] their ability to grow*".[13] My belief is that, while merging with Suncorp Bank would clearly increase their scale, as discussed below from paragraph [56], this would deliver a worse outcome from a competitive or public benefit perspective than either the status quo or the Proposed Transaction. [CONFIDENTIAL TO SUNCORP] [redacted]

36. Fourth, any integration of Suncorp Bank would involve a different approach from previous BEN acquisitions, where smaller businesses were acquired. Suncorp Bank is also significantly larger than BEN's previous acquisitions, almost doubling BEN's number of customers.

37. Fifth, the merged entity would need to spend significant funds on maintaining customers' expectations and ensuring mandatory regulatory obligations are complied with. I would expect competitors to actively target customers of the merged BEN-SUN entity during the transition period, as often occurs in situations where businesses are unstable. I have seen this occur in different contexts over my career, for example, where organisations are going through staff restructures, system outages, unsuccessful product launches or the like.

38. Finally, assuming (alternatively) that BEN operates Suncorp Bank with a standalone technology stack, this would necessitate [CONFIDENTIAL TO SUNCORP] [redacted]

39. In addition, there is limited if any additional technology capability to be gained by Suncorp Bank from a merger with BEN, aside from the technology in UP. With regard to UP, BEN has not publicly articulated its strategy to integrate UP with its core brands and platforms. [CONFIDENTIAL TO SUNCORP] [redacted]

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[11] BEN HY23 Results Presentation at p 10

[12] BEN defines this metric (slide 10 of BEN HY23 Results Presentation) as "*% automated credit decision home loans' relates to the proportion of the home lending from the third party and digital channels where credit decisioning is automated*" whereas Suncorp defines this metric as "*% automated credit decision is calculated as the proportion of system accept and system decline decision going through the Bank's credit decisioning engine over the total submissions eligible for automatic decisioning. There will be subsequent manual verification of some supporting documentation for automated decisions.*"

[13] BEN Public Submission at p 1. See also at p 21 ("*[ANZ has] a significant scale advantage over [BEN], including in relation to operating cost efficiency and cost of funding. [ANZ] generally operate[s] at cost to income ratios well become [BEN] and [has] access to lower cost funding*")

[redacted]

Branch consolidation

40. Branches are a significant cost in operating a bank. The median cost of running one of Suncorp's branches is approximately [CONFIDENTIAL TO SUNCORP] [redacted] based on current FY23 forecasts. Importantly, these costs exclude a range of indirect costs such as the technology required for services provided face to face, fraud losses, and so on.

41. The role of branches is evolving over time. Branches have historically been important because of the need to handle cash and because face to face was the traditional way in which customers engaged with their banks. With the decline in the use of cash and the increase in telephone and digital banking there is a more limited need for branches. Over-the-counter cash transactions in Suncorp Bank branches have declined by [CONFIDENTIAL TO SUNCORP] [redacted] from [redacted] in [redacted] to [redacted] in FY22, as customers have chosen to use digital channels and cards for their day to day banking. Over the same period, there has also been a [CONFIDENTIAL TO SUNCORP] [redacted] reduction in the average number of monthly Suncorp Bank ATM cash withdrawals, from an average of [redacted] in [redacted] to [redacted] in FY22. The Australian Banking Association (**ABA**), in its submission dated 31 March 2023 to the Rural and Regional Affairs and Transport References Committee regarding the inquiry into bank closures in regional Australia states at page 1 that "*[a]cross ABA member banks, foot traffic in branches has fallen markedly with over-the-counter transactions declining by 36 per cent in regional branches since FY19 (prior to the onset of the pandemic).*" The National Australia Bank (**NAB**) in its response dated December 2021 to the Regional Banking Taskforce Issues paper states at page 3 that "*[o]ver the counter (OTC) transaction in our branches have dropped by 63.7% in metro areas and 56.6% in regional areas since 2016. The decline in these types of transactions is indicative of a changing channel preference, with consumers handling cash less and preferring to do their banking online at a time and place that suits them*". See also NAB's submission dated March 2023 to the Rural and Regional Affairs and Transport References Committee regarding the inquiry into bank closures in regional Australia at page 2. A copy of the ABA's and NAB's submissions are at **Tabs 13 to 15 of Non-confidential Exhibit CVH-4**

42. Suncorp Bank moved to reduce its branch footprint in recent years in response to these rapid shifts in customer preferences to digital, which was accelerated during the COVID-19 pandemic. This leaves Suncorp Bank's branch footprint at 64 branches, as recorded in the FY23-25 Suncorp Bank Business Plan, which is **Tab 8 of Confidential Exhibit CVH-1**.

43. Suncorp Bank's initial move to reduce its branch footprint is set out in a presentation [CONFIDENTIAL TO SUNCORP] [redacted]

44. It is also reflected in the [CONFIDENTIAL TO SUNCORP] [redacted]

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[redacted]

45. In any merger, the merging parties look for opportunities to reduce duplicated costs which can be eliminated and so enable the merged business to service its operations from a smaller cost base than the aggregate of the two existing cost bases. An important consideration for a bank in looking to reduce duplicated costs is head office consolidation and branch consolidation. This would be a potential source of cost synergies in a BEN-SUN merger. There is scope to realise these synergies across corporate owned branches, however, it is not clear to me if these cost synergies could be achieved across community owned branches given the operating model for those branches as discussed below.

46. As at 30 June 2022, based on BEN's 2022 Sustainability Report, which is at **Tab 16 of Non-confidential Exhibit CVH-4**, BEN has 466 branches, of which 307 are Community Bank branches operated by 224 Community Bank companies. A hundred and thirty-five 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, organisational structure, and branding is in sharp contrast to Suncorp Bank's simple structure of 64 corporate-owned branches, all with the same operating model and brand.

47. Based on the annual reports of BEN franchisees, including the 2022 Annual Report of the Ferntree Gully Community Bank and Rowville Community Bank which is at **Tab 17 of Non-confidential Exhibit CVH-4**, I understand that the Community Bank branches operate in the following manner:

(a) a community-owned company manages a community bank on behalf of BEN and operates as a franchise of BEN;

(b) a Community Bank company is entitled (under the franchise agreement) to a share of interest, fee, and commission revenue earned by the company;

(c) branch operating costs are borne by the Community Bank company (e.g. occupancy expenses, IT expenses, advertising, and marketing);

(d) the Community Bank company uses the BEN name, logo, and system of operations of BEN;

(e) the Community Bank company promotes and sells the products and services, but is not a party to the transactions (which are with BEN); and

(f) and BEN provides significant assistance in establishing and maintaining the franchise operations.

Based on the BEN Annual Report 2022, which is at **Tab 18 of Non-confidential Exhibit CVH-4**, I understand that in some cases, BEN holds shares in the Community Bank branches and has representation on the relevant Community Bank company Board. Based on the BEN Sustainability Report, which is at **Tab 16 of Non-confidential Exhibit CVH-4**, I also understand that Community Bank surpluses are invested into the community via grants, sponsorships, and dividends to local shareholders.[14]

48. Whilst the community owned branches are well regarded by their local communities, the operating structure described in paragraphs [46] and [47(d)] above means that BEN cannot make a unilateral decision to close a community owned branch. Any decision about branch

[14] BEN Public Submission states at page 5 that this community model *"involves a partnership between BEN and local communities in which a percentage of each Community Bank branch's profits is allocated to community-directed grant making"*

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closure, or indeed many decisions, require consultation with the franchisees. This brings about significantly less flexibility in a possible BEN-SUN merger.

49. BEN's 2022 Sustainability Report for FY22 notes that not all Community Banks have reached a level of profitability to distribute profits to their shareholders by way of dividend. At page 25 BEN states "*On top of the community contributions we make, local shareholders of profitable Community Banks received dividend payments totalling $9.5 million in FY21 (performance reported on calendar year, FY22 information not available at time of reporting). Bendigo and Adelaide Bank partners with 224 Community Bank companies throughout Australia who operate 307 branches. As with any business operating in the banking industry, our partners' profitability can be volatile and is susceptible to many internal and external influences. In FY21, 190 (83%) companies recorded a profit after tax, down from 210 (91%) in FY20 (performance reported on calendar year, FY22 information not available at time of reporting).*"

50. [CONFIDENTIAL TO SUNCORP] [redacted]

51. For example, an important consideration during the benchmarking exercises of 2021 and 2022 was [CONFIDENTIAL TO SUNCORP] [redacted]

52. For any merger to meet commercial hurdles, significant cost synergies will be required and this will likely include rationalising overlapping branches. The largest drivers of the savings in this scenario would likely be reduced branches, people employed in branches and more generally (including duplicated head offices and corporate support centres), and reduced technology/head office costs.

53. A BEN-SUN merger would create a combined branch footprint larger than the smallest of the major banks (ANZ),[15] despite having less than half the number of customers and approximately 16% of ANZ's revenue. [CONFIDENTIAL TO SUNCORP] [redacted]

54. Whilst 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, combined with a request by the Chair of this inquiry, Senator Matt Canavan, 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 [CONFIDENTIAL TO SUNCORP] [redacted] in the future will run into significant challenges from

[15] Per APRA points of presence (June 2022), ANZ had the smallest number of branches at 414, and NAB was the next smallest with 536 branches (578 according to their September 2022 results). This compares with the 507 of a merged BEN-SUN entity

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a political perspective and at the very least, will defer the realisation of any savings from unprofitable or overlapping branches.

F. BENEFITS OF PROPOSED TRANSACTION ABSENT UNDER A MERGER WITH BEN

Challenges of scale

55. As I have already outlined in this statement at paragraphs 10 to 15 above, the evidence from many mergers and my own experience, is that it is overly simplistic to assume that enhanced scale will allow for more investment in customer-facing technology and digital benefits, at least not for many years after an acquisition.

56. It is also important to note that while a merger with Suncorp Bank would double BEN's scale, the merged entity would still be significantly smaller than the four major banks. Using data that was current as at September 2022,[16] a merged BEN-SUN 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 merged BEN-SUN would be only slightly bigger than Macquarie Bank which has approximately 4.8% of the home lending market compared to approximately 5.2% for a merged BEN-SUN entity.[17] In my view, doubling BEN's market share will still leave the merged entity as a relatively <u>small</u> bank with all the challenges that entails when compared to the major banks, and which BEN has articulated itself.

57 BEN makes reference to its success in integrating acquisitions. However, it also discloses in its Results Presentation for the half year ended 31 December 2022 at slide 10, a copy of which is at **Tab 19 of Non-confidential Exhibit CVH-4**, that it still has seven core banking platforms, 10 brands and is only integrating various businesses more than 10 to 15 years after acquiring them. [redacted]

58. Another recent example highlights the questionable benefits of acquisitions to achieve scale. On 14 April 2023, BOQ issued an ASX announcement ahead of its half year results to 28 February 2023 stating that it was writing off $200m of goodwill, the majority of which arose from its acquisition of Home Building Society in 2007. BOQ stated at page 2 that it *"considers that the share price and resulting market capitalisation does not appropriately reflect the value of BOQ's assets and liabilities"*. A copy of the announcement is at **Tab 20 of Non-confidential Exhibit CVH-4**.

No benefits of scale for funding

59. One of the benefits from a bank achieving a certain scale is that it may become entitled to what I described at paragraph [121] of my Initial Statement, as an 'implicit government guarantee' because these banks are 'too big to fail'. This notion comes from a global system of classification of financial institutions established by the Financial Stability Board (**FSB**) which is an international body that monitors and makes recommendations about the global financial

[16] Based on data set out at Table 12 of the Authorisation Application

[17] Based on data set out at Table 12 of the Authorisation Application, which states Suncorp Bank's and BEN's market shares of the national home loan market is 2 39% and 2 83% respectively. BEN Public Submission at pp 20-21 BEN asserts that a merged BEN-SUN entity would be *"a similar size in home loans to Macquarie"* See also p 26

[18] Based on data set out at Table 12 of the Authorisation Application

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system[19] and the Basel Committee on Banking Supervision (**BCBS**). The methodology for establishing global systemically important banks is established by BCBS. Details of the methodology are set out at **Tab 21 of Non-confidential Exhibit CVH-4**. A list of Globally Systemically Important Banks (**G-SIB**) was published in November 2022 and a copy is at **Tab 22 of Non-confidential Exhibit CVH-4**. There are no Australian banks in the G-SIB list.

60. The BCBS also established a methodology for identifying domestic systematically important banks (**D-SIB**). A copy of that methodology is at **Tab 23 of Non-confidential Exhibit CVH-4**. APRA makes the determination as to whether a bank in Australia is a D-SIB and in doing so uses a specific assessment methodology. A copy of that methodology is at **Tab 24 of Non-confidential Exhibit CVH-4**. The four indicators of systemic importance are:

(a) size – for this purpose APRA uses total resident assets;[20]

(b) interconnectedness – being the degree to which banks have connections to other financial institutions;

(c) substitutability – APRA considers loans and advances to households and total domestic lending to be indicative of a bank's substitutability in the domestic market;[21] and

(d) complexity – to gauge the level of a bank's complexity, APRA has had regard to the notional amount of OTC derivatives and holdings of trading and available-for-sale securities.[22]

61. In Australia, APRA has formally designated the four major banks but no other banks as D-SIBs, based on guidelines published in its December 2013 paper.[23] In its paper, APRA states at page 18 *"APRA does not see any objective basis for extending the D-SIB framework to a wider group of banks. This would not be in line with, or in the spirit of, the D-SIB reforms, which are intended to reduce the moral hazard and potential costs to taxpayers associated with perceptions of public support"*.

62. Being designated as a D-SIB attracts a requirement to hold additional capital known as the higher loss absorbency (**HLA**) requirement which requires a D-SIB to hold an additional capital buffer of 1 per cent of risk-weighted assets. The HLA capital requirement for D-SIBs is intended to reduce their probability of failure compared to non-systemic institutions, as well as to avoid the possibility that any direct costs of support may be borne by taxpayers.[24]

63. Being designated as a D-SIB also carries an implicit government guarantee that is reflected in those banks' ratings from ratings agencies. As a result, D-SIBs benefit from a cheaper cost of capital when raising equity and a lower cost of funds when raising debt. Historically, the RBA found that the implicit guarantee lowered major banks' funding costs by between 20 – 40 basis points.[25] I note that the RBA controlled for a number of ADI and bond-specific variables (not including the size of ADIs) in its analysis but placed certain caveats on the model output and associated inferences regarding the extent of the major banks' funding advantage.

[19] See: https://www.fsb.org/about/.

[20] APRA, *Information Paper – Domestic systemically important banks in Australia*, December 2013 at p 8: https://www.apra.gov.au/sites/default/files/information-paper-domestic-systemically-important-banks-in-australia-december-2013.pdf.

[21] APRA, *Information Paper – Domestic systemically important banks in Australia*, December 2013 at p 9.

[22] APRA, *Information Paper – Domestic systemically important banks in Australia*, December 2013 at p 10.

[23] APRA, *Information Paper – Domestic systemically important banks in Australia*, December 2013.

[24] APRA, *Information Paper – Domestic systemically important banks in Australia*, December 2013 at p 19.

[25] RBA Parliamentary, *Implicit Guarantees for Banks*, 24 February 2012, Briefing Freedom of Information Disclosure Log RBAFOI-151609, 25 May.

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64. The RBA's modelling and literature review strongly indicate that the funding advantage rises and falls over time, depending in particular on market conditions. For example, the funding advantage was estimated to have fallen to close to zero in late 2014, a time of relative stability in financial markets and the financial sector. On the other hand, there are estimates in the literature of a 120 basis point advantage for the major banks in the global financial crisis in 2009, a time of heightened instability for financial markets and the financial sector.[26]

65. [CONFIDENTIAL TO SUNCORP] [redacted]

66. [CONFIDENTIAL TO SUNCORP] [redacted]

Cost of capital

67. I do not agree with the statement in the BEN Public Submission (at Section 5.4) that a merged BEN-SUN would lift its prudential capital status, resulting in lower capital requirements and reducing the overall cost of capital for the merged entity. [CONFIDENTIAL TO SUNCORP] [redacted]

68. A plausible long-term outcome of a merged BEN-SUN entity is that it could pursue an advanced status IRB rating. [CONFIDENTIAL TO SUNCORP] [redacted]

Role of credit rating in funding considerations

69. [CONFIDENTIAL TO SUNCORP] [redacted]

70. Whilst the previous benchmarking exercises conducted by Suncorp highlighted the importance of credit ratings and the ability to fund the successful operation of a bank, recent market

[26] See: https://www.rba.gov.au/publications/fsr/2022/oct/pdf/financial-stability-review 2022-10.pdf

[27] BEN Public Submission at p 20

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instability and the failure of several banks in the US and Europe have highlighted just how critical this is. In good times, the importance of a strong credit rating is more about relative pricing of funding; in dislocated markets, a strong credit rating can be existential and, even then, cannot save a bank from a loss of confidence in its funding and depositor base. In these circumstances, I place even greater weight on these considerations than at the time of the benchmarking exercises in 2021 and 2022.

The purpose and role of credit ratings

71. Credit ratings are forward-looking opinions on the relative ability of a bank or a company to meet their financial commitments.

72. Credit ratings are issued by independent ratings agencies such as Standard & Poor (**S&P**), Moody's and Fitch. These ratings apply at both an institutional level for senior, unsecured issuances of debt, and to specific security types such as residential mortgage-backed securities (**RMBS**) where ratings have regard to the income streams and 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.

73. The credit rating of an organisation directly affects its cost of wholesale funding.

74. The importance of wholesale funding is evident in the fact that Australia as a country, primarily through the mechanism of its banking entities, is a net borrower. This means banks' balance sheets in aggregate comprise more loans issued to customers, than deposits made by customers. [CONFIDENTIAL TO SUNCORP] [redacted] This, in turn, can take many forms, the most substantial of which is from institutional investors both domestically and offshore, who purchase securities/bonds issued by Australian banks. In addition to this pure wholesale funding, around [CONFIDENTIAL TO SUNCORP] [redacted] of the [redacted] deposit base consists of term deposits raised from corporate customers via Suncorp Bank's Treasury function. Access to, and the relative pricing of, these deposits are also heavily dependent on the Bank's credit rating in much the same way investors consider wholesale funding. Therefore approximately [CONFIDENTIAL TO SUNCORP] [redacted] of Suncorp Bank's total funding profile is heavily impacted by the Bank's credit rating.

75. In assessing whether and how much to invest in wholesale funding issuances by banks, investors have regard amongst other things to the credit ratings referred to above. Each ratings agency applies its own scale, so ratings are not identical, however, all share the same principle. For simplicity, this statement refers to S&P's rating scale which is set out at **Tab 26 of Non-confidential Exhibit CVH-4**. The relevant ratings for present purpose are:

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Table 1: Extract from S&P Long-Term Issue Credit Rating Scale

S&P Long-Term Issue Credit Rating[28]	Definition
AAA	Extremely strong capacity to meet financial commitments
AA	Very strong capacity to meet financial commitments
A	Strong capacity to meet financial commitments but somewhat susceptible to adverse economic conditions and changes in circumstances
BBB	Adequate capacity to meet financial commitments but more subject to adverse economic conditions

Table 2: Extract from S&P Short-Term Issue Credit Rating Scale

S&P Short-Term Issue Credit Rating[29]	Definition
A-1	Obligor's capacity to meet its financial commitments on the obligation is strong
A-2	Obligor's capacity to meet its financial commitments on the obligation is satisfactory; somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions
A-3	Adverse economic conditions or changing circumstances are more likely to weaken an obligor's capacity to meet its financial commitments on the obligation
B	Vulnerable and has significant speculative characteristics; obligor currently has the capacity to meet its financial commitments; however, it faces major ongoing uncertainties that could lead to the obligor's inadequate capacity to meet its financial commitments

76. The S&P rating for Suncorp Bank, currently at A-1 (short-term), and A+ (long-term), has historically been higher than ratings attached to standalone regional banks such as BEN and BOQ.[30] The reason for this is because the Bank benefits from additional support from its parent company, Suncorp Group Limited. The same position applies with Macquarie Bank which benefits from the support of the broader Macquarie Group Limited.

77. Set out below is a table showing the historic credit ratings of Suncorp Bank, BEN and BOQ over the last 8 years:

[28] Intermediate ratings of (+) or ( ) are offered at each level between AA and CCC.

[29] An A-1 rating may be designated with a plus sign (+) to indicate that the issuer's commitment to meet its obligation is extremely strong.

[30] See: https://www.suncorpgroup.com.au/investors/debt investors/credit rating and research

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Table 3: Suncorp Bank, BEN and BOQ historic credit ratings

Date	3 May 2015	3 May 2016	3 May 2017	3 May 2018	3 May 2019	3 May 2020	3 May 2021	3 May 2022	3 May 2023
Suncorp Bank									
S&P short term	A-1	A-1	A-1	A-1	A-1	A-1	A-1	A-1+	A-1
S&P long term	A+	A+	A+	A+	A+	A+	A+	AA-	A+
Fitch short term	F1	F1	F1	F1	F1	F1	F1	F1	F1
Fitch long term	A	A	A	A	A	A	A	A+	A
Moody's short term	P-1	P-1	P-1	P-1	P 1	P-1	P-1	P-1	P-1
Moody's long term	A1	A1	A1	A1	A1	A1	A1	A1	A1
BEN									
S&P short term	A-2	A-2	A-2	A-2	A-2	A-2	A-2	A-2	A-2
S&P long term	A-	A-	A	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+
Fitch short term	F2	F2	F2	F2	F2	F2	F2	F2	F2
Fitch long term	A-	A-	A-	A-	A-	A-	A-	A-	A-
Moody's short term	P-1	P-1	P-1	P-2	P-2	P-2	P-2	P-2	P-2
Moody's long term	A2	A2	A2	A3	A3	A3	A3	A3	A3
BOQ									
S&P short term	A-2	A-2	A-2	A-2	A-2	A-2	A-2	A-2	A-2
S&P long term	A-	A-	A-	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+

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Date	3 May 2015	3 May 2016	3 May 2017	3 May 2018	3 May 2019	3 May 2020	3 May 2021	3 May 2022	3 May 2023
Fitch short term	F2	F2	F2	F2	F2	F2	F2	F2	F2
Fitch long term	A-	A-	A-	A-	A-	A-	A-	A-	A-
Moody's short term	P-2	P-2	P-2	P-2	P-2	P-2	P-2	P-2	P-2
Moody's long term	A3	A3	A3	A3	A3	A3	A3	A3	A3

78. The ratings applied to banks can and do change, based on macro/market considerations as well as entity-specific changes. [CONFIDENTIAL TO SUNCORP] [redacted]

The impact of credit ratings

79. Credit ratings affect a bank's ability to fund itself in at least two ways. First, the stronger the credit rating, the lower the perceived risk of the entity, and therefore the lower its *borrowing costs*. This is a very material driver of the long-term funding cost competitive position of banks. To illustrate, the average spread to BBSW (the market benchmark rate) for a term debt security issued by a BBB+ rated bank such as BEN or BOQ, compared to a major bank, differs by approximately [CONFIDENTIAL TO SUNCORP [redacted] bps. [redacted] In comparison, Suncorp Bank can typically access funding for these same tenors at a spread to BBSW approximately [CONFIDENTIAL TO SUNCORP] [redacted] bps wider (larger) than major banks. These relative spreads typically widen in times of economic and market uncertainty.

80. The second impact of the bank's credit rating is more fundamental and drives the ability to raise *sufficient wholesale funds, regardless of price*. This is also exacerbated in times of financial market uncertainty. The reason for this is that most investors have concentration limits or portfolio limits on the amount of various grade securities they are permitted to hold in their funds. To illustrate, whilst they could theoretically invest only in sub-investment grade, high yielding but high-risk securities, this is regarded as an unacceptably high risk by most responsible investors because of the risk of capital loss during stress events. Large exposures to poor quality assets, with insufficient transparency, was a key driver of the widespread losses and

[31] BEN Public Submission at page 16 states that *"BEN's credit rating is equivalent to Suncorp Bank's credit rating absent Suncorp Group's support"*. However, this assertion is incorrect

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bank failures in the global financial crisis, as described at paragraph [20] of Mr Steven Johnston's statement dated 25 November 2022.

81. In Suncorp Bank's case, [CONFIDENTIAL TO SUNCORP] [redacted]

82. The significance of credit ratings was evident in early May 2023 when three Australian banks issued senior unsecured wholesale debt:

(a) NAB (S&P rating AA-) 4 May 2023: $2.35bn, priced at BBSW +78bps for three years and $2.85bn priced at BBSW +100bps for five years;[32]

(b) BEN (S&P rating BBB+) 8 May 2023: $750m, priced at BBSW +125bps for three years;[33] and

(c) Suncorp (S&P rating A+) 10 May 2023: $1bn, priced at BBSW +105bps for three years.[34]

There were no significant market disruptions over this six day period, so the pricing is largely reflective of investors' perceptions of risk and reward. [redacted] credit ratings are a very significant driver of a bank's ability to fund its balance sheet and to grow sustainability, as well as the plausibility of counterfactuals to the Proposed Transaction.

83. This issue is fundamental in my consideration of the risks arising from a hypothetical transaction between Suncorp Bank and BEN. Reference to this was made in my Initial Statement at paragraph [121].

Technology investment not increased

84. [CONFIDENTIAL TO SUNCORP] [redacted] As an example, BEN reduced its core banking systems by one system, from eight in FY19 to seven by 1H23.[35] By contrast, Suncorp has two core banking systems of any scale. As noted in section E above, [CONFIDENTIAL TO SUNCORP] [redacted]

[32] See Kanga News publication titled "NAB prints A$5.25 billion in multitranche three and five-year senior unsecured deal and repurchases FRN lines" dated 4 May 2023, a copy of which is at Tab 27 of Non-confidential Exhibit CVH-4.

[33] See Kanga News publication titled "BEN prints A$750 million three year fixed and FRN senior deal" dated 8 May 2023, a copy of which is at Tab 28 of Non-confidential Exhibit CVH-4.

[34] See Kanga News publication titled "Suncorp prints A$1 billion three year fixed and floating senior deal" dated 10 May 2023, a copy of which is at Tab 29 of Non-confidential Exhibit CVH-4.

[35] BEN HY23 Results Presentation at p.10.

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[redacted]

85. Importantly, other banks will continue to invest in their platforms during this period, thus widening the technology deficit, not narrowing it. [CONFIDENTIAL TO SUNCORP] [redacted]

86. [CONFIDENTIAL TO SUNCORP] [redacted] For instance, the costs of developing new technology platforms – whether this is a customer-facing channel such as a banking app, an origination or servicing platform for new lending / deposits / transaction accounts, an enabling platform such as a Know Your Customer (**KYC**) system or customer data warehouse, or an underlying core banking platform – are largely fixed in nature and do not vary significantly in proportion to the number of customers using them. [CONFIDENTIAL TO SUNCORP] [redacted]

87. [CONFIDENTIAL TO SUNCORP] [redacted]

88. [CONFIDENTIAL TO SUNCORP] [redacted]

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Strategy and execution

89. [CONFIDENTIAL TO SUNCORP] [redacted]

90. [CONFIDENTIAL TO SUNCORP] [redacted]

91. [CONFIDENTIAL TO SUNCORP] [redacted]

92. [CONFIDENTIAL TO SUNCORP] [redacted]

93. [CONFIDENTIAL TO SUNCORP] [redacted]

94. In my role, I regularly monitor the strategies of Suncorp Bank's competitors including the announcements that they make to the ASX, their financial results presentations and media statements. Based on that material, BEN's strategy appears to be different to Suncorp Bank's. BEN refers to itself on its website[37] 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, including in its 2022 Annual Report at page 17 (**Tab 18 of Non-confidential Exhibit CVH-4**) its current portfolio composition is significantly more complex than Suncorp

[36] Suncorp, 'Annual Report 2020-21': https://www.suncorpgroup.com.au/uploads/FY21 Annual Report.pdf.

[37] See: https://www.bendigobank.com.au/about-us/.

Bank's and, indeed, it has recently [CONFIDENTIAL TO SUNCORP] [redacted] acquiring a margin lending portfolio from ANZ.[38]

95. [CONFIDENTIAL TO SUNCORP] [redacted]

96. [CONFIDENTIAL TO SUNCORP] [redacted]

97. BEN has recently completed the acquisition of 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. At **Tabs 30 to 32 of Non-confidential Exhibit CVH-4** are copies of ANZ's media release dated 7 July 2022, BEN's media release of 7 July 2022 and an article in the Australian Financial Review in which a BEN executive was interviewed. This is an example of the type of business strategy [CONFIDENTIAL TO SUNCORP] [redacted]

G. CONTRAST WITH THE PROPOSED TRANSACTION

98. In my role as CEO, I have to consider the merits of any transaction that affects Suncorp Bank. In my view as the CEO of the target entity, and for the following reasons, the Proposed Transaction represents the most efficient and pro-competitive outcome for Suncorp Bank, and delivers the best results for customers, employees, and the community going forward.

99. First, while ANZ also has a legacy technology ecosystem, I believe ANZ is in a better starting position to move forward with technology investment (as compared to BEN) that will benefit Suncorp Bank customers and which is unlikely to be made by Suncorp Bank on a standalone

[38] See https://cdn.api.markitdigital.com/apiman-gateway/ASX/asx research/1.0/file/2924 02539655 3A596842?access token=83ff96335c2d45a094df02a206a39ff4

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basis. In this regard, and as previously noted in my Initial Statement and the Authorisation Application:

(a) Suncorp Bank will benefit from the significant investment ANZ has made in technology, including to offer leading service propositions. The large-scale investment in ANZ Plus is unique in this regard.

(b) ANZ has stated it is committed to moving towards a next generation, future-proof technology stack which means that the customer experience will be far more responsive and flexible to change.

(c) [CONFIDENTIAL TO SUNCORP] [redacted]

100. Second (and relatedly), ANZ intends to continue to operate Suncorp Bank as a standalone division for a period of at least three years. During this time, ANZ's ongoing investment in ANZ Plus (amongst other platforms) will mean the ultimate migration of Suncorp Bank customers from its legacy systems to ANZ's future-fit systems is expected to deliver an improved customer experience.

101. Third, Suncorp Bank business bank customers will continue to have access to a relationship-led service model. Suncorp, like other smaller banks, is less equipped to service more sophisticated customers with complex banking needs. ANZ, on the other hand, has greater capacity, products, and experience to service these customers and the scale to make this feasible. The Proposed Transaction will therefore enable better outcomes for Suncorp Bank's customers than would otherwise result in the absence of the Proposed Transaction.

102. Fourth, the Proposed Transaction will allow the merged entity to increase efficiencies. These include accessing lower cost wholesale funding, which will allow the entity to offer lower prices while achieving the same level of profitability or, conversely, achieve greater profitability at the same pricing. Notably, ANZ is able to price more competitively (than Suncorp Bank) on larger transactions. Price competition in key product areas such as home lending and business lending is led primarily by major banks, not by smaller banks such as Suncorp Bank.

H. CONCLUSION

103. My overall view is that the complexity, cost, and time required to merge two smaller banks will not deliver sufficient benefits because a merged BEN-SUN would remain a materially smaller bank compared to any of the major banks. This, coupled with the internal focus that will be required from most parts of the merged organisation for an extended period of several years, adds considerably to the execution risk of such a merger. [CONFIDENTIAL TO SUNCORP] [redacted] The success of Macquarie Bank in home lending in recent years is an example of successful execution of an organic growth strategy without the distraction of a merger.

104. Put simply, for a merger to deliver value over time '1 + 1 needs to be significantly greater than 2'. [CONFIDENTIAL TO SUNCORP] [redacted] In addition, whether the final outcome of the merger is 'below or above 2' in this illustration, the merged entity will still be much smaller than any major bank. Indeed, the merged BEN-SUN will still be a 'small bank' and, most likely in my view, less of a competitive force for a number of years than either bank currently is on a standalone basis. [CONFIDENTIAL TO SUNCORP] [redacted]

Restriction of Publication of Part Claimed

[redacted]

Signature of witness

[redacted]

Clive van Horen

Further Witness Statement of Clive van Horen dated 17 May 2023

Non-confidential Exhibit CVH-4

Tab	Title	Access to document
1.	MFAA Industry Intelligence Service, 'Exclusive Finance Broker Benchmarking Report' for the period 1 October 2016 to 31 March 2017	https://cdn.sanity.io/files/t0x3ukgp/production/797409564e917fdc652da8fb2dd71013b95cb906.pdf
2.	Choice article dated 11 November 2022 titled "The best fee-free bank accounts"	https://www.choice.com.au/money/banking/savings-options/articles/top-fee-free-bank-accounts
3.	Newspaper articles addressing recent market offers dated: (1) 24 February 2020 (2) 12 August 2021 (3) 24 February 2023 (4) 24 February 2023 (5) 28 February 2023	(1) https://www.afr.com/companies/financial-services/big-banks-suffering-their-own-fomo-20200223-p543fc (2) https://www.afr.com/property/residential/refinancing-war-heats-up-with-lower-rates-cash-offers-20210809-p58h78 (3) https://www.afr.com/companies/financial-services/banks-fight-for-customers-in-crazy-home-loan-war-20230222-p5cmmd (4) https://www.afr.com/wealth/personal-finance/banks-are-offering-up-to-10-000-to-switch-loans-but-is-it-worth-it-20230223-p5cmxb (5) https://www.afr.com/companies/financial-services/banks-quietly-offer-big-discounts-to-stop-borrowers-drifting-to-rivals-20230228-p5co65
4.	RBA report titled "Payment System Board Annual Report 2021"	https://www.rba.gov.au/publications/annual-reports/psb/2021/pdf/psb-annual-report-2021.pdf
5.	Governor of the RBA's address to the Australian Payments Network Summit 2021 titled "Payments: The Future?" on 9 December 2021	https://www.rba.gov.au/speeches/2021/pdf/sp-gov-2021-12-09.pdf
6.	ACCC media release titled "NAB's acquisition of 86 400 not opposed" dated 30 March 2021	https://www.accc.gov.au/media-release/nabs-acquisition-of-86-400-not-opposed
7.	Fintech Australia titled "Australia: home to a booming fintech industry" dated July 2022	https://www.fintechaustralia.org.au/newsroom/australia-home-to-a-booming-fintech-industry
8.	APRA Chair John Lonsdale's speech to AFR Banking Summit 2023 dated 28 March 2023	https://www.apra.gov.au/news-and-publications/apra-chair-john-lonsdale-speech-to-afr-banking-summit-2023
9.	Minutes of Monetary Policy Meeting of the Reserve Bank Board on 4 April 2023	https://www.rba.gov.au/monetary-policy/rba-board-minutes/2023/2023-04-04.html

Tab	Title	Access to document
10.	BOQ half-year financial results for the period ended 28 February 2023	https://www.boq.com.au/content/dam/boq/files/shareholder-centre/financial-information/boq-interim-report-1h23-report-final.pdf
11.	Suncorp Group half-year results to 31 December 2022 investor pack	https://www.suncorpgroup.com.au/announcements-pdf/1781273
12.	Suncorp Group half-year results to 31 December 2022 results presentation	https://www.suncorpgroup.com.au/announcements-pdf/1781274
13.	Australian Banking Association submission to the Inquiry into bank closures in regional Australia dated 31 March 2023	https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Rural_and_Regional_Affairs_and_Transport/BankClosures/Submissions
14.	National Australia Bank submission responding to the Regional Banking Taskforce Issues Paper dated December 2021	https://treasury.gov.au/sites/default/files/2022-03/c2021-222961-nab.pdf
15.	National Australia Bank submission to the Inquiry into bank closures in regional Australia dated March 2023	https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Rural_and_Regional_Affairs_and_Transport/BankClosures/Submissions
16.	Bendigo and Adelaide Bank 2022 Sustainability Report	https://www.bendigoadelaide.com.au/globalassets/documents/bendigoadelaide/investorcentre/results-and-reporting/sustainability-reports/sustainability-report-2022.pdf
17.	2022 Annual Report of the Ferntree Gully Community Bank and Rowville Community Bank (Know Community Financial Services Limited)	https://www.bendigobank.com.au/siteassets/branchassets/communitycompanies/knoxcommunityfinancialservicesltd/investorshareholder/financialstatements/2022-annual-report.pdf?_t_id=jzTjpBq0W-fj2ibEsCE7WA%3d%3d&_t_uuid=hhWpXqcCQ-WPl7hwvSBqvQ&_t_q=annual+report+2022+ferntree+gully&_t_tags=language%3aen%2csiteid%3a7105734c-b857-45f5-acb4-ffe7ebc13894%2candquerymatch&_t_hit.id=Bendigo_Models_Media_PdfFile/_7a4e8ff4-01ca-4125-867f-595e6bfe6cd7&_t_hit.pos=4
18.	Bendigo and Adelaide Bank Annual Report for FY22	https://www.bendigoadelaide.com.au/globalassets/documents/bendigoadelaide/investorcentre/results-and-reporting/annual-reviews/annualfinancialreport2022.pdf
19.	Bendigo and Adelaide Bank results presentation for the half year ended 31 December 2022	https://www.bendigoadelaide.com.au/globalassets/documents/bendigoadelaide/investorcentre/results-and-reporting/investor-presentations/half-year-results-presentation-2021-22.pdf
20.	BOQ ASX announcement titled 'Integrated Risk Program and Goodwill Adjustment' dated 14 April 2023	https://wcsecure.weblink.com.au/pdf/BOQ/02654220.pdf

Tab	Title	Access to document
21.	BCBS Globally Systemically Important Bank methodology (SCO40) as at 9 November 2021	https://www.bis.org/basel_framework/chapter/SCO/40.htm?inforce=20211109&published=20211109&export=pdf
22.	BCBS 2022 List of Global Systemically Important Banks (G-SIBs) published November 2022	https://www.fsb.org/wp-content/uploads/P211122.pdf
23.	BCBS Domestic Systemically Important Bank methodology (SCO40) as at 15 December 2019	https://www.bis.org/basel_framework/chapter/SCO/50.htm?inforce=20191215&published=20191215&export=pdf
24.	APRA Information Paper methodology titled 'Domestic systemically important banks in Australia' dated December 2013	https://www.apra.gov.au/sites/default/files/information-paper-domestic-systemically-important-banks-in-australia-december-2013.pdf
25.	BEN Financial System Inquiry Submission in response to the Final Report of the Inquiry dated March 2015	https://treasury.gov.au/sites/default/files/2019-03/C2014-053_Bendigo_and_Adelaide_Bank.pdf
26.	S&P Global Ratings Definitions as at November 2021	https://www.spglobal.com/ratings/en/research/articles/190705-s-p-global-ratings-definitions-504352
27.	Kanga News publication titled "NAB prints A$5.25 billion in multitranche three- and five-year senior-unsecured deal and repurchases FRN lines" dated 4 May 2023	https://www.kanganews.com/news/17120-nab-prints-a-5-25-billion-in-multitranche-three-and-five-year-senior-unsecured-deal-and-repurchases-frn-lines
28.	Kanga News publication titled "BEN prints A$750 million three-year fixed and FRN senior deal" dated 8 May 2023	https://www.kanganews.com/news/17137-ben-prints-a-750-million-three-year-fixed-and-frn-senior-deal
29.	Kanga News publication titled "Suncorp prints A$1 billion three-year fixed and floating senior deal" dated 10 May 2023	https://www.kanganews.com/news/17159-suncorp-prints-a-1-billion-three-year-frn-and-fixed-senior-deal
30.	ANZ media release dated 7 July 2022	https://media.anz.com/content/dam/mediacentre/pdfs/mediareleases/2022/July/220707%20-%20ANZ%20agrees%20to%20divest%20Share%20Investment%20Lending%20portfolio.pdf
31.	BEN's media release of 7 July 2022	https://www.bendigoadelaide.com.au/media-centre/bendigo-and-adelaide-bank-acquires-anz-investment-lending-portfolio/
32.	Australian Financial Review article dated 7 July 2022 titled 'Bendigo Bank doubles down on margin lending'	https://www.afr.com/companies/financial-services/bendigo-bank-doubles-down-on-margin-lending-20220707-p5azyl