Restriction of Publication In Part Claimed

STATEMENT IN SUPPORT OF APPLICATION FOR MERGER AUTHORISATION

SBGH LIMITED

Target Company

Statement of	**Clive van Horen**
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Date	14 July 2023

This document contains confidential information which is indicated as follows: [.....]

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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**) and my statement made on 17 May 2023 (**Further Statement**).

4. In preparing this statement, I have reviewed the expert reports prepared by Ms Mary Starks, Partner at Flint Global, dated 16 June 2023 (**First Starks Report**) and 7 July 2023 (**Supplementary Starks Report**); the second submission filed by Bendigo and Adelaide Limited (**BEN**) dated 30 June 2023 (**Second BEN Submission**); and a letter from APRA to the ACCC dated 13 July 2023 (**APRA Letter**).

5. Exhibited to me at the time of signing this statement is a bundle of confidential documents marked **CVH-5** (which contains documents in respect of which a claim of confidentiality is made by Suncorp Bank). The documents in this exhibit 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.

7. In this statement, I address the following topics arising from the First Starks Report and the Supplementary Starks Report:

   (a) Sections B and C - Suncorp's consideration of achieving Advanced Internal Ratings Based (**AIRB**) accreditation and the considerations relevant to a merged BEN and Suncorp Bank (**BEN-SUN**) achieving AIRB accreditation, including the implications for pricing

   (b) Section D - the extent to which a merged BEN-SUN entity would deliver meaningful economies of scale in the context of the markets in which it would operate;

   (c) Section E - credit rating impacts and funding challenges;

   (d) Section F - the relative importance of funding costs versus capital for the ability to compete;

   (e) Section G - recent developments in home loan competition;

   (f) Section H - BEN's progress regarding its technology transformation and its capacity to successfully integrate Suncorp Bank; and

   (g) Section I - cultural alignment.

B. ACHIEVING AIRB ACCREDITATION

8. As set out at paragraph 68 of my Further Statement, Suncorp Bank has not pursued advanced accreditation to conclusion given its assessment of the uncertainty of the benefits that it will receive from such accreditation, relative to the certainty of the significant costs involved. This is referenced at page 25 of Suncorp Bank's FY23-25 Business Plan, which is at Tab 8 of Confidential Exhibit CVH-1.

9. There are a number of matters in paragraphs 6.30 to 6.44 of the Supplementary Starks Report where I do not agree with the views expressed by Ms Starks. Some material is redacted from the version I have seen.

10. First, paragraphs 6.31 to 6.35 reference only some of the material that is relevant to this issue and draw conclusions and make assumptions which are not accurate for the reasons set out in paragraphs 11 to 23 below.

11. Second, both the First Starks Report and the Supplementary Starks Report suggest that the benefits of AIRB are a "synergy" in the sense that there is a synergy to be obtained from BEN and Suncorp pursuing AIRB accreditation as a combined entity.[1] I do not agree that there is any material synergistic benefit from a capital perspective in pursuing AIRB accreditation as a combined entity. There is no increased likelihood of gaining AIRB accreditation because of increased scale. Each of Suncorp and BEN is able to pursue AIRB accreditation if each organisation considers the cost-benefit trade off supports that decision. There is no objective reason why it would be more likely to be pursued by a combined entity than Suncorp on its own. Whilst there may be some cost synergies in one organisation running the process rather than two separate processes, these cost synergies may well be offset by the greater complexity arising from different loan portfolios, operating on different systems, with different data architecture (which lies at the heart of AIRB requirements). In fact, the capital benefits are not greater by having a combined organisation making the application, nor am I aware of any reason why a combined BEN-SUN would be more likely to obtain AIRB accreditation than either organisation alone. On the contrary, given the higher complexity of a combined entity for the three to five years post-merger, the low likelihood of BEN-SUN having the internal capacity to pursue AIRB accreditation in the face of many other integration priorities, and the likelihood that APRA will hold the combined entity to a high standard before granting accreditation, makes the prospect of achieving AIRB accreditation even lower for a number of years.

12. Third, in December 2020, the Australian Prudential Regulation Authority (**APRA**) issued proposed changes to the Authorised Deposit-Taking Institution (**ADI**) capital framework to address the Basel III revisions for both the Standardised Approach (**SA**) and the AIRB approach. Basel III is an internationally agreed set of measures developed by the Basel Committee on Banking Supervision in response to the financial crisis of 2007-09. The measures aim to strengthen the regulation, supervision and risk management of banks. The proposed changes relating to the SA and AIRB approach were aimed at embedding 'unquestionably strong' levels of capital, improving the flexibility of the framework and improving the transparency of ADI capital strength across the industry.

13. At that time Suncorp Bank already had in place advanced credit risk models as part of its existing model suite and undertook an evaluation of whether or not to pursue formal accreditation from a 'cost-benefit' perspective.

14. On 30 April 2021 a paper was prepared for the Suncorp Bank Asset and Liability Committee (**BALCO**) which considered applying for AIRB accreditation and set out the capital benefits or

[1] First Starks Report at paragraphs 7.23-7.24, 7.35, 7.39 and 7.57-7.58; Supplementary Starks Report at paragraphs 6.40 and 6.43.

costs of moving to AIRB accreditation. A copy of that paper, which was prepared by the Executive Manager of Capital Strategy and Risk Models and Manager of Capital Strategy, is included at **Tab 1 of Confidential Exhibit CVH-5**. The paper (at pages 31 and 35 of **Tab 1 of Confidential Exhibit CVH-5**) states that Day 1 capital costs of $[redacted] render AIRB accreditation not commercially viable. At **Tab 2 of Confidential Exhibit CVH-5** is a copy of the minutes of that meeting which note that [redacted]

15. On 2 May 2021 a paper was prepared for the Group Asset and Liability Committee (**Group ALCO**), of which I am a member, which considered whether to pursue AIRB accreditation, a copy of which is at **Tab 3 of Confidential Exhibit CVH-5**. That paper concluded that:

> [redacted]

16. On 22 November 2021 a paper was prepared for Group ALCO which noted that following further APRA updates to the capital standards, including a reduction in the Capital Conversion Buffer for AIRB ADIs, there was a reduction in the Day 1 capital costs to [redacted]. A copy of that paper is at **Tab 4 of Confidential Exhibit CVH-5**.

17. [redacted]

18. [redacted]

19. Recalibrating models, however, is a complex and time-consuming exercise involving significant uncertainties. These uncertainties make the benefits of AIRB accreditation even more uncertain, whilst requiring significant upfront and ongoing expenditure to build and maintain these models. APRA plays a critical role in assessing these models for effectiveness, which goes to ensuring the strength of the banking system. The time taken to build, assess, refine, iterate, and implement AIRB models across both Suncorp Bank and APRA needs to appropriately reflect the complexity of the models themselves and the broader environment in which they operate. Some of the main uncertainties in the modelling process are:

    (a) How the model would need to be altered to include more procyclical variables. This would involve determining the variables/data available (with sufficient, quality historical data being necessary), the extent of procyclicality of those variables and how to incorporate those variables into the model. This is not a simple matter which requires highly specialised skills, modelling and data capabilities, not to mention the data itself.

(b) APRA has indicated that it will allow capital models to include procyclical variables. [redacted] This is consistent with the matters identified in paragraph 6.34 of the Supplementary Starks Report. As Ms Starks notes, *"there is no clear guidance on the extent of cyclicality that APRA would deem to be appropriate"*. [redacted]

(c) Whether or not Suncorp could achieve approval from APRA for its downturn loss given default (**LGD**) mortgage model. The ability for ADIs to utilise their own LGD model for mortgages under APRA Prudential Standard APS 113 is part of the capital framework revisions effective from 1 January 2023. I anticipate that it is likely to be a significant challenge for Suncorp Bank to obtain APRA approval and would take quite some time, particularly given the need to conduct sufficient back-testing of the model.

(d) The nature of changes to APRA Prudential Standard APS 117 (Capital Adequacy: Interest Rate Risk in the Banking Book), including changes to IRRBB requirements, which will come into effect on 1 January 2025. [redacted]

(e) Working out how Suncorp Bank's capital would change under stress conditions. Even if a Day-1 benefit could be achieved, there is potential that in stressed circumstances the capital requirements for the Bank will increase due to procyclicality of risk weightings (this is the flip side of Ms Starks' comment at the end of paragraph 6.33 in the Supplementary Starks Report). This is referred to in minutes of the Group ALCO meeting held on 6 May 2021, a copy of which is at **Tab 5 of Confidential Exhibit CVH-5**. Also, the Bank's stress testing models would need to be updated to be able to forecast capital requirements under an AIRB regime.

(f) The extent of the benefit which may result from updating Suncorp Bank's business lending capital models to reflect its more recent default experience.

20. These modelling factors collectively increased the risks of pursuing AIRB accreditation. Over and above these modelling-related uncertainties, there are other requirements to achieve AIRB accreditation which would require additional time and resources to ensure these are met to APRA's expectations. These requirements included: an independent review of data management used in AIRB models; demonstration of reporting capabilities to meet APRA requirements under AIRB; extensive AIRB application documentation; self-assessments against APRA's prudential standards and accreditation requirements; and Board education on AIRB.

21. Taking into account all of the above, the decision was made to [redacted]. The minutes of the 2 December 2021 meeting of the Group ALCO, a copy of which is at **Tab 6 of Confidential Exhibit CVH-5**, note:

[redacted]

[redacted]

22. Fifth, the modelling work which was undertaken in late 2021 by Suncorp showed there would need to be a further injection of $[redacted]

23. Finally, Ms Starks describes, from a theoretical perspective, the implications of an ADI obtaining AIRB accreditation and the likely impact of AIRB accreditation on BEN and a combined BEN-SUN entity.[2] However, Ms Starks does not conduct such an assessment having regard to the commercial realities of what seeking AIRB would mean, particularly for entities that are in the process of undergoing an integration program. As set out above, Suncorp Bank has not pursued AIRB to conclusion given its assessment of the uncertainty of the benefits that may accrue from such accreditation relative to the large, known costs involved. This cost-benefit equation is very unlikely to be materially better for a combined BEN-SUN entity for a significant number of years post-merger given the other integration priorities such an entity would face.

24. The APRA Letter outlines the capital requirements for SA banks, non-major AIRB banks and the four domestic systemically important banks (**D-SIB**) (which are also AIRB banks). This shows that capital requirements, as a percentage of risk weighted assets (**RWAs**), range from 8.0% for SA banks such as BEN and SUN, to 9.25% for non-major AIRB banks, to 10.25% for the four D-SIBs. Banks are required to hold target buffers *above* these minimum requirements, at levels established by the board of the ADI.

25. Considering the APRA Letter at face value therefore, larger AIRB banks have to hold *more not less* capital (as a % of RWAs). However, the AIRB approach is what determines the calculation of RWA amounts for various loan portfolios. This means that the sophistication, quality and regulatory approval of an AIRB bank's internal models is the key determinant of RWAs, and thus the net amount of capital an AIRB bank has to hold. The lower RWAs deliver AIRB banks a capital benefit relative to a Standardised approach.

26. The criticality of these models underlines the complexity and inherent risk in the AIRB approach compared to the SA approach. If internal model ratings capabilities are inadequate in APRA's view, any potential benefits of using the AIRB approach will be at risk or reduced. Put differently, there is nothing automatic about an AIRB bank having lower RWAs and therefore lower capital; on the contrary, this depends on its ability to meet prudential requirements around its modelling capabilities and standards. This complexity and uncertainty is an important consideration in weighing up costs versus benefits of pursuing AIRB accreditation. Accordingly, less weight should be placed on the benefits of AIRB accreditation than by Ms Starks who makes simplistic assumptions that AIRB benefits are easily achieved and sustained.

C. AIRB ACCREDITATION WOULD NOT LEAD TO MORE AGGRESSIVE PRICING

27. Ms Starks concludes that accreditation could allow a combined BEN-SUN to price more competitively "in certain segments of the market".[3] This conclusion assumes that BEN-SUN would set price levels of its products based on return on equity. This is a false assumption, because both BEN and SUN, and a combined BEN-SUN, are or would be price takers. Rather, to successfully compete, a small bank such as a combined BEN-SUN would simply operate at

[2] First Starks Report at paragraphs 3.12, 7.20-7.48; Supplementary Starks Report at paragraphs 6.30-6.39.

[3] Supplementary Starks Report at paragraph 6.40.

a lower return on equity than larger competitors. This view is confirmed by [redacted]

28. Therefore, any capital benefit that may arise from AIRB accreditation would not lead to more aggressive pricing, rather it will simply allow that entity to achieve a slightly higher return on equity. I note again, that returns on equity for smaller banks such as BEN, SUN or a combined BEN-SUN are barely above their cost of equity and for extended periods have been below their cost of equity.

D. A COMBINED BEN-SUN IS STILL SUB-SCALE

29. As Ms Starks notes at paragraph 6.45 of the Supplementary Starks Report, I consider that a combined BEN-SUN entity would remain sub-scale.[5] My belief is that the combined entity's scale would:

(a) be insufficient to change existing competitive positions (that is, the combined entity would remain a mid-tier bank and would not overcome the disadvantages of being sub-scale relative to the major banks);

(b) result in regulatory spend that is still proportionately much larger than the major banks, which would restrict investment in customer-oriented technology, growth and innovation; and

(c) ultimately deliver a worse outcome from a competitive and/or public benefit perspective than either the status quo or the Proposed Transaction.

30. Ms Starks' view is that the increased market share of a combined BEN-SUN entity will allow it to spread the fixed costs of technological investment over a larger customer base (see paragraph 3.5 of the Supplementary Starks Report). Whilst this is true in theory, and assuming the three to five year integration period is successfully executed, it does not mean that a meaningful scale advantage will follow. There is no evidence that this will occur.

31. There are various ways to measure or assess scale including measures of market share compared with the major market participants and cost to income ratio reflecting a measure of efficiency. I deal with each of these in turn.

Comparative market share

32. As noted at paragraph 56 of my Further Statement, the size of a combined BEN-SUN entity will remain at a mid-tier level. BEN and Suncorp Bank are currently small banks (with ~2.83% and ~2.39% market share respectively) of the home lending market. Clearly, combining them increases the size of the combined entity to ~5.22% (assuming the combined entity is able to keep all of its customer base, which is often not the case in merger transactions). However, this is still significantly smaller than the major banks — the combined entity would be approximately 40% of the size of ANZ, the smallest of the major banks in the core home lending business, and only approximately 20% of the size of CBA, the largest of the major banks. This is reinforced by [redacted]

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4 [redacted]

5 See my Further Statement dated 17 May 2023 at paragraph 42.

6 [redacted]

7 See BEN submission dated 3 March 2023 at Sections 1 and 5.2-5.6.

[redacted]

[redacted]

[redacted]

33. The comparisons and references to an equivalence with Macquarie based on market share are not apposite. [redacted]

[redacted]

Cost to income ratio

34. An important way to examine whether a bank is benefiting from economies of scale is to examine its cost-to-income (**CTI**) ratio which is a key measure of operational efficiency. In simple terms, a CTI (of say 45%) quantifies the costs which have to be incurred (45 cents) to generate every dollar of income (100 cents). The CTI ratio is considered in the second statement of Steven Johnston dated 17 May 2023.[9] For avoidance of doubt, CTI is very different to 'margin'.

35. In that statement at paragraph 47 and in the document at Tab 3 of Confidential Exhibit SJ-3 Mr Johnston shows the CTI ratios of the major banks, BEN, BOQ and Suncorp Bank from FY07 to FY22.[10] From that it can be seen that there is an order of magnitude of difference in the CTI ratios of the major banks and those of BEN and SUN. Given the size of that differential, combining BEN and Suncorp will not have a meaningful impact on the CTI ratios and, in particular, on the gap in those ratios between a merged BEN/Suncorp and the major bank average. In summary, those tables reflect how:

   (a) BEN's CTI has been consistently higher than the average value for the major banks and BOQ over a long period of time (16 years) and higher than Suncorp Bank's CTI for 14 of these 16 years; whereas

   (b) the average value for the major banks is between 45% - 50%; and

   (c) Suncorp Bank's CTI has fluctuated around 55%, lower than BEN's CTI which has fluctuated around 60%.

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[8] See: https://www.macquarie.com/assets/macq/investor/debt-investors/credit-ratings/sp-ratings-macquarie-bank-limited.PDF.

[9] Second statement of Steven Johnston dated 17 May 2023 at paragraphs 34(b) and 45-47.

[10] This data is contained in Tab 3 of Confidential Exhibit SJ-3 and Tabs 2-3 and 10-25 of Non-confidential Exhibit SJ-4.

36. In my view, BEN's high CT [redacted] This historical fact base must be taken into account in assessing BEN's optimistic assertions about future efficiencies it could achieve with a BEN-SUN merger.

Any economies of scale are delayed in being realised

37. As addressed further in Section G below, Ms Starks' analysis ignores the significant integration and transition challenges the combined entity will face for a number of years following the merger. Suncorp's view is that core banking system replacement and consolidation will take in the order of [redacted] years, de-integration and re-hosting of Suncorp Bank will likely take [redacted] years and a migration of Suncorp Bank onto a shared core banking system will take a further [redacted] years: in total, [redacted] years.[12] Even assuming a best case scenario, there will be significant diseconomies of scale in the first [redacted] years for the combined entity as it transitions from multiple, separate core banking platforms and integrates its brands, customers, accounts and various products – whilst at the same time extracting the cost synergies required to justify a merger.

38. In paragraph 6.26.3 of the Supplementary Starks Report, Ms Starks identifies marketing costs as an area where there may be economies of scale unrelated to technology. For this to be true, it assumes that a common marketing approach would be possible. However, this would not be the case if a combined BEN-SUN was going to keep a multi-brand strategy and continue to use the Suncorp brand. [redacted] Any marketing benefits are likely to be immaterial overall, and less favourable than the 'retain scenario' given Suncorp Bank has a simple and unified branding strategy, aligned with the Suncorp Group. Even in a best-case scenario, marketing costs are an immaterial factor in the broader consideration of a combined BEN-SUN entity.

39. In paragraph 6.26.3 of the Supplementary Starks Report, Ms Starks also identifies a "greater ability to attract more deposits due to greater perceived safety of the bank". I do not agree [redacted] given the considerations referred to in paragraphs 30 to 33 above. No evidence has been put forward by Ms Starks or BEN to support this assertion.

40. Having regard to these considerations, I disagree with Ms Starks' view that a combined BEN-SUN entity will have a scale sufficient to challenge or be competitive against the major banks.

E. CREDIT RATING IMPACTS AND FUNDING CHALLENGES

41. I note that Ms Starks now accepts that, "it remains likely that the merged entity will have a credit rating lower than Suncorp Bank's current credit rating", and that the change in credit rating means that "Suncorp Bank will likely face higher funding costs".[13] I do not agree with her assessment that these funding cost increases will be relatively small in either absolute or comparative terms.

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[11] See also second statement of Steven Johnston dated 17 May 2023 at paragraphs 45-47.

[12] Bennett Statement at paragraph 46.

[13] Supplementary Starks Report at paragraphs 6.12, 6.13 and 6.19.

42. A bank's borrowing costs are a very material driver of its long-term competitive position. As noted at paragraph 79 of my Further Statement, by way of illustration, the average spread to BBSW (the market benchmark rate) for a term debt security issued by a BBB+ bank such as BEN or BOQ, compared to the major banks, is approximately [redacted] bps higher. In comparison, Suncorp Bank can typically access funding for these same tenors at a spread to BBSW approximately [redacted] bps higher than the major banks, due to the support it receives from the Suncorp Group. These relative spreads typically widen in times of economic and market uncertainty.

43. Accordingly, a ratings downgrade to BBB+ for Suncorp Bank [redacted] would therefore increase its borrowing costs. In other words, the increased scale of the combined BEN-SUN entity is immaterial if its credit rating remains at BBB+ since its borrowing costs will still remain high.

44. Fundamentally, the ability of a bank to attract deposits (retail deposits particularly) is driven by price and investor confidence. If a bank has a systemic issue (for example, an inability to invest in and modernise its technology), depositors are unlikely to remain with that bank, particularly if that bank has a small market share. Those depositors are far more likely to move their funds to one of the major banks. This has been evident in several periods of market disruption such as the global financial crisis or the early period of the COVID-19 pandemic.

F. FUNDING COSTS VERSUS CAPITAL

45. Ms Starks in the Supplementary Starks Report places a higher weighting on the asserted benefits of AIRB accreditation and increased scale (with which I do not agree) than on funding costs: "in my opinion, funding costs have less of an impact on BEN/Suncorp's ability to compete than increased scale (as explained above and para 7.53-7.56 of my first report) and IRB accreditation (as explained in my first report and further above)" (para 6.51 point 3 and a similar point is made in 6.19). I believe this logic is flawed for the following reasons.

46. Funding costs are a larger driver of profitability (and ability to compete) than capital costs or the amount of capital. The reason for this is because, simplistically, for every $100 of loans a Bank advances to customers, in rough terms, $10 of those loans are 'funded' by capital, and $90 are funded by deposits. These deposits comprise both customer deposits (around two thirds) and wholesale deposits (around one third). Therefore, all other things equal, an equivalent difference in wholesale deposit costs (of say 10 bps) will be three times more impactful for profitability than the same difference in capital costs. As such, it would take a significantly more material shift in the cost/amount of capital to outweigh the difference in funding costs. Adding to this the higher cost of customer deposits (the other two thirds mentioned above) that smaller banks typically incur, further increases the importance of funding costs relative to the amount or cost of capital.

47. In a combined BEN-SUN, [redacted] wholesale funding costs will be higher for BEN-SUN than either the proposed acquisition or the status quo counterfactual. And there is no reason to believe, or evidence to suggest, that customer deposits for a combined BEN-SUN entity would be any cheaper than either of those counterfactuals.

48. Higher funding costs in a BEN-SUN counterfactual will cause most measures of profitability to deteriorate: net interest margin (**NIM**), CTI and net profit. This is a certain and material incremental cost, which must carry a higher weighting than the postulated and difficult-to-quantify benefits of AIRB accreditation or increased scale (both of which are not supported by the evidence as outlined in paragraphs 27 to 40), and again noting AIRB accreditation benefits are not a synergistic benefit of a merger but could equally be achieved standalone. Given lower

profitability driven by higher funding costs for BEN-SUN than all other scenarios, it is not correct to conclude that BEN-SUN will be able to compete more effectively.

49. Ms Starks' Supplementary Report further comments that "if BEN/Suncorp is subject to the Major Bank Levy, there is a real chance of the merged entity receiving at least a one-notch uplift from Moody's, while an uplift from S&P/Fitch remains more uncertain". If a one or two notch uplift were achieved, which is not what I expect would happen, such that the relative cost of funds differential is reduced, Ms Starks' report does not appear to take into account the cost of the Major Bank Levy itself, which is significant and certain, and would further erode the entity's profitability and therefore ability to compete more effectively.

G. RECENT DEVELOPMENTS IN HOME LOAN COMPETITION

50. In my Initial Statement I discussed competition in home loans at paragraphs 43 to 52.

51. In recent months there have been some shifts in competitive pricing in home loans with the removal or reduction by some banks of refinance/cashback incentives, but it would be false to conclude that this indicates reduced competition. The level of incentives and offers had reached a point which was unsustainable from a profitability perspective. This was widely reported by a number of organisations. At the beginning of June 2023, Suncorp Bank removed the refinance incentives that it had been offering given our view that this was unsustainable. Since Suncorp Bank removed its incentives we have seen our new loan application volumes [redacted] Competitive intensity remains extremely high.

[redacted]

52. As I noted in paragraph 47 of my Initial Statement, brokers are playing a very significant role in home lending with approximately 70% of Suncorp Bank's home loans being broker originated. As I noted in my Initial Statement, this is a trend that has been growing over time and is continuing to grow. I do not see this changing going forward, and the 'best interest duty' of brokers will continue to drive them to seek the best possible outcomes for customers. This has been an important driver of competition between banks to-date and there is no evidence to

suggest this will change. In my opinion, the use of brokers by customers reflects their desire to ensure they have a competitive home loan and that they are willing to switch to secure it.

H. INTEGRATION CHALLENGES AND BEN TECHNOLOGY TRANSFORMATION

53. The BEN Second Submission details (at paragraphs 2.6 to 2.11) BEN's core banking consolidation program and technology integration more generally.

54. The BEN Second Submission does not address or respond to the [redacted] identified in the statement of Adam Bennett dated 16 May 2023 (**Bennett Statement**). This omission is notable in the following respects.

55. First, the BEN Second Submission provides only <u>one</u> updated measure regarding its technology stack — specifically, it now has ~34% of applications in the Cloud. However, this remains considerably less than Suncorp Group's current [redacted].[14]

56. Second and relatedly, the BEN Second Submission does not provide any updated metrics regarding its progress in respect of digital mix, time to decision (home loans) and automated credit decisioning, other than the utilisation of the Tic Toc platform which applies only to a subset of loans.[15] This suggests to me that BEN's technology stack continues to be well below best practice and less capable than that currently supporting Suncorp Bank.

57. Third, BEN notes its belief that it is 'on track to achieve the targets which form part of the assumptions Ms Starks was asked to make for the purposes of her report' — in this regard, it is notable that:

    (a) Ms Starks was asked to assume that BEN would move from 10 brands to 3 by FY24. However, no update is given on this metric. As noted at paragraph 37 of the Bennett Statement, BEN had only moved from 13 brands to 10 between FY19 and 1H23 (more than four years), which means a further reduction of its brands by 7 between 1H23 and FY24 (less than two years) is not supported by its historical performance.

    (b) Ms Starks was not asked to make any assumptions regarding the other deliverables highlighted in BEN's annual reporting, including in respect of the number of IT applications; percentage of API re-use; median time to decision (home loans); percentage of automated credit decisioning (home loans); percentage of active eBanking customers; nor percentage of sales by digital channels. As noted at paragraph 40 of the Bennett Statement, [redacted]

58. Fourth, BEN notes that as at 30 June 2023, it has consolidated four of its banking platforms. Putting this into a time-based context, over the space of four years BEN has consolidated four of its platforms, but expects to consolidate another three in the space of 18 months to two years. Suncorp's view is that, based on its historical performance, this rate of progress is unrealistic. This is particularly so given that BEN's platform consolidation would be significantly complicated by any integration of Suncorp Bank customers.

59. For these reasons, and the reasons detailed in Section E of the Bennett Statement, any BEN-SUN merger would involve serious technology integration risks which have to be considered in assessing the viability and potential benefits of a BEN-SUN merger. There is no evidence that

[14] BEN notes its understanding (at paragraph 2.8 of its Second Submission) that its rate of transitioning to the Cloud "has been faster than many of its competitors" without providing any evidence of this.

[15] Bennett Statement at paragraph 40.

BEN possesses a core banking platform with best-practice characteristics[16] capable of supporting an acquisition of Suncorp Bank, with BEN instead continuing to operate its existing legacy platforms.

60. In the absence of such a platform, BEN will likely need to expend significant financial resources, requiring time to execute, new organisational capabilities, and inevitably divert investment from other customer experience improvement, innovation and growth-related initiatives.

61. At paragraph 6.24 of the Supplementary Starks Report, Ms Starks notes that according to BEN, it has tested the scalability of its core banking platform and confirmed it can accommodate a significant increase in customers (including beyond the combined number of customers for a combined BEN-SUN entity) without any drop in performance. However, no evidence is cited of any such testing. Rather, it simply notes BEN's observation at paragraph 2.10 of the BEN Second Submission that BEN has increased its customer numbers by almost 50% from 1.6 million to over 2.3 million, the majority of these new customers joining through BEN's digital bank UP. This increase in customers is *not* evidence of any testing of BEN's scalability in its core banking platforms (as distinct from its limited-functionality UP platform). In any event, a combined BEN-SUN entity would see a far greater increase in customer numbers, being an increase of approximately 52% based on BEN's current 2.3 million customers.[17]

62. As noted at paragraph 37 above, these serious integration and technology transformation challenges represent a significant risk to the success of a combined BEN-SUN entity, and a likely worsening of customer experience relative to the market. Whilst BEN is integrating Suncorp Bank onto its platforms, its competitors will continue to innovate and modernise their technology platforms. [redacted] Based on my experience, the size and scale of this task will make it challenging for the combined entity to maintain sufficient investment in uplifting other capabilities (for example, scam and fraud prevention, cyber security) and building new features (for example, digital and payments) that will benefit its customers.[18]

63. In addition to the significant technology cost and effort involved, I believe there will also be a drain on management bandwidth and broader organisational resources (including business subject matter experts, program management resources, risk, legal and compliance support) which will limit the ability of the combined BEN-SUN entity to support other growth and customer experience improvement initiatives.

I. CULTURAL ALIGNMENT

64. At paragraph 6.29 of the Supplementary Starks Report, Ms Starks notes that there is no evidence on how BEN would approach brand and cultural alignment in respect of a combined BEN-SUN entity, nor evidence of BEN's plans for the offerings and product lines that it currently offers but Suncorp does not, and so she does not comment on the likelihood and extent of brand and cultural challenges.

65. In this context, Suncorp has identified significant evidence and various examples of the misalignment between the brand and cultures of Suncorp Bank and BEN. For example, both my Initial Statement and the first statement of Steven Johnston dated 25 November 2022,

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[16] BEN simply notes (at paragraph 2.6 of the Second BEN Submission) that it "continues to modernise its core banking platform" and observes that its maintenance of eight separate banking platforms was a del berate strategy not inconsistent with other banks (paragraph 2.7 of its Second BEN Submission).

[17] Bennett Statement at paragraph 42.

[18] In this regard, Ms Starks is simply instructed to assume that a combined BEN-SUN entity would continue investing in BEN's transformation process following any merger: see paragraph 6.20 of the Supplementary Starks Report.

emphasise how Suncorp Group and Suncorp Bank have been on a journey of simplification, which has included the de-risking of Suncorp Bank's product portfolio and customer mix. [redacted][19]

66. In my view, it is particularly notable that BEN refers to itself on its website as 'one of Australia's biggest banks' and 'the better big bank'.[20] This proposition is fundamentally different to how Suncorp Bank perceives itself, advertises itself to customers and seeks to implement its internal strategies. These cultural and strategic differences cannot be ignored in consideration of the BEN-SUN counterfactual.

Date: 14 July 2023

Signature of witness

[redacted]

Clive van Horen

[19] See paragraphs 13, 18, 23, 40 and 87 of my Initial Statement (which highlight how "simplify" was one of the five strategic priorities listed in the FY21-23 Suncorp Bank Business Plan, found at Tab 1 of Confidential Exhibit CVH-1; and how Suncorp has simplified the Bank by exiting wealth management/superannuation, personal lending, home sharing and numerous individual products). See also paragraphs 69 and 85(b) of the first statement of Steven Johnston dated 25 November 2022.

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