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# NEWS RELEASE

## **A.C.C.C. NOT TO OPPOSE COMMONWEALTH BANK OF AUSTRALIA'S PROPOSED ACQUISITION OF BANK OF WESTERN AUSTRALIA LTD**

The Australian Competition and Consumer Commission will not oppose the proposed acquisition of BankWest and St Andrew's by the Commonwealth Bank, after concluding that the acquisition is unlikely to substantially lessen competition under section 50 of the *Trade Practices Act 1974* in the markets in which they compete, ACCC Chairman, Mr Graeme Samuel, said today.

"Prior to the global financial crisis, BankWest, a subsidiary of the United Kingdom bank HBOS, was a keen competitor in the marketplace, but international events have overtaken the Australian operation," Mr Samuel said.

Until recently, the bank was in the process of significantly expanding its presence from its home state of Western Australia into the eastern states through a major branch roll out. As part of its expansion strategy, BankWest had aggressively targeted growth in its market share, including offering market leading prices for transaction accounts, home loans and saving/term products. It has also been particularly innovative both in terms of its product offering and its service model.

However, the ACCC received evidence that BankWest's expansion plans were to be significantly scaled back, as a result of the funding difficulties experienced by its UK parent company, HBOS.

"The ACCC has formed the view that BankWest would be unlikely to continue to act as the aggressive competitor it was previously," Mr Samuel said.

The ACCC considered information provided by BankWest that its aggressive pricing was driven by its east coast expansion strategy and therefore would not continue because of the cessation of these plans.

The ACCC also examined whether alternative buyers for BankWest would be likely to continue with BankWest's expansion strategy and aggressive price competition. Any buyer would need to be in a position not only to raise the purchase price but to repay the approximately \$16 billion in intra-group loans from HBOS.

Following inquiries with financial regulators, BankWest's parent company, Australian and overseas banks and other consortia which may have had an interest in acquiring BankWest, the ACCC concluded that an alternative buyer was unlikely in the current funding environment. The ACCC also concluded that, even if another buyer were in a position to acquire the business, it was highly unlikely that they would choose to invest the capital necessary to continue with its expansion plans.

The Australian Prudential Regulatory Authority and the Reserve Bank of Australia have provided information to the ACCC's review that supports the conclusion that BankWest would not continue to be in the same position to provide strong competition going forward.

With BankWest no longer capable of the effective and vigorous competition that it has provided in retail banking markets, the ACCC considered that the acquisition was unlikely to substantially lessen competition compared to the likely future state of competition if the acquisition did not proceed.

"In the absence of the global financial crisis, and the funding difficulties faced by BankWest's overseas parent company, the ACCC's conclusion may well have been different," Mr Samuel said.

"The decision today by the ACCC should not be viewed as a green light to the acquisition of other regional banks by the big four," Mr Samuel added. "The ACCC's views regarding the likely competitive effect of this proposed acquisition are specific to the circumstances of this acquisition. In particular, the financial situation of BankWest's UK parent, and the associated changes it is likely to make to BankWest's operating model in the absence of the transaction, have strongly informed the ACCC's conclusions. The ACCC will closely analyse the competition implications of any further proposed acquisitions of regional banks."

The basis upon which the ACCC has reached its decision will be outlined in a *Public Competition Assessment*, which will be available shortly on the ACCC's website, [www.accc.gov.au/publiccompetitionassessments](http://www.accc.gov.au/publiccompetitionassessments).

For **media inquiries** to the ACCC Chairman, Mr Graeme Samuel, please call Ms Lin Enright, ACCC Media, on (02) 6243 1108 or 0414 613 520.

For **general inquiries**, please call the Infocentre: 1300 302 502.

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NR 347/08  
10 December 2008



## ***Public Competition Assessment***

*10 December 2008*

### ***Commonwealth Bank of Australia - proposed acquisition of BankWest and St Andrew's Australia***

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#### **A Introduction**

1. On 10 December 2008, the Australian Competition and Consumer Commission (ACCC) announced its decision not to oppose the proposed acquisition of Bank of Western Australia Ltd and St Andrew's Australia Pty Ltd by Commonwealth Bank of Australia (**proposed acquisition**). The ACCC was of the view that the proposed acquisition would not be likely to have the effect of substantially lessening competition in any relevant market, in contravention of section 50 of the *Trade Practices Act 1974 (the Act)*.
2. The ACCC formed its view on the proposed acquisition on the basis of the information provided by the merger parties and information arising from its market inquiries. This Public Competition Assessment outlines the basis on which the ACCC has reached its decision on the proposed acquisition, subject to confidentiality considerations.

#### **B Public competition assessment**

3. To provide an enhanced level of transparency and procedural fairness in its decision making process, the ACCC issues a Public Competition Assessment for all transaction proposals where:
  - a merger is opposed;
  - a merger is subject to enforceable undertakings;
  - the merger parties seek such disclosure; or
  - a merger is not opposed but raises important issues that the ACCC considers should be made public.
4. This Public Competition Assessment has been issued because the proposed acquisition is considered to raise issues of interest to the public.

5. By issuing Public Competition Assessments, the ACCC aims to provide the public with a better understanding of the ACCC's analysis of various markets and the associated merger and competition issues. It also alerts the market to the circumstances where the ACCC's assessment of the competition conditions in particular markets is changing, or likely to change, because of developments.
6. Each Public Competition Assessment is specific to the particular transaction under review by the ACCC. While some transaction proposals may involve the same or related markets, it should not be assumed that the analysis and decision outlined in one Public Competition Assessment will be conclusive of the ACCC's view in respect of other transaction proposals, as each matter will be considered on its own merits.
7. Many of the ACCC's decisions will involve consideration of both non-confidential and confidential information provided by the merger parties and market participants. In order to maintain the confidentiality of particular information, Public Competition Assessments do not contain any confidential information or its sources. While the ACCC aims to provide an appropriately detailed explanation of the basis for the ACCC decision, where this is not possible, maintaining confidentiality will be the ACCC's paramount concern, and accordingly a Public Competition Assessment may not definitively explain all issues and the ACCC's analysis of such issues.

## **C The parties**

### **The acquirer – Commonwealth Bank of Australia (CBA)**

8. CBA is the largest retail bank in Australia by market capitalisation, valued at approximately \$42 billion. CBA's principal business activities include:
  - *personal banking*: transaction, saving/term products, home loans, personal loans, credit cards and hybrid personal loans;
  - *business banking*: small to medium enterprise (SME) banking services, agribusiness, lending and deposit products, equipment finance and merchant acquiring services;
  - *corporate and institutional banking*: includes the provision of a range of financial services to corporate and institutional customers;
  - *wealth management*: through its Colonial First State and First Choice brands, the provision of funds management;
  - *insurance*: through its CommInsure brand, the provision of a range of insurance products; and
  - *stockbroking*: through its CommSec brand, the provision of online-discount stockbroking services.
9. CBA operates the largest branch and ATM network throughout Australia.

**The target – Bank of Western Australia Ltd (BankWest)**

10. BankWest is an Australian retail bank primarily based in Western Australia. Since 2003, BankWest has been a wholly-owned subsidiary of HBOS Australia, which is wholly owned by HBOS plc (HBOS). It is one of HBOS Australia's four businesses.
11. BankWest's parent company, HBOS, is a major UK-based bank providing retail, business and corporate banking, insurance and investment services.
12. BankWest's principal business activities include:
  - *personal banking*: transaction accounts, saving/term products, credit cards, home loans and personal loans; and
  - *business and corporate banking*: SME banking services, agribusiness, and corporate banking.
13. BankWest operates a large branch and ATM network in Western Australia and has recently undertaken significant branch and ATM expansion in New South Wales, Victoria and Queensland.

**The target - St Andrew's Australia Pty Ltd (St Andrew's)**

14. St Andrew's is a specialist provider of wealth management and insurance products. St Andrew's began operations in Australia in 1998 and is located in Western Australia, New South Wales, Victoria and Queensland. St Andrew's also distributes wealth management and insurance products through financial advisors, BankWest branches, telemarketing and online.
15. St Andrew's has more than \$2 billion in funds under management.

**D Industry background**

16. For general industry background, the ACCC refers readers to the Public Competition Assessment released in relation to its 13 August 2008 decision not to oppose the acquisition of St George Bank Limited by Westpac Banking Corporation. This document is available on the ACCC's website at [www.accc.gov.au/publiccompetitionassessments](http://www.accc.gov.au/publiccompetitionassessments).
17. Other recent industry developments relevant to this assessment are discussed briefly below.

*Global financial crisis*

18. Since July 2007, the global financial crisis has had an impact on the competitive dynamic in banking markets. With the virtual closure of asset securitisation markets and the increased cost of wholesale funds since late 2007, many non-bank lenders who were reliant on wholesale markets for their funding have had to exit the Australian market.

19. Other market players, including smaller authorised deposit-taking institutions (ADIs) with low deposit bases, have had to withdraw from lending in some areas or to some customers.

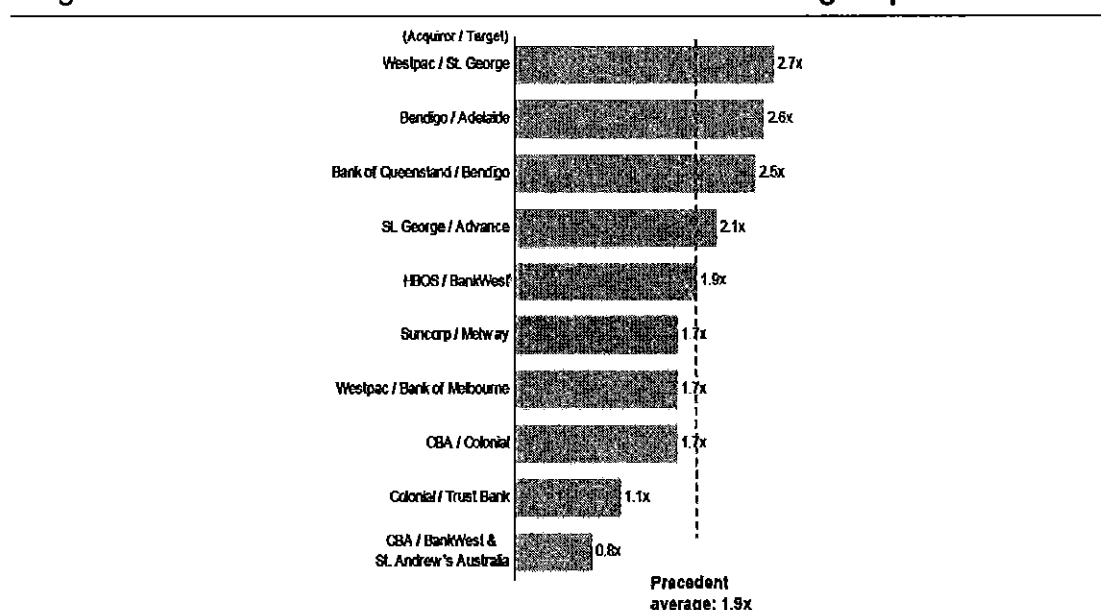
#### *Australian Government Guarantees*

20. In response to the credit crunch, the Australian Government introduced two guarantees – (1) a guarantee on retail deposits; and (2) a wholesale funding guarantee for the debt issues of ADIs.
21. The retail deposit guarantee was announced and came into effect on 12 October 2008. At the time of the announcement, the guarantee was not capped and was set to apply to all retail bank deposits. It was later clarified by the Australian Government that the guarantee would apply to all ADIs, including foreign banks with operations in Australia.
22. In addition, after following advice from the RBA, APRA, Treasury and ASIC, the Australian Government introduced a cap on the guarantee of \$1 million. Depositors with amounts greater than \$1 million can pay a fee to access the guarantee.
23. The guarantee on retail deposits operates for three years and is available for deposits with ADIs which are regulated by APRA. The Australian Government has also announced that other institutions can apply for ADI status so that their depositors can access the guarantee, if they are willing to meet the associated prudential requirements.
24. The wholesale funding guarantee, which came into effect on 28 November 2008, relates to the issuing of senior unsecured debt instruments — including short-term liabilities (e.g. bank bills and certificates of deposit) and long-term liabilities (e.g. bonds and notes). The guarantee applies to eligible ADIs that register for the scheme. However, for foreign bank branches, such as BankWest, the guarantee only applies in respect of their short term wholesale funding raised from Australian residents with maturities up to the end of 2009.

## **E Background to the proposed acquisition**

25. On 8 October 2008, CBA announced its proposal to acquire BankWest and St Andrew's from HBOS. At the time of announcement, HBOS was experiencing considerable funding pressures despite its announced sale to Lloyds TSB Group plc (Lloyds) (see below). HBOS stated that the transaction would result in an immediate and substantial funding benefit.
26. CBA's offer for the BankWest business is low in the context of the price to book ratios of other Australian banking acquisitions (figure 1).

Figure 1 Price-to-book values for Australian banking acquisitions



Source: CBA Investor Pack, 8 October 2008.

### *Proposed acquisition of HBOS by Lloyds*

27. Lloyds, a leading UK-based bank, announced a proposal to acquire HBOS in mid September 2008. The sale was negotiated in the context of the sharp worsening of global financial markets, when the position of HBOS became increasingly vulnerable in terms of share price and funding.
28. On 19 November 2008, Lloyds' shareholders voted in favour of the proposed acquisition. HBOS' shareholders will vote on 12 December 2008. If granted shareholder approval, the acquisition is likely to complete in January 2009. As part of a package of measures introduced by the UK Government to assist financial institutions, the UK Government will acquire a 40% stake of the merged firm.

## **F Timing**

29. The following table outlines the timeline of key events in this matter.

Date	Event
20 Oct 2008	ACCC commenced its review under the Merger Review Process Guidelines. Market inquiries commenced.
22 Oct 2008	ACCC requested further information from Commonwealth Bank of Australia. ACCC timeline suspended.
10 Nov 2008	Closing date for submissions from interested parties.
11 Nov 2008	ACCC received further information from Commonwealth Bank of Australia. ACCC timeline recommenced.
10 Dec 2008	Announcement of ACCC's decision.

## **G Market inquiries**

30. The ACCC conducted extensive market inquiries in relation to the proposed acquisition. A range of interested parties provided responses including competitors, industry and consumer associations, mortgage brokers and interested third parties.
31. The ACCC sent an 'open letter' to banking customers in Western Australia as part of its inquiry process welcoming customers' views on the proposed acquisition. The focus of the letter was on whether BankWest was considered to be a particularly vigorous competitor in terms of price and/or service. Over 50 responses from personal banking customers were received.
32. The ACCC also held discussions and requested information from a range of parties regarding the likely future of BankWest if the acquisition did not proceed. These included the merger parties, HBOS and Lloyds, Australian regulators and other potential buyers of the BankWest business.

## **H The ACCC's merger assessment process – the 'with and without' test**

33. Section 50 of the Act prohibits an acquisition if it would be likely to have the effect of substantially lessening competition in a market.
34. In assessing a merger pursuant to section 50 of the Act, the ACCC must consider the effects of the transaction by comparing the likely future state of competition if the transaction proceeds (the "with" or "factual" position) to the likely future state of competition if the transaction does not proceed (the "without" or "counterfactual" position).
35. This with or without test is crucial to the ACCC's assessment of this matter. The ACCC has received compelling evidence to suggest that the competitive constraint provided by BankWest without the transaction is likely to be different from the constraint they previously provided. This is explored in detail in section J below.

## **I Market definition**

36. The ACCC considered a number of relevant markets under each of the key product areas where the activities of the parties overlapped, in particular, personal banking, business banking, wealth management and insurance.

### **Retail (personal and business) banking**

37. The market definitions adopted by the ACCC for the purposes of assessing this matter are summarised in table 1.



**Table 1 Retail banking markets**

<i>Product dimension</i>	<i>Geographic dimension</i>	<i>Functional characteristics</i>
<b>Personal banking markets</b>		
Transaction accounts	Local but price and service competition is predominantly national	Provide day-to-day deposit and payment functionality in the form of cheque books, debit cards, BPay, internet and phone banking.
Saving/term products	National	Savings instrument with a focus on growth in the capital value of the deposited funds.
Credit cards	National	Short-term unsecured lending product for individual consumers.
Home loans	National	Mortgage lending to individuals for the purpose of acquiring residential property.
Personal loans	National	Lending to individuals for the purpose of purchasing large personal consumption items.
<b>Business banking markets</b>		
SME banking	Local but price and service competition is predominantly national	A 'cluster' of banking products encompassing credit products, transaction/cash facilities, merchant acquiring services and banking advice.
Agribusiness banking	Local but price and service competition is predominantly national	A 'cluster' of banking products for agricultural businesses with a central element being specialised lending products including very long-term credit instruments.

38. The ACCC has considered the geographic dimension of competition for each of the retail banking markets based on:
- the importance of a physical presence (branch and ATM networks) in consumer choice of provider; and
  - the geographic scope of decision making of financial institutions in terms of their product range, prices and service levels.
39. The ACCC considers that there are several banking products for which a physical presence is a key determinant of consumer choice — namely transaction accounts, SME and agribusiness banking. Market inquiries suggested that consumers take account of the physical presence of providers — the presence of a branch in a convenient location and the extent of the ATM network — in choosing between financial institutions for these products. This was also supported by market survey data provided to the ACCC in its consideration of this matter and in its assessment of the Westpac-St George merger.
40. In contrast, the evidence provided to the ACCC suggests that a physical presence is not an important determinant of consumer choice for other retail banking products — namely, saving/term products, credit cards, home loans and personal loans.

41. The ACCC notes there is strong evidence to suggest that price competition in retail banking product markets is almost always national. Market inquiries indicated that most financial institutions manufacture, distribute, market and price products on a national basis. The merger parties provided comprehensive information about their internal processes for developing products and setting prices that provided further support for this.
42. However, in this matter CBA provided some limited examples of varying prices at a state level.
43. Other aspects of the merger parties' service provision, including staffing levels, marketing and branch opening hours, are also centrally determined. In the case of staffing levels, these are set according to a formula based on historic levels of customer demand. Competition for these aspects of the service offering is therefore also national.
44. A more detailed discussion around the relevant product and geographic dimensions of these markets can be found in the ACCC's Public Competition Assessment released in relation to its decision not to oppose the acquisition of St George Bank Limited by Westpac Banking Corporation.

#### **Wealth management and insurance**

45. The ACCC did not consider it necessary to reach a definitive view on the appropriate market definition for wealth management and insurance products because it was considered that the proposed acquisition was not likely to raise competition concerns regardless of the market definition adopted.

## **J Competition analysis**

### **Impact of the proposed acquisition on national retail banking markets**

46. It was found that the proposed acquisition would result in the aggregation of the retail banking assets of BankWest and CBA in several national retail banking markets — saving/term products, home loans, credit cards and personal loans.
47. Table 2 illustrates that BankWest holds a modest share in each of the relevant markets.

**Table 2 National market shares (%)<sup>1</sup>**

	Deposit/term products	Home loans	Personal loans	Credit cards
<b>CBA</b>	26.9	18.8	11.6	16.9
<b>Bank West</b>	3.9	2.8	3.9	2.0
<b>Merged entity</b>	30.8	21.6	15.5	18.9

<sup>1</sup> The market share figures are derived from a number of sources. The ACCC considers these figures to be the best estimates available for the purposes of this assessment.

48. However, a number of parties put to the ACCC, that despite BankWest's relatively small presence in these markets, it has played an important role in driving national price competition and innovation. The ACCC has therefore investigated BankWest's role as a vigorous and effective competitor in national retail banking markets.

**Has BankWest been a vigorous and effective competitor?**

49. Many market participants commented on BankWest's role as a vigorous and effective competitor in retail banking markets. In 2006, BankWest announced a plan to open 160 branches in the eastern states of Australia over a period of 4 years. BankWest also began an aggressive roll out of ATMs outside of Western Australia, including an agreement to supply and operate ATMs in 7-11 stores.
50. Consistent with its strategy of building a national presence, BankWest was targeting growth in its market share across retail banking products. For certain banking products considered to be 'key acquisition priorities', BankWest aimed to offer market leading prices to attract new customers. The ACCC understands that BankWest has offered the market leading prices for transaction accounts (discussed separately below), saving/term products and home loans for most of this year.
51. BankWest's product offering has also been innovative — for example, its 'RateTracker' home loan offers an interest rate set at 1% less than the average of the standard variable rates of the big four banks for the first two years. Similarly, with its service offering, BankWest pioneered open plan layouts for its branches with 'mobile service pods' rather than teller bays and zones for kids including toys and DVDs. BankWest has also adopted extended trading hours, including Thursday night and weekend trading, at many of its branches.
52. In recognition of both its aggressive pricing and innovative product offerings, BankWest has been well recognised in industry awards particularly for its home loan and savings products. BankWest has also been successful in growing its presence in these markets, attracting a share of new and switching customers considerably above its existing market share.
53. The ACCC has also received evidence of competitors responding directly to BankWest's pricing decisions and service model.
54. On the basis of BankWest's pricing behaviour, service model and east coast expansion strategy, the ACCC considers that BankWest has been a vigorous and effective competitor, particularly in the saving/term products and home loan markets.
55. However, as set out in section H, the ACCC must consider the competitive effects of the transaction by comparing the likely future state of competition if the transaction proceeds to the counterfactual — the likely future state of competition if the transaction does not proceed.

56. Despite the role BankWest has previously played in driving retail banking competition, the ACCC has received compelling evidence from a range of parties to suggest that BankWest will not be in a position to continue to compete aggressively or act as a price leader under the counterfactual.

**Will BankWest continue to compete aggressively in the absence of the acquisition?**

57. The ACCC's view on the counterfactual was informed by discussions with a range of parties, including APRA and the RBA; BankWest and HBOS Australia; HBOS and Lloyds, as well as other parties initially approached to acquire the HBOS Australia assets.
58. Based on the information from these sources, the ACCC has formed the view that the relevant counterfactual in this case is that HBOS/Lloyds would continue to operate the BankWest business in the short to medium term. However, it was found that BankWest's operating model would change considerably under this scenario.
59. The financial situation and risk appetite of HBOS (or a merged Lloyds/HBOS with 40% UK Government ownership) is such that these companies would no longer continue to grow the BankWest business. Not only would this likely see a cessation of the bank's east coast expansion plan, but also the aggressive pricing targeted at growing market share.
60. HBOS Australia and BankWest provided submissions and internal documents that support this view of the bank's likely strategy should it continue to be owned by HBOS. The RBA and APRA also indicated that they did not consider that BankWest would be in a position to provide strong and sustainable competition going forward.
61. The ACCC has investigated the possibility that another buyer might acquire the BankWest assets. Any buyer would need to be in a position not only to raise the purchase price but to repay the approximately than \$16 billion in intra-group loans from HBOS.
62. Following inquiries with financial regulators, BankWest's parent company, Australian and overseas banks (including all of those initially approached by HBOS advisors in relation to the sale) and other consortia who may have had an interest in acquiring BankWest, the ACCC concluded that an alternative buyer for BankWest is unlikely in the current funding environment.
63. However, even if another buyer were to acquire BankWest, the ACCC took the view that it is not clear that an alternative buyer would have continued to pursue the aggressive growth strategy adopted by HBOS. The rapid expansion being pursued by HBOS with the BankWest business (160 branches over 4 years), was unprecedented in Australian banking.

64. Information provided by HBOS Australia suggested that the BankWest growth strategy was a function of the parent's business model and its search for ongoing expansion opportunities. It was able to underwrite this growth because:
- the Australian operations are only a small part of its total business (approximately 5%); and
  - it was able to offer BankWest access to low cost wholesale funding through its AA credit rating.
65. The ACCC considered that it is unlikely that any new buyer would be willing and able to offer to underwrite such growth going forward, particularly in the absence of a significant improvement in the global funding environment.
66. Given a counterfactual under which BankWest will continue to operate as an independent player but will no longer be the competitive force it once was, the ACCC considered the proposed acquisition was unlikely to substantially lessen competition in the relevant national retail banking markets (including home loans and saving/term products). Given BankWest's relatively modest market share in these markets, and the number of other significant competitors, the ACCC found that it was unlikely that the acquisition of such a small competitor, no longer offering market leading prices, would substantially lessen competition.
67. The ACCC notes that its views regarding the counterfactual are specific to the facts of this particular acquisition. The financial situation of BankWest's UK parent, and the associated changes it is likely to make to BankWest's operating model in the absence of the transaction, have strongly informed the ACCC's conclusions.
68. The ACCC will closely analyse the competition implications of any further proposed acquisitions of regional banks.

### **Impact of the proposed acquisition on other retail banking markets**

#### ***Transaction accounts***

69. As noted in section I, transaction account markets were considered as local because a physical (branch and/or ATM) presence is still an important determinant of consumer choice of provider.
70. However, it was found that most of the key aspects of the service provision, including product manufacture, price, opening hours and staffing levels, are determined centrally by banks in response to national (or at the narrowest, state) rather than local competitive conditions.
71. The key aspect of local competition relates to the availability of a branch presence. Therefore the ACCC considered the effect of the acquisition in each local market in terms of consumer choice, as well as whether the acquisition would impact on price and service at a national or state-wide level, which would have a flow on effect to every local market in which CBA and/or BankWest is a competitor.

*Likely effects on the national elements of decision making for transaction accounts*

72. BankWest prices its transaction accounts nationally. BankWest's 'Hero' and 'Zero' products have been the national price leaders in this market over the last year. However, as outlined at paragraph 57 above, under the counterfactual BankWest is unlikely to continue to offer market leading products because HBOS will not be in a position to continue to finance its expansion strategy.
73. BankWest is a relatively small player in terms of its national presence, with a 3.2% share of deposits. Therefore, the ACCC found that the proposed acquisition by CBA was unlikely to have a significant effect on banks national prices or service levels for transaction accounts compared to the counterfactual.

*Potential for Western Australia-specific price increases*

74. As noted at paragraph 41, CBA has submitted some examples to the ACCC of revisions to product prices on a state basis, including waiving transaction account fees for their Western Australian consumers (if their account is linked to a CBA savings account). CBA acknowledged this was in response to the competitive threat posed by BankWest.
75. Given this demonstrated willingness to vary the price for this product at a state level, the ACCC therefore explored the possibility that the proposed acquisition may result in:
  - CBA winding back this Western Australia-specific discount; and
  - CBA increasing transaction account prices in Western Australia above national prices.
76. The proposed acquisition will see the aggregation of the two largest providers of transaction accounts in Western Australia — CBA with 23% (by value of deposits) and BankWest with 24%. The only other significant competitors are the other 'big four' banks — ANZ with 14%, NAB with 11% and Westpac/St George 15% (table 2).
77. By share of branches, the aggregation is less significant with the merged entity representing 27% Western Australian branches post-acquisition, with Westpac/St George, ANZ and NAB with 15%, 15% and 10% respectively (table 3).

Table 3 Transaction accounts – Western Australia (%)<sup>2</sup>

	Western Australia		
	Deposits	Branches	ATMs
<b>CBA</b>	22.5	11.9	19.7
<b>Bank West</b>	23.5	13.5	18.5
<b>Merged entity</b>	46.0	25.4	38.1
<b>ANZ</b>	14.3	13.2	22.6
<b>NAB</b>	11.9	11.3	10.3
<b>WBC / St George</b>	15.1	18.1	16.7
<b>Bendigo / Adelaide</b>	2.6	6.0	3.1
<b>Elders</b>	< 1	15.6	-
<b>Rabobank</b>	< 1	1.4	-
<b>Other institutions</b>	~ 10.0	9.0	9.1
<b>TOTAL</b>	100.0	100.0	100.0

78. While the discount offered by CBA for its Western Australian transaction account customers is likely to be removed, the ACCC considered this would occur even in the absence of the transaction. As discussed above, under the counterfactual, BankWest is unlikely to continue to act as a price leader in this market and therefore CBA's competitive response would also be wound back.
79. The ACCC considered whether CBA would be likely to increase prices in Western Australia *above* the national price. Despite what will be a more concentrated market in Western Australia than in other states post-acquisition, three significant competitors will remain for transaction accounts that would be likely to constrain CBA's ability and incentive to significantly and sustainably increase prices.
80. In particular, the ACCC noted that both ANZ and Westpac have a branch network that is as comprehensive as those of the two merger parties.
81. Further, the ACCC noted CBA is currently the dominant provider of transaction accounts in Tasmania (38% of deposits, nearest competitor 13%) and Victoria (33% of deposits, nearest competitor 16%) but it has never introduced differential fees and charges in these states.
82. The ACCC considered that the reputational effects from charging higher prices in one state may be a strong disincentive from doing so.
83. The ACCC did not consider that the aggregation arising from the proposed acquisition was likely to be sufficient to give CBA the ability and incentive to institute a significant and sustainable increase in its price for its Western Australian transaction account customers.

<sup>2</sup> The market share figures are derived from a number of sources. The ACCC considers these figures to be the best estimates available for the purposes of this assessment.

*Local markets - likely impact of the acquisition on consumer choice*

84. With no variation in either the products, prices or key service dimensions (staffing levels and opening hours) occurring at a local level, the key dimension of local competition is the existence of a physical (branch and ATM) presence.
85. Banking industry market research obtained by the ACCC indicates that a common reason for switching transaction account providers is customer dissatisfaction with an existing account provider. Therefore, the availability of an alternative provider in a given local market is important for consumer welfare.
86. The ACCC has explored the impact of the acquisition on consumer choice based on the following local markets for transaction accounts:
  - (at its widest) a metropolitan Perth transaction account market; and
  - various local transaction account markets in regional and remote areas of Western Australia.
87. Minimal aggregation arises in local markets outside of Western Australia
88. The ACCC considered that on a Perth metropolitan-wide basis, consumers will retain a number of choices after the acquisition, including ANZ and Westpac both with a significant branch and ATM presence, and to a lesser extent, NAB and Bendigo. Even on an individual suburb level, in nearly every suburb where both BankWest and CBA have branches, each of the other big four banks also have branches. There is only one suburb, Kwinana, where no alternative competitor with a branch presence will remain. However, the ACCC notes that both ANZ and NAB have an ATM presence in Kwinana. In Rockingham, 9 kms (or a 15 minute drive) away, each of ANZ, NAB, Westpac and Bendigo has a branch and ATM presence.
89. In regional areas, in each of the towns where there is aggregation arising from the transaction, there is at least one other major financial institution with a branch and ATM presence.

*SME and agribusiness markets*

90. As for transaction account markets, the ACCC considered whether the acquisition may manifest in concerns for SME or agribusiness banking at either a national, state or local level.
91. The ACCC considered that concerns were unlikely to arise in terms of the national prices or service levels because BankWest has a relatively small share of SME and agribusiness customers on a national basis (2.6% and 3.3%, respectively).
92. In Western Australia, the merged entity will have around 27% by share of loans for business and agribusiness banking. Westpac, ANZ, NAB, Rabobank, and in the case of agribusiness banking, Elders, will all remain as significant competitors.



93. In each local market considered by the ACCC where merger parties overlap in terms of a business or agribusiness presence, a number of competitors offering specialised business banking services will remain post-acquisition.

**Impact of the proposed acquisition on wealth management and insurance markets**

94. CBA provides wealth management services under its CommSec, Colonial First State and First Choice brands. St Andrew's is a relatively small specialist provider of wealth management services.
95. The operations of CBA and St Andrew's in relation to the supply of investment, superannuation and retirement products, and the provision of financial advice. The ACCC found that St Andrew's has a very small presence in each of the wealth management markets for which it overlaps with CBA, and accordingly took the view that the proposed acquisition is unlikely to raise competition concerns.

**K Conclusion**

96. The ACCC considers that BankWest has been a particularly vigorous and effective competitor in retail banking markets nationally, especially for transaction accounts, home loans and saving products. However, under the counterfactual it will not continue with its east coast expansion or continue to act as the aggressive competitor it was previously.
97. In the absence of the global financial crisis, and the funding difficulties faced by BankWest's parent company, the ACCC's conclusion may have been different. However, with BankWest no longer capable of competing as aggressively, the ACCC found that it is unlikely that the removal of BankWest as an independent competitor would result in a substantial lessening of competition, *relative to the counterfactual*.
98. In Western Australia, the proposed acquisition will significantly increase CBA's market share, particularly for transaction accounts, but a number of other significant competitors remain. It is likely that the key aspects of the transaction account offer (product manufacture, price, staffing levels and opening hours) will continue to be determined nationally and therefore must reflect national rather than state or local competitive conditions.
99. While the acquisition will result in less consumer or business choice in the local markets where the branch presence of the two banks overlaps, in almost every local area there remains several other competitors with a physical presence in the same suburb, or at least in a major suburb nearby.
100. On the basis of the factors set out above, the ACCC formed the view that the proposed acquisition would be unlikely to result in a substantial lessening of competition in any of the relevant markets.



**Treasurer**

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**EMBARGO** 18 December 2008

## **PROPOSED ACQUISITION OF BANK OF WESTERN AUSTRALIA AND ST ANDREW'S BY THE COMMONWEALTH BANK OF AUSTRALIA**

Today I am announcing approval, with conditions, of the proposed acquisition of the Bank of Western Australia (BankWest) and St. Andrew's by the Commonwealth Bank of Australia, in accordance with the *Financial Sector (Shareholdings) Act 1998*.

This decision follows a comprehensive assessment of the acquisition on the national interest, which encompasses factors such as competition, economic efficiency, prudential requirements, stability of the financial system, community banking needs and the impact on the customers and employees of the Commonwealth Bank and BankWest.

I note that the CBA's acquisition of BankWest is a direct response to the current financial market turbulence. It is being undertaken in light of the financial difficulties facing BankWest's UK parent, HBOS, which also impact on BankWest. The decision by CBA to acquire BankWest removes the uncertainty over the future of BankWest and it has helped instil more confidence in the Australian financial system.

The conditions I am imposing recognise this environment. They provide for the protection of customers' services and the interest of the employees of CBA and BankWest. CBA is required to maintain and grow the BankWest brand as well as provide support for staff affected by the acquisition. CBA will remove fees for CBA customers using BankWest ATMs, and vice versa, from 3 March 2009.

This decision takes account of the detailed assessments of the Australian Competition and Consumer Commission, the Australian Prudential Regulation Authority and the Treasury.

The merged entity will have a larger balance sheet and stronger capital position and broader access to funding markets to service the Australian markets. On the whole, it should be better placed to withstand further challenges from the global financial crisis and provide competitive banking services to customers.

CANBERRA  
18 December 2008

## ATTACHMENT A

**CONDITIONS ATTACHED TO APPROVAL UNDER THE FINANCIAL SECTOR  
(SHAREHOLDINGS) ACT 1998 OF THE PROPOSED ACQUISITION OF  
THE BANK OF WESTERN AUSTRALIA BY THE COMMONWEALTH BANK OF  
AUSTRALIA**

The conditions to which this approval is subject are that:

For a period of at least three years after the date of acquisition:

1. CBA will maintain and grow the BankWest brand;
2. foreign ATM fees for CBA customers using BankWest ATMs and vice versa will be removed from 3 March 2009;

In addition, for the period of integration under the acquisition process:

3. CBA will maintain BankWest's head office, Managing Director and core functions in Western Australia and in accordance with the Bank of Western Australia Act 1995;
4. CBA and BankWest branches and business centres in Western Australia will not close as a consequence of the acquisition;
5. CBA will maximise internal redeployment opportunities available for affected staff, support external job placement where employee redundancies occur, and ensure that staff affected by the acquisition have timely access to their full entitlements under CBA or BankWest (as applicable) retrenchment arrangements;
6. CBA will work through the implications for employees as quickly and sensitively as possible, in consultation with employees, the Finance Sector Union and other affected stakeholders; and
7. CBA will provide specialist resources to assist staff affected by the acquisition.

**Force Majeure**

The Commonwealth Bank of Australia (CBA) will not be liable for any failure to perform any obligation imposed by these conditions if the failure is due to Force Majeure.

If CBA is by reason of Force Majeure unable to perform an obligation under these conditions, CBA will, as soon as practicable and in any event within 30 days, notify the Treasurer, specifying:

- (a) the cause and extent of non-performance;
- (b) the date of commencement of Force Majeure;
- (c) the means proposed to be adopted to remedy or abate the Force Majeure;

and will use all reasonable diligence and employ all reasonable means to remedy or abate the Force Majeure as expeditiously as possible.

Force Majeure means:

- (a) any act of God;

- (b) war, revolution, or any other unlawful act against public order or authority;
- (c) an industrial dispute; or
- (d) a governmental restraint.

CBA will give written notice to the Treasurer of the following matters as soon as practicable and in any event within 30 days after the relevant occurrence:

- (a) the effective date; and
- (b) the commencement and termination or abatement of the Force Majeure.



## **Commonwealth Bank**

Commonwealth Bank of Australia  
ABN 48 123 123 124  
Marketing and Communications  
GPO Box 2719  
Sydney NSW 1155  
www.commbank.com.au

### **COMMONWEALTH BANK OF AUSTRALIA DISCUSSIONS WITH HBOS PLC**

**Sydney 7 October 2008:** Commonwealth Bank has commenced exclusive negotiations with HBOS plc for the acquisition of BankWest.

Whilst discussions are continuing, the parties have not reached agreement.

ENDS

For further information please contact:

John Hatton  
Company Secretary  
Commonwealth Bank  
(02) 9378 3546



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**Media Release**



**Commonwealth Bank**

Commonwealth Bank of Australia  
ABN 48 123 123 124  
Marketing and Communications  
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www.commbank.com.au



## COMMONWEALTH BANK OF AUSTRALIA TO ACQUIRE BANKWEST AND ST ANDREW'S

**Sydney, 8 October 2008:** The Commonwealth Bank of Australia (the Group) has acquired the Bank of Western Australia Limited (BankWest) and St Andrew's Australia Pty Ltd (St Andrew's) through the execution of a sale and purchase agreement with UK based HBOS plc.

The purchase does not extend to HBOS's other Australian businesses - Capital Finance Australia Ltd, BOS International (Australia) Ltd and HBOS's Australian Treasury operations.

The purchase price will be \$2.1 billion. The purchase is conditional on the receipt of all necessary competition, regulatory and government approvals - and will be completed following receipt of those approvals.

The Group is determined to continue to carry substantial surplus capital due to the current volatile market conditions. It intends to fully fund the purchase price by undertaking a \$2 billion accelerated institutional placement which will maintain APRA Tier 1 capital at 7.6% and Tier 1 capital under UK FSA rules at 10.1%.

Standard & Poor's, Moodys and Fitch have all confirmed the Group's credit ratings with stable outlook post the acquisition.

Credit Suisse has served as exclusive financial adviser to the Group on this transaction.

Ralph Norris, Commonwealth Bank Chief Executive Officer said, "The Commonwealth Bank regularly reviews acquisition opportunities but rarely have we seen a quality asset such as BankWest become available on such attractive terms to us. The strength of our current capital and funding position combined with the strategic value of this transaction makes this an attractive opportunity for the Group and its shareholders."

"BankWest provides a significant opportunity to further develop the Group's business in the fast growing Western Australian market. It complements our existing operations and will deliver additional growth opportunities in key market segments, as well as enhanced product and service delivery opportunities for customers," Mr Norris said.

BankWest is a strong business and a market leader in Western Australia. It is the Commonwealth Bank's intention to maintain and grow the BankWest brand.

Commonwealth Bank and BankWest branches and business centres in Western Australia will not be closing as a consequence of this acquisition, and both BankWest and



# Commonwealth Bank

Commonwealth Bank of Australia  
ABN 48 123 123 124  
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GPO Box 2719  
Sydney NSW 1155  
www.commbank.com.au



Commonwealth Bank customers will be able to use each other's ATMs without paying any additional fees once our systems allow.

St Andrew's is HBOS Australia's wealth management business, providing life insurance and wealth management products to the Australian marketplace. Its range of products is complementary to the Group's existing wealth management business.

The Group is strongly committed to its Australian businesses and on achieving its vision to be Australia's finest financial services organisation through excelling in customer service. This acquisition demonstrates this commitment, by expanding in a rapidly growing region of the Australian economy.

"I am confident that this acquisition will deliver significant benefits for the people and customers of both organisations. HBOS' Australian businesses are good quality, strong businesses underpinned by dedicated and talented staff," Mr Norris said.

## ***The Strategic Rationale***

- Builds on the Commonwealth Bank's commitment to being Australia's leading financial services organisation with strong positions in home loans, retail deposits and business banking, and an enhanced position in credit cards, personal lending and wealth management;
- Strengthens the competitive position in the fast growing and attractive Western Australian market. The BankWest brand will be retained;
- Provides opportunities to enhance the Group's reputation as a leader in product innovation and customer service by further developing existing relationships with nearly 11 million Australians; and
- Provides a wider pool of talented and experienced people to complement the focus on achieving the Group's vision of becoming Australia's finest financial service organisation through excelling in customer service.

## ***Note regarding 6 October Suncorp Announcement***

High level, exploratory discussions have been conducted with Suncorp.

ENDS

For further information please contact:



# Media Release

## Commonwealth Bank

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## Commonwealth Bank of Australia - proposed acquisition of BankWest and St Andrew's Australia

<b>Type of assessment</b>	Informal Review	
<b>Reference</b>	34568	
<b>Acquirer(s)</b>	Commonwealth Bank of Australia	
<b>Target(s)</b>	St Andrews Australia Pty Ltd Bank of Western Australia Limited	
<b>Industry</b>	Banking	
<b>Summary</b>	CBA proposes to acquire BankWest and St Andrew's Australia.	
<b>Date commenced</b>	20 <sup>th</sup> October 2008	
<b>Project staff</b>	Danielle Wood Morelle Bull	
<b>Contact Email</b>	<a href="mailto:mergers@acc.gov.au">mergers@acc.gov.au</a>	
<b>Market inquiries</b>	<p>Market inquiries have now closed. Queries regarding the ACCC's review may be addressed to Morelle Bull or Mark Rakers at <a href="mailto:mergers@acc.gov.au">mergers@acc.gov.au</a>.</p> <ul style="list-style-type: none"> <li>Market Inquiries Letter 20<sup>th</sup> October 2008  <a href="#">D08+105699.pdf (102.7 KB)</a></li> </ul>	
<b>Indicative timeline</b>	<b>Date</b>	<b>Event</b>
	20 <sup>th</sup> October 2008	ACCC commenced review under the Merger Review Process Guidelines.
	22 <sup>nd</sup> October 2008	ACCC requested further information from Commonwealth Bank of Australia. ACCC timeline suspended.
	10 <sup>th</sup> November 2008	Closing date for submissions from interested parties.
	11 <sup>th</sup> November 2008	ACCC received further information from Commonwealth Bank of Australia. ACCC timeline recommenced.
	17 <sup>th</sup> December 2008	Proposed date for announcement of ACCC's findings.



Australian  
Competition &  
Consumer  
Commission

Contact officer: Morelle Bull/Mark Rakers  
Contact phone: (03) 9290 1928 / (03) 9290 1803  
Ref: C2008/1610

GPO Box 3131  
Canberra ACT 2601  
23 Marcus Clarke Street  
Canberra ACT 2601  
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fax: (02) 6243 1199

[www.accc.gov.au](http://www.accc.gov.au)

Dear market participant

**Commonwealth Bank of Australia – proposed acquisition of Bank of Western Australia Ltd and St Andrew’s Australia Pty Ltd**

As you may be aware, the Australian Competition and Consumer Commission (ACCC) administers the *Trade Practices Act 1974 (the Act)*. Section 50 of the Act prohibits mergers and acquisitions that would have the effect, or likely effect, of substantially lessening competition in a market.

The ACCC is currently investigating the proposed acquisition of Bank of Western Australia Ltd (**BankWest**) and St Andrew’s Australia Pty Ltd (**St Andrew’s**) by Commonwealth Bank of Australia (**CBA**).

The ACCC is conducting market inquiries to assist in determining whether the proposed acquisition would be likely to breach section 50 of the Act. The attachment to this letter contains some questions you may wish to address in providing comment to the ACCC.

While written comments are greatly appreciated, market participants are also welcome to discuss the matter by telephone if that is more suitable. Your primary contacts should be Morelle Bull on (03) 9290 1928 or Mark Rakers on (03) 9290 1803. Your alternative contact should be Danielle Wood on (03) 9290 1836. Alternatively, correspondence can be emailed to [mergers@acc.gov.au](mailto:mergers@acc.gov.au) or sent by fax, to (03) 9663 3699: attention Morelle Bull.

If any information provided is of a confidential nature, you can be assured that the details provided by you will be treated confidentially. That is, the ACCC will not disclose the confidential information to the merger parties or other third parties, other than advisors or consultants engaged directly by the ACCC, without first providing you with notice of its intention to do so, such as where it is compelled to do so by law. Please note that any information provided which you believe to be of a confidential nature should be clearly marked or identified as confidential.

Comments and responses are requested by **10 November 2008**.

Yours sincerely

Tim Grimwade  
General Manager  
Mergers and Asset Sales Branch

# **ATTACHMENT**

## **Overview of the proposed acquisition**

On 8 October 2008, Commonwealth Bank of Australia (**CBA**) announced its proposal to acquire Bank of Western Australia Ltd (**BankWest**) and St Andrew's Australia Pty Ltd (**St Andrew's**) for a purchase price of \$2.1 billion. The purchase price represents 80 per cent of the total book value. CBA has executed a sale and purchase agreement with UK based HBOS, the parent company of BankWest and St Andrew's. HBOS was recently acquired by Lloyds TSB Bank plc. The sale and purchase agreement is not subject to shareholder approval but is subject to regulatory approval by the ACCC.

## **Areas of overlap**

There are three key areas of overlap between CBA and BankWest's operations:

- **Personal banking products**, including transaction accounts, savings accounts, home loans, personal loans, credit cards and hybrid personal lending (margin loans).
- **Business banking products**, including SME banking, merchant acquiring services (credit card, debit card, EFTPOS), and agribusiness banking.
- **Corporate and institutional banking products**, including lending, transaction services and investment management.

There are two key areas of overlap between CBA (through its subsidiaries Colonial and CommInsure) and St Andrew's operations:

- **Insurance products**, including consumer credit and life insurance.
- **Wealth management products**, including superannuation and investment products.

The ACCC is seeking comments from you on various issues related to these **five** key areas of overlap. Your answers to these questions will assist the ACCC in conducting its merger assessment. The ACCC appreciates that you might not be able to respond to some parts of the questions or that some parts of the questions might not be applicable to you. Wherever possible, please provide data/evidence to support your responses.

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## **Recent market trends**

### *The global credit crunch*

The ACCC is interested in understanding more about the global credit crunch and how it has impacted on the relevant markets.

1. Please provide information on the impacts of the credit crunch on wholesale banking markets since July 2007.
2. Please also outline how the credit crunch has impacted on retail banking markets.

### *The Australian Government's policies*

The ACCC is interested in comments about how the commitments and policies recently introduced by the Australian Government will impact on the relevant markets.

3. In particular, please provide comments on how:
  - the guarantee on all deposits for the next three years;
  - all APRA-regulated institutions being granted a AAA-rating;
  - the switching initiatives about to be introduced

will impact on the competitive dynamic in the relevant markets.

### **Retail (personal and business) banking**

#### *Market definition*

In its assessment of Westpac and St George in August 2008, the ACCC defined the following retail banking markets:

Product market	Product characteristics	Geographic dimension
<i>Personal banking markets</i>		
Transaction accounts	Provide to day-to-day deposit and payment functionality in the form of cheque books, debit cards, B-Pay and phone banking.	Local but price competition is national
Deposit/ term products	Traditional savings instrument with a focus on growth in the capital value of the deposited funds.	National
Credit cards	Short term unsecured lending product for individual consumers.	National
Home loans	Mortgage lending to individuals for the purpose of acquiring residential property.	National
Personal loans	Lending to individuals for the purposes of personal consumption items.	National
Hybrid personal loans	Flexible lending provided to individuals for the purpose of acquiring shares or investing in funds or for drawing on the equity in assets.	National

Product market	Product characteristics	Geographic dimension
<i>Business banking markets</i>		
SME banking cluster	A 'cluster' of banking products encompassing credit products, transaction/cash facilities, merchant acquiring and banking advice.	Local but price competition is national
Equipment finance	Including lease finance products and hire-purchase products. The lease provider purchases capital equipment and leases it to the business for an agreed term, commonly two to five years.	National
Agribusiness banking	A 'cluster' of banking products to agricultural businesses with a central element being specialised lending products including very long-term credit instruments.	Local but price competition is national

4. Please provide any comments you might have on these market definitions.

#### ***Vigorous and effective competitor***

5. Is BankWest a vigorous and effective competitor to CBA in the various personal banking and/or business banking markets? If so, please provide examples that illustrate the role of BankWest in driving price and/or non-price competition in the relevant markets.
6. Are there other institutions that may also be regarded as particularly vigorous and effective competitors in the markets mentioned above?

#### ***General comments***

7. Please provide any comments about the likely effect of the proposed acquisition on competition in each of the personal and business banking markets. Please provide reasons for your comments.

#### **Corporate and institutional banking**

In its previous consideration of mergers in the financial services industry, including the Westpac and St George review, the ACCC defined a national market for large corporate banking.

8. Do you consider that this market definition is appropriate in the context of considering CBA's proposed acquisition of BankWest?
9. Please provide any comments about the likely effect of the proposed acquisition on the supply of various corporate and institutional banking products and services. In particular, would the proposed acquisition be likely to result in deterioration in the terms and conditions available to Australian corporate banking customers? Please make reference to the constraints that may exist including the availability of alternative providers (both domestically and internationally) and potential new entry.

## **Wealth management and insurance products**

St Andrew's provides wealth management and insurance products, including consumer credit insurance, life insurance and superannuation investments.

CBA's wealth management and insurance business comprises the following discrete divisions: Colonial, CommInsure and CommSec.

In previous consideration of mergers in the financial services industry, including the Westpac and St George review, the ACCC defined markets for various wealth management and insurance products.

The ACCC has considered separate national markets for:

- wholesale funds management
- multi-manager investments
- retail (wrap and master trust) platforms
- financial advice from licensed financial planners
- non-advisory stockbroking services
- life insurance
- general insurance

10. Are the above product market definitions still appropriate in the context of considering CBA's proposed acquisition of St Andrew's?

11. Please provide any comments about the likely effect of the proposed acquisition on the supply of various wealth management and insurance products and services. In particular, would the proposed acquisition be likely to result in deterioration in the terms and conditions available to Australian retail or wholesale investors for wealth management products or consumers for insurance products? Please make reference to the constraints that may exist including the availability of alternative providers (both domestically and internationally) and potential new entry.

## **Other comments**

12. Please provide any other information or comments you consider relevant to the likely effects on competition from the proposed acquisition of BankWest and St Andrew's by CBA.



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# Commonwealth Bank of Australia

**Determined** to offer strength in uncertain times

## Acquisition of BankWest and St. Andrew's Australia – A Compelling Strategic Growth Opportunity

Investor Pack

8 October 2008

.....  
Commonwealth Bank of Australia ACN 123 123 124



# Important notices

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The information contained in this presentation is current as at 8 October 2008 (unless otherwise stated) and could change. The information in this presentation remains subject to change without notice. Circumstances may change and the contents of this presentation may become outdated as a result.

The information contained in this presentation is given in summary form. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice when deciding if an investment is appropriate.

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The information in this presentation (including any forecast information) does not constitute an offer or invitation for subscription, nor purchase of, nor a recommendation in relation to holding, purchasing or selling shares, securities or other instruments in CBA in any jurisdiction. This presentation is not a prospectus nor an offer of shares for subscription or sale in any jurisdiction. In particular, this presentation does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States or to any U.S. person, as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the **U.S. Securities Act**). Securities may not be offered or sold in the United States, or to or for the account of any U.S. person (as defined in Regulation S under the U.S. Securities Act) unless an exemption from registration is available.


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# Summary

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- BankWest and St. Andrew's Australia only
- Consistent with CBA strategy
- Attractive price and terms:
  - Purchase price \$2.1bn
  - 0.80 x 2007A book value <sup>1</sup>
  - 11.2 x 2007A net profit <sup>2</sup>
- Expected to be EPS accretive immediately
- Substantial cost synergies

1. Ordinary shareholders' equity.

2. Profit attributable to equity holders, after dividends on Redeemable Preference Shares.

# A compelling strategic growth opportunity

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- Significantly expanded presence in fast-growing WA market
- BankWest a well recognised brand
- Reinforces strong market position in Australian financial services
- Enhanced retail deposit base provides funding advantage
- Expected to be funded by \$2bn institutional equity placement that will maintain APRA Tier 1 capital at 7.6% and Tier 1 capital under UK FSA rules at 10.1%
- Significant value for CBA shareholders

# Key terms and conditions

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- Final purchase price to not exceed \$2.1bn
- Sale and purchase agreement signed
- Subject to regulatory, ACCC and Govt approvals (discussions commenced)
- HBOS plc shareholder approval not required
- Does not require CBA shareholder approval
- Completion expected end January 2009

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Appendix

# Expanded presence in fast growing WA market

<b>WA Distribution Footprints</b>	
<b>Branches <sup>1</sup></b>	<b>No.</b>
CBA	77
<u>BankWest</u>	<u>100</u>
CBA/BankWest	177
WBC/SGB	107
ANZ	81
NAB	72
<b>ATMs</b>	
CBA	275
<u>BankWest <sup>2</sup></u>	<u>366</u>
CBA/BankWest	641
<b>Business Banking Centres</b>	
CBA	10
<u>BankWest</u>	<u>28</u>
CBA/BankWest	38

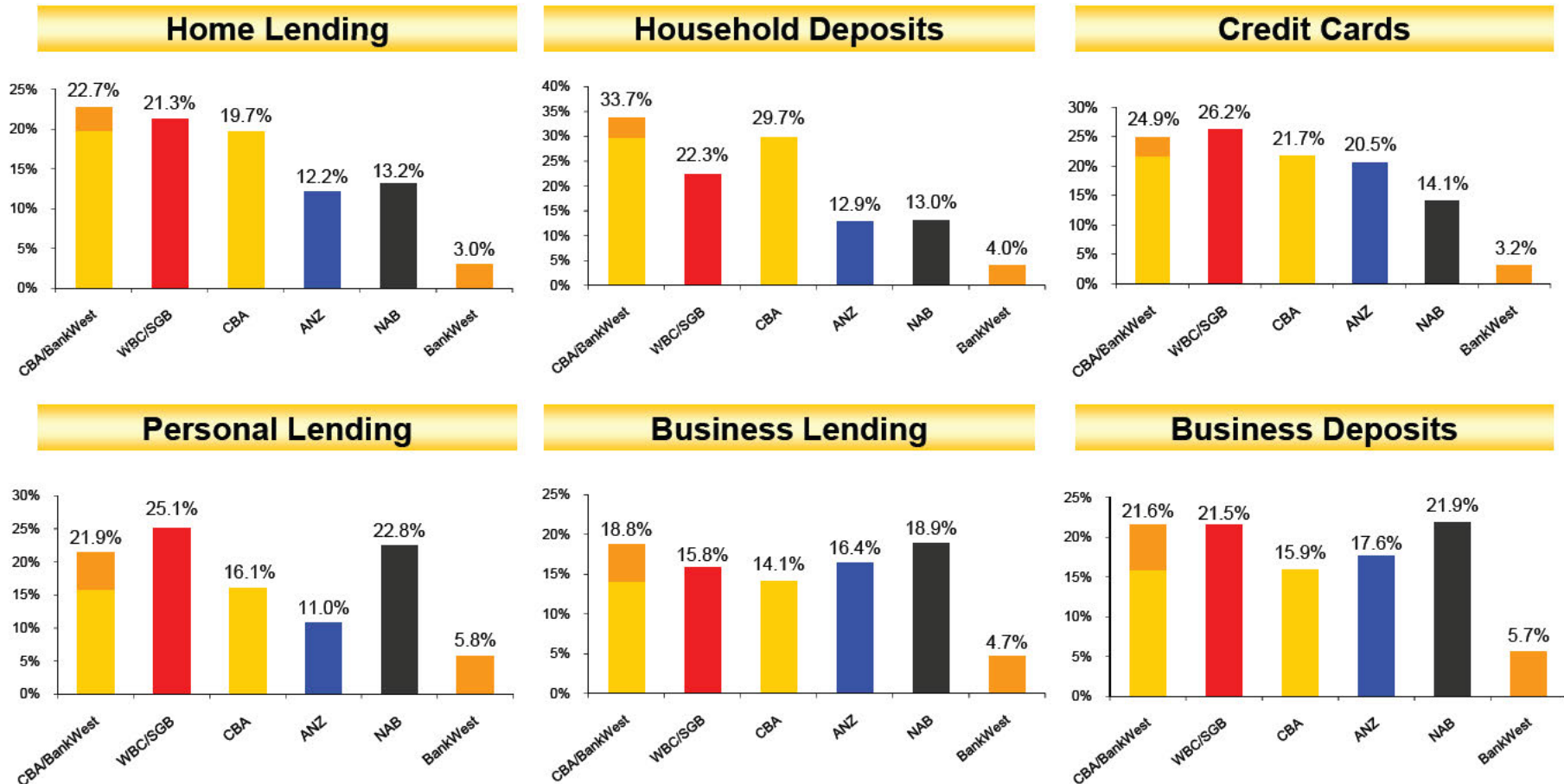


1. Source: APRA (June 2007), BankWest website, and HBOS Australia 31 December 2007 annual report.  
 2. BankWest numbers may include third party arrangements.

# Reinforces strong Australian market position

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## Market Shares - Australia



Source: APRA / RBA (July 2008).



# Snapshot of merged operations

	<b>CBA</b>	<b>BankWest &amp; St. Andrew's Australia</b>	<b>Combined</b>
Branches	1,011	148 <sup>1</sup>	1,159
Loans and Advances (\$bn)	365 <sup>2</sup>	55 <sup>3</sup>	420
Customer Deposits (\$bn)	262 <sup>4</sup>	37 <sup>3</sup>	299
Funds Under Administration (\$bn)	185	2 <sup>1</sup>	187
Market Share – Total Lending <sup>5</sup>	21%	4%	25%
Market Share – Home Loans <sup>5</sup>	20%	3%	23%
Market Share – Deposits <sup>5</sup>	30%	4%	34%
Customers	10 million	0.9 million <sup>6</sup>	10.9 million
Staff (FTE)	39,600	5,000 <sup>7</sup>	44,600

1. Source: BankWest website, HBOS plc 30 June 2008 interim report, and HBOS Australia 31 December 2007 annual report.

2. Gross loans, advances and other receivables, as at 30 June 2008.

3. Lending and Deposits attributable to Retail and Commercial Business segments of HBOS' International – Australia division. Data as at 30 June 2008.

4. Comprises: Certificates of Deposit, Term Deposits, On Demand and Short Term Deposits, and Deposits not Bearing Interest. Data as at 30 June 2008.

5. Source: APRA (July 2008).

6. BankWest customers only. Source: BankWest website.

7. .... includes people from BankWest Retail, BankWest Business, St Andrew's and those group functions ..... support these businesses



# An exciting addition to CBA brands

Banking	Funds Mgt	Insurance
---------	-----------	-----------

**Commonwealth**Bank



**Colonial**  
First State

**Comm**Insure



**ASB**

**BankWest**






**1**  
FirstChoice

**SOVEREIGN**

**Comm**Sec



# Proposed operating model

	Business	Description	Proposed Model
	Retail Banking	<ul style="list-style-type: none"> <li>860,000 customers</li> <li>Lending assets of \$28bn</li> <li>Deposits of \$15bn</li> <li>2008 Regional Bank of the Year <sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Brand retained in ...</li> <li>East coast retail expansion strategy to be reviewed</li> <li>Streamlining of administrative functions, systems, and processes of CBA and BankWest, where synergies exist and it enhances the customer experience to do so</li> </ul>
	Business & Corporate Banking	<ul style="list-style-type: none"> <li>77 Business Banking Centres <sup>2</sup></li> <li>Lending assets of \$27bn</li> <li>Deposits of \$22bn</li> </ul>	<ul style="list-style-type: none"> <li>Brand retained in WA</li> <li>Integration of two businesses with a view to incorporating best practice and enhancing customer experience across the Group</li> <li>Streamlining / sharing of back-office and systems where synergies exist</li> </ul>
	Insurance and Investments	<ul style="list-style-type: none"> <li>Wealth management and insurance</li> <li>Funds under Management of more than \$2.4bn</li> </ul>	<ul style="list-style-type: none"> <li>Integrated into broader Group</li> </ul>

Note: All Lending Assets and Deposits figures as at 30 June 2008. (Source: HBOS plc interim report). Funds under management figure as at 31 December 2007. (Source: HBOS Australia 31 December 2007 annual report). Exchange rate of 2.08 AUD to 1 GBP.

1. Australian Banking and Finance Magazine.

2. Source: BankWest website.

# Significant shareholder value creation

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- Expected to be EPS accretive immediately
- Incremental growth/revenue opportunities in fast-growing vva market
- Platform for new products, enhanced service delivery
- Cost/efficiency synergies
- Complements CBA's strategy

# Cost synergies expected to be substantial

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- BankWest's cost-to-income ratio is 67.6%<sup>1</sup> versus 48.9%<sup>2</sup> for CBA
- Annual pre-tax cost synergies estimated to be at 20-25% of BankWest's cost base
- Synergy opportunities:
  - Streamlined support functions
  - Merged technology platform (aligned with Core Banking)
  - Review of BankWest east coast retail expansion strategy
- Estimated integration costs are ~1.5 times the first year of fully maintainable cost synergies

1. For the financial year ended 31 December 2007.

2. For the financial year ended 30 June 2008.

# Risks well understood

Risk	Mitigants
Customer attrition	<ul style="list-style-type: none"><li>▪ Minimising customer loss the number one priority</li><li>▪ BankWest brand to be retained</li><li>▪ Expanded distribution options for CBA and BankWest customers</li><li>▪ Enhanced product range available to customers</li></ul>
Integration	<ul style="list-style-type: none"><li>▪ Strong organisational learnings and expertise (SBV, Colonial)</li><li>▪ Disciplined programme management &amp; governance</li></ul>
Funding	<ul style="list-style-type: none"><li>▪ CBA well capitalised with significant excess liquidity</li><li>▪ CBA funding is well diversified</li><li>▪ Credit ratings recently confirmed with stable outlook</li></ul>
Regulatory	<ul style="list-style-type: none"><li>▪ Dialogue underway with relevant authorities</li></ul>

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Strategic rationale

 Summary

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# Summary

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- BankWest and St. Andrew's Australia only
- Consistent with CBA strategy
- Attractive price and terms:
  - Purchase price \$2.1bn
  - 0.80 x 2007A book value <sup>1</sup>
  - 11.2 x 2007A net profit <sup>2</sup>
- Expected to be EPS accretive immediately
- Substantial cost synergies

1. Ordinary shareholders' equity.

2. Profit attributable to equity holders, after dividends on Redeemable Preference Shares.

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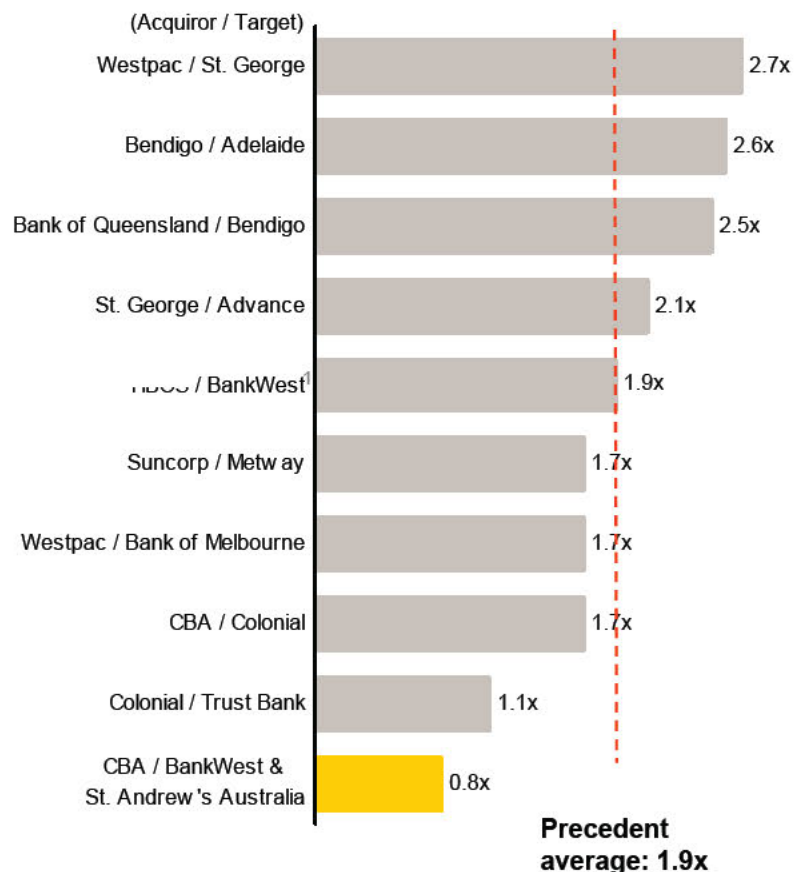
 Appendix



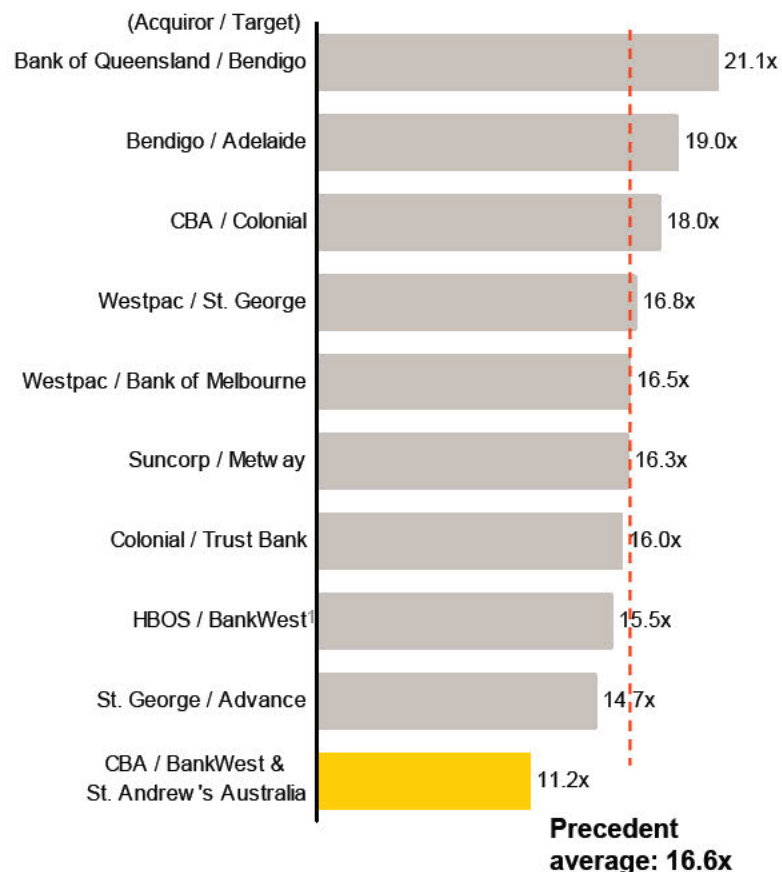
# Comparable banking transactions

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## Comparable price-to-book values



## Comparable price-to-earnings multiples (LTM)



Source: Company announcements, ASX announcements, Factset, IRESS.

1. Remaining 43% interest by HBOS.



# BankWest overview

## About BankWest

### History

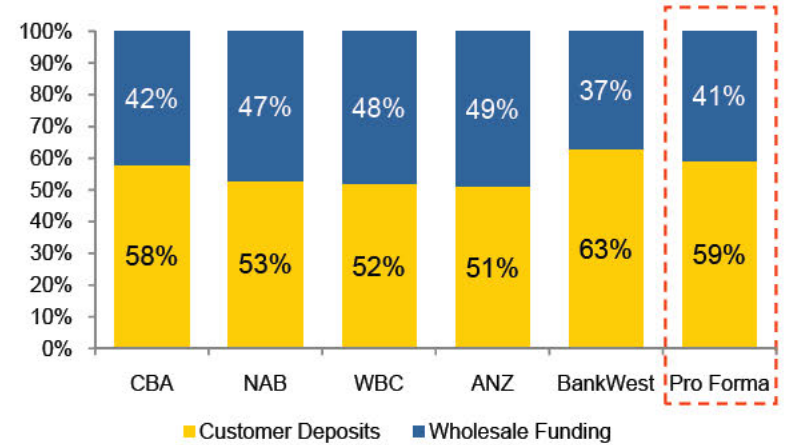
- 1895: Established by the Western Australian Government, as the Agricultural Bank of WA, to assist in developing the State's farming industry
- 1945: Commenced operations as a trading bank
- 1994: Acquired by the Bank of Scotland, with a related public listing of 49% on the ASX
- 2003: HBOS acquired the remaining shares and BankWest was de-listed

### Operations

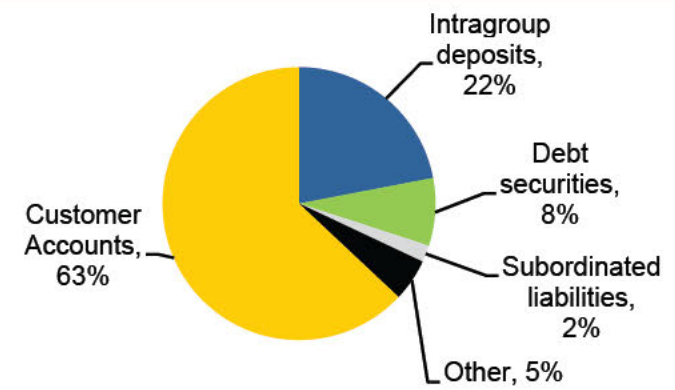
- Market leader in ...
- More than 860,000 customers
- Offers a range of retail and business banking products
- East coast retail expansion program

Source: Company filings, regulatory filings, and investor presentations.  
 Note: Funding mix data as of most recent company filings, 31 March 2008, except for BankWest (30 June 2008), and CBA (30 June 2008). Figures rounded to nearest integer.

## Funding mix vs peers



## Funding mix June 2008



# BankWest Financial Overview

	2005 \$m	2006 \$m	2007 \$m	Unaudited 6 months to June 2008
Net interest income	609	716	857	487
Non interest income	213	208	279	176
<b>Net operating income</b>	<b>822</b>	<b>924</b>	<b>1,136</b>	<b>663</b>
Administrative expenses	(509)	(555)	(728)	N/A
Depreciation, amortisation and impairment	(27)	(34)	(40)	N/A
<b>Operating expenses</b>	<b>(536)</b>	<b>(589)</b>	<b>(768)</b>	<b>(458)</b>
Share of profits of associated undertakings	6	3	2	(0)
Impairment losses on loans and advances	(15)	(58)	(88)	(83)
<b>Profit before income tax</b>	<b>277</b>	<b>280</b>	<b>282</b>	<b>122</b>
Income tax expense	(84)	(87)	(78)	N/A
<b>Profit for the period</b>	<b>193</b>	<b>193</b>	<b>204</b>	<b>N/A</b>
<b>NIM</b>	<b>1.79%</b>	<b>1.76%</b>	<b>1.66%</b>	<b>1.61%</b>
<b>Cost/Income</b>	<b>65.2%</b>	<b>63.8%</b>	<b>67.6%</b>	<b>69.1%</b>
<b>Impairment/average loans</b>	<b>0.05%</b>	<b>0.16%</b>	<b>0.19%</b>	<b>0.28%</b>

Source: BankWest financial reports for the years ended 31 December 2005, 2006 and 2007.



# BankWest Balance Sheet

	2005 \$m	2006 \$m	2007 \$m	Unaudited June 2008
Loans and advances to customers	31,582	40,276	50,838	55,500
Other assets	5,058	5,398	7,974	7,700
<b>... assets</b>	<b>36,667</b>	<b>5,674</b>	<b>58,812</b>	<b>63,200</b>
Customer deposits & Intergroup funding	28,482	35,197	45,899	50,800
Other interest bearing liabilities	5,993	7,723	9,385	8,700
Non interest bearing liabilities	413	505	478	300
<b>Total liabilities</b>	<b>34,888</b>	<b>43,425</b>	<b>55,762</b>	<b>59,800</b>
Issued share capital (incl preference shares)	992	1,282	1,907	2,100
Retained earnings	787	967	1,143	1,300
<b>Total equity<sup>1</sup></b>	<b>1,779</b>	<b>2,249</b>	<b>3,050</b>	<b>3,400</b>
<b>Total liabilities and equity</b>	<b>36,667</b>	<b>45,674</b>	<b>58,812</b>	<b>63,200</b>

Source: BankWest financial reports for the years ended 31 December 2005, 2006 and 2007.

<sup>1</sup> Includes redeemable preference shares: 2007: \$305m, 2006: \$305m, 2005: \$115m.



# St. Andrew's Australia overview

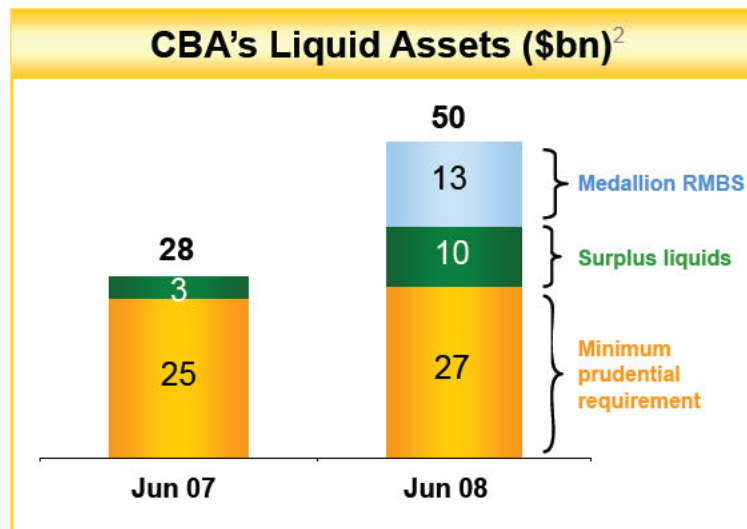
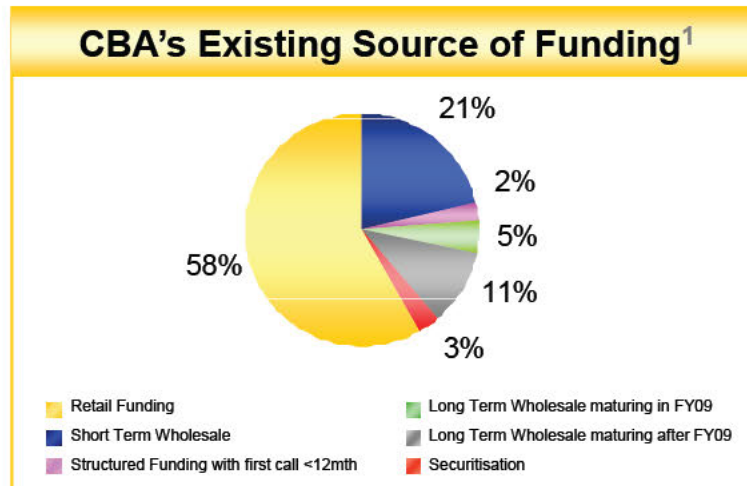
About St. Andrew's Australia	Subsidiaries
<p><b>Background</b></p> <ul style="list-style-type: none"><li>■ St. Andrew's Australia Pty Ltd ("SAA") began operations in Australia in 1998</li><li>■ Through six subsidiaries, SAA operates two major lines of business: Insurance and Wealth Management</li><li>■ In 2007, SAA acquired Whittaker Macnaught, a leading financial planning business based in Queensland</li></ul> <p><b>Operations</b></p> <ul style="list-style-type: none"><li>■ Distributes bancassurance, wealth and insurance products through its branch network and 65<sup>1</sup> financial advisors, as well as through BankWest branches, direct mail, telemarketing and the internet</li><li>■ Wealth Management boasts Funds under Management and Advice of over A\$2.4bn</li></ul> <p><small>Source: Company filings for the year ended 31 December 2007, company website, and HBOS Australia 31 December 2007 annual report. 1. As last reported. Source: InvestorDaily (11 December 2007).</small></p>	<pre>graph TD; SAA[St. Andrew's Australia Pty Ltd] --- S1[St. Andrew's Financial Services Pty Ltd]; SAA --- S2[St. Andrew's Insurance (Australia) Pty Ltd]; SAA --- S3[St. Andrew's Life Insurance Pty Ltd]; SAA --- S4[St. Andrew's Superannuation Services Pty Ltd]; SAA --- S5[St. Andrew's Wealth Management Ltd]; SAA --- S6[Whittaker Macnaught Pty Ltd];</pre>





# CBA funding position very strong

- BankWest intra-group funding of ~\$18bn easily accommodated within existing CBA internal resources
- Overview of CBA funding position:
  - AA credit rating
  - 58% retail funded
  - Well advanced in 2009 funding programme – 30% completed
  - Significant surplus liquids

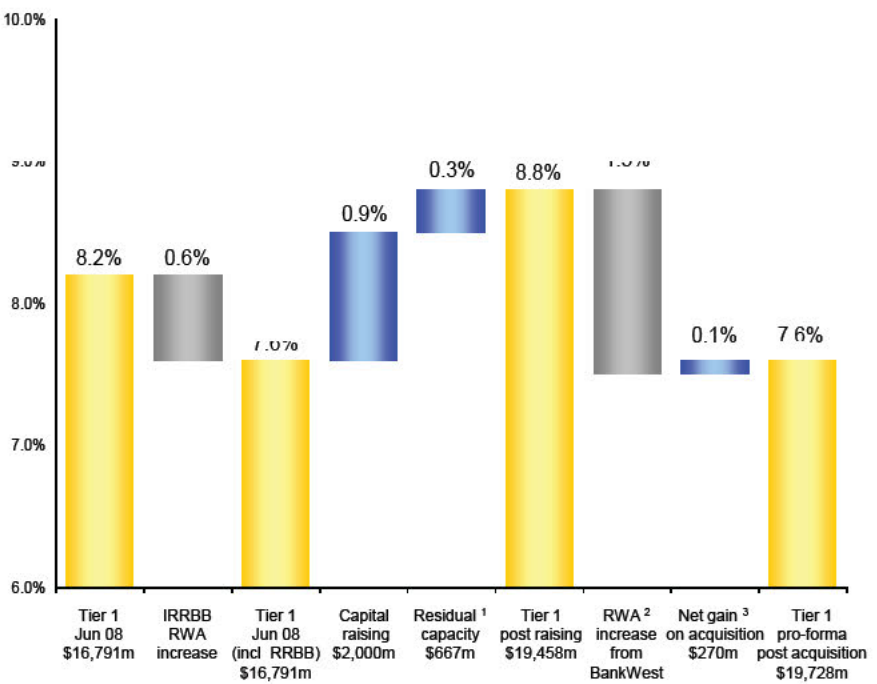


1. Surplus liquids are excluded from short term wholesale funding.  
 2. 6 month average liquid assets held.

# Capital ratios maintained

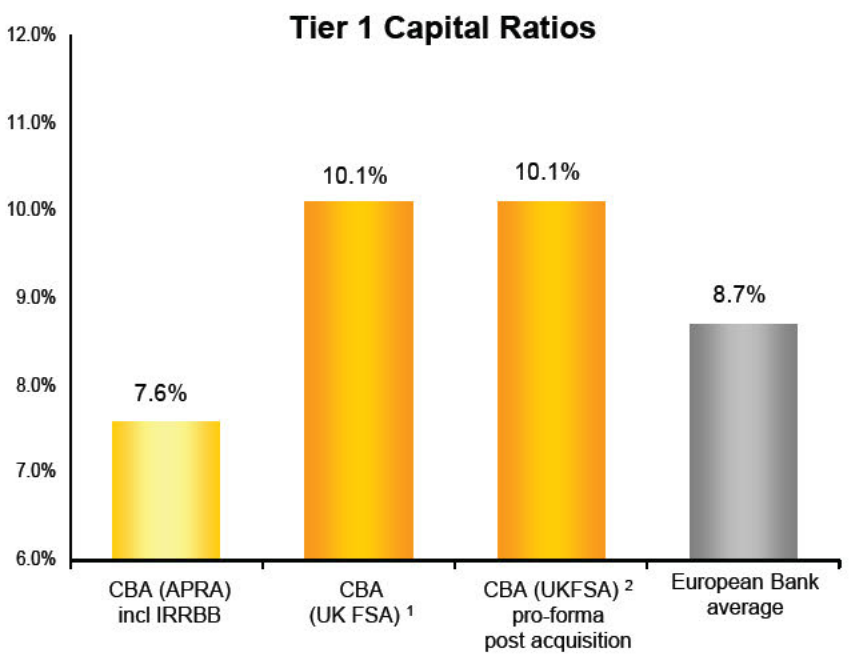
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## Integration – Tier 1 Capital



1. Transfer from Tier 2 capital of excess hybrid capacity due to equity raising.
2. Estimated risked weighted assets under Basel I, capital impact of moving to Basel II expected to be immaterial.
3. Discount on acquisition net of integration costs.

## International Peer Comparison



1. Normalised CBA capital calculation to UK, Financial Services Authority, as benchmark.
2. Pro-forma June 2008 Tier 1 (UK FSA) post acquisition.



**Estimate**

## Financial Im. act of Ac .uision<sup>1</sup>

	Net Assets \$m	Pre-tax Profit / (Loss) \$m
Indicative fair value of net assets acquired	2,720	
Consideration paid	(2,100)	
Discount on acquisition		620
Transaction costs		(20)
Day 1 gain through P&L		600
Integration & restructuring provision	(330)	(330)
Comprising:		
▪ Restructuring costs		
▪ Technology integration expenditure		
▪ Other transition costs		

- Fair value of acquired net assets to be finalised
- Gain on acquisition and Integration provision to be excluded from Cash flow
- Year 1 (2009) CBA P&L/EPS positive
- Integration provision 150% of maintainable cost savings

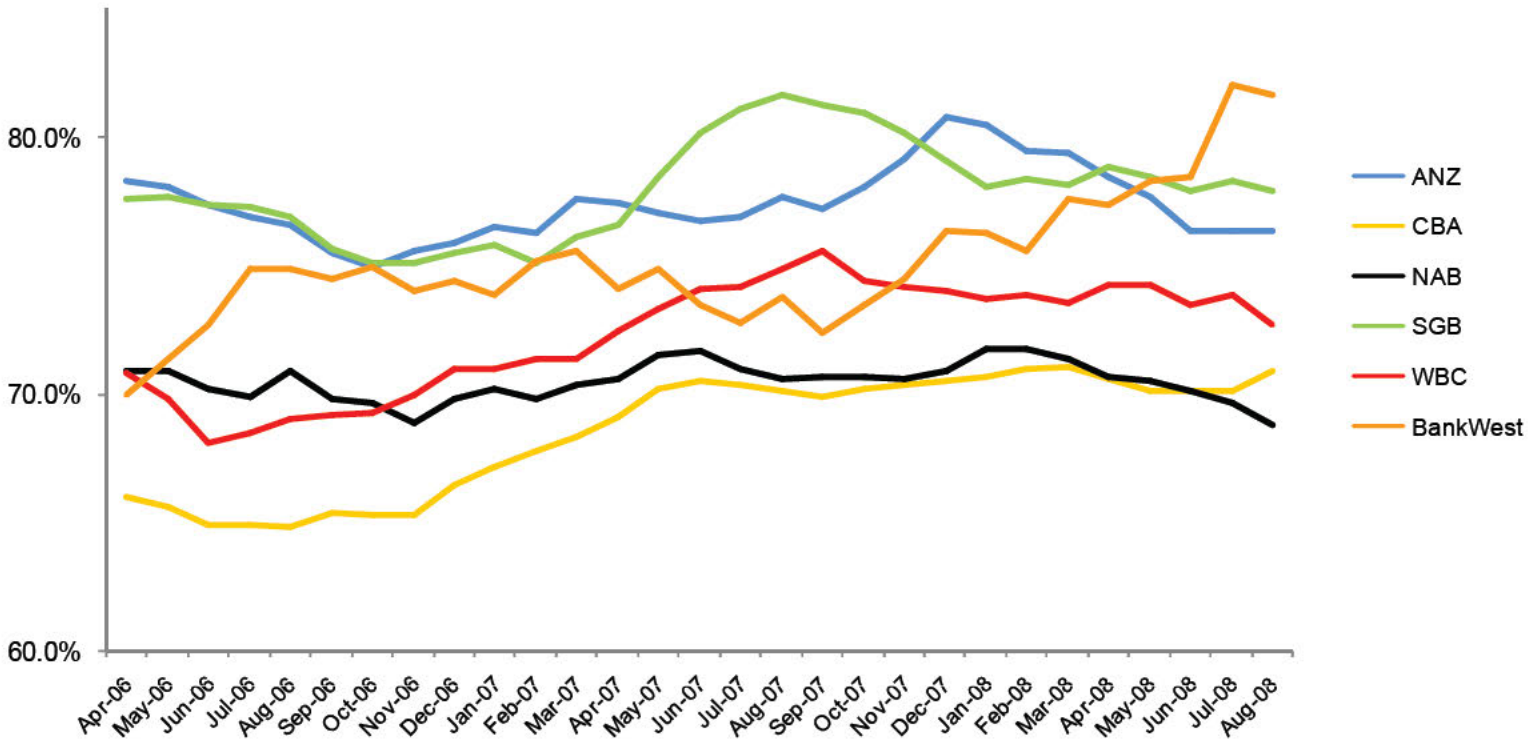
<sup>1</sup> Subject to finalisation of completion accounts.



# Customer satisfaction

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**Roy Morgan Research Customer Satisfaction – Retail Banking**



Source: Roy Morgan Research. Aust Main Financial Institution (MFI) Population 14+, % "Very" or "Fairly Satisfied" (6 month rolling average).



# CBA Market Update

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- Comfortable with the current range of analysts' cash 2009 NPAT forecasts;
- ABC Learning listed notes marked down (2009 NPAT impact of ~ \$100m);
- As announced, collection is doubtful on Lehman exposures (potential 2009 NPAT impact of ~ \$100m);
- Book quality remains sound: no systemic issues in consumer or commercial book;
- No major new problem accounts identified in current year;
- Significant growth in domestic deposits of \$21 billion up 9% in only two months;
- Well ahead of long term wholesale funding plan with \$1.7 billion raised since July,
- High level, exploratory discussion with Suncorp-Metway – not currently involved in sales process; and
- Standard & Poor's, Moody's and Fitch have all confirmed the Group's credit ratings with stable outlook, following the acquisition of BankWest.

# Commonwealth Bank of Australia

**Determined** to offer strength in uncertain times

## Acquisition of BankWest and St. Andrew's Australia – A Compelling Strategic Growth Opportunity

Investor Pack

8 October 2008

.....  
Commonwealth Bank of Australia ACN 123 123 124





COMMONWEALTH OF AUSTRALIA

Financial Sector (Shareholdings) Act 1998

Notice of approval under subsection 14(1)

I, WAYNE MAXWELL SWAN, Deputy Prime Minister and Treasurer, being satisfied that it is in the national interest, under subsection 14(1) of the *Financial Sector (Shareholdings) Act 1998*, approve the **Commonwealth Bank of Australia** ACN 123 123 124 and its associates as defined in clause 4 of schedule 1 of the Act, to hold 100 per cent of the gross assets and liabilities of the **Bank of Western Australia Limited** ACN 050 494 454.

This approval has immediate effect and remains in force indefinitely.

4/9/12

Dated

A handwritten signature in cursive script, appearing to read 'Wayne Swan'.

WAYNE MAXWELL SWAN

Deputy Prime Minister and Treasurer



COMMONWEALTH OF AUSTRALIA

Banking Act 1959

**Notice of consent under Subsection 63(1)**

I, WAYNE MAXWELL SWAN, Deputy Prime Minister and Treasurer, having taken the national interest into account under subsection 63(3A) of the *Banking Act 1959*, provide consent for the **Bank of Western Australia Limited** ACN 050 494 454 to enter into an agreement with the **Commonwealth Bank of Australia (CBA)** ACN 123 123 124, for the disposal of its business to CBA.

This approval has immediate effect and remains in force indefinitely.

Dated

24/4/12  
A handwritten signature in black ink, appearing to be 'Wayne Maxwell Swan', written over the date.

WAYNE MAXWELL SWAN

Deputy Prime Minister and Treasurer