

**In the large merger between:**

**Cape of Good Hope Bank Limited**

**and**

**A division of Nedcor Investment Bank Limited**

---

### **Reasons for Decision**

---

#### **APPROVAL**

On 24 April 2002 the Competition Tribunal issued a Merger Clearance Certificate approving the merger between Cape of Good Hope Bank Limited and a division of Nedcor Investment Bank Limited, in terms of section 16(2)(a). The reasons for the approval of the merger appear below.

#### **The parties**

1. The acquiring firm is Cape of Good Hope Bank Limited (“CGHB”). CGHB is described as a niche regional bank, significantly smaller than the big four banks, and holds an A2 bank rating.<sup>1</sup> It has a network of 12 branches throughout the Western Cape and Gauteng and offers a range of products from property development finance to home loans to short-term insurance, to financial planning to treasury facilities, etc.
2. CGHB is a wholly owned subsidiary of Nedcor Limited (“Nedcor”), the country’s second largest bank and listed on the JSE. Nedcor is described as an A1 rated bank, one of the big four. Old Mutual, through OMSA, is one of the largest shareholders of Nedcor.
3. The target firm is a portion of the business of Nedcor Investment Bank Limited (“NIB”), a subsidiary of Nedcor.<sup>2</sup> NIB, also listed on the JSE, is an investment bank, involved in banking (corporate finance, private equity, structured and project finance), treasury facilities, commercial and industrial property finance, investment management, index management and asset management.

---

<sup>1</sup> According to Fitch South Africa, the international rating agency, record page 10,50, 96.

<sup>2</sup> Nedcor has a 84% stake in NIB. Both CGHB and NIB have the same shareholders, therefore ultimate control remains the same both pre and post merger.

### **The merger transaction**

4. Only the commercial and industrial property loans and mortgage portion of the business is being acquired by CGHB. More specifically, the provision of commercial and industrial property loans and mortgages falling below R5 million. This business apparently constitutes 6.7% of NIB'S total mortgage loan book of R6 billion, the value being R400 million.
5. Post-merger, CGHB and NIB will continue to compete in respect of the provision of commercial and industrial property loans in excess of R5 million.

### **Rationale for the Transaction**

6. This is a strategic decision taken by NIB, reflecting an internal restructuring, in terms of which it seeks to dispose of its commercial and property loans and mortgages below R5 million to focus on that exceeding R5 million ("the upper end of the broad market"). Furthermore, the transaction will enable CGHB to have direct control of this business and to expand its customer base in order to grow.

### **The relevant product market**

7. Since both parties are active in the market for the provision of commercial and industrial property and mortgages below R5 million, and since this is the only portion of NIB's business being acquired, this is the relevant market for the purpose of this transaction.

### **Geographical Market**

8. The Tribunal endorses the Commission's view that, insofar as loans are provided to clients across South Africa, the geographical market is the entire country.

### **Impact on competition**

9. The parties were unable to provide market shares in respect of the market for loans below R5 million. They say they are unable to get market data for the below R5 million threshold since Banks have mixed loan profiles, which will start at R5million and then eventually reduce to R5 million. The data they did provide was only in respect of the broad market, that is both loans exceeding and below R5 million.

<b>INSTITUTION</b>	<b>MARKET SHARE</b>
ABSA	30.9
NEDCOR (INCL. NIB AND CHGB)	17.7
BOE BANK LIMITED	13.4
FIRST RAND BANK LIMITED	10.3
OLD MUTUAL BANK LIMITED	0.07
OTHER	9.3
<b>TOTAL</b>	<b>100</b>

Source: NIB's Form CC4 (2) Statement of Merger Information

10. The parties advised that pre-merger, CGHB holds 1.68% of the South African mortgage industry. They accordingly maintain that the market shares of the affected transaction are too small to have an impact and that there is much competition in this market, both from existing banks as well as from non-traditional banking institutions in this sector, such as South African Home Loans.
  
11. However we find that the market share data is academic. What is significant is that the Nedcor Group is retaining control since the business is merely passing from NIB to Nedcor Limited, therefore the existing competitive position in this market will not be altered by this merger.

### **Conclusion**

The Tribunal endorses the Commission's finding that this transaction will not substantially lessen or prevent competition in the relevant market and accordingly approves the transaction unconditionally. There are no public interest concerns which would alter this conclusion.

\_\_\_\_\_  
N.M. Manoim

**26 April 2002**  
Date

**Concurring: U. Bhoola. P. Maponya**