COMPETITION TRIBUNAL
REPUBLIC OF SOUTH AFRICA

Case No: 82/LM/Nov02

In the large merger between:

ABSA Group Limited

and

PSG Investment Bank Holdings Limited

Reasons for Decision

APPROVAL

On 19 December 2002 the Competition Tribunal issued a Merger Clearance Certificate approving the merger between ABSA Ltd and **PSG Investment Bank Holdings 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 ABSA Group Limited ("Absa"), one of the four major banks in South Africa, and listed on the JSE. It's major shareholders include Sanlam, as to 33.7%, Universta (Pty) Ltd as to 23.69% and the Public Investment Commissioner as to 6.81% .**

2. The target firm is **PSG Investment Bank Holdings Limited** ("PSG"), a company listed on the Johannesburg Stock Exchange. PSG is controlled as to 56.5% by PSG Financial Services Limited and ultimately controlled by the PSG Group.

The Merger Transaction

3. The transaction comprises a scheme of arrangement whereby Absa is

acquiring the entire issued share capital of PSG on a fully diluted basis. Post-merger, PSG will be Absa's wholly-owned subsidiary. Certain PSG assets are being excluded from the transaction. We were advised that these assets are not competitive with those assets being transferred to Absa.

Rationale for the Transaction

4. The transaction occurs pursuant to systemic turbulence in the banking industry and the effect of such on smaller (A2) banking groups, such as PSG. The Registrar of Banks, according to the parties, has actively encouraged PSG to consolidate with one of the A1 banks.

The Relevant Market

5. Both Absa and PSG operate within the broader financial services industry. Absa's core activity extends across providing a range of financial services to (retail and corporate clients), comprising personal, commercial and wholesale banking as well as insurance.

6. PSG is described as a niche bank and has been operating since 1998. It has a range of business activities, including corporate finance (through PSG Capital), treasury (through PSG and subsidiaries), treasury outsourcing (through PSG Treasury Outsourcing (Pty) Ltd, trade and commodity finance (through PSG Trade Finance (Pty) Ltd, structured products, structured and project finance as well as corporate services.

7. The Commission identified a service overlap in treasury services, specialised finance (which in turn can be segmented into structured finance and project finance on the one hand and structured products on the other) and proprietary investment businesses as separate, distinct markets. These services fall under wholesale banking. Since both firms provide these services across South Africa, the geographic market is correctly regarded as national.

- ***treasury services***

Within a bank, the treasury department procures funding in the financial markets and allocates it to the various banking departments at a margin. It further manages internal risk within the bank. Absa's existing treasury function is accordingly being extended.

- ***specialised finance***

    - ***Structured finance and Project finance***

    Both types of financing fund capital assets and projects (e.g. construction of a toll road or dam) which differ according to method of funding. With structured finance, finance is arranged and structured via various financial instruments (be it equity or debt). Generally parties uses this type of finance when the company has a variable interest rate and want to convert it into a fixed rate loan or vice versa. With project finance, money is raised via a loan and repaid through revenues generated from the project.

    - ***Structured products***

    Designed specifically for the contractual savings industry. These are investment products which have a guaranteed return or particular investment profile (for example pension funds). A new market for ABSA. PSG has less than 1% market share.

- ***proprietary investment businesses***

  The bank itself invests in shares in listed and unlisted companies. Profits are made via dividend income and capital gains through sale of shares.

Impact on competition

8. The market shares provided indicated that in each of the above markets separately, the combined market share does not exceed 20%. The increment to Absa's market share brought about by the merger is insignificant, in each case, less than 1%.

9. The customers are large multinationals or corporate entities who are appraised and well-informed enough about the respective financial instruments in the event that the merged entity decides to exercise market power. Furthermore, there have been a proliferation in recent years of both local and foreign companies that compete with the parties.

Public Interest

10. Any retrenchments appear to be as a result of the turbulence and consequential shake-up in the banking industry generally and not as a result of the merger.

Conclusion

We conclude that the merger will not lead to a substantial lessening of competition. There are no public interest concerns which would alter this conclusion for the reasons stated above. The merger is therefore approved unconditionally.

_______________ 20 December 2002

N. Manoim Date

Concurring: D.Lewis, M. Holden

For the merging parties:	Cliffe Dekker Attorneys
For the Commission:	K. Ramathula, N. Barnabas, Competition Commission