



## **DETERMINATION OF MERGER NOTIFICATION M/08/036 -**

### **LLOYDS TSB / HBOS**

---

#### **Section 21 of the Competition Act 2002**

#### **Proposed acquisition by Lloyds TSB Group plc of HBOS plc**

**Dated 17/12/08**

---

#### **Introduction**

1. On 21 November 2008, the Competition Authority ("the Authority"), in accordance with section 18(1) of the Competition Act 2002 ("the Act"), was notified, on a mandatory basis, of a proposal ("proposed transaction") whereby Lloyds TSB Group plc ("Lloyds TSB") would acquire sole control of HBOS plc ("HBOS").

#### **The Undertakings Involved**

##### *The Acquirer*

2. Lloyds TSB is a financial services group which provides banking and financial services in the UK, the State and elsewhere in the world. Lloyds TSB activities are organised into three divisions: UK Retail Banking; Insurance and Investments; and, Wholesale and International Banking.
3. In the State, Lloyds TSB carries out the following activities:
  - Invoice discounting services through Lloyds TSB Commercial Finance Ltd ("Commercial Finance Ireland"), a wholly-owned subsidiary of Lloyds TSB. These services to customers in the State are provided from the UK operations of Lloyds TSB.
  - Management of four cash funds and one private equity fund registered in Ireland.

##### *The Target*

4. HBOS is a diversified financial services group engaged in a range of banking, insurance broking, financial services and finance-related activities throughout the UK, the State and elsewhere in the world.
5. In the State, HBOS is active through Bank of Scotland (Ireland) Limited ("BOSI") which provides personal and corporate banking services. In addition, HBOS has an insurance business in Ireland, which mainly provides captive (i.e., in-house) insurance.
6. BOSI operates under two brands: Halifax and Bank of Scotland (Ireland):
  - The Halifax brand provides personal banking services such as mortgages, loans, savings, credit cards, current accounts and

investment products through its branches, intermediaries/brokers and over the internet and telephone.

- The Bank of Scotland (Ireland) brand provides corporate banking services which include lending and transactional banking in the areas of property, business finance, working capital, invoice discounting, trade finance, sector specific funding and acquisition finance.

### **The Proposed Transaction**

7. On 18 September 2008, Lloyds TSB and HBOS announced that they had reached agreement on the terms of a recommended acquisition of sole control of HBOS by Lloyds TSB. The recommended acquisition was intended to address the difficulties experienced by HBOS in the global financial crisis.
8. On 8 October 2008, the UK Government announced a package of financial support to the banking industry. As part of the package, the UK Government indicated its willingness to support the recapitalisation of UK banks.
9. On 13 October 2008, Lloyds TSB and HBOS announced that they would raise additional capital by offering new ordinary shares to share holders and potentially to other private investors. Any ordinary shares not taken up by shareholders and/or private investors will be acquired by the UK Government as part of the recapitalisation scheme.
10. Given the uncertainty as to existing shareholders' participation in the share issues, it is not clear what the final breakdown of the merged entity's share register will be after completion of the proposed transaction. However, if no existing Lloyds TSB or HBOS shareholders choose to participate in the capital raisings, the shareholdings in the merged entity will be as follows:
  - Existing Lloyds TSB shareholders would hold 36.5% of the ordinary shares;
  - Existing HBOS shareholders would hold 20%; and;
  - The UK Government would hold the remaining 43.5%.
11. On 24 October 2008, the UK Office of Fair Trading ("OFT") submitted a report to the UK Secretary for Business, Enterprise and Regulatory Reform on its investigation of the proposed takeover by Lloyds TSB of HBOS.<sup>1</sup> On 31 October 2008, the Secretary of State cleared the proposed transaction and, as a result, the proposed transaction may be completed.

---

<sup>1</sup> See the UK OFT's *Anticipated acquisition by Lloyds TSB plc of HBOS plc - Report to the Secretary of State for Business Enterprise and Regulatory Reform*, 24 October 2008, available at: [http://www.of.gov.uk/advice\\_and\\_resources/resource\\_base/Mergers\\_home/2008/Lloyds](http://www.of.gov.uk/advice_and_resources/resource_base/Mergers_home/2008/Lloyds)

## Analysis

### Overlap

12. The European Commission has in previous decisions held that banking services can be divided into three main segments:
  - Retail banking (products supplied to private individuals);
  - Corporate banking (with separate markets for small and medium customers and large corporate customers); and,
  - Financial market services.<sup>2</sup>
13. Corporate banking generally comprises banking services to large corporate customers and smaller commercial clients such as SMEs.<sup>3</sup> A similar approach of distinguishing between these two groups of clients in corporate banking is followed by other competition authorities such as the UK OFT and the UK Competition Commission.<sup>4</sup>
14. For the reasons set out below, the Authority does not consider it necessary to define relevant product and geographic markets with regard to the proposed transaction.
15. Internationally, both Lloyds TSB and HBOS provide corporate banking services to SMEs. These services generally include business current accounts and deposits, working capital solutions (for example, overdrafts, invoice discounting) and other financing options such as term loans, asset finance, structured finance. However, in the State, the activities of the parties overlap, albeit to a limited extent, only in respect of invoice discounting services.
16. Invoice discounting is a means by which finance is raised against a company's debtor's ledger. A credit institution or a broker advances funds up to 90% of an unpaid sales invoice. The remaining balance of the invoice is made available to the company when customers of the company settle their outstanding invoices.
17. HBOS estimates that for the year ended 31 December 2007 the aggregate turnover derived by all providers of invoice discounting services in the State is approximately €[...] million. On the basis of this figure, the parties estimate that BOSI's share of the total invoice discounting business in the State to be approximately [10-20]% while Lloyds TSB has a share of less than [0-10]%. This implies that post-merger, the merged entity would account for less than [10-20]% of this business in the State.

---

<sup>2</sup> See Case M. 4844 – Fortis/ABN, 14 August 2007.

<sup>3</sup> The parties considered the characterisation of SMEs in Case M. 4844 – Fortis/ABN, 14 August 2007, as undertakings with turnover between €2.5 million to €250 million as an appropriate approximation. HBOS estimates that the proportion of its current clients availing of its invoice discounting services falling in the above definition of SMEs in the State is [...]%. All of Lloyds TSB's current invoice discounting clients in the State falls within the definition.

<sup>4</sup> See, for instance, UK Competition Commission *The supply of banking services by clearing banks to small and medium-sized enterprises: A report on the supply of banking services by clearing banks to small and medium-sized enterprises within the UK*, March 2002, available at [http://www.competition-commission.gov.uk/inquiries/subjects/banking\\_services.htm](http://www.competition-commission.gov.uk/inquiries/subjects/banking_services.htm); and Office of Fair Trading *SME Banking - Review of the undertakings given by banks following the 2002 Competition Commission report*, August 2007, which is available at [http://www.offt.gov.uk/shared\\_offt/reports/financial\\_products/oft937.pdf](http://www.offt.gov.uk/shared_offt/reports/financial_products/oft937.pdf).

18. In addition to the parties, invoice discounting services are provided by other banks such as AIB, Bank of Ireland, Ulster Bank and Anglo Irish Bank as well as other non-bank companies such as Celtic Invoice Discounting Ltd and Clancy Cash flow Solutions.
19. The Authority therefore considers that the proposed transaction does not raise competition concerns in relation to the provision of invoice discounting services in the State due to:
  - the limited overlap in the activities of the parties; and,
  - the availability of alternative providers.

### **Determination**

The Competition Authority, in accordance with section 21(2)(a) of the Competition Act 2002, has determined that, in its opinion, the result of the proposed acquisition by Lloyds TSB Group plc of sole control of HBOS plc will not be to substantially lessen competition in any market for goods and services in the State and, accordingly, that the acquisition may be put into effect.

### **For the Competition Authority**

Dr Stanley Wong

Member of the Competition Authority