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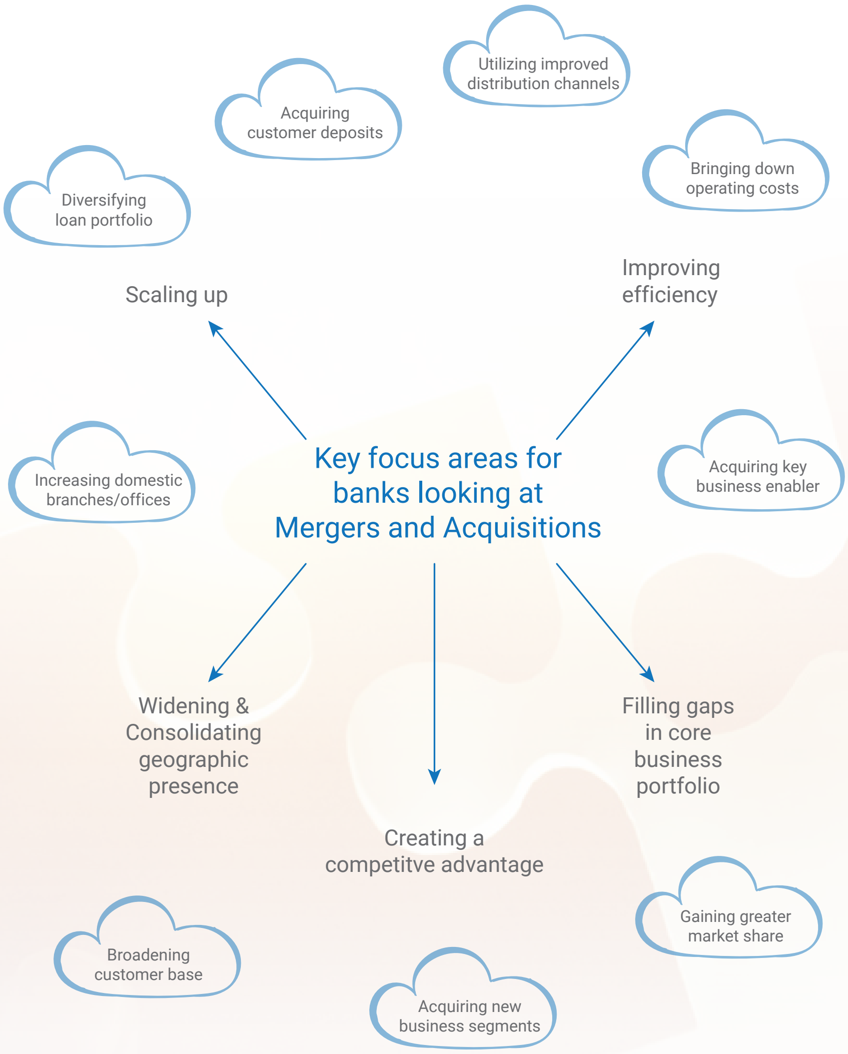
## February 2019

# GCC Banking Mergers

*What's the story so far?*




**Emirates NBD**
- Emirates Bank International
- National Bank of Dubai

**Al Salam Bank**
- Al Salam Bank
- BMI Bank

**FAB First Abu Dhabi Bank**
- First Gulf Bank
- National Bank of Abu Dhabi

## Research Highlights

The report analyses the GCC Banking M&A landscape and examines how some of the major GCC banking mergers have fared so far. The report studies the pre and post-merger performance of key mergers and identifies whether they have been value accretive for shareholders.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# Overview

Mergers are one of the widely adopted corporate strategies to help an organization grow. Mergers may have different motives and offer a wide range of benefits. The benefits could be increased market share, diversification of the product line, integration of supply chain, gaining access to Research & Development technology and patents, tax benefits. etc. However, all mergers do not create value to the businesses and the shareholders. A study made by KPMG concluded that about 83% of total mergers deals worldwide failed to create value for the associated shareholders. The study cites that companies often fail to create shareholder value as they concentrate much of their efforts on hard factors such as synergy evaluation, integration project planning, and due diligence while failing to focus on soft factors such as selecting the right management team, resolving cultural issues and effective communication. A balanced approach to satisfy all six factors would highly increase the chances of a merger to create value to the shareholder[1]. In spite of the low success ratio for mergers in creating value for the shareholders, there is still a high amount of M&A activity witnessed worldwide.

While looking from the viewpoint of the management of companies, there are several incentives for them to favor mergers and acquisitions. They offer an easier alternative to developing new competencies in-house and open up new business opportunities quicker. Mergers and Acquisitions are highly attractive options for companies who wish to scale up their operations, widen their product offerings and expand their geographic presence. In certain cases, mergers and acquisitions take place across different industries so that the acquirer can diversify their business. Certain mergers deals are done within the same business lines for the purpose of consolidation, removing inefficiencies and scaling up. While these may sound value additive on paper, reality suggests otherwise. Quite often, the synergies envisioned through mergers are not realized and exceed the integration costs. From a shareholder viewpoint, a merger or an acquisition is deemed to be successful only if they create value. By value, a merger or an acquisition should not merely be a combination of two entities that work as an aggregate of their previous individual forms. The resulting entity must exhibit growth higher than the levels what the individual entities could achieve. Considering the recent buzz surrounding the GCC banking industry regarding potential mergers, we analyze some of the landmark mergers in that space over the years.

[1] http://people.stern.nyu.edu/adamodar/pdfiles/eqnotes/KPMGM&A.pdf





# Why do banks opt for mergers and acquisitions?

Mergers and Acquisitions are nothing new as far as the banking industry is concerned. In 2017, total M&A deals that had banks as the target sector amounted to 2,023 and were worth USD 312 billion, making it the fourth highest sector in terms of M&A deal values[2]. On the contrary, major M&A deals between large banks within the GCC region have been few and far between. Consolidation was not on the agenda as high oil prices were supporting the regional economy. However, the volatility in oil prices witnessed in the past few years have acted as a trigger point. The merger between First Gulf Bank and National Bank of Abu Dhabi that took effect in 2017 became the largest banking merger in the GCC surpassing the merger of Emirates NBD that took place in 2007.

Simplistically, banks make profits by lending money at higher interest rates than what they borrow them for. They receive interest on loans and the debt securities they hold, while paying interest on deposits they receive and the funds they borrow. This remains their core business operation. However, disruptions and competition have meant that sustaining growth over a longer time horizon would be far more challenging than what it used to be. Hence, the operating models of banks have evolved over time, moving from only accepting deposits and disbursing loans to incorporate a wide array of additive functions. Banks have strategically positioned themselves to either specifically target the needs of a group of clients or diversify their offerings to serve a larger base. Their geographic presence has also widened from targeting only domestic clients to become large global institutions.

**Figure 2.1: Banking functions**

**Retail Banking** → Retail banking refers to the division that deals directly with individual customers. Services offered include checking and savings accounts, credit cards, personal/home/vehicle loans, remittance services etc.

**Private Banking** → A subset of retail banking that provides customized services specifically to high net worth individuals.

**Corporate Banking** → Corporate banking refers to the division that deals with corporate customers. Services offered include corporate loans, treasury and cash management services, equipment lending, trade finance, employer services (payroll, group retirement plan) etc.

**Commercial Banking** → Similar to corporate banking but the clientele are generally small and medium businesses.

**Investment Banking** → Investment banks underwrite new debt and equity securities for all types of corporations, aid in the sale of securities, facilitate mergers and acquisitions, reorganizations and broker trades for both institutions and private investors.

**Wholesale Banking** → Banking services between merchant banks and other financial institutions such as large corporations and other banks. They are reserved only for government agencies, pension funds, corporations with strong financials and other institutional customers.

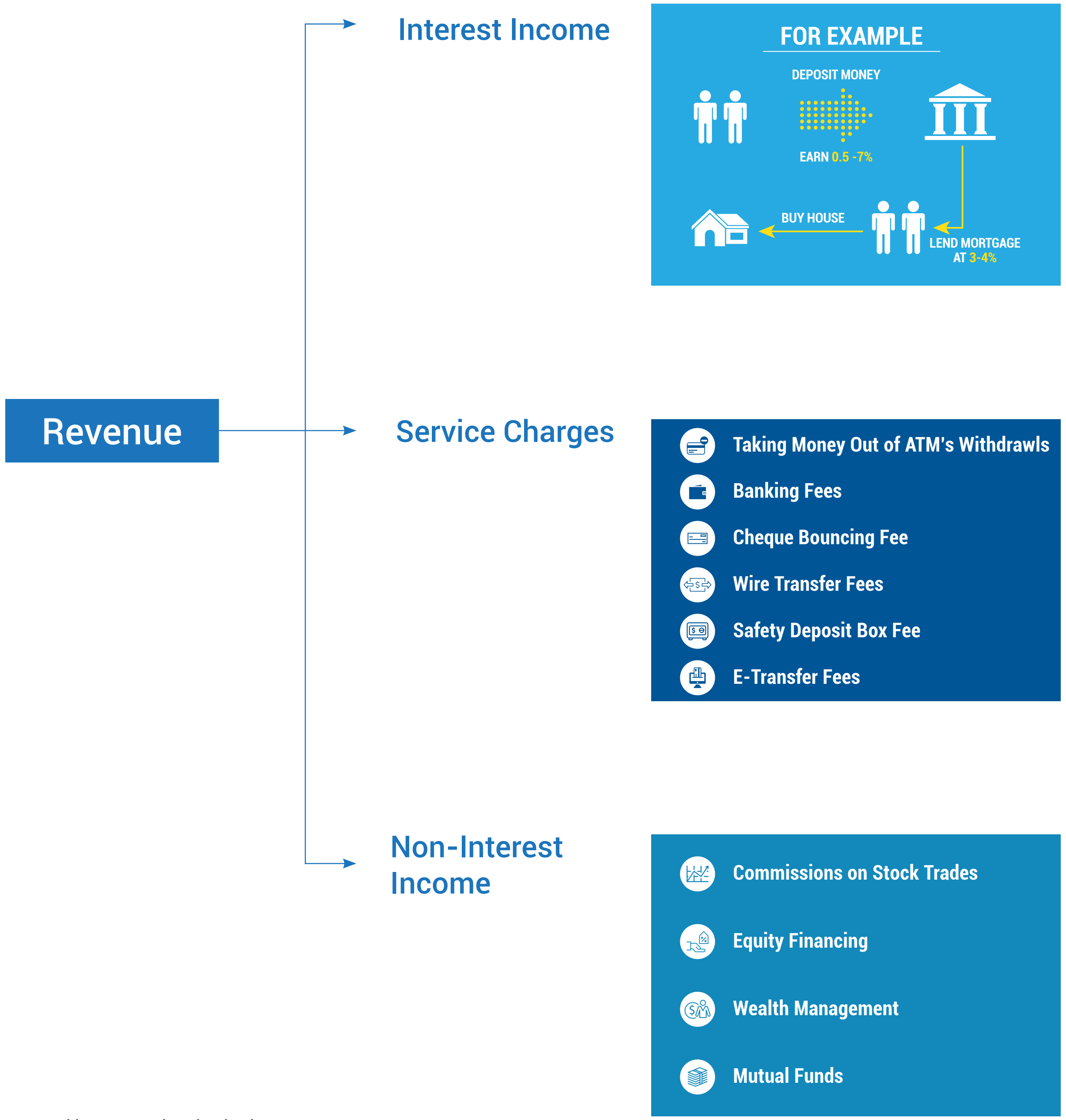
**Islamic Banking** → Islamic banking is a banking system based on Shari'ah law and guided by Islamic economics. Two fundamental principles of Islamic banking are the sharing of profit and loss and the prohibition of collection and payment of interest by lenders and investors.

***Source: Investopedia, public sources***

[2] Bureau Van Dijk Global M&A Review 2017

Primary source of income for retail banks is the interest income (i.e.) the net income received from lending and borrowing money. Apart from interest income, banks receive revenue from different forms of service charges, commissions and fees (non-interest income).

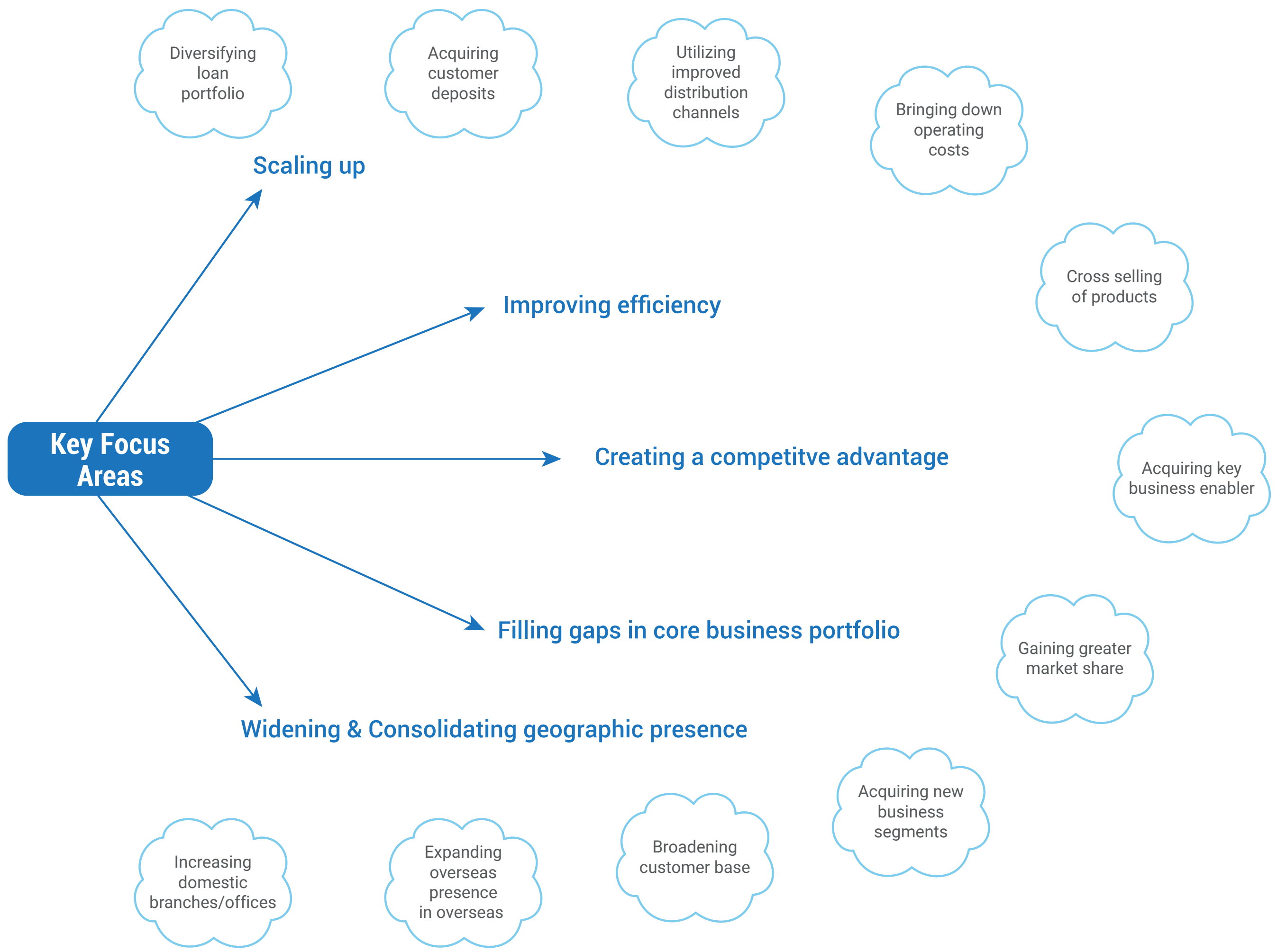
**Figure 2.2: Source of revenue for retail banks**




*Source: thingsyouwontlearninschool.ca*

Owing to the cutthroat competition witnessed in the banking industry, which has become saturated but still remaining a key component of the economy, banks are in the need to strategically position themselves to serve their clientele better and differentiate their offerings. For example, they will need to decide on where to compete in the value chain. Whether to channelize their efforts more on one end of the spectrum that involves creating new financial products or at the other end that is concerned with distribution of products and managing customer relations. These key decisions often shape up the way in which a bank works and determine the factors that the bank perceives to be the growth driver moving forward. Growth can either be achieved organically by developing those competencies in-house over time or inorganically through mergers and acquisitions. M&A are relatively quicker and sometimes the easier option as it involves acquiring something that has already been established. However, it is not a guaranteed success as mergers can be complicated and expensive. Banks generally have targets that they wish to achieve through a potential merger before considering whether to pursue a merger or not. These could range between scaling up, improving efficiency, acquiring a new technology or even a separate division.

**Figure 2.3: Key focus areas for banks looking at Mergers and Acquisitions**




*Source: Marmore Research*

Each merger and acquisition takes place under different circumstances and with targets unique to one another. In the GCC region, mergers in the banking industry take place mainly for the purpose of consolidation between entities that are part owned by the government. In certain cases, a specific division or a business segment (like Islamic operations or Retail operations) is acquired by another bank.

# GCC Banking Merger Wave

GCC countries have witnessed a surge in high-profile merger announcements in recent times, especially in the banking sector. The presence of unusually high number of banks and the fall in profitability have triggered the need for consolidation. Consolidation would provide them with higher pricing power and reduce the pressure on funding costs. It would also help in scaling up operations and widening the geographic scope for these banking institutions. The rise or fall of banking assets in the GCC has always had a high correlation with the countries' GDP, which in turn is correlated with oil prices. After the fall in oil prices during 2014, GCC governments have had to dip into government deposits to offset the impact of loss in oil revenues, putting pressure on the regional banks. In addition, the increase in compliance cost, introduction of VAT and keeping abreast with the technological developments have affected them from a cost perspective. Therefore, in order to stay competitive and profitable, mergers could be a viable option.

GCC region is also a grossly overbanked region, having more than 69 listed banks catering to a population of around 55 million. Especially Bahrain, Kuwait and the UAE, which have more than two listed banks per million citizens. In comparison, the United Kingdom, which is a developed market, has only 16 listed banks for a population of 66 million.

**Table 3.1: GCC Banking Penetration 2018**

| Country | Number of Banks | | Number of Banks per million residents | Total Banking Assets | Total Banking Assets per bank |
|---|---|---|---|---|---|
| | Foreign Banks | Domestic Banks | | | |
| United Arab Emirates | 22 | 39 | 6.5 | 766.3 | 12.6 |
| Saudi Arabia | 12 | 12 | 0.7 | 627.9 | 26.2 |
| Qatar | 11 | 7 | 6.9 | 373.7 | 20.8 |
| Kuwait | 11 | 12 | 5.6 | 213.1 | 9.3 |
| Bahrain | 29 | | 19.3 | 192.7 | 6.6 |
| Oman | 11 | 9 | 4.3 | 86.8 | 4.3 |
| Singapore | 131 | | 23.4 | 928.2 | 7.1 |
| United Kingdom | 156 | 160 | 5.2 | 9,265.0 | 26.9 |
| United States of America | 4,852 | | 14.8 | 16,807.2 | 3.5 |

*Source: Central Bank websites, World Bank;*

The merger between First Gulf Bank and National Bank of Abu Dhabi has triggered a series of announcements regarding mergers within the industry across GCC countries. In Saudi Arabia, Saudi British Bank and Alawwal Bank finalized a merger agreement in May 2018 to create the country's third-largest bank by assets. National Commercial Bank, which is currently Saudi Arabia's largest bank, is seeking advice for a potential merger with Riyadh Bank. If the deal materializes, it would create the gulf region's third largest lender with assets worth USD 182 billion[3]. Likewise, activity in Qatar's banking industry was also long expected considering the presence of 18 local and international banks for a population of 2.6 million[4]. International Bank of Qatar and Barwa Bank announced the signing of a merger agreement to combine both entities to form a Sharia compliant financial institution. Another high-profile merger between Kuwait Finance House and Ahli United Bank is expected to result in second biggest Islamic bank in the GCC after Al Rajhi Bank. Standalone KFH and AUB have their footprint in six and eight countries respectively. If merger materializes, the merged entity will have presence in twelve countries. Following the merger of First Abu Dhabi bank, Abu Dhabi Commercial Bank (ADCB) is exploring the possibility of a merger with its local counterparts Union National Bank (UNB) and the Sharia-compliant lender Al Hilal Bank. The consolidation of these three lenders would create an entity with total assets worth USD 113 billion, making it the fifth biggest bank in the GCC region.

In the past two decades, there have been very few mergers among local banks in the GCC. Majority of the M&A activity in the sector were in the form of cross border acquisitions to widen the geographic presence. Two of the biggest banking mergers took place in the UAE, nearly a decade apart from each other. Formation of Emirates NBD and First Bank of Abu Dhabi were significant deals for the UAE, where on both occasions, the biggest bank in the country was formed. Financial advisors for some of the key banking mergers are renowned players with International presence. UBS Investment Bank and Credit Suisse Group were chosen as the financial advisors for the landmark merger of First Abu Dhabi Bank, representing First Gulf Bank and National Bank of Abu Dhabi respectively. London-based law firms Freshfields Bruckhaus Deringer, Allen & Overy, Linklaters, Clifford Chance have been the preferred legal advisors of choice for some of the major banking M&A deals in the GCC.

[3] Bloomberg
[4] Reuters



**Table 3.2: Mergers and Acquisitions in the GCC Banking sector (Inter-GCC)**

| Target Name | Acquirer Name | Deal Value (USD Mn) | Effective Date | Acquirer Nation | Target Nation | Legal Advisors | Financial Advisors |
|---|---|---|---|---|---|---|---|
| First Gulf Bank Pjsc | National Bank of Abu Dhabi | 14,844 | 3/30/2017 | UAE | UAE | Freshfields, Allen & Overy, Clifford Chance | UBS Investment Bank, Credit Suisse Group |
| Barclays PLC - Retail Operations | Abu Dhabi Islamic Bank PSJC | 162 | 9/1/2014 | UAE | UAE | Linklaters, Latham & Watkins | Barclays |
| BMI Bank BSCC | Al Salam Bank Bahrain BSC | 145 | 2/2/2014 | Bahrain | Bahrain | - | - |
| Lloyds Banking Group PLC-Onshore Retail & Commercial Banking Assets | HSBC Bank Middle East Ltd | - | 4/22/2013 | UAE | UAE | Linklaters, Freshfields Bruckhaus Deringer | Rothschild & Co |
| Dubai Bank PJSC | Emirates NBD Bank PJSC | - | 10/12/2011 | UAE | UAE | - | - |
| HSBC Bank Middle East Ltd | Oman International Bank SAOG | 715 | 6/3/2012 | Oman | Oman | SNR Denton US LLP, Clifford Chance | HSBC Hold-ings PLC (UK), Pricewater-houseCoopers |
| International Bank of Qatar- Islamic Banking Retail Operations | Barwa Bank QSC | - | 8/21/2011 | Qatar | Qatar | Eversheds | Goldman Sachs & Co |
| BLC Bank SAL-United Arab Emirates Branches(4) | Al Khaliji Commercial Bank | - | 10/29/2007 | Qatar | UAE | Gide Loyrette Nouel | - |

| Target Name | Acquirer Name | Deal Value (USD Mn) | Effective Date | Acquirer Nation | Target Nation | Legal Advisors | Financial Advisors |
|---|---|---|---|---|---|---|---|
| National Bank of Dubai Ltd | Emirates Bank Intl PJSC | 3,744 | 10/16/2007 | UAE | UAE | Allen & Overy, Freshfields Bruckhaus Deringer, Linklaters | Ernst & Young LLP, Goldman Sachs & Co, Morgan Stanley, Lehman Brothers International, KPMG |
| Citibank, NA Oman-Personal Loan Portfolio | Bank Muscat Al Ahli Al Omani | - | 12/18/2003 | Oman | Oman | - | - |
| ABN-Amro Bahrain(ABN-Amro Bank NV) | Bank Muscat Al Ahli Al Omani | - | 12/31/2001 | Oman | Bahrain | - | ABN-AMRO Holding NV |
| Commercial Bank of Oman- Branches (16) | Bank Dhofar Al Omani Al Fransi | 9 | 12/30/2000 | Oman | Oman | - | - |
| Commercial Bank of Oman | Bank Muscat Al Ahli Al Omani | 258 | 3/30/2001 | Oman | Oman | - | Societe Generale SA |
| United Saudi Bank | Saudi American Bank | 1,349 | 7/5/1999 | KSA | KSA | - | Salomon Smith Barney |
| Bank of Oman Bahrain and Kuwait(Bank of Bahrain and Kuwait) | Commercial Bank of Oman | - | 3/19/1998 | Oman | Oman | - | - |
| Saudi Cairo Bank | United Saudi Bank | - | 9/15/1997 | KSA | KSA | - | EFG Hermes |
| Oman Savings and Finance Bank | Commercial Bank of Oman | - | 8/15/1997 | Oman | Oman | - | - |
| Oman Banking Corp | Commercial Bank of Oman | - | 10/28/1993 | Oman | Oman | Walker Martineau, Trowers and Hamlins | - |

*Source: Reuters*

The environment for consolidation is stronger now than a decade ago. The fall in oil prices may be a significant trigger as more than 80 per cent of the Gulf's top 50 banks by assets are part owned by arms of GCC states. For instance, Government of Saudi Arabia owns 20.3% stake in Saudi Arabia's largest bank (National Commercial Bank) while its Public Investment Fund holds a 44.3% stake. Qatar Investment Authority holds 50% shares of Qatar's largest bank (Qatar National Bank). 33.5% of UAE's largest bank (First Abu Dhabi Bank) is owned by the Abu Dhabi Investment Council. Therefore, becoming a bigger bank strengthens ties to the government through business flow. In addition, it increases their resilience to credit or liquidity risk. However, there are instances where larger banks are mandated to acquire smaller banks with poor asset quality due to common government ownership. Those cases would not be value accretive to the private shareholders of the larger bank, who would be particularly averse to M&A activity because it would mean a dilution of their position. In terms of composition of banking systems while UAE, Oman and Bahrain are deemed overbanked, Saudi Arabia has relatively few domestic banking institutions which points to a less likelihood of M&A activity in the country.





# Case Studies

In order to evaluate the impact of mergers in creating value for the shareholders, three mergers from the GCC have been selected and presented as case studies. The case studies include the merger between Emirates Bank Intl. and National Bank of Dubai to form Emirates NBD, merger between Al Salam bank and BMI bank, and the merger between National Bank of Abu Dhabi and First Gulf Bank to form First Abu Dhabi Bank. The rationale behind selecting these three mergers is to look at a diverse range of inter-GCC banking mergers that have taken place at different periods and with different rationale. To maintain consistency, three mergers that closely represent a merger of equals have been selected. The first case is about the Emirates NBD merger that took place in 2007 between two large banks based out of Dubai to create the largest bank in the UAE. The event was preceded by a steady rise in oil prices and followed by the Global financial crisis, eventually resulting in a debt crisis in Dubai. The second case involves the merger of two Bahrain based banks i.e., between Al Salam Bank and BMI bank in 2014, the former being an Islamic bank while the latter was a conventional retail bank. The resulting bank started to operate as an Islamic bank after the conversion of BMI bank's assets to comply with Shari'ah principles. The third case study pertains to the First Abu Dhabi bank merger that took place in 2017 between two large banks based out of Abu Dhabi to create the largest bank in the GCC region by total banking assets. The event was preceded by a sharp fall in oil prices that constrained the profitability of banks in the region.

**Evaluation Methodology**

The selected case studies have been evaluated based on the following criteria

***Impact of Size:*** The impact caused by the increased size, market share, market penetration, assets, customer base etc. resulting out of the creation of a larger entity has been analyzed in this section.

***Rationale for merger:*** The underlying objectives of the merger have been analyzed based on whether the objectives have been met and whether the merged bank has successfully leveraged the individual strengths of the combining banks. Individual strengths of the banks before the merger have been highlighted.

***Credit rating impact:*** The impact of the merger on credit ratings and the outlook of the bank have been analyzed based on whether the change in ratings have been due to deterioration of quality or due to macroeconomic factors.

***Impact on Shareholder wealth:*** The effect of the merger on shareholder wealth and share prices have been analyzed.

***Structuring of the deal:*** The way in which the deals have been structured is discussed in detail. The benefits to shareholders of each of the banks have been evaluated based on deal structuring.

***Synergies and integration costs:*** Revenue and Cost synergies arising out of the merger have been highlighted in addition to the costs that would be incurred for integration. Based on the realization of costs and synergies over a period of time, the success of the merger in creating additional value has been analyzed.

***Evaluation of financial metrics:*** A pre and post-merger analysis of financial metrics is conducted for all three cases. The metrics taken into consideration include Return on Equity (RoE), Return on Assets (RoA), cost-to-income ratio, revenue growth and earnings per share growth. Gauging the changes in RoA and RoE before and after the merger helps to identify how efficient the management has been in using the combined asset and equity base of both banks to generate more income. Variations in cost-to-income ratio helps in capturing the temporary effect of integration costs on earnings and reflect whether the merger is able to create synergies by reducing operating costs. Revenue growth analysis aids in identifying whether the merged entity is able to create revenue synergies through additional revenue generation and examines the rate at which revenues of the new entity grow when compared to that of the individual entities. Earnings per share growth provides a decisive picture whether the company has been consistently profitable for its shareholders.

Based on all the factors above, we conclude whether the merger has been value accretive to the shareholders of the combining banks.

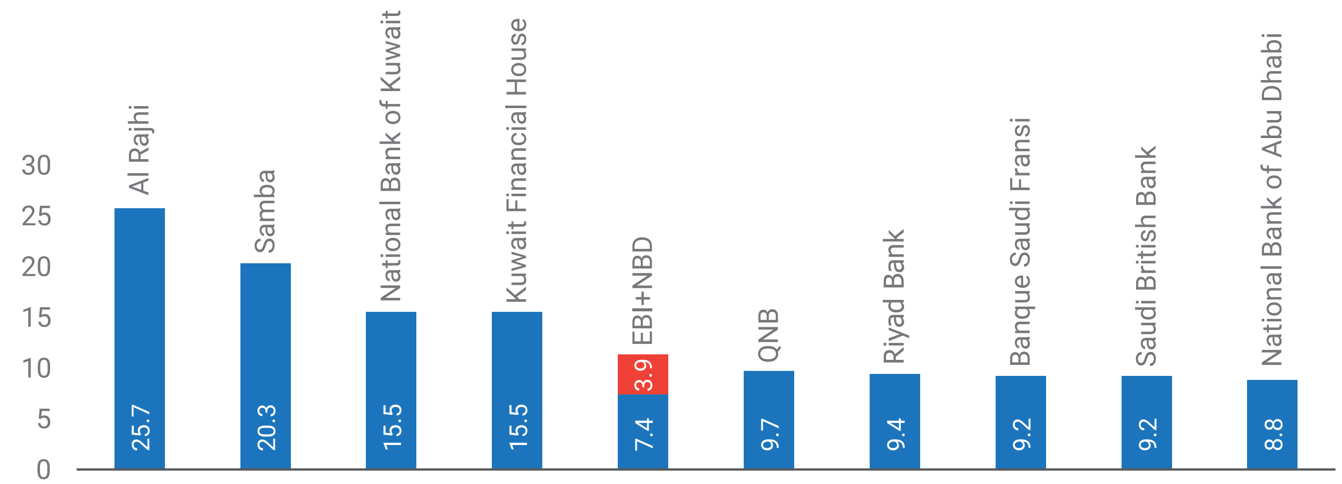
## 4.1 Emirates NBD (Emirates Bank Intl. & National Bank of Dubai)

The merger of Emirates Bank International and the National Bank of Dubai took place in 2007, when the economic conditions were quite different to that witnessed during the merger of First Abu Dhabi Bank in 2017. During the five years leading to the merger, UAE's real GDP grew at an average of 7%, helping the banking industry to flourish. In the same period, total assets of UAE banks grew at a CAGR of 23%.

The intention of the merger was to create an institution that would be a regional leader in the banking space with bigger international presence and a diversified business line. After the merger, Emirates NBD became the largest bank in the UAE in terms of both total assets and market capitalization. The common ownership of both banks acted as a significant facilitator for the merger. Government of Dubai had a 77% stake in EBI and a 14% stake in NBD before the merger.

The Merger between Emirates International Bank and National Bank of Dubai to form Emirates NBD was initially announced on March 2007. Subsequently, a deal was approved by their respective shareholders in September 2007. Emirates NBD, the combined entity was poised to have total assets of USD 45 billion, loans worth USD 28 billion and customer deposits worth USD 26 billion[4]. This translates to a domestic market share of 19.2% in terms of total assets, 21.7% by total loans and 18.4% of total deposits in addition to a network of roughly 100 branches across the UAE. The merger facilitated the partnership for wholesale, retail, investment, treasury and Islamic banking clients.

**Figure 4.1: Largest GCC banks by market cap during the ENBD Merger (in USD billion)**




*Source: ENBD Investor Presentation; As of July 1st 2007*

[4] As of 31 December 2006 financials





**Figure 4.2: Evaluation of individual strengths & rationale for merger**

بنك الإمارات دبي الوطني
Emirates NBD

### *Emirates Bank International*

**Islamic Banking**

- Is an established Islamic banking franchise with strong clinet base.
- Has a 5.2% market share of UAE's Total Islamic assets in 2006.

**Strong loan Book**

- EBI has a 12% and 16% market share of corporate and personal loans in the UAE. NBD has a market share of 8% each respectively.
- EBI and NBD together would account for 9.0% of the GCC loan market, the highest among GCC banks in 2006.

**Wider International presence**

- EBI has 58 branches in the UAE and presence in 6 countries overseas.
- NBD has 41 branches in the UAE and presence in 4 countries.

### *National Bank of Dubai*

**Strong Corporate and Investment Banking profile**

- 55% of NBD's total assets were constituted by corporate banking.
- NBD has an investment banking division that provides Investment Banking, Private Equity and Financial market solutions to several corporate, government and HNI clients.

**Bigger customer deposit base**

- NBD was the second largest bank in the UAE in terms of total deposits behind NBAD.
- EBI and NBDD together would account for 9.4% of the GCC deposit market, the highest among GCC banks in 2006.

**Mortgage Business**

- NBD was the largest non ISlamic provider of home loans in the UAE during 2007.

*Source: ENBD Investor Presentations, Annual Reports*

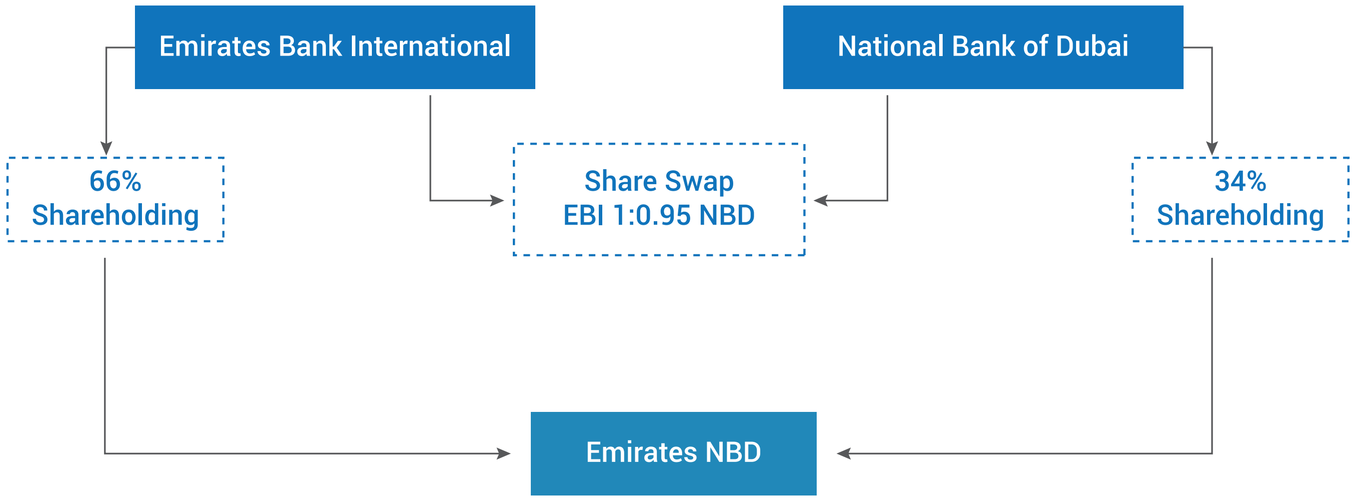
**Table 4.1: Credit Ratings Post Merger – Moody's**

| Date | Rating | | Outlook | |
|---|---|---|---|---|
| | | **Emirates NBD** | | |
| 16-Jun-16 | A3 | | Stable | |
| 08-May-14 | Baa1 | | Stable | |
| 06-Dec-12 | Baa1 | | Negative | |
| 10-Dec-09 | A2 | | Negative | |
| 24-Nov-09 | A1 | | Negative | |
| | **EBI** | **NBD** | **EBI** | **NBD** |
| 19-Jul-07 | A1 | A1 | Stable | Stable |

*Source: Moody's*

Before the merger, both banks were assigned a long-term deposit rating of A1 and a stable outlook by Moody's. Post-merger, they retained the ratings and outlook for Emirates NBD stating that the merger was significant and positive development for the UAE banking industry. However, the ratings and outlook tumbled down to Baa1 in December 2012 due to the weakness of Dubai's economy, debt default crisis and the rise of NPL levels of local banks to a range of 15-17%. In June 2016, the ratings were upgraded to A3 with a stable outlook after the improvement in the bank's asset quality and the resilience of the bank's financial profile amidst the low oil price environment.

**Figure 4.3: Transaction Structure**




*Source: Emirates NBD*

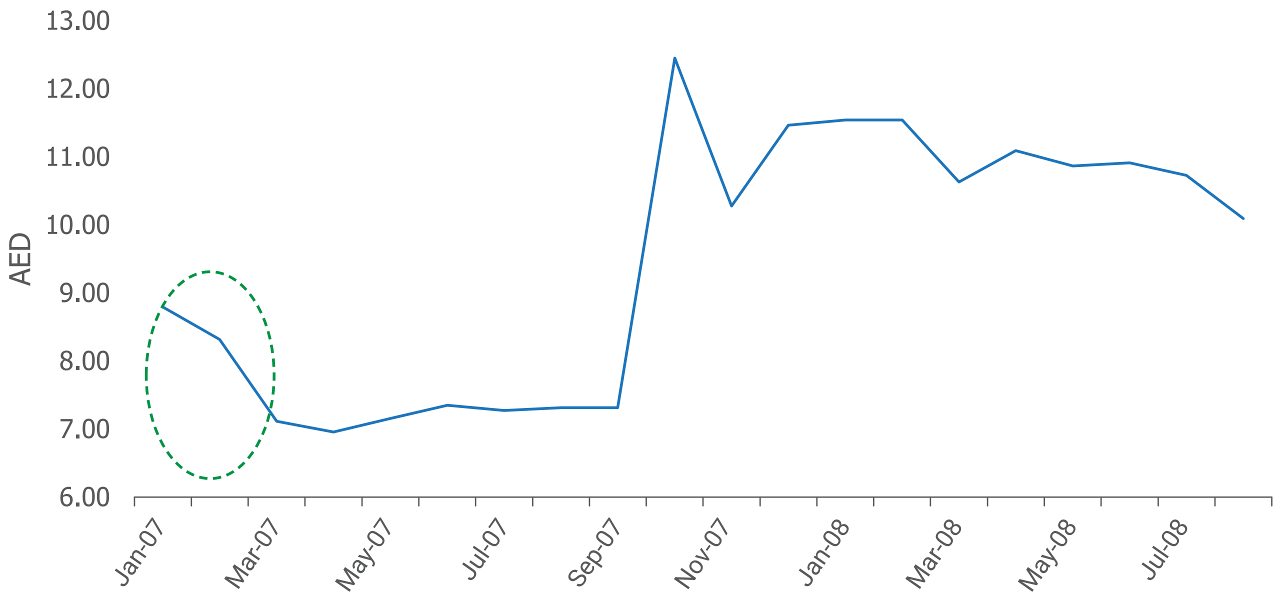
### Merger Timeline and Structuring

Merger of Emirates Bank International and National Bank of Dubai was completed through the creation of a new entity Emirates NBD by merging common ownership. The implied price of NBD and EBI were AED 8.84 and AED 9.30 respectively as of July 01 2007. As per the deal, one share of Emirates NBD was issued for every share of EBI while 0.95 shares of Emirates NBD was issued for every share of NBD. This represented a 14% premium for NBD shareholders. Post-merger, EBI shareholders owned 66.3% of the share capital in Emirates NBD while NBD shareholders owned 33.7%.

### Integration costs and cost synergies

Revenue synergies of the bank was expected through cross selling of products in both the corporate and retail banking space. The creation of a larger distribution network within the UAE was also expected to add to the increase in revenue generation. Greater penetration was expected from the Investment banking division owing to the increase in balance sheet strength of the merged bank. However, the annual revenue growth of Emirates NBD after the merger was significantly lower than the historical growth rates of the individual banks in the four years after the merger. Synergies were not completely realized as the years following the merger witnessed the global financial crisis, which caused a global slowdown. In addition, Dubai debt crisis and the sluggishness of the economy meant that the bank had to undergo a phase of muted growth. Cost Synergies were expected to emerge from the consolidation of branch and ATM network, integration of card acquiring business, pricing advantage on marketing spend, optimization of head office and group functions, reallocation of IT services. Cost synergies are also expected from leveraging Emirates Islamic bank as a platform for unified Islamic offerings. A target of AED 346 million of recurring annual synergies and a one off synergy of AED 372 million were expected by 2010. According to Emirates NBD, the cost synergies were successfully realized by 2010.

**Figure 4.4: Share price movement of EBI during merger announcement**




*Source: Reuters*

Share prices of EBI witnessed a decline during the time leading up to the merger announcement. Subsequently, it was decided that NBD shareholders would get a premium of 14% to the implied value of the share. New Shares of Emirates NBD was issued during September 2007, which resulted in the sharp increase in prices.

**Table 4.2: Pre-Merger (2003-06) and Post-Merger (2007-10) performance**

| Metrics | Pre-Merger Average | | Post-Merger Average |
|---|---|---|---|
| | Emirates Bank Intl. | National Bank of Dubai | Emirates NBD |
| ROE | 19.8% | 17.7% | 12.4% |
| ROA | 2.8% | 2.2% | 1.2% |
| Efficiency Ratio (Cost to Income) | 33.0% | 33.6% | 41.1% |
| Quarterly Revenue Growth | 61.8% | 33.0% | 16.0% |
| Quarterly EPS Growth | 37.0% | 10.7% | (16.7%) |

*Source: Reuters, Marmore Research*

Analyzing the performance metrics of both individual entities and the merger entity for a period of four years leading up to the merger and after the merger, we see a significant deterioration in metrics. Macroeconomic headwinds played a major role in the years following the merger due to global financial crisis, Dubai debt crisis and the weakness of the economy contributed to the underperformance of the banking sector in the UAE during the period after the merger. The creation of a larger entity added more resilience to the merged entity. However, all the key performance metrics witnessed a reduction post-merger. EPS growth of ENBD in the four years after the merger declined at a CAGR of 16.7% against the EPS growth of 37% seen by EBI shareholders in the four years leading up to the merger. Emirates NBD has managed to successfully weather the storm and emerge out of the economic downturn witnessed in the years that followed the merger.

## 4.2 Al Salam Bank (Al Salam Bank & BMI Bank)

The Central bank of Bahrain (CBB) has been advocating greater consolidation across the banking system due to the presence of a large number of banks for a relatively low population. As of March 2014, there were 80 conventional banks in Bahrain, including 22 conventional retail banks and 24 Islamic banks for a population of 1.2 million. Consolidation of smaller banks to form larger institutions would create robust entities, having better resilience to absorb financial shocks. A negative outlook has been prevailing on Bahrain's banking system for an extended period, since 2009 due to geopolitical issues and the weakness of the economy. Therefore, the banking system underwent a phase of consolidation during 2013-14. One prominent merger during the phase was the combination of Al Salam Bank (ASBB), an Islamic retail lender with BMI Bank, a conventional retail bank.

Al Salam Bank (ASBB) was founded in 2006, having a headquarters and five branches in Bahrain while BMI bank, which was founded in 2005, had eight branches. The merger of both banks created the fourth largest commercial bank in the country, with a total asset base of around USD 4.7 billion and a domestic market share of 9% by banking assets. The deal was announced two years after ASBB had acquired Bahrain Saudi Bank. Earlier, ASBB listed its share in the market through an IPO for 35% of its paid-up capital, becoming the largest such offering in Bahrain at that time, raising USD 7.1 bn. Bank Muscat owned 49% of shares in BMI bank, which operated in Bahrain as a conventional bank while having presence in Oman as well. Al Salam Bank agreed to merge with BMI bank and convert the merged entity into a Shari'a compliant lender.

However, the merger had significant challenges as the offerings of BMI bank would have to be converted into Shari'a-compliant products, involving additional costs and effective communication to staff and customers. In addition, the challenging economic conditions involving geopolitical issues, local real estate crisis, deteriorating asset quality and the fall in prices made the task harder. The combined entity was decided to operate as Al Salam Bank, while retaining BMI bank's branding for the short term, stating that BMI bank would be a wholly owned subsidiary of ASBB. The merger positioned Al Salam bank as the second largest retail Islamic bank in Bahrain, having a diversified customer portfolio and a stronger capital base.

**Figure 4.2: Evaluation of individual strengths & rationale for merger**

*Al Salam Bank*

**Islamic Bank**

- Full fledged Islamic financial service provider offering differentiated Sharia' compliant products to focused segments.
- Combining with BMI Bank and converting it into a Sharia' compliant player will make it the second largest Islamic retail bank in Bahrain.

**More profitable and efficient**

- Cost to income of Al Salam bank stood at 45.1%. More efficient than BMI bank's ratio of 86%.
- Average ROE in the past five years for Al Salam bank was 4.5%, higher than BMI bank's -9.5%.

*BMI Bank*

**Retail Conventional Bank**

- Retail conventional bank with a sizeable asset base and domestic presence.

**Larger pool of customer deposits**

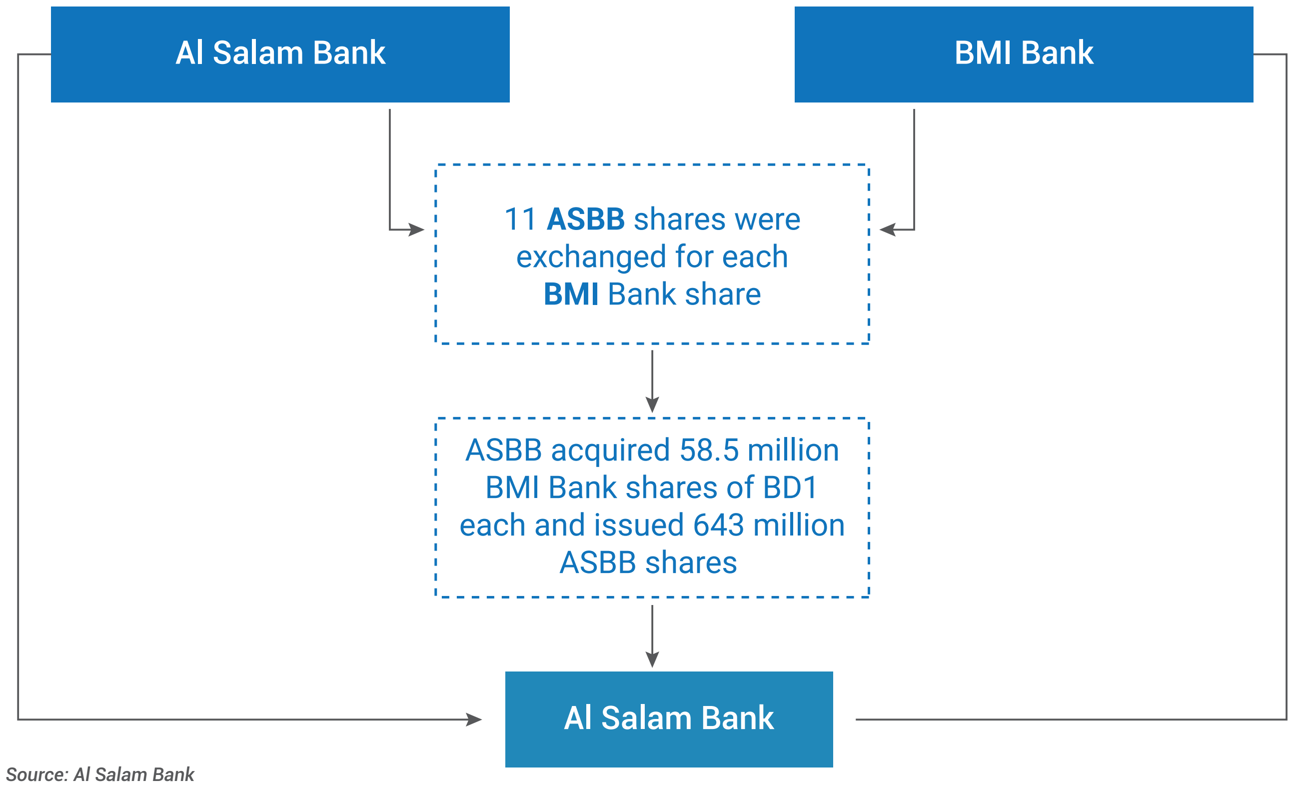
- Had a customer deposit pool of USD 1.6bn in 2013. Loans to deposit ratio stood at 0.62.

*Source: Al Salam Annual Reports*

**Merger Timeline and Structuring**

The announcement of an agreement regarding a share-swap merger was made during September 2013. As per the agreement, 11 ASBB shares were issued for each BMI Bank share wherein ASBB acquired 58,533,357 BMI Bank shares of BD1 each and issued 643,866,927 ASBB shares of 100 fils each. The merger was completed at the end of March 2014, when ASBB confirmed the combination of two banks whereby BMI Bank would operate as a fully owned subsidiary of ASBB. ASBB acquired the full stake in BMI Bank with the aim of converting it to a Sharia compliant bank. The conversion took effect as of 1st January 2016, and BMI Bank started exercising its business in a Sharia-compliant manner.

**Figure 4.6: Transaction Structure**




*Source: Al Salam Bank*

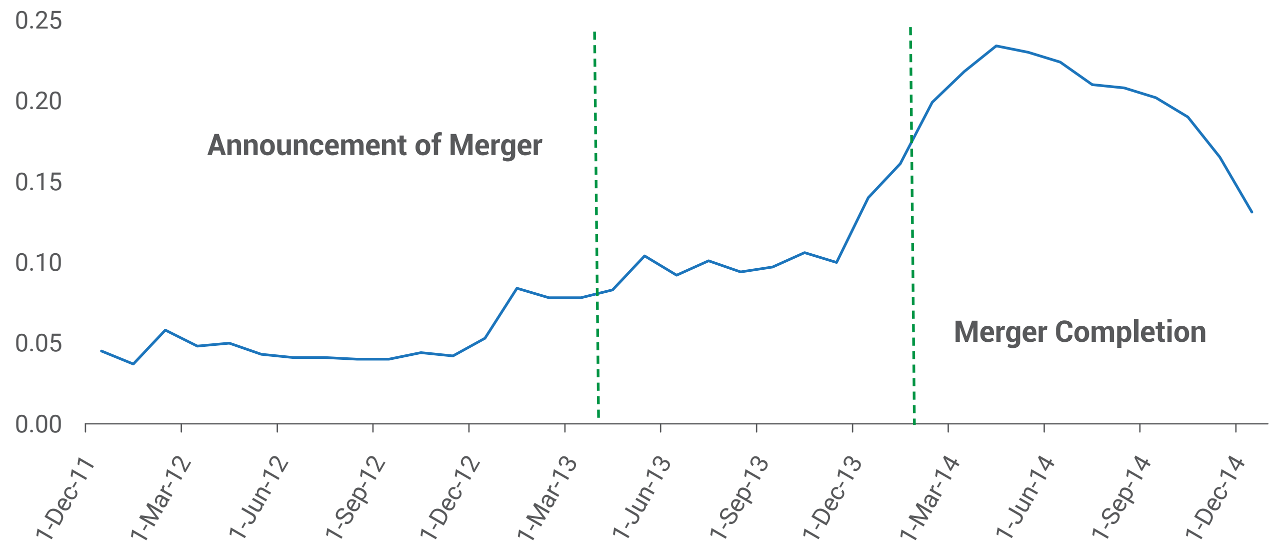
**Table 4.3: Credit Ratings Post Merger – Moody's**

| Date | Rating | | Outlook | |
|---|---|---|---|---|
| | | Emirates NBD | | |
| 13-Nov-14 | Unrated | | Unrated | |
| | Al Salam Bank | BMI Bank | Al Salam Bank | BMI Bank |
| 11-Feb-14 | Unrated | Ba1 | Unrated | Negative |
| 30-May-11 | Unrated | Ba1 | Unrated | Negative |
| 25-Aug-10 | Unrated | Baa3 | Unrated | Stable |

*Source: Moody's*

BMI Bank's credit rating underwent a series of downgrades prior to the merger owing to the overall weakness in Bahrain's banking system. The outlook on the country's banking system remained negative for a prolonged period between 2009 and 2014 due to geopolitical uncertainties, weakened credit growth, challenging operating environment and deterioration of asset quality. Consumer confidence in the banking system remained fragile while the profitability of local banks remained under pressure. In February 2014, Moody's affirmed Ba1 deposit rating and a negative outlook following the signing of the final sale purchase agreement between BMI and Al-Salam Bank. The agency mentioned that the merger is credit positive; however, the ratings were in line with the negative outlook on Bahrain's Baa2 sovereign debt ratings. Moody's did not cover Al Salam Bank and therefore remained unrated. Moody's withdrew ratings for BMI bank on 13 November 2014.

**Figure 4.7: Share price movement of Al Salam Bank during merger announcement**




*Source: Reuters*

Announcement of the merger did not trigger a substantial movement in the price of Al Salam Bank as investors were not very positive about the financial strength of BMI bank. However, towards the completion of the merger, prices started rising due to the uptick in the economic conditions before declining again towards the end of 2014.

**Table 4.4: Pre-Merger (2010-13) and Post-Merger (2014-17) performance**

| Metrics | Pre-Merger Average | | Post-Merger Average |
|---|---|---|---|
| | Al Salam Bank | BMI Bank | Al Salam Bank |
| ROE | 3.7% | (6.6%) | 5.0% |
| ROA | 0.8% | (1.1%) | 2.0% |
| Efficiency Ratio (Cost to Income) | 59.0% | 136.8% | 46.6% |
| Annual Revenue Growth | 6.0% | 4.5% | 0.3% |
| Annual EPS Growth | (5.2%) | - | 0.7% |

*Source: Reuters, Marmore Research*

Comparing the performance metrics over a period of four years before and after the merger shows that the merger is value accretive for BMI bank's investors as its consolidation helped in improving its profitability metrics. BMI bank had negative earnings between 2008 and 2011 as the banking system was subject to sustained pressure due to challenging operating conditions. The sluggishness began to ward off in 2014 before the decline in oil prices caused an economic slowdown in the region. In sharp contrast, despite being a strategic move to proceed with the merger, shareholders of Al Salam Bank witnessed a dilution of their earnings in the near term. Revenue growth remained muted after the merger while other performance metrics such as the ROA, ROE and cost to income witnessed a slight improvement. However, it remains insufficient to justify the additional cost incurred to proceed with the merger and convert BMI bank into a Shari'a compliant lender.

## 4.3 First Abu Dhabi Bank (National Bank of Abu Dhabi & First Gulf Bank)

The slump in oil prices acted as a major trigger for consolidation in the UAE banking sector, as the operating environment dramatically changed since mid-2014. The UAE was also clearly over-banked, with the presence of 21 local banks with commercial and retail operations for a population of 9 million while its neighbor Saudi Arabia had 12 local banks for a population close to 30 million[5]. GCC Banks underwent a phase witnessing moderate profit growth, tightening liquidity and had to shift their emphasis to cost reduction. Profitability was impacted, nudging the regional banks to move towards consolidation, which would help them overcome challenges such as growing capital needs and cost reduction.

National Bank of Abu Dhabi was heavily affected when Abu Dhabi Investment Council, which had a majority stake in the bank, saw government deposits dropping down by USD 13bn between September 2014 and 2015, because of the fall in oil prices during the period. Macroeconomic headwinds in addition to micro level factors triggered UAE's banking rivals, National Bank of Abu Dhabi (NBAD) and First Gulf Bank (FGB) to merge and form MENA region's biggest bank in terms of total banking assets[6]. The move was expected to create revenue synergies through price optimization and achieve better cost efficiency resulting from economies of scale and consolidation of the banking network. The combined entity was expected to have a market share of about 25% by banking assets in the UAE.

The announcement for the merger was made on 3 July 2016 and was scheduled for completion by Q1 2017. The merger of NBAD and FGB was the biggest merger in the UAE banking sector since the formation of Emirates NBD in 2007. Credit Suisse and UBS Investment Bank acted as financial advisers to NBAD and FGB, respectively. Allen & Overy and Freshfields Bruckhaus Deringer acted as legal advisers to NBAD and FGB, respectively. The merged entity (First Abu Dhabi Bank) had presence in 19 countries and owned 26% of the outstanding loans in the UAE[7].

**Table 4.5: Total Banking Assets after merger**

| Country | Leading bank | Total Assets of the Leading Bank (USD Bn.) | Country's Total Banking Assets (USD Bn.) | Leading Bank's share of country's total banking assets |
|---|---|---|---|---|
| UAE | First Abu Dhabi Bank | 183 | 711 | 26% |
| KSA | National Commercial Bank (AlAhli Bank) | 117 | 602 | 19% |
| Qatar | Qatar National Bank | 198 | 349 | 57% |
| Kuwait | National Bank of Kuwait | 79 | 198 | 40% |
| Bahrain | Ahli United Bank | 34 | 193 | 18% |
| Oman | Bank Muscat | 28 | 70 | 40% |

*Source: Company Reports; As of April 2017*

[5] According to Central Bank websites in April 2017(after the merger); Taken from Gulf News
[6] Forbes
[7] Global Trade Review



**Figure 4.8: Evaluation of individual strengths & rationale for merger**

بنـك أبـوظبـي الأول
FAB
First Abu Dhabi Bank

### *First Gulf Bank*

**Retail Banking leader**

- Market leader in consumer loans disbursed among UAE peers.
- NBAD ranked at 6th position in consumer loans.

**More profitable and efficient**

- Net Interest Margin (FGB 3.0% vs. NBAD 1.9%)
- Cost to income (FGB 20.1% vs. NBAD 38.7%)

**Long standing government relationship**

- Manages National Housing Loan program for Abu Dhabi government since 2006.

### *National Bank of Abu Dhabi*

**Strong Wholesale banking presence**

- Wholesale banking division constitutes 62% of the bank's total assets and 67% of the total liablities.

**Larger asset base and Strong liquidity**

- Total Assets (NBAD AED 400 Bn. vs FGB AED 227 Bn.)
- Liquidity coverage ratio (NBAD 100.6% vs FGB 71.3%)

**Wider International Presence**

- Has presence in 18 countries outside the UAE.
- FGB has presence in 7 Countries.

*Source: FAB Investor presentations, Annual reports*

**Table 4.6: Credit Ratings Post Merger – Moody's**

| Date | Rating | | Outlook | |
|---|---|---|---|---|
| | | First Abu Dhabi Bank | | |
| 30-May-17 | Aa3 | | Stable | |
| | FGB | NBAD | FGB | NBAD |
| 3-Apr-17 | Aa3 | Aa3 | Negative | Negative |
| 4-Jul-16 | A2 | Aa3 | Positive | Negative |

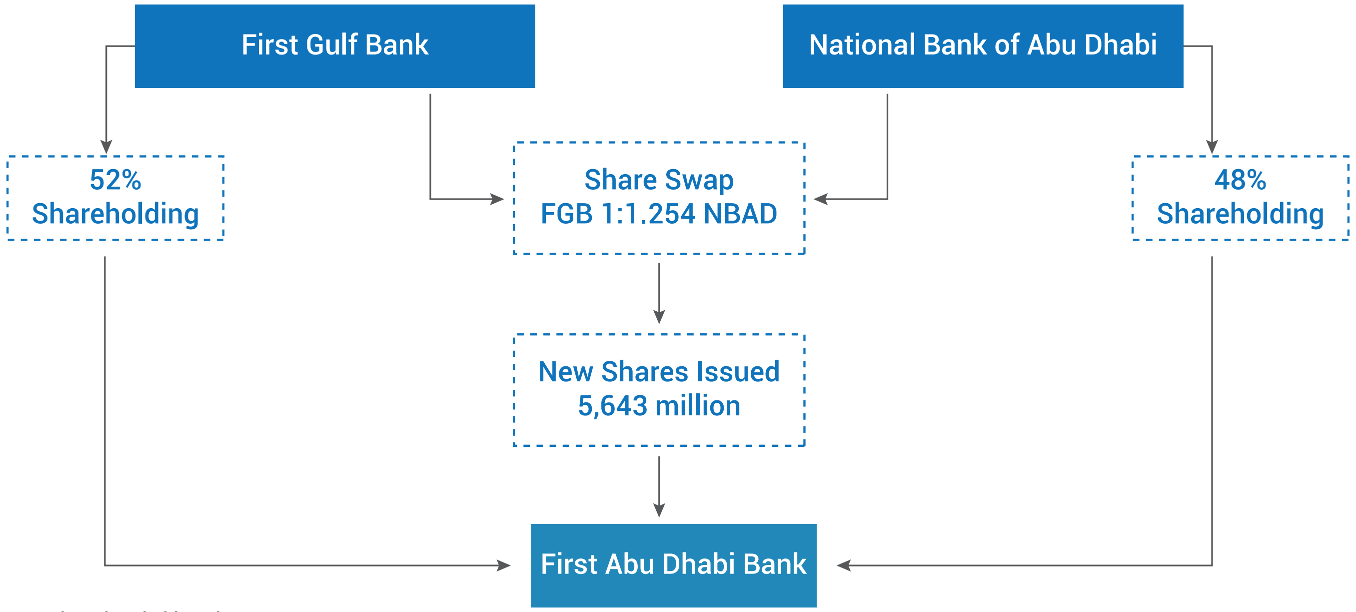
*Source: Moody's*

After the merger was effective, National Bank of Abu Dhabi's (NBAD) credit ratings were retained by rating agencies Moody's, S&P and Fitch for First Abu Dhabi Bank (FAB) at Aa3, AA- and AA- respectively. Moody's changed their outlook of FAB from Negative to Stable in May 2017 and stated that the change was driven by the affirmation of the Aa2 issuer rating for the UAE government. FAB is among the highest rated banks in the MENA region as of now.

### Merger Timeline and Structuring

Merger of First Gulf bank with National Bank of Abu Dhabi took 270 days from when it was announced (3 July 2016). The timeline is relatively shorter considering the size of the merged entity and when benchmarked with previous high profile mergers such as the one between Qatar Navigation Co & Qatar Shipping Co and the merger between Aldar Properties & Sorouh Real Estate that took more than 400 days to come into effect after announcement. However, it was more than that of Emirates NBD, which took 227 days from announcement to completion. New shares of First Abu Dhabi bank started trading on 2 April 2017.

**Figure 4.9: Transaction Structure**




*Source: First Abu Dhabi Bank*

### Integration costs and cost synergies

The total cost of integration according to FAB is estimated to be AED 1.1 billion, which is expected to be fully absorbed by 2019. The target phasing for cost absorption is 35% each for 2017 and 2018 while the rest would be absorbed by 2019. Integration costs excludes AED 350mn strategic investment in key enablers planned over the next three years. Primary drivers of integration costs would be IT migration and write-offs, brand identity development, staff severance, training and relocation expenses.

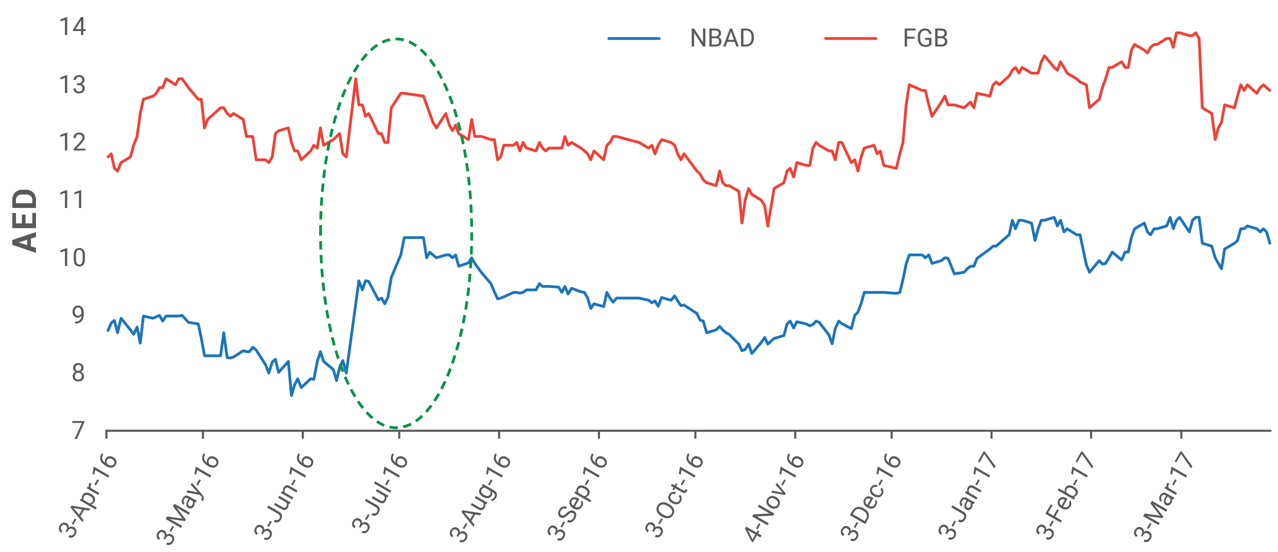
The merger is also expected to create cost synergies of approximately AED 1.5 billion by 2020 according to FAB. It is expected to be driven by network and staff rationalization, consolidation of common business functions, system integration and premises reduction. As of Q2 2018, about AED 770 million worth of synergies have been realized. Based on the estimates of the company, integration costs would amount to 110% of cost synergies, which is lower than the benchmark of 120-140% witnessed in the case of European Bank mergers. However, these are estimates and may be subject to change as the post-merger integration is set to complete by 2020.

**Table 4.7: Long-term targets set by FAB**

| | Metric | Goal for 2020 | Current status (H1 2018) |
|---|---|---|---|
| Overall Growth | Revenue | Mid-single digit core CAGR | -1%* |
| | Market Share | Increased Market Share | - |
| Successful Integration | Cost synergies | Full Realization of run rate synergies | - |
| Cost Leadership | Cost to Income | 25% cost to income ratio | 25.7% |
| Capital Generation | Return on Tangible Equity (RoTE) | 16-17% | 17.1% |
| | Common Equity Tier 1 (CET1) | 14-15% | 13.1% |

*Source: FAB Investor Presentation H1 2018, FAB post-merger update;*
*Note: * - Year on Year from H1 2017*

**Figure 4.10: Share price movement of NBAD and FGB during merger announcement**




*Source: Reuters*

**Table 4.8: Pre-Merger (Q3 2015 – Q4 2016) and Post-Merger (Q1 2017 – Q2 2018) performance**

| Metrics | Pre-Merger Average | | Post-Merger Average |
|---|---|---|---|
| | National Bank of bu Dhabi | First Gulf Bank | First Bank of Abu Dhabi |
| ROE | 12.8% | 17.1% | 12.0% |
| ROA | 1.4% | 2.7% | 1.7% |
| Efficiency Ratio (Cost to Income) | 30.5% | 27.7% | 33.2% |
| Quarterly Revenue Growth | (0.8%) | (0.9%) | 3.6% |
| Quarterly EPS Growth | 7.5% | (3.4%) | 4.1% |

*Source: Reuters, Marmore Research*

While comparing the performance metrics of both standalone banks in the six quarters before the mergers and the metrics of the First Bank of Abu Dhabi, there has been no significant improvement in terms of performance metrics. Despite realizing cost synergies of USD 770 million so far, the cost to income ratio remains high due to the realization of one time integration costs. Average ROE has been lesser than that of the standalone banks during the same time period. Revenue growth is one metric that has outperformed standalone performance of both banks. However, this could be attributed to the improvement in macroeconomic tailwinds as banks in the UAE have witnessed similar growth in revenues during this period. From an EPS growth perspective, FGB shareholders have benefitted while NBAD shareholders see a dip.

In the case of First Bank of Abu Dhabi, the merger was necessary as the region was heavily overbanked and needed consolidation. The creation of a large entity would help in improving its presence in the region and expanding its operation in the long-term. However, it is too early to take a call whether the merger has created value for the shareholder as the integration process is set to complete only by 2020.







# Conclusion

**Table 5.1: Evaluation of selected GCC Banking mergers**

| Factors | Emirates NBD (Emirates Bank Intl. and National Bank of Dubai) | Al Salam Bank (Al Salam Bank and BMI Bank) | First Abu Dhabi Bank (First Gulf Bank and National Bank of Abu Dhabi) |
|---|---|---|---|
| Impact of Size | Creation of market leader in the UAE | Creation of the second largest retail Islamic bank in Bahrain | Creation of market leader in the GCC |
| Credit rating impact | Downgraded after the merger | Ratings withdrawn | Credit rating unchanged and Outlook upgraded. |
| Impact on Shareholder wealth | EBI share prices declined | No substantial movement in Al Salam share price | Uptick in NBAD's share price |
| Synergies and integration costs | Revenue growth - Negative<br>Cost to income ratio - Negative | Revenue growth - Negative<br>Cost to income ratio - Positive | Revenue growth - Positive<br>Cost to income ratio - Negative |
| Evaluation of Financial metrics | Negative (ROE and ROA decreased) | Positive (ROE and ROA increased) | Negative (ROE decreased and ROA higher than NBAD but lower than FGB) |

*Source: Marmore Research*

The GCC banking sector, which has been dormant in terms of major M&A activity over the past two decades, has seen a sudden surge in M&A related announcements lately. Banks across the region are expected to witness a phase of consolidation due to the overbanked nature of the GCC region in addition to the uncertainties caused by fluctuation in oil prices to the economy. The economy and the banking sector as a whole would undoubtedly benefit from the change in dynamics, as stronger and more resilient banks are expected to emerge out of this phase. However, it does not mean that the shareholders of both banks benefit from the merger. A merger could be deemed successful only if the combination of the parent entities create enough synergies over and above the costs incurred to merge. The performance metrics of some of the major GCC banking mergers have shown that the performance has either been in line or deteriorated over a period following merger. Despite considering the varying nature of macroeconomic conditions observed during some of the high-profile banking mergers in the region, there has been little evidence to suggest that they have been value accretive for both sets of shareholders involved.

# Appendix

Global M&A deals have picked up in the past four years after a muted period following the global financial crisis. Deal volumes peaked at USD 4.5 trillion in 2015, rising from the decade low of USD 2.3 trillion witnessed in 2009. In 2017, global deals remained steady at USD 3.7 trillion despite geopolitical uncertainties. Cross border, M&A activity accounted for 30% of the total volume, falling from 36% in 2016. The number of megadeals, worth more than USD 10 billion, reduced from 37 in 2016 to 35 in 2017. Technology, healthcare and real estate were the sectors, which witnessed significant deal activity during the year by volume. The first half of 2018 was positive for global M&A activity with deal value rising by 59% compared to the same period in 2017 despite a 12% reduction in deal volume.

The case was similar in the Middle East, where the deal values picked up by 62% in H1 2018 compared to H1 2017. The aggregate value of deals in the region stood at USD 25.4 billion at the end of H1 2018. Cross-border deals accounted for 65% of all M&A deals during the period. The UAE drove M&A activity in the Middle East region both in terms of inbound and outbound deals. It was the most attractive country in the region for overseas investors with a total of 34 inbound deals valued at USD 6.6 billion. The UAE was also the most active acquirer in the region with 35 deals worth USD 5.8 billion.

**Table 6.1: GCC Banks in talks over a potential merger**

| Merging Entities | Country | Total Assets after Merger (USD Bn) |
|---|---|---|
| Abu Dhabi Commercial Bank, Union National Bank & Al Hilal Bank | UAE | 113 |
| Kuwait Financial House & Ahli United Bank | Kuwait - Bahrain | 93 |
| Saudi British Bank & Alawwal Bank* | KSA | 71 |
| Barwa Bank & International Bank of Qatar | Qatar | 22 |
| Bank Dhofar & National Bank of Oman | Oman | 20 |
| Oman Arab Bank & Alizz Islamic Bank | Oman | 7 |

*Source: Bloomberg, Reuters, Marmore Research;*
** - SABB and Alawwal have finalized a merger agreement and expect the merger to be completed by H1 2019*

**Table 6.2: Detailed Summary of selected GCC Banking mergers**

| Factors | Emirates NBD | Al Salam Bank | First Abu Dhabi Bank |
|---|---|---|---|
| **Impact of Size** | • Emirates NBD became the largest bank in the UAE by total assets and market cap after the merger.<br>• Emirates NBD would account for 9.0% of the GCC loan market after the merger, highest market share among GCC banks in 2006. | • The merger positioned Al Salam bank as the second largest retail Islamic bank in Bahrain, having a diversified customer portfolio and a stronger capital base. | • First Abu Dhabi Bank (FAB) became the largest bank in the UAE by total assets surpassing Emirates NBD.<br>• FAB's consumer loans would amount to AED 96 billion, 68% larger than the second highest bank in the UAE. |
| **Rationale for merger** | • Consolidation of a fragmented banking industry in the UAE to tap growth opportunities was a key driver behind this merger.<br>• Both Emirates Bank International (EBI) and National Bank of Dubai (NBD) had a strong corporate and retail presence. EBI had an established Islamic Banking franchise. NBD had a strong Investment banking segment. Their combination expanded their client base and provided cross selling opportunities. | • Al Salam Bank was a full-fledged Islamic financial service provider while BMI bank was a conventional retail bank with a sizeable asset base and domestic presence. The combination would help in increasing the bank's balance sheet strength. | • Macroeconomic headwinds had an impact on profitability of banks that led to consolidation of UAE's banking sector.<br>• First Gulf Bank (FGB) was a retail-banking leader while National Bank of Abu Dhabi (NBAD) had a strong wholesale banking division. The combination created a much more diversified entity having stronger asset base and a wider geographic presence. |
| **Credit rating impact** | • Credit ratings of Emirates NBD were subsequently downgraded primarily due to the weakness of Dubai's economy after the merger. | • BMI bank was rated below investment grade by Moody's before the merger at Ba1 due to the weakness in Bahrain's banking system. The combined bank's ratings were withdrawn by Moody's after the merger. | • NBAD's credit rating was retained for FAB while the outlook improved from negative to stable. |
| **Impact on Shareholder wealth** | • Share prices of EBI witnessed a decline during the time leading up to the official merger announcement. EBI had an EPS growth of 37% compared to 10.7% shown by NBAD between 2003 and 2006. | • Share price of Al Salam Bank did not see a significant uptick after the merger announcement due to weakness in the performance of BMI bank. Average ROE in the past five years for Al Salam bank was 4.5%, higher than BMI bank's -9.5%. | • A significant uptick was witnessed in the share prices of NBAD while FGB remained relatively flat. FGB was more profitable and efficient than NBAD leading up to the merger. |

*Source: Marmore Research*

| Factors | Emirates NBD | Al Salam Bank | First Abu Dhabi Bank |
|---|---|---|---|
| **Structuring of the deal** | • NBD shareholders would get a premium of 14% to the implied value of the share. | • ASBB acquired 58.5 million BMI Bank shares of BD1 each and issued 643 million ASBB shares. | • FGB shareholders will own 52% of FAB, with NBAD shareholders owning approximately 48%. Government of Abu Dhabi and related entities will own 37% of the merged entity. |
| **Synergies and integration costs** | • Cross selling of products in the corporate and retail space was the primary revenue synergy. Consolidation of branch network was the primary cost synergy. | • Al Salam Bank is expected to benefit from an increased customer base and wider delivery channels.<br>• As BMI bank's assets had to be converted to comply with Shari'ah principles, it would involve high costs. | • Cost synergies of AED 1 billion and revenue synergy of AED 400 million was estimated by the bank and would be realized by 2020. Integration costs would amount to 110% of cost synergies. |
| **Evaluation of financial metrics** | • After the merger, Emirates NBD witnessed its cost to income ratio rising up while revenue growth witnessed a sharp decline. Despite considering the effect of slowdown in Dubai's economy, the EPS growth of Emirates NBD (-16.7%) was weaker than the average of all listed banks in the UAE (-10%) during the same period. | • Despite the cost to income ratio seeing an improvement when compared to pre-merger levels, it still remains high and is distorted due to higher levels witnessed before the merger. Conversion of BMI bank's assets to comply with Shari'ah principles weighed down on the costs for Al Salam bank. Revenue growth has remained muted due to the weakness of Bahrain's economy amidst the decline of oil prices after the merger. | • Revenue growth has witnessed an uptick due to favourable macroeconomic tailwinds that have aided the GCC banking sector. Cost to Income ratio increased despite the realization of cost synergies. However, as cost synergies have not been entirely realized and integration costs not being fully absorbed, the complete impact would be clearly visible after the integration process is complete in 2020. |

*Source: Marmore Research*



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### Our aim
Advocate intellectual research on MENA economics, businesses and financial markets and provide customized, actionable solutions.

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- *Markaz research activities commenced in 2006*
- *Marmore established in 2010 to intensify the research activities*
- *Publishes research reports and provides consulting services*

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- *Feasibility studies (market and financial)*
- *Business plans*
- *C-Suite support to leaders with intellectual, industry related needs*

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- *Step 2: Proposal submission*
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