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MARMORE FIRST TAKE

NCB-Samba Reach Merger Deal

A Saudi mega bank
in the making

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HIGHLIGHTS

- National Commercial Bank (NCB), Saudi Arabia's biggest lender and Samba Financial Group (Samba) have signed a binding merger agreement. The merged bank, with assets worth USD 223billion, would be GCC's third-biggest banking entity after Qatar National Bank and First Abu Dhabi Bank (UAE).
- NCB-Samba merger deal was reported to be under discussion in June 2020, six months after NCB's merger talks with Riyadh Bank fell through after almost a year of discussion.
- Under NCB-Samba merger deal, Samba shareholders will receive 0.739 newly issued NCB shares in exchange for each Samba share they hold. This is in the lower end of the earlier announced band of 0.736-0.787 shares. This translates to SAR 28.45 for each Samba share, valuing it at approximately SAR 55.7 billion (USD 14.85 billion). This corresponds to a 3.5% premium to Samba's closing price before the announcement of merger agreement and a 23.7% premium to Samba's closing price prior to the signing of the initial agreement in June 2020.
- The merger is expected to be accretive to earnings per share for both the banks. NCB has 428 branches and Samba has 73 branches. The transaction is expected to unlock about SAR 800 million (USD 213 million) annually fully phased in cost synergies after integration.¹ This amounts to approximately 9% of the combined cost base. The market cap of the merged bank is expected to be SAR 171 billion (USD 46 billion).
- The merged bank would have a market share of about 32% by assets and 33% by deposits². The merged entity is expected to be mainly corporate lending focussed with corporate lending comprising 67% of loan book.³
- After the merger, Samba's assets and liabilities would be transferred to NCB and Samba would cease to exist. Samba's existing shareholders will own 32.6% and NCB's shareholders will own 67.4% of the merged bank. The major shareholders of the merged entity would be Saudi Public Investment Fund (37.2%), Saudi Public Pension Agency (7.4%) and General Organisation for Social Insurance (5.8%).
- The merger is expected to be completed in H1 2021, subject to conditions and approvals including regulatory and shareholders' approvals. NCB was advised by JPMorgan, while Samba was advised by Morgan Stanley.

¹ Samba Financial Group's Exchange Filing

² Based on financials as of June 30, 2020

³ Citi Research

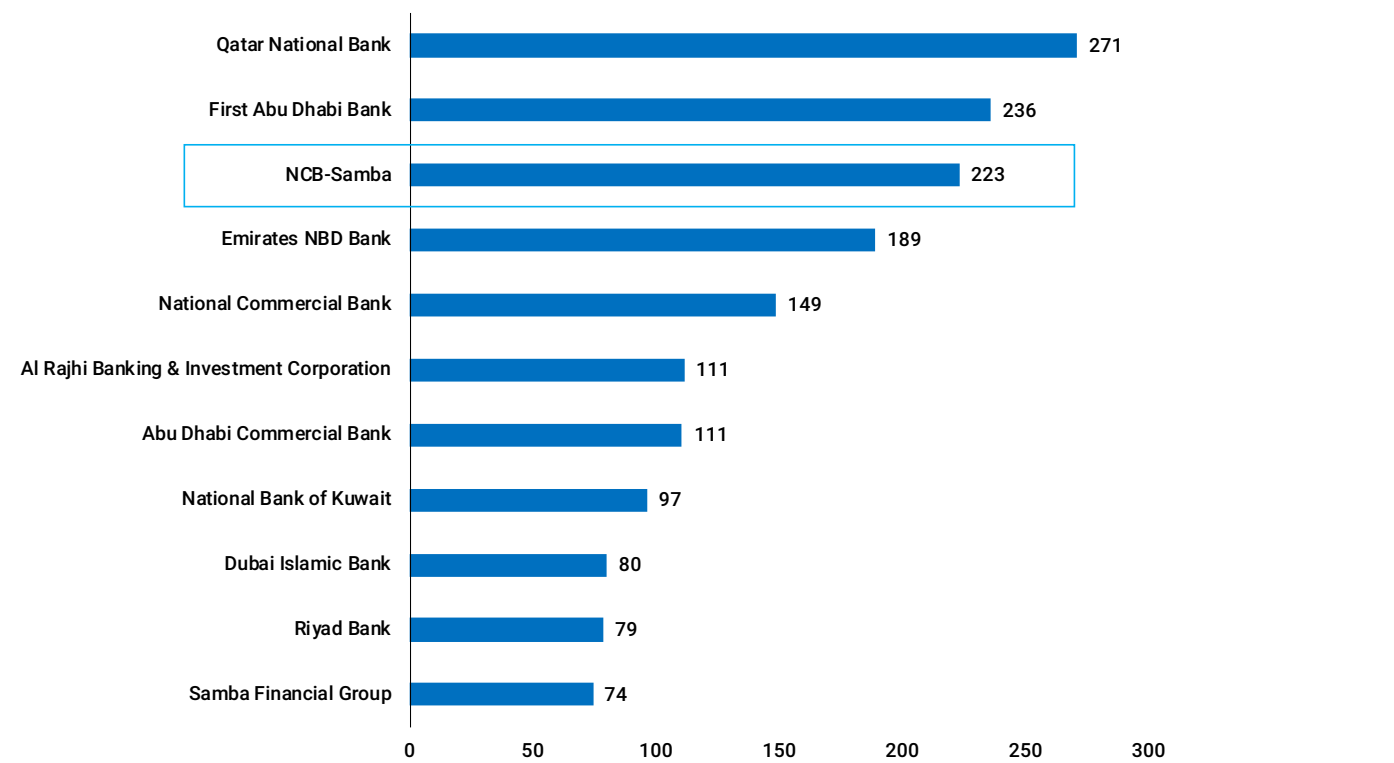
- While NCB- Samba merger deal has been a culmination of NCB's merger efforts since 2018, it assumes significance as banks seek to gain cost and operating efficiencies to handle pressure on their margins amidst COVID-19 and a low oil price environment.
- NCB born through the merger of two currency-trading houses was the first bank to be officially licensed in Saudi Arabia in 1953. Samba evolved from Citibank that established its presence in Saudi Arabia in 1955. Following a royal decree, it became Saudi American Bank in 1980. Citibank divested its stake in phases and completely exited in 2004.

Key Metrics

2020, as of Jun,30 ending period (USD mn)	National Commercial Bank	Samba Financial Group
Financing Receivables/Gross Loans	86,554	40,406
Total Assets	148,592	74,458
Total Deposits	121,176	57,562
Net Interest Income	2,152	788
Net Income	1,311	593
Nonperforming Loans (% of Total Loans)	1.82%	2.11%
Tier 1 Risk-Adjusted Capital Ratio	18.0%	18.7%
Pre-tax ROA	0.4%	0.4%
Pre-tax ROE	3.5%	2.5%

Source: Refinitiv

Figure 1: NCB-Samba Bank to be third largest in GCC by Asset Size (USD bn)



Source: Refinitiv

Annexure

NCB Ownership

Shareholders	Ownership (as % of outstanding shares)
Public Investment Fund	44.29%
Government of Saudi Arabia	10.54%

Source: Refinitiv

Samba Financial Group Ownership

Shareholders	Ownership (as % of outstanding shares)
Public Investment Fund	22.91%
Government of Saudi Arabia	18.63%

Source: Refinitiv

Major Banking Mergers in GCC

Name of Merging Banks	Country	Merged in	Asset Size Post Merger (USD billion)	Status of Merged Entity Immediately after the merger
First Gulf Bank and National Bank of Abu Dhabi	UAE	2016	175.0	Largest in UAE; Second Largest in GCC
Abu Dhabi Commercial Bank, Dubai's Union National Bank and Al Hilal bank.	UAE	2018	115.1	Third largest bank in UAE
Noor Bank and Dubai Islamic Bank	UAE	2019	74.8	N.A
Saudi British Bank and Alawwal Bank	KSA	2017	71.0	Country's third largest financial institution
International Bank of Qatar and Barwa Bank	Qatar	2018	22.0	N.A

Source: Refinitiv; Public Sources

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