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Council Report:

The NBAD-FGB Merger; A Primer

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Two of the U.A.E.’s most prominent banks, National Bank of Abu Dhabi (NBAD) and First Gulf Bank (FGB), are expected to merge towards the end of the first quarter of 2017, creating the largest bank in the U.A.E. in terms of assets. This merger is a strategic move to create a stronger institution that is better poised to expand beyond the borders of the U.A.E. When completed, this union could presage further mergers among Abu Dhabi banks as well as among government-linked institutions in the Emirate as a whole.

THE MERGER

A Merger of Equals

The National Bank of Abu Dhabi (NBAD) and First Gulf Bank (FGB) have **gained approval from the Central Bank of the U.A.E. and their shareholders for a merger**. This merger, which is branded a "merger of equals," will see two organizations with highly complementary business activities, shared values, and strong cultures come together. The merger will be **executed by means of a share swap**, with FGB shareholders receiving 1.254 NBAD shares for each FGB share they hold, and thus collectively securing ownership of 52% of the combined bank.[i] The banks will continue to operate independently until the merger becomes effective, at which time **FGB will be delisted** from the Abu Dhabi Securities Exchange.

Once completed, this merger **would create the largest bank in the U.A.E. in terms of assets**. NBAD is currently the U.A.E.'s second-biggest bank by assets and FGB is the fourth largest.[ii] When combined, these two institutions would have **consolidated assets of around 655 billion AED [$178 billion]**.[iii] As such, the merged entity would supersede Emirates NBD as the U.A.E.'s largest bank by assets, commanding a 27% market share of the U.A.E.'s banking sector.

Leadership Consolidation

The **board of directors of this new entity will be drawn from the current boards** of NBAD and FGB**. His Highness Sheikh Tahnoon bin Zayed Al Nahyan**, the current Chairman of FGB's Board, has been designated the Chairman of the Board of the combined entity. Meanwhile, **His Excellency Nasser Ahmed Alsowaidi**, the current Chairman of NBAD, has been designated Vice Chairman of the Board.

Abdulhamid M. Saeed, who is currently a Board Member and the Managing Director of FGB, has been designated Chief Executive Officer (CEO) of the new institution.

Board Approval

Thus far, this merger has **proceeded on schedule**, easily earning the approval of the board of directors of both banks. In June 2016, the banks said they each **formed a high-level working group** to "review the commercial potential along with any legal and structural aspects of a merger or combination" and then provide recommendations to their respective boards of directors.[iv] Then, in July, **the boards of both banks unanimously voted to recommend the merger to their shareholders**. On December 7th, at separate general assembly meetings, **shareholders of both FGB and NBAD voted in favor of the merger**.

REASONS FOR THE MERGER

A Successful Precedent

The NBAD-FGB merger **draws on the successful precedent of Emirates NBD**. In 2007, **Emirates Bank International**, then the second-largest bank in the U.A.E. by assets, and **National Bank of Dubai**, then the U.A.E.'s fourth-largest bank in terms of assets, merged to form Emirates NBD.[v] This merger, which was also executed by a share swap, created what was, at the time, **the largest bank by assets in the Gulf Cooperation Council (GCC)**.[vi]

An Overcrowded Banking Sector and Decline in Oil Prices

Drawing on this successful precedent, the U.A.E. banking sector has long been "**ripe for consolidation**."[vii] The country's rapid economic growth over the last 30 years and emergence as a regional financial center have led to a proliferation of banking institutions, such that **around 50 banks currently serve a population of just nine million people**.[viii] The resultant competition among these many lenders for a limited market has reduced profitability and led to an **emerging consensus among bankers that consolidation is required**.

Fallout from the **more than 50% decline in oil prices since mid-2014** has solidified this consensus. This decline in oil prices has led to **tighter liquidity** by squeezing banking deposits, particularly from the public sector.[ix] At the same time, it has both **increased defaults on loans** and **slowed growth in demand for credit**.[x]

Greater Efficiencies, Strength, and Reach

Within this context, the merger of NBAD and FGB would likely **boost profits at the combined bank**. Indeed, the integration of the two banks would **improve the competitiveness** of the new bank as well as **support cost savings**, thanks to operational efficiencies and economies of scale. In addition, the merger could increase revenue by combining the best talent, practices, and products of the two organizations.

Furthermore, the entity created through the consolidation of NBAD and FGB would likely be a **stronger institution**. The large customer base of this new institution would **reduce both loan and deposit concentrations**, reducing the risk associated with any one customer. Moreover, this customer base would be **more diversified**, since NBAD has become known for its solid wholesale banking operations while FGB has a strong and growing consumer base thanks to its focus on retail/consumer lending.[xi]

In addition, this combined entity would be **better poised for expansion, both domestically and abroad**. Domestically, it would be able to leverage the two banks' **extensive networks of U.A.E. branches and ATMs** to better service customers and grow its local customer base. Internationally, it would have a combined **network spanning 19 countries** and a stronger financial base for further expansion.[xii]

Given the aforementioned crowding of the domestic banking market, regional expansion is a particularly exciting aspect of the merger. In announcing his shareholders' approval of the merger, Abdulhamid M. Saeed, current Managing Director of FGB and Chief Executive Officer Designate of NBAD said,

"Since the announcement of the planned merger in July, both banks have made strong progress towards integration. The vote of confidence from shareholders to create the largest bank in the U.A.E. is based on an understanding that bringing together the best talents from FGB and NBAD will **create a market-leading product offering both in Personal Banking as well as in Corporate and Investment Banking locally and overseas**."[xiii]

Shareholder Approval

On 7 December, **NBAD and FGB separately invited shareholders to general assemblies to approve the merger**. Shareholders from both banks endorsed the proposition for creating a bank with **financial strength and scale**, voting in favor of all agenda items at each general assembly meeting, including the approval of the combined bank's board of directors once the merger becomes effective.

His Excellency Nasser Ahmed Alsowaidi, Chairman of NBAD, said, "The **resounding endorsement for the combined bank from both sets of shareholders represents a significant milestone**. The new larger bank will be in an **excellent position to invest in our people, in technology, in products and services** that our increasingly sophisticated client base demands, while capitalizing on growth opportunities in the U.A.E. and beyond."[xiv]

His Highness Sheikh Tahnoon bin Zayed Al Nahyan, Chairman of FGB, added, "The **overwhelming vote of support from FGB and NBAD shareholders** to approve this historic merger is a clear testament to the compelling rationale and value proposition for creating **a bank with the financial strength, scale, and expertise to deliver benefits** for our customers, our shareholders, and for the wider U.A.E. economy."[xv]

LOOKING AHEAD

More Banking Mergers?

The successful completion of the NBAD-FGB merger could **presage more consolidation in the local banking industry**. In November 2016, it was widely reported that Abu Dhabi authorities are considering merging two other prominent local banks: **Abu Dhabi Commercial Bank (ADCB) and Union National Bank (UNB).** At the same time, it was reported that these authorities may also be weighing merging two Islamic Banks: **Abu Dhabi Islamic Bank and Al-Hilal Bank**.[xvi] All four banks, like NBAD, have associations with the Abu Dhabi Investment Council, which reportedly holds a 58% stake in ADCB, a 50% stake in UNB, a 7.6% stake in Abu Dhabi Islamic Bank, and an unspecified stake in Al-Hilal Bank.[xvii]

Broader Restructuring

Regardless of whether there are more mergers in the banking industry, the coming months are likely to see the **continued restructuring of Abu Dhabi institutions**.

- In June 2016, His Highness Sheikh Mohamed bin Zayed, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the U.A.E. Armed Forces, issued a resolution to merge two large state-owned investment companies, **the International Petroleum Investment Company (IPIC) and Mubadala Development Company**, to form a single institution with a combined $125 billion in estimated assets.
- Then, in October, Abu Dhabi National Oil Company (ADNOC) revealed plans to merge its two largest offshore operations: **Abu Dhabi Marine Operating Company (Adma-Opco) and Zakum Development Company (Zadco)**.
- That same month, the Abu Dhabi Executive Council approved the merger of three science and technology centers of excellence: the **Masdar Institute of Science and Technology, the Petroleum Institute, and Khalifa University of Science and Technology**.

These mergers, like those within the banking industry, will likely come to fruition, helping the Abu Dhabi government create internationally competitive and efficient institutions that will enable the Emirate to continue on a **sustainable, long-term path of growth**.

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