Mergers dominate the agenda as GCC banks continue strong performance

One quarter of all GCC commercial banks have been engaged in merger discussions over the past two years, and most of those discussions have ended successfully, with larger and more powerful institutions being created. Underlying this corporate activity has been strong financial performance among the leading players.

Arab Banker's Editor, Andrew Cunningham, reviews recent developments and looks for explanations for the recent increase in merger activity.

In one sense, GCC banking is remarkably stable. This year's listing of the biggest GCC commercial banks, based on end-2018 shareholders' equity, contains the same 50 banks as it did last year, with only one exception: International Bank of Qatar falls out of the list because it did not publish full-year financial statements for 2018, pending its merger with Barwa Bank, which was completed in April this year.

The rank order of the biggest GCC banks has changed, but not by much, and hardly at all among the bigger banks. Dubai Islamic Bank pushed Saudi British Bank out of the top 10, but there were no other changes at the top of the table.

Among the biggest 50, 43 reported higher net profits in 2018 than in 2017. Only one reported a net loss – Gulf International Bank.

Among the smaller banks, Sharjah-based Investbank reported a large net loss and has since been recapitalised by the Government of Sharjah, which injected Dh1.12 bn ($305 mn) for a 50.1% stake and appointed a new chairman. Even after the re-capitalisation, rumours continued of a possible merger between Investbank and two of the other three Sharjah-based banks, Bank of Sharjah and United Arab Bank. (The fourth is Sharjah Islamic Bank.)

Sharjah's need for four domestic banks has been questioned for decades, although mergers have always been resisted. The emirate of Abu Dhabi, whose economy is many times bigger than Sharjah's, has only three domestic banks, following recent merger activity, although Abu Dhabi's banks are much bigger. Even Dubai only has five locally-

Mergers and possible mergers of GCC commercial banks*

UAE: Abu Dhabi	Merger of National Bank of Abu Dhabi and First Gulf Bank to form First Abu Dhabi Bank	Legal merger completed in April 2017.
Qatar	Merger of Barwa Bank and International Bank of Qatar	Legal merger completed on 21 April 2019.
UAE: Abu Dhabi	Merger of Abu Dhabi Commercial Bank and Union National Bank, with the combined entity then acquiring Al-Hilal Bank.	Legal agreement completed on 1 May 2019.
Saudi Arabia	Merger of Saudi British Bank and AlAwwal Bank (formerly Saudi Hollandi Bank)	Legal merger completed on 16 June 2019.
UAE: Dubai	Possible acquisition by Dubai Islamic Bank (DIB) of Noor Bank	DIB's board approved the acquisition in June 2019. Noor Bank is much smaller than DIB.
Bahrain and Kuwait	Possible merger of Kuwait Finance House and Ahli United Bank of Bahrain	KFH stock exchange disclosure on 13 February 2019 reports Central Bank approval to conduct due diligence studies. Ahli United Bank made several stock exchange disclosures during H1 2019 confirming that it was engaged in due-diligence studies.
Oman	Possible merger of Oman Arab Bank and alizz bank	OAB's majority shareholder (Ominvest, 51%) said in May 2019 that merger talks were going well.
Saudi Arabia	Possible merger of National Commercial Bank and Riyad Bank	The banks announced in December 2018 that they were considering a merger, but since then no further public announcements have been made.
Oman	Merger abandoned, March 2019: National Bank of Oman (NBO) and Bank Dhofar	Press reports suggest that NBO's largest shareholder, Commercial Bank of Qatar, did not support the merger.

** The list includes only mergers, or possible mergers, between commercial banks that are licensed by their central bank.*

Largest 50 GCC commercial banks, ranked by equity size (end-2018)*

	All figures in $ mn except for the capital ratio which is %		Equity	Assets	Net Loans	Customers' Deposits	Net Profit	Total Capital Ratio (Basel)**
1	First Abu Dhabi Bank	UAE (Abu Dhabi)	27,767.3	202,625.9	96,178.0	126,749.4	3,285.7	15.7
2	Qatar National Bank	Qatar	24,252.9	236,883.1	168,282.2	169,452.2	3,814.3	19.0
3	National Commercial Bank	Saudi Arabia	17,526.9	121,009.5	70,813.1	85,060.5	2,890.5	20.6
4	Emirates NBD	UAE (Dubai)	17,433.9	136,243.7	89,295.7	94,724.2	2,734.3	20.9
5	Al-Rajhi Bank	Saudi Arabia	12,959.0	97,419.3	62,471.2	78,444.2	2,748.2	20.2
6	Samba Financial Group	Saudi Arabia	11,292.1	61,370.4	30,348.8	45,418.3	1,475.6	22.7
7	National Bank of Kuwait	Kuwait	12,217.9	90,539.1	51,176.5	47,497.2	1,300.3	17.2
8	Riyad Bank	Saudi Arabia	9,815.0	61,360.1	40,308.4	45,325.4	1,258.7	18.1
9	Dubai Islamic Bank	UAE (Dubai)	9,292.7	60,908.8	39,412.4	42,385.6	1,362.5	17.5
10	Abu Dhabi Commercial Bank	UAE (Abu Dhabi)	8,933.0	76,198.0	45,317.9	48,103.0	1,317.9	17.3
11	Saudi British Bank	Saudi Arabia	8,664.4	46,591.1	29,445.9	34,832.1	1,315.6	21.3
12	Banque Saudi Fransi	Saudi Arabia	8,223.8	50,764.5	32,196.5	39,599.3	882.7	19.8
13	Arab National Bank	Saudi Arabia	7,070.8	47,585.6	32,305.0	37,608.6	883.9	18.1
14	Kuwait Finance House	Kuwait	6,846.9	58,659.5	41,704.3	38,886.6	869.8	17.5
15	Qatar Islamic Bank	Qatar	5,698.0	42,099.6	28,081.5	27,638.6	725.5	18.8
16	Alinma Bank	Saudi Arabia	5,684.3	32,383.8	22,335.5	24,055.1	671.9	21.0
17	Mashreqbank	UAE (Dubai)	5,654.5	38,103.5	18,862.2	22,660.5	562.4	16.5
18	Commercial Bank of Qatar	Qatar	5,494.7	37,109.8	22,996.5	19,595.1	457.0	15.5
19	Union National Bank	UAE (Abu Dhabi)	5,161.8	29,133.2	19,695.8	21,086.9	322.8	18.9
20	Bank Muscat	Oman	5,019.9	31,999.2	23,277.8	22,037.7	467.7	19.4
21	Ahli United Bank	Bahrain	4,972.0	35,507.6	19,504.0	23,660.0	752.4	16.9
22	Abu Dhabi Islamic Bank	UAE (Abu Dhabi)	4,829.7	34,090.4	21,423.7	27,340.0	681.0	17.2
23	Bank-ABC	Bahrain	4,316.0	29,549.0	14,884.0	16,425.0	248.0	18.8
24	Masraf Al Rayyan	Qatar	3,701.8	26,730.9	19,826.5	16,915.6	587.8	19.2
25	Al Awwal Bank	Saudi Arabia	3,699.3	21,893.3	15,418.0	17,234.4	301.7	20.6
26	Saudi Investment Bank	Saudi Arabia	3,586.8	25,641.0	15,857.2	16,998.8	389.3	19.4
27	Doha Bank	Qatar	3,498.4	26,409.3	16,429.2	15,237.2	228.1	17.0
28	Burgan Bank	Kuwait	3,127.7	24,137.1	14,071.1	12,436.5	276.3	17.4
29	Bank Al Jazira	Saudi Arabia	3,001.2	19,484.5	10,915.4	13,826.5	267.0	27.5
30	Commercial Bank of Dubai	UAE (Dubai)	2,510.3	20,177.9	13,872.3	14,476.9	316.4	14.6
31	Commercial Bank of Kuwait	Kuwait	2,409.4	14,747.1	7,437.4	7,565.5	210.6	18.7
32	Al Ahli Bank of Kuwait	Kuwait	2,232.8	15,014.2	9,988.8	10,280.9	139.3	19.2
33	Gulf International Bank	Bahrain	2,196.2	27,546.1	9,817.8	18,322.4	-227.0	14.5
34	Bank AlBilad	Saudi Arabia	2,090.6	19,653.4	13,503.2	15,260.1	296.4	17.3
35	Gulf Bank	Kuwait	2,075.3	19,859.7	13,039.2	12,328.5	187.2	17.5
36	National Bank of Ras Al Khaimah	UAE (Ras Al Khaimah)	1,949.7	14,345.9	8,948.0	9,296.3	249.8	17.2
37	Qatar International Islamic Bank	Qatar	1,889.9	13,906.9	7,599.1	8,613.6	244.1	16.4
38	Barwa Bank	Qatar	1,854.5	12,188.0	7,626.0	7,152.5	210.2	16.7
39	Bank Dhofar	Oman	1,818.2	10,972.4	8,225.8	7,615.7	131.0	17.3
40	Al Khaliji Commercial Bank	Qatar	1,806.9	14,314.8	8,602.1	7,858.0	167.2	16.9
41	Noor Bank	UAE (Dubai)	1,636.7	13,810.9	8,713.2	9,627.9	163.7	16.0
42	Ahli United Bank (Kuwait)	Kuwait	1,622.1	12,919.1	9,242.4	8,002.6	169.3	16.6
43	Boubyan Bank	Kuwait	1,604.3	14,342.1	10,768.8	12,282.6	185.5	18.2
44	Ahli Bank of Qatar	Qatar	1,511.3	11,100.4	7,500.7	5,932.9	182.9	18.2
45	Al Hilal Bank	UAE (Abu Dhabi)	1,494.8	11,884.8	7,643.1	8,529.5	28.8	17.3
46	Sharjah Islamic Bank	UAE (Sharjah)	1,467.0	12,184.2	6,568.9	7,199.2	139.0	17.0
47	National Bank of Oman	Oman	1,397.1	9,304.2	7,316.7	6,386.3	131.8	16.3
48	National Bank of Fujairah	UAE (Fujairah)	1,394.7	10,833.0	7,134.9	8,297.7	167.5	15.2
49	Bank of Bahrain and Kuwait	Bahrain	1,332.8	9,540.0	4,721.1	6,324.6	180.3	19.6
50	National Bank of Bahrain	Bahrain	1,267.3	8,511.3	3,169.9	5,834.8	186.4	33.8

** See box on page XX for information on merged banks. ** Some total capital ratios may not be directly comparable between banks due to differences in presentation and different regulatory schedules for the implementation of Basel III. However, any differences are unlikely to be significant. Source for data: publicly available financial statements. Figures in local currency have been converted to $s using exchange rates on 31 December 2018.*

Biggest 50 GCC banks: methodology

Our ranking of the 50 biggest GCC banks is based on end-2018 shareholders equity and includes all banks that published figures for 2018, even if they have since merged. (For example, Saudi British Bank, at number 11, and AlAwwal Bank, at 25, are listed, even though AlAwwal has now been merged into Saudi British and no longer publishes separate accounts.) International Bank of Qatar (IBQ) has not published end-2018 results (to be precise: it had not done so as Arab Banker went to press) even though it was a separate legal entity at that time. In last year's rankings, it appeared as number 50.

There are approximately 73 active commercial banks in the GCC. This number refers to banks that are licenced by their central banks it and does not include those that are licensed by 'offshore' or other non-central banking regulators, such as the Qatar Financial Centre Regulatory Authority or the Dubai Financial Services Authority. Banks licensed by these non-central banking entities have restrictions on the types of business that they may undertake. (Typically, they may not undertake retail banking business.) Our ranking of commercial banks does not include financial institutions whose business lies primarily in private equity investment, even if they hold a commercial banking license.

incorporated banks that are licensed by the Central Bank of the UAE. (Commercial Bank International is registered in Ras al-Khaimah but headquartered in Dubai.)

Bahrain Middle East Bank was suspended from the Bahrain Stock Exchange in November 2018, pending publication of financial results, and it remained suspended as *Arab Banker* was being prepared. At the request of the Central Bank of Bahrain, all Board members resigned, and a new Board was elected in early 2019.

GCC banks remain well capitalised by international standards, with all but two of the biggest 50 banks reporting total capital ratios in excess of 15%. (The other two had ratios of more than 14%.) Historically, GCC banks' capital funds have been composed almost solely of core capital – what Basel III calls Common Equity Tier 1. As a result, their published total capital ratios have been even stronger than they appear when compared to international banks, who have been issuing Additional Tier 1 or Tier 2 capital. However, issuance of Tier 1 capital notes or Tier 2 instruments has been increasing, especially in the UAE and Oman, and often by Islamic banks, who have found a way to issue Shari'ah-compliant Tier 1 sukuk. This increased capital flexibility should be seen as a strength and is a welcome development; but it does mean that analysis of GCC banks' capital ratios needs to become more careful, and a distinction made between CET 1, Tier 1 and Total Capital Ratios.

Against this positive background, merger activity has been dominating the news on Gulf banks in recent months.

Some of this merger activity has been driven by government-owned investment bodies consolidating their holdings. For example, the Abu Dhabi Investment Council held a majority stake in Abu Dhabi Commercial Bank and Union National Bank, and it held 100% of Al-Hilal Bank. Saudi Arabia's Public Investment Fund and the Saudi General Organisation for Social Security both hold significant stakes in many Saudi banks, including potential merger candidates National Commercial Bank and Riyad Bank.

But it would be a mistake to see GCC bank mergers solely in terms of government-driven transactions. The merger of Barwa Bank and International Bank of Qatar represents a sensible recognition that Qatar's economy, though large, is not large enough to enable ten commercial banks to operate effectively, especially given the dominant position of Qatar National Bank, and the ability of banks operating out of the Qatar Financial Centre to compete for corporate clients and high-value private banking.

The proposed merger of Oman Arab Bank and Shari'ah-compliant alizz has much of the same logic. In 2018, alizz reported its first net profit; but, after six years of operations, it is unrealistic to think that the bank will be able to achieve the scale needed to compete against the other eight domestic Omani banks, most of whom now have significant Shari'ah-compliant subsidiaries.

The most interesting merger being discussed is that of Bahrain's Ahli United Bank and Kuwait Finance House (KFH). This is the only cross-border merger being considered. Even the mergers in the UAE are confined within individual emirates.

KFH is one of the world's biggest Islamic banks, the second biggest bank in Kuwait, and it has long-standing operations in Turkey and Malaysia. Ahli United has a Middle Eastern network and a long-standing subsidiary in London. Geographically, the merger is an excellent fit.

Ahli United already has a presence in Kuwait through its majority ownership of Ahli United Bank (Kuwait), a Shari'ah-compliant bank. Forty-eight per cent of the bank's loan portfolio was based in Kuwait at the end of 2018. Ahli United's biggest shareholder is Kuwait's Public Institution for Social Security, with 19%.

Looking ahead, there is clearly scope for more merger activity in the GCC, particularly in Oman and Qatar, where a large number of banks remain despite a relatively small economy (in Oman) and a relatively small geography (in Qatar). Mergers seem unlikely in Kuwait, due to the desire of private-sector shareholders to retain their independence, although a merger of two medium-sized banks would be the only way to challenge the dominance of National Bank of Kuwait.

If political conditions stabilise in Syria and Iraq and, over the long-term, in Libya, the strategic focus of Gulf bankers is likely to extend beyond their home region to these shattered but potentially-rich economies. Banks that entered these markets early have little to show for their optimism, but they at least have a legal structure, in the form of branches or subsidiaries, that can quickly be scaled up when business opportunities emerge.

Looking beyond the Middle East, Arab banks have been reviewing their operations in Europe in advance of the UK's departure from the European Union ('Brexit'). London has historically been the main centre for European business and there have been no signs yet of London branches and subsidiaries being scaled back. However, operating a European network out of London is likely to become impractical after Brexit, even if regulators are able to agree some form of 'equivalence' arrangements. Several Arab Banks have already upgraded their Paris offices to take a wider regional role. In the years ahead, the diversity of Asia, with its growing population and modernising economies, will offer more opportunities for overseas expansion than a Europe beset with policy divisions and low growth. ■