



COMESA Competition Commission  
Kang'ombe House, 5th Floor-West Wing  
P.O.Box 30742  
Lilongwe 3, Malawi  
Tel: +265 1 772 466  
Email- compcom@comesa.int



Common Market for Eastern  
and Southern Africa

Case File No. CCC/MER/02/03/2021

**Decision<sup>1</sup> of the Seventy-Sixth (76<sup>th</sup>) Committee Responsible for Initial Determination Regarding the Proposed Acquisition by Arab Bank Corporation (B.S.C) of 99.42% of the share capital of Blom Bank Egypt S.A.E**

**ECONOMIC SECTOR: Banking and Financial Services**

27<sup>th</sup> June 2021

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<sup>1</sup> In the published version of this decision, some information has been omitted pursuant to Rule 73 of the COMESA Competition Rules concerning non-disclosure of business secrets and other confidential information. Where possible, the information omitted has been replaced by ranges of figures or a general description.

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## **Introduction and Relevant Background**

1. On 18<sup>th</sup> March 2021, the COMESA Competition Commission (hereinafter referred to as the “**Commission**”) received a notification for approval of a merger involving Arab Bank Corporation (B.S.C) (“**Bank ABC**”) and Blom Bank Egypt S.A.E (“**Blom Bank Egypt**”), pursuant to Article 24(1) of the COMESA Competition Regulations of 2004 (the “**Regulations**”).
2. Pursuant to Article 26 of the Regulations, the Commission is required to assess whether the transaction between the parties would or is likely to have the effect of substantially preventing or lessening competition or would be contrary to public interest in the Common Market.
3. Pursuant to Article 13(4) of the Regulations, there is established a Committee Responsible for Initial Determinations, referred to as the CID. The decision of the CID is set out below.

### *The Parties*

#### *Bank ABC (the Acquirer)*

4. The parties submitted that Bank ABC is a company incorporated in the Kingdom of Bahrain on 17<sup>th</sup> January 1980 with its headquarter at Bank ABC Tower, diplomatic area, Manama, Kingdom of Bahrain. Bank ABC is licensed as a bank by the Central Bank of Bahrain. Bank ABC has a global presence across countries in the Middle East, Europe, North America, Latin America, Asia and Africa offering a full range of products and services covering wholesale banking (lending, transaction banking, specialized finance, real estate financing), retail banking, and treasury & financial markets.
5. The parties submitted that Bank ABC operates in Egypt through its subsidiary Bank ABC Egypt. Bank ABC Egypt provides a wide range of banking products and services including corporate/SME banking, retail banking and treasury through its 27 branches in the country.

#### *Blom Bank Egypt (the Target)*

6. The parties submitted that the target, Blom Bank Egypt, is an Egyptian bank established in 1977. Blom Bank Egypt was acquired by Blom Bank Lebanon in 2006, becoming the Egyptian subsidiary of Lebanon’s Blom Bank. The parties submitted that, through its 41 branches, Blom Bank Egypt offers a wide range of commercial banking services including corporate/SME banking, retail banking, treasury services and brokerage & investment services through its associate companies. The parties submitted that within the Common Market, Blom Bank Egypt is active only in Egypt.

## **Jurisdiction of the Commission**

7. Article 24(1) of the Regulations requires ‘notifiable mergers’ to be notified to the Commission. Rule 4 of the Rules on the Determination of Merger Notification Thresholds and Method of Calculation (the “**Merger Notification Thresholds Rules**”) provides that:

*Any merger, where both the acquiring firm and the target firm, or either the acquiring firm or the target firm, operate in two or more Member States, shall be notifiable if:*

- a) *the combined annual turnover or combined value of assets, whichever is higher, in the Common Market of all parties to a merger equals or exceeds COM\$ 50 million; and*
  - b) *the annual turnover or value of assets, whichever is higher, in the Common Market of each of at least two of the parties to a merger equals or exceeds COM\$ 10 million, unless each of the parties to a merger achieves at least two-thirds of its aggregate turnover or assets in the Common Market within one and the same Member State.*
8. The merging parties have operations in more than two COMESA Member States. The parties' combined turnover in the Common Market exceeds the threshold of USD 50 million and they each derive turnover of more than USD 10 million in the Common Market. In addition, the merging parties do not achieve more than two-thirds of their respective COMESA-wide turnover within one and the same Member State. The notified transaction is therefore notifiable to the Commission within the meaning of Article 23(5)(a) of the Regulations.

### **Details of the Merger**

9. The Proposed Transaction relates to the acquisition of 99.42% of the share capital of Blom Bank Egypt by Bank ABC. It was submitted that there remains 0.58% of the shares of Blom Bank Egypt which are owned by unaffiliated public subscribers (free float) which ABC is obliged to offer to acquire by virtue of a mandatory tender offer in accordance with the applicable laws and regulations in Egypt. It was submitted that the mandatory tender offer will be launched following the acquisition, Bank ABC Egypt and Blom Bank Egypt will amalgamate into a single banking entity, following which the business will trade under the Bank ABC brand.

### **Relevant Markets**

#### ***Relevant Product Market***

10. The target undertaking provides banking services including corporate/SME banking, retail banking, treasury services and brokerage & investment services. The acquirer offers corporate/SME banking, retail banking, treasury and financial market services, and investment banking service. The provision of banking services entails a wide range of banking and financial services across various types of customers. In view of their distinct characteristics, a segmentation was made by type of customers, and type of products, as discussed further below.

*Segmentation by type of customers: Retail and corporate banking*

11. Retail banking generally comprises banking services to private individuals and very small enterprises, such as deposits and account services (current accounts, savings accounts, cash deposits, cheque collection, etc.), payment services (such as ATM services, direct

debit, standing orders, card issuing), lending services (such as personal loans, overdrafts, mortgages, etc.) and investment products (such as treasury services, mutual funds, securities brokerage services, etc.). On the other hand, corporate banking generally comprises banking services to corporate customers, from small and medium-sized customers to large corporate customers. Corporate banking includes a broad range of commercial banking services and products including working capital finance, term loans, asset finance, trade and specialised finance, commodity finance, pre-and post-shipment finance and structured finance. Consistent with its past decisional practice, the CID considered that distinct markets for retail and corporate customers can be identified because the needs and behaviour of individuals and very small enterprises are different from those of larger corporate customers. The CID further considered whether the retail banking and corporate banking markets could be further segmented by type of products offered.

*Segmentation by type of products*

12. Banking products can be categorised into four main groups: payment services, deposit and accounts services, lending services, and investment services. Each group performs remarkably distinct functions and there is no direct demand substitutability between them. This notwithstanding, it is noted that some degree of supply-side substitutability is likely to be present between the various products supplied to customers that are linked extensively due to the fact that they are distributed through the same branch offices, mobile and internet banking facilities<sup>2</sup>. Most banks offer all or at least a wide range of products under a given category to offer a one-stop shopping experience for customers who would save on information costs. In view of the foregoing, and in line with its previous decisions<sup>3</sup>, the CID has considered that the respective markets for loans, deposits and payment services do not warrant further segmentation.
13. In relation to investment banking services, which include treasury services, it is noted that not all banks are licensed to provide investment banking services or to provide the range of services thereunder. The parties' provision of investment services includes investment in T-bills and T-bonds, and placements with banks including the Central Bank of Egypt, as well as treasury products in the form of fixed income, money market and foreign exchange trading service<sup>4</sup>.
14. Foreign exchange trading comprises the exchange between two parties of one currency for another at an agreed rate on an agreed date<sup>5</sup>. Foreign exchange services serve a specific purpose distinct from the asset management and trading services offered under

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<sup>2</sup> A similar finding was established by the European Commission in its approval of the merger between Nordbanken and Postgirot who were also active in the banking sector (Case No COMP/M.2567, decision dated 08/11/2001, paragraph 38).

<sup>3</sup> See for instance the CID decision of 14<sup>th</sup> November 2019 in the merger involving Transnational Bank Plc and Access Bank Plc.

<sup>4</sup> <https://www.blombankeypt.com/BlomEgypt/Treasury-services>, accessed on 5<sup>th</sup> May 2021.

<sup>5</sup> European Commission Case No IV/M.596 - Mitsubishi Bank / Bank of Tokyo, dated 17/07/1995, paragraph 10.

the investment banking services. Foreign exchange services are not offered by all banks and can be offered by other non-banking financial institutions.

15. In relation to the other investment trading services, the CID considered that banks and other financial institutions typically offer a range of investment trading solutions to their customers to cater for different level of risk aversion. Customers are likely to weigh the risks and returns associated with different investment assets, such that they exert some degree of competitive pressure on each other. Given that the transaction will not lead to competition or public interest concern under any alternative product definition, for purposes of this transaction, the broad market for investment trading solutions can be considered.
16. The CID considered that for foreign exchange services and investment trading services, a distinction across retail and corporate customers was not necessary. The dynamics of the foreign exchange market are the same across retail and corporate customers, while for investment trading market, the complex and tailor-made nature of the products will appeal to specific customers within the retail and corporate segments, such that an additional segmentation is not warranted.
17. On the basis of the foregoing assessment, and without prejudice to the CID's approach in similar future cases, the relevant product markets for purposes of this transaction were construed as follows:
  - a) Provision of retail lending services;
  - b) Provision of retail deposit services;
  - c) Provision of corporate lending services;
  - d) Provision of corporate deposit services;
  - e) Provision of retail payment services;
  - f) Provision of corporate payment services;
  - g) Provision of foreign exchange trading services; and
  - h) Provision of investment trading solutions.

#### ***Relevant Geographic Market***

18. Banks and other financial institutions tend to operate within the confines of the national law of a particular country by virtue of the licences they are given. It is unlikely that as a result of more favourable conditions in other countries, the merging parties would be able to easily switch to set up operations or branches in these other countries, as they would need to obtain the relevant licenses in these jurisdictions. The time required for seeking regulatory approvals in other Member States would not allow the merging parties to enter in a manner that is swift and without risks, as contemplated under the SSNIP test. The need for banks to establish local branches also points towards the existence of a national market.

19. Therefore, the CID considered that the geographic scope for the identified product markets is national, as a result of fiscal constraints and regulatory systems. It is noted that the parties' activities in the provision of banking products/services only overlap in one geographic market, being Egypt. In view of the national character of the product markets, the CID focussed its assessment on the geographic area of overlap, i.e., Egypt.
20. For purposes of assessing the Proposed Transaction only, and without prejudice to future cases, the CID identified the relevant markets as the provision of:
- a) **retail lending services;**
  - b) **retail deposit services;**
  - c) **corporate lending services;**
  - d) **corporate deposit services;**
  - e) **retail payment services;**
  - f) **corporate payment services;**
  - g) **foreign exchange trading services; and**
  - h) **investment trading solutions,**
- in Egypt.

### **Competitive Assessment**

21. The parties submitted that there are over 30 banks in the Egyptian banking sector. Based on the broader market for the banking services in Egypt, the concentration ratio of the top three banks is 50.6%, which confirms that the sector is moderately concentrated and is subject to competitive forces. The post-merger market concentration level will remain at 50.6%, given that the merging parties were not among the top three players pre-merger. Pre-merger, it is estimated that Bank ABC had a market share of 0.2% and Blom Bank Egypt had a market share of 0.8% in the broad market for banking services. The post-merger market share of the merged entity would thus remain insignificant at 1% of total assets in the Egyptian banking market.
22. The merging parties submitted their estimated market shares in the loan and deposit markets as per Table 1 below.

*Table 1 - Market Shares of Players in the loan and deposit markets for the year 2020*

<b>Banks</b>	<b>Loan Market Share</b>	<b>Deposit Market Share</b>
Bank ABC Egypt	0.2%	0.2%
Blom Egypt	0.5%	0.7%
<b><i>Bank ABC Egypt + Blom Egypt</i></b>	<b><i>0.7%</i></b>	<b><i>0.9%</i></b>

23. The CID observed that even in the narrower markets for loans and deposits, the merging parties still hold low market shares. The merged entity's post-merger market share in the loan market and the deposit market respectively would remain below 1%. The closest

peers to Bank ABC's franchise in Egypt are similar mid-sized banks including Emirates NBD Egypt, Bank Audi Egypt and AUB Egypt. Based on the foregoing, the transaction is unlikely to bring any significant structural change in the Egyptian banking sector.

24. The CID concluded that the transaction will not result in the creation nor strengthening of a dominant position on the relevant markets. Further, the markets are characterised by the presence of numerous competitors.
25. Having regard to the above assessment, the CID considered that the Proposed Transaction would not stifle trade between Member States in view of the absence of any foreclosure concern in the Common Market.

### **Third-Party Views**

26. Submissions were received from the Competition Authority of Kenya whose assessment confirmed the absence of competition concerns from the transaction given that the parties' activities did not overlap in Kenya pre-merger.

### **Determination**

27. Based on the foregoing reasons, the CID determined that the merger is not likely to substantially prevent or lessen competition in the Common Market or a substantial part of it, nor be contrary to public interest. The CID further determined that the transaction is unlikely to negatively affect trade between Member States.
28. The CID therefore **approved** this transaction. This decision was adopted in accordance with Article 26 of the Regulations.

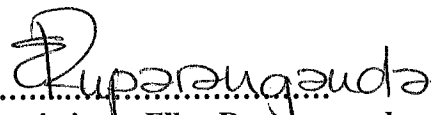
Dated this 27<sup>th</sup> day of June 2021



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**Commissioner Justice Charlotte Wezi Malonda (Chairperson)**



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**Commissioner Brian M. Lingela**



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**Commissioner Ellen Ruparunganda**