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# BU DHABI'S ALEDONIAN BANK

Iohamed Atta Khalil Eraiqat,
Executive Officer of Abu Dhabi Commercial Bank

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Dubai Technology and Media Free Zone Authority

# Building a powerhouse

**Has ADCB's acquisition of RBS's UAE network put it in a strong position to take advantage of the economic recovery in a fiercely competitive and heavily saturated banking market? And how has it tackled the corporate governance challenges that have tripped up some of the biggest banks in the Middle East? Chief Executive Ala'a Eraiqat tells Mike Gallagher that being the best takes time, effort, energy and money**

Abu Dhabi Commercial Bank (ADCB) describes itself as a diversified full service bank which is active in all banking services that span corporate, retail and commercial banking as well as in the areas of treasury derivatives, infrastructure finance, private banking and wealth management.

ADCB changed its name from Khalij Commercial Bank to Abu Dhabi Commercial Bank after merging with Emirates Commercial Bank and Federal Commercial Bank in 1985. Abu Dhabi Investment Council has a 64.84 per cent share in the bank.

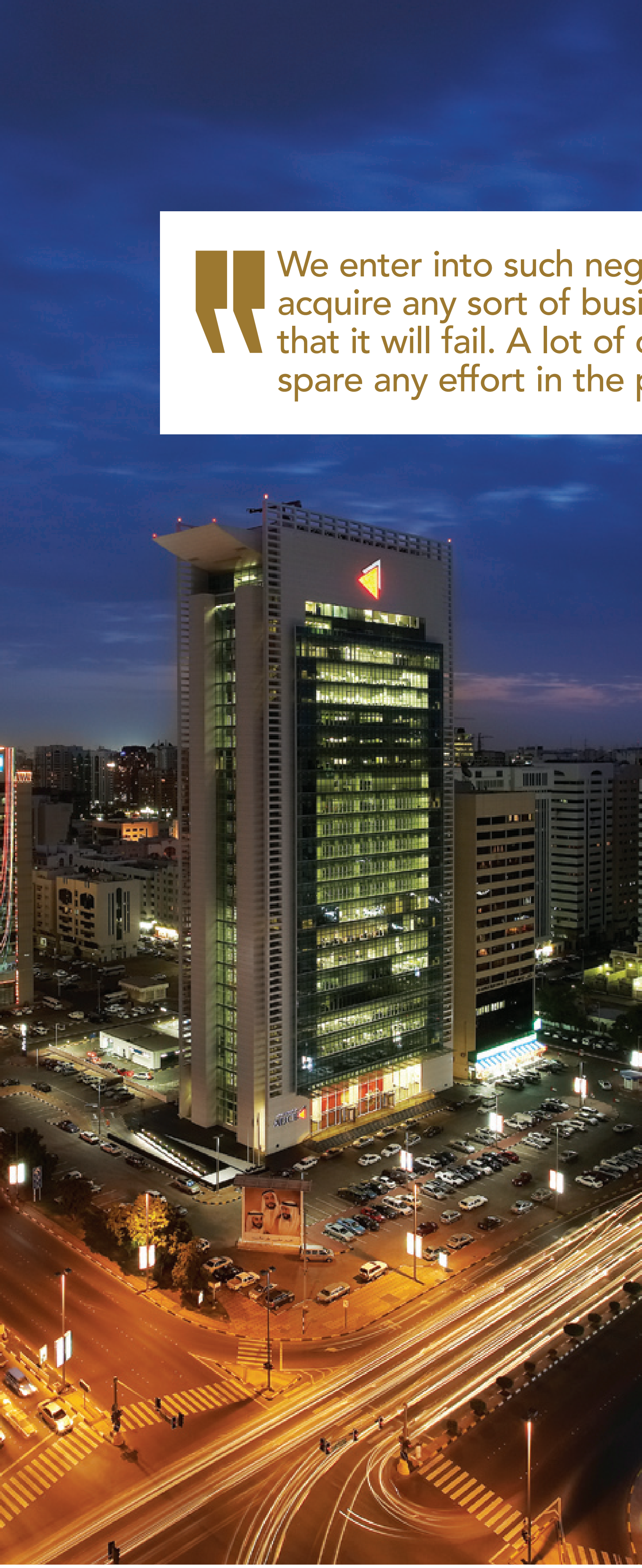
ADCB has two joint ventures with Australia's Macquarie Bank. One joint venture focuses on infrastructure fund management. The other joint venture provides interest rate, currency and commodity derivatives products to clients in the GCC region which concluded in 2009.

During May 2008, ADCB acquired a 25 per cent interest in Malaysian bank RHBC in a step that it claims will pave the way for a strategic partnership between the two financial institutions enabling them to leverage on the growing cross border banking activities between Asia and Gulf Cooperation Council (GCC).

In June 2010, the bank won the Best SME House/Finance Award at the *Banker Middle East* Industry Awards. This award followed its win at the 2010 *Banker Middle East* Product Awards earlier in the year when it was awarded for its Businessedge suite of SME products and marketing campaign.

In June 2010, the bank acquired the retail banking business of The Royal Bank of Scotland (RBS) in the UAE. This was the first acquisition of an international bank's retail banking franchise in the UAE by a local bank.

As at 31 March 2010, ADCB had 49 branches, 175 ATMs and over 340,000 retail customers. The acquisition should enhance ADCB's franchise by leveraging RBS's established local retail banking presence with an addition of over 250,000 customers, 51 ATMs, three new



> We enter into such negotiations with no ego. When you acquire any sort of business, it is natural to be apprehensive that it will fail. A lot of credibility is at stake, so we did not spare any effort in the planning stage and in the details.

branches and two customer service centres along with an operations processing and a call centre facility based in Dubai.

Ala'a Mohamed Atta Khalil Eraiqat is the bank's Chief Executive Officer (CEO) and Executive Director and took over in February 2009, previously having held senior management positions within ADCB since 2004 in the bank's Wealth Management Group, Retail Banking Group and UAE Banking and was the Deputy CEO since 2007.

The physically imposing but genial ADCB CEO (who must be close to two metres tall) has over 18 years of banking experience in local and international environments. Eraiqat, who constantly talks about customer satisfaction (he said he would have been a hotelier if he hadn't been a banker and is a board member of Abu Dhabi National Hotels) comes across as a strong advocate of putting customer care and focused due diligence at the centre of every aspect of banking. Prior to joining ADCB, he held senior management positions with Citibank and Standard Chartered Bank.

### How long had ADCB been looking at RBS?

We have, for the past few years, in the retail and wealth management area, been growing organically to the size of a small bank. To have an inorganic opportunity to be sizeable (it makes no sense to acquire a bank with 20,000 customers-we do that every quarter), we needed a sizeable inorganic opportunity be there.

I remember when RBS decided to sell off some of their non-core businesses. We were interested from day one. However, it was not only the UAE that they were out to sell, but it was more than one country together. We said our interest was only in the UAE and I think that was the same for many of the bidders.

It was not easy. You are dealing with a team which has taken part in a number of such sales and they are very experienced, but I am proud to say that the team we assembled was able to play ball in the discussions and negotiations. We would like to think that we did not win it purely on financials, not just on the bidding price. There was a lot of due diligence done by both sides. It is an acquisition, but I would prefer to call it a merger.

We enter into such negotiations with no ego. When you acquire any sort of business, it is natural to be apprehensive that it will fail. A lot of credibility is at stake, so we did not spare any effort in the planning stage and in the details.

**How long did the process take?**

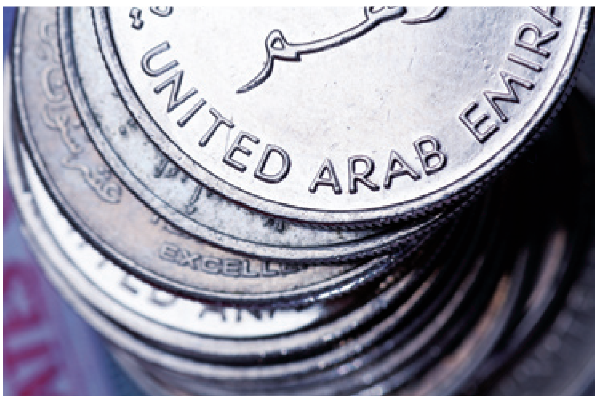
End to end, until now; it has been more than seven months of intense and involved work. We had more than 60 people from the bank involved. When I say ‘intense and involved’, I mean almost 24 hours a day and the real job hasn’t started yet. The post acquisition situation is what will decide if it is a success or failure. We believe we are well positioned and we have already taken a few steps which demonstrate that it is working.

> We are in a world where bankers and institutions are under heavy attack, sometimes rightfully, for such practices. We want to elevate ourselves away from such attacks.

It fits well. It has a large retail network in terms of customers and overnight we doubled our customer base and our credit card base, which was something we intended to do. Rather than doing that organically over five to seven years, we will do it inorganically in one year.

The market situation (given that we are moving towards of the end of the economic crisis) helped us have it at an attractive price. A 1.57 multiple is pretty attractive, even in today’s situation at any level.

We are building what we internally like to call the ‘retail banking powerhouse’ in the region. That should help us to become one of the top banks. We have always been a leader in terms of quality, but size does matter at a certain level, so it gives us a critical mass that allows to build this retail powerhouse.



**Was it cheaper to increase market share by acquiring RBS than by growing organically?**

It wasn’t only the cost. It was also a matter of the effort and the timing. Everything requires effort and time. We would like to think, genuinely, that the worst of the crisis is behind us when it comes to retail credit behaviour in the market.

Could there have been cheaper routes? There could have been, but I think, thanks to the intense efforts of the past few months, we are now a few years ahead of the competition. Think about it. This was an opportunity and if we didn’t do it, somebody else would have and that would have made our job much more difficult.

The UAE is still a small country in terms of the size of its bankable population, so we like to think it is the right fit, the right strategy, the right partners and we are extremely excited about this opportunity going forward.

**Now that ADCB is digesting the acquisition, do you have any expansion plans beyond this?**

ADCB’s expansion strategy is only for the UAE, so I can tell you that for the next two or three years that we have no plans to expand outside the UAE. Our organic expansion plans within the UAE are continuing and we can talk about small to medium enterprises (SMEs) and Islamic banking, but inorganically we are also looking at many opportunities at any given time. We will keep on looking. Not all of them are as attractive as they sound, or even if they are attractive, then the cost may not justify it, or it doesn’t fit with what we do.

Are we going to do anything in the very near future? I would like to believe that we are not. We need to give this major acquisition its due effort, time and energy. At the end of the day, we are a small bank and to involve a large number of people in such a project subjects many people to a lot of pressure.

**There has been a perception that Islamic finance has weathered the economic storm better than conventional finance and that more banks are now opening Islamic windows in an effort to broaden their appeal and reduce their risk. What is ADCB’s view on the spread of Islamic finance?**

We are in a certain part of the world and are at a time in history that having Islamic finance is essential. It is no longer ‘good to have’ or an add-on. It is an essential and an integral product that you need to have as a bank. It is demanded, it is expected and it is no longer an option.

We are focusing on the affluent segment which wants to have the option of having conventional or Islamic products, as long as they do not compromise on the Shari’ah principles or on the service and cost. This is our target.


Banking at the end of the day is about convenience and if you provide that convenience, the same branch, same distribution channel, without compromising on the Shari'ah principles. Today, Islamic banking is 30 per cent of all of our new retail business, under our Meethaq brand.

I have seen conventional banks which passed through the crisis with flying colours and I have seen some Islamic banks which were hurt. I think it was about more than the product suite; it was the banks' strategies that really decided how they got through the crisis.

### How has SME banking evolved due to the economic crisis?

I don't think SME banking has suffered as a result of the crisis. The crisis mainly affected liquidity, especially in this region. Banks discovered that they had large concentrations in certain sectors and segments, mainly real estate.

It is no secret that ADCB has always been an SME bank and it has always been successful in this sector. SMEs have always contributed strongly to our bottom line and we believe that we are one of the few experts in the SME space.

### Have you adapted your products to meet the circumstances?

We have invented new products; we have tailored the existing products; we stopped certain products. The 'new norms' came into being 12 months ago. We are not reacting now. Many products, both SME and retail, were adjusted, even in the middle of 2008 because got the sense that the market was turning. Unfortunately we never expected it to be this severe or to hit this hard. We pride ourselves at ADCB that our products are highly sensitive to the market, but in a pragmatic way. It is not opportunistic. We have been here for 25 years.

### How has corporate governance both at ADCB and its clients risen up the agenda?

I will start with corporate governance between us and our clients. We are a bank that had to pay a heavy penalty in the form of losses when we lent to companies where there were issues with their corporate governance and our two big exposures in Saudi Arabia is an example of that. That issue was not related to the economic crisis-it was a corporate governance problem. What we have learned is that we apply a certain level of corporate governance and due diligence tests on every borrower. We have always been applying tests and continue to apply them on depositors because of the anti-money laundering regulations and the 'know your customer' rules.

We have a full questionnaire for borrowers and a really detailed due diligence that the 'front lines' have to do to make sure that we are not suffering from a lack of corporate governance with borrowers. To be able to do that correctly, you need to be able to that on yourself.

> We need to give this major acquisition its due effort, time and energy.

We are in a world where bankers and institutions are under heavy attack, sometimes rightfully, for such practices. We want to elevate ourselves away from such attacks.

When I took over the bank in February 2009, we divided what could be done into two areas-the things within our zone of control and the things outside our zone of control. We as a bank cannot single-handedly fix the subprime mortgage issue in the US or the liquidity issue around here, but there is no question about getting the corporate governance issue right.

Then we looked at staffing, internal processes and so on. We consciously slowed balance sheet growth and went about fixing things internally. We invested heavily in technology, in training, in people. We have correctly tackled everything that was within our zone of control and waited for the things that were outside our zone of control to fix themselves.

There is time, effort, energy and money behind it and we want to believe that once things improve we will be able to take advantage of all of this investment in the quickest way possible. ■