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Ratings

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Abu Dhabi Commercial Bank PJSC

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Abu Dhabi Commercial Bank PJSC

SACP	bbb+	+	Support	+2	+	Additional Factors	0

Anchor	bbb-	
Business Position	Strong	+1
Capital and Earnings	Strong	+1
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

ALAC Support	0
GRE Support	+2
Group Support	0
Sovereign Support	0

Issuer Credit Rating
A/Stable/A-1

Major Rating Factors

Strengths:

- High systemic importance in the United Arab Emirates (UAE).
- Strong business position with a good track record of earnings generation.
- Majority ownership by, and privileged relationship with, the government of Abu Dhabi.
- Strong levels of high-quality capital.

Weaknesses:

- High concentration risks on both sides of the balance sheet.
- Sizable lending exposure in real estate and hospitality.

Outlook: Stable

The stable outlook on Abu Dhabi Commercial Bank (ADCB) reflects S&P Global Ratings' expectation that the bank's business and financial profiles will remain largely unchanged over the next two years, despite the gradual weakening in operating conditions it anticipates in the UAE.

A positive rating action over the next 24 months appears remote. However, we could raise our ratings on ADCB if it strengthens its capital position, with our risk-adjusted capital (RAC) ratio sustainably exceeding 15%.

A downgrade of ADCB also seems unlikely in the next 24 months because it would imply a simultaneous downgrade of the Emirate of Abu Dhabi and weakening of our assessment of the bank's stand-alone credit profile (SACP). We could revise our assessment of ADCB's SACP downward if we saw a sharp fall in capitalization, with our RAC ratio dropping below 10%, or a marked deterioration in asset quality metrics.

Rationale

Our ratings on ADCB reflect its anchor of 'bbb-', as the bank's lending book is largely focused on the UAE. We also factor in our view of ADCB's strong business position, given the bank's well-established presence in the UAE, its good retail franchise, and its balanced earnings generation across different business segments. In addition, our ratings reflect ADCB's strong capital and earnings, based on the bank's strong core earnings generation and our projected RAC ratio before concentration adjustments remaining at 13.5%-14.0% over our two-year outlook horizon. We consider ADCB's risk position to be adequate, in line with its good asset quality metrics (low nonperforming loans [NPLs] and healthy loan loss coverage). Although we expect some deterioration in asset quality indicators over the next 12-24 months, we think the impact on the bank's financial profile will be manageable. We assess the bank's funding as average and its liquidity as adequate. Combined, these factors lead to our assessment of the bank's SACP at 'bbb+'.

We view ADCB as a government-related entity (GRE). We consider that there is a high likelihood that the government of the Emirate of Abu Dhabi would provide timely and sufficient extraordinary support to ADCB in the event of financial distress. Consequently, our long-term rating on the bank incorporates two notches of uplift from its SACP. In accordance with our criteria for rating GREs, our view of the high likelihood of extraordinary government support is based on our assessment of ADCB's very strong link with, and important role for, the Abu Dhabi government.

Anchor: 'bbb-' for banks operating in the UAE

We use our Banking Industry Country Risk Assessment's economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a commercial bank operating in the UAE is 'bbb-'.

We view the UAE's economy and its high income levels as key strengths. However, the country's real estate prices, which recovered at a fast pace in 2011–2014, have been in a correction phase, which we expect will continue in 2017 and 2018. In addition, although banks have reported strong asset quality, we foresee a deterioration and expect the credit losses to increase in 2018. Many banks are structurally exposed to high single-name concentrations, and there is a fair level of restructured exposures in the system.

With regard to industry risk, we believe that the UAE's institutional framework poses an intermediate risk, reflecting the large number of key regulations the authorities have implemented over the past five years. Although UAE banks operate with healthy profitability metrics, a large number of key banks are controlled by either government-based institutions or ruling families, which we believe is a weakness in terms of competitive dynamics. UAE banks have improved their funding profile over the past few years as credit growth has lagged behind deposit growth. We continue to consider that funding conditions pose intermediate risk.

Table 1

Abu Dhabi Commercial Bank PJSC Key Figures					
		--Year-ended Dec. 31--			
(Mil. AED)	**2017***	**2016**	**2015**	**2014**	**2013**
Adjusted assets	259,220	258,270	228,248	203,984	183,081
Customer loans (gross)	170,276	164,400	152,426	138,541	134,246

Table 1

Abu Dhabi Commercial Bank PJSC Key Figures (cont.)					
		--Year-ended Dec. 31--			
(Mil. AED)	**2017***	**2016**	**2015**	**2014**	**2013**
Adjusted common equity	26,448	24,382	22,472	20,062	18,807
Operating revenues	4,343	8,503	8,262	7,529	7,320
Noninterest expenses	1,411	2,796	2,826	2,537	2,328
Core earnings	2,114	4,157	4,944	4,227	3,650

*Data as of June 30. AED--UAE dirham.

Business position: ADCB has a well-established franchise in the UAE

We regard ADCB's business position as strong, which reflects ADCB's well-established presence in the UAE as the third-largest bank, with total assets of around $71 billion on June 30, 2017. The bank's growth strategy is driven by a pure UAE-centric approach. In our view, the bank's stable management team and its execution capabilities are well reflected in the bank's key financial and business metrics.

The bank's revenues are largely driven by its loan book, with net interest income accounting for around two-thirds of its operating revenues, one of the highest among its peers in the Gulf Cooperation Council (GCC; Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and UAE). In addition, the bank has demonstrated a track record of more balanced earnings generation across different business segments in recent years. Given ADCB's well-established franchise in the UAE and its strong relationship with the Abu Dhabi government, which holds a 62.5% stake through the Abu Dhabi Investment Council, we expect the bank will protect its market position and its market share of around 10% in assets.

ADCB maintains a strong customer base thanks to its good distribution network and brand recognition in the UAE. The share of retail loans in the bank's gross loans has doubled in the past five years. In addition, by focusing on improving deposit granularity, increasing the amount of low-cost current account deposits, and lengthening funding tenors, the bank has strengthened its funding profile substantially. ADCB's earning generation is still among the highest in the GCC, with 16% return on equity and 1.7% return on assets in 2016.

Table 2

Abu Dhabi Commercial Bank PJSC Business Position					
		--Year-ended Dec. 31--			
(%)	**2017***	**2016**	**2015**	**2014**	**2013**
Total revenues from business line (mil. AED)	4,343	8,503	8,262	7,529	7,320
Wholesale banking/total revenues from business line	30.1	30.3	30.2	26.4	26.3
Consumer banking/total revenues from business line	47.4	46.5	45.4	42.8	41.7
Wholesale & consumer banking/total revenues from business line	77.5	76.8	75.6	69.1	68.0
Other revenues/total revenues from business line	22.5	23.2	24.4	30.9	32.0
Return on average equity	16.0	16.2	20.9	19.0	16.6

*Data as of June 30. AED--UAE dirham.

Capital and earnings: ADCB operates with strong capitalization

We regard ADCB's capital and earnings as strong. This reflects the bank's high level of capital, its strong core earnings generation, and manageable dividend payout policy, which enables it to maintain its capitalization. On June 30, 2017, the bank's regulatory capital adequacy ratio stood at 18.1%, while its tier I ratio was 14.8%.

In 2016 ADCB's net profit dropped 16% as a result of normalization in credit losses, coming from an exceptionally low base in 2015. The bank's cost discipline, however, was intact, with its cost-to-income ratio further improving to 33% in 2016 from 34% in 2015.

The bank's RAC ratio before adjustments, based on 2016 financial statements, stood at 13.2%. We expect this ratio will remain between 13.5% and 14.0% over the next two years. Specifically, we expect:

- Lending and balance-sheet growth of around 5%, given the bank's conservative stance toward new lending in a slowing economy.
- A gradual improvement in net interest margins, since we expect stabilization in cost of funding and positive impact from the repricing of corporate loan book (mostly based on a floating rate). Fee income growth is set to drop to single digits due to weaker loan growth and weaker off-balance-sheet activity that is very much linked to the slowdown in trade. An increase in credit losses in 2017 given the weak operating environment and soft real estate market, followed by stabilization in 2018.
- ADCB has maintained a dividend pay-out of about 50% in recent years, which we continue to factor into our forecasts for 2017 and 2018.

Table 3

Abu Dhabi Commercial Bank PJSC Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2017***	**2016**	**2015**	**2014**	**2013**
Tier 1 capital ratio	14.8	15.7	16.3	17.0	16.6
S&P RAC ratio before diversification	N.M.	13.2	13.8	14.7	13.3
S&P RAC ratio after diversification	N.M.	11.1	11.7	11.5	11.2
Adjusted common equity/total adjusted capital	86.9	85.9	84.9	83.4	82.5
Net interest income/operating revenues	76.1	72.9	75.1	74.2	74.2
Fee income/operating revenues	17.4	17.3	17.4	16.5	13.6
Noninterest expenses/operating revenues	32.5	32.9	34.0	33.7	31.8
Preprovision operating income/average assets	2.3	2.3	2.5	2.6	2.7
Core earnings/average managed assets	1.6	1.7	2.3	2.2	2.0

*Data as of June 30. RAC--Risk-adjusted capital. N.M.--Not meaningful.

Table 4

Abu Dhabi Commercial Bank PJSC Risk-Adjusted Capital Framework Data

(AED 000s)	Exposure*	Basel II RWA	Average Basel II RW (%)	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
Credit risk					
Government and central banks	58,882,914	--	--	1,991,386	3
Institutions	67,414,205	--	--	21,740,912	32
Corporate	117,204,965	--	--	121,130,665	103
Retail	41,568,739	--	--	32,478,263	78
Of which mortgage	6,613,962	--	--	2,975,521	45

Table 4

Abu Dhabi Commercial Bank PJSC Risk-Adjusted Capital Framework Data (cont.)					
Securitization	0	--	--	0	0
Other assets	5,080,090	--	--	6,742,281	133
Total credit risk	290,150,913	--	--	184,083,508	63
Market risk					
Equity in the banking book¶	700,837	--	--	7,012,643	1,001
Trading book market risk	--	--	--	8,343,583	--
Total market risk	--	--	--	15,356,226	--
Insurance risk					
Total insurance risk	--	--	--	--	--
Operational risk					
Total operational risk	--	--	--	15,943,628	--
(AED 000s)		**Basel II RWA**		**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification	--	--	--	215,383,361	100
Total adjustments to RWA	--	--	--	41,123,828	19
RWA after diversification	--	--	--	256,507,189	119
(AED 000s)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments	--	29,972,799	15.7	28,382,308	13.2
Capital ratio after adjustments§	--	29,972,799	15.7	28,382,308	11.1

*Exposure at default. Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. ¶Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. §Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. AED--United Arab Emirates dirham. Sources: Company data as of Dec. 31, 2016, S&P Global Ratings.

Risk position: Adequate thanks to strong asset quality indicators

We assess ADCB's risk position as adequate, which reflects its low level of NPLs and strong loan loss coverage. The bank had a NPL ratio of 2.9% on June 30, 2017, which is in line with the level in 2016. The bank's absolute level of NPLs has declined by 39% since 2010, largely on the back of certain key recoveries and write-offs. Its exposure to real estate and hospitality was 35% of its gross loans on June 30, 2017.

ADCB saw a substantial rise in loan loss provisions in 2016 following an exceptionally low base in 2015. We believe the bank's credit loss cycle has bottomed out in 2015. The weak operating environment in the UAE weighs on the asset quality in certain segments such as real estate, retail, and hospitality. We expect the NPLs to increase for most banks in the UAE due to weak economic outlook and the ongoing relative real estate correction.

Nevertheless, ADCB's robust pre-provision earnings generation capacity coupled with a healthy loan loss coverage ratio of 123% at June 30, 2017, should allow ADCB to absorb mild credit shocks without a meaningful impact on its earnings.

Table 5

Abu Dhabi Commercial Bank PJSC Risk Position					
		--Year-ended Dec. 31--			
(%)	2017*	2016	2015	2014	2013
Growth in customer loans	7.1	7.9	10.0	3.2	3.8
Total diversification adjustment / S&P RWA before diversification	N.M.	19.1	18.8	28.5	18.3
Total managed assets/adjusted common equity (x)	9.8	10.6	10.2	10.2	9.7
New loan loss provisions/average customer loans	1.0	1.0	0.3	0.5	1.0
Gross nonperforming assets/customer loans + other real estate owned	2.9	2.8	3.2	3.1	4.1
Loan loss reserves/gross nonperforming assets	122.5	129.2	127.7	147.0	120.4

*Data as of June 30. RWA--Risk-weighted assets. N.M.--Not meaningful.

Funding and liquidity: Well-established retail branch network and adequate liquidity

We consider ADCB's funding to be average. This reflects the bank's solid base of core customer deposits, on the back of its well-established retail branch network. The bulk of ADCB's deposit base comes from non-remunerated demand deposits, which now account for 42% of total deposits and helps the bank partially offset the increase in cost of funding due to recent liquidity tightening. In addition, the bank's privileged relationship with the Abu Dhabi authorities also means that the bank has large deposits from the government and related public entities. As a result of management's efforts, ADCB has decelerated its lending since 2008 and focused on liability management.

Although the bank's loan-to-deposit ratio of 102% on June 30, 2017, still looks higher than that of some of its GCC peers, we note that because of its access to long-term funding and strong capital, its stable funding ratio stood at a healthy 110% over the past three years.

We expect the bank will continue to enjoy sound access to long-term funding. ADCB is one of the few banks in the region with well-established, long-term funding programs and access to hard currency, overseas funding at strong rates.

The bank operates with adequate liquidity, in our view. For instance, as of June 30, 2017, about 14% of its balance sheet is in cash and balances from banks, and 16% is invested in securities, which is largely in highly rated UAE and GCC bonds. These securities are primarily in the form of fixed-income instruments issued by regional governments and GREs, which the bank could use as collateral for funding through repurchase agreements.

Table 6

Abu Dhabi Commercial Bank PJSC Funding And Liquidity					
		--Year-ended Dec. 31--			
(%)	2017*	2016	2015	2014	2013
Core deposits/funding base	76.5	75.4	77.8	75.5	77.0
Customer loans (net)/customer deposits	101.5	101.9	101.9	104.7	110.4
Long term funding ratio	94.2	89.7	92.8	90.2	89.1
Stable funding ratio	118.4	110.5	110.3	108.1	104.1

Table 6

Abu Dhabi Commercial Bank PJSC Funding And Liquidity (cont.)					
		--Year-ended Dec. 31--			
(%)	**2017***	**2016**	**2015**	**2014**	**2013**
Short-term wholesale funding/funding base	6.7	11.8	8.3	11.3	12.4
Broad liquid assets/short-term wholesale funding (x)	4.5	2.7	3.1	2.2	1.7
Short-term wholesale funding/total wholesale funding	26.2	44.4	34.3	42.3	48.2

*Data as of June 30.

External support: Two notches of government support

The long-term rating on ADCB includes two notches of uplift to reflect our view of the bank as a GRE with a high likelihood of timely and sufficient extraordinary support from the government of Abu Dhabi if needed. We base our assessment on ADCB's:

- Very strong link with the government of Abu Dhabi, because of its control and majority ownership by Abu Dhabi, and the latter's record of extraordinary support to ADCB. The Abu Dhabi government holds a 62.5% stake in ADCB through Abu Dhabi Investment Council and therefore has a significant interest and business relationship with the bank. The majority of the bank's directors are appointed by the Abu Dhabi government. In 2009, the government injected UAE dirham (AED) 4 billion (about $1.1 billion) in tier I capital into the bank during a period of market stress.
- Important role for the Abu Dhabi government. ADCB is the second-largest bank in Abu Dhabi and has a strong deposit and loan market share in Abu Dhabi's banking market. The bank also provides funds to certain Abu Dhabi-based GREs and key sectors in the emirate's overall business activities.

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	**5**	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	**bbb-**	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of September 26, 2017)

Abu Dhabi Commercial Bank PJSC		
Counterparty Credit Rating		A/Stable/A-1
Commercial Paper		
Foreign Currency		A-1
Senior Unsecured		A
Counterparty Credit Ratings History		
02-Apr-2015	*Foreign Currency*	A/Stable/A-1
30-Jul-2014		A/Positive/A-1
21-Jun-2011		A/Stable/A-1
02-Apr-2015	*Local Currency*	A/Stable/A-1
30-Jul-2014		A/Positive/A-1
21-Jun-2011		A/Stable/A-1
Sovereign Rating		
Sharjah (Emirate of)		BBB+/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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