FitchRatings

Banks
Universal Commercial Banks
United Arab Emirates

Abu Dhabi Commercial Bank PJSC

Key Rating Drivers

Abu Dhabi Commercial Bank PJSC's (ADCB) Issuer Default Ratings (IDRs) reflect potential support from both the United Arab Emirates (AA-/Stable) and Abu Dhabi (AA/Stable) authorities. This reflects the authorities' strong ability to, and record of, support for the banking system if needed.

ADCB's Viability Rating (VR) balances its strong domestic franchise and funding and liquidity against weaker-than-peers' asset quality. The 'bb+' VR is assigned below the implied VR of 'bbb-' due to the following adjustment reason: risk profile.

Favourable Environment: Operating conditions are solid for UAE banks in 2023. Fitch Ratings expects the sector credit growth to remain modest at about 5% in 2023 due to weak credit demand, tighter underwriting standards and higher interest rates, but the latter may result in stronger profitability, particularly for banks with high shares of current and savings accounts.

Large Abu Dhabi Bank: ADCB is the third-largest bank in the UAE, with a broad domestic franchise, including market shares of about 15% of sector loans and deposits, and a strong relation with the Abu Dhabi government.

Limited Large Loans' Amortisation: Some of ADCB's largest loans have had fairly slow amortisation in recent years. This creates seasoning risks, meaning that loan-quality problems may not have yet fully crystallised. We therefore consider the quality of some of ADCB's largest exposures to be weaker than at higher-rated peers.

Moderate Impaired Loans: ADCB's impaired loans ratio (including Stage 3 and purchased or originated credit impaired loans) fell to 5.1% at end-2Q23 (end-2022: 5.5%). However, loans at fair value, which Fitch views as risky, and Stage 2 loans comprised a further 1.1% and 5.7%, respectively. We expect impaired loans ratio to remain above 5% in the medium term.

Profitability Ratios Improving: ADCB's operating profit-to-risk-weighted assets ratio improved to 2.1% in 1H23 (2022: 1.9%). We expect performance to remain reasonable in 2H23–2024 as ADCB's net interest margin (annualised 2.6% in 1H23) continues to benefit from higher interest rates, supported by a high share of low-cost current and savings accounts. We expect loan impairment charges to remain stable at about 1%. ADCB posted a reasonable 13.7% (annualised) return on equity in 1H23 and Fitch forecasts a similar ratio for full year 2023.

Core Capital Is Only Adequate: At end-2Q23, ADCB's common equity Tier 1 (CET1) ratio was 13.4% (end-2022: 13.0%). However, capitalisation should be viewed in the context of high concentration and asset quality risks. We expect the CET1 ratio to remain stable in 2023, supported by only moderate growth.

Strong Funding and Liquidity: At end-2Q23, low cost current and savings accounts made up a high 48% of ADCB's deposit funding. Funding stability is additionally strengthened by large government and public-sector deposits and diversified wholesale funding. ADCB's liquidity position was strong at end-1H23, as expressed by a fairly low 90% ratio of gross loans/deposits.

Ratings

Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1
Long-Term IDR (xgs)	BB+(xgs)
Short-Term IDR (xgs)	B(xgs)
Viability Rating	bb+
Government Support Rating	a+
Sovereign Risk (United Arab Emirates)	
Long-Term Foreign-Currency IDR	AA-
Long-Term Local-Currency IDR	AA-
Country Ceiling	AA+
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (September 2023)
Sukuk Rating Criteria (June 2022)

Related Research

Fitch Affirms ADCB at 'A+'; Outlook Stable (October 2023)
UAE Banks Datawatch 1Q23 (September 2023)
Strong Operating Conditions for GCC Banks; UAE Outperforming (September 2023)
Fitch Affirms Abu Dhabi at 'AA'; Outlook Stable (July 2023)
Fitch Affirms the United Arab Emirates at 'AA-'; Outlook Stable (July 2023)
EM100 Banks Tracker - End-2022 (June 2023)
Global Banks Mid-Year Outlook (June 2023)

Analysts

Dmitry Vasilyev
+971 4 424 1238
dmitry.vasilyev@fitchratings.com

Abdulla Al-Hammadi
+971 4 424 1277
abdulla.al-hammadi@fitchratings.com

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

ADCB's GSR and IDRs are sensitive to a change in the ability or propensity of the UAE and Abu Dhabi authorities to provide support.

ADCB's VR is primarily sensitive to our assessment of the bank's risk profile and asset-quality. A material deterioration in ADCB's asset-quality ratios or increase in credit concentrations could lead to a downgrade of the VR.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

A positive rating action on ADCB's GSR and IDRs is unlikely given the Stable Outlooks on the UAE and Abu Dhabi and the existing high levels of these ratings.

ADCB's VR could be upgraded in case of a strengthening in its risk profile and loan quality and would require an improvement in the quality of the bank's non-impaired loans and a record of amortisation of ADCB's large exposures.

Other Debt and Issuer Ratings

Rating level	Rating
Abu Dhabi Commercial Bank PJSC	
Senior unsecured: long-term	A+
Senior unsecured: short-term	F1
Senior unsecured: long-term (xgs)	BB+(xgs)
Senior unsecured: short-term (xgs)	B(xgs)
AHB Sukuk Company Ltd	
Senior unsecured: long-term	A+
Senior unsecured: short-term	F1
Senior unsecured: long-term (xgs)	BB+(xgs)
Senior unsecured: short-term (xgs)	B(xgs)
ADCB Finance (Cayman) Limited	
Senior unsecured: long-term	A+
Senior unsecured: long-term (xgs)	BB+(xgs)

Source: Fitch Ratings

The ratings of the bank's unsecured debt (programmes and notes), including that issued by ADCB's special-purpose vehicles (SPVs) ADCB Finance (Cayman) Limited and AHB Sukuk Company Ltd, are in line with the bank's Long- and Short-Term IDRs, reflecting Fitch's view that the likelihood of default of these obligations is the same as the likelihood of default of the bank. The xgs ratings of debt issues are in line with the xgs ratings of the bank.

ADCB's Short-Term IDR of 'F1' is the lower of the two options corresponding to a 'A+' Long-Term IDR, as described in our rating criteria, because a significant proportion of its funding is related to the government, and stress on ADCB would likely come when the sovereign itself is experiencing some form of stress.

ADCB's Long-Term IDR (xgs) is driven by its VR. Its Short-Term IDR (xgs) is driven by its Long-Term IDR (xgs).

The xgs ratings of ADCB's senior unsecured debt are driven by ADCB's Long- and Short-Term IDRs (xgs).

Any downgrade of the bank's IDRs would lead to a corresponding change in the bank's debt ratings and the debt ratings of its SPVs.

ADCB's Long-Term IDRs (xgs) would mirror changes to its VR. ADCB's Short-Term IDR (xgs) is sensitive to changes in Long-Term IDR (xgs).

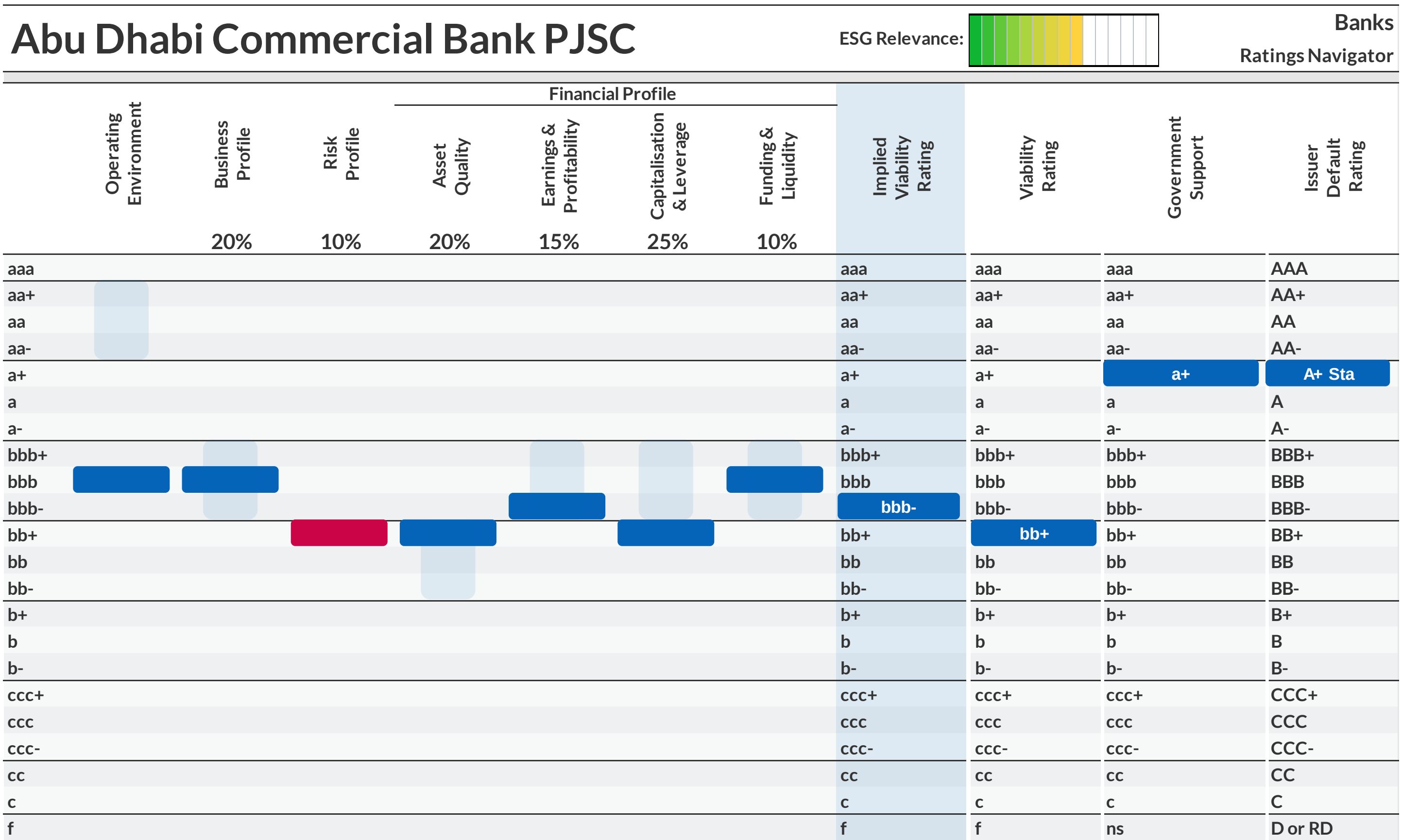
The xgs ratings of ADCB's senior unsecured debt are sensitive to ADCB's Long- and Short-Term IDRs (xgs).

Significant Changes from Last Review

Ex-Government Support Ratings Assigned

On 2 May 2023, Fitch assigned a Long-Term IDR (xgs) of 'BB+(xgs)' and a Short-Term (xgs) of 'B(xgs)' to ADCB. This rating action followed the publication of the Bank Ex-Government Support Rating Criteria on 11 April 2023, which has now been assimilated into the latest Bank Rating Criteria. Ex-government support ratings have been assigned to banks that are not rated as public-sector policy banks but whose Long-Term IDRs incorporate assumptions of government support.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The operating environment score of 'bbb' has been assigned below the 'aa' category implied score for the UAE due the following adjustment reasons: size and structure of economy (negative), financial market development (negative), and regulatory and legal framework (negative).

The capitalisation & leverage score of 'bb+' has been assigned below the 'bbb' category implied score due to the following adjustment reason: risk profile and business model (negative).

Company Summary and Key Qualitative Factors

Operating Environment

Strong operating conditions are benefitting UAE banks, which are also supported by high oil prices, contained inflation and rising interest rates. This was evidenced by the banks' strong performance in 1H23, which we expect to be generally sustained in 2H23, but to moderate in 2024. Most UAE banks are well-positioned for higher interest rates and, since 2021, their earning assets yields have risen more than their funding costs due to a still-high share of cheap current and savings accounts, and a large percentage of floating lending on their loan books.

We expect the strong business and operating environment for UAE banks will remain supportive through to end-2024, underpinned by high oil prices (2023F: USD80/barrel; 2024F:USD75/barrel). Fitch forecasts real GDP growth to be slower in 2023 (2.1%; 2024F: 3.6%) after a high 7.9% in 2022, and expects non-oil growth (2023F: 3.4%) to slow to 2.7% in 2024, although this will still be strong in the face of global challenges, supported by government and GRE spending, a robust real estate sector, dynamic population growth and GCC demand.

The average NIM for UAE banks improved by 50bp, to 3.3%, in 1H23, due to large proportions of low-cost CASA, while a large share of earning assets are under floating rates. The NIM is also underpinned by healthy liquidity conditions in the sector, as the increase in deposits (about 7% in 1H23) exceeded lending growth (4%) and the average loans-to-deposits ratio for Fitch-rated banks was 80% at end-1H23 (end-2022: 83%).

The sector average cost of risk decreased by 20bp to about 70bp in 1H23, and impairment charges consumed 14% of pre-impairment operating profit, on average (2022: 24%). The sector average annualised return on equity was therefore a healthy 20% (2020: 14.5%). The average impaired loans ratio for Fitch-rated banks (end-1H23: 96% of total assets) declined to 5.7% at end-1H23 (end-2022: 6%) on the back of limited new impairment cases and favourable economic conditions. We expect the average impaired loans ratio to decrease further to 5% in 2024.

The average CET1 ratio improved by about 70bp in 1H23, to 14.5%. We expect that sector capitalisation will remain stable in 2023 as banks grow in line with internal capital generation.

Business Profile

Abu Dhabi D-SIB; Strong Franchise in the UAE

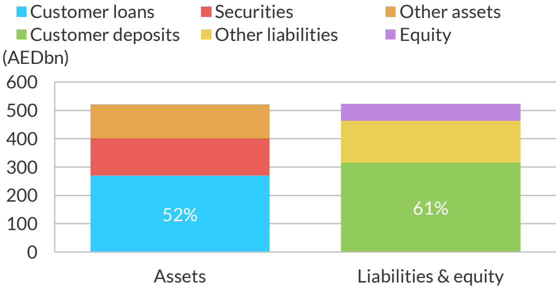
ADCB is recognised as a D-SIB by the CBUAE. The bank's market shares increased by about 4pp in 2019 as a result of its merger with UNB and acquisition of Islamic bank Al-Hilal Bank (AHB). ADCB was 60.2% owned by Mubadala Investment Company, an Abu Dhabi sovereign wealth fund, with the balance in free float (23% owned domestically and 17% by foreign shareholders) at end-1H23. The bank had around 50 branches in the UAE at end-1H23, as well as 11 AHB branches, and banks over 1.5 million customers.

Universal Business Focus; UAE-Centric Strategy

ADCB's universal business model has a particularly strong wholesale banking franchise. In 6M23, corporate and investment banking made up 34% of ADCB's operating income, complemented by retail banking (30%) and treasury business (25%). Revenues are derived mainly from net interest income (72% of revenue in 6M23), with non-interest income primarily made up of net fees and commissions. Net loan made up 52% of assets at end-2Q23. The securities portfolio (23%) has grown in recent years as deposit growth was above lending growth and the bank parked liquidity in securities. ADCB is primarily funded with customer deposits (69% of total liabilities at end-2Q23), but also has good access to wholesale markets. Government-related assets and liabilities are high, reflecting strategic relations with the Abu Dhabi government.

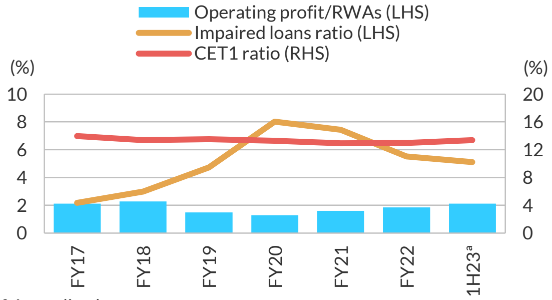
ADCB aims to maintain its focus on the UAE, where over 95% of operating income is originated. However, a considerable share of ADCB's loans (18%) are extended to borrowers from outside of the UAE, particularly to other GCC markets. Digital transformation remains a key strategic objective, in particular for ADCB's subsidiary, Al Hilal, which is a digital Islamic retail bank in the UAE.

Balance Sheet
End-June 2023



Source: Fitch Ratings, Fitch Solutions, ADCB

Performance Through the Cycle



[a] Annualised
Source: Fitch Ratings, Fitch Solutions, ADCB

Risk Profile

Reduced Concentrations by Sector and Borrower

Concentrations in ADCB's loan book, by both sector and borrower, have reduced in recent years, although remain considerable. Most of the problematic exposures sit in the bank's portfolio of real estate loans. However, real estate lending has fallen to 20% of gross loans, or 1.2x CET capital, at end-1H23 (end-2018: 38% and 2.4x, respectively).

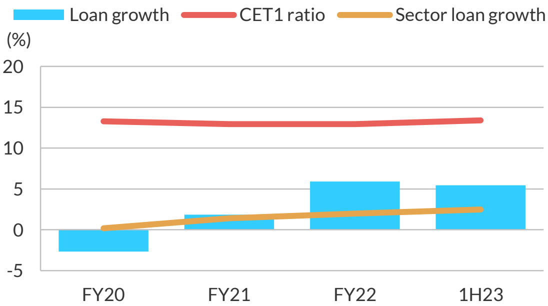
At end-2Q23, the largest 20 loans equalled to 22% of total gross loans, although this was down from 34% at end-2018. We view single borrower and industry concentrations at ADCB as high, although this is typical for the UAE banking sector and the broader GCC region. ADCB's largest exposures have shown fairly slow amortisation in recent years, and this creates loan seasoning risks, in our view.

Loan growth has been moderate, albeit above the sector average, at 6% in 2022 and 5% in 6M23 (not annualised).

Strong Quality of Non-Loan Exposures

The credit quality of the bank's bond portfolio (2.4x CET1 capital at end-2Q23) is strong: 98% of bonds are investment-grade rated, and 86 are rated 'A-' or higher. The short duration of the bonds (1.5 years on average) also limits the magnitude of potential revaluation gains and losses. More generally, interest rate risks are limited by a high share of cheap current and savings accounts in the bank's total liabilities (end-1H23: 32%).

Loan Growth



Source: Fitch Ratings, Fitch Solutions, ADCB

Financial Profile

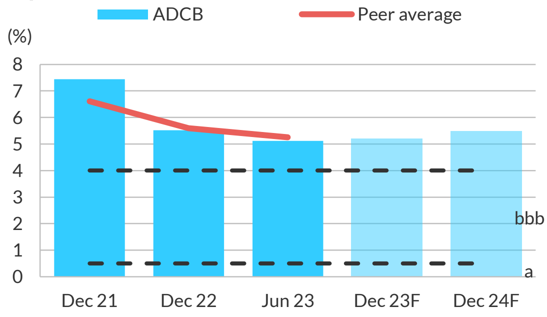
Asset Quality

Manageable Loan Quality Deterioration Expected

ADCB has reasonably solid loan quality metrics compared with large UAE peers, with a headline impaired loans ratio of 5.1%. We calculate total loan loss allowances covered 90% of total Stage 3 and POCI loans at end-2Q23. ADCB's Stage 2 loans, largely comprising real estate exposures, fell to 5.7% of gross loans at end-2Q23 (end-2021: 7.9%), reflecting improved economic prospects compared to 2020–2021, considerable property price growth, and also loan reclassifications. We expect loan quality metrics to stay stable in 2023–2024, as slightly higher loan impairments driven by higher interest rates would likely be offset by moderate portfolio growth.

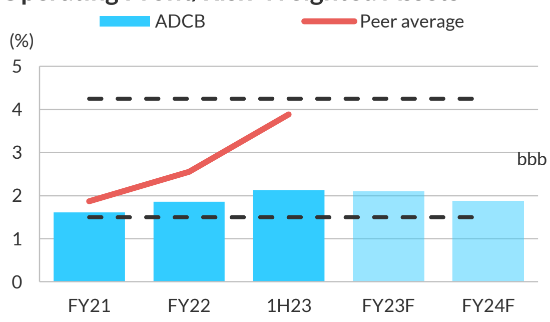
ADCB's exposure to the defaulted company (AED3.1 billion; 1.1% of gross loans) is treated as a loan at fair value, so it is not classified as a Stage 3 loan and is not captured by the above-mentioned 5.1% impaired loans ratio, while its fair-value adjustment is quite low, at about 20%. We view this exposure as weak and risky. In addition, some large Stage 1 and Stage 2 exposures are viewed by Fitch as potential risky, given their slow amortisation.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

Rising Interest Rates to Support Margins

ADCB's operating profit/risk-weighted assets (RWAs) ratio improved to 2.1% in 1H23 (2022: 1.9%) primarily due to a slightly wider net interest margin (1H23: 2.6%). We expect similarly strong results in the annual accounts, followed by a slight moderation of profitability in 2024. Lending margins are set to expand given materially higher interest rates, although this could be partly offset by competitive pressures in lending. Loan impairment charges (LICs) were moderate at 1.1% (annualised) of average gross loans in 1H23, although a small increase is likely in 2H23–2024.

ADCB's cost/income ratio of 27% in 1H23 was reasonable, due to stronger revenues and the bank's mostly corporate business focus. Non-interest income (27% of 1H23 revenue) is mainly generated from loan and credit card-related fees and will likely benefit from higher loan volumes, although it will shrink as a share of revenue due to higher net interest income.

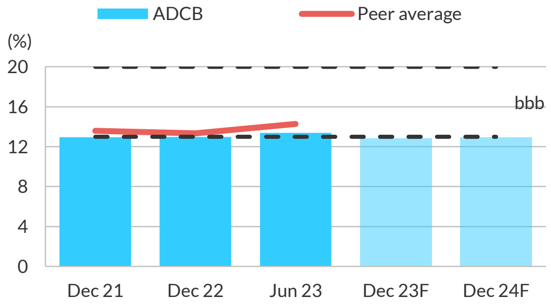
Capital and Leverage

Only Adequate Core Capital

ADCB aims for a CET1 ratio of over 12%, although in the past several years the CET1 ratio has been around 13%. Fitch considers this to be only adequate in the context of the bank's risk profile and loan quality. We expect the post-dividend CET1 ratio to be below 13% by end-2023 and beyond due to considerable dividend pay-outs. The dividend pay-out ratio was 60% in 2022 and around 50% in 2018–2021. ADCB's regulatory capital ratios have reasonable headroom over statutory minimums.

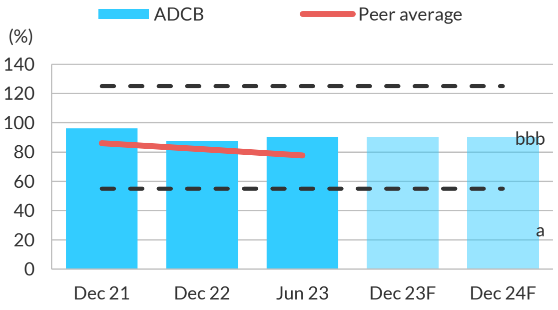
ADCB's RWA density (calculated as RWAs divided by total assets) was 71% at end-1H23, which we view as reasonable. Our assessment of ADCB's capitalisation also reflects high asset concentrations, as well as the potential benefits of ordinary support, which ADCB may get from the Abu Dhabi authorities, in case of need.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

Funding Base Underpinned by High CASA and Government Deposits

ADCB is predominantly funded with customer deposits (69% of total liabilities at end-1H23). The bank's share of low-cost CASA deposits (end-1H23: 48%) is higher than most peers', reflecting its strong domestic franchise, and underpins its deposit base and cost of funding. Related-party deposits made up a high 30% of customer accounts at end-1H23, reflecting ADCB's linkage with the Abu Dhabi government, and we view this funding source as stable and sustainable. ADCB's largest deposits are moderately concentrated, as is the case for most peers, although a high share of these are government-linked, which mitigates risks.

The gross loans/customer deposits ratio fell to 90% at end-1H23 (end-2021: 96%), due to strong deposit growth. We expect the ratio to stay similarly strong in the next few years.

Wholesale funding (19% of total liabilities, excluding bank deposits) amounted to AED89 billion at end-1H23 and is well diversified by instrument. Most of wholesale funding is short- to medium-term, maturing in 2H23 and 2024. ADCB's liquidity position is robust, with liquid assets (cash, due from banks and bonds) equal to AED195 billion, or 43% of total liabilities, at end-1H23.

About Fitch Forecasts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Notes on charts: Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'bbb' category. Light-blue columns represent Fitch's forecasts.

Peer average includes: First Abu Dhabi Bank P.J.S.C. (VR: a-), Emirates NBD Bank PJSC (bbb-), Dubai Islamic Bank (Public Joint Stock Company) (bb+), Mashreqbank PSC (bbb-), HSBC Bank Middle East Limited (bbb) and Abu Dhabi Islamic Bank PJSC (bb).

Financials

Financial Statements

	2Q23 (USDm) Reviewed - unqualified	2Q23 (AEDm) Reviewed - unqualified	YE22 (AEDm) Audited - unqualified	YE21 (AEDm) Audited - unqualified	YE20 (AEDm) Audited - unqualified
Summary Income Statement					
Net interest and dividend income	1,580	5,801	10,230	8,890	9,805
Net fees and commissions	342	1,256	2,110	1,899	1,551
Other operating income	249	915	1,996	1,477	1,134
Total operating income	2,171	7,972	14,336	12,267	12,489
Operating costs	694	2,550	4,888	4,257	4,526
Pre-impairment operating profit	1,476	5,422	9,448	8,010	7,963
Loan and other impairment charges	407	1,496	2,779	2,646	3,974
Operating profit	1,069	3,927	6,669	5,363	3,989
Other non-operating items (net)	—	—	-100	-16	-60
Tax	32	116	135	100	120
Net income	1,038	3,811	6,434	5,247	3,809
Other comprehensive income	-31	-115	-1,637	-490	167
Fitch comprehensive income	1,006	3,695	4,797	4,757	3,976
Summary Balance Sheet					
Assets					
Gross loans	77,608	285,014	270,251	255,113	250,453
- of which impaired	3,973	14,590	14,908	18,974	20,112
Loan loss allowances	3,555	13,054	11,758	10,830	11,478
Net loans	74,053	271,960	258,493	244,282	238,976
Interbank	10,417	38,258	34,755	26,670	21,535
Derivatives	4,333	15,914	15,183	6,488	11,146
Other securities and earning assets	36,075	132,485	119,182	100,158	90,106
Total earning assets	124,879	458,617	427,612	377,598	361,763
Cash and due from banks	9,583	35,195	39,429	33,746	29,602
Other assets	7,485	27,489	30,801	28,934	19,791
Total assets	141,947	521,301	497,842	440,278	411,156
Liabilities					
Customer deposits	86,020	315,908	308,931	265,052	251,396
Interbank and other short-term funding	16,165	59,365	41,454	36,428	27,303
Other long-term funding	11,690	42,933	44,136	49,476	51,069
Trading liabilities and derivatives	4,223	15,509	16,225	6,563	10,855
Total funding and derivatives	118,098	433,714	410,745	357,520	340,622
Other liabilities	6,501	23,875	25,671	23,389	13,933
Preference shares and hybrid capital	1,634	6,000	6,000	6,000	6,000
Total equity	15,715	57,712	55,426	53,370	50,601
Total liabilities and equity	141,947	521,301	497,842	440,278	411,156
Exchange rate		USD1 = AED3.6725	USD1 = AED3.6725	USD1 = AED3.6725	USD1 = AED3.6725

Source: Fitch Ratings, Fitch Solutions, ADCB

Key Ratios

	1H23	YE22	YE21	YE20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.1	1.9	1.6	1.3
Net interest income/average earning assets[a]	2.6	2.5	2.4	2.7
Non-interest expense/gross revenue	32.0	34.1	34.7	36.3
Net income/average equity	13.7	12.1	10.2	8.0
Asset quality				
Impaired loans ratio	5.1	5.5	7.4	8.0
Growth in gross loans	5.5	5.9	1.9	-2.7
Loan loss allowances/impaired loans	89.5	78.9	57.1	57.1
Loan impairment charges/average gross loans	1.1	1.1	1.0	1.7
Capitalisation				
Common equity Tier 1 ratio	13.4	13.0	12.9	13.3
Tangible common equity/tangible assets	9.8	9.8	10.6	10.7
Net impaired loans/common equity Tier 1	3.1	6.8	18.9	20.3
Funding and liquidity				
Gross loans/customer deposits	90.2	87.5	96.3	99.6
Liquidity coverage ratio	130.4	138.9	124.1	156.8
Customer deposits/total non-equity funding	74.5	77.1	74.3	74.9

[a] When calculating net interest margin, Fitch includes ADCB's derivative assets and some other items, which are measured at fair value, into average earning assets. ADCB does not view these assets as interest-earning. Accordingly, as of 30 June 2023 and as of 31 December 2020, the net interest margin, as calculated by Fitch and presented in this table, is 10bp lower than the net interest margin, as reported by ADCB.
Source: Fitch Ratings, Fitch Solutions, ADCB

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a or a-
Actual jurisdiction D-SIB GSR	a+
Government Support Rating	a+
Government ability to support D-SIBs	
Sovereign Rating	AA-/ Stable
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Neutral
Support stance	Positive
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Positive

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

Fitch's view of support factors in the authorities' strong ability to support the banking system, underpinned by solid net external asset positions, still-strong fiscal metrics and recurring hydrocarbon revenues. It also reflects the authorities' very strong, timely and predictable record of supporting domestic banks and strategic ownership of a number of banks, including ADCB (60% owned by Mubadala Investment Company, an Abu Dhabi sovereign wealth fund).

ADCB's 'a+' GSR is at the Abu Dhabi D-SIB GSR level, reflecting its high systemic importance and government ownership. The Abu Dhabi D-SIB GSR is one notch above that of other UAE banks, given Abu Dhabi's superior financial flexibility.

Environmental, Social and Governance Considerations

FitchRatings

Abu Dhabi Commercial Bank PJSC

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

				ESG Relevance to Credit Rating
Abu Dhabi Commercial Bank PJSC has 5 ESG potential rating drivers Abu Dhabi Commercial Bank PJSC has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating. Governance is minimally relevant to the rating and is not currently a driver.	key driver	0	issues	5
	driver	0	issues	4
	potential driver	5	issues	3
	not a rating driver	4	issues	2
		5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.