FitchRatings

Banks
Universal Commercial Banks
United Arab Emirates

Abu Dhabi Commercial Bank PJSC

Update

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

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 if needed, as reflected in its Government Support Rating (GSR) of 'a+'. Its GSR reflects the authorities' strong ability to, and record of, supporting the banking system, if needed. The GSR is at the level of the Abu Dhabi's domestic systemically important banks' GSR given the bank's high systemic importance, and also Abu Dhabi's superior financial flexibility.

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 were solid for UAE banks in 2023 and Fitch Ratings expects these to remain strong in 2024. Fitch forecasts a moderate slowdown of lending growth in 2024 (5%, vs. 6.2% in 9M23) due to still-high interest rates and lower demand for credit after the post-pandemic recovery. The sector's average financial metrics will remain solid in 1H24, but will start moderating in 2H24 as we expect the US Fed to start cutting rates in mid-2024.

Large Abu Dhabi Bank: ADCB is the third-largest bank in the UAE, with a broad domestic franchise, including market shares of about 16% of sector loans and 14% of sector deposits, and a strong relationship with the Abu Dhabi government.

Increased GRE Exposure: ADCB has reduced its real estate lending by 25.7% (to 17% of total gross loans at end-2023), and increased its GREs lending by 46.7% (25% of gross loans) since 2020. At the same time, Fitch considers some of ADCB's largest loans to 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 3.5% at end-2023 (end-2022: 5.5%). However, loans at fair value, which Fitch views as risky, and Stage 2 loans comprised a further 1% and 5.7%, respectively. Impaired loans were about 50% covered by specific provisions.

Profitability Ratios Improving: ADCB's operating profit/risk-weighted assets ratio improved to 2.0% in 2023 (2022: 1.9%). We expect performance to remain reasonable in 2024 as ADCB's net interest margin (Fitch calculated NIMs; 2023: 2.7%; 2022: 2.5%) 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% of gross loans (in line with the 2021–2023 average). ADCB posted 14.1% return on equity in 2023 (2022: 12.1%).

Core Capital Is Only Adequate: At end-2023, ADCB's common equity Tier 1 (CET1) ratio was 12.9% (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 2024, as the bank will grow in line with internal capital generation.

Strong Funding and Liquidity: At end-2024, low cost current and savings accounts made up a good 46% 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-2023, as expressed by a fairly low 86% ratio of gross loans/deposits and a strong 158.1% liquidity coverage ratio.

Applicable Criteria

Bank Rating Criteria (September 2023)

Related Research

Fitch Affirms ADCB at 'A+'; Outlook Stable (October 2023)

UAE Banks Datawatch 3Q23 (February 2024)

UAE Banks –Peer Review 2024 (February 2024)

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-1H23 (December 2023)

Analysts

Anton Lopatin
+971 4 424 1225
anton.lopatin@fitchratings.com

Abdulla Al-Hammadi, CFA
+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 an 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 if its risk profile and loan quality strengthen, 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 ex-government support (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).

Significant Changes from Last Review

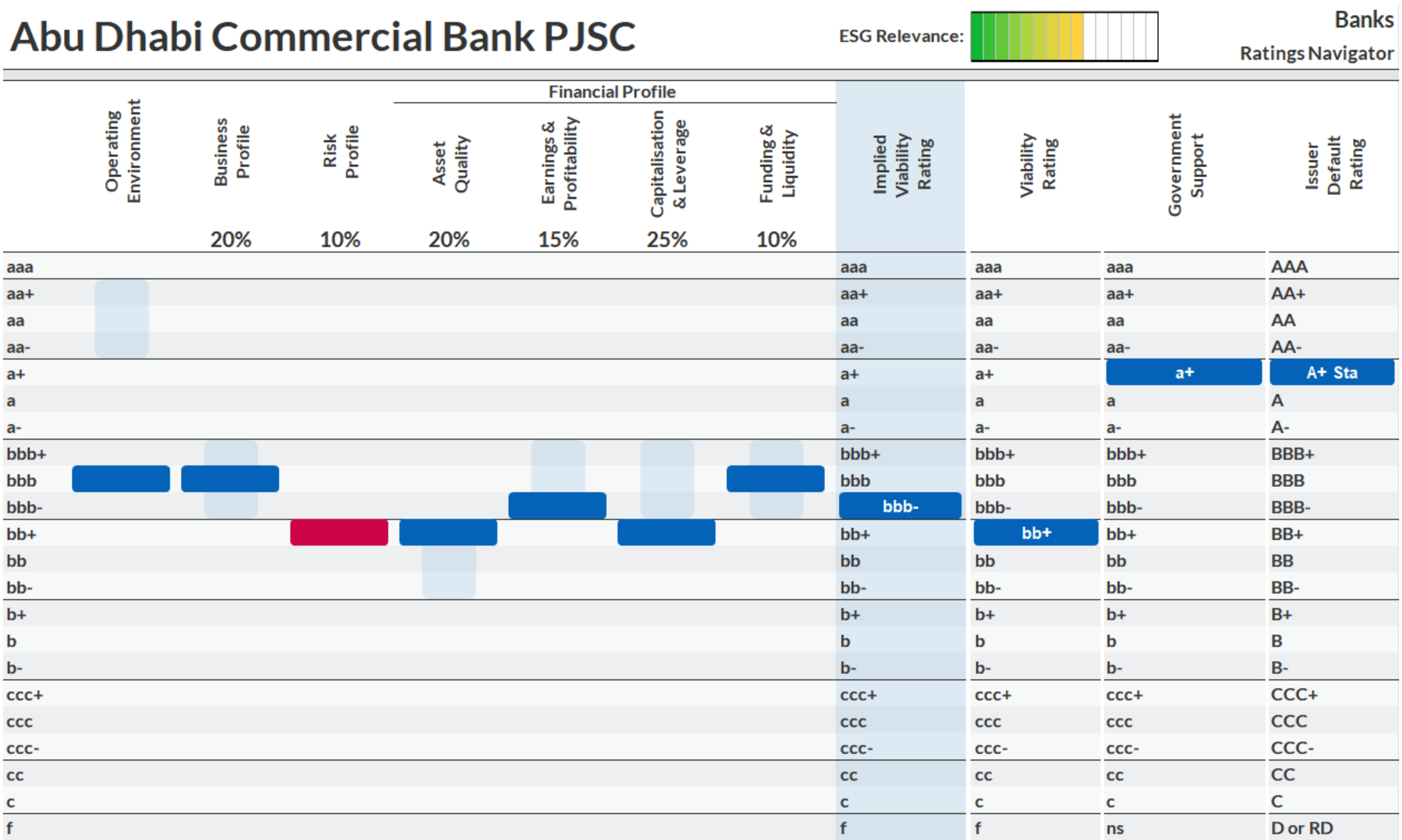
Solid Sector Performance in 2023; Neutral 2024 Outlook

UAE banks' financial metrics were strong in 2023, and Fitch expects them to continue to be so in 2024. The operating conditions for banks were supported by high oil prices (2023: USD82/barrel; 2024F: USD80/barrel) and higher interest rates. We forecast the UAE's real GDP growth to accelerate moderately to 3.6% in 2024 (2023: 2.2%), but non-oil GDP growth to slow to a still-reasonable 3.1%, from 4.4%.

The operating environment is also supported by higher interest rates and healthy liquidity conditions due to population growth and money transfers in the UAE. Most UAE banks are well-positioned for higher interest rates, and earning asset yields increased more than funding costs in 2022–2023, due to banks' high shares of cheap current and savings accounts. We expect UAE banks' financial metrics (asset quality, performance, capitalisation and profitability) to be stable in 2024.

Good liquidity and higher interest rates resulted in a notable widening of the sector average net interest margin (NIM) to 3.3% in 9M23 (2022: 2.8%; 2021: 2.3%). This, in combination with the lower cost of risk (70bp in 9M23, down from 90bp in 2022) due to the favourable economic environment, resulted in record high profits for UAE banks in 2023. We expect the sector average profitability metrics to be maintained in 2024, with an average NIM above 3%.

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).

Financials

Financial Statements

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(AEDm)	(AEDm)	(AEDm)	(AEDm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	3,380	12,413.6	10,229.7	8,890.3	9,804.6
Net fees and commissions	661	2,426.6	2,110.4	1,899.3	1,550.9
Other operating income	552	2,026.1	1,995.7	1,477.3	1,133.7
Total operating income	4,593	16,866.3	14,335.8	12,266.9	12,489.2
Operating costs	1,485	5,452.6	4,888.3	4,257.3	4,526.3
Pre-impairment operating profit	3,108	11,413.7	9,447.5	8,009.6	7,962.9
Loan and other impairment charges	947	3,477.1	2,778.9	2,646.2	3,974.2
Operating profit	2,161	7,936.6	6,668.6	5,363.4	3,988.7
Other non-operating items (net)	133	490.1	-99.8	-16.4	-59.5
Tax	60	220.6	135.1	99.6	120.3
Net income	2,234	8,206.1	6,433.7	5,247.4	3,808.9
Other comprehensive income	144	528.4	-1,636.9	-490.2	167.0
Fitch comprehensive income	2,378	8,734.5	4,796.8	4,757.2	3,975.9
Summary balance sheet					
Assets					
Gross loans	85,142	312,683.4	270,250.9	255,112.7	250,453.2
- of which impaired	3,014	11,069.0	14,908.0	18,973.7	20,111.8
Loan loss allowances	2,910	10,688.8	11,758.0	10,830.4	11,477.5
Net loans	82,231	301,994.6	258,492.9	244,282.3	238,975.7
Interbank	10,245	37,624.7	34,754.8	26,670.1	21,535.4
Derivatives	3,774	13,859.1	15,182.5	6,488.0	11,146.4
Other securities and earning assets	38,242	140,443.5	119,181.8	100,157.7	90,105.9
Total earning assets	134,492	493,921.9	427,612.0	377,598.1	361,763.4
Cash and due from banks	12,355	45,375.5	39,429.3	33,746.2	29,601.6
Other assets	7,596	27,897.1	30,800.9	28,934.1	19,791.3
Total assets	154,444	567,194.5	497,842.2	440,278.4	411,156.3
Liabilities					
Customer deposits	98,817	362,905.0	308,930.7	265,052.3	251,395.5
Interbank and other short-term funding	14,496	53,235.9	41,453.6	36,428.2	27,302.6
Other long-term funding	10,889	39,990.1	44,135.6	49,475.8	51,069.1
Trading liabilities and derivatives	4,422	16,239.5	16,225.4	6,563.4	10,855.0
Total funding and derivatives	128,624	472,370.5	410,745.3	357,519.7	340,622.2
Other liabilities	6,418	23,570.5	25,670.8	23,388.7	13,932.7
Preference shares and hybrid capital	2,384	8,754.8	6,000.0	6,000.0	6,000.0
Total equity	17,018	62,498.7	55,426.1	53,370.0	50,601.4
Total liabilities and equity	154,444	567,194.5	497,842.2	440,278.4	411,156.3
Exchange rate		USD1 = AED3.6725	USD1 = AED3.6725	USD1 = AED3.6725	USD1 = AED3.6725

Source: Fitch Ratings, Fitch Solutions, Abu Dhabi Commercial Bank PJSC

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.0	1.9	1.6	1.3
Net interest income/average earning assets	2.7	2.5	2.4	2.7
Non-interest expense/gross revenue	32.3	34.1	34.7	36.3
Net income/average equity	14.1	12.1	10.2	8.0
Asset quality				
Impaired loans ratio	3.5	5.5	7.4	8.0
Growth in gross loans	15.7	5.9	1.9	-2.7
Loan loss allowances/impaired loans	96.6	78.9	57.1	57.1
Loan impairment charges/average gross loans	1.2	1.1	1.0	1.7
Capitalisation				
Common equity Tier 1 ratio	12.9	13.0	12.9	13.3
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	n.a.	n.a.	n.a.
Tangible common equity/tangible assets	9.9	9.8	10.6	10.7
Basel leverage ratio	9.6	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	0.8	6.8	18.9	20.3
Net impaired loans/Fitch Core Capital	n.a.	n.a.	n.a.	n.a.
Funding and liquidity				
Gross loans/customer deposits	86.2	87.5	96.3	99.6
Gross loans/customer deposits + covered bonds	n.a.	n.a.	n.a.	n.a.
Liquidity coverage ratio	158.1	138.9	124.1	156.8
Customer deposits/total non-equity funding	78.1	77.1	74.3	74.9
Net stable funding ratio	105.0	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Abu Dhabi Commercial Bank PJSC

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

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.

			ESG Relevance to Credit Rating
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

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

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.

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.

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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.

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