

# RatingsDirect®

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## Update: Abu Dhabi Commercial Bank PJSC

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# Update: Abu Dhabi Commercial Bank PJSC

## Ratings Score Snapshot

**Issuer Credit Rating**  
A/Stable/A-1

SACP: bbb → Support: +3 → Additional factors: 0

Anchor	bbb-		ALAC support	0	<table border="1"> <tr> <th colspan="2">Issuer credit rating</th> </tr> <tr> <td colspan="2" style="text-align: center; vertical-align: middle;"> <b>A/Stable/A-1</b> </td> </tr> </table>	Issuer credit rating		<b>A/Stable/A-1</b>	
Issuer credit rating									
<b>A/Stable/A-1</b>									
Business position	Strong	+1	GRE support	+3					
Capital and earnings	Strong	+1	Group support	0					
Risk position	Moderate	-1	Sovereign support	0					
Funding	Adequate	0							
Liquidity	Adequate								
CRA adjustment	0								

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

## Credit Highlights

### Overview

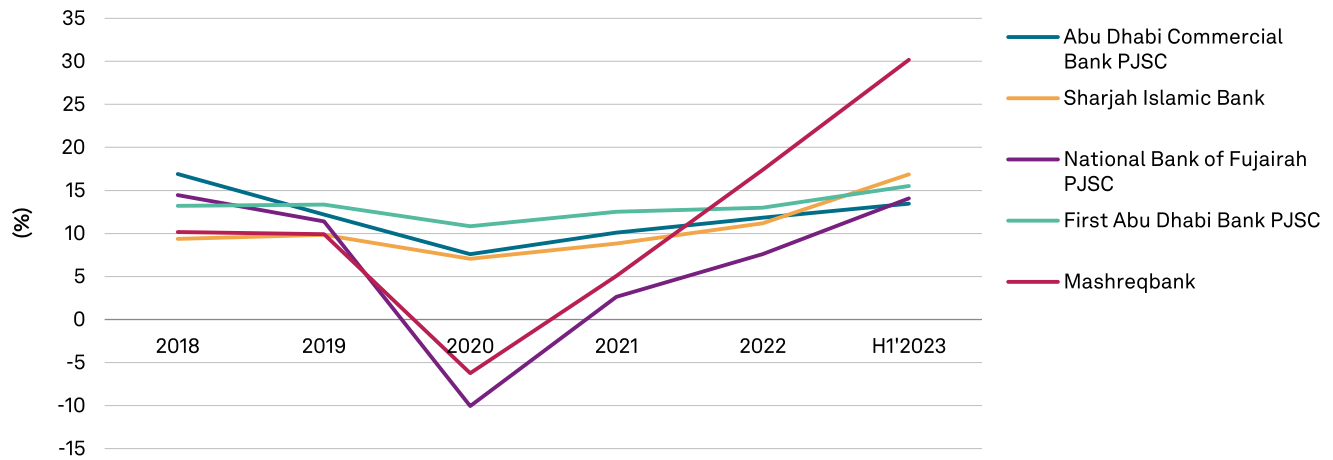
Key strengths	Key risks
Strong relationships with Abu Dhabi-based government related entities (GREs).	Reducing but still sizable lending exposure in real estate and construction.
Strong support from the government of Abu Dhabi.	High concentration risk on both sides of the balance sheet.
Strong capitalization.	

*We expect higher interest rates will continue to support ADCB's profitability.* Abu Dhabi Commercial Bank PJSC's (ADCB's) profitability improved in first-half 2023 thanks to higher interest rates, stronger lending growth, and an increase in non-interest income. The bank's return on average equity (RoAE) improved to 13.0% in first-half 2023, up from 11.8% in 2022. We expect higher-for-longer interest rates to continue supporting bank's profitability. Thanks to the presence of noninterest bearing deposits--around 48% of ADCB's deposits are current account and savings account deposits as of June 30, 2023--the positive impact of higher interest rates will only be partially tempered by deposit migration.

**Chart 1**

**High interest rates are supporting ADCB's profitability levels**

Return on average common equity



Source: S&P Global Ratings.

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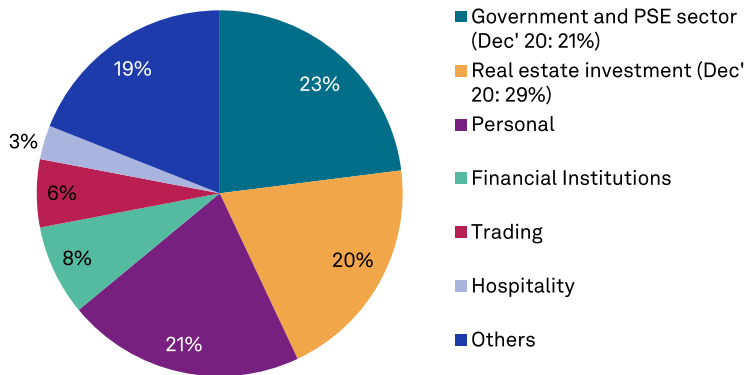
**Strong capitalization will support the bank's credit profile.** With a stable risk-adjusted capital (RAC) ratio forecast at 11.5%-12.0% through 2023-2025 (compared with 11.4% at year-end 2022), we expect an improving bottom line, alongside a dividend payout ratio of about 50%, will support ADCB's capitalization.

**De-risking of the lending portfolio will continue.** We expect ADCB to continue reducing its exposures to risky sectors, particularly real estate, and construction, which formed around 20% of total exposures at end-June 2023, down from 29% at year-end 2020. At the same time, the bank has focused on growing its lending to government and public sector entities to 23% of total lending, up from 21% the year before. We expect this trend to continue in 2023-2024.

**Chart 2**

**ADCB has been de-risking its portfolio**

Gross loans by economic sector

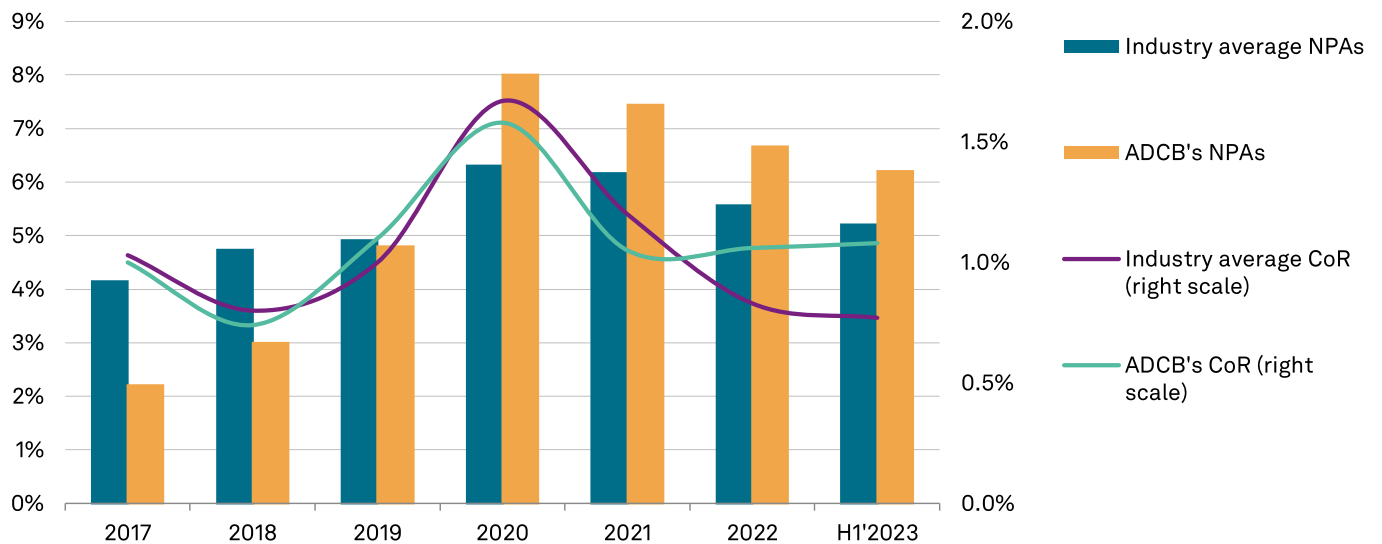


As of June 30, 2023 Sources: ADCB financial statements and S&P Global Ratings. Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

In addition, the still-supportive non-oil economy will limit the increase in new nonperforming loans, which we expect to remain about 6.0%-6.5% in 2023-2024 (6.2% at end-June 2023). We forecast cost of risk to remain about 100 basis points (bps)-110 bps in 2023-2024 (105 bps in first-half 2023).

**Chart 3**

**ADCB's asset quality versus UAE banking industry average\***



\*UAE banking industry-based on a sample of the 10 largest banks. ADCB's NPAs include purchased or originated credit-impaired loans and exposure to NMC. Source: S&P Global Ratings. Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

**ADCB's GRE status will continue to support our rating on the bank.** The issuer credit rating on ADCB includes three notches of uplift. This is underpinned by the bank's very strong link with and important role for the Abu Dhabi government. We view ADCB as a GRE with a high likelihood of receiving timely and sufficient extraordinary support from the government of Abu Dhabi if needed. The Abu Dhabi government holds a 60.2% stake in ADCB, and other government entities own an additional 4.3%. ADCB plays an important role for the Abu Dhabi government. It is the second-largest bank in Abu Dhabi and has a strong deposit and loan market share in the emirate's banking market. The bank also provides funds to certain Abu Dhabi-based GREs and key sectors in the emirate's overall business activities.

## Outlook

The stable outlook on ADCB reflects our assumption that any unexpected increase in credit losses would be absorbed by its strong pre-provision earnings over the next 12-24 months. The stable outlook also assumes that ADCB will maintain its strong capital buffers.

### Downside scenario

We could take a negative rating action if faster-than-expected credit growth or an increased risk appetite were to erode ADCB's currently solid capitalization. We could also lower the ratings if ADCB's business performance were materially weaker than our expectations; for example, if revenue or profitability falls well below our forecasts, which could indicate a weakening business position, although we see this as unlikely.

### Upside scenario

A positive rating action over the next 12-24 months appears unlikely because it would require a two-notch strengthening of the bank's intrinsic creditworthiness, for example due to increased capitalization, with the RAC ratio exceeding 15%, and strong improvement in asset-quality indicators. We could also raise the rating on ADCB if either of these scenarios materializes and, at the same time, we upgrade Abu Dhabi.

## Key Metrics

### Abu Dhabi Commercial Bank PJSC--Key ratios and forecasts

	--Fiscal year ended Dec. 31 --				
(%)	2021a	2022a	2023f	2024f	2025f
Growth in operating revenue	-3.1	18.5	9.0-10.0	2.5-3.5	2.0-3.0
Growth in customer loans	1.9	5.9	5.0-6.0	5.0-6.0	5.0-6.0
Net interest income/average earning assets (NIM)	2.4	2.5	2.6-2.7	2.4-2.6	2.3-2.5
Cost to income ratio	34.4	33.4	32.0-33.6	32.6-34.2	32.5-34.2
Return on assets	1.3	1.4	1.4-1.6	1.3-1.5	1.3-1.5
New loan loss provisions/average customer loans	1.0	1.1	1.0-1.1	0.9-1.0	0.9-1.0
Gross nonperforming assets/customer loans	7.4	6.7	6.0-6.5	6.0-6.6	5.8-6.3

**Abu Dhabi Commercial Bank PJSC--Key ratios and forecasts (cont.)**

(%)	--Fiscal year ended Dec. 31--				
	2021a	2022a	2023f	2024f	2025f
Risk-adjusted capital ratio	11.8	11.4	11.3-11.9	11.5-12.1	11.7-12.3

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

**Key Statistics****Table 1****Abu Dhabi Commercial Bank PJSC--Key figures**

(Mil. AED)	--Year-ended Dec. 31--				
	2023*	2022	2021	2020	2019
Adjusted assets	514,212	490,690	432,984	403,766	397,620
Customer loans (gross)	285,014	270,251	255,113	250,453	255,166
Adjusted common equity	51,937	48,320	43,119	40,438	38,690
Operating revenues	7,972	14,336	12,101	12,489	11,740
Noninterest expenses	2,504	4,794	4,162	4,278	4,108
Core earnings	3,857	6,626	5,196	4,092	5,236

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

**Table 2****Abu Dhabi Commercial Bank PJSC--Business position**

(%)	--Year-ended Dec. 31--				
	2023*	2022	2021	2020	2019
Total revenues from business line (currency in millions)	7,972.3	14,335.8	12,266.9	12,489.3	11,739.9
Commercial banking/total revenues from business line	34.5	31.7	31.4	29.2	31.4
Retail banking/total revenues from business line	38.2	41.3	41.6	42.5	43.0
Commercial & retail banking/total revenues from business line	72.7	73.0	73.0	71.7	74.4
Trading and sales income/total revenues from business line	25.5	24.7	24.4	26.4	23.6
Asset management/total revenues from business line	1.8	2.3	2.5	1.9	2.0
Investment banking/total revenues from business line	25.5	24.7	24.4	26.4	23.6
Return on average common equity	13.0	11.8	10.1	7.6	12.2

\*Data as of June 30.

**Table 3****Abu Dhabi Commercial Bank PJSC--Capital and earnings**

(%)	--Year-ended Dec. 31--				
	2023*	2022	2021	2020	2019
Tier 1 capital ratio	15.0	14.6	14.8	15.3	14.8
S&P Global Ratings' RAC ratio before diversification	N/A	11.4	11.8	12.8	12.1
S&P Global Ratings' RAC ratio after diversification	N/A	10.6	10.5	11.2	10.6
Adjusted common equity/total adjusted capital	89.6	89.0	87.8	87.1	86.6
Net interest income/operating revenues	72.5	71.1	73.2	78.3	78.7

Table 3

Abu Dhabi Commercial Bank PJSC--Capital and earnings (cont.)					
--Year-ended Dec. 31--					
(%)	2023*	2022	2021	2020	2019
Fee income/operating revenues	15.8	14.7	15.7	12.4	15.5
Market-sensitive income/operating revenues	10.2	7.8	8.2	7.2	3.9
Cost to income ratio	32.0	33.4	34.4	34.3	35.0
Provision operating income/average assets	2.1	2.0	1.9	2.0	2.2
Core earnings/average managed assets	1.5	1.4	1.2	1.0	1.5

\*Data as of June 30. N/A--Not applicable.

Table 4

Abu Dhabi Commercial Bank PJSC RACF [Risk-Adjusted Capital Framework] Data					
(AED 000s)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global RWA	Average S&P Global RW (%)
<b>Credit risk</b>					
Government & central banks	145,194,739	--	--	17,491,701	12
Institutions and CCPs	69,323,799	5,402,140	8	37,060,215	53
Corporate	205,671,372	310,486,406	151	271,510,482	132
Retail	54,370,900	--	--	57,740,409	106
Of which mortgage	12,415,046	--	--	7,399,845	60
Other assets†	12,006,643	--	--	21,609,184	180
Total credit risk	486,567,453	315,888,546	65	405,411,990	83
<b>Market Risk</b>					
Equity in the banking book	983,758	--	--	8,299,860	844
Trading book market risk	--	13,983,543	--	35,449,331	--
Total market risk	--	13,983,543	--	43,749,192	--
<b>Operational risk</b>					
Total operational risk	--	21,529,999	--	28,963,772	--
(AED 000s)	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global RWA	% of S&P Global RWA
<b>Diversification adjustments</b>					
RWA before diversification	--	358,239,505	--	478,124,954	100
Total Diversification/ Concentration Adjustments	--	--	--	32,295,009	7
RWA after diversification	--	358,239,505	--	510,419,963	107
(AED 000s)		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global RAC ratio (%)
Capital ratio		Standard & Poor's RWA	Standard & Poor's RWA	Standard & Poor's RWA	Standard & Poor's RWA
Capital ratio before adjustments		52,431,144	14.6	54,320,354	11.4
Capital ratio after adjustments‡		52,431,144	14.6	54,320,354	10.6

**Table 4****Abu Dhabi Commercial Bank PJSC RACF [Risk-Adjusted Capital Framework] Data (cont.)**

\*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 2022', S&P Global Ratings.

**Table 5****Abu Dhabi Commercial Bank PJSC--Risk position**

(%)	--Year-ended Dec. 31--				
	2023*	2022	2021	2020	2019
Growth in customer loans	10.9	5.9	1.9	(1.8)	47.4
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	6.8	12.2	14.3	14.5
Total managed assets/adjusted common equity (x)	10.0	10.3	10.2	10.2	10.5
New loan loss provisions/average customer loans	1.1	1.1	1.0	1.6	1.1
Net charge-offs/average customer loans	(0.1)	0.6	1.4	0.5	0.7
Gross nonperforming assets/customer loans + other real estate owned	6.2	6.7	7.4	8.0	4.8
Loan loss reserves/gross nonperforming assets	73.8	65.3	57.1	57.1	60.1

\*Data as of June 30. N/A--Not applicable.

**Table 6****Abu Dhabi Commercial Bank PJSC--Funding and liquidity**

(%)	--Year-ended Dec. 31--				
	2023*	2022	2021	2020	2019
Core deposits/funding base	73.2	75.0	72.1	74.6	81.5
Customer loans (net)/customer deposits	86.1	83.7	92.2	95.1	94.6
Long-term funding ratio	86.2	86.7	87.9	91.5	96.0
Stable funding ratio	125.7	127.2	125.6	127.8	119.4
Short-term wholesale funding/funding base	15.6	15.0	13.8	9.7	4.6
Broad liquid assets/short-term wholesale funding (x)	2.5	2.6	2.7	3.7	6.6
Broad liquid assets/total assets	32.5	32.8	31.3	29.4	24.4
Broad liquid assets/customer deposits	53.7	52.9	52.0	48.0	37.7
Net broad liquid assets/short-term customer deposits	33.9	34.3	33.5	35.8	32.7
Regulatory liquidity coverage ratio (LCR) (x)	130.4	138.9	N/A	N/A	N/A
Short-term wholesale funding/total wholesale funding	55.2	56.9	46.7	35.8	22.7
Narrow liquid assets/3-month wholesale funding (x)	4.0	4.7	7.5	10.2	8.7

\*Data as of June 30. N/A--Not applicable.

**Abu Dhabi Commercial Bank--Rating component scores**

Issuer Credit Rating	A/Stable/A-1
SACP	bbb
Anchor	bbb-
Economic risk	6
Industry risk	5
Business position	Strong



**Abu Dhabi Commercial Bank--Rating component scores (cont.)**

<b>Issuer Credit Rating</b>	<b>A/Stable/A-1</b>
Capital and earnings	Strong
Risk position	Moderate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	+3
ALAC support	0
GRE support	+3
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

**Related Criteria**

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- ARCHIVE | General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- 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: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

**Related Research**

- Banking Industry Country Risk Assessment: United Arab Emirates, Oct. 9, 2023
- Banks In Major GCC Economies Remain Resilient To Less Supportive Operating Conditions, Sept. 12, 2023
- Emirate of Abu Dhabi, May 30, 2023
- [UAE Banking Sector Outlook](#), Jan. 30, 2023

**Ratings Detail (As Of October 11, 2023)\*****Abu Dhabi Commercial Bank PJSC**

Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
<i>Foreign Currency</i>	A-1
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	A-

**Issuer Credit Ratings History**

25-Mar-2021	<i>Foreign Currency</i>	A/Stable/A-1
26-Mar-2020		A/Negative/A-1
02-Apr-2015		A/Stable/A-1
25-Mar-2021	<i>Local Currency</i>	A/Stable/A-1
26-Mar-2020		A/Negative/A-1
02-Apr-2015		A/Stable/A-1

**Sovereign Rating**

Abu Dhabi (Emirate of)	AA/Stable/A-1+
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\*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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