

## Research Update:

# Abu Dhabi Commercial Bank Upgraded To 'A+' On Improving Asset Quality; Outlook Stable

March 14, 2025

## Overview

- In our view, Abu Dhabi Commercial Bank PJSC's (ADCB's) strategic balance-sheet derisking over the past four years has strengthened its resilience to economic cycles and unexpected stresses.
- At the same time, we anticipate that the Abu Dhabi government will continue to provide extraordinary support to the bank, if needed, given the bank's very close proximity to and importance for the government.
- We therefore raised our long-term rating on ADCB to 'A+' from 'A' and affirmed the 'A-1' short-term rating. The stable outlook reflects our view that the bank's creditworthiness will continue to benefit from its strong capitalization while maintaining its portfolio's credit quality in line with the system average.

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## Rating Action

On March 14, 2025, S&P Global Ratings raised its long-term issuer credit rating to 'A+' from 'A' and affirmed its 'A-1' short-term rating on United Arab Emirates (UAE)-based Abu Dhabi Commercial Bank (ADCB). The outlook is stable.

## Rationale

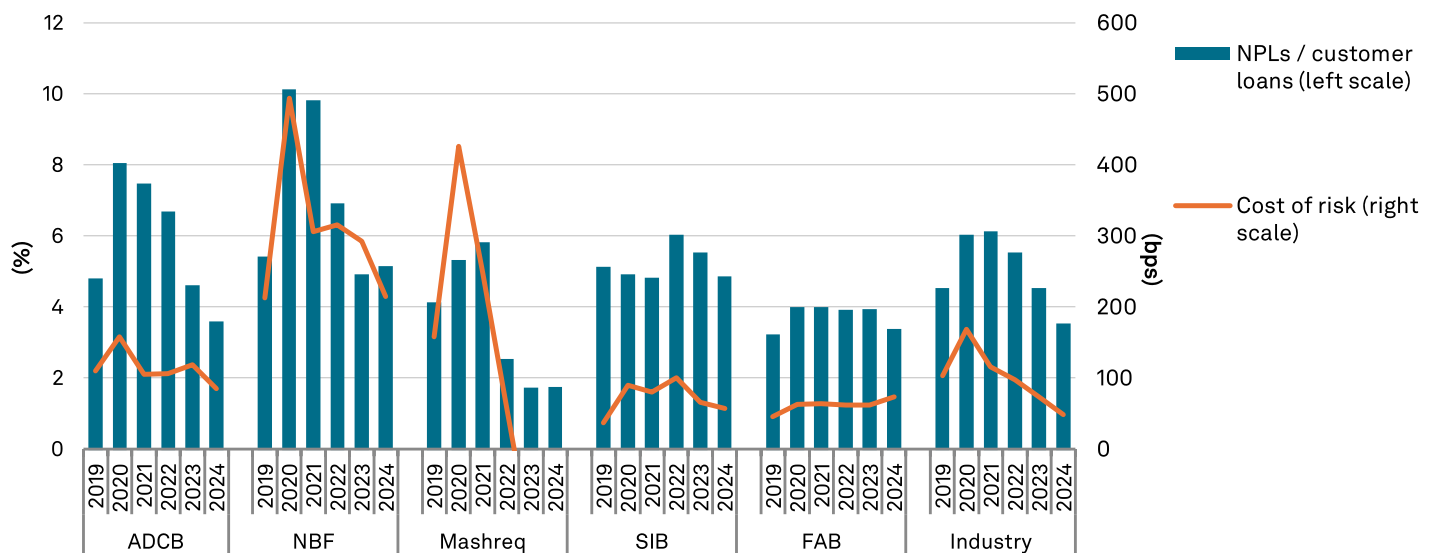
**Derisking the balance sheet will help ADCB maintain its asset quality indicators.** We believe the bank's asset quality will continue to benefit from the strengthening of its risk management culture and control framework over the past four years. We view these improvements, along with a more contained risk appetite, as enduring and therefore positioning the bank to better navigate economic cycles. ADCB has lowered its exposure to high-risk sectors, especially real estate and construction, to 14% of total exposures as of year-end 2024, from 29% at year-end 2020. Simultaneously, its lending to more creditworthy government and public sector entities has increased to 27% of total lending, up from 21%.

**Improving underlying asset quality, combined with higher write-offs, has helped ADCB reduce its share of Stage 3 loans.** The bank has bolstered its risk management framework by tightening its underwriting standards and strengthening its debt collection strategies. The share of Stage 3 loans in its loan book dropped to 3.6% of gross loans as of Dec. 31, 2024, from 4.6% as of Dec. 31, 2023. Stage 2 loans reduced to 4.9% of gross loans from 5.7% during the same period.

With profitability remaining high over the last two years, the bank has booked additional provisions to cover for some problematic loans and has written them off to clean up the loan book. This, on the one hand, has kept its cost of risk higher at about 100 basis points (bps) on average since 2021, but also helped increase its provision coverage ratio to 77% at year-end 2024 from 57% at year-end 2020. We anticipate that these metrics will stabilize at their current levels because we believe the bank has largely completed the cleanup of its loan portfolio. As these ratios are now broadly in line with the industry average, we have revised our assessment of its risk position to adequate from moderate and the stand-alone credit profile (SACP) to 'bbb+' from 'bbb'.

Chart 1

### ADCB's asset quality is in line with the industry average



ADCB: Abu Dhabi Commercial Bank. NBF: National Bank of Fujairah. Mashreq: Mashreqbank. SIB: Sharjah Islamic Bank. FAB: First Abu Dhabi Bank. Industry: Industry average. Source: S&P Global Ratings. Copyright © 2025 by Standard & Poor's Financial Services LLC. All rights reserved.

**The Abu Dhabi government has a strong track record and ample capacity to support the bank, in our view.** Our long-term rating on ADCB includes three notches of uplift because we consider ADCB a government-related entity that is highly likely to receive support from Abu Dhabi. We base our view on ADCB's importance for the financing of Abu Dhabi's economy, and its proximity to the government, which has a strong track record of supporting the bank when needed. We forecast that Abu Dhabi's fiscal position will be supported by an increase in oil production, as the impact of OPEC+ production cuts wanes; in addition, we assume that the Brent oil price will average \$70 per

barrel over the medium term. That said, we note that oil prices are subject to volatile supply-demand dynamics.

**Sound earnings generation and high capital retention still underpin ADCB's capitalization, which we view as a key rating strength.** We project the risk-adjusted capital (RAC) ratio will remain 10.7%-11.0% over 2025-2026 (11.3% at year-end 2024). We expect an improving bottom line alongside a dividend payout ratio of about 35%-40% will support ADCB's capitalization. As a part of its next-five-years strategy, the bank aims to enhance its non-interest income by increasing revenues from asset management and investment services, and boosting trading income and fees associated with credit card and loan processing. While we anticipate that interest margins will gradually tighten over the next two years as the bank continues to focus on low-risk low-yield assets, we think forecasted loan growth of 12%-15% and growing non-interest income will support operating revenue growth averaging 12% over 2025-2026.

## Outlook

The stable outlook on ADCB reflects our expectation that any unexpected increase in credit losses will 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 increased risk appetite were to erode ADCB's currently solid capitalization. We could also lower the ratings if the bank's asset quality indicators weakened, or it increased its exposure to riskier sectors or counterparties.

## Upside scenario

A positive rating action over the next 24 months is unlikely at this stage.

## Ratings Score Snapshot

Abu Dhabi Commercial Bank--Rating Component Scores

	From	To
Issuer Credit Rating	A/Positive/A-1	A+/Stable/A-1
SACP	bbb	bbb+
Anchor	bbb-	bbb-
Economic risk	6	6
Industry risk	5	5
Business position	Strong	Strong
Capital and earnings	Strong	Strong
Risk position	Moderate	Adequate
Funding	Adequate	Adequate

#### Abu Dhabi Commercial Bank--Rating Component Scores

	From	To
Liquidity	Adequate	Adequate
Comparable ratings analysis	0	0
Support	+3	+2
ALAC support	0	0
GRE support	+3	+2
Group support	0	0
Sovereign support	0	0
Additional factors	0	+1

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

#### Environmental, social, and governance (ESG) credit factors for this change in credit rating/outlook and/or CreditWatch status:

- Risk management, culture, and oversight

#### Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, Feb. 10, 2025
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- 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

- United Arab Emirates Banking Sector 2025 Outlook, Jan. 8, 2025
- Banking Industry Country Risk Assessment: United Arab Emirates, Dec. 15, 2024
- Improving Asset Quality Supports Positive Economic Risk Trend In The UAE: BICRA Group

Remains '5', Nov. 27, 2024

- Update: Abu Dhabi Commercial Bank PJSC, Oct. 22, 2024

Ratings List

Ratings Affirmed		
Abu Dhabi Commercial Bank PJSC		
Commercial Paper	A-1	
Upgraded		
	To	From
Abu Dhabi Commercial Bank PJSC		
Senior Unsecured	A+	A
ADCB Finance (Cayman) Ltd.		
Senior Unsecured	A+	A
Upgraded; Outlook Action; Ratings Affirmed		
	To	From
Abu Dhabi Commercial Bank PJSC		
Issuer Credit Rating	A+/Stable/A-1	A/Positive/A-1

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