

Research Update:

Abu Dhabi Commercial Bank Outlook Revised To Positive On Improving Asset Quality; 'A/A-1' Ratings Affirmed

March 15, 2024

Overview

- By reducing its exposure to risky sectors, Abu Dhabi Commercial Bank PJSC (ADCB) has improved the quality of its assets while maintaining strong capitalization.
- 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 and importance to the government.
- We revised our outlook on ADCB to positive from stable and affirmed our 'A/A-1' ratings on the bank.
- The positive outlook indicates that we expect the bank to continue to reduce the risk on its balance sheet and the government of Abu Dhabi to provide strong extraordinary support to the bank if needed.

Rating Action

On March 15, 2024, S&P Global Ratings revised its outlook on Abu Dhabi Commercial Bank PJSC (ADCB) to positive from stable. At the same time, we affirmed our 'A/A-1' long- and short-term issuer credit ratings on the bank.

Rationale

Ongoing derisking of the balance sheet has helped ADCB improve its asset quality. Over the past three years, the bank has reduced its exposure to risky sectors--particularly real estate and construction--to about 17% of total exposure at year-end 2023 from 29% at year-end 2020. ADCB's lending to government and public sector entities has risen to 25% of total lending from 21% over the same period.

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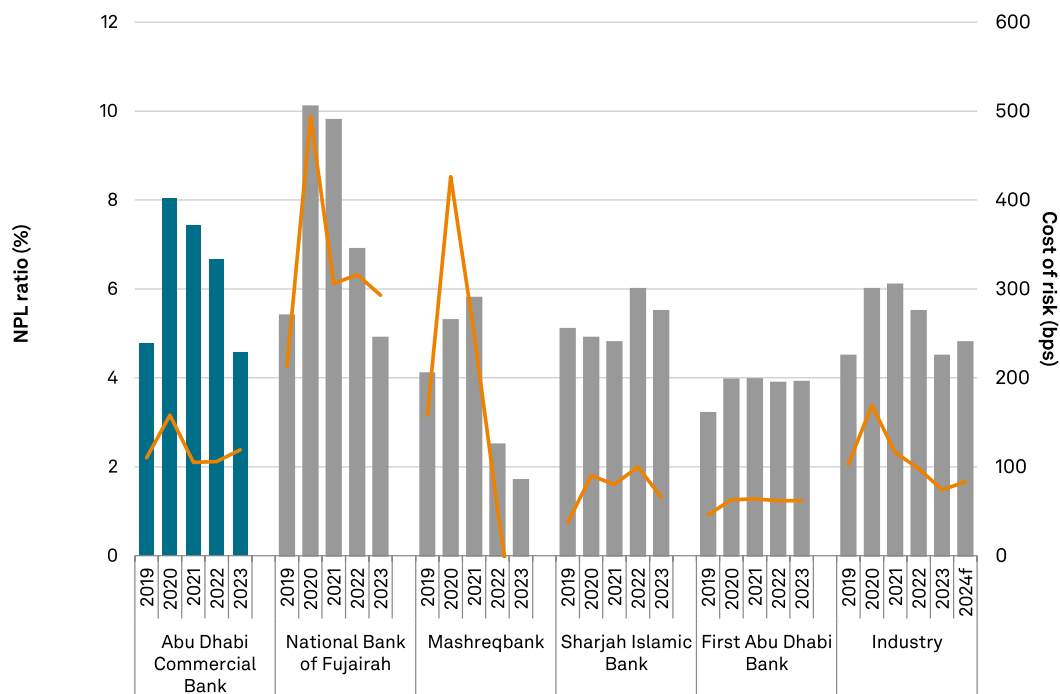
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Improving underlying asset quality, combined with higher write-offs, helped ADCB reduce the proportion of Stage 3 loans. Stage 3 loans dropped to 4.6% of gross loans as of Dec. 31, 2023, from 6.7% as of Dec. 31, 2022. Meanwhile, stage 2 loans reduced to 6.0% of gross loans from 6.3%. That said, although ADCB's provision coverage has improved, it is still below the industry average. We anticipate that the bank will continue to build additional provisions and improve its coverage ratio further.

Abu Dhabi Commercial Bank's asset quality inches toward the industry average



Source: S&P Global Ratings. NPL--Nonperforming loan. bps--Basis points.
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The Abu Dhabi government has a strong track record of supporting the bank, and ample capacity. 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 to 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 \$80 per barrel from 2025. That said, we note that oil prices are subject to volatile supply-demand dynamics.

Sound earnings generation still underpins ADCB's capitalization, which we view as a key rating strength. We project that the risk-adjusted capital (RAC) ratio will be 10.5%-11.0% over 2024-2026, below the 11.4% recorded at year-end 2022. Our base case indicates that ADCB will see strong profitability over this period and that its dividend payout ratio will be about 50%. We

anticipate loan growth of around 7%-9% and that interest margins will drop slightly over the next two years, after peaking in 2023. Combined with the forecast growth in noninterest income, we predict operating revenue growth of 3%-5% over 2024-2025.

Outlook

The positive outlook on ADCB indicates that we expect the bank to continue to improve its risk profile and to benefit from strong extraordinary support from Abu Dhabi, if needed.

Downside scenario

We could revise the outlook to stable within the next 12 months if the bank backtracks on its derisking strategy, so that its asset quality indicators weaken or it increases its exposure to risky sectors or counterparties.

Upside scenario

We could raise the rating within the next 12 months, if ADCB continues to pursue its derisking strategy and this further improves its asset quality indicators or reduces its exposure to risky sectors or counterparties. In addition, an upgrade would depend on our expectation that strong and timely government support would be provided if needed.

Ratings Score Snapshot

Abu Dhabi Commercial Bank--Rating Component Scores

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

Abu Dhabi Commercial Bank--Rating Component Scores (cont.)

Issuer Credit Rating	A/Positive/A-1
Additional factors	0

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

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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
- 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

- S&P Global Ratings Revises Its WTI And Brent Price Assumptions For 2025 And Beyond On Anticipated Oversupply, March 11, 2024
- Credit FAQ: What Lies Ahead For UAE Banks In 2024, Feb. 7, 2024
- Update: Abu Dhabi Commercial Bank PJSC, Oct. 11, 2023
- Banking Industry Country Risk Assessment: United Arab Emirates, Oct. 9, 2023

Ratings List

Ratings Affirmed

Abu Dhabi Commercial Bank PJSC

Senior Unsecured	A
Commercial Paper	A-1

ADCB Finance (Cayman) Ltd.

Senior Unsecured	A
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Ratings Affirmed; Outlook Action

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Abu Dhabi Commercial Bank PJSC

Issuer Credit Rating	A/Positive/A-1	A/Stable/A-1
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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