

**Date:** 13 January 2025

**Topic:**

### **Fitch Affirms Kazakhstan's ADCB Islamic Bank at 'BBB+'; Outlook Stable**

**Subtopic:** Fitch Ratings - Dubai - 13 Jan 2025: Fitch Ratings has affirmed Kazakhstan-based ADCB Islamic Bank JSC's (ADCBK, formerly Al Hilal Islamic Bank JSC) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'BBB+' with a Stable Outlook. A full list of ratings is below.

**Full Text:**

Fitch Ratings - Dubai - 13 Jan 2025: Fitch Ratings has affirmed Kazakhstan-based ADCB Islamic Bank JSC's (ADCBK, formerly Al Hilal Islamic Bank JSC) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'BBB+' with a Stable Outlook. A full list of ratings is below.

#### **Key Rating Drivers**

ADCBK's IDRs and the National Long-Term Rating are driven by potential support from the bank's parent, UAE-based Abu Dhabi Commercial Bank PJSC (ADCB; A+/Stable), as reflected by its 'bbb+' Shareholder Support Rating (SSR). In turn, ADCB's ratings are driven by a very high probability of support from the government of Abu Dhabi (AA/Stable), and we believe that state support available to ADCB would also likely be extended to the Kazakh subsidiary.

ADCBK's 'F1' Short-Term IDRs are the higher of two possible options mapping to a 'BBB+' Long-Term IDR under Fitch's criteria, as we view the shareholder's propensity to support the subsidiary as more certain in the near term.

**Shareholder Support Considerations:** Our view on shareholder support for ADCBK captures its full ownership by ADCB, the high level of managerial integration between the parent and the subsidiary, and the low cost of potential support, given ADCBK's small size relative to the parent (0.2% of the group's consolidated assets at end-3Q24).

**Limited Role in Group:** ADCBK's Long-Term Foreign-Currency IDR is three notches below ADCB's, reflecting the bank's limited role in the group to date, although ADCB has plans to make ADCBK the group's regional hub for operations in Central Asia. ADCB derives the bulk of its revenues from the domestic market, while its overseas operations are concentrated in the Gulf Cooperation Council countries and Egypt.

**Close Integration with Parent:** We have not assigned ADCBK a Viability Rating because we view the bank as a deeply integrated subsidiary, which is highly dependent on the parent for new business originations and risk management, while the group's management is involved in all major decision-making at the subsidiary level. Under Fitch's Bank Rating Criteria, deeply integrated subsidiaries are typically not assigned VRs.

**Contractually Loss-Sharing Deposits:** ADCBK may contractually impose losses on customers, should an asset funded by a dedicated Islamic deposit underperform. The bank acts as agent and does not legally bear credit risk on these transactions. As such, Islamic deposits are not covered by the deposit-protection scheme. In Fitch's view, ADCBK is unlikely to impose losses on depositors, due to high reputational risk.

**Good Asset Quality:** ADCBK mainly targets low-risk corporates, including state-owned companies, their contractors and multinationals, as well as SMEs eligible for state subsidies or guarantees. Although its impaired receivables ratio increased to 8% at end-1H24 from zero at end-2023, some problem exposures have already been repaid and the remaining impairments are covered by restricted Wakala deposits, which largely reduces credit risk.

**Improved Performance:** Due to higher operating efficiency and limited cost of risk, ADCBK has had healthy net income over the past three years, with a return on average equity of 18% in 2023 (2022: 16%). Coupled with full profit retention, this supports capital accretion.

**Moderate Capital Buffer:** ADCBK's common equity Tier 1 (CET1) ratio was equal to 24% at end-1H24 (end-2023: 16%), which we view as high for the bank's low risk appetite. While we expect the bank's regulatory capital ratios to moderate over the next two-three years on higher financing growth, they will remain well above the statutory minimums in our base case.

**Parent Funding Supports Liquidity:** ADCBK's total liquid assets covered 35% of consolidated liabilities at end-3Q24, or about 40% of customer accounts and Islamic deposits, which are quite concentrated. We believe liquidity risk is mitigated by the bank's potential access to liquidity support from its parent, which keeps a committed credit line with the subsidiary.

### **Rating Sensitivities**

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

ADCBK's SSR and IDRs could be downgraded should Fitch view that the parent's ability or propensity to support the subsidiary has materially weakened. The ratings would also be downgraded following a downward revision of Kazakhstan's Country Ceiling.

The National Long-Term Rating could be downgraded following a multi-notch downgrade of the bank's Long-Term Local-Currency IDR.

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

An upgrade of ADCBK's SSR and IDRs would require both an upward revision of Kazakhstan's Country Ceiling and Fitch's view of an increased support propensity from the parent, including through ADCBK's increased role in the wider group.

The National Long-Term Rating is at the highest possible level on Fitch's scale and cannot be upgraded.

### **OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS**

ADCBK's Long-Term IDRs ex-government support (xgs) are three notches below the parent ADCB's Long-Term IDR (xgs) of 'BBB-(xgs)', based on support considerations. The Short-Term IDRs (xgs) are mapped to the bank's Long-Term IDRs (xgs).

### **OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES**

ADCBK's Long-Term IDRs (xgs) are primarily sensitive to changes in Fitch's assessment of probability of shareholder support from ADCB. The Short-Term IDRs (xgs) are sensitive to changes in the Long-Term IDRs (xgs).

### **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

#### **Public Ratings with Credit Linkage to other ratings**

ADCBK's IDRs and IDRs (xgs) are based on potential support from ADCB.

### **ESG Considerations**

Islamic banks need to ensure compliance of their entire operations and activities with sharia principles and rules. This entails additional costs, processes, disclosures, regulations, reporting and sharia audit. This results in a Relevance Score of '4' for governance structure for all Islamic banks including ADCBK, which has a negative impact on the banks' credit profile, and is relevant to the ratings in combination with other factors.

In addition, Islamic banks have an ESG Relevance Score of '3' for exposure to social impacts, above sector guidance for an ESG relevance score of '2' for comparable conventional banks, which reflects certain sharia limitations being embedded in Islamic banks' operations and obligations, although this only has a minimal credit impact on the entities.

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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## **APPLICABLE CRITERIA**

- [National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)
- [Bank Rating Criteria \(pub. 16 Mar 2024\) \(including rating assumption sensitivity\)](#)

## **ADDITIONAL DISCLOSURES**

- [Dodd-Frank Rating Information Disclosure Form](#)
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- [Endorsement Policy](#)

## **ENDORSEMENT STATUS**

Abu Dhabi Commercial Bank PJSC UK Issued, EU Endorsed

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