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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;"> A/Stable/A-1 </td> </tr> </table>	Issuer credit rating		A/Stable/A-1	
Issuer credit rating									
A/Stable/A-1									
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

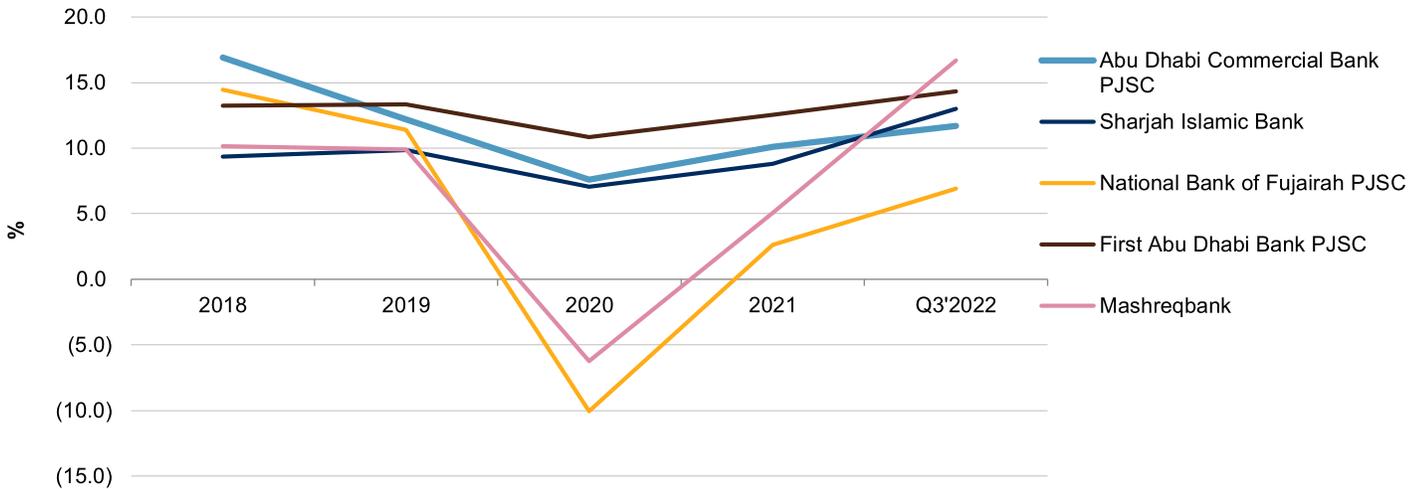
Key strengths	Key risks
Good relationships with Abu Dhabi-based government-related entities (GREs).	Reducing, but still sizable lending exposure in real estate and construction sectors.
Majority ownership by the government of Abu Dhabi.	High concentration risk on both sides of the balance sheet.
Strong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

Improving operating environment will support higher profitability. Abu Dhabi Commercial Bank PJSC's (ADCB's) profitability bounced back to near pre-COVID-19 levels in third-quarter 2022, thanks to lower credit losses and higher net interest margins stemming from higher rates. The bank's return on average equity (RoAE) improved to 11.7% in Q3 2022 up from 7.6% in 2020. With a more conducive economic environment for businesses, we expect ADCB's return on equity to stabilize at about 11.8%-12.5% in 2023-2024.

Chart 1

ADCB Is Reaching Its Pre-Pandemic Profitability Levels

Return on average common equity



Q--Quarter. Source: S&P Global Ratings.

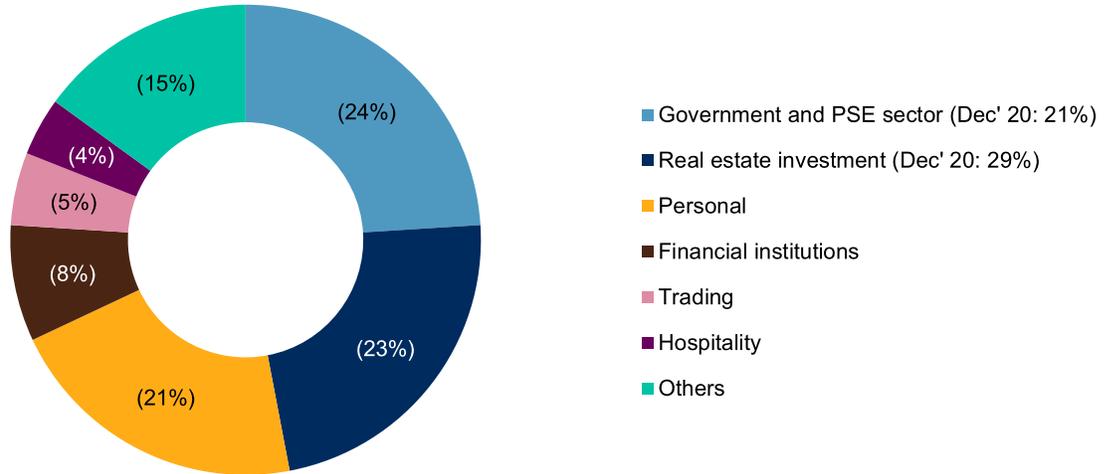
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Strong capitalization will continue to protect the bank's credit profile. With a stable risk-adjusted capital (RAC) ratio forecast at 12.0%-12.5% through 2022-2024 (compared with 11.8% at year-end 2021), we expect improving income, alongside a dividend payout ratio of about 50%, will support ADCB's capital base.

De-risking of the lending portfolio will continue. Since the beginning of 2021, the bank has moved to reduce its exposures to risky sectors, particularly real estate and construction, which formed around 23% of total exposures at end-September 2022, down from 29% at year-end 2020. At the same time, the bank has focused on growing its lending book toward government and public sector entities, which increased to 24% from 21% during the same period. We expect this trend to continue in 2023-2024. We also expect credit losses to reduce thanks to the more supportive economic environment and the restructuring of the NMC Group to which it is exposed. We forecast about 80 basis points (bps)-90 bps for 2022-2024, compared with 105 bps in 2021.

Chart 2

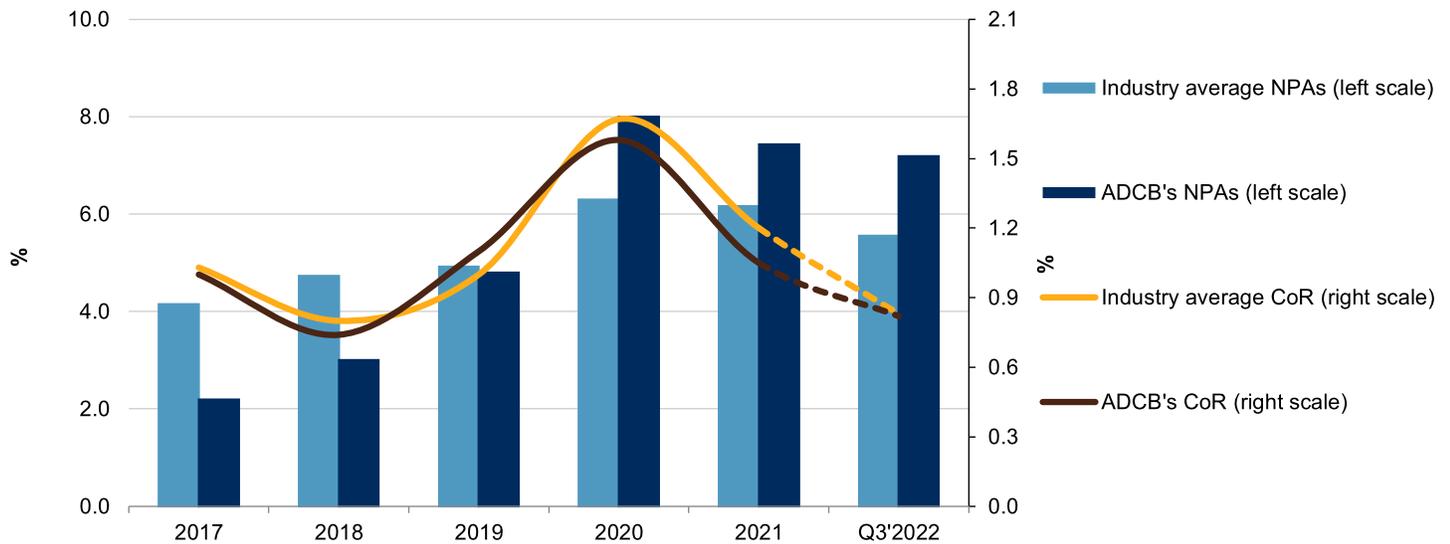
ADCB Has Been De-Risking Its Portfolio



As of Sept. 30, 2022. Sources: ADCB financial statements, S&P Global Ratings.

Chart 3

ADCB's Asset Quality Versus UAE Banking Industry Average*



NPAs--Non performing assets. Q--Quarter. *UAE banking industry--based on a sample of the 10 largest banks. Source: S&P Global Ratings.

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Core deposits dominate ADCB's funding, with a large portion from nonremunerated deposits that benefit its cost of funding. During the low interest rate environment, the bank has increased its current account and savings accounts (CASA) significantly, reaching 58% of total customer deposits at year-end 2021 from 51% at year-end 2020. As interest rates have increased this year, the trend has reversed. We have observed a higher increase in interest-bearing deposits, leading to CASA deposits dropping to 53% of total customer deposits at end-September 2022. We expect this proportion to drop further as interest rates further increase. That said, we expect the overall impact of increasing interest rates to be positive for ADCB.

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 reflects our view of the bank 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 expectations 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 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 a low likelihood of that scenario.

Upside scenario

A positive rating action over the next 12-24 months appears unlikely since 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 of asset-quality indicators. We could also raise the rating on ADCB if either of these scenarios materializes and, at the same time, there is an upgrade of Abu Dhabi.

Key Metrics

Abu Dhabi Commercial Bank PJSC--Key Ratios And Forecasts

(%)	--Fiscal year ended Dec. 31--				
	2020a	2021a	2022f	2023f	2024f
Growth in operating revenue	6.4	(3.1)	9.0-10.0	6.5-7.5	2.0-3.0
Growth in customer loans	(1.8)	1.9	2.7-3.3	3.6-4.4	2.7-3.3
Net interest income/average earning assets (NIM)	2.7	2.4	2.4-2.6	2.4-2.7	2.3-2.6
Cost to income ratio	34.3	34.4	33.7-35.4	33.0-34.7	32.8-34.5
Return on assets	1.0	1.3	1.3-1.5	1.3-1.6	1.2-1.5
New loan loss provisions/average customer loans	1.6	1.0	0.8-0.9	0.8-0.9	0.8-0.9
Gross nonperforming assets/customer loans	8.0	7.4	7.0-7.5	7.0-7.5	6.7-7.2
Risk-adjusted capital ratio	12.8	11.8	12.0-12.5	12.0-12.5	12.0-12.5

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

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
- N/A					- N/A					- Risk management, culture, and oversight				

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021. N/A--Not applicable.

We believe that environmental and social credit factors for ADCB are broadly in line with those of the bank's industry and domestic peers. Governance factors are a moderately negative consideration in our credit rating analysis of the bank.

High carbon-emitting industries constitute a significant portion of the UAE's economy and the majority of Abu Dhabi's. Although we estimate that the bank has relatively limited direct lending to sectors exposed to energy transition risk, the indirect exposure (via the overall dependence of the UAE economy on hydrocarbons) is higher.

The Abu Dhabi government holds a 60.2% stake in ADCB and other government entities own an additional 4.3%. The emirate appoints most of the bank's board of directors and therefore has a strong influence on ADCB's strategy. At the same time, we assess the bank's risk appetite as higher than some domestic peers', given its large exposure to real estate and weaker asset quality metrics. This weighs on our assessment of the bank's risk position.

The UAE regulator introduced new consumer protection law in 2020, with the aim of preventing misselling, conflict of interest, or other irresponsible conduct.

Key Statistics

Table 1

Abu Dhabi Commercial Bank PJSC--Key Figures					
--Year-ended Dec. 31--					
(Mil. AED)	2022*	2021	2020	2019	2018
Adjusted assets	479,167	432,984	403,766	397,620	279,812
Customer loans (gross)	262,051	255,113	250,453	255,166	173,153
Adjusted common equity	47,632	43,119	40,438	38,690	27,154
Operating revenues	9,937	12,101	12,489	11,740	9,192
Noninterest expenses	3,515	4,162	4,278	4,108	3,084
Core earnings	4,730	5,196	4,092	5,236	4,840

*Data as of Sept. 30. AED--UAE dirham.

Table 2

Abu Dhabi Commercial Bank PJSC--Business Position					
--Year-ended Dec. 31--					
(%)	2022*	2021	2020	2019	2018
Total revenues from business line (currency in millions)	9,936.6	12,266.9	12,489.3	11,739.9	9,191.5
Commercial banking/total revenues from business line	30.9	31.4	29.2	31.4	32.7
Retail banking/total revenues from business line	40.0	41.6	42.5	43.0	42.7
Commercial and retail banking/total revenues from business line	70.9	73.0	71.7	74.4	75.4
Trading and sales income/total revenues from business line	26.6	24.4	26.4	23.6	22.2
Asset management/total revenues from business line	2.5	2.5	1.9	2.0	2.4
Investment banking/total revenues from business line	26.6	24.4	26.4	23.6	22.2
Return on average common equity	11.7	10.1	7.6	12.2	16.9

*Data as of Sept. 30.

Table 3

Abu Dhabi Commercial Bank PJSC--Capital And Earnings					
--Year-ended Dec. 31--					
(%)	2022*	2021	2020	2019	2018
Tier 1 capital ratio	14.3	14.8	15.9	14.8	15.3
S&P Global Ratings' RAC ratio before diversification	N/A	11.8	12.8	12.1	12.8
S&P Global Ratings' RAC ratio after diversification	N/A	10.5	11.2	10.6	10.2
Adjusted common equity/total adjusted capital	88.8	87.8	87.1	86.6	87.2
Net interest income/operating revenues	73.2	73.2	78.3	78.7	78.5
Fee income/operating revenues	15.0	15.7	12.4	15.5	15.2
Market-sensitive income/operating revenues	8.5	8.2	7.2	3.9	4.6
Cost to income ratio	35.4	34.4	34.3	35.0	33.5
Provision operating income/average assets	1.8	1.9	2.0	2.2	2.2
Core earnings/average managed assets	1.4	1.2	1.0	1.5	1.8

*Data as of Sept. 30. N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

Abu Dhabi Commercial Bank PJSC--Risk-Adjusted Capital Framework Data					
(AED 000s)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government and central banks	125,078,322.0	--	--	4,012,465.2	3.2
Institutions and CCPs	69,261,156.6	--	--	26,722,375.0	38.6
Corporate	212,670,102.0	300,934,851.9	141.5	243,866,971.8	114.7
Retail	56,051,058.0	--	--	55,276,555.6	98.6
Of which mortgage	10,186,016.0	--	--	6,066,923.2	59.6
Other assets†	17,848,226.0	--	--	30,982,010.8	173.6
Total credit risk	480,908,864.6	300,934,851.9	62.6	360,860,378.5	75.0
Market risk					
Equity in the banking book	1,018,022.0	--	--	9,365,760.0	920.0
Trading book market risk	--	9,406,222.2	--	23,809,500.0	--
Total market risk	--	9,406,222.2	--	33,175,260.0	--
Operational risk					
Total operational risk	--	22,542,859.3	--	23,417,347.5	--
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments					
RWA before diversification	--	333,025,577.8	--	417,452,986.0	100.0
Total diversification/ Concentration adjustments	--	--	--	50,773,535.4	12.2
RWA after diversification	--	333,025,577.8	--	468,226,521.4	112.2
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		49,108,862.0	14.7	49,119,101.0	11.8
Capital ratio after adjustments‡		49,108,862.0	14.7	49,119,101.0	10.5

*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, 2021, S&P Global Ratings.

Table 5

(%)	--Year-ended Dec. 31--				
	2022*	2021	2020	2019	2018
Growth in customer loans	3.6	1.9	(1.8)	47.4	2.3
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	12.2	14.3	14.5	24.9
Total managed assets/adjusted common equity (x)	10.2	10.2	10.2	10.5	10.3
New loan loss provisions/average customer loans	0.8	1.0	1.6	1.1	0.7

Table 5

Abu Dhabi Commercial Bank PJSC--Risk Position (cont.)					
(%)	--Year-ended Dec. 31--				
	2022*	2021	2020	2019	2018
Net charge-offs/average customer loans	0.7	1.4	0.5	0.7	0.8
Gross nonperforming assets/customer loans + other real estate owned	7.2	7.4	8.0	4.8	3.0
Loan loss reserves/gross nonperforming assets	57.6	57.1	57.1	60.1	128.7

*Data as of Sept. 30. N/A--Not applicable. RWA--Risk-weighted assets.

Table 6

Abu Dhabi Commercial Bank PJSC--Funding And Liquidity					
(%)	--Year-ended Dec. 31--				
	2022*	2021	2020	2019	2018
Core deposits/funding base	75.0	72.1	74.6	81.5	78.2
Customer loans (net)/customer deposits	83.1	92.2	95.1	94.6	94.2
Long-term funding ratio	87.8	87.9	91.5	96.0	93.5
Stable funding ratio	131.4	125.6	127.8	119.4	120.7
Short-term wholesale funding/funding base	13.7	13.8	9.7	4.6	7.4
Broad liquid assets/short-term wholesale funding (x)	3.0	2.7	3.7	6.6	4.6
Broad liquid assets/total assets	33.8	31.3	29.4	24.4	27.8
Broad liquid assets/customer deposits	54.4	52.0	48.0	37.7	44.1
Net broad liquid assets/short-term customer deposits	36.8	33.5	35.8	32.7	35.2
Regulatory liquidity coverage ratio (LCR) (x)	124.5	N/A	N/A	N/A	N/A
Short-term wholesale funding/total wholesale funding	51.9	46.7	35.8	22.7	31.5
Narrow liquid assets/3-month wholesale funding (x)	8.3	7.5	10.2	8.7	12.5

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

Related 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
- General Criteria: Hybrid Capital: Methodology And Assumptions, 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

- GCC Banks Will Enter An Uncertain 2023 On Solid Footing, Nov. 7, 2022
- GCC Banks Return To Form, Can It Last?, Sept. 22, 2022
- Banking Industry Country Risk Assessment: United Arab Emirates, July 14, 2022
- Abu Dhabi Commercial Bank PJSC, June 3, 2022

Ratings Detail (As Of December 12, 2022)*

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

Sharjah (Emirate of)	BBB-/Negative/A-3
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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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