Banks
Universal Commercial Banks
United Arab Emirates

Abu Dhabi Commercial Bank PJSC

Update

Key Rating Drivers

Support-Driven IDRs: Abu Dhabi Commercial Bank PJSC's (ADCB) Issuer Default Ratings (IDRs) are driven by its 'A+' Support Rating Floor (SRF), which is in line with Abu Dhabi's domestic systemically important banks' (D-SIB) SRF. The SRF reflects an extremely high probability of sovereign support available to the bank from both the UAE (AA-/Stable) and Abu Dhabi (AA/Stable) authorities. This reflects the authorities' strong ability to, and record of, supporting the banking system when needed, and also their close ties with a number of banks.

The Viability Rating (VR) reflects the bank's strong domestic franchise (end-1Q21: 12% of UAE sector assets), particularly in Abu Dhabi, strengthened by the merger with Union National Bank (UNB) and Al Hilal Bank (AHB), a reasonable strategy and a good funding and liquidity profile. It also reflects a relatively high-risk appetite with only adequate capital, and weaker asset quality.

Challenging Operating Environment: The economic environment for UAE banks has become more challenging in recent years due to the fall in oil prices, slower GDP growth, and the pandemic. Banks are also highly exposed to the troubled real estate and construction sectors.

Concentrated, Largely Unseasoned Loans: ADCB's loan book is concentrated by sector and borrower and this weighs on our assessment of the bank's risk appetite. In addition, the bank's reported loan quality metrics may not fully capture the actual level of problematic loans given the slow amortisation of some large exposures, which creates loan seasoning risks.

Weaker Asset Quality: Impaired loans (Stage 3 and purchased or originated credit impaired loans) rose to 8.5% of gross loans (excluding loans to banks) at end-1Q21 from 4.7% at end-2019. The significant increase in impaired loans was largely due to big-ticket exposures in 2020, including those to NMC Healthcare and Finablr (end-1Q21: 1.8% of gross loans). We expect further moderate deterioration in loan quality given the challenging operating environment.

Impairments Erode Profitability: Operating profit-to-risk-weighted assets (1Q21: 1.5% annualised) compares weakly with those of most peers, primarily due to higher loan impairment charges (LICs; 1Q21: 38% of pre-impairment operating profit; 2020: 50%). Performance is likely to remain under pressure given elevated LICs and margin pressure from low interest rates.

Only Adequate Capitalisation: Capital (CET1 ratio: 13.4% at end-1Q21) is only adequate for the bank's risk profile considering its weaker profitability, high concentrations, and moderate unreserved impaired loans (end-1Q21: 14% of CET1; reflecting reliance on hard collateral).

Strong Funding and Liquidity: Funding and liquidity are VR strengths given that ADCB is largely funded by customer deposits (end-1Q21: 74% of total funding) and has a higher share of low-cost current account and savings deposits (58% of deposits at end-1Q21) than peers. Liquidity is comfortable with the liquidity coverage ratio at 139% at end-1Q21.

Rating Sensitivities

IDRs: ADCB's IDRs are sensitive to a change in Fitch Ratings' view of the ability and propensity of the UAE and Abu Dhabi authorities to provide support to the banking system or the bank.

VR: Continued deterioration in asset quality and a prolonged weakening in profitability putting significant pressure on the bank's capitalisation would lead to a VR downgrade. An increased risk appetite, for example following rapid loan growth in more risky sectors, would also be negative for the VR. Upside for the VR is limited given operating environment pressures.

Ratings

Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1
Viability Rating	bb+
Support Rating	1
Support Rating Floor	A+
Sovereign Risk	
Long-Term Foreign-Currency IDR	AA-
Long-Term Local-Currency IDR	AA-
Country Ceiling	AA+

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Fitch Affirms Abu Dhabi Commercial Bank at 'A+'; Outlook Stable (December 2020)

United Arab Emirates' Banks - Peer Review (February 2021)

Fitch Rates the United Arab Emirates at 'AA-' Outlook Stable (November 2020)

Fitch Affirms Abu Dhabi at 'AA'; Outlook Stable (October 2020)

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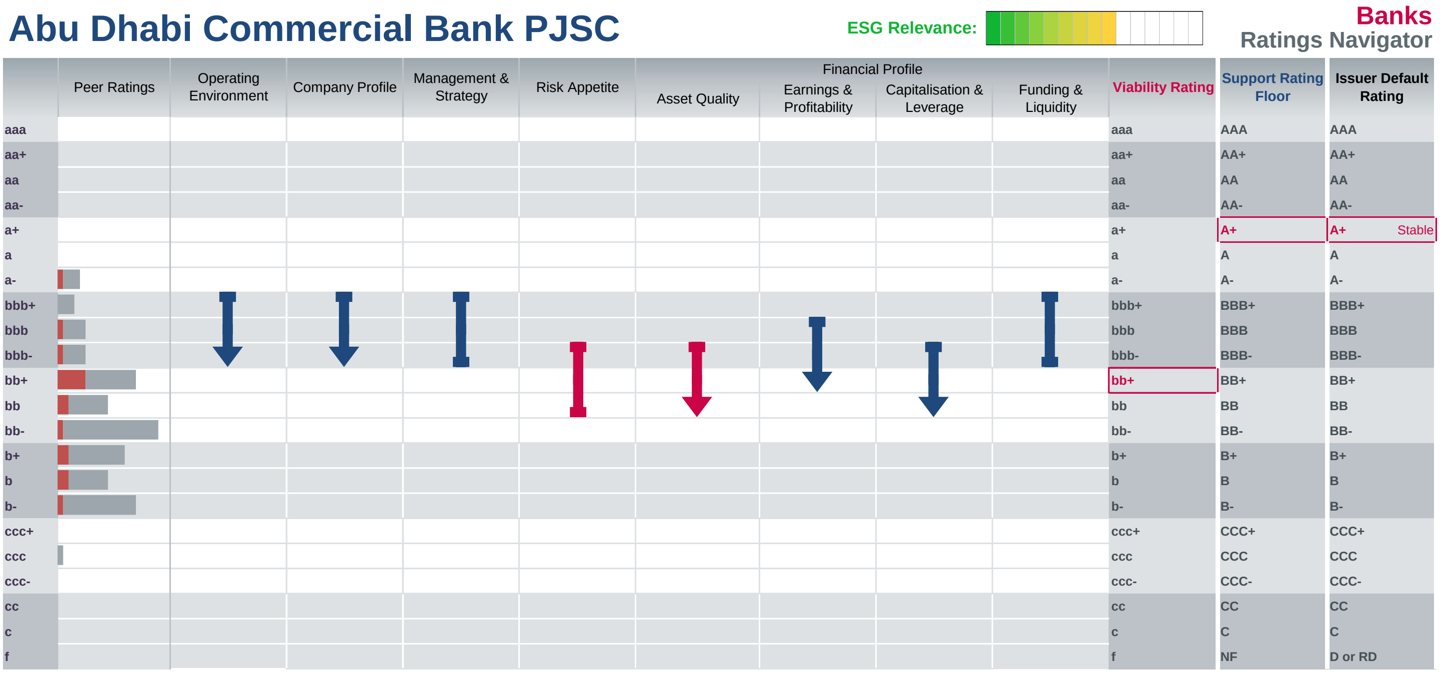
Ratings Navigator



Sovereign Support Assessment

Fitch's assessment of potential state support for ADCB, if needed, factors in the sovereigns' strong ability to support the banking system, underpinned by solid net external asset positions, still strong fiscal metrics and recurring hydrocarbon revenues. Fitch expects the propensity of the sovereigns to support the banking sector to remain high, given the very strong, timely and predictable record of supporting domestic banks. ADCB's 'A+' SRF is at the Abu Dhabi D-SIB SRF level - one notch higher than the UAE banks' country D-SIB SRF ('A') given Abu Dhabi's superior financial flexibility - reflecting its systemic importance and government ownership.

Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			A or A-
Actual country D-SIB SRF			A+
Support Rating Floor:			**A+**
Support Factors	**Positive**	**Neutral**	**Negative**
Sovereign ability to support system			
Size of banking system relative to economy			✓
Size of potential problem		✓	
Structure of banking system			✓
Liability structure of banking system	✓		
Sovereign financial flexibility (for rating level)	✓		
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support	✓		
Government statements of support	✓		
Sovereign propensity to support bank			
Systemic importance		✓	
Liability structure of bank		✓	
Ownership	✓		
Specifics of bank failure		✓	

Bar Chart Legend

Vertical bars – VR range of Rating Factor
Bar Colors – Influence on final VR
- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook
- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

Significant Changes – Sector-Wide

Downside Risks to UAE Banks' Credit Profiles

UAE banks' credit profiles face deterioration given the more challenging operating environment, on which Fitch has a negative outlook. Banks are highly exposed to the troubled real estate and construction sectors (20.5% of total domestic loans at end-2020) and to sectors vulnerable to the pandemic's fall-out, such as the services, transport, retail and hospitality sectors. We expect defaults to rise as government support measures wane.

Nevertheless, under our baseline scenario, a recovery in economic activity (especially in non-oil sectors) will support, to some extent, revenue generation. Fitch expects non-oil real GDP to grow by 4.4% in 2021 after contracting by 6.4% in 2020 when non-oil sectors were severely affected by the economic fall-out from the global pandemic, especially in Dubai.

Fitch forecasts UAE real GDP to grow by 2.8% in 2021 and 4% in 2022 after falling by about 7.5% in 2020. A deeper and more extended economic contraction than expected would be negative for the operating environment score and for the banks' VRs.

Government Support Measures to Unwind in 2021

The Central Bank of the UAE's (CBUAE) Targeted Economic Support Scheme (TESS), introduced in 1Q20 with a total amount of AED100 billion (USD27 billion), has reduced liquidity and capital costs for banks. The TESS is a two-fold package, which includes access to a zero-cost collateralised facility, allowing banks to provide debt service holidays to both principal and interest to customers until end-2021 (previously end-June 2021). It also includes capital buffer relief through lower minimum regulatory capital requirements, increasing the banks' ability to lend. The CBUAE has also eased prudential liquidity ratios, including a 30% reduction in the minimum liquidity coverage ratio and a 50% reduction in the cash reserve requirement.

Asset Quality to Weaken

The consequences of the pandemic and lower oil prices will continue to weigh on banks' asset quality due to deteriorating business conditions in retail and wholesale trade, and in the real estate and construction sectors. Overall, medium-term prospects for non-oil real GDP growth will be constrained by public spending rationalisation and real estate oversupply.

Deferred exposures and other related balances at Fitch-rated UAE banks made up on average more than 15% of gross loans at end-2020, which could lead to higher problem loans once support measures are withdrawn. Group 2 loans under CBUAE guidelines (exposures that are expected to be significantly affected by Covid-19 in the long term) were on average about 3% of gross loans, posing further downside risks to asset quality metrics in 2021-2022.

We expect banks' weighted-average Stage 3 loans ratio to reach about 6.5% by end-2021, up from about 5% at end-2019 and well above levels reached during the last oil price shock in 2014-2016. In addition, increasing levels of restructuring and the extension of support measures (including loan deferrals under the TESS) until end-2021 will mask the true increase in problem loans.

Still Reasonable Financial Metrics

Profitability across banks has come under pressure from low rates, subdued business volumes, and higher loan impairment charges (LICs). We expect the sector average CET1 ratio of 14.9% at end-2020 (end-2019: 14.7%), as disclosed by the CBUAE, to be stable and provide adequate loss absorption buffers against a moderate weakening in asset quality and profitability.

Subdued domestic loan growth in 2021-2022 will weigh on revenue generation but will provide some support to banks' core capitalisation. Funding and liquidity profiles are expected to remain generally sound across UAE banks.

Banks with stronger franchises benefit from a higher proportion of low-cost deposits. Deposits have proved stable despite being contractually short term. Government and government-related entities (GRE) deposits accounted for 30% of sector deposits at end-2020(end-2019: 29%) and underpin many banks' funding profiles. Unlike in 2014-2015, we expect these deposits to be stable, supported by higher oil prices and the sovereign's funding strategies prioritising debt issuance over asset drawdowns.

Summary Financials and Key Ratios

	3 Months - 1st Quarter	31 Mar 2021 3 Months - 1st Quarter	31 Dec 2020 Year End	31 Dec 2019 Year End	31 Dec 2018 Year End
	USDm	AEDm	AEDm	AEDm	AEDm
	Reviewed - Unqualified	Reviewed - Unqualified	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified
Summary Income Statement					
Net interest and dividend income	579	2,126.7	9,804.6	9,254.3	7,220.8
Net fees and commissions	121	443.2	1,550.9	1,816.2	1,394.6
Other operating income	96	353.9	1,133.7	669.4	576.1
Total operating income	796	2,923.8	12,489.2	11,739.9	9,191.5
Operating costs	289	1,060.5	4,526.3	4,517.7	3,083.5
Pre-impairment operating profit	507	1,863.3	7,962.9	7,222.2	6,108.0
Loan and other impairment charges	192	704.0	3,974.2	2,352.0	1,265.8
Operating profit	316	1,159.3	3,988.7	4,870.2	4,842.2
Other non-operating items (net)	-3	-10.4	-59.5	-36.8	n.a.
Tax	7	27.5	120.3	40.9	2.3
Net income	305	1,121.4	3,808.9	4,792.5	4,839.9
Other comprehensive income	-40	-145.2	167.0	1,448.2	-785.0
Fitch comprehensive income	266	976.2	3,975.9	6,240.7	4,054.9
Summary Balance Sheet					
Assets					
Gross loans	67,314	247,210.7	250,453.2	257,350.7	173,152.7
- of which impaired	5,750	21,117.2	20,111.7	12,160.6	5,191.0
Loan loss allowances	3,128	11,486.1	11,477.5	7,333.4	6,726.9
Net loans	64,186	235,724.6	238,975.7	250,017.3	166,425.8
Interbank	5,757	21,141.0	21,535.4	23,065.0	19,627.1
Derivatives	2,366	8,687.3	11,146.4	6,789.7	4,447.2
Other securities and earning assets	25,321	92,991.9	90,105.9	75,541.6	55,416.4
Total earning assets	97,630	358,544.8	361,763.4	355,413.6	245,916.5
Cash and due from banks	4,691	17,228.3	29,601.6	24,905.0	19,581.5
Other assets	5,458	20,046.0	19,791.3	24,816.1	14,332.3
Total assets	107,779	395,819.1	411,156.3	405,134.7	279,830.3
Liabilities					
Customer deposits	65,032	238,829.6	251,395.5	262,093.8	176,653.9
Interbank and other short-term funding	7,845	28,809.8	27,302.6	9,588.2	9,026.7
Other long-term funding	13,476	49,492.2	51,069.1	50,088.8	40,351.8
Trading liabilities and derivatives	2,387	8,766.9	10,855.0	6,949.9	5,695.9
Total funding	88,740	325,898.5	340,622.2	328,720.7	231,728.3
Other liabilities	3,866	14,197.3	13,932.7	20,716.4	15,296.5
Preference shares and hybrid capital	1,634	6,000.0	6,000.0	6,000.0	4,000.0
Total equity	13,539	49,723.3	50,601.4	49,697.6	28,805.5
Total liabilities and equity	107,779	395,819.1	411,156.3	405,134.7	279,830.3
Exchange rate		USD1 = AED3.6725	USD1 = AED3.6725	USD1 = AED3.6725	USD1 = AED3.6725

Source: Fitch Ratings, Fitch Solutions, ADCB

Summary Financials and Key Ratios

	31 Mar 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.5	1.3	1.5	2.3
Net interest income/average earning assets	2.4	2.7	2.9	3.0
Non-interest expense/gross revenue	36.3	36.3	38.5	33.6
Net income/average equity	9.1	8.0	11.9	17.6
Asset quality				
Impaired loans ratio	8.5	8.0	4.7	3.0
Growth in gross loans	-1.3	-2.7	48.6	2.3
Loan loss allowances[a]/impaired loans	54.4	57.1	60.3	129.6
Loan impairment charges/average gross loans	1.1	1.7	1.0	0.8
Capitalisation				
Common equity Tier 1 ratio	13.4	13.9	13.5	13.4
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	n.a.	13.7	13.6
Tangible common equity/tangible assets	10.9	10.7	11.1	10.3
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	23.0	20.3	11.0	-5.4
Net impaired loans/Fitch Core Capital	n.a.	n.a.	10.9	-5.3
Funding and liquidity				
Loans/customer deposits	103.5	99.6	98.2	98.0
Liquidity coverage ratio	139.3	156.8	127.3	n.a.
Customer deposits/funding	73.9	74.9	80.0	76.8
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

[a] Coverage increases to 72.5% when including AED3.8 billion of fair value adjustments at end-1Q21 (end-2020: 76.7%; AED3.9 billion).
Source: Fitch Ratings, Fitch Solutions, ADCB

Environmental, Social and Governance Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

FitchRatings

Abu Dhabi Commercial Bank PJSC

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Abu Dhabi Commercial Bank PJSC has 5 ESG potential rating drivers

- Abu Dhabi Commercial Bank PJSC has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.