

Update: Abu Dhabi Commercial Bank PJSC

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SACP	bbb	+	Support	+3	+	Additional Factors	0
Anchor	bbb-		ALAC Support	0		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	Average	0					
Liquidity	Adequate						

Overview

Key strengths

Entrenched relationships with Abu Dhabi-based government-related entities (GREs).

Majority ownership by the government of Abu Dhabi.

Strong capitalization.

Key risks

Sizable lending exposure in real estate and construction.

High concentration risk on both sides of the balance sheet.

Weakened asset quality indicators and pressured profitability.

A strong and established market position will support Abu Dhabi Commercial Bank PJSC (ADCB) through tough operating conditions. Improved transaction fee revenue over the first nine months of 2021 tally with improving consumer confidence. However, underlying operating income was 5% lower over the same period, indicating an ongoing recovery amid a low-interest-rate environment. Risks to our forecast persist from evolving pandemic-related developments, but S&P Global Ratings expects more supportive economic growth averaging just under 3% per year in 2022 and 2023. As the bank pares expenses and continues to reduce higher-risk real-estate exposures, subdued credit growth and relatively high provisioning will mean only gradually improving profitability (See Key Metrics table). We still expect continued digital customer growth, given the bank's upper-market positioning and strong, continued low-interest (current and savings account) deposit growth in the future. The bank's access to public-sector-led loan growth potential also underpins our expectations.

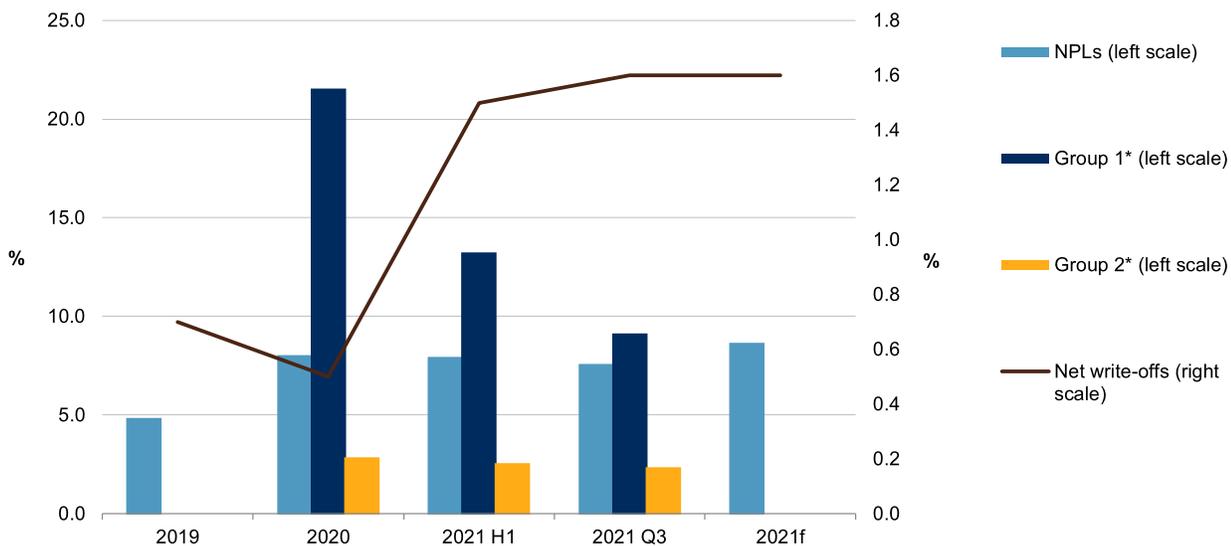
Strong capitalization will continue to buffer large exposures to weaker sectors. With a stable risk-adjusted capital (RAC) ratio forecast at 11.8% -12.6% through 2021-2023, we expect improving income alongside a flexible dividend policy will support ADCB's capital base.

NMC's restructuring is continuing and offers some upside to asset quality. ADCB's exposure to NMC Healthcare and Finabl added United Arab Emirates (UAE) dirham (AED) 1.5 billion to impairment charges over 2020, which accounted for roughly one-third of new provisions. We understand that NMC's restructuring is progressing well and the bank might be able to release a portion of the related provisions. On Sept. 30, 2021, the bank's nonperforming loan (NPL) ratio stood at 7.5%, including purchased and originated credit impaired loans, and about 6.2% if the anticipated recoveries from NMC are included.

However, NPLs will likely remain high. Although we expect improving operating conditions to be visible in the bank's results, we also anticipate further pandemic-related losses. Good progress has been made in resolving the stock of Group 1 loans under the Central Bank of the UAE's Targeted Economic Support Scheme (TESS; set to expire at mid-year 2022), which have more than halved over 2021. However, Group 2 loans--those more seriously affected by the pandemic--have remained fairly stubborn and total about AED5.7 billion or about 2.3% of gross loans. Real estate exposures account for 43% of payment deferrals and we expect the sector, along with hospitality, to be the main contributor to problem loan formation. We forecast that NPLs will peak at about 9% of total loans by 2022 before falling from 2023. Similarly, we expect credit losses to reduce from 2022, toward 80 basis points, by 2023.

Higher write-offs will likely moderate NPL forecasts. This year, the bank has moved to reduce its exposures to weaker sectors of the economy, particularly real estate and construction, although they still exceed one-quarter of its total loan exposures. However, we also note that write-offs net of recoveries were AED3.5 billion on Sept. 30, 2021, nearly three times larger than in 2019 and 2020 (see chart) and consider these will likely remain elevated given the above factors.

Abu Dhabi Commercial Bank--Write-Offs, NPLs, And TESS Groupings



f--Forecast, except for Group 1 and Group 2 data. NPL--Nonperforming loans. Source: S&P Global Ratings and ADCB Financial Statements. *Group 1 and 2 refer to total exposures under the Central Bank of the UAE's Targeted Economic Support Scheme (TESS), expressed as a percentage of gross customer loans. Net write offs is the value of loan losses over the year expressed as a percentage of annualized average loans 2020 and 2021.

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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: Stable

The stable outlook stems from our view that ADCB's strong capital buffers and expected stable earnings performance can absorb operating risks and further credit losses from weaker sectors of the UAE economy over the next 12-24 months.

Downside scenario

We could take a negative rating action if faster-than-expected credit growth or a higher risk appetite pressured ADCB's currently solid capitalization. We could also lower the ratings if ADCB's business performance is materially weaker than our expectations; for example, if revenue or profitability falls well below our forecasts, this could indicate a weakening business position, although we view this scenario as less likely.

Upside scenario

A positive rating action over the next 12-24 months is unlikely. However, we could raise our ratings if ADCB unexpectedly strengthens its capital position, with our RAC ratio sustainably exceeding 15%.

Key Metrics**Abu Dhabi Commercial Bank PJSC Key Ratios And Forecasts**

(%)	--Fiscal year ended Dec. 31 --				
	2019a	2020a	2021f	2022f	2023f
Growth in operating revenue	27.7	6.4	(7.1)-(8.6)	10.2-12.4	5.5-6.7
Growth in customer loans	47.4*	(1.8)	1.6-1.9	3.1-3.8	4.5-5.5
Net interest income/average earning assets (NIM)	3.1	2.7	2.3-2.5	2.5-2.7	2.6-2.8
Cost to income ratio§	35.0	34.3	34.4-36.2	31.6-33.2	30.3-31.9
Return on assets	1.4	1.0	1.0-1.2	1.2-1.5	1.4-1.7
New loan loss provisions/average customer loans	1.1	1.6	1.0-1.1	1.0-1.1	0.8-1.0
Gross nonperforming assets/customer loans	4.8	8.0	8.2-9.1	8.8-9.8	8.5-9.4
Risk-adjusted capital ratio	12.1	11.5	11.8-12.4	12.0-12.6	12-12.6

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast. *Combined entity growth. §Excluding integration costs and amortization of intangibles

Environmental, Social, And Governance (ESG)

We believe that ESG credit factors for ADCB are broadly in line with those of the bank's industry and domestic peers.

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. The emirate appoints most of the bank's board of directors, and therefore has a strong influence on ADCB's strategy. In its governance disclosures, the bank sets out its criteria for

board member independence, and we believe the governance framework is well advanced, which we view as positive in this ownership context. Even though the UAE's political institutions are developing, and decision-making processes remain centralized, with some weaknesses in transparency, we believe it has not been detrimental to the bank's strategic choices or sound business development.

We consider bank regulation in the UAE less focused on consumer protection than in Europe or the U.S., meaning that the bank is less exposed to misselling penalties or other retail conduct risks.

Key Statistics

Table 1

Abu Dhabi Commercial Bank PJSC Key Figures					
--Year-ended Dec. 31--					
(Mil. AED)	2021*	2020	2019	2018	2017
Adjusted assets	424,742	403,766	397,620	279,812	264,984
Customer loans (gross)	251,967	250,453	255,166	173,153	169,189
Adjusted common equity	44,303	40,438	38,690	27,154	26,373
Operating revenues	8,989	12,489	11,740	9,192	8,905
Noninterest expenses§	3,057	4,278	4,108	3,084	2,948
Core earnings	3,884	4,092	5,236	4,840	4,278

*Data as of Sept. 30. §Excluding nonrecurring integration costs. AED--UAE dirham.

Table 2

Abu Dhabi Commercial Bank PJSC Business Position					
--Year-ended Dec. 31--					
(%)	2021*	2020	2019	2018	2017
Commercial banking/total revenues from business line	30.9	29.2	31.4	32.7	30.7
Retail banking/total revenues from business line	41.4	42.5	43.0	42.7	45.8
Commercial & retail banking/total revenues from business line	72.2	71.7	74.4	75.4	76.6
Trading and sales income/total revenues from business line	25.3	26.4	23.6	22.2	20.0
Asset management/total revenues from business line	2.5	1.9	2.0	2.4	3.4
Return on average common equity	9.9	7.6	12.2	16.9	15.6

*Data as of Sept. 30.

Table 3

Abu Dhabi Commercial Bank PJSC Capital And Earnings					
--Year-ended Dec. 31--					
(%)	2021*	2020	2019	2018	2017
Tier 1 capital ratio	15.0	15.9	14.8	15.3	15.9
S&P Global Ratings' RAC ratio before diversification	N/A	11.5	12.1	12.1	12.8
S&P Global Ratings' RAC ratio after diversification	N/A	10.1	11.1	10.6	10.2
Adjusted common equity/total adjusted capital	88.1	87.1	86.6	87.2	86.8
Net interest income/operating revenues	73.6	78.3	78.7	78.5	75.2

Table 3

Abu Dhabi Commercial Bank PJSC Capital And Earnings (cont.)					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Fee income/operating revenues	15.4	12.4	15.5	15.2	16.9
Market-sensitive income/operating revenues	8.6	7.2	3.9	4.6	4.5
Cost to income ratio	34.0	34.3	35.0	33.5	33.1
Provision operating income/average assets	1.9	2.0	2.2	2.2	2.3
Core earnings/average managed assets	1.2	1.0	1.5	1.8	1.6

*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 RWA	Average S&P Global RW (%)
Credit risk					
Government & central banks	113,588,097	--	--	3,411,524	3
Of which regional governments and local authorities	--	--	--	--	--
Institutions and CCPs	72,072,062	--	--	23,455,411	33
Corporate	197,187,585	274,383,000	139	229,879,733	117
Retail	56,489,195	--	--	56,333,563	100
Of which mortgage	9,748,018	--	--	5,801,819	60
Securitization§	--	--	--	0	0
Other assets†	19,354,787	--	--	33,565,446	173
Total credit risk	458,691,726	274,383,000	60	346,645,678	76
Credit valuation adjustment					
Total credit valuation adjustment	--	--	--	--	--
Market risk					
Equity in the banking book	1,177,133	--	--	10,809,871	918
Trading book market risk	--	8,822,000	--	22,330,688	--
Total market risk	--	8,822,000	--	33,140,559	--
Operational risk					
Total operational risk	--	23,219,074	--	23,417,348	--
(AED 000s)	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global RWA	% of S&P Global RWA
Diversification adjustments					
RWA before diversification	--	306,424,074	--	403,203,584	100
Total diversification/ concentration adjustments	--	--	--	57,716,718	14
RWA after diversification	--	306,424,074	--	460,920,302	114

Table 4**Abu Dhabi Commercial Bank PJSC--Risk-Adjusted Capital Framework Data (cont.)**

(AED 000s)	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global RAC ratio (%)
Capital ratio				
Capital ratio before adjustments	48,618,277	15.9	46,437,661	11.5
Capital ratio after adjustments†	48,618,277	15.9	46,437,661	10.1

*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 2020, S&P Global Ratings.

Table 5**Abu Dhabi Commercial Bank PJSC Risk Position**

(%)	--Year-ended Dec. 31--				
	2021*	2020	2019	2018	2017
Growth in gross customer loans	0.8	(1.8)	47.4	2.3	2.9
Total managed assets/adjusted common equity	9.8	10.2	10.5	10.3	10.0
New loan loss provisions/average customer loans	1.1	1.6	1.1	0.7	1.0
Net charge-offs/average customer loans	1.6	0.5	0.7	0.8	0.8
Gross nonperforming assets§/customer loans + other real estate owned	7.5	8.0	4.8	3.0	2.2
Loan loss reserves/gross nonperforming assets§	53.0	57.1	60.1	128.7	160.0

*Data as of Sept. 30. Loan growth is annualized. §Includes purchased or originated credit impaired (POCI) loans and excludes fair value adjustments. ADCB reporting of 88.4% excludes POCI and includes fair value adjustments. RWA--Risk-weighted assets. N/A--Not applicable.

Table 6**Abu Dhabi Commercial Bank PJSC Funding And Liquidity**

(%)	--Year-ended Dec. 31--				
	2021*	2020	2019	2018	2017
Core customer deposits/funding base	71.1	74.6	81.5	78.2	77.0
Customer loans (net)/customer deposits	94.6	95.1	94.6	94.2	100.1
Long-term funding ratio	89.1	91.5	96.0	93.5	93.7
Stable funding ratio	126.1	127.8	119.4	120.7	115.6
Short-term wholesale funding/funding base	12.4	9.7	4.6	7.4	7.3
Broad liquid assets/short-term wholesale funding (x)	2.9	3.7	6.6	4.6	4.3
Net broad liquid assets/short-term customer deposits	34.7	35.8	32.7	35.2	32.5
Short-term wholesale funding/total wholesale funding	40.6	35.8	22.7	31.5	29.2
Narrow liquid assets/3-month wholesale funding (x)	12.0	10.2	8.7	12.5	6.0

*Data as of Sept. 30.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- 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
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Abu Dhabi (Emirate Of), June 1, 2021
- Various Rating Actions Taken On Five UAE-Based Banks On Increasing Credit Risk, March 25, 2021
- SLIDES Published: UAE Banking Sector 2021 Outlook--A Long Recovery Road Ahead, Jan. 26, 2021

Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of December 8, 2021)*

Abu Dhabi Commercial Bank PJSC

Issuer Credit Rating

A/Stable/A-1

Ratings Detail (As Of December 8, 2021)*(cont.)

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		
Abu Dhabi (Emirate of)		AA/Stable/A-1+

*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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