

RATING ACTION COMMENTARY

Fitch Affirms First Abu Dhabi Bank at 'AA-'; Outlook Stable

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Fitch Ratings - London - 04 Sep 2024: Fitch Ratings has affirmed First Abu Dhabi Bank P.J.S.C.'s (FAB) Long-Term Issuer Default Rating (IDR) at 'AA-' with a Stable Outlook and its Viability Rating (VR) at 'a-'. A full list of rating actions is found below.

KEY RATING DRIVERS

FAB's IDRs are driven by potential support from both the UAE (AA-/Stable) and Abu Dhabi (AA/Stable) authorities, if needed, as reflected in its Government Support Rating (GSR) of 'aa-'. FAB's Short-Term IDR of 'F1+' is the only option mapping to a 'AA-' Long-Term IDR.

FAB's VR reflects the bank's flagship status and very strong domestic franchise, underpinned by close links to the Abu Dhabi government, its strong funding and liquidity profile, and typically stable financial metrics. The 'a-' VR is assigned above the 'bbb+' implied VR due to the following adjustment reason: business profile.

GSR of 'aa-': FAB's GSR reflects the authorities' strong ability for, and record of, supporting the banking system, if needed. FAB's GSR is one notch above other Abu Dhabi domestic systemically important banks' GSR of 'a+' given the bank's flagship status in the UAE, and in Abu Dhabi in particular.

Improved Operating Conditions: Operating conditions have been solid for UAE banks in recent years, and Fitch expects these to remain strong in the medium term. The operating environment is supported by high interest rates and healthy liquidity conditions due to population growth and money transfers into the UAE. We have revised up our assessment of the operating environment for UAE banks to 'bbb+' from 'bbb', which is now among the highest operating-environment scores for emerging market banking systems globally.

Abu Dhabi Flagship Bank: FAB was the largest UAE bank at end-1H24 (controlling 25%-30% of sector loans, assets and deposits) and has a very strong domestic franchise

and funding and liquidity profile. The bank benefits from its flagship status in Abu Dhabi and close links to the Abu Dhabi government, which give it access to high-quality borrowers and significant public-sector funding. This translates into superior stability of credit metrics, particularly in asset quality and earnings, compared with domestic peers'. It also results in strong ordinary support, particularly in capital and funding.

Government Exposure Mitigates Risks: FAB's risk profile is underpinned by a highly liquid balance sheet and high exposure to government and public sector counterparties, which constituted 27% of gross loans at end-1H24. Non-loan exposures mostly comprise cash, central-bank placements and securities mainly of investment grade.

Stable Asset Quality: FAB's impaired loans ratio - which includes Stage 3 loans, interest in suspense and loans purchased or originated credit-impaired - improved slightly to 5.1% (3.7% net of interest in suspense) at end-1H24 (end-2023: 5.3%), supported by loan growth and benign operating conditions. The bank's asset quality is supported by a high share of loans to prime borrowers in Abu Dhabi and the high credit quality of its non-loan exposures. We expect asset-quality metrics to remain stable in 2H24-2025.

Improved Profitability: In 1H24 FAB's operating profit increased to an annualised 3.2% of risk-weighted assets (RWAs) from 2.9% in 2023. This was supported by loan growth, higher non-interest income and a still high net interest margin (NIM), which offset increased impairment charges as the bank increased provision coverage primarily in higher-risk markets such as Egypt (end-1H24: 3% of total assets). We expect core profitability to moderate from 2025, in line with the sector.

Moderate Capital Ratios: FAB's common equity Tier 1 (CET1) ratio (end-1H24: 14%) should be viewed against its sizeable balance sheet concentrations and record of high dividend payouts. Nevertheless, capitalisation is supported by the availability of ordinary support from the Abu Dhabi authorities, moderate loan growth and stable internal capital generation.

Highly Liquid Balance Sheet: FAB's funding and liquidity profile is a rating strength. FAB is predominantly deposit-funded, and funding stability is underpinned by its high share of current and savings accounts (end-1H24: 46%), and significant placements from the Abu Dhabi government and public sectors (38%). Liquidity is ample, as expressed by a low loans/deposit's ratio of 70% at end-1H24, which outperforms peers'.

RATING SENSITIVITIES

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

FAB's GSR and Long-Term IDR are sensitive to a negative change in Fitch's view of the UAE and Abu Dhabi authorities' ability and propensity to provide support. FAB's Short-Term IDR is sensitive to a downgrade of its Long-Term IDR.

FAB's VR could be downgraded on erosion of its capitalisation to levels that are not commensurate with the bank's risk profile. It could also be downgraded on an increase in FAB's risk appetite, as manifested in a material increase in exposure to higher-risk overseas markets.

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

A positive rating action on FAB's GSR and IDRs is unlikely, given their existing high levels and the Stable Outlooks on Abu Dhabi and the UAE.

An upgrade of FAB's VR is unlikely in the near term, given its existing high level.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

FAB's Long-Term IDR (xgs) is at the level of its VR. Its Short-Term IDR (xgs) is driven by its Long-Term IDR (xgs) and also considers FAB's solid funding and liquidity profile.

FAB's senior unsecured programmes, the trust certificate issuance programme of FAB Sukuk Company Ltd and the notes issued under these programmes, are rated in line with FAB's respective IDRs and IDRs (xgs), as a default on these obligations would be regarded as a default of the bank according to Fitch's rating definitions.

FAB's subordinated debt rating is notched down twice from its Long-term IDR to reflect loss severity, the subordinated status of the bonds and Fitch's view of a heightened likelihood of poor recoveries in the event of non-viability. Fitch uses FAB's Long-Term IDR rather than its VR as the anchor rating for notching, as allowed in the agency's Bank Rating Criteria for issuers in highly-supportive jurisdictions such as the UAE, as Fitch believes that potential government support for FAB is likely to flow through to the holders of FAB's subordinated Tier 2 bonds.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

FAB's Long-Term IDR (xgs) would mirror changes to its VR, while its Short-Term IDR (xgs) would be sensitive to changes to its Long-Term IDR (xgs) and funding and liquidity score.

The senior unsecured debt ratings of FAB and FAB Sukuk Company Ltd are sensitive to changes in FAB's IDRs and IDRs (xgs).

FAB's subordinated debt rating is sensitive to a change in its Long-Term IDR and to changes in Fitch's assessment of loss severity and/or relative non-performance risk.

VR ADJUSTMENTS

The operating environment score of 'bbb+' is below the 'aa' category implied score, due to the following adjustment reasons: size and structure of economy (negative) and financial market development (negative).

The business profile score of 'a-' is above the 'bbb' category implied score, due to the following adjustment reason: market position (positive).

The asset quality score of 'bbb+' is above the 'bb' category implied score, due to the following adjustment reason: non-loan exposures (positive).

The funding and liquidity score of 'a' is above the 'bbb' category implied score, due to the following adjustment reasons: liquidity access and ordinary support (positive) and liquidity coverage (positive).

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

FAB's IDRs are linked to the UAE and Abu Dhabi sovereign ratings.

ESG CONSIDERATIONS

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>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
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FAB Sukuk Company
Limited

senior unsecured	LT	AA-	Affirmed	AA-
senior unsecured	ST	F1+	Affirmed	F1+
senior unsecured	ST (xgs)	F1(xgs)	Affirmed	F1(xgs)
senior unsecured	LT (xgs)	A-(xgs)	Affirmed	A-(xgs)
First Abu Dhabi Bank P.J.S.C.	LT IDR	AA- Rating Outlook Stable		AA- Rating Outlook Stable
	Affirmed			
	ST IDR	F1+	Affirmed	F1+
	Viability	a-	Affirmed	a-
	Government Support		aa- Affirmed	aa-
	LT IDR (xgs)	A-(xgs)	Affirmed	A-(xgs)

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA[Sukuk Rating Criteria \(pub. 13 Jun 2022\)](#)[Bank Rating Criteria \(pub. 15 Mar 2024\) \(including rating assumption sensitivity\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

FAB Sukuk Company Limited

First Abu Dhabi Bank P.J.S.C.

UK Issued, EU Endorsed

UK Issued, EU Endorsed



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