

10 OCT 2023

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

Fitch Ratings - Dubai - 10 Oct 2023: 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 Short-Term IDR at 'F1+'. At the same time, Fitch has affirmed FAB's 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. This reflects the authorities' strong ability to, and record of, supporting the banking system, if needed. FAB is rated one notch above other Abu Dhabi-based domestic systemically important banks given its flagship status in Abu Dhabi in particular.

FAB's VR primarily reflects its very strong domestic franchise, sound funding and liquidity profile, and typically solid financial metrics. The 'a-' VR is assigned above the 'bbb+' implied VR due to the following adjustment reason: Business Profile.

Favorable Environment: Operating conditions are solid for UAE banks in 2023. Fitch expects the sector credit growth to remain modest at about 5% in 2023 on weak credit demand, tighter underwriting standards and higher interest rates, but the latter may result in stronger profitability, particularly for banks with high shares of current and savings accounts.

Abu Dhabi Flagship Bank: FAB has a very strong domestic franchise (about 25% of sector loans and over 30% of the UAE banking sector deposits) 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 the superior stability of FAB's credit metrics, particularly in terms of asset quality and earnings, compared with domestic peers.

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. Net loans were a low 42% of assets at end-2Q23 and exposure to government and public sector was 29% of gross loans. Non-loan exposures mostly comprise cash, central bank placements and securities of generally strong credit quality.

Stable Loan Quality Ratios: We expect FAB's impaired loans ratio (including Stage 3 loans, interest in suspense and loans purchased or originated credit-impaired: 5.1% at end-2Q23) to remain fairly stable

at about 5% over the next few years. The bank's cost of risk (6M23: 0.6% of average loans) has been very stable historically, supported by a high share of loans to prime borrowers in Abu Dhabi. Overall asset quality additionally benefits from the strong credit quality of non-loan exposures.

Improved Profitability: In 6M23, FAB's operating profit was 3% (annualised) of risk-weighted assets, up from 2% in 2022, and we expect similar results in FY23. Revenue generation is supported by stable loan impairment charges, a generally favourable operating environment and higher interest rates. In 6M23, FAB's net interest margin improved to 2.2%, which is 31bp higher than in 2022.

Moderate Capital Ratios: FAB's common equity Tier 1 (CET1) ratio was 13.6% at end-2Q23 but should be viewed in the context of sizeable balance-sheet concentrations and the bank's record of high dividend pay-outs. Nevertheless, capitalisation is supported by the availability of ordinary support from the Abu Dhabi authorities and the bank's only moderate loan growth (5% in 1H23, not annualised). We expect FAB's post-dividend CET1 ratio to remain below 13% in the medium term.

Highly Liquid Balance Sheet: FAB's funding and liquidity profile is a relative rating strength. FAB is predominantly deposit-funded, and funding stability is underpinned by its high share of current and savings accounts (45%), and significant placements from the Abu Dhabi government and public sectors (41%). Liquidity is ample as expressed by a low loans/deposits ratio of 68% at end-2Q23, which has fallen and is the lowest in the banking sector.

Rating Sensitivities

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

FAB's Government Support Rating (GSR) and IDRs are sensitive to a change in Fitch's view of the UAE and Abu Dhabi authorities' ability and propensity to provide support.

FAB's VR could be downgraded due to its capitalisation being eroded to levels that Fitch considers not to be commensurate with the bank's risk profile; a demonstrated increase in FAB's risk appetite evidenced such as a material increase in exposure to riskier international markets; or a severe setback to the UAE's economic environment such as sustainably lower oil prices.

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 the already high rating level.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

FAB's senior unsecured debt ratings are rated in line with its IDRs and are, therefore, driven by the same factors as its IDRs. 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 Long- and Short-Term IDRs. This reflects Fitch's view that the likelihood of default on any senior unsecured obligation is the same as that of the bank.

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. Fitch believes that potential government support for FAB is likely to flow through to the holders of FAB's subordinated Tier 2 bonds.

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.

The xgs ratings of FAB's senior unsecured debt are driven by FAB's Long- and Short-Term IDRs (xgs).

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The senior unsecured debt ratings of FAB and FAB Sukuk Company Ltd are sensitive to changes in FAB's Long- and Short-Term IDRs. FAB's subordinated debt rating is sensitive to a change in its Long-Term IDR and to potential changes in Fitch's assessment of loss severity or relative non-performance risk.

FAB's Long-Term IDR (xgs) would mirror changes to its VR.

A downgrade of FAB's Short-Term (xgs) could come from a downgrade of its Long-Term IDR (xgs) and from a downward revision of the bank's funding and liquidity score. An upgrade of FAB's Short-Term IDR (xgs) is sensitive to an upgrade of its Long-Term IDR (xgs).

The rating action on the xgs ratings of FAB's senior unsecured debt will mirror the rating actions on FAB's Long- and Short-term IDRs (xgs).

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), financial market development (negative), regulatory and legal framework (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 reason: 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's and Abu Dhabi's 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>.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY		PRIOR
First Abu Dhabi Bank P.J.S.C.	LT IDR	AA- 	Affirmed		AA- 
	ST IDR	F1+	Affirmed		F1+
	Viability	a-	Affirmed		a-
	Government Support	aa-	Affirmed		aa-
	LT IDR (xgs)	A-(xgs)	Affirmed		A-(xgs)
	ST IDR (xgs)	F1(xgs)	Affirmed		F1(xgs)
	• senior unsecured ^{LT}	AA-	Affirmed		AA-
	• subordinated	A	Affirmed		A
	• senior unsecured ST	F1+	Affirmed		F1+
	• senior unsecured ^{ST (xgs)}	F1(xgs)	Affirmed		F1(xgs)
	• senior unsecured ^{LT (xgs)}	A-(xgs)	Affirmed		A-(xgs)
FAB Sukuk					

ENTITY/DEBT	RATING	RECOVERY	PRIOR
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)

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◆
NEGATIVE	⊖	◆
EVOLVING	◉	◆
STABLE	○	

Applicable Criteria

[Bank Rating Criteria \(pub.01 Sep 2023\) \(including rating assumption sensitivity\)](#)

[Sukuk Rating Criteria \(pub.13 Jun 2022\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

FAB Sukuk Company Limited UK Issued, EU Endorsed

First Abu Dhabi Bank P.J.S.C. UK Issued, EU Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at <https://www.fitchratings.com/site/re/10238496>

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