

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>.

Fitch Ratings Analysts

Dmitry Vasilyev

Senior Director

Primary Rating Analyst

+971 4 424 1238

Fitch Ratings Ltd Dubai Branch Maze Tower, 18th Floor Sheikh Zayed Road, P.O. Box 215584, Dubai

Anton Lopatin

Senior Director

Secondary Rating Analyst

+971 4 424 1225

Lindsey Liddell

Managing Director

Committee Chairperson

+44 20 3530 1008

Media Contacts

Peter Fitzpatrick

London

+44 20 3530 1103

peter.fitzpatrick@thefitchgroup.com

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

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that

neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

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>

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United

Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2023 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

Endorsement policy

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.