S&P Global
Ratings

RatingsDirect®

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

Primary Credit Analyst:
Suha Urgan, Dubai (971) 4-372-7175; suha.urgan@spglobal.com

Secondary Contact:
Mohamed Damak, Dubai (971) 4-372-7153; mohamed.damak@spglobal.com

Table Of Contents

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

SACP	a-	+	Support	+2	+	Additional Factors	+1

Anchor	bbb-	
Business Position	Strong	+1
Capital and Earnings	Strong	+1
Risk Position	Strong	+1
Funding	Average	0
Liquidity	Strong	

ALAC Support	0
GRE Support	+2
Group Support	0
Sovereign Support	0

Issuer Credit Rating
AA-/Stable/A-1+

Major Rating Factors

Strengths:	Weaknesses:
• Leading franchise in the United Arab Emirates (UAE). • Strong capitalization and superior earnings generation. • Stable base of core deposits and strong liquidity.	• Large concentration on both sides of the balance sheet. • Sizable exposure to the weak real estate market in the UAE.

Outlook: Stable

S&P Global Ratings' stable outlook on First Abu Dhabi Bank (FAB) reflects our view that FAB will maintain its strong customer franchise and its resilient financial profile over the next 12-24 months. This is thanks to the bank's strong earnings generation, clear strategy, robust capitalization, and sound risk management.

A positive rating action on FAB over the next 12-24 months appears remote. Such an action would follow an improvement of FAB's business or financial profile, which is unlikely in our view. Moreover, we would consider an upgrade only if the bank's creditworthiness before incorporating external support increased by two notches.

A downgrade of FAB also seems remote in the next 12-24 months because it would imply a simultaneous downgrade of the sovereign and a significant deterioration of the bank's asset quality with higher-than-expected credit losses. Although not in our base-case scenario, the ratings could also come under pressure if FAB doesn't execute the post-merger integration, and this weighs on the bank's franchise or financial profile. Progress during the first year of integration suggests this is a remote scenario.

Rationale

We base our ratings on First Abu Dhabi Bank (FAB) on the bank's 'bbb-' anchor, and our view of its leading entrenchment in the UAE, clear strategy, and conservative management. We regard the bank's capitalization as a key strength for its credit profile, underpinned by strong and high-quality capital. We anticipate that FAB's risk-adjusted capital (RAC) ratio will stay in the 13.8-14.0% range over the next two years. The bank also benefits from strong underlying asset quality, a conservative lending and underwriting culture, and resilient metrics through the cycle. Lastly, we assess FAB's funding as average because the bank's core funding metrics are comparable to other leading peers in the UAE. Our assessment of the bank's liquidity remains strong, given the level of liquid assets on its balance sheet. Overall, we assess the bank's stand-alone credit profile (SACP) at 'a-'.

The long-term rating on FAB benefits from two notches of uplift to reflect our view of the bank as a government-related entity (GRE) with a very high likelihood of timely and sufficient extraordinary support from the government of Abu Dhabi. We base our opinion of the likelihood of support on FAB's very strong link with the government of Abu Dhabi and very important role for the financing of the economy in Abu Dhabi and the UAE more generally. In our base-case scenario, we assume no major change in its shareholding structure and no dilution in the government's influence on FAB's strategy.

Our long-term rating on FAB also incorporates an additional notch based on our view that it will outperform its peer group (as defined by banks with similar SACPs, that is, the same or one notch higher or lower). We base this view on FAB's superior earning metrics (principally the earnings buffer), enabling it to more easily cover higher-than-expected losses if needed. This key strength is not fully captured in our other rating factors.

Our issue rating on FAB's perpetual tier 1 junior subordinated is 'BB+', four notches below the bank's SACP, reflecting its status as a bail-inable instrument.

Anchor: 'bbb-' for banks operating in the UAE

Our bank criteria use our Banking Industry Country Risk Assessment's economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a commercial bank operating in the UAE is 'bbb-', reflecting an economic risk score of '5' and an industry risk score of '5'.

With regard to economic risk, we view the UAE's high income levels and its relatively better economic diversification by Gulf standards as key strengths. We forecast a pick-up in economic activity in over the next two years following a dip in real GDP growth in 2017. However, the country's real estate price market remains in a correction phase, which we expect will continue in 2018. In addition, we are seeing deterioration in asset-quality metrics in certain sectors such as retail expatriate and contracting, although under our base-case scenario, the deterioration will remain contained and we believe credit losses will stabilize in 2019. Many banks are structurally exposed to high single-name concentrations and there is a fair level of restructured exposures in the system. Some government-owned entities' debt servicing capacities are vulnerable to volatility in commodity prices.

With regard to industry risk, our assessment of the UAE banking industry is underpinned by improving regulatory framework and largely stable financial performance of the banks with healthy earnings generation. We note that the overall quality of banking regulation and supervision has become more on par with emerging market peers' in recent years. Despite a very large number of banks in the system, more than 80% of the UAE banking sector assets is controlled by the 10-largest institutions, mostly domestic banks that have had a stable total market share over the past decade. Core retail customer deposits are the core source of funding for banks and have proved resilient over the past few years. Banks' funding cost benefits from high share of non-interest bearing deposits.

Table 1

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

	--Year-ended Dec. 31--				
(Mil. AED)	**2017**	**2016**	**2015**	**2014**	**2013**
Adjusted assets	649,067	420,714	406,564	376,099	325,062
Customer loans (gross)	343,194	206,941	212,039	200,947	190,139
Adjusted common equity	63,300	37,126	34,456	31,749	28,143
Operating revenues	16,380	10,808	10,556	10,415	9,398
Noninterest expenses	4,742	4,013	4,083	3,696	3,239
Core earnings	9,326	5,296	5,232	5,579	4,733

AED--UAE dirham. 2013-2016 figures are based on pre-merger financials for NBAD.

Business position: Leading franchise in the UAE, with enhanced business position post merger

We regard FAB's business position as strong. The merger of National bank of Abu Dhabi (NBAD) and First Gulf Bank (FGB) in 2017 created the second-largest bank in the Middle East with total assets of $182 billion as of Dec. 31, 2017.

The strong wholesale franchise of the bank with access to lower cost of funding is strengthened from the strong retail business of FGB, with superior earnings generation capacity. The bank maintains its strong relationships with the Abu Dhabi government and its related public entities, which is an unrivalled strength for its franchise. The government and public sector make up around 20% and 40% respectively of FAB's total loans and total deposits. The loan book has a good degree of geographic diversification, with 20% of gross loans outside the UAE, the bulk of which is to blue chip corporate names in Europe and Asia.

In our view, the bank has a high-quality management team with a strong track record. Post-merger stability in senior roles ensured smooth integration and robust operational performance. Realized cost synergies in 2017 were better than the bank's initial guidance. In addition, the bank exhibited good cost control in 2017. The bank fully delivered on all its milestones as per its integration agenda. Traditionally, the bulk of the bank's operating revenues comes from net interest income and fee income, and we see no change in this structure after the merger and consider FAB's pre-provision earnings to be predictable.

The merger addressed the bank's underrepresentation in retail banking, especially outside Abu Dhabi. FAB now benefits from a robust footing in retail with personal loans accounting for 21% of its gross loans. It also benefits from a comparative advantage over its domestic peers, since it continues to run the National Housing Loan (NHL) program for the Abu Dhabi government. While housing loans under the NHL program are non-interest bearing, they create strong cross-selling opportunities for the bank.

Table 2

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

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Total revenues from business line (mil. AED)	16,380	10,808	10,556	10,415	9,398
Commercial banking/total revenues from business line	48.3	50.9	48.5	47.6	29.8
Commercial & retail banking/total revenues from business line	83.8	91.6	88.0	89.9	81.3
Return on equity	14.0	13.9	14.9	17.3	16.4

AED--United Arab Emirates dirham. 2013-2016 figures are based on pre-merger financials for NBAD.

Capital and earnings: FAB operates with strong capitalization

We regard FAB's capital and earnings as strong. This reflects the bank's high level of capital and its strong core earnings generation. FAB's regulatory Tier 1 ratio reached 16.6% at year-end 2017, compared with 17.1% at year-end 2016. Given the bank's close ties with the Abu Dhabi government and some of its GREs, we see a large portion of its lending exposure as having strong credit quality, resulting in lower risk-weighted assets than its peers.

UAE banks' financial performances were challenged by softer market conditions in 2017 and FAB's revenues saw a single-digit decline. However, this was accompanied by better-than-expected cost synergies leading to resilience on the net income.

Our risk-adjusted capital (RAC) ratio before adjustments based on the bank's 2017 financial statements was 14.2%. Under our base-case scenario, we expect the bank's RAC ratio before adjustments to remain at around 13.8%-14.0% over the 24-month rating horizon, as we expect:

- Annual loan growth of around 3%-5% in the next two years driven by gradual recovery in the UAE economy.
- Gradual increase in net interest margins, supported by the favorable mix effect from the bank's increasing retail presence and repricing of corporate loan book, partially offset by the increase in cost of funding.
- Mid-single-digit fee income growth in parallel with our loan growth projections.
- Integration costs over the next two years largely compensated by the targeted cost synergies.
- A higher normalized cost of risk to around 70 basis points due to the implementation of Interntional Financial Reporting Standard 9 and slight increase in nonperformning loans (NPLs).
- High dividend payout continued in the next two years with 65% payout ratio.

Table 3

First Abu Dhabi Bank P.J.S.C. Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Criteria reflected in RAC ratios	2017	2010	2010	2010	2010
Tier 1 capital ratio	17.1	16.9	15.7	15.0	16.5
S&P Global Ratings' RAC ratio before diversification	14.2	14.5	13.9	13.2	15.1
S&P Global Ratings' RAC ratio after diversification	12.4	14.5	14.1	13.3	15.7
Adjusted common equity/total adjusted capital	85.5	84.6	83.6	88.8	87.6

Table 3

First Abu Dhabi Bank P.J.S.C. Capital And Earnings (cont.)

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Net interest income/operating revenues	69.6	67.6	69.2	67.4	69.3
Noninterest expenses/operating revenues	29.0	37.1	38.7	35.5	34.5
Preprovision operating income/average assets	2.1	1.6	1.7	1.9	2.0
Core earnings/average managed assets	1.7	1.3	1.3	1.6	1.5

2013-2016 figures are based on pre-merger financials for NBAD.

Table 4

First Abu Dhabi Bank P.J.S.C. Risk-Adjusted Capital Framework Data

(Mil. AED)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**S&P Global RWA**	**Average S&P Global RW (%)**
Credit risk					
Government and central banks	223,773	--	--	8,993	4
Institutions and CCPs	76,018	--	--	27,251	36
Corporate	292,897	--	--	301,562	103
Retail	62,757	--	--	57,765	92
Of which mortgage	11,617	--	--	5,416	47
Securitization§	4,734	--	--	947	20
Other assets†	18,803	--	--	28,945	154
Total credit risk	678,981	--	--	425,462	63
Credit valuation adjustment					
Total credit valuation adjustment	--	--	--	--	--
Market risk					
Equity in the banking book	3,385	--	--	24,839	734
Trading book market risk	--	--	--	42,082	--
Total market risk	--	--	--	66,921	--
Operational risk					
Total operational risk	--	--	--	30,811	--
		Basel III RWA		**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification		475,925	--	523,193	100
Total diversification/concentration adjustments		--	--	75,549	14
RWA after diversification		475,925		598,743	114
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		80,655	16.6	74,055	14.2
Capital ratio after adjustments‡		80,655	16.6	74,055	12.4

Table 4

First Abu Dhabi Bank P.J.S.C. Risk-Adjusted Capital Framework Data (cont.)

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡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, 2017, S&P Global.

Risk position: Strong underlying asset quality with stable metrics

We assess FAB's risk position assessment as strong. FAB's conservative lending and underwriting culture is a core factor in our assessment coupled with its sizable lending to the low-risk domestic public sector in Abu Dhabi. These have enabled the bank to have a strong track record of lower cost of risk through the cycle than its UAE peers. In addition, the NHL program is fully guaranteed by the government and is a supporting factor in our assessment.

The bank's post-merger ratio of NPLs to gross loans, at 3.1% on Dec. 31, 2017, and its loan loss coverage of 120% is comparable with peers. The loan book exhibits a significant concentration, with the top-20 funded exposures accounting for around 25% of gross loans at year-end 2017. While materialization of concentration risks is not in our base case, we believe that FAB will see a slight deterioration in its asset-quality indicators due to soft operating environment, which we expect to continue in 2018 followed by a normalization in 2019. We believe soft real estate market and weak employment trends will be the primary drivers of deterioration in 2018.

We consider the quality of FAB's investment portfolio as good, since it remains dominated by sovereign and corporate bonds rated in A category and above (around 76% at year-end 2017). The bank has a marginal portfolio of equities and mutual funds accounting for 3% of its total adjusted capital.

Table 5

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

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Growth in customer loans*	65.8	(2.4)	5.5	5.7	11.8
Total managed assets/adjusted common equity (x)	10.6	11.3	11.8	11.8	11.6
New loan loss provisions/average customer loans	0.8	0.6	0.5	0.4	0.7
Gross nonperforming assets/customer loans + other real estate owned	3.1	2.7	2.8	3.1	3.2
Loan loss reserves/gross nonperforming assets	120.1	114.6	104.8	108.2	105.2

2013-2016 figures are based on pre-merger financials for NBAD. *Based on gross loans net of interest suspended.

Funding and liquidity: Well-established access to long-term overseas funding programs, as well as Abu Dhabi government-related deposits

We consider FAB's funding to be adequate, which reflects the bank's stable funding ratio of 128% as of Dec. 31, 2017, which is comparable with it local peer group. The bank benefits from large deposits from the government and related public entities, which translates into markedly lower funding costs. While lower oil prices have translated into weakness in government and GRE deposits from late-2015 to mid-2016, a recovery took place in 2017 with 14% growth in FAB's such deposits. We expect normalization in these deposit in 2018, with total deposit growth for FAB at 4%-5% over the next two years, in-line with that of the system growth. At year-end 2017, 74% of the bank's funding came from customer deposits, bulk of which is domiciled in the UAE.

Our assessment of the bank's liquidity is strong, given the level of liquid assets on its balance sheet and based on a global peer comparison. The bank's role as the de-facto bank for the government's oil and gas endowment allows FAB to operate with a markedly stronger advantage in terms of liquidity. About 20% of the bank's balance sheet was in the form of cash on Dec. 31, 2017, and its broad liquid assets to short-term wholesale funding liabilities were 2.4x, which compares favorably with global banking averages. In addition, FAB is one of the few banks in the region with well-established Euro medium-term notes program and can access hard currency, overseas funding at healthy rates.

Table 6

First Abu Dhabi Bank P.J.S.C. Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Core deposits/funding base	74.2	65.3	62.4	72.2	70.1
Customer loans (net)/customer deposits	83.5	87.7	97.5	84.7	95.0
Long-term funding ratio	83.7	75.7	71.4	78.9	78.8
Stable funding ratio	127.6	116.9	107.7	117.8	112.1
Short-term wholesale funding/funding base	18.9	20.5	25.6	19.3	17.5
Broad liquid assets/short-term wholesale funding (x)	2.4	2.2	1.7	2.3	2.2
Short-term wholesale funding/total wholesale funding	67.9	56.0	64.5	66.4	55.7

2013-2016 figures are based on pre-merger financials for NBAD.

External support: Two notches of government support

The long-term rating on FAB includes two notches of uplift to reflect our view of the bank as a GRE with a high likelihood of timely and sufficient extraordinary support from the government of Abu Dhabi if needed. This is underpinned by:

- Very strong link with the government of Abu Dhabi: The government of Abu Dhabi is a strong shareholder, has a strong influence on FAB's strategy and has a record of providing extraordinary support to the bank (in its pre-merger form). Abu Dhabi Investment Council (ADIC) holds 33.5% of FAB (based on outstanding shares, net of treasury shares), while Mubadala Development Company owns 4% and the Abu Dhabi ruling family owns about one-third. We believe a considerable deterioration in the GRE's creditworthiness would significantly affect the government's reputation.
- Very important role for the Abu Dhabi government: The bank has a privileged relationship with the government, maintains key account relationships with many Abu Dhabi government departments and its GREs, and traditionally maintains very strong depository relationships with these entities. In addition, the bank also acts as an important lender to the Abu Dhabi government and its related entities and traditionally allocates an important portion of its lending for these purposes.

Additional Rating Factors

Our long-term rating on FAB includes an additional notch based on our view that it will outperform its peer group. We base this view on the bank's superior earning metrics (principally the earnings buffer) enabling it to more easily cover higher-than-expected losses by retaining earnings if needed. This key strength is not fully captured in our other rating factors.

Related Criteria

- 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: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Banking Industry Country Risk Assessment: United Arab Emirates, March 14, 2018
- GCC Banks Should See A More Stable Financial Footing In 2018, Jan. 8, 2018
- The Overall Effect Of IFRS 9 On Rated Gulf Cooperation Council Banks' Financial Profiles Will Be Manageable, May 29, 2017
- National Bank of Abu Dhabi Affirmed At 'AA-/A-1+'; Outlook Stable; First Gulf Bank Ratings Withdrawn After Merger, April 3, 2017

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 May 14, 2018)

First Abu Dhabi Bank P.J.S.C.	
Issuer Credit Rating	AA-/Stable/A-1+
Certificate Of Deposit	
Foreign Currency	AA-/A-1+
Commercial Paper	
Foreign Currency	A-1+
Junior Subordinated	BB+
Senior Unsecured	AA-
Short-Term Debt	A-1+
Issuer Credit Ratings History	
03-Apr-2017	AA-/Stable/A-1+
11-Jul-2016	AA-/Watch Neg/A-1+
10-Oct-2013	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.

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@spglobal.com