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CREDIT OPINION
23 May 2018

Update

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RATINGS

First Abu Dhabi Bank PJSC

Domicile	Abu Dhabi, United Arab Emirates
Long Term Debt	Aa3
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Aa3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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First Abu Dhabi Bank PJSC

Update to credit analysis

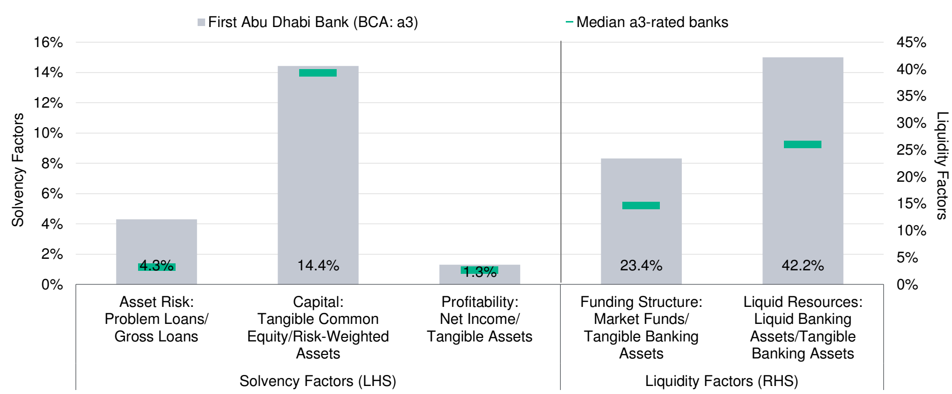
Summary

We assign Aa3/Prime-1 long- and short-term deposit ratings to First Abu Dhabi Bank PJSC (FAB), previously known as National Bank of Abu Dhabi (NBAD). The deposit ratings incorporate a three-notch uplift from the bank's a3 Baseline Credit Assessment (BCA), based on our view of the very high likelihood of support from the Government of United Arab Emirates (UAE, Aa2 stable) in case of need.

FAB's a3 BCA reflects the bank's (1) well-established and dominant franchise in the UAE, with strong ties with the Abu Dhabi government; (2) consistently strong but weakening asset quality and exposed to concentration risks; (3) strong and stable capitalisation; and (4) strong liquidity and diversified funding. FAB's BCA also takes into account the bank's continued strong ties with the government of Abu Dhabi, which enables it to secure a significant amount of high-quality government-related business, although it also exposes the bank to significant credit and funding concentrations.

Exhibit 1

Rating Scorecard - Key financial ratios



Problem loan and profitability ratios are the weaker of the three-year averages and the latest reported figures; the capital ratio is the latest reported figure, and the funding structure and liquid asset ratios are latest year-end figures.
Source: Moody's Financial Metrics

Credit strengths

» Well-established and dominant domestic franchise, with strong ties with the Abu Dhabi government

» Consistently solid asset quality

» Strong capitalisation and profitability improved as a result of the merger

» Very high likelihood of support from UAE authorities in case of need

Credit challenges

» High borrower and depositor concentrations, consistent with its Gulf Cooperation Council (GCC) peers

» Relatively high reliance on market funding

Rating outlook

The long-term ratings assigned to FAB have a stable outlook, mirroring the stable outlook on UAE's issuer rating.

Factors that could lead to an upgrade

Upward pressure on FAB's BCA could develop if financial fundamentals, in particular solvency or liquidity, significantly improves.

Upward pressure on the bank's deposit rating could develop if its BCA is raised and the three notches of uplift owing to government support is maintained.

Factors that could lead to a downgrade

Downward pressure on FAB's BCA could develop in the event of (1) a deterioration in the operating environment that may result in lowering the Macro Profile of the UAE or other markets where it operates, (2) a deterioration in the bank's asset-quality; or (3) liquidity position of the bank weakens or confidence-sensitive market funding increases.

Downward pressure on FABs deposit rating could develop from a lowered BCA or a reassessment of our assumptions of support from the government, which currently translates into a three notches of uplift.

Key indicators

Exhibit 2

First Abu Dhabi Bank PJSC (Consolidated Financials) [1]

	3-18[2]	12-17[3]	12-16[3]	12-15[3]	12-14[3]	CAGR/Avg.[4]
Total Assets (AED million)	677,816	668,968	420,713	406,564	376,099	19.9[5]
Total Assets (USD million)	184,540	182,141	114,545	110,690	102,396	19.9[5]
Tangible Common Equity (AED million)	62,524	70,052	39,361	36,688	33,530	21.1[5]
Tangible Common Equity (USD million)	17,023	19,073	10,716	9,988	9,129	21.1[5]
Problem Loans / Gross Loans (%)	3.1	4.3	3.1	3.0	3.6	3.4[6]
Tangible Common Equity / Risk Weighted Assets (%)	-	14.4	14.5	13.3	13.4	-
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	14.5	17.8	14.1	15.1	18.2	15.9[6]
Net Interest Margin (%)	1.9	2.0	1.7	1.8	1.9	1.9[6]
PPI / Average RWA (%)	-	2.6	2.3	2.4	2.8	-
Net Income / Tangible Assets (%)	1.7	1.4	1.2	1.2	1.4	1.4[6]
Cost / Income Ratio (%)	28.2	30.6	38.1	39.4	36.1	34.5[6]
Market Funds / Tangible Banking Assets (%)	23.1	23.4	26.0	28.7	22.3	24.7[6]
Liquid Banking Assets / Tangible Banking Assets (%)	41.2	42.2	45.1	41.8	42.5	42.6[6]

Gross Loans / Due to Customers (%)	87.1	86.7	81.7	90.7	82.6	85.7[6]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; IFRS [3] Basel II; IFRS [4] May include rounding differences due to scale of reported amounts [5] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [6] Simple average of periods presented for the latest accounting regime.
Source: Moody's Financial Metrics

Profile

FAB was created by the merger between National Bank of Abu Dhabi (NBAD) and First Gulf Bank (FGB) in April 2017. As of March 2018, FAB is the largest bank in the UAE and the second largest in the GCC, with a consolidated asset base of AED677.8 billion ($184.5 billion). As of March 2018, the bank operates mainly in the UAE through a domestic network of 89 branches and cash offices. It also maintains a global presence in 19 countries (excluding the UAE).

The bank's concentration of activities in the UAE (around 80% of net loans and 88% of operating income for the year 2017) has resulted in a Strong- Macro Profile score, which is used to derive its rating (see United Arab Emirate's Macro Profile: Strong-).

Detailed credit considerations

Well-established and dominant franchise, with strong ties with the Abu Dhabi government

FAB has a well-established and dominant franchise in the UAE, with a market share of around 26% as of March 2018 in terms of total assets, and it is the largest bank in the UAE. FAB's business is boosted by the bank's strong ties with the government of Abu Dhabi (its major shareholder) and related entities, to which it is the largest lender (representing around 17% of gross loans as of March 2018). The bank's strong, historical ties with the Abu Dhabi government have benefited the bank's fundamentals in terms of overall asset quality, liquidity and funding.

FAB maintains branches and offices in 20 countries across five continents, often supporting Abu Dhabi government-related companies overseas. In addition, the bank has the largest global network among all the UAE banks. As a result of this footprint, the contribution of international business to operating income although declining stands at around 12% of operating income in 2017 (stable at these levels in the first three months of 2018).

In the UAE, FAB was focusing on its retail operations, and we expect this strategy will be further supported by the addition of FGB's larger domestic retail business, which would complement the well-established domestic wholesale operations. However, the growth will be primarily driven by lending to corporate and GREs within UAE. Although major milestones regarding integration have been successful and on track, there still remains challenges to fully integrate technology and systems to conclude the combination.

FAB's net profit declined by 4% year-on-year for the year 2017 (on a pro-forma basis) amid softer market conditions and continued balance sheet optimisation. As a result the bank's net income/tangible assets weakened to around 1.6% for the year 2017 (from 1.8% in 2016, on a pro-forma basis), which remains above the UAE average of around 1.5%. We expect the stronger franchise of the merged entity to drive solid margins and support improved profitability (1.7% net income/tangible assets for the first three months of 2018).

Consistently solid asset quality although weakening, moderated by concentration risks

FAB maintains a relatively solid asset quality. We base our assessment on the non-performing loans (NPLs) to gross loans (NPL ratio, as defined by Moody's, includes all loans over 90 days past due), which stood at around 4.3% as of December 2017, against 3.1% as of December 2016 (for NBAD standalone, prior to the merger). Although this ratio has recently deteriorated primarily due to NPL formation in the retail segment, it still compares favourably with the UAE system average of around 5.1% because the bank avoided significant exposure to the large distressed Dubai-based borrowers, which have constituted a sizeable portion of system NPLs since 2009 for its UAE peers. However, the bank's current NPL ratio compares unfavourably with the 1.1% global median of banks rated a3 BCAs.

This metric and the low credit cost relative to pre-provision income (around 19% for the year 2017 compared with local average of around 29%) have shown consistently low volatility over multiple credit cycles, and hence, drive positive adjustments in our BCA scorecard. However, we note that this metric in particular has increased recently and does indicate a changing risk profile of its loan book following the merger.

FAB, around 37% owned by the Abu Dhabi government as a result of the merger (previously 70%), continues to be the government's primary banker, and as such, remains highly exposed to the Abu Dhabi corporate sector and government-related entities. Although we continue to highlight risks related to very high levels of related-party exposures and significant borrower concentrations, the two factors that are common to many banks in the GCC, the risks stemming from these are partly mitigated by the fact that the bank's largest borrowers are often of a very high credit quality. FAB's asset quality is expected to remain stable at around 4% over the outlook period.

Strong and stable capitalisation

FAB has solid capitalisation, as exhibited by tangible common equity (TCE) to risk-weighted assets of around 14.4% as of December 2017, a level that is broadly in line with both the UAE average (14.7%) and the global median of for a3-rated banks (14.0%). However, it should be noted that the bank's hybrid Additional Tier 1 issuances representing around 1.6% of total assets (as of December 2017) are not included in our TCE calculation.

FAB's shareholders' equity to total assets improved to around 13.6% as of December 2017 as a result of the merger (against 9.4% as of December 2016 for NBAD standalone), which is above the UAE average of around 12.2%. We expect the bank's capital metrics to benefit from stronger internal capital-generation ability and the slowdown in credit growth amid softer operating conditions in the UAE.

Solid and diversified funding, moderated by deposit concentrations and high reliance on market funding

Similar to its UAE peers, FAB remains primarily funded through short-term but historically stable customer deposits that funded around 59% of the total assets as of December 2017 (stable at these levels as of March 2018). Following a substantive decline in Abu Dhabi government-related deposits in 2015 as a result of low oil prices, government deposit inflows have resumed and underpinned a 4% growth in FAB's overall deposits during 2017 (on a pro-forma basis).

However, in line with its GCC peers, we also observe high concentrations in FAB's deposits, with the government and public-sector entities contributing around 39% of total deposits as of December 2017 (41% as of March 2018). FAB continues to have operations in key financial markets (Washington, Paris, London, Hong Kong and Singapore), allowing it to successfully raise deposits outside the GCC.

FAB remains an active issuer in the international debt capital markets, with a large global investor base, which helped the bank successfully issue debt even during volatile market conditions. As of March 2018, FAB had around AED67 billion or around 11% of total liabilities as outstanding capital market issuances in various currencies. These issuances provide a healthy diversification to FAB's funding profile while lengthening the term structure of the bank's liabilities.

These features collectively result in positive adjustments in our BCA scorecard and help moderate FAB's headline reliance on market funding, as described by market funds to tangible assets of 23% as of March 2018. We consider this level as high, compared with the UAE average (17%) and the global median for a3-rated banks (15%). However, unlike most banks in the GCC, FAB can access repo funding from the Federal Reserve, Central Bank of the UAE, and Hong Kong Monetary Authority (across time zones), which helps reduce the refinancing risks related to its market funding.

In addition, this market funding reliance is also moderated by the bank's large and stable stock of liquid assets, which stood at around 41% of total assets as of March 2018. At these levels, this remains among the highest in the UAE and also compares favourably with the global median of around 26% for peers with BCAs of a3. Similarly, the bank's net loans to total deposits remains sound at around 84% as of March 2018, which compares favourably with the UAE average of around 89%. We do not expect significant change in the bank's liquidity profile however, we expect the bank's loans-to-deposits ratio to increase.

The bank's cost of funding, albeit increasing, remains relatively low in the UAE, at 1.1% for the year 2017 (1.3% for the first three months of 2018). This relatively low cost of funding is supported by the bank's growing share of current and savings account balances representing around 38% of total deposits as of December 2017 (41% as of March 2018), which we expect to grow further as the bank seeks to leverage its brand more effectively, particularly with retail customers. We expect modest increases in the funding costs for UAE banks and FAB against a backdrop of rising interest rates.

Support and structural considerations

Government support

FAB's deposit rating at Aa3 incorporates three notches of uplift from the bank's a3 BCA. Although the bank's government ownership (through the Abu Dhabi Investment Council and Mubadala Development Company PJSC) has reduced to 37% from the 70% levels prior to the merger, we continue to assess the likelihood of government support for FAB as very high.

This is based on (1) FAB's D-SIB status (Domestic Systemically Important Bank) in the UAE, given its market share of around 26% of system assets; (2) the key role of the bank in the financial operations of the Abu Dhabi government; (3) the position of Abu Dhabi government as the single-largest shareholder through both the Abu Dhabi Investment Council and Mubadala Development Company PJSC (around 37% in aggregate); and (4) the significant ownership by members of the Abu Dhabi ruling family.

Counterparty Risk (CR) Assessment

FAB's Aa2(cr)/P-1(cr) CR Assessment also benefits from three notches of systemic support, in line with our support assumptions on deposits. This reflects our view that any support provided by governmental authorities to a bank, which benefits senior unsecured debt or deposits, is very likely to benefit operating activities and obligations reflected by the CR Assessment as well, consistent with our belief that governments are likely to maintain such operations as a going concern to reduce contagion and preserve a bank's critical functions.

Sources of facts and figures cited in this report

Unless noted otherwise, we have sourced data relating to systemwide trends and market shares from the central bank. The global medians quoted in the report are updated as of the end of September 2017 and are calculated using the most recent full-year financial data for rated banks. Bank-specific figures originate from the banks' reports and Moody's Banking Financial Metrics. All figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the document Financial Statement Adjustments in the Analysis of Financial Institutions (published on 13 June 2017).

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 3

First Abu Dhabi Bank PJSC

Macro Factors		
Weighted Macro Profile	**Strong -**	**100%**

Factor	Historic Ratio	Macro Adjusted Score	Credit Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	4.3%	baa3	←→	a3	Single name concentration	Long-run loss performance
Capital						
TCE / RWA	14.4%	a3	↑	a2	Expected trend	Access to capital
Profitability						
Net Income / Tangible Assets	1.3%	a3	↑	a3	Expected trend	Return on assets
Combined Solvency Score		baa1		a3		
Liquidity						
Funding Structure						

Market Funds / Tangible Banking Assets	23.4%	baa3	←→	baa2	Term structure	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	42.2%	a2	↓	a3	Expected trend	
Combined Liquidity Score		baa1		baa1		
Financial Profile				a3		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Aa2		
Scorecard Calculated BCA range				a2-baa1		
Assigned BCA				a3		
Affiliate Support notching				0		
Adjusted BCA				a3		

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Assessment	1	0	a2 (cr)	3	Aa2 (cr)	--
Deposits	0	0	a3	3	Aa3	Aa3
Senior unsecured bank debt	0	0	a3	3	--	Aa3
Non-cumulative bank preference shares	-1	-2	baa3 (hyb)	0	--	Baa3 (hyb)

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
FIRST ABU DHABI BANK PJSC	
Outlook	Stable
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Senior Unsecured	Aa3
Pref. Stock Non-cumulative	Baa3 (hyb)
Commercial Paper	P-1
Other Short Term	(P)P-1
FIRST ABU DHABI BANK P.J.S.C., SING. BRANCH	
Deposit Note/CD Program	(P)Aa3/P-1
NATIONAL BANK OF ABU DHABI, LONDON BRANCH	
Deposit Note/CD Program -Dom Curr	(P)Aa3/P-1
FAB SUKUK COMPANY LIMITED	
Senior Unsecured MTN	(P)Aa3
FIRST GULF BANK	
Senior Unsecured	Aa3
Commercial Paper	(P)P-1
FIRST ABU DHABI BANK, PARIS BRANCH	
Commercial Paper -Dom Curr	P-1
FIRST ABU DHABI BANK P.J.S.C., HK BRANCH	
Deposit Note/CD Program	(P)Aa3/P-1

Source: Moody's Investors Service

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