MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades ENBD's deposit ratings to A2/P-1 from A3/P-2, maintains stable outlook

18 May 2022

Limassol, May 18, 2022 -- Moody's Investors Service ("Moody's") has today upgraded Emirates NBD PJSC's ("ENBD") long-term deposit and senior unsecured ratings to A2 from A3, short term deposit ratings to P-1 from P-2, Counterparty Risk Assessment (CR Assessment) to A1(cr) from A2(cr), and subordinate MTN program foreign currency to (P)Baa1 from (P)Baa2. The rating upgrades were driven by Moody's decision to upgrade the bank's Baseline Credit Assessment (BCA) and Adjusted BCA to baa3 from ba1. Concurrently, the agency upgraded backed senior unsecured MTN program foreign currency rating assigned to the funding vehicle EIB Sukuk Company Ltd. to (P)A2 from (P)A3. At the same time, Moody's has maintained the stable outlook on the bank's long-term deposit and senior unsecured ratings.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL466136 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

--- UPGRADE OF THE BANK'S STANDALONE BCA

The upgrade of the BCA is driven by a significant decline in related party exposures, which are expected to further decline in the coming quarters, coupled with resilient post-pandemic financial fundamentals.

ENBD decreased related-party loans significantly to AED 140 bn as of March 2022 (180% of Tier 1) from AED 162 bn (199% of Tier 1) as of September 2021. These exposures had increased from AED53 bn in 2010 to AED164 bn as of year-end 2020 and Moody's had captured this concentration risk in a one-notch downward adjustment to the bank's BCA, which has now been removed.

The BCA upgrade also takes into account the resilience and improvement in the bank's profitability, which is expected to remain above its pre-pandemic level. ENBD's net income to tangible banking assets ratio increased to 1.5% for the first quarter of 2022 and is above the 1.4% levels for 2019 and the 1.2% UAE system average. ENBD's solid profitability is driven by it strong and growing domestic franchise, which supports the bank's retail business for both loans (26% of total loans are to individual customers) and deposits (56% of total deposits from retail segment). This underpins the bank's strong net interest margin (NIM), which stood at 2.4% for the first three months of 2022, above the 1.9% UAE system average. The bank's strong domestic franchise also drives fee and commission income, which accounted for 34% of net revenue (non-interest income + interest income) in the first quarter of 2022, up from 29% in 2019. Moody's expects that the rising interest environment will be beneficial both for growth in ENBD's NIMs and overall profitability over the outlook period.

ENBD's upgraded baa3 BCA also captures the bank's solid capitalisation, funding and liquidity. ENBD's reported tangible common equity to risk weighted assets improved to 15.5% as of December 2021 from 15.1% the year before. The rating agency expects the bank's capitalisation will remain strong over the next 12-18 months supported by ENBD's profit retention and moderate credit growth.

Moody's also expects ENBD to maintain its strong access to granular and low-cost current and savings accounts. Such deposits continue to increase and stood at 61% of total deposits as of December 2021, compared to 52% as of December 2020. The bank has a diversified market funding base in terms of counterparty and currency while the bank's market funding ratio of 18% as of March 2022 is mitigated by the stock of liquid assets, which stood at around 26% of total assets as of March 2022.

These strengths are balanced by the bank's stock of problem loans, which stood at a relatively high 6.4% of total loans as of March 2022. Although the bank's problem loan ratio remains elevated, ENBD has increased its loan loss reserves to 128% of problem loans as of March 2022 from 112% as of December 2019. Moody's expects that the bank's problem loan ratio will remain high but will continue to be mitigated by more than 100% coverage over the outlook period.

--- GOVERNMENT SUPPORT PROVIDES FOUR NOTCHES OF UPLIFT TO THE BANK'S DEPOSIT RATINGS

The upgrade in the deposit and senior unsecured ratings reflects Moody's unchanged assumption of a very high probability of government support which continues to translate into four notches of uplift from the bank's baa3 BCA. The uplift continues to take into account (a) Dubai government's 55.8% ownership stake in ENBD, (b) the bank's importance to the local financial system (a 24% market share of deposits as of December 2021) and the bank's designation as a domestic systemically important bank (D-SIB) by the Central Bank of the United Arab Emirates (UAE) and (c) the UAE's strong track record of supporting banks in times of stress.

RATING OUTLOOK

The stable outlook balances the rating agency's assessment that the current rating level appropriately captures the bank's credit profile and balances its underlying risks. It also supports Moody's view that the economic conditions in the UAE will remain supportive of the bank's strong profitability, capital and liquidity buffers over the outlook period.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward pressure on ENBD's ratings could develop through (1) significant reduction in problem loan ratio combined with a significant and sustained reduction in its credit concentrations and (2) further improvement in profitability which in turn improves capital through increasing profit retention.

Downward pressure on ENBD's ratings could develop from (1) increases in the loans to related parties and/or (2) material deterioration in asset quality dampening profitability and/or (3) high credit growth pressuring capitalisation.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The local market analyst for these ratings is Nitish Bhojnagarwala, +971 (423) 795-63.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL466136 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

• EU Endorsement Status

• UK Endorsement Status

• Rating Solicitation

• Issuer Participation

• Participation: Access to Management

• Participation: Access to Internal Documents

• Lead Analyst

• Releasing Office

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?

docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288235 .

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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