RATING RATIONALE

Rating Action

Capital Intelligence Ratings (CI Ratings or CI) has affirmed the LT FCR and ST FCR of Emirates NBD Bank (ENBD) at 'A+' and 'A1', respectively. At the same time, CI Ratings has affirmed the Bank's BSR of 'bbb', CFS rating of 'a-' and ESL of Very High. The Outlook for the LT FCR and BSR is Stable.

Rating Drivers

The Bank's LT FCR is set four notches above the BSR to reflect the ESL of Very High. Our ESL assessment takes into account the Bank's large size and domestic presence, its majority ownership by the government of Dubai, as well as its status as a domestic systemically important bank (D-SIB). The UAE government (sovereign ratings: 'AA-'/ 'A1+'/ Stable) has a good track record of supporting the banking system, and it is our current expectation that it would be willing and financially capable of assisting ENDB if required. Support from the Dubai government is also available.

The Bank's BSR is derived from a CFS rating of 'a-' and an adjusted Operating Environment Risk Anchor (OPERA) of 'bbb-', which is lower than the OPERA of UAE ('bbb') due to the Bank's significant exposure to assets in higher risk Turkey, which has an OPERA of 'b-'. ENBD's principal credit strengths are its strong capital ratios, full coverage of impaired loans (with high provisioning for Stage 3 exposures), its low Stage 2 loans, and good liquidity and profitability. In addition, the Bank's large size, strong market position, good customer franchises and diversified business base also support the ratings. The principal credit challenge for the Bank is the elevated risk at its Turkish subsidiary on account of inflationary pressures and the weak local economy. Other credit challenges are customer concentrations in loans, large related-party exposures (reflecting sizeable dealings with the government of Dubai) and the moderately difficult operating environment due to a slow global economic recovery and high interest rates.

The Bank has a dominant market position and a strong customer franchise in the country, with a well-diversified business base providing multiple and steady revenue streams. Its digital focus is a competitive strength. The Bank has diversified away from the UAE economy following its 2019 acquisition of DenizBank (DZB), Turkey, although this has exposed it to a weaker operating environment and increased FX translation risk. The expansion into Turkey, Saudi Arabia, Egypt and India, all large economies with sizeable populations, go a long way in diversifying ENBD's balance sheet and widening its income streams, although there will be attendant risks in each of these countries. In CI's view, the Bank's capable management and good risk culture places it in a strong position to successfully manage its overseas assets.

ENBD's asset quality continues to be sound. Sovereign concentration in the credit portfolio has declined substantially over the last few years, due to loan settlements and the reclassification of certain entities as non-government following their initial public offerings. Sovereign concentration risk is likely to further decline but ENBD will continue to have some sovereign exposure given its status as Dubai's flagship bank. We consider this as an acceptable credit risk given the quality of credit and the availability of UAE government support to Dubai. Other loans and advances are well diversified across retail and corporate banking. Asset quality is sound with NPLs more than fully covered by loan-loss reserves, and capital and operating profit providing additional buffers. Specific provisions covered nearly 98% of NPLs at end-June 2023, and if the Bank were to write off some of its fully-provided bad loans its NPL ratio would significantly reduce.

ENBD is a profitable bank with strong parameters that are among the best in its peer group. Its key profitability ratios (operating profit to average assets and ROAA) strengthened last year and in H1 23 due to the substantial increase in interest rates, coupled with a higher CASA ratio and favourable changes to the loan mix as retail and private sector corporate credit replaced declining sovereign exposures. The Bank also earned substantially higher foreign exchange and derivative income (partly reflecting increased corporate hedging activities) and higher levels of fee and commission income. The Bank's NIM has widened significantly and is expected to remain high this year. Operating costs are well managed overall despite an increase last year and in H1 23, while impairment charges have

declined steadily in recent years. We expect a reduction in the risk provisioning expense this year given that good recoveries are likely. Net profit and ROAA remained strong despite the adoption of hyperinflationary accounting for Turkish assets (with a loss in the profit and loss statement offset by a corresponding gain in other comprehensive income). DZB continues to make a good contribution to consolidated earnings despite currency devaluations. We expect strong earnings growth this year from ENBD.

Liquidity parameters continue to be comfortable, with loans and advances more than adequately funded by customer deposits, market borrowings and equity. The customer deposit base is well diversified with a large retail component and, as a result, customer concentration levels are low particularly when compared to many peer banks. The Bank's CASA ratio continued to rise last year and is well above the sector median. There are adequate buffers of high quality liquid assets. Loan-based liquidity ratios continue to be good. Wholesale borrowings are moderate and refinancing risks are low. We therefore believe that ENBD is less vulnerable than many other banks to possible stressed liquidity conditions in the banking system. DZB also has a good retail customer deposit base, and the bank has comfortably rolled over its syndicated loan and raised fresh funding despite tough market conditions.

ENBD has the best capital ratios among large banks in the country. Key ratios were stable in 2022, with the growth in risk-weighted assets adequately supported by higher retained earnings. ENBD's capital is not impaired by unprovided NPLs. Capital and leverage ratios are well above the regulatory minima (including a D-SIB requirement), with a good buffer. We expect ratios to remain strong over the next year with the rise in RWAs adequately supported by the growth in retained earnings. Capital is also likely to cushion any further foreign exchange translation losses from Turkish and Egyptian currency devaluation.

Rating Outlook

The Stable Outlook reflects our expectation that the ratings are unlikely to change over the next 12 months. We expect the economic recovery to favourably impact the Bank. ENBD's earnings are expected to be good across all the geographies that it currently operates in.

Rating Dynamics: Upside Scenario

An upgrade of the LT FCR and BSR or an upward revision of Outlook to Positive would require a further sustained improvement in the Bank's standalone financial profile and/or a significant improvement in the operating environment in Turkey.

Rating Dynamics: Downside Scenario

Although unlikely, a one-notch downgrade of the Bank's LT FCR and BSR or a revision of the Outlook to Negative would require a deterioration of the Bank's standalone strength. This could be caused by a significant weakening of financial fundamentals that the Bank may not be able to correct in a reasonable period. Any change in our assessment of the support level could also negatively impact the ratings.

II. Regulatory Disclosures

About the Ratings

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