Credit Rating Announcement

Ref: AE03123CRA00-01

4 October 2024

Emirates NBD – Ratings Affirmed with a Stable Outlook

Capital Intelligence Ratings (CI Ratings or CI) today announced that it has affirmed the Long-Term Foreign Currency Rating (LT FCR) and Short-Term Foreign Currency Rating (ST FCR) of Emirates NBD PJSC (ENBD) at 'A+' and 'A1', respectively. At the same time, CI Ratings has affirmed ENBD's Bank Standalone Rating (BSR) of 'bbb', Core Financial Strength (CFS) rating of 'a-' and Extraordinary Support Level (ESL) of Very High. The Outlook for the LT FCR and BSR is Stable.

The Bank's LT FCR is set four notches above the BSR to reflect the ESL of Very High. Our ESL assessment is based on the very high likelihood of support from the UAE government (sovereign ratings: 'AA-'/ 'A1+'/ Stable) which has a good track record of supporting the banking system and would be willing and financially capable of assisting ENBD if required. Our ESL assessment also takes into account ENBD's large size, good franchise and D-SIB status. Ordinary support from the government of Dubai, a major shareholder, 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 Turkiye, which has an OPERA of 'b-'. Our OPERA assessment of the UAE reflects the country's continuing dependence on hydrocarbons, although less so than neighbouring countries, with the economic risk partially mitigated by the support of the wealthy emirate of Abu Dhabi. It also reflects the overall sound financial position of the banking sector.

ENBD's principal credit strengths are its strong capital ratios, full coverage of impaired loans (with high provisioning for Stage 3 exposures), low level of Stage 2 loans, and good liquidity and profitability. 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 and, to a lesser extent, deposits, which are however better than peers, slow global recovery and increased geopolitical risks, although for the moment the UAE is experiencing good GDP growth.

ENBD's dominant market position, strong customer franchise and well-diversified business base that provide multiple and steady revenue streams are credit strengths. While the Bank's 2019 acquisition of DenizBank (DZB) in Turkiye helped to diversify its geographical presence, it increased its exposure to a weak operating environment. We note however that ENBD has thus far comfortably absorbed the costs of operating in a hyperinflationary economy and the resultant increased foreign exchange translation risk. The expansion into Turkiye, 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, which represent around a quarter of its balance sheet.

The Bank's sound asset quality with a moderately low level of NPLs and a high loan loss reserve provision cover is a major credit strength. Key ratios have strengthened in recent periods due to lower NPL accretions (reflecting the improving local environment), good recoveries and some write-offs. Stage 3 loans have a high provision cover. The large capital base and good operating profits provide a further cushion. Income levels are more than adequate to absorb risk costs, which have been declining over the years; H1 24 saw a net write-back of provisions. NPL ratios are likely to be maintained at least at current levels this year, if not improved upon. Over the years, loan concentration to the UAE sovereign has declined substantially (to 14% of gross loans in H1 24), reflecting the government's improved finances. ENBD would always have some sovereign exposure given its status as Dubai's flagship bank, however the risk is acceptable in view of the implicit support of the UAE government. Other loans are well diversified across corporate and retail banking. While customer concentrations in the loan book are high, they are better than at peer banks.

ENBD's good profitability, with strong parameters that are among the best in its peer group, continues to firmly support the ratings. The Bank's operating profitability, cost-to-income (CIR) ratio and ROAA have strengthened over the last few years and are better than the sector median ratios. Net interest income has increased strongly due to growth in loans and investments and a wider net interest margin (NIM), partly reflecting higher levels of retail credit. Although operating profitability recorded a decline in H1 24 partly due to lower income from DZB, it was still high. The Bank also has a large non-interest income base which has grown in recent years on the back of rising fee and commission income and higher profits from foreign exchange and derivative transactions. Operating costs are well managed and the CIR ratio is better than the peer group median. Risk charges continued to fall last year but were partly offset by a higher hyperinflationary adjustment on Turkish assets. Nevertheless, net profit recorded a substantial increase in 2023. DZB continues to make a good contribution to consolidated earnings despite currency devaluations. ROAA was strong in H1 24 with sizeable provision write-backs offsetting a tighter NIM. Overall, earnings quality and stability are good and we expect continued growth in net profit this year.

Liquidity is underpinned by a large customer deposit base, with high retail and CASA components. Loans and advances are more than adequately funded by customer deposits, market borrowings and equity. ENBD's loan-based liquidity ratios have strengthened in recent periods due to good deposit growth and increased medium-term borrowings. The deposit base is well diversified and customer concentration levels are low particularly when compared to many peer banks. There are adequate buffers of high quality liquid assets. Wholesale borrowings are moderate and refinancing risks are low. 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. Regulatory ratios are also comfortable with a good buffer. We believe that ENBD is less vulnerable than many other banks to possible stressed liquidity conditions in the banking system.

Capital ratios continue to be good despite a small decline last year due to strong growth in credit risk weighted assets (RWAs) led by higher levels of retail and corporate loans. ENBD's ratios are well above the regulatory minimum (including a D-SIB requirement) and capital is not impaired by unprovided NPLs. The balance sheet leverage ratio is good. We expect ratios to remain strong over the next year with the rise in RWAs adequately supported by the growth in retained earnings (the internal capital generation rate has risen despite a higher dividend payout ratio). Capital is also likely to cushion 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 ENBD's earnings 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 Turkiye.

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.

Ratings

Foreign Currency		Outlook	BSR	Outlook	CFS	ESL	OPERA
LT	ST	LT FC		BSR			
A+	A1	Stable	bbb	Stable	a-	Very High	bbb-

Contact

Primary Analyst: Karti Inamdar, Senior Credit Analyst; E-mail: karti.inamdar@ciratings.com
Secondary Analyst: Darren Stubing, Senior Credit Analyst
Committee Chairperson: Morris Helal, Senior Credit Analyst

About the Ratings

The credit ratings have been issued by Capital Intelligence Ratings Ltd, P.O. Box 53585, Limassol 3303, Cyprus.

The following information sources were used to prepare the credit ratings: public information and information provided by the rated entity. Financial data and metrics have been derived by CI from the rated entity's audited financial statements for FY 2020-23 and H1 2024. CI may also have relied upon non-public financial information provided by the rated entity and may also have used financial information from credible, independent third-party data providers. CI considers the quality of information available on the rated entity to be satisfactory for the purposes of assigning and maintaining credit ratings. CI does not audit or independently verify information received during the rating process.

The principal methodology used to determine the ratings is the Bank Rating Methodology, dated 3 April 2019 (see www.ciratings.com/page/rating-methodologies/bank-ratings). Information on rating scales and definitions, the time horizon of rating outlooks, and the definition of default can be found at www.ciratings.com/page/our-policies-procedures. Historical performance data, including default rates, are available from a central repository established by ESMA (CEREP) at http://cerep.esma.europa.eu

This rating action follows a scheduled periodic (annual) review of the rated entity. Ratings on the entity were first released in November 2009. The ratings were last updated in October 2023. The ratings and rating outlook were disclosed to the rated entity prior to publication and were not amended following that disclosure. The ratings have been assigned or maintained at the request of the rated entity or a related third party.

Conditions of Use and General Limitations