MOODY'S RATINGS

Rating Action: Moody's Ratings upgrades Emirates NBD Bank PJSC's long-term deposit ratings to A1 from A2; changes outlook to stable

13 May 2025

Limassol, May 13, 2025 -- Moody's Ratings (Moody's) has today upgraded to A1 from A2 the long-term deposit and senior unsecured ratings of Emirates NBD Bank PJSC (ENBD), changed their outlook to stable from positive, and affirmed at P-1 the bank's short-term deposit ratings. We also upgraded the long-term Counterparty Risk Ratings (CRRs) and Counterparty Risk (CR) Assessment of the bank to Aa3 from A1 and Aa3(cr) from A1(cr), respectively. The short-term CRRs and CR Assessment were affirmed at P-1 and P-1(cr), respectively. The rating upgrades were driven by our decision to upgrade the bank's Baseline Credit Assessment (BCA) and Adjusted BCA to baa2 from baa3. At the same time, the bank's foreign-currency senior unsecured MTN and subordinate MTN program ratings have been upgraded to (P)A1 and (P)A3 from (P)A2 and (P)Baa1, respectively, while its foreign-currency commercial paper and other short-term ratings have been affirmed at P-1 and (P)P-1, respectively. Concurrently, we upgraded the backed senior unsecured MTN program foreign currency rating assigned to the bank's funding vehicle EIB Sukuk Company Ltd. to (P)A1 from (P)A2.

RATINGS RATIONALE

RATIONALE FOR BCA UPGRADE

The upgrade of ENBD's BCA to baa2 is driven by sustained improvements in asset quality while maintaining solid profitability and strong capital. The revised BCA also considers the bank's further material reduction in related-party credit concentration, while maintaining strong liquidity buffers and a granular funding profile.

ENBD's baa2 BCA captures improving asset quality. The bank's stage 3 loans reduced to 3.1% as of March 2025 (4.6% as of December 2023) on the back of continued recoveries and write-offs amid benign operating conditions in the United Arab Emirates (UAE). We note that the bank's loan loss reserves remain ample at 158.2% of the bank's existing stock of problem loans while stage 3 coverage is high at 88.9% as of March 2025. Over the next 12 to 18 months, we expect ENBD's loan performance to remain broadly stable balancing healthy domestic operating conditions in the UAE against anticipated asset quality deterioration in Turkiye (B1, positive) – ENBD's second-largest market, accounting for 16% of group assets – that presents more challenging credit conditions. In addition, we note that the UAE economy has proved resilient to lower oil prices in the past and the current regional geopolitical turmoil, however, heightened geopolitical tensions or significantly lower oil prices remain potential risks.

The BCA upgrade also takes into account a material and continued decline in related party exposure. ENBD saw related-party loans to the Dubai government and its related entities further decrease to AED50.9 billion as of March 2025 (44.0% of Tier 1 capital) from AED76 billion as of December 2023 (78.9%) after a peak of AED158 as of December 2020. We view this continued decline positively as it reduces the bank's exposure to credit concentration risk.

The BCA upgrade also reflects the bank's strong profitability. ENBD's net income to tangible banking assets ratio held broadly steady at 2.3% during 2024 (2.4% during the first three months of 2025) and 2.5% in 2023. ENBD's solid profitability is driven by its strong and growing domestic franchise, which supports the bank's retail business (30% of loans and 55% of deposits as of March 2025). This underpins the bank's solid net interest margin (NIM) which stood at 3.5% during 2024 (3.4% during the first three months of 2025). We expect the bank's net income to tangible assets to inch lower in 2025 on the back of expected interest rate cuts, normalizing cost of risk and a higher corporate tax rate, albeit remaining at healthy levels as the bank continues to grow at high single digits.

ENBD's standalone assessment continues to reflect strong funding and liquidity underpinned by an established deposit-gathering franchise and dominant retail footprint. The bank has a diversified funding base while its moderate market funding at 16.0% of tangible banking assets as of March 2025 is mitigated by a strong level of liquid assets, which stood at 43.0% of total assets as of the same period. ENBD's reported tangible common equity to risk weighted assets stood at a solid 16.3% as of December 2024 (15.6% as of March 2025), broadly stable since 2023.We expect the bank's capitalization to remain strong over the next 12-18 months supported by ENBD's conservative dividend payout track record and moderate credit growth.

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

The upgrade in the long-term deposit and senior unsecured ratings reflects the bank's improved baa2 BCA with a continued assumption of a very high probability of government support, resulting into four notches of rating uplift. This is underpinned by (1) the Dubai government's 55.7% ownership stake in ENBD; (2) the bank's importance to the local financial system (with a 23% market share of deposits as of December 2024), as captured by its designation as a domestic systemically important bank (D-SIB) by the Central Bank of the UAE with a granular funding base; as well as (3) the UAE's strong track record of supporting banks in times of stress.

STABLE OUTLOOK

The stable outlook on the long-term deposit and senior unsecured ratings reflects our expectation that the bank's profitability, capital, funding and liquidity will remain broadly stable over the next 12 to 18 months.

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

Upward pressure on the bank's BCA could emerge from (1) a larger international footprint into markets with stronger operating conditions; and (2) substantially stronger solvency and liquidity indicators. An upgrade of the bank's standalone assessment would not necessarily result in an upgrade of the bank's supported long term deposit rating.

Conversely, downward pressure on ENBD's rating could develop from (1) significant expansion in markets with weaker operating conditions compared to the UAE; (2) material deterioration in asset quality resulting in significantly lower profitability; (3) a material increase in related party lending; and/or (4) high credit growth pressuring core capitalization. Sizeable and growing operations abroad could also lead to a revision of our government support uplift considerations.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in November 2024 and available at https://ratings.moodys.com/rmc-documents/432741. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

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REGULATORY DISCLOSURES

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 on https://ratings.moodys.com/rating-definitions.

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