MOODY'S
RATINGS

Rating Action: Moody's Ratings affirms Emirates NBD Bank PJSC's A2 long-term deposit ratings, changes outlook to positive

23 May 2024

Limassol, May 23, 2024 -- Moody's Ratings (Moody's) has today affirmed Emirates NBD Bank PJSC's ("ENBD") long-term deposit and senior unsecured ratings at A2 and changed the outlook on the bank's long-term deposit and senior unsecured ratings to positive from stable. The rating agency affirmed ENBD's Baseline Credit Assessment (BCA) and Adjusted BCA at baa3. Moody's also affirmed the bank's short-term deposit ratings at P-1 as well as its long- and short-term Counterparty Risk Assessments (CR Assessment) at A1(cr)/P-1(cr) and long- and short-term Counterparty Risk Ratings (CRR) at A1/P-1, respectively.

Concurrently, the rating agency affirmed the bank's foreign-currency senior unsecured and subordinate MTN program ratings at (P)A2 and (P)Baa1, respectively, as well as the backed foreign-currency senior unsecured MTN program rating assigned to ENBD's funding vehicle EIB Sukuk Company Ltd. at (P)A2. Moody's also affirmed ENBD's preferred stock non-cumulative rating at Ba3 (hyb) as well as its foreign-currency short-term commercial paper rating at P-1 and foreign-currency other short-term rating at P(P-1).

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL490631 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

RATIONALE FOR POSITIVE OUTLOOK

The change in outlook to positive from stable on the long-term deposit and senior unsecured ratings reflects Moody's view that the bank will continue to maintain a strong profitability performance while asset quality metrics is expected to improve further. Moody's also considers that the bank's reducing related-party concentration also at a time when the Dubai economy and overall operating environment is healthy is supportive of an improving standalone credit profile.

The change in outlook to positive on the bank's long-term deposit and senior unsecured ratings is driven by improving asset quality indicators. The bank's stock of stage 3 loans reduced to 4.4% as of March 2024 from 6.0% in 2022 on the back of recoveries, write-offs and settlements amid supportive operating conditions in the UAE. Moody's notes that its loan loss reserves further improved to 153.3% of the bank's existing stock of problem loans as of March 2024 from 144.6% in 2022 while stage 3 coverage remains high at 95.0% as of the same period. Moody's however expects restructurings of distressed assets, some sector and single borrower concentrations as well as foreign exposures to riskier jurisdictions to continue to present risks to asset quality. Still, Moody's expects ENBD's loan performance to remain resilient over the outlook horizon on the back of a benign operating environment in the UAE with non-oil growth expected to grow at a solid 4.5% during 2024. This is anchored around supportive oil prices keeping business sentiment lifted as well as structural reforms that will safeguard the country's competitiveness as well as credit conditions and in turn the health of ENBD's loan portfolio.

The change in outlook on the bank's long-term deposit and senior unsecured ratings is also underpinned by a material decline in related party exposures during Q4-2023 and Q1-2024. ENBD saw related-party loans to the Dubai government and its related entities decrease significantly to AED78 billion as of March 2024 (78.4% of Tier 1) from AED112 billion (113.0% of Tier 1) as of September 2023, as higher revenue performance from Dubai government-related entities in a buoyant non-oil economy supported deleveraging efforts. These exposures had increased from AED53 billion in 2010 to AED164 billion in 2020 and historically weighed on the bank's standalone credit profile in terms of concentration risk. Moody's expects ENBD's exposure to the Dubai government to remain below 100% of the bank's Tier 1 capital over the outlook horizon.

The outlook change also takes into account the bank's improving profitability, which is expected to remain stable in 2024 after having significantly improved during 2023. ENBD's net income to tangible banking assets ratio increased to 2.5% during 2023 (2.9% during the first three months of 2024) up from 1.7% during 2022. ENBD's solid profitability is driven by it strong and growing domestic franchise, which supports the bank's retail business for both loans (28% of total loans are to individual customers as of March 2024) and deposits (50.8% of total deposits come from the retail segment as of the same period). This underpins the bank's strong net interest margin (NIM) that also widened on the back of high interest rates and which stood at 3.6% during 2023 (3.3% during the first three months of 2024). The bank's strong domestic franchise also drives fee and commission income, which accounted for 27% of net revenue in the first quarter of 2024. Moody's expects the bank's net income to tangible assets to be broadly stable in 2024 as interest rate cuts are not expected before the second half of the year. The higher revenue and easing provisioning charges will be balanced by increasing operating costs and a new corporate tax which will dent net earnings as proportion of tangible assets.

RATIONALE FOR AFFIRMATION

Moody's affirmation of ENBD's BCA reflects the bank's solid capitalization and profitability and sizeable market position in the United Arab Emirates (UAE) with an established deposit-gathering franchise and dominant retail footprint. ENBD's strong liquidity also supports its standalone profile. These strengths are balanced by the bank's relatively high stock of problem loans as a proportion of gross loans for its BCA level - although on a declining trend.

ENBD's reported tangible common equity to risk weighted assets increased to 16.5% as of December 2023 from 16.0% the year before on the back of improved net profitability and associated earnings retention. The rating agency expects the bank's capitalization will remain strong over the next 12-18 months supported by ENBD's conservative dividend payout track record and moderate credit growth.

Moody's also expects ENBD to maintain its strong access to granular and low-cost current and savings accounts through its dominant retail franchise. Such deposits continue to stand at healthy levels at 61% of total deposits as of March 2024. The bank has a diversified market funding base while its market funding ratio of 16.0% as of March 2024 is mitigated by a strong level of liquid assets, which stood at 41.8% of total assets as of the same period. Also, ENBD's comfortable net loans to deposits ratio of 75.1% as of March 2024 denotes no structural reliance on market funding.

ENBD's BCA continues to capture a relatively high level of problem loans to gross loans ratio for its BCA level at 4.4% as of March 2024 - although on a declining trend - and exposure to foreign operations based in a more challenging jurisdiction e.g. Türkiye.

The affirmation of the bank's A2 long-term deposit and senior unsecured ratings reflects Moody's 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 (1) the Dubai government's combined 55.74% ownership stake in ENBD; (2) the bank's systemic relevance; and (3) the UAE's strong track record of supporting banks in times of stress.

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

As indicated by the positive outlook on the long-term deposit and senior unsecured debt ratings, ENBD's ratings could be upgraded through (1) further reduction in the problem loan ratio combined with further reduction in related-party credit concentrations and (2) maintenance of strong profitability which in turn preserves high levels of capital through profit retention.

Although not expected in the near term, ENBD's outlook could be stabilized in the event of the following: (1) a reversal in the downward trend in loans to related parties and/or (2) a material deterioration in loan performance dampening profitability and/or (3) high credit growth pressuring capitalization and/or (4) a deterioration from foreign operations weighing on the bank's credit profile.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at https://ratings.moodys.com/rmc-documents/409852. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

The local market analyst for these ratings is Badis Shubailat, +971 (423) 795-05.

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 https://ratings.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_ARFTL490631 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 on https://ratings.moodys.com/rating-definitions.

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 issuer/deal page for the respective issuer on https://ratings.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.

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

Please see https://ratings.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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