Credit Rating Announcement

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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 takes into account the Bank's large size and major 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 challenges for the Bank are elevated risks at its Turkish subsidiary due to inflationary pressures and the weak local economy, customer concentrations in loans and large related-party exposures (reflecting sizeable dealings with the government of Dubai). Other challenges are the moderately difficult operating environment due to the pandemic and the slow global economic recovery on account of monetary tightening, inflation and unwinding of major central banks' stimulus measures.

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, placing it in the forefront of banking innovation. 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. 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 resilient and was not significantly impacted by the pandemic. Its moderate NPL ratio has been stable and is below the sector average. Its Stage 2 loans to gross loans ratio is also at a moderate level and is on par with the average of large banks. The Bank continues to maintain full provisions against its NPLs, and its loan-loss reserve (LLR) coverage ratio has risen over the last few years. Asset quality ratios of the Turkish subsidiary are also sound with a moderate NPL ratio and more than full provision cover. The Bank's good underwriting standards, strong capital base and high operating profitability are expected to cushion future asset quality shocks. While NPLs could rise over the coming quarters, this is likely to be manageable.

Sovereign loan exposures declined in 2021 and H1 22 due to repayments, reflecting the government's improved cash flow position; this is considered a positive development. Although concentration risks to the sovereign remain high, partly reflecting the Bank's flagship status in Dubai, credit risk from the exposure is likely to be very low given the availability of UAE government support in our view. Lower sovereign loans offset good growth in retail loans and Islamic financing and strong increase in credit volumes at DNZ and other overseas locations, resulting in a decline in lending last year and only modest credit growth in H1 22. Loan growth in the full year 2022 is likely to be in the low single digits, with good credit growth in the UAE and Turkey offset by continuing sovereign repayments.

Profitability ratios continue to be good overall underpinned by wide net interest margins (NIMs), good cost efficiencies and a large and stable income derived from a diversified range of activities, products and services across the UAE and abroad. Management has a good track record of generating high operating profits even through difficult years and the Bank's operating income has been strong enough to absorb provisioning expenses. Key ratios improved in 2021 and continued to strengthen in H1 22, reflecting higher income levels and reducing provisioning expenses. Net profit and ROAA were strong despite the adoption of hyperinflationary accounting for Turkish assets in H1 22 (with a loss in the profit and loss statement offset by a corresponding gain in other comprehensive income (OCI). DZB made a good contribution to consolidated earnings despite currency devaluations.

Rising interest rates this year could strengthen margins on floating rate corporate loans, and while higher levels of fixed-rate retail lending will lift the overall yields on interest bearing assets, there may not be any benefit from interest rate hikes. A large CASA base contributes to the Bank's moderate funding cost; however, there could be some increase in time deposits this year as customers seek to maximise returns in a rising interest rate environment. Nevertheless, some widening of the NIM is likely this year and both net interest income (NII) and non-interest income (non-II) are expected to grow as business volumes increase. Provisioning expenses are expected to be similar to that of the previous year given the ongoing uncertainties across all the Bank's major markets. We expect income levels to rise further and key ratios to strengthen over the next several quarters.

ENDB's liquidity continues to be good with adequate buffers of highly liquid assets, reliable and diversified sources of customer deposits, and good access to wholesale funding. The Bank has sizeable CASA balances and customer concentration levels in the deposit base are lower than those of peer banks, although they remain high by global standards. It is also, to some extent, less vulnerable to stressed liquidity conditions than other banks in the country. Loan-based liquidity ratios continue to be good. Wholesale borrowings are at a moderate level and refinancing risks are low. There were no major changes to the liabilities structure following the takeover of DZB, which also has a good retail customer deposit base.

The Bank remains solidly capitalised. Capital ratios are higher than those of other large banks in the UAE. We also note that the Bank's capital base is not impaired by unprovided NPLs. Its capital and leverage ratios are also above the regulatory minima (which includes a D-SIB requirement), with a good buffer. Although key ratios have slightly trended downwards in recent periods, they remain strong. The marginal declines in 2021 and H1 22 were partly due to the impact on regulatory capital from foreign currency translation losses in OCI. We expect these ratios to remain strong over the next year given that the growth in risk-weighted assets (RWAs) is likely to be modest, and that operating profits are expected to strengthen and be sufficient to absorb risk charges. Capital is also likely to cushion 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 that is currently underway to gain momentum and favourably impact the Bank. ENBD's earnings are expected to improve across all the geographies that it currently operates in.

Rating Dynamics: Upside Scenario

An upgrade over the next 12 months 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

A one-notch downgrade of the Bank's LT FCR, although unlikely, would require a deterioration of the Bank's standalone strength. This could be caused by significant weakening of financial fundamentals that the Bank may not be able to correct in a reasonable period of time.

Ratings

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

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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 20178-21 and H1 2022. 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 2021. 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.

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