

RATING ACTION COMMENTARY

Fitch Affirms Emirates NBD at 'A+'/Stable; Upgrades VR to 'bbb'

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Fitch Ratings - Dubai - 04 Sep 2024: Fitch Ratings has affirmed Emirates NBD Bank PJSC's (ENBD) Long-Term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook and has upgraded its Viability Rating (VR) to 'bbb' from 'bbb-'. A full list of rating actions is below.

The VR upgrade reflects decreased concentration to the Dubai government in recent years, which we view as being sustainable in the long term, strengthened asset-quality metrics, healthy profitability benefiting from currently high interest rates in combination with ENBD's strong funding profile and sound capitalisation.

KEY RATING DRIVERS

ENBD's IDRs are driven by potential support from the UAE (AA-/Stable) authorities, as reflected in its Government Support Rating (GSR) of 'a+'. ENBD's GSR reflects the authorities' strong ability for, and record of, supporting the banking system. ENBD's GSR is one notch above other UAE domestic systemically important banks' GSR of 'a' due to ENBD's very high systemic importance in the UAE, and in particular in Dubai.

ENBD's VR factors in the bank's strong franchise, healthy profitability, strong funding profile, and improved risk profile including reduced lending concentrations following a significant decrease in direct lending to Dubai government. It also reflects improved asset-quality metrics and a low generation of new impaired exposures in recent years.

Improved Operating Conditions: Operating conditions have been solid for UAE banks in recent years, and Fitch expects these to remain strong in the medium term. The operating environment is supported by high interest rates and healthy liquidity conditions due to population growth and money transfers into the UAE. We have revised up our assessment of the operating environment for UAE banks to 'bbb+', which is now among highest operating-environment scores for emerging market banking systems globally. ENBD's lower operating environment score of 'bbb' is due to its exposure to Türkiye (B+/Positive) through Denizbank A.S. (17% of consolidated assets).

Strong UAE Franchise: ENBD is the second-largest bank in the UAE. It has close links to the Dubai government and the strongest retail franchise across the UAE, which benefits its funding profile and business-generation capacity.

Decreased Direct Dubai Lending: ENBD's related-party lending (mainly direct exposure to the Dubai government) decreased to 13% of gross loans at end-1H24 (end-2020: 33%), while lending to government-related entities (GREs) increased to 10% from 5% over the same period. Loan growth accelerated in 1H24 (5.7%, non-annualised) with retail representing about 55% of the total increase. Retail lending share increased to 29% at end-1H24 (from 20% at end-2020). We view these developments as positive for ENBD's risk profile.

Reduced Impaired Loans Ratio: ENBD's impaired loans (Stage 3 under IFRS9) ratio was 4.2% at end-1H24, down from 4.6% at end-2023 (6% at end-2022), on the back of sizeable recoveries, write-offs and the absence of new large Stage 3 loans during the period. Impaired loans were 92% covered by specific provisions at end-1H24. We expect the impaired loans ratio to remain at 4%-5% in the medium term.

Strong Profitability: High interest rates and an improved operating environment support ENBD's profitability metrics, which are currently at their strongest levels, as well as for the sector. Net interest margin (NIM) declined to 4% in 1H24 from 4.3% in 2023 (due mainly to slower repricing of assets at Denizbank), albeit still well above its 2021 level (2.8%). The annualised operating profit was a healthy 5% of risk-weighted assets (RWAs) in 1H24. We expect the bank's profitability metrics to be maintained in 2H24 before they start moderating in 2025.

Good CET1 Ratio: ENBD's common equity Tier 1 (CET1) ratio was a high 15.4% at end-1H24 (end-2022: 14.9%). The ratio post annual dividends has been fluctuating around 15% in the last five years but we expect it to remain stable in the medium term as our base case sees the bank continuing to grow in line with external capital generation.

Strong Funding Profile: ENBD's funding and liquidity profile is a rating strength. The bank has a strong deposit base, which is more diversified than at most peers and it benefits from a high portion of current and savings accounts (61% at end-1H24). Its gross loans/deposits ratio was a healthy 81% at end-1H24, and its liquidity coverage ratio was a strong 199%.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

ENBD's Long-Term IDR would be downgraded following a downgrade of its GSR. The latter would likely stem from either a weaker ability of the sovereign to support the bank, which would be reflected in a UAE sovereign downgrade, or a weaker propensity to support banks.

A weakening of the bank's risk profile as manifested by an increased exposure to higher-risk markets, losses at subsidiary banks, or lending growth exceeding internal capital generation that results in erosion of ENBD's capital buffers could trigger a VR downgrade.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of ENBD's Long-Term IDR could come from an upgrade of its GSR. The latter would likely stem from a stronger ability of the UAE authorities to provide support, as reflected in a UAE sovereign upgrade, although this is unlikely in the near term, given the Stable Outlook on the sovereign rating.

Upside for the VR is currently limited unless ENBD sees a sustained reduction of impaired loans ratio to below 3% in combination with a further strengthening of its risk profile and stable other financial metrics.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

ENBD's Short-Term IDR of 'F1' is the lower of two options corresponding to an 'A+' Long Term IDR, as described in Fitch's criteria. This is because a significant proportion of UAE banking sector funding is related to the government and, therefore, stress on ENBD would likely come at a time when the sovereign itself is experiencing some form of stress.

ENBD's Long-Term IDR (xgs) is driven by its VR. Its Short-Term IDR (xgs) is driven by the Long-Term IDR (xgs) while also considering ENBD's strong liquidity profile (as captured by its 'bbb+' funding and liquidity score).

ENBD's senior unsecured programmes and notes issued under these programmes are rated in line with the bank's IDRs and IDRs (xgs), as a default on these obligations would be regarded as a default of the bank according to Fitch's rating definitions.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

ENBD's Short-Term IDR is sensitive to changes in its Long-Term IDR.

ENBD's Long-Term IDR (xgs) would mirror changes to its VR. A downgrade of ENBD's Short-Term (xgs) could come from a downgrade of its Long-Term IDR (xgs) or a

downward revision of ENBD's funding and liquidity score. An upgrade of ENBD's Short-Term IDR (xgs) could come primarily from an upgrade of its Long-Term IDR (xgs).

The ratings of ENBD's senior unsecured debt are sensitive to changes in ENBD's IDRs and IDRs (xgs).

VR ADJUSTMENTS

The operating environment score of 'bbb' is below the 'aa' category implied score, due to the following adjustment reasons: size and structure of economy (negative), financial market development (negative) and international operations (negative).

The asset quality score of 'bbb-' is above the 'bb' category implied score, due to the following adjustment reason: impaired loans formation (positive).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

ENBD's IDRs are linked to the UAE sovereign ratings.

ESG CONSIDERATIONS

We have revised ENBD's ESG Relevance Score for Governance Structure to '3' from '4', reflecting a decrease in direct lending to Dubai government.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
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Emirates NBD Bank PJSC	LT IDR		A+ Rating Outlook Stable		A+ Rating Outlook Stable
	Affirmed				
	ST IDR		F1	Affirmed	F1
	Viability		bbb	Upgrade	bbb-
	Government Support		a+	Affirmed	a+
	ST IDR (xgs)		F2(xgs)	Upgrade	F3(xgs)
	LT IDR (xgs)		BBB(xgs)	Upgrade	BBB-(xgs)
senior unsecured	LT	A+	Affirmed		A+
senior unsecured	ST	F1	Affirmed		F1
senior unsecured	ST (xgs)	F2(xgs)	Upgrade		F3(xgs)
senior unsecured	LT (xgs)	BBB(xgs)	Upgrade		BBB-(xgs)

[VIEW ADDITIONAL RATING DETAILS](#)

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Emirates NBD Bank PJSC

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