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Fitch Affirms Emirates NBD Bank PJSC at 'A+'; Outlook Stable

Fitch Ratings - Dubai - 21 Oct 2022: Fitch Ratings has affirmed Emirates NBD Bank PJSC's (ENBD) Long-Term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook, Short-Term IDR at 'F1' and Viability Rating (VR) at 'bb+'. A full list of rating actions is below.

Fitch has withdrawn ENBD's Support Rating of '1' and Support Rating Floor of 'A+' as they are no longer relevant under the updated Bank Rating Criteria published on 7 September 2022. In line with Fitch's updated criteria, Fitch has assigned ENBD a Government Support Rating (GSR) of 'a+'.

Key Rating Drivers

ENBD's IDRs are driven by potential support from the UAE (AA-/Stable) authorities, if needed, as reflected in its GSR of 'a+'.

ENBD's Short-Term IDR of 'F1' is the lower of the two options corresponding to an 'A+' Long-Term IDR as described in our rating 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 VR reflects its significant concentration to the heavily indebted Dubai government (25% of gross loans at end-1H22) and its government-related entities (GREs; 10% of loans) and as such, only adequate capital ratios. The VR also factors in the bank's leading franchise, healthy profitability and strong funding profile. The 'bb+' VR is assigned below the 'bbb-' implied VR due to the following reason: Risk Profile.

Government Support Rating of 'a+': ENBD's GSR reflects the authorities' strong ability for, and record of, supporting the banking system, if needed. ENBD's GSR is one notch above other UAE domestic systemically important banks' GSR of 'a', given the bank's very high systemic importance in the UAE, and in Dubai in particular.

Improved Economic Conditions: We expect operating conditions to remain solid for UAE banks in 4Q22-2023 despite global macroeconomic uncertainties. ENBD's operating environment score is 'bbb-', one notch lower than the standard score for domestic UAE banks due to its exposure to the weaker Türkiye through 100% owned Denizbank (15% of total consolidated assets at end-1H22).

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

High Lending Concentration Persists: ENBD's related-party lending (direct exposure to the Dubai government) decreased to 25% of gross loans at end-1H22 from 34% at end-3Q21, while lending to GREs increased to 10% from 6% over the same period. The combined lending to the Dubai government and Dubai GREs was 35% of ENBD's total financing at end-1H22, exposing the bank to event risk.

Asset Quality Has Stabilised: ENBD's impaired loans (Stage 3 under IFRS9) ratio was 6.1% at end-1H22, and impaired loans were 141% covered by total provisions, higher than at most peers. Stage 2 loans were 6.8% of gross loans, 23% covered by specific provisions.

Widening NIM; Lower COR: The cost of risk (COR; loan impairment charges (LICs)/loans) moderated to 80bp in 1H22 (annualised), down from 120bp in 2021 and 160bp in 2020. Rising interest rates are beneficial for ENBD's profitability as the bank is largely funded by cheap current account & savings accounts (CASA) deposits; thus, the net interest margin (NIM) improved to 3.1% in 1H22 from 2.8% in 2021 and the annualised operating profit/risk-weighted assets ratio was healthy at 3.5% in 1H22.

Concentration Undermines Capitalisation: ENBD's common equity Tier 1 ratio was stable at about 15% in 2019-1H22. However, we view this as only adequate given the still high concentration in ENBD's loan book to the Dubai government and its GREs.

Strong Funding Profile: ENBD's strong funding and liquidity profile is a rating strength. This reflects the bank's strong deposit franchise with a deposit base that is more diversified than at most peers, supported by a high portion of CASA (62% at end-1H22) and retail deposits. Liquid assets were a high 19% of total assets at end-1H22 and the liquidity coverage ratio (LCR) was healthy at 155% at end-1H22.

Rating Sensitivities

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-ENBD's GSR and IDRs are sensitive to a change in Fitch's view of the UAE authorities' ability and propensity to support the banking system or the bank.

-Significant deterioration in asset quality with an impaired loans ratio sustainably exceeding 10% in combination with weaker performance due to higher LICs could lead to a VR downgrade.

-Negative pressure on the group's capital either from losses at subsidiary banks in weaker operating environments, bottom-line losses or lending growth exceeding internal capital generation resulting in a material weakening of ENBD's capitalisation that is not commensurate with its risk profile, could be credit negative.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-Given our existing view of the high creditworthiness of the UAE authorities and their already high propensity to support the banking system and the bank, a positive rating action on the GSR and IDRs is unlikely.

-A material and sustained reduction in the concentration to the Dubai government and Dubai GREs, in combination with healthy financial profile metrics, could lead to a VR upgrade.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

ENBD's senior unsecured programmes and notes issued under these programmes are rated in line with the bank's Long- and Short-Term IDRs, reflecting Fitch's view that the likelihood of default of these obligations is the same as that of the bank.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The senior unsecured debt ratings are sensitive to changes in ENBD's Long- and Short-Term IDRs.

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), Regulatory and legal framework (negative) and International operations (negative).

The capital and leverage score of 'bb+' is below the 'bbb' category implied score, due to the following adjustment reason: Risk profile and business model (negative).

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

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 and GSR are linked to the UAE sovereign rating.

ESG Considerations

ENBD has an ESG Relevance Score of '4' for Governance Structure due to high related-party lending and significant exposure to the Dubai government and its GREs, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Fitch Ratings Analysts

Anton Lopatin

Senior Director

Primary Rating Analyst

+971 4 424 1225

Fitch Ratings Ltd Dubai Branch One Central, The Offices 3, #321 & 323, Sheikh Zayed Road, P.O.Box 9573, Dubai

Huseyin Sevinc

Director

Secondary Rating Analyst

+44 20 3530 1027

Artur Szeski

Senior Director

Committee Chairperson

+48 22 103 3015

Media Contacts



Peter Fitzpatrick

London

+44 20 3530 1103

peter.fitzpatrick@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Emirates NBD Bank PJSC	LT IDR	A+ 	Affirmed	A+ 
	ST IDR	F1	Affirmed	F1
	Viability	bb+	Affirmed	bb+

ENTITY/DEBT	RATING	RECOVERY	PRIOR	
	Support	WD	Withdrawn	1
	Support Floor	WD	Withdrawn	A+
	Government Support	a+	New Rating	
• senior unsecured ^{LT}	A+	Affirmed		A+
• senior unsecured ST	F1	Affirmed		F1

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	○	

Applicable Criteria

[Bank Rating Criteria \(pub.07 Sep 2022\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Emirates NBD Bank PJSC UK Issued, EU Endorsed

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