FitchRatings

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

Fitch Ratings - Moscow - 15 January 2020:

Fitch Ratings has affirmed UAE-based Emirates NBD's (ENBD) Long-Term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook. A full list of rating actions is detailed below.

Key Rating Drivers

IDRS, SUPPORT RATING (SR) AND SUPPORT RATING FLOOR (SRF)

ENBD's IDRs, SR and SRF reflect an extremely high probability of support available to the bank from the UAE authorities.

Fitch's view of support factors in the sovereign's strong capacity to support the banking system, sustained by sovereign wealth funds and recurring revenue mostly from hydrocarbon production. Fitch also expects high willingness from the authorities to support the banking sector. This has been demonstrated by the UAE authorities' long track record of supporting domestic banks, as well as by the authorities' close ties with and part-government ownership links to a number of banks.

ENBD's SRF of 'A+' is one notch above the UAE domestic systemically important bank (D-SIB) SRF of 'A', reflecting the bank's flagship status in the UAE, and Dubai in particular.

Fitch considers the acquisition of Denizbank (equal to 20% of consolidated assets at end-9M19) in the higher-risk and volatile Turkish operating environment, which was finalised in 3Q19, as neutral to ENBD's IDRs, SR and SRF. This is because the bank's flagship status and high systemic importance in the UAE were unaffected by the acquisition.

We assign Short-Term IDRs according to the mapping correspondence described in our rating criteria. An 'A+' Long-Term IDR can correspond to a Short-Term IDR of either 'F1' or 'F1+'. In the case of ENBD we opted for 'F1', the lower of the two Short-Term IDR options. This is because a significant proportion of the UAE banking sector funding is related to the government and a stress scenario for the banks is likely to come at a time when the sovereign itself is experiencing some form of stress. Fitch judges this "wrong-way" risk to be high in the UAE, but is only likely to happen in the short-term.

DEBT RATINGS

ENDB'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. ENDB's commercial paper programme is also rated in line with the bank's Short-Term IDR.

Subordinated debt is notched off ENBD's support-driven IDR, as is common in the GCC, reflecting Fitch's view that the probability of sovereign support remains sufficiently strong to extend to the bank's subordinated notes. The notes are rated one notch below the IDR anchor rating to reflect loss severity relative to senior unsecured debt but zero notches for non-performance risk.

Viability Rating (VR)

ENBD's VR reflects that single-borrower concentration remains the highest among peers, despite the impact of the Denizbank acquisition, while large exposures include a significant share of loans to the heavily indebted Dubai government and its government-related entities (GREs). Total exposure to the sovereign Dubai represented 42% of gross loans (2.4x Fitch Core Capital (FCC)) at end-9M19. Fitch considers capitalisation as only adequate in light of the bank's credit risk profile and the high share of loans to the Dubai government with very low risk-weightings.

Impaired loans (Stage 3) were equal to 4.7% of total loans at end-9M19, the weakest ratio among the peer group, albeit down from 5.9% at end-2018 due to write-offs and some recoveries, but also as ENBD accounted some of Denizbank's exposures at fair value, thereby reducing its impaired loan ratio to some extent. The Stage 2 loans ratio was at 5.7%, in line with peers' average. While Stage 3 loans were fully covered by reserves, Stage 2 loans reserve coverage was weaker, albeit viewed by Fitch as reasonable given that these exposures, which are largely renegotiated or restructured, are currently performing.

ENBD's capital ratios decreased in 2H19 as a result of the Denizbank acquisition. The FCC ratio fell to 13.7% at end-9M19 from 17.4% at end-2018. The Tier 1 ratio was higher, at 15.9%, reflecting AED9.5 billion of additional Tier 1 capital, while the total capital adequacy ratio (CAR) was 17%.

The Central Bank of UAE (CBUAE) views ENBD as a D-SIB, resulting in additional buffer requirements; at end-9M19 it was required to maintain minimum Tier 1 and total capital ratios of 12.5% and 14.5%, respectively. In 4Q19 ENBD issued a USD1.76 billion rights issue to support capitalisation, which we estimate will result in about a 150bp uplift to its capital ratios.

Nevertheless ENBD's capital ratios benefit from a low risk-weight on the majority of loans to the Dubai government. Fitch estimates that ENBD's capital ratios would decrease by 200bp-300bp if a 50%-weight is applied to its existing Dubai exposure, although including the 4Q19 rights issue, the bank would still be above the regulatory capital requirements.

ENBD is mainly funded by customer deposits, which represented 81% of total funding at end-9M19. The bank has a strong retail deposit franchise in the UAE and its deposit base is more diversified than most peers. The 20-largest deposits accounted for 16% of total deposits at end-9M19. Liquidity is adequate with liquid assets (cash and equivalents, liquid bonds and net short-term interbank placements) making up 15% of total assets, covering customer accounts by 21% at end-9M19.

RATING SENSITIVITIES

IDRS, SR AND SRF

ENBD's IDRs, SR and SRF are sensitive to a change in Fitch's view of the financial strength of the UAE authorities, or of their propensity to support the banking system or the bank.

DEBT RATINGS

A change in the bank's IDRs would lead to a change in the ratings of the unsecured bond and issuance programmes, the senior notes rated under these programmes and other senior debt.

ENBD's subordinated debt rating could be downgraded by one notch if the bank rating criteria exposure draft is published in its current form as the final criteria. The exposure draft is available at www.fitchratings.com.

VR

Significant deterioration in asset quality and erosion of capital ratios and a higher risk appetite in more vulnerable sectors/jurisdictions could lead to a VR downgrade. Reduced borrower and sector concentration could be credit-positive.

Public Ratings with Credit Linkage to other ratings

ENBD's IDRs, SR and SRF reflect an extremely high probability of support available to the bank from the UAE authorities if needed.

ESG Considerations

ENVIRONMENT, SOCIAL AND GOVERNANCE SCORES

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 ENBD, either due to their nature or to the way in which they are being managed by the bank. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Emirates NBD Bank PJSC	LT IDR A+ Affirmed	A+
	ST IDR F1 Affirmed	F1
	Viability bb+ Affirmed	bb+
	Support 1 Affirmed	1
	Support Floor A+ Affirmed	A+
senior unsecured	LT A+ Affirmed	A+
subordinated	LT A Affirmed	A
senior unsecured	ST F1 Affirmed	F1

Additional information is available on www.fitchratings.com

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Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)
Short-Term Ratings Criteria (pub. 02 May 2019)

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