



RATING ACTION COMMENTARY

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

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Fitch Ratings - Dubai - 10 Oct 2023: Fitch Ratings has affirmed Emirates NBD Bank PJSC's (ENBD) Long-Term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook and its Short-Term IDR at 'F1'. Fitch has also upgraded ENBD's Viability Rating (VR) to 'bbb-' from 'bb+'. A full list of rating actions is below.

The VR upgrade reflects decreased concentration to the Dubai government in recent years (albeit still significant), stronger asset-quality metrics, healthy profitability benefiting from higher interest rates in combination with ENBD's strong funding profile, which, in turn, have led to an improvement in the bank's capitalisation.

KEY RATING DRIVERS

ENBD's IDRs are driven by potential support from the UAE (AA-/Stable) authorities, if needed, 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, if needed. ENBD's GSR is one notch above other UAE domestic systemically important banks' GSRs of 'a' given ENBD's very high systemic importance in the UAE, and in Dubai in particular.

ENBD's VR reflects the decreased, albeit still significant, concentration to the Dubai government and its government-related entities (GREs) and its improved capitalisation. The VR also factors in the bank's strong franchise, healthy profitability and strong funding profile. The 'bbb-' VR is assigned below the 'bbb' implied VR due to the following adjustment reason: risk profile.

Favourable Environment: Operating conditions are solid for UAE banks in 2023. Fitch forecasts the sector credit growth will remain modest at about 5% in 2023 on weak credit demand, tighter underwriting standards and higher interest rates, but the latter may result in stronger profitability, particularly for banks with high shares of current and savings accounts (CASA). ENBD's operating environment score of 'bbb-' is one notch

lower than the score for domestic banks due to its exposure to Turkiye (B/Stable) through Denizbank A.S. (B-/Stable; 14% 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 Related-Party Lending: ENBD's related-party lending (direct exposure to the Dubai government) decreased to 23% of gross loans at end-1H23 (end-2020: 33%), while lending to GREs increased to 8% from 5% over the same period.

Reduced Impaired Loans Ratio: ENBD's impaired loans ratio (Stage 3 under IFRS 9) was 5.6% at end-1H23, down from 6% at end-2022, on the back of sizeable recoveries and absence of new large Stage 3 loans. Impaired loans were 98% covered by specific provisions (147% by total provisions) at end-1H23. We expect the impaired loans ratio to remain at 5%-6% in the medium term.

Strong 1H23 Profitability: The annualised loan impairment charges/loans ratio decreased to 22bp in 1H23 from 110bp in 2022, supported by recoveries at Denizbank. Rising interest rates are beneficial for ENBD's profitability as the bank is largely funded by cheap CASA; thus, the net interest margin improved to 4.3% in 1H23 (2022: 3.7%; 2021: 2.8%) and the annualised operating profit/risk-weighted assets ratio was healthy at 5.4% (2022: 3%).

Solid CET1 Ratio: ENBD's common equity Tier 1 (CET1) ratio was a high 16.6% at end-1H23 (end-2022: 15.4%), but should be considered in light of still high concentration to the Dubai government and its GREs. We forecast its CET1 ratio post annual dividend distributions to be 14%-15% in the medium term.

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 CASA (61% at end-1H23). Its gross loans-to-deposits ratio was a healthy 86% at end-1H23, and its liquidity coverage was a strong 217%.

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.

Increased exposure to high risk markets, losses at subsidiary banks, or lending growth exceeding internal capital generation that results in a material weakening of ENBD's capitalisation could be credit negative, particularly if Fitch considers capitalisation not be commensurate with the bank's risk profile.

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. An upgrade of the GSR is also unlikely given its already high level.

A further 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 Short-Term IDR of 'F1' is the lower of the two options corresponding to an 'A+' Long Term IDR, as described in Fitch's Rating Definitions. 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 senior unsecured programmes and notes issued under these programmes are rated in line with the bank's Long- and Short-Term IDRs and ex-government support (xgs) xgs ratings, reflecting Fitch's view that the likelihood of default of these obligations is the same as that of the bank.

ENBD's Long-Term IDR (xgs) is driven by its VR, and its Short-Term IDR (xgs) is driven by its Long-Term IDR (xgs).

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

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). An upgrade of ENBD's Short-Term IDR (xgs) could come primarily from an upgrade of its Long-Term IDR (xgs).

The senior unsecured debt ratings are sensitive to changes in ENBD's Long- and Short-Term IDRs and its Long- and Short-Term 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), regulatory and legal framework (negative) and international operations (negative).

The asset quality score of 'bbb-' is above '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 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.

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 ⇅
Emirates NBD Bank PJSC	LT IDR A+ Rating Outlook Stable	A+ Rating Outlook Stable
	Affirmed	

	ST IDR	F1	Affirmed	F1
	Viability	bbb-	Upgrade	bb+
	Government Support	a+	Affirmed	a+
	ST IDR (xgs)	F3(xgs)	Upgrade	B(xgs)
	LT IDR (xgs)	BBB-(xgs)	Upgrade	BB+(xgs)
senior unsecured	LT	A+	Affirmed	A+
senior unsecured	ST	F1	Affirmed	F1
senior unsecured	ST (xgs)	F3(xgs)	Upgrade	B(xgs)
senior unsecured	LT (xgs)	BBB-(xgs)	Upgrade	BB+(xgs)

[VIEW ADDITIONAL RATING DETAILS](#)

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Emirates NBD Bank PJSC

UK Issued, EU Endorsed

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