

## Emirates NBD's Foreign Currency Ratings Affirmed but Financial Strength Rating is Downgraded and both Ratings have Negative Outlooks

**Capital Intelligence (CI)**, the international credit rating agency, today announced that it has reduced Emirates NBD's (ENBD) Financial Strength rating to 'A'- from 'A' in view of the Bank's weakened asset quality. ENBD's Foreign Currency ratings are affirmed at 'A+' Long-term and 'A1' Short-term. The Foreign Currency ratings are underpinned by the Support rating of 1, which denotes the extremely high likelihood that the government of UAE will provide support in case of need. The Dubai government and the UAE government have demonstrated support in the recent past through Tier 1 and Tier 2 capital injections. The Bank's good operating profitability, high capital adequacy ratio and improving liquidity position are factors supporting its ratings. ENBD's good operating profitability is likely to be sufficient to absorb more provisions over the coming quarters. Nevertheless, a 'Negative' Outlook is appended to both the Long-term Foreign Currency Ratings as well as the Financial Strength Rating to reflect the continuing problems in the real estate sector and heightened credit risks posed by the weak global operating environment.

Lower business volumes, reduced margins partly arising from efforts to improve liquidity, losses incurred by an associate and substantially higher loan-loss provision charges have all contributed to the Bank's overall low return on average assets (ROAA) in 2010. However the Bank's capacity to generate operating profits remains high, reflecting its diversified product range and dominant presence in Dubai, which has experienced reasonably good growth in the trade, logistics and tourism sectors in recent quarters. Moreover, good cost control and merger-related economies of scale have helped to maintain the cost to income ratio at a low level. Although operating profitability declined in 2010, it was at an acceptable level. ROAA will remain under pressure this year owing to higher impairment charges.

ENBD's asset quality ratios have weakened substantially in recent years, partly reflecting its high exposure to Dubai government-related entities (GREs), which have been or are being restructured, as well as increasing impairments in the corporate, retail and Islamic finance portfolios. In view of the ongoing sluggishness in the real estate sector, bad loans are expected to continue to rise over the next few years. Management is committed to strengthening the coverage ratio from its current low levels and therefore provision charges are expected to remain high for the next few years. ENBD's capital adequacy ratio remains strong and is a major factor supporting its ratings. The ratio may be slightly impacted by the takeover of Dubai Bank in October 2011 but is nevertheless expected to be high.

With total assets of USD77 billion (at end June 2011), ENBD is currently the largest banking group in the Middle East and North Africa region. In the UAE it is an important player in the financial market. The government of Dubai, through the Investment Corporation of Dubai, is the single largest shareholder of ENBD with a 55.6% stake. ENBD's major business units are Wholesale Banking, Consumer Banking and Wealth Management, Global Markets & Treasury and Emirates Islamic Bank.

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The information sources used to prepare the credit ratings are the rated entity and public information. Capital Intelligence had access to the accounts and other relevant internal documents for the purpose of the rating, and considers the quality of information available on the issuer to be satisfactory for the purposes of assigning and maintaining credit ratings. Capital Intelligence does not audit or independently verify information received during the rating process.

The rating has been disclosed to the rated entity and released with no amendment following that disclosure. Ratings on the issuer were first released in November 2009. The ratings were last updated in November 2010.

The principal methodology used in determining the ratings is Bank Rating Methodology. The methodology and the meaning of each rating category and definition of default, as well as information on the attributes and limitations of CI's ratings, can be found at [www.ciratings.com](http://www.ciratings.com)