

## **FITCH PLACES EMIRATES NBD'S VR OF 'BBB' ON RWN; AFFIRMS IDR AT 'A+'**

Fitch Ratings-London/Dubai-26 October 2011: Fitch Ratings has placed Emirates NBD's (ENBD) Viability Rating (VR) of 'bbb' and Individual Rating of 'C' on Rating Watch Negative (RWN). Simultaneously the bank's Long-term Issuer Default Rating (IDR) is affirmed at 'A+'. The Outlook on the Long-term IDR is Stable. A full list of rating actions is at the end of this release.

The RWN reflects Fitch's concerns about ENBD's weaker asset quality outlook, reflecting the continuing stress in the real estate sector and the uncertain global outlook. At end-September 2011 (9M11) the bank's impaired loan ratio increased to 12.9%, owing mainly to the classification of certain Dubai government related entities (GRES) as impaired. Although these levels were in line with previous management guidance, Fitch has increasing concerns that retail, private sector corporate and Islamic lending is deteriorating faster than was previously anticipated. By 2013, ENBD estimates that its impaired loans ratio could reach 15%-16%.

Mitigating asset quality trends to some extent, ENBD has solid cash flow and is recognising potential future losses by building up specific and general reserves in recent quarters (end-September 2011: general reserves / risk weighted assets of 1.5%).

Fitch aims to resolve the RWN on the VR within the next six months and after ENBD has published year-end results for 2011. This could result in a downgrade of one or two notches. ENBD's Long- and Short-term IDRs are affirmed and reflect the extremely high probability of support from the Dubai government and the UAE authorities, given the bank's systemic importance, majority ownership by the Dubai government and the long history of support in the UAE.

ENBD's acquisition of Dubai Bank (DB), to be completed by end-2011 is considered ratings neutral to slightly negative. It will not have an immediate earnings impact and loans are acquired at fair value, so impairment should be minimal. The transaction includes a capital injection by ENBD, but Fitch understands that ENBD will receive significant Dubai government support to facilitate the acquisition, which is at zero cost to ENBD.

Post transaction, ENBD's regulatory Tier 1 and total capital adequacy ratios are likely to fall by around 65bps and 100bps respectively (9M11: Tier 1 and total capital ratios of 13.4% and 21.1% respectively). By consolidating DB, the bank also increases loan concentrations, particularly to Dubai GRES and real estate, sectors that could pose further asset quality challenges in the future.

Fitch continues to believe that ENBD's large franchise provides ample operating revenues to absorb its ongoing need for further loan impairment charges. Indeed, ENBD's continuing healthy pre-impairment operating profit for 9M11 supports this view. Net income for 9M11 was up 20% yoy to AED2.3bn, underpinned by strong core earnings, and non recurrent gains, despite a sharp rise in impairment charges.

Funding is mainly via predominantly stable customer deposits, although the bank has been an active user of the capital markets in the past, which exposes it to sizable refinancing risk in 2012 given current global volatility. The Fitch-calculated loans/deposits ratio worsened to 114% at end-September 2011 (end-2010: 103%), though this is still lower than historic levels, as the bank saw some deposit outflows, mainly from GRES.

ENBD is majority owned by the Investment Corporation of Dubai, which is the investment arm of the government of Dubai. It is the largest bank in the UAE and in the Gulf Cooperation Council by total assets.

The rating actions are as follows:

ENBD

Long-term IDR affirmed at 'A+'; Outlook Stable

Short-term IDR affirmed at 'F1'

Viability Rating at 'bbb'; placed on RWN

Individual Rating at 'C'; placed on RWN

Support Rating affirmed at '1'

Support Rating Floor affirmed at 'A+'

ECP Programme affirmed at 'F1'

Senior unsecured notes affirmed at 'A+'

Subordinated notes affirmed at 'A'

EIB Sukuk Company Ltd, Senior unsecured notes affirmed at 'A+'

Contact:

Primary Analyst

Philip Smith

Senior Director

+44 20 3530 1091

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Secondary Analyst

Mahin Dissanayake

Director

+971 4408 1806

Committee Chairperson

Bridget Gandy

Managing Director

+44 20 3530 1095

Media Relations: Michelle James, London, Tel: +44 0203 530 1574, Email: Michelle.James@fitchratings.com.

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com).

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 16 August 2011, and 'Treatment of Hybrids in Bank Capital Analysis', dated 11 July 2011, are available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=649171](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=649171)

Treatment of Hybrids in Bank Capital Analysis

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=641269](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=641269)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF

INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.