Moody's
INVESTORS SERVICE

Rating Action: Moody's affirms the ratings of eight UAE banks, changes outlooks to stable from negative

28 Oct 2021

Limassol, October 28, 2021 -- Moody's Investors Service ("Moody's") has today affirmed the long-term ratings of eight United Arab Emirates (UAE)-based banks: Abu Dhabi Commercial Bank (ADCB), Abu Dhabi Islamic Bank (ADIB), Commercial Bank of Dubai PSC (CBD), Dubai Islamic Bank PJSC (DIB), HSBC Bank Middle East Limited (HBME), MashreqBank psc (Mashreq), National Bank of Fujairah PJSC (NBF) and The National Bank of Ras-Al-Khaimah (P.S.C.) (RAK). Moody's has also affirmed the Baseline Credit Assessments (BCA) and Adjusted BCAs of the eight banks.

At the same time, Moody's has changed the outlook to stable from negative on the long-term deposit and issuer ratings -- where applicable - of the eight banks.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL456691 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

-- RATING AFFIRMATION AND OUTLOOK CHANGE TO STABLE DRIVEN BY RECOVERY IN OPERATING CONDITIONS IN THE UAE

The primary driver for the BCA affirmations is Moody's view that the operating environment for the UAE banks is recovering from the effects of the pandemic. This is expected to support the banks' financial fundamentals, particularly profitability, capital and liquidity. Additionally, the rating affirmations also consider the UAE central bank's support package relating to the coronavirus pandemic, which has supported the country's economy and consequently helped the banks mitigate loan quality deterioration. The UAE banks' profitability is expected to recover owing to a reduction in provisioning charges, with net income to tangible banking assets recovering to around 1% during first six months of 2021 from 0.8% for 2020. This will also support the banks' capital, which is expected to remain stable at the current strong level with tangible common equity to risk weighted assets at around 13.8% as of June 2021 while liquidity buffers which also remained strong with liquid assets to total assets at around 37% as of June 2021.

The change of outlook to stable from negative takes into account the expectation of ongoing recovery in the UAE's operating environment. The rating agency expects, the overall UAE real GDP to grow by 2.8% and 5.4% during 2021 and 2022 respectively, from a 6.1% decline during 2020. This economic growth will be driven by robust non-hydrocarbon GDP growth of 4.8% and 4.1% during the same period supporting the recovery across the core sectors of the economy such as transport and tourism which were severely hit in 2020 due to the social and travel restrictions imposed during the pandemic. This combined with increase in oil prices -- the rating agency expects medium-term oil price range to $50-$70/barrel -- will support both businesses and confidence in the operating environment which in turn will support the UAE banks' financial fundamentals.

The affirmation of the long-term ratings of ADCB, ADIB, CBD, DIB, NBF and RAK incorporates Moody's continued "very high" assumption of support from the Government of UAE (Aa2, stable) resulting in the same uplift. The long-term ratings of Mashreq continue to benefit from a "high" probability of government support. The rating agency's government support assumption takes into account UAE's strong track record of supporting banks in case of need.

The long-term ratings of HBME continue to benefit form a very high probability of affiliate support from HSBC Holdings plc (A3, stable) translating into a two-notch rating uplift and a low probability of government support.

Details of how these drivers affect the banks ratings are given in the bank specific sections below.

-- BANK-BY-BANK SUMMARY OF ACTIONS

- Dubai Islamic Bank PJSC (DIB)

Moody's affirmed DIB's long-term issuer rating at A3 and its BCA and Adjusted BCA at ba2. At the same time, the rating agency has changed the outlook on the bank's long-term issuer ratings to stable from negative.

The affirmation of the BCA at ba2 reflects the bank's strong retail franchise which underpins its sound and recovering profitability with net income to tangible assets at 1% for the first six months of 2021. At the same time, the BCA also captures the bank's non-performing financings (NPF ratio analogous to NPL ratio) which have increased to 6.5% of gross financings as of June 2021 and the rating agency's expectation that this could weaken further albeit modestly. However, the bank has an established retail franchise which supports its strong and granular funding profile. As a result, DIB has only modest reliance on market funding (10% of tangible banking assets as at June 2021). DIB's BCA also captures the bank's ample liquidity buffers with liquid assets making 25% of tangible banking assets as of June 2021.

These strengths are moderated by DIB's high borrower and sector concentrations, fast growth and the acquisition of Noor Bank which has a weaker financial profile.

The affirmation of DIB's A3 long-term issuer ratings captures a very high probability of government support from local authorities which translates into a five-notch rating uplift from the bank's ba2 BCA. This reflects DIB's importance within the UAE's banking system with its dominant flagship Islamic franchise, Government of Dubai's 28% ownership stake in the bank and the UAE authorities' strong track record of supporting banks in times of stress.

The stable outlook on the bank's long-term issuer ratings reflect the rating agency expectation that pressure on the bank's asset quality will be balanced by recovering profitability combined with strong capital and liquidity buffers.

- Commercial Bank of Dubai PSC (CBD)

Moody's affirmed CBD's long-term deposit ratings at Baa1 and its BCA and Adjusted BCA at ba1. At the same time, the rating agency has changed the outlook on the bank's long-term deposit ratings to stable from negative.

The affirmation of the BCA at ba1 reflects the banks sound capitalisation, solid profitability (1.1% net income to tangible assets during H1 2021) supported by its established commercial banking franchise in Dubai, and sound funding and liquidity (liquid banking assets/tangible banking assets at 23.8% at end-June 2021). These strengths are moderated by the bank's high exposure to the volatile construction and real estate sector (275% of the bank's tangible common equity and 38% of its gross loans), and the relatively high loan growth limiting the seasoning of the book (13% in H1 2021 and 8% in full-year 2020).

The affirmation of CBD's Baa1 long-term deposit ratings captures a very high probability of government support from local authorities which translates into a three-notch rating uplift from the bank's ba1 BCA. This reflects the Dubai government's 20% ownership stake in the bank through the Investment Corporation of Dubai and the UAE authorities' strong track record of supporting banks in times of stress.

The stable outlook on the bank's long-term deposit ratings reflects the rating agency's expectation that the bank's asset quality pressures will be balanced by sound solvency and liquidity.

- Abu Dhabi Islamic Bank (ADIB)

Moody's affirmed ADIB's long-term issuer ratings at A2 and its BCA and Adjusted BCA at ba1. At the same time, the rating agency has changed the outlook on the bank's long-term issuer ratings to stable from negative.

The affirmation of the BCA at ba1 captures the bank's sound core profitability, supported by a strong domestic Islamic retail franchise (annualised net income/tangible assets at 1.5% as of June 2021), and its strong funding with a granular deposit base (current and savings accounts at around 76% over the same period). The BCA at ba1 also reflects the relatively moderate capitalisation (tangible common equity/risk-weighted assets at 13.6%), weakening asset quality (problem loans/gross loans at 8.8%) with high borrower concentrations and modest liquidity.

The affirmation of ADIB's A2 long-term issuer ratings captures a very high probability of government support from local authorities which translates into a five-notch rating uplift from the bank's ba1 BCA. This reflects ADIB's strong relationship with the Abu Dhabi government, the bank's importance within the domestic banking system and the local authorities strong track record of supporting banks in times of stress.

The stable outlook on the bank's long-term issuer ratings reflects the rating agency's expectation that the bank's asset quality pressures will be balanced by its sound core profitability and strong funding.

- National Bank of Fujairah PJSC (NBF)

Moody's affirmed NBF's long-term deposit ratings at Baa1, and its BCA and Adjusted BCA at ba1. At the same time, the rating agency has changed the outlook on the bank's long-term deposit ratings to stable from negative.

The affirmation of the BCA at ba1 reflects the bank's adequate capital buffers with a tangible common equity/risk-weighted assets ratio of 13.9% as at June 2021, stable funding and strong liquidity (27% of the balance sheet in the form of liquid assets). The affirmation also reflects the bank's solid and steady core profitability through an established corporate and business banking franchise. These strengths are moderated by the bank's relatively weak asset quality (problem loans/gross loans at 10% as of June 2021), which is putting pressure on bottom-line profitability (net income/tangible assets at 0.2% at June 2021).

The affirmation of NBF's Baa1 long-term deposit ratings captures a very high probability of government support from local authorities which translates into a three-notch rating uplift from the bank's ba1 BCA. This reflects the Government of Fujairah's 46.75% stake in NBF, combined with the Government of Dubai's stake of 8.74% through the Investment Corporation of Dubai, and the UAE's strong track record of supporting banks in times of stress.

The stable outlook on the bank's long-term deposit ratings reflects the rating agency's expectation that the bank's asset quality pressures will be balanced by the sound core profitability and strong liquidity and capital buffers.

- The National Bank of Ras Al-Khaimah (P.S.C.) (RAK)

Moody's affirmed RAK's long-term deposit ratings at Baa1, affirmed its BCA and Adjusted BCA at baa3. At the same time, the rating agency has changed the outlook on the bank's long-term deposit ratings to stable from negative.

The affirmation of the BCA at baa3 captures the bank's strong capitalisation (tangible common equity/ risk weighted assets ratio of 16.2% at end-June 2021), combined with solid funding (current, savings and call accounts represented 75% of total deposits) and liquidity buffers (liquid banking assets/tangible banking assets at 33.8%). In addition, RAK's established franchise in retail and business banking drives solid profitability (1.1% net income to tangible assets ratio during H1 2021 and 1.0% in full-year 2020). The bank's exposure to the high-risk retail and business banking segments, its rapid growth in wholesale banking, as well as its limited (though gradually improving) business diversification pose risks to asset quality and moderate these strengths.

The affirmation of the bank's Baa1 long-term deposit ratings captures a very high probability of government support from local authorities which translates into a two-notch rating uplift from the bank's baa3 BCA. This reflects the Ras Al-Khaimah government's 52.8% ownership stake in RAK and the UAE government's strong track record of supporting banks in times of stress.

The stable outlook on the bank's long-term deposit ratings reflects the rating agency's expectations that the bank's asset quality pressures will be balanced by strong solvency and liquidity.

- Abu Dhabi Commercial Bank (ADCB)

Moody's affirmed ADCB's long-term deposit rating at A1 and its BCA as well as Adjusted BCA at baa3. At the same time, the rating agency has changed the outlook on the bank's long-term deposit ratings to stable from negative.

The affirmation of the BCA at baa3 reflects the bank's sound core capitalisation with tangible common equity/ risk weighted assets ratio at 13.2% as of June 2021 (11.9% as of March 2020), combined with strong funding and liquidity. The bank's liquid banking assets/tangible banking assets ratio was 34.2% as of June 2021 (30.3% as of March 2020). These strengths are moderated by the bank's asset quality and modest but recovering profitability. Problem loans to gross loans (Moody's ratio, excluding loans to banks and including purchased and originated credit-impaired assets) was at 7.9% as of June 2021 (8.0% as of December 2020) from 4.8% as at December 2019. When including loans to banks, the bank's problem loans to gross loans ratio was 5.9% as of June 2021 (4.7% as of March 2020) and 3.2% as of December 2019. The bank's net income to tangible assets (Moody's ratio, adjusted for the dividend on hybrid securities) recovered to pre-pandemic levels at 1.2% at June 2021 (0.1% during Q1 2020 and 1.1% in full-year 2019).

The affirmation of the bank's A1 long-term deposit ratings captures a very high probability of government support from local authorities which translates into a five-notch rating uplift from the bank's baa3 BCA. This reflects the UAE government's 60.2% ownership stake in ADCB (through Abu Dhabi Investment Council), the bank's importance to the local financial system, the bank's designation as a D-SIB by the UAE Central Bank, and the UAE authorities' track record of supporting banks in case of need.

The stable outlook on the bank's long-term deposit ratings reflects the rating agency's expectations that the bank's asset quality pressures will be balanced by strong capital, funding and liquidity.

- HSBC Bank Middle East Limited (HBME)

Moody's affirmed HBME's long-term deposit rating at A3, and its BCA at baa2 and its Adjusted BCA at a3. At the same time, the rating agency has changed the outlook on the bank's long-term deposit ratings to stable from negative.

The affirmation of the BCA at baa2 reflects the bank's strong and diversified franchise supporting core profitability, strong core capital buffer (tangible common equity/risk-weighted assets at 16.0% as of June 2021) as well as robust funding benefiting from a low-cost, granular and sticky deposit franchise and strong liquidity with a liquid banking assets/tangible banking assets ratio at 51% as of June 2021. These strengths are moderated by the bank's relatively weak asset quality (problem loans/gross loans at 6.5% as of June 2021), underpinned by high levels of credit concentrations, which is putting pressure on bottom-line profitability.

The affirmation of the Adjusted BCA at a3 and long-term deposit ratings at A3 reflects Moody's continued view of a very high probability of support from the bank's parent HSBC Holdings plc in case of need, which translates into a two-notch affiliate support uplift from HBME's baa2 BCA. This reflects HBME's strategic importance as the main operating vehicle for the Middle East operations of the HSBC group, 100%-ownership of HSBC Group, with which the bank shares full brand association, the integrated nature of operations as well as a high degree of management control.

The stable outlook on the bank's long-term deposit ratings reflects the rating agency's expectations that the bank's capital and liquidity will balance asset quality pressures.

- MashreqBank psc (Mashreq)

Moody's affirmed Mashreq's long-term deposit rating at Baa1 and its BCA as well as Adjusted BCA at baa3. At the same time, the rating agency has changed the outlook on the bank's long-term deposit ratings to stable from negative.

The affirmation of the BCA at baa3 reflects sound, albeit reduced, core capital adequacy since the coronavirus outbreak with a tangible common equity to risk weighted assets at 13.5% as of June 2021 (15.2% as of March 2020) despite strained profitability with a net income to tangible assets ratio at 0.1% during the first half of 2021 (1.3% as of December 2019). Asset quality exhibits a higher problem loans to gross loans at 5.5% at end-June 2021 (up from 4.2% at December 2019) and remains affected by large borrower and sector concentration risks. Mitigating this factor, is Mashreq's ample liquidity with liquid assets accounting for 35% of total tangible banking assets as of June 2021 which moderates its higher reliance on market funding that stood at 27.4% of tangible banking assets as of the same period.

The affirmation of the bank's Baa1 long-term deposit rating captures a high probability of government support from local authorities which translates into a two-notch rating uplift from the bank's baa3 BCA. This reflects Mashreq's established franchise in the UAE as the fifth largest bank in the country and the UAE authorities' proven and established track record in extending financial support to banks, in case of need.

The stable outlook on the bank's long-term deposit ratings reflects the rating agency's expectations that the bank's capital and liquidity will balance asset quality and profitability pressures.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward pressure on the banks' long-term ratings could emerge with significant improvement in operating conditions leading to improvement in banks' asset quality and profitability maintaining strong capital and liquidity buffers.

Downwards pressure on the banks' long-term ratings could materialise owing to a material deterioration in the operating conditions that could lead to weakening of banks' asset quality, profitability and/or capitalization.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The local market analyst for Abu Dhabi Islamic Bank, ADIB Capital Invest 2 Ltd., Commercial Bank of Dubai PSC, CBD (Cayman) Limited, National Bank of Fujairah PJSC, The National Bank of Ras Al-Khaimah (P.S.C.) and Rakfunding Cayman LTD ratings is Francesca Paolino, +971.4.237.9568. The local market analyst for Abu Dhabi Commercial Bank, ADCB Finance (Cayman) Limited, HSBC Bank Middle East Limited, HSBC Bank Middle East Limited (UAE Branch), MashreqBank psc, Mashreqbank psc, Hong Kong Branch and Mashreqbank psc, London Branch ratings is Badis Shubailat, +971.4.237.9505. The local market analyst for Dubai Islamic Bank PJSC, DIB Sukuk Limited and DIB Tier 1 Sukuk (3) Ltd. ratings is Nitish Bhojnagarwala, +971.4.237.9563.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL456691 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

• EU Endorsement Status

• UK Endorsement Status

• Rating Solicitation

• Issuer Participation

• Participation: Access to Management

• Participation: Access to Internal Documents

• Disclosure to Rated Entity

• Lead Analyst

• Releasing Office

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288235 .

The below contact information is provided for information purposes only. Please see the ratings tab of the issuer page at www.moodys.com, for each of the ratings covered, Moody's disclosures on the lead rating analyst and the Moody's legal entity that has issued the ratings.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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