FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Emirates Islamic Bank at 'A+', Outlook Stable; Upgrades VR to 'bbb-'

Wed 12 Mar, 2025 - 4:49 PM ET

Fitch Ratings - London - 12 Mar 2025: Fitch Ratings has affirmed Emirates Islamic Bank PJSC's (EI) Long-Term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook. Fitch has also upgraded the bank's Viability Rating (VR) to 'bbb-' from 'bb+'. A full list of rating actions is below.

The VR upgrade reflects EI's improved asset quality and profitability metrics, supported by favourable operating environment conditions, and our view that capitalisation will remain solid supported by good internal capital generation and moderating financing growth.

KEY RATING DRIVERS

EI's IDRs are driven by potential shareholder support from its 99.9% owner, Emirates NBD Bank PJSC (ENBD, A+/Stable), if needed, as reflected in its Shareholder Support Rating (SSR) of 'a+'.

The VR reflects the bank's moderate franchise, balanced by good profitability, solid capitalisation and funding and liquidity profiles. It also factors in ordinary support from ENBD, the second-largest bank in the UAE, which supports EI's business and risk profiles and underpins its financial metrics.

SSR of 'a+': EI's IDRs are in line with ENBD's. ENBD's IDRs are driven by potential support from the UAE authorities, which Fitch believes would flow through to EI. Support would be forthcoming given EI's role as the Islamic banking arm of the group and record of support, very high reputational risk for ENBD in case of an EI default, and the fact that both EI and ENBD operate in the same jurisdiction.

Improved Operating Conditions: Operating conditions have been solid for UAE banks in recent years, and Fitch expects them to remain strong in the medium term. The operating environment is supported by high interest rates and healthy liquidity conditions due to population growth and money transfers into the UAE.

Business Profile Benefits from Group: EI maintains a niche franchise and comprised just 2.6% of total system assets at end-2024. Nevertheless, its business profile benefits from being part of the ENBD group, it is the third-largest Islamic bank in the UAE and its retail-oriented focus results in lower concentration risk than peers. Its Islamic banking status also supports its retail deposit base, as reflected by its high share of current and savings accounts.

Rapid Financing Growth: EI's financing book grew by an above-sector average 28% in 2024 (sector: 11%), driven by corporate and retail financing. In the retail book, UAE nationals fell to a lower, but still 67%-majority at end-2024. Expat financing has grown but remains primarily salary-assigned and to affluent individuals. EI's financing book is less concentrated than local and regional peers, a direct result of its retail focus, and its risk controls benefit from ENBD oversight.

Improved Asset Quality: EI's Stage 3 (S3) financing ratio reduced to 4.4% (sector: 4.0%) at end-2024 (end-2023: 6.3%), supported by financing growth but also recoveries and write-offs. Stage 2 (S2) financing reduced slightly to 3.7% of gross financing at end-2024 (end-2023: 4.0%). Specific reserve coverage of S3 financing was a high 94% at end-2024, at the top end of the sector. We forecast EI's S3 ratio to hover around the 4% mark in 2025-2026, reflecting continued financing growth and solid operating conditions in the UAE.

Good Profitability: EI's profitability improved in 2024 amid high interest rates, with return on average equity of 22%, up from 20% in 2023, above the sector-average in both years. Operating return on risk-weighted assets improved to 3.9% in 2024 (2023: 3.4%). This was despite a 55bp contraction in the net financing margin in 2024 on higher funding costs, albeit to a still strong 5.1%, reflecting EI's high share of low-cost current and savings accounts. We expect profitability to moderate in 2025 as interest rate cuts continue and competition intensifies, but for operating returns to remain solid at over 3% of risk-weighted assets.

Strengthened Capitalisation: EI has strong capital buffers and its capital ratios compare well with peers. The common equity Tier 1 (CET1) ratio declined to a still-high 18.0% at end-2024 (end-2023: 18.9%), driven by risk-weighted assets growth, comfortably above its 9.5% regulatory minimum and sector average of 13.7% at end-2024. Capitalisation is further supported by full coverage of impaired financing by total financing loss allowances and solid pre-impairment profit (5.6% of average financing in 2024). We expect EI's CET1 ratio to decline amid above-sector-average financing growth, but to remain above 16% in 2025-2026.

Entrenched Deposit Franchise; Healthy Liquidity: EI's Islamic franchise underpins its well-managed funding profile, including a solid retail deposit base (75% of total deposits at end-2024) and a high share of sticky, low-cost current and savings accounts (69%). The financing-to-deposits ratio increased slightly to 98% at end-2024 (end-2023: 96%), as deposit growth amid healthy liquidity conditions broadly matched financing growth. EI's liquidity coverage ratio (159%) and net stable funding ratio (113%) are comfortably above minimum regulatory requirements.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

EI's IDRs are equalised with ENBD's. EI's IDRs would be downgraded if ENBD's IDRs were downgraded. EI's IDRs could also be downgraded and be below ENBD's if EI becomes less integral to the group and Fitch believes ENBD's propensity to provide support has weakened, although this is unlikely.

A sharp deterioration in asset quality or increase in the bank's risk appetite, including high growth in riskier segments, leading to materially weaker capitalisation, would lead to a downgrade of the VR. A deterioration of the UAE operating environment would also likely lead to a VR downgrade.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of EI's IDRs would require an upgrade of ENBD's IDRs, which is unlikely as ENBD's support-driven Long-Term IDR of 'A+' is already one notch above the UAE domestic systemically important banks' Government Support Rating.

An upgrade of the VR is unlikely without a material strengthening in the bank's franchise and market shares, combined with a sustained record of sustained healthy financial profile metrics and risk appetite through the cycle.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

EI's senior unsecured debt (sukuk) issued by EI's special purpose vehicle (SPV), EI Sukuk Company Limited, is rated in line with the bank's Long-Term IDR and Long-Term IDR(xgs) as the likelihood of default on senior unsecured obligations issued by the SPV reflects that of the bank.

EI's Long-Term IDR (xgs) is equalised with ENBD's Long-Term IDR (xgs). EI's Short-Term IDR (xgs) is mapped to its Long-Term IDR (xgs).

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The ratings of sukuk issued via EI Sukuk Company Limited are subject to the same sensitivities as EI's Long-Term IDR and Long-Term IDR(xgs).

EI's Long-Term IDR (xgs) would mirror changes in ENBD's Long-Term IDR (xgs). EI's Short-Term IDR (xgs) is sensitive to changes in its Long-Term IDR (xgs).

VR ADJUSTMENTS

The operating environment score is below the 'aa' category implied score due to the following adjustment reasons: size and structure of economy (negative) and financial market development (negative).

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

EI's IDRs are linked to ENDB's IDRs.

ESG CONSIDERATIONS

As an Islamic bank EI needs to ensure compliance of its entire operations and activities with sharia principles and rules. This entails additional costs, processes, disclosures, regulations, reporting and sharia audit. This results in a Governance Structure relevance score of '4' for the bank, which has a negative impact on the bank's credit profile in combination with other factors.

In addition, Islamic banks have an ESG Relevance Score of '3' for exposure to social impacts, above sector guidance for an ESG relevance score of '2' for comparable conventional banks, which reflects certain sharia limitations being embedded in Islamic banks' operations and obligations, although this only has a minimal credit impact on the entities.

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, visithttps://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
El Sukuk Company Limited				
senior unsecured	LT	A+	Affirmed	A+
senior unsecured	LT (xgs)	BBB(xgs)	Affirmed	BBB(xgs)
Emirates Islamic Bank PJSC	LT IDR	A+	Affirmed	A+
	ST IDR	F1	Affirmed	F1
	Viability	bbb-	Upgrade	bb+
	LT IDR (xgs)	BBB(xgs)	Affirmed	BBB(xgs)

	Shareholder Support	a+	Affirmed	a+
	ST IDR (xgs)	F2(xgs)	Affirmed	F2(xgs)

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VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

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APPLICABLE CRITERIA

Sukuk Rating Criteria (pub. 13 Jun 2022)

Bank Rating Criteria - Effective from 15 March 2024 to 21 March 2025 (pub. 16 Mar 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

EI Sukuk Company Limited	UK Issued, EU Endorsed
Emirates Islamic Bank PJSC	UK Issued, EU Endorsed
Emirates Islamic Bank PJSC	UK Issued, EU Endorsed

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