



RATING ACTION COMMENTARY

Fitch Affirms Emirates Development Bank at 'AA-'; Outlook Stable

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Fitch Ratings - London - 01 Jun 2020: Fitch Ratings has affirmed Emirates Development Bank (EDB)'s Long-Term Issuer Default Rating (IDR) at 'AA-'. The Outlook is Stable. A full list of rating actions is at the end of this commentary.

KEY RATING DRIVERS

IDRS, SUPPORT RATING AND SUPPORT RATING FLOOR

EDB's IDRs, Support Rating (SR) and Support Rating Floor (SRF) reflect an extremely high probability of support from the UAE authorities in case of need.

Fitch's view of support factors in the sovereign's strong capacity to support the banking system, sustained by sovereign wealth funds and recurring revenue mostly from hydrocarbon production, despite lower oil prices.

Fitch's assessment of the probability of sovereign support for EDB also considers (i) the bank's important and clearly defined policy role in providing housing loans for UAE nationals, but also in supporting economic development, particularly through lending to SMEs in the UAE; (ii) its 100% strategic federal government ownership and oversight by the Ministry of Finance (MOF); and (iii) the strong

and on-going track record of MOF's capital support for EDB and resultant low leverage at the bank.

DEBT RATINGS

EDB's existing senior unsecured programme and the notes issued under the programme are rated in line with the bank's Long- and Short-Term IDRs.

VIABILITY RATING

As is usual for development banks, Fitch does not assign a Viability Rating (VR) to EDB. This is because its dedicated policy and development role dominates its operations.

EDB has a small franchise in the UAE banking sector, but with a specific government policy role. The bank's capitalisation is strong; EDB's equity was 56% of total assets at end-2019. Liquid assets still represented half of total assets. In order to diversify its funding, EDB established an EMTN programme in March 2019 and issued USD750 million under it.

The bank has a high impaired loans ratio but this reduced to 11.8% at end-2019 as the loan book grew. Most problem exposures are legacy impaired loans. The bank has never posted a yearly loss, but performance is not a key objective of EDB, which focuses mainly on policy implementation and growth.

RATING SENSITIVITIES

IDRS, SUPPORT RATING and SUPPORT RATING FLOOR

Factors that could, individually or collectively, lead to negative rating action/downgrade:

EDB's IDRs, SR and SRF are sensitive to a change in Fitch's view of the creditworthiness of the UAE authorities and on their propensity to support the bank. A negative revision of Fitch's assessment of the sovereign's creditworthiness would trigger negative rating action on the bank's IDRs. This could also be triggered by a change in EDB's policy role, or a material reduction in government control of the bank, but these are unlikely.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Given our already existing view of the high creditworthiness of the UAE and high propensity to support the bank, positive rating action on the bank's Long-Term IDR is unlikely.

DEBT RATINGS

A change in the bank's IDRs would lead to a change in the ratings of the unsecured bond programme and the senior notes rated under the programme.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit

<https://www.fitchratings.com/site/re/10111579>.

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

EDB's IDRs, SR and SRF reflect a high probability of support available to the bank from the UAE authorities if needed.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING		
Emirates Development Bank	LT IDR	AA-	Affirmed
	ST IDR	F1+	Affirmed
	Support	1	Affirmed
	Support Floor	AA-	Affirmed
● senior unsecured	LT	AA-	Affirmed
● senior unsecured	ST	F1+	Affirmed

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

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Emirates Development Bank EU Issued

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