

National Bank of Fujairah's Ratings Affirmed; Financial Strength Rating on a 'Positive' Outlook

Capital Intelligence (CI), the international credit rating agency, today announced that it has maintained the Financial Strength Rating (FSR) of the National Bank of Fujairah (NBF) at 'BBB', with its good profitability and strong capital base supporting the rating. Its tighter than peer group liquidity and high level of non-performing loans (NPLs) are constraining factors. CI appends a 'Positive' Outlook to the FSR in view of the Bank's improving asset quality fundamentals, particularly in H1 2013. A further improvement in the loan-loss reserve coverage ratio and/or the effective NPL coverage ratio and stronger liquidity ratios would be required to raise the FSR.

NBF's Long-Term and Short-Term Foreign Currency Ratings (FCR) are affirmed at 'A-' and 'A2' respectively, with a Support Rating of '2'. The ratings are strongly underscored by the high likelihood of support from the UAE government in case of need. The Outlook for the FCR is 'Stable'.

NBF ranks among the smaller banks in the country, but has built a good reputation in niche areas in the corporate, commercial, trade finance and treasury areas. Its asset quality ratios, which had weakened a few years ago, have improved in recent times. The ratios had also been impacted by the classification of exposures to a few Dubai government related entities. However, loan impairments are slowing and the Bank's key ratios are likely to improve further in the second half of this year. There was a sizeable increase in the coverage ratio in H1 2013.

The Bank's good capital base provides further cover and in fact free capital and provisions together were nearly four times NPLs. The Bank remains very well capitalised with the good growth in retained earnings supporting the increase in risk-weighted assets. NBF repaid its Ministry of Finance subordinated debt ahead of maturity in H1 2013; this was replaced by Tier 1 notes issued to related-party investors. Consequently, Tier 1 regulatory capital rose this year and the Bank's leverage ratio has strengthened.

Customer deposits and capital form a major part of the funding for the Bank's balance sheet assets. Key liquidity ratios had improved up until end 2012 owing to brisk customer deposit growth, but they remained tighter than the sector average. The deposit base has a high level of customer concentrations, in large part due to funds received from the Bank's major related parties - including the Fujairah government. NBF's balance sheet maturity mismatches are low compared to those of many peer banks.

This is a profitable Bank and its key ratios have been high over the last few years on the back of good growth in lending, improvement in margins, strong increase in core, recurring non-interest revenues and efficient cost management. The Bank also posted good results in H1 2013 and both ROAA and operating profitability ratios remained strong.

The Bank was established in 1982 in the emirate of Fujairah. Its principal shareholders are the government of Fujairah (39%) and the Easa Saleh Al Gurg Company LLC (19%), which belongs to the Bank's deputy chairman and chairman of the executive committee. NBF is primarily a wholesale bank with strong trade finance and foreign exchange expertise. Its commercial business focuses on small to mid-sized companies. Its consumer banking business is primarily Fujairah-based.

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The information source used to prepare the credit ratings is the rated entity. Capital Intelligence had access to the accounts and other relevant internal documents of the issuer 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 July 1994. The ratings were last updated in September 2012.

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.