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National Bank of Fujairah's Ratings Affirmed with a Stable Outlook

Capital Intelligence Ratings (CI Ratings or CI), the international credit rating agency, announced today that it has affirmed the Long-Term Foreign Currency Rating (LT FCR) and Short-Term Foreign Currency Rating (ST FCR) of the National Bank of Fujairah (NBF) at 'A-' and 'A2', respectively. At the same time, CI Ratings has assigned NBF a Bank Standalone Rating (BSR) of 'bbb'. The Outlook for the LT FCR and the BSR is Stable.

The Bank's Financial Strength Rating (FSR) and Support Rating have been withdrawn in line with the changes to CI's Bank Rating Methodology announced in April 2019. CI will phase out FSRs and Support Ratings for all rated banks this year.

The LT FCR is set two notches above the BSR to reflect the high likelihood of extraordinary support from the UAE government in case of need. The UAE government (Sovereign Rating: 'AA-'/'A1+'/Stable) has demonstrated its support in the past and in CI's view it has the ability and willingness to continue to provide such support in the future.

The Bank's BSR is based on a Core Financial Strength (CFS) rating of 'bbb' and an Operating Environment Risk Anchor (OPERA) of 'bbb'. The CFS is underpinned by the Bank's good and improving profitability and sound asset quality, liquidity and capital ratios. The principal challenges are high customer concentrations in deposits (in common with peers) and some sector concentration in trading along with the heightened credit risks in certain sectors of the economy.

As a primarily corporate banking institution NBF has a less diversified business base than its larger competitors who operate in all the major customer segments. However, within the corporate banking segment it offers a fairly wide range of services and it has moreover built some franchise strength in a few areas such as trade finance, precious metals, and foreign exchange services. Although the sector concentration in trading is a challenge, we believe that the Bank's good reputation and strong product offering in this segment to be a mitigating factor. The trade portfolio is also performing adequately at present. While NBF's core businesses have grown steadily over the last few years, rising competitive pressures from banking sector consolidation could become a threat.

NBF's credit growth has been strong and above sector average in recent years. However asset quality ratios have remained sound overall and have in fact improved. Provision cover on NPLs including impairment reserves held under capital is more than 100%. The Bank's capital along with its good income generating capabilities provides additional cover. While customer concentration levels are high by global standards they are better than the sector average. Stage 2 loans are moderately high, but are in line with the peer group.

NBF is a profitable bank and its management has a good track record of delivering high earnings over a long period of time. Although revenue streams are less diversified than those of larger competitors, the core businesses have been growing at a steady, sustainable pace. Good margins, high levels of non-interest income, growing business volumes, and good cost efficiencies underpin NBF's high and improving operating profitability.

The Bank is dependent on corporate and institutional customer deposits given its small retail banking franchise and infrastructure. While this has led to some customer concentrations in the deposit base, in common with the sector, CI considers the NBF's funding base to be fairly stable. Its major depositors, which include related party entities, have provided stable funding for the Bank for decades and even during stressed liquidity conditions in the banking system. The funding profile is not expected to change going forward. Liquidity ratios are satisfactory despite some tightening in recent periods.

Capital ratios have fallen from previous highs, and though below the high sector average they remain sound on the whole, particularly given the good coverage of NPLs. However, in view of the concentrations in loans and customer deposits a higher CET 1 and CAR would give more comfort. If the Bank issues AT1 securities as planned this could raise the CAR to the peer-group average level. While shareholders have not had to inject capital for many years, in CI's view they would be able and willing to do so if necessary.

RATINGS

Foreign Currency		Outlook	BSR	Outlook	CFS	ESL	OPERA
LT	ST	LT FC		BSR			
A-	A2	Stable	bbb	Stable	bbb	High	bbb

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About the Ratings

The ratings have been initiated by CI. However, the issuer participated in the rating process. The information sources used to prepare the credit ratings are the rated entity and public information. CI may also have used financial information from credible, independent third-party data providers. CI had access to the published financial statements of the issuer for the purpose of the rating and had access to one or more of the following: the internal accounts; management; and other relevant internal documents of the issuer. CI considers the quality of information available on the issuer to be satisfactory for the purposes of assigning and maintaining credit ratings. CI 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 August 2018.

The principal methodology used to determine the ratings is the Bank Rating Methodology. The methodology, the meaning of each rating category, the time horizon of rating outlooks and the definition of default, as well as information on the attributes and limitations of CI's ratings, can be found at www.ciratings.com. CI's policy on unsolicited ratings including an explanation of the colour coding of credit rating symbols can be found at the same location. Historical performance data, including default rates, are available from a central repository established by ESMA (CEREP) at http://cerep.esma.europa.eu

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