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National Bank of Fujairah – Ratings Affirmed with a Stable Outlook

Capital Intelligence Ratings (CI Ratings or CI) today announced that it has affirmed the Long-Term Foreign Currency Rating (LT FCR) and Short-Term Foreign Currency Rating (ST FCR) of National Bank of Fujairah (NBF or the Bank) at 'A-' and 'A2', respectively. At the same time, CI Ratings has affirmed NBF's Bank Standalone Rating (BSR) of 'bbb', Core Financial Strength (CFS) rating of 'bbb' and Extraordinary Support Level (ESL) of High. The Outlook for the LT FCR and BSR is Stable.

The LT FCR is set two notches above the BSR to reflect the Bank's ESL of High. CI expects the Bank to receive support from the UAE government (sovereign ratings: 'AA-'/A1+/Stable) in case of need. The government has demonstrated such support in the past and, in CI's view, has the means and the willingness to continue to do so in the future. The Bank can also expect support from the government of Fujairah.

NBF's BSR is derived from a CFS rating of 'bbb' and an Operating Environment Risk Anchor (OPERA) of 'bbb'. The CFS is underpinned by the Bank's good capitalisation, sound asset quality, good operating profitability and ROAA, and comfortable liquidity. The principal challenges are customer concentrations in loans and deposits (in common with peers) and sector concentration in trade finance, along with continuing high provisioning expenses. Other challenges are elevated geopolitical risks and uncertainties linked to US tariffs, which could threaten future GDP growth prospects, although the UAE is presently doing well on the back of a well-performing non-oil economy.

The OPERA for the UAE indicates modest risk and reflects the relative dependence of the economy on hydrocarbons, moderate institutional strength and limited monetary policy flexibility. Moreover, the economic risk is partially mitigated by the support of the wealthy emirate of Abu Dhabi to the federation, and the availability of a very large buffer of external assets under the management of sovereign wealth funds in the country. The UAE banking sector remained strong in 2024, with high levels of capitalisation and moderately low NPLs.

As a mainly corporate banking institution, NBF has a less diversified business base than its larger competitors and is essentially focused on the UAE economy, making it more vulnerable to downturns. However, it offers a wide range of corporate products and services, and has built franchise strength in a few areas such as trade finance, precious metals and foreign exchange. While the loan portfolio has some concentration in the trade sector, we believe that the Bank's well-established reputation and strong product offering in this segment, along with its good risk standards and the short tenor of credits, are mitigating factors. Customer concentration in loans and advances remains high, in common with the sector, due to the nature of the market, which is dominated by a relatively small number of companies and government-related entities.

NBF's asset quality is sound overall. NPLs had declined in 2023 and 2022 due to substantial write-offs of legacy loans. The rise in NPLs in 2024 partly reflects much lower write-offs and some impairments in corporate and business banking portfolios, which is regarded as normal given the growth in lending in recent years. Having written off the bulk of its legacy bad loans, the Bank's NPL ratios have fallen over the last four years to a moderate level. We also note that transfers to Stage 3 continued to decline in 2024, reflecting the improved credit environment in the country. NBF's total stressed loans (Stage 3 and Stage 2) to gross loans ratio, at 10.2%, is presently slightly below the average for CI-rated banks in the country. Past due not impaired loans are very low. Key asset quality ratios improved slightly in Q1 25. The Bank has maintained full provision cover over the last three years and into Q1 25. Its ECL allowance for Stage 3 loans was a high 91% in Q1 25. NBF's credit risk charge remains high compared to the sector average, despite falling over the last four years. While there could be a further decline in provisioning expenses this year, we note that NBF's high risk charge is partly driven by its business model focusing on mid- and large-sized companies and business banking. However, the Bank's good operating profitability can comfortably absorb high risk charges.

NBF has a good track record of generating strong operating income, and even through difficult periods like the Covid-19 pandemic, its income levels were high, reflecting a wider than sector average net

interest margins (NIM), strong business growth and a good fee income base. After growing strongly between 2020 and 2023, NBF's operating income to average assets ratio declined in 2024 and Q1 25 due to a lower NIM, which was an industry-wide phenomenon reflecting faster repricing of assets compared to liabilities in a falling interest rate environment in the second half of 2024. This was partly offset by a continuing strong increase in non-interest income (non-II), which remains at a high level. Although operating costs continued to rise in 2024, reflecting balance sheet growth and investments in technology, the cost-to-income ratio remains good. NBF's operating profitability ratio declined in 2024 but was still higher than the sector average. Net profit recorded a good increase due to lower impairment expenses, partly offset by provisions for income tax that were levied on all corporate entities by the government for the first time last year. We expect the Bank's good profitability metrics to be maintained this year (ROAA strengthened in Q1 25), with a possible further decline in the NIM offset by higher volumes of loans and investments and good growth in fee income on the back of an expanded product range.

Liquidity ratios have strengthened over the last four years, due to strong growth in customer deposits. NBF's loan-to-deposit ratio and net loans to stable funds ratio are better than the average for the banking sector in the UAE. The Bank's regulatory ratios are also well above the regulatory minima, with a good cushion and the best among its peer group. Liquid assets holdings have also been high over the last three years. Funding is derived mainly from customer deposits, and wholesale borrowings are low, though rising. However, as a small/mid-sized bank with a limited retail franchise, NBF is dependent on corporate deposits, leading to a high customer concentration. The latter is a common feature of the UAE banking sector. Major depositors include related-party entities, which have provided stable funding for decades and even during stressed liquidity conditions in the banking system. NBF has a reasonably good level of CASA for a bank of its size. We do not expect any significant changes in the Bank's current overall funding profile.

NBF's CET1 ratio strengthened to a good 15.5% in 2024 following the conversion of USD275mn Additional Tier 1 (AT1) capital securities issued in September 2024 to ordinary shares on 31 December 2024; at the same time, the Bank called its outstanding USD350mn AT1 securities, which had been issued five years ago, in September 2024 and settled on the first call date i.e. October 2024. Regulatory capital recorded only a marginal rise, with good profit retention partly offset by the repayment of AT1 securities. Capital ratios are well above regulatory minima, and NBF's CET1 ratio was one of the best in the banking sector at end-2024. Capital is also not impaired by uncovered NPLs. The Bank paid cash dividends in 2023 and 2024 after a two-year cash dividend drought. We note that management has in the past prioritised the building of general provisions over dividend distribution. In our view, NBF's supportive shareholders would be able and willing to provide additional capital if necessary.

Rating Outlook

The Stable Outlook on the LT FCR and the BSR indicates a better than even chance that the ratings are unlikely to change over the next 12 months. We expect key financial parameters to be maintained at least at current levels.

Rating Dynamics: Upside Scenario

A Positive Outlook or a one-notch upgrade in the LT FCR and BSR over the next 12 months would require a sustained improvement in the Bank's standalone profile.

Rating Dynamics: Downside Scenario

Though unlikely, the Outlook could be revised to Negative or the LT FCR and BSR downgraded by one notch if the Bank's credit profile deteriorates substantially. This could be caused by a significant weakening of asset quality or profitability that the Bank may not be able to correct in a reasonable period.

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 credit ratings have been issued by Capital Intelligence Ratings Ltd, P.O. Box 53585, Limassol 3303, Cyprus.

The following information sources were used to prepare the credit ratings: public information and information provided by the rated entity. Financial data and metrics have been derived by CI from the rated entity's financial statements for FY2020-24 and Q1 25. CI may also have relied upon non-public financial information provided by the rated entity and may also have used financial information from credible, independent third-party data providers. CI considers the quality of information available on the rated entity 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 principal methodology used to determine the ratings is the Bank Rating Methodology, dated 3 April 2019 (see www.ciratings.com/page/rating-methodologies/bank-ratings). Information on rating scales and definitions, the time horizon of rating outlooks, and the definition of default can be found at www.ciratings.com/page/our-policies-procedures. Historical performance data, including default rates, are available from a central repository established by ESMA (CEREP) at <http://cerp.esma.europa.eu>

This rating action follows a scheduled periodic (annual) review of the rated entity. Ratings on the entity were first released in July 1994. The ratings were last updated in August 2024. The ratings and rating outlook were disclosed to the rated entity prior to publication and were not amended following that disclosure.

The ratings have been initiated by CI. The following scheme is therefore applicable in accordance with EU regulatory guidelines.

Unsolicited Credit Rating

With Rated Entity or Related Third Party Participation: Yes

With Access to Internal Documents: Yes

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