CAPITAL INTELLIGENCE

Credit Rating Announcement

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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 based on a CFS rating of 'bbb' and an Operating Environment Risk Anchor (OPERA) of 'bbb'. The CFS is supported by the Bank's overall favourable financial fundamentals, including good capital ratios with a high CET1 component, sound and improving loan asset quality with high loan-loss reserve (LLR) coverage and low level of Stage 2 loans. Also supporting the rating is good operating profitability and ROAA driven by wide margins, a healthy non-interest income (non-II) base and well-managed costs; and, lastly, comfortable liquidity supported by a good CASA ratio.

Credit challenges include sector concentration in trading, which faces difficulties due to the closure of the Strait of Hormuz; this is partially offset by NBF's franchise strength, stringent risk management and granular exposures. There are customer concentrations in deposits and loans, but the levels are much lower than those of many peer banks. The principal challenge facing the Bank remains the volatile geopolitical situation in the Gulf region, which has clouded the economic outlook and elevated credit risks. However, given the strong performance of the UAE's non-oil sector prior to the conflict and the government's readiness to provide liquidity support, the banking sector and economy are seen as resilient. Additionally, the central bank announced a series of measures in mid-March 2026 aimed at strengthening liquidity and encouraging banks to support customers wherever necessary.

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 since the AED is pegged to the USD. We note that 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 resilient in 2025, with good financial fundamentals, driven by a strong macroeconomic environment. The OPERA also considers the negative effects of significant regional geopolitical uncertainties on the Emirati economy and the banking sector.

NBF will be affected to some degree by the closure of the Strait of Hormuz, given its exposures to the trading, energy and marine sectors, and military strikes on the Fujairah port. The Bank also has a less diverse business base than its larger competitors and is essentially concentrated on the UAE economy, making it more vulnerable during a downturn. It offers a wide range of products for large and mid-sized companies, small businesses, and individuals, and has built franchise strength in trade, precious metals and foreign exchange. Although the loan portfolio has some concentration to the trade sector, we believe that the Bank's well-established reputation and product offerings in this segment, as well as its strong risk standards, more granular loan book compared to the past, and the short tenor of credits serve as mitigating factors.

While the closure of the Strait of Hormuz and exposure to trading and small businesses are likely to increase asset quality pressures, the Bank entered this period of uncertainty from a position of strength. NPLs are moderately low (4% of gross loans in Q1 26), and the LLR coverage ratio is high (145%). The Bank's Stage 2 loans to gross loans ratio (3.5%) is below the sector median, while its past due and not impaired loans are negligible. Moreover, specific provisions covered 93% of Stage 3 loans in Q1 26, and a significant portion of legacy NPLs has been written off. That said, we note that the Q1 26 results only capture the first few weeks of the conflict, and the full credit and revenue impact could take several more quarters to manifest.

While NBF's credit risk charge remains high compared to the sector average, despite decreasing over the past four years, we note that this is partly due to its business model, which also targets SMEs and mid-sized firms. Nonetheless, the Bank's small business and retail portfolios have reported low NPL ratios for several years, even during previous downturns. NBF has offered payment deferral relief to a few of its customers, in line with the financial resilience package of the CBUAE, which is available until the end of June.

In our base case scenario, NBF's asset quality remains stable, but trends modestly weaker through 2026 as watchlist names migrate. The risk charge is expected to rise, but would be comfortably absorbed by operating profit. We expect the Bank's corporate business to rebound once the Strait of Hormuz is fully opened. However, a longer than anticipated closure would weaken the NPL ratio, and while we expect the coverage ratio to remain high in absolute terms, increased provision charges would absorb a large share of operating profits, reducing net profit growth.

The related-party exposures (funded, non-funded and investments) to capital ratio was 49% in 2025. These carry substantial collateral cover and are performing well. The CBUAE closely monitors related-party and large exposures of the banking sector, and NBF is compliant with these requirements.

NBF has a history of generating high income levels even during challenging times. This is driven by wider-than-sector-average net interest margins (NIM), strong business growth, and a healthy fee income base. The Bank has also demonstrated its ability to reduce costs, when necessary, with its operating profitability consistently remaining above the sector median. Despite a narrower NIM in 2025, an industry trend caused by falling interest rates, NBF's operating income increased last year, and operating profit grew strongly due to cost reductions. NBF's ratios of operating income and operating profit to average assets remain well above the sector median. Net profit grew significantly in 2025, supported by lower impairment expenses.

In Q1 26, the pre-impairment operating profit growth rate slowed to 1.3% y-o-y, with decreased interest expenses (due to deposit repricing amid lower interest rates) offsetting a decline in fees, commissions and other income. However, net profit increased by 12% y-o-y due to lower net impairment costs. We expect low single-digit growth in operating profit this year, given the political tensions in the region. Higher ECL allowances would be adequately covered by operating profit, but the net profit growth rate will slow. If regional hostilities persist longer than initially expected, we anticipate ROAA to decrease significantly but remain well above 1%, especially if the Bank can rein in operating costs, as demonstrated in the past.

The Bank's liquidity position at the start of the armed conflict was comfortable, with a solid loan-to-deposit ratio (LDR) and liquid asset holdings, a moderately diversified funding base, substantial customer deposits, and a reasonably high CASA ratio. Although customer deposits fell by 2.5% YTD in Q1 26, mainly due to precautionary withdrawals by GCC entities, the outflow was offset by related-party deposits and term borrowings through repurchase agreements and bilateral arrangements. Wholesale borrowings nevertheless remain moderate. Related-party depositors have provided stable funding for decades (22% of customer deposits in Q1 26), even during periods of stressed liquidity within the banking system. NBF's liquidity and regulatory liquidity ratios ranked among the sector's best in Q1 26. As a small- to mid-sized bank with a limited retail franchise, NBF relies on corporate deposits, leading to customer concentration. This is a common feature across the UAE banking sector. We believe that liquidity risks for NBF and the banking sector remain low, supported by the central bank's generous backstop facilities for banks that may need them.

NBF maintains adequate capital buffers to support ongoing growth and absorb potential shocks from the current challenging operating environment; this is a key ratings driver. Although the CAR has trended slightly downwards over the past three years, with risk-weighted assets (RWAs) increasing faster than regulatory capital, it remains at a healthy level, particularly given the strong LLR coverage for impaired loans. The Bank's CET1 ratio rose to a solid 15.5% in Q1 26 and CAR to 16.6%, reflecting only modest growth in RWAs and higher retained earnings, despite a dividend payout and a small investment valuation loss in Q1 26 (due to re-emerging risk premiums for GCC paper).

The Bank had planned to raise USD350mn through an AT1 issuance this year in line with its growth strategy; however, this is likely to be deferred due to the recent conflict. The Bank may issue AT1 securities in the second half of this year if conditions normalise, which would increase the Tier 1 ratio by approximately 250bps. While the Bank paid 20% cash dividends for 2025, despite ongoing regional tensions at the time, we expect it to adopt a conservative approach centred on capital preservation if necessary. Shareholders provided capital as recently as 2024, and we expect their support to continue. Internal capital generation has been robust over the past three years, despite a moderately high dividend payout.

Rating Outlook

The Stable Outlook on the LT FCR and BSR indicates a better than even chance that the ratings will not change over the next 12 months. While key financial parameters may weaken depending on the duration of the current conflict, given the Bank's intrinsic financial strength, we expect this to be temporary.

Rating Dynamics: Upside Scenario

An upgrade of the BSR and LT FCR, or a revision of the Outlook to Positive, remains unlikely in the near term. However, it could be considered if the operating environment rebounds meaningfully following a durable resolution of the regional conflict and there is a sustained improvement in the Bank's standalone profile, specifically a stronger capital position, a more diversified liquidity profile and a larger balance sheet.

Rating Dynamics: Downside Scenario

The LT FCR and BSR could be downgraded by one notch, or a Negative Outlook assigned, if the Bank's credit profile deteriorates. This could arise from a delay in GDP recovery, leading to a significant weakening of financial fundamentals 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

Contact

Primary Analyst: Karti Inamdar, Senior Credit Analyst; E-mail: karti.inamdar@ciratings.com
Secondary Analyst: Darren Stubing, Senior Credit Analyst
Committee Chairperson: Morris Helal, Senior Credit Analyst

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 FY2021-25 and Q1 26. 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. For the methodology and our definition of default see https://ciratings.com/policies-procedures/methodologies-criteria/current-criteria-guidance. Information on rating scales and definitions and the time horizon of rating outlooks can be found at https://ciratings.com/policies-procedures/rating-scales-definitions Historical performance data, including default rates, are available from a central repository established by ESMA (CEREP) at https://registers.esma.europa.eu/cerep-publication

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 2025. 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
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