

National Bank of Fujairah's Financial Strength Rating Raised to 'BBB+'

Capital Intelligence (CI), the international credit rating agency, today announced that it has raised the Financial Strength Rating (FSR) of UAE's National Bank of Fujairah (NBF) to 'BBB+' from 'BBB' in view of the Bank's strengthened asset quality ratios, the increased Tier 1 Capital base and overall good profitability and liquidity. The major constraining factors are customer concentrations in the deposit base, a high level of restructured performing loans, the Bank's small market share and ongoing elevated credit risks in an otherwise improving operating environment. The Outlook for the FSR reverts to 'Stable' from 'Positive'. NBF's Long-Term and Short-Term Foreign Currency Ratings (FCR) are affirmed at 'A-' and 'A2', 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'.

The Bank has grown at a faster pace than the sector average over the last few years, but it still ranks among the smaller banks in the country. It has built a good reputation in niche areas in the corporate, commercial, trade finance and treasury segments. Although primarily a corporate bank, NBF is also expanding its commercial banking and retail banking services. The quality of the loan portfolio strengthened in 2013 due to recoveries, write-offs and the revival of the local economy. Although there was an increase in non-performing loans (NPLs) in H1 2014, key ratios were only slightly changed. NPLs are presently fully covered by loan-loss reserves (LLRs); the Bank's free capital base provides further cover. The loan book has some sector concentration in trade finance, but exposures are well spread out, and loans with short tenors accounted for a large portion of the credit book. The investment portfolio is small and mainly consists of government and bank risk.

NBF continues to maintain its capital adequacy ratio (CAR) at a strong level, notwithstanding the decline in recent years. High earnings, a low dividend payout ratio and new Tier 1 perpetual notes issued last year contributed to the substantial increase in capital and the improvement in the Tier 1 ratio last year. The Bank's Tier 2 Capital has been significantly reduced with the repayment of subordinated debt, several years before maturity. The capital to total assets ratio is also at a good level.

Improving liquidity ratios have been a key feature of the Bank's balance sheet in recent years. Strong growth in customer deposits and an increased capital base have helped to strengthen the net loans to customer deposits and net loans to stable funds ratios. Liquid assets are at a good level. The Bank has good access to capital markets and is able to successfully refinance maturing medium-term liabilities; however, medium-term liabilities are not a major source of funds and remain at a moderately low level. NBF's balance sheet maturity mismatches are low compared with many peer banks. A negative observation is that customer concentrations in the deposit base continue to be high, in large part due to funds received from the Bank's major related parties including the Fujairah government.

The Bank's profitability remains strong. Its return on average assets (ROAA) has risen in recent periods owing to declining provisioning expenses, but operating profitability has fallen (though it is still good) due to narrowing margins. However, gross income levels also remain high. Interest costs fell in both 2013 and H1 2014, and fees and commissions, which form the bulk of non-interest income (NII), have grown at a strong pace. Many of NBF's key profitability ratios are better than the peer group average.

The Bank was established in 1982 in the emirate of Fujairah. Its principal shareholders are the Department of Industry and Economy, Government of Fujairah (40.11%) and the Easa Saleh Al Gurg Company LLC (21.66%), 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.

CREDIT RATINGS

Foreign Currency		Financial Strength	Support	Outlook	
LT	ST			FC	FSR
A-	A2	BBB+	2	Stable	Stable

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The information sources used to prepare the credit ratings are the rated entity and public information. Capital Intelligence had access to the accounts but not to other relevant internal documents of the issuer for the purpose of the rating. However, CI 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 2013.

The principal methodology used in determining the ratings is 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. Historical performance data, including default rates, are available from a central repository established by ESMA (CEREP) at <http://cerep.esma.europa.eu>