MOODY'S
INVESTORS SERVICE

CREDIT OPINION
23 November 2022

Update

Send Your Feedback

RATINGS

National Bank of Fujairah PJSC

Domicile	Fujairah, United Arab Emirates
Long Term CRR	A3
Type	LT Counterparty Risk Rating - Fgn Curr
Long Term Deposit	Baa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Francesca Paolino +971.4.237.9568
Analyst
francesca.paolino@moodys.com

Francois Planchard +971.4.237.9529
Associate Analyst
francois.planchard@moodys.com

Henry MacNevin +44.20.7772.1635
Associate Managing Director
henry.macnevin@moodys.com

National Bank of Fujairah PJSC

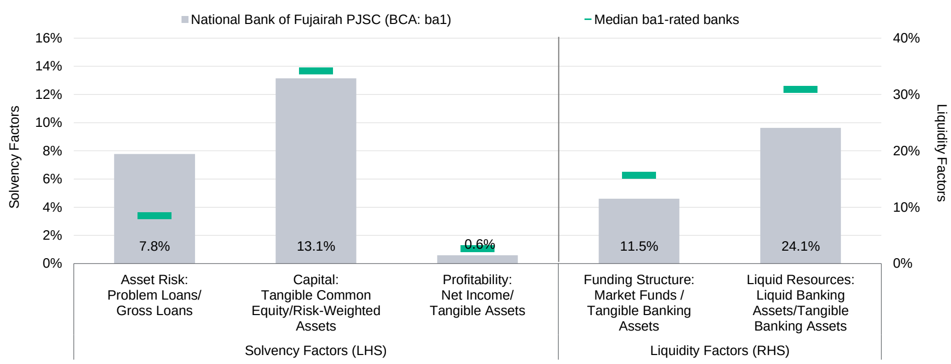
Update to credit analysis

Summary

National Bank of Fujairah PJSC's (NBF) Baa1 long-term deposit ratings reflect the bank's ba1 Baseline Credit Assessment (BCA) and incorporates a three-notch uplift, based on our assessment of a very high likelihood of government support for the bank, if needed, given the Government of Fujairah's 46.8% owned stake in NBF and the United Arab Emirates' (UAE; Aa2 stable) authorities track record of providing support to banks, in case of need.

NBF's ba1 BCA reflects the bank's (1) solid core profitability through an established corporate and business banking franchise with a niche specialisation in trade finance; (2) adequate capital buffers which reflect solid core earnings generation and retention; and (3) stable funding and liquidity through an established corporate and business banking deposit base with limited maturity transformation. These strengths are moderated by the bank's relatively weak asset quality and pressured bottom line profitability.

Exhibit 1
Rating Scorecard - Key financial ratios



In Exhibit 1 the ratios are as of September 2022. However, scorecard in Exhibit 11 shows the following: a) the problem loan and profitability ratios are the weaker of the average three-year ratios and the latest ratios, b) the capital ratio is the latest reported figure, c) the funding structure and liquid asset ratios are the latest year-end figures.
Source: Moody's Investors Service

Credit strengths

- Established corporate and business banking franchise with a specialisation in trade finance, which supports core earnings generation
- Adequate capital buffers
- Stable corporate and business banking deposit base drive solid funding and liquidity
- Very high likelihood of government support from the UAE authorities, in case of need

Credit challenges

- Relatively weak asset quality exposed to SMEs and mid-sized corporates

Outlook

The stable outlook on NBF's long-term ratings reflects our expectation that pressures on the bank's asset quality will be balanced by recovering profitability and strong liquid and capital buffers.

Factors that could lead to an upgrade

Upwards pressure on NBF's long-term ratings could emerge from significant improvement in operating conditions leading to improvements in the bank's asset quality and profitability, while maintaining strong capital and liquid buffers.

Factors that could lead to a downgrade

Downwards pressure on NBF's long-term ratings could materialise in the event of a material deterioration in the operating conditions that could lead to a weakening of the bank's asset quality, profitability and/or capitalisation.

Key indicators

Exhibit 2
National Bank of Fujairah PJSC (Consolidated Financials) [1]

	09-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (AED Million)	44,373.8	42,945.5	39,872.0	42,805.3	39,783.3	3.0[4]
Total Assets (USD Million)	12,080.9	11,692.1	10,855.0	11,653.6	10,830.8	3.0[4]
Tangible Common Equity (AED Million)	4,545.2	4,346.1	4,294.1	5,033.6	4,649.8	(0.6)[4]
Tangible Common Equity (USD Million)	1,237.4	1,183.2	1,169.1	1,370.4	1,265.9	(0.6)[4]
Problem Loans / Gross Loans (%)	7.8	9.8	10.1	5.4	5.1	7.6[5]
Tangible Common Equity / Risk Weighted Assets (%)	13.1	14.3	13.6	14.5	13.8	13.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	33.3	41.8	41.8	24.4	24.1	33.1[5]
Net Interest Margin (%)	2.5	2.1	2.1	2.8	2.6	2.4[5]
PPI / Average RWA (%)	3.7	2.9	2.4	3.2	3.0	3.0[6]
Net Income / Tangible Assets (%)	0.6	0.1	-1.4	1.2	1.4	0.4[5]
Cost / Income Ratio (%)	30.2	35.6	37.5	33.7	34.7	34.3[5]
Market Funds / Tangible Banking Assets (%)	11.5	10.4	9.4	8.9	9.1	9.9[5]
Liquid Banking Assets / Tangible Banking Assets (%)	24.1	29.5	27.3	27.9	25.7	26.9[5]
Gross Loans / Due to Customers (%)	92.0	86.3	90.9	88.9	89.8	89.6[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Recent results

At end-September 2022, NBF reported a net profit of AED 230.7 million ($62.8 million), compared to a net income of AED 90.4 million ($24.6 million) during the same period in 2021, mainly due to higher operating income. This translates into a return on assets of 0.7% in the first nine months of 2022 compared to 0.3% during the same period in 2021. Return on equity was 5.3% in the first nine months of 2022, compared to 2.1% during the same period of 2021.

NBF's Basel III Common Equity Tier 1 (CET1) ratio was 13.1% as of September 2022, compared to 13.8% as of December 2021.

Profile

National Bank of Fujairah PJSC is a UAE-based commercial bank established in 1982 in the Emirate of Fujairah. NBF commenced banking operations in 1984. The bank provides corporate banking, commercial banking, treasury and trade finance services to individuals, companies, financial institutions and government agencies. The bank also provides an expanding suite of personal banking and Shari'a-compliant services. The bank operates primarily in the UAE (with 94% of its gross exposures located in the UAE as of year-end 2021) and has a market share of 1.3%, 1.6% and 1.6% in terms of total assets, net loans and deposits, respectively (as of June 2022). As of September 2022, the bank reported a consolidated asset base of AED 44.4 billion ($12.1 billion).

NBF operated in the UAE through a network of 15 branches (of which one is an electronic banking service unit). The bank's shares have been listed on the Abu Dhabi Securities Exchange (ticker: NBF) since 2005. As at 30 September 2022, Government of Fujairah held 46.8% stake in NBF, jointly through the Department of Industry and Economy - Government of Fujairah (40.9%), Fujairah Natural Resources Corporation (4.3%) and Fujairah Investment Establishment Limited (1.6%). The Government of Dubai owns 8.7% of NBF's issued share capital through the Investment Corporation of Dubai.

Detailed credit considerations

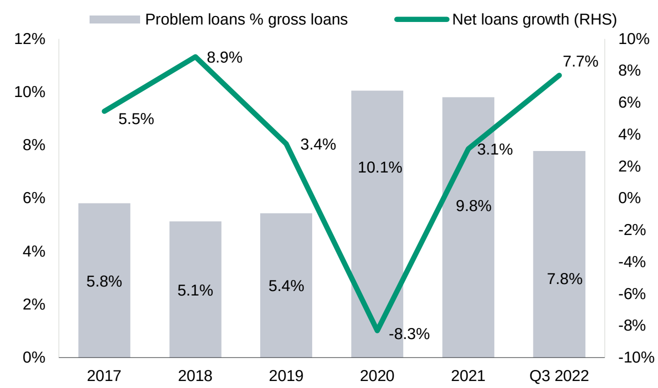
Relatively weak asset quality exposed to SMEs and mid-sized corporates

We expect the bank's asset quality to see some limited risks arising over the next 12 months, reflecting lagging impact of the outbreak on the creditworthiness of some of its borrowers. NBF's asset quality continues to be exposed to the small and medium-sized enterprise and mid-corporate segments. Also, the bank's borrower concentration continues to pose risks to its asset quality.

NBF's high net credit growth poses challenges for the bank's operational and underwriting controls and limits the seasoning of the book. The bank's net loans grew by 8% year-to-date as of September 2022 and 3% in full-year 2021, compared with negative growth in 2020 during the outbreak, following years of high single digit growth (Exhibit 3). However, the short-term nature of the bank's balance sheet gives the entity the ability to exit certain sectors when they become troublesome and reorient its balance sheet towards less risky segments. At end-September 2022, corporate and institutional banking remains the largest business segment contributing to 44% of total assets.

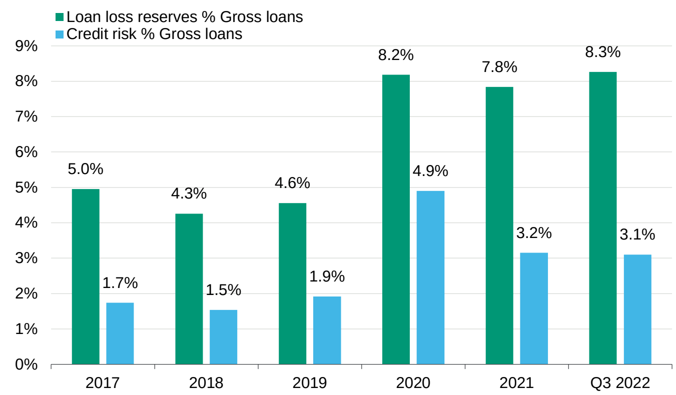
At end-September 2022 the bank's reported stage 3 loans-to-total gross loans ratio improved to 7.8% (9.8% as of December 2021), from 10.1% as of 31 December 2020. The decrease in the NPL ratio was driven by write offs and growth in the denominator. This ratio remains nonetheless higher than local peers' average at around 6%. The bank's reported loan-loss reserves-to-gross loans ratio remained around 8.3% at end-September 2022 compared with 8.2% as of end-December 2020, as the bank at the time had recognized stage 3 impairment provisions towards few large exposures and enhanced stage 1 and 2 provisions to reflect the impact of the operating environment (see Exhibit 4).

Exhibit 3
NBF credit growth and asset quality



Note: Problem loans correspond to Stage 3 loans, under the IFRS9 standard from 2018 onwards.
Source: NBF's financial statements, Moody's Investors Service

Exhibit 4
NBF Provisioning

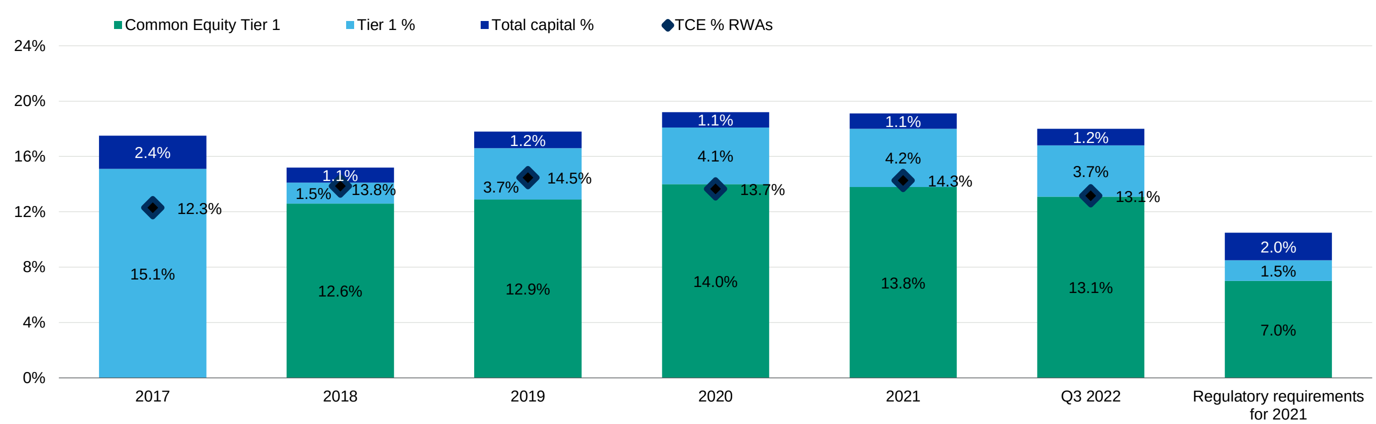


Credit risk % Gross Loans ratio accounts also for acceptances
Source: NBF's financial statements, Moody's Investors Service

Adequate capital buffer reflects solid core earnings generation and retention

We expect the bank's capital adequacy to remain above management's minimum target Tier 1 ratio of 15%-17% and capital adequacy ratio of 16%-18%. The bank is expected to maintain capital levels higher than minimum requirements set by the UAE Central Bank (see Exhibit 5). The bank reported a Basel III common equity tier 1 (CET1) ratio of 13.1%, Tier 1 ratio of 16.8%, total capital adequacy ratio of 18.0% as of September 2022.

Exhibit 5
NBF's capital buffer meets Basel III requirements



The bank reports under Basel III from January 1st 2019
Source: NBF's financial statements, Moody's Investors Service

As of September 2022, the bank's TCE-to-RWA ratio stood at 13.1% (14.3% as of December 2021), which is now slightly lower than the 14.7% local average (as of June 2022).

During October 2019, NBF successfully raised US$350 million through the issuance of additional Tier 1 (AT1) capital securities, increasing the bank's regulatory capital. In line with the local regulatory framework, such instruments do not have mandatory point of non-viability triggers and hence are not included in our core capital calculation.

Established corporate and business banking franchise with a specialisation in trade finance supports solid core earnings generation

We expect the bank's profitability to return higher levels in the outlook period driven by lower provisioning costs, factoring improvements in the operating environment, and solid earnings generation.

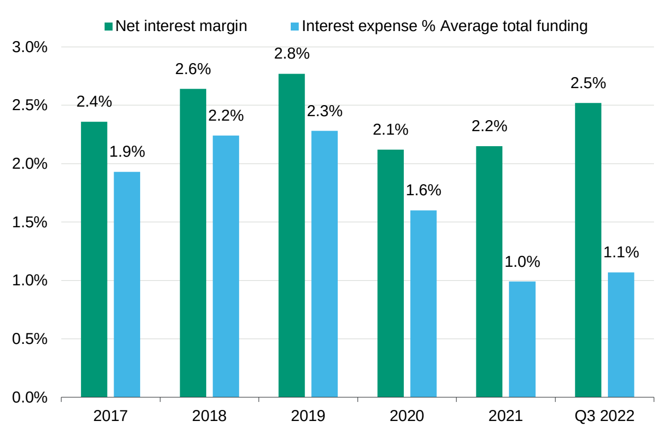
We expect the bank's niche franchise in trade finance to continue to contribute to top-line profitability through significant non-interest income, which accounted for 35% of its operating income during full-year 2021 and in the first three quarters of 2022.

Net interest margins (NIMs) slightly increased to 2.5% in first three quarters of 2022 from 2.2% during the year 2021 driven by loan growth acceleration and higher interest rates whereas funding costs remained low at 1.1% during the first three quarters of 2022 and 1.0% in full-year 2021 (see Exhibit 6).

The bank's cost-to-income ratio slightly improved to 30% in the first three quarters of 2022, compared with 36% in full-year 2021. The bank's loan loss provisions consumed 78.3% of pre-provision income in the first three quarters of 2022 (99.5% during 2021). The ratio remains well above the local average reflecting the bank's risk management conservative approach.

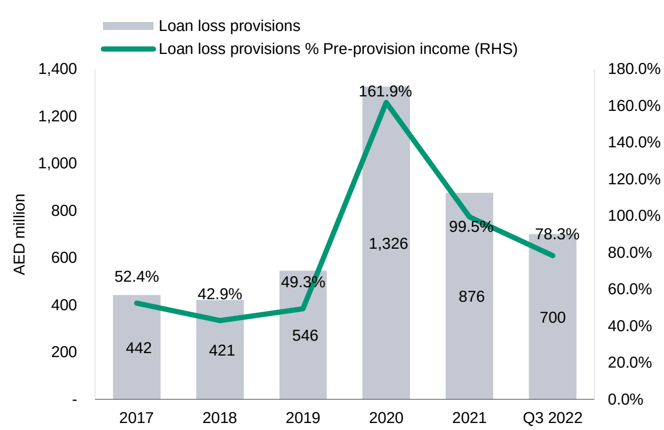
Net income to tangible assets was at 0.6% during the first three quarters of 2022 from 0.1% in full-year 2021, mainly driven by higher top line profitability in 2022.

Exhibit 6
NBF NIM and cost of fund evolution



Source: NBF's financial statements, Moody's Investors Service

Exhibit 7
NBF cost of risk evolution



Source: NBF's financial statements, Moody's Investors Service

Stable corporate and business banking deposit base drive solid funding and liquidity profile

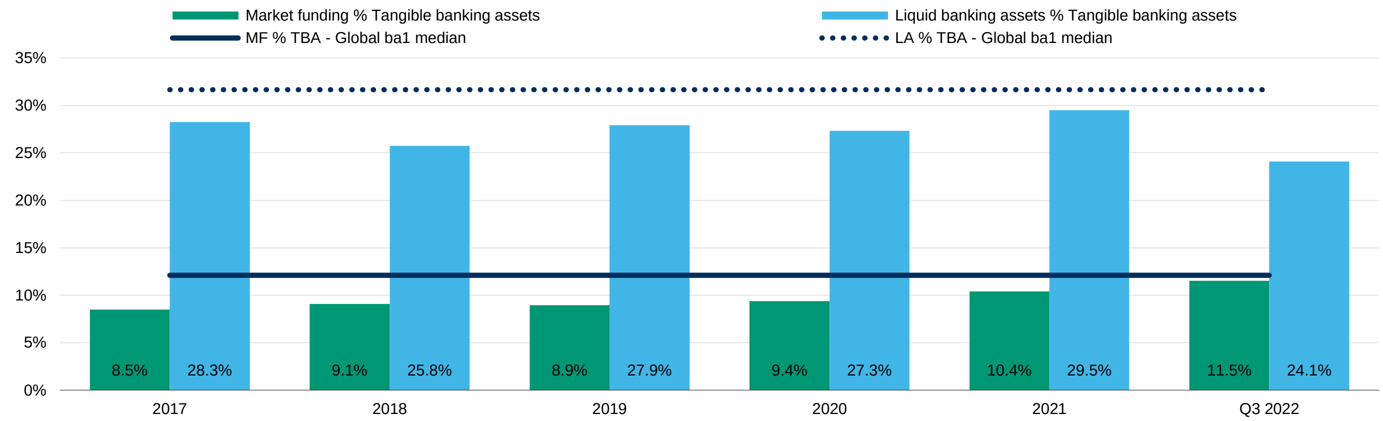
We expect NBF's overall funding and liquidity to remain stable. As of September 2022, the bank's reliance on market funds stood at 11.5% of its tangible banking assets (10.4% as of December 2021), well below the 20.5% local average.

NBF exhibits a concentrated funding base skewed towards corporate deposits (65% of total deposits as of September 2022) which reflects the nature of its franchise. Nevertheless, a material portion of the bank's total deposits (25% as of September 2022) is sourced from related parties, which have historically remained stable.

The bank's net loans-to-deposits ratio slightly increased to 84% as of September 2022 from 80% as of December 2021, reflecting the net credit growth as of September 2022 year-to-date by 7.7% whereas deposits accounts grew by 1.6% in the same period.

NBF's liquid banking assets-to-tangible banking assets ratio was at 24.1% (29.5% as of December 2021) at end-September 2022, adequate for the bank's market funding exposure. The short-term nature of the bank's balance sheet (67% of assets had a maturity of less than one year as of 31 December 2021), partially limits maturity transformation and mitigates liquidity risk.

Exhibit 8
NBF funding and liquidity metrics

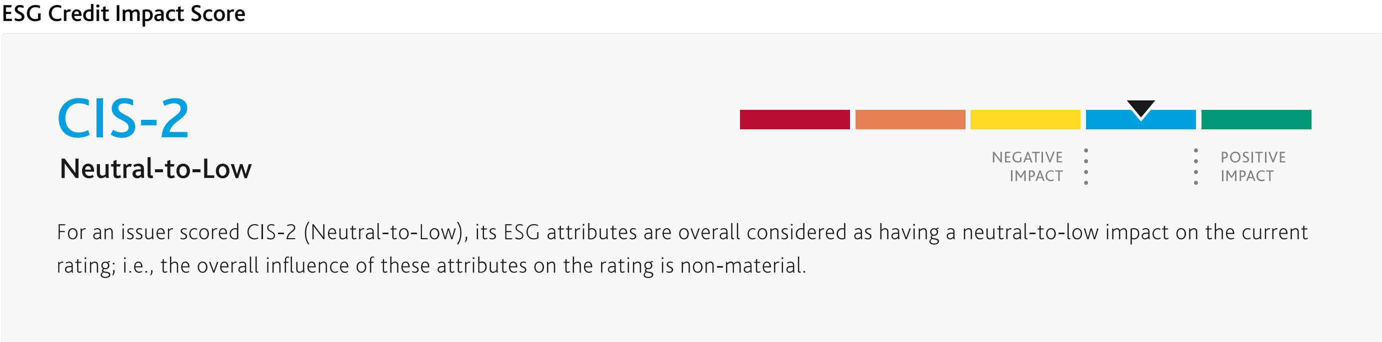


Source: NBF's financial statements, Moody's Investors Service

ESG considerations

National Bank of Fujairah PJSC's ESG Credit Impact Score is Neutral-to-Low CIS-2

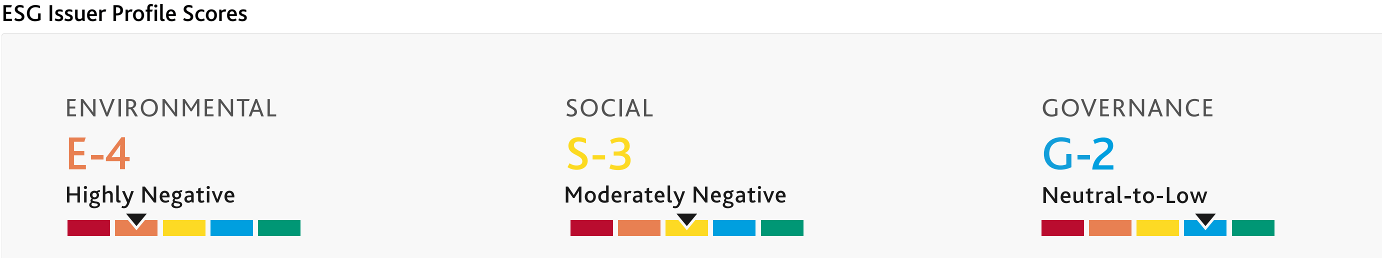
Exhibit 9
ESG Credit Impact Score



Source: Moody's Investors Service

National Bank of Fujairah's ESG Credit Impact Score is neutral-to-low (**CIS-2**). This reflects a limited credit impact of high environmental risks and moderate social risks on the ratings to date, as well as neutral to low governance risks.

Exhibit 10
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

National Bank of Fujairah faces highly negative exposure to environmental risks, mainly because of carbon transition risk. Although the bank has limited direct financing exposure to carbon-intensive sectors, the contribution of the hydrocarbon industry to the UAE economy (although low hydrocarbon production costs provide a degree of insulation to carbon transition), as well as its dependence on desalinated water and exposure to rising sea levels, increases its vulnerability to environmental risks, potentially affecting the creditworthiness of the bank's counterparties.

Social

National Bank of Fujairah faces moderate social risks related to regulatory and litigation risks operating in an emerging market country. Demographic trends have favored adaptation of the population towards financial inclusion and innovation in city centers. NBF and UAE banks are generally focused on intermediation with simpler product ranges and counterparties. Consumer protection regulation partially mitigates mis-selling and mis-representation risks.

Governance

National Bank of Fujairah faces neutral to low governance risks. The bank is a publicly-traded firm and provides timely and detailed external reporting, and has a track record of clear financial strategy. Government of Fujairah owns almost half of the bank's shares, which is reflected in the Board composition. However, the country's developed institutional framework mitigates some of these risks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Very high likelihood of government support in case of need

NBF's Baa1 deposit ratings incorporate a three-notch uplift from its ba1 BCA, based on our assessment of a very high likelihood of government support, in case of need. This assessment reflects (1) Government of Fujairah's 46.8% stake in NBF (jointly through the Department of Industry and Economy - Government of Fujairah (40.9%), Fujairah Natural Resources Corporation (4.3%) and Fujairah Investment Establishment Limited (1.6%)) combined with the Government of Dubai's stake of 8.7% through the Investment Corporation of Dubai and (2) the UAE's strong track record of supporting banks in times of stress.

Counterparty Risk Ratings (CRRs)

NBF's CRRs are A3/P-2.

We consider the United Arab Emirates a jurisdiction with a non-operational resolution (non-ORR) regime. For non-ORR countries, the starting point for the CRR is one notch above the bank's Adjusted BCA. The counterparty risk ratings for NBF benefit from three notches of government uplift, in line with our support assumptions on deposits.

Counterparty Risk (CR) Assessment

NBF's s CR Assessment A3(cr)/P-2(cr).

Source of facts and figures cited in this report

Unless noted otherwise, we have sourced data relating to system-wide trends and market shares from the central bank. Bank specific figures originate from banks' reports and Moody's Banking Financial Metrics. All figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the document Financial Statement Adjustments in the Analysis of Financial Institutions, published on 9 August 2018.

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 11

National Bank of Fujairah PJSC

Macro Factors							
Weighted Macro Profile	**Strong -**	**100%**					

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	8.3%	ba3	↑	b2	Expected trend	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	13.1%	a3	↔	baa3	Expected trend	
Profitability						
Net Income / Tangible Assets	0.1%	b3	↔	ba1	Loan loss charge coverage	
Combined Solvency Score		ba1		ba2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	10.4%	a3	↔	baa2	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	29.5%	baa2	↓	baa3	Expected trend	
Combined Liquidity Score		baa1		baa2		
Financial Profile				ba1		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aa2		
BCA Scorecard-indicated Outcome - Range				baa3 - ba2		
Assigned BCA				ba1		
Affiliate Support notching				0		
Adjusted BCA				ba1		

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	1	0	baa3	3	A3	A3
Counterparty Risk Assessment	1	0	baa3 (cr)	3	A3(cr)	
Deposits	0	0	ba1	3	Baa1	Baa1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 12

Category	Moody's Rating
NATIONAL BANK OF FUJAIRAH PJSC	
Outlook	Stable
Counterparty Risk Rating	A3/P-2
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	A3(cr)/P-2(cr)

Source: Moody's Investors Service

REPORT NUMBER 1348101