MOODY'S
INVESTORS SERVICE

CREDIT OPINION
21 December 2023

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
Outlook	Not Assigned
Long Term Debt	Not Assigned
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

Azhar Bouzidi +971.4.503.9835
Ratings Associate
azhar.bouzidi@moodys.com

Nitish Bhojnagarwala +971.4.237.9563
Senior Vice President
nitish.bhojnagarwala@moodys.com

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

National Bank of Fujairah PJSC

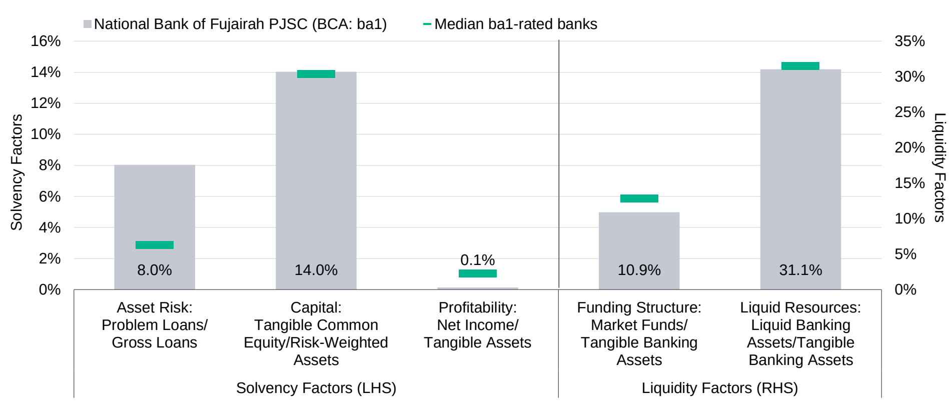
Update to credit analysis

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, if needed, given the Government of Fujairah's high ownership 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 solid core profitability through an established corporate and business banking franchise with a niche specialisation in trade finance, robust capital buffers and solid funding and liquidity through an established corporate and business banking deposit base. These strengths are moderated by the bank's asset quality exposed to SMEs and mid-size corporates and funding concentration.

Exhibit 1
Rating Scorecard - Key financial ratios



Problem loans and profitability ratios are the weaker of the three-year averages and the latest reported figures; the capital ratio is the latest reported figure; and the funding structure and liquid assets 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 supports solid core earnings generation
- Robust capital buffers
- Deposit based funding profile and sound liquid buffers
- Very high likelihood of government support

Credit challenges

- Asset quality exposed to SMEs and mid-sized corporates
- Deposit base exposed to concentration risk

Outlook

The stable outlook on NBF's long-term deposit ratings reflects our expectation that while pressure could emerge on the bank's asset quality, it will be balanced by strong solvency and liquidity buffers.

Factors that could lead to an upgrade

Upwards pressure on NBF's long-term ratings could emerge if the bank is able to sustain the improvements seen in 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 solvency and liquidity metrics. Downward pressure could also materialise from deterioration in the sectors the bank's loan book is concentrated into.

Key indicators

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

	09-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (AED Million)	49,973.7	47,624.3	42,945.5	39,872.0	42,805.3	4.2[4]
Total Assets (USD Million)	13,605.5	12,967.3	11,692.1	10,855.0	11,653.6	4.2[4]
Tangible Common Equity (AED Million)	4,956.7	4,502.6	4,269.3	4,294.1	5,033.6	(0.4)[4]
Tangible Common Equity (USD Million)	1,349.5	1,226.0	1,162.3	1,169.1	1,370.4	(0.4)[4]
Problem Loans / Gross Loans (%)	5.4	6.9	9.8	10.1	5.4	7.5[5]
Tangible Common Equity / Risk Weighted Assets (%)	14.0	13.6	14.0	13.6	14.5	13.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	23.2	30.5	42.3	41.8	24.4	32.4[5]
Net Interest Margin (%)	3.4	2.6	2.1	2.1	2.8	2.6[5]
PPI / Average RWA (%)	4.4	3.5	2.9	2.4	3.2	3.3[6]
Net Income / Tangible Assets (%)	1.3	0.6	0.1	-1.4	1.2	0.3[5]
Cost / Income Ratio (%)	30.6	33.2	35.6	37.5	33.7	34.1[5]
Market Funds / Tangible Banking Assets (%)	10.6	10.9	10.4	9.4	8.9	10.0[5]
Liquid Banking Assets / Tangible Banking Assets (%)	30.7	31.1	29.6	27.3	27.9	29.3[5]
Gross Loans / Due to Customers (%)	79.9	81.0	86.3	90.9	88.9	85.4[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

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 80% of its assets located in the UAE as of September 2023) through a network of 14 branches and 54 ATM/CDM units and with a market share of 1.3%**,** 1.4% and 1.5% in terms of total assets, net loans and deposits, respectively as of September 2023. As of September 2023, the bank reported a consolidated asset base of AED 50 billion ($13.6 billion).

The bank's shares have been listed on the Abu Dhabi Securities Exchange (ticker: NBF) since 2005. As of September 2023, the Government of Fujairah held a 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 shared capital through the Investment Corporation of Dubai.

Detailed credit considerations

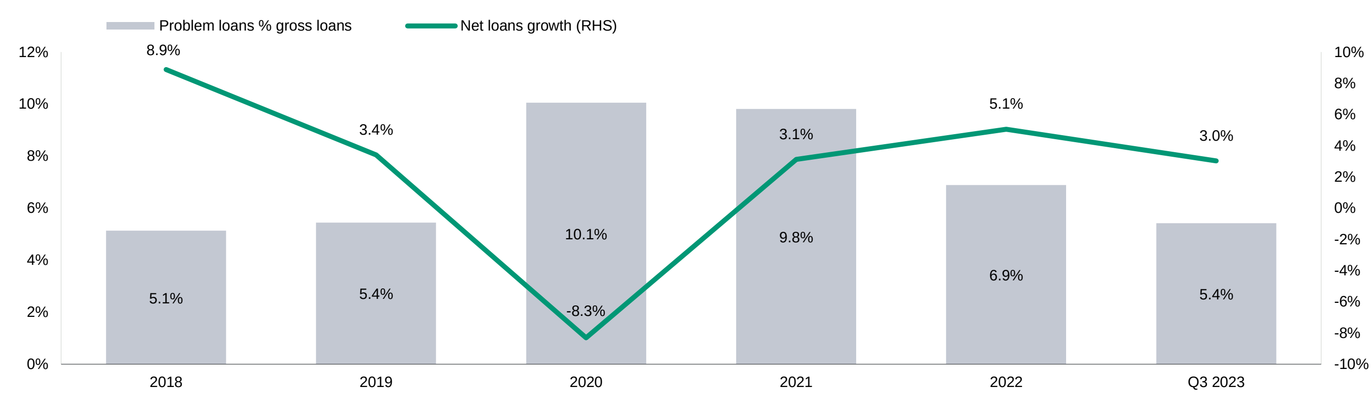
Asset quality has improved but remains exposed to SMEs and mid-sized corporates

NBF's asset quality continues to be exposed to the small and medium-sized enterprise and mid-corporate segments. Despite economic activity rebounding in the UAE, we expect the bank's asset quality to remain under pressure amid evolving global macroeconomic conditions, notably in the medium-sized enterprises and corporates segment. Also, the bank's sector concentration continues to pose risks to its asset quality.

As of September 2023 the bank's reported stage 3 loans to total gross loans ratio significantly improved to 5.4% (6.9% as of December 2022), from 10.1% as of 31 December 2020. The decrease in the NPL ratio was driven primarily by write offs (on average the bank wrote off 30% annually of previous year NPL between 2020-Q3 2023) and partially growth in the denominator (3-4% growth in 2021 and 2022, 3% as of September 2023 year-to-date). This ratio is now broadly in line with the local average. As a result of the lower NPL stock, the coverage ratio (loan loss reserves to problem loans) increased to 124% as of September 2023 from around 80% between 2018-2021, and now constitutes a strong buffer against losses for NBF.

The loan book of the bank, similarly to regional peers, remains also exposed to sector concentration, mainly towards trade (41% of gross loans as of December 2022) and the volatile real estate and construction sectors (combined 11% of the gross loan book and 73% of the tangible common equity as of December 2022). However, these risks are somewhat mitigated by the short-term nature of the bank's balance sheet which gives the entity the ability to exit certain sectors when they become troublesome and reorient its balance sheet towards less risky segments.

Exhibit 3
NBF credit growth and asset quality



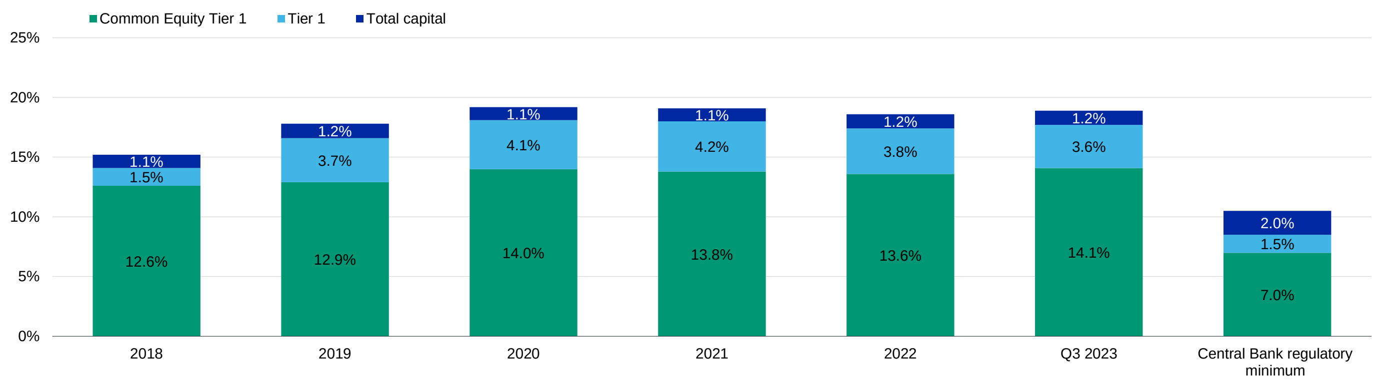
Problem loans correspond to Stage 3 loans, under the IFRS9 standard from 2018 onwards.
Source: NBF's financial statements, Moody's Investors Service

Robust capital buffer reflects solid core earnings retention

As of September 2023, the bank's Tangible common equity to risk weighted assets ratio was at a solid 14.0% (13.6% as of December 2022). The bank proposed to distribute bonus shares of 6% of share capital for the year 2022, but no cash dividends similarly to the previous two years.

We expect the bank's capital adequacy to remain robust for its risk profile. NBF reported a Basel III common equity tier 1 (CET1) ratio of 14.1%, Tier 1 ratio of 17.7%, total capital adequacy ratio of 18.9% as of September 2023, well above the minimum requirements set by the UAE Central Bank (see Exhibit 4).

Exhibit 4
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

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 tangible common equity 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 to pre-pandemic levels in the next 12 to 18 months, driven by solid earnings generation, stable operating and provisioning costs.

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 33% of its operating income in full-year 2022 and 25% in the first three quarters of 2023.

Net interest margins (NIMs) increased to 3.4% during first three quarters of 2023 compared with 2.6% during full-year 2022 driven mainly by higher interest rates and also by loan growth. Funding costs increased to 2.9% during the first three quarters of 2023 compared with 1.4% during full-year (FY) 2022.

The bank's cost-to-income ratio was at 31% during the first three quarters of 2023 and 33% during FY 2022, slightly down from 36% in FY 2021, as higher net interest income offset higher operating costs. The bank's loan loss provisions consumed 49% of pre-provision income during first three quarters of 2023 (51% in FY 2022), down from 99% in 2021. This remains well above the local average reflecting the bank's conservative provisioning policy.

As a result of the above, net income to tangible assets improved to 1.3% in the first three quarters of 2023 compared with 0.6% in full-year 2022.

Deposit based funding profile exposed to concentration

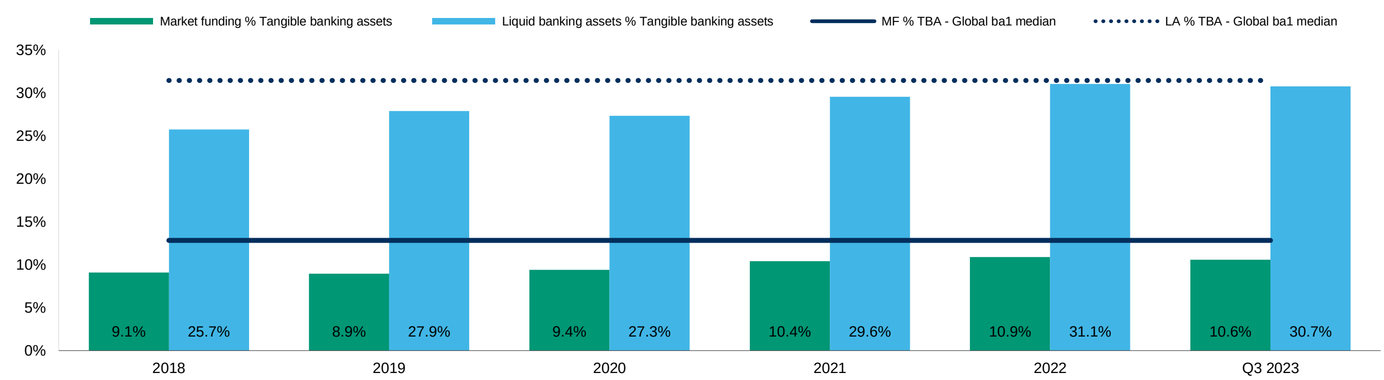
We expect NBF's deposit base to remain concentrated with a high reliance on deposits from corporates (63% of total deposits as of September 2023) which reflects the nature of its franchise. Additionally, a material portion of the bank's total deposits (27% as of September 2023) is sourced from related parties, which have historically remained stable.

Nonetheless, as of September 2023, the bank's reliance on market funds remained at 10.6% of its tangible banking assets (10.9% as of December 2022), which is well below the 18.4% local average. The bank's net loans-to-deposits ratio remained broadly stable at 74% as of September 2023 from 75% as of December 2022, reflecting net credit growth of 3% versus deposits growth of 4% year-to-date as of September 2023.

Sound liquid buffers

We expect NBF's overall liquidity to remain stable. NBF's liquid banking assets-to-tangible banking assets ratio was at 30.7% as of September 2023 (31.1% as of December 2022), which is high and adequate for the bank's market funding exposure (Exhibit 5). The short-term nature of the bank's balance sheet (65% of assets had a maturity of less than and equal to one year as of 31 December 2022), partially limits maturity transformation and mitigates liquidity risk.

Exhibit 5
NBF funding and liquidity metrics

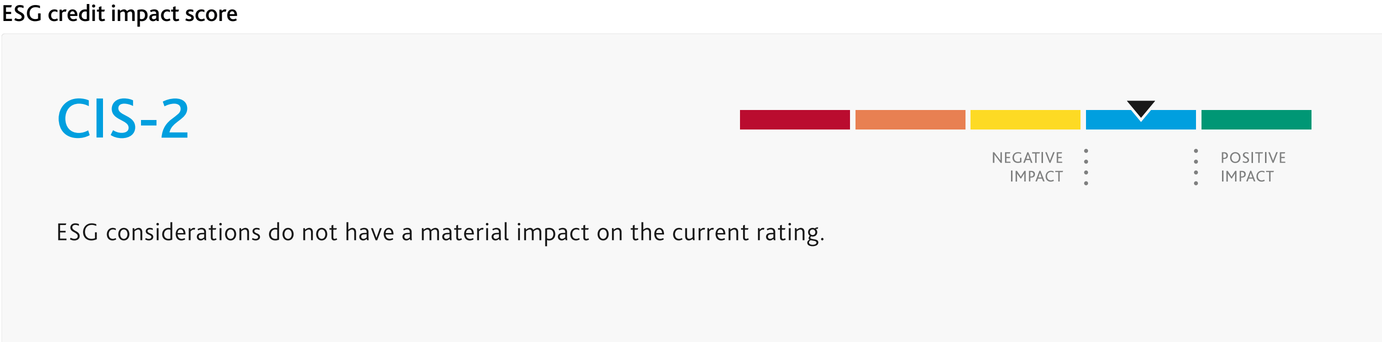


Source: NBF's financial statements, Moody's Investors Service

ESG considerations

National Bank of Fujairah PJSC's ESG credit impact score is CIS-2

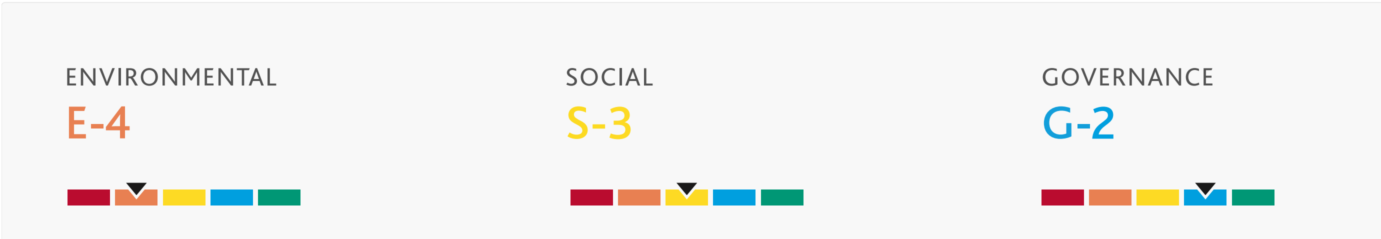
Exhibit 6
ESG credit impact score



Source: Moody's Investors Service

National Bank of Fujairah's **CIS-2** indicates that ESG considerations do not have a material impact on the rating.

Exhibit 7
ESG issuer profile scores



Source: Moody's Investors Service

Environmental
National Bank of Fujairah faces relatively high exposure to environmental risks, mainly because of carbon transition risk. Although the bank has limited direct lending 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, mostly related to customer relations and associated regulatory and litigation risks. Demographic trends have favored financial inclusion and adaptation to innovation for the population. National Bank of Fujairah and UAE banks are generally focused on the intermediation of simple, plain vanilla products which are less prone to mis-selling.

Governance
National Bank of Fujairah faces low governance risks reflecting the bank's track record of clear financial strategy. The 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 and the public listing mitigate 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 8

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	8.0%	ba3	↑↑	b2	Expected trend	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	14.0%	a3	↔	baa3	Expected trend	
Profitability						
Net Income / Tangible Assets	0.1%	b2	↑↑	ba1	Loan loss charge coverage	
Combined Solvency Score		ba1		ba2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	10.9%	a3	↔	baa2	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	31.1%	a3	↔	baa3	Expected trend	
Combined Liquidity Score		a3		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 9

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 1389836

MOODY'S
INVESTORS SERVICE