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National Bank of Umm Al Qaiwain – 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 Umm Al Qaiwain (NBQ or the Bank) at 'A-' and 'A2', respectively. At the same time, CI Ratings has affirmed NBQ'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.

NBQ's LT FCR is set two notches above the BSR and reflects the ESL of High. CI expects the Bank to receive extraordinary 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 willingness to continue to do so in the future. Additionally, NBQ can also expect support from the government of Umm Al Quwain, a founding shareholder.

NBQ's BSR is derived from a CFS rating of 'bbb' and an Operating Environment Risk Anchor (OPERA) of 'bbb'. The CFS reflects the Bank's long track record of generating strong earnings, very solid capital ratios and good liquidity, along with improving asset quality. Principal credit challenges are significant customer concentrations in loans and deposits, sector concentration in real estate, and the Bank's small size, low market share and limited business diversification.

The OPERA for the UAE indicates modest risk and reflects the economy's reliance on hydrocarbons, moderate institutional strength, and limited monetary policy flexibility. Additionally, economic risk is partly offset by the support from the wealthy emirate of Abu Dhabi to the federation, and the presence of a substantial buffer of external assets managed by sovereign wealth funds in the country. The UAE banking sector stayed resilient in 2024 and the first quarter of 2025, maintaining high capital levels and relatively low NPLs. A global slowdown caused by US tariffs poses risk to international trade, while ongoing regional conflicts could affect the UAE's appeal as an investment destination. Despite heightened regional geopolitical risks, the UAE economy, especially its non-oil sectors, continues to demonstrate resilience.

NBQ's current strategies emphasise leveraging its sizable capital to expand its balance sheet and increase market share, while also diversifying across customer segments, products, services and revenue sources. Historically, the Bank has adopted a very conservative stance, prioritising capital and liquidity preservation. Despite its comparatively small size and limited business scope, it has consistently delivered strong earnings and has generously rewarded shareholders. Nonetheless, its market share in the UAE has declined over time, making it one of the smallest commercial banks in the country.

The loan book has a sizeable, though reducing, concentration in the real estate sector. NBQ has expanded its customer base to include banks, governments, government-related entities (GREs), large corporates and multinationals through bilateral deals and syndications. The Bank seeks to boost cash flow-based lending, decrease asset-based financing, increase short-term loans and enhance the credit portfolio's risk profile. It maintains a high-quality large due from banks portfolio, a moderate though growing bond portfolio, and investments in equities of UAE blue-chip banks and companies. Customer concentrations in the loan book are high but similar to those of peer banks.

There has been a notable improvement in asset quality over the past 18 months. The NPL ratio is better than the peer group average due to recoveries (reflecting effective remedial actions), write-offs of loans older than five years (partly to align with the new UAE central bank standard), and low NPL accretions resulting from a focus on expanding exposures to governments, banks and GREs. Strong loan growth over the past two to three years, following several years of credit contraction, has also contributed to the reduction in the NPL ratio to a good level. We expect NPL ratios to stay low over the medium term as the credit portfolio grows under stricter underwriting standards. NBQ's Stage 2 loans have also declined over the past two years, indicating successful restructuring of credit; the Stage 2 loans to gross loans ratio is now in line with the average for small- and mid-sized CI-rated banks in the country. Over the past two years, NBQ's loan-loss reserve coverage has grown but is still low, partly due to collateral availability.

The provisioning expenses to gross loans ratio has declined, reflecting recoveries from previously written-off loans. In the future, provisioning costs might increase to meet central bank rules that require banks to discount collateral values for impaired loans over five years. Despite this, the Bank's solid income streams would allow it to comfortably handle any extra provisioning needs. The Bank's large capital also provides a solid cushion against future asset quality shocks.

NBQ's profitability ratios have traditionally been strong, driven by a wide net interest margin (NIM), efficient cost management, rising fee and commission income, and low risk charges partly due to recoveries of legacy loans written off in the past. One of the Bank's competitive advantages is a low funding cost arising from a high CASA ratio, the absence of wholesale borrowings and a large capital base. While declining benchmark interest rates (from the second half of 2024) adversely impacted the Bank's NIM last year and in H1 25, in common with the sector, NBQ's spreads remain high and continue to be well above the sector median. Costs are well-managed, and the Bank's cost-to-income ratio remains among the best in the country. Both operating profitability and ROAA are among the sector's highest, but income sources remain concentrated in corporate banking. Nonetheless, profitability metrics have stayed resilient through challenging periods over the years.

Liquidity ratios remain strong and stable. The Bank's high capital base supports its solid liquidity position, leading to one of the lowest net loans to stable funds ratios in the banking sector. Deposit growth in 2024 and H1 25 significantly outpaced credit expansion, which has improved the loan-to-deposit ratio and net loans to stable funds ratio; both ratios have strengthened and are better than the sector median. NBQ has a high customer concentration in its deposit base, partly due to significant deposits placed by related parties. Although these deposits have been stable, even during past periods of liquidity stress, the Bank would benefit from a more diversified source of funding. The CASA ratio has increased and now exceeds the average ratio of small banks with limited retail franchises like NBQ. Currently, wholesale borrowings are minimal, though the Bank has previously raised funds through capital markets. CI expects NBQ to sustain its strong liquidity position over the medium term.

Despite a decline over the past four years due to increasing risk-weighted assets, capital ratios remain very high. NBQ's CET1, Tier 1, capital adequacy and leverage ratios are the best in the sector, reflecting the Bank's cautious, risk-averse stance over more than a decade. As the Bank now enters a growth phase and management aims to boost returns on equity, which are well below the sector median, we expect capital ratios to decline. Nevertheless, NBQ is likely to sustain a strong capital position in the foreseeable future. The Bank has good capital flexibility, with the ability to raise Additional Tier 1 and Tier 2 capital or issue equity to its supportive shareholders if needed. Capital levels can also be increased by reducing dividends, as has been done previously.

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. We expect key financial parameters to be maintained at least at current levels.

Rating Dynamics: Upside Scenario

An upgrade in the LT FCR and BSR or a change in the Outlook to Positive over the next 12 months would necessitate an upward revision of the OPERA or a strengthening of the Bank's standalone profile, which could stem from further improvements in the coverage ratio, reduced customer concentrations, a more diversified business base and a larger balance sheet.

Rating Dynamics: Downside Scenario

Though a remote possibility, a one-notch downgrade of the LT FCR and BSR or a change in the Outlook to Negative would be likely in the event of a deterioration in the Bank's credit profile. 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 FY2021-24 and H1 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 <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 August 1994. The ratings were last updated in September 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 assigned or maintained at the request of the rated entity or a related third party.

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