



RATING ACTION COMMENTARY

Fitch Affirms National Bank of Ras Al-Khaimah at 'BBB+'; Outlook Stable

Wed 13 Apr, 2022 - 10:32 AM ET

Fitch Ratings - Dubai - 13 Apr 2022: Fitch Ratings has affirmed The National Bank of Ras Al-Khaimah (P.S.C.)'s (Rakbank) Long-Term Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook and Viability Rating (VR) at 'bb'.

Fitch has withdrawn Rakbank's Support Rating and Support Rating Floor as they are no longer relevant to the agency's coverage following the publication of its updated Bank Rating Criteria on 12 November 2021. In line with the updated criteria, we have assigned Rakbank's Government Support Rating (GSR) of 'bbb+'.

KEY RATING DRIVERS

Rakbank's IDRs are driven by a high probability of support from the UAE authorities, if needed.

The Short-Term IDR of 'F2' is the lower of two options mapping to a 'BBB+' Long-Term IDR, reflecting the fact that a significant part of UAE banking sector funding is related to the government and stress on Rakbank is likely to come at a time when the sovereign itself is experiencing some form of stress.

Rakbank's VR reflects its modest franchise, vulnerable, albeit improved, asset quality, high-risk appetite, only adequate capital and only satisfactory profitability on a risk-adjusted basis. It also considers the bank's business model diversification strategy, stable funding and good liquidity, as well as competent management. The 'bb' VR is

below the 'bb+' implied rating due to the following adjustment reason: Risk Profile (negative).

Government Support: Rakbank's 'bbb+' GSR reflects the UAE's strong capacity to support the banking system and its long record of supporting domestic banks. However, it also factors in Fitch's view of Rakbank's lower systemic importance due to its smaller market share and niche franchise.

Easing Pressures From Pandemic: Pressures from the pandemic and lower oil prices have largely eased. We expect the sector's credit growth to remain low at 3% in 2022 as credit demand will be constrained by higher rates and continuing corporate repayments.

Modest Franchise: Rakbank's small market share in the UAE limits the bank's pricing power. Nonetheless, its retail banking and SME franchise benefit from strong recognition domestically. Rakbank's management has in-depth knowledge of the regional market and is highly experienced in local and international banking.

High Risk Appetite: Rakbank's above-average risk appetite derives from its business model focused on retail and SME lending (51% and 24% of gross loans, respectively, at end-2021). The bank's wholesale business is being developed (25% of gross loans), which we view positively.

Vulnerable but Improved Asset Quality: The bank's impaired loans ratio decreased to 4.3% at end-2021 from 5.5% at end-2020 and compares favourably with peers, although this is partly due to higher-than-average write-offs and growth resuming in 2021. Total problem (stage 2+3) loans reduced to 9% of gross loans at end-2021 from 13% at end-2020) and problem loans generation declined to 1.1% of gross loans in 2021 (2020: 5.5%). Impaired loans coverage was healthy and the highest among Fitch-rated peers at 130% at end-2021(peer average: 82%).

Only Satisfactory Profitability: Operating profitability has been declining with the diversification towards lower-risk assets, a lower interest-rate environment since 1Q20 and the pandemic. Profitability recovered in 2021 owing to lower loan impairment charges but remains below pre-pandemic levels. Fitch views performance metrics as only satisfactory given the bank's business model, which is still higher risk than peers.

Only Adequate Capital Ratios: The bank's common equity Tier 1 (CET1) ratio decreased to 15.9% at end-2021 (in line with its pre-pandemic level) from an atypical high 17.5% at end-2020 on the back of resumed growth. Capital ratios are only adequate considering the bank's higher risk profile. Fitch expects the bank's capital metrics to be stable or decline marginally in 2022, based on growth expectations.

Stable Funding; Good Liquidity: Rakbank is largely funded by stable customer deposits, which accounted for 82% of non-equity funding at end-2021. The deposit base is more granular than peers' due to the bank's retail focus. Rakbank's liquidity profile is good, with liquid assets covering 28% of customer deposits at end-2021.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A downgrade of Rakbank's Long-Term IDR would require a downgrade of the GSR. The latter would likely stem from a weaker ability of the UAE government to provide support, as reflected in a downgrade of the UAE sovereign, which is not our base case considering the Stable Outlook on the sovereign rating.

Rakbank's VR could face downward pressure from material deterioration in asset quality, profitability and capital.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Positive rating action on the IDR would require an upgrade of the bank's GSR and is unlikely in the short to medium term as we do not expect the bank's systemic importance to increase significantly.

Lower risk profile and more diversified business model could lead to a VR upgrade.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

The ratings of the senior unsecured notes issued under a medium-term note (MTN) programme through its special purpose vehicle (SPV) RAKFUDNING CAYMAN LTD are in line with the bank's IDRs because Fitch views the likelihood of default on senior unsecured obligations issued by the SPV as being the same as that of the bank.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

The ratings of the senior unsecured notes issued under the bank's MTN programme through RAKFUNDING CAYMAN LTD are subject to the same negative sensitivities as the bank's IDRs.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The ratings of the senior unsecured notes issued under the bank's MTN programme through RAKFUNDING CAYMAN LTD are subject to the same positive sensitivities as the bank's IDRs.

VR ADJUSTMENTS

The Operating Environment score of 'bbb' has been assigned below the 'aa' category implied score due to the following adjustment reason: Size and Structure of Economy (negative), Financial Market Development (negative), Regulatory and Legal Framework (negative).

The Earnings and Profitability score of 'bb+' has been assigned below the 'bbb' category implied score due to the following adjustment reason: Earnings Stability (negative).

The Capitalisation and Leverage score of 'bb+' has been assigned below the 'bbb' category implied score due to the following adjustment reason: Risk Profile and Business Model (negative)

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit

<https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Rakbank's IDRs are linked to the creditworthiness of the UAE authorities.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit

impact on Rakbank, either due to their nature or the way in which they are being managed by Rakbank. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
The National Bank of Ras Al-Khaimah (P.S.C.)	LT IDR	BBB+ Rating Outlook Stable		BBB+ Rating Outlook Stable
	Affirmed			
	ST IDR	F2	Affirmed	F2
	Viability	bb	Affirmed	bb
	Support	WD	Withdrawn	2
	Support Floor	WD	Withdrawn	BBB+
	Government Support		bbb+	
	New Rating			
RAKFUNDING CAYMAN LTD				
senior unsecured	LT	BBB+	Affirmed	BBB+
senior unsecured	ST	F2	Affirmed	F2

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Amin Sakhri

Director

Primary Rating Analyst

+971 4 424 1202

amin.sakhri@fitchratings.com

Fitch Ratings Ltd

Dubai Branch One Central, The Offices 3, #321 & 323, Sheikh Zayed Road, P.O.Box 9573, Dubai

Jamal El Mellali

Director

Secondary Rating Analyst

+44 20 3530 1969

jamal.elmellali@fitchratings.com

Artur Szeski

Senior Director

Committee Chairperson

+48 22 103 3015

artur.szeski@fitchratings.com

MEDIA CONTACTS

Louisa Williams

London

+44 20 3530 2452

louisa.williams@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 13 Nov 2021\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

RAKFUNDING CAYMAN LTD

UK Issued, EU Endorsed

The National Bank of Ras Al-Khaimah (P.S.C.)

UK Issued, EU Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers.

Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders'™ relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings

and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom,

or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2022 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be.

Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.