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Fitch Assigns Al Hilal Bank 'A+' IDR; Stable Outlook Ratings Endorsement Policy

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Fitch Ratings-London-09 September 2013: Fitch Ratings has assigned Abu Dhabi-based Al Hilal Bank a Long-term foreign currency Issuer Default Rating (IDR) of 'A+' and Viability Rating of (VR) 'bb-'. The Outlook on the Long Term IDR is Stable. A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS - IDRS, SUPPORT RATING AND SUPPORT RATING FLOOR

Al Hilal Bank's IDRs, Support Rating and Support Rating Floor reflect an extremely high probability of support from the UAE authorities and/or the Abu Dhabi government (AA/Stable), if needed. Fitch's opinion of the high likelihood of support is based on Abu Dhabi Investment Council's (ADIC) 100% stake in the bank and the strong history of banking system support in the UAE. ADIC is a fully owned investment arm of the Abu Dhabi government.

RATING SENSITIVITIES - IDRS, SUPPORT RATING AND SUPPORT RATING FLOOR

The IDRs, Support Rating and Support Rating Floor are sensitive to a change in Fitch's view of the willingness or ability of the UAE authorities and/or the Abu Dhabi government to provide sovereign support for Al Hilal. However, Fitch recognises the bank's strong ownership and the long history of support in the UAE for the banking system.

KEY RATING DRIVERS - VR

The VR reflects Al Hilal's small but growing franchise, limited track record, and high concentrations in both the financing book and customer deposit base. The VR also considers Al Hilal's improving profitability, generally healthy asset quality, strong reserve coverage and satisfactory capitalisation.

Al Hilal is currently the third-largest Islamic bank in the UAE, with a small domestic franchise (about 2% market shares in UAE financings), a consequence of being a relatively young bank. In H113, gross financing increased 5.3%, following robust growth in 2011 and 2012 (27.6% and 19.3% growth, respectively). While Al Hilal has been successful in growing its customer base and gradually improving the diversification of its financing book, it remains highly concentrated by both sector and single-name exposures, as is common in the region. Al Hilal aims to grow further and capture market share as part of its new strategy. Balance sheet and net income growth should be achievable, in Fitch's view, as the bank capitalises on an improving domestic operating environment and capital support from its shareholder.

Net income increased to AED217m in H113 (H112: AED93m), driven by growth in both retail and wholesale financing. Al Hilal's profitability ratios are satisfactory, with an operating return on average equity of 12.2% and operating return on average assets of 1.3% in H113. Pre-impairment operating profit should provide sufficient capacity to absorb impairment charges as well as potential moderate shocks from financing book concentrations.

As a new bank, Al Hilal has largely avoided the widespread real estate problems that have negatively affected the UAE banking system since 2008, although the bank does have a large government-related entity (GRE) exposure that is being restructured.

At end-H113, the NPL ratio increased slightly to 1.6% (2012: 1.3%), which is the lowest of the Fitch-rated UAE banks. Fitch expects NPLs to gradually increase as the financing book seasons, although the improving domestic operating environment should contain them at otherwise healthy levels. Past due (90 days and above) but not impaired loans (PDNI) amounted to AED836m at end-H113, equivalent to a further 3.4% of the financing book. Al Hilal expects these exposures to be largely resolved by end-2013.

Customer deposits constitute about 90% of non-equity funding and grew 7% in H113 (2012: 27% yoy growth). As is common at UAE banks, the deposit base is highly concentrated, with the 20-largest depositors accounting for a significant portion of the total, mainly sourced from UAE government/government-related entities. Al Hilal aims to grow the contribution of current and savings accounts to its deposit base to reduce concentrations and lower funding costs. A large portion of Al Hilal's deposit base has a contractual maturity of three months or less, but large deposit balances are typically rolled over and have proven stable. As part of its five-year strategy, the bank aims to gradually improve its liquidity profile, by increasing its stock of liquid assets and potentially accessing the capital markets to improve asset and liability mismatches.

At end-H113, the Fitch core capital ratio stood at 13.3%, which compares well with its closest peers. In 2012, Al Hilal's capital cushion was boosted by retained earnings and an AED500m capital contribution from ADIC. An undrawn capital commitment from ADIC of AED910m is also available to fund business growth, as and when needed.

RATING SENSITIVITIES - VR

Upside potential for the VR could arise from a resolution of the large PDNI exposures that were present at end-H113. Further evidence of Al Hilal implementing its strategy and building a track record with no material deterioration in the bank's risk indicators would also be a positive rating driver. Downside risk could arise if the strong growth in financing were to lead to a material deterioration in asset quality, impacting the bank's profitability and capitalisation.

Established in Abu Dhabi in 2008, Al Hilal offers a wide range of sharia-compliant wholesale, retail, treasury and investment banking services. It is fully owned by ADIC and is regulated by the Central Bank of the UAE.

The rating actions are as follows:

Long-term IDR assigned at 'A+'; Stable Outlook
Short-term IDR assigned at 'F1'

VR assigned at 'bb-'
Support Rating assigned at '1'
Support Rating Floor assigned at 'A+'

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Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 15 August 2012 and 'Evaluating Corporate Governance', dated 12 December 2012 are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria
Evaluating Corporate Governance

Additional Disclosure

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