

Banks Ratings Navigator		
Navigator date:	<b>DRAFT</b>	
Last rating action:	27 Jul 2016	
Sector Details:		
Bank sector:	Universal Commercial	
Region:	EM Middle East and Africa	
Country:	United Arab Emirates	
Country IDR:	n.a.	
Last action:	n.a.	
Country ceiling:	n.a.	
Macro prudential indicator:	1	
Bank systemic indicator:	bbb	
Bank Rating History		
Viability Rating (VR)		
27 Jul 16	bb	Affirmed
05 Aug 15	bb	Affirmed
04 Sep 14	bb	Upgrade
Issuer Default Rating (IDR)		
27 Jul 16	A+ Stable	Affirmed
05 Aug 15	A+ Stable	Affirmed
04 Sep 14	A+ Stable	Affirmed
Support Rating Floor (SRF)		
27 Jul 16	A+	Affirmed
05 Aug 15	A+	Affirmed
04 Sep 14	A+	Affirmed
Bar Chart Legend:		
Vertical bars = VR range of Rating Factor		
Bar Colors = Influence on final VR		
<span style="color:red">■</span>	Higher Influence	
<span style="color:blue">■</span>	Moderate Influence	
<span style="color:lightblue">■</span>	Lower Influence	
Bar Arrows = Rating Factor Outlook		
↑	Positive	↓ Negative
↕	Evolving	□ Stable
Peer Ratings bars = Count of banks		
90	EM Middle East and Africa Universal Commercial	
16	United Arab Emirates Universal Commercial	
Relevant Criteria & References		
<a href="#">Global Bank Rating Criteria (Jul 2016)</a>		
<a href="#">Macro-Prudential Risk Monitor (May 2016)</a>		
Analysts		
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Zeinab Abdalla (+971 4 424 1210)		

	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Financial Profile			Viability Rating	Support Rating Floor	Issuer Default Rating
							Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity			
aaa										aaa	AAA	AAA
aa+										aa+	AA+	AA+
aa										aa	AA	AA
aa-										aa-	AA-	AA-
a+										a+	A+	A+ Stable
a										a	A	A
a-										a-	A-	A-
bbb+										bbb+	BBB+	BBB+
bbb										bbb	BBB	BBB
bbb-										bbb-	BBB-	BBB-
bb+										bb+	BB+	BB+
bb										bb	BB	BB
bb-										bb-	BB-	BB-
b+										b+	B+	B+
b										b	B	B
b-										b-	B-	B-
ccc										ccc	CCC	CCC
cc										cc	CC	CC
c										c	C	C
f										f	NF	D or RD

Support Rating Floor	Value		
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			
Actual country D-SIB SRF	A+		
<b>Support Rating Floor:</b>	<b>A+</b>		
Support Factors	Positive	Neutral	Negative
Sovereign ability to support system			
Size of banking system relative to economy		✓	
Size of potential problem		✓	
Structure of banking system			✓
Liability structure of banking system	✓		
Sovereign financial flexibility (for rating level)			
Sovereign propensity to support system	✓		
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in		✓	
Track record of banking sector support	✓		
Government statements of support			
Sovereign propensity to support bank		✓	
Systemic importance			
Liability structure of bank	✓		
Ownership	✓		
Specifics of bank failure			
Policy banks		✓	
Policy role			
Funding guarantees and legal status			
Government ownership			

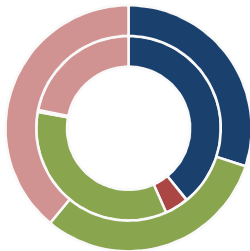
Drivers & Sensitivities	
<b>IDRs Driven by Extremely High Probability Of State Support</b>	AI Hilal Bank's (AHB) IDRs are driven by an extremely high probability of support from the UAE and Abu Dhabi authorities if needed. This considers its significant Abu Dhabi government ownership that offsets its lower systemic importance in the UAE.
<b>Acceptable Capital Ratios</b>	The bank's Viability Rating (VR) is supported by its adequate capital ratios, albeit weaker than peers in light of the bank's concentrated balance sheet. Capital ratios deteriorated in 2014 and 2015 due to weakening profitability and lower internal capital generation.
<b>Small Domestic Franchise</b>	Established in 2008, AHB has a relatively small domestic franchise with about 2% market share of total UAE banking system assets and financing.
<b>Weak Asset Quality</b>	The bank's asset quality deteriorated in 2014 and further in 2015 due to the impairment of two of its largest exposures. The impaired financing ratio increased to 8.5% at end-2015 (end-2013:1.2%), higher than the UAE rated peer average.
<b>High Financing Book Concentration</b>	The financing book is highly concentrated with the 20 largest exposures representing 3.7x the bank's Fitch Core Capital (FCC) at end-2015, strongly above the average of UAE rated peers.
<b>Weak Profitability</b>	AHB's profitability is weaker than that of peers, impacted by high impairment charges in 2014 and 2015 due to its new impaired exposures. Impairment charges accounted for 85% of pre-impairment profit in 2015, and profitability continued to weaken.
<b>Acceptable Liquidity</b>	Liquidity is underpinned by the bank's investment portfolio. However, we consider the liquidity ratios to be only adequate given the bank's highly concentrated deposit base.
<b>VR Sensitivities</b>	Upside is currently limited unless the bank sees an improvement in its asset quality metrics and a reduction in financing concentration. Downside could arise if asset quality metrics continue to deteriorate, further impacting the bank's profitability and capitalisation.

Key Financial Ratios (02 Aug 2016)	AHB				Direct Peers Median				Region Sector Median			
	Number of Banks: Statement:				6	5	5	5	FYE15	FYE14	FYE13	FYE12
<b>Size (USDbn)</b>	FYE15	FYE14	FYE13	FYE12	FYE15	FYE14	FYE13	FYE12	FYE15	FYE14	FYE13	FYE12
Total assets	12	11	11	9	14	11	11	9	22	20	18	15
Risk weighted assets (RWA)	10	9	8	7	12	9	8	7	15	16	12	11
Total equity	1	1	1	1	2	1	1	1	2	2	2	2
Fitch core capital (FCC)	1	1	1	1	2	1	1	1	2	2	2	2
<b>Asset Quality</b>												
Impaired loans/gross loans	8.5%	4.8%	1.2%	1.3%	5.3%	4.8%	6.5%	8.2%	3.1%	3.1%	3.3%	3.5%
Growth of gross loans	0.6%	15.3%	18.5%	19.3%	17.1%	16.4%	18.5%	3.6%	8.2%	14.4%	11.1%	10.8%
Reserves for impaired loans/impaired loans	75.5%	102.4%	261.4%	231.3%	101.9%	95.6%	84.9%	69.6%	107.7%	100.7%	97.5%	94.2%
Loan impairment charges/avg gross loans	1.8%	2.4%	0.8%	1.2%	1.0%	0.8%	1.0%	1.2%	0.8%	0.8%	0.9%	1.0%
<b>Earnings and Profitability</b>												
Operating profit/risk weighted assets	0.3%	0.2%	1.5%	1.0%	2.0%	1.9%	2.1%	1.8%	2.0%	2.3%	2.2%	2.3%
Net interest income/average earning assets	3.8%	4.0%	4.0%	4.1%	3.7%	3.9%	4.0%	4.1%	3.0%	3.1%	3.2%	3.3%
Non-interest expense/gross revenues	54.1%	48.4%	54.1%	58.3%	42.2%	45.4%	50.8%	53.9%	42.6%	44.3%	44.7%	45.2%
Loans & secs imp charges/pre-imp op. profit	85.3%	89.9%	33.2%	49.2%	29.1%	27.0%	27.2%	33.7%	20.8%	19.2%	20.5%	25.0%
Operating profit/average total assets	0.3%	0.2%	1.3%	0.9%	1.6%	1.6%	1.5%	1.5%	1.7%	1.8%	1.8%	1.8%
Net income/average total equity	2.8%	2.1%	11.9%	8.6%	15.2%	16.4%	11.9%	8.6%	13.7%	14.4%	13.7%	14.5%
<b>Capital and Leverage</b>												
FCC/FCC-adjusted risk weighted assets	9.9%	10.8%	13.0%	13.8%	12.6%	15.4%	13.9%	15.7%	14.5%	14.9%	15.6%	15.8%
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	12.3%	7.2%	6.8%	6.7%
Tangible common equity/tangible assets	8.4%	9.1%	10.2%	10.9%	9.6%	11.3%	10.6%	12.2%	11.1%	11.2%	11.3%	12.0%
CET1 capital ratio	n.a.	n.a.	n.a.	n.a.	15.5%	n.a.	n.a.	n.a.	12.4%	13.1%	12.2%	12.1%
Internal capital generation	2.9%	2.2%	11.2%	7.6%	9.0%	8.2%	9.5%	3.6%	8.1%	8.1%	7.1%	7.6%
Imp loans less reserves for imp Loans/FCC	18.6%	-1.0%	-14.0%	-11.6%	-0.4%	1.7%	7.0%	13.7%	-1.2%	0.1%	0.4%	0.8%
<b>Funding and Liquidity</b>												
Loans/customer deposits	100.9%	103.6%	99.3%	94.7%	97.0%	103.1%	99.3%	94.7%	89.6%	87.2%	85.7%	87.3%
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.	158.2%	n.a.	n.a.	n.a.	169.9%	85.2%	n.a.	n.a.
Customer deposits/total funding excl derivs	84.9%	86.0%	84.9%	90.9%	86.1%	86.0%	84.9%	85.4%	82.1%	82.9%	84.7%	84.4%

**Business Mix**

(by profit or revenue)

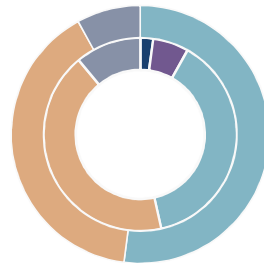
- Retail banking (30%)
- SME banking (0%)
- Corporate banking (31%)
- Investment banking (0%)
- Transaction banking (0%)
- Asset management (0%)
- Insurance (0%)
- Other (39%)



Outer: AHB  
Inner: Direct Peers Average

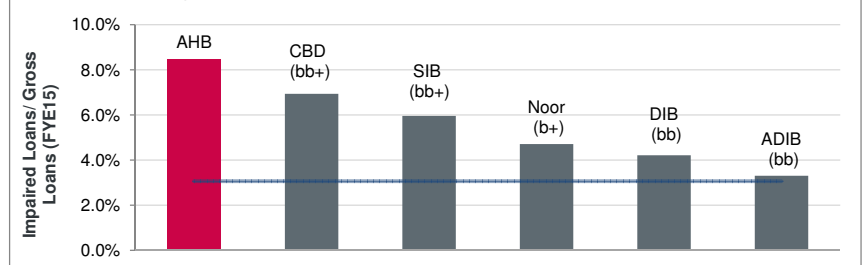
**Lending Type**

- Resi mortgages (0%)
- Comm mortgages (0%)
- Asset finance (0%)
- Other secured (0%)
- Personal unsecured (52%)
- Comm unsecured (40%)
- FIs & Sovs (8%)
- High yield (0%)
- Other unsecured (0%)

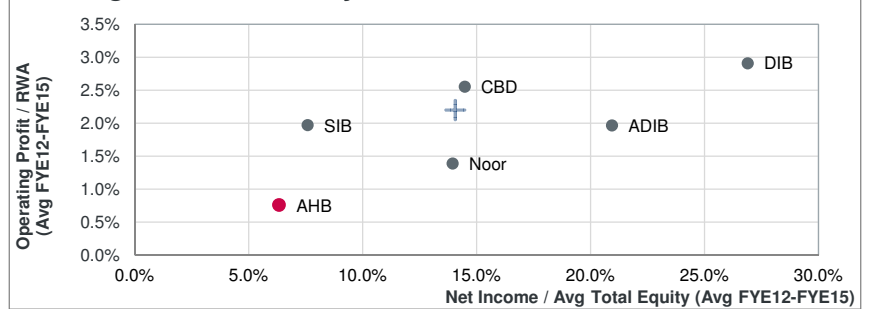


Outer: AHB  
Inner: Direct Peers Average

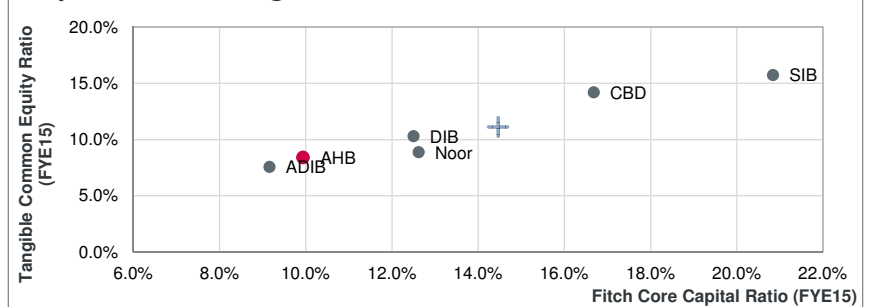
**Asset Quality**



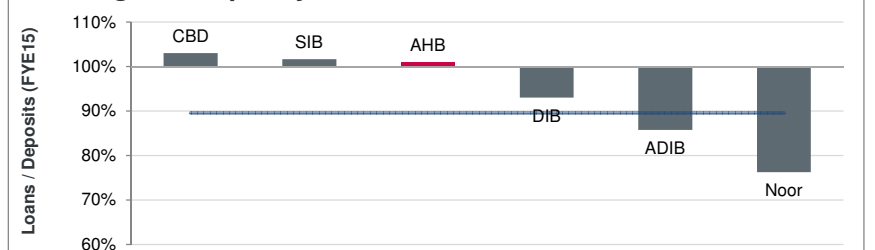
**Earnings and Profitability**



**Capital and Leverage**



**Funding and Liquidity**



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