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CREDIT OPINION
11 May 2017

Update

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Al Hilal Bank PJSC

Semmiannual update

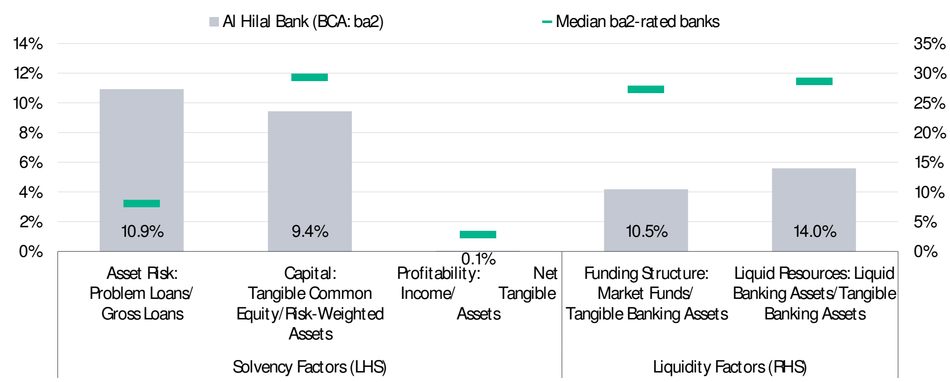
Summary Rating Rationale

We assign A1 long term issuer ratings to Al Hilal Bank PJSC (AHB). This is based on the bank's overall standalone credit strength (reflected in a standalone baseline credit assessment or BCA of ba2) and our view of a very high likelihood of government support if needed.

AHB's ba2 BCA reflects its (1) deteriorating asset quality coupled with significant concentration risks; (2) modest capitalisation coupled with relatively weak profitability; and (3) low liquidity buffers combined with a concentrated funding profile.

AHB is based in the United Arab Emirates (UAE) with a 1.7% market share in total system assets as of December 2016.

Exhibit 1
Rating Scorecard - Key Financial Ratios (31 December 2016)



Source: Moody's Financial Metrics

RATINGS

Al Hilal Bank PJSC

Domicile	Abu Dhabi, United Arab Emirates
Long Term Debt	Not Assigned
Type	Not Assigned
Outlook	Not Assigned
Long Term Deposit	Not Assigned
Type	Not Assigned
Outlook	Not Assigned

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.

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Credit Strengths

- A `Strong-` macro profile supports the bank's ratings
- Very high likelihood of support from UAE authorities in case of need

Credit Challenges

- Deteriorating asset quality coupled with concentration risks
- Modest capitalisation coupled with relatively weak profitability
- Low liquidity buffers combined with concentrated funding profile

Rating Outlook

- Long term ratings assigned to AHB carry a negative outlook in line with negative outlook on the Government of Abu Dhabi.

Factors that Could Lead to an Upgrade

- We do not expect upward pressure on AHB's ratings over the near term, as indicated by the negative outlook. The ratings could be stabilised by a combination of the following: (1) a significant improvement in profitability and asset quality which have been weakening; and (2) the outlook on the government's ratings stabilises.

Factors that Could Lead to a Downgrade

- AHB's issuer ratings could be downgraded if (1) the government's capacity and/or willingness to support the bank is weakened; (2) continued deterioration of asset quality metrics; and/or (3) weakening in profitability or capitalisation.

Key Indicators

Exhibit 2
Al Hilal Bank PJSC (Consolidated Financials) [1]

	12-16[2]	12-15[2]	12-14[2]	12-13[2]	12-12[2]	Avg.
Total Assets (AED million)	43,427	43,091	41,291	38,705	32,122	7.8[3]
Total Assets (USD million)	11,824	11,732	11,242	10,538	8,745	7.8[3]
Tangible Common Equity (AED million)	3,650	3,626	3,745	3,906	3,474	1.2[3]
Tangible Common Equity (USD million)	994	987	1,020	1,063	946	1.2[3]
Problem Loans / Gross Loans (%)	10.9	8.9	5.4	3.7	5.0	6.8[4]
Tangible Common Equity / Risk Weighted Assets (%)	9.4	10.0	10.9	12.9	13.7	11.4[5]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	62.1	50.8	32.7	21.6	28.2	39.1[4]
Net Interest Margin (%)	2.5	3.1	3.4	3.7	3.8	3.3[4]
PPI / Average RWA (%)	1.1	1.7	2.4	2.4	2.2	2.0[5]
Net Income / Tangible Assets (%)	0.1	0.0	0.1	1.1	0.8	0.4[4]
Cost / Income Ratio (%)	68.1	58.3	50.0	54.1	58.3	57.8[4]
Market Funds / Tangible Banking Assets (%)	10.5	10.2	9.0	13.0	7.8	10.1[4]
Liquid Banking Assets / Tangible Banking Assets (%)	14.0	16.8	15.5	15.7	13.5	15.1[4]
Gross Loans / Due to Customers (%)	107.9	100.9	103.6	99.3	94.7	101.3[4]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Compound Annual Growth Rate (%). Any interim period amounts presented are assumed to be fiscal year end amounts for calculation purposes [4] Simple average of periods presented [5] Simple average of Basel II periods presented
Source: Moody's Financial Metrics

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Detailed Rating Considerations

AHB'S RATINGS ARE SUPPORTED BY A STRONG- MACRO PROFILE

AHB's Strong- macro profile score reflects its operations in the UAE (Strong-), which represents the large majority of the bank's assets (around 94% as of December 2016). The UAE ,rated Aa2 with a negative outlook, benefits from high levels of economic wealth derived from the country's sizable hydrocarbon reserves. Other strengths include a sound policy framework and strong growth in the non-oil sector that is driving economic diversification. The country remains moderately susceptible to adverse events, owing primarily to geopolitical tensions in the region.

Our view of UAE's operating environment takes into account; (1) the continuing implications of low oil prices and its impact on confidence and the country's growth prospects, (2) public spending plans, particularly in Abu Dhabi, that will help drive both public and private sector economic growth and partially cushion the impact of low oil prices, and (3) sound growth in Dubai's diversified non-oil private sector. Substantial sovereign wealth fund buffers and increased government borrowings will support public spending programs and the economy more broadly over the next 12 to 18 months, despite some expenditure rationalization in some areas, such as the recent withdrawal of fuel subsidies and deferral of non-core projects. Additionally, the credit conditions for the banking system are adjusted for structural challenges such as limited transparency surrounding large corporate borrowers and high loan, deposit and sector concentrations, which continue to pose a risk for banks.

DETERIORATING ASSET QUALITY COUPLED WITH CONCENTRATION RISKS

AHB asset quality metrics have weakened with the adjusted non-performing financings ratio (NPF analogous to NPL - as defined by Moody's includes all loans over 90 days past due) increasing consistently to around 11% as of December 2016 (8.9% as of December 2015) from 5.4% as of December 2014. This level is captured in our current scorecard and compares unfavourably with the UAE average of around 5% and we note that the weakening trend since 2014 is opposite to the period of strong recovery observed in most of the UAE banks'. Such metrics also remain particularly weak when compared with the 3.2% median for global banks with a ba2 BCA. This deterioration in asset quality metrics is owing to; (1) non-performance of a single concentrated and idiosyncratic exposure in 2014; (2) a sizeable increase in NPF formation during 2015 and 2016, mainly in the bank's corporate financing portfolio; and more recently, and (3) a slowdown in financing growth (denominator effect).

Following the weak asset quality performance in 2014 and 2015, there has been significant management changes with the new management (key roles of the CEO, CFO and acting CRO) introduced recently and at the same time lending has slowed significantly (3% CAGR in net financings since 2014) with new underwriting standards and governance practices being put in place. Although the management changes and slowing growth is broadly beneficial, given the more challenging environment asset quality metrics will remain pressured over the next 12 months.

AHB's coverage ratio declined to 65% as of December 2016 (72% as of December 2015) from 91% as of December 2014, which is lower than both the local average and median for global ba2 peers of around 98% and 96%, respectively.

AHB also exhibits high credit concentrations common to most banks in the UAE due to the large government presence across most sectors of the economy.

RELATIVELY WEAK NET PROFITABILITY AND MODEST CAPITALISATION

AHB's bottom-line profitability metrics are low when compared to domestic peers due to the high operating costs and increased cost of risk. AHB's limited operational history (operational since 2008) means the bank has made significant investments in (1) establishing a branch network and (2) advanced information technology which continues to drive a relatively high cost to income ratio of around 68% for the year 2016 (58% in 2015), well above the UAE average of around 36%.

More recently the profitability has been impacted by (1) reduced net profit margins of 2.5% for the year 2016, down from 3.4% in 2014, and (2) an increase in provisioning costs which was driven by the aforementioned increase in NPFs and has consumed over 90% of pre-provision income on average since 2014 (91% during 2016). As a result, the bank's net profitability ratios declined, with net income (NI) to tangible assets at 0.1% for the year 2016 down from 1.1% as of December 2013, which compares unfavourably to both global and UAE peers. Going forward, following the management changes and refocussing the core business and overall operations will positive influence the profitability but the metrics will nevertheless remain weak owing to continued impairment costs and an increase in funding costs (an issue for most regional banks).

Despite full profit retention and multiple capital injections from its owner, the Abu Dhabi Investment Council (ADIC), the bank maintains modest capital levels. AHB's TCE ratio has been stable at around 10% since 2015 (9.4% as of December 2016). It should be noted however that the bank can access the authorized but unissued capital from its shareholder which is sufficient to boost these capital metrics by around 2.5%. The bank has also raised additional capital through hybrid Additional Tier 1 Sukuk issuance representing around 4% of total assets which (in line with the local regulatory framework) have contingent Point of Non-Viability triggers, and hence not included in Moody's TCE calculations. As such, the bank's regulatory Tier 1 ratio stood at 14.5% as of December 2016. At these levels, AHB's Tier 1 capital still compares unfavourably with the local average of around 16.6%. Going forward, in the absence of further capital injections, we expect the bank's capitalization metrics to remain broadly stable at its current levels due to a combination of slowing credit growth and relatively weak internal capital generating ability.

LOW LIQUIDITY BUFFERS COMBINED WITH CONCENTRATED FUNDING PROFILE

The bank's overall liquidity position remains relatively weak. The bank's liquidity position as measured by liquid banking assets to tangible banking assets stood at around 14% of total assets as of December 2016 (17% as of December 2015). On a standalone basis, such metrics compare unfavourably to both UAE average and global ba2 median of around 32% and 29%, respectively. As financing growth slowed down, the bank's net financing-to-deposit ratio (analogous to net loans to deposits) eased to 94% as of December 2015, from 99% as of December 2014. However, this metric climbed to 100% as of December 2016, a level well above the UAE average of around 91%, driven by a flat growth in customer deposits during 2016.

Similar to UAE peers, AHB remains primarily funded through short-term but relatively stable customer deposits. Such deposits funded more than 74% of the bank's total assets as of December 2016 compared to the UAE average of around 62%. However, in line with GCC peers, we also observe high concentrations in AHB's deposits, with the government and public sector entities contributing around 51% of total deposits as of December 2016, down from 57% of total deposits as of December 2015. In October 2013, the bank had set up a US$2.5 billion Sukuk program under which it issued US$ 500 million and raised last year another US$ 225 million Sukuk (June 2016).

As a result of these issuances, the bank's market funding levels have gone up to 10.5% of total assets as of December 2016, but at the same time it has lengthened the maturity profile of liabilities (a positive). Going forward, we expect the bank's liquidity and funding profile to broadly remain stable as credit growth slows, however the tight liquidity environment in the region may pressure AHB's overall liqudity position.

Notching Considerations

GOVERNMENT SUPPORT

AHB's A1 issuer rating incorporates a very high seven notches of uplift from its relatively low ba2 standalone BCA and is driven primarily by our `government backed' support assessment, unlike the `very high' assumptions applied to the majority of its UAE peers.

We base this view on (1) the unique shareholding where AHB is fully-owned by the Abu Dhabi government through its investment vehicle ADIC; (2) AHB's role as a flagship Islamic bank and (3) the UAE's strong track record of supporting banks in times of stress.

CR ASSESSMENT

The CR Assessment of A1(cr)/P-1(cr) for AHB reflects Moody's view that any support provided by governmental authorities to a bank which benefits senior unsecured debt or deposits, will also benefit operating activities and obligations reflected by the CR Assessments, consistent with Moody's belief that governments are likely to maintain such operations as a going-concern in order to reduce contagion and preserve a bank's critical functions.

AHB's CR Assessment is positioned at the same level as the deposit ratings, reflecting Moody's view that the probability of default on its operating liabilities would not be materially different from that of deposits after government support.

SOURCE OF FACTS AND FIGURES CITED IN THIS REPORT

The system averages quoted in the report are consistent with our published banking system outlook for the UAE and based on available audited system metrics. The global medians quoted in the report are as of December 2014-December 2015. Unless noted otherwise, data related to system-wide trends is sourced from the central bank. Bank-specific figures originate from the bank's reports and Moody's Banking Financial Metrics.

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 3

Al Hilal Bank PJSC

Macro Factors		
Weighted Macro Profile	**Strong -**	**100%**

Factor	Historic Ratio	Macro Adjusted Score	Credit Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	10.9%	b2	↓	b2	Single name concentration	
Capital						
TCE / RWA	9.4%	ba2	←→	ba1	Access to capital	
Profitability						
Net Income / Tangible Assets	0.0%	b3	←→	b2	Earnings quality	Expected trend
Combined Solvency Score		b1		ba3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	10.5%	a3	←→	baa2	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	14.0%	ba2	←→	ba2	Stock of liquid assets	
Combined Liquidity Score		baa2		baa3		
Financial Profile				ba2		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Aa2		
Scorecard Calculated BCA range				ba1-ba3		
Assigned BCA				ba2		
Affiliate Support notching				0		
Adjusted BCA				ba2		

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Assessment	1	0	ba1 (cr)	6	A1 (cr)	--

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
AL HILAL BANK PJSC	
Outlook	Negative
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A1
ST Issuer Rating	P-1
AHB SUKUK COMPANY LTD.	
Outlook	Negative
Senior Unsecured	A1

Source: Moody's Investors Service

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