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CREDIT OPINION

16 November 2016

Update

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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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Al Hilal Bank PJSC

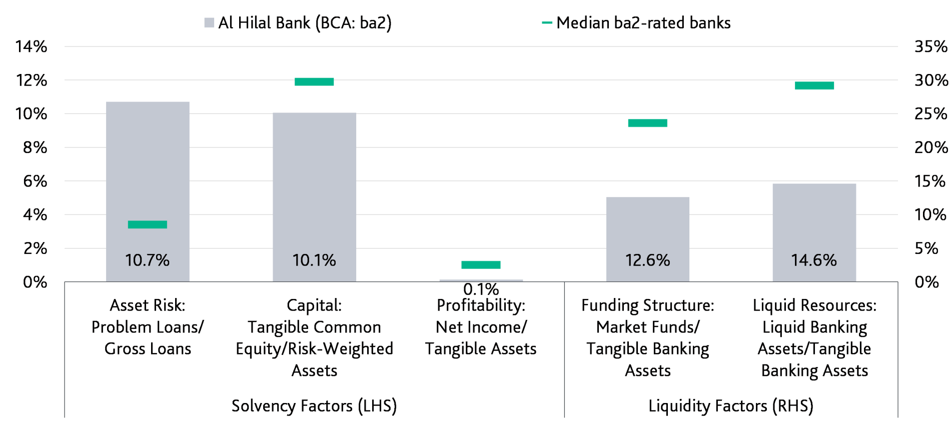
Semi-annual Update

Summary Rating Rationale

We assign A1 long term issuer ratings to Al Hilal Bank PJSC (AHB), a bank based in the United Arab Emirates (UAE) with a 1.7% market share in total system assets as of June 2016. These ratings are underpinned by the bank's overall standalone credit strength (reflected in a standalone baseline credit assessment or BCA of ba2) and our view of the very high likelihood of government support if needed. Furthermore, we have assigned AHB Counterparty Risk Assessments (CR Assessments) of A1(cr)/P-1(cr).

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

Exhibit 1
Rating Scorecard - Key Financial Ratios (30 June 2016)



Source: Moody's Financial Metrics

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 capitalization 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 can be stabilized with 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) we witness a further deterioration of asset quality metrics; and/or (3) weakening in profitability or capitalization metrics.

Key Indicators

Exhibit 2

Al Hilal Bank PJSC (Consolidated Financials) [1]

	6-16[2]	12-15[2]	12-14[2]	12-13[2]	12-12[2]	Avg.
Total Assets (AED million)	41,088.1	43,091.3	41,291.0	38,705.3	32,121.9	6.3[3]
Total Assets (USD million)	11,186.2	11,731.9	11,241.8	10,537.8	8,745.3	6.3[3]
Tangible Common Equity (AED million)	3,649.1	3,626.4	3,745.3	3,905.6	3,474.1	1.2[3]
Tangible Common Equity (USD million)	993.5	987.3	1,019.7	1,063.3	945.8	1.2[3]
Problem Loans / Gross Loans (%)	10.7	8.9	5.4	3.7	5.0	6.8[4]
Tangible Common Equity / Risk Weighted Assets (%)	10.1	10.0	10.9	12.9	13.7	11.5[5]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	59.3	50.8	32.7	21.6	28.2	38.5[4]
Net Interest Margin (%)	2.6	3.1	3.4	3.7	3.8	3.3[4]
PPI / Average RWA (%)	0.8	1.7	2.4	2.4	2.2	1.9[5]
Net Income / Tangible Assets (%)	0.1	0.0	0.1	1.1	0.8	0.4[4]
Cost / Income Ratio (%)	75.5	57.8	50.0	54.1	58.3	59.2[4]
Market Funds / Tangible Banking Assets (%)	12.6	10.2	9.0	13.0	7.8	10.5[4]
Liquid Banking Assets / Tangible Banking Assets (%)	14.5	16.8	15.5	15.7	13.5	15.2[4]
Gross loans / Due to customers (%)	111.0	100.9	103.6	99.3	94.7	101.9[4]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Compound Annual Growth Rate based on IFRS reporting periods [4] IFRS reporting periods have been used for average calculation [5] Basel II & IFRS reporting periods have been used for average calculation

Source: Moody's Financial Metrics

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 90% as of December 2015). 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 also 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 programmes and the economy more broadly over the next 12 to 18 months, despite some expenditure rationalisation 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 to around 10.7% as of June 2016 from 8.9% as of December 2015. 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 system between 2013 and 2015. Such metrics also remain particularly weak when compared with the 3.4% median for global banks with a ba2 BCA. This deterioration in asset quality metrics has stemmed primarily from (1) the classification of a single concentrated and idiosyncratic exposure in 2014; (2) a sizeable increase in NPF formation during the first half of 2015 and 2016, mainly in the bank's corporate financing portfolio; and more recently, (3) reduction in financing book (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 CRO) introduced recently and at the same time lending has slowed significantly (-1% CAGR in net financings since 2014) with new underwriting standards being put in place. We expect the new management strategy coupled with decelerating growth will support improvements, although given the more challenging environment asset quality metrics will remain pressured over the next 12 months.

Although AHB's coverage ratio declined to 72% as of December 2015 from 89% as of December 2014, it is lower than both local average and median for global ba2 peers of around 95%.

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 58% for the year 2015 (76% for the first six months 2016) compared to the UAE average of around 37%.

The bank recent profitability has been impacted by (1) reduced net profit margins of 2.6% for the first six months of 2016, down from 3.1% for the year 2015, 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 (82% during the first six months of 2016). As a result, the bank's net profitability ratios declined, with net income (NI) to tangible assets at 0.1% for the first six months of 2016 down from 1.1% as of December 2013, however its coverage ratio has remained robust. Going forward, we expect the bank's net profitability metrics to improve, but will nevertheless remain weak owing to continued high 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's maintains modest capital levels. AHB's TCE ratio has been stable at around 10.0% since 2015. 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 2.5%. The bank has also raised additional capital through hybrid Additional Tier 1 Sukuk issuance representing around 4.5% of total assets which is not included in Moody's capital calculation. As such, the bank's regulatory Tier 1 ratio stood at 15.4% as of December 2015 (stable as of June 2016). At these levels, AHB's Tier 1 capital compares favourably with the local average and global ba2 medians. 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 stands at around 17% of total assets as of December 2015 (15% as of June 2016). On a standalone basis, such metrics compare unfavourably to both UAE average and global ba2 median of around 29%. 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 103% as of June 2016, a level well above the UAE average of around 94%, driven by a 10% decline in customer deposits during the first six months of 2016 (mainly due to government and public sector deposit outflows).

Similar to UAE peers, AHB remains primarily funded through short term but historically stable customer deposits. Such deposits fund more than 71% as of June 2016 compared to 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 44% of total deposits as of June 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 more recently US$ 225 million Sukuk (June 2016) which funds around 6.5% of total assets. As a result of this issuance the bank's market funding levels have gone up to 12% of total assets 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 tightening 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 100% ownership of 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 UAE averages quoted in the report are published in the UAE banking system outlook and based on available audited system metrics. 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. All figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the document: "Financial Statement Adjustments in the Analysis of Financial Institutions" (https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_187419) published on 12 February 2016.

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%**				

Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	10.7%	b2	←→	b2	Single name concentration	
Capital						
TCE / RWA	10.1%	ba2	←→	ba1	Access to capital	
Profitability						
Net Income / Tangible Assets	0.1%	b2	↑	b2	Earnings quality	Expected trend
Combined Solvency Score		b1		ba3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	10.2%	a3	←→	baa2	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	16.8%	ba1	↓	ba2	Expected trend	
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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