

CREDIT OPINION

16 November 2016

Update

Rate this Research >>

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.

Contacts

Nitish Bhojnagarwala 971-4-237-9563
 AVP-Analyst
 nitish.bhojnagarwala@moodys.com

Jonathan Parrod 971-4-237-9546
 Associate Analyst
 jonathan.parrod@moodys.com

Akin Majekodunmi, 44-20-7772-8614
 CFA
 VP-Senior Analyst
 akin.majekodunmi@moodys.com

Henry MacNevin 44-20-7772-1635
 Associate Managing
 Director
 henry.macnevin@moodys.com

Al Hilal Bank PJSC

Semi-annual Update

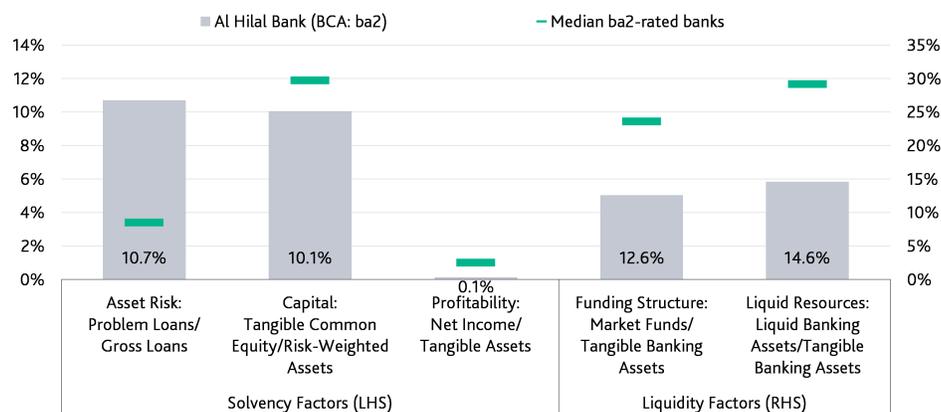
Summary Rating Rationale

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

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.moody's.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 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 liquidity 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.moody.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						
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

© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1046962