

FITCH AFFIRMS AL HILAL BANK AT 'A+' ON MERGER ANNOUNCEMENT

Fitch Ratings-London-04 February 2019: Fitch Ratings has affirmed UAE-based Al Hilal Bank's (AHB) Long-Term Issuer Default Rating (IDR) at 'A+' and Short-Term IDR at 'F1'. The rating Outlook is Stable. The Viability Rating (VR) is unaffected. A full list of rating actions is at the end of this rating action commentary.

The rating actions follow the announcement made by Abu Dhabi Commercial Bank (ADCB) on 29 January 2019 that it has agreed to a three-way merger with Union National Bank (UNB) and AHB, with the latter becoming a fully owned subsidiary of the post-merger bank formed as a result of the ADCB and UNB combination. The transaction is subject to regulatory approval. The VR is unaffected as AHB will remain an operating subsidiary of ADCB. Fitch will review the VR if there are any developments in capital, asset quality, company profile or other factors as a result of the three-way combination.

KEY RATING DRIVERS

IDRS, SUPPORT RATING (SR) AND SUPPORT RATING FLOOR (SRF)

AHB's IDRs, SR and SRF are currently driven by an extremely high probability of support from the UAE and Abu Dhabi authorities if needed. This is based on the bank's full ownership by the Abu Dhabi government, which offsets its lower systemic importance in the UAE. Fitch believes the probability of support from the UAE and Abu Dhabi authorities will not change prior to the acquisition of AHB by ADCB (expected in 2Q19-3Q19). Fitch believes AHB will be a key and integral part of the group post-acquisition.

Fitch's view of support factors in the sovereign's strong capacity to support the banking system, sustained by sovereign wealth funds and on-going revenue mostly from hydrocarbon production, despite lower oil prices. Fitch also expects high willingness from the authorities to support the banking sector. This has been demonstrated by the UAE authorities' long track record of supporting domestic banks, as well as by the authorities' close ties with and part-government ownership links to a number of banks.

AHB's SRF is at Abu Dhabi banks' SRF for domestic systemically important banks (D-SIB) of 'A+'. Abu Dhabi banks' D-SIB SRF is one notch higher than other UAE banks due to Abu Dhabi's superior financial flexibility.

SPV AND SENIOR DEBT

The ratings of senior unsecured debt (Sukuk) issued by AHB's special purpose vehicle (SPV), AHB Sukuk Company Ltd, are in line with the bank's Long -Term IDR because Fitch views the likelihood of default on any senior unsecured obligation issued by the SPV the same as the likelihood of default of the bank.

RATING SENSITIVITIES

IDRS, SR AND SRF

AHB's IDRs, SR and SRF are sensitive to a change in Fitch's view of the creditworthiness of the UAE and Abu Dhabi authorities and of their propensity to support the banking system or the bank.

Once the acquisition is complete, Fitch will change its support analysis from sovereign to institutional, and will withdraw AHB's SRF. Significant management independence from the

group, low level of integration, weak performance and low strategic importance of AHB for the group may then result in notching from the parent, although Fitch considers this unlikely.

SPV AND SENIOR DEBT

The Sukuk issued via AHB Sukuk Company Limited are rated in line with AHB's IDRs and their ratings are therefore subject to the same sensitivities as the IDRs.

The rating actions are as follows:

Al Hilal Bank PJSC

Long-Term IDR affirmed at 'A+'; Outlook Stable

Short-Term IDR affirmed at 'F1'

Viability Rating: 'b+'; unaffected

Support Rating affirmed: '1'; affirmed

Support Rating Floor: 'A+'; affirmed

AHB Sukuk Company Limited:

Trust certificate issuance programme affirmed at 'A+/'F1'

Senior unsecured certificates affirmed at 'A+'

CRITERIA VARIATION:

Under Fitch's Global Bank Rating Criteria, Fitch's SRFs are based on the ability and propensity of the government to provide support. Within the UAE, Fitch assesses the potential for support at a federal level as Fitch believes that support would be forthcoming from the UAE authorities acting together. However, in respect of Abu Dhabi, Fitch has varied the criteria to reflect the superior financial flexibility of the Abu Dhabi authorities. As such, the SRFs for banks in Abu Dhabi are based on Fitch's assessment of the ability and propensity of the Abu Dhabi authorities to provide support in their own right. This results in a one-notch higher SRF for Abu Dhabi banks (compared with other UAE banks), and results in a one-notch higher Long-Term IDR for Abu Dhabi banks.

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Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)

<https://www.fitchratings.com/site/re/10044408>

Sukuk Rating Criteria (pub. 25 Jul 2018)

<https://www.fitchratings.com/site/re/10039109>

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