

Banks Ratings Navigator		
Navigator date:	20 Jul 2017	
Last rating action:	13 Jul 2017	
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)		
13 Jul 17	bb- RWN	Downgrade
27 Jul 16	bb	Affirmed
05 Aug 15	bb	Affirmed
Issuer Default Rating (IDR)		
13 Jul 17	A+ Stable	Affirmed
27 Jul 16	A+ Stable	Affirmed
05 Aug 15	A+ Stable	Affirmed
Support Rating Floor (SRF)		
13 Jul 17	A+	Affirmed
27 Jul 16	A+	Affirmed
05 Aug 15	A+	Affirmed
Bar Chart Legend:		
Vertical bars = VR range of Rating Factor		
Bar Colors = Influence on final VR		
■	Higher Influence	
■	Moderate Influence	
■	Lower Influence	
Bar Arrows = Rating Factor Outlook		
↑	Positive	↓ Negative
↕	Evolving	□ Stable
Peer Ratings bars = Count of banks		
89	EM Middle East and Africa Universal Commercial	
15	United Arab Emirates Universal Commercial	
Relevant Criteria & References		
Global Bank Rating Criteria (Nov 2016)		
Macro-Prudential Risk Monitor (Jan 2017)		
2017 Outlook: GCC Banks (Dec 2016)		
Asset Quality at GCC Banks (Oct 2016)		
GCC Banks 2016 Compendium (Sep 2016)		
Analysts		
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Zeinab Abdalla (+971 4424 1210)		

	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Support Rating Floor	Issuer Default Rating
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+		
Support Rating Floor:	A+		
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			
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			

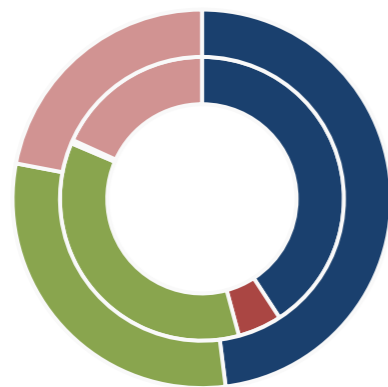
Drivers & Sensitivities	
Extremely High Probability of State Support Drives IDRs	Al Hilal Bank's (AHB) IDRs are driven by an extremely high probability of support from the UAE and Abu Dhabi authorities, if needed. This considers its significant Abu Dhabi government ownership, which offsets its lower systemic importance in the UAE.
Deteriorating Asset Quality	Asset-quality metrics have deteriorated since 2014 with the impairment of two significant exposures and increases in restructured financing and 90 days past due but not impaired financing. The impaired financing ratio was 8.4% at end-2016, above the UAE peer average.
High Financing Book Concentration	The financing book is highly concentrated, with the 20 largest exposures representing 3.4x the bank's Fitch Core Capital (FCC) at end-2016, above UAE peers.
Small Domestic Franchise	Established in 2008, AHB has a small domestic franchise with a market share of total UAE banking system assets and financing of less than 2%.
Weak Capitalisation	AHB's capitalisation is weak, especially in light of its asset-quality deterioration and high financing book concentration. The FCC ratio (9.5% at end-2016) has been affected by high impairment charges and is below the UAE peer average.
Weak Profitability	AHB's profitability is weaker than peers, affected by high impairment charges, a high cost base and low fee income generation given its relatively undiversified business. The cost/income ratio was 64% in 2016, significantly above peers.
Adequate Liquidity	Liquid assets including cash balances less mandatory reserves, interbank placements and investment securities maturing within a year covered 18% of total deposits at end-2016. The deposit base is more concentrated than peers, given the bank's small domestic franchise.
Rating Watch Negative on the Viability Rating	Resolution of the RWN will depend on AHB's success in improving asset quality (possibly through the settlement of some large impaired financing), increasing its capital ratios significantly, reducing its high cost base and starting restructuring as part of the bank's strategy.

Key Financial Ratios (20 Jul 2017)	AHB				Direct Peers Median				Region Sector Median			
	Number of Banks: Statement:				5	5	5	5				
	FYE16	FYE15	FYE14	FYE13	FYE16	FYE15	FYE14	FYE13	FYE16	FYE15	FYE14	FYE13
Size (USDbn)												
Total assets	12	12	11	11	12	12	11	11	17	18	19	17
Risk weighted assets (RWA)	11	10	9	8	11	10	9	8	13	12	12	12
Total equity	1	1	1	1	1	1	1	1	2	2	2	2
Fitch core capital (FCC)	1	1	1	1	1	1	1	1	2	2	2	2
Asset Quality												
Impaired loans/gross loans	8.4%	8.5%	4.8%	1.2%	6.0%	6.6%	5.3%	6.5%	3.0%	2.8%	3.0%	3.0%
Growth of gross loans	7.0%	0.6%	15.3%	18.5%	7.0%	14.5%	16.4%	18.5%	7.2%	8.1%	14.9%	10.7%
Reserves for impaired loans/impaired loans	85.0%	75.5%	102.4%	261.4%	97.5%	92.5%	95.6%	84.9%	109.9%	104.0%	99.5%	99.0%
Loan impairment charges/avg gross loans	1.2%	1.8%	2.4%	0.8%	1.2%	1.1%	0.9%	1.0%	0.9%	0.7%	0.7%	0.8%
Earnings and Profitability												
Operating profit/risk weighted assets	0.3%	0.3%	0.2%	1.5%	1.8%	2.0%	1.9%	2.1%	2.0%	2.0%	2.3%	2.1%
Net interest income/average earning assets	3.3%	3.8%	4.0%	4.0%	3.3%	3.7%	4.0%	4.0%	2.9%	3.0%	3.1%	3.2%
Non-interest expense/gross revenues	63.7%	54.6%	48.4%	54.1%	42.2%	45.9%	45.4%	50.8%	43.4%	43.3%	44.3%	45.7%
Loans & secs imp charges/pre-imp op. profit	74.8%	85.3%	89.9%	33.2%	36.5%	29.6%	27.0%	27.2%	23.2%	18.7%	19.1%	20.0%
Operating profit/average total assets	0.3%	0.3%	0.2%	1.3%	1.5%	1.6%	1.6%	1.5%	1.5%	1.6%	1.8%	1.7%
Net income/average total equity	3.4%	2.8%	2.1%	11.9%	10.5%	13.5%	16.4%	11.9%	12.3%	13.7%	14.4%	13.7%
Capital and Leverage												
FCC/FCC-adjusted risk weighted assets	9.5%	9.9%	10.8%	13.0%	10.9%	12.6%	15.4%	13.9%	15.3%	14.5%	15.0%	15.2%
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	10.2%	10.1%	8.3%	6.8%
Tangible common equity/tangible assets	8.4%	8.4%	9.1%	10.2%	8.7%	8.9%	11.3%	10.6%	11.3%	11.1%	11.3%	11.4%
CET1 capital ratio	n.a.	n.a.	n.a.	n.a.	14.6%	15.5%	16.8%	17.7%	14.2%	13.8%	14.1%	12.2%
Internal capital generation	3.4%	2.9%	2.2%	11.2%	9.5%	6.2%	8.2%	9.5%	6.8%	7.0%	7.7%	7.5%
Imp loans less reserves for imp Loans/FCC	11.9%	18.6%	-1.0%	-14.0%	0.9%	2.7%	1.7%	7.0%	-1.9%	-0.8%	0.2%	-0.0%
Funding and Liquidity												
Loans/customer deposits	107.9%	100.9%	103.6%	99.3%	98.8%	100.9%	103.1%	99.3%	92.8%	90.1%	86.9%	84.9%
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.	128.1%	158.2%	n.a.	166.4%	151.5%	98.0%	102.0%
Customer deposits/total funding excl derivs	84.4%	84.9%	86.0%	84.9%	84.4%	86.0%	86.0%	84.9%	82.4%	82.3%	84.2%	86.7%

Business Mix

(by profit or revenue)

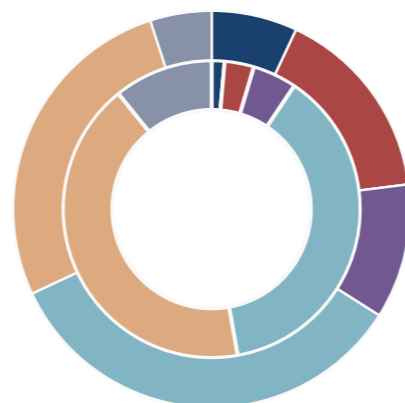
- Retail banking (48%)
- SME banking (0%)
- Corporate banking (30%)
- Investment banking (0%)
- Transaction banking (0%)
- Asset management (0%)
- Insurance (0%)
- Other (22%)



Outer: AHB
Inner: Direct Peers Average

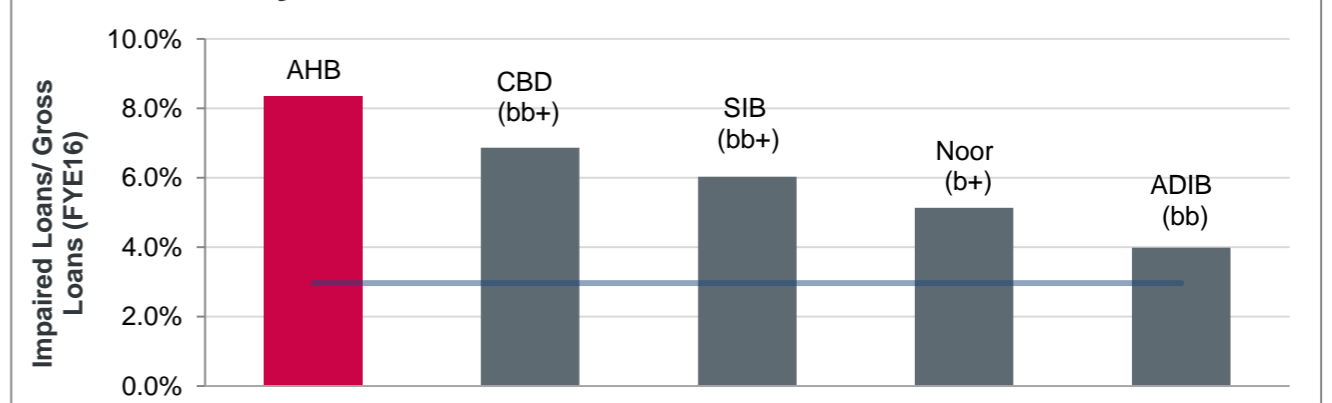
Lending Type

- Resi mortgages (7%)
- Comm mortgages (16%)
- Asset finance (0%)
- Other secured (11%)
- Personal unsecured (34%)
- Comm unsecured (27%)
- FIs & Sovs (5%)
- High yield (0%)
- Other unsecured (0%)

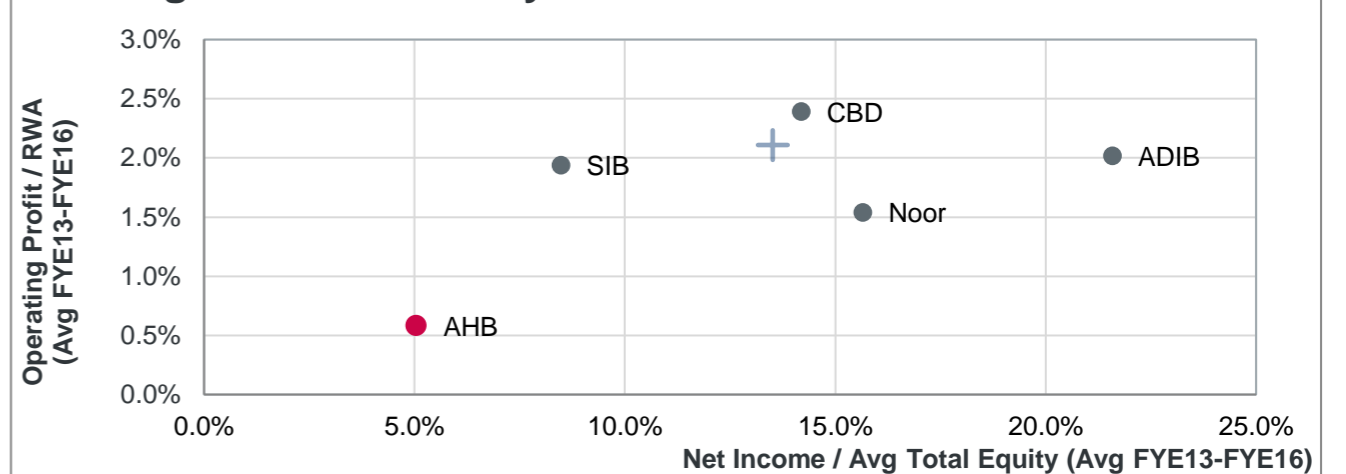


Outer: AHB
Inner: Direct Peers Average

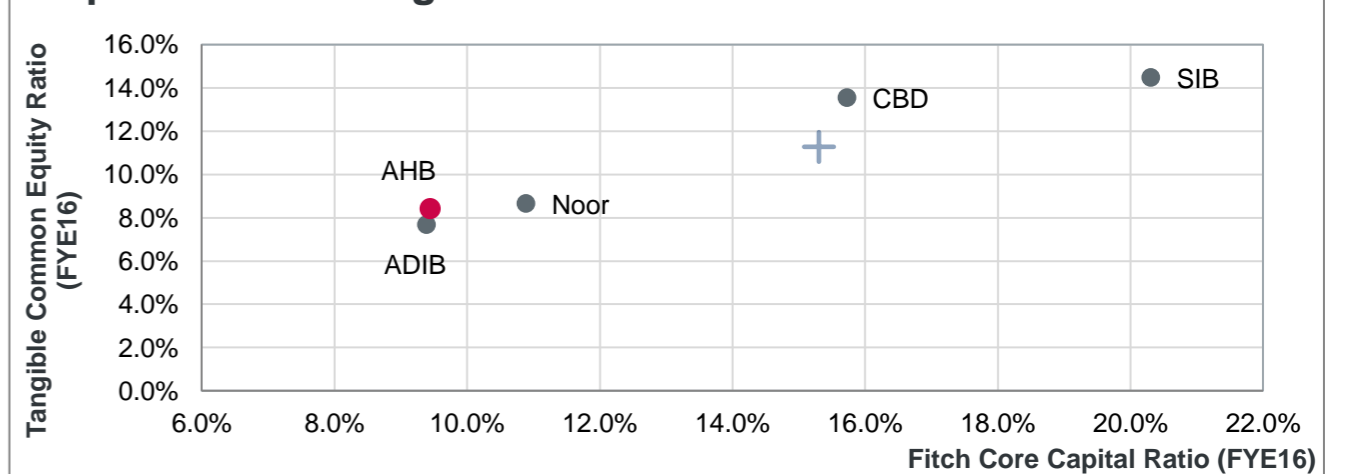
Asset Quality



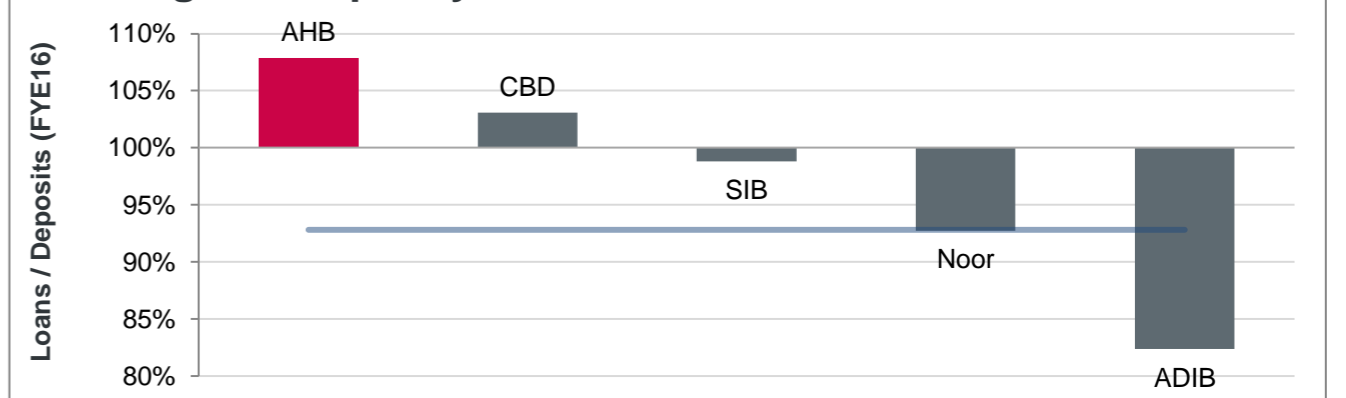
Earnings and Profitability



Capital and Leverage



Funding and Liquidity



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