

Al Hilal Bank PJSC (/gws/en/esp/issr/90469283)



Fitch Maintains Al Hilal Bank's VR on Rating Watch Negative

Fitch Ratings-Paris/London-11 January 2018: Fitch Ratings is maintaining UAE-based Al Hilal Bank's (AHB) Viability Rating (VR) of 'bb-' on Rating Watch Negative (RWN).

AHB's VR was downgraded in July 2017 to 'bb-' from 'bb' and placed on RWN to reflect deterioration in the bank's asset quality and high exposure to problem financing, as well as declining capital ratios to levels which are not commensurate with risks stemming from the high concentrations in the financing book and asset quality problems.

Since then, asset quality has continued to weaken and the bank has not raised capital. Fitch maintains AHB's VR on RWN to indicate a further potential downgrade if the bank fails to raise core capital and improve asset quality. While visibility regarding the timing and amount of capital raising is currently limited, the bank's capital adequacy is key to a resolution of the RWN. Fitch expects to resolve the RW within six months.

KEY RATING DRIVERS

AHB's VR reflects the bank's weak asset quality, profitability and capital ratios, high single name concentrations and small domestic franchise. The VR also factors in AHB's adequate funding and liquidity.

Management turnover has been high. Newly-appointed management has an acceptable degree of depth and stability and is actively addressing key shortfalls, but it will take some time for the bank's strategy to be fully implemented and generate results.

AHB's asset quality metrics deteriorated in 2014 and 2015 following the impairment of two of its largest exposures. The impaired financing ratio (NPF) was 8.5% at end-June 2017, higher than the average for UAE rated peers. In addition, exposures overdue by more than 90 days but not impaired have been rising and the bank's total problem financing (impaired financing, restructured financing and 90 days past due but not impaired financing) deteriorated further in 1H17 from 11% at end-2016. Given poor historical underwriting standards, asset quality is likely to come under further pressure. The financing book is highly concentrated by single name borrowers, more than UAE peers'.

AHB's profitability is weaker than peers', impacted by high impairment charges, weak cost efficiency and low fee income reflecting a fairly undiversified business model. The cost to income ratio reached 62% in 1H17, significantly higher than peers'. The outlook for earnings and profitability is negative as narrow margins, further impairment charges and high operating costs will likely depress earnings.

AHB's capitalisation is weak. The FCC/weighted risks ratio has been declining to 9.6% at end-June 2017. The regulatory Tier one capital ratio was higher at 14.7%, supported by Sukuk issuance. We expect a capital injection in 2018. The amount to be raised is likely to take into account the bank's asset quality trend, the potential need for additional reserves with the implementation of IFRS-9 and business plan objectives.

AHB's liquidity position is comfortable, with liquid assets covering 23% of total deposits at end-June 2017. The financing-to-deposits ratio reached 108% at end-June 2017 and we do not expect this to increase materially as financing book growth should not exceed the low single digits in 2018. The 20 largest depositors account for a significant portion of the total deposit base and are largely related to the Abu Dhabi government and government-related enterprises given the bank's ownership and its close ties to the government.

RATING SENSITIVITIES

The RWN will be reassessed within six months. At that time, Fitch will assess the bank's ability to absorb losses in its financing book by reviewing the bank's asset quality and the adequacy of its capital position. Capital adequacy is key to a resolution of the RWN.

Following resolution of the RWN, AHB's VR will remain sensitive to further deterioration in asset quality, capital adequacy and profitability. Upside potential is currently limited.

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Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016) (<https://www.fitchratings.com/site/re/891051>)

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