MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns A1/P-1 issuer ratings to Al Hilal Bank

Global Credit Research - 09 Sep 2013

First-time ratings

London, 09 September 2013 -- Moody's Investors Service has today assigned to Al Hilal Bank PJSC (AHB) issuer ratings of A1/Prime-1 and a standalone bank financial strength rating (BFSR) of D, which is equivalent to a baseline credit assessment (BCA) of ba2. All ratings carry a stable outlook.

AHB's BCA reflects its (1) small but rapidly growing Islamic franchise in the United Arab Emirates (UAE; Aa2 stable); (2) solid asset quality and coverage metrics and (3) advanced management information systems that support a solid control environment. These strengths are moderated by AHB's limited operational history, as well as its low capitalisation and liquidity metrics compared to domestic peers.

AHB's A1 issuer ratings incorporate a very high seven notches of uplift from the bank's BCA, which reflects Moody's assessment of a very high likelihood of UAE government support being forthcoming in the event of need. Moody's view is based on (1) the Abu Dhabi Investment Council's (ADIC) 100% ownership; (2) AHB's role as a flagship Islamic bank; and (3) the UAE's strong track record of supporting banks.

RATINGS RATIONALE

-- SMALL BUT RAPIDLY GROWING ISLAMIC FRANCHISE

The key driver of AHB's BCA is its small but rapidly growing Islamic franchise. AHB is a relatively new bank (started in June 2008), created by the government to support the growth of Islamic Finance within the UAE. AHB has grown its market share to 1.8% of system assets as of year-end 2012 from 1.1% as of year-end 2009 (CAGR of 23% from 2009 to 2012 compared to the UAE average of around 6%). The bank's franchise growth has been supported by its modern branch network (25 branches as of year-end 2012) and innovative delivery channels, which have also resulted in substantial growth in retail financings (around 40% of gross financings as of year-end 2012), primarily amongst UAE nationals. Going forward, Moody's expects the bank to maintain its retail focus and for its growth to remain above the system average despite some signs of slowing.

-- SOLID ASSET QUALITY AND COVERAGE METRICS

AHB's five-year operational history means that it has avoided much of the pre-crisis legacy exposures that have significantly impaired the asset quality of many of its domestic peers. As a result the bank has a non-performing financing (NPF) ratio of around 5% as of year-end 2012 versus the UAE average of around 10%. Such NPF levels are broadly in line with the 4.4% median for global banks with a ba2 BCA. Similarly, AHB's coverage ratio of 60% as of year-end 2012 compares favourably to the local average of around 48%, although it is lower than the 80% median for global banks with a BCA of ba2. Going forward, Moody's expects the NPF ratio to decline to around 4% as some of the large exposures currently impaired are likely to be restructured on commercial terms by year-end 2013. Moody's considers financing exposures over 90 days past due as impaired for the calculation of NPF and coverage metrics.

-- ADVANCED MANAGEMENT INFORMATION SYSTEMS SUPPORT SOLID CONTROL ENVIRONMENT

AHB's extensive use of information technology supports the bank's risk-management infrastructure and overall control environment. The accessibility, timeliness and granularity of balance sheet information available is of a very high quality and supports the operational management of a high growth institution. However, given the bank's short track record (around five years of operations), its risk-management capability remains untested over a full economic cycle.

-- CAPITALISATION AND LIQUIDITY METRICS PRESSURED BY ASSET GROWTH

While AHB's Tier 1 ratio (under Basel II) of 13.9% is solid and in line with the median of its global ba2 peers (around 14%), it remains relatively lower than the UAE average of around 16%. Despite profit retention and multiple capital injections from its sole shareholder, ADIC, since its inception, rapid asset growth has pressured the bank's capitalisation metrics; that being said, it remains resilient under Moody's adverse scenario analysis. This rapid asset growth has also also weakened the bank's liquidity, with liquid assets equivalent to 13% of total assets as of year-end 2012, down from 26% as of year-end 2010. On a standalone basis such metrics compare unfavourably to both local and global peers, although Moody's expects these to improve following some market funding initiatives along with further capital injections from ADIC in the future.

-- SUPPORT ASSUMPTIONS

AHB's A1 issuer rating incorporates a very high seven notches of uplift from its ba2 BCA. This reflects Moody's assessment of a very high likelihood of systemic (government) support in case of need. The rating agency bases this view on (1) the 100% ownership of Abu Dhabi government (Aa2 rated) 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.

WHAT COULD CHANGE THE RATINGS - UP/DOWN

Upward pressure on AHB's ratings could develop from a combination of the following: (1) a strengthening and diversification of its franchise and (2) a significant improvement in financial fundamentals, i.e., liquidity, capitalisation and asset quality.

Downwards pressure on AHB's ratings could develop from: (1) a substantial weakening of its franchise in the local market, and/or (2) a deterioration in its asset quality and capitalisation metrics and/or (3) a reduction in the likelihood of systemic support.

The principal methodology used in this rating was Moody's Global Banks Rating Methodology published in May 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Headquartered in Abu Dhabi, Al Hilal Bank reported total consolidated assets of AED 34 billion (approximately $9.3 billion) as of end June 2013.

The Local Market analyst for this rating is Nitish Bhojnagarwala +971.4.237.9563.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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