

Al Hilal Islamic Bank JSC

Key Rating Drivers

The Long-Term Issuer Default Ratings (IDRs) of Al Hilal Islamic Bank JSC (AHBK) are driven by the bank's 'bbb+' Shareholder Support Rating (SSR), which reflects Fitch Ratings' view of a high probability of support from the bank's ultimate parent, UAE-based Abu Dhabi Commercial Bank PJSC (ADCB; A+/Stable), controlled by the government of Abu Dhabi (AA/Stable). We believe state support available to ADCB will also likely be extended to AHBK, in case of need.

Shareholder Support Considerations: Our view on shareholder support for AHBK captures its full ultimate ownership by ADCB, the high level of managerial integration between the parent and the subsidiary, and the low cost of potential support considering AHBK's small size relative to the parent (0.2% of the group's consolidated assets at end-2023).

Limited Role in Group: AHBK's Long-Term Foreign-Currency IDR is three notches below ADCB's, reflecting AHBK's limited role in the group as a small subsidiary operating in a non-core market for ADCB. The latter derives the bulk of its revenues from the domestic market, while its overseas operations are concentrated in the Gulf Cooperation Council countries and Egypt.

Close Integration with Parent: We have not assigned AHBK a Viability Rating (VR) because we view the bank as a deeply integrated subsidiary, and as highly dependent on the parent in new business origination and risk management. Strategic and operational integration between the subsidiary and the parent is significant, as the group's management is involved in all major decision-making at the subsidiary level. Under Fitch's Bank Rating Criteria, deeply integrated subsidiaries are typically not assigned VRs.

Contractually Loss-Sharing Deposits: AHBK may contractually impose losses on customers, should an asset funded by a dedicated Islamic deposit underperform. The bank acts as agent and does not legally bear credit risk, while such deposits and dedicated assets are reflected off-balance-sheet. As such, Islamic deposits are not covered by the deposit-protection scheme. In Fitch's view, AHBK is unlikely to impose losses on depositors due to high reputational risk.

Good Asset Quality: AHBK mainly targets low-risk corporates, including state-owned companies, their contractors and multinationals, as well as SMEs eligible for state subsidies or guarantees. AHBK had no impaired receivables at end-2023.

Improved Performance: Due to higher operating efficiency and limited cost of risk, AHBK has had healthy net income over the past few years, with the return on average equity equal to 18% in 2023 (2022: 16%). Coupled with full profit retention policy, this supports the bank's capital accretion.

Reasonable Consolidated Capital Ratios: Since 2023, AHBK's regulatory capital ratios are calculated considering its Islamic receivables which were previously booked off balance sheet. We consider the common equity Tier 1 ratio (end-1Q24: 21%; end-2023: 16%) as reasonable for the bank's risk profile.

Limited Liquidity, Access to Parent Funding: AHBK keeps a modest liquidity cushion, with total liquid assets covering only 26% of consolidated liabilities at end-1H24, or about 0.4x of customer accounts and Islamic deposits. However, liquidity risk is mitigated by the bank's potential access to liquidity support from its parent, which keeps a USD300 million credit line with AHBK.

Ratings

Foreign Currency

Long-Term IDR	BBB+
Short-Term IDR	F1

Long-Term IDR (xgs)	BB-(xgs)
Short-Term IDR (xgs)	B(xgs)

Local Currency

Long-Term IDR	BBB+
Short-Term IDR	F1
Long-Term IDR (xgs)	BB-(xgs)
Short-Term IDR (xgs)	B(xgs)

Shareholder Support Rating	bbb+
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National Rating

National Long-Term Rating	AAA(kaz)
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Sovereign Risk (Kazakhstan)

Long-Term Foreign-Currency IDR	BBB
Long-Term Local-Currency IDR	BBB
Country Ceiling	BBB+

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

[Bank Rating Criteria \(March 2024\)](#)

[National Scale Rating Criteria \(December 2020\)](#)

Related Research

[Fitch Affirms Al Hilal Islamic Bank at 'BBB+'; Outlook Stable \(October 2023\)](#)

[Fitch Affirms Abu Dhabi Commercial Bank at 'A+'; Outlook Stable \(October 2023\)](#)

[Islamic Finance in Kazakhstan Impeded by Limited Supply & Demand \(June 2023\) Kazakhstan \(June 2024\)](#)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

AHBK's SSR and Long-Term IDRs could be downgraded should Fitch view that the parent's ability or propensity to support the subsidiary has materially weakened. The ratings would also be downgraded following a downward revision of Kazakhstan's Country Ceiling.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of AHBK's IDRs would require both (i) an upward revision of Kazakhstan's Country Ceiling; and (ii) Fitch's view of an increased propensity of the parent to support AHBK. The latter may be evidenced by AHBK's increased role in the wider group, for example due to higher strategic importance of the Kazakh market to the parent.

Other Debt and Issuer Ratings

AHBK's 'F1' Short-Term IDRs are the higher of two possible options mapping to a 'BBB+' Long-Term IDR under Fitch's criteria, as the agency views the shareholder's propensity to support the subsidiary as more certain in the near term. It has been upgraded from 'F2' as we have taken a view that Kazakhstan's Country Ceiling of 'BBB+' is not a constraining factor for the bank's Long-Term IDRs, and the three-notch difference with ADCB's IDRs is driven by the subsidiary's limited role in the group.

The 'AAA(kaz)' National Long-Term Rating reflects Fitch's view that the bank ranks among the strongest credits in Kazakhstan.

AHBK's ex-government support (xgs) ratings exclude assumptions of extraordinary government support from the underlying rating on the international scale (Long-Term IDR), and are instead linked to ADCB's Long-Term IDR (xgs) of 'BB+(xgs)'. AHBK's Long-Term IDRs (xgs) of 'BB-(xgs)' is two (rather than three) notches below the anchor rating due to the rating compression on lower, sub-investment-grade, rating levels.

Financials

Financial Statements

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	12 months	12 months	12 months	12 months	12 months
	(USDm)	(KZTm)	(KZTm)	(KZTm)	(KZTm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	17	7,830	5,789	2,453	1,946
Net fees and commissions	0	215	259	1,761	1,219
Other operating income	3	1,357	1,439	867	247
Total operating income	21	9,402	7,487	5,081	3,412
Operating costs	10	4,633	3,152	3,752	2,458
Pre-impairment operating profit	10	4,769	4,335	1,329	954
Loan and other impairment charges	-2	-683	315	847	393
Operating profit	12	5,451	4,020	483	561
Tax	3	1,137	924	345	130
Net income	9	4,315	3,096	138	432
Fitch comprehensive income	9	4,315	3,096	138	432
Summary balance sheet					
Assets					
Gross loans	289	131,345	127,117	82,046	23,767
- Of which impaired	0	0	0	-	1,281
Loan loss allowances	1	264	453	2,735	293
Net loans	288	131,082	126,664	79,311	23,474
Interbank	-	-	-	-	8,002
Other securities and earning assets	3	1,322	705	625	-
Total earning assets	291	132,404	127,369	79,936	31,476
Cash and due from banks	63	28,710	9,282	21,296	16,596
Other assets	5	2,314	2,938	2,450	1,697
Total assets	360	163,428	139,589	103,683	49,768
Liabilities					
Customer deposits	221	100,360	83,631	66,630	20,377
Interbank and other short-term funding	55	25,100	22,014	6,943	83
Other long-term funding	23	10,231	10,231	10,231	10,764
Trading liabilities and derivatives	-	-	599	-	-
Total funding and derivatives	299	135,691	116,476	83,804	31,224
Other liabilities	5	2,441	2,133	1,994	796
Total equity	56	25,296	20,981	17,885	17,747
Total liabilities and equity	360	163,428	139,589	103,683	49,768
Exchange rate		USD1 = KZT454.56	USD1 = KZT462.65	USD1 = KZT431.67	USD1 = KZT420.71

Source: Fitch Ratings, Fitch Solutions, AHBK

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.4	6.8	1.1	1.5
Net interest income/average earning assets	6.0	5.6	4.4	7.4
Non-interest expense/gross revenue	49.3	42.1	73.8	72.0
Net income/average equity	18.7	15.9	0.8	2.5
Asset quality				
Impaired loans ratio	0.0	0.0	—	5.4
Growth in gross loans	3.3	54.9	245.2	68.4
Loan loss allowances/impaired loans	—	—	—	22.9
Loan impairment charges/average gross loans	-0.5	0.3	1.6	2.4
Capitalisation				
Fitch Core Capital ratio	15.9	—	—	47.7
Tangible common equity/tangible assets	15.4	14.9	17.1	35.4
Net impaired loans/Fitch Core Capital	-1.1	—	—	5.6
Funding and liquidity				
Gross loans/customer deposits	130.9	152.0	123.1	116.6
Customer deposits/total non-equity funding	74.0	72.2	79.5	65.3

Source: Fitch Ratings, Fitch Solutions, AHBK

Support Assessment

Shareholder Support	
Shareholder IDR	A+
Total Adjustments (notches)	-3
Shareholder Support Rating	bbb+
Shareholder ability to support	
Shareholder Rating	A+/ Stable
Shareholder regulation	1 Notch
Relative size	Equalised
Country risks	2+ Notches
Shareholder propensity to support	
Role in group	2+ Notches
Reputational risk	1 Notch
Integration	Equalised
Support record	1 Notch
Subsidiary performance and prospects	1 Notch
Legal commitments	2+ Notches

The colours indicate the weighting of each KRD in the assessment.

■ Higher influence
 ■ Moderate influence
 ■ Lower influence

AHBK's ratings are underpinned by potential support from ADCB, which is controlled by the Abu Dhabi government. We believe state support available to ADCB is also likely to be extended to the Kazakh subsidiary bank, as AHBK was established by an intergovernmental agreement between Kazakhstan and the UAE in 2010, with the aim of offering Islamic banking products in Kazakhstan. The local Islamic finance market is small, and still emerging, and represented below 0.5% of total sector assets at end-2023, the bulk of which was concentrated in AHBK.

AHBK's Long-Term IDRs are three notches below those of ADCB, as the former are constrained by the subsidiary bank's limited role in the broader ADCB group.

Environmental, Social and Governance Considerations

Credit-Relevant ESG Derivation

AI Hilal Islamic Bank JSC has 1 ESG rating driver and 5 ESG potential rating drivers		Overall ESG Scale		
<ul style="list-style-type: none"> AI Hilal Islamic Bank JSC has exposure to board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions which, in combination with other factors, impacts the rating. AI Hilal Islamic Bank JSC has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating. AI Hilal Islamic Bank JSC has exposure to shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices but this has very low impact on the rating. AI Hilal Islamic Bank JSC has exposure to operational implementation of strategy but this has very low impact on the rating. AI Hilal Islamic Bank JSC has exposure to organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership but this has very low impact on the rating. AI Hilal Islamic Bank JSC has exposure to quality and frequency of financial reporting and auditing processes but this has very low impact on the rating. 	key driver	0	issues	5
	driver	1	issues	4
	potential driver	5	issues	3
	not a rating driver	3	issues	2
		5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale	<p>How to Read This Page ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.</p> <p>The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.</p> <p>The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.</p>
GHG Emissions & Air Quality	1	n.a.	n.a.	5	
Energy Management	1	n.a.	n.a.	4	
Water & Wastewater Management	1	n.a.	n.a.	3	
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2	
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1	

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale	<p>Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).</p> <p>Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.</p>
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5	
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4	
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3	
Employee Wellbeing	1	n.a.	n.a.	2	
Exposure to Social Impacts	3	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1	

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale	CREDIT-RELEVANT ESG SCALE How relevant are E, S and G issues to the overall credit rating?	
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5	5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
Governance Structure	4	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4	4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3	3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2	2	Irrelevant to the entity rating but relevant to the sector.
				1	1	Irrelevant to the entity rating and irrelevant to the sector.

Islamic banks need to ensure compliance of their entire operations and activities with sharia principles and rules. This entails additional costs, processes, disclosures, regulations, reporting and sharia audit. This results in a Relevance Score of '4' for governance structure for all Islamic banks including AHBK, which has a negative impact on the banks' credit profile, and is relevant to the ratings in combination with other factors.

In addition, Islamic banks have an ESG Relevance Score of '3' for exposure to social impacts, above sector guidance for an ESG relevance score of '2' for comparable conventional banks, which reflects certain sharia limitations being embedded in Islamic banks' operations and obligations, although this only has a minimal credit impact on the entities.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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