

FITCH AFFIRMS ALAWWAL BANK AT 'BBB+'; OUTLOOK STABLE

Fitch Ratings-London-13 September 2017: Fitch Ratings has affirmed Alawwal bank's Long-Term Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook. It has also affirmed the bank's Viability Rating (VR) at 'bbb' and Support Rating Floor (SRF) at 'BBB+'. A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

IDRS, SUPPORT RATING AND SRF

Alawwal's IDRs, Support Rating and SRF reflect a high probability of support from the Saudi authorities in the event of need. Fitch's assessment takes into account a long track record of support for Saudi banks, continued government willingness to maintain stability in the domestic financial system and a strong ability to support the bank, given large external reserves and good access to external markets.

Alawwal's SR and SRF also consider the bank's lower relative systemic importance compared with the larger banks, due to its smaller size, market share and franchise. The SR and SRF also considers the large stake held by a foreign shareholder, which could result in slightly lower, but still high, willingness of the sovereign to support Alawwal.

The Stable Outlook reflects that on Saudi Arabia's 'A+' sovereign IDR.

VR

The operating environment in Saudi Arabia remains depressed (growth of 1.4% in 2016 is likely to slow further to 0.1% and 0.8% for 2017 and 2018, respectively) with the kingdom proceeding with fiscal tightening. Opportunities for banks to finance infrastructure projects will therefore reduce and Fitch forecasts overall sector loan growth of around 5% for 2017, marginally higher than 2016. Some weakening of the bank's performance or asset quality could also occur, although our base case expectation that any such deterioration will be gradual and therefore manageable.

Alawwal bank's VR is constrained by the bank's limited core capital buffers and uncertainty over its ability to raise new equity due to the foreign shareholder's desire to exit its shareholding. Alawwal bank's VR also reflects the bank's moderate franchise compared with its peers, lower profitability and higher funding concentration. The VR also considers the still moderate level of impaired loans, strong coverage and sufficient liquid assets.

RATING SENSITIVITIES

IDRS, SUPPORT RATING AND SRF

As Alawwal bank's IDRs reflect its SRF, any change in the bank's IDRs would be driven by a revision of its SRF.

Alawwal bank's SR and SRF are sensitive to any change in the Saudi Arabian sovereign rating. As this is currently on a Stable Outlook, any change is unlikely in the short term.

Alawwal bank's SR and SRF are also sensitive to a reduction in the perceived ability or willingness of the authorities to provide support to the bank. Alawwal is currently in discussions to potentially merge with fellow domestic bank Saudi British Bank (A-/Stable). Should this merger be completed and depending on the structure of a merged entity, it is possible that the bank's increased size may drive an upward revision of the bank's SRF.

VR

An illustration of an ability to raise core capital, possibly as a result of increased clarity around the bank's 40% shareholder, could result in an upgrade of Alawal bank's VR. The VR could be downgraded as a result of high loan growth having a negative impact on asset quality, causing an erosion of already limited capital buffers.

The rating actions are as follows:

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

Short-Term IDR affirmed at 'F2'

Support Rating affirmed at '2'

Support Rating Floor affirmed at 'BBB+'

Viability Rating affirmed at 'bbb'

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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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