

Saudi Arabia
Credit Update

Al Rajhi Banking & Investment Corp

Ratings

	Current Ratings
Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Individual	
Support	B/C
Support Rating Floor	1
Sovereign Risk	
Foreign Long-Term IDR	A+
Local Long-Term IDR	A+

Outlook

Foreign Long-Term IDR	Positive
Sovereign Foreign Long-Term IDR	Positive
Sovereign Local Long-Term IDR	Positive

Financial Data

	31 Dec 07	31 Dec 06
Al Rajhi Banking & Investment Corp		
Total assets (USDm)	33,347.5	28,093.1
Total assets (SARm)	124,886.5	105,208.7
Equity (SARm)	23,606.1	20,179.5
Operating profit (SARm)	6,449.7	7,162.8
Published net income (SARm)	6,449.7	7,301.9
Comprehensive income (SARm)	6,449.7	7,301.9
Operating ROAA (%)	5.61	7.15
Operating ROAE (%)	29.46	42.57
Internal capital generation (%)	15.65	39.88
Eligible capital/weighted risks (%)	23.54	25.31
Tier 1 ratio (%)	23.60	25.30

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Rating Rationale

- The Issuer Default and Support Ratings for Al Rajhi Banking & Investment Corp (Al Rajhi) reflect the probability of support from the Saudi Arabian authorities. The Individual Rating reflects a strong domestic franchise, sound asset quality and capital, strong margins and profitability, and low-cost funding, whilst also considering significant loan growth and concentration in the retail sector.
- Recent performance has been characterised by strong profitability, supported by high margins, despite declining fee income and significant cost growth, as the bank expands its branch network and corporate and investment banking activities. The bank's net margin benefits from a very low cost of funds and at 7.9% in 2007 was double the peer group average. The benefit is also reflected in a low, but rising, cost/income ratio (end-2007: 26.1%).
- Recent financing growth has focused primarily on salary-assigned personal loans, which represented 51% of total financing at end-2007. Asset quality indicators are worsening, but remain sound. Impaired loans represented 2.9% of the portfolio at end-2007 with impairment reserve coverage of 109.2%.
- The bank's funding consists predominantly of stable customer deposits sourced from the bank's large branch network. The majority are non-commission bearing, giving the bank a distinct funding advantage. Liquidity is managed by Shari'ah-compliant Mutajara (commodities-related) transactions with the Saudi Arabian Monetary Agency (SAMA) and OECD banks.
- Capitalisation is sound with Tier 1 and Total capital ratios of 23.6% and 24.4% respectively at end-2007.

Support

- While there is no legal obligation to support Saudi banks, there is a strong history of support being provided by SAMA. Given Al Rajhi's franchise, in Fitch Ratings' view, there is an extremely high probability of support coming from official sources, should it ever be required.

What Could Trigger an Upgrade?

- Al Rajhi's Long-Term IDR has a Positive Outlook, reflecting the Positive Outlook on the sovereign rating. It is unlikely to change unless the latter changes.
- Individual Rating upside could arise from improved risk management systems and more diversification within the financing portfolio and funding base. Downside Individual Rating risk could arise from a deterioration of the economic environment, resulting in worsening asset quality and/or sharply lower capital ratios. Such a scenario does not appear likely in the medium term.

Profile

Al Rajhi was established in 1988, although its roots as a money changer date back to the 1940s. The main shareholders are members of the Al Rajhi family, who comprise most of the members of the board. Local investors and the government hold the remaining shares.

Al Rajhi is the largest Islamic bank operating in Saudi Arabia and has the largest retail franchise in the Kingdom with a network of over 500 branches/remittance centres and over 1,900 ATMs. A subsidiary was established in Malaysia in late-2006.