Moody's Investors Service

Global Credit Research
Credit Opinion
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Credit Opinion: Al Rajhi Bank

Al Rajhi Bank

Riyadh, Saudi Arabia

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	A1/P-1
Bank Financial Strength	C

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Key Indicators

Al Rajhi Bank

	[1]**2008**	**2007**	**2006**	**2005**	**2004**	**Avg.**
Total Assets (US$ million)	**43,593**	**33,195**	**28,093**	**25,377**	**20,789**	[2]**15.92**
Total Capital (US$ million)	**6,838**	**6,303**	**5,388**	**3,597**	**2,720**	[2]**28.12**
Return on Average Assets	**4.72**	**5.61**	**7.29**	**6.52**	**4.12**	**5.36**
Recurring Earnings Power [3]	**5.33**	**5.99**	**7.55**	**7.14**	**5.33**	**6.14**
Net Profit Sharing Margin %	**6.85**	**7.64**	**7.64**	**7.39**	**6.55**	**6.95**
Cost/Income Ratio (%) [4]	**27.19**	**26.05**	**20.56**	**20.41**	**26.80**	**24.73**
Problem Investments (%) Gross Investments	**--**	**3.54**	**2.87**	**2.43**	**2.17**	**2.97**
Tier I capital ratio	**--**	**23.60**	**25.30**	**18.20**	**22.50**	**22.80**

[1] As of September 30. [2] Compound annual growth rate. [3] Preprovision income % average assets [4] Non-Interest Expense % Operating Income

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a bank financial strength rating (BFSR) of C to Al Rajhi Bank (Al Rajhi), which translates into a Baseline Credit Assessment (BCA) of A3.

The BFSR is supported by the bank's robust commercial franchise as the largest Islamic bank globally, and its leading market position in retail banking. The combination of cheap funding, good control over costs and relatively high credit leverage by Saudi standards makes Al Rajhi one of the most profitable banks in the Middle East. Appetite for market risks is also very limited and financial performance has been consistently sound over the past five years. The bank's risk management architecture and corporate governance, key weaknesses in the past, have been enhanced.

The BFSR is constrained by the bank's high credit concentrations, its relatively more modest entrenchment into the corporate banking market and the increasingly competitive nature of the Islamic banking industry. The Islamic product range remains less deep and diversified than in conventional banking, while the availability of Shari'ah-compliant liquidity and hedging instruments remains limited. The bank's overseas expansion and aggressive lending growth over the past four years could also weigh on asset quality indicators (which weakened in 2007), although credit risks are partly mitigated by salary assignments, the Saudi regulator's effective supervision and the strong macroeconomic environment.

Al Rajhi's long-term global local currency (GLC) deposit rating is set at A1, which includes a two-notch uplift from the bank's A3 BCA. This is based on Moody's assessment of a very high probability of systemic support in the case of need.

Credit Strengths

- Solid mass-market, Shari'ah-compliant franchise and a loyal customer base

- Robust financial fundamentals, driven by low funding costs, wide margins, ample capital and a rapidly improved risk management and corporate infrastructure

- Leading position in retail banking, ensuring both granularity in the retail credit portfolio and predictable, sustainable revenue streams

- Strong domestic operating environment expected over the medium term

- Very high likelihood of support from the Saudi authorities should the need arise

Credit Challenges

- High concentrations risks by name, sector and geography in the corporate banking book

- Rapid past and expected credit growth, resulting in more aggressive credit leverage than at peers, untested credit portfolios and slightly declining asset quality indicators

- Despite a vast pool of stable deposits, a still imbalanced funding mix inadequately addresses the risks attached to widening maturity mismatches between longer-tenor assets and short-term liabilities

- Limited track record in managing controlled growth overseas

- Increasing competition within the Kingdom's Islamic banking market

Rating Outlook

All the bank's ratings carry a stable outlook, reflecting our expectations that Al Rajhi will retain its leading market position in retail banking, further enhance its entrenchment into commercial and corporate financing, increasingly strengthen its operating diversification, especially in the asset management business line, and ultimately protect its resilient financial performance.

What Could Change the Rating - Up

The BFSR could improve if the bank continues to materially strengthen its risk culture down to the operating level of business lines, especially in view of its foray into foreign markets, reduces the concentration risks attached to the corporate banking portfolio, enhances its operating diversification out of pure lending, further addresses maturity mismatches with longer tenor funding and convincingly proves successful in its overseas expansion plans. As these scenarios are expected to materialize only in the longer run, we expect Al Rajhi's ratings to remain stable in the medium term.

What Could Change the Rating - Down

The bank's BFSR could be lowered in the event that rapid credit growth exerted excessive pressure on Al Rajhi's capital position, asset quality drifted or foreign expansion turned out to be a too heavy burden to carry, or if the bank's reputation were to be damaged. The likelihood of these scenarios is low, and do not constitute our base-case assumption for the future direction of Al Rajhi's ratings.

Recent Results and Developments

For the twelve months to December 2007, the bank's bottom-line profits were down 11.7% to SAR6.45 billion (US$1.714 billion) on the back of a sharp decline in fees from brokerage operations. This was largely expected and incorporated into our analysis of Al Rajhi's core profitability. Core banking operations continue to perform well, with net intermediation income up 13% to SAR7.7 billion in 2007. Total assets had increased by 18% to SAR124.9 billion (US$33.2 billion) at year-end 2007. This emphasises the fact that the new assets booked on Al Rajhi's balance sheet incrementally carry a lower yield than in previous years, reflecting the bank's shift towards a less profitable and more volume-driven corporate banking strategy, at a time when opportunities in the lucrative retail banking arena -- Al Rajhi's main business line so far -- are slowly becoming less widely available.

In such a period of relatively calm credit markets in the Kingdom, Al Rajhi has taken the positive initiative to materially strengthen its risk management policies, procedures, tools and culture. Its risk management function has been considerably enhanced in size, scope and stature within the organisation, and now compares favourably with that of peers. Overall, Al Rajhi financial performance in 2007 can be considered a good proxy of steady-state profitability, as very limited amounts of non-recurring income and expenses were recognised this year, as opposed to the 2005-2006 period, when revenues were largely overstated by capital unsustainable, blurring market-driven earnings.

As an Islamic retail bank mainly focusing on its large domestic market, Al Rajhi has been naturally protected against imported credit turmoil. A couple of years ago, it started to enhance its corporate banking capabilities, with an emphasis on plain vanilla transactional business, which is now bearing fruit. The conjunction of these two strategic advantages led the bank to record a 60% increase in its lending portfolio during the first nine months of 2008, the main driver of its 31% balance sheet growth. Funding costs have remained under control, reflecting Al Rajhi's capacity to still attract deposits at very competitive rates, the bank's main competitive edge. To grow volumes, Al Rajhi has given up some asset yield, driving margins downward, which also signals a higher proportion of corporate lending in its books. The price to pay for increasing market shares is a lower return on assets, falling to a still very strong annualised 4.7% compared to 5.6% in 2007, and a slightly declining return on equity, standing at an annualised 26.6%, compared to 27.3% in 2007. Unsurprisingly, fast-growing lending volumes have been achieved at the expense of liquidity, with core liquidity ratios declining to 11.7% as of 30 September 2008, compared to an average of 28% from 2005 to 2007. That said, the stability of Al Rajhi's deposit base has been tested, and appears strong: the bank can afford to increase loan leverage, and is not expected to further drive down its current liquidity position.

DETAILED RATING CONSIDERATIONS

Detailed considerations for Al Rajhi's currently assigned ratings are as follows:

Bank Financial Strength Rating

Moody's C BFSR for Al Rajhi is supported by the bank's strong and defendable domestic franchise and sound core financial performance. Al Rajhi is the largest fully fledged Shari'ah-compliant financial institution globally and one of the very few mass-market banks in Saudi Arabia: as such, it has a strong, stable and loyal customer base, particularly as regards the collection of non-remunerated deposits. Such a competitive advantage in terms of very low funding costs, as well as its deep-rooted entrenchment in the lucrative retail-banking line of business largely explains why Al Rajhi has outperformed domestic and regional peers in terms of profitability in the long terms. However, these strengths are counterbalanced by the bank's high credit concentrations, rapid credit growth which may overstate the quality of the new asset production, especially in lending, the increasingly competitive nature of the Islamic banking industry in the Kingdom, and by the uncertainties embedded in the bank's ambitious expansion plans overseas, a field in which Al Rajhi has limited experience despite its relative recent success in Malaysia. For reference, the assigned BFSR is in line with the outcome of Moody's bank financial strength scorecard.

Qualitative Rating Factors (70%)

Factor 1: Franchise Value

Trend: Neutral

With total assets of SAR163.3 billion (US$43.6 billion) as of 30 September 2008, Al Rajhi ranks third among financial institutions in Saudi Arabia, and constitutes the largest private-sector Islamic bank globally. Given that Al Rajhi is one of the few fully fledged Shari'ah-compliant financial intermediaries in the Kingdom, it has a competitive advantage over many of its domestic peers in serving predominantly the retail segment, as a mass-market player. Being less selective in segmenting its market, Al Rajhi has managed to attract about 3 million customers, who proved to be stable and profitable despite the high costs attached to running a branch network in excess of 400 branches.

Such an exceptionally strong franchise results in non-remunerated deposits making up more than 80% of total customer deposits. With a funding cost of about 85 basis points in 2007 and 68 basis points for the first nine months of 2008, Al Rajhi's profitability is built on a particularly strong business model that fully exploits the value of the specific retail-banking market in Saudi Arabia. Al Rajhi's strong franchise in retail banking, especially through instalment sales (i.e. consumer loans) which account for about 50% of total financing, provides a very appealing risk-return trade-off. Indeed, the vast majority of credit exposures are based on salary assignments, with borrowers often employed in the public sector, which drives the cost of risk at very manageable levels by international standards.

As expected, a slowdown in the growth of consumer loans has occurred, following the recent guidelines of the Saudi Arabian Monetary Agency (SAMA) aimed at restricting the expansion in household leverage. We consider SAMA's proactive behaviour in curbing the spectrum of a retail credit bubble as a positive factor for Al Rajhi - and its Saudi peers at large - as it will give the bank time to digest the dramatic surge in credit experienced over the past four years.

Simultaneously, in line with a strategic shift initiated over the past two years, management aims to further enhance its corporate banking franchise, investment banking entrenchment (which includes brokerage, asset management and corporate finance); it already achieved some success in these objectives in 2007, albeit from a low base. Especially, the bank's investment banking arm, called Al Rajhi Financial Services Company, was licensed in March 2008, holds a SR50 million capital, carries SR6.3 billion of assets under management through 16 funds, employs 400 staff, and expects to achieve SR500 million in net profits in 2008.

In the future, Al Rajhi is also well positioned to take advantage of growth opportunities in a new and still underexploited retail segment, i.e. mortgages, as an alternative source of growth to compensate for the slowdown in the more conventional customer loans. However, this is very much dependent on the conditions under which the long-expected mortgage law will be passed and implemented, an event that should probably occur by year-end 2008. The law will not by itself conjure up a genuine mortgage market in the Kingdom, as a number of economic and social uncertainties remain as regards loan foreclosure and asset realisation in a deeply Muslim country.

The creation of Al Rajhi's wholly owned subsidiary in Malaysia, where it already operates 20 branches, has started to bring some geographic diversification to the bank's business model and revenues. However, the success of such a venture will ultimately depend on the bank's ability to capture a material portion of the Malaysian retail market, while deploying sufficiently conservative and sound risk management systems in a market far more competitive than that of Saudi Arabia. We understand that Al Rajhi has more ambitious plans for overseas expansion, which are currently being reviewed by management and the Board: while Al Rajhi is expected to retain full control over the international outlets to be deployed in other Muslim countries, the bank has a limited track record of running a wider spectrum of foreign operations, and therefore might face risk categories it is not used to managing.

The scorecard outcome of B- for franchise value reflects Al Rajhi's well-established market position in Saudi Arabia as the largest Islamic bank in the region, commanding a 13% market share of banking assets, as well as its strengths in retail banking and efforts to diversify its business model, from both a geographic and an operating perspective.

Factor 2: Risk Positioning

Trend: Neutral

Al Rajhi's risk positioning is weakened by high concentration risks, which is also the case for the bank's domestic and regional peers. This is especially the case in terms of credit exposures, and more precisely in the corporate banking book -- an issue faced by the vast majority of Saudi banks; however, the bank's retail portfolio is relatively granular. As the domestic economy is dominated by a relatively small number of large corporate groups, concentration by name and sector is a constraint for the banking system as a whole, and is expected to remain so in the medium term. Having said that, large exposures are of good credit quality and usually well collateralized. In addition, despite a nascent international expansion, Al Rajhi remains a domestic player, very much dependent on the Kingdom's economic cycle. On the other side of the balance sheet, concentration risks are more limited, as the dominant share of funding sources is extracted from the retail market, diversified by definition.

Unlike some of its domestic and regional peers, Al Rajhi does not rely on a limited number of wholesale customers. Finally, the shareholding structure is also concentrated, in light of the Al Rajhi family's controlling stake in the bank, which is not the most ideal environment for an optimal corporate governance architecture to emerge. However, under the auspices of SAMA, the bank's majority shareholders and its proactive senior management team, Al Rajhi has considerably strengthened its compliance function, corporate governance infrastructure and risk management framework over the past 12 months.

Al Rajhi's enterprise risk management is now solid and compares favourably with that of peers. The risk management function, overseen by experienced specialists, is independent, well-staffed and comprehensibly covers all relevant standard risk categories across business lines. Al Rajhi's risk appetite is relatively low: the bank engages mainly in plain vanilla intermediation and investment banking, avoiding complex, unfamiliar and exotic transactions, with the exception of a few corporate finance transactions for the largest Saudi firms. Al Rajhi's risk profile is dominated by credit risk, where it has adopted a much centralised culture in assessing and pricing risk.

Concentration risks are a fact of life in Saudi Arabia, and are expected to be captured through additional capital charges under Al Rajhi's imminent implementation of Basel II's pillar 2 guidelines as interpreted by SAMA. Market risks are limited and operational risks appear to be sufficiently scrutinised.

The bank's overall score for risk positioning is D.

Factor 3: Regulatory Environment

For a discussion of the regulatory environment, refer to Moody's latest Banking System Outlook for Saudi Arabia, published in November 2007.

Factor 4: Operating Environment

Trend: Improving

This factor is also common to all Saudi banks. Moody's assigns a D score for the Kingdom's overall operating environment, partly reflecting the significant volatility of the country's economic real and nominal output, the still limited diversification beyond the hydrocarbon sector, current and future challenges with regard to employment and human capital, as well as some structural weaknesses in terms of the rules of law.

However, we note that this score may not fully capture Saudi Arabia's special status as the global leader in oil production, facing limited pressure in terms of liquidity and engaged in very ambitious plans for developing its economic infrastructure within the upstream and downstream oil industry sector but also in view of enhancing output diversification in mining, power and water, services, transportation and financial services. Along with the planned mortgage law, such initiatives are expected to provide the Kingdom's banking industry with sizeable engines for sustainable growth going forward. Finally, economic stability, as measured by the relative volatility of macroeconomic indicators, has mostly been in an upwards direction, with means that high GDP cyclicality has been mainly witnessed in periods of high growth. Overall, the Saudi economy grew by a spectacular 150% over the past eight years in nominal terms. Moody's latest Banking System Outlook for Saudi Arabia includes additional comments on the Kingdom's operating environment.

Quantitative Rating Factors (30%)

Factor 5: Profitability

Trend: Neutral

Al Rajhi's spectacular profit rates result from the combination of a number of factors: a low funding cost, good control over operating expenses, robust market position in the lucrative and low-risk domestic retail market, relatively high credit leverage, and no corporate taxes.

Al Rajhi has the largest distribution network in Saudi Arabia, which gives it an exceptionally strong mass deposit-gathering ability. In addition, as an Islamic bank, it extracts very cheap funding from its retail franchise: with 80% of its liabilities in the form of unremunerated deposits, funding costs were only 68 basis points in the first nine months of 2008.

Along with a cost-to-income ratio of 27% in the first three quarters of 2008, Al Rajhi has a robust grasp over its operating expenses through the cycle. This also reflects a limited cost of risk: given that its credit portfolio is dominated by relatively safer retail exposures, provision charges have consumed only an average of 6% of pre-provision income over the past three years.

Finally, with gross credit exposures making up 83% of total assets at 30 September 2008, Al Rajhi displays a higher credit leverage than domestic and regional peers, and such a leverage is increasing: in the trade-off between profitability and liquidity, Al Rajhi's balance sheet is more skewed towards higher-yielding, but also less liquid, credit exposures: the bank indeed believes that a large portion of its deposit base, although retail-based, is sufficiently sticky in the long term, which makes it unnecessary for it to overload its balance sheet with an excessive proportion of liquid assets.

As a result, Al Rajhi recorded an annualized ROA of 4.7% and an annualized ROE of 26.6% for the first nine months of 2008, a very sound performance even by regional standards, which includes very limited amounts of non-recurring earnings, as opposed to the 2005-2006 period, when brokerage fees inflated profitability ratios.

Al Rajhi's score for profitability is therefore A.

Factor 6: Liquidity

Trend: Neutral

Al Rajhi's liquidity position remains adequate, with liquid assets representing 12% of total assets at 30 September 2008, down from 27% at YE2007. With more credit leverage consistent with the bank's volume strategy, it is only natural that liquidity be temporarily curbed. We indeed don't expect steady-state liquidity ratios to remain in the low tens for a prolonged period of time. Liquidity management is not an easy task for Islamic banks: most instruments used for liquidity management, on either the money market or the securities market, are based on interest, which is unlawful as per the principles of Shari'ah-compliant finance.

Therefore, Al Rajhi's investment portfolio remains small compared to core money-market, murabaha-based placements and credit exposures. SAMA has designed an ad-hoc tool, included in Al Rajhi's mutajara book, which replicates the behaviour of repo-able government bonds, and which we classify as fixed-income, Shari'ah-compliant securities. On the other side of the balance sheet, Al Rajhi's funding continuum remains somewhat imbalanced: apart from a very large pool of customer deposits, the bank has no market funding other than a US$500 million three-year syndicated murabaha financing.

Although we fully acknowledge that a large portion of customer deposits have been very stable over time, our opinion is that Al Rajhi, like any of its Islamic peers, is not immune from reputation risk, against which longer-term funding sources are of some benefit in reducing the risks attached to bank runs. In addition, longer-tenor funding would support foreign expansion, and help address both the issue of widening maturity mismatches and the risk of increasing income sensitivity to margin shocks.

The score for liquidity is B.

Factor 7: Capital Adequacy

Trend: Neutral

Al Rajhi's capitalisation is strong. Regulatory capital ratios remain well above the minimum requirements, with a Tier 1 capital ratio of 23.6% at year-end 2007. Shareholders' funds accounted for a solid 18.9% of total assets at the same date, and 15.7% at 30 September 2008, a decline attributable to fast asset growth since the end of last year. Capital ratios also reflect the very high quality of Al Rajhi's equity base, with a marginal contribution of non-core capital to the bank's equity.

At this stage, Al Rajhi has ample capital to support its business growth, both in the Kingdom and overseas, where organic, prudent and balanced expansion is the preferred option. More than sufficient capital is available to absorb any unexpected losses should the need arise.

Going forward, we expect the capital adequacy ratios to remain robust, but to gradually decline, as a result of the joint effect of two simultaneous developments: on the one hand, the implementation of Basel II in 2008 will include, as per SAMA's guidelines, additional capital charges for pillar 2 risks, especially concentration risks, margin rate risk in the banking book, and macroeconomic risks; and on the other hand, as the bank expands domestically and internationally, equity growth might not be able to match the current expectation for rapid increases in risk-weighted assets. The bank has prepared for this scenario, and reduced its dividend payout ratios in recent years, in order to build additional capital cushions internally.

The score for capital adequacy is A.

Factor 8: Efficiency

Trend: Neutral

Despite its extensive network, Al Rajhi's cost-to-income ratio was a low 26% in 2007, which compares very favourably to that of domestic and regional peers, and has remained stable in 2008 so far. The recent deterioration in the bank's efficiency indicators was largely expected given the recognition of unsustainable income in the revenue streams generated over the 2005-2006 period. However, current cost-to-income ratios are in line with the levels displayed pre-2005.

Although efficiency is robust at Al Rajhi, mainly due to relatively low labour costs, we have identified two weaknesses. On the one hand, given the limited use of variable components in compensation, costs tend to be sticky and of low flexibility across the cycle. On the other hand, we expect costs to grow faster than revenues in the medium term: indeed, Al Rajhi's shift towards corporate banking should drive margins down, at a time when foreign expansion, further risk management upgrades and forays into still underdeveloped business lines (such as investment banking) might give rise to additional expenses. However, although slightly on the rise, efficiency ratios should remain among the most competitive in the country and the region as a whole.

The bank scores A for its efficiency.

Factor 9: Asset Quality

Trend: Weakening

The quality of Al Rajhi's assets is adequate. Its non-performing loan ratios have deteriorated consistently over the past four years, rising to a moderate 3.5% at year-end 2007, after a sharp decline in 2004. Given that Al Rajhi used to be heavily exposed to various forms of margin lending and credit against shares, the spectacular correction of the Saudi equity market that started in March 2006 was expected to contaminate the bank's credit portfolio, especially in its retail and commercial/SME components. Relative to its domestic peers, Al Rajhi displays lower asset quality indicators, partly reflecting its focus on catering for the needs of the retail mass-market.

In the longer term, when the operating macroeconomic environment and credit portfolios mature, we would expect some further deterioration in asset quality to arise in the long term from the recent aggressive loan growth, as a result of which the bank's credit portfolio will have doubled between 2004 and 2008. However, in the short term, it is likely that more active write-offs would lead to a decline in NPL ratios to levels in line with peers'. This would have limited impacts on provisioning as a large proportion of Al Rajhi's NPLs are old and thus fully provided for.

At present, the score for the bank's asset quality is B but with a weakening trend.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns a long-term global local currency (GLC) deposit rating of A1 to Al Rajhi. This rating is supported by the bank's Baseline Credit Assessment of A3, as well as by the Aa3 local currency deposit ceiling of its underlying support provider, Saudi Arabia. This reflects our assessment of a very high probability of systemic support for the bank in the event of a stress situation, resulting in a two-notch uplift for this rating from the bank's Baseline Credit Assessment.

Our support assessment is based on Al-Rajhi's 12% market share in total assets, its status as the largest private-sector Islamic bank in the region as well as globally, and a track record that demonstrates that the Saudi authorities have always had a supportive approach to banks in distress. Moody's indeed views Saudi Arabia as a high support country.

Notching Considerations

Ratings for Al Rajhi's junior obligations should be notched off the fully supported deposit rating because Moody's believes that there is no legal authority in place in Saudi Arabia to impose losses on subordinated creditors outside of a liquidation scenario.

Foreign Currency Deposit Rating

Al Rajhi's A1/P-1 foreign currency deposit ratings are at the same level as the GLC deposit ratings, as they are not constrained by the country ceiling for Saudi Arabia.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Credit Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Ratings

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Al Rajhi Bank

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (70%)						**D+**	
Factor: Franchise Value						**B-**	**Neutral**
Market Share and Sustainability	**x**						
Geographical Diversification				**x**			
Earnings Stability		**x**					
Earnings Diversification [2]							
Factor: Risk Positioning						**D**	**Neutral**
Corporate Governance [2]				**x**			
- Ownership and Organizational Complexity	--	--	--	--	**--**		
- Key Man Risk	--	--	--	--	--		
- Insider and Related-Party Risks	--	--	--	--	--		
Controls and Risk Management			**x**				
- Risk Management			x				
- Controls			x				
Financial Reporting Transparency			x				
- Global Comparability	x						
- Frequency and Timeliness	x						
- Quality of Financial Information				x			
Credit Risk Concentration	**--**	**--**	**--**	**--**	**--**		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
Liquidity Management			**x**				
Market Risk Appetite			**x**				
Factor: Operating Environment						**D**	**Improving**
Economic Stability				**x**			

Integrity and Corruption				**x**			
Legal System				**x**			
Financial Factors (30%) [3]						**B**	
Factor: Profitability						**A**	**Neutral**
PPP % Avg RWA	9.28%						
Net Income % Avg RWA	8.71%						
Factor: Liquidity						**B**	**Neutral**
(Mkt funds-Liquid Assets) % Total Assets	-23.91%						
Liquidity Management			x				
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 ratio (%)	22.37%						
Tangible Common Equity % RWA	22.36%						
Factor: Efficiency						**A**	**Neutral**
Cost/income ratio	22.34%						
Factor: Asset Quality						**C+**	**Weakening**
Problem Loans % Gross Loans			2.95%				
Problem Loans % (Equity + LLR)		10.23%					
Lowest Combined Score (9%)						**C+**	
Economic Insolvency Override						**Neutral**	
Aggregate Score						**C**	
Assigned BFSR						**C**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information
[2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral [3] - All ratios appearing on the scorecard are averages over the past three years

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