

Kingdom of Saudi Arabia Transparency Report

ISSUED IN RESPECT OF THE YEAR ENDED 31 DECEMBER 2018

Moody's Investors Service ("MIS") Kingdom of Saudi Arabia ("KSA" or the "Kingdom") Transparency Report

Provided in Accordance with Article 22 of the Capital Market Authority (the "Authority", or the "CMA") Credit Rating Agencies Regulations dated 10/11/2014G (the "CRA Regulation") in respect of the year ended 31 December 2018

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1. Introduction from Monica Merli, Regional Head of Moody's Investors Service for Europe, the Middle East and Africa

In this section we describe who we are and what we do.

Moody's Investors Service ("MIS") has decades of experience in helping market participants globally understand credit risk.

Moody's defines credit risk as the risk that an entity may not meet its contractual, financial obligations as they come due and any estimated financial loss in the event of default. This risk is inherent in bank loans, fixed-income securities and other financial products that are amongst the building blocks of the world's capital markets. In addition to traditional bank loan markets, debt capital markets are a powerful mechanism for channeling funds into companies preparing to expand and for governments that intend to fund a variety of projects, including infrastructure projects.

Assessing the credit risk in these loans and instruments is what MIS does.

Credit ratings and research help investors analyse the credit risks associated with fixed-income securities and other financial obligations. By providing predictive and independent assessments of their credit risk, our ratings and research contribute to the funding of the economy.

MIS analyses available information to assess the credit risk in an accessible and digestible form for use by market professionals. We have developed a rating system that rank-orders our view of the relative credit risk of the issuers and financial obligations we rate. This rating system communicates an informed opinion of how issuers or financial obligations across all geographies and asset classes in a given rating category will perform over time relative to other issuers and obligations in higher or lower rating categories.

In so doing, credit ratings have standardised the language of credit by establishing common points of reference that can be compared across markets, industries and geographies. This comparability is especially important as capital markets have become increasingly global and interconnected and investors are faced with an extensive, and often bewildering, choice of investment opportunities.

Credit ratings therefore provide a commonly understood measure of credit risk that helps issuers, investment managers, other financial market professionals and commentators communicate with one another. This, in turn, promotes dialogue, debate and more informed decision making amongst market participants. MIS's ratings and in-depth research services provide a sound basis for helping to understand and manage credit risk in the context of present – and future – market realities.

Supporting Kingdom of Saudi Arabia ("KSA's") capital markets

MIS commenced business operations in the Kingdom in 2018, building on our decades of experience helping market participants understand credit risk in the KSA, Gulf Cooperation Council and Middle East region.

MIS began assigning credit ratings to entities domiciled in KSA in 1996, and remains committed to the development of KSA's capital markets.

MIS now has published credit ratings across several sectors in KSA, including ratings for 11 out of 12 KSA financial institutions as well as large corporates.

The information below provides further insight into our operations.

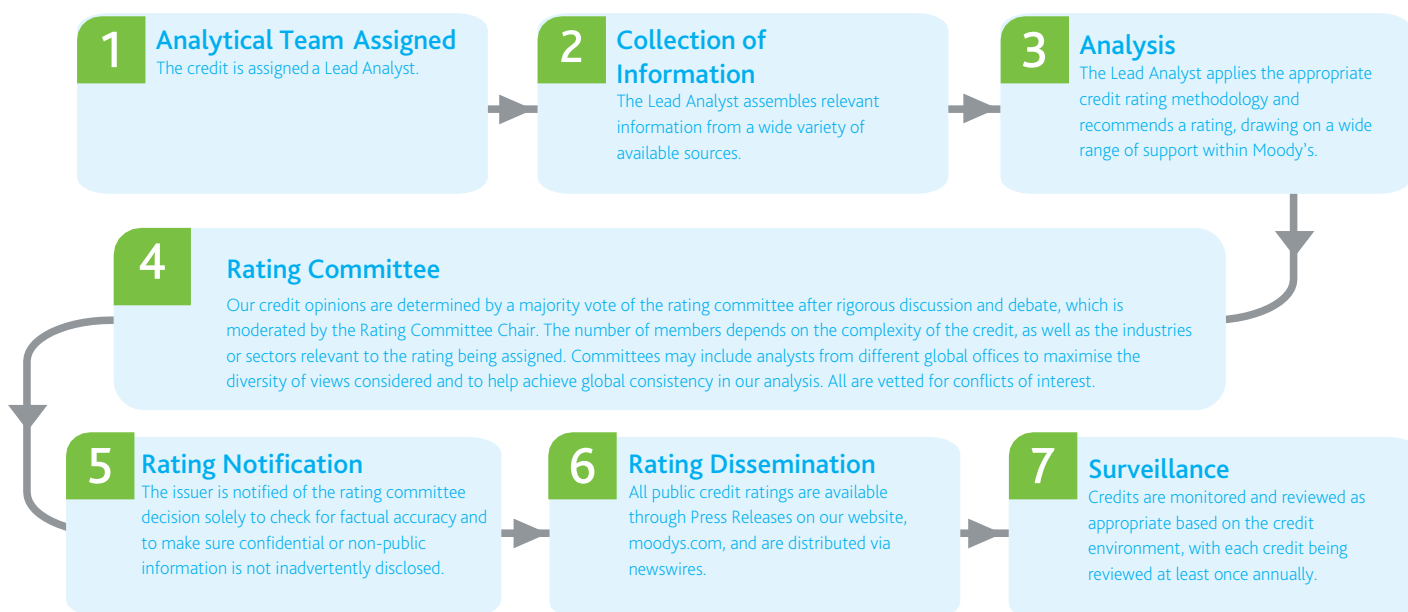
1.1 Who We Are

MIS's company mission is "to be the world's most respected authority serving credit and risk-sensitive markets." This requires that we have an analytical, data-driven culture that rewards intellectual rigour and innovative thinking.

Founded more than 100 years ago, it all began with the publishing of Moody's Manual of Industrial and Miscellaneous Securities, by John Moody & Company in 1900. John Moody created the manual based on his assessment of the market's needs at the time. Now, the firm's ratings and analyses track debt covering non-financial corporate issuers, financial institutions issuers, public finance issuers, structured finance transactions and infrastructure and project finance issuers.

1.2 How We Determine Ratings

MIS's credit ratings are determined by rating committees in which methodologies, not formulae, provide a framework for group decision making. Our methodologies, which are publicly available, set out the key analytical factors that we believe are the most important determinants for generating predictive credit ratings. Below, we describe a typical rating process:



1.3 Key Attributes of MIS's Ratings

MIS's credit ratings are intended to augment – not replace – the independent credit analysis that sophisticated investors and other market participants conduct for portfolio management, capital allocation and other purposes.

KEY ATTRIBUTES OF MIS's RATINGS



Dedicated, experienced analytical teams using proprietary analytics



A common language of credit risk



A process that brings together analytical views



A long institutional memory of credit



A comprehensive view of credit risk in the capital markets based on unparalleled coverage

2. Compliance with CRA Regulation

MIS operates as a branch of Moody's Investors Service Middle East Limited in the Kingdom (the "MIS KSA branch").¹ MIS KSA branch is committed to complying with the CRA Regulation and other relevant laws and regulations applicable to its business. MIS's credit ratings of entities or securities domiciled in KSA and subject to the CRA Regulation ("KSA Credit Ratings") are issued by MIS credit rating agencies outside KSA where the lead analyst for the relevant entity or security is located. The codes, policies and procedures described below are applicable to MIS staff in in these offices when KSA Credit Ratings are assigned.

The obligations of the CRA Regulation are codified in codes of conduct, policies and procedures as described below and are implemented through MIS's operational and control structures. MIS staff are expected to comply with these codes, policies and procedures to the extent relevant to them when assigning KSA Credit Ratings and adherence is overseen by the business and tested by each of Compliance, the Methodology Review Group and Internal Audit as appropriate.

2.1 Codes of Conduct

MIS credit ratings, including KSA Credit Ratings, are assigned pursuant to the MIS Code of Professional Conduct which establishes guiding principles applicable to MIS employees and establishes the basis upon which MIS engages with issuers and investors. The Moody's Corporation ("MCO") Code of Business Conduct, applies to all MIS staff and sets out guiding principles to which each employee and corporate director is expected to adhere.

2.2 Policies and Procedures

The principles established by the codes of conduct described above are elaborated upon in MIS's policies and procedures. These documents implement MIS's obligations under applicable laws and regulations in the countries in which it operates, including in the Kingdom, and govern the conduct of employees during the credit rating process, including with respect to KSA Credit Ratings. These documents establish a consistent approach throughout MIS and extend to, among other matters, the independence of the credit rating process, the avoidance of conflicts of interest and disclosure requirements.

2.3 Management of Conflicts of Interest

While it is not possible for MIS to eliminate all conflicts of interest in its business model, those that cannot be eliminated are identified, managed and disclosed to maintain objectivity, independence and integrity in the credit rating process. MIS has published a specific list of its potential conflicts affecting KSA Credit Ratings² and has adopted policies and procedures to prevent, identify and manage them. In particular, MIS has put in place the following:

- » MIS's codes of conduct establish both high-level principles addressing potential conflicts of interest and high-level standards on the handling of confidential information. Pursuant to MIS's policies and procedures employees are subject to restrictions with respect to receipt of gifts, personal ownership and trading of securities and other personal interests that could create a potential conflict with the independence of MIS's credit rating activities.
- » MIS is operationally and legally segregated from MCO's non-ratings businesses.
- » As an institution, MIS does not act as a principal or make markets in securities.
- » MIS's Commercial Group, which is responsible for all commercial relationships with issuers, is operationally segregated from any analytical rating group and any involvement in credit rating activities. Analysts are prohibited from participating in fee discussions with issuers or their agents.
- » Credit ratings are determined by rating committees.
- » Analysts are not compensated or evaluated based on the amount of revenue that MIS derives from issuers that the analyst rates or with which the analyst interacts.
- » MIS applies a mechanism for the gradual rotation of relevant analytical staff to protect their independence.
- » MIS conducts a "look-back review" when an analyst leaves MIS and joins an issuer with which he or she had significant dealings as part of his or her duties as an analyst.

¹ Further information on the legal structure of MIS KSA branch is set out in section 3 below.

² See Moody's Conflicts of Interest Related to the Issuance of Credit Ratings statement on https://www.moodys.com/pages/default_me.aspx.

2.4 MIS Compliance Department

The MIS Compliance Department is part of the wider Legal, Compliance and Government and Public Affairs organisation, which reports to the Global General Counsel of MCO and is independent of the rating groups. It is responsible for assessing MIS's adherence to regional and local laws and regulations as well as codes of conduct, policies and procedures. The MIS Compliance Department monitors the adequacy and effectiveness of the measures and procedures put in place to maintain compliance with the CRA Regulation and provides reports to a Supervisory Committee of MIS KSA branch ("MIS KSA Supervisory Committee").

2.5 Internal Audit

Although not a requirement of the CRA Regulation, MCO maintains a centralised and independent Internal Audit function, which is responsible for performing internal audits in relation to all MIS entities, including the MIS KSA branch. The Internal Audit function is responsible for bringing a systematic and disciplined approach to evaluating and improving the effectiveness of MCO's internal controls and governance processes. The Board of Directors of MCO has established an Audit Committee (the "MCO Audit Committee") to whom the Internal Audit function reports.

Internal Audit's coverage of the ratings process is assessed through a combination of three types of audits: (1) rating compliance audits; (2) general office reviews of MCO's international locations; and (3) corporate functions such as Compliance or Credit Strategy and Standards ("CSS").

3. Legal Structure and Ownership

Regional Management

MIS's management group is complemented by regional managers for each of Europe, Middle East and Africa (EMEA), Americas and Asia/Pacific. Monica Merli is the Regional Head of MIS EMEA and is based in London. The Regional Head of MIS EMEA oversees information flow between MIS's subsidiaries in EMEA and provides centralised oversight in the region. Reporting to the Regional Head of MIS EMEA, the Head of EMEA Emerging Markets for Relationship Management and Regional Management³, provides managerial oversight of MIS country managers in the Middle East, Africa and the CIS⁴. The Head of EMEA Emerging Markets for Relationship Management and Regional Management is responsible for overseeing the management of MIS KSA branch as conducted by the country manager and reporting in such capacity to the Regional Head of MIS EMEA.

Detailed Information on Legal Structure and Ownership

MIS KSA branch is a branch of Moody's Investors Service Middle East Limited ("MISMEL"). MISMEL is a wholly-owned indirect subsidiary company of MCO, a Delaware (USA) incorporated company listed on the New York Stock Exchange ("NYSE"). MIS KSA branch is registered in accordance with the laws of the Kingdom and operates as part of the MIS division of MCO.

Legal Structure of MIS KSA branch:

Name of Shareholder	% Shareholding	Country
Moody's Investors Service Middle East Limited	100%	UAE (DIFC)
Moody's EMEA Holdings Limited	100%	UK
Moody's Shared Services UK Limited	100%	UK
Moody's Holdings Limited	100%	UK
Moody's Group UK Limited	100%	UK
Moody's Group Cyprus Limited	100%	Cyprus
Moody's Holdings LLC	100%	US
Moody's International (UK) Limited	100%	UK
Moody's Group (Holdings) Unlimited	100%	UK
Moody's Financing (BVI) Limited	100%	BVI
Moody's International LLC	100%	US
Moody's Overseas Holdings Inc.	100%	US
Moody's Corporation	100%	US

³ This role was created in August 2018.

⁴ The Commonwealth of Independent States.

4. Internal Control Mechanisms Ensuring the Quality of MIS's Credit Rating Activities

MIS's approach to maintaining key internal control mechanisms to ensure the quality of its credit rating activities includes the structures and operations outlined below.

4.1 Credit Strategy and Standards ("CSS")

4.1.1 CSS Structure

CSS comprises several functions: the Methodology Development Group ("MDG"); the Methodology Review Group ("MRG"); the Ratings and Process Oversight Group ("RPO"); the Analytics and Technology Solutions Group ("ATS"); the Strategy & Research Group ("S&R"), including the Default & Ratings Analytics Group ("DRA"). Each function reports to the MIS Chief Credit Officer.

4.1.2 Methodology Development Group

MDG is responsible for credit rating methodology development and delivery across MIS. MDG provides analytical resources and leadership, manages a robust end-to-end process and has direct accountability for credit rating methodology development and publication.

4.1.3 Methodology Review Group

The MRG's four main responsibilities are to (1) approve new and revised credit rating methodologies, acting through the Methodology Review Committee, (2) review specifications of MIS credit rating models for consistency with published credit rating methodologies, (3) review the appropriateness of existing credit rating methodologies on an annual basis, and (4) review credit rating actions, on a sampled basis, to evaluate the application of published credit rating methodologies.

4.1.4 Ratings & Process Oversight Group

Credit Officers within RPO enhance ratings quality and promote cross-sector consistency in the application of methodologies by contributing a broader view than that available to individual business lines and rating teams. In support of these objectives, RPO provides guidance on the credit implications of the global macro-economic environment and its Credit Officers provide guidance to analysts on complex credit situations, participate and vote in rating committees and lead credit portfolio reviews.

The policy development and support staff within RPO are responsible for the development and maintenance of the RPO's library of documents, including policies, procedures, guidance and best practices and the implementation of key credit rating processes.

RPO's decision-making forum for key policies and procedures is the Rating Practices Committee, which is comprised of members of CSS and senior managers of rating groups, and is chaired by the Managing Director, RPO. The committee is responsible for setting overall best practices that govern MIS's credit rating process.

4.1.5 Analytic and Technology Solutions Group

ATS is responsible for developing the quantitative models and analytical tools used in the rating process and across MIS, as well as MIS technology innovation activities, including advanced capabilities in machine learning and artificial intelligence.

4.1.6 Strategy & Research Group

S&R is responsible for proactively identifying and prioritizing emerging strategic credit issues, defining a cross line of business strategic viewpoint and generating macro-financial and thematic research. S&R gathers, analyses, and synthesises external and internal data sources to identify key credit issues and guide credit strategy. S&R includes the DRA group, which is responsible for generating rating performance and analysis reports for MRG. The group also contributes to strategically important quantitative projects.

4.2 Enterprise Risk Management

Although not a requirement of the CRA Regulation, MCO has established an Enterprise Risk Management function with a global remit, including MIS KSA branch. Its remit includes identifying principal operational risks across MIS's business.

4.3 Rating Committees

MIS credit ratings, including MIS KSA Credit Ratings, are determined by rating committees pursuant to a majority vote of the rating committee's voting members and, not by individual analysts. The rating committee is a critical mechanism for promoting the quality, consistency and integrity of MIS's credit ratings. MIS has established policies, procedures and guidelines governing the preparation for, convening and conducting rating committees. Among other things, those policies, procedures and guidelines cover the composition of rating committees, the type, quality and format of information that needs to be provided and retained, voting procedures, management of conflicts of interest and maintenance of confidentiality.

4.4 Methodologies

MIS's credit rating methodologies are publicly and freely available on its website. They are typically global in nature and tailored to take account of structural or regional variations. New credit rating methodologies or changes to existing credit rating methodologies are approved by the MRG as necessary. They are subject to ongoing refinement and are reviewed at least annually. MIS's credit rating methodologies represent the core of MIS's analytical approach in a given sector and are applied consistently in the credit rating process. Credit rating methodologies applicable to MIS KSA Credit Ratings are available in both English and Arabic on MIS's website.

4.5 Surveillance

Once a credit rating is published, MIS monitors the credit rating on an ongoing basis and reviews it at least annually, and semi-annually for sovereign credit ratings, until the credit rating is withdrawn. In most of the rating groups, surveillance of credit ratings is conducted by the same analytical team that is responsible for the initial credit rating. In the Structured Finance Group ("SFG"), however, much of the surveillance activity is performed primarily by separate teams of surveillance analysts.

4.6 Credit Ratings Performance

MIS periodically analyses the performance of its credit ratings to assess their consistency and quality. MIS publishes information including historical default, recovery and impairment rates for main geographic areas by credit rating category, the transitions between credit rating categories, and other periodic performance metrics so that financial market professionals can understand the historical performance of securities assigned to different credit rating categories. MIS's public credit ratings are publicly and freely available generally through press releases and on issuer landing pages on; www.moodys.com, enabling third parties to assess their performance. Press releases for KSA Credit Ratings are published in both English and Arabic on MIS's website.

5. Allocation of Staff in KSA / ME Subsidiary

MIS KSA branch has two permanent staff members; a country manager, who is responsible for business development within KSA and an Office Manager.

All MIS credit rating and support staff involved in the assignment of KSA Credit Ratings are located in other MIS offices outside the Kingdom.

In general, surveillance of credit ratings, apart from SFG, typically is conducted by the same analytical team that is responsible for the initial credit rating. MIS allocates staff to a new credit rating but does not allocate staff separately to credit rating reviews.

Methodology Appraisal: as noted in section 4.5 above, MIS's credit rating methodologies, where feasible and appropriate, are typically global in nature and may be tailored to take account of regional or national considerations. CSS and, in particular, MDG as described above operate globally and review and approve credit rating methodologies for all MIS entities globally, including all entities that issue KSA Credit Ratings.

Model Appraisal: within MIS, the Model Verification team is tasked with verifying models that are used globally. Staff undertake model reviews for all MIS entities globally, including all entities that issue KSA Credit Ratings and are supported by third party vendors.

Credit Ratings Support Staff directly support credit rating analysts enabling the analysts to allocate greater time to core analytical responsibilities. These include staff in the Global Middle Office and other support or administrative functions.

Senior Management are persons who effectively direct the business of each of MIS's subsidiaries and/or members of its administrative and/or supervisory board.

6. MIS's Record-Keeping Policy

MIS maintains a Policy and Procedure for Record Retention for Rating Services. These documents, along with the Appendix of Rating Services Record Retention Schedules, provide the fundamental principles of MIS's record retention policy, including:

- » the type of documents subject to the policy;
- » categories of document types for purposes of retention obligations;
- » retention periods for records relating to the credit rating services, in accordance with applicable law and regulation in the jurisdictions in which MIS operates;
- » instructions on the repositories used for record retention; and
- » specifying the parties responsible for retention and deletion of records related to the credit rating services.

Records that are required to be retained include certain documents obtained or created during the credit rating process, whether provided by external sources or created by MIS. In addition, those documents and other credit-relevant documents are generally retained in a consolidated file for each issuer or transaction. Access rights to the document management databases are restricted to maintain the confidentiality of the information stored.

Rating applications and other contractual documents with issuers, along with exchanges with issuers related to commercial and fee information are handled by the Commercial Group, which is segregated from the analytical teams. For credit rating services covered by the policy, records that relate to contracts, commercial or fee information are electronically filed in a separate retention system from the records filed as part of the analytical process. MIS KSA Branch complies with the policy to the extent relevant to its activities.

7. Internal Audit Review of MIS's Compliance Department

The MCO Internal Audit function completed the annual audit of the MIS Compliance Department, which supports MIS, and issued the report in September 2018.⁵ The audit focused on processes and controls established by Compliance to support administration of policies and procedures and training and responding to regulatory requests. Internal Audit also performed inspection procedures over a sample of credit rating action surveillance reports.

The review resulted in an audit opinion of Satisfactory. Internal controls, governance and processes were adequately established and functioning well.

⁵ The report covered the period of September 1, 2017 through August 15, 2018.

8. Revenue of Moody's Investors Service Middle East Limited KSA Branch

The annual revenue of MIS KSA branch is derived exclusively from the provision of business development and related services to MISMEL in connection with credit rating services and non-credit rating services. The revenue for the financial year ended 31 December 2018 was SAR 2.6m. and was confirmed as such in the audited financial statements (see section 12 of this report).

9. Governance Statement

9.1 Governance

As a NYSE listed company, MCO complies with the NYSE's Corporate Governance Standards. MIS KSA branch has enhanced its governance structure in line with the requirements of the CRA Regulation and has established the MIS KSA Supervisory Committee.

Structure: The KSA Supervisory Committee is a sub-committee of the MISMEEL board of directors.

Composition: The KSA Supervisory Committee comprises three MISMEEL directors. During the reporting period, the members were Jehad El Nakla, Monica Merli and David Staples. Each member of the KSA Supervisory Committee is required to be of good repute and sufficiently skilled and experienced in order to perform his/her respective function.

9.2 KSA Supervisory Committee's remit:

The KSA Supervisory Committee's remit is as follows:

1. Oversight of the activities of MIS KSA branch;
2. Oversight of compliance with relevant aspects of the CRA Regulation; and
3. Oversight of compliance with policies and procedures governing MIS KSA Credit Ratings.

To enable it to execute its duties, the KSA Supervisory Committee receives reports from each of the following:

1. The KSA branch country manager on the KSA Branch's operations;
2. MIS Compliance;
3. The "formal review function", being MRG; and
4. Ad hoc from other relevant functions as appropriate in relation to executing its responsibilities.

The KSA Supervisory Committee provides reports to the MISMEEL board of directors as required.

Meetings: the KSA Supervisory Committee will usually meet quarterly but not less than twice a year. The KSA Supervisory Committee meetings will normally be held concurrently with the quarterly MISMEEL board meetings. Ad hoc meetings of the KSA Supervisory Committee can be called on request by any member of the KSA Supervisory Committee.

Quorum and Voting: the quorum for a KSA Supervisory Committee meeting is two. Each member of the KSA Supervisory Committee has one vote and no member has a casting vote. In the event of a split vote, the matter can be referred to the MISMEEL board of directors.

Term of appointment: the members of the KSA Supervisory Committee will remain in position while they remain on the board of directors and will be terminated should a member resign or be removed from the MISMEEL board of directors, if the MISMEEL board of directors or shareholder resolves to change the membership, or if they cease employment with the Moody's group or where otherwise determined by the MISMEEL board of directors.

Compensation: members of the KSA Supervisory Committee are not additionally compensated for their role.

10. Policies for distributing credit ratings, reports and updates

MIS updates its policies as required over the course of a calendar year. As of 31 December 2018, MIS published the following policies for distributing KSA Credit Ratings, reports and updates on its website in English and Arabic:

- » Policy on Conflict of Interest Certification
- » Credit Rating Refusal Policy
- » Policy Regarding SEC Rule 17g-5(a)(3)
- » Anti-Bribery and Anti-Corruption Policy
- » Policy that Prohibits MIS from Rating MCO
- » Policy on Anticompetitive Rating Practices (SEC Rule 17g-6)
- » Policy for Fee Discussions (last updated on 06-Feb-17)
- » Policy Banning Recommendations Associated with Credit Ratings
- » MIS – MA Separation Policy
- » Policy for Material Non-Public Information
- » Policy for Receipt, Review and Retention of External Complaints
- » Policy on Not Maintaining Credit Ratings on Issuers From Whom Moody's Investors Service Receives 10 Percent of its Annual Billings
- » Policy on the Separation of Credit Rating Personnel from Commercial Information and Activities
- » Policy For Outsourcing MIS Important Operational Functions
- » Policy for Public Point-In-Time Credit Ratings Outside Argentina
- » Policy for Disclosures
- » Policy for Solicitation or Acceptance of Money, Gifts, Favors, or Entertainment
- » Compensation of Designated Compliance Officer
- » Outside Business Interest Policy
- » Independence of Compliance
- » Policy on Communication of Public Rating Actions
- » Policy Prohibiting Sales and Marketing by Credit Rating Personnel
- » Policy for Withdrawal of Credit Ratings
- » Policy for Designating Non-Participating Rated Entities
- » Policy for Securities Trading
- » Policy for Designating and Assigning Unsolicited Credit Ratings
- » Policy for Sovereign Ratings
- » Policy for Rated Entity Notification
- » Policy for Analyst Rotation
- » Post Employment Policy
- » Policy on Shareholding
- » Policy on Credit Rating Symbols, Numbers and Scores

11. Material Changes

MIS publishes the MIS Code of Professional Conduct and its core policies, including its conflict of interest policy, that relate to KSA Credit Ratings in English and Arabic on its website.

For the reporting timeframe, there were no material modification to MIS KSA branch systems, resources or procedures other than as set out in this report.

12. Financial Statement 2018

MIS KSA branch's audited financial statements for 2018 are attached to this Transparency Report.

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