

Capital Standards' National Rating Scale for Kuwait

Capital Standards (CSR), an independent credit rating agency, has developed a National rating scale for Kuwait besides the International rating scale in an effort to accommodate its services to meet the needs of the local market. The development of the national rating scale was motivated by the need for a more accurate and fair tool for finer credit distinctions between local debt issuers. That is, the National scale will lead to comparing a local Kuwaiti firm with its peers operating in Kuwait, whereas, the International rating scale will lead to comparing the company with its peers operating internationally. Therefore, depending on the motivation, an investor can use the rating that better meets his investment objectives.

Credit ratings on an international scale tend to be impeded by the “sovereign risk ceiling” and may sometimes provide inadequate differentiation between issuers in a particular country (especially in emerging/developing economies) when compared to international issuers. The MENA region is comprised of relatively smaller economies, and its economic, political, and demographic structure differ from the global economy, rendering International ratings inadequate for some cases and conditions. A National rating is more relevant, particularly in emerging economies such as the MENA region, as they enhance the level of differentiation across local issuers.

CSR's National rating is an opinion on the creditworthiness of an issuer or issue relative to all Kuwaiti debt-issuers and issues. Such a rating takes into account the regulatory, legal, and business environment prevalent in Kuwait, and also appropriately incorporates government and ownership support (if any). Capital Standards operational presence and local knowledge ensures that its ratings can provide investors with pertinent and comprehensive information about Kuwaiti companies.

In addition to the Kuwaiti National rating scale, CSR also assigns National ratings for other GCC countries. CSR's National ratings are identified by the modifier added to the credit rating that will identify the country in which the issuer/issue is located. For example, the modifier for Kuwait is kw (AA_{kw}), and for Bahrain, it is bh (AA_{bh}). The below table shows some examples of CSR National rating scale versus the International rating scale for Kuwait, which was based on the rating of over fifty public Kuwaiti firms. The mapping process is revised periodically to accurately reflect any new development in the rating population or changes in the sovereign rating.

International Rating	National Rating
AA-	AAA _{kw}
A	AA _{kw}
BBB+	A+ _{kw}
BBB	A _{kw}
BBB-	A- _{kw}
BB+	BBB+ _{kw}
B	BB- _{kw}
SD	SD _{kw}

Developing a National Scale for a specific country is based on a statistical approach that takes into account the distribution of all entities rated by CSR in that country (on an International basis), as well as the Sovereign's rating to be the ceiling for the scale. Then CSR translates the Sovereign “International” rating to AAA (in the case that the sovereign is viewed by CSR as the least risky entity) and all the ratings of the entities in that specific country would be adjusted accordingly. For example, a Kuwaiti bank with a CSR International Rating of BB would automatically translate to a BBB on CSR's National Scale for Kuwait.

About CSR: Capital Standards Rating (CSR) is the only independent rating agency based in Kuwait. It is licensed by the Ministry of Commerce and has been incorporated in line with the international credit rating agencies eligibility criteria as recommended by IOSCO (International Organization of Securities Commissions). Capital Standards is committed to the assignment of reliable, timely and independent credit opinions and is equipped

to provide a full range of rating related services in the MENA region. For more information, you can visit the company website <http://www.capstandards.com/>