NATIONAL SCALE RATINGS CRITERIA FOR SAUDI ARABIA

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1. ABOUT THIS METHODOLOGY

Scope

These criteria apply to national scale ratings assigned by Capital Intelligence Ratings (hereinafter CI Ratings or CI) to issuers and issues based in Saudi Arabia. The general methodological approach and underlying principles are the same as those applied in other countries where CI Ratings assigns national scale ratings. However, the correspondence or “mapping” between CI’s international issuer rating scales and the Saudi Arabia national rating scales is unique to Saudi Arabia.

Effective Date and Effect on Existing Ratings

This methodology is effective immediately and will apply to all ratings assigned on the Saudi Arabia National Rating Scale. National scale ratings for Saudi Arabia are a new addition to CI’s rating services. Consequently, no current ratings are affected by the introduction of this methodology.

2. NATIONAL SCALE RATINGS: DEFINITION AND PURPOSE

National scale ratings are an independent opinion of the ability and willingness of a rated entity to meet financial commitments either in general (an issuer credit rating) or with respect to a specific debt instrument (an issue credit rating) relative to other issuers or issues in the same country.

By assessing the relative creditworthiness of obligors within a particular country, national ratings differ from CI Ratings’ international credit ratings (local and foreign currency issuer ratings, and bond and Sukuk ratings) which are comparable across countries. In addition, national ratings are intended mainly to capture the relative creditworthiness of local currency issues and issuers.

The main purpose of national ratings is to allow greater differentiation among issuers and issues in countries whose sovereign credit ratings are some way below 'AAA' on CI Ratings’ international ratings scale. In this way, CI Ratings’ national ratings aim to provide capital market investors with clear credit distinctions between issuers and issues that may not be possible under internationally comparable rating scales. For example, in a country where the sovereign is rated ‘BB’ on CI Ratings’ international scale for local currency obligations, the international credit ratings of financial institutions and corporates within that country will generally be confined to the eight grades from ‘BB’ to ‘C-’ (excluding default categories). In such a case, there is a strong likelihood of credits being bunched together at particular grades, making it difficult for capital market participants and counterparties to distinguish one credit from another.

Like other credit ratings offered by CI Ratings, national ratings are assigned and all subsequent rating actions determined by rating committees and never by an individual analyst. Rating committees are composed of rating analysts who, individually or collectively, have appropriate knowledge and experience in developing a rating opinion for the type of credit being considered.

3. GENERAL METHODOLOGICAL APPROACH

Under CI Ratingsô national ratings methodology, the strongest credit within a country is typically assigned a 'AAA' national rating. The strongest credit is usually the entity with the highest long-term local currency rating assigned using CI Ratingsô international credit rating scale and therefore the least likely to default on financial obligations. The creditworthiness of other entities within the country is assessed relative to that entity.

As national ratings are ordinal, a sufficient number of rated entities are needed in order to produce a meaningful ranking of issuers by their creditworthiness. To build a broad and representative universe of issuers or issues within a country, CI Ratings first assigns national ratings to those entities that have already received an international rating from CI Ratings. Then, unsolicited and possibly óshadowô (i.e. unpublished) national ratings are assigned to other entities within the country, provided sufficient public information is available. Unsolicited and shadow ratings are usually assigned if the number of entities with visible credit ratings is low, and also to ensure that the risk prolife and financial performance of a range of sectors is captured in the credit rankings.

The sovereign is typically, though not necessarily, the strongest credit within a country. In situations where this is not the case (e.g. the sovereign may be in, or close to default, but other entities are continuing to fulfil their financial obligations) and/or where it is difficult to identify the strongest credit (e.g. due to limited public information and financial transparency), CI Ratings may map the highest national rating from a notional international rating.

We may also map from a notional rating if we believe there to be a reasonable likelihood that the credit quality of the strongest entities will change significantly in the intermediate term. This is more likely to be the case in countries with below investment-grade sovereigns, where rating migration rates tend to be higher. In such cases, a mapping based on current international ratings may be unable to accommodate likely changes in international ratings over the next two-to-three years. We may therefore use a notional international rating in order to reduce the frequency of mapping recalibrations and, consequently, the degree of national ratings volatility (triggered by mapping adjustments rather than changes in relative credit quality) over the intermediate term.

The notional international rating will generally be the highest long-term local currency international issuer rating that CI Ratings could envisage assigning to an entity in the intermediate term and will typically be restricted to between one and three notches (i.e. one rating category) above the current long-term local currency sovereign rating (assigned on a formal or shadow basis).

The above notwithstanding, since the anchor for both the national rating scale and the international rating scale is the rating that indicates default, the lowest international rating that may be mapped to a ónrAAAô national rating is óBô. In our view, mapping to ónrAAAô from a lower international rating grade may give a misleading view of credit risk and may require large, multi-notch national rating downgrades in the event of much smaller changes in international ratings.

Entities assigned a national rating typically include the central government, local banks, insurers, and major local corporations. They may also include the subsidiaries and branches of foreign-owned institutions provided they are permitted to borrow from the local market.

An international credit rating summarises the repayment risk of an entity relative to all other entities rated by CI Ratings. As this entails a global comparison, there is only one rating scale for international issuer ratings. A national rating summarises repayment risk of an entity relative to other entities within the same economy. As national ratings are not directly comparable across borders, a different national rating scale is constructed for each country where demand for such ratings exists.

The country-specific nature of CI Ratingsô national ratings is captured by the addition of a two-letter country prefix to the credit rating, as in ósaAAAô for Saudi Arabia.

4. MAPPING FROM INTERNATIONAL TO NATIONAL SCALES

When developing a national rating scale CI Ratings establishes mapping guidelines, which guide the transposition of a rating from the international scale to the national rating scale. We do this in order to preserve the ordinal ranking of entities on the two scales. It would be counterintuitive for one entity to be rated more highly than another on the international rating scale but not on a national rating scale. However, entities with the same rating on the international scale could have different ratings on a national scale given the larger number of effective notches on the latter rating scale.

Important differences in rating dynamics may potentially arise due to the greater room for credit differentiation afforded by national rating scales. Firstly, an entity's national rating may change more frequently than its international credit rating. Secondly, an entity's national rating may change without a corresponding change in its international rating. Finally, a change in the international rating may lead to a multi-notch adjustment in the national rating, particularly in countries where the 'strongest' entity is lowly rated on the international scale.

The mapping between the two scales is not immutably fixed and may be recalibrated if there is a significant change in the international creditworthiness of the strongest credit within a country. In general, a change in the international rating of the strongest entity of more than one notch from the reference point used to establish the initial (or currently used) mapping would normally be enough to trigger such a reassessment. In some cases a one-notch movement may be sufficient to warrant the recalibration of the mapping, particularly where failure to do so would result in significant bunching at the highest grades or mean that the positioning of ratings fails to sufficiently reflect credit risk relativities.

To ensure that the national rating scale is able to serve its primary purpose of affording sufficient opportunity for credit differentiation, a downgrade in the international rating of the strongest entity would generally result in an upward shift in the mapping table. Hence, a given international rating may map to a higher national rating (following the downgrade) as national ratings are mapped from a smaller number of international ratings.

In such cases the repositioning of national ratings across the national rating scale may not necessarily indicate any change in credit risk in an absolute sense (indeed the international ratings of the entity may not have changed) and should not be interpreted as an upgrade.

When repositioning national ratings following the recalibration of the mapping guidelines we will attempt to preserve, to the extent possible, the ordinal ranking of entities within a country, while enabling sufficient differentiation relative to international ratings. However, scope for differentiation inevitably diminishes as the international rating of the strongest entity advances through the investment grade categories of the international rating scale.

5. RELATIONSHIP BETWEEN INTERNATIONAL AND NATIONAL RATING OUTLOOKS

Where the Outlook for an entity's long-term international credit rating is revised to either "Positive" or "Negative", the Outlook for its national rating will normally be adjusted in the same direction. However, where the Outlook for the international credit rating is "Stable", the Outlook for the national rating may be "Positive", "Negative", or "Stable" provided the international rating maps to more than one grade on the national rating scale and depending on the relative position of the national rating within the range of national ratings mapping to the specific international rating.

6. NATIONAL RATINGS AND DEFAULT RISK

The national rating scale and the international rating scale provide different measures of relative credit risk. However, under both approaches the creditworthiness of an entity may deteriorate to the point where it is unable to service its financial obligations in absolute terms. Hence the anchor for both the national rating scale and the international rating scale is the rating category that indicates default (i.e. ÔDÕ), and the rating scales generally exhibit a higher degree of convergence at the rating category that signals very weak creditworthiness or, conversely, high default risk (i.e. lower ÔCÕ range).

The investment grade, speculative grade nomenclature used in the context of the international rating scale does not apply to national ratings. For example, an entity could be rated at a high level on the national rating scale (say, ÔnrAAÕ) but be rated lowly on the international scale, at a grade indicative of a comparatively high default risk.

7. CRITERIA FOR DETERMINING RELATIVE CREDIT RISK

National and international ratings are both indicators of relative default risk (albeit in different spheres) and hence the same analytical criteria contained in the relevant sector-specific methodology (e.g. the Bank Rating Methodology) are used to assess the creditworthiness of entities, regardless of the rating type.

In short, this involves a thorough evaluation of the quantitative and qualitative factors that may affect the ability and willingness of a rated entity to meet its financial commitments, such as interest payments and repayment of principal, on a timely basis. The focus is usually on the intrinsic financial strength and financial resilience of the rated entity, but external support factors are also taken into consideration. Analysis of each general type of entity (bank, corporate etc) is disaggregated into a number of analytical categories in order to build a rated entity's credit risk profile and facilitate meaningful comparison between rated entities within the same industry or sector. Country risk, which is a key consideration in international ratings, is generally less important to the determination of national ratings ï although ratings may reflect relative vulnerability to changes in the operating environment ï and transfer and convertibility risks are not factored into national ratings of local currency obligations.

8. LIMITATIONS OF NATIONAL RATINGS

National ratings are not directly comparable to international credit ratings and the strongest credit on a national scale may be lowly ranked on an international rating scale. Consequently, CI Ratings makes no distinction between investment grades and speculative grades in its national rating scales. Investors should be aware that a highly rated credit on a national rating scale might still be a significant credit risk in an absolute sense.

The relationship and mapping between international ratings and national ratings may change over time. National rating scales may be recalibrated and the national ratings assigned to entities repositioned to reflect the updated mapping. Consequently, analysis of the migration of an entityÕs national rating over time may be meaningless unless the effects of recalibrations are taken into account.

CI RatingsÕ national ratings focus on one aspect of investment risk ï credit (or repayment) risk ï and do not explicitly capture loss severity or recovery prospects. National ratings are not recommendations to purchase, sell, or hold stocks or shares in an institution or particular security. National ratings do not assess or indicate the likelihood of changes in the market price of rated instruments due to market-related factors such as changes in interest rates or liquidity. Moreover, national ratings do not provide an opinion of the liquidity in the market of an issuer's securities.

ANNEX 1: NATIONAL RATINGS SCALE AND DEFINITIONS FOR SAUDI ARABIA

CI Ratingsônational ratings provide an opinion as to the ability and willingness of obligors to meet financial commitments either in general (an issuer credit rating) or with respect to a specific debt instrument (an issue credit rating) relative to all other issuers or issues in the same country.

CI Ratingsô national rating scale for a given country is not directly comparable to any other CI Ratings credit rating scale, national or international. The country-specific nature of CI Ratingsô national ratings is captured by the addition of the prefix "nr" to the credit rating, as in saAAA for Saudi Arabia.

Under CI Ratingsô national rating methodology, the strongest credit in the country is normally assigned the rating "nrAAA", and all other issuers or issues are assigned ratings relative to that strongest credit. As national ratings provide an ordinal ranking of creditworthiness in a specific country, a highly rated issuer or issue on a national rating scale might still be a significant credit risk in an absolute sense.

The rating scales for national ratings in Saudi Arabia are shown below. Short-term ratings assess the time period up to one year.

Long-Term National Scale Ratings, Saudi Arabia

saAAA	The highest credit quality in a given country. Strongest capacity for timely fulfilment of financial obligations relative to all other issuers or issues in the same country.
saAA	Very high credit quality in a given country. Very strong capacity for timely fulfilment of financial obligations relative to all other issuers or issues in the same country.
saA	High credit quality in a given country. Strong capacity for timely fulfilment of financial obligations relative to other issuers or issues in the same country.
saBBB	Moderate credit quality in a given country. Moderate capacity for timely fulfilment of financial obligations relative to other issuers or issues in the same country.
saBB	Moderately weak credit quality in a given country. Limited capacity for timely fulfilment of financial obligations relative to other issuers or issues in the same country.
saB	Weak credit quality in a given country. Weak capacity for timely fulfilment of financial obligations relative to other issuers or issues in the same country.
saC	Very weak credit quality in a given country. There is considerable uncertainty as to timely repayment of financial obligations relative to other issuers or issues in the same country.
saRS	Regulatory supervision (this rating is assigned to financial institutions only). The obligor is under the regulatory supervision of the authorities due to its weak financial condition. The likelihood of default is extremely high without continued external support.
saSD	Selective default. The obligor has failed to service one or more financial obligations but CI believes that the default will be restricted in scope and that the obligor will continue honouring other financial commitments in a timely manner.
saD	The obligor has defaulted on all, or nearly all, of its financial obligations.

Short-Term National Scale Ratings, Saudi Arabia

saA1	Strongest capacity for timely repayment of financial obligations in the short term relative to all other issuers or issues in the same country. Issuers or issues with a particularly strong relative credit profile have a ñ+òaffixed to the rating.
saA2	Good capacity for timely repayment relative to all other issuers or issues in the same country.
saA3	Moderate capacity for timely repayment relative to all other issuers or issues in the same country.
saB	Weak capacity for timely repayment relative to all other issuers or issues in the same country.
saC	Very weak capacity for timely repayment relative to all other issuers or issues in the same country.
saRS	Regulatory supervision (this rating is assigned to financial institutions only). The obligor is under the regulatory supervision of the authorities due to its weak financial condition. The likelihood of default is extremely high without continued external support.
saSD	Selective default. The obligor has failed to service one or more financial obligations but CI believes that the default will be restricted in scope and that the obligor will continue honouring other financial commitments in a timely manner.
saD	The obligor has defaulted on all, or nearly all, of its financial obligations.

CI Ratings appends "+" and "-" signs to national scale long-term credit ratings in the categories from ñsaAAòto ñsaCòto indicate that the strength of a particular issuer or issue is, respectively, slightly greater or less than that of similarly rated peers.

Outlook ï expectations of improvement, no change or deterioration in a rating over the 12 months following its publication are denoted Positive, Stable or Negative.

ANNEX 2: MAPPING FROM INTERNATIONAL RATINGS TO SAUDI ARABIA NATIONAL RATINGS

International Scale Long-Term Local Currency		National Scale Long-Term
Issuer Ratings	Issue Ratings	Issuer and Issue Ratings
A and above	A and above	saAAA
A-	A-	saAA+
BBB+	BBB+	saAA
BBB	BBB	saAA-
BBB-	BBB-	saA+
BB+	BB+	saA
BB+	BB+	saA-
BB	BB	saBBB+
BB	BB	saBBB
BB-	BB-	saBBB-
BB-	BB-	saBB+
B+	B+	saBB
B+	B+	saBB-
B	B	saB+
B	B	saB
B-	B-	saB-
C+	CCC+	saC+
C	CCC	saC
C-	CCC-, CC, C	saC-
RS	-	saRS (issuer mapping)
SD	-	saSD (issuer mapping)
D	-	saD (issuer mapping)

ANNEX 3: MAPPING FROM LONG-TERM TO SHORT-TERM NATIONAL RATINGS IN SAUDI ARABIA

National Scale Long-Term Rating	National Scale Short-Term Rating
saAAA	saA1+
saAA+	saA1+
saAA	saA1+
saAA-	saA1
saA+	saA1
saA	saA1
saA-	saA2
saBBB+	saA2
saBBB	saA3
saBBB-	saA3
saBB+	saB
saBB	saB
saBB-	saB
saB+	saB
saB	saB
saB-	saC
saC+	saC
saC	saC
saC-	saC
saRS	saRS
saSD	saSD
saD	saD

ANNEX 4: PROCESS FOR ASSIGNING NATIONAL RATINGS TO BANKS

When assigning national ratings, we first determine the long-term international credit rating (publicly or privately) using our Bank Rating Methodology. This includes establishing the bankøs Core Financial Strength (CFS), Bank Standalone Rating (BSR) and Extraordinary Support Level (ESL).

We then use mapping tables to determine the national rating (see Annexes 2 and 3).

If the long-term international rating maps to two or more national rating grades, we take into account a number of additional factors in order to establish where to position the national rating.

In particular we will consider: (a) the Outlook on the bankøs international credit rating (a ôPositiveö Outlook may warrant a national rating above the lowest of the mapped options); and (b) the credit strength of the bank relative to others within the country that share the same international rating, with the relative position based mainly on the CFS and ESL.

A simplified example follows.

In a hypothetical country there are two banks with the following international ratings:

	LT International Rating/Outlook	CFS	ESL
Bank A	BB-/Stable	bb+	Moderate
Bank B	BB-/Stable	bb	Moderate

Letøs assume that ôBB-ö on the international scale maps to nrA+ and nrA on the national scale for this country, as shown below.

International Scale Long-Term Rating	National Scale Long-Term Rating
BB-	nrA+
BB-	nrA

In this example, while both banks have the same international rating (ôBB-ö), Bank A would likely receive a higher national rating (ônrA+ö) than Bank B (ônrAö), due to the difference in CFS.

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