

# POLICY 1 (2024)

## General Ratings Policy

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Proposed by	Chief Rating Officer	Date	September 2024
Name	Nabil Kadasa		
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Review by	Chief Compliance Officer	Date	September 2024
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Review by	Chief Executive Officer	Date	September 2024
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Recommended by	Administrative & Supervisory Committee	Date	September 2024
Signature of Chairperson			
Approved by	Board of Directors	Date	September 2024
Signature of Chairperson			

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## 1. Purpose and Scope

1.1. To describe SIMAH Rating Agency (Tassnief)'s General Ratings Policy.

1.2. This Policy is prepared based on Part 3 of the Capital Market Authority (CMA)'s Credit Rating Agency Regulation that requires an authorized credit agency to establish and implement a rigorous and formal policy in the general conduct of business requirements (Article 15), Conflict of Interest (Article 16), Assignment of Credit Ratings (Article 18), Monitoring and updating of Credit Ratings (Article 19), Discontinued Credit Ratings (Article 20) and Disclosure requirements (Article 21).

1.3. As Tassnief undertakes business in other products as well as Ratings which include but are not limited to credit ratings and insurer financial strength ratings, it is noteworthy to clarify the term 'Ratings'. Definition of what constitutes ratings is given below:

- Credit Rating is an opinion of a Credit Rating Agency on the creditworthiness of a rated entity or instrument. This includes timeliness and ability to repay financial obligations.
- Insurer Financial Strength (IFS) is an opinion of the Credit Rating Agency on the likelihood of policyholder liabilities to be met. Since Insurance companies need to conduct their due diligence with regards to policyholder liabilities which is subject to payout terms based on a legal contract, timeliness of payment is not considered for policyholder liabilities.

Rating methodologies that Tassnief currently has are:

- Sovereign;
- Corporate;
- Bank & Finance Companies;
- Sukuk; and
- Insurer Financial Strength

1.4. These set of policies do not apply to:

- 1) Ratings issued by any person for its internal commercial or industrial purposes, including assessing creditworthiness of its counterparties, provided that such credit rating is not circulated to any third party;
- 2) Ratings issued by financial sector entities for an internal purpose of assessing its economic capital position, internal modelling, or risk management, provided that such rating is not circulated to any third party, except to its regulator only; or

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3) Ratings issued by any person pursuant to an individual order, provided exclusively to the person who placed the order and not intended for public disclosure or distribution by subscription.

## 2. Responsibility

- 2.1. The Chief Rating Officer (CRO) is to propose the General Ratings Policy to the Chief Executive Officer (CEO)
- 2.2. The CEO is to table the proposal to the Administrative and Supervisory Committee (ASC)
- 2.3. The ASC is to recommend the proposal to the Board of Directors (BOD)
- 2.4. The (BOD) is to approve the proposal if the proposed policy is deemed fit
- 2.5. The Chief Compliance Officer (CCO) is to ensure the implementation of this Policy

## 3. References

This policy must be read together with the following policies:

- 3.1. POLICY 2: Ratings Surveillance Policy
- 3.2. POLICY 3: Ratings Appeal
- 3.3. POLICY 4: Ratings Suspension and Withdrawal
- 3.4. POLICY 5: Unsolicited Ratings
- 3.5. POLICY 6: Analyst Rotations
- 3.6. POLICY 7: Changes in Rating Methodology
- 3.7. POLICY 8: Rating Fee Guide
- 3.8. POLICY 9: Non-Cooperative Client
- 3.9. POLICY 10: Dependence on 3rd Parties Information
- 3.10. POLICY 11: Default Recognition Policy
- 3.11. POLICY 12: Treatment of Confidential Information
- 3.12. POLICY 13: Assigning of Provisional Rating
- 3.13. POLICY 14: Rating Oversight

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- 3.14. POLICY 15: Communications with market participation
- 3.15. POLICY 16: Compliance Policy Manual
- 3.16. POLICY 17: Compliance Monitoring Program
- 3.17. POLICY 18 Reporting Publishing and Dissemination
- 3.18. POLICY 19: Record Keeping Compliance
- 3.19. POLICY 25: Ancillary and Other Permissible Services
- 3.20. Rating Committee Charter
- 3.21. Conflict of Interest Policy
- 3.22. CMA's Credit Rating Agency Regulation
- 3.23. Code of Conduct.

#### 4. Policy on General Ratings

Rating is by nature subjective as it is forward looking. The assignment of the Credit Rating involves many factors unique to particular instruments, entities, industries and countries. Adopting the multidisciplinary approach to risk analysis, Tassnief's objective is to understand all relevant risk factors to each rating analysis, based on the opinions of its credit professionals on those factors in light of a variety scenarios, with the guidance of some analytical principles in the reasoning process. The rating methodology, key assumption, rating categories, changes pertaining to the same and consistency in application in the rating will be reviewed by a Rating Oversight Function. For details see POLICY 14 Rating Oversight.

This policy describes the general approach that Tassnief adopts for solicited ratings only. Unsolicited rating is described in a separate policy paper, POLICY 15 Unsolicited Ratings.

##### 4.1. Rating Request

4.1.1. The rating process generally begins with an entity requesting Tassnief to undertake assessment of the former's creditworthiness. The assignment of the rating is when there is adequate and updated information available to enable internal and external rating committees to form an opinion of the entity's creditworthiness.

4.1.2. This information is to be provided by the rated entity or obtained from other sources considered reliable. Tassnief does not audit or perform any independent verification of financial information and relies on un-audited financial data including but not limited to the

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Management Accounts. Tassnief keeps a record of evidence received by the client substantiating the information provided based on best effort and sample basis.

4.1.3. The rated entity will generally sign an agreement with Tassnief in which the entity agrees to provide the latter with annual audited and interim statements, as well as any other relevant information requested and to inform Tassnief of any material changes in its financial position.

4.1.4. The rating contract and fee discussions are dealt with by Tassnief's Business Development Department in the absence of the Rating staff strictly.

## **4.2. Rating Team Structure and Responsibilities**

4.2.1. Tassnief will assign a Primary Rating Analyst to undertake the core part of the analytical work, coordinate the rating process and be the primary contact person from Tassnief for that rating relationship.

4.2.2. For each rating case, Rating Administration Team will allocate, in accordance with CRO's set criteria which he/she shall issue from time to time as needed, a team of at least 2 members comprising a Primary Rating Analyst and a Secondary Rating Analyst. The latter will serve as the back-up to the Primary Rating Analyst and assumes the role of the Primary Rating Analyst in his/her absence. This is aimed at promoting continuity.

4.2.3. The Rating Analysts assigned to the client must ensure that they have no actual or potential conflict of interest with the rated entity. Rating analysts who have an actual or potential conflict of interest with a rated entity must declare that interest to the CRO, or his/her back-up (If not the same analyst) and to the CCO, or his/her back-up, and may not participate in any rating committee meeting or vote on any rating action related to that particular rated entity. In this case CRO will ensure that the related stakeholder will be excluded from the rating process. The CRO will raise any conflict of interest matter with the CCO at all times. Furthermore, the case for the conflict of interest will be disclosed on Tassnief's website. In case disclosure of a conflict of interest would constitute provision of inside information, Tassnief must disclose to the regulator immediately and take all necessary steps to ensure that no conflict of interest between its interest and the interest of potential users of its ratings affects its rating activities.

4.2.4. Adopt, implement, and enforce adequate measures to ensure that it uses appropriate rating methodologies, models, and key rating assumptions for determining credit ratings of structured products. Where a credible credit rating cannot be determined, due to the complexity or structure of a structured product or the lack of robust data about the assets underlying the structured product Ratings & Research Department will refrain from issuing a credit rating. The case will be handed over to the Business Development Department.

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#### 4.3. Guidelines to Consider when Selecting a Team or in Allocating Cases include:

- 4.3.1. **Complexity of Cases:** A complex case is typically allocated to a more experienced analyst. However, to provide a learning opportunity to newer analysts, they will also be assigned some complicated cases, backed up by the more experienced analysts.
- 4.3.2. **Sector Specialization or Knowledge Base:** A Rating Analyst's portfolio generally reflects the analyst's industry specialization. However, he/she will also be given the opportunity to conduct rating assessments in other industries to broaden exposure and reduce key person risk.
- 4.3.3. **Seniority of Rating Analysts:** Senior Lead Rating Analyst or Lead Rating Analysts will typically have fewer cases in their portfolio so that they are able to give more focus and time to their mentoring responsibilities. Newer Rating Analysts will be assigned more review cases whilst the more experienced ones should take on more initial rating exercises. The seniors will also assume more back-up roles.
- 4.3.4. **Timing:** As best as possible, each analyst, based on his/her level of experience and responsibility, will be allocated a certain number of cases that are well spread out over the calendar year to avoid clustering of cases and operational overload. This is to ensure timely completion of cases. Case allocation is a dynamic process that is structured depending on the Rating Analyst's availability, aptitude, and experience to expedite completion of a new case or to ensure timeliness in completing review cases.

#### 4.4. Approaches in Conducting the Rating Exercise

##### 4.4.1. Emphasis on the Qualitative and Quantitative Data

- 4.4.1.1. Tassnief's Quantitative and qualitative analysis are integral inputs to Tassnief's analysis as it provides an objective and factual starting point for each analytical discussion.
- 4.4.1.2. The assignment of the rating is not based on a defined set of financial ratios or rigid rating models. It is the result of a comprehensive analysis of each entity and/or instrument by experienced, well-informed, independent Rating Analysts.

##### 4.4.2. Focus on the Long-Term

- 4.4.2.1. Tassnief's analytical focus is on fundamental factors that will drive the long-term overall risk profile of the rated entity such as a change in management strategy or regulatory trends.

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- 4.4.2.2. As the ratings are intended to measure long-term risk, Tassnief conducts the rating through the next economic cycle or longer. Thus, the ratings are not intended to move up and down with business or supply-demand cycles or to reflect last quarter's earnings report, unless there are significant material changes to the future risk profile of the rated entity.

#### **4.4.3. Global Consistency**

- 4.4.3.1. Tassnief incorporates several checks and balances to promote the universal comparability of rating opinions. Its rating analytical team's approach also supports consistency by including external members who are global industry specialists and analysts to the Internal and External Rating Committee who provides the regional and other perspectives in their rating decision.

#### **4.4.4. Level and Predictability of Cash Flow**

- 4.4.4.1. The foundation of Tassnief in its rating approach rests on the level of risk profile of the rated entity as well as its ability to meet its financial obligations. For credit ratings, timeliness of payment is imperative, whereas for Insurer Financial Strength Rating timeliness of payment is not being accounted for as explained in clause 1.3.
- 4.4.4.2. The "risk to timely payment," is the measurement of the rated entity's liquidity position including the ability to generate cash in the future. Tassnief's analysis focuses on an assessment of the level and predictability of an issuer's future cash generation in relation to its commitments to repay its financial obligations.
- 4.4.4.3. The main emphasis throughout the rating analysis is on understanding strategic factors likely to support future cash flow, while identifying critical factors that will inhibit future cash flow relative to obligations. The issuer's capacity to respond favorably to uncertainty is also key. Generally, the greater the predictability of an issuer's cash flow and the larger the cushion supporting anticipated financial obligations, the higher the rating will be.

#### **4.4.5. Reasonably Adverse Scenarios**

- 4.4.5.1. Internal and External Rating Committee routinely examines a variety of scenarios. The ratings deliberately do not incorporate a single, internally consistent economic forecast. They aim rather to measure the issuer's ability to meet debt obligations against economic scenarios reasonably adverse to the issuer's specific circumstances.

#### **4.4.6. "Seeing Through" Local Accounting Practices**



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4.4.6.1. Tassnief's Rating Analysts deal frequently with different accounting systems internationally; they are not bound to any particular one.

4.4.6.2. In examining financial data, Tassnief's focuses on understanding both the economic reality of the underlying transactions and on how differences in accounting conventions may, or may not, influence true economic values.

#### **4.4.7. Sector-Specific Analysis**

4.4.7.1. Specific risk factors likely to be weighed in a given rating will vary considerably by sector. Tassnief provides rating considerations for different types of issuers namely Corporates, Banks and Finance Companies, the SMEs, and Structured Finance. In-depth deliberations of these considerations are in our published Criteria and Rating Methodology papers.

### **5. External Rating Committee**

5.1. Decisions pertaining to ratings are governed by the External Rating Committee. Details with respect to the functioning of the External Rating Committee are mentioned in the Rating Committee Charter.

### **6. Rating Report**

Information to be disclosed are defined as per Annex 2 of the CMA's CRA Rating Regulations.

#### **6.1. Disclaimer Statement**

6.1.1. The Rating does not guarantee the performance of the rated entity or the relevant security.

6.1.2. A person should not rely on the Rating for the purposes of making an investment decision.

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## **6.2. Required Information**

- 6.2.1. The name and job title of the related Primary Rating Analyst in a clear and prominent manner;
- 6.2.2. The date when the rating was first released for distribution and when it was last updated;
- 6.2.3. The principal methodology and other related methodology(ies) used;
- 6.2.4. The assumptions and limitations of each credit assessment and the extent to which information are being verified;
- 6.2.5. A description of all material sources used to prepare the rating;
- 6.2.6. Clarification whether the rating was prepared on the basis of limited historical data;
- 6.2.7. Clarification whether the rating has been disclosed to the rated entity or its related third party/ies and amended following that disclosure before being issued;
- 6.2.8. The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions;
- 6.2.9. The clarification whether the rating concerns a newly issued security and whether Tassnief is rating the security for the first time;
- 6.2.10. The clarification whether the rated entity participated in the rating activities carried out with respect to the rating;
- 6.2.11. The clarification whether the rating was initiated at the request of the rated entity; and
- 6.2.12. The clarification whether the authorized rating agency has outsourced any rating activities in relation to the relevant rating.

## **7. Write Formally to Client**

- 7.1. For public ratings, the Rating Report and Media Release are to be appended with the summary report. Client is given appropriate time to review and accept the Rating Decision, Rating Report and Media Release.

## **8. Media Release**

### **8.1. Media Release Preparation**

Media Release will go through various levels of approval, below is the vetting order:

- a. Senior Lead Rating Analyst or Lead Rating Analyst

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- b. CRO
- c. CEO
- d. In case any change on the media release template or the structure of the media release, the Compliance Team must be consulted for the change and review.

## **8.2. Finalization of Rating**

- a. Media Release is to be posted on Tassnief's Website
- b. Media Release is to be sent to Print / Electronic Media Representatives

## **9. Rating Disclosure**

- 9.1.** Tassnief will not unduly delay disseminating its credit opinions and actions. Under extreme circumstances where the rated entity and/or its agent fail to respond to its repeated requests for information and/or unwilling to establish contact or communication with respect to queries or clarifications to material issues, Tassnief may suspend or withdraw the rating. Tassnief may issue ratings, taking into account limited information and absence of management meeting, limitation of information will be mentioned clearly in the report.
- 9.2.** For public ratings Tassnief will publicly disclose its rating actions, generally through a press release and/or rating rationale, via its website and the media.

## **10. Commitment to Continuous Surveillance**

- 10.1.** Tassnief shall continuously monitor the rating once the Rating has been assigned. The team assigned to monitor and update a given rating will initiate a review of the rating upon becoming aware of any information that might reasonably be expected to result in a rating action, consistent with the relevant rating criteria and methodologies.
- 10.2.** Tassnief has put in place certain internal procedures to ensure timely and credible ratings. Apart from maintaining regular communication with the rated entities to keep abreast with developments and trends in their performance, Tassnief also maintains regular contact with key industry participants, associations, and independent parties such as authorities, as well as attends relevant seminars or conferences to keep the Rating team up to date.
- 10.3.** There are also regular meetings with the analysts to discuss any economic-, industry- and corporate-related news. The analysts will also track and evaluate the quarterly results of public-listed entities in their portfolio that are announced to TADAWUL.

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## **11. Review**

- 11.1.** This Policy will be reviewed every three years by the Ratings & Research Department and changes are to be proposed by the CEO to the ASC to recommend for BOD's approval. Changes to the policy will be added as addendums until next review round.

## **12. Records**

- 12.1.** The Primary Rating Analyst will collect all documents related to the rated entity and properly archive them for Five years (according to regulatory requirements). Details of the data and information with regards to the client will be mentioned in the Record Keeping procedure for Ratings & Research Department.

## **13. Data Accuracy**

- 13.1.** If there is an 'error' found in the database, Primary Rating Analyst is to alert and discuss with the Senior Lead Rating Analyst or Lead Rating Analyst.
- 13.2.** If the mistakes need to be corrected, email details of the mistakes to the IT Division, copies to Senior Lead Rating Analyst or Lead Rating Analyst, CRO, CCO, and the CEO.
- 13.3.** If such errors were used to issue a rating decision, the rating team is to ensure re-circulating the case to all relevant approving authority on such issued rating.
- 13.4.** Errors on the Website: Primary Rating Analyst is to alert and discuss with the CRO and Senior Lead Rating Analyst or Lead Rating Analyst on the error found on the Websites.
- 13.5.** If there are amendments required to be made to the Rating Report or Media Release that are already on the Website, report to Senior Analyst to consult the CRO, CCO, and the CEO for guidance. Actions without clearance from the CEO is strictly prohibited.

## **14. Billings**

- 14.1.** The Business Development Department is to work closely with the Finance Department on billing, based on the rating contract signed, without getting the Rating Team's involvement.

## **15. Rating Transition and Default Reports**

- 15.1.** Tassnief will publish a rating transition report on an annual basis.
- 15.2.** Tassnief will issue a default study on Tassnief's website on an annual basis.