

POLICY 11 (2024)

Default Recognition

1. Purpose and Scope

- 1.1. To describe SIMAH Rating Agency (Tassnief)'s policy in recognizing default by a rated entity that fails to serve its debt obligations on time.
- 1.2. This Policy is prepared based on **Article 21 (e)** of the CMA's Credit Rating Agency Regulation that requires an authorized credit agency to at least annually make public historical default rates.

2. Policy on Default Definition

2.1. Default in debt obligations with pre-defined schedules of repayment

- 2.1.1. For debt obligations with pre-defined schedules of repayment, a missed or delayed payment, in breach of the agreed terms of the debt facility is defined and treated as default, even for a 'single day single Riyal' delay. Errors that are purely administrative or technical are excluded from default if remedied promptly.

2.2. Default in debt obligation without pre-defined schedules of repayment

- 2.2.1. For debt obligations without pre-defined schedules of repayment, the calls for repayment exceed the debt repayment capability of the rated entity.

2.3. Default when grace periods beyond the scheduled payment date are granted by the lenders

- 2.3.1. Lenders may grant a grace period of N days after the due date T. Thus the actual due date is T + N.
- 2.3.2. A missed or a delayed payment beyond the (T + N) date, will be considered and treated as Default

2.4. Default in the case of rescheduled debt

- 2.4.1. Debt reschedule prior to the due date will not be treated as default if there is no substantial Net Present Value (NPV) loss to the lenders and the debt servicing had been timely before the rescheduling.
- 2.4.2. Any missed or delayed payment before the consent for the rescheduling is being granted is defined and treated as default
- 2.4.3. Tassnief will also consider the number of debt rescheduling that have been undertaken and the purpose of rescheduling. If Tassnief considers that the purpose of rescheduling was meant as a debt relief to the borrower to deal with financial stress and may result in a loss to the lender, Tassnief may revise the credit rating downwards.

2.4.4. Fundamental impairment in the entity's credit quality may also treated as a default.

2.5. Default in the case of commercial dispute

2.5.1. Any delay in the payment for a specific obligation will not be treated as a default if the delay is due to a bona fide commercial dispute as assessed by Tassnief and the rated entity is in a stable position to service all its debt obligations.

2.5.2. If such delay may impact the whole financial risk profile of the entity due to some breach of covenants, the credit rating assigned may be revised downward.

2.5.3. Any delay in payment, primarily due to the weak liquidity position of the rated entity may be defined and treated as a default.

2.6. Default in Hybrid Instruments

2.6.1. Although in some cases whereby the terms and conditions of the hybrid instruments allow for deferral in payment under certain conditions, a missed or deferred payment will still be considered and treated as a default.

3. Impact of Default

3.1. Tassnief will downgrade the credit rating of the rated entity or rated instrument to "D" at the occurrence of a default.

3.2. If a particular defaulted instrument has strong reasons to be differentiated from the others that are not defaulted, the latter may not be revised to "D", despite from the same issuer. However, this is only applicable if:

5.2.1. The latter are senior to the debt in default and the probability to default is lower; and

5.2.2. The cash flows for servicing the latter are ring-fenced and no cross-default clauses apply.

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