



# **Model and** **Methodology**

CREDIT RATING

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## 1. Scope

This document aims to provide an overview of the main areas of analysis and rating factors on which MFR CR bases its credit rating.

MFR CR adopts this model and methodology to conduct credit ratings and rating outlooks of financial institutions and financial instruments issued by financial institutions.

The financial institutions to which this model and methodology can be applied are:

- Banks;
- Non-Banking Financial Institutions; and
- Credit unions and financial cooperatives.

The financial instruments to which this model and methodology may be applied are senior, junior and subordinated debt, secured or unsecured (bonds, loans, other instruments).

## 2. Key definitions

MFR CR's credit rating is an opinion on the creditworthiness of a financial institution (issuer) or a financial instrument (issue) and is issued using an established and defined ranking system of rating categories. MFR CR's opinion on the credit quality is based on a thorough analysis of the risk profile and the capacity of repayment of financial obligations of the rated entity.

MFR CR's credit rating is based on a methodology which relies on a data-driven, risk-based and forward-looking approach. MFR CR's credit ratings do not reflect the risk associated to significant and unforeseeable events such as a sudden and unexpected deterioration of financial markets' conditions or the regulatory risk, or frauds, litigations and other institutional failures which cannot be predicted.

Credit rating measures a rated entity's creditworthiness, which reflects the rated entity's ability to avoid defaults in the repayment of financial obligations.

A default is the non-fulfilment of any type of financial liabilities within the specified repayment schedule in a full amount, or in accordance with contractual terms and conditions. Default events:

- i. The rated entity has filed under any applicable bankruptcy, insolvency, or other similar legal proceedings.
- ii. A distressed exchange in which the rated entity offers new or restructured contractual terms that results in less favourable terms of the debt obligation.
- iii. Regulatory decisions/actions taken by the market supervisor (e.g., withdrawal of license).

Long-term credit ratings are generally accompanied by an outlook, which identifies the expected trend of a credit rating. The rating outlook may be one of the following:

- Stable (STA), the rating grade is not likely to change.
- Positive (POS), probable upgrade of the rating grade.
- Negative (NEG), probable downgrade of the rating grade.
- Developing (DEV) signals an uncertain expected trend of the rating grade.

A positive or negative outlook does not mean that a change of the rating grade is inevitable.

Please refer to *Annex 1* for the full list of key definitions and applicable credit rating scales.

### 3. Issuer credit rating

#### Introduction and data providers

The credit rating is an analysis based mostly on the data and information directly provided by the rated entity, which is the main data provider. MFR CR's credit rating methodology implies thorough crosschecks and verification of data received by the rated entity, ensuring very high reliability of data inputted in the rating model. While external data providers are used mostly for the assessment of the context-related risks.

MFR CR's credit rating is composed of two parts:

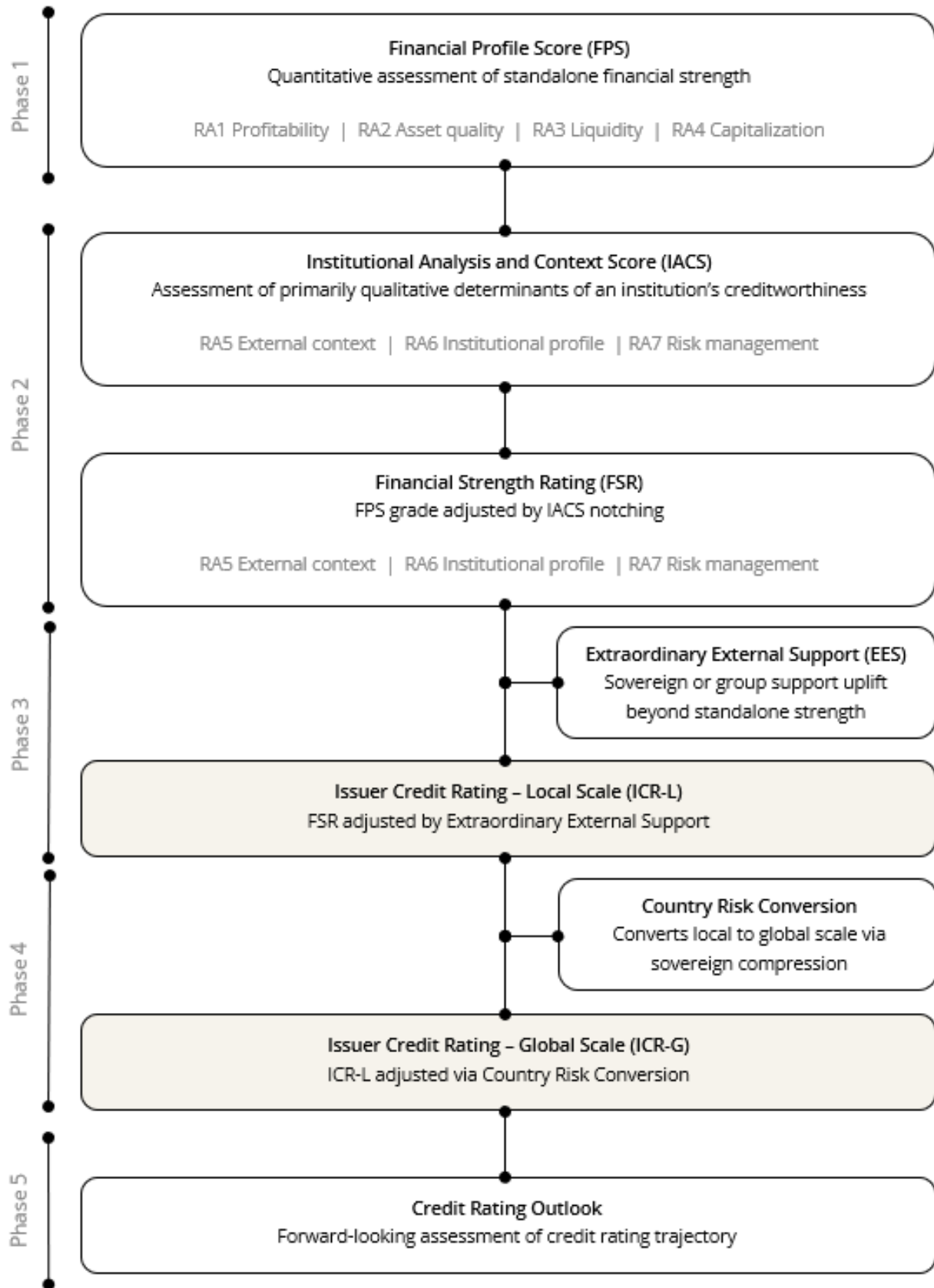
- a) the financial strength rating of the issuer;
- b) any extraordinary external support from third parties.

The overall assessment of the financial strength of the rated entity is based on both quantitative and qualitative rating factors, which measure the performance and risk profile of the rated entity. Then, the support from third parties is analysed if there are high or medium-high risks of insolvency.

The following diagram illustrates the rating methodology framework, which begins with the **Financial Profile Score (FPS)**, an assessment of the rated entity's financial strength and capacity to meet its financial obligations.

The second stage comprises the **Institutional Analysis and Context Score (IACS)**, which evaluates the key qualitative factors and contextual determinants influencing the rated entity's creditworthiness.

Together, the **FPS** and **IACS** form the **Financial Strength Rating (FSR)**, which provides an integrated assessment of the rated entity's standalone financial and institutional strength.



## Financial strength rating (FSR)

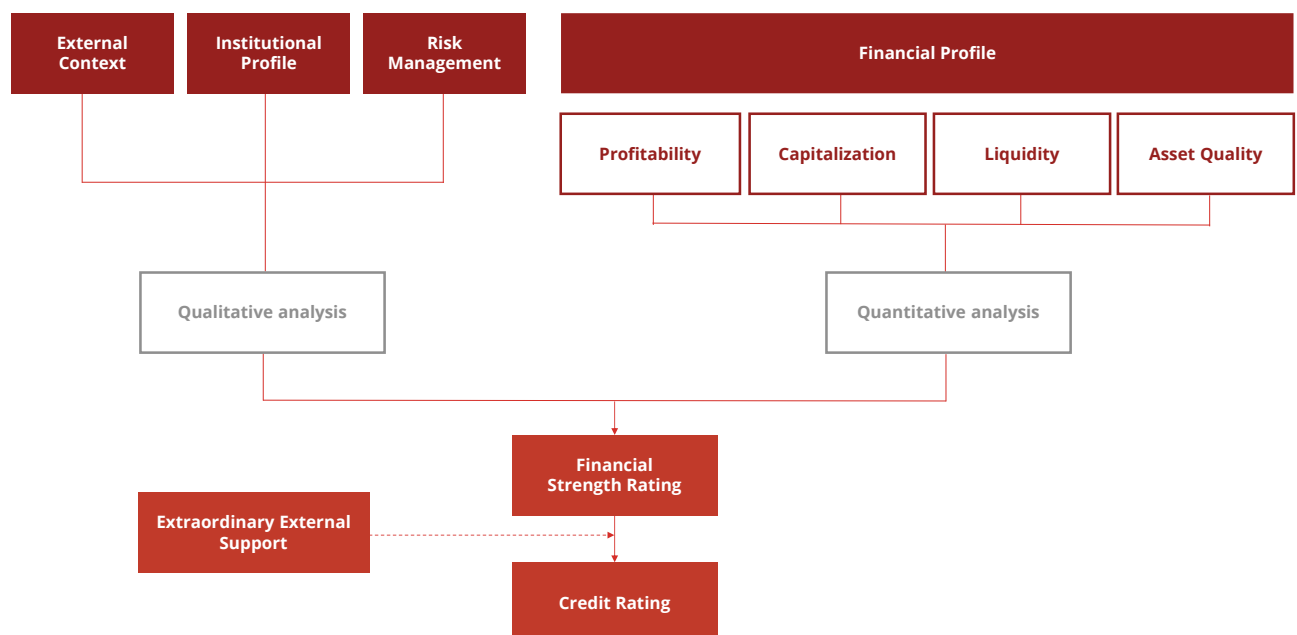
The Financial Strength Rating (FSR) represents the assessment of the rated entity's intrinsic creditworthiness, independent of extraordinary external support and sovereign risks. The FSR integrates both quantitative and qualitative dimensions of credit risk, including the expert judgement provided by the MFR CR's analytical personnel, and is determined through two components:

- ✓ **Financial Profile Score (FPS)**

A primarily quantitative assessment of financial performance of key financial metrics, producing the initial rating grade. This includes analysis of profitability, asset quality, liquidity, and capitalization.

- ✓ **Institutional Analysis & Context Score (IACS)**

A qualitative, judgement-driven assessment of institutional and contextual risk factors that adjust the initial rating grade through a structured notching mechanism. The IACS notching score is determined via three key pillars that directly affect the rated entity's creditworthiness: External Context Score (ECS), Institutional Profile Score (IPS), and Risk Management Score (RMS). Each pillar is scored as an individual judgement, which combine to an aggregate notching of the initial rating grade derived from the FPS.



## Financial Profile Score

The Financial Profile (FP) forms the analytical foundation of the FSR by providing a consistent and objective analysis of the RE's financial profile. Quantitative indicators reflect conditions that have historically demonstrated high explanatory power of default events or by expert judgement, aligned with economic theory or industry norms. The FP is comprised of four rating areas, which are structured by key metrics, secondary metrics, and an analytical judgement override framework. All rating factors within the 4 rating areas: Profitability, Asset quality, Liquidity, and Capitalization.

### **RA1 Profitability**

Profitability assesses the institution's capacity to generate sustainable earnings from its core operations. It captures both the efficiency with which resources are used and the scale of income generation. Stable and recurring profitability is the primary internal source of capital formation, supports loss-absorption, and underpins long-term financial resilience. The assessment differentiates between genuine recurring performance and temporarily inflated results by considering operational efficiency, earnings quality, and the extent to which provisioning levels distort reported profits.

### **RA2 Asset quality**

Asset Quality evaluates the credit risk embedded in the loan portfolio, including the level of problem loans and the adequacy of provisioning. It captures both realized losses and developing credit deterioration, offering a forward-looking view of credit risk management effectiveness. Strong asset quality supports stability and predictable earnings, while weak asset quality signals elevated default risk and potential capital erosion. The assessment also accounts for structural portfolio characteristics, such as restructuring activity and collateralization.

### **RA3 Liquidity**

Liquidity examines the institution's ability to meet its short-term obligations under normal and stressed conditions. It assesses the availability of liquid assets, the stability and composition of funding sources, and the institution's capacity to withstand withdrawal pressures or market disruptions. Institutions with high-quality liquidity buffers and stable funding profiles are better positioned to navigate volatility without resorting to asset sales or emergency financing. The assessment distinguishes between structural liquidity strength and short-term cash coverage, ensuring that both immediate and ongoing liquidity risks are captured.

### **RA4 Capitalization**

Capitalization measures the institution's loss-absorbing capacity and structural resilience. It combines risk-sensitive and absolute capital metrics to assess whether capital levels are sufficient to withstand unexpected losses, support growth, and meet regulatory requirements. A strong capital base provides a critical buffer against credit, market, and operational shocks and is a core determinant of solvency. The assessment incorporates both balance-sheet strength and regulatory adequacy, while also recognizing differences in institutional types.

## Institutional Analysis & Context Score (IACS)

The Institutional Analysis and Context Score (IACS) constitutes the second stage of the rating model and assesses the predominantly qualitative determinants of a rated entity's (RE) creditworthiness. These factors are not fully reflected in the financial profile but materially influence the RE's risk profile, resilience, and long-term sustainability. The IACS is structured around three rating areas: RA5 Context Analysis Score (CAS), RA6 Institutional Profile Score (IPS), and RA7 Risk Management Score (RMS).

### RA5 Context Analysis Score (CAS)

The CAS evaluates the structural characteristics of the RE's operating environment that may affect its credit profile. The assessment focuses on two institution-specific external dimensions: Industry Risk and Regulatory Risk.

#### Industry Risk

Industry Risk assesses the risk characteristics of the RE's competitive and market environment. The analysis considers the intensity of competition in the markets served by the RE, the level of borrower indebtedness, the effectiveness of the credit infrastructure, including credit bureaus and information-sharing mechanisms, and the overall quality of loan portfolios within both the financial sector and the RE's specific market segment.

#### Regulatory Risk

Regulatory Risk evaluates the robustness, predictability, and effectiveness of the regulatory and supervisory framework governing the RE. The assessment differentiates among banks, deposit-taking non-bank financial institutions (NBFIs), regulated credit-only NBFIs, and unregulated entities, reflecting the varying intensity of oversight across these categories. The analysis considers the supervisor's track record, including inspections, compliance findings, remedial actions, and sanctions, as well as the overall stability of the regulatory environment and its implications for the RE's business model. Entity-specific regulatory or fiscal penalties are also taken into account, given their relevance to governance quality and operational reliability.

### RA6 Institutional Profile Score (IPS)

The IPS assesses the organizational characteristics that shape the RE's long-term stability, resilience, and strategic capacity. Although inherently qualitative, these factors significantly influence the RE's ability to generate sustainable performance and effectively manage risks over time. The IPS comprises four rating factors: Ownership, Corporate Governance, Management and Decision-Making, and Market Positioning and Business Model.

#### Ownership

This factor assesses the quality, stability, and commitment of the RE's shareholders, including their capacity and willingness to provide support during periods of stress. The analysis considers shareholder identity and diversification, historical ownership continuity, and expected changes in ownership structure. Evidence of past financial or operational support is reviewed alongside forward-looking indicators of support capacity. Where the RE is part of a broader group, the assessment also examines group governance, intra-group dependencies, and relationships with subsidiaries and affiliates, as these factors may influence strategic autonomy, financial flexibility, and exposure to shareholder-related risks.

#### Corporate Governance

Corporate Governance is assessed with reference to the structure, composition, and effectiveness of the RE's governing bodies. The evaluation considers the competencies and experience of Board members, their ability to provide strategic oversight, and the degree of formalization of governance processes. The analysis also reviews the presence and effectiveness of Board committees, particularly those responsible for audit, risk, and remuneration. A key component of the assessment is the Board's ability to define, communicate, and monitor the RE's risk appetite, ensuring alignment between strategic objectives and risk-taking activities. Strong governance is viewed as a fundamental safeguard supporting institutional soundness and risk discipline.

#### Management and Decision-Making

This factor evaluates the quality of leadership, managerial expertise, and strategic planning capabilities of the CEO and senior management team. The assessment considers the effectiveness and consistency of decision-making processes, the operation of management committees, and the alignment between day-to-day decisions and long-term strategic objectives. Additional considerations include management turnover, key-person risk, and the robustness of succession planning arrangements. Together, these elements influence operational continuity, strategic execution, and organizational adaptability.

#### Market Positioning and Business Model

Market Positioning and Business Model assesses the RE's competitive position, geographic reach, market share, and brand strength. The analysis also considers the diversification, scalability, and resilience of the business model, including product offerings, customer segmentation, and revenue sources. Particular attention is paid to the institution's ability to sustain growth, preserve asset quality, and generate stable earnings throughout economic cycles. Strong market positioning and diversified revenue streams enhance resilience, whereas concentration risks may increase vulnerability to market disruptions.

### **RA7 Risk Management Score (RMS)**

The RMS evaluates the effectiveness, adequacy, and consistency of the RE's risk governance and control framework. Given the direct influence of risk management practices on the likelihood and severity of losses, the RMS represents a critical component of the IACS. The assessment covers six dimensions: Risk Management Framework, Credit Risk Management, Liquidity and Funding Risk Management, Market Risk Management, Operational Risk Management, and Environmental and Social Risk Management.

#### Risk Management Framework

This factor evaluates the design and implementation of the RE's overall risk governance structure. The analysis considers the expertise and involvement of risk management personnel at both Board and management levels, the effectiveness of dedicated risk management functions, and the comprehensiveness of risk policies and procedures. It also assesses risk monitoring systems, internal reporting practices, and the quality and frequency of reporting to governance bodies. A robust framework supports the timely identification and management of emerging risks and promotes consistency with the institution's risk appetite.

#### Credit Risk Management

Credit Risk Management assesses the effectiveness of the RE's credit-risk processes, including underwriting, approval, monitoring, and recovery activities. The analysis considers the formalization of credit procedures, alignment with recognised standards, exposure limits by sector or counterparty, and the integration of ESG considerations into lending decisions. Where relevant, counterparty risk

management practices and the risk profile of significant equity investments are also evaluated. Strong credit-risk practices are essential for preserving asset quality and mitigating losses.

#### Liquidity and Funding Risk Management

This factor evaluates the RE's ability to meet short-term and long-term obligations under both normal and stressed conditions. Key elements include liquidity policies, maturity mismatch management, cash-flow forecasting quality, and liquidity stress-testing practices. The assessment also reviews the structure, stability, and diversification of funding sources, together with concentration risks among lenders, depositors, or geographic markets. Institutions with diversified funding bases and robust liquidity planning frameworks are generally better positioned to withstand funding disruptions.

#### Market Risk Management

Market Risk Management focuses on the RE's exposure to interest-rate and foreign-exchange risks and on the effectiveness of mitigation measures. The evaluation considers open currency positions, repricing mismatches, the volatility of the operating environment, and the effectiveness of monitoring and control systems. Sound management of market risks reduces the likelihood that adverse changes in market conditions will materially affect earnings, capital, or solvency.

#### Operational Risk Management

Operational Risk Management assesses the strength of internal controls, risk measurement systems, and organizational safeguards. The evaluation includes segregation of duties, preventive and detective controls, compliance systems, and anti-money-laundering frameworks. The quality and reliability of audited financial statements, including audit opinions and the reputation of the external auditor, are also considered. Effective operational risk management reduces exposure to losses arising from process failures, human error, fraud, system breakdowns, or external events.

#### Environmental and Social Risk Management

This factor evaluates the RE's ability to identify, assess, and manage environmental and social (E&S) risks associated with its operations and client portfolio. The analysis considers the institution's E&S strategy, governance arrangements, policies, monitoring tools, and mitigation mechanisms. Board and management awareness and engagement are assessed alongside client protection practices and selected human-resources indicators, including staffing adequacy, staff turnover, procedural formalization, and remuneration competitiveness. Effective E&S risk management supports long-term sustainability and reduces reputational, regulatory, and operational risks.

#### Extraordinary External Support

This supplementary assessment can determine the increase of the final credit rating grade, through the notching-up of the financial strength rating. It reflects the relevance and the probability of the assistance that a financial institution would receive if it were to face economic difficulties. The extraordinary external support analysis includes the identification of the potential providers of extraordinary external support, the supporter's credibility and capacity, and the likelihood of the extraordinary support.

The extraordinary external support might be provided by Group & Partner Support (affiliate parties, shareholders, or companies of the same group, or other strategic partners); or by Sovereign & Governmental Support (such as government or other sovereign parties). The support is assessed in terms of availability to prevent or mitigate default risk and the immediate positive impact on the rated entity's creditworthiness. The analysis focusses on the proven commitment and capacity of the third

party to support. A rating uplift is possible if the support is credible, timely and relevant and is initially assigned based on the capacity-likelihood matrix. The rating upgrade is capped according to the credit rating grade of the rated entity.

#### Country Risk Conversion (CRC) – Applicable only for Global Scale

The CRC framework translates the rating grade assigned on the local scale (ICR-L) into a globally comparable rating (ICR-G) by incorporating the sovereign risk environment in which the RE operates. This step ensures that the final rating reflects not only the REs intrinsic credit profile but also the systemic constraints arising from its domestic operating environment, including transfer, convertibility, and macro-financial risks that are not captured in the local-scale methodology.

#### 4. Issue credit rating

The credit rating of a debt instrument issued by a financial institution is largely based on the issuer credit rating, complemented by additional analysis of all the relevant aspects characterizing the issue itself, as well as the nature and effectiveness of the regulatory framework in which the issuer operates.

When assessing the credit quality of a debt instrument, MFR CR applies a notching system based on a deeper analysis of the structure and contractual characteristics of the debt instrument, including seniority, size of the instrument and level of collateralization, as well as the impact of the regulatory framework and covenants.



## Annex 1 - Key Rating Definitions and Scales

### Credit rating

MFR CR's credit rating is an opinion on the creditworthiness of a financial institution (issuer) or a financial instrument (issue) and is issued using an established and defined ranking system of rating categories. MFR CR's opinion on the credit quality is based on a thorough analysis of the risk profile and the capacity of repayment of financial obligations of the rated entity. MFR CR's credit rating is based on a methodology which relies on a data-driven, risk-based and forward-looking approach.

MFR CR's credit ratings do not reflect the risk associated to significant and unforeseeable events such as a sudden and unexpected deterioration of financial markets' conditions or the regulatory risk, or frauds, litigations and other institutional failures which cannot be predicted.

### Default

Credit rating measures a rated entity's creditworthiness, which reflects the rated entity's ability to avoid defaults in the repayment of financial obligations. For MFR CR, a default is the non-fulfilment of any type of financial liabilities within the specified repayment schedule in a full amount, or in accordance with contractual terms and conditions. This includes the following types of default events:

- i. The rated entity has filed under any applicable bankruptcy, insolvency, or other similar legal proceedings.
- ii. A distressed exchange in which the rated entity offers new or restructured contractual terms that results in less favorable terms of the debt obligation.
- iii. Regulatory decisions/actions taken by the market supervisor (e.g., withdrawal of license).

### Rating scales

The rating scales are established and defined ranking systems of rating categories. Each rating category has a unique rating definition and includes three rating grades, except for the highest rating categories and the two lowest ones which comprise only one rating grade, instead of three. A rating grade is a letter or combination of letters, including modifiers if applicable, and represents the final output of a credit rating.

The rating scales adopted by MFR CR for the credit ratings differentiate between long-term and short-term ratings:

- a) Rating scale for the issuer (obligor);
  - a1) long-term
  - a2) short-term
- b) Rating scale for the issue (financial instrument);
  - b1) long-term
  - b2) short-term

## Long-term scales

Long-term rating scales are used for issuers and financial instruments with a residual maturity longer than one year. MFR CR issues credit ratings both on a local scale and a global scale. While the global scale allows for benchmarking among entities operating in different countries, the local scale applies only to entities within the same country and allows for a greater differentiation among issuers (or issues) within the same jurisdiction.

### Local Scale

| Grade      | Definition                                                                                                                                                                                                                                           | Score  |
|------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| <b>AAA</b> | Exceptionally strong credit quality and risk management, comparing to similar entities in the same country. The capacity to meet the financial commitments is not expected to be affected by a foreseeable deterioration of the economic conditions. | 9 - 10 |
| <b>AA</b>  | Very strong credit quality and risk management, comparing to similar entities in the same country. The capacity to meet the financial commitments may be marginally affected by a deterioration of the economic conditions.                          | 8 - 9  |
| <b>A</b>   | Strong credit quality and risk management, comparing to similar entities in the same country. The capacity to meet the financial commitments may be affected by a deterioration of the economic conditions.                                          | 7 - 8  |
| <b>BBB</b> | Good credit quality and risk management, comparing to similar entities in the same country. The capacity to meet the financial commitments may be affected by a deterioration of the economic conditions.                                            | 6 - 7  |
| <b>BB</b>  | Adequate credit quality and risk management, comparing to similar entities in the same country. However, the capacity to meet the financial commitments may be significantly affected by a deterioration of the economic conditions.                 | 5 - 6  |
| <b>B</b>   | Moderate credit quality and risk management, comparing to similar entities in the same country. The capacity to meet the financial commitments is vulnerable to a deterioration of the economic conditions.                                          | 4 - 5  |
| <b>CCC</b> | Modest credit quality and risk management, comparing to similar entities in the same country. The capacity to meet the financial commitments is highly vulnerable to a deterioration of the economic conditions.                                     | 3 - 4  |
| <b>CC</b>  | Weak credit quality and risk management, comparing to similar entities in the same country. The issuer/issue displays uncertainty in honoring its financial commitments.                                                                             | 2 - 3  |
| <b>C</b>   | Exceptionally weak credit quality, comparing to similar entities in the same country. An issuer/issue whose payment capacity has been irrevocably impaired and which is near default.                                                                | 1 - 2  |
| <b>D</b>   | Defaulted. The issuer/issue has payment delays, has been declared insolvent or is currently undergoing insolvency proceedings.                                                                                                                       | 0 - 1  |

### Modifiers

The modifiers "+" or "-" may be assigned to a rating to indicate relative status within a main rating category. The modifiers cannot be assigned to "AAA" or below "CC" grades.

## Global Scale

| Grade      | Definition                                                                                                                                                                                        | Scoring |
|------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| <b>AAA</b> | Exceptionally strong credit quality and risk management. The capacity to meet the financial commitments is not expected to be affected by a foreseeable deterioration of the economic conditions. | 9 - 10  |
| <b>AA</b>  | Very strong credit quality and risk management. The capacity to meet the financial commitments may be marginally affected by a deterioration of the economic conditions.                          | 8 - 9   |
| <b>A</b>   | Strong credit quality and risk management. The capacity to meet the financial commitments may be affected by a deterioration of the economic conditions.                                          | 7 - 8   |
| <b>BBB</b> | Good credit quality and risk management. The capacity to meet the financial commitments may be affected by a deterioration of the economic conditions.                                            | 6 - 7   |
| <b>BB</b>  | Adequate credit quality and risk management. However, the capacity to meet the financial commitments may be significantly affected by a deterioration of the economic conditions.                 | 5 - 6   |
| <b>B</b>   | Moderate credit quality and risk management. The capacity to meet the financial commitments is vulnerable to a deterioration of the economic conditions.                                          | 4 - 5   |
| <b>CCC</b> | Modest credit quality and risk management. The capacity to meet the financial commitments is highly vulnerable to a deterioration of the economic conditions.                                     | 3 - 4   |
| <b>CC</b>  | Weak credit quality and risk management. The issuer/issue displays uncertainty in honoring its financial commitments.                                                                             | 2 - 3   |
| <b>C</b>   | Exceptionally weak credit quality. An issuer/issue whose payment capacity has been irrevocably impaired and which is near default.                                                                | 1 - 2   |
| <b>D</b>   | Defaulted. The issuer/issue has payment delays, has been declared insolvent or is currently undergoing insolvency proceedings.                                                                    | 0 - 1   |

### Modifiers

The modifiers "+" or "-" may be assigned to a rating to indicate relative status within a main rating category. The modifiers cannot be assigned to "AAA" or below "CC" grades.

## Short-term scales

Short-term rating scales are used for financial instruments with a residual maturity equal or shorter than one year. The credit rating issued only on the short-term is not accompanied by an outlook.

| Grade       | Definition                                                                                                                                                           | Score  |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| <b>N-1</b>  | The issuer/issue has excellent capacity to repay short-term debt obligations.                                                                                        | 8 – 10 |
| <b>N-2</b>  | The issuer/issue has good capacity to repay short-term debt obligations.                                                                                             | 6 - 8  |
| <b>N-3</b>  | The issuer/issue has moderate to adequate capacity to repay short-term obligations. However, the issuer faces ongoing uncertainties that could affect that capacity. | 4 – 6  |
| <b>N-4</b>  | The issuer/issue has weak to moderate capacity to repay short-term obligations and is currently vulnerable to nonpayment.                                            | 1 - 4  |
| <b>SD/D</b> | SD (Selective default): The issuer/issue has failed to service one or more financial obligations, but the issuer continues to meet other financial obligations.      | 0 - 1  |
|             | D (Default): The issuer/issue has defaulted on all, or nearly all, of its financial obligations.                                                                     |        |

## Outlook

A Rating Outlook identifies the expected trend of a credit rating and indicates the direction a rating grade is likely to move to, over a one-year or two-year period. In other terms, the rated entity has not yet reached the creditworthiness level required for a rating action, but a clear trend towards a rating action has been identified.

Rating outlooks are assigned only for long-term credit ratings. All rating grades except D are accompanied by a rating outlook.

The assigned rating outlook can be one of the following:

- Stable (STA)
- Positive (POS)
- Negative (NEG)
- Developing (DEV)

A stable outlook indicates that the rating grade is not likely to change. However, it does not exclude a change of the rating grade, which can be raised or lowered without a prior revision to the outlook.

A positive and negative outlook indicate a probable upgrade and downgrade of the assigned rating grade respectively. Yet, a positive or negative outlook does not mean that a change of the rating grade is inevitable.

A developing outlook signals an uncertain expected trend of the rating grade. A developing outlook is transformed into stable, or positive or negative, depending on the outcome of one or more events which occurred or will likely occur in the very short-term.

### Credit watch

A credit watch is assigned by MFR CR if the credit rating cannot be fully defined at a certain moment. MFR CR may consider using the credit watch if some unexpected internal/external events are likely to impact the credit profile of the issuer (or issue) or if the insufficient information provided by the rated entity may alter the rating process and outcome.

The impact of specific events on the credit profile cannot be accurately assessed at the point when they occur, and additional information may be necessary to fully evaluate their impact on rated entities or issues. After issuing a credit watch, the final rating grade can be assigned only after an additional monitoring is held in the short-term.

Some examples of such events are potential mergers or radical changes in the regulatory framework. If a credit watch is issued on an outstanding credit rating, the credit watch indicates that there is a probability of change in ratings assigned and also indicates the likely direction of change. A positive or negative credit watch indicates that the rating could stay at its present level or potentially be upgraded or downgraded. A developing credit watch indicates that the rating grade may be raised, lowered, or affirmed and that the decision depends on the outcome of one or more events in the very short-term.

### Rating actions

MFR CR takes a Rating Action each time MFR CR issues a new credit rating and/or rating outlook or intervenes on an existing credit rating and/or rating outlook by taking a decision aimed at affirming, changing or discontinuing a credit rating and/or rating outlook, except where the decision to affirm a rating is taken by the analytical personnel without a RC meeting. Refer to Credit Ratings Issuance and Monitoring Policy and Procedures for further details on the rating process.

The complete set of Rating Actions which MFR CR may potentially take are the following:

- Rating Assignment:  
A rating is assigned to an issuer/issue which is not currently rated by MFR CR.
- Rating Publication:  
A rating grade and outlook and all mandatory disclosures are made public. This action includes both entities (or financial instruments) rated for the first time and entities (or financial instruments) on which ratings previously assigned are now published.
- Rating Affirmation:  
The rating has been reviewed with no change in rating grade. Ratings affirmations may also include an affirmation of an outlook when an outlook is used.
- Rating Upgrade:  
The rating grade has been raised in the rating scale.
- Rating Downgrade:  
The rating grade has been lowered in the rating scale.
- Rating Suspension:  
The rating has been temporarily suspended due to incompliance with regulatory requirements and restrictions on potential conflicts of interest.
- Rating Withdrawal:  
The rating has been withdrawn, and the issuer/issue is no longer rated by MFR CR. This type of action is accompanied by a communication including the current credit rating and outlook, the details motivating the withdrawal and, when possible, the likely direction of any rating movement in case it has been maintained.
- Outlook Assignment:  
The rating outlook has been assigned.

- Outlook Change:  
The rating outlook has been modified.
- Credit Watch Assignment:  
The rating has been placed on credit watch.
- Under Criteria Observation:  
When MFR CR published new or revised criteria (change of existing rating model and methodology) which may have an impact on the existing credit rating and/or rating outlook, but this impact has not been yet quantified. This rating action identifies the beginning of a period during which the new or revised criteria are applied to the existing rating. During this period, which cannot last more than six months, the existing credit rating and/or rating outlook remains valid. If MFR CR believes that the rating will likely change, the Credit Watch is assigned.

### Rating status

The following rating status are identified:

- a) Current
  - Current Assigned  
A rating grade and/or outlook has been assigned.
  - Current Reviewed  
A rating grade and/or outlook has been reviewed generating a rating action.
- b) Withdrawn  
A rating grade (and outlook, if applicable) has been withdrawn and the issuer/issue is no longer rated by MFR CR.
- c) Credit Watch  
The rating has been placed on credit watch.
- d) Under Criteria Observation  
A rating grade (and outlook, if applicable) has been placed in under criteria observation if published new or revised rating model criteria may have an impact on the existing credit rating (and/or rating outlook if applicable), but this impact has not been yet quantified.

### Rating withdrawal

Given that credit ratings issued by MFR CR always remain property of MFR CR. MFR CR has full discretion to determine if and when to withdraw a credit rating. MFR CR does not withdraw credit ratings simply in response to a request from an issuer. However, it may be appropriate for MFR CR to withdraw the credit rating following such a request if there are other reasons for withdrawal, such as a lack of information, or regulatory constraints. MFR CR can withdraw a credit rating at any time and for any reason, including, but not limited to the following cases:

- a) If the rating validity has contractually expired;
- b) if the RE defaults, enters bankruptcy, is liquidated or restructures its debt;
- c) if the RE becomes the subject of a corporate reorganization, including acquisitions and mergers;
- d) if the RE no longer exists;
- e) if the quality of information available for assigning a credit is deemed unsatisfactory, insufficient, or raises questions as to whether MFR CR can provide an appropriately informed credit rating;
- f) when the credit rating methodology used to assign the credit rating is no longer applicable;
- g) where there is a regulatory mandate to withdraw;
- h) where certain conflicts of interest conditions arise;
- i) commercial reasons.