

Rating Scales

MFR Credit Ratings

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 and between local and global scale:

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

The same distinction between long and short term applies with local and global scales.

Long-term scales

Long-term rating scales are used for issuers and financial instruments with a residual maturity of longer than one year.

Long-term rating scales include 10 levels (rating categories) from the best AAA to the worst D. The rating categories from AAA to BBB are investment grades and indicate low to moderate credit risk. The rating categories from BB to D are speculative (non-investment) grades and indicate a higher risk profile or that a default has already occurred. The terms investment grade and speculative grade do not imply any recommendation or endorsement to purchase, sell, or hold a particular security.

Each rating category, except for AAA, C and D, is composed of three rating grades, two of which have a modifier "+" or "-" which indicate relative status within a main rating category. For instance, BBB+ is a slightly better grade than BBB, while BBB- is a slightly worse grade than BBB. However, the three grades (BBB+, BBB, BBB-) belong to the same rating category and share the same rating definition within the rating scale.

The rating grade is accompanied by the rating outlook.

The following tables represent the long-term global and local rating scales for issuer and issue.

Long-term - Issuer:

Grade	Local scale - Definition	Global scale - Definition	Score
AAA	Exceptionally strong credit quality and risk management, compared 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.	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
AA	Very strong credit quality and risk management, compared 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.	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
A	Strong credit quality and risk management, compared to similar entities in the same country. The capacity to meet the financial commitments may be affected by a deterioration of the economic conditions.	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
BBB	Good credit quality and risk management, compared to similar entities in the same country. The capacity to meet the financial commitments may be affected by a deterioration of the economic conditions.	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
BB	Adequate credit quality and risk management, compared 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.	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	Moderate credit quality and risk management, compared to similar entities in the same country. The capacity to meet the financial commitments is vulnerable to a deterioration of the economic conditions.	Moderate credit quality and risk management. The capacity to meet the financial commitments is vulnerable to a deterioration of the economic conditions.	4-5
CCC	Modest credit quality and risk management, compared to similar entities in the same country. The capacity to meet the financial commitments is highly vulnerable to a deterioration of the economic conditions.	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
CC	Weak credit quality and risk management, compared to similar entities in the same country. The issuer displays uncertainty in honoring its financial commitments.	Weak credit quality and risk management. The issuer displays uncertainty in honoring its financial commitments.	2-3
C	Exceptionally weak credit quality, compared to similar entities in the same country. An issuer/issue whose payment capacity has been irrevocably impaired and which is near default.	Exceptionally weak credit quality. An issuer whose payment capacity has been irrevocably impaired and which is near default.	1-2
D	Defaulted. The issuer has payment delays, has been declared insolvent or is currently undergoing insolvency proceedings.	Defaulted. The issuer 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.	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.	-

Long-term - Issue:

Grade	Local scale - Definition	Global scale - Definition	Score
AAA	Exceptionally strong credit quality under the agreed terms and maturities, compared to similar issues in the same country. The credit quality would not be affected by possible changes in the issuer, in the sector or in the economy.	Exceptionally strong credit quality under the agreed terms and maturities, which would not be affected by possible changes in the issuer, in the sector or in the economy.	9-10
AA	Very strong credit quality under the agreed terms and maturities, compared to similar issues in the same country. The credit quality would not be affected by possible changes in the issuer, in the sector or in the economy.	Very strong credit quality under the agreed terms and maturities, which would not be affected by possible changes in the issuer, in the sector or in the economy.	8-9
A	Strong credit quality under the agreed terms and maturities compared to similar issues in the same country. The credit quality may be affected by a deterioration in the issuer, in the sector or in the economy.	Strong credit quality under the agreed terms and maturities, which may be affected by a deterioration in the issuer, in the sector or in the economy.	7-8
BBB	Good credit quality under the agreed terms and maturities compared to similar issues in the same country. The credit quality may be affected by a deterioration in the issuer, in the sector or in the economy.	Good credit quality under the agreed terms and maturities, which may be affected by a deterioration in the issuer, in the sector or in the economy.	6-7
BB	Adequate credit quality under the agreed terms and maturities, compared to similar issues in the same country. The credit quality is susceptible to weakening in the event of possible changes in the issuer, in the sector to which it belongs or in the economy, and may incur delays in the payment of principal and interest.	Adequate credit quality under the agreed terms and maturities, which is susceptible to weakening in the event of possible changes in the issuer, in the sector to which it belongs or in the economy, and may incur delays in the payment of principal and interest.	5-6
B	Moderate capacity to meet financial commitments under the agreed terms and maturities compared to similar issues in the same country. The credit quality is highly variable and susceptible to weakening in the event of possible changes in the issuer, in the sector to which it belongs or in the economy and could result in the loss of principal and interest.	Moderate capacity to meet financial commitments under the agreed terms and maturities, which is highly variable and susceptible to weakening in the event of possible changes in the issuer, in the sector to which it belongs or in the economy and could result in the loss of principal and interest.	4-5
CCC	Limited capacity to meet financial commitments on the agreed terms and maturities, with a medium-high risk of loss of principal and interest.	Limited capacity to meet financial commitments on the agreed terms and maturities, with a medium-high risk of loss of principal and interest.	3-4
CC	Very limited capacity to meet financial commitments on the agreed terms and maturities, with a high risk of loss of principal and interest.	Very limited capacity to meet financial commitments on the agreed terms and maturities, with a high risk of loss of principal and interest.	2-3
C	Very limited capacity to meet financial commitments on the agreed terms and maturities compared to similar issues in the same country. Very high risk of loss of principal and interest.	Very limited capacity to meet financial commitments on the agreed terms and maturities, with a very high risk of loss of principal and interest.	1-2
D	Defaulted. The issuer/issue has payment delays, has been declared insolvent or is currently undergoing insolvency proceedings.	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.	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. Short-term rating scales include 5 levels from the best N-1 to the worst SD/D. The conversion from long-term scale to short-term scale is automatic, as it does not imply additional analysis.

The following tables represent the short-term global scale and the short-term local scale for the issuer rating scales.

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