General Methodological Criteria

HR Ratings® Credit Rating Agency

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The General Methodological Criteria sets forth concepts applicable to any rating for entities, issuers, issues, or structured products (henceforth: borrower or debt instrument) issued by HR Ratings. These concepts establish the definitions, processes and considerations applicable to the any rating process.

Among the main concepts presented in this document are HR Ratings' definition of credit rating, HR Ratings' understanding of a default or non-payment event, and the different types of default that could exist depending on different circumstances. This methodology also discusses the differences between short-term and long-term ratings and between our ratings on a local and global scale. General Methodological Criteria also defines the meaning and implementation of our rating attributes (Outlook, CreditWatch, Review in Process).

This methodology also presents the criteria that HR Ratings applies for considering the recovery process applicable after default, the process used to convert a local rating into its equivalent rating on our global scale, the evaluation of the credit risk, on the local scale, of an entity whose global scale rating is established on the basis of the sovereign risk of a jurisdiction not rated by HR Ratings, and the evaluation of the impact on the rating of an entity or instrument that enjoys third-party support, either explicitly or, in our opinion, implicitly.

In the case of structured transactions this methodology establishes the criteria for the elaboration of the appropriate legal analysis required in HR Ratings credit risk evaluation. This methodology also describes the use of "influential ratings", or ratings assigned by other rating agencies, in the elaboration of an HR Rating credit risk opinion for a debtor or instrument.

Finally, this methodology describes the characteristics of the Limited Ratings, Preliminary Ratings, and Indicative Evaluations products provided by HR Ratings, in addition to our Credit Ratings. These products are based on the same methodologies used for the development of credit ratings for comparable assets. However, there are certain important differences in the analysis process and in the post rating evaluation. Furthermore, these products are not regulatory in nature.

Content:

This document is the exclusive property of HR Ratings and substitutes the "General Methodological Criteria" published in *January 2023.* This document will come onto effect once the regulatory approval process is finished.

1. Aspects of HR Ratings' ratings

HR Ratings' evaluation of credit risk constitutes an evaluation of the relative credit quality, or relative likelihood of default, of an entity, issuer, issue, loan or structured debt product. Most of the entities and assets rated by HR Ratings are assigned ratings ranging from HR AAA to HR C-, while HR D (or its variants) refers to a nonpayment or default situation.[1] Credit quality refers to the borrower's ability and willingness to meet its payment obligations (and/or contractual obligations in the case of insurance and insurance companies) in the time and manner originally agreed.[2] Ratings are assessments of the financial condition of a borrower or debt instrument prior to their default. Our ratings therefore do not include an assessment of post-default terms or the likelihood of recovery. However, the ratings assigned to specific debt instruments issued by the same entity may differ among themselves and may differ from the rating assigned to the issuer. This differentiation will be based on an analysis of the characteristics of each instrument, thereby enabling HR Ratings to identify whether different debt instruments have a higher or lower risk of default.

These ratings can be assigned to borrowers and instruments in the Short Term and/or Long Term with their respective scales considering the risks involved. Ratings can also be assigned on a Local Scale and Global Scale. Lastly, they can receive one of the following three attributes: Outlook, CreditWatch, or Review in Process. These attributes are further explained on section 8 of this document.

As credit ratings are dynamic by nature, so HR Ratings will provide continuous internal monitoring as long as the rating remains outstanding, both the internal monitoring and the ratings annual review will be carried out in accordance with the criteria established in HR Ratings' General Operations Program.

2. Default Criteria

The following sections define our understanding of default as well as the different categories of default for entities and debt instruments, and the process for rating debt instruments not in default when the issuing entity or debt instruments issued by the same entity are in default. In this discussion we also describe when entities or debt instruments are considered to be no longer in default as well as the relative speed of recovery of their post default ratings.

2.1. Categories of Default for Debt Instruments

A debt instrument will be in default under any of the following circumstances:

- A default is regarded as any delay, suspension, partial or total noncompliance with mandatory interest and principal payments, in accordance with the terms, conditions and deadlines originally agreed upon.
- A default may be deemed to exist if HR Ratings identifies an imminent default on mandatory debt service, even if this has not been confirmed; for example, an entity in the process of bankruptcy, liquidation or termination of operations.

[1] The scales used for different products may be consulted in the following link: https://www.hrratings.com/methodology/rating_scales.xhtml

[2] Where payment obligations refer to principal and interest payments, while non-payment refers to a total or partial non-payment.

- A “technical” default which occurs when, for any reason, the borrower states that they lack the ability to continue complying with the payment obligations originally agreed upon for one or more debt instruments and that, to service the debt, its conditions would have to be modified. In such cases, the debt instrument would be assigned a rating of HR DT (Technical Default).
- In the case of sovereign debt ratings, we may regard the rating to be in default given the existence of policies that cause inflation and depreciation of the currency to such a degree that the monetary value of the debt instruments is subject to a severe loss or degradation.

Nonpayment of a hybrid instrument is not considered a default if said nonpayment is due to actions permitted under the contractual terms of the debt, for example, the conversion of debt to equity. Furthermore, nonpayment is not considered a default on payment terms in the case of leasing agreements, as leasing contracts are not regarded as constituting debt by HR Ratings.

When nonpayment of a debt instrument is due to causes beyond the borrower's ability and/or willingness to pay, such as an operational failure by any participant in the transaction, HR Ratings may determine that such nonpayment does not warrant consideration as a default. However, if this type of nonpayment is frequent or due to very particular reasons attributable to the borrower, the rating of the debt instrument and/or borrower may be downgraded.

In any cases where there is a breach of contractual clauses, HR Ratings must analyze the type of clauses breached and their possible consequences, to determine whether they amount to a default.

HR D and HR DT ratings would apply upon the default of a debt instrument with any third-party lender, be it a private or public entity, fund or individual. They would also apply if the lender were the original borrower or the instrument’s secondary market purchaser.

2.2. Default Categories for Entities

If an entity's debt instruments go into default, HR Ratings considers two possibilities for evaluating the impact of the default on the borrower's rating:

1. If the entirety of the debt is in default or it is considered that, in practical terms, all the debt instruments are likely to default, the entity will be assigned a rating of HR D.
2. A rating of HR DS (Selective Default) may be assigned if a portion of the debt (or only certain but not all of the issuing entity’s debt instruments) has defaulted but there is a strong likelihood that the rest of the debt will continue to meet its payment obligations in the required time and manner.

2.3. Rating of Performing Instruments in the Context of Default by the Borrower or the Borrower's Instruments

Despite defaulting on certain financial obligations, a borrower may be current on their payment of other debt instruments. In such cases, the regular rating process may continue for the performing debt instruments; however, the rating may be downgraded due to the borrower's default on other instruments.

In the case of non-performing instruments with the option of triggering cross default clauses, HR Ratings will monitor this possible triggering and the expected impact on the performing instruments to determine the appropriate rating action.[3] Figure 1 provides a summary of the types of default that can apply to borrowers and debt instruments.

Figure 1. Default Categories

Categories	Borrower	Debt
HR D	Yes	Yes
HR DS	Yes	No
HR DT	No	Yes

Source: HR Ratings

2.4. Post-default stage for debt and borrowers

Once the borrower or debt instrument has repaid their financial obligations, their credit rating will begin a recovery period during which it may be downgraded due to the default history. The number of adjustment notches and the length of the recovery period will depend on the factors that gave rise to the default and the measures taken by the borrower to cure it.

HR Ratings considers a default to be cured the moment the terms of the post-default negotiations are accepted, including the agreed payment and any applicable penalizations. The recovery period will begin once HR Ratings considers the default to have been cured.

Regarding the factors that gave rise to the default, HR Ratings distinguishes between willingness and ability to pay. Regarding payment ability, a distinction is made between financial and contractual factors (such as cross default mechanisms) . Among the financial factors, a distinction is made between internal and external factors.

HR Ratings considers that unwillingness to pay, in the absence of relevant financial stress, warrants a more severe recovery period (with a greater number of default penalization notches) lasting longer than for other types of defaults. At the same time, a default situation caused by financial stress, or because of the triggering of contractual terms, may warrant a shorter recovery period and a lesser penalization in terms of notches. Defaults due to contractual factors often stem from cross defaults, early amortizations or acceleration events.

[3] Cross default clauses are defined as those that effectively intertwine default events from different debt instruments. Meaning, default from one instrument could cause the default of every other instrument that is linked through this type of clause.

Among the financial stress factors that could lead to default due to inability to pay, HR Ratings distinguishes between stress caused, on the one hand, by external factors that are not predictable or manageable in the normal course of operations and, on the other, financial stress resulting from planning failures by the company in a predictable industrial or macroeconomic context. Non-predictable external causes include natural disasters, war, political instability, and macroeconomic events such as major recessions and macro devaluations, among others. In this context, HR Ratings would evaluate how predictable an event was when determining its recovery path. HR Ratings should also consider whether the entity took the appropriate precautions (e.g., hedging contracts) to mitigate damage from possible natural disasters or macroeconomic events upon determining the length of the recovery period and the extent of the possible downgrade for this period.

3. Liabilities with Specific Accounting Treatment

There may be cases in which a liability with financial cost that HR Ratings regards as debt is not recorded as such. In such cases, HR Ratings considers that these items represent debt, regardless of how they are recorded by the lender, borrower, or auditors. Accordingly, the criteria for debt instruments established in this document, and the relevant methodologies, would be applied.

At the same time, HR Ratings may consider that a payment obligation does not constitute a debt even if the lender or borrower accounts for it as such, for example the case of leasing agreements described in section 2.1. Payment obligations will be considered as debt depending on the specifications of the methodology for each asset class.

4. Relationship between Short-Term and Long-Term

HR Ratings may assign borrowers a Short-Term and Long-Term rating depending upon the requirement. The analysis performed in accordance with the appropriate methodology identifies the credit risks associated with different factors and their specific impact in different time periods. The relationship between rating scales in different time periods is shown in general terms in Figure 2:

Figure 2. Long-Term and Short-Term Scale equivalence

Long Term	Short Term
HR AAA	HR+1
HR AA (+/-)	HR1
HR A (+/-)	HR2
HR BBB (+/-)	HR3
HR BB (+/-) HR B (+/-)	HR4
HR C (+/-)	HR5

Source: HR Ratings

However, the equivalence outlined in Figure 2 is not direct. The Short-Term rating may be one notch higher than the Long-Term rating if the borrower or debt instrument has immediate liquidity, for example, in cases where certain borrowers are recurring issuers and can finance themselves in the market in the Short Term, or if certain borrowers or debt instruments have contingent cash lines or some kind of partial security. For example, if HR Ratings identifies that a borrower has any of these strengths, it may assign a Long-Term rating in the range of HR A (+/-), but the Short-Term rating may be HR1.

5. HR Ratings Local and Global Scales

Any credit rating for a borrower or debt instrument is initially assigned on a Local Scale. The HR Ratings Local Scale represents the different rating levels (19 levels from HR C- to HR AAA) in which the results of a rating process can be categorized as set out in the appropriate methodology. This rating on the scale reflects the results of standardized processes, which are applicable in any political jurisdiction.

At the same time, the global scale considers the risks associated with the sovereign in question and faced by the borrower or debt instrument. This includes the convertibility, degradation and transferability risks for each country in a global scenario.

6. Local to Global Scale Rating Conversions

HR Ratings will use the global rating of the applicable sovereign, as an indicator for country risk, to convert the local credit ratings for borrowers and/or debt instruments into global credit ratings. The applicable sovereign rating may refer to one particular sovereign or a group of sovereigns depending on the case. If the applicable sovereign's credit rating is HR AAA (G), then the local debt and borrower ratings will generally be the same on both local and global scales. If the applicable sovereign's credit rating on the global scale is lower than HR AAA (G), the global scale rating of the local scale rated debt and borrowers will usually be downgraded upon the conversion of the local scale rating into the global scale. In general terms, the downgrade will be equal to the difference, in terms of notches, between HR AAA (G) and the applicable sovereign's global rating.[4] However, in some cases it may be appropriate not to take as a basis for the downgrade only the difference in the applicable sovereign's global rating from HR AAA (G). The notch differential may be modified upon considering two general circumstances. First, when HR Ratings judges that the global credit rating of an applicable sovereign, or sovereigns, implies a greater or lesser degree of country risk for purposes of the conversion of local rated entities and debt. Second, when the analysis for a specific debtor or debt instrument suggests that its characteristics are such that its rating on the global scale should receive a modified rating differential. That is, the characteristics of the debtor or instrument suggest that its credit risk is greater or lesser than what the applicable country risk suggested by the sovereign rating would be. The following list presents concepts that could justify a modification in the conversion differential:

- The entity's ability to service debt in the required currency without incurring convertibility risk.
- The entity's ability to service debt without the need to use the payment system of the sovereign(s) in question, thereby avoiding transferability risk.
- The borrower's systemic importance in the local market(s).
- The track record of the sovereign(s) in question in terms of their relationship with international markets.

[4] For example, a sovereign with a rating of HR AA (G) would mean a difference of two notches. Which would mean the local ratings for debt instruments and debtors in the local scale would receive a negative adjustment of two notches when converted into a global scale.

- Capital controls, exchange restrictions or relevant sanctions that could lead the sovereign(s) to differentiated treatment between issues in different international markets.
- The sovereign's macroeconomic strategy and stability.
- Any other factor that could be used to determine the risks of degradation, convertibility and transferability faced by local borrowers.

If the evaluation of these concepts reveals that borrowers and/or instruments can mitigate the risk of convertibility and transferability the transformation from Local Scale to Global Scale can be based on a smaller differential notch. For example, borrowers and local instruments in a sovereign entity with a credit rating of HR AA (G) might receive only one *notch* as a downgrade when transforming between scales as opposed to two *notches.* The evaluation could also result in the opposite case, especially for sovereigns with a weaker credit rating. For example, if the sovereign has credit rating of HR BB+ (G) it could be the case that the local borrowers and/or debt instruments receive a downgrade of 11 notches when converting from the Local Scale to the Global Scale as opposed to the 10 notches that they would receive if only the sovereign's credit rating were to be considered.

A somewhat different (and possibly overlapping) set of factors is used to determine the applicable jurisdiction or sovereign for assigning a global scale rating. The simplest case is that of a borrower operating in only one country and using only that country's currency. In such cases the global rating of sovereign of the country in which the borrower operates will be used as the basis for conversion. In more complex cases, an entity may have substantial operations in several jurisdictions, in which case the following would be examples of the relevant factors to be considered:

- Country or countries where the borrower's operation is located with an analysis focused on, but not limited to, its cash reserves and cash flow.
- The make-up of earnings and/or revenues by currency.
- The currency of debt obligations.
- Their functional currency.
- The foreign exchange risk to which cash and debt may be exposed.
- The nature of the operating conditions of the borrower that could lead to a direct relationship with any jurisdiction.

If the analysis of these criteria concludes that multiple sovereigns are relevant it would be appropriate to determine a "weighted average" of relevant sovereigns and apply a weighted sovereign differential notch to make the local to global conversion.

7. Global to Local Scale Equivalence

Occasionally HR Ratings needs to measure the Local Scale credit risk of a borrower (a subsidiary) that depends on another entity (a parent company) operating in a different jurisdiction (sovereign). For example, in cases in which it is determined that a subsidiary's credit risk corresponds to that of its parent company in another country.

The following process will only be necessary if HR Ratings does not have the credit rating of the parent company[5]. The following elements are required to obtain the subsidiary's rating:

i. The parent company's global scale credit rating.[6]
ii. The sovereign rating of the country in which the parent company operates.[7]
iii. The average of the Influential Ratings in the market of the sovereign in which the parent company operates.[8]
iv. HR Ratings' sovereign rating for the country in which the subsidiary operates.

The process for determining HR Ratings' local scale rating for these entities is as follows:

1. The difference, in terms of notches, between the average of the Influential Ratings (element iii) of the sovereign in which the parent operates and HR Ratings' sovereign rating of the country in which the subsidiary operates (element iv).
2. The difference, in terms of notches, between the parent company's Influential Rating (element i) and the Influential Rating, by the same rating agency, of the sovereign of the country in which the parent operates (element ii).
3. Based on the differences identified in points 1 and 2 above, the rating will be assigned to the borrower (subsidiary) on the Local Scale of the sovereign rated by HR Ratings.
4. HR Ratings may adjust the entity's (subsidiary) Local Scale rating based on its specific situation.

8. Rating Actions and Attributes

A rating action is defined as any determination by HR Ratings containing the following information: the type of rating action, the assigned rating (or rating letter) and the attribute assigned to the rating letter. The type of action may be an initial assignment, rating change, reaffirmation or withdrawal. The rating grade refers to the estimated credit risk level (for example, from HR AAA to HR C- and HR D). Lastly, the attribute given to the rating grade constitutes an opinion regarding the stability or likelihood of change in the rating grade. The attributes are as follows: Outlook, Creditwatch and Review in Process.

A Rating Attribute provides additional information on the status of a credit rating regarding a possible change to the current rating. HR Ratings recognizes three types of attributes:

- **Outlook.** This refers to trends, usually long-term in nature, that could impact the letter rating and includes macroeconomic conditions, industry-related factors, or factors specific to the rated borrower or debt instrument. Assuming that the likely direction of the effect of these factors can be determined the Outlook is assigned as "Positive", "Negative" or "Stable".[9]

[5] This process will only be applicable when HR Ratings has assigned both a Local and Global rating for the sovereign in which the subsidiary is established.
[6] Since HR Ratings has not assigned a credit rating for this entity, it should use the lowest Influential Rating available. Influential Ratings are defined in section 14 of this document.
[7] In this case the Influential Rating must come from the same rating agency as the one used in the previous step.
[8] The Influential Ratings must be assigned in a Global Scale.
[9] In this section "direction" refers to the whether the impact is positive, negative or neutral.

- **Creditwatch.** This refers to events or trends that could have an impact on the short-term rating and their direction is known. This attribute can therefore only be "Positive" or "Negative". These events or trends are usually specific to the borrower or its debt instruments, but they can also follow macroeconomic events or developments related to an industry or sector.
- **Review in Process.** This type of attribute differs from the previous ones as it can be used in four specific situations:

1. When HR Ratings is awaiting information on results from the borrower for reasons not attributable to the latter.
2. After the beginning of an acquisition process where there is uncertainty regarding its consummation, the final form of financing, final structure or any other factor that makes it impossible to determine its final characteristics.
3. In addition, HR Ratings may put any borrower or debt instrument on Review in Process following a methodological change.
4. HR Ratings may place an HR D rating under Review in Process.

A Creditwatch or Review in Process usually lasts between zero and nine months, and an extension is likely if the events that gave rise to such action continue. At the end of this period, HR Ratings must issue a statement and/or rating report taking a rating action; in other words, the ratification of or change to the attribute and/or rating in question.

HR Ratings may issue informative statements setting out its position on an event with a possible impact on the credit rating of a specific borrower or debt, without constituting a rating action.

9. Guarantees from Sovereign, Subnational or Other Entities

HR Ratings may determine that a borrower and/or its debt instrument are guaranteed either explicitly or implicitly by a sovereign or a sub-national government entity. HR Ratings may determine that an implicit guarantee exists if the relationship between the borrower and or debt instrument meets any of the following conditions:

- The borrower or debt instrument provides the sovereign or subnational in question with substantial financial backing such that their inability to pay would cause an immediate reduction of the public sector's revenue stream.
- In the event of default of the borrower or debt, the economy and the markets would be affected thereby giving rise to widespread difficulties that would force the government to help such entity or issue to prevent a default event.
- The borrower performs strategic activities for the government, forcing the authorities to intervene to prevent a default event.
- The debtor has support from an important political base.

There are also cases where a borrower or debt instrument has the backing of a third party, other than a sovereign or subnational public entity, to meet their financial obligations based on the relationship between the two entities. This relationship will be justified if the analysis reveals any of the following circumstances:

- The borrower has the explicit backing of a third party in which it is clearly stated that it would assume responsibility for the payment of its financial obligations in the event of financial stress.
- The borrower has the implicit backing of a third party as a result of one of the following circumstances:
    a. It is part of a business or financial group and a high degree of operational dependence can be assumed.
    b. The borrower has important relationships with another parent or holding company that would probably assume responsibility for its financial obligations in an adverse scenario.
    c. The borrower is an important component of the production chain or has important synergies with the third party even if not formally part of it.

If the guarantee is explicit, the borrower or debt instrument will receive the same credit rating as the third party providing said guarantee, be it a public or private entity. If the backing is implicit, be it from a public or private entity, the borrower or debt instrument may receive the same rating as the third party providing the guarantee, or a rating no more than three notches below the third party's rating, depending on the analysis of each case.

HR Ratings will take into consideration the possible impact on the rating of the entities offering this backing if such backing were to be provided in practice. In cases where the entities providing the backing have an impaired rating, the rating of the instrument or entity receiving the backing could be downgraded.

10. Legal Analysis for Structured Transactions

In the case of structured transactions, such as structured products, issues or loans with a directly assigned source of payment, HR Ratings will assess the legal documentation governing the transaction as part of the analysis process to determine the credit rating. The aim of the assessment is to ensure that the legal documents and ancillary legal elements employed in the rating process are valid as per the applicable legislation, that they meet all the formal requirements for any judicial processes and are enforceable, and that they adequately isolate the resource or asset to be used to pay the debt. In view of this last point, if the entity related to the structured transaction were to default, thereby rendering it bankrupt or in liquidation, the assets allocated for payment of the transaction would not be considered as part of the entity's estate in the bankruptcy or liquidation process.

This legal evaluation may be performed directly by HR Ratings, be based on an external legal analysis performed by a third party or be requested directly by HR Ratings from an independent external law firm. HR Ratings will decide, on a case-by-case basis, which source it will use to perform the evaluation. The documents to be reviewed will depend on the transaction or entity to be analyzed and the guidelines set forth by the authority where it is placed. In general, the following documents may be reviewed:

- Trust Agreement
- Assignment of Collection Rights
- Management and Services Contract
- Operation and Maintenance Contract
- Financing Agreement

- Any relevant document established by the applicable law
- Any other contract or document relevant to the transaction

11. Treatment of the Lack of Transparency in the Information Submitted or lack of Corporate Governance

HR Ratings may conclude that the information submitted by the borrowers or that otherwise forms part of the documentation relevant to issuing a rating for a borrower or debt instrument is lacking in detail or transparency in terms of presentation and/or consistency or does not include important documents such as timely audited financial statements. This may include situations where a borrower does not adhere to international accounting standards or sound market practices. Under such circumstances, HR Ratings may decide to provide a credit risk evaluation but exercise the option of downgrading the rating. The following factors should be considered to determine the extent of the downgrade to the assigned rating:

- Severity: HR Ratings will evaluate the severity of the lack of detail or transparency and/or compliance of the information submitted, considering that said severity will be proportional to the impact that the lack of detail and transparency has on the analysis performed.
- Frequency: HR Ratings will assess how often the information submitted is lacking in detail or transparency, with a greater frequency being considered more serious.
- Ability and willingness to respond: After identifying the lack of detail or transparency, HR Ratings will assess the efforts made by the borrower to improve their transparency and compliance with accounting standards. HR Ratings will also evaluate the borrower's ability and willingness to respond in terms of the possible adjustments made to the information submitted and the adjustments to be made to future information.

Sometimes the borrower’s compliance with sound Corporate Governance practices may be limited, including a lack of support committees or structures allowing for objectivity, especially regarding auditing and internal control. In such cases HR Ratings may also adjust the rating, considering the severity and responsiveness factors described above to determine the impact of such adjustments. The foregoing is in addition to any weighting that may be performed under the methodology in each case regarding Corporate Governance practices.

12. Limited and Preliminary Ratings

Limited Ratings are a credit strength analysis in which HR Ratings is asked to evaluate a borrower or debt instrument based on a set of characteristics, suppositions, or hypothetical and specific scenarios, in order to determine the rating that could be assigned were such characteristics to arise in practice.

Preliminary Ratings, on the other hand, are a credit strength analysis in which HR Ratings is asked for a prior or initial evaluation of a transaction that the borrower intends to perform but for which they do not yet have closing information. The aim is usually to commence marketing or prospecting with investors. HR Ratings will evaluate the borrower or debt instrument based on the methodologies used for each type of asset.

Limited and Preliminary Ratings are not valid beyond the moment they are assigned and may not be withdrawn, monitored or updated. Therefore, these ratings are not regulatory by nature. However, the Preliminary Rating may be converted into a Credit Rating following confirmation of the conditions applicable to the former.

HR Ratings will specify whether it is a Limited or Preliminary Rating in its report or statement, and it may be private or public depending on the requirements.

In the case of Limited Ratings, HR Ratings will evaluate the borrower or debt instrument based on the methodologies used for each type of asset, taking into consideration the suppositions provided by the client. HR Ratings may include its own suppositions if appropriate for the rating process.

Below are some examples of when a Limited Rating is used:

- When seeking to analyze a debt instrument under a set of specific hypothetical characteristics (certain level of capacity, coverage, term, amount, source of payment, among others).
- When seeking to assess the impact on credit quality of a transaction that a borrower could carry out (merger, acquisition, specific purchase, investment projects, refinancing or restructuring process, sale of assets, spin-off of business units, among others).
- When a credit evaluation is required for structured transactions without final documentation or legal opinions in order to consider possible changes to instruments already on the market. As a result, the Limited Rating, considering the hypothetical changes, could be a requirement for holder or shareholder meetings to approve the proposed modifications.

In the case of Preliminary Ratings, suppositions are made about variables that are known to be of relevance but have not yet been determined. Also, Preliminary Ratings are often required as part of predetermined processes, such as security applications or placements.

Below are some examples of when a Preliminary Rating is used:

- When a public sector entity or any other institution wants to assess the capacity of a bidder to finance a given project or transaction.
- When, in the case of structured and unstructured transactions, a credit evaluation is required without final documentation.

HR Ratings will perform the analysis to determine the rating using the information and assumptions provided (in the case of Limited Ratings). During the analysis process, HR Ratings will not provide any feedback on the rating to be assigned or its sensitivity, given that Limited and Preliminary Ratings do not comprise a financial advisory or structuring service.

HR Ratings will specify the assumptions incorporated in the analysis (i.e., whether they be the client's or those of HR Ratings) in order to assign such a rating in its report or statement, pointing out that it is a Limited or Preliminary Rating, and the results depends on the assumptions made.

The scale used for Limited Ratings is the one used in the scales for each asset class. However, HR Ratings will add "(L)" at the end of each symbol to indicate that it is a Limited Rating. The scale used for Preliminary Ratings is the one used in the scales for each asset class. However, HR Ratings will add "(P)" at the end of each symbol to indicate that it is a Preliminary Rating.

13. Indicative Evaluations

Indicative Evaluations are a process whereby HR Ratings performs a simplified evaluation of a borrower or debt instrument. In this evaluation, the available information, usually very limited, is used to obtain a result that broadly considers the parameters and aspects included in the applicable methodology. This evaluation does not have the depth expected in a traditional (or Regulatory), Limited or Preliminary rating process for making projections, scenarios or any other analytical element.

Indicative Evaluations have no follow-up, monitoring or right of reply. If the requesting entity wishes to change the indicators granted, a new indicative evaluation process will have to be performed.

HR Ratings will request the data to calculate the parameters to be evaluated under the Indicative Evaluation without considering their feasibility or completeness. The final evaluation may include qualitative adjustments and the result will be given in a possible rating range.

During the analysis process, HR Ratings will not provide any feedback on the Indicative Evaluation or its sensitivity, given that Indicative Evaluations do not comprise a financial advisory or structuring service.

HR Ratings will specify the indicators considered for the Evaluation in the document.

14. Influential Ratings

In certain analysis processes, HR Ratings requires a credit evaluation or analysis of entities for which it does not have an assigned rating (for example, see Section 7). In such cases, HR Ratings will use a rating issued by another rating agency, which is defined as an Influential Rating. The Influential Rating must have been assigned by rating agencies authorized by the regulators of each jurisdiction, and HR Ratings may decide in each case whether or not to consider it to assign ratings, based on the different applicable methodologies.

If an Influential Rating is used, HR Ratings must follow up on it in accordance with its internal policies and procedures in order to monitor any possible changes to such rating that could affect the analysis performed by HR Ratings.

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