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Risk Rating Methodology for Short-, Medium-, and Long-Term Debt Instruments, Preferred Shares, and Issuers

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CHANGE LOG

Change Log				
No .	Section and Page Number Modified	Description of change	Date of Modification	Version No.
1	N/A	Not applicable, as this is the first version of the document	12/04/2017	1
2	Section 2, Scope, Page 4	The scope of the document was updated to take a more general approach	02/12/2026	2

1. OBJECTIVE

To describe the methods and criteria used by PCR to rate the risk of short-, medium-, and long-term debt instruments, preferred shares, and issuers.

2. SCOPE

This document describes Pacific Credit Rating's (PCR) methodology for rating short-, medium-, and long-term debt instruments, preferred shares, and issuers. This methodology applies to both international and domestic ratings, whether new or existing. It may also be applied in conjunction with other PCR methodologies depending on analytical needs.

3. TERMS AND DEFINITIONS

- a. **Preferred Stock:** Stock issued by companies in general with a specific characteristic, such as a priority right to dividends; or by banks with all economic rights but none of the political rights (voting, right to board seats, voting at the general shareholders' meeting, etc.), and whose amount is included in the entity's equity. The main advantage for the issuer is that it secures long-term financing at a low cost. They are widely used by banks as a method to raise funds that count as capital for Basel Accord ratios. Furthermore, since they are generally accepted as equity in most analyses, they improve leverage ratio percentages. For the investor who acquires them, the advantage is a higher yield than that of corporate promissory notes or floating-rate debt with a similar risk profile. They can be "participating," meaning that in addition to the fixed dividend, the holder receives a share of any extra profits; "cumulative," meaning that if a dividend is not paid due to insufficient profits, the payment is carried forward to subsequent years; "convertible," when they can be exchanged for a predetermined number of common shares; or "redeemable," when, at a future date, the investor or the company has the option to convert them into common shares. By managing the variables of convertibility, dividend accumulation, the possibility of redemption, and variations in the type of dividends, a wide variety of financial assets emerge: auction-adjustable preferred stock, convertible preferred stock, etc. E.g.: preferred stock.
- b. **Caution:** Prevention, precaution, or prudence. // A mechanism whereby a person or entity—generally an insurance company—undertakes to fulfill the obligations assumed by another, providing a guarantee in the event that the latter is unable to meet them; it thus represents a potential transfer of risk, which is recorded in the insurance policy itself. E.g.: caution; guarantee, security, collateral
- c. **Economic Cycle:** In economics, the fluctuation of economic activity over time, marked by successive expansions and contractions observed across various sectors. The four phases generally distinguished in the cycle are: "depression," characterized by high unemployment and low consumption relative to actual capacity; "recovery" of employment, income, and consumption levels, which is usually accompanied by a decline in prices; "boom," characterized by full employment of factors of production, with high investment and a shortage of labor (mainly skilled); "recession," with possible suspensions of payments, business bankruptcies, and a decline in employment and production levels. E.g.: business cycle.

- d. **Interest Coverage (of financial expenses):** This is the ratio of earnings before interest and taxes to financial expenses. It represents the number of times the company's earnings exceed the interest payable. E.g.: interest cover
- e. **Ratios:** The proportion between two quantities representing two variables, which we relate to each other to obtain a meaningful ratio that gives us an idea of the state of a specific phenomenon; e.g.: the import-to-GDP ratio, average propensity to import, or the natural growth rate of a population, which relates the balance of births minus deaths to the total population in the given year. Ratios are thus used to relate all kinds of variables to one another. E.g.: ratio, rate, coefficient
- f. **Collateral:** An Anglicism used to refer to the security provided by a borrower in a credit transaction, whether in the form of guarantees, securities, mortgages, positions in options and futures, etc. E.g.: collateral
- g. **Standard Deviation (coefficient of variability):** Also known as standard deviation in statistics, it is a measure of the dispersion of a data set around its mean. Under the assumption of a normal distribution of the data, the observations falling between the mean and ± 2 times the standard deviation cover 95.5% of the data. Abbreviation: standard deviation.
- h. **Subordinated Debt:** This is debt whose payment is made only if the debtor is current on interest and principal payments on another debt. It carries a much higher interest rate than the debts to which it is subordinated due to the greater risk involved. The terms of subordination are defined in a subordination agreement. From the perspective of credit risk analysis, this debt is considered equity for those borrowers whose debt has an earlier maturity date. Abbr.: subordinated debt.
- i. **Issuer:** The company that issues securities. E.g.: issuer.
- j. **Futures:** An agreement that obligates the parties to buy or sell a certain number of goods or securities at a future date, at a price established in advance. In financial futures markets, the asset covered by the contract is called the underlying asset. There are futures on indices, interest rates, and even insurance or environmental futures. Unlike forwards, futures are traded on an organized futures market that acts as an intermediary for all purchases and sales through standardized contracts and quantities; furthermore, ownership of the futures contract is transferable. The buyer must deposit a sum, known as margin, as collateral to ensure contract fulfillment. Generally, the underlying asset does not change hands; instead, the futures contract is settled on a cash basis. The price of a futures contract depends on the spot price of the underlying asset and the slope of the yield curve. Its primary use is to hedge a position taken in the underlying asset. For example, if you know you will have cash to invest in three months and fear that interest rates will fall, you can hedge your position by purchasing a futures contract. If interest rates fall, the price of the futures contract will rise, offsetting the loss caused by the rate decline. E.g.: future
- k. **Guarantor:** A person who guarantees or vouches for something or someone. E.g.: guarantor
- l. **Guarantee:** A person or thing that will be liable for the successful completion of a transaction in place of, on behalf of, after, or alongside another. It can be personal, a mortgage, etc. E.g.: guarantee

- m. **Real Guarantee:** A guarantee based on the pledge of movable or immovable property to secure the fulfillment of an obligation. Examples include mortgages and pledges. E.g.: real guarantee
- n. **Default:** The conditions under which PCR rates companies and securities of issuers in default occur when the company has lost its ability to meet its contractual obligations. E.g.: default
- o. **Coverage Ratio (of indicators):** The ratio of one variable to another with which it is closely related; e.g., foreign trade coverage (% of the value of imports that can be paid for with the value of exports). E.g.: coverage
- p. **Stock Market:** A type of capital market operating worldwide where equities and fixed-income securities are traded in a structured manner through the buying and selling of negotiable securities. It facilitates the channeling of short-, medium-, and long-term capital from investors to users. E.g.: securities and exchange market
- q. **Over-the-Counter (OTC) Market or Private Trading:** An over-the-counter (OTC) market, an unorganized parallel market, or a market for customized contracts where financial instruments are traded directly between two parties. This type of trading takes place outside the scope of organized markets. E.g.: over the counter
- r. **Bond:** In economics, and strictly speaking, a security issued by companies or entities of all kinds to raise capital in the capital market; it involves a commitment to repay the principal within a specified period at a typically fixed interest rate. Bonds generally have a maturity of more than five years, are bearer securities, and pay interest semiannually or annually. The interest paid, expressed as an annual rate, is called the coupon. They may be issued at par, that is, at face value; at a premium, above face value; or at a discount, below face value. They may be redeemed at par or at a premium. In some issues, a portion of the bonds issued is redeemed each year by lottery. They may be convertible bonds, warrants, or indexed bonds. Sometimes, issuers grant buyers a put option, thereby reducing the interest rate to be paid in exchange for the risk that the option will be exercised if interest rates have risen by the exercise date. Their predecessors were English bonds, Dutch obligaties, and the Italian sopracorpo. Initially, they could be redeemed at the bondholder's discretion. // A liability account on a company's balance sheet that records the outstanding amount of all types of securities issued with a maturity of more than one year. E.g., debentures.
- s. **Option:** It is the right, not the obligation, to buy or sell an asset, called the underlying asset, at a future date, for an agreed-upon price. There are options on commodities, stocks, stock indices, interest rates, currencies, etc. They can be call options or put options. Depending on when they can be exercised, they are classified as "American" options or "European" options. The parameters that define an option are: the premium or price paid for the option, the strike price or price at which the asset can be bought or sold, the expiration date on which the option can be exercised, and the underlying asset on which the call or put option is based. The value of an option depends on the strike price, the price of the underlying asset and its volatility, the option's term, and interest rates. The most commonly used valuation method is the Black-Scholes model. By combining options, other financial products emerge, such as the straddle, strangle, etc. The primary use of options is to hedge a position taken in the underlying asset, thereby creating a "covered" option. When the purchase or sale of an option is purely

speculative, it is called an “open” position. Options are typically traded on an options exchange, though they can also be traded in OTC markets. E.g.: option

- t. **Yield (financial):** In the capital market, this is the sum of interest or dividend income earned from holding the security. It is called compound yield when calculated as the geometric mean of the yields obtained each year. Depending on whether taxes have been deducted or not, it is referred to as net or gross yield. Depending on whether inflation for the period has been factored in or not, it is called real or nominal return. It is historical when referring to returns calculated or earned in the past; and expected return when it is merely an estimate of what may be earned in the future. E.g.: return
- u. **Credit Risk:** This is the probability that the interest and principal, or both, of a loan will not be repaid. There are two approaches to analyzing this type of risk: performance analysis and liquidation analysis. E.g.: credit risk
- v. **Exchange Rate Risk:** This refers to the potential for losses in the value of assets, liabilities, or commitments—which are reflected in off-balance-sheet accounts—as a result of fluctuations in the exchange rates of the currencies in which they are denominated. E.g.: exchange risk
- w. **Liquidity Risk:** Refers to the possibility of incurring losses due to a lack of sufficient liquid resources to meet assumed obligations. In the case of banks, its current significance is less than in the past, due both to the development and integration of money markets and to the support of central banks as lenders of last resort. E.g.: liquidity risk
- x. **Market Risk:** Arises when interest or exchange rates move in the opposite direction to what was anticipated at the time a financial swap contract was established. E.g.: market risk
- y. **Transfer Risk:** This is the risk faced by foreign creditors regarding a country that declares itself generally unable to meet its debts due to a lack of the currency or currencies in which they are denominated. E.g.: transfer risk
- z. **Country Risk:** The risk of potential commercial or financial insolvency on the part of a seller or lender due to political problems or severe economic disruptions, which can occur relatively frequently in developing countries. Country risk necessitates taking out special insurance with very high premiums, as well as making provisions in the income statement of the selling companies or lenders. It has two aspects: sovereign risk and transfer risk. E.g.: country risk
- aa. **Sovereign Risk:** This reflects the possibility of insolvency on the part of states, or public institutions or enterprises. The nature or institutional affiliation of these borrowers requires treating them differently from private entities, due to the immunity granted by their sovereign status. E.g.: sovereign risk
- bb. **Insurance:** A commercial contract whereby a specific company (insurance company) undertakes, in exchange for a premium paid by the insured, to cover the risk of a loss (accident, fire, theft, etc.) or a contingency related to the insured’s life (life insurance, etc.). E.g.: insurance
- cc. **Rated Entity:** A corporation, business, company, or financial institution that requires an assessment of its financial strength (solvency). E.g.: obligor

- dd. Stress Test, Sensitivity Analysis:** A test conducted by a credit rating agency to assess how a company or an issuer's security would perform under the worst-case economic conditions, in order to determine whether it deserves a higher rating. The economic scenario used is at least as severe as the Great Depression of the 1930s. E.g.: stress test
- ee. Security:** A document evidencing the ownership of a right in a company (stock, bond) or in a debtor (government debt, treasury bills, check). It may be a registered security or a bearer security. E.g.: instrument, security, issue, money market instrument (short-term security).
- ff. Book Value:** A valuation of a company (calculating its assets, goodwill, etc.) for the purpose of its sale or to determine the actual price of its shares, based on the financial statements as a true and fair view of the company's financial position. E.g.: book value
- gg. Nominal/Face (Market) Value:** Refers to the value stated as the face value on any security, banknote, or coin. In the latter case, it may be lower than the value of its metal content. E.g.: face value
- hh. Volatility (variability):** In the stock market, the situation of certain stocks that experience rises and falls far greater than normal, relative to the performance of the general index. These securities are the subject of short-term trading, and when this becomes widespread, it indicates a situation of some nervousness. // It is a measure of the variability in the price of an asset: stocks, bonds, etc. Both in the stock market and in options theory, within the context of the random walk hypothesis, volatility is measured using the analyzed standard deviation of the daily percentage changes in the asset's price. Volatility itself fluctuates over time depending on market conditions. In option pricing, the key is to estimate future volatility. // In options, it is a measure of the variability in the price of the underlying asset. In a stable market, a good estimator is implied volatility. E.g.: volatility

4. SPECIFIC CONDITIONS

4.1 Country-Specific Analysis

Country risk encompasses greater risks and constitutes a distinct and broader concept than sovereign risk. Additionally, two further types of risk emerge that are closely related to the latter and, in some cases, share similar characteristics: transfer risk and credit risk.

Before applying standard rating procedures, it will be verified whether the issuer provides representative and sufficient information, in accordance with the rating standards in question. The preliminary analysis is intended to ensure that both characteristics of the information provided are met; if so, the rating procedures may be applied. Representative information is defined as that which allows for a reasonable inference of the issuer's financial condition.

4.2 Standard Rating Procedures

The bond risk rating process will consist of three stages: the preliminary rating, which aims to estimate the issuer's ability to pay; the analysis of the instrument's characteristics; and the final rating of the instrument, which combines the preliminary rating with the results of the analysis of the instrument's characteristics.

4.3 Determination of the Preliminary Rating

Based on the analysis of quantitative and qualitative aspects, the rating committee will assign a risk category to the security. In cases where an actual default in the payment of interest or principal is observed, or where a bankruptcy proceeding is underway, the security will automatically be classified in category DD.

The various aspects considered subsequently may vary depending on the industry and market in which the issuer operates; therefore, they will be compared with the indicators of their respective industry and with regulatory requirements, and greater coverage of the indicators will be considered positive for the rating.

To determine the preliminary rating, the following aspects, among others, will be considered:

- Characteristics of the industry to which the issuer belongs
- The company's position within the industry
- Indicators of the issuer's financial condition (See Appendix A: Quantitative Indicators)
- Characteristics of management and ownership
- Rationality of the product or service
- Project Insurance and Guarantees
- Experience and motivation of the project sponsors.
- Experience and financial capacity of the contractors.

4.3.1 Characteristics of the industry

- Current state of the industry: growing, stable, or declining.
- Sensitivity of the industry and speed of adjustment to changes in general economic conditions: relative prices, exchange rates, interest rates, wage levels, GDP growth, tariff regimes, among others.
- Analysis of the nature and intensity of competition: location of competition (regional, national, or international), identification of the factors determining competition (prices, quality of products or services, marketing, image, etc.), existence of regulations providing some degree of protection, among others.
- Existence of potential markets.
- Characterization of the products offered by the industry: capital goods (few large contracts), intermediate goods, consumer goods (many small contracts), and services.
- Identification of industry-specific cycles that are independent of global economic cycles.
- Characteristics of the industry's suppliers: availability of raw materials and inputs, volatility of supply, likelihood that the industry is exposed to monopolistic practices by suppliers, existence of competition in the demand for raw materials, among others.
- Institutional characteristics of the industry: existence of barriers to entry and exit, special regulations (tax, tariff, property, or other); geographic concentration of production centers, speed of incorporation of technological changes into production

processes, analysis of the strength of labor unions and collective bargaining systems, among others.

4.3.2 The company's position in its industry

- Identification of the main companies that make up the industry, their position, and the company's position in the market. Existence of international competition.
- Degree of substitution risk to which the products or services offered by the company are or may be exposed. Actual or potential existence of complementary goods, whether domestic or imported.
- Relative efficiency of the company in the production of goods or provision of services.
- Leadership and the company's relative capacity to be at the forefront of new product or service development, research and development investment policies, among others.
- Relative efficiency of buyers and the issuer's dependence on them.

4.3.3 Indicators of the issuer's financial condition

Some important criteria for evaluating the issuer's financial condition are:

- **Coverage of financial expenses:** the ratio of cash flow from assets to financial expenses.
 - **Financial Expense-to-Sales Ratio:** If > 0.5 , it indicates that financial expenses are excessive; if $0.4 < \text{Financial Expense Ratio} < 0.5$, caution is warranted; and if the ratio is < 0.4 , financial expenses are prudent relative to sales.
- **Stability of financial expense coverage:** determination of the expected variability of the coverage ratio used.
- **Profitability:** Measurement of the company's ability to generate surpluses relative to equity, operating assets, total assets, among others. (ROE and ROA > 1)
- **Cash flows:** projection of cash flows for a period considered reasonable.
- **Cash flow matching:** analysis of the relationship between the issuer's cash inflows and outflows for periods considered reasonable.
- **Liquidity:** determination of the convertibility into cash of the various asset items, as well as the relationship between the various current asset and current liability items.
 - **Acid Test:** Optimal near 1; if > 1 , the company has excess liquidity, and if < 1 , the company lacks liquidity.
 - **Net Working Capital to Total Assets:** Optimal > 0
- **Debt:** Analysis of the ratio of debt to equity used to finance the company's assets, as well as the composition of that debt.
 - **Debt-to-Equity Ratio:** Optimal $0.4 < RE < 0.6$. If it is less than 0.4, there is an excess of equity, and if it is greater than 0.6, the company is losing financial autonomy vis-à-vis third parties.
- **Currency Matching:** Analysis of the relationship between the currencies in which revenues and expenses are generated, as well as the monetary units in which assets and liabilities are expressed.

- **Futures contracts:** analysis of futures contracts and the position the company takes to hedge against the risks inherent in such contracts.
- **Impact of non-operating results and extraordinary items:** analysis of the proportion represented by operating and non-operating results to determine which portion stems from activities outside the normal course of business, which may be of an extraordinary nature.
- **Contingencies and commitments:** analysis of the nature and amount of guarantees provided by the issuer, whether for its own obligations or those of third parties, as well as any judicial or administrative proceedings or other legal actions in which the company is involved.
- **Access to credit:** analysis of the issuer's ability to obtain financing in the formal credit market.
- **Transactions with related parties:** analysis of the terms and amounts of contracts and transactions between the company and related parties, and their significance relative to total operations.

The analysis of the various components of the issuer's financial position is also dynamic in nature, through an analysis of variations that takes into account the quarterly and annual growth of the different indicators.

This will be supplemented by a sensitivity analysis of the indicators that may be affected by the occurrence of negative events for the issuer, such as changes in interest rates and exchange rates, among others. A base-case scenario reflecting the company's current situation, an optimistic scenario based on the company's projections, and a pessimistic scenario involving a reduction in the company's margins, an increase in administrative expenses, and changes in macroeconomic variables (interest rates, inflation, exchange rates) will be considered.

In the case of bond issuances by financial institutions, the analysis criteria presented complement the financial institution rating methodology to determine the issuer's financial condition.

In the analysis of bonds issued by companies in which more than 50% of their revenue comes from leasing operations, special importance will be given to the analysis of factors such as:

- **Diversification of leasing investments by acquired assets:** analysis of the proportion of investments in different assets (machinery, vehicles, computer equipment, buildings, etc.). To determine the risk of the indicator, the risk of technological obsolescence and the equipment resale market, among others, must also be taken into account.
- **Diversification by economic sector:** analysis of the risk incurred by the company as a result of a higher concentration in risky sectors, whether due to the economic situation of those sectors or their vulnerability to economic, political, or other changes.
- **Diversification by number of debtors:** analysis of the proportion of debt owed by the company's various customers, with the aim of identifying debtors or economic groups that, due to their relative importance, could affect the company's solvency.
- **Diversification by financial and operating leases:** analysis of the proportion of investments allocated to financial and operating leases. Outsourcing of maintenance or in-house maintenance.

- Percentage of lease contracts resulting from leaseback transactions.

4.3.4 Characteristics of Management and Ownership

The following, among other factors, will be analyzed:

- The professional qualifications of managers for decision-making
- The organizational structure
- Management and planning systems
- The centers of decision-making power within the company or business group
- The background of executives, such as their tenure and turnover, and any other background information deemed relevant that may influence business management.

Likewise, ownership will be analyzed, taking into account aspects such as:

- Concentration of ownership
- Financial background of the owners
- Influence on control and decision-making
- Interests of the major shareholders in relation to the company's performance
- Business group in which the issuer may be involved
- Strategic importance of said group
- Any background information deemed relevant that could influence business management and that is not included in the preceding sections.

4.3.5 Rationality of the product or service

In analyzing the rationale for the product or service, the following aspects, among others, will be considered:

- Target market. Consideration will be given to whether the product is standardized or differentiated, the concentration of demand, and the sensitivity of demand to price fluctuations and changes in household income. If the product is new, the following will be evaluated: market penetration, the existence of an established product and market, the expected future evolution of the market, and the existence of new competitive products and projects.
- Cost advantages and disadvantages. The existence of relative cost advantages or disadvantages will be a determining factor in the issuer's long-term viability and economic rationality and, therefore, in its ability to service its credit obligations. Among the factors determining the issuer's operating costs, at least the following will be considered:
 - Raw material supply conditions, location relative to supply centers, dependence on a fragmented market or on a few suppliers in an oligopolistic market, and the volatility of supply in terms of volume and prices.
 - The characteristics of the technology, and in particular, the level of knowledge and standardization of the technologies to be used.

- The availability of basic infrastructure for operations at competitive costs, such as energy, roads, ports, drinking water services, and telecommunications.
- The availability of skilled labor or the feasibility of training or obtaining the human capital resources necessary for operations at competitive costs.
- The strengths and weaknesses of the distribution network.

In the case of companies with no track record, the following factors will also be taken into consideration:

- Project insurance and guarantees. The existence of safeguards against construction, financing, and operational risks of the project will be analyzed.
- Experience and motivation of the sponsors. To analyze the experience and motivation of the sponsors, it will be considered that, in general, projects developed to complement a company's current line of business should have a lower level of risk. Projects in which the sponsors are interested in entering new business areas or sectoral diversification will generally carry a relatively higher risk. When there is more than one sponsor, the contractual relationships between them must be conducive to the project's success. The administrative capacity demonstrated by the sponsors in the past, the relative size of the project in relation to its sponsors, and the experience of the administrator—if different from the sponsor—will also be taken into account. In the event of changes in the issuer's management or ownership, the effects of such changes on the issuer's solvency must be evaluated.
- Experience and financial capacity of contractors. In the case of physical infrastructure projects, the experience and financial capacity of the contractors will be analyzed to assess whether they meet the necessary criteria to construct the project in accordance with the budget. In analyzing the contractors' experience, it will be considered decisive that they are of recognized standing and have experience in similar projects.

4.3.6 Determination of the Final Rating

The final rating will be based on the category assigned in the preliminary rating, with the aim of maintaining or modifying it once the characteristics of the instrument have been evaluated.

For this purpose, it will be verified whether the bid includes additional guarantees; if so, the preliminary rating may be improved. Otherwise, it must be determined whether sufficient safeguards exist; if so, the final rating will correspond to the preliminary one. If there are no safeguards, or if they are considered insufficient, the preliminary rating may be reduced.

The following summarizes the criteria for determining the final rating for a given instrument, which will be applied on a case-by-case basis depending on the rating committee's decision:

- The final rating may be downgraded from the preliminary rating if the instrument lacks sufficient safeguards or guarantees.
- The preliminary rating will be maintained if the instrument has sufficient safeguards and no additional guarantees.
- The final rating may be upgraded from the preliminary rating when the instrument has additional guarantees.

For the purposes of evaluating the instrument's characteristics, safeguards and guarantees will be considered.

a. Safeguards of the instrument

Instrument safeguards are defined as those clauses in the issuance agreement whereby the issuer commits to maintaining certain financial indicators within specific ranges, subjecting its operations to certain restrictions, or fulfilling specific business conditions intended to prevent adverse effects on security holders, and whose breach, pursuant to an express provision of the issuance agreement, results in the immediate enforceability of debt repayment.

Depending on the characteristics of the company, the nature of its business, or its management and ownership, the safeguards considered most relevant will vary. The safeguards will be deemed sufficient if, in the judgment of the rating committee, they constitute effective protection for the holders of the securities. In any case, the sufficiency or insufficiency of the set of safeguards will be assessed by examining, among others, those that:

- Require the issuer not to exceed a certain level of indebtedness.
- They require the issuer to maintain unencumbered assets in an amount equal to or greater than its unsecured current liabilities; or, failing that, they prohibit the issuer from pledging its own or third-party debts as collateral without simultaneously establishing security interests or personal guarantees that are at least proportionally equivalent in favor of the bondholders. This safeguard shall be enforceable in the event that the classified issue does not have sufficient guarantees.
- They provide that payment of unpaid principal and accrued interest may be demanded in advance if the issuer fails to pay any material obligation in a timely manner or if other creditors exercise their right to demand early payment of their respective claims. For these purposes, an obligation shall be considered material if it represents more than 3% of the issuer's total individual assets.
- They ensure that payment of the outstanding principal and accrued interest may be demanded in advance if a reduction in the company's term is agreed upon and such term is shorter than the maturity date of the bonds; or if the company is dissolved early.
- They establish the procedures to be followed in the event of a merger, reorganization, or division of the issuing company, or when the company makes contributions to other companies that significantly affect the issuer's asset structure.
- They require the issuer to maintain the minimum insurance coverage necessary to protect its principal operating assets. The issuer must undertake to ensure compliance with this condition by its subsidiaries.
- They establish restrictions regarding investments in debt instruments issued by persons related to the company and regarding the granting of loans to such persons that are outside the issuer's normal course of business. The issuer must undertake to ensure that its subsidiaries comply with these restrictions.

b. Instrument Guarantees

The guarantees of an instrument are all those security interests, whether real or personal, stipulated in the instrument’s issuance agreement—such as surety bonds, pledges, mortgages, among others—and which are intended to secure payment of the instrument’s obligations. For an instrument’s guarantees to be considered sufficient, at least the following will be analyzed:

- that the estimated amount or value and the liquidation period of the assets constituting them, in the case of real security, are considered reasonable.
- that the assets pledged or mortgaged have the minimum necessary insurance, and
- that, in the case of a pledge on lease agreements, such pledge has been established on the leased assets in favor of the respective lessees; and if bills of exchange have been accepted for the payment of the lease stipulated in the lease agreement, that these have been delivered as a pledge together with the agreement to which they correspond.
- In the evaluation of personal guarantees, the following aspects will be analyzed:
 - The guarantor’s past, present, and future creditworthiness and ability to pay.
 - Existence of a right of exclusion or other circumstances that allow the guarantor to avoid or postpone the enforcement of the guarantee.
 - Other real or personal guarantees provided by the guarantor.
 - In the case of personal guarantees provided by legal entities subject to credit rating, the rating assigned to them must be considered.
 - Compliance with legal formalities in the creation of personal guarantees.
 - Physical or institutional life expectancy of the guarantor.

4.4 Rating Categories

1) Short-Term (ST) Issues

Level		Details
High	1+	Securities with the highest certainty of timely payment. The issuer has excellent short-term liquidity, protective factors, and access to alternative sources of funding.
	1	Securities with very high certainty of timely payment. The debtor’s liquidity and protection factors are very good. Risks are negligible.
	1-	Securities with high certainty of timely payment. The debtor’s liquidity is good and is supported by strong protective factors. Risks are low.
Good	2	Securities with certainty of timely payment. The debtor’s liquidity and other aspects are solid; however, ongoing funding needs may increase total financing requirements.
Satisfactory	3	Satisfactory liquidity and other protective factors make the security an acceptable investment. Timely payment is expected; however, risk factors are higher and subject to variation.

Level		Details
Not an investment	4	Securities with speculative investment characteristics. Liquidity is insufficient to guarantee debt service. Protective factors are subject to a high degree of variation.
Default	5	Securities where payment terms have been breached.
No Information	E	Refers to securities for which there is insufficient information or the information is not representative. This scale does not allow for an opinion to be issued regarding their risk.

These categories may be supplemented, if applicable, with the symbols (+/-) to improve or downgrade, respectively, the rating achieved within categories 2 through 3 inclusive. Additionally, local scales will be identified by adding a prefix in accordance with the identification assigned to each market¹.

2) Medium- and Long-Term Issues and Preferred Shares (LP)

Level		Details
Outstanding	AAA	Issues with the highest credit quality. Risk factors are virtually nonexistent.
High	AA	Issues with high credit quality. Protective factors are strong. The risk is modest, though it may vary occasionally depending on economic conditions.
Good	A	Issues with good credit quality. Protective factors are adequate; however, during periods of economic downturn, risks are higher and more variable.
Satisfactory	BBB	Risk protection factors are reasonable and sufficient for an acceptable investment. There is considerable variability in risk across economic cycles, which could lead to fluctuations in the rating.
Not investment grade	BB	Issues rated below investment grade. It is estimated that their financial flexibility could limit their ability to meet obligations at maturity. The quality of these issues can fluctuate frequently, so they are considered speculative.
	B	Issues rated below investment grade. There is a higher risk of default. Financial protection factors fluctuate widely across economic cycles, industry conditions, and the company's management's ability to navigate them.
	CCC	Issues rated well below investment grade. They are characterized by a high risk of timely payment. Protective factors are scarce, and the risk can be substantial in adverse industry and company conditions.
Default	DD	Issues where interest and/or principal payments have been missed, or where the issuer has incurred other causes of default.
	DP	Preferred shares with overdue preferred dividends.
No information	E	Refers to those shares for which there is insufficient information or the information is not representative, making it impossible to issue an opinion on their risk.

These categories may be supplemented, if applicable, with the symbols (+/-) to improve or downgrade, respectively, the rating achieved within the categories AA through B inclusive.

¹ The nomenclature used corresponds to the international coding system based on ISO 3166-1 alpha-2, a two-letter code system.

Additionally, local scales will be identified by adding a prefix according to the identification assigned to each market².

ANNEX 1. QUANTITATIVE INDICATORS

Risk Dimensions / Indicators	Definition	Formula
General		
Sales	This is the amount a company has billed its customers for the delivery of goods or services. It is typically recorded when the goods are delivered and are no longer considered inventory.	<i>Net sales</i>
EBIT	Acronym for "Earnings Before Interest and Taxes." A widely studied microeconomic metric, primarily in fundamental analysis.	<i>EBIT = Revenue – Operating Expenses</i>
EBITDA	Acronym for "Earnings Before Interest, Taxes, Depreciation, and Amortization."	<i>EBITDA = Operating Income + Amortization + Depreciation</i>
Interest Expense	The cost incurred by an entity for borrowed funds.	<i>Interest Expense</i>
Net Income	This is a company's total profit, calculated by taking revenue and subtracting the costs of doing business, such as depreciation, interest, taxes, and other expenses.	<i>Net Income</i>
Activity		
Accounts receivable turnover	This is the rate at which accounts receivable are converted into cash. It is calculated by dividing the sales figure for the period in question by the average balance of accounts receivable during that same period.	$\frac{\textit{Ventas anuales}}{\textit{Promedio de cuentas por cobrar}}$
Days Sales Outstanding	This is a measure of the average number of days it takes a company to generate revenue after a sale is made.	$\frac{365}{\textit{Rotación de cuentas por cobrar}}$
Inventory turnover	This is the rate at which inventory is sold. It is calculated by dividing the cost of goods sold for the period in question by the average inventory balance during that same period.	$\frac{\textit{Costo de bienes vendidos}}{\textit{Promedio de inventario}}$
Days of inventory	This is a financial measure of a company's performance, which gives investors an idea of how long it will take the company to convert inventory into sales.	$\frac{365}{\textit{Rotación de inventario}}$
Accounts Payable Turnover	This is the rate at which creditors are paid. It is calculated by dividing the cost of goods sold for the period in question by the average balance of the accounts payable account during that time.	$\frac{\textit{Compras}}{\textit{Promedio de cuentas por pagar}}$

² Based on ISO 3166-1 alpha-2, a two-letter code system.

Risk Dimensions / Indicators	Definition	Formula
Days Payable Outstanding	This is a measure of short-term liquidity used to quantify the rate at which a company pays its obligations to suppliers.	$\frac{365}{\text{Rotación de cuentas por pagar}}$
Total Asset Turnover	This is a measure of how effectively the company uses its total assets to generate revenue.	$\frac{\text{Ingreso}}{\text{Promedio de total activos}}$
Fixed asset turnover	This is a measure of the utilization of fixed assets.	$\frac{\text{Ingreso}}{\text{Promedio de activo fijo}}$
Working Capital Turnover	This is the percentage of operating working capital relative to sales. Proper working capital management will prevent this ratio from increasing, indicating excessive cash tied up in working capital.	$\frac{\text{Ingreso}}{\text{Promedio de capital de trabajo}}$
Coverage		
Interest Coverage Ratio	This is a measure that determines how easily a company can pay the interest on outstanding debt	$\frac{\text{EBIT}}{\text{Gasto de interés}}$
EBITDA Coverage	This is a measure of a company's financial sustainability, i.e., whether the company's profitability is sufficient to cover interest expenses.	$\frac{\text{EBITDA}}{\text{Gasto de interés}}$
Debt/EBITDA	Measures the company's ability to pay its debt.	$\frac{\text{Deuda}}{\text{EBITDA}}$
Liquidity		
Current Ratio	Measures a company's liquidity or ability to meet its short-term payment obligations. A ratio greater than one is understood to provide the company with a safety margin in the short term.	$\frac{\text{Activo corriente}}{\text{Pasivo corriente}}$
Quick Ratio	Measures the most immediate liquidity, as it excludes inventory, the least liquid of current assets.	$\frac{\text{Caja} + \text{Valores realizables} + \text{Cuentas por cobrar}}{\text{Pasivo corriente}}$
Cash ratio	This is a more conservative measure of liquidity, as it does not include accounts receivable.	$\frac{\text{Caja} + \text{Valores realizables securities}}{\text{Pasivo corriente}}$
Cash conversion cycle	This is a measure that expresses the number of days it takes a company to convert raw materials into cash.	$\text{Days of Accounts Receivable} + \text{Days of Inventory} - \text{Days of Accounts Payable}$
Solvency		
Debt ratio	This is a measure of the leverage used by the company.	$\frac{\text{Pasivo total}}{\text{Activo total}}$

Risk Dimensions / Indicators	Definition	Formula
Debt-to-equity ratio	This is the ratio, expressed as a percentage, between the company's debt and its equity.	$\frac{\text{Pasivo total}}{\text{Patrimonio}}$
Debt-to-equity ratio	It is a measure of a company's financial leverage.	$\frac{\text{Pasivo total}}{\text{Pasivo total} + \text{Patrimonio}}$
Valuation		
Earnings per share	This is the profit per share outstanding.	$\frac{\text{Utilidad neta} - \text{Dividendo de acciones preferentes}}{\text{Earning per share}}$
Price-to-Earnings Ratio	It is an indicator showing how many times the earnings per share are reflected in the price of each stock.	$\frac{\text{Precio de mercado por acción}}{\text{Utilidad por acción}}$
Profitability		
Gross margin	It is the ratio of gross profit to sales, expressed as a percentage of sales.	$\frac{\text{Margen bruto}}{\text{Ingresos}}$
Operating Margin	This is the ratio of operating profit to sales, expressed as a percentage.	$\frac{\text{EBIT}}{\text{Ingresos}}$
Net margin	This is the ratio of net profit to sales, expressed as a percentage.	$\frac{\text{Utilidad neta}}{\text{Ingresos}}$
EBITDA margin	This is a measure of a company's operating profitability as a percentage of its total revenue.	$\frac{\text{EBITDA}}{\text{Ingresos}}$
Return on assets	Return on assets It is the ratio of net income to total assets. It expresses the company's economic profitability, regardless of how the assets are financed.	$\frac{\text{Utilidad neta}}{\text{Promedio de total activo}}$
Return on equity	It is the ratio of net income to equity. It represents the accounting return on equity.	$\frac{\text{Utilidad neta}}{\text{Promedio de total patrimonio}}$