Insurance Companies Rating Methodology

Moody's Local | Argentina

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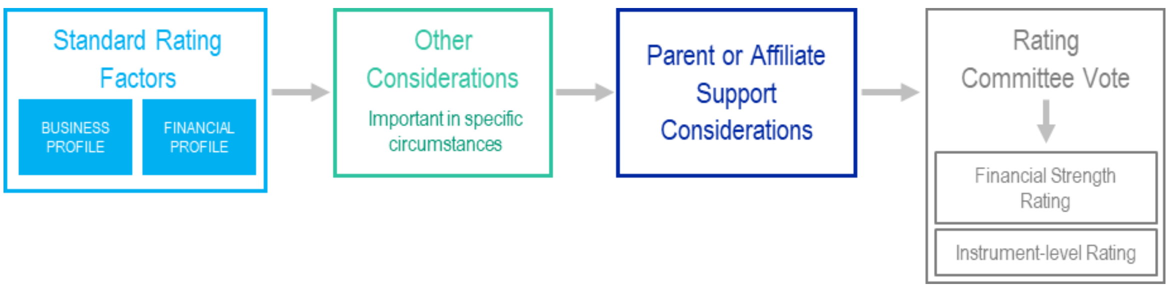
Introduction

This rating methodology is approved by Moody's Latin America Agente de Calificación de Riesgo S.A. (Moody's) to be applied in the assignment of credit ratings in Argentina, under the brand name Moody's Local Argentina[1]. In this rating methodology we explain our general approach to assigning financial strength ratings to general insurance and life insurance companies in Argentina.[2]

We discuss the quantitative and qualitative rating factors that are likely to affect rating outcomes in this sector. We also discuss other rating considerations, which are factors for which the credit importance may vary widely among the companies in the sector or may be important only under certain circumstances or for a subset of companies. We also discuss our approach to assessing the potential for affiliate support and the potential for government support. Furthermore, since ratings are forward-looking, we often incorporate directional views of risks and mitigants in a qualitative way.

Our presentation of this rating methodology proceeds with (i) a discussion of the standard rating factors; (ii) other considerations (iii) assessing support; (iv) assigning financial strength ratings and instrument-level ratings; and (v) general limitations.

EXHIBIT 1
Overall Approach to Rating Insurance Companies



Source:: Moody's.

Discussion of the Standard Rating Factors

In this section, we explain our general approach for assessing each rating factor, and we describe why each is meaningful as an indicator of an insurance company's financial strength. We consider factors related to a company's business and financial profiles. In the following section, we assess other considerations to arrive at the company's stand-alone credit profile. We then incorporate the potential for extraordinary support from a parent company, affiliate or other entity to arrive at the financial strength rating.

EXHIBIT 2
Standard Rating Factors

Business Profile	Financial Profile
Market Position, Brand and Distribution	Asset Quality
Product Risk and Diversification	Capital Adequacy
	Profitability
	Reserve Adequacy
	Liquidity and Asset-Liability Management

Source: Moody´s

[1] The methodology was approved by Moody´s Latin America Agente de Calificación de Riesgo S.A. on August 18, 2020. Credit rating methodologies describe the analytical framework that Moody's rating committees use to assign credit ratings. Methodologies set out the key analytical factors that Moody's believes are the most important determinants of credit risk for the relevant sector. However, methodologies are not exhaustive treatments of all factors reflected in Moody's ratings.

[2] Please see *Moody's Rating Scales..*

Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an insurance company's performance as well as for peer comparisons. The ratios can be assessed using various time periods. For example, rating committees may find it analytically useful to examine historical, recent and expected future performance for periods of several years or more. Financial ratios, unless otherwise indicated, are typically calculated based on an annual or 12-month period.

In the financial metrics we use, we consider how well financial reporting mirrors economic reality. Where the company's financial position is not fully reflected in financial reporting, we may make analytic adjustments to facilitate our analysis.

Business Profile

Market Position, Brand and Distribution

Why It Matters

Market position, brand and distribution are key elements of an insurer's ability to develop and maintain competitive advantages and have a direct bearing on its profitability and ability to generate capital. An insurer with a strong market position, brand and distribution capacity is better able to withstand prolonged, difficult market conditions and to capitalize on opportunities, making it more likely to meet its obligations through economic cycles.

Market position incorporates a company's sustainable advantages in its key lines of business and includes a consideration of market share, barriers to entry, scale and the ability to control pricing and manage the distribution of business. A company's brand reflects its image and reputation in the market, including the recognition and perception of the brand by distributors and consumers. A company's brand is an important driver of customer loyalty, the strength of which can support business retention rates, distribution costs and customer purchases of multiple products. In some cases, for certain non-commodity businesses customers, a strong brand can help support distribution costs, as customers may be willing to pay more for value-added services, such as better claims services or more expertise in underwriting. Furthermore, an insurer's control of and access to its distribution channels influences its standing in the market, its ability to target key customer segments, increase revenue and retain business, and control costs. Also, diversity in a company's distribution channels can mitigate its dependence on specific channels and reduce its vulnerability to sales disruption.

How We Assess It

In assessing an insurer's market position, brand and distribution, we consider its underwriting expense ratio and its relative market share ratio. The largest companies in terms of assets, premiums, and capital tend to benefit from greater competitive advantages. Scale advantages related to an insurer's ability to profitably write a large volume of premiums (particularly in commodity lines of business) tend to confer pricing power and improve expense efficiency, ultimately supporting underwriting margins. An underwriting expense ratio that is lower than that of competitors is likely to reflect tight control over underwriting premiums, a high level of management attention and may reflect the use of superior technology that allows for greater automation.

Generally, an insurer's relative and absolute size within the insurance market are highly associated with its market position and brand, but absolute size becomes less relevant in a concentrated marketplace. The largest companies in terms of assets, premiums and capital tend to have a strong market presence and pricing power, typically leading to a stronger market share. Conversely, smaller companies tend to have a weaker market position. Significant market share within a niche segment may be a positive if a company has the appropriate risk management for that line of business.

Relevant Metrics: Market Position, Brand and Distribution
Underwriting Expense Ratio: underwriting expenses / net premiums written
Relative Market Share Ratio: premiums / average industry premiums

Product Risk and Diversification

Why It Matters

An insurer's lines of business and the diversity of its product mix greatly influence its risk profile, because individual product lines exhibit distinct volatility and competitive characteristics. The extent of a product's risk is often unclear when the product is introduced, and it can have significant adverse effects on a company's earnings and capital adequacy if the risk is not mitigated.

Successful product diversification can reduce the volatility of an insurer's earnings, capital and cash flow and promote a more efficient use of capital.

How We Assess It

PRODUCT RISK:

In forming a qualitative assessment of the risk inherent to an insurer's business mix, we consider the company's product lines, including the associated level of uncertainty in estimating total liabilities for claims. Products and business lines with higher product risk are exposed to greater earnings or capital volatility.

For the general insurance business, a book of business comprising a large number of policies with relatively low gross policy limits[3] relative to shareholders' equity (e.g., homeowners' or personal automobile business) typically leads to a more favorable assessment for this factor, because it tends to be less volatile than a book of business where policy limits are larger and less homogeneous, and therefore exposed to higher severity losses or to greater catastrophe losses. We also consider the average time lag between the occurrence, reporting and settlement of claims – or the tail line. Product lines with shorter tails[4] (e.g., physical auto damage or home insurance claims) typically lead to a more favorable assessment for this factor. Shorter-tailed product lines support greater certainty in estimating ultimate claims costs and are generally less exposed to earnings shocks than longer-tailed product lines (e.g., liability claims), for which estimating ultimate claim costs is more challenging.

For life insurers, our assessment of product risk includes assessing the reserves related to low-risk liabilities as a percentage of the company's total life insurance reserves. Companies that have a greater portion of their reserves related to low-risk products typically exhibit less earnings volatility than those that have a more meaningful portion of reserves in higher-risk products. Factors that contribute to product risk include policy duration or claims-settlement duration, interest rate risk, mortality, morbidity or longevity risk, liquidity risk, asset default risk or equity market risk, and pricing or interest rate guarantees. Lower risk products typically include short-term policies that have minimal or no contractual guarantees or options, and may also include those with significant risk-sharing that shift the risk from the insurer to the policyholder.

PRODUCT DIVERSIFICATION:

In our primarily qualitative assessment of product diversity for a life or general insurance company, we consider the number of distinct, material[5] product lines, as well as the interdependence among the these lines' premiums and earnings. For example, an insurer with a very large number (typically more than five) of distinct, material product lines with limited interdependence tends to exhibit stable earnings and cash flow, typically leading to a more favorable assessment for this factor.

Our assessment may include other common measures of product diversity, such as the Herfindahl–Hirschman Index, which can be useful in assessing the concentration of premiums by line of business for a company.

We may also consider whether the insurer's products are a commodity or value-added offering. Companies that rely heavily on commodity products may be more exposed to losing business to competitors based solely on price considerations. Value-added products, such as commercial lines or tailored professional liability insurance, can diversify a company's product mix and help build customer retention.

[3] Gross policy limits do not reflect risk that has been ceded to reinsurers.

[4] For the Argentina market, we typically consider claims with short tail lines to be settled in under 12 months, medium tail lines to be settled in one to five years, and long tail lines to be settled in five or more years.

[5] Typically, we consider a line of business to be material when it contributes at least 10% of the company's total premiums.

Diversification is not always a credit strength. For example, if a company enters lines of business without the appropriate underwriting expertise, we may view such diversification as a credit risk.

Relevant Qualitative Sub-factors: Product Risk and Diversification
Product Risk
Product Diversification

Financial Profile

Asset Quality

Why It Matters

Asset quality is an important indicator of an insurance company's ability to manage the exposure of its portfolio of invested assets to investment market volatility. Changes in market environment, especially during periods of stress, can drive down the value of assets, income, and ultimately, the company's capital base. Insurers' core assets are generally concentrated in liquid financial investments, but in many cases, companies allocate a portion of their investment portfolios to higher-risk assets.

High-risk assets include equity, bonds that have a relatively high probability of default, common stock and preferred stock, real estate assets, unconventional investments and other types of investments that are not classified on the balance sheet.

How We Assess It

In assessing asset quality, we consider the ratio of an insurer's high-risk assets to shareholders' equity. Companies that have a higher ratio of high-risk assets are typically more likely to exhibit earnings or capital volatility during periods of investment market stress.

We may also consider reinsurance recoverables, which reflect an insurance company's receivables from reinsurers for incurred claims. Our assessment of an insurance company's reinsurance recoverables risk is based on the likelihood of full and timely recovery of amounts owed to it by its reinsurers.

Relevant Metric: Asset Quality
High Risk Assets Ratio: high risk assets / shareholders' equity

Capital Adequacy

Why It Matters

An insurance company's capital adequacy is a critical indicator of the sufficiency of the economic capital it has to cushion unfavorable deviations in financial results (e.g., due to adverse underwriting results or large declines in the value of invested assets). Capital adequacy provides important insights into the potential volatility associated with the insurer's businesses and its balance sheet relative to the company's capital.

Capital adequacy also provides an indication of an insurer's financial capacity to meet obligations to customers and to maintain the minimum capital levels that may be required by regulators for an insurer to continue to operate. Capital constraints may also negatively affect a company's ability to expand its business and execute its strategy.

How We Assess It

In assessing capital adequacy, we consider gross underwriting leverage (GUL) and the ratio of shareholders' equity to total assets. GUL provides insights into the adequacy of economic capital in relation to an insurer's underwriting operations.

Assessing the ratio of shareholders' equity to total assets provides insights into the adequacy of capital relative to policyholder obligations and other liabilities, and against adverse changes to asset values.

We adjust both the GUL and the shareholder's equity to total assets ratios for high-risk assets which, in a stress scenario, are likely to be illiquid, or likely to be impaired or sold for a loss.

In general, the higher a company's GUL, the more risk it assumes and the greater the potential impact on its capital position from variations in financial results. The lower a company's capital level as a percentage of total assets, the greater the impact on its capital position from asset volatility.

GUL and shareholders' equity to total assets are relatively simple ratios that are typically combined with a qualitative assessment of a company's business mix; as a result, the two ratios are most useful in comparisons of companies that have a similar business mix or where they are used in conjunction with other capital adequacy indicators.

Where available, in our overall assessment of capital adequacy we may also use a risk-adjusted capitalization framework that captures an insurers' underwriting, investment, reserve and general operational risks to supplement our assessment. These metrics may be developed internally by Moody's Local (for example, we may use a stochastic risk-adjusted capital framework), they may be derived from an insurer's internal capital model or they may be calculated or estimated under existing regulatory models.

Relevant Metrics: Capital Adequacy
Gross Underwriting Leverage: (gross written premiums + gross loss reserves) / (shareholders' equity - 10% of high-risk assets)
Shareholders' Equity as % of Total Assets: (shareholders' equity - 10% of high risk assets) / (total assets - 10% of high-risk assets)

Profitability

Why It Matters

The quality and sustainability of an insurance company's profitability is an important indicator of its creditworthiness. Earnings are a primary determinant of a company's ability to meet its policy and financial obligations and are the primary source of internal capital. Diversification across multiple product lines and markets can result in more stable earnings, promoting the stability of internal capital growth and strengthening the ability of the insurer to pay claims.

How We Assess It

In assessing profitability, we consider return on equity (ROE) and the Sharpe ratio of return on equity, which provides an indication of the volatility in a company's returns in relation to average profitability.

In assessing ROE, we consider nonrecurring items individually because these items can meaningfully influence profitability. We also assess underwriting performance by product line because a positive ROE may reflect mixed results or it may hide underwriting losses that are being offset with positive investment incomes. ROE may also provide insights into whether the insurer is facing shareholder pressure to pay dividends and to generate more robust returns on equity.

An insurer's ROE is also sensitive to periods of high monetary inflation where the ratio's values can vary significantly over time. A high nominal ROE does not necessarily imply good profitability because that metric could be much lower, or even negative, when adjusted for inflation. Therefore, our assessment of a company's ROE considers the impact of rapid growth or sudden increases in monetary inflation.

The Sharpe ratio of return on equity is an indicator of the inherent volatility in a company's returns in relation to average profitability, and it helps us formulate an opinion about the predictability and sustainability of a company's earnings. A Sharpe ratio of zero or negative value has little analytic value, and in these cases we may leave this metric out of our assessment of profitability and place more emphasis on an insurer's ROE.

In general, a company that maintains a higher ROE demonstrates a greater capacity to generate capital through earnings over time. Similarly, a company that has a stable earnings profile reflected by a high Sharpe ratio indicates an ability to avoid significant adverse effects to earnings compared with a company with a meaningfully lower Sharpe ratio.

Relevant Metrics: Profitability

Return on Equity (ROE): net income / average shareholders' equity (average of the annual ratios for the past five years)
Sharpe Ratio of Return on Equity: ROE (average of the annual ratios for the past five years) / standard deviation over the same five-year period

Reserve Adequacy

Why It Matters

Reserve adequacy[6] provides important indications of an insurance company's ability to pay claims because insufficient reserves for claims have typically contributed to bankruptcies in the industry. The adequacy of an insurance company's reserves affects the company's results as well as its capital sufficiency. The impact of deteriorating reserves on an insurer's financial profile and flexibility can be significant, as seen by the depletion of capital and the increase in operating leverage ratios.

How We Assess It

In assessing reserve adequacy, we consider the development of an insurer's claims reserves – the loss reserve development – as a percentage of reserves, on an aggregate basis and by line of business. For trend purposes, the metric is based on an average of loss reserve development over the last five years with greater weight given to the most recent years in the calculation.

Although reserve adequacy analysis techniques are usually complex, a simple review of an insurer's prior-year reserve development usually provides broad corroboration of a more detailed analysis. In assessing a time series of reserve development, we typically accord more weight to more recent periods of reserve development compared with older periods. A company's reserves are also sensitive to periods of high monetary inflation, and we typically consider the impact of rapid growth or increases in monetary inflation in our assessment of reserve development. Our assessment of monetary inflation is typically distinct from our assessment of insurance-specific increases in claims cost, also known as known as social inflation. Monetary inflation tends to affect invested assets and claims reserves to a similar extent. In contrast, we consider unexpected social inflation to be a common driver of adverse development in claims reserves. For example, insurers whose claim reserves are based on liabilities due over a long period are typically subject to greater risk of adverse reserve development of claim reserves than insurers whose claim reserves payout is over relatively short periods. Claim liabilities with long payout periods rely heavily on estimates of future cost to settle claims, which are uncertain and can lead to adverse development of an insurer's reserve adequacy. Companies whose reserve development history includes years with significant adverse development are typically viewed as having weak oversight over their loss reserving process.

Relevant Metric: Reserve Adequacy

Loss Reserve Development: loss reserve development / reserves (weighted average of the annual loss reserve development ratios for the past five years)

Liquidity and Asset-Liability Management

Why It Matters

An insurer's ability to carefully manage its liquidity and its asset-liability matching is a vital aspect of whether it will be able to meet potential short- and long-term liabilities. In the case of life and annuity insurers, the ability to manage risk by matching assets and liabilities is important because these companies are exposed to currency, maturity, interest rate and reinvestment risks over long periods of time. Any perceived weakness in a company's ability to pay claims could cause a widespread surrender of policies by policyholders, rapidly depleting the insurer's assets and possibly leading to regulatory intervention or insolvency.

How We Assess It

In assessing a company's liquidity and its asset-liability management, we consider an insurer's matching liability coverage, which is the ratio of cash and investments to policyholder liabilities, reinsurance payables and coinsurance payables.

6 The calculation of this indicator is subject to the availability of information provided by the rated company. In cases where the information is unavailable or insufficient, we may use other quantitative and qualitative indicators to assess reserve adequacy. If we are still unable to adequately assess reserve adequacy with these indicators, we will take a conservative view of the adequacy of a company's reserves.

We typically also consider the profile and complexity of liabilities. We typically assess the overall match between the expected cash flows of assets and liabilities, and identify any significant currency, interest rate or maturity mismatches. This assessment may also include an assessment of the sensitivity of these to a wide variety of economic scenarios and the impact (positive or negative) on a company's earnings and capital. For life and annuity insurers, we consider the surrender options in policies, the guarantees embedded in a company's liabilities, its reinvestment and longevity risk, as well as any contingent or off-balance-sheet liquidity needs. We may apply haircuts to assets and liabilities based on our assessment of their liquidity or volatility.

Where liquidity or liability matching is very weak, the impact it has on the insurer's stand-alone credit profile may be much greater than the matching liquidity coverage ratio may indicate.

Relevant Metric: Liquidity and Asset-Liability Management
Matching Liability Coverage Ratio: (cash + investments) / (policyholder liabilities + reinsurance payables + coinsurance payables)

Other Considerations

In arriving at the insurer's stand-alone credit profile, we may assess additional considerations that are not incorporated into the standard rating factors. Some of these considerations may be important to all companies in this sector, while others may be important only under certain circumstances or for a subset of companies.

Following are some examples of additional considerations that may be reflected in our ratings.

Governance and Risk Management

Key person risk and an insurer's management and strategy provide important information about the insurer's risk profile. The loss of a single executive or group of executives could adversely affect an insurer's future fundamentals, and a shake-up in management, an untested team or a radical departure in strategy can herald sudden change that increases the insurer's risk profile. We may also consider the risks associated with a company's underwriting controls, pricing sophistication, staffing and technology in the context of the company's lines of business. We also typically consider the extent that risks from specific products may be mitigated or exacerbated by a company's risk management policies or practices.

Financial Controls and Disclosures

Given our role as a rating agency, our opinions regarding the creditworthiness rely on the accuracy of audited financial statements to assign and monitor ratings in this sector. The existence of relevant and timely financial information, disclosure and the consistent application of financial information can indicate an insurer's transparency as well as its compliance with company policies and regulatory standards. Auditors' reports and comments, unusual restatements of financial statements or delays in regulatory filings may indicate weaknesses in internal controls.

Regulatory Considerations

Companies in the insurance sector in Argentina are subject to varying degrees of regulatory oversight, depending on the products they offer. Effects of these regulations may entail limitations on operations, higher costs, and higher potential for technology disruptions and demand substitution.

Environmental and Social Considerations

Environmental and social considerations may affect the credit quality of general and life insurers in Argentina. General insurance companies have significant exposure to the economic consequences of climate change relating primarily to their insured risks and, to a much lesser extent, their investments. Climate-change risks arise primarily from weather-related catastrophe exposures and potential claims on liability policies. The ability of insurers to reprice risk on an annual basis somewhat mitigates this risk.

Environmental and social considerations typically have disproportionate downside risk. However, ESG considerations are not always negative, and they can be a source of credit strength in rare instances.

Event Risk

We recognize the possibility that an unexpected event could cause a sudden and sharp decline in a company's fundamental creditworthiness. Event risks — which are varied and tend to have low probability and high impact — can overwhelm even a stable, well-capitalized company. Some types of event risks include mergers and acquisitions, asset sales, spin-offs, pandemics, litigation, significant cyber-crime events and shareholder distributions.

Limited Financial History

A demonstrable financial track record can be instrumental in building customer and market trust, which creates franchise value and supports an insurer's performance during a down cycle. For companies that lack a financial history of at least several years, our projections may reflect more conservative expectations than management's projections.

Additional Metrics

The metrics included in the factors in the methodology are those that are generally most important in assigning ratings to companies in this industry; however, we may use additional metrics to inform our analysis of specific companies.

Other

We may incorporate other considerations that are material to the credit profile of a particular company. For example, there may be additional factors that, while not common in the sector, are relevant in the case of a particular company.

Assessing Support

In addition to the stand-alone credit profile, we incorporate our assessment of support – explicit or implicit – from a parent company, affiliate, government or other entity to arrive at the insurer's financial strength rating.

Explicit support in Argentina is generally provided in the form of capital contributions or reinsurance agreements that can provide a limited level of risk reduction to the supported company. Less frequently, a parent or affiliate may provide a direct guarantee, a minimum net worth agreement or a capital maintenance agreement that is usually intended to transfer the credit quality of the supporting entity to the supported company. This type of support, though rare without meaningful explicit support, can equalize the supported company's credit quality and that of the supporting entity. In assessing explicit support, we consider the specific legal nature and enforceability of the support as well as the likelihood of timely payment and its possible termination.

Where a parent company or other supporting entity provides implicit, non-legally binding support, our assessment of the benefit to the insurer's credit profile is based on a number of aspects. These include the supporter's level of commitment to the Argentina market, brand-name sharing, our assessment of the supported entity's importance to the overall enterprise business model of the supporter, its size relative to the whole enterprise, its geographic proximity to the supporting entity, the existence of shared regulatory oversight, the level of ownership (full or partial) and the supported company's integration with the rest of the organization from a management, distribution and operating perspective. We also incorporate an assessment of past actions of the support provider and its public statements of support. We attribute implicit support only when we have high confidence that it will be available when needed. In these situations, a parent or affiliate provides support only when it is in the supporter's perceived interests, and our assessment of the outlook for future support is based on the prospective economic motivations to provide such support. Where we consider that the supporter has strong willingness and the ability to support and, based on the supporter's credit profile, that the implicit support materially reduces the supported company's credit risk, we typically narrow the difference between the insurance company's stand-alone credit quality and that of the entity providing the support. This implicit support may result in the supported company's financial strength rating being higher than its stand-alone credit profile.

Where support is present, the financial strength rating typically receives one or two notches of uplift from the stand-alone credit profile. Although rare, three or more notches of uplift is possible, although typically only when strong explicit support is provided.

In cases of explicit or implicit support, we also consider the potential credit drag on the supporter's stand-alone credit profile.

While in most cases support is incrementally positive for the supported entity, in some cases affiliation to a parent company or other entity may constrain the financial strength rating of an insurance company. For example, the presence of a weak parent or affiliate could pressure the insurance company's earnings and capital, which may result in the financial strength rating of a company being lower than its stand-alone credit profile.

Our ratings of life and general insurers in Argentina do not typically reflect an expectation of government support. Based on our observations, we consider that government support would be neither widely offered nor sufficiently reliable nor predictable to be routinely incorporated into ratings. In the limited cases where such support is received, we consider its credit implications on a case-by-case basis.

In cases where the insurance company is partially or fully owned by a government, we incorporate potential support from the government into the final financial strength rating of the insurance company by considering the credit strength of the government, the extent to which the government and the supported insurer are jointly susceptible to adverse circumstances that could weaken their financial position and the likelihood that the government's support, when needed, would be provided in a timely manner.

Assigning Financial Strength Ratings and Instrument-Level Ratings

Financial strength ratings are opinions of the ability of an insurance company to pay punctually senior policyholder claims and obligations and also reflects the expected financial loss suffered in the event the company cannot meet its obligations.

We may also assign debt ratings to debt issued by insurance holding companies. The relationship between insurance companies' financial strength ratings and holding companies' instrument ratings depends on the relative standing of policyholders and debt instrument holders in the event of insolvency, bankruptcy, reorganization or liquidation of the entity. We consider differences in priority of claim, structural subordination and the relative probabilities of default of the operating companies and holding company. For holding company senior debt, our standard notching is two to three notches below the principal operating companies' financial strength rating. For holding company subordinated debt, we typically notch down an additional one or two notches.

We may assign local currency ratings or foreign currency ratings. Foreign currency ratings may be lower than local currency ratings based on our assessment of the incremental transfer and convertibility risks for foreign currency creditors.

General Limitations of the Methodology

This methodology document does not include an exhaustive description of all factors that we may consider in assigning ratings in this sector. Companies in the sector may face new risks or new combinations of risks, and they may develop new strategies to mitigate risk. We seek to incorporate all material credit considerations in ratings and to take the most forward-looking perspective that visibility into these risks and mitigants permits.

Ratings reflect our expectations for a company's future performance; however, as the forward horizon lengthens, uncertainty increases and the utility of precise estimates typically diminishes. In most cases, nearer-term risks are more meaningful to issuer credit profiles and thus have a more direct impact on ratings. However, in some cases, our views of longer-term trends may have an impact on ratings.

The information used in assessing the factors and sub-factors is based on information provided by the company, financial statement disclosures, and publicly available data such as disclosures by regulators. We may also incorporate non-public information.

Our forward-looking opinions are based on assumptions that may prove, in hindsight, to have been incorrect. Reasons for this could include unanticipated changes to the following: the macroeconomic environment, general financial market conditions, industry competition, disruptive technology, or regulatory and legal actions. In any case, predicting the future is subject to substantial uncertainty.

Appendix A: Moody's Rating Scale

Long-Term Rating Scale

Moody's Ratings are opinions of the relative creditworthiness of issuers and financial obligations within the country. The ratings include the modifier ".ar" and they are comparable only within Argentina.

Long-Term Rating Scale	
AAA.ar	Issuers or issues rated AAA.ar demonstrate the strongest creditworthiness relative to other domestic issuers.
AA.ar	Issuers or issues rated AA.ar demonstrate very strong creditworthiness relative to other domestic issuers.
A.ar	Issuers or issues rated A.ar demonstrate above-average creditworthiness relative to other domestic issuers.
BBB.ar	Issuers or issues rated BBB.ar demonstrate average creditworthiness relative to other domestic issuers.
BB.ar	Issuers or issues rated BB.ar demonstrate below-average creditworthiness relative to other domestic issuers.
B.ar	Issuers or issues rated B.ar demonstrate weak creditworthiness relative to other domestic issuers and may be approaching default or may be in default, with strong recovery prospects.
CCC.ar	Issuers or issues rated CCC.ar demonstrate very weak creditworthiness relative to other domestic issuers and are likely in or near default, typically with moderate recovery prospects.
CC.ar	Issuers or issues rated CC.ar demonstrate extremely weak creditworthiness relative to other domestic issuers and are typically in default, typically with poor recovery prospects.
D.ar	Issuers or issues rated D.ar demonstrate the weakest creditworthiness relative to other domestic issuers and are typically in default, with very poor recovery prospects.

Note: Moody's appends the modifiers + and - to each generic rating classification from AA through CCC. The modifier + indicates that the obligation ranks in the higher end of its generic rating category; no modifier indicates a mid-range ranking; and the modifier - indicates a ranking in the lower end of that generic rating category.

Source: Moody´s

Appendix B: Outlook and Ratings Reviews

Rating Outlooks

A Moody's rating outlook is an opinion regarding the likely rating direction over the medium term. Rating outlooks fall into four categories: Positive, Negative, Stable, and Developing. Outlooks may be assigned at the issuer level or at the rating level.

A stable outlook indicates a low likelihood of a rating change over the medium term. A negative, positive or developing outlook indicates a higher likelihood of a rating change over the medium term.

Rating Reviews

A review indicates that a rating is under consideration for a change in the near term. A rating can be placed on review for upgrade or downgrade. A review may end with a rating being upgraded, downgraded or confirmed without a change to the rating.

Ratings on review are said to be on Moody's "Watchlist" or "On Watch." Ratings are placed on review when a rating action may be warranted in the near term but further information or analysis is needed to reach a decision on the need for a rating change or the magnitude of the potential change.

Appendix C: Rating Reports

Monitoring Reports

When assigning a rating we produce two types of reports: the initial report and the revision report. The revision report may be issued in summary form. We release an initial report when a new rating is assigned. All the reports will be published with the frequency established by the current regulation.

Appendix D: Glossary

Glossary of Terms

ESG: Environmental, social and corporate governance.

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