

Banks and Finance Companies Rating Methodology

Table of Contents

Introduction.....	3
Discussion of the Stand-alone Assessment Factors.....	4
Financial Profile.....	4
Solvency.....	5
Liquidity.....	7
Other Considerations.....	9
Affiliate-Supported Assessments for Banks, Finance Companies and Holding Companies.....	12
Loss Given Failure Notching Guidance.....	13
Assessing Government Support and Intervention.....	15
Assigning Issuer-Level and Instrument-Level Ratings.....	15
Stock Ratings for Banks, Finance Companies and Holding Companies.....	16
General Limitations of the Methodology.....	18
Appendix A: Moody's Rating Scales.....	19
Appendix B: Outlook and Ratings Reviews.....	21
Appendix C: Rating Reports.....	21
Appendix D: Glossary.....	21

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings section on [Moody's](#) for the most updated credit rating action information and rating history.

Introduction

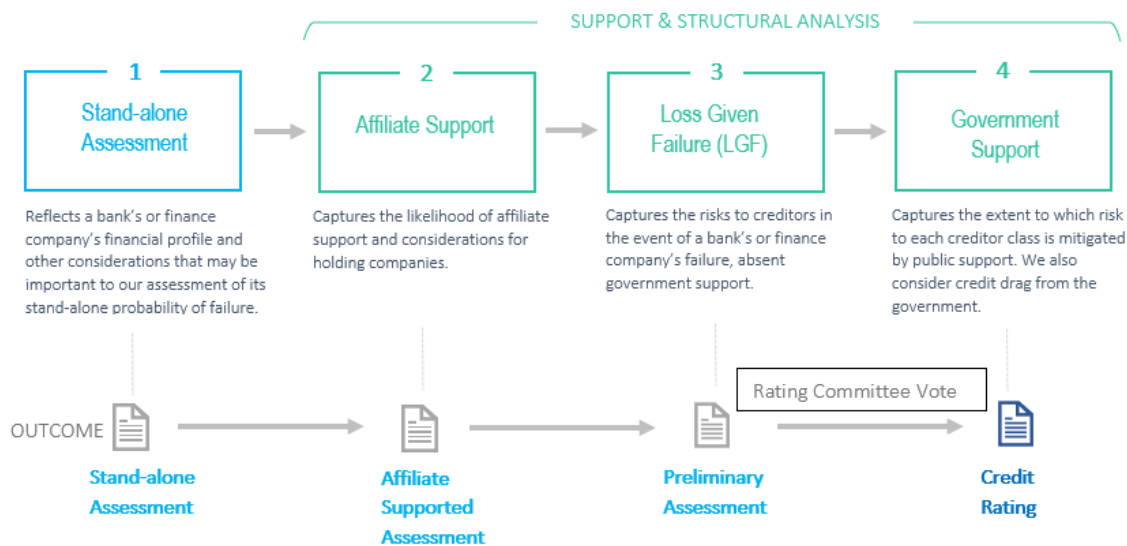
This rating methodology is approved by Moody's Latin America Agente de Calificación de Riesgo S.A. (Moody's) to be applied in the assignment of credit ratings in Argentina, under the brand name Moody's Local Argentina.¹ In the methodology, we explain our general approach to assessing credit risk for banks, finance companies and their holding companies, and to assigning issuer-level and instrument-level ratings in this sector in Argentina.² As part of our credit analysis in this sector, we establish a stand-alone assessment for banks and finance companies. A stand-alone assessment reflects our opinion of the entity's intrinsic credit strength, absent any support from an affiliate or government, relative to other banks and finance companies in Argentina, and the company's likelihood of requiring support to avoid a default. We then incorporate affiliate support, which reflects our opinion of the bank's or finance company's ability to pay its debt and debt instruments given support from an affiliate, and finally we include government support, that reflects our opinion on the likelihood of support to be provided by the government in an event of stress.

We discuss the qualitative and quantitative factors that are likely to affect rating outcomes in these sectors. We also discuss other considerations, which are factors for which the credit importance may vary widely among the banks or finance companies or may be important only under certain circumstances or for a subset of entities. We 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. We determine instrument ratings given our estimation of loss given a failure of a bank or finance company.

Our presentation of this rating methodology proceeds with (i) a discussion of the stand-alone assessment factors; (ii) other considerations; (iii) the affiliate-supported assessments for banks, finance companies and their holding companies; (iv) notching guidance; (v) assessing government support and intervention; (vi) assigning issuer-level and instrument-level ratings; (vii) stock ratings for banks, finance companies and holding companies; and (viii) general limitations.

EXHIBIT 1

Overall Approach to Rating Banks and Finance Companies



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](#).

Discussion of the Stand-alone Assessment Factors

In this section, we explain our general approach for quantitative factors used to assess credit quality for our stand-alone assessment. We describe why each is meaningful as an indicator of a bank and finance company's stand-alone assessment. We consider factors related to a bank's or finance company's financial profile. In the following section we assess other considerations to arrive at the stand-alone assessment. 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 a bank's or finance company's performance as well as for peer comparisons.

Financial ratios, unless otherwise indicated, are typically calculated based on an annual or 12-month period.³ However, the ratios can be assessed using various time periods. For example, rating committees may find it analytically useful to examine both historical and expected future performance for periods of several years or more. In the financial metrics we consider how well financial reporting mirrors economic reality. Where we believe the financial reporting does not capture the economic reality sufficiently, we may make analytic adjustments to metrics derived from financial statements to facilitate our analysis.

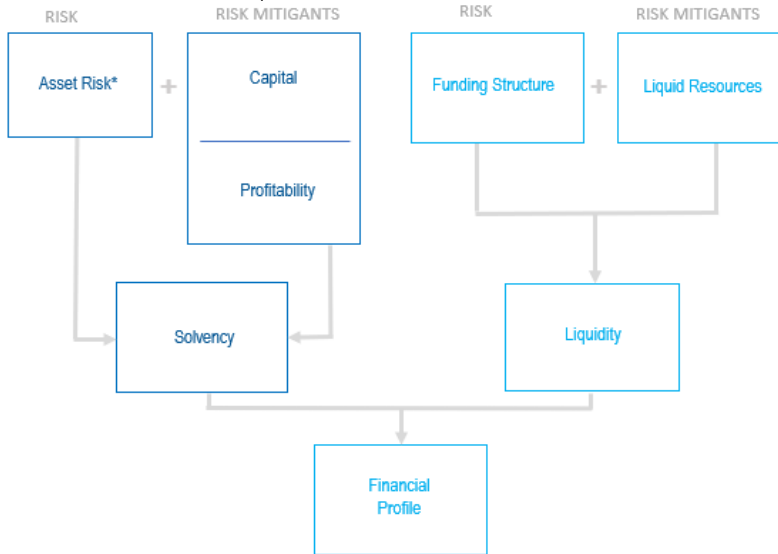
Financial Profile

A bank's or finance company's financial profile incorporates key factors as solvency and liquidity, which are important indicators of its exposure to risk and its capacity to absorb losses. Solvency incorporates a bank's or finance company's overall asset risk (exposure to credit, market, operational and related risks) and the extent to which its capital and earnings create the capacity to absorb losses. The liquidity factor incorporates an assessment of a bank's or finance company's funding structure and of its liquid resources, taking into account funding-related risks and their mitigants. The liquidity assessment would include ability for the entity to bridge periods in which it loses access to funding without having to default or require extraordinary support.

Solvency and liquidity are related, although an entity could have strong capital and weak short-term liquidity or the reverse. Often however, stronger capitalization increases the capacity to absorb losses, increasing the confidence of counterparties and reducing the risk of a liquidity problem. Greater liquid assets, meanwhile, indirectly enhance solvency because they imply that a bank is less likely to need to sell illiquid assets at a loss in the event of a funding problem. The quality of its assets depends in part on the bank's or finance company's ability to fund them while earning a sufficient profit margin. If this equilibrium is disturbed, the creditworthiness of a bank or finance company can erode rapidly.

³ For a subsidiary, we use ratios based on the subsidiary's financial statements and assess parent support as discussed below. For a bank branch, we use ratios based on the parent's financial statements, because a branch is part of that legal entity.

Banks and Finance Companies Financial Profile



* We adjust the bank or finance company's asset risk for loan loss reserves (a mitigant) as appropriate.

Source: Moody's

Solvency

Solvency is indicated by a bank's or finance company's asset risk relative to its loss-absorbing capacity. Mitigants to asset risk are a bank's or finance company's capital and reserves, which are designed to absorb losses, and its earnings capacity.

Asset Risk

Why It Matters

A bank's or finance company's assets and the risks they pose are fundamental to determine its creditworthiness. Banks typically have high leverage, and a small deterioration in asset value tends to have a large effect on solvency. Credit quality problems are typically at the root of most bank and finance company failures because they can negatively affect earnings, debt service capacity and capital.

Deterioration in asset quality or economic shocks can decrease investors' tolerance for risk and can also impair a bank's or finance company's access to capital markets. Problems with asset quality can take a variety of forms, including a deteriorating value of the collateral that is backing loans, depressed economic activity that diminishes customers' ability to pay back loans and changing legal frameworks and social attitudes toward personal debt.

Finance companies often have a concentration in a single type of lending, and they may operate in niche sectors that are intrinsically higher risk and that can be vulnerable to changing investor sentiment, irrespective of expected asset quality performance. Asset quality deterioration in a cyclical downturn can be more pronounced for a finance company than for more diversified lenders, such as banks.

How We Assess It

In assessing a bank's or finance company's asset risk, we use the ratio of problem loans to gross loans and the ratio of loan loss provisions to problem loans.

PROBLEM LOAN RATIO:

As loan quality deteriorates, the problem loan ratio rises, signaling potential problems such as credit losses and consequent pressure on solvency, earnings and equity, all of which are capital buffers that protect bondholders.

The numerator of the ratio is total problem loans. We define problem loans as (i) "impaired loans," as defined for finance companies reporting under IFRS or a substantially similar accounting framework; or (ii) nonaccrual loans plus accruing loans that are past due 90 days or more.

The denominator is gross loans. For banks and finance companies, gross loans include loans and leases to customers. We exclude unearned income, allowances for loan losses and other deductions.

In assessing historical metrics, we typically calculate or estimate the ratio using the higher of the most recent three-year average and the latest annual or 12-month figure.

LOAN LOSS PROVISION RATIO:

Strong loan loss reserve coverage may mitigate the risk of problem loans, while low levels of coverage may expose banks or finance companies to the risk of volatility in provisioning and to unexpected losses that erode capital. A lower ratio typically indicates worsening loan quality and signals that the bank or finance company has fewer reserves to cover problem loans, or that problem loans are rising faster than loan loss provisions.

However, ratios may not always be comparable without also considering the extent to which the portfolio benefits from collateral. Entities with a loan book that is mostly backed by collateral, (e.g., physical assets whose value is supported by appraisals) are likely to have lower ratios because they are subject to lower regulatory requirements for provisions due to higher expected recoveries. Thus, we may consider that a lower ratio for an institution with mostly collateralized loans is comparable to a higher ratio for an institution with a primarily unsecured portfolio.

The numerator is the loan loss provision, and the denominator is total problem loans.

In assessing historical metrics, we typically calculate or estimate the ratio using the weaker of the most recent three-year average and the latest annual or 12-month figure.

Capital

Why It Matters

Capital adequacy is a key element in a bank's or finance company's ability to mitigate risk and absorb losses, including write-downs or the impact of a crisis that causes a dislocation in financial markets. The greater the actual or even the perceived risk, the more capital a bank or finance company needs to hold in order to retain the confidence of creditors. A higher level of capital enhances financial flexibility, enables a bank or finance company to fund growth and acquisitions and shield bondholders from loss in times of stress.

How We Assess It

In assessing a bank's or finance company's capital, we use the ratio of tangible common equity (TCE) to risk-weighted assets (RWA). The ratio of TCE to RWA has tended to be a highly predictive indicator of a bank or finance company failure.

The numerator, TCE, comprises common equity net of intangible assets. We do not include non-viability capital instruments in the capital measure because these instruments are not considered to be available as capital until there is an event of failure.

Profitability

Why It Matters

Profitability is an important indicator of a bank's or finance company's ability to generate capital and is another measure of its capacity to absorb losses and recover from shocks. Profitability is core to a bank's or finance company's ability to support creditor

obligations and fund growth. A bank or finance company with weak or negative profitability has less capacity to absorb asset risks than one with strong internal capital-generation capacity.

For finance companies in particular, solid profitability is also critical for investor confidence, given the significant scale and frequency of finance company debt-refinancing.

A high degree of overall stable earnings can help a bank or finance company absorb shocks that may arise from some business lines. In general, banks and finance companies with a stock of income-generating assets are more likely to have stronger profitability than wholesale banks that are subject to more volatile business cycles. Typically, banks and finance companies with strong market positions in attractive markets are more likely to achieve higher and more stable earnings over time.

How We Assess It

In assessing a bank's or finance company's profitability, we use the ratio of net income (post-tax) to tangible assets.

In assessing historical metrics, we typically calculate or estimate the historical ratio using the weaker of the most recent three-year average and the latest annual or 12-month figure.

Relevant Metrics: Solvency

Asset Risk: problem loans / gross loans

Asset Risk: loan loss provision / problem loans

Capital: (common equity – intangible assets) / risk-weighted assets

Profitability: net income (post-tax) / tangible assets

Liquidity

A bank's or finance company's ability to access liquidity on a recurring basis is an essential component of its operating model. Strong liquidity is needed to insure a bank or finance company to remain adequately funded during difficult periods in credit markets. Liquidity risk for banks and finance companies often arises from the use of less reliable funding, typically wholesale funding sourced from institutional investors, which tends to be more volatile than retail deposits. Mitigants to diminished market access include the bank's or finance company's liquid asset reserves and effective asset-liability matching.

Funding Structure

Why It Matters

A bank's or finance company's funding structure has a strong bearing on its credit quality because some funding sources are less reliable than others. A bank or finance company that consistently uses unreliable funding sources, either short-term in nature or from particularly risk-sensitive counterparties, is more likely to suffer periodic difficulties in refinancing its debt, putting it at greater risk of needing support.

There are many different sources of funding for banks, retail and wholesale. In aggregate, a well-diversified retail-based deposit base is typically relatively stable under most conditions. This is principally due to the presence of deposit insurance, which provides government backing for most depositors up to a certain amount. Overall, retail deposits are typically more "sticky," or stable, than wholesale sources of funding, such as interbank funding, bonds and short-term commercial paper, which are more sensitive to changes in risk aversion and creditworthiness, and hence less stable.

Typically, most finance companies have tended to rely heavily on confidence-sensitive wholesale funding, which increases their vulnerability to external shocks. This is a significant disadvantage for finance companies in comparison with banks.

How We Assess It

In assessing a bank's or finance company's funding structure, we use the ratio of market funds to tangible assets. A lower ratio generally indicates a more stable funding structure.

The numerator, market funds, comprises long-term and short-term borrowings, trading liabilities, other financial liabilities at fair value, senior bonds and amounts due to related parties.

The denominator, tangible assets, is calculated or estimated as total assets minus goodwill and other intangibles minus insurance assets.

By comparing market funds to tangible banking assets, rather than total liabilities, the ratio takes into account equity (the difference between total assets and total liabilities), which is a permanent funding source. Subordinated debt is excluded entirely from market funds because it is usually long-dated and poses limited refinancing risk.

Liquid Resources

Why It Matters

A bank's or finance company's liquidity profile considers the composition of its assets. Liquid resources are enhanced when a bank or finance company has high-quality liquid assets that can be readily sold or pledged for cash in private markets in response to funding needs, which are driven by the firm's own business as well as market conditions and counterparty behavior.

How We Assess It

In assessing a bank's or finance company's liquid resources, we use the ratio of liquid banking assets to tangible banking assets. A higher ratio generally indicates more robust liquidity.

The numerator, liquid banking assets, is calculated or estimated as available cash and cash deposited with the central bank plus amounts due from other financial institutions, the amount of trading securities and government and other securities, minus unearned income and derivative assets.

The denominator, total tangible assets, is calculated or estimated as the bank's or finance company's total assets minus goodwill and other intangibles minus insurance assets.

Relevant Metrics: Liquidity

Funding Structure: amounts due to financial institutions + short-term borrowings + trading liabilities + other financial liabilities at fair value + senior bonds + amounts due to related parties / (total assets – goodwill and other intangibles – insurance assets)

Liquid Resources: cash with central bank + due from financial institutions + total securities – unearned income – derivative assets / (total assets – goodwill and other Intangibles – insurance assets)

Other Considerations

In assigning a stand-alone assessment, we may assess additional considerations that are not incorporated into the solvency and liquidity profiles of a bank, a finance company or a holding company. Some of these considerations may be important to all banks and finance companies, while others may be important only under certain circumstances or for a subset of entities.

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

Company Trends

A bank's or finance company's growth trend is important because rapid growth can signal a large appetite for incremental risk and provide indications of potential future asset-quality deterioration. Many cases of bank and finance company failures show a rate of loan growth that is higher than the peer average. Higher-than-average loan growth rates often suggest lower underwriting standards and a more aggressive strategy, the consequences of which in terms of asset quality may only be revealed in a downturn. In assessing growth trend, we typically consider the rate of historical asset growth.

In addition to assessing historical trends in a bank's or finance company's ratios, we typically consider items that may not be reflected in the most recent historical ratios, such as whether the bank or finance company recently raised significant capital, or whether the problem loan ratio has been rising in recent periods. Other possible indicators of asset quality deterioration may include recent or expected changes such as acquisitions or divestitures, debt extinguishments or issuances, equity issuances, changes in business profile or unusual and non-recurring items recognized in recent reporting periods, and changes in financial policy, such as dividend distributions.

Regulatory Considerations

Banks and finance companies in Argentina are subject to varying degrees of regulatory oversight. We typically consider whether a bank is in compliance with regulatory requirements and whether it is near to breaching any regulatory triggers, as well as the impact of those triggers. Additionally, regulations may entail limitations on operations, higher costs, and higher potential for technology disruptions and demand substitution. For example, restrictive regulations may limit business prospects for banks and finance companies to varying degrees based on business profile and impair their capacity to generate earnings.

Credit Diversification or Concentration

The composition of an entity's business activities can be an important consideration in our assessment of a bank's or finance company's credit profile. A bank or finance company that is dependent on a single business may be at higher risk than a firm whose multiple lines of business help to insulate it from problems that arise from a single activity. Conversely, where a bank or finance company has or is likely to seek to diversify its operations toward non-core business activities, we typically consider the effect that such diversification could have on the company's financial stability and its credit quality. We also typically consider the bank's or finance company's footprint and the economic diversity in the regions it serves, making a distinction between a service area that encompasses a region, province or city and one that covers the whole country. In addition, we assess the extent to which a bank's or finance company's credit exposures are concentrated in a small group of counterparties or a single industry sector. The smaller the number of credit exposures and the more interrelated these are, the greater the risk of losses due to credit concentration. A large, granular and imperfectly correlated portfolio of assets is likely to result in asset quality that is considerably superior to a small, concentrated portfolio, even where the individual creditworthiness of the loans is the same.

Risk Management

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

Market Access

At times, due to idiosyncratic or broader, systemic concerns, banks and finance companies can suffer restricted access to funding markets. This can result in a higher cost of funding, a shortening duration of liabilities or a need to sell assets ahead of maturity, potentially resulting in losses and reducing capital.

Opacity and Complexity

The riskiness of a bank or finance company increases with its opacity and complexity, other things being equal. We consider the extent to which a bank's or finance company's inherent organizational complexity may heighten management's challenges and increase the risk of strategic and business errors, as well as operational errors. Examples of complexity include (i) numerous business lines across many legal entities, which brings diversification benefits, but also organizational complexity; (ii) complex ownership or shareholding structures; and (iii) indications of a lack of quality in auditing or internal controls. Complex organizations tend to be more opaque, because public disclosures necessarily provide a simplified view of their operations.

Quality of Funding

Diversity in a bank's or finance company's funding across a variety of sources can lead to greater overall stability. Conversely, a bank's or finance company's funding from a single type of investor or from investors in one region may lead to instability as well as volatility in funding costs. Banks with a high proportion of institutional and corporate depositors are typically considered less stable and more vulnerable to market shocks. For finance companies, we typically consider the diversity of the investor base and the firm's track record in placing debt across a wide range of maturities.

Financial Controls and Disclosures

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

Environmental, Social and Governance Considerations

Environmental, social and governance (ESG) considerations may affect the credit quality of banks and finance companies in Argentina and their borrowers. With regard to governance issues and corporate behavior, we typically assess the extent to which a bank's or finance company's strategy, management and its corporate policies may reduce or increase its overall risk profile. We also typically assess the effectiveness of board oversight and the controls that are in place to guard against self-dealing.

ESG issues typically have disproportionate downside risk. However, ESG considerations are not always negative, and they can be a source of credit strength in rare instances. For example, a bank or finance company that has outstandingly strong governance is more likely to have a management culture of full-degree risk assessment and informed decision-making with a view toward long-term sustainability.

Event Risk

We recognize the possibility that an unexpected event could cause a sudden and sharp decline in a bank's or a finance 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 bank or finance company. Some types of event risks include mergers and acquisitions, spin-offs, litigation, pandemics, 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 a bank's or finance company's performance during a down cycle. A track record of performance during various periods of the cycle is helpful in assessing a company's potential risk posture and credit quality. For banks or finance 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 banks and finance companies; however, we may use additional metrics or make analytical adjustments that are specific to a particular financial entity to inform our analysis of specific companies.

We usually calculate or estimate ratios based on consolidated financial data, up to the level of the ultimate holding company. In some circumstances, ratios based on a different view of financials better reflect the rated bank's or finance company's probability of failure, and we may, for example, employ data at the operating bank level, i.e., excluding the holding company, or on an unconsolidated basis.

Other

In assigning stand-alone assessments and ratings, we may incorporate other considerations that are material to the credit profile of a particular bank or finance company. For example, there may be additional factors that, while not common in the sector, are relevant in the case of a particular bank or finance company.

Other considerations for foreign-owned bank branches include credit drag or credit support related to the banking system and the operating environment in the home country, which may not be fully reflected in an assessment of financial strength relative to other Argentine banks.

Affiliate-Supported Assessments for Banks, Finance Companies and Holding Companies

In our assessment of support from affiliated entities, we typically consider both the creditworthiness of the support provider and its recipient, including the bank's or finance company's unsupported probability of failure, the capacity and willingness of the support provider to deliver support in a timely manner, and the extent to which the supporter and the supported entity are jointly susceptible to adverse circumstances that could weaken their financial position. We also typically consider the supporter's and supported entity's respective operating environment. In addition, we also typically assess whether the affiliate's actions may cause additional risk to creditors of the supported bank or finance company (e.g., requiring large distribution or upstream loans or guarantees).

We incorporate our assessment of support, explicit or implicit, from an affiliate or parent company to the stand-alone assessment of banks and finance companies to arrive at the affiliate-supported assessment. The affiliate-supported assessment, which reflects our opinion of the likelihood of a bank or finance company requiring additional support to avoid a default after exhausting support from its affiliates

Explicit support in Argentina is typically provided by the parent in the form of 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 bank or finance company. In assessing explicit support, we typically 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, affiliate or other supporting entity provides implicit, non-legally binding support, our assessment of the benefit to the bank's or finance company'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), financial links, parental or affiliate policy and the supported company's integration with the rest of the organization from a management, strategy, distribution and operating perspective.

We may imply support to a bank or finance company owned by a multinational where the support is viewed as very strong and sustainable using a top-down approach considering the parent's rating. We also incorporate an assessment of past actions of the support provider (e.g. capital contributions) 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. In cases of explicit or implicit support, we also consider the potential credit drag on the supporter's stand-alone credit profile.

Holding Company Obligations

Many banking groups are structured under a holding company that is a legal entity that often has little or no activities of its own, but instead serves as the owner of the group's businesses. A pure holding company relies on up-streamed dividends from its investments to pay dividends to its own external shareholders. Sometimes, a holding company itself may issue debt or hybrid securities. A holding company may not be a purely financial vehicle; it may also have business activities in its own right that may increase, or reduce, the risks presented by its subsidiaries. While less common, a finance company may have a holding company.

The starting point for our assessment of a bank holding company is the banking subsidiary's stand-alone assessment, or a composite assessment if the holding company owns more than one bank. Typically, our assessment of the holding company is one notch below the stand-alone assessment of the operating company(ies), but the differential may be wider where there are material constraints on the ability of one or more subsidiaries to pay dividends or distributions to the holding company (e.g., from regulatory capital requirements or bond covenants). In most cases, we do not apply any affiliate support to holding companies.⁴ As a result, the stand-alone assessment and the affiliate-supported assessment of a holding company are typically the same.

⁴ A possible exception would be where the Argentine holding company is owned by a strong foreign parent.

A key element to our analysis of a holding company is the extent of double leverage, which offers a simple means of measuring or estimating the extent to which equity investments are supported by debt or other liabilities, and the incremental liquidity risk taken on by the holding company. The double leverage ratio is the combined value of the ultimate holding company's equity and hybrid equity investments in subsidiaries divided by the holding company's own equity. The higher the ratio, the greater the degree of double leverage. As a guideline, where double leverage is above 115%, our rating analysis typically places greater emphasis on the structure of capital and dividend flows among operating and holding companies and the extent of structural subordination. Depending upon the extent of structural subordination and the holding company's liquidity risks, we may apply further downward notching to the affiliate-supported assessment of a holding company relative to the affiliate-supported assessment of the bank.

Loss Given Failure Notching Guidance

This component of our overall approach to assessing credit risk for banks and finance companies considers the effect of the failure of the bank or finance company — with any support from affiliates having been either denied or exhausted — on its various debt classes, and the absence of any government support. We typically approximate the effect of the bank's or finance company's failure on different debt instruments by applying a notching approach to approximate loss given failure of a bank or finance company and not necessarily its default. The distinction reflects the potential that a government could intervene to bail out the bank or finance company before a general default occurs. In our approach, we typically consider a security's priority of claim in bankruptcy and its other structural features. Security ratings also reflect our view of the likely regulatory treatment of the issuer and its securities in a failure and the issuer's capital.

Our approach also considers the following:

- » Senior unsecured debt, rated deposits (for banks) and issuer ratings (finance companies) have generally similar loss characteristics in failure as in bankruptcy.
- » Subordinated debt is likely to experience higher loss severity based on lower priority of claim, consistent with a preliminary instrument-level assessment one notch below the stand-alone affiliate-supported assessment in the case of dated (plain vanilla) subordinated debt, or more downward notches where risk is higher. Hybrid debt securities are subject to additional downward rating adjustments based on our assessment of potential differences in probability of failure or conversion as well as severity of loss upon an event of failure or conversion. For example, junior subordinated debt of a bank, including upper Tier 2 and some Tier 1 securities, may be structured to allow the bank to skip coupon payments at its option on a cumulative basis. Junior subordinated debt ratings are typically subject to one additional notch downward.
- » Preferred Securities can be thought of as having a priority of claim that is lower than that of subordinated debt, and they carry additional risks. The ability to skip coupons is a common characteristic. The associated loss is especially pronounced for non-cumulative preferred, and even cumulative preferred could experience significant loss in an extended period of non-payment. They may thus become impaired ahead of the issuer's failure. More complex preferred securities may be subject to principal write-downs resulting from the breach of certain financial triggers or an exchange into common equity at a deep discount when the issuer is in financial distress. The preliminary instrument-level assessment of preferred securities is generally two notches below the stand-alone affiliate-supported assessment, or three notches below where the securities terms allow write-downs or conversion to equity in advance of a failure.
- » High-Trigger Contingent Capital Bank Securities are usually either Tier 2 subordinated debt or Additional Tier 1 non-cumulative preferred securities. Upon the breach of a trigger set at a level well above the point of non-viability, they convert to equity or can face a full, partial, permanent or temporary principal write-down. The conversion/write-down features of these securities are designed to shore up the bank's capitalization in order to avoid a bank-wide failure. This security has the risk of having a junior debt/preferred equity claim should the bank become non-viable; the risk of having losses imposed upon a trigger breach well in advance of the point of non-viability; and, for Additional Tier 1 securities, the risk of coupon suspension on a non-cumulative basis, likely before the conversion write-down trigger is breached. Our rating for these high-trigger securities is based on the greatest credit risk among (i) a trigger breach leading to conversion or write-down, (ii) bank-wide failure and (iii) impairment associated with coupon suspension. The

assigned high-trigger rating incorporates analytical judgment based on case-specific characteristics, but is at least one notch below normal preferred securities.

Holding company senior unsecured debt is usually structurally subordinate to debt at banking subsidiaries and is thus likely to experience higher loss severity. As discussed above, this risk is incorporated in the affiliate-supported stand-alone assessment of the holding company. We typically apply additional notching to holding company junior securities.

EXHIBIT 3 Guidance of Typical Notching for Banks, Finance Companies and Holding Companies in Argentina	
Instrument Type	Typical Notching
Issuer rating, bank deposits, senior unsecured bank or finance company debt and other senior obligations	In line with the affiliate-supported assessment
Dated subordinated bank or finance company debt	Affiliate-supported assessment -1
Junior subordinated bank or finance company debt	Affiliate-supported assessment -2
Bank preference shares	Affiliate-supported assessment -2 or -3
High-trigger contingent capital securities	Affiliate-supported assessment -4
Senior unsecured holding company debt and holding company issuer rating	In line with the HoldCo's affiliate-supported assessment
Dated and junior subordinated holding company debt	HoldCo affiliate-supported assessment -1
Holding company preference shares	HoldCo affiliate-supported assessment -2

Source: Moody's

After applying notching to approximate Loss Given Failure (LGF), we arrive at a preliminary issuer-level and instrument level assessment.

Assessing Government Support and Intervention

Our approach to assessing government support for a bank is similar to assessing support from an affiliate. We incorporate the capacity and willingness of the government or public entity to provide support in a timely manner and the dependence between the supported bank and the relevant government or public entity. Dependence indicates the nature of the relationship between the government or public entity and the banking system as well as the individual bank. We also typically consider the government's or public body's policies or regulatory framework, the bank's market share of domestic deposits and loans, and the possible impact that a failure of the bank would have on the market.

Our ratings of finance companies do not typically reflect an expectation of government support. Based on our observations, we believe government support would neither be widely offered nor sufficiently reliable nor predictable to be routinely incorporated into our finance company ratings in Argentina. In the exceptional cases where we believe such government support is meaningful and long term in nature, we apply the approach described in the preceding paragraph.

Where we incorporate government support into our assessment of a bank's or finance company's credit profile, we may consider that similar support will be available to all of the group's entities and instruments, or we may consider that government support will be greater or lesser for some entities or instruments. For example, we may consider that support will be available to a bank's senior unsecured creditors but not to holders of hybrid instruments such as preference shares. Where the bank and the holding company are regulated by the same authority, we typically assume the same support probabilities for equivalent instruments issued by each entity, because it is typically difficult to clearly separate their creditors, given the intrinsic links between the bank and the holding company. However, we may in some cases consider that support will be provided for a bank, but that no support (or much lower support) will be available to its holding company.

In some cases, we may consider that the government's actions may cause additional risk to creditors of banks and finance companies. For example, a government may impose a deposit freeze on banks, capital controls or it may unilaterally impose losses on holders of government obligations.

Assigning Issuer-Level and Instrument-Level Ratings

After assessing government support or intervention risk and its effect on the preliminary issuer-level and instrument-level assessments, we typically assign an issuer rating to the bank, finance company or holding company. We may also assign instrument-level ratings.

For banks, we may assign local currency or foreign currency deposit ratings, or both. Foreign currency deposit ratings may be lower than local currency deposit ratings based on our assessment of the incremental risks of a foreign exchange moratorium or a deposit freeze that affects only foreign-currency denominated deposits.

For banks, finance companies and their holding companies, we may assign local currency or foreign currency ratings on various classes of debt and hybrid instruments. Foreign currency ratings may be lower than local currency ratings based on our assessment of the incremental risk of a foreign exchange moratorium.

We may also assign short-term ratings. In cases where the issuer has sufficient intrinsic liquidity, we map short-term ratings from long-term ratings.⁵ In cases where we consider intrinsic liquidity less than sufficient (for example, where intrinsic liquidity will not cover the next 12 months of maturing obligations and accessing credit markets may be difficult), the short-term rating may be lower than indicated by the mapping.

⁵ Please see *Moody's Rating Scales*.

Stock Ratings for Banks, Finance Companies and Holding Companies

We may also assign ratings to stocks of banks, finance companies and holding companies.⁶ In assigning these stocks ratings, we incorporate a combination of qualitative and quantitative factors that provide indications of the entity's ability to generate profit and the liquidity of its stocks.

Ability to Generate Profit

In our assessment of the entity's ability to generate profits, we typically consider the entity's solvency and the income generation it provides for shareholders. The greater the volatility or variability of cash flows, the greater the uncertainty and the lower the capacity to consistently generate profits. We assess the ability to generate profit based on the entity's affiliate-supported assessment.

EXHIBIT 4	
Ability to Generate Profits Score	
Affiliate-Supported Assessment	Score ⁷
Greater than or equal to aa-.ar	Very High
bbb+.ar to a+.ar	High
bbb-.ar to bbb.ar	Moderate
Less than or equal to bb+.ar	Low

Source: Moody's

Market Liquidity

The liquidity of the bank's, finance company's or holding company's stocks is typically measured by the number of traded days on the authorized stock market where the stock has its greatest transactional record (additionally, listing on the New York, London, and/or Sao Paulo markets may be considered, as well as other markets where companies have applied for listing for their securities or other forms of bonds representing them). We assign a liquidity level of high, medium or low based on the percentage of days that the stocks have traded, according to the criteria below:

- » **High Liquidity:** Applies to stocks that have been traded or have recorded transactions in at least 50% of the trading days over the last quarter.
- » **Medium Liquidity:** Applies to stocks that have been traded or have recorded transactions in at least 25% - but less than 50%- of the trading days over the last quarter.
- » **Low Liquidity:** Applies to stocks that have been traded or have recorded transactions in less than 25% of the trading days over the last quarter.

In our assessment of new stock issuances (e.g., stocks with no history) we initially assign a medium liquidity level. As the entity's stocks establish a track record over time, we typically revisit the liquidity level.

Matrix-Indicated Outcome

Based on the combination of scores of the entity's ability to generate profit and its market liquidity, we arrive at a matrix-indicated outcome for the entity's stocks.

⁶ Please see *Moody's Rating Scales*.

EXHIBIT 5
Stocks Ratings Matrix

Liquidity Level	Ability to Generate Profits			
	Very High	High	Moderate	Low
High	Category 1	Category 1	Category 2	Category 3
Medium	Category 1	Category 2	Category 3	Category 4
Low	Category 2	Category 3	Category 4	Category 4

Source: Moody's

Additional Considerations

The matrix-indicated outcome may be adjusted, negatively or positively, based upon the following considerations:

- » Dividend policy: The existence of a dividend policy and adherence to the policy are important considerations. A financial entity that frequently distributes dividends to shareholders outside of its stated policy is more likely to be considered to be a higher risk than one that adheres to its dividend policy.
- » Market value: We typically assess the market value of the stocks relative to book value.
- » Performance: We typically consider the performance of the stocks relative to a benchmark (e.g., the S&P Merval Index), to assess if the stocks' market price volatility is greater than, equal to or less than the benchmark.
- » Relative profit and liquidity: We typically assess an entity's ability to generate profit and its market liquidity relative to other entities with the same stocks rating.

We may make upward or downward adjustments, typically of one or two categories, based on these additional considerations.

Assignment of the Stocks Rating

The stocks rating is assigned based on the matrix-indicated outcome and our assessment of the additional considerations.

General Limitations of the Methodology

This methodology does not include an exhaustive description of all factors that we may consider in assigning ratings in this sector. Banks and finance companies 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 bank's and finance 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.

While our ratings reflect both the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default, the stand-alone assessment and LGF guidance in this rating methodology is principally intended to capture fundamental characteristics that drive going-concern credit risk. As a debt instrument becomes impaired or defaults, or is very likely to become impaired or to default, ratings typically include additional considerations that reflect our expectations for recovery of principal and interest, as well as the uncertainty around that expectation.

Our forward-looking opinions are based on assumptions that may prove, in hindsight, to have been incorrect. Reasons for this could include unanticipated changes in any of 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 Scales

Long-Term Ratings Scale

Moody's long-term 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 Ratings 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

Short-Term Ratings Scale

Moody's short-term ratings are opinions of the ability of issuers in Argentina, relative to other domestic issuers, to repay debt obligations that have an original maturity not exceeding thirteen months. The ratings include the modifier ".ar" and they are comparable only within Argentina. There are six categories of short-term national scale ratings as defined below.

Short-Term Scale	
ML A-1.ar	Issuers rated ML A-1.ar have the strongest ability to repay short-term senior unsecured debt obligations relative to other domestic issuers.
ML A-2.ar	Issuers rated ML A-2.ar have an above average ability to repay short-term senior unsecured debt obligations relative to other domestic issuers.
ML A-3.ar	Issuers rated ML A-3.ar have an average ability to repay short-term senior unsecured debt obligations relative to other domestic issuers.
ML B.ar	Issuers rated ML B.ar have a below average ability to repay short-term senior unsecured debt obligations relative to other domestic issuers.
ML C.ar	Issuers rated ML C.ar have extremely weak ability to repay short-term senior unsecured debt obligations relative to other domestic issuers.
ML D.ar	Issuers rated ML D.ar have the weakest ability to repay short-term senior unsecured debt obligations relative to other domestic issuers.

Source: Moody's

Stock Ratings

Stock ratings are opinions related to an issuer's ability to generate cashflow, which would typically help sustain its common stock dividend, and the stock's trading liquidity in its principal market. These ordinal rankings provide additional information to assist investors in their decision-making process. The ratings include the modifier ".ar" and they are comparable only within Argentina.

Moody's Stock Ratings Scale	
1.ar	Issuers that exhibit a very strong combination of cashflow and liquidity in the market for its shares, relative to other common stock in Argentina.
2.ar	Issuers that exhibit a strong combination of cashflow and liquidity in the market for its shares, relative to other common stock in Argentina.
3.ar	Issuers that exhibit a fair combination of cashflow and liquidity in the market for its shares, relative to other common stock in Argentina.
4.ar	Issuers that exhibit a poor combination of cashflow and liquidity in the market for its shares, relative to other common stock in Argentina.

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.

TCE: Tangible common equity.

RWA: Risk weighted assets.

TCE / RWA: tangible common equity / risk weighted assets.

LGF: loss given failure.

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