Credit Rating Agency

HR Ratings®

A NRSRO Rating*

The United States of America

Sovereign Debt

HR AAA (G)
HR+1 (G)

March 14, 2023

Ratings

United States

Long Term	
Foreign Currency	**HR AAA (G)**
Local Currency	**HR AAA (G)**
Short Term	
Foreign Currency	**HR+1 (G)**
Local Currency	**HR+1 (G)**
Outlook	**Stable**

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Rule 17g-7 Information Disclosure Form

The Rating Action Commentary (RAC) associated with this disclosure form is an integral part of the form.

1. Symbol, Number, or Score in the Rating Scale used by HR Ratings as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:

Entity/Instrument	Rating Action	Rating Type	Rating Code
United States of America Sovereign Debt-Foreign Currency	Assigned	Long-term Rating	HR AAA (G)/ Stable Outlook
United States of America Sovereign Debt- Local Currency	Assigned	Long-term Rating	HR AAA (G)/ Stable Outlook
United States of America Sovereign Debt-Foreign Currency	Assigned	Short-Term Rating	HR+1 (G)
United States of America Sovereign Debt- Local Currency	Assigned	Short-Term Rating	HR+1 (G)

2. Version of the Procedure or Methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:

The rating assigned by HR Ratings to the entity is based in accordance with the following methodologies established by the rating agency:

- Rating Methodology for Sovereign Debt, May 19, 2017 https://www.hrratings.com/docs/metodologia/0Sovereign%20Debt%20Methodology.pdf

- General Methodological Criteria, January 2023 https://www.hrratings.com/docs/metodologia/General_Methodological_Criteria_January_2023.pdf

3. Main assumptions and principles used in constructing the procedures and methodologies to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:

The HR Rating Methodology includes core concepts in terms of the dimensions of sovereign risk and describes the models and criteria used to assess that risk. The methodology compares the sovereign with similar sovereigns with a broad cross-section. Additionally, the methodology considers long-term projections in terms of the evolution of key debt metrics for the sovereign analyzed. We also consider the ability of the sovereign, and its economy, to deal with stress. The methodology places importance on the sovereign's external accounts, which flows determine the external liquidity of the economy. The sovereign's access to global credit markets, an important element in the risk assessment, depends on this liquidity.

The sovereign risk rating HR Ratings assigns refers to the debt obligations issued by a nation-state´s national/central government, extending this definition to any entity whose debt obligations are explicitly backed by the sovereign. Lastly, the sovereign risk rating may also extend to entities whose debt obligations are, in the opinion of HR Ratings, backed implicitly by the sovereign. The sovereign risk assessment measures the willingness and the ability of the sovereign to meet its explicit and implicit debt obligations (or debt backed explicitly or implicitly by the sovereign). We assume that these obligations include reasonably maintaining the stability of the sovereign's currency, assuring the investor in government debt of the ability to convert, his local currency holdings into foreign currencies in free market conditions as well as to transfer foreign currency to other jurisdictions. The possible failure to meet these obligations represents the following dimensions of risk: 1) Currency debasement, 2) Conversion, and 3) Transfer or Repatriation.

HR Ratings develops three quantitative models to determine the Initial Rating: 1) the Relative Valuation Model, 2.1) the HR Ratings Base Projection Model, 2.2) the HR Ratings Stress Projection Model, and 3) the Social-Political Model. The first models are based on different variables representing specific concepts. HR Ratings uses four analytical dimensions to group these concepts: (i) the ability of a sovereign to generate wealth within its territory, (ii) the solidity of its public finances, (iii) the efficiency and credibility of its monetary policy, and finally, (iv) the solidity of its external accounts, which reflect, in part, the perception of the international investor community in terms of the sovereign and its economic performance. The models have in common the fact that the valuation for the sovereign in question is based on a comparison of parameters drawn, directly or indirectly, from a broad sampling of sovereigns. The methodology also includes a Social-Political Model (SPM), which consists of an assessment of the sovereign's institutions. Together, all these models and criteria produce the Initial Rating. The Initial Rating is subject to movements, either up or down, when the effect of the Adjustment Considerations and Difference Considerations is incorporated. Among other things, these considerations are used to determine whether there should be a differentiation between the short and long term ratings, and also between the rating in local currency and in foreign currency. It also includes the impact of other factors not incorporated into the Initial Rating, such as prior defaults, total or partial. The HR Ratings sovereign ratings are subject to periodical surveillance, as established in the General Methodological Criteria, including monitoring and review.

The HR Rating model receives the greatest weighting in the Initial Rating for the sovereign. HR Ratings prepares its own projections to model the medium and long term performance of a sovereign. The basis for these projections is obtained from the official information that each country publishes for these metrics and the projections are prepared for the current year and for 7 years into the future. Table 5 shows the time differential valuation for these metrics. This model is divided into the multiple analytical dimensions already discussed. Each receives a certain weighting, which differs from those in the Relative Valuation Model, as different variables are weighted.

The HR Rating Stress model shows the capacity of a sovereign to respond to adverse environments. The magnitude of the stress applied to the sovereigns rated is standardized according to the assumptions incorporated into the HR Ratings Base Projection Model. The ranges for assigning the VN will vary due to the different sovereigns having different tools for facing external shocks and other stress conditions. It's important to note that HR Ratings will periodically review the efficiency of the metrics included (and not included), and their weightings and the minimum and maximum values that determine each rating range for each curve.

The variables in the social-political model are difficult to measure and are exposed to a subjective appreciation. Therefore, their value relies on their descriptive capacity in the social and political context, which has an important impact on the Initial Rating. External indicators developed by different credible international bodies and formally constructed methodologies are used.

4. Potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- HR Ratings does not validate, guarantee, or certify the accuracy, correctness or completeness of any information and is not responsible for any errors or omissions or for results obtained from the use of such information.
- Ratings and/or opinions assigned by HR Ratings are based on an analysis of the creditworthiness of an entity, issue or issuer, and do not necessarily imply a statistical likelihood of default.
- The credit ratings do not comment on the liquidity of the issuer´s securities or stock.
- The credit ratings do not consider the possible loss severity on an obligation default.
- The credit ratings are not an opinion of the market value of any issuer´s securities or stock, or the possibility that this value suffer a deterioration.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

The Analysis Committee noted no material limitations on the reliability, accuracy and quality on the data relied on in determining the credit rating.

The Analysis Committee noted no lack of information on the scope of historical data that would have better informed any credit rating listed in this disclosure form.

6. Use of third party due diligence services as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

HR Ratings did not use third party due diligence services for the rating.

7. Use of servicer or remittance reports to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

HR Ratings did not use Servicer or Remittance Reports for the rating.

8. Description of types of data about any obligor, issue, security or money market instrument relied upon for determining credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7

Among the main information used for the rating is:

- Congressional Budget Office. reports about public finance, revenues and budgetary process. CBO's reports represent a relevant baseline, especially in the longer term, against which to compare our own forecasts, especially budgetary, in the following section of this report, but also macroeconomic.
- Federal Reserve. Projections and guidelines provided by the Federal Reserve. (CPI, Interest Rates, Consumer expenditures and economic variables about the economic activity)
- International Monetary Fund (projections and guidelines with information from the World Economic Outlook).
- Bureau of Economic Analysis (Historical Information about current account, international trade balance).

9. Overall assessment of quality of information available and considered in determining credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

The quality of the information provided by the official sources are considered to be consistent with the quality observed in ratings that use a similar methodology.

10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

This is an unsolicited rating, so HR Ratings did not receive any payment from company or person, for its issue. Unsolicited ratings are issued in accordance with the Agency's current methodologies and follow the same policies and procedures as for the requested ratings, as applicable. HR Ratings may withdraw or change this rating at any time, without liability whatsoever. The following information can be found on our website at www.hrratings.com: (i) The internal procedures for the monitoring and surveillance of our ratings and the periodicity with which they are formally updated, (ii) the criteria used by HR Ratings for the withdrawal or suspension of the maintenance of a rating, (iii) the procedure and process of voting on our Analysis Committee, and (iv) the rating scales and their definitions.

11. Explanation or measure of potential volatility to the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule17g-7

1. Factors that are reasonably likely to lead to a change in the credit rating (downgrade):

    - Higher levels of inflation, especially those that lead to USD devaluation and weakening of the USD as a major reserve currency**.**
    - Chronic political divisions that impede the ability to timely approve and adequately implement fiscal policy**.**
    - Lower than expected real economic growth that produces political demands for higher levels of government spending and primary deficits**.**
    - Geopolitical crises that lead to larger fiscal imbalances, inflation, and currency devaluation or even some form of military conflict.

2. The magnitude of the change that could occur under different market conditions determined by HR Ratings to be relevant to the rating:

    - Degradation of the US dollar vs. a basket of foreign currencies. Higher levels of inflation can disturb the course of the interest rate in the short-term, reaching an important restrictive level of monetary policy. As consequence, the economic activity can reflect a significant deterioration. The negative impact on the credit rating would be moderate.

    - NOTE: The Credit Analysis Committee must convene to review and discuss the changes that could occur under different market conditions. All the ratings issued by HR Ratings must be approved by the Credit Analysis Committee in accordance with the applicable methodology and the information available at the time. However, the magnitude of a potential change in the rating that could reasonably occur as a result of the impact of the factors listed above are characterized by the following summary chart:

Rating change impact	Number of notches
Minimum	(0-1)
Moderate	(2 - 3)
Strong	>3

12. **Historical performance and expected probability of default and expected loss in event of default as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7**

For historical performance of each rating listed in the disclosure form, click on the link in the ratings table presented on the first page.

Our credit ratings need to be understood as rankings of the relative creditworthiness of different entities or credits. Creditworthiness takes into consideration both the ability and willingness to meet debt obligations in the manner prescribed in the relevant documentation. Default refers to the noncompliance of previously agreed obligations.

As our ratings measure relative creditworthiness, they do not necessarily reflect any specific statistical probability of default. However, HR Ratings provides to the market participants the default rate for historical default and loss statistics for the class or subclass of the credit rating. Although the default rate is not the expected probability of default or loss given default, we consider it the ratio that could be interpreted by market participants as such. The default rate for each of the asset classes in which HR Ratings provides ratings and for each rating category is publicly available for each calendar year at: https://www.hrratings.com/regulatory_disclosure/transition_matrix.xhtml

13. **Assumptions made by HR Ratings in determining announced credit ratings and examples of how assumptions impact the rating as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7**

1. Assumptions made in the ratings process that, without accounting for any other factor, would have the greatest impact on the credit rating if proven false or inaccurate:

   HR Ratings bases its ratings and/or opinions on information obtained from sources that are believed to be accurate and reliable. The assumption is that the information provided is reliable and credible, however, does not validate, guarantee or certify the accuracy, correctness or completeness of any information and is not responsible for any errors or omissions or for results obtained from the use of such information.

- We see CPI inflation trending down to 2.50% which would probably translate into around 2.2% for the PCE, the Fed's preferred metric. This, of course, would still be above the Fed's 2.0% target.

- Our analysis assumes a moderate level of economic growth which is not sufficient to prevent the growth of spending relative to GDP and could lead to further demands for government spending.

- We assume moderate real GDP growth with a CAGR from 2022 through 2029 of 1.65%. The primary deficit would average 3.58% of GDP while interest costs would average 3.15% but expand substantially from 1.90% in FY22 to 3.62% in FY29.

- Public debt as a percentage of GDP would end FY29 at 114.2% of GDP (vs. 97.1% at the end of FY22) assuming a CAGR for nominal GDP of 4.51% with a CAGR for deflator inflation of 2.78% combined with the already mentioned real GDP growth of 1.68%.

- The current account deficit would tend to run above at around 3.25% of GDP. We furthermore assume that this would be largely consistent with the dollar remaining the global economy's primary reserve currency and with a stable level for the USD relative to other currencies.

2. Analysis, using specific examples, of how each of the assumptions identified in the preceding paragraph impacts the credit rating:

- Higher inflation would produce higher real interest rates and further increase interest costs as a percentage of GDP. Furthermore, the failure to limit PCE inflation to levels close to 2.0% on a long-run basis could be considered as a form of currency degradation which could require downward revision in the rating.

- Higher primary deficit as a result of the rises of the interest cost, primary deficit and expansion of the defense expenditure.

- If the economic activity shows a low level of growth, this could affect the trajectory of debt, as a consequence of higher deficits by the fiscal support that the federal government will implement vs. the drop of the revenues.

- Given the complicated geopolitical situation we assume rising defense expenditures which will place additional pressures on fiscal policy. We also assume slightly positive real Federal Funds rate which combined with rising primary deficits will lead to growing interest costs.

- It is important to emphasize the structural strengths that the U.S. possess, including the size of the economy, the development of the financial system, its market size, high institutional and governance strength, high per capita income, and the dynamism of the business environment. These could contribute to the positive trajectory of the trade balance.

14. Representations, warranties and enforcement mechanisms available to investors as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7

The reporting of representations, warranties, and enforcement mechanisms does not apply to the credit rating listed in this disclosure form as it is not assigned to an asset-backed securities.

Credit Rating Attestation

I, Felix Boni, Managing Director Chief Credit Officer, have the responsibility for this rating action and, to the best of my knowledge:

- No part of the credit rating was influenced by any other business activities;
- The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated; and
- The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument

Mexico City, March 14th, 2023

/S/ Felix Boni, Managing Director Chief Credit Officer
HR Ratings de México, S.A. de C.V.

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