HR Ratings® Credit Rating Agency

*A NRSRO Rating**

Senior Notes

HR BBB+ (G)

Banco Inbursa, S.A., Institución de Banca Múltiple
ISIN USP13296 AL53

Financial Institutions
November 30th, 2021

Ratings

Banco Inbursa	HR BBB+ (G)
Outlook	Negative

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Definition

The rating assigned indicates that the issue or issuer with this rating provides moderate safety for timely payment of debt obligations. Maintains moderate credit risk on a global scale, with weakness in the ability to pay in adverse economic scenarios.

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
Banco Inbursa, S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa / BINBUR Senior Notes (the Issuance or Issuer)	Affirmed	Long-Term Rating	HR BBB+ (G) / Negative Outlook

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:

- Methodology for Rating Banks, February 2021
  https://www.hrratings.com/docs/metodologia/03.2.1.%20Banks.pdf

- General Methodological Criteria, October 2020
  https://www.hrratings.com/docs/metodologia/General%20Methodological%20Criteria%20(October%202020).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 objective of the Rating Methodology for Banking Institutions is to evaluate the financial institution's ability and willingness to pay its debt through the relevant parameters that specifically affects these conditions. Also, HR Ratings evaluates the institution's capacity to maintain a certain level of capitalization. For this, the applicable Methodology identifies the main risk indicators within each credit risk category that affect the Banking Institution assessed; both those that are specific to the entity and those from external factors. Regarding the ability to pay, the major sources of risk that could cause delay or default on the settlement of any liability are determined.

To evaluate all the relevant risks that affect Banking Institution credit quality, HR Ratings classifies them into qualitative risks and quantitative risks. The division of categories is fundamental to differentiate between the numerically measurable factors and based on the financial model (quantitative risks) of the factors that are sensitive to the management of the institution, and which are unrelated to the financial model (qualitative risks).

The qualitative risks category includes risk factors such as: 1) Industry risk, 2) Assessment of management and operational risks and 3) Accounting, regulatory and competitive risks. Given the nature of the category, HR Ratings assigns a rating to each of these risks. This category includes factors not only related to the management of the business, but also with growth expectations of the rated institution.

The Financial projections for Banking Institutions represents the structural basis for the quantitative risk's category. These projections incorporate historical financial information that the institution delivers to HR Ratings and with which forecasts are prepared minimum for the next 8 quarters. The information required by HR Ratings includes quarterly reports of Income Statements, Balance Sheets, and Cash Flow Statements for the last five years; however, in the event the institution has a shorter financial record, it will be considered from earliest information available.

For the financial projections, the analyst focuses on the capacity of the institution to maintain a capital adequacy ratio and its ability to generate cash flow, even under a high stress scenario. Both factors are fundamental so that the entity can reliably meet its financing needs. The factors the analyst takes into consideration for the projections and to present a reliable scenario include economic environment, industry growth expectations, competition, business plan, business cycle, business financial situation, concentration risks of the portfolio and funding structure, among others. With the historically financial information and with the projection we calculate the key financial ratios for the quantitative analysis. The financial ratios taken into consideration are the profitability level, the operating efficiency, portfolio quality, market risk, solvency ratios and liquidity risk. The final rating represents the sum of the rating assessment given by the qualitative risks analysis and in the quantitative risk analysis.

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.
- Ratings.
- The credit ratings do not opine 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 material limitations on the scope of historical data or on the accessibility to certain documents or other information that would have better informed any credit rating listed in this disclosure form.

The ratings and/or opinions assigned are issued on behalf of HR Ratings, not of its management or technical staff, and do not constitute an investment recommendation to buy, sell, or hold any instrument nor to perform any business, investment or other operation. The assigned ratings and/or opinions issued may be subject to updates at any time, in accordance with HR Ratings' methodologies.

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 this 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 does not use Servicer or Remittance Reports to conduct surveillance of this 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:

- Annual Audited reports obtained from public record, regulatory filings and from the Company.
- Inter-annual financial statements and operational results.
- Projections, budget and guidelines provided by the Company.
- Presentations provided by the Company.
- Credit Loan Portfolio.
- Funding Structure.
- Liquidity Positions.
- Derivatives Position.

- Corporate Governance.
- Accounting Policies.

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 entity is consistent with the quality observed within the asset class.

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

The rating was solicited by the entity or issuer, or on its behalf, and therefore, HR Ratings has received the corresponding fees for the rating services provided. 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, and (iii) the procedure and process of voting on our Analysis Committee. The Analysis has been performed with complete independence from the received fees or any other business relation with the entity and in absolute concordance with the applicable methodologies.

The ratings and/or opinions assigned are issued on behalf of HR Ratings, not of its management or technical staff, and do not constitute an investment recommendation to buy, sell, or hold any instrument nor to perform any business, investment or other operation. The assigned ratings and/or opinions issued may be subject to updates at any time, in accordance with HR Ratings' methodologies.

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:

   - **Diminishment of solvency levels.** A decline in the total capital ratio due to negative results or other factors that could reduce the Bank's stockholders' equity to levels below 10.5% could have a negative effect on the Bank's credit rating.
   - **Pressure on the Bank's liquidity.** A decrease in computable assets that would cause pressure on the CCL to levels below 100.0% would have a negative impact on Inbursa's rating.
   - **Significant deterioration in profitability.** Significant pressure on the quality of the loan portfolio as a consequence of the health contingency, causing profitability levels to reach negative average ROA levels, could affect the Bank's rating.
   - **Changes in Mexico's sovereign rating**. With respect to the Senior Note, the rating would be negatively impacted in the event of a deterioration in Mexico's sovereign rating and vice versa.

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

   - **Severe recession of the local economy in 2021**. In the event of a contraction in GDP, as well as a significant deterioration in inflation and/or the exchange rate, which could pressure upward pressure the net debt to GDP metric, could lead to a Mexico's sovereign debt downgrade, affecting the Senior Note credit rating.
   - **Significant impact in the Bank borrower's capacity.** Deterioration in the borrowers' ability to pay as a result of the health contingency, could affect Inbursa income and asset quality, resulting in lower profit margins and increased delinquency ratios and could negatively affect its local credit rating.

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. In order to make more valid rankings of creditworthiness our different methodologies will apply stress case scenarios to complement our base case analysis.

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:

- The rating for the company is based on the Strength of solvency indicators and is expected to maintain a total capital ratio and leverage ratio of 20.5% and 2.4x as of 4Q23 (20.6% and 2.8x at the end of the 3Q21).
- High liquidity position, having a liquidity coefficient coverage of 776.4% at the end of 4Q21 (969.1% at the end of 3Q21).
- Healthy portfolio performance, with the Delinquency Ratio and the Adjusted Delinquency Ratio standing at 2.4$ y 4.2% at 4Q23 (1.8% and 4.1% at 3Q21).
- Stability regarding profitability, expecting a ROA and ROE of 3.0% and 9.7% as of 4Q23 (vs. 2.6% and 9.6% as of 3Q21).
- Strong environmental, social and governance factors (ESG). The Bank is expected to maintain and increase internal policies regarding its operations and their impact on social and environmental aspects.

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

- If the Bank's solvency levels close below our expectations, at levels below 10.5%, it could negatively impact the credit rating. In case that the loan portfolio shows an aggressive increase and poor quality after origination, the solvency ratios could show a pressure.
- If the Bank's liquidity levels close below our expectations, at levels below 100.0%, it could negatively impact the credit rating. A decrease in high quality liquid assets could pressure the CCL.
- If the Bank's delinquency ratios close above our expectations, at levels above 10.0%, it could negatively impact the credit rating. Significant pressure on the quality of the loan portfolio as a consequence of the health contingency.
- If the Bank's profit margins close below our expectations, reaching negative levels, it could negatively impact the credit rating. In addition to the quality deterioration of the Bank's assets, an increase in loan loss provisions could significantly lower the ROA and ROE levels.
- If the Bank's ESG policies fail to be sufficient regarding the operational impact on the environmental, social and governance factors, could cause a credit rating downgrade. Some issues that could affect the ESG factor are a low independence level in the managing board, insufficient internal committees, low quality reporting, high concentration of the loan portfolio in high probability areas of natural disasters, low employee training levels, among others.

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 security.

Credit Rating Attestation

I, Angel García, Financial Institutions Director / ABS Director 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, November 30th, 2021

/S/ Angel García Financial Institutions / ABS Director
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