Ratings

Senior Notes 2023	HR BB+ (G)
Outlook	Negative

Contacts

Angel García
Financials / ABS Director
angel.garcia@hrratings.com

Akira Hirata
Financials / ABS Manager
akira.hirata@hrratings.com

Brianda Torres
Associate
brianda.torres@hrratings.com

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
Senior Notes (the Issuance) issued by UNIFIN Financiera (the Issuer / the Company) for an amount of US$400.0m	Downgrade	Long-Term Rating	HR BB+ (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 downgraded by HR Ratings to the entity is based in accordance with the following methodologies established by the rating agency:

- Rating Methodology for Non-Bank Financial Institutions, May 2009
https://www.hrratings.com/docs/metodologia/3.2.3.%20Non%20Bank.pdf

- ADDENDUM – Rating Methodology for Financial Leasing Agents and Pure Leasing Agents, January 2010
https://www.hrratings.com/docs/metodologia/3.2.5.%20Leasing%20Agents.pdf

- General Methodological Criteria, March 2019
https://www.hrratings.com/docs/metodologia/GMC%20March%202019.pdf

- Rating Methodology for Sovereign Debt, May 2017
https://www.hrratings.com/docs/metodologia/0Sovereign%20Debt%20Methodology.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 Non-Bank Financial 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 Non-Bank Financial 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 the Non-Bank Financial 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

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 Non-Bank Financial Institutions represents the structural basis for the quantitative risks 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. <u>Potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7</u>

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

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. It should be noted that a Technical Note was incorporated for the Issuer's rating, regarding it's Perpetual Bond Issuance and the impact it has on solvency metrics such as the capitalization ratio and the leverage ratio.

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

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

7. <u>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</u>

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 that was published in December 2019:

- Annual Audited reports obtained from public records, regulatory filings and from the Company, but the 2017 and 2018 annual audited reports were not used because of the change in the accounting standards. We used the financial statements provided by the Company that were elaborated under the IFRS standards.
- Inter-annual financial statements and operational results.
- Presentations provided by the Company.
- Credit Loan and Leasing Portfolio.
- Funding Structure.
- Derivatives Position.
- Corporate Governance.
- Accounting Policies.

It is important to note that this rating action is based upon the downgrade of Mexico's Sovereign Rating, which was published on April 1st 2020 and can be consulted in the following link: https://www.hrratings.com/pdf/Reporte%20Deuda%20Soberana%20Mexico%20marzo%202020.pdf.

Therefore, no material new information from the entity was considered in this rating action compared to the previous one.

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 considered to be 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**

The main factors that could lead to the volatility of the rating are:

- An increase in non-performing loans due to the aggressive growth plan that has been maintained for the past twelve months, especially due to the incorporation of new regional markets into the operation of the Company.
- An increase in competition in the leasing industry that would limit the Issuer's ability to increase its portfolio rate as planned for the coming quarters. Also, a strong deacceleration of the Mexican economy, that does not allow the Company to grow in the next periods.
- A sharp increase in operative expenses due to the expected increase in the leasing portfolio volume and the opening of regional offices in Mexico. Also, an increase in operative expenses due to marketing campaigns and staff training, that would impact the profitability of the Company.

- Conditions of market volatility that would limit the Issuer's ability to carry out its funding and capitalization strategy as planned, given that Unifin is a recurring issuer of fiduciary and unsecured bonds in local and international markets.
- Solvency deterioration due to the increase of risky assets and the negative impact on capital from the net losses forecasted for 2020 in the stress scenario.
- Possible inorganic growth through company mergers and acquisitions.
- Changes in the Mexican financial regulation, which might negatively impact the expected growth and current business plan of the company.
- Changes in Mexico's sovereign rating by HR Ratings, which would imply deteriorated macroeconomic conditions and a stressed performance of the country's financial sector.

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

- The downgrade on the Issuance Ratings is based upon the downgrade of Mexico's Sovereign Rating, considering the relationship between entities with operations based in Mexico and its sovereign ceiling, as defined in HR Ratings' General Methodological Criteria.

  The assumptions used for the rating that was published in December 2019 were the following:

- Decrease in solvency metrics compared to the previous year due to the accelerated growth in risky assets, while remaining at adequate levels. Adjusted capitalization ratio and adjusted leverage ratio closed 3Q19 at 14.7% y 5.7x (vs. 18.4% & 4.8x at 3Q18).
- Adequate performance of the total portfolio with a delinquency ratio of 3.9% at 3Q19 (vs. 2.9% at 3Q18), due to the high emphasis of Unifin on follow up activities and debt collection.
- Marginal decrease in the profitability ratios in the last twelve months, showing a ROAA and ROAE at 3.1% and 21.2% at 3Q19 (vs. 3.4% & 22.2% at 3Q18). The profitability decreased compared to last year due to an increase of administrative and advertising expenses.
- High flexibility of funding tools, with two additional issuances of Senior Notes during 2019. The Company's funding strategy involves debt issuance in local and international markets, warehousing lines and commercial and development bank loans.
- Adequate portfolio diversification, which main client holds among 1.7% of the outstanding loan balance and the main 10 represent 11.4% of it at 3Q19 (vs. 1.6% & 11.0% at 3Q18).

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 the disclosure form as it is not assigned to an asset-backed security.

15. Attestation as required by Paragraph (a)(1)(iii) of Rule 17g-7

With respect to each credit rating in this disclosure form, Angel García, who served on the rating committee and is thus a person with responsibility for each credit rating action announced in the associated Rating Action Commentary, state that to the best of their 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 any relevant credit enhancement; and
- The credit rating was an independent evaluation of the risks and merits of the obligor, security or money market instrument and any relevant credit enhancement

This attestation is based on (i) all relevant material reviewed by the committee chair in connection with each rating action announced in this RAC; (ii) the committee chair's participation in the rating committee that determined each credit rating action announced in this RAC; and (iii) attestations provided to the committee chair by all other voting members of the rating committee as part of the rating process.

/S/ Angel García Financial Institutions / ABS Director

HR Ratings Management Contacts

Management

Chairman of the Board of Directors

Alberto I. Ramos +52 55 1500 3130
alberto.ramos@hrratings.com

Vice President of the Board of Directors

Aníbal Habeica +52 55 1500 3130
anibal.habeica@hrratings.com

Chief Executive Officer

Fernando Montes de Oca +52 55 1500 3130
fernando.montesdeoca@hrratings.com

Analysis

Chief Credit Officer

Felix Boni +52 55 1500 3133
felix.boni@hrratings.com

Deputy Chief Credit Officer

Pedro Latapí +52 55 8647 3845
pedro.latapi@hrratings.com

Unsecured Public Finance / Sovereigns

Ricardo Gallegos +52 55 1500 3139
ricardo.gallegos@hrratings.com

Álvaro Rodríguez +52 55 1500 3147
alvaro.rodriguez@hrratings.com

Secured Public Finance / Infrastructure

Roberto Ballinez +52 55 1500 3143
roberto.ballinez@hrratings.com

Roberto Soto +52 55 1500 3148
roberto.soto@hrratings.com

Financial Institutions / ABS

Angel García +52 55 1253 6549
angel.garcia@hrratings.com

Corporates / ABS

Luis Miranda +52 55 1500 3146
luis.miranda@hrratings.com

José Luis Cano +52 55 1500 0763
joseluis.cano@hrratings.com

Methodologies

Alfonso Sales +52 55 1253 3140
alfonso.sales@hrratings.com

Regulation

Chief Risk Officer

Rogelio Argüelles +52 181 8187 9309
rogelio.arguelles@hrratings.com

Head Compliance Officer

Alejandra Medina +52 55 1500 0761
alejandra.medina@hrratings.com

Business Development

Business Development

Francisco Valle +52 55 1500 3134
francisco.valle@hrratings.com

Mexico: Avenida Prolongación Paseo de la Reforma #1015 torre A, piso 3, Col. Santa Fe, México, D.F., CP 01210, Tel 52 (55) 1500 3130.
United States: One World Trade Center, Suite 8500, New York, New York, ZIP Code 10007, Tel +1 (212) 220 5735.

HR Ratings de México, S.A. de C.V. (HR Ratings), is a Credit Rating Agency authorized by the National Banking and Securities Commission (CNBV), registered by the Securities and Exchange Commission (SEC) as a Nationally Recognized Statistical Rating Organization (NRSRO) for the assets of government securities, corporates and financial institutions, as described in clause (v) of section 3(a)(62)(A) of the US Securities Exchange Act of 1934 and certified as Credit Rating Agency (CRA) by the European Securities and Markets Authority (ESMA).

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, (iii) the procedure and process of voting on our Analysis Committee, and (iv) the rating scales and their definitions.

HR Ratings de México SA de CV (HR Ratings) ratings and/or opinions are opinions of credit quality and/or regarding the ability of management to administer assets; or opinions regarding the efficacy of activities to meet the nature or purpose of the business on the part of issuers, other entities or sectors, and are based exclusively on the characteristics of the entity, issuer or operation, independent of any activity or business that exists between HR Ratings and the entity or issuer. 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.

HR Ratings bases its ratings and/or opinions on information obtained from sources that are believed to be accurate and reliable. HR Ratings, 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. Most issuers of debt securities rated by HR Ratings have paid a fee for the credit rating based on the amount and type of debt issued. The degree of creditworthiness of an issue or issuer, opinions regarding asset manager quality or ratings related to an entity's performance of its business purpose are subject to change, which can produce a rating upgrade or downgrade, without implying any responsibility for HR Ratings. The ratings issued by HR Ratings are assigned in an ethical manner, in accordance with healthy market practices and in compliance with applicable regulations found on the www.hrratings.com rating agency webpage. There Code of Conduct, HR Ratings' rating methodologies, rating criteria and current ratings can also be found on the website.

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, HR Ratings defines as the inability or unwillingness to satisfy the contractually stipulated payment terms of an obligation, such that creditors and/or bondholders are forced to take action in order to recover their investment or to restructure the debt due to a situation of stress faced by the debtor. Without disregard to the aforementioned point, in order to validate our ratings, our methodologies consider stress scenarios as a complement to the analysis derived from a base case scenario. The rating fee that HR Ratings receives from issuers generally ranges from US$1,000 to US$1,000,000 (or the foreign currency equivalent) per issue. In some instances, HR Ratings will rate all or some of the issues of a particular issuer for an annual fee. It is estimated that the annual fees range from US$5,000 to US$2,000,00 (or the foreign currency equivalent).