

Rating Action: Moody's affirms Nafin and IPAB ratings; assigns counterparty risk ratings

16 May 2022

New York, May 16, 2022 -- Moody's Investors Service ("Moody's") has today affirmed the baseline credit assessment (BCA), adjusted BCA, and issuer ratings of Nacional Financiera, S.N.C. (Nafin). Moody's also affirmed the certificate of deposit (CD) program ratings of Nacional Financiera, S.N.C., London Branch (Nafin London Branch). The ratings assigned to the Instituto para la Protección del Ahorro Bancario (IPAB), Mexico's deposit insurer, were also affirmed.

Moody's also assigned Counterparty Risk Assessments (CR Assessments) and Counterparty Risk Ratings (CRRs) to Nafin and Nafin London Branch.

The outlook of Nafin and the IPAB remains negative in line with the negative outlook on the Government of Mexico (Baa1 negative).

A complete list of affected ratings can be found at the end of the press release.

RATINGS RATIONALE

AFFIRMATION OF NAFIN'S RATINGS WITH A NEGATIVE OUTLOOK

The affirmation of the Baa1 issuer ratings of federal development bank Nafin reflects the very high likelihood of government support, based on an explicit statutory support set in bank's laws, as well as its public policy mandate. Nafin's mandate is to promote the development and modernization of Mexico's private sector, with an emphasis on the development of micro, small and medium-sized enterprises (MSMEs) by enhancing their access to credit. Because the government's statutory support does not qualify for credit substitution, the ratings also consider the bank's ba1 BCA.

Nafin's ba1 BCA captures the bank's strong capitalization and relatively low credit risk portfolio, resulting from its main focus on on-lending via other financial institutions and its prudent risk management. However, Nafin's standalone strength is constrained by its high reliance on market funding, which increases repricing risks and funding costs, and its modest profitability.

The negative outlook on Nafin's issuer ratings reflects the negative outlook on the Government of Mexico's Baa1 sovereign debt rating.

AFFIRMATION OF THE IPAB'S RATINGS WITH A NEGATIVE OUTLOOK

The affirmation of the IPAB's Baa1 issuer ratings incorporates the fact that the deposit insurer is an integral part of the Government of Mexico (Baa1 negative) and, therefore, benefits from implicit sovereign backing, which covers its obligations. As a result, IPAB's ratings and outlook are aligned with those of the Mexican government.

ASSIGNMENT OF CR ASSESSMENTS TO NAFIN AND NAFIN LONDON BRANCH

The assigned long- and short-term CR Assessments of Baa1(cr) and Prime-2(cr) to Nafin and Nafin London Branch take into consideration the development bank's standalone strength and the fact that Nafin is government-backed as well as the anticipated seniority of counterparty obligations in the liabilities hierarchy. The CR Assessment also incorporates other steps authorities can take to preserve the key operations of a bank should it enter a resolution.

ASSIGNMENT OF CRRs TO NAFIN AND NAFIN LONDON BRANCH

The CRRs assigned to Nafin and Nafin London Branch are aligned to their CR Assessments.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

A rating upgrade for Nafin and the IPAB is unlikely, given their negative outlook. In addition, if Mexico's government bond rating is downgraded, the supported ratings of Nafin and the IPAB would be downgraded as well.

Affirmations:

..Issuer: Nacional Financiera, S.N.C.

.... Adjusted Baseline Credit Assessment, Affirmed ba1

.... Baseline Credit Assessment, Affirmed ba1

.... ST Issuer Rating (Foreign Currency), Affirmed P-2

.... ST Issuer Rating (Local Currency), Affirmed P-2

.... LT Issuer Rating (Foreign Currency), Affirmed Baa1, Negative

.... LT Issuer Rating (Local Currency), Affirmed Baa1, Negative

..Issuer: Nacional Financiera S.N.C., London Branch

.... ST Deposit Program (Foreign Currency), Affirmed (P)P-2

.... ST Deposit Program (Local Currency), Affirmed (P)P-2

.... LT Deposit Program (Foreign Currency), Affirmed (P)Baa1

.... LT Deposit Program (Local Currency), Affirmed (P)Baa1

..Issuer: Instit. para la Protec.al Ahorro Bancario

.... ST Issuer Rating (Foreign Currency), Affirmed P-2

.... ST Issuer Rating (Local Currency), Affirmed P-2

.... LT Issuer Rating (Foreign Currency), Affirmed Baa1

.... LT Issuer Rating (Local Currency), Affirmed Baa1

Assignments:

..Issuer: Nacional Financiera S.N.C., London Branch

.... ST Counterparty Risk Assessment, Assigned P-2(cr)

.... LT Counterparty Risk Assessment, Assigned Baa1(cr)

.... ST Counterparty Risk Rating (Foreign Currency), Assigned P-2

.... ST Counterparty Risk Rating (Local Currency), Assigned P-2

.... LT Counterparty Risk Rating (Foreign Currency), Assigned Baa1

.... LT Counterparty Risk Rating (Local Currency), Assigned Baa1

..Issuer: Nacional Financiera, S.N.C.

.... ST Counterparty Risk Assessment, Assigned P-2(cr)

.... LT Counterparty Risk Assessment, Assigned Baa1(cr)

.... ST Counterparty Risk Rating (Foreign Currency), Assigned P-2

.... ST Counterparty Risk Rating (Local Currency), Assigned P-2

.... LT Counterparty Risk Rating (Foreign Currency), Assigned Baa1

.... LT Counterparty Risk Rating (Local Currency), Assigned Baa1

Outlook Actions:

..Issuer: Nacional Financiera, S.N.C.

....Outlook, Remains Negative

..Issuer: Instit. para la Protec.al Ahorro Bancario

....Outlook, Remains Negative

The principal methodologies used in rating Nacional Financiera, S.N.C. and Nacional Financiera S.N.C., London Branch were Banks Methodology published in July 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 , and Government-Related Issuers Methodology published in February 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207 . The principal methodology used in rating Instit. para la Protec.al Ahorro Bancario was Government-Related Issuers Methodology published in February 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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b. With Access to Internal Documents: NO

c. With Access to Management: YES

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