New York, October 21, 2015 – Moody’s Investors Service today assigned an A3 long-term foreign currency senior debt rating to Nacional Financiera, S.N.C., Institución de Banca de Desarrollo’s (Nafin) senior unsecured debt issuance for an initial amount of USD500 million with a maturity of up to ten years. The outlook is stable.

RATINGS ASSIGNED

The following rating was assigned to Nafin's foreign currency senior notes:

Long-term foreign currency senior debt rating of A3, stable outlook

RATINGS RATIONALE

The A3 senior debt rating assigned to Nafin's foreign currency notes is aligned to the bank’s foreign currency issuer rating of A3. The issuer rating reflects the very high likelihood that the Mexican government (A3 stable) will provide extraordinary financial support to the institution if it finds itself facing financial stress, which provides four notches of uplift from Nafin's ba1 standalone baseline credit assessment (BCA).

The very high probability of support takes into account statutory support from the Mexican government enshrined in Article 10 of Nafin's Organic Law that commits the government to fulfilling the development bank’s financial obligations at all times. This statutory support reflects Nafin's status as an arm of the government with a public policy role to promote the development of Mexico's private sector, with a particular emphasis on the financing of micro, small and medium-sized enterprises (MSMEs), a strategic priority for the government. However, David Olivares a Moody’s Senior Credit Officer noted that “the statute does not represent a blanket guarantee, and consequently does not qualify for credit substitution, because (i) it only benefits Mexican individuals and both Mexican and foreign institutions but not non-Mexican individuals, and (ii) it does not include an explicit commitment to ensure timely payment.”

The standalone ba1 BCA takes into account the development bank’s relatively low risk profile, underscored by its main focus on second-floor financing with exposures mainly to banks and other types of financial institutions. Given Nafin's mission to provide financing to MSMEs, one of the riskiest asset classes for banks, this model limits Nafin's credit risk, especially when compared to banks with direct lending exposures. The BCA is also underpinned by Nafin's ample level of high quality capital and very strong liquidity profile, which helps to offset risks arising from its total dependence on wholesale financing. However, the BCA is constrained by Nafin's narrow business diversification relative to more diversified banking operations globally.

While the net proceeds of the notes will only be used to finance so-called "Eligible Green Projects" such as wind energy generation projects in Mexico, the notes represent a senior unsecured obligation of the bank at par with all of its other senior unsecured obligations. The notes, which will be Nafin's inaugural Green Bond issuance, are being issued in Mexico but will be listed in Ireland and subject to New York Law. Nevertheless, Olivares noted that "under the Monetary Law of the United Mexican States (Ley Monetaria de los Estados Unidos Mexicanos), neither the bank nor any other Mexican obligor can be obligated to repay any judgment enforced against it in Mexico in foreign currency. In such circumstance the foreign currency obligation may be satisfied in Mexican currency at the rate of exchange in effect on the date on which payments are determined by the central bank of México.”

The principal methodology used in this rating was Government-Related Issuers published in October 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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