

Structured Debt of Subnational Entities



Credit
Rating
Agency

Public Finance
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A NRSRO Rating**



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HR Ratings updates its Structured Debt of Subnational Entities Risk Evaluation. Furthermore, it announces the impact of this update on the current ratings.

HR Ratings announces that starting on November 28, 2024, the credit ratings for Structured Debt of Subnational Entities will follow the processes established in the updated criteria which can be found in the following link: <https://www.hrratings.com/methodology/>. Furthermore, it announces the impact of this update on the outstanding ratings.

Main changes for the updated criteria

The following are the main proposed changes in the updated Structured Debt Methodology for Subnational Entities:

- **Rating equivalence ranges for States considering the Target Stress Rate (TSR):** The TSR ranges for States with federal sources of payment have been updated.
- **Standard Critical Stress Period:** To ensure consistency in stress testing, a standard approach has been adopted for all analyzed transactions. The critical stress period will be set at 13 periods, prioritizing the use of projected periods, and the TSR will be calculated within this period, considering expected minimum debt service coverage in the stress scenario conditions. Additionally, the possibility of using the previous year's TSR has been eliminated.
- **Qualitative Adjustments for Payment Source Diversification:** The criteria for diversification by type of payment source, precedence in the use of available resources, credit quality of the contracting entity, and credit quality of the guarantor entity (if applicable) has been detailed. A secondary payment source will only be considered a positive factor if it represents at least 20% of the total payment and the entities involved have an acceptable credit rating.
- **Analysis of Payment Sources from State Funds:** The section on state funds, such as the State Fund for Municipal Strengthening (Fondo Estatal de Fortalecimiento Municipal), has been generalized to include other possible operations in additional federal entities.



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- **Differences in Reserve Fund and Surcharge:** A specific procedure has been established to address the differences between the observed balances and levels versus those established in the legal documentation. If, because of monitoring operations, a persistent difference is identified; HR Ratings may model the observed conditions or consider it as a negative element.
- **Global Credit Facilities:** A more detailed description of the analysis of Global Credit Facilities has been included, which may be promoted and operated by the States or by the Federation.
- **Fund for the Strengthening of Federal Entities (FAFEF):** A sensitivity analysis to be performed on this type of federal payment source in relation to the contract year amount and the projections made by HR Ratings has been included. Particularly in those structures with a term equal to or greater than two years.

Impact from methodological update

After reviewing the impact of the new methodology on every outstanding rating, HR Ratings determined the following rating changes:

Entities	Bank	Amount of Credit	Previous Rating	Current Rating	Date of Last Evaluation
Edo. Chihuahua	Azteca	P\$493.34m	HR AA (E) Stable Outlook	HR AA (E) Positive CreditWatch	March 12, 2024
Edo. Chihuahua	Banorte	P\$1,489.3m	HR AA (E) Stable Outlook	HR AA+ (E) Stable Outlook	March 12, 2024
Edo. Nuevo León	Banobras	P\$1,500.0m	HR AA+ (E) Positive Outlook	HR AAA (E) Stable Outlook	March 19, 2024
Edo. Nuevo León	Global Credit Facility		HR AA+ (E) Stable Outlook	HR AAA (E) Stable Outlook	January 29, 2024
Edo. Tamaulipas	Banorte	P\$1,200.0m	HR AA+ (E) Positive Outlook	HR AAA (E) Stable Outlook	February 28, 2024
Edo. Tamaulipas	Banorte	P\$1,500.0m	HR AA (E) Positive Outlook	HR AA+ (E) Stable Outlook	February 28, 2024
Edo. Veracruz	FAIS Program		HR AA+ (E) Stable Outlook	HR AAA (E) Stable Outlook	April 24, 2024
Mun. Chalco	Banobras	P\$150.0m	HR AA+ (E) Stable Outlook	HR AAA (E) Stable Outlook	February 1, 2024
CAPA	Banorte	P\$560.0m	HR AA (E) Positive Outlook	HR AA+ (E) Positive Outlook	August 28, 2024

Source: HR Ratings.



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Complementary information in compliance with section V, paragraph A), of Annex 1 of the General Provisions applicable to credit rating agencies.

Methodologies used*	Structured Debt of Subnational Entities, November 2024
Previous Rating	<p>HR AA+ (E) with Positive Outlook for: Nuevo León Banobras P\$1,500.0m**, Tamaulipas Banorte P\$1,200.0m****, and CAPA Banorte P\$560.0m*****.</p> <p>HR AA+ (E) with Stable Outlook for: Nuevo León LCGM***, Veracruz Programa FAIS****, and Chalco Banobras P\$150.0m*****.</p> <p>HR AA (E) with Positive Outlook for: Tamaulipas Banorte P\$1,500.0m****.</p> <p>HR AA (E) with Stable Outlook for: Chihuahua Azteca P\$493.4m*, and Chihuahua Banorte P\$1,489.3m*</p>
Date of the previous rating	<p>* March 12, 2024 ** March 19, 2024 *** January 29, 2024 **** February 28, 2024 ***** April 24, 2024 ***** February 1, 2024 ***** August 28, 2024</p>
Period covered by the financial information used by HR Ratings for this rating	n.a.
List of sources of information used, including those provided by third parties.	n.a.
Ratings granted by other credit rating agencies that were used by HR Ratings (if any)	n.a.
HR Ratings considered the existence of mechanisms to align incentives between the issuer, servicer and guarantor and the potential purchasers of such securities (if any) when granting the rating or following up on the rating	n.a.
Ratings given by other credit rating agencies to these securities (if any)	n.a.



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*For further information regarding this methodology(ies), please visit <https://hrratings.com/methodology/>

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