CREDIT OPINION
16 November 2024

Update

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RATINGS

Banco Nacional de Comercio Exterior, S.N.C.

Domicile	Mexico City, Ciudad de Mexico, Mexico
Long Term CRR	Baa2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Withdrawn
Type	Senior Unsecured - Fgn Curr
Outlook	Not Assigned
Long Term Deposit	Not Assigned

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Banco Nacional de Comercio Exterior, S.N.C

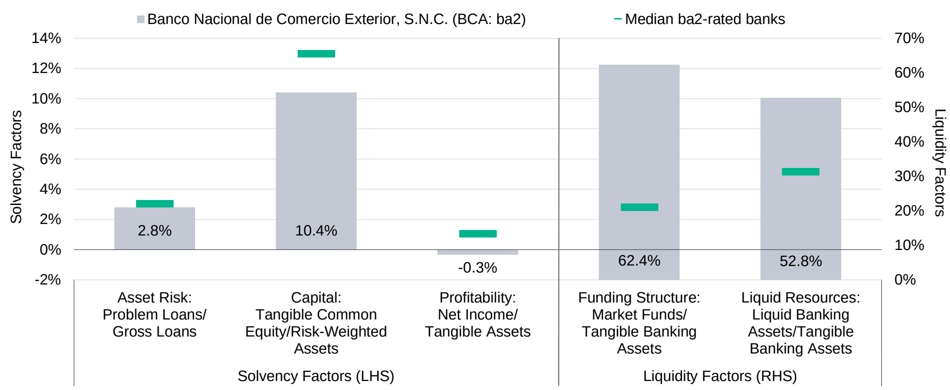
Update following affirmation, outlook changed to negative

Summary

On 15 November, we affirmed Banco Nacional de Comercio Exterior, S.N.C.'s (Bancomext) Baa2 issuer ratings and changed the outlook to negative, following the change in the outlook of Government of Mexico's Baa2 sovereign rating from stable to negative. Bancomext's issuer ratings reflect our assumption of government-backed support from the Mexican government, given its statutory support, importan policy role and full ownership. The bank is a financial arm of the government.

Bancomext's BCA and Adjusted BCA of ba2 incorporate its ample collateral structure on loans that helps to offset risks related to the intrinsic high single borrower and industry concentrations, factors which, as a public bank, lead to volatility in asset quality indicators. Nevertheless, the bank continues to actively expand and diversify its business focus. The bank's bottom line profitability is modest because of its narrow net interest margins and transfers made to the Mexican federal government. The bank benefits from a steady funding structure with solid access to the local capital markets and statutory support from the government. Bancomext's capitalization is adequate.

Exhibit 1
Rating Scorecard - Key financial ratios
Bancomext's scorecard ratios as of September 2024



For the asset-risk ratio and the profitability ratio, we review the latest three year-end ratios, as well as the most recent intra-year ratio, where applicable, and base our starting point ratio on the weaker of the average of this period and the latest reported figure. For the capital ratio, we use the latest reported figure. For the funding structure and liquid resources ratios, we use the latest year-end figures.
Source: Moody's Financial Metrics

Credit strengths

» Disciplined origination guidelines supported by ample collateral that balance its public mandate

» Good core capitalization and reserves provide ample loss absorption

» Solid access to capital markets

Credit challenges

» Modest profitability on a narrow net interest margin based on its public policy mandate and transfers to the government

» High single borrower and industry concentrations that will lead to asset quality deterioration from time-to-time

Outlook

The negative outlook assigned to Bancomext acknowledges the change in the outlook change of Mexico's bond rating, and considers our assessment of government support, which is fully owned by the government.

Factors that could lead to an upgrade

There is no upward pressure on the ratings of Bancomext, which are at the same level as the rating of the Mexican government, the bank's sole support provider. Upward pressures to the BCA will arise from continued and sustained improvements in Bancomext's profitability and asset quality, and the maintenance of lower provisioning costs as the bank continues to expand and diversify its business focus.

Factors that could lead to a downgrade

The bank's issuer ratings would face downward pressure following a downgrade of Mexico's Baa2 government bond. A downgrade of the banks' BCA would not result in downward ratings pressure on their issuer ratings. Downward pressure on Bancomext's ba2 BCAs would emerge if asset quality deteriorates significantly over the next 12 to 18 months or if capitalization were to fall. A downgrade of the banks' BCA would not result in downward ratings pressure on their issuer ratings, but would exert pressure on Bancomext Cayman's Ba1(hyb) subordinated debt rating.

Key indicators

Exhibit 2

Banco Nacional de Comercio Exterior, S.N.C. (Consolidated Financials) [1]

	09-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (MXN Billion)	615.6	482.7	450.7	466.1	470.5	7.4[4]
Total Assets (USD Billion)	31.4	28.5	23.1	22.7	23.6	7.9[4]
Tangible Common Equity (MXN Billion)	38.8	35.8	33.5	33.8	33.2	4.2[4]
Tangible Common Equity (USD Billion)	2.0	2.1	1.7	1.7	1.7	4.7[4]
Problem Loans / Gross Loans (%)	1.8	3.3	2.4	3.6	2.4	2.7[5]
Tangible Common Equity / Risk Weighted Assets (%)	10.4	10.7	10.3	10.1	9.9	10.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	10.8	16.2	11.7	19.0	14.1	14.4[5]
Net Interest Margin (%)	1.8	1.9	1.7	1.5	1.5	1.7[5]
PPI / Average RWA (%)	2.2	2.2	1.8	1.5	1.9	1.9[6]
Net Income / Tangible Assets (%)	0.6	-0.7	-0.7	-0.5	-0.4	-0.3[5]
Cost / Income Ratio (%)	30.2	26.2	26.7	31.9	20.0	27.0[5]
Market Funds / Tangible Banking Assets (%)	64.0	62.4	67.2	67.2	62.5	64.6[5]
Liquid Banking Assets / Tangible Banking Assets (%)	50.8	52.8	49.9	48.0	45.7	49.4[5]
Gross Loans / Due to Customers (%)	178.6	172.5	225.2	226.9	200.0	200.6[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

Profile

Founded in 1937, Banco Nacional de Comercio Exterior, S.N.C. (Bancomext) is a development bank in Mexico with reported assets around $31.4 billion as of September 2024. The bank is owned by the federal government and holds a public policy mandate to provide financing to foreign trade-related activities of Mexican companies. The bank benefits from statutory support from the Mexican government.

The bank grants loans both directly to corporates which represented 74% of total loans as of September 2024; and through other financial institutions (18%). It also has a small portfolio of loans to the public sector, at 9% of the total loan portfolio. Loans in foreign currency were about 59% of the bank's loan book as of September 2024. Additionally, the bank maintains off-balance-sheet credit guarantees to support financing by other financial institutions, which were equivalent to about 15% of its gross loans as of September 2024.

Detailed credit considerations

Robust risk management help to minimize the intrinsic risks stemming from its public policy mandate

In line with its public policy mandate, Bancomext's concentrated commercial loan portfolio will continue to be exposed to occasional asset quality deterioration despite its focus on the Mexican export sector and suppliers of government projects. The bank limits asset risk through risk management practices that set prudent internal lending limits and adequate reserve and collateral coverage.

Bancomext's problem loans improved to 1.8% of gross loans in September 2024, from 3.9% in September 2023 and the 4.6% peak reached in March 2022 after the materialization of single name concentration risk, as well as the contraction of the loan book. The bank's public mandate intrinsically results in high single borrower and industry concentrations and exposes it to the need to support high risk state-owned companies and projects. However, a significant portion of these exposures are high-quality borrowers, including commercial banks. Also, Bancomext maintains good reserve coverage, with loan loss reserves standing at 2.1x problem loans as of September 2024.

Bancomext's loan portfolio growth is very sensitive to USD/MXN fluctuations as 59% of its loans are denominated in USD dollars, which has negatively affected the nominal growth of the company during 2023 but boosted nominal growth following the postelection depreciation of the peso. As of September 2024, gross loans expanded 40% year-over-year, also influenced by new loans related to industrial warehouses lending, through bank and non-bank financial institutions, as well as new loans related to the energy sector.

We expect growth will continue in 2024 and 2025, in line with the stronger demand for project financing related to nearshoring investments, which in turn, will benefit asset quality through diversification benefits.

The bank also faces asset risk under its guarantee program that represents 15% of the total credit exposure as of September 2024. The bank compensates this risk provisioning adequately and pricing the guarantees service accordingly.

Bancomext and other development banks complement commercial banks' products with tailored loans to unattended borrowers from other financial institutions. The bank offers initial-stage financing and US dollar long-term financing for investments, rather than short-term working capital in Mexican pesos.

Moderate capitalization supported by good core earnings generation and cautious capitalization policy

Bancomext's capitalization is adequate and in line with management's focus and supported by a stable core earnings generation. The bank's organic capital generation is affected by *aprovechamientos* which are payments for the federal government's statutory support. However, these *aprovechamientos* are then redistributed among all the development banks via capital injections by the government.

The bank applies a cautious policy in relation to the dynamic of *aprovechamientos* and government capital injections. This is a collaborative process involving both Bancomext and the Ministry of Finance and Public Credit that takes into consideration the bank's strategic expansion plans and the need to maintain healthy capitalization levels even under stressed scenarios. For Bancomext, these capital injections have generally been equal to or above *aprovechamientos* (after tax).

Under our preferred measure of capitalization that adjusts the reported RWA to consider a weight for government securities based on the sovereign rating and the Basel guidelines, the TCE ratio remained largely stable, at a still modest 10.4% in September 2024 down from the 11.3% a year earlier. The risk-weighting factor applied to government securities is 50% in line with Mexico's debt rating of Baa2. Bancomext's Common Equity Tier 1 ratio stood at 13.2% as of September 2024, from 15.0% a year earlier driven by a 18% expansion of the adjusted risk-weighted (RWAs).

The bank's reported total regulatory capital ratio fell slightly to 16.7% as of September 2024, from 10.7% as of year-end 2023.

Profitability is modest on a narrow net interest margin based on its public policy mandate and transfers to the Mexican federal government

Bancomext's profitability benefits from steady core earnings generation and cost controls despite having periodically been affected by provisioning requirements in line with its concentrated loan portfolio. The bank's net interest margin (NIM) is narrow because of the bank's public policy mandate, focus on lower-margin commercial and US dollar lending, wholesale funding mix, and the high exposure to low-margin short-term repos with clients, which accounted for 40% of total assets in September 2024.

As of September 2024, net income to tangible assets slightly decreased to 0.6%, driven by a lower NIM of 1.8%, below 1.9% in September 2023, partially offset by lower provisioning expenses that represented 41.6% of pre provision income, from 48.8% a year earlier.

Annual profitability figures are periodically affected by the above-mentioned capital transfers to the government in the fourth quarter, which are then generally returned to the bank through a capital injection. In 2023, the capital injection represented around 80% the amount of *aprovechamiento*. If we add back this payment to the 2023 net income (net of tax benefit), the return on asset would have been 0.3%, instead of a net loss of 0.7%.

Solid access to capital markets mitigates refinancing risk from its high reliance on wholesale funding

Bancomext benefits from statutory support provided by the Mexican government which provides the bank ample access to capital markets and relatively lower funding costs.

The bank has fluid access to global long-term debt, including issuances and bank borrowings, alleviating tenor mismatches, increasing the diversification of funding sources and reducing refinancing risk. As of September 2024, the bank's market funds to tangible banking assets stood at to 64%, flat from a year earlier. Market funding is mainly represented by domestic and foreign senior debt issuances (31% of assets net of repos), followed by bank borrowings (8.3%). Market funding includes repo operations that are products offered and executed for its clients.

Bancomext's liquidity remains in adequate levels as the liquid banking assets to tangible banking assets stood at 50.8%, as of September 2024. Bancomext's liquid assets are mainly invested in government securities.

Banks' growth will benefit from low credit penetration

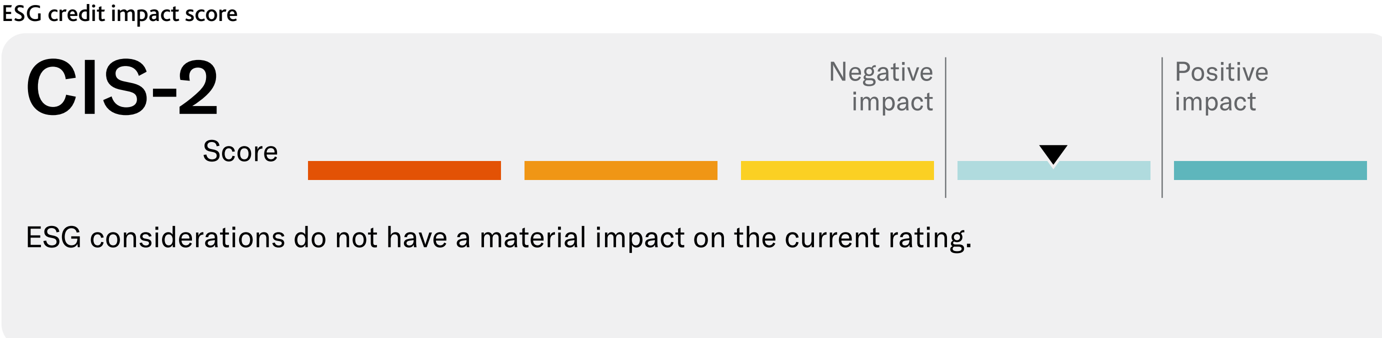
Mexico's Moderate+ Macro Profile highlights the country's large and diversified economy, moderate income levels and modest economic growth. Our assessment also takes into account the quality of government institutions, which has been more in line with that of lower-rated countries, despite Mexico's effective fiscal and monetary policymaking. Proposed constitutional changes and weaker intervention powers for the judicial system add to regulatory and law-enforcement ambiguity. The overwhelming majority in Congress of president-elect Claudia Sheinbaum's legislative coalition would enable it to pass constitutional reforms.

Banks in Mexico benefit from ample and stable core deposit base and a relatively concentrated banking system that supports banks' pricing power, despite increasing competition from new, more innovative entrants. Low credit penetration increases opportunities for banks and new entrants to expand their loan books despite modest economic growth. Delinquencies remain stable and at low levels, related to global averages but challenges regarding the enforcement of collateral and lengthy bankruptcy resolution processes continue to be reflected in high levels of write-offs across the banking system and low credit penetration. Disruption from the country's large development banks and other government entities is limited, as these institutions will continue to mainly focus on their public-policy mandates.

ESG considerations

Banco Nacional de Comercio Exterior, S.N.C.'s ESG credit impact score is CIS-2

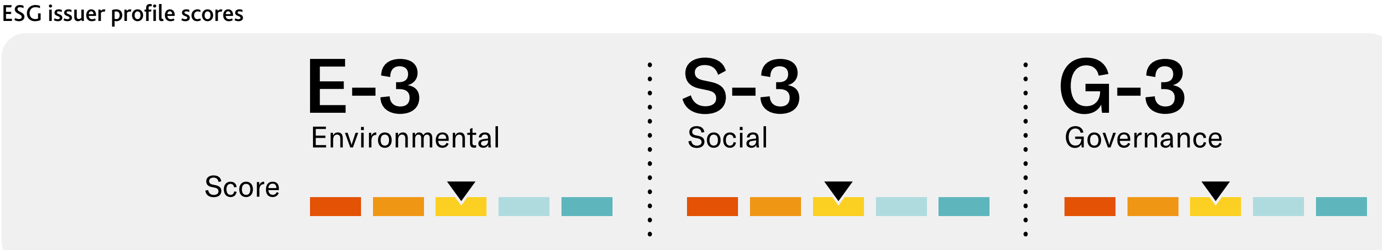
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Bancomext's **CIS-2** indicates that ESG considerations are not material to the rating because the very high level of government support mitigates the impact of environmental, social and governance risks on the ratings. The bank faces corporate governance risks because of its federal government ownership and risks of political interference, in order to support economic growth or certain industries, but which is limited by the bank's risk management and prudential regulations in place in Mexico.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Bancomext faces moderate environmental risks because of its indirect exposure to corporate loans that are exposed to carbon transition. The bank also has exposures to industries that face physical and climate risks in Mexico, such as those of hotels and restaurants. In line with its commercial peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. Bancomext is committed with its internal framework to develop its climate risk and portfolio management capabilities.

Social

Bancomext faces moderate social risks related to customer relations because its public policy mandate could expose it to public scrutiny. The bank's risk management practices help to minimize the intrinsic risk stemming from its public policy mandate.

Governance

Bancomext faces moderate governance risks because of its ownership by the federal government and the possibility of political interference. As part of its public policy mandate, the bank is, from time-to-time, exposed to troubled single borrower concentrations or specific sectors. However, the bank's strategy, risk management function and organizational structure are in line with industry practices and prudential regulation would limit the extent of political interference.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Government support

Bancomext's Baa2 issuer ratings are based on our assumption of government-backed support from the Mexican government.

This statutory support reflects Bancomext's status as an arm of the government, with a specific public policy role to promote strategic priorities for the government. Our assumption of support takes into account the statutory support from the Mexican government, which is committed in Article 10 of Bancomext's Founding Law to fulfill the bank's financial obligations. The bank's public policy role is to promote the export sector and those industries that attract foreign currency to Mexico. Bancomext also complements commercial banks' products, mainly in initial-stage projects, by offering US dollar long-term financing for investments, rather than short-term working capital in Mexican pesos.

However, the support statute is not a blanket guarantee, and, as a result, does not qualify for credit substitution, because

» it only benefits Mexican individuals and both Mexican and foreign institutions, and explicitly excludes non-Mexican individuals; and

» it does not include an explicit commitment to ensure timely payment.

Bancomext's ratings also reflect the very high level of interdependence between the bank and the government because the bank is considered an arm of the government.

Foreign-currency debt ratings

We assign a Ba1(hyb) long-term foreign-currency subordinated debt rating to Bancomext's Tier 2 subordinated capital notes, issued through the bank's Cayman Islands branch, Banco Nacional de Comercio Exterior, Sociedad Nacional de Crédito (CI). These notes continues to incorporate two notches of subordination from the bank's foreign currency senior unsecured debt rating of Baa2 and benefits from Moody's assessment of high government support which results in a one-notch uplift from its ba2 BCA.

We also assign a Baa2 long-term foreign-currency senior debt rating to Bancomext's $1 billion senior debt issuance with a maturity of 10 years, issued through the bank's Cayman Islands branch, Banco Nacional de Comercio Exterior, Sociedad Nacional de Crédito (CI).

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 5

Rating Factors

Macro Factors						
Weighted Macro Profile	**Moderate +**	**100%**				

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.8%	baa1	↔	ba1	Single name concentration	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	10.4%	ba2	↔	ba2	Stress capital resilience	
Profitability						
Net Income / Tangible Assets	-0.3%	caa2	↔	ba3	Earnings quality	Expected trend
Combined Solvency Score		ba2		ba2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	62.4%	caa2	↔	ba2	Market funding quality	Term structure
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	52.8%	a2	↔	baa1	Asset encumbrance	Expected trend
Combined Liquidity Score		ba3		baa3		
Financial Profile				ba1		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Baa2		
BCA Scorecard-indicated Outcome - Range				baa3 - ba2		
Assigned BCA				ba2		
Affiliate Support notching				0		
Adjusted BCA				ba2		

Balance Sheet is not applicable.

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	-	-	-	-	-	-	-	1	0	ba1
Counterparty Risk Assessment	-	-	-	-	-	-	-	1	0	ba1 (cr)
Senior unsecured bank debt	-	-	-	-	-	-	-	0	0	ba2

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	1	0	ba1	2	Baa2	Baa2
Counterparty Risk Assessment	1	0	ba1 (cr)	2	Baa2(cr)	
Senior unsecured bank debt	0	0	ba2	3	Baa2	Baa2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
BANCO NACIONAL DE COMERCIO EXTERIOR, S.N.C.	
Outlook	Negative
Counterparty Risk Rating	Baa2/P-2
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
Issuer Rating	Baa2
ST Issuer Rating	P-2
BANCO NACIONAL DE COMERCIO EXTERIOR, SNC (CI)	
Outlook	Negative
Counterparty Risk Rating	Baa2/P-2
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
Senior Unsecured	Baa2
Subordinate	Ba1 (hyb)

Source: Moody's Ratings

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