MOODY'S INVESTORS SERVICE

Credit Opinion: Banco Nacional de Comercio Exterior, S.N.C.

Global Credit Research - 24 Feb 2012

Mexico, Mexico

Ratings

Category	**Moody's Rating**
Outlook	Stable
Issuer Rating	Baa1
NSR Issuer Rating -Dom Curr	Aaa.mx
Senior Unsecured -Dom Curr	Baa1
NSR Senior Unsecured -Dom Curr	Aaa.mx
Commercial Paper	P-2
NSR ST Issuer Rating -Dom Curr	MX-1

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Key Indicators

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

	[2]**9-11**	[2]**12-10**	[2]**12-09**	[2]**12-08**	[3]**12-07**	**Avg.**
Total Assets (MXN million)	**182,911.0**	**140,491.0**	**121,215.8**	**89,375.5**	**78,051.5**	[4]**23.7**
Total Assets (USD million)	**13,225.9**	**11,390.5**	**9,284.7**	**6,453.8**	**7,151.3**	[4]**16.6**
Tangible Common Equity (MXN million)	**9,071.0**	**8,174.0**	**7,405.7**	**6,889.2**	**9,005.2**	[4]**0.2**
Tangible Common Equity (USD million)	**655.9**	**662.7**	**567.3**	**497.5**	**825.1**	[4]**-5.6**
Net Interest Margin (%)	**1.2**	**1.5**	**1.9**	**1.0**	**0.9**	[5]**1.3**
PPI / Avg RWA (%)	**2.2**	**0.1**	**2.6**	**-0.9**	**-1.5**	[6]**1.0**
Net Income / Avg RWA (%)	**2.2**	**1.6**	**1.1**	**-4.7**	**0.3**	[6]**0.1**
(Market Funds - Liquid Assets) / Total Assets (%)	**8.8**	**-7.5**	**3.5**	**7.2**	**-21.2**	[5]**-1.8**
Core Deposits / Average Gross Loans (%)	**57.7**	**109.0**	**82.4**	**102.0**	**93.0**	[5]**88.8**
Tier 1 Ratio (%)	**13.4**	**14.7**	**14.0**	**13.5**	**16.9**	[6]**13.9**
Tangible Common Equity / RWA (%)	**14.5**	**15.8**	**15.0**	**15.0**	**24.5**	[6]**15.1**
Cost / Income Ratio (%)	**47.1**	**97.6**	**50.4**	**134.5**	**146.6**	[5]**95.2**
Problem Loans / Gross Loans (%)	**2.4**	**3.3**	**2.7**	**1.7**	**10.9**	[5]**4.2**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**10.6**	**13.6**	**12.1**	**8.7**	**27.9**	[5]**14.6**

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; LOCAL GAAP [3] Basel I; LOCAL GAAP [4] Compound Annual Growth Rate based on LOCAL GAAP reporting periods [5] LOCAL GAAP reporting periods have been used for average calculation [6] Basel II & LOCAL GAAP reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

Banco Nacional de Comercio Exterior, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo's (Bancomext) Baa1 issuer and debt ratings reflect the Mexican government's irrevocable and enforceable guarantee of all the development bank's obligations with third parties as established under its Organic Law. This guarantee is indicative of Bancomext's role as an instrument of government-directed policy; its debt obligations are included in the calculation of Mexico's public debt. Bancomext's issuer and debt ratings incorporate five notches of uplift from the bank's Ba3 BCA based on the government's full guarantee.

Bancomext's BCA of Ba3 reflects its much improved profitability as demonstrated by three years of consistently positive returns aided by much lower operating costs. As Bancomext is no longer mandated to promote Mexican exports through training, advisory services, and trade-show hosting, those operating costs are now absorbed by a trust called ProMéxico with no relation to Bancomext.

The BCA also incorporates the reductions in the bank's non-performing loan levels as a result of loan restructurings and successful adjudication of problem loans, as well as the transfer of problem loans off-balance sheet. Bancomext's BCA is also supported by strong loss reserve coverage and an adequate Basle capital ratio of 13.8% as of September 2011 which is mainly composed of Tier 1 capital. The bank's expansion of its focus towards medium sized companies should help lower Bancomext's large single borrower concentrations going forward.

The bank's wholesale funding maintains some diversification beyond capital, afforded by money market accounts, interbank funding and a small long term debt issuance.

Bancomext's BCA is nevertheless limited by the fact that asset quality and profitability may continue to be at risk given the bank's still high single borrower concentrations with large Mexican corporations and the bank's mandate to finance exporters and industries that generate foreign currency. A newly formed workout area and early warning studies of the industries the bank is mandated to support should help to mitigate the bank's higher risk portfolio.

Recent Events

On 21 February 2011, Moody's affirmed Bancomext's long and short term local and foreign currency issuer ratings of Baa1 and Prime-2, its local currency long term debt rating of Baa1, its foreign currency short term debt rating of Prime-2, its National Scale long and short term issuer ratings of Aaa.mx and MX-1, and its National Scale long term debt rating of Aaa.mx.

At the same time, Moody's raised Bancomext's stand-alone baseline credit assessment (BCA) to Ba3, from B1.

What Could Change the Rating - Up

Bancomext's BCA could have upward pressure if recurring earnings are enhanced and non-recurring extraordinary losses are minimized. Continued and sustained improvements in asset quality and stronger diversification of funding would also afford upward pressure on the bank's BCA. An upward change in the Mexican government's Baa1 debt rating would have an equivalent impact on Bancomext's issuer and debt ratings.

What Could Change the Rating - Down

A downward change in the Mexican government's Baa1 debt rating would have an equivalent impact on Bancomext's issuer and debt ratings.

Rating Drivers

- The Mexican government is under enforceable obligation to contracted operations made between Bancomext and any third party

- The development bank is exposed to higher credit risk given its mandate to promote exporters and industries that generate foreign currency

- Much improved profitability is based on a narrow yet stable NIM, affected by high operating costs and non-recurring items

- Reductions in non-performing loans, though large single concentrations and the bank's mandate to provide financing to government-mandated priority industries will continue to instill instability going forward

- Wholesale funding with some diversification

- Total capital ratios are adequately high and mainly composed of Tier 1 capital; supported by high loan loss reserves

DETAILED RATING CONSIDERATIONS

Bancomext's ratings considerations are as follows:

Baseline Credit Assessment

Full Guarantee

Under Bancomext's Organic Law, the Mexican government is under enforceable obligation to contracted operations made between the bank and any third party. In effect, its debt obligations are considered to be part of Mexico's public debt.

Risk Positioning

Bancomext is a financial arm of the federal government with a mandate to promote the export sector and those industries which are major magnets of foreign currency for the country. As such, the development bank maintains a priority sector (31% of its portfolio as of November 2011), which exposes the bank to higher credit risk. The priority sector is composed of three government-identified industries: tourism (14% of the total portfolio), auto and auto-parts (12%) and industrial plants/complexes aimed for the maquiladora business (5%).

The remainder of the development bank's portfolio is composed of loans to large corporations (23%), other government related institutions at various levels of the government (paraestatales, 13%), and financial services (9%).

Bancomext balances its mandate as a development bank with credit policies that seek to reduce credit risk. The entity maintains a close follow up on each of the industries within its strategic priorities, so as to adapt repayments to seasonality, to refocus loans towards healthier segments within the industry in question, to diversify geographically, and to adapt origination based on industry characteristics.

Nevertheless, Moody's expects Bancomext to continue to be periodically exposed to government-mandated higher risk sectors or specific strategic troubled entities, which will deteriorate overall asset quality from time to time. The bank's new workout area and incorporation of smaller corporations into the loan book should help to minimize going forward the size of the bank's specific problematic loans.

Profitability and Efficiency

2011 is expected to be Banomext's third year of positive earnings following the extraction of the entity's role of offering training, advisory services, and trade-show hosting, which had historically resulted in high costs for Bancomext.

Bancomext's profitability is nevertheless still low and unstable, despite a fairly stable net interest margin (NIM).

The entity's core earnings are based on its lending portfolio, which represents about 90% of its net interest income. For the first nine months of 2011, the net interest margin (NIM) of 1.18% remained comparable to the entity's three year average of 1.4%. The bank's NIM is narrower than that found among the large commercial banks in Mexico because of Bancomext's more expensive wholesale funding mix.

Profitability is nonetheless periodically affected or enhanced by non-recurring items, such as 2010's Mx$908 million extraordinary income originated from the cancellation of legal reserves and high income from trading activities, 2008's Mx$4 billion fee payment for the federal guarantee the bank maintains, or various earnings from past restructurings.

The entity's operating costs have indeed decreased, and now represent 47% of gross revenues, down from a four year average of 107%, but still remain high when considering the entity's mainly second-floor banking activities.

During the first nine months of 2011, Bancomext reported low returns on assets of 0.66% and on equity of 13.35%.

Asset Quality

Bancomext's asset quality ratios have improved in the last four years. As of year-end 2007, Bancomext reported a past due loan (PDL) ratio of 11%. As of 30 September 2011, the PDL ratio decreased to 2.37%, mainly as a result of loan restructurings and successful adjudication of problem loans, as well as the transfer of problem loans off-balance sheet.

As of late, PDLs have benefited from the entity's new workout area that has reduced historic problem loans through follow up and effective legal proceedings. The workout area's main reductions in PDLs have been in lending sectors that the bank does not focus any longer, such as personal loans to employees.

Bancomext's PDL ratio has been periodically affected by large problematic loans to the aeronautical industry, foreign financial institutions loans, and the real estate development industry, all of which highlight Bancomext large concentrations, which will continue to expose the entity to potentially rapid deterioration of asset quality.

Bancomext nevertheless maintains a highly reserved portfolio, wherein loan loss reserves represent 5.75% of gross loans and 242.99% of PDLs, as of 30 September 2011. Adjudicated loans have been reserved at 100% as well.

Funding and Capital

Bancomext is wholesale funded, with some diversification afforded by interbank funding (41% of total unrestricted liabilities), money market accounts (27%) and long term debt issuances (6%).

Bancomext's capitalization ratio is adequately high and is able to absorb substantial losses within Moody's traditional scenarios for large corporate loans and investment securities portfolio, as well as write-offs for the bank's problematic loans and exposures.

As of 30 September 2011, total capital ratio was 13.8% (four year average of 14.4%) with a Tier 1 ratio of 13.45%. High levels of loan loss reserves representing almost 30% of capital also support the bank's capitalization.

Local Currency Debt Rating

On 7 March 2011, Moody's assigned long term local currency debt ratings of Baa1 in the global scale and Aaa.mx in the Mexican national scale to Bancomext's proposed issuance of up to five years of certificados bursátiles bancarios for up to Mx$5 billion.

Foreign Currency Debt Rating

Moody's rates Bancomext's two short term foreign currency commercial paper programs at Prime-2: one issued in 16 december 2005 for US$1.5 billion and due 4 December 2015 and another one issued last year and due 2012, for US$5 billion.

National Scale Rating

Moody's assigns Bancomext long and short term Mexican National Scale issuer ratings of Aaa.mx and MX-1, both of which indicate issuers or issues with the strongest creditworthiness relative to other domestic issuers.

Moody's National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".mx" for Mexico. For further information on Moody's approach to national scale ratings, please refer to Moody's Rating Implementation Guidance published in August 2010 entitled "Mapping Moody's National Scale Ratings to Global Scale Ratings."