

**Banks  
Mexico  
Credit Analysis**

**Banco Azteca**

**Ratings**

National Long Term	'A(mex)'
National Short Term	'F1(mex)'
Subordinated debt up to \$1,000'000,000.00	'A-(mex)'

**Outlook**

Stable

**Financial Data**

**Banco Azteca, S.A.**

	30/09/08	31/12/07
Total Assets (MXPm)	53,461	51,410
Equity (MXPm)	4,680	4,236
Net Income (MXPm)	115	664
Delinquency ratio (%)	5.5	10.2
Equity / Assets (%)	8.8	8.2
Equity / Loans (%)	22.5	21.7
ROA (%)	0.3	1.4
ROE (%)	3.3	17.8

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**Related Reports**

*Banco Azteca credit analysis (November 2008), available at www.fitchmexico.com*

**Rating Rationale**

- Banco Azteca's ("BAZ") ratings reflect its ample experience and strong competitive advantage granting consumer loans, as well as its favorable capacity for revenue generation. The ratings also consider the low stability of its financial performance as a result of higher provisioning in a tougher economic environment and lower efficiency due to the rigid non-interest expense structure inherent to its operation.
- BAZ's profitability ratios are modest and have shown certain variability. Until 2007, its operational revenues were increasing at rates over 20%, this trend has slowed down mainly because of its dependency to consistent credit origination. Net profit is limited by a rigid non-interest expense structure related to the operation of consumer credits (collection and technology) and higher loan loss provisioning (3Q08: 94.0% income before taxes and provisions).
- Loan origination has gradually diversified reducing dependency to consumer products (79.7% of loan portfolio). A tougher economic environment resulted in an increase of delinquent loans; notwithstanding, during 3Q08 BAZ's credit charge-offs raised to \$2,348 million (10.4% 2Q08 total loan portfolio) placing its delinquency ratio at 5.5%. Favorably, loan loss reserves have maintained coverage over 100%. Investments reached 28.9% of total assets in 3Q08 and consisted mainly of government debt (85.0%), commercial paper and fiduciary certificates with adequate collateralization schemes; the latter accounted for 31.5% of equity.
- Funding structure is broadly diversified under the form of demand deposits. Market risk through its investments is considered to be moderated and adequately monitored.
- BAZ's capital has grown at a steady pace. Its capital adequacy, considering risk/weighted assets ratio, stands at 11.8% in 3T08. Given its volatile profit generation, the bank's equity strength has relied on capital infusions from *Grupo Elektra* ("Elektra") in recent years. During the first months of 2008, BAZ declared dividends for \$350 millions and issued \$776 millions of subordinated debt, 75% of which is considered as eligible capital according to Fitch Methodology and the rest as a liability. In July 2008 the bank received a capital infusion of \$100 millions.

**Rating Outlook and Key Rating Drivers**

The outlook of the long term rating remains stable. In Fitch's opinion, BAZ has a financial structure capable to maintain an adequate net interest margin; nevertheless, higher loan loss provisioning and a rigid non-interest expense structure will keep its profitability under pressure. Ratings could benefit from a recovery and sustainment of its profitability ratios and asset quality. Downside rating risk could arise from an increase of delinquent loans not balanced with adequate loan loss reserves generation and/or significant deterioration of its capital adequacy ratio below the objective stated by BAZ' management (12%).

**Profile**

BAZ started operations in 2002. It focuses on granting consumer loans to medium and low income families. It is a subsidiary of Elektra, which has an ample experience managing loans granted in this segment of the population. At the end of 2007, the bank represented 62.3% and 21.7% of the total assets and equity of Elektra respectively.