

**Banks
México
Credit Update**

**Banco Nacional de Mexico
(Banamex)**

Ratings

	Current Rating
Banco Nacional de México, SA	
Long-Term IDR	A
Short-Term IDR	F1
Long-Term Local Cy IDR	A
Short-Term Local Cy IDR	F1
Individual Support	B/C 1
National-Scale	
Long-Term rating	AAA(mex)
Short-Term rating	F1+(mex)
Sovereign Ratings	
Long-Term IDR	BBB+
Local currency IDR	A-
Country Ceiling (Foreign C.)	A

Outlook

Long-term IDRs	Negative
LT National-scale	Stable
Sovereign Rating	Negative

Financial Data

**Banco Nacional de México, S.A.
(C)**

	12 31 2008	12 31 2007
Total Assets (USDm) *	70,748.3	79,044.2
Total Assets (MXNm) *	957,812.0	858,910.0
Total Equity (MXNm)	111,488.0	102,500.0
Net Income (MXNm)	9,678.0	19,221.0
ROA (%) *	1.07	2.36
ROE (%) *	9.05	19.66
Tier I capital	17.39	16.95

* Repos are presented as on-balance sheet items on a pro-forma basis.

Analysts

Alejandro García
+52 81 8399 9146
alejandro.garcia@fitchratings.com

René Ibarra
+52 81 8399 9143
rene.ibarra@fitchratings.com

Rating Rationale

- Banamex's Issuer Default Ratings (IDRs) reflect the strong willingness to support of its parent, Citigroup Inc., given Banamex's high strategic importance to Citi's global strategy -see "Citigroup To Support Global Franchise; International Support Ratings Affirmed" dated April 1st, 2009 and Profile section. In turn, Banamex's Individual rating is driven by its ample loss absorption capacity, robust franchise and sound liquidity, although this rating is pressured by rapidly raising credit costs and a sharp decline on the bank's historically high earnings, albeit these remain reasonable.
- A sharp increase in provisions (9.2% of average loans in 2008 and 6.0% in 2007) has pressured overall profitability, but earnings have remained positive driven by strong margins and sound efficiency. Adjusted operating ROA stood at a reasonable 1.0% in 2008, but Fitch considers that downside risks are significant, unless the bank is able to rapidly and properly contain further asset quality deterioration.
- Following ample charge-offs in 4Q08 (8.05% of average loans in 2008), asset quality metrics improved, but credit costs are still high and rising in the credit cards and consumer portfolios. Commercial loans could also weigh on asset quality trends going forward, given the exceptionally low delinquency at 0.4%.
- Liquidity and funding are sound, as the bank maintains a sizeable cushion of liquid assets (52% of deposits and money market funds) and customer demand deposits financed over 87% of the bank's total loans portfolio at end-2008.
- Its ample capital base (equity-to-adjusted-assets at 11.6% at end-2008) is a major strength. This is largely unencumbered core capital (Tier-1: 17.4%).

Support

The primary source of support for Banamex, if required, is its sole shareholder, Citigroup, Inc. (IDR at 'A+').

Key Rating Drivers

- Banamex's support rating, IDRs and national-scale ratings could be affected if Citigroup is restricted from freely providing support to or maintaining ownership in Banamex. Given its high systemic importance and Mexico's investment grade sovereign rating, its support rating and IDRs are unlikely to fall below '2' and the 'BBB' category, respectively, absent consideration of support from Citi. A potential downgrade of Mexico's sovereign ratings could also affect Banamex's IDRs.
- In turn, the Individual rating could be downgraded if the bank is not able to contain the exceptionally high credit costs that most banks are facing, maintain a reasonable performance and/or if the operating environment further deteriorates.

Profile

Banamex, wholly-owned by Grupo Financiero Banamex (GFBanamex), is Mexico's second largest bank, with 15% and 16% of the system's loans and deposits, respectively, at end-2008. Banamex has historically accounted for the vast majority of consolidated assets and earnings reported by GFBanamex, which also has subsidiaries involved in stock brokerage, insurance, leasing, annuities, pension funds and specialized consumer finance.