

**Banks
Mexico
Credit Update**

**Banco Nacional del Ejército,
Fuerza Aérea y Armada**

Ratings

Long Term National Rating	AAA(mex)
Short Term National Rating	F1+(mex)

Rating Outlook

Stable

Financial Data

**Banco Nacional del Ejército,
Fuerza Aérea y Armada, S.N.C.**

	31/12/08	31/12/07
Total Assets (million)	22,791	19,188
Equity (million)	4,180	3,607
Past Due/Total Loans (%)	0.3	0.3
Net Income (million)	573	460
ROAA (%)	2.7	2.6
ROAE (%)	14.7	13.9
Equity/Total Assets (%)	18.3	18.8

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Rating Rationale

- Banjercito's ratings reflect the explicit support that the bank would receive from the Mexican Government, which is stipulated in the 9th article of its Organic Law.
- Banjercito's financial performance is considered adequate and stable. Its profitability is sound (2004-2008: ROE 11.7% and ROA 2.1%) underpinned by a high interest margin even though loans represented 34.4% of total assets. The steady growth in revenues and its favorable cost control have strengthened its efficiency ratio to 53.4% (2005: 59.5%). Going forward, Fitch expects Banjercito will maintain both a compact staff structure and branches network with an ample client base.
- Risk management is considered adequate by Fitch. Its loan portfolio is highly pulverized and totally composed by consumer and mortgage loans (64.2% and 35.8% respectively). Collection practices are carried out through direct discounts from the payroll accounts, with the exception of credit cards, therefore past due loans are relatively low (2008: 0.3% of total loans). While reserves coverage is adequate at 2.3 times, loan loss reserves are somewhat limited relative to total lending (0.8%). Securities portfolio represented 46.5% of total assets and during 4T08 half of it was transferred to the held to maturity category; it is composed by government securities (65.6%) and banking debt instruments (34.4%).
- Banjercito's exposure to market risk remains low. It is measured using VaR technique with a limit for the global portfolio set at 0.3% of equity, which recorded a moderate consumption of 3.2% in 2008.
- Lending activities are primarily funded using the militaries work provision fund (37.6% of total funding base) which provides robust stability, while demand and term deposits are mostly invested in debt instruments. Although pressured by the reclassification of securities as held to maturity, liquidity risk is moderate.
- Under Fitch's view, Banjercito maintains a sound capitalization with net income retention as its fundamental strength. Even though the increase in loan operations has reduced its regulatory capital, it remains at a robust 25.7% (2007: 33.6%). Fitch expects this ratio to remain above 20% in the foreseeable future.

Rating Outlook and Key Rating Drivers

The outlook on the long term national rating is 'Stable'. Given that the bank's national ratings are driven by the explicit support of the Mexican government, Banjercito's ratings will mirror any potential change in Mexico's sovereign ratings.

Profile

Banjercito is a development bank focused on providing financial services to the members of the Mexican Army, Air Force and Navy, primarily granting consumer and mortgage loans. Savings and investment products are available to the general public. At the end of 2008, it had 54 branches and 54 modules to provide the Temporary Import Permits for Vehicles ("IITV") services.