

**Banks
México
Credit Update**

**Banco Nacional de Obras y
Servicios Públicos (Banobras)**

Ratings

	Current Rating
Banobras	
Foreign Currency	
Long-Term IDR	BBB+
Short-Term IDR	F2
Local Currency	
Long-Term IDR	A-
Short-Term IDR	F2
Support	2
Support Rating Floor	BBB+
National-Scale	
Long-Term	AAA(mex)
Short-Term	F1+(mex)
Sovereign Risk	
Long-Term IDR	BBB+
Long-Term Local Cy IDR	A-
Country Ceiling	A

Rating Outlook

Long-Term IDR	Negative
National Long-Term	Stable
Sovereign Rating	Negative

Financial Data

Banobras (C.)	09 30 2008	12 31 2007
Assets (USDm)	9,200.9	11,206.4
Assets (MXNm)	99,295.0	121,771.0
Equity (MXNm)	14,941.0	13,728.0
Net Income (MXNm)	1,212.0	-2,140.0
ROAA (%)	1.46	-1.92
ROAE (%)	11.27	-16.75
Past Due / Total Loans (%)	1.28	0.98
Tier-1 Capital (%)	21.23	25.89

Analysts

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

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

Rating Rationale

- Banco Nacional de Obras y Servicios Públicos (Banobras)'s ratings reflect the strength of the explicit support that the bank would receive from the Mexican government, if required. Fitch also notes its key role providing financing for public infrastructure, a cornerstone of the current administration's goals and its counter-cyclical policies.
- Given its relatively low operating costs, Banobras has recorded the best recurring operating performance among local development banks, although it has seen increased competition from commercial banks in its core activity of financing sub-nationals and infrastructure projects. Net profitability is affected from time to time by non-recurring costs paid to the government (it has been charged for the sovereign guarantee in 2002, 2005 and 2007; recorded as interest expenses). Going forward, we expect that profitability will likely remain modest, but consistent, with downside risks in the form of likely increasing provisions and higher funding costs.
- Banobras' credit risk is highly associated to the public sector and related entities and, therefore, is less exposed to event risk. In addition, it has an ample cushion of loan reserves (4.7% of total loans as of September 2008).
- The proportion of liquid assets is comfortable (23% of total assets), but liquidity is somewhat limited under the current market conditions, given its reliance on wholesale funding, which could constrain the bank's ability to provide relief to the currently tight local credit market. An important mitigating factor is the sovereign guarantee on its liabilities. Currency risk is fairly low.
- Capital is ample and unencumbered. The equity-to-assets ratio was 15.05% as of September 2008 and its risk-weighted capital ratio 21.5%. The MXN3.6bn paid in 2007 as the sovereign guarantee cost harmed earnings, but this amount was simultaneously re-injected as a capital contribution to maintain the bank's financial profile.

Support

The Mexican federal government is Banobras' majority shareholder (99.9%). Under Banobras' organic law (article 11), the Mexican federal government is explicitly responsible for Banobras' liabilities with domestic or foreign institutions. Given Mexico's investment grade rating, there is a high probability that support from the authorities would be forthcoming, if required.

What Could Trigger a Downgrade?

- Given that the bank's Issuer Default ratings (IDRs) are driven by the explicit support granted by the Mexican government, Banobras' ratings will mirror any potential change in Mexico's sovereign ratings.
- The outlook on Banobras' ratings is negative, similar to Mexico's sovereign ratings.

Profile

Banobras, established in 1933, is mandated to promote and fund infrastructure, public services and regional development projects entered into by the federal, local governments and state-owned companies. It operates as a non-profit institution.