Banks
México
Credit Update

Banco Mercantil del Norte

Ratings

	Current Rating
Banco Mercantil del Norte	
Long-Term IDR	BBB
Short-Term IDR	F2
Long-Term Local Cy IDR	BBB
Short-Term Local Cy IDR	F2
Individual	C
Support	2
Support Rating Floor	BBB-
National-Scale	
Long-Term rating	AA+(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	Stable
LT National-scale	Stable
Sovereign Rating	Negative

Financial Data

Banco Mercantil del Norte, S.A. (C)

	12 31 2008	12 31 2007
Total Assets (USDm)	40,709.3 *	25,301.9
Total Assets (MXNm)	563,111.0 *	274,936.0
Total Equity (MXNm)	36,042.0	30,912.0
Net Income (MXNm)	6,723.0	6,296.0
ROA (%)	1.60	2.51
ROE (%)	20.08	22.82
Tier I capital	9.36	10.30

* Repos are now on-balance sheet items.

Analysts

Alejandro García, CFA
+52 81 8399 9146
Alejandro.Garcia@fitchratings.com

René Ibarra
+52 81 8399 9143
Rene.Ibarra@fitchratings.com

Rating Rationale

- Banco Mercantil del Norte (Banorte)'s ratings reflect its overall good financial condition, adequate risk management and growing franchise. The ratings also factor in the worsening economic outlook and the group's recent decline in profitability, asset quality and capitalization, a trend that will likely continue for some time.
- In Fitch's view, Banorte will remain challenged by the worsening operating environment, given that current international and local conditions have made prospects for continued loan growth more difficult. Coupled with higher delinquency and credit costs in the retail portfolios, these factors will continue to affect asset quality and profitability going forward. Increased business volumes, wider margins and improving efficiency have not prevented declines in profitability, as the upward-trended provisions have offset higher revenues.
- GFNorte has developed a comprehensive risk management framework that, coupled with its relatively modest credit risk appetite, drives better-than-peers asset quality metrics. However, arrears in the credit card portfolio are rapidly rising. Moreover, its exposure to SME lending and to some of the corporations that have reported weak quarterly results recently, pose additional challenges in view of the economic downturn. Somewhat high borrower concentrations and its exposure to automobile captive finance companies are additional sources of credit risk.
- Customer deposits are the bulk of Banorte's total funding base. After a few years of sustained growth, the loans/deposits ratio has recently declined to 82% at end-2008 (end-2007: 86%). The proportion of liquid assets and marketable debt remains at a comfortable 38% of customer funding (excluding repurchase agreements).
- Capital adequacy has been tighter since the acquisition of INB, due to the goodwill that arose from that transaction. Hybrid securities have largely been used to mitigate the impact of that acquisition and from recent loan growth. Core and eligible capital accounted for 9.3% and 12.6% of risk-weighted assets (the latter includes equity-credit from hybrids).

Support

Given Banorte's systemic importance and its role as the largest indigenously-owned bank, Fitch believes that there is a high probability of receiving support from official sources wishing to maintain confidence in the banking system.

Key Rating Drivers

- A confluence of increasing impaired loans, tighter capital or liquidity and further declines in profitability could likely impact Banorte's IDRs and Individual rating.
- Over the medium term, Banorte's rating could benefit from improvements in capital adequacy and also from its proven resilience throughout the current turmoil.

Profile

Banorte is Mexico's fifth largest financial bank. It is 97%-owned by GFNorte, which also has subsidiaries in insurance, pension fund management, annuities, brokerage, leasing, factoring and warehousing activities. In 2006, Banorte acquired 70% of Texas-based INB.