

**Mexico
Credit Update**

Banca Mifel

Ratings

Banca Mifel, S.A.

Foreign Currency

Long-Term IDR	BB
Short-Term	B
Outlook	Stable

Local Currency

Long-Term IDR	BB
Short-Term	B
Outlook	Stable

Individual Support	C/D
Support Rating Floor	5 NF

National

Long-Term	A-(mex)
Short-Term	F2(mex)
Outlook	Stable

Sovereign Risk

Foreign Long-Term IDR	BBB
Local Long-Term IDR	BBB+
Outlook	Positive

Country Ceiling

Foreign Long-Term	A-
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Financial Data

Banca Mifel

	31 Dec 06	31 Dec 05
Total Assets [USDm]	698.0	536.2
Total Assets [MXPm]	7,595.0	5,779.0
Equity [MXPm]	958.0	812.0
Net Income [MXPm]	119.0	87.0
ROA (%)	1.78	1.63
ROE (%)	13.45	11.45
Capital Adequacy (%)	17.36	16.57

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Rating Rationale

- Banca Mifel's ratings reflect its adequate capitalization, liquidity and asset quality. The ratings also factor in its limited revenue diversification and weak operating efficiency, which constrain profitability, as well as some borrower concentrations, its modest franchise and the risks and challenges associated with ample projected growth in the following years.
- Profitability, though reasonable and stable in recent years, has been subdued given the bank's reliance on net interest income and weak operating efficiency (cost-to-income at 85% in 2006). In contrast, net profitability in recent years (average ROA 2003-2006: 1.73%) has been enhanced by low provisions and some non-recurring gains, which are unlikely to remain over time. While larger projected business volumes will somewhat improve operating efficiency, loan growth will stem from lower-yielding loans to sub-nationals and mortgages which, together with likely higher funding costs, will continue to constrain profitability.
- After some large problem loans negatively affected asset quality in the late 1990s, delinquency has remained well contained in the past four years. However, relatively large borrower and economic sector concentrations, similar to other Mexican small banks, continue weighing on Mifel's risk profile. Past due loans accounted for 2.2% of total loans with reserve coverage at 158% (3.5% of total loans). Credit risk outside the loan portfolio and market risks are modest and well monitored.
- Funding is largely provided by stable customer deposits (63% of total liabilities), which positively influences the bank's liquidity and interest rate risk. Ample asset growth could pressure liquidity going forward.
- Capital is sound (equity-to-assets 2006: 12.6%, largely unencumbered). Growth will pressure capitalization, but we believe Mifel will maintain its regulatory capital ratios at 14-15% with new hybrids and retained earnings.

Support

- Mifel is a small bank with little systemic importance in the domestic financial sector. Fitch believes that if the bank were to require external support in the future, although possible, it cannot be relied upon.

Rating Outlook and Key Rating Drivers

- The stable rating outlook reflects our belief that Mifel will maintain its risk profile while expanding business lines and volumes in the near future.
- The bank's Individual and Issuer Default ratings (IDRs) could benefit over time from sustained improvements in risk concentrations, revenue diversification, cost efficiency and overall profitability, while maintaining strong capital and liquidity levels and good asset quality through a downturn in the business cycle.
- In turn, these ratings could be negatively affected in the event that projected growth affects its capital adequacy, liquidity and/or asset quality.

Profile

- Established in 1993, Banca Mifel is the largest entity of Grupo Financiero Mifel, which also has factoring, leasing and mutual fund management companies. The bank has traditionally targeted SMEs and medium-sized real estate developers. As of March 2007, Mifel had 18 branches and its overall market share in terms of loans, assets and deposits was less than 0.5%.

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