



Fitch Affirms BanBajio's IDRs at 'BBB-' and Upgrades National Rating to 'AA+(mex)'; Outlook Stable

Fitch Ratings-Monterrey-07 June 2019: Fitch Ratings has affirmed Banco del Bajio, S.A. Institucion de Banca Multiple's (BanBajio) Long- and Short-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB-' and 'F3', respectively. In addition, BanBajio's Viability Rating (VR) has been affirmed at 'bbb-'.

At the same time BanBajio's and Financiera Bajio, S.A. de C.V. Sofom E.R.'s (FinBajio) long-term National scale ratings were upgraded to 'AA+(mex)' from 'AA(mex)'. The Short-term National Scale Ratings were affirmed at 'F1+(mex)'.

BanBajio's National rating upgrade is driven by the improved profitability that has sustained its capitalization metrics despite its high business growth in relation to its national peers. The controlled asset quality through the economic cycle and good funding and liquidity profiles also contribute to the upgrade.

The Rating Outlook of the long-term ratings on both scales is Stable. The current rating actions already consider the downgrade of the Mexican Sovereign Ratings as per June 5, 2019. A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

IDRs, VR AND NATIONAL RATINGS

BanBajio's IDRs and national ratings are driven by its intrinsic creditworthiness, as reflected in its VR of 'bbb-'. BanBajio's VR is highly influenced by its strong regional franchise but still moderate size on a global basis. The ratings also consider the bank's consolidated business model, particularly in the SMEs and agribusiness sectors. As of March 2019, BanBajio was the eighth largest bank among 52 banks in Mexico by gross loans and deposits.

BanBajio's earnings performance has been steadily improving over the past three years due to credit expansion accompanied by controlled asset quality, low-cost of funding coming from its stable deposit base, and sustained improvements in operating efficiency. Operating income to Risk Weighted Assets (RWAs) reached 4.6% as of March 2019 from the 3.0% average of 2015-2018.

Fitch views the bank's capitalization metrics as reasonable and consistent with its rating level. BanBajio's Fitch Core Capital to Risk Weighted Assets (RWAs) has been sustained at 14% since 2017. The high quality of equity and reasonable levels of loan loss reserves support the bank's loss absorption capacity.

BanBajio's asset quality continues to compare favorably with its closest peers, which Fitch believes reflects the bank's consistent underwriting standards. Non-performing loans (NPLs) to gross loans ratios continue to be below 1%, as they have been since 2016, with low levels of charge-offs. Borrower concentration of the loan book is moderate; the 20 largest obligors accounted for 1.1x the bank's FCC.

Fitch considers BanBajio's funding profile to be reasonable, owing to its reliance on stable deposits that represented 77.6% of the total funding. Depositor's concentrations continue at moderate levels since the 20 largest clients represented 15.4% of total deposits at first-quarter 2019. The loan to deposit ratio was 126.5% at the same date and has been close to that level since 2016.

The bank's liquidity risk is manageable. Asset-liability mismatches are present due to the short-term tenure of its deposits. However, the bank constantly uses credit facilities from Mexican development banks for a virtual maturity and interest rate match, which partially mitigates the liquidity risk.

SUPPORT RATING AND SUPPORT RATING FLOOR

BanBajio's Support Rating of 3 reflects Fitch's opinion of a moderate probability of sovereign support in case of need, given the bank's mid-size franchise and moderate market share of core customer deposits in the investment-grade Mexican operating environment. As of first-quarter 2019, the market-share in loans and deposits was around 3.3% and 2.7%, respectively. The Support Rating Floor (SRF) of 'BB-' indicates a base level for the bank's Long-Term IDRs as long as the assessment of the support factors does not change.

FINBAJIO'S NATIONAL RATINGS

FinBajio's ratings mainly reflect the high propensity and ability of support from BanBajio, if necessary, based on Fitch's assessment that the subsidiary is core to its bank's strategy due to its relevant role in providing core products such as factoring and leasing, which complement the range of financial services that the bank offers to its clients.

RATING SENSITIVITIES

IDRs, VR AND NATIONAL RATINGS

BanBajio's international scale ratings upside potential is limited considering Fitch's current assessment of the operating environment.

However, an upgrade of BanBajio's international and/or national ratings could be triggered if the bank significantly enhances its franchise, while continuing to diversify its business model and maintaining its financial profile at healthy levels.

A downgrade of national and/or international scale could result from a material deterioration of the bank's financial performance that drops its FCC to RWA ratio to levels below 13.5% and/or operating profits to RWAs consistently under 2%.

SUPPORT RATING AND SUPPORT RATING FLOOR

Upside potential for BanBajio's SR and SRF is limited and can only occur over time with a material gain in the bank's systemic importance. These ratings could be downgraded if the bank loses material market share in terms of retail customer deposits.

FINBAJIO'S NATIONAL RATINGS

Any potential changes of FinBajio's national ratings will be driven by any changes in BanBajio's national ratings or a modification on the entity's strategic importance to the bank.

Fitch has affirmed the following ratings:

BanBajio

--Viability Rating at 'bbb-';
--Foreign Currency Long-Term IDR at 'BBB-'; Outlook Stable;
--Foreign Currency Short-Term IDR at 'F3';
--Local Currency Long-Term IDR at 'BBB-'; Outlook Stable;
--Local Currency Short-Term IDR at 'F3';
--Support Rating at '3';
--Support Rating Floor at 'BB-';
--National Short-Term Rating at 'F1+(mex)'.

FinBajio

--National Short-Term Rating at 'F1+(mex)'.

Fitch has upgraded the following ratings:

BanBajio

--National Long-Term Rating to 'AA+(mex)' from 'AA(mex)'; Outlook Stable.

FinBajio

--National Long-Term Rating to 'AA+(mex)' from 'AA(mex)'; Outlook Stable.

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Summary of Financial Statement Adjustments - Pre-paid expenses and other deferred assets were classified as intangibles and deducted from Fitch Core Capital or tangible equity to reflect its low absorption capacity. In the case of BanBajio, Fitch has made adjustments to the Risk Weighted Assets (RWAs) following its criteria and the agency consolidated the bank's RWAs with those of its subsidiaries with credit operations.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)

Metodología Global de Calificación de Instituciones Financieras no Bancarias (pub. 21 Oct 2016)

Metodología de Calificaciones en Escala Nacional (pub. 02 Aug 2018)

Metodología de Calificación Global de Bancos (pub. 09 Jan 2017)

National Scale Ratings Criteria (pub. 18 Jul 2018)

Non-Bank Financial Institutions Rating Criteria (pub. 12 Oct 2018)

Short-Term Ratings Criteria (pub. 02 May 2019)

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