

**Banks
México
Credit Update**

Banco del Bajío

Ratings

	Current Rating
Foreign Currency	
Long-Term IDR	BB+
Short-Term IDR	B
Local Currency	
Long-Term IDR	BB+
Short-Term IDR	B
Individual Support	C/D
Support	5
Support Rating Floor	NF
National-Scale	
Long-Term	A+(mex)
Short-Term	F1(mex)
Sovereign Risk (Foreign)	
Long-Term IDR	BBB+
Short-Term IDR	F2
Country Ceiling	A

Rating Outlook

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

Financial Data

Banco del Bajío (C.)	09 30 2007	12 31 2006
Assets (USDm)	4,577.7	4,522.2
Assets (MXNm)	50,007.9	49,206.3
Equity (MXNm)	6,824.7	5,298.1
Net Income (MXNm)	511.5	634.0
ROAA (%)	1.37	1.43
ROAE (%)	11.25	14.61
Past Due / Total Loans (%)	2.12	1.74
Equity / Total Assets (%)	13.65	10.77

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Rating Rationale

- Banco del Bajío (Bajío)'s ratings reflect its good franchise in its core region, adequate capitalization and sound risk management. They also consider increasing competitive pressures, the challenge to further improve revenue diversification, the bank's relatively limited liquidity and modest, though improving, profitability.
- While Bajío's cost-to-income ratio (55% as of 9M07) compares well even with those of larger banks, narrower margins (NIM at 4.2%) and low net fee income (covering 16% of non-interest expenses) constrain overall earnings, a factor that highlights the challenges that smaller banks face, namely the lack of a strong franchise and relatively costlier funding costs. The recent ample expansion in the branch network has also weighed in modest profitability. Fitch considers that, while some improvements could be achieved in operating efficiency in the near future, further revenue diversification will be key to sustain strong earnings over time.
- Bajío has maintained sound asset quality in its originated loans. However, some increases in delinquency within the acquired mortgage portfolios have somewhat pressured the level of consolidated past due loans and reserve coverage (2.1% and 169%, respectively). Corrective measures in the monitoring and collection process have partially alleviated this trend. However, loan growth will likely remain strong and relatively changing towards retail lending at a slow pace, which highlights the need to further strengthen credit risk management and loan loss reserves. Unlike other regional banks, related-party loans and borrower concentration are low.
- Retail customer deposits provided 27% of total deposits and money market funding. Improving liquidity and funding stability is a common challenge to most niche banks.
- At 13.65% as of September 2007 (end-2005: 8.62%), the equity-to-assets ratio is sound. Capital is unencumbered, as net fixed and repossessed assets, permanent investments and deferred assets accounted for a low 26% of total equity at that date.

Support

Bajío has little systemic importance in the domestic deposit market and foreign institutional shareholders (Sabadell and IFC) maintain minority stakes. While capital infusions from local and foreign shareholders have sustained the bank growth, Fitch believes that external support, if required, although possible, cannot be relied upon.

Key Rating Drivers

- Bajío's Individual and Issuer Default ratings (IDRs) would be positively influenced over time by sustained improvements in profitability, revenue diversification, funding stability and liquidity, while maintaining sound capital and asset quality.
- The positive outlook on the national-scale ratings reflects that these could be upgraded if Bajío sustains recent improvements in profitability and capitalization, while reverting the slight worsening in liquidity and asset quality seen in 2007.

Profile

Bajío is a medium-sized bank created in 1994 to serve customers in the western side of central Mexico. Initially specialized in SME and agriculture finance, it has grown increasingly diversified. Banco de Sabadell holds a 20% stake in Bajío and the IFC, 10%.