FitchRatings

Fitch Takes Actions on Mexican FIs After Sovereign Outlook Revision to Negative

Fitch Ratings-Monterrey-06 November 2018: Fitch Ratings has conducted a portfolio review of selected Mexican Financial Institutions (FIs) following the revision of Mexico's sovereign rating Outlook to Negative from Stable on Oct. 31, 2018. (See "Fitch Affirms Mexico at 'BBB+'; Revises Outlook to Negative" at 'www.fitchratings.com'.)

The portfolio review includes Mexican FIs with Issuer Default Ratings (IDRs), Viability Ratings (VRs) or Insurer's Financial Strength Ratings (IFS ratings) that are at the same, above or one notch below the sovereign level. Fitch believes these ratings are more sensitive to a potential sovereign downgrade or any deterioration of the operating environment over the near term. Most of these entities' IDRs have been affirmed and the Rating Outlooks revised to Negative from Stable, except for a few particular cases further described below. A full list of rating actions follows at the end of this commentary.

KEY RATING DRIVERS

Government-Support Driven Ratings

This group considers state-owned banks or government financial institutions with IDRs, Support Ratings (SRs) and Support Rating Floors (SRFs) driven by explicit support (Bancomext, Banobras and Nafin) or implicit support (Infonavit and IPAB) from the sovereign, where the federal government is the shareholder and the source of any potential support, if required.

The Negative Outlook on this group highlights downside potential from a sovereign downgrade. The creditworthiness of these entities is linked to the country's federal government, given their policy role and/or high strategic importance to the government. Therefore, their ratings have been traditionally aligned to the sovereign's, which explains the Outlook revision to Negative from Stable.

Local Commercial Banks & Subsidiaries

This group considers local commercial banks whose international ratings are at or close to the sovereign rating and driven by their stand-alone credit profiles as reflected by their VRs, and therefore are relatively sensitive to a sovereign downgrade or a worsening operating environment (Banco Inbursa and Banco Compartamos).

The Negative Outlook for entities in this group, whose performance and prospects could be affected because of a worsening operating environment, reflects Fitch's expectations that the relativities of the VRs/IDRs versus the sovereign rating will be maintained in the event of a potential sovereign downgrade.

The Negative Outlook on the IFS rating of Seguros Inbursa, S.A. (Seguros Inbursa) is mirroring the action on Banco Inbursa. Seguros Inbursa's rating is based on legal explicit support given by its holding group Grupo Financiero Inbursa (GFInbursa), in which, according to the Financial Groups Law, the holding group, if required, will grant unlimited support for its subsidiaries. Fitch considers GFInbursa's credit quality similar and aligned with that of its main operating subsidiary, Banco Inbursa.

Grupo Financiero Banorte, S.A.B. de C.V. and Banco Mercantil del Norte S.A., Institucion de Banca Multiple were not included in this portfolio review, since their ratings are already on Rating Watch Negative, due to a recent acquisition and merger. Fitch expects to resolve the Rating Watch status separately in the following weeks.

Foreign Owned Commercial Banks

The third group considers foreign-owned commercial banks whose IDRs are driven by institutional support at or above the sovereign level (Citibanamex, SAN Mexico, HSBC Mexico) or where the IDRs are driven by a VR that is above the sovereign rating (BBVA Bancomer).

The revision on the Outlooks to Negative from Stable for the support-driven 'A' IDRs of Citibanamex and HSBC Mexico, reflect the fact that these ratings are already at the maximum uplift of two notches above the sovereign; any potential downgrade of the sovereign rating will likely have a similar effect on these banks' IDRs.

The Negative Outlook on BBVA Bancomer's IDRs reflects its VR, which is already one notch above the sovereign, an uplift that Fitch is unlikely to widen in the future. As a result, this bank's VR and IDRs will likely mirror a potential sovereign downgrade. However, downside potential on the IDRs is limited to 'BBB+', which is the minimum level implied in consideration of the potential support of Spain's Banco Bilbao Vizcaya Argentaria (BBVA, rated A-/Stable Outlook), considering BBVA Bancomer's role as a core subsidiary of material size for its ultimate parent.

SAN Mexico's IDRs were affirmed with a Stable Outlook because SAN Mexico's IDRs, currently driven by its intrinsic profile, are already at the minimum level implied by Fitch's support approach derived from its parent's IDRs (Banco Santander, S.A. rated at A-/Outlook Stable). While VRs do not have explicit Outlooks, Fitch expects that SAN Mexico's VR would be downgraded in the event of a sovereign downgrade, since its stand-alone credit profile is unlikely to be rated above Mexico's sovereign rating.

While not driving its IDRs, Citibanamex's VR would also likely mirror a potential sovereign downgrade, given its relatively high level (one notch above the sovereign level). In turn, given its current relatively low level, HSBC Mexico's 'bbb-' VR is not expected to be affected in the event of a sovereign downgrade or a moderate deterioration of the local operating environment.

Bolsa Mexicana de Valores and Subsidiaries

The affirmation of Bolsa Mexicana de Valores' (BMV) ratings and its Stable Rating Outlook are driven by the resilience of its credit profile, which considers its virtually zero leverage, highly cash flow generating business model that benefits from a diversified revenue base, and the relevant contribution of non-transactional sources of income. Therefore, Fitch believes that these IDRs could be unaffected in a potential scenario of a one-notch sovereign downgrade. The affirmation of Asigna's and CCV's ratings and their Stable Outlook are aligned with the actions taken on its parent (BMV), since these are support driven ratings.

SUPPORT RATINGS (SRs) and SUPPORT RATING FLOORS (SRFs)

The existing SRs and SRFs of banks included in this portfolio review have been affirmed, since the sovereign Outlook revision does not affect Fitch's views on the drivers of these ratings. However, the state-owned banks' SRFs would typically mirror any change on the sovereign rating. Fitch's SRFs indicate a level below which the agency will not lower the bank's Long-Term IDRs, as long as the assessment of the support factors does not change.

NATIONAL SCALE RATINGS

No changes are expected in the national scale ratings of these or other FIs in Mexico, derived from a potential downgrade of the sovereign, since these ratings are local relative rankings of creditworthiness within a particular jurisdiction. Fitch does not expect these relativities to change in the event of a moderate downgrade in the sovereign rating; therefore, no rating actions have been taken on the national scale ratings.

DEBT RATINGS

Although they do not have an explicit outlook, the global debt ratings (senior unsecured, subordinated debt and hybrids) would mirror any potential movements on the respective IDRs in order to reflect the potential action on the sovereign. The senior unsecured debt ratings would be aligned with their respective banks' IDRs. The subordinated debt and hybrids would maintain the same differentiation with the respective anchor ratings.

RATING SENSITIVITIES

VRs, IDRs and IFS
The ratings and Outlooks for the financial institutions included in this portfolio review are sensitive to any further changes in Mexico's sovereign ratings, or material deterioration on the local operating environment over the foreseeable future. In Fitch's view, there is a material possibility that the IDRs/IFS that now have a Negative Rating Outlook would be downgraded in the event of a sovereign downgrade. The same would stand for the VRs of BBVA Bancomer, Citibanamex, SAN Mexico, Banco Inbursa and Banco Compartamos.

Short-term ratings do not have Outlooks, but any downgrade of the respective Long-term IDR could trigger a one-notch downgrade of the Short-term IDRs of issuers in the first and second groups. Specifically in the third group, SAN Mexico would be downgraded to 'F3' from 'F2' and HSBC Mexico, BBVA Bancomer and Citibanamex to 'F2' from 'F1'.

There is limited upside potential on BMV and Subsidiaries' ratings, especially with the current Negative Outlook of the sovereign. However, it could occur in the medium term if there is a substantial increase in trading volumes. At the same time, if there is an improvement in Mexico's operating environment, and by a sustained growth in non-transactional sources of revenue. BMV would also need to maintain its strong financial performance in order for an upgrade to occur.

SRs and SRFs

Fitch does not expect SRs to change, even in the event of a potential sovereign downgrade. However, the SRFs of Nafin, Bancomext, Banobras, Infonavit and IPAB are aligned to the sovereign rating; therefore, they will likely change in line with any potential sovereign downgrade.

The SRF for Banco Inbursa is driven by the potential sovereign support, considering its respective systemic importance, but is below the sovereign rating. Therefore, Banco Inbursa's SRFs are unlikely to be affected in the event of a moderate sovereign downgrade.

For further specific sensitivities for each issuer, please refer to their individual press releases and/or rating reports at www.fitchratings.com.

Fitch has affirmed the following ratings and revised Outlooks as indicated:

Banco Nacional de Comercio Exterior, S.N.C (Bancomext)
--Long-Term Foreign and Local Currency IDR at 'BBB+'; Outlook to Negative from Stable;
--Short-Term Foreign and Local Currency IDR at 'F2';
--Support Rating at '2';
--Support Rating Floor at 'BBB+';
--Long-Term subordinated notes at 'BBB'.

Banco Nacional de Obras y Servicios Publicos, S.N.C. (Banobras)
--Long-Term Foreign and Local Currency IDR at 'BBB+'; Outlook to Negative from Stable;
--Short-Term Foreign and Local Currency IDR at 'F2';
--Support Rating at '2';
--Support Rating Floor at 'BBB+'.

Nacional Financiera, S.N.C. (Nafin)
--Long-Term Foreign and Local Currency IDR at 'BBB+'; Outlook to Negative from Stable;
--Short-Term Foreign and Local Currency IDR at 'F2';
--Support Rating at '2';
--Support Rating Floor at 'BBB+';
--Long-term senior unsecured debt issuances at 'BBB+';
--Senior unsecured certificates of deposits (CDs) program and outstanding issuances at 'BBB+/F2'.

Instituto del Fondo Nacional de la Vivienda para los Trabajadores (Infonavit)
--Long-Term Foreign and Local Currency IDR at 'BBB+'; Outlook to Negative from Stable;
--Short-Term Foreign and Local Currency IDR at 'F2';
--Support Rating at '2';
--Support Rating Floor at 'BBB+'.

Instituto para la Proteccion al Ahorro Bancario (IPAB)
--Long-Term Foreign and Local Currency IDR at 'BBB+'; Outlook to Negative from Stable;
--Short-Term Foreign and Local Currency IDR at 'F2';
--Support Rating at '2';
--Support Rating Floor at 'BBB+'.

Banco Nacional de Mexico, S.A. (Citibanamex)
--Long Term Foreign and Local Currency IDRs at 'A'; Outlook to Negative from Stable;
--Viability rating at 'a-';
--Short-Term Foreign and Local Currency IDR at 'F1';
--Support Rating at '1'.

BBVA Bancomer, S.A. (BBVA Bancomer)
--Long Term Foreign and Local Currency IDRs at 'A-'; Outlook to Negative from Stable;
--Viability rating at 'a-';
--Short-Term Foreign and Local Currency IDR at 'F1';
--Support Rating at '2';
--Long-term hybrid subordinated notes at 'BBB-';
--Long-term junior subordinated notes at 'BB+';

--Long-term senior unsecured global notes at 'A-';
--Long-term Basel III compliant Tier 2 hybrid subordinated notes at 'BBB-'.

Banco Santander (Mexico), S.A. (SAN Mexico)
--Long-Term foreign and local currency IDRs at 'BBB+'; Outlook Stable;
--Viability rating at 'bbb+';
--Short-Term Foreign and Local Currency IDR at 'F2';
--Support Rating at '2';
--Long-term senior unsecured global notes at 'BBB+';
--Long-term Basel III compliant Tier 2 hybrid subordinated notes at 'BBB-';
--Perpetual subordinated non-preferred contingent convertible capital notes which qualify as additional Tier 1 at 'BB'.

Banco Inbursa, S.A. (Banco Inbursa)
--Long-Term Foreign and Local Currency IDRs at 'BBB+'; Outlook to Negative from Stable;
--Viability rating at 'bbb+';
--Short-Term Foreign and Local Currency IDR at 'F2';
--Support Rating at '3';
--Support Rating Floor at 'BB+';
--Long-term senior unsecured global notes at 'BBB+'.

Seguros Inbursa, S.A., Grupo Financiero Inbursa (Seguros Inbursa)
--Insurer Financial Strength at 'BBB+'; Outlook to Negative from Stable.

HSBC Mexico, S.A. (HSBC Mexico)
--Long-Term Foreign and Local Currency IDRs at 'A'; Outlook to Negative from Stable;
--Viability rating at 'bbb-';
--Short-Term Foreign and Local Currency IDR at 'F1';
--Support Rating at '1'.

Banco Compartamos, S.A. I.B.M (Compartamos)
--Long-Term Foreign and Local Currency IDRs at 'BBB', Outlook to Negative from Stable;
--Viability Rating at 'bbb';
--Short-Term Foreign and Local Currency IDR at 'F2';
--Support Rating at '5';
--Support Rating Floor at 'NF'.

Bolsa Mexicana de Valores, S.A.B. de C.V. (BMV)
--Long-Term Foreign and Local Currency IDRs 'BBB+'; Outlook Stable;
--Short-Term Foreign and Local Currency IDRs 'F2';

Asigna Compensacion y Liquidacion F30430 FISO BANCOMER SA (Asigna)
--Long-Term Foreign and Local Currency IDRs 'BBB+'; Outlook Stable;
--Short-Term Foreign and Local Currency IDRs 'F2';

Contraparte Central de Valores de Mexico, S.A. de C.V. (CCV)
--Long-Term Foreign and Local Currency IDRs 'BBB+'; Outlook Stable;
--Short-Term Foreign and Local Currency IDRs 'F2';

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Summary of Financial Statement Adjustments:
Bancomext, Banobras, Nafin, Infonavit and IPAB:
Pre-paid expenses and other deferred assets were re-classified as intangibles and deducted from Fitch Core Capital due to low loss absorption capacity under stress.

Citibanamex, SAN Mex and Banco Inbursa
Pre-paid expenses and other deferred assets were re-classified as intangibles and deducted from Fitch Core Capital due to low loss absorption capacity under stress. 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 lending operations.

BBVA Bancomer, HSBC Mexico and Banco Compartamos
Pre-paid expenses and other deferred assets were re-classified as intangibles and deducted from Fitch Core Capital due to low loss absorption capacity under stress.

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Additional information is available on www.fitchratings.com

The following issuer(s) did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure: Seguros Inbursa, S.A.,Grupo Financiero Inbursa

Applicable Criteria
Bank Rating Criteria (pub. 12 Oct 2018) (https://www.fitchratings.com/site/re/10044408)
Insurance Rating Criteria (pub. 30 Nov 2017) (https://www.fitchratings.com/site/re/905036)
Non-Bank Financial Institutions Rating Criteria (pub. 12 Oct 2018) (https://www.fitchratings.com/site/re/10044407)

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