

**Rating Action: Moody's places Banco Ahorro Famsa's B1 on review for downgrade**

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25 Mar 2020

Mexico, March 25, 2020 -- Moody's de México ("Moody's") today placed Banco Ahorro Famsa, S.A.'s (BAF) B1 long-term global local and foreign currency deposit ratings and Ba3(cr) long-term counterparty risk assessment on review for downgrade. This follows Moody's decision to place BAF's b1 standalone baseline and adjusted baseline credit assessments of b1 on review for downgrade. Moody's also placed on review for downgrade BAF's long- and short-term Mexican National Scale deposit ratings of Baa3.mx/MX-3.

Moody's affirmed BAF's short-term global local and foreign currency deposit ratings at Not Prime and the bank's short-term counterparty risk assessment at Not Prime(cr).

The following ratings and assessments of Banco Ahorro Famsa, S.A. (820539657) were placed on review for downgrade:

- . Baseline Credit Assessment of b1
- . Adjusted baseline credit assessment of b1
- . Long-term global local currency deposit rating of B1, outlook changed to ratings under review, from stable
- . Long-term global foreign currency deposit rating of B1, outlook changed to ratings under review, from stable
- . Long-term Mexican National Scale deposit rating of Baa3.mx
- . Short-term Mexican National Scale deposit rating of MX-3
- . Long-term counterparty risk assessment of Ba3(cr)
- . Outlook, changed to ratings under review, from stable

The following ratings and assessments of Banco Ahorro Famsa, S.A. (820539657) were affirmed:

- . Short-term global local currency deposit rating: Not Prime
- . Short-term foreign currency deposit rating: Not Prime
- . Short-term counterparty risk assessment of Not Prime(cr)

**RATINGS RATIONALE**

Moody's placed BAF's ratings on review for downgrade to reflect increasing asset risks stemming from high levels of nonperforming loans (NPLs) and related party exposures that could constrain the bank's already low and volatile profitability. The review will focus on BAF's ability to lower its problematic risk exposures in light of the slowdown in economic growth in Mexico combined with the negative effects of the recent coronavirus crisis on overall business activity. Unfavorable conditions could limit the bank's ability to resolve NPLs and conclude the sale of assets received in lieu of payment, which in turn, would weaken BAF's core capitalization. BAF's profitability nevertheless will benefit from lower funding costs, as time deposits reprice at lower rates. The bank's retail core deposit base remains its key strength.

Moody's noted that BAF's NPL ratio increased to 14.65% as of year-end 2019, from 12.16% a year ago, because much slower economic growth in the year has delayed the benefits of new loan origination and collection processes. Although new loan origination processes have reported NPL ratios closer to 10%, a credit positive, healthy growth in the bank's target market of lower income individuals will be more difficult to achieve during 2020.

Moreover, the expected economic deceleration and the more challenging operating conditions related to the

outbreak of the coronavirus could also delay BAF's plans to sell real estate assets it has received since September 2019 from its holding company, Grupo Famsa, S.A. de C.V. as payment for account receivables. BAF had traditionally accumulated accounts receivables with Grupo Famsa because of an arrangement whereby loans past due for more than 10 months were transferred to the holding company for a more effective collection process. Accounts receivables increased to 19% of gross loans as of year-end 2019, from 13% in the year prior. However, Moody's believes that accounts receivables from Grupo Famsa expose the bank to undue asset risks because of the difficulties the holding company has had in refinancing a large debt issuance.

BAF's total regulatory capital ratio was also affected by increased related party exposures. The bank's much lower total regulatory capital ratio decreased to 10.6% as of year-end 2019, from 12.5% as of year-end 2018, which puts it just ten basis points above early warning systems of the bank regulator. This adjustment shaves almost 400 basis points out of Moody's preferred capitalization ratio of tangible common equity to risk-weighted assets of 14.1% as of year-end 2019.

The bank's profitability has been low and volatile during 2019, as a result of high credit costs stemming from the bank's continued incorporation of another set of accounts receivables, from its sister finance company Impulsora Promobién, S.A. de C.V. into the bank's loan portfolio. Promobién offers payroll-linked loans to individuals and its portfolio traditionally was ceded to the bank and accounted as collection rights at a discount. The bank's profitability will nevertheless benefit from lower funding costs following interest rates cuts in Mexico. Although the bank benefits from access to granular and stable deposits sourced from individuals, these tend to be time deposits, which take longer to reprice. With almost no reliance on market funding, the bank's loan-to-deposit ratio was a low 75.3% as of December 2019.

#### WHAT COULD CHANGE THE RATING UP/DOWN

In line with the review for downgrade, there is limited upward pressure on BAF's ratings. However, the ratings could be affirmed at their current level if the bank is able to substantially sell assets received in lieu of payment and lower accounts receivables with its holding company, both of which are negatively affecting the bank's asset quality and capitalization.

Conversely, the ratings could be downgraded because of the persistence of high asset risks. Downward ratings pressure will mount if the bank is unable to sell the assets received in lieu of payment or lower accounts receivables in the short-term.

The principal methodology used in these ratings was Banks Methodology published in November 2019. Please see the Rating Methodologies page on [www.moody.com.mx](http://www.moody.com.mx) for a copy of this methodology.

The period of time covered in the financial information used to determine Banco Ahorro Famsa, S.A.'s rating is between 31 December 2016 and 31 December 2019 (source: Issuer website).

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in May 2016 entitled "Mapping National Scale Ratings from Global Scale Ratings". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see [http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1174796](http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1174796).

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Information sources used to prepare the rating are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's information.

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The date of the last Credit Rating Action was 28 March /2019.

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