



BANBAJIO®

Banco del Bajío Valuation

June 25 2021

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BUSINESS AND BACKGROUND INFORMATION

Setting and Background Information

BanBajío is a Mexican bank founded in 1994 by a group of businessmen from Mexico City and León, Guanajuato. Its principal activities include offering financing to small and medium sized companies in Mexico's Bajío region. Currently, BanBajío is the 3rd largest Mexican owned bank in terms of loan portfolio and total funding. It is also the 8th largest Mexican bank in the Mexican banking system in terms of loan portfolio, total funding, and commercial lending. The following paragraphs illustrate important information regarding the bank's development from 1994 to 2021.

In 1998, Banco Sabadell, S.A. acquired a 10% minority stake in BanBajío capital stock, motivated by its interest in geographically diversifying and establishing a financial services bridge for its clients in Spain that had commercial operations with Mexico, as part of the Americas expansion project. Subsequently, in 2005 it increased its participation to 20%, in both cases through a capital contribution. Banco Sabadell's participation in BanBajío facilitated the development of the areas of technology, international banking, private banking and key business processes.

In June 2012, Temasek Holdings, through its investment vehicle Ion Investments, B.V., acquired from Banco Sabadell, S.A. a 13.3% stake in BanBajío capital stock, the remaining 6.7% held by Banco Sabadell, S.A. was acquired by a group of BanBajío's shareholders.

On June 8, 2017, the company placed on the public market 298,012,162 shares in its Initial Public Offering at a price of \$29.50 pesos per share, for an amount of \$8,791 million pesos. The placement was carried out through a mixed offer of shares that consisted of 79,788,616 shares in a primary public offering and an over-allotment of 38,871,151; also a secondary public offering of sale for 179,352,395 shares. The multiple of the value of the share over the book value was 1.78 and over the profit of the first quarter of 2017 of 9.81. The capital raised was \$3,500 million pesos and \$3,390 million pesos net of expenses and taxes.

The company later made a 5-1 stock split. Increasing the amount of shares outstanding to 1,189,931,687 as of May 2, 2021.

On November 26 2019, the National Banking and Securities Commission, through official letter No. 153/12414/2019, authorized the Revolving Program for the issuance of Bank Bonds (Certificados Bursátiles Bancarios) for up to \$ 15,000,000,000 pesos. The term to carry out issues under the program is five years from the date of the trade.

On that same date, based on the revolving program for the issuance of bank bonds established by Banco del Bajío, the public offering of 30,000,000 Certificates was carried out, with a nominal value of \$ 100.00 (one hundred Pesos 00/100 National Currency), \$3,000,000,000.00 (three billion Pesos 00/100M.N.), with ticker symbol BBAJIO 19, with a term of 1,092 days, which is approximately 3 years. The date of issue and placement was November 29, 2019, and the maturity date will be November 25, 2022.

Business

The principal activity of BanBajío is the loaning of commercial credit, which currently represents 81% of their total loan portfolio. The bank focuses on offering financial services to companies, mainly to SMEs (Small and Medium Enterprises). As well as financial products to individuals, such as savings, credit and insurance.

The company's operations are divided into two main segments: Enterprise Banking (mostly medium sized companies with more than \$93 million pesos in revenue) and Retail Banking.

As of December 31, 2019, Enterprise Banking had a loan portfolio of approximately 120,171 million pesos, representing 67% of Banbajío's total portfolio. This business generated interest income of \$18,430 million pesos during 2019 (includes the income generated by the SME business unit), which represented 80.0% of Banbajío's interest income. For the years 2018 and 2017 it generated interest income of 15,785 million pesos and 12,524 million pesos, respectively, which represented 78.7% and 78.5% of Banbajío's interest income, respectively. This business segment focuses on:

- Medium sized companies with more than \$93 million pesos in revenue
- Financial Entities
- Agro-businesses
 - Established companies and small producers in the agricultural and rural sector
- Government Institutions

Retail Banking as of December 31, 2019, had a loan portfolio of approximately 60,037 million pesos, representing 33% of BanBajío's total portfolio, it offers savings and loan products and services to small companies and individuals. This business generated interest income of 1,131 million pesos during the year 2019 (not including the income generated by the unit of SME businesses, which are incorporated into the income of the enterprise business unit), which represented 4.9% of BanBajío's total interest income. For the years 2018 and 2017, it generated interest income of \$1,042 million pesos and \$978 million pesos, respectively, which represented 5.2% and 6.1% of BanBajío's total interest income, respectively. This business segment focuses on:

- Consumer Banking
- Credit lending to Small Businesses from \$200,000 to \$10,000,000 pesos
- Mortgage Banking

Distribution

As of December 31, 2019, BanBajío has a presence in Mexican 29 states and in 80 of the largest cities in the country through 306 branches. This branch network is shown in the image below:



In addition to this branch network, BanBajío has an agreement with Banca Afirme, which allows BanBajío's clients to use Afirme's branches at no cost for the most common banking services, such as: check payment, cash withdrawal, settlement of payment orders, credit payment, and cash deposit. In this way, BanBajío's clients have access to 196 additional branches. This means that in total, BanBajío's clients have access to a network of 502 branches.

BanBajío's strategy has been focused on maintaining leadership in the regions of origin: Bajío, Central and West, in which they currently maintain a greater market share with constant growth. In particular, the states in which the company has a greater leadership are: Guanajuato and Jalisco. For example, according to the CNBV, BanBajío currently has the biggest market share in regards to commercial loans and funding with a participation of 33.7% and 25.7%, respectively, in the state of Guanajuato.

Profitability

(in Millions of Mexican Pesos)

Year	2020	2019	2018	2017
Interest Income	19,767	23,027	20,062	15,948
Interest Expense	8,547	10,575	8,607	6,734
Net Interest Income	11,220	12,452	11,455	9,214

Provisions for Losses	2,700	851	906	1,288
Non-Interest Income	3,295	3,471	2,888	2,750
Total Operating Revenue	23,062	26,498	22,950	18,698
Non-Interest Expense	7,408	7,412	6,698	5,720
Total Operating Expenses (with provisions)	18,655	18,838	16,211	13,742
Net Operating Income (After Provisions)	4,407	7,660	6,739	4,956
Operating Margin	19.1%	28.9%	29.4%	26.5%
Total Net Income	3,436	5,607	5,076	3,848
Net Income Margin	14.9%	21.1%	22.1%	20.6%

Year	2020	2019	2018	2017
NIM	n/a	5.15%	5.23%	4.04%
ROAE	13.7%	17.7%	16.8%	15.9%
ROAA	1.8%	2.35%	2.15%	2%

Profitability Key Ratios

Year	2020	2019	2018	2017
System	11.4%	15.4%	16.3%	15.8%
BanBajio	13.7%	17.7%	16.8%	15.9%

Return on Average Equity of BanBajio vs Industry

Year	2020	2019	2018	2017
System	1.3%	2.7%	2.7%	2.6%
BanBajio	1.8%	2.35%	2.15%	2%

Return on Average Assets of BanBajio vs Industry

Year	2020	2019	2018	2017
System	50.8%	49.1%	48.7%	47.9%
BanBajio	45.7%	43.3%	43.5%	44.8%

Banbajio Efficiency Ratio vs Industry

Commercial Banking	Total Loan Portfolio	Core Deposits ⁵	Shareholders Equity	ROE	Efficiency	Capitalization ⁶	Cost of Funding
BBVA BANCOMER	1,279	1,319	263	20.1%	37.9%	16.6%	1.9%
BANORTE	805	775	217	16.7%	40.0%	20.7%	2.2%
SANTANDER	735	771	153	7.3%	47.1%	17.1%	2.4%
BANAMEX	643	911	206	10.1%	56.2%	15.4%	1.7%
HSBC	396	448	76	7.5%	57.4%	14.8%	2.7%
SCOTIABANK	424	370	60	6.3%	56.4%	14.0%	3.8%
INBURSA	235	170	154	8.8%	32.3%	17.7%	4.5%
BAJIO	191	171	34	12.7%	45.7%	16.2%	3.5%
BANREGIO	111	98	22	16.5%	45.2%	15.2%	3.4%
MULTIVALORES	94	43	17	3.8%	72.3%	13.4%	5.1%
SABADELL	57	49	7	3.9%	74.2%	15.5%	0.0%
MIFEL	48	34	8	8.3%	65.5%	13.8%	4.4%
AFIRME	53	54	10	9.8%	64.5%	13.6%	3.3%
VE POR MAS	46	36	6	8.3%	68.9%	13.0%	4.5%
BANSI (B)	16	16	3	12.1%	45.4%	18.3%	4.1%
TOTAL	\$5,135	\$5,264	\$1,235	12.6%	46.9%	16.9%	2.5%

BanBajio vs Competitors as of September 2020

Bank	Number of Branches
BBVA Bancomer	1859
Banorte	1182
Santander	1045
Banamex	1465
HSBC	951
Scotiabank	553
Inbursa	883

Bajio	306
Banregio	156

<https://www.statista.com/statistics/1114454/mexico-number-branches-banks/>

Number of Branches of Selected Banks

Cost of Funding

The table below shows BanBajio and the General Mexican Banking System's cost of funding from 2015-2019.

Cost of Funding for the BanBajio

Year	2020	2019	2018	2017	2016	2015
Cost of Funding	3.5%	5.0%	4.6%	n/a	n/a	n/a

Cost of Funding for the General Mexican Banking System

Year	2020	2019	2018	2017	2016	2015
Cost of Funding	2.5%	4.0%	4.0%	3.6%	2.7%	1.77%

The main reason why BanBajio's cost of funding has been greater than the market average is that the bank's branch network is smaller than most of its competitors. The following table illustrates this:

Bank	Number of Branches (2019)
BBVA Bancomer	1859
Banorte	1182
Santander	1045
Banamex	1465
HSBC	951
Scotiabank	553
Inbursa	883
Bajio	306

Banregio	156
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Nevertheless, although BanBajio lacks the economies of scale that arise from having a prevalent branch network in some parts of the country, the bank's concentration in certain states and industry segments like Guanajuato and Jalisco, and agriculture, respectively, has allowed the company to grow its deposit base and obtain a competitive cost of funding. For example, from 2017 to 2019, BanBajio grew its deposit base at a compounded rate of 13.4%. Which is superior to the 4.3% achieved by the system. Moreover, the following table shows Total Deposits to Total Funding of BanBajio and its main competitors.

Bank	Total Deposits as a Percentage of Total Funding
Citibanamex	77.3%
BBVA Bancomer	72.4%
HSBC	80.1%
Santander	63.7%
BanBajio	75.3%
Scotiabank	73.9%
Banorte	74.6%
Banregio	87.1%

In effect, this solid funding structure has allowed the bank to fund the growth of its loan portfolio without incurring a lot of debt.

Funding Structure

Notes:

- Total Funding = Demand Deposits + Time Deposits + Total Debt + Repos
- Total Core Deposits = Demand Deposits + Time Deposits

Total Funding of BanBajío from 2017 to 2020 (in millions)

Year	Q1 2021	2020	2019	2018	2017
Total Funding	232,791	232,314	197,559	185,044	163,569

Total Core Deposits of BanBajío from 2017 to 2020 (in millions)

Year	Q1 2021	2020	2019	2018	2017
Core Deposits	177,606	176,920	145,647	133,835	113,354
% of Total Funding	76%	76%	74%	72%	68%

Total Debt of BanBajío from 2017 to 2020 (in millions)

Year	Q1 2021	2020	2019	2018	2017
Debt	47,954	48,434	45,853	41,167	38,166
% of Total Funding	21%	21%	25%	22%	23%

Total Repos of BanBajío from 2017 to 2020 (in millions)

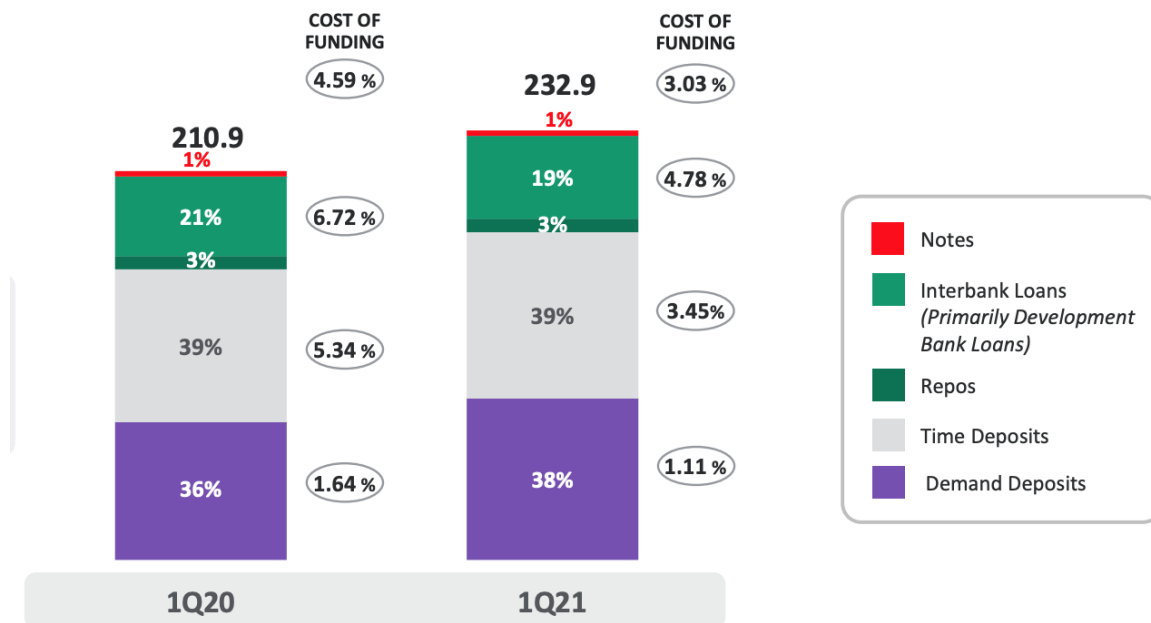
Year	Q1 2021	2020	2019	2018	2017
Repos	7,231	6,864	5,983	9,981	12,088
% of Total Funding	3%	3%	3%	5%	7%

The increase in BanBajío's debt in 2019 was due to the bank's issuance of \$3,000 million pesos worth of bonds with a timeline of approximately 3 years.

At the end of 2019, BanBajío had credit lines with multiple development banks that have allowed the bank to grow its long-term loan portfolio with a competitive cost of funding. These include: a credit line with NAFIN of \$11,750 million pesos and FIRA of \$40,000 million pesos,

both with a maximum term of 15 years. Additionally, the bank also has a ten year term credit line with Bancomext of \$6,650 million pesos. At the end of 2019, 73% of these credit lines had been used.

Finally, the following table shows BanBajío's funding structure with its respective cost for the second quarter of 2021.



Capitalization and Leverage

Ban Bajío has maintained a healthy level of capitalization since 2017. The table below shows Banbajío's equity to assets minus cash and cash equivalents ratio from 2015-2021.

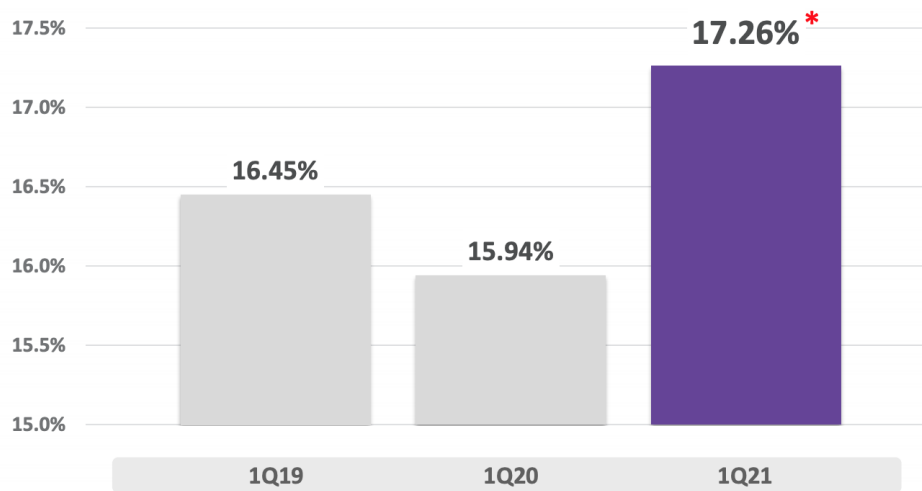
Equity to Total Assets Ratio					
Year	2021 (Q1)	2020	2019	2018	2017
Equity to Assets Ratio	14.8%	14.3%	15.5%	14%	13.8%

Additionally, the table below shows BanBajío's adjusted capitalization compared it to the industry and competitors as of September 2020. You may notice that the company's capitalization of 16.2% is lower than the market average of 16.9%. This is due to the quality of BanBajío's loan portfolio. BanBajío's percentage of non performing loans of small and medium size business loans are 1.7% and 0.8%, compared with a market average of 4.4% and 2.6%,

respectively.

Commercial Banking	Total Loan Portfolio	Core Deposits ⁵	Shareholders Equity	ROE	Efficiency	Capitalization ⁶	Cost of Funding
BBVA BANCOMER	1,279	1,319	263	20.1%	37.9%	16.6%	1.9%
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MULTIVALORES	94	43	17	3.8%	72.3%	13.4%	5.1%
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AFIRME	53	54	10	9.8%	64.5%	13.6%	3.3%
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BANSI (B)	16	16	3	12.1%	45.4%	18.3%	4.1%
TOTAL	\$5,135	\$5,264	\$1,235	12.6%	46.9%	16.9%	2.5%

Additionally, the following graph shows BanBajio's capitalization ratio for the first quarters of 2019, 2020, and 2021.



* ICAP March 2021 preliminary

The following table shows BanBajio's leverage by comparing its liabilities to its equity for the years 2017-2021.

Liabilities to Equity Ratio

Year	2021 (Q1)	2020	2019	2018	2017
Liabilities to Equity Ratio	6.65	6.9	6.5	6.8	6.8

As you can see, BanBajio has maintained a constant level of leverage since 2017. Recurring profit generation and loan portfolio growth have helped sustain this trend.

Although since 2020 BanBajio's total loans to deposits ratio dropped due to an increase in deposits and a decrease in loan growth because of the pandemic. BanBajio's loan portfolio has generally been more overextended relative to its core deposits than the industry average since 2017. I think BanBajio has been able to maintain this level of exposure thanks to the quality of its loan portfolio and its access to lending from development banks. As mentioned above, BanBajio's percentage of non performing loans of small and medium size business loans are 1.7% and 0.8%, compared with a market average of 4.4% and 2.6%, respectively. Additionally, BanBajio has had access to credit lines from FIRA (Fideicomisos Instituidos con la Agricultura) thanks to its focus on agricultural financing, NAFIN, and Bancomext.

Total Loans to Core Deposits Ratio

Year	2021 (Q1)	2020	2019	2018	2017
BanBajio	114%	113%	123%	127%	129%
Industry	<i>n/a</i>	98%	106%	106%	<i>n/a</i>

Total Loans to Deposit Ratio of BanBajio vs the Industry and Competitors as of September 2020

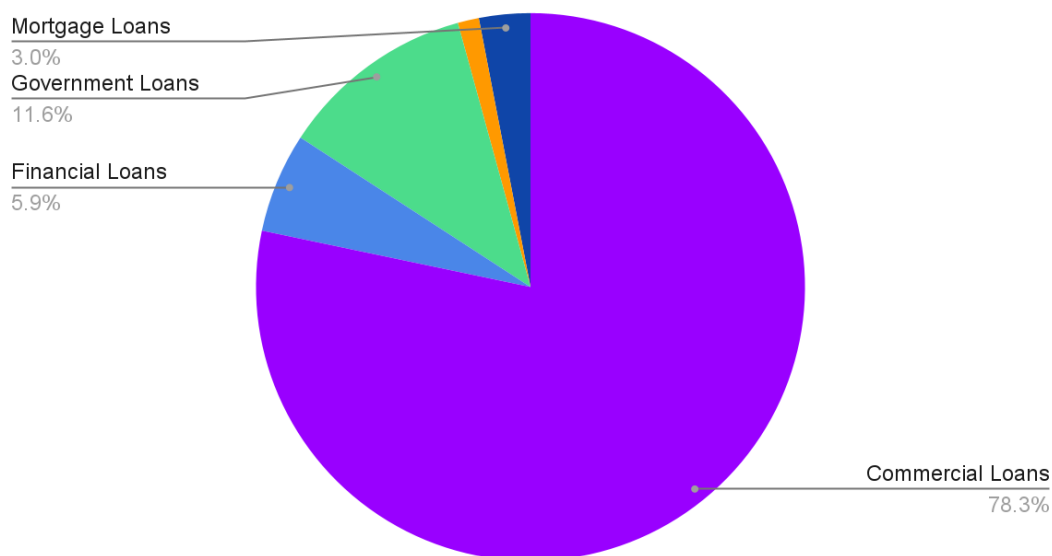
Bank	2020	2019	2018
BBVA Bancomer	97%	106%	106%
Banorte	104%	115%	106%
Santander	95.3%	103%	99%
Banamex	70.6%	88%	90%
HSBC	88%	85%	92%
Scotiabank	115%	128%	113%

Inbursa	138%	153%	168%
Bajio	112%	123%	127%
Regional	113%	108%	110%
Industry	98%	106%	106%

Quality of Loan Portfolio

As of March 31 2021, BanBajio had a performing loan portfolio of \$199,761 million. The diagram below shows how BanBajio's loan portfolio is divided among segments.

Performing Loan Portfolio by Segment



**Orange Represents Consumer Loans (1.2% of total performing loan portfolio)*

As you can see, BanBajio is heavily focused on offering commercial loans, mainly to small and medium sized businesses. Additionally, the following table shows BanBajio's percentage of non performing loans for these segments for the years 2019, 2018, and 2017.

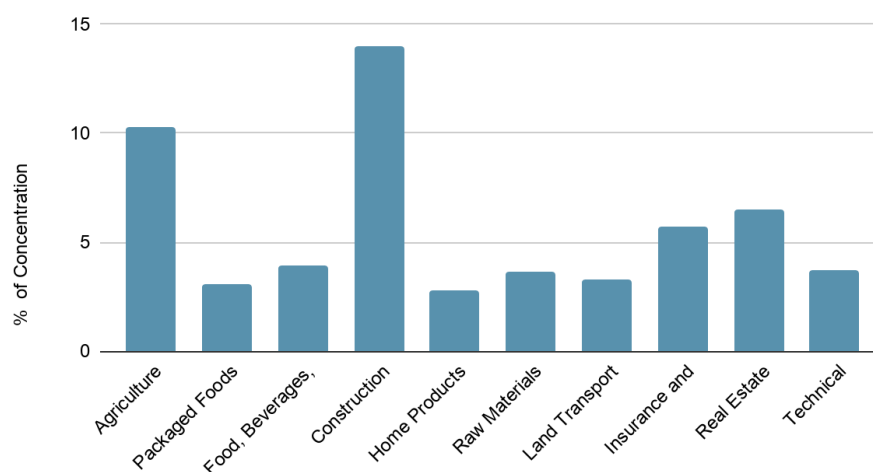
% of Non-Performing Loans by Segment

Year	2019	2017	2018
Commercial Loans	0.8%	0.8%	0.6%
Government Loans	0%	n/a	0.3%
Loans to Financial	0.6%	0.4%	0.02%

Institutions			
Mortgage Loans	5%	6%	5.5%
Consumer Loans	4.3%	4.1%	4.7%

Finally, the following table shows the economic activities which BanBajío's loan portfolio is most concentrated in.

Concentration of Loan Portfolio by Economic Activity in 2019



Evidently, BanBajío's performing loan portfolio is very diversified and most concentrated in agriculture and construction related economic activities.

Moreover, the tables below also show the percentage of BanBajío's non-performing loans for small and medium size commercial loans for the years 2018 to 2020 vs the Mexican Banking Industry.

Percentage of Non-Performing Loans of Small Size (100k - 10M*)

Year	2020	2019	2018
NPL	1.7%	2.2%	1.9%

* = Mexican Pesos

Percentage of Non-Performing Loans of Small Size for the Mexican Banking System

Year	2020	2019	2018	2017
NPL	4.4%	5%	4.2%	3.7%

Percentage of Non-Performing Loans of Medium Size (10M - 250M*)

Year	2020	2019	2018
NPL	0.8%	0.9%	0.7%

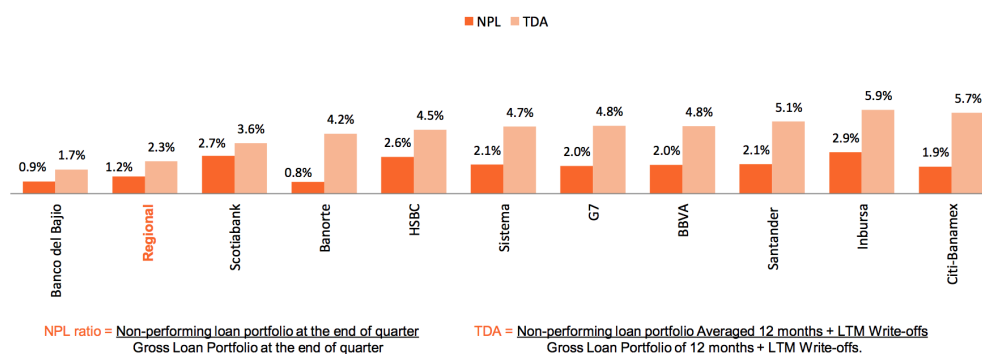
* = Mexican Pesos

Percentage of Non-Performing Loans of Medium Size for the Mexican Banking System

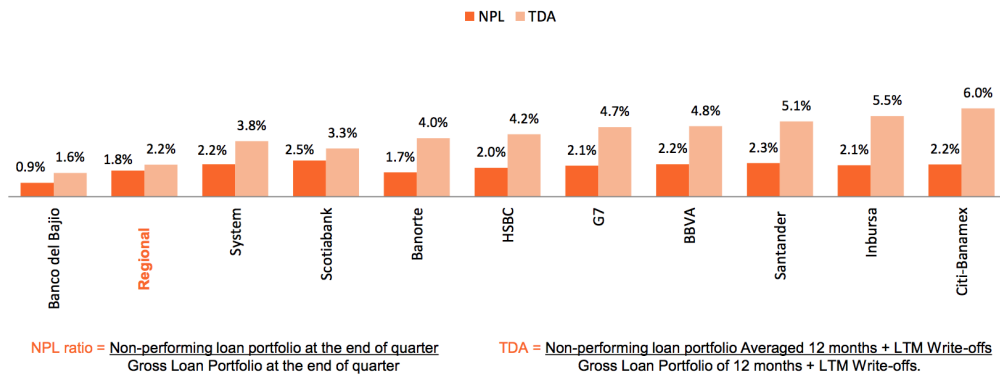
Year	2020	2019	2018	2017
NPL	2.4%	2%	1.6%	1.6%

In regards to the quality of BanBajío's loan portfolio as a whole, the graphs below show the percentage of BanBajío's non-performing loans for the years 2018-2020 vs its competitors.

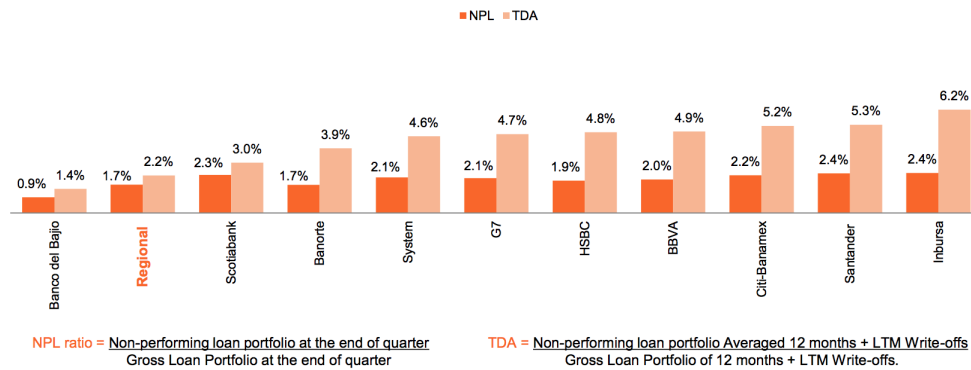
BanBajío's NPL and TDA Ratio vs Competitors for Q3 2020



BanBajío's NPL and TDA Ratio vs Competitors for Q3 2019



BanBajío's NPL and TDA Ratio vs Competitors for Q3 2018



Source: CNBV, September 2018. Comparable Banks. (Banca múltiple, información de la situación financiera) (040-1A-R0). | G7 includes: BBVA Bancomer, Citi-Banamex, Scotiabank, Santander, Inbursa, Banorte y HSBC.

Clearly, BanBajío's portfolio quality has been consistently better than the market average, being the Mexican bank with the lowest percentage of non-performing loans in the system for the fiscal years of 2018, 2019, and 2020. These results comply with our prior statement that BanBajío has been able to have a higher loan to deposits ratio thanks to the quality of its loan portfolio.

Furthermore, BanBajío has maintained a healthy level of allowance for credit losses relative to its loan portfolio and non-performing loans. The following first two tables show this, while the last two tables show these same ratios for Regional and Banorte, two of BanBajío's main competitors. You may notice that for the years 2017, 2018, and 2019 BanBajío had a lower percentage of allowances for credit losses relative to its total loan portfolio than Regional and Banorte. I believe this is due to the bank's loan portfolio quality, which allows BanBajío to need less allowances for losses than its competitors.

Banco del Bajío's Allowance for Credit Losses to Total Loan Portfolio from 2015 to 2020

Year	2021 (Q1)	2020	2019	2018	2017	2016	2015
ACL / TLP	2.2%	2.2%	1.5%	1.8%	1.9%	<i>n/a</i>	<i>n/a</i>

Banco del Bajío's Allowance for Credit Losses to Non-Performing Loans from 2015 to 2020

Year	2021 (Q1)	2020	2019	2018	2017	2016	2015
ACL / NPL	207%	205%	155%	187%	230%	<i>n/a</i>	<i>n/a</i>

Regional's Allowance for Credit Losses to Total Loan Portfolio from 2015 to 2020

Year	2021 (Q1)	2020	2019	2018	2017	2016	2015
ACL / TLP	2.5%	2.4%	2.2%	2.2%	2.3%	2.3%	2.5%

Regional's Allowance for Credit Losses to Non-Performing Loans from 2015 to 2020

Year	2021 (Q1)	2020	2019	2018	2017	2016	2015
ACL / NPL	143%	169%	122%	130%	140%	146%	156%

Banorte's Allowance for Credit Losses to Total Loan Portfolio from 2015 to 2020

Year	2021 (Q1)	2020	2019	2018	2017	2016	2015
ACL / TLP	2.4%	2.5%	2.3%	2.4%	2.6%	2.5%	2.6%

Banorte's Allowance for Credit Losses to Non-Performing Loans from 2015 to 2020

Year	2021 (Q1)	2020	2019	2018	2017	2016	2015
ACL / NPL	186%	224%	138%	142%	130%	139%	116%

Other Important Information

Concentration of Loan Portfolio in Principal Clients

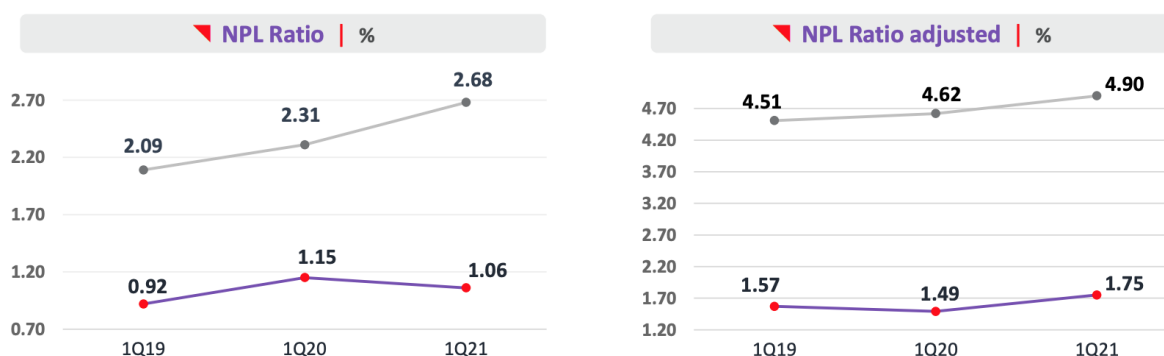
Banbajio loan portfolio is very well diversified among clients. At the end of 2020, the ten principal clientes only represented 11.8% of the total loan portfolio.

Concentration of Deposits in Principal Clients

Banbajio's deposit base is also very well diversified among clients. At the end of 2020, the ten principal clientes only represented 11.4% of deposits.

Exposure to Pandemic

Although BanBajio's loan portfolio is not heavily exposed to the industries most affected by the pandemic, its loan portfolio is heavily concentrated in commercial loans to small and medium sized businesses—78.3%. Which could potentially affect the percentage of non-performing loans the bank has due to the current vulnerabilities of some of these businesses because of the pandemic. As of May 2021, the percentage of adjusted non-performing loans for BanBajio is 1.75% vs 4.90% for the entire industry. The following graphs shows this.

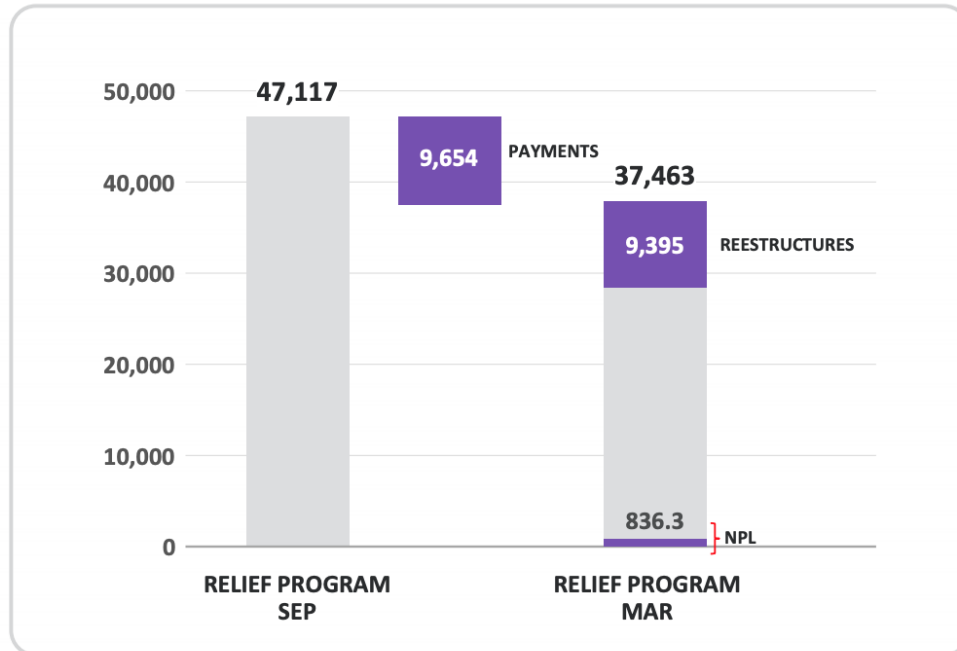


Additionally, the bank has a strong coverage ratio (Allowance for Credit Losses / NPL) of 207%, compared to an industry average of 152%.

BanBajio was able to achieve these results and mitigate the impact of the pandemic due to recurring profit generation, which increased its capitalization to 17.26% and allowed the bank to provision more capital for credit losses, and a relief program which helped the bank work with its debtors to lessen the impact of the pandemic. This relief program allowed clients to defer loan payments for up to 6 months starting April 1 2020 for the following products:

- Mortgage Loans
- Credit Card Debt
- Auto-Loans
- Personal Loans
- SME Loans
- Payroll Loans

- Agriculture Loans
- Corporate Loans



At the conclusion of the Relief Program there were \$47,116 million adhered. As of March 31, 2021, the outstanding amount was \$37,463 million, which represent 18.6% of the total portfolio. The non performing loans from the Relief Program accounted for MXN 836 million and represent 0.41% of the total portfolio, 2.23% of the outstanding Relief Program or 51% of additional loan loss provisions.

Credit Rating

BanBajio's Credit Rating (National Long Term Credit Rating) by Fitch from 2015 to 2020

Year	2020	2019	2018	2017	2016	2015
Credit Rating	AA (mex)	AA+ (mex)	AA(mex)	AA (mex)	AA- (mex)	AA- (mex)

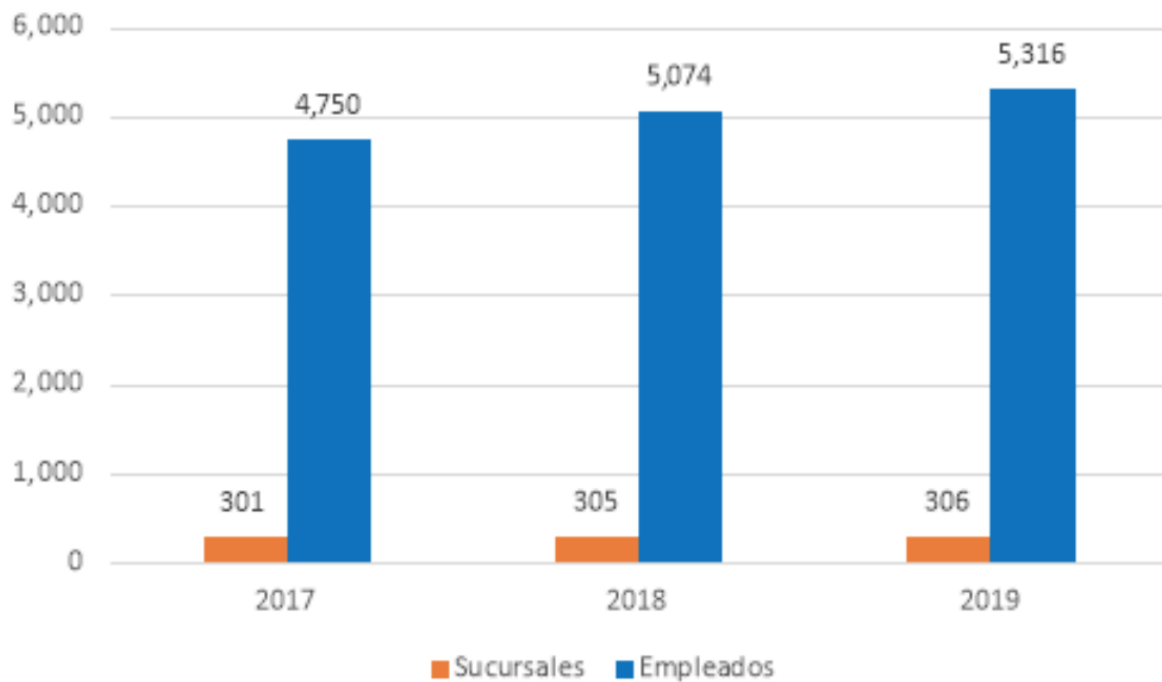
BanBajio's Credit Rating (Global) by HR from 2015 to 2020

Year	2020	2019	2018	2017	2016	2015
Credit Rating	BBB+	A-	A-	n/a	n/a	n/a

Human Capital

At the end of 2019 BanBajio had a total of 5,316 employees, of which only 16% were unionized. It's important to note that all of the company's employees holding an administrative position were not unionized.

Likewise, at the end of 2019, BanBajio had an average of 17 employees per branch, lower than the industry average of 20 employees per branch. The graph belows shows the relationship between the company's branch network(orange) and the total number of employees (blue) for the years 2017, 2018, and 2019.



Compensation

Employees within the business area of the company have variable compensation plans where they receive performance bonuses each quarter for achieving goals established by the company.

Corporate Structure and Governance

Directors

Nombre	Cargo	Experiencia en el sector financiero	En BanBajío
Edgardo del Rincón Gutiérrez	Director General	35	0.5
Joaquín David Domínguez Cuenca	Director Ejecutivo de Finanzas y Tesorería	32	25
Ricardo Alejandro García Winder	Director Ejecutivo Banca Empresarial	35	25
Ramón Velarde Moreno	Director Ejecutivo Banca Comercial	30	18
Roberto Hernández de Hita	Director Ejecutivo Transformación Digital	22	11
Juan Carlos Santos Mijangos	Director Crédito	32	23
Blanca Verónica Casillas Placencia	Director Jurídico Corporativo	27	24
Gustavo Núñez Jiménez	Director Capital Humano y Activos	39	25
Juan Mario Aguilar Bucio	Director Control Interno y Operaciones	38	25
Ángel Juan Carlos Díaz Fuentes	Director de Riesgos	16	14
Jorge Rafael Galindo Buelna	Director Auditoría	42	24
Alberto Guajardo Meléndez	Director de Relación con Inversionistas	2	2
Ana María Aguilar Moses	Director Divisional Norte	27	25
Fernando Javier Guerra Soto	Director Divisional Bajío	23	21
Eduardo Soto Alarcón	Director Datos y Analítica	20	0.2
Alejandro Olmos Limón	Director Crédito al Consumo	23	0.2

Directors Holding Significant Amounts of Shares

Name	Position	% of Shares Outstanding
Edgardo del Rincón Gutierrez	CEO (2019 - Present)	0.02%
Joaquín David Domínguez Cuenca	CFO	0.02%
Ricardo Alejandro García Winder	Director of Corporate Banking	0.02%
Ramón Valarde Moreno	Director of Commercial Banking	0.03%

All variable compensations to directors are cash based. In 2019, the total amount of capital paid to relevant directors was \$115.8 million pesos. Currently there is no plan for directors or board members to receive compensation in the form of options or stock.

Board of Directors:

PROPIETARIOS		SUPLENTE
1.	Salvador Oñate Ascencio ^o	Gerardo Plascencia Reyes
2.	Salvador Oñate Barrón	Javier Marina Tanda
3.	Héctor Armando Martínez Martínez	Alejandro Martínez Martínez
4.	Rolando Uziel Candiotti	Carlos Minvielle Lagos
5.	Carlos de la Cerda Serrano	Fabián Federico Uribe Fernández
6.	Bárbara Jean Mair Rowberry ^o	N/A
7.	José Oliveres Vidal ^o	N/A
8.	Gabriel Ramírez Fernández ^o	N/A
9.	Jorge Arturo Martínez González ^o	N/A
10.	Dan Ostrosky Shejet ^o	N/A
11.	Fernando de Ovando Pacheco ^o	N/A
12.	Alfredo Emilio Colin Babio ^o	N/A
13.	Ramón Santoyo Vázquez ^o	N/A
14.	Genaro Carlos Leal Martínez ^o	N/A
15.	Benjamín Zermeño Padilla ^o	N/A

- 53% of board members are independent
- Carlos de la Cerda Serrano, was the company's CEO for 25 years before stepping down in 2019. He is currently the bank's board vice president
- Only independent board members received compensation in 2019
 - Total compensation was \$4.6 million pesos

Independent Board Members:

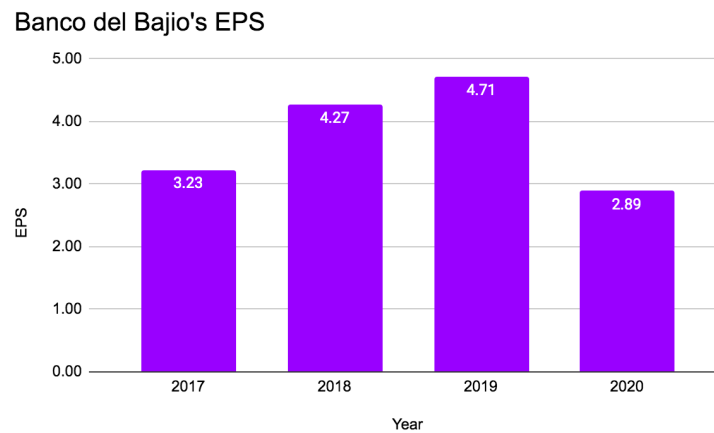
Bárbara Jean Mair Rowberry
José Oliveres Vidal
Gabriel Ramírez Fernández
Jorge Arturo Martínez González
Dan Ostrosky Shejet
Fernando de Ovando Pacheco
Alfredo Emilio Colin Babio
Ramón Santoyo Vázquez

Principal Shareholders

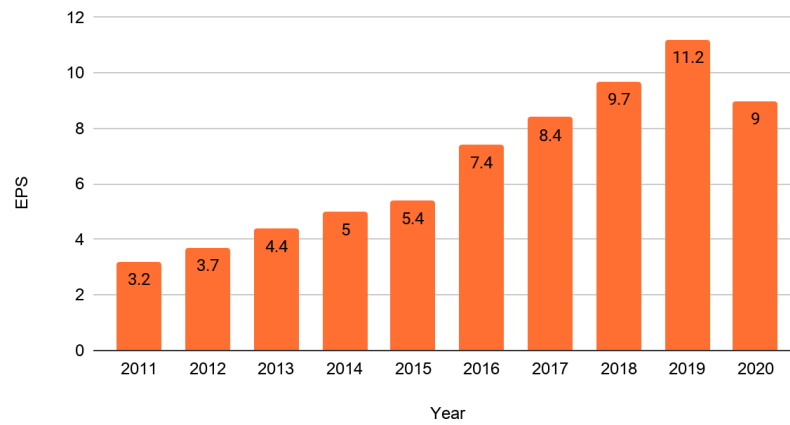
Name	% of Shares Outstanding
Rolando Uziel Candiotti	4.3%
Salvador Oñate Barrón	2.08%
Alejandro Martínez Martínez	4.2%
Carlos Minvielle Lagos	3.24%
Salvador Oñate Ascencio	21.76%
Hector Armando Martínez Martínez	3.57%

Market Valuation of BanBajío vs Competitors

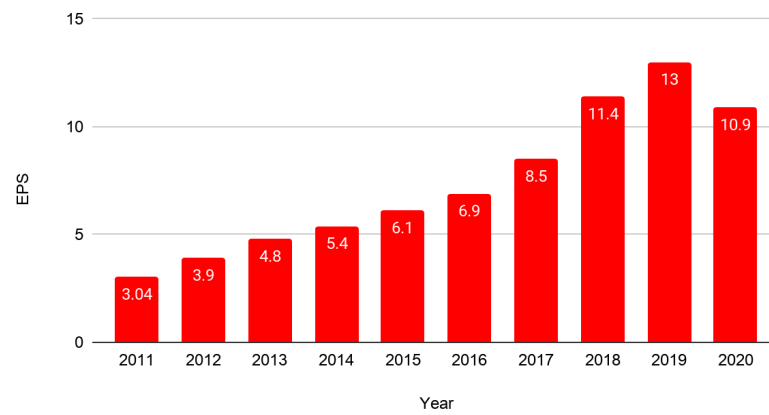
Earnings per Share of Regional vs Banorte vs Banco del Bajío



Regional's Earnings per Share

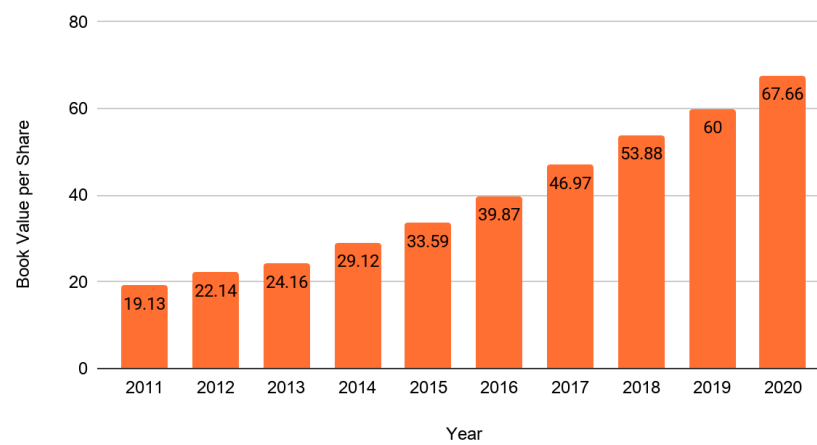


Banorte's EPS

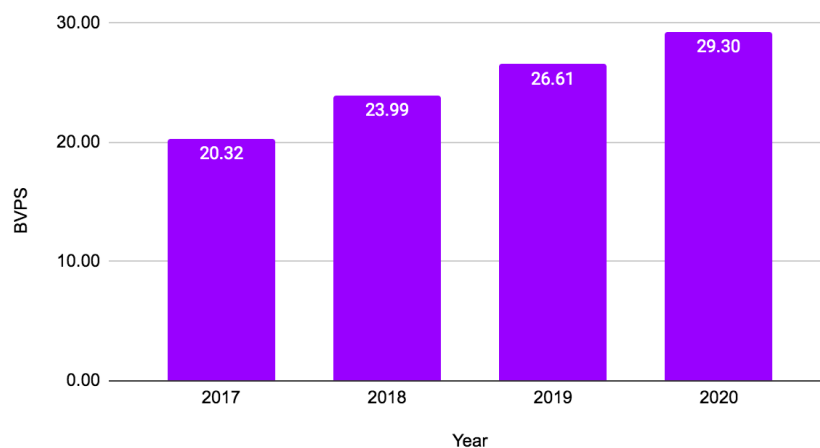


Book Value per Share of Regional vs Banorte vs Banco del Bajío

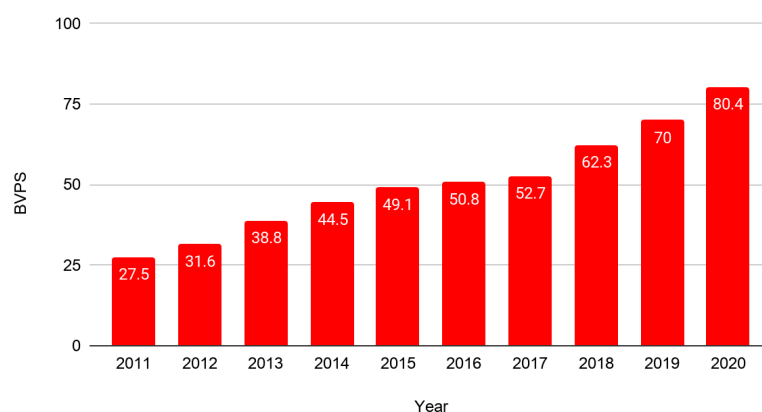
Regional's BVPS



Banco del Bajío's BVPS

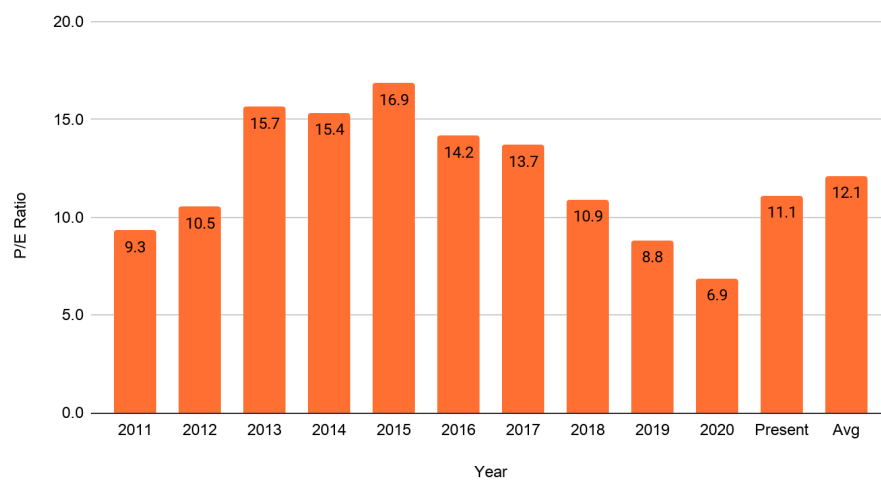


Banorte's BVPS

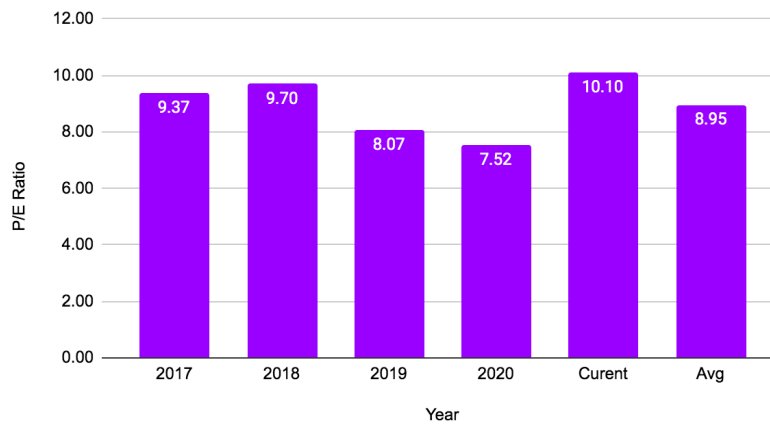


Price to Earnings Ratio of Regional vs Banorte vs Banco del Bajío

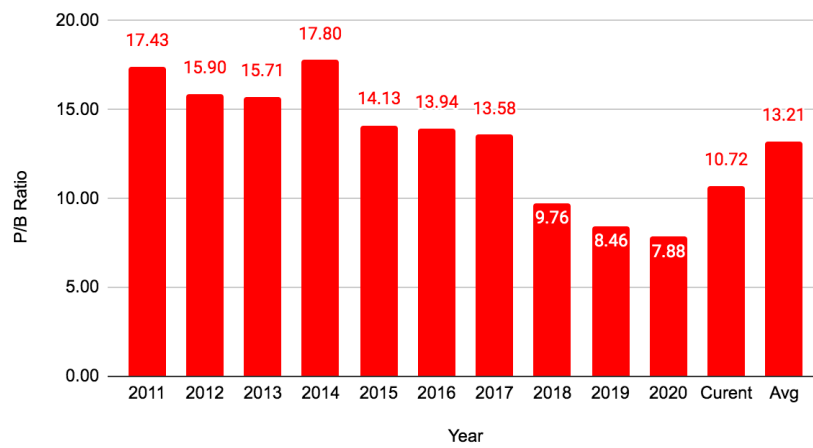
Regional's P/E Ratio



Banco del Bajío's P/E Ratio

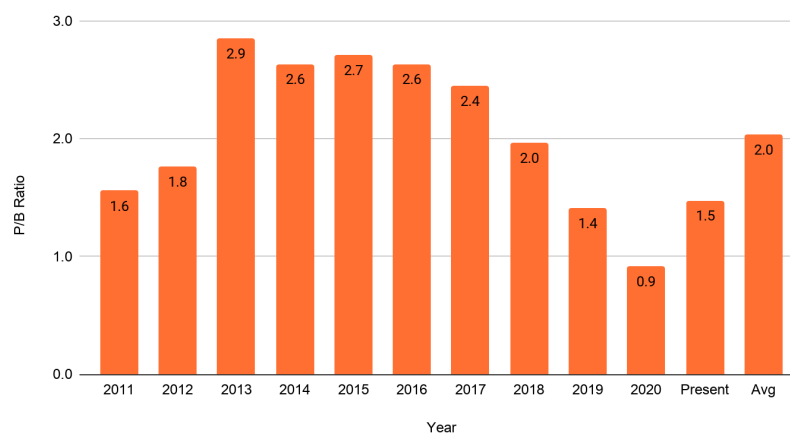


Banorte's P/E Ratio

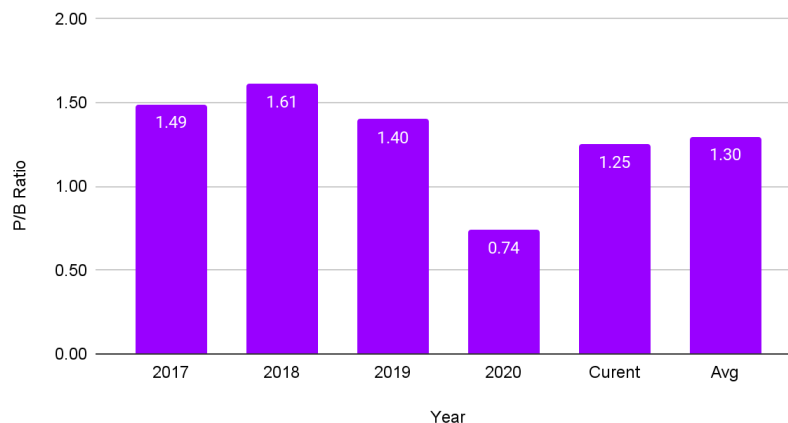


Price to Book Ratio of Regional vs Banorte vs Banco del Bajío

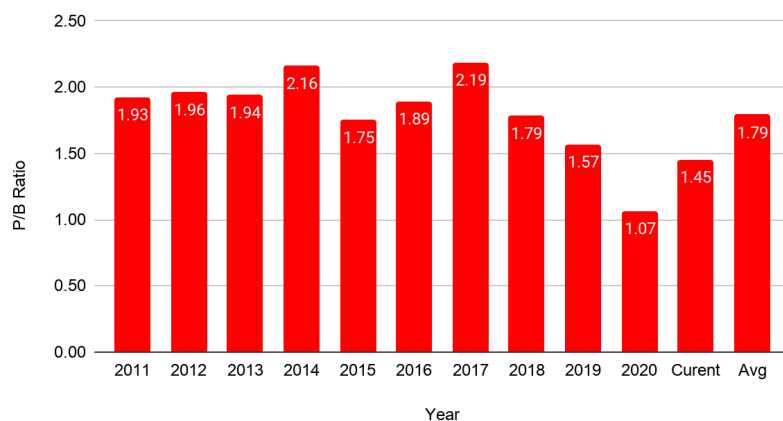
Regional's P/B Ratio



Banco del Bajio's P/B Ratio



Banorte's P/B Ratio



Conclusion

Although the Mexican banking industry is highly competitive, I think BanBajio has been able to generate recurring profits and achieve superior results relative to competitors because of its focus on commercial loans to small and medium sized businesses, strong geographic concentration in the Bajio region of Mexico, and a conservative credit policy. Which translates into a very small percentage of non-performing loans—lowest in the industry. And, high financial margins on commercial loans thanks to its specialization on SMEs. Finally, the company's concentration in certain geographic regions, like Bajio, has allowed the bank to obtain a low cost deposit base which has helped the bank grow its loan portfolio YoY.

VALUATION

Why I am analyzing this company:

- BanBajio's loan portfolio has the lowest percentage of non-performing loans in the industry
- The company has a strong presence in certain regions of Mexico (Jalisco and Guanajuato)
- The company has maintained high and constant returns.
- BanBajio is one of the top 5 most profitable and efficient banks in the Mexican Banking Industry.
- BanBajio is trading at 7 times 2019 net income

Analysis Outline: How I plan to evaluate this company:

I will begin my valuation by doing an excess returns valuation to value the intrinsic value of Banbajio's equity. In such a model, the value of BanBajio's equity will be the sum of BanBajio's current book value of equity and the present value of returns above BanBajio's cost of equity that the company expects to make in the future.

I decided to represent BanBajio's total current invested capital in this model as the company's current book value of equity for two reasons. The first is that the assets of a financial service firm are often financial assets that are marked up to market. The second is that depreciation, which can be a big factor in determining book value for manufacturing firms, is often negligible at financial service firms.

Equally important, the excess returns, defined in equity terms, can be stated in terms of expected sustainable return on equity and cost of equity for the company. In effect, excess returns will equal $(\text{Return on Equity} - \text{Cost of Equity}) \times (\text{Current Book Value of Equity})$.

I will then complement my excess returns valuation by analyzing if BanBajio is selling at an attractive price relative to its earnings and equity book value through 2 equity ratios: Price to Earnings and Price to Book.

The valuation steps are outlined below.

- Apply an Excess Returns Valuation
 - Base Case Scenario
 - Calculate Expected ROE
 - Calculate Cost of Equity
 - Calculate Present Value of Equity Excess Return – next 5 years
 - Calculate Present Value of Terminal Value of Excess Returns
 - Calculate Present Value of BanBajio's equity
 - Margin of Safety
 - Potential Issues

- Pessimistic Scenario
 - Calculate Present Value of Equity Excess Return – next 5 years
 - Calculate Present Value of Equity Excess Return – next 5 years
 - Calculate Present Value of Terminal Value of Excess Returns
 - Margin of Safety
- Apply an Equity Multiples Valuation
 - Base Case P/E Ratio
 - Pessimistic P/E Ratio
 - P/B Ratio
- Conclusion

Step 1.1 : Calculate BanBajio's Sustainable Return on Equity

The first step in our excess return valuation is to estimate BanBajio's future return on equity. While BanBajio's return on equity has ranged from 15.9% to 17.7% between 2017 and 2019, the expected return on equity, looking forward, will be much lower. To remain conservative, for the next 2 years, we will assume that the return on equity at BanBajio will be 13%, well below its historical average return on equity. Then, in year 3, we will assume that ROE will increase to a sustainable 15% point, still below the company's historic average but conservative enough to obtain a solid valuation.

BanBajio's Return on Equity from 2017 to 2019

Year	2020	2019	2018	2017	2016	2015
ROAE	13.7%	17.7%	16.8%	15.9%	12.9%	

Step 1.2 : Calculate BanBajio's Cost of Equity

The next step in our valuation is to calculate BanBajio's sustainable cost of equity. Currently, returns required to attract investors to new possible venture capital funds are around 14%. Moreover, the Mexican Federal Treasury Certificates current rate of return is 4.06%. Thus, the range of possible equity costs of capital for BanBajio lays between 4.06% and 14%. A bank like BanBajio with very high operating margins, a well diversified portfolio and client base, and a low percentage of non-performing loans, would have an equity cost of capital of average risk. Within the 4.06%-14% range, the low-risk firm would have a 6% cost of equity, an average risk firm would have a 8-10% cost, a higher than average risk firm would have a cost of 12%, and a high risk firm would have a cost of capital of 14%. Thus, we will assume 10% as our equity cost of capital.

Step 1.4 : Calculate Present Value of Equity Excess Return – next 5 years

(in millions of MXN)

	2021	2022	2023	2024	2025
Net Income	\$4,662	\$5,002	\$6,776	\$7,615	\$8,558
- Equity Cost (see below)	\$3,486	\$3,847	\$4,235	\$4,759	\$5,348
Excess Equity Return	\$1,176	\$1,155	\$2,541	\$2,856	\$3,210
Cumulated Cost of Equity	1.10	1.21	1.331	1.46	1.61
Present Value	\$1,072	\$954	\$1,909	\$1,956	\$1,993
Beginning BV of Equity	\$34,869	\$38,478	\$42,350	\$47,595	\$53,489
Cost of Equity	\$3,486	\$3,847	\$4,235	\$4,759	\$5,348
Equity Cost	10%	10%	10%	10%	10%
Return on Equity	13%	13%	16%	16%	16%
Net Income	\$4,662	\$5,002	\$6,776	\$7,615	\$8,558
Dividend Payout Ratio	22.6%	22.6%	22.6%	22.6%	22.6%
Dividends paid	\$1,053	\$1,130	\$1,531	\$1,721	\$1,934
Retained Earnings	\$3,609	\$3,872	\$5,245	\$5,894	\$6,624

In the table above, the net income each year is computed by multiplying the return on

equity each year by the beginning book value of equity. The book value of equity each year is augmented by the portion of earnings that is not paid out as dividends; the dividend payout ratio is based upon current dividends and normalized earnings. Finally, the Cumulated Cost of Equity is the cost of equity, 10, to the power of n, n being the period in which it is calculated.

Step 1.5 : Calculate Present Value of Terminal Value of Excess Returns

To maintain a conservative valuation, I will not incorporate growth after year 5. In effect, maintaining a sustainable ROE of 16%, net income in year 6 will be $((\$6,624 + \$53,489) * 0.16 = \$9,618$. The terminal value of excess returns to equity investors can then be computed.

$$\frac{\text{Net income} - (\text{Cost of Equity} * \text{BV of Equity})}{(\text{Cost of Equity} - \text{Expected Growth Rate})} \\ (9618 - (0.1 * 60,113)) / (0.1) = 36,067 \text{ million pesos}$$

PV of terminal value of excess returns: $\$20,358 \text{ million pesos} = 36,067 / (1.1)^6$

Step 1.6 : Calculate Present Value of BanBajio's Equity

The value of equity can then be computed as the sum of the three components: the current book value of equity, the present value of excess equity returns over the next 5 years, and the present value of the terminal value of equity.

- Current Equity Book Value = \$34,869 million pesos
- PV of Equity Excess Return – next 5 years = \$7,884 million pesos
- PV of terminal value of excess returns = \$20,358 million pesos
- Value of Equity = \$63,111 million pesos
- Number of shares = 1,189,931,687
- Value Per Share = \$53.03 pesos

At the time of this valuation on June 25 2021, BanBajio was trading at \$36.75 pesos per share.

Step 1.7 : Margin of Safety

At a valuation of \$53 pesos per share and a market value of \$36.75 pesos per share, BanBajio's equity is selling at a discount of around 30%. Given that this valuation did not incorporate future growth after year 6, I think BanBajio is selling at a very attractive market price and can potentially be a very rewarding investment.

Step 1.8 : Potential Issues

- Cost of Equity might be too low

Step 2 : Pessimistic Excess Returns Valuation

In order to complement my base case valuation, I will value BanBajio in a pessimistic scenario where its cost of equity is 12% and its sustainable ROE after year 2 is 15%.

Step 2.1 : Calculate Present Value of Equity Excess Return – next 5 years

(in millions of MXN)

	2021	2022	2023	2024	2025
Net Income	\$4,662	\$5,002	\$6,352	\$7,090	\$7,913
- Equity Cost (see below)	\$4,184	\$4,617	\$5,082	\$5,672	\$6,330
Excess Equity Return	\$478	\$385	\$1,270	\$1,418	\$1,583
Cumulated Cost of Equity	1.12000	1.25440	1.40493	1.57352	1.76234
Present Value	426	307	903	901	898
Beginning BV of Equity	\$34,869	\$38,478	\$42,350	\$47,267	\$52,755
Cost of Equity	\$4,184	\$4,617	\$5,082	\$5,672	\$6,330
Equity Cost	12%	12%	12%	12%	12%
Return on Equity	13%	13%	15%	15%	15%
Net Income	\$4,662	\$5,002	\$6,352	\$7,090	\$7,913
Dividend Payout Ratio	22.6%	22.6%	22.6%	22.6%	22.6%
Dividends paid	\$1,053	\$1,130	\$1,435	\$1,602	\$1,788

Retained Earnings	\$3,609	\$3,872	\$4,917	\$5,488	\$6,125
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Present Value of Excess Returns–5 years = 3,435 million

Step 2.2 : Calculate Present Value of Terminal Value of Excess Returns

To maintain a conservative valuation, I will not incorporate growth after year 5. In effect, maintaining a sustainable ROE of 15%, net income in year 6 is $((\$6,125 + \$52,755) * 0.15 = \$8,832$ million . The terminal value of excess returns to equity investors can then be computed.

$$\frac{\text{Net income} - (\text{Cost of Equity} * \text{BV of Equity})}{(\text{Cost of Equity})} = \frac{(8832 - (0.12 * 58,880))}{(0.12)} = 14,720 \text{ million pesos}$$

PV of terminal value of excess returns: $\$7,457$ million pesos = $14,720 / (1.12)^6$

Step 2.3 : Calculate Present Value of BanBajio's Equity

The value of equity can then be computed as the sum of the three components: the current book value of equity, the present value of excess equity returns over the next 5 years, and the present value of the terminal value of equity.

- Current Equity Book Value = \$34,869 million pesos
- PV of Equity Excess Return – next 5 years = \$3,435 million pesos
- PV of terminal value of excess returns = \$7,457 million pesos
- Value of Equity = \$45,761 million
- Number of shares = 1,189,931,687
- Value Per Share = \$38.45

At the time of this valuation in May 2021, BanBajio was trading at \$36.75 pesos per share.

Step 2.4 : Margin of Safety

At a valuation of \$38.45 pesos per share and a market value of \$36.75 pesos per share, BanBajio's equity is selling at a discount of around 4.4%. Given that this valuation did not incorporate future growth after year 6, and was done using a pessimistic scenario where sustainable ROE was much smaller than the average from 2017 to 2019 and a 12% cost of equity was used, I maintain my prior conclusion that BanBajio is potentially selling at a good price relative to intrinsic value.

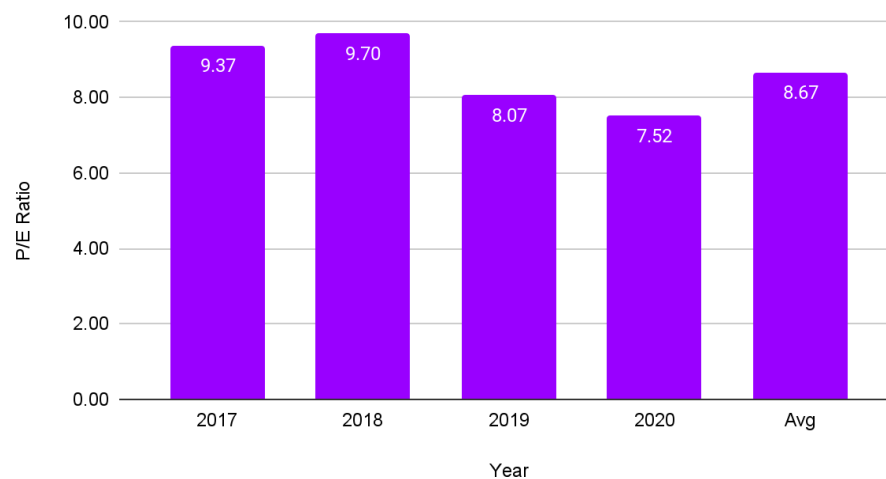
Step 3 : Multiples Valuation

Next, I will complement my excess returns valuation by looking at BanBajio's equity multiples–P/E and P/B ratio. I will first calculate BanBajio's P/E ratio by using its current equity market price of \$43,729 million, equity book value of \$34,869 million, and a sustainable ROE of 16%. With these parameters, BanBajio's P/E ratio is 7.8 $(43,729 / (34,869 * 0.16) = 6.2)$. Given that

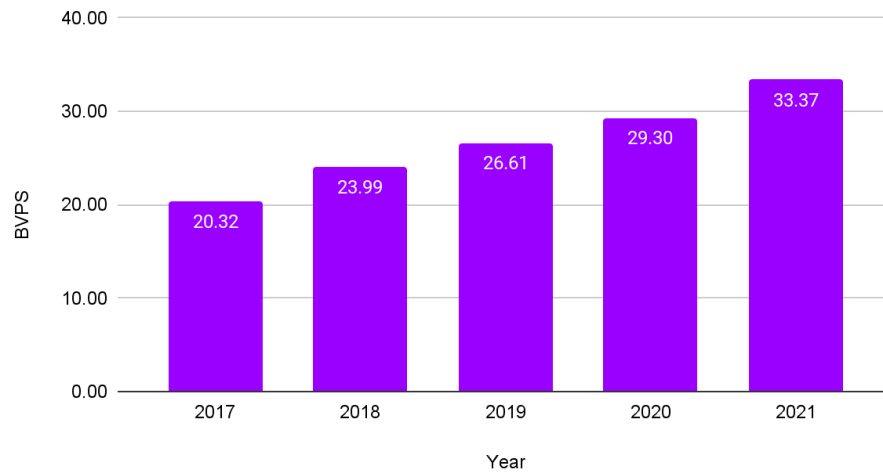
BanBajio's historical average P/E ratio has been 8.67, BanBajio is currently selling at an attractive multiple. Additionally, although a net income of \$5,579 used to calculate this P/E seems very optimistic, I decided to use a ROE of 16% because the net income it computes is still lower than 2019's \$5,607 net income, and BanBajio's book equity book value grew in 2020. Meaning that if BanBajio's historical average profitability returns, I expect BanBajio earning power to be greater than the one experienced in 2019 thanks to its greater loan portfolio and equity book value.

However, to remain conservative and complement my base case multiples valuation, I will also calculate BanBajio's P/E ratio with a ROE of 13%—the value I expect the company to have in 2021. With this ROE, BanBajio's earnings comes to around \$4,533 million and produce a P/E ratio of 9.6 ($43,729 / (34,869 * 0.13) = 9.6$). Given that BanBajio's historical average P/E ratio has been 8.67, my conservative calculated price to earnings multiple of 9.6 is very close to the historic average and pre-pandemic levels. Moreover, given that BanBajio's earnings have constantly grown, apart from 2020—\$5,607, \$5,076, \$3,848 for 2019, 2018, 2017, respectively—the earnings power of \$4,533 used in this ratio is acceptable.

Banco del Bajio's P/E Ratio

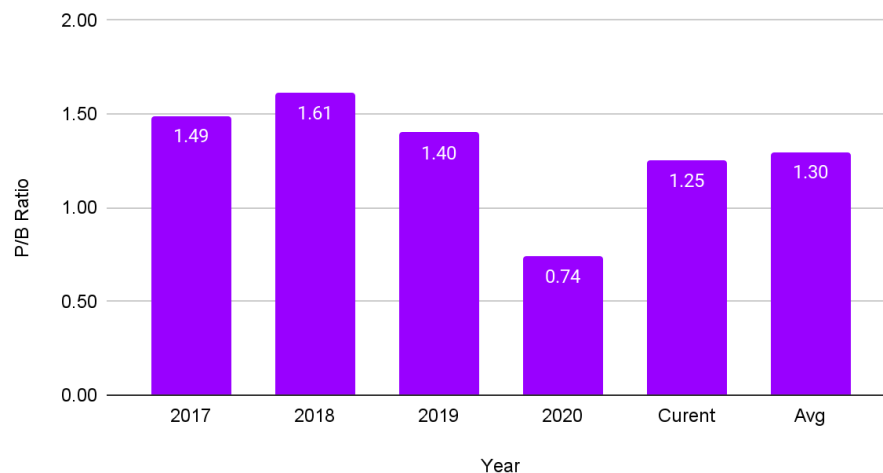


Banco del Bajio's BVPS



In regards to BanBajio P/B ratio, my parameters will be its current equity market price of \$43,729 million, and its equity book value at the end of 2020 of \$34,869 million. With these values, BanBajio's current P/B ratio is 1.25. Given that the company's historical average P/B ratio is 1.3, BanBajio's current P/B ratio of 1.25 also indicates that the company is undervalued.

Banco del Bajio's P/B Ratio



Step 4 : Conclusion

Both my excess returns and equity multiples valuations indicate that BanBajio is selling at a discount. This includes pessimistic scenarios, in which the company also looks undervalued from both valuations. Thus, I believe an investment in BanBajio could be very rewarding because of its low risk and potential upside, thanks to the price at which it is selling. In effect, my recommendation is to **invest**.

