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Summary:
Banco Inbursa S.A.

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Summary:
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Credit Rating: BBB/Stable/A-3

Rationale

Standard & Poor's Ratings Services' ratings on Banco Inbursa S.A. reflect the bank's good financial profile supported by strong capitalization, good asset quality, and more-stable profitability. The bank's significant presence in the Mexican market, the strong relationship between it and Grupo Carso S.A.B. de C.V., and the strategic alliance with Spanish savings bank, Caja de Ahorros y Pensiones de Barcelona (La Caixa), also support the ratings. However, the high loan concentration inherent to Inbursa's business profile and its exposure to foreign-currency risk on balance sheet somewhat offset these strengths. Strong competition and the challenging economic environment further limit the ratings.

In 2009, Inbursa maintained its major presence in the Mexican market, with a market share of 14% in commercial loans. Despite its alliance with La Caixa, Inbursa has not increased its exposure to retail segments, but we expect it to do so in the next few quarters. The bank will likely reactivate this segment--with the support of La Caixa--once the Mexican economy recovers. We believe Inbursa will maintain its corporate-oriented business and risk profiles in 2010, and that it will likely keep growing by leveraging the business relationships it has with the large corporate clients that are part of the Grupo Carso conglomerate.

Strong capitalization characterized Inbursa in 2009. The bank is positioned as one of the most capitalized banks in Mexico. As we expected, Inbursa's adjusted capitalization (adjusted total equity) stood at more than 17% during 2009--a level we consider as strong and comparing positively with its main competitors. Capitalization might decrease as a consequence of the bank's expansion into retail and infrastructure projects; however, we do not expect it to decrease dramatically in the next two years. We believe Inbursa's capitalization will remain higher than peers', given its loan concentration, but we also take into consideration its high reserve coverage, which should protect capital if problems arise.

Asset quality is still good and compares favorably with its industry peers. At year-end 2009, nonperforming loans (NPLs) were 2.7%, covered with reserves by 3.6x. As of Nov. 30, 2009, the Mexican banking industry reported NPLs and reserves coverage of 3.3% and 1.6x, respectively. Although Inbursa's corporate clients might remain under pressure during 2010, we expect its nonperforming assets (NPAs; NPLs plus restructures plus foreclosed assets) to stay at less than 3.5%. Also, we believe Inbursa will maintain its full coverage of NPAs.

Inbursa's profitability has improved from previous years as a result of stronger interest margins, a reduction in market-related income volatility, and high efficiency based on a low-cost structure. New accounting standards, which allow Inbursa to report its swap liability as a hedge position, reduced market-related income volatility. At year-end 2009, the bank's return on assets was 2.3%, which we consider good compared with the industry levels.

Inbursa's high loan concentration has persisted--its top 50 clients represent 69% of total loans. However, the bank is looking to mitigate this concentration through geographic diversification into countries with higher sovereign ratings than Mexico; foreign loans represent 18% of its portfolio. This diversification has increased the bank's

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exposure to foreign-currency risk, but we believe Inbursa's good capitalization and high reserve coverage somewhat offset this risk.

In our opinion, unfavorable economic conditions will continue to challenge the Mexican banking industry's financial profiles. Moreover, amid signs of economic recovery, even stronger competition might add pressure on margins, limiting profits and internal capital generation.

Outlook

The stable outlook on Inbursa reflects our expectation that the bank will maintain its good financial profile despite the currently challenging economic situation. We could lower the ratings if Inbursa's asset quality becomes pressured, or if we perceive an unfavorable change in the bank's risk profile. A drop in profits, erosion in capitalization, or liquidity pressures could also trigger a downgrade. We expect no upgrade on the global scale any time soon.

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