

Update: Banco Inbursa S.A. Institucion de Banca Multiple Grupo Financiero Inbursa

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Update: Banco Inbursa S.A. Institucion de Banca Multiple Grupo Financiero Inbursa

Ratings Score Snapshot

Issuer Credit Rating

BBB/Stable/A-2

CaVal (Mexico) National Scale

mxAAA/Stable/mxA-1+

SACP: bbb



Support: 0



Additional factors: 0

SACP: bbb			Support: 0		Additional factors: 0		
Anchor	bbb-		ALAC support	0	<table border="1"> <thead> <tr> <th>Issuer credit rating</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">BBB/Stable/A-2</td> </tr> </tbody> </table>	Issuer credit rating	BBB/Stable/A-2
Issuer credit rating							
BBB/Stable/A-2							
Business position	Adequate	0	GRE support	0			
Capital and earnings	Strong	+1	Group support	0			
Risk position	Adequate	0	Sovereign support	0			
Funding	Adequate	0					
Liquidity	Adequate						
CRA adjustment		0					

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Key strengths

Healthy asset quality indicators supported by prudent risk management policies.

Rising profitability and solid capitalization that will enable loan portfolio to grow during 2023 and 2024.

Adequate liquidity thanks to the bank's comfortable cash and liquid asset position, along with large funding base mainly composed of retail deposits.

Key risks

Low proportion of its retail segments within the bank's loan portfolio.

Loan book concentration by client still higher than those of the largest banks in Mexico.

Higher funding costs than those of its main peers.

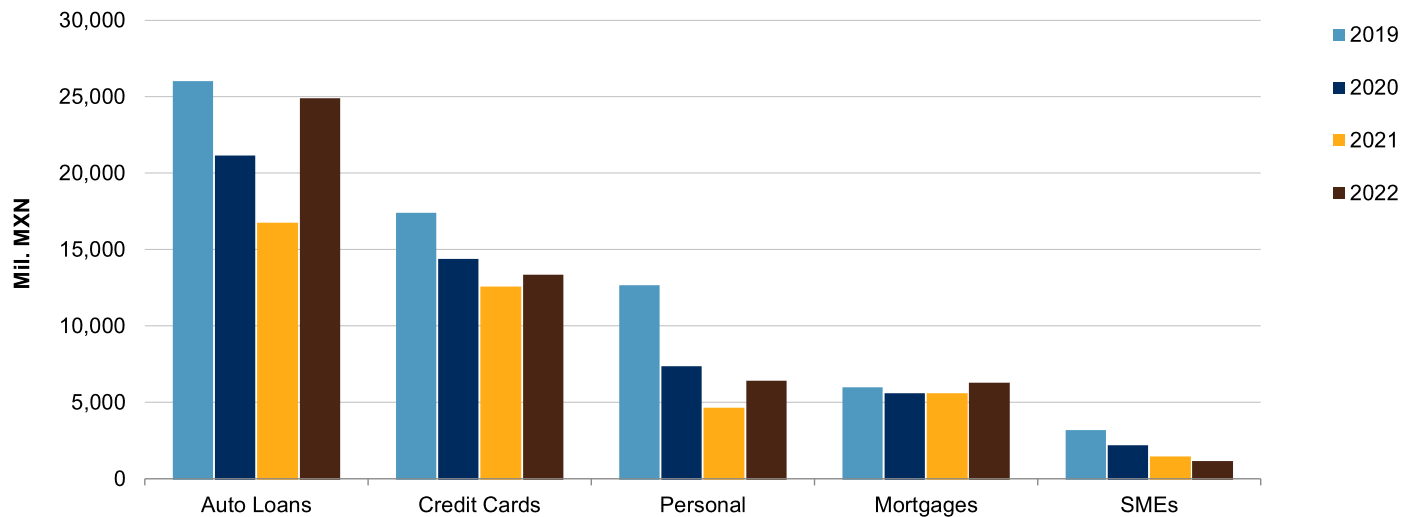
Solid presence in the corporate segment, along with the consistent increase of its retail customer base, will support loan portfolio growth for the next 12 months.

In our opinion, Banco Inbursa's credit growth will come mainly from the commercial sector, reflecting its historically sound position in this segment and its ample expertise within the corporate lending sector. We also believe the bank will continue benefiting from the gradual expansion of the retail segment, which could enable the bank to keep raising operating revenue, and consequently, improving profitability for the next two years. Banco Inbursa increased its retail portfolio by 27% during 2022, driven mainly by auto and personal loans, which grew 49% and 38%, respectively, compared to 2021. Still, retail products continue to represent a small share of total loan book. For the next two years, we expect these segments to represent about 18% of the total

loan portfolio. Finally, we believe Banco Inbursa will continue taking advantage of its digital strategy--more than 90% of its transactions are through its digital channels-- and consequent operating efficiencies. We believe the bank's loan portfolio will grow 8%-10% by the end of 2023, a higher pace than those of its main peers and the Mexican banking system.

Chart 1

Banco Inbursa's Retail Portfolio Breakdown



Source: Comisión Nacional Bancaria de Valores (CNBV)
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Solid capitalization levels and increasing bottom-line results owing to high margins, lower expenses, and moderate provisioning. We believe Banco Inbursa's capitalization will remain one of its main credit strengths due to ample capitalization room to keep expanding its portfolio loan--which we estimate at 8%-10% in 2023-2024--while maintaining its strong capitalization. We forecast Grupo Financiero Inbursa's (on a consolidated basis, GF Inbursa) average risk-adjusted capital (RAC) ratio to be 14.7% for the next two years and Banco Inbursa's (on a stand-alone basis) to be 14.4%. Our base-case scenario assumptions are:

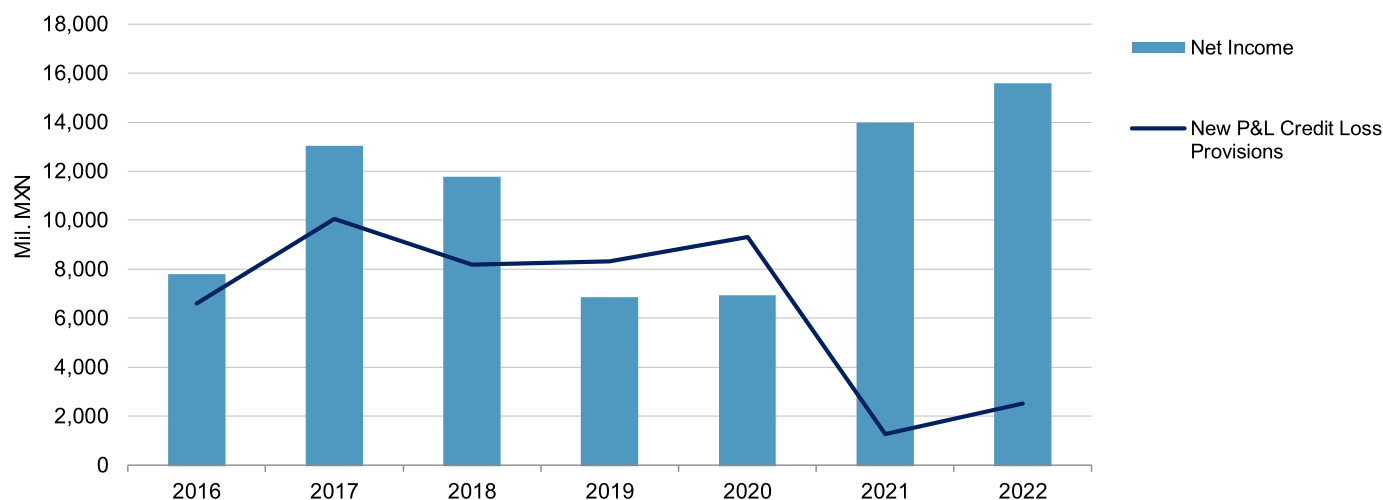
- Mexico's GDP to grow 1.3% in 2023 and 1.7% in 2024;
- Average loan portfolio growth of 8%-10% for the next two years;
- Cost-to-income ratio averaging 28%;
- Nonperforming assets (NPAs) of about 2.1% in the next two years. We expect NPAs to be fully covered by loan loss reserves by at least 1.0x; and
- Dividend payout of 30%-35% in 2023-2024.

We expect Banco Inbursa's bottom-line results to continue increasing due to the steady growth of its loan portfolio and

because of our expectation of a normalization of its loan-loss reserves. We anticipate Banco Inbursa will end 2023 with credit-loss provisions of about MXN3.7 billion. We forecast the bank's average return on assets to be 2.7%-3.0% for the next two years.

Chart 2

Credit Loss Provisions Versus Net Income



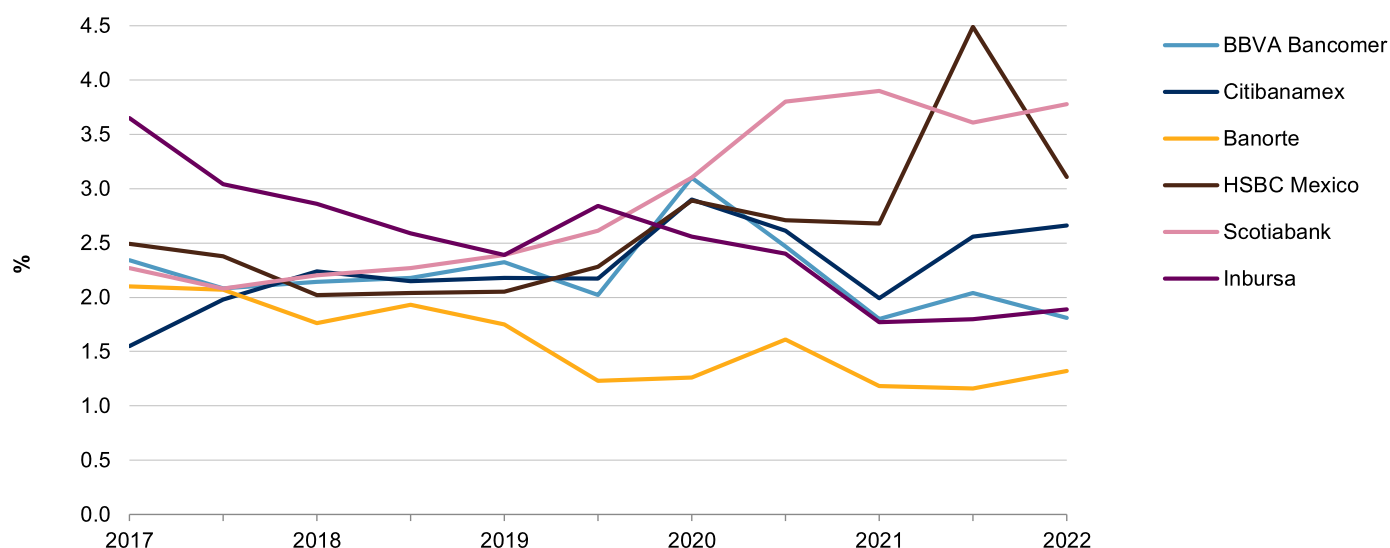
Source: S&P Global Ratings.

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Healthier asset quality metrics despite the economic turmoil, adverse financing conditions for corporations and households struggling with falling real incomes. Our assessment of Banco Inbursa's risk position reflects the bank's prudent risk management policies and manageable asset quality metrics, which are healthier than pre-pandemic levels. We anticipate persistent economic challenges, especially high interest rates that could raise the companies' cost of funding and intensify households' difficulties stemming from rising energy and food prices. However, Banco Inbursa has historically maintained a large amount of provisioning to withstand the potential deterioration of some lending segments and borrowers that could worsen under adverse economic conditions. We believe the bank will remain resilient, and we forecast slippage of the bank's loan portfolio but to remain at manageable levels. We forecast NPAs of about 2.1% in 2023-2024 and net charge-offs of about 1.3%, which will reduce credit provisions below pre-pandemic levels. On the other hand, we believe Banco Inbursa's loan portfolio remains less diversified than those of its immediate peers: we expect its top 20 credit exposures--without intracompany operations--to represent more than 65% of its loan portfolio. The latter could result in asset-quality volatility in case of any of these borrowers run into financial difficulties.

Chart 3

Comparison of NPAs Among Mexican Main Banks



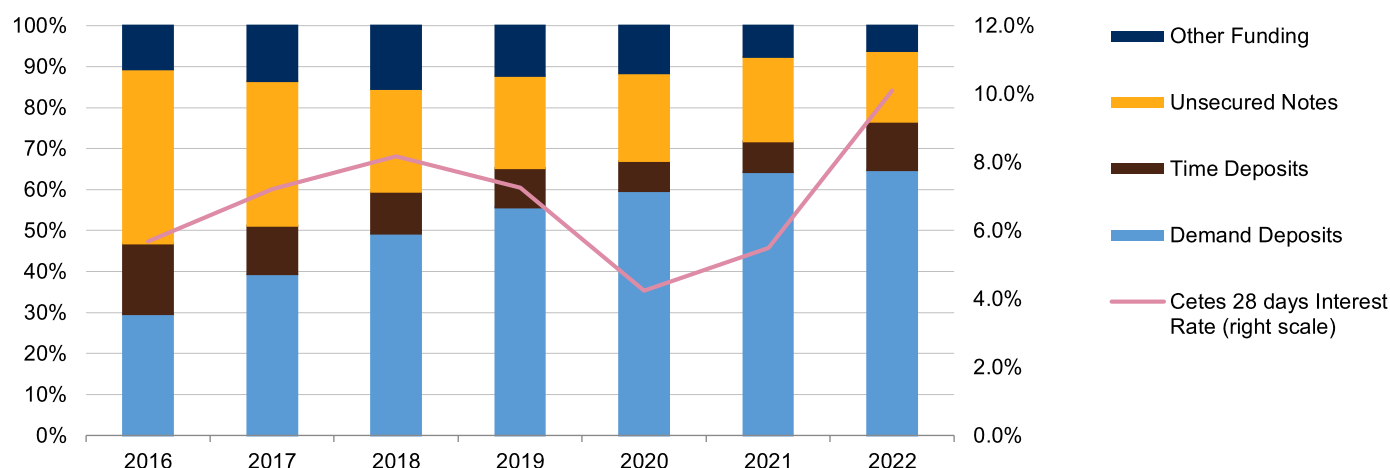
NPA's = Gross nonperforming assets / customer loans + other real estate owned. Source: S&P Global Ratings based on Bank's information

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Large and diversified deposit base continues providing stable funding sources, although funding costs are rising. Our assessment of Banco Inbursa's funding and liquidity incorporates its stable funding structure with a large and highly diversified deposit base. This stems from increasing the proportion of its core customer deposits within its funding base to 76.3% as of 2022 from a five-year average of 67.9%. Given that Banco Inbursa pays for these retail deposits a percentage of the Mexican Federal Treasury Certificates (Cetes) rate--which has increased more than 470 basis points in the past 24 months--its cost of funds has risen compared with the last two years. Despite higher funding cost from retail deposits, we still view the base as more stable during adverse market conditions, and it has lower costs than the corporate segment. Furthermore, we forecast Banco Inbursa's stable funding ratio (SFR) to be near 118% in the next two years. We believe Banco Inbursa will maintain sound financial flexibility due to its large deposit base and its prudent liquidity management. Additionally, Banco Inbursa has a comfortable debt maturity profile and proven access to debt capital markets even during stressful market conditions, which result in low refinancing risk.

Chart 4

Banco Inbursa's Funding Mix Versus Cetes 28 Days Interest Rate



Source: S&P Global Ratings.
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Outlook

The stable outlook on Banco Inbursa reflects our expectation that the bank will maintain the RAC ratio of about 14.4% in the next 12 months, while continuing to increase its lending at a faster rate than the Mexican banking system. The outlook also incorporates our base-case scenario of manageable asset quality and adequate funding profile with conservative liquidity management.

Downside scenario

If we downgrade Mexico in the coming 12-24 months, we could take the same action on Banco Inbursa.

Upside scenario

We could upgrade the bank if we were to raise the sovereign rating on Mexico, coupled with improvements in the bank's stand-alone credit profile (SACP), with a RAC ratio consistently above 15%. However, we consider this scenario unlikely in the next 12 to 24 months.

Additional Rating Factors

We consider Banco Inbursa Inversora Bursatil (the securities firm) and Sofom Inbursa as GF Inbursa's core entities because these subsidiaries continue operating in the group's integral business lines, have a favorable and long record in the Mexican market, and remain closely linked to the group. Inversora Bursatil continues to offer brokerage services

that can't be offered by any other business unit in the group because of regulations, and Sofom Inbursa handles loan origination in the retail segment.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
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ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

We consider ESG factors for Banco Inbursa as broadly in line with those of industry and regional peers, therefore, they don't affect the bank's credit quality. In our view, the bank has an experienced management and governance that are reflected in conservative risk management policies and procedures. Finally, environmental and social risks are not distinctive credit factors for Banco Inbursa's credit quality compared to those of other large banks in Mexico.

Key Statistics

Table 1

Banco Inbursa S.A. Institucion de Banca Multiple Grupo Financiero Inbursa--Key Figures					
--Year-ended Dec. 31--					
(Mil. MXN)	2022	2021	2020	2019	2018
Adjusted assets	480,078.0	415,126.7	403,405.0	380,012.7	413,566.4
Customer loans (gross)	294,858.0	253,439.0	228,498.0	248,866.8	250,172.6
Adjusted common equity	133,970.0	118,086.7	103,752.0	98,362.0	111,970.5
Operating revenues	30,273.0	28,281.0	29,431.0	27,452.4	32,268.4
Noninterest expenses	8,792.0	9,673.0	10,624.0	9,535.9	8,434.2
Core earnings	16,077.0	14,519.0	7,073.0	7,050.0	11,974.8

MXN--Mexican peso.

Table 2

Banco Inbursa S.A. Institucion de Banca Multiple Grupo Financiero Inbursa--Business Position					
--Year-ended Dec. 31--					
(%)	2022	2021	2020	2019	2018
Total revenues from business line (currency in millions)	30,273.0	28,281.0	29,431.0	27,452.4	32,268.4
Commercial & retail banking/total revenues from business line	N/A	N/A	96.2	N/A	N/A
Trading and sales income/total revenues from business line	4.6	5.8	(4.1)	(10.4)	6.0
Other revenues/total revenues from business line	6.4	15.9	8.0	6.7	14.1

Table 2**Banco Inbursa S.A. Institucion de Banca Multiple Grupo Financiero Inbursa--Business Position (cont.)**

	--Year-ended Dec. 31--				
(%)	2022	2021	2020	2019	2018
Investment banking/total revenues from business line	4.6	5.8	(4.1)	(10.4)	6.0
Return on average common equity	12.6	12.9	7.1	6.6	N/A

N/A--Not applicable.

Table 3**Banco Inbursa S.A. Institucion de Banca Multiple Grupo Financiero Inbursa--Capital And Earnings**

	--Year-ended Dec. 31--				
(%)	2022	2021	2020	2019	2018
Tier 1 capital ratio	21.9	21.5	18.7	17.6	22.1
S&P Global Ratings' RAC ratio before diversification	N/A	15.4	13.2	13.8	16.4
S&P Global Ratings' RAC ratio after diversification	N/A	12.1	10.4	10.7	12.9
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	74.9	60.6	78.1	84.6	70.5
Fee income/operating revenues	14.0	17.8	18.1	19.1	15.7
Market-sensitive income/operating revenues	4.6	5.8	(4.1)	(10.4)	6.0
Cost to income ratio	29.0	34.2	36.1	34.7	26.1
Preprovision operating income/average assets	4.8	4.5	4.8	4.5	N/A
Core earnings/average managed assets	3.6	3.5	1.8	1.8	N/A

N/A--Not applicable.

Table 4**Banco Inbursa S.A. Institucion de Banca Multiple Grupo Financiero Inbursa--Risk Position**

	--Year-ended Dec. 31--				
(%)	2022	2021	2020	2019	2018
Growth in customer loans	16.3	10.9	(8.2)	(0.5)	N.M.
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	27.6	27.0	28.9	27.1
Total managed assets/adjusted common equity (x)	3.6	3.5	3.9	3.9	3.7
New loan loss provisions/average customer loans	0.9	0.5	3.9	3.3	N/A
Net charge-offs/average customer loans	0.3	2.1	3.8	3.6	N/A
Gross nonperforming assets/customer loans + other real estate owned	1.9	1.8	2.6	2.4	2.9
Loan loss reserves/gross nonperforming assets	155.8	176.6	173.7	149.1	133.8

N/A--Not applicable. N.M.--Not meaningful.

Table 5

Banco Inbursa S.A. Institucion de Banca Multiple Grupo Financiero Inbursa--Funding And Liquidity					
--Year-ended Dec. 31--					
(%)	2022	2021	2020	2019	2018
Core deposits/funding base	76.3	71.9	67.1	65.2	59.5
Customer loans (net)/customer deposits	117.3	124.9	122.1	145.4	160.1
Long-term funding ratio	99.7	100.0	96.1	96.2	95.7
Stable funding ratio	119.5	120.2	118.7	115.4	117.2
Short-term wholesale funding/funding base	0.4	0.1	5.4	5.3	6.2
Broad liquid assets/short-term wholesale funding (x)	84.0	527.5	6.9	6.2	6.9
Broad liquid assets/total assets	20.6	21.5	24.3	21.9	26.0
Broad liquid assets/customer deposits	40.6	45.6	55.1	50.6	71.8
Net broad liquid assets/short-term customer deposits	50.2	56.9	58.8	53.1	76.7
Regulatory liquidity coverage ratio (LCR) (x)	N/A	923.8	726.3	598.5	514.7
Short-term wholesale funding/total wholesale funding	1.6	0.2	16.3	15.3	15.3

N/A--Not applicable.

Banco Inbursa--Rating Component Scores

Issuer Credit Rating	BBB/Stable/A-2
SACP	bbb
Anchor	bbb-
Economic risk	6
Industry risk	3
Business position	Adequate
Capital and earnings	Strong
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And

Assumptions, Dec. 9, 2021

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of March 31, 2023)*

Banco Inbursa S.A. Institucion de Banca Multiple Grupo Financiero Inbursa

Issuer Credit Rating	BBB/Stable/A-2
<i>CaVal (Mexico) National Scale</i>	mxAAA/Stable/mxA-1+
Senior Unsecured	
<i>CaVal (Mexico) National Scale</i>	mxAAA
Senior Unsecured	BBB

Issuer Credit Ratings History

06-Jul-2022		BBB/Stable/A-2
27-Mar-2020		BBB/Negative/A-2
04-Mar-2019		BBB+/Negative/A-2
09-Feb-2010	<i>CaVal (Mexico) National Scale</i>	mxAAA/Stable/mxA-1+
18-Dec-2008		mxAA+/Stable/mxA-1+
30-Aug-2007		mxAA/Positive/mxA-1+

Sovereign Rating

Mexico		
<i>Foreign Currency</i>		BBB/Stable/A-2
<i>Local Currency</i>		BBB+/Stable/A-2
<i>CaVal (Mexico) National Scale</i>		mxAAA/Stable/--

Related Entities

Inversora Bursatil S.A. de C.V. Casa de Bolsa

Issuer Credit Rating		
<i>CaVal (Mexico) National Scale</i>		mxAAA/Stable/mxA-1+

Seguros Inbursa S.A.

Financial Strength Rating		
<i>CaVal (Mexico) National Scale</i>		mxAAA/Stable/--
Issuer Credit Rating		
<i>CaVal (Mexico) National Scale</i>		mxAAA/Stable/--

Sofom Inbursa, S.A. de C.V. SOFOM, ER, Grupo Financiero Inbursa

Issuer Credit Rating		
<i>CaVal (Mexico) National Scale</i>		mxAAA/Stable/mxA-1+
Senior Unsecured		
<i>CaVal (Mexico) National Scale</i>		mxA-1+
Short-Term Debt		

Ratings Detail (As Of March 31, 2023)*(cont.)

CaVal (Mexico) National Scale

mxA-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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