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Research Update:

Banco Monex S.A. 'BB+/B' Ratings Affirmed On Strong Risk-Adjusted Capitalization; Outlook Remains Stable

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Overview

- Banco Monex has maintained strong capitalization despite the aggressive loan growth in the past two years, supported by capital injections and stable internal capital generation.
- We are affirming our 'BB+/B' global scale and 'mxA+/mxA-1' national scale ratings on the bank and our 'mxA+/mxA-1' ratings on its affiliate company, Monex Casa de Bolsa.
- The stable outlook reflects our expectation that the bank will maintain an RAC ratio of about 10.1% for the next two years as it continues growing its credit business while maintaining adequate asset quality metrics.

Rating Action

On April 29, 2016, Standard & Poor's Ratings Services affirmed its 'BB+/B' global scale and 'mxA+/mxA-1' national scale ratings on Banco Monex S.A. We also affirmed our 'mxA+/mxA-1' ratings on Monex Casa de Bolsa, S.A. The outlook on both scales remains stable. At the same time, we are affirming our 'mxA+' national scale rating on the bank's senior unsecured notes (BMONEX 15).

Rationale

Our ratings on Banco Monex reflect our strong assessment of capital and earnings considering our projected RAC ratio of about 10.1% for the next two years; its moderate business position with a small market share compared with the Mexican banking industry; a moderate risk position reflecting its aggressive loan growth and concentrated portfolio with only adequate asset quality metrics; and its adequate liquidity and below average funding due to a less diversified funding profile than the financial system. The stand-alone credit profile (SACP) remains 'bb+'.

Our bank criteria use our BICRA economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for banks operating in Mexico is 'bbb'.

Mexico's economic risk reflects its low per capita GDP, which limits the country's ability to withstand economic downturns and constrains household credit capacity. Although Mexico has maintained macroeconomic stability, its economy still lacks dynamism. Low-income levels, a large informal workforce, and relatively weak rule of law limit credit growth prospects and banking penetration. These conditions result in high credit risk. On the positive side, the Mexican financial system doesn't have economic imbalances, and housing prices have remained fairly stable for the past five years.

With regards to industry risk, in our view, banks have solid profitability thanks to a healthy competitive environment. The sector's adequate regulatory framework follows international standards and has fostered healthy capitalization levels. The recent financial reform overhauled banking regulation that we believe provides a more preemptive approach toward banking risk and could help reduce the sector's vulnerability to financial crises. An adequate and stable core customer deposit base supports Mexico's system-wide funding.

Our assessment of Banco Monex's capital and earnings remains strong. Its RAC ratio has remained at strong levels, supported by continuous capital injections and internal capital generation despite the aggressive growth in its loan portfolio. We are forecasting that its RAC ratio will be around 10.1% for 2016 and 2017. Our base case scenario assumptions are:

- Mexico's GDP growth of 2.5% in 2016 and 2.9% in 2017;
- Loan portfolio growth of 40% in 2016 and 35% in 2017, focused in the corporate sector.
- Volatility in the foreign exchange (FX) market will benefit Monex's revenues but a more moderate growth for 2016/2017.
- We expect an improvement in its net interest margin (NIM)as recent originations start to mature, to nearly 2.45% in 2017.
- Efficiency levels at about 79%.
- New loan loss provisions should represent around 1% of operating revenues.
- Dividend pay-out ratio between of 30% for the next two years.
- No further inorganic growth that generates additional goodwill or intangibles.

In our opinion, quality of capital is good. There is no hybrid issuances so adjusted common equity represents 100% of the bank's total adjusted capital (TAC). Banco Monex's capital base is comprised of paid-in capital, reserves, and retained earnings.

We continue evaluating Banco Monex's business position as moderate, mainly reflecting its small market position--although it has maintained its leading position in the foreign exchange segment. Despite the aggressive loan portfolio growth for the past few years, Banco Monex's market shares in terms of loans and deposits as of February 2016 were a low 0.36% and 0.52%, respectively. We do not expect its market penetration to significantly improve in the next few years as a consequence of the highly competitive Mexican market. Despite market volatility in 2015, FX income increased, supported by higher volumes than in 2014 and as of December 2015, Banco Monex had 27% market penetration above the 17% from 2014. We expect that revenues from the

FX business will continue to be its main income generator in the short term, although the bank will continue improving its revenue mix through loan portfolio growth.

We continue to assess Banco Monex risk position as moderate, mainly reflecting its aggressive loan portfolio growth; although its single-name concentration has improved, it's still high. The bank has had compound annual growth of 35.4% in its loan portfolio for the last four fiscal years and we expect double-digit growth to continue even though we believe all of it to be organic. Most of the growth has been in commercial loans supported by cross-selling strategies with its current client base. In addition, although single-name concentrations improved against 2014 due to loan portfolio growth, we still consider them higher than its peers'; top-20 exposures represented 57% of the bank's total loan portfolio as of December 2015 vs. 71% in 2014 —and 1.5x its TAC. In our opinion, such concentrations make the bank's financial position vulnerable to the default of any of its largest clients but we expect this risk concentration to gradually improve.

Liquidity remains adequate in our opinion. Our assessment is supported by our broad liquid assets to short-term wholesale funding ratio, which stood at 1.7x at the end of 2015, with a 2.4x three-year average. This ratio declined as the bank increased its interbank funding, which has a short-term nature. We expect this ratio to remain above 1x in the next few quarters.

We consider Banco Monex´s funding as below average, reflecting a lower proportion of deposits in its funding structure compared to the industry average and a stable funding ratio below that of the system. Core customer deposits expanded 23% in 2015, and represented nearly 50% of Banco Monex's total funding base at year-end 2015. It was still below the industry average of 82%. In addition, Monex's deposit base is more oriented toward wholesale clients, which tend to be more sensitive to interest rates, and therefore more volatile. The bank continues to show deposit concentration, where its top-20 depositors represented 30% of the total deposit base, slightly lower than 2014's 43%. We continue to think that achieving a more stable deposit base, mostly in its retail deposits, will continue to be a challenge for Banco Monex, given the strong competition for deposits in the system and the fact that its business model does not rely on branches. The bank´s stable funding ratio was 65% at year-end 2015, lower than the 97% of the banking industry as of the same date.

In our opinion, Monex Casa de Bolsa represents an integral business line for Grupo Monex. It complements the bank's financial products, and it's fully integrated with the other companies in the group, but it's a stand-alone entity for regulatory purposes. Monex Casa de Bolsa is closely linked to the group's reputation, brand and risk management, and it's highly unlikely to be sold.

Outlook

The stable outlook reflects our expectation that the bank will maintain its RAC ratio of about 10.1% for the
next two years as it continues growing its credit business. The outlook also incorporates our expectation that the bank will maintain adequate asset quality indicators, similar to the average of the last two fiscal years.

Downside scenario

We could lower the ratings if the bank is unable to maintain an RAC ratio above 10%, as a result of loan portfolio growth above our expectations that is not compensated for with internal capital generation, or if asset quality deteriorates and requires higher loan loss provisions that pressure bottom-line results.

Upside scenario

We could upgrade Banco Monex if we revise its risk position to adequate, supported by sustained client diversification--where the top-20 exposures represent less than 40% of its total portfolio and is equivalent to around 1x its total adjusted capital, provided all other asset quality indicators remain unchanged.

Ratings Score Snapshot

Issuer Credit Rating	BB+/Stable/B
SACP	bb+
Anchor	bbb
Business Position	Moderate (-1)
Capital and Earnings	Strong (+1)
Risk Position	Moderate (-1)
Funding and Liquidity	Below Average and Adequate (-1)
Support	0
GRE Support	0
Group Support	0
Sovereign Support	0
Additional Factors	0

Related Criteria And Research

Related Criteria

- Standard & Poor's National And Regional Scale Mapping Tables, Jan 19,2016
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Group Rating Methodology, Nov. 19, 2013

- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology and Assumptions, Dec. 6, 2010
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Use of CreditWatch and Outlooks, Sept 14, 2009
- Commercial Paper I: Banks, March 23, 2004

Ratings List

Ratings Affirmed

Banco Monex S.A.	
Counterparty Credit Rating	
Global Scale	BB+/Stable/B
CaVal (Mexico) National Scale	mxA+/Stable/mxA-1
Senior Unsecured	
CaVal (Mexico) National Scale	mxA+
Holding Monex, S.A.B. de C.V.	
Counterparty Credit Rating	
CaVal (Mexico) National Scale	mxA/Stable/mxA-2
Senior Unsecured	
CaVal (Mexico) National Scale	mxA
Monex Casa de Bolsa S.A.	
Counterparty Credit Rating	
CaVal (Mexico) National Scale	mxA+/Stable/mxA-1

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.