MOODY'S
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Credit Opinion: Instituto para la Protección al Ahorro Bancario

Global Credit Research - 11 Dec 2014

Mexico, Mexico

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating -Fgn Curr	A3
Issuer Rating -Dom Curr	A2
NSR Issuer Rating -Dom Curr	Aaa.mx
ST Issuer Rating -Fgn Curr	P-2
ST Issuer Rating -Dom Curr	P-1
NSR ST Issuer Rating -Dom Curr	MX-1

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Opinion

SUMMARY RATING RATIONALE

Moody's assigns Mexico's bank deposit insurer Instituto para la Protección al Ahorro Bancario, Organismo Descentralizado de la Administración Pública Federal (IPAB) a long term local currency issuer rating of A2 and a foreign currency issuer rating of A3, the latter in line with Mexico's A3 government bond ratings. The outlook on these ratings is stable, reflecting a similar outlook on Mexico's sovereign bond ratings.

The A2 long term local currency issuer rating takes into account IPAB's important policy role as a key entity to: (i) protect bank depositors, (ii) preserve market confidence and (iii) maintain the stability of the financial system. The ratings on IPAB also cover its bonds (Bonos de Protección al Ahorro, BPAS).

IPAB's ratings reflect its role as the country's bank deposit insurance entity, and its status as an arm of the Mexican government, to which it belongs. IPAB operates in the same economic and financial environment and is therefore vulnerable to the same credit pressures as the Mexican sovereign.

IPAB's obligations have an implicit government guarantee in the form of a federal mechanism to assure direct repayment of its obligations through direct charge of the Federal Treasury accounts, as stated on Mexico's Ley de Ingresos de la Federación (Federal Revenues Law).

Rating Drivers

- IPAB is part of the government, highlighting its sovereign status

- Implicit federal mechanisms to support direct repayment of the institute's obligations

- IPAB executes government policy providing bank depositor insurance coverage and in maintaining financial system stability

- IPAB's reserve fund to support banks is still small overall, but gradually increasing

Rating Outlook

All of IPAB's issuer and debt ratings have stable outlooks in line with the stable outlook on Mexico's A3 government bond ratings.

What Could Change the Rating - Up

Upward ratings pressure is limited at this juncture given the stable outlook on the government's A3 sovereign bond rating. An upward change in the Mexican government's debt rating would have an equivalent impact on IPAB's FC issuer rating.

What Could Change the Rating - Down

The default risk of the Mexican government currently has a stable outlook hence a downgrade on IPAB's ratings is less likely at this juncture.

National Scale Rating

Moody's assigns Aaa.mx/MX-1 Mexican National Scale issuer ratings to IPAB. These ratings also cover the institute's bonds, Bonos de Protección al Ahorro (BPAS).

DETAILED RATING CONSIDERATIONS

Detailed considerations for IPAB's ratings are as follows:

IPAB is the part of the Mexican government that serves as the country's bank deposit insurer. It provides depositor coverage and assists troubled bank institutions. IPAB's obligations have implicit government support in the form of a federal mechanism to assure direct repayment of IPAB's obligations. This is supported on direct charge of the Federal Treasury (Tesorería de la Federación) accounts. Moreover, IPAB's Organic Law enables it to contract debt on behalf of the Mexican government to support the bailout of distressed banks.

IPAB's board is integrated by high-level government officials, including the Minister of Finance (SHCP), the Governor of the central bank (Banxico), the President of the Mexican bank regulatory entity (CNBV), and four vocals (directly appointed by the President of Mexico).

As of 30 September 2014, IPAB had Mx$931.3 billion in total liabilities; there were around Mx$911.4 billion of BPAS outstanding. It has been eight years now since IPAB's saving protection fund (Fondo de Protección al Ahorro Bancario) shifted from deficit to a positive balance and as of 3Q14 reached Mx$19.1 billion.

New financial regulations since January 2014, provided IPAB with the ability to intervene in failing banks more easily to immediately protect eligible depositors; these faster and more orderly liquidation processes are credit positive for depositors. In effect, before problems arise, IPAB has the ability to conduct in-situ inspection visits and impose sanctions on troubled banks. IPAB also has new powers to design and implement remediation processes for insolvent banks, as well as determine and/or approve transfers of assets and liabilities to special vehicles. IPAB is also able to dismiss appeals from insolvent banks, and to initiate asset sales without needing a court resolution. These measures to limit or stem losses, both before and during a bank remediation or liquidation, should help preserve value for unsecured creditors and reduce the losses they incur in the event of a bank failure.

Discussion of Support Considerations

IPAB's obligations count with an implicit government guarantee. Particularly, there are explicit federal mechanisms to assure direct repayment of IPAB's obligations (direct debit of Federal Treasury accounts) as stated on Mexico's Ley de Ingresos de la Federación.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

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