

RATING ACTION COMMENTARY

Fitch Affirms IPAB's IDRs at 'BBB-'; Outlook Stable

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Fitch Ratings - Monterrey - 03 Jun 2022: Fitch Ratings has affirmed the Long- and Short-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) of Instituto para la Protección al Ahorro Bancario (IPAB) at 'BBB-' and 'F3', respectively.

Also, Fitch has affirmed IPAB's Long- and Short-Term National Scale ratings at 'AAA(mex)' and 'F1+(mex)', respectively. The senior local long-term debt ratings were affirmed at 'AAA(mex)'. The Rating Outlook on the Long-Term ratings is Stable.

Fitch has withdrawn IPAB's Support Rating of '2' and Support Rating Floor of 'BBB-' as they are no longer relevant to the agency's coverage following the publication of its updated Non-Bank Financial Institutions Rating Criteria on Jan. 31, 2022. In line with the updated criteria, Fitch has assigned IPAB a Government Support Rating (GSR) of 'bbb-'.

KEY RATING DRIVERS

IDRs, GSR, NATIONAL RATINGS AND SENIOR DEBT

Sovereign's Adequate Ability to Support: IPAB's IDRs are driven by its GSR, which is equalized with the Long-Term IDR of Mexico (BBB-/Stable). This considers Mexico's high propensity to support IPAB but adequate ability to do so, as indicated by Mexico's 'BBB-' sovereign rating. The Stable Outlook on IPAB's Long-Term IDRs mirrors that of the sovereign rating.

High Propensity to Support: The Mexican government's high propensity to support IPAB is reflected in its important policy role, 100% state ownership and laws that guarantee IPAB's operations.

Important Policy Role: According to Fitch's support assessment, Mexico's high propensity to support is reflected in IPAB's highly strategic policy role as the sole deposit insurer in the country and the government tool to execute the resolution of banks with financial problems. IPAB's tasks aim to maintain the country's financial system stability and confidence in the banking system. Fitch considers IPAB's systemic importance to the financial system as high. IPAB acts as the financial system's liquidity provider by issuing debt instruments (Bonos de Protección al Ahorro Bancario, BPAs) that have resulted in a safe haven for financial intermediaries.

Effective Bank Resolutions: IPAB's execution of bank resolutions over the last two years has been effective. In July 2020 and September 2021, the banking regulator approved the cancellation of the banking licenses of Banco Ahorro Famsa (BAF) and Accendo Banco (Accendo), respectively, and the activation of IPAB's bank resolution and liquidation process for these entities approved by the institute's Government Board. As of 1Q22, IPAB paid 99.2% and 97.1% of the guaranteed obligations of BAF and Accendo, respectively. In 2022, IPAB will use any guaranteed obligation payment recoveries from BAF and Accendo to support the Banking Protection Fund.

Laws Guarantee IPAB's Obligations: If IPAB is unable to fulfil its financial obligations, it is stipulated in the Bank Saving Protection Law that the Mexican Congress will establish the criteria and measures for the payment of guaranteed obligations and its financing, if required. That law also stipulates that the Congress will provide budgetary resources to the institute to face its corresponding financial obligations if required. Mexico's Revenues Law also specifies that the entity's financial agent, Mexico's Central Bank, could temporarily debit the treasury's accounts to meet the payment of IPAB's debt issuances.

Financial Performance Reflects Public Ownership: Although IPAB's ratings are driven solely on government support, its financial profile is relevant to Fitch's assessment of the support propensity, mainly due to a reduction in incomes from participations, contributions and transfers and (to a lesser extent) due to lower financial income. Historically, IPAB's profitability has been negative due to the high influence of its policy role. IPAB's net income is affected by the interest expenses from the BPAs. The federal

transfers, the instalments charged to banks and interest income are not sufficient to cover operational and interest expenses, a trend that is expected to continue to be influenced by higher interest expenses due to the higher than previous years interest policy rates.

Stable Funding and Liquidity: IPAB's funding structure has been stable, albeit highly concentrated and sensitive to market conditions. However, IPAB's funding structure has been modestly sensitive to investor confidence. IPAB's funding structure is based on local debt issuances called BPAs. In Fitch's view, IPAB has demonstrated a high ability to handle refinancing risk. Its ample expertise in debt markets and high linkage to Mexico's government has supported its recurrent presence in the local debt markets.

National Ratings and Debt Ratings: IPAB's 'AAA(mex)/F1+(mex)' Long-Term and Short-Term National Ratings are based on potential support from the Mexican sovereign, and reflects the IPAB's creditworthiness relative to that of other issuers in Mexico. The senior local debt ratings is equalized with IPAB's 'AAA(mex)' rating, as the likelihood of a default of the notes is the same as that of the company.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--IPAB's GSR and IDRs could be upgraded if the sovereign rating is upgraded and Fitch continues to view IPAB as having high policy role to the federal government;

--National ratings cannot be upgraded because they are at the highest level in the national rating scale.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--IPAB's GSR and IDRs could be downgraded if the sovereign rating is downgraded;

--GSR, IDRs and national ratings could be downgraded if Fitch perceives a decrease in IPAB's policy role to the federal government, through modifications of its legal framework or if the government reduces transfers of budgetary resources to IPAB in respect with the requested amount; however, this scenario is unlikely in the short and medium term;

--IPAB's senior debt ratings are likely to move in line with its long-term national rating.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT

RATING

PRIOR

Instituto para la Proteccion al Ahorro Bancario (IPAB)	LT IDR				BBB- Rating Outlook Stable
		BBB- Rating Outlook Stable		Affirmed	
	ST IDR	F3	Affirmed		F3
	LC LT IDR				BBB- Rating Outlook Stable
		BBB- Rating Outlook Stable		Affirmed	
	LC ST IDR	F3	Affirmed		F3
	Natl LT				AAA(mex) Rating Outlook Stable
		AAA(mex) Rating Outlook Stable			
		Affirmed			
	Natl ST	F1+(mex)	Affirmed		F1+(mex)
	Support	WD	Withdrawn		2
	Support Floor	WD	Withdrawn		BBB-
	Government Support		bbb-		
	New Rating				
senior unsecured	Natl LT	AAA(mex)	Affirmed		AAA(mex)

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Metodología de Calificaciones en Escala Nacional \(pub. 22 Dec 2020\)](#)

[Non-Bank Financial Institutions Rating Criteria \(pub. 31 Jan 2022\) \(including rating assumption sensitivity\)](#)

[Metodología de Calificación de Instituciones Financieras no Bancarias \(pub. 28 Mar 2022\)](#)

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Instituto para la Protección al Ahorro Bancario (IPAB)

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