

RATING ACTION COMMENTARY

Fitch Affirms IPAB's at 'BBB-'/AAA(mex)'; Outlook Stable

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Fitch Ratings - Monterrey - 19 Jun 2023: Fitch Ratings has affirmed Instituto para la Protección al Ahorro Bancario's (IPAB) Long- and Short-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'BBB-' and 'F3', respectively. The Government Support Rating (GSR) has also been affirmed at 'bbb-'.

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 have been affirmed at 'AAA(mex)'. The Rating Outlook on the Long-Term ratings is Stable.

KEY RATING DRIVERS

IDRs, GSR AND NATIONAL RATINGS

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 and 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 the latter's core policy role, its 100% long-term and strategic government ownership, as well as laws that fully guarantee IPAB's operations and funding.

Important Policy Role: Fitch's GSR reflects IPAB's high strategic policy role as the sole banking deposit insurer in the country, the government tool to resolve banks with financial problems, and liquidity provider to the financial system. IPAB is tasked with maintaining the country's financial system stability and confidence in the banking system. Fitch views IPAB's systemic importance to the financial system as high. As the financial system's liquidity provider IPAB, issues debt instruments (Bonos de Protección al Ahorro Bancario, BPAs) that have resulted in IPAB becoming a safe haven for financial intermediaries to invest its liquidity excess.

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. That law also stipulates that the Congress will provide budgetary resources to the institute to meet its corresponding financial obligations. Also, Mexico's Revenues Law specifies that the entity's financial agent, Mexico's Central Bank, could transitorily debit the treasury's accounts to meet payment of IPAB's debt issuance.

Effective Execution: IPAB's execution has been strong. The last two bank resolutions, in July 2020 and September 2021, of Banco Ahorro Famsa (BAF) and Accendo Banco (Accendo), respectively, and liquidation processes were completed successfully. As of 1Q23, IPAB paid 99.3% and 99.1% of the guaranteed obligations of BAF and Accendo respectively.

Financial Support from Government: IPAB's financial performance benefits from meaningful federal transfers from the Mexican government to partially cover interest expenses. For 2023, the Mexican government has transferred MXN54.2 billion to IPAB, 3.5x higher than 2022's amounts due to the residual effects of high inflation and interest rates.

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

National Ratings: IPAB's 'AAA(mex)/F1+(mex)' Long- and Short-Term National Ratings are based on potential support from the Mexican sovereign, and reflect IPAB's creditworthiness relative to that of other issuers in Mexico.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Negative rating actions in IPAB's GSR and IDRs could follow negative actions in Mexico's sovereign rating

--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 of requested amounts

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Positive rating actions in IPAB's GSR and IDRs could follow a positive action on Mexico's sovereign rating when Fitch continues to view IPAB as having a core policy role to the federal government

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

DEBT AND OTHER INSTRUMENT RATINGS: KEY RATING DRIVERS

The senior local debt ratings are equalized with IPAB's 'AAA(mex)' rating, as the likelihood of a default of the no is the same as that of the company.

DEBT AND OTHER INSTRUMENT RATINGS: RATING SENSITIVITIES

--IPAB's senior debt national 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 issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way 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 Protección al Ahorro Bancario (IPAB)	LT IDR BBB- Rating Outlook Stable Affirmed	BBB- Rating Outlook Stable

	ST IDR	F3	Affirmed	F3
	LC LT IDR	BBB- Rating Outlook Stable		BBB- Rating Outlook Stable
	Affirmed			
	LC ST IDR	F3	Affirmed	F3
	NatI LT	AAA(mex) Rating Outlook Stable		AAA(mex) Rating Outlook Stable
	Affirmed			
	NatI ST	F1+(mex)	Affirmed	F1+(mex)
	Government Support	bbb-	Affirmed	bbb-
senior unsecured	NatI LT	AAA(mex)	Affirmed	AAA(mex)

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FITCH RATINGS ANALYSTS

Alejandro Tapia

Senior Director

Primary Rating Analyst

+52 81 4161 7056

alejandro.tapia@fitchratings.com

Fitch Mexico S.A. de C.V.

Prol. Alfonso Reyes No. 2612, Edificio Connexity, Piso 8, Col. Del Paseo Residencial, Monterrey 64920

German Valle Mendoza

Director

Secondary Rating Analyst

+52 81 4161 7016

german.valle@fitchratings.com

Rolando Martinez

Senior Director

Committee Chairperson

+503 2516 6619

rolando.martinez@fitchratings.com

MEDIA CONTACTS**Elizabeth Fogerty**

New York

+1 212 908 0526

elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com**PARTICIPATION STATUS**

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APPLICABLE CRITERIA[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)[Metodología de Calificaciones en Escala Nacional \(pub. 22 Dec 2020\)](#)[Metodología de Calificación de Instituciones Financieras no Bancarias \(pub. 28 Mar 2022\)](#)[Non-Bank Financial Institutions Rating Criteria \(pub. 05 May 2023\) \(including rating assumption sensitivity\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Instituto para la Protección al Ahorro Bancario (IPAB)

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