

Credit Opinion: Instituto para la Protección al Ahorro Bancario

Global Credit Research - 11 Jun 2015

Mexico, Mexico

Ratings

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

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Opinion

SUMMARY RATING RATIONALE

On 5 June 2015, Moody's downgraded the global local currency (GLC) issuer ratings of Mexico's bank deposit insurer Instituto para la Protección al Ahorro Bancario, Organismo Descentralizado de la Administración Pública Federal's (IPAB) to A3/Prime-2, from A2/Prime-1.

The downgrade of IPAB's GLC issuer ratings does not reflect a deterioration in the issuer's credit fundamentals, but a change in the way Moody's assesses the capacity of a government to provide support to banks and the IPAB in this case; a reassessment we have done in Mexico and in a number of other Latin American countries as well.

Previously, when imputing government support assumptions in bank ratings and other intermediaries, deposit, senior unsecured debt and issuer ratings were, in certain cases, positioned above their relevant sovereign rating. This reflected an expectation that the extensive policy tools available to central banks to support domestic banks could result in a capacity for the sovereign to provide support to its country's banks and the IPAB in this case that is higher than its own creditworthiness. However, insights gained from historical experiences showed that when a crisis is prolonged, these measures remain insufficient to restore confidence in the system and an outright recapitalization of the banks is necessary.

In this light, Moody's believes that the Mexican government's own bond rating of A3 is the appropriate measure of its ability to support the IPAB, as this rating better captures the government's fiscal limitations and therefore its ultimate capacity to provide support. The IPAB's ratings were therefore affected by this revised assessment as its GLC ratings were previously one notch above that of the Mexican government.

IPAB is part of the Mexican government and benefits from an implicit sovereign guarantee that covers the deposit insurer's obligations. The implicit guarantee takes the form of a federal mechanism to assure direct repayment of IPAB's obligations through direct charge of the Federal Treasury accounts, as stated on Mexico's Ley de Ingresos de la Federación (Federal Revenues Law). The A3 rating of IPAB takes into account its 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).

Rating Drivers

- IPAB is part of the government, highlighting its sovereign status
- Implicit federal mechanisms to support direct repayment of IPAB'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

The outlook on all ratings is stable.

What Could Change the Rating - Up

IPAB's ratings would change along with any change in México's sovereign rating. However, this is unlikely at this juncture given the stable outlook on the government's A3 sovereign bond rating.

What Could Change the Rating - Down

Downward ratings pressure is limited at this juncture given the stable outlook on the government's A3 sovereign bond rating.

National Scale Rating

Moody's assigns Aaa.mx/MX-1 Mexican National Scale issuer ratings to IPAB. These ratings also cover the institute's 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. In addition to the implicit government guarantee, IPAB's Organic Law enables it to contract debt on behalf of the Mexican government to support the bailout of distressed banks, if necessary.

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).

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.

As of 31 March 2015, IPAB had Mx\$939.9 billion in total liabilities; there were around Mx\$918.1 billion of BPAS outstanding.

Discussion of Support Considerations

Repayment of IPAB's obligations is based on an explicit federal mechanism to assure direct repayment through direct debit of Federal Treasury accounts, as stated on Mexico's Ley de Ingresos de la Federación. Being part of the government, IPAB's A3 ratings mirror the intrinsic strength of Mexico's government.

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