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Research Update:

## Instituto Para La Proteccion Al Ahorro Bancario 'BBB+/A-2' And 'mxAAA/mxA-1+' Ratings Affirmed, Outlook Still Stable

**Primary Credit Analyst:**

Gerardo Zayas, Mexico City (52) 55-5081-4474; gerardo.zayas@standardandpoors.com

**Secondary Contact:**

Barbara Carreon, Mexico City (52) 55-5081-4483; barbara.carreon@standardandpoors.com

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## Research Update:

# Instituto Para La Proteccion Al Ahorro Bancario 'BBB+/A-2' And 'mxAAA/mxA-1+' Ratings Affirmed, Outlook Still Stable

## Overview

- Our ratings on Mexico-based sole deposit insurer IPAB continues to mirror the ratings on the sovereign, based on our assessment of an "almost certain" likelihood of support.
- IPAB has maintained its role as the only deposit insurer in the country, and has already proved the effectiveness of its resolution measures during Banco Bicentenario's liquidation process.
- We are affirming our 'BBB+/A-2' global scale foreign currency, 'A/A-1' global scale local currency, and 'mxAAA/mxA-1+' national scale counterparty credit ratings on IPAB, as well as our 'A' global scale local currency and 'mxAAA' national scale issue-level rating on IPAB's bonds.
- The stable outlook reflects that on the sovereign. As long as IPAB maintains its current role and link with the government, its ratings will move in tandem with those on Mexico.

## Rating Action

On Aug. 25, 2015, Standard & Poor's Ratings Services affirmed its ratings on Instituto Para La Protección al Ahorro Bancario (IPAB), including the 'BBB+/A-2' global scale foreign currency, 'A/A-1' global scale local currency, and 'mxAAA/mxA-1+' national scale counterparty credit ratings. The outlook on all ratings remains stable.

At the same time, we affirmed our 'A' global scale local currency and 'mxAAA' national scale issue-level ratings on IPAB's Savings Protection Bonds (BPAS, its Spanish acronym).

## Rationale

Our ratings on IPAB continue to reflect our assessment of an "almost certain" likelihood of support from the Mexican government (Foreign currency: BBB+/Stable/A-2; local currency: A/Stable/A-1). Consequently, the ratings on IPAB mirror those on the sovereign.

We base our view of an "almost certain" likelihood of extraordinary government support on the following:

- IPAB's "critical" role to the government as the sole deposit insurer for

the Mexican banking system. IPAB is in charge of the resolution processes for banks in financial distress, allowing their orderly exit from the financial system, thereby reducing the impact on investors. In addition, IPAB manages the debt received from its predecessor, the Banking Fund for the Protection of Savings (FOBAPROA) and has managed to limit the growth of this debt in real terms. We don't believe a private entity could easily undertake all of these roles.

- We also consider IPAB's link with the sovereign "integral" because the government wholly owns IPAB and appoints members to IPAB's board. Its board members are composed of the Ministry of Finance, the governor of the Central Bank (Banxico), and the president of the National Banking and Securities Commission (CNBV). The executive branch appoints four additional members. IPAB also receives government support to manage a sustainable debt strategy through annual budgetary allocation.

IPAB acts as a decentralized agency that manages the country's deposit insurance system, with a mandate to protect small and midsize depositors and maintain system-wide financial stability. The 2014 enacted financial reform in Mexico provided IPAB with new powers to quickly intervene to protect individuals' savings. IPAB has already proved its efficacy during Banco Bicentenario's resolution and liquidation process. Also, as a part of the financial reform, IPAB can now apply penalties to banks and make extraordinary visits to banking institutions, if necessary. In addition, IPAB, along with CNBV, participates in the crisis management simulacrum in order to simulate potential adverse financial situations.

As of the first half of 2015, its deposit fund accumulated MXN22.3 billion, which represented an increase of 21.2% compared to the same period in 2014. Despite this, IPAB currently covers about 99.9% of guaranteed accounts, we believe that the fund's coverage is insufficient under a distressed scenario because its deposit fund only represented 0.6% of the total banking system's deposit base as of June 2015. However, the institution has the capacity to raise new debt to meet its obligations, even up to MXN395 billion, without the authorization of Congress.

BPAS represented nearly 99.9% of its funding structure, and bank loans made up the remaining 0.1%; however, during the next few months, the institution will likely pay down the remaining bank loan, after which its funding structure will be solely composed of BPAS. Currently, BPAG91 and BPA182 represent the largest share of IPAB's issuances--40.6% and 37.7% respectively--followed by BPAG28 with 21.1%. IPAB will continue to reduce its net debt in real terms: as of June 30, 2015, its net debt represented 4.75% of GDP, significantly lower than 11.6% in 1999. In this regard, as of June 30, 2015, IPAB's debt outstanding totaled MXN931.7 billion, an increase of MXN 46.1 from June 2014. The average term in IPAB's maturity profile is 2.6 years, with some maturity concentration in 2018; however, we believe the institution will not have problems facing its obligations. We also expect it to gradually continue to decrease its total debt in real terms.

IPAB doesn't have an explicit guarantee of its liabilities. LPAB and the

Federal Income Law establish that the government could provide indirect support to the institution. Articles 45-47 of LPAB describe sovereign support for IPAB's guaranteed obligations (demand and term deposits, payroll accounts, deposits in saving accounts, and deposits associated with debit cards) under a stress scenario, in which a bank's solvency is threatened and IPAB lacks the resources to cover the guaranteed obligations or make capital injections. On the other hand, sovereign support for IPAB's debt issuances is described in Article 2 of the Federal Income Law, which directs the Central Bank to issue funds to service IPAB's market debt, if the IPAB lacks the necessary resources, and to make a direct charge to the Treasury's account.

IPAB is able to cover up to Unidades de Inversion (UDIs--reference unit in Mexico used to remove the effects of inflation) 400,000, or around MXN2.1 million, of deposits per account. We do not expect any changes to these figures in the near future.

Even though IPAB has been able to meet its financial obligations in the past, we believe that lower federal government revenues could harm IPAB's ability to maintain its institutional stability and could undermine its strategy to reduce or to maintain current debt levels in real terms. We believe that lower debt could enhance IPAB's financial flexibility and improve its credibility as a deposit insurer.

## **Outlook**

The stable outlook mirrors that on the sovereign. We believe that IPAB will maintain its "critical" role and "integral" link to the government, and as a consequence, the likelihood of extraordinary government support will remain "almost certain" over the next few years. Any movement in the ratings or outlook on the sovereign would prompt a similar action on IPAB. We could also lower the rating on IPAB if we change our view of the likelihood of support from the Mexican authorities, which could jeopardize IPAB's sustainability. However, given its importance to the banking system, we view this scenario as highly unlikely to occur.

## **Related Criteria And Research**

### **Related Criteria**

- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Standard & Poor's National And Regional Scale Mapping Tables, Sept. 30, 2014

## **Ratings List**

Ratings Affirmed

Instituto Para La Protección al Ahorro Bancario

Counterparty Credit Rating

Foreign Currency BBB+/Stable/A-2

Local Currency A/Stable/A-1

CaVal (Mexico) National Scale mxAAA/Stable/mxA-1+

Senior Unsecured

Global Scale A

CaVal (Mexico) National Scale mxAAA

**Additional Contact:**

Arturo Sanchez, Mexico City (52) 55-5081-4468; arturo.sanchez@standardandpoors.com

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