STANDARD & POOR'S RATINGS SERVICES
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Research

Research Update:

Instituto Para La Proteccion al Ahorro Bancario 'BBB+/A-2' Foreign Currency And 'A/A-1' Local Currency Ratings Affirmed

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Overview

- Our ratings on Mexico-based deposit insurer IPAB mirror those on the sovereign based on our assessment of an "almost certain" likelihood of support, if needed.
- IPAB maintains its role as the only deposit insurer in the country and the financial reform provided it with new faculties that strengthen its role to maintain the stability of the financial system. The new facilities also make the banking resolution processes more efficient.
- We are affirming our ratings on 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. We are also affirming our 'A' global scale local currency and 'mxAAA' national scale issue-level rating on IPAB's bonds.
- The stable outlook reflects the outlook on Mexico. If IPAB continues to maintain its current role and link with the government, the ratings on it will move in line with those on the sovereign.

Rating Action

On Sept. 11, 2014, 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, mirroring the outlook on the sovereign. 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).

Rationale

Our ratings on IPAB reflect an "almost certain" likelihood of support from the Mexican government (United Mexican States foreign currency: BBB+/Stable/A-2; local currency: A/Stable/A-1), according to our criteria for government-related entities (GREs). As a result, the ratings on IPAB mirror those on the sovereign. Our view of an "almost certain" likelihood of extraordinary government support is based on our assessment of IPAB's:

- "Critical" role to the government as the sole deposit insurer for the Mexican banking system. IPAB also determines and implements resolution

processes for banks with solvency problems, allowing their orderly exit from the financial system. The recently approved financial reform provided IPAB with new faculties that complement its legal mandate and make banking resolution processes more efficient. In addition, IPAB manages the debt it received from its predecessor, the Banking Fund for the Protection of Savings (FOBAPROA) and keeps this debt from growing in real terms. We don't believe a private entity could easily undertake all of these roles; and

- We also consider IPAB's link with the sovereign as "integral" because the government wholly owns IPAB and appoints members to IPAB's board. Board members include representation from the Ministry of Finance, the governor of the Central Bank (Banxico), the president of the National Banking and Securities Commission (CNBV). The executive branch appoints four additional members. The entity receives government support to manage a sustainable debt strategy through annual budgetary allocation. In our opinion, IPAB's default would harm the government's reputation. Although there is no explicit guarantee on IPAB's liabilities, Article 2 of the Federal Income Law and Articles 45-47 of the Bank Savings Protection Law (LPAB) describe sovereign support for the payment of IPAB's market debt and guaranteed obligations, respectively.

As per our criteria, we don't assign a stand-alone credit profile (sacp) to IPAB, given our view of an "almost certain" likelihood of government support. As a result, we equalize the rating on IPAB with that of the sovereign.

The Mexican government established IPAB in 1999 as a decentralized agency to manage the country's deposit insurance system, shifting from an unlimited to an explicit and limited support. IPAB has a mandate to protect small and midsize depositors and safeguard the stability of the financial system. IPAB replaced the FOBAPROA, which provided support to the banking sector under the Central Bank's supervision.

As a consequence of the financial reform, approved by the federal government in November 2013, IPAB now has new faculties to make banking resolution processes more efficient. IPAB now has attributions for supervision and the application of penalties to banks, and also acquired faculties with regard to the judicial bank liquidation scheme, a special scheme included in the Credit Institutions Law (LIC) that complements the banking resolution regime. The timeframe to complete a liquidation process is significantly reduced under the new regulation, compared to the previous legal framework.

Unlike other rated GREs, IPAB doesn't have an explicit guarantee for its liabilities, but there are indirect provisions of sovereign support stated in the Bank Savings Protection Law (LPAB) and in the Federal Income Law. Sovereign support for IPAB's guaranteed obligations (demand and term deposits, payroll accounts, deposits in saving accounts and deposits associated to debit cards) is described in Articles 45-47 of the LPAB, which explain the measures that the Congress will take in scenarios which threaten a bank's solvency and in which 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.

As of Aug. 31, 2014, the deposit fund totaled Mexican peso (MXN) 18.8 billion, a 23.5% increase compared to that of August 2013. We expect this fund to reach MXN20.2 billion by year-end 2014. Since 2005, the level of insurance coverage remains unchanged, at inflation protected units (UDI) 400,000 of deposits per account in a single banking institution. The payment of MXN147.2 million of guaranteed obligations to Banco Bicentenario's depositors on July 23, 2014 (after the local regulator withdrew its banking license last July) didn't have a significant impact on the fund, which decreased 0.8% from MXN18.3 billion as of June 30, 2014. We expect IPAB to recover these monies following the liquidation of the bank. According to the current coverage level, IPAB fully covers about 99.9% of guaranteed accounts. Nonetheless, we continue to consider the fund's coverage as insufficient in a distressed scenario, as it represents only 0.52% of the system's funding base. In our opinion, this situation is mitigated by IPAB's capacity to raise new debt to meet its obligation to cover guaranteed obligations or to recapitalize a financial institution, according to Article 46 of LPAB.

At the end of the first half of 2014, IPAB's total debt totaled MXN910.8 billion, bank savings protection bonds (BPAS) represented nearly 99.9% of its funding structure, and bank loans the remaining 0.1%. We expect IPAB's debt profile to be comprised solely of bond issuances by 2015. BPAS are bonds with monthly coupon payments (BPAs and BPAG28), bonds with quarterly coupon payments (BPAT and BPAG91) and bonds with semiannual coupon payments and protection against inflation (BPA182). As of June 30, 2014, BPA182 represented 43.3% of IPAB's outstanding issuances, followed by BPAG91 (35.3%) and BPAG28 (19.5%). IPAB first issued the BPAG28 and BPAG91 in 2012 to replace the BPAs and the BPATs, so the latter jointly represent only 1.9% of IPAB's market debt, and will fully amortize between 2015 and 2017. IPAB has continued reducing its net debt in real terms; at the end of the first semester of 2014 it represented 4.96% of GDP, down from 11.6% in 1999. We expect it to decrease in real terms 1.08% by year-end 2014 from December 2013.

Although IPAB has been able to meet its financial obligations, we believe that lower federal government revenues could harm IPAB's budget requirement and could undermine its strategy to reduce its debt or to at least keep it constant in real terms. In our opinion, lower debt could enhance IPAB's financial flexibility and improve its credibility as a deposit insurer.

Outlook

The stable outlook mirrors that of the sovereign. We expect IPAB to maintain its "critical" role and "integral" link to the government, and as a result, in our opinion, the likelihood of extraordinary government support is "almost

certain." Any change in the ratings or outlook on the sovereign would result in a similar action on those on IPAB. We could lower the rating on IPAB if we there's a change in the likelihood of support from the Mexican authorities, which could jeopardize IPAB's sustainability.

Related Criteria And Research

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Ratings List

Ratings Affirmed

Instituto Para La Proteccion 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+

Instituto Para La Proteccion al Ahorro Bancario	
Senior Unsecured	
Global scale	A
CaVal (Mexico) National Scale	mxAAA

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.