

CREDIT OPINION

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Update

✓ Rate this Research

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Instituto para la Protección al Ahorro Bancario

Update following global rating downgrade to Baa1, Outlook changed to negative from stable.

Summary

On 22 April 2020, we downgraded Mexico's (Baa1 negative) bank deposit insurer [Instit. para la Protec.al Ahorro Bancario's](#) (IPAB) issuer rating to Baa1 from A3; the outlook remains negative. The rating action follows a similar action on Mexico's bond rating of Baa1, which we use as an anchor for government support. Our decision to downgrade Mexico's ratings is based on (1) the fact that the medium-term economic growth prospects have materially weakened, (2) the continued deterioration in [Petróleos Mexicanos'](#) (Ba2 negative) financial and operational standing, which is eroding the sovereign's fiscal strength, and (3) weakened policymaking and institutional capacity.

IPAB forms an integral part of the Mexican government and, hence, benefits from an implicit sovereign backing that covers the deposit insurer's obligations. Therefore, its rating and outlook are aligned with those of the Mexican government.

The government support takes the form of a federal mechanism that ensures the direct repayment of IPAB's obligations through the direct charge of the Federal Treasury accounts, as stated in Mexico's Ley de Ingresos de la Federación (Federal Revenue Law). The Baa1 rating of IPAB captures its important policy role as a key entity, which protects bank depositors, preserves market confidence and maintains stability in the financial system.

Credit strengths

- » IPAB is an integral part of the Mexican government, which highlights its sovereign status.
- » Federal mechanisms support the direct repayment of IPAB's obligations.
- » The bank executes government policies by providing bank depositor insurance coverage and maintaining financial system stability.

Credit challenges

- » IPAB's reserve fund to support banks is overall still small, although it is gradually growing.
- » IPAB's high reliance on market funding increases repricing risks

Outlook

The outlook on IPAB's Baa1 rating is negative, in line with the negative outlook on Mexico's sovereign rating.

Factors that could lead to an upgrade

» Given the current negative outlook on IPAB's rating, an upgrade at this time is unlikely.

Factors that could lead to a downgrade

» If Mexico's government bond rating faces further downward pressure, IPAB's global scale ratings would be strained as well.

Profile

Instituto para la Protección al Ahorro Bancario (IPAB) is an integral part of the Mexican government, serving as the country's bank deposit insurer. The institute provides depositor coverage and assists troubled bank institutions. IPAB's Organic Law enables it to contract debt on behalf of the Mexican government to support the bailout of distressed banks, if necessary.

The institute's board includes high-level government officials, including the Minister of Finance (Secretaría de Hacienda y Crédito Público), the governor of the Central Bank (Banxico), the president of the Mexican bank regulatory entity (Comisión Nacional Bancaria y de Valores) and four vocals (appointed by the president of Mexico and approved by the Senate or the Permanent Commission of the Congress).

Detailed credit considerations

IPAB guarantees bank deposits up to UDI400,000 (Mexican inflation adjustment units), equivalent to around MXN2.6 million. IPAB trust's resources are founded by banks with a 4-per-mille fee on their deposit liabilities. The trust's assets increased 22% from a year earlier to MXN56 billion as of December 2019, although they represented just about 2% of the amount of fully guaranteed accounts (Obligaciones Garantizadas Cubiertas) as of December 2019. Accounts fully guaranteed by IPAB represent more than 90% of all insured accounts.

Changes in regulations derived from the 2014 Financial Reform provided IPAB with the ability to intervene in failing banks more easily to immediately protect eligible depositors. In effect, before problems arise, the institute has the ability to conduct in situ inspection visits and impose sanctions on troubled banks. The institute also has the authority to design and implement remediation processes for insolvent banks, as well as determine and approve transfers of assets and liabilities to special vehicles.

IPAB is also able to dismiss appeals from insolvent banks and 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.

IPAB's high reliance on market funding exposes it to repricing risks. The institute is largely funded by bonds (Bonos de Protección al Ahorro, BPAs), at 95% of total assets as of December 2019. BPAs are an inheritance of the obligations of the terminated Fondo Bancario de Protección al Ahorro, which were originated after the banking bailout following the 1995 Tequila financial crisis. BPAs are skewed toward the short and medium term, with about 20% of the outstanding BPAs maturing in 2020. The remaining portion extends through 2026.

Although refinancing risks are significantly mitigated by the implicit backing of the Mexican government, repricing risks were illustrated by a 73% increase in interest expenses in 2017 from 2016, in line with the steep increase in Mexico's benchmark interest rate.

Nevertheless, over the last two years, the growth in interest expenses has been mitigated. In 2019, the growth in interest expenses moderated to 7.5% from a year earlier. We expect interest expenses to decrease in line with the interest reference rate. During 2019, IPAB had a net loss of MXN10 billion. At the same, the government transfers to IPAB fully offset the negative effect of higher interest expenses. Consequently, the institute posted an annualized loss of 1% of total assets in 2019.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Support and structural considerations

The repayment of IPAB's obligations is based on an explicit federal mechanism to ensure direct repayment through the direct debit of Federal Treasury accounts, as stated in Mexico's Ley de Ingresos de la Federación. Being part of the government, IPAB's Baa1 rating mirrors the financial strength of the Mexican government.

National scale rating

We assign Aaa.mx/MX-1 Mexican national scale issuer ratings to IPAB, which map from the aforementioned Baa1 global issuer rating.

Ratings

Exhibit 1

Category	Moody's Rating
INSTIT. PARA LA PROTEC. AL AHORRO BANCARIO	
Outlook	Negative
Issuer Rating	Baa1
NSR Issuer Rating	Aaa.mx
ST Issuer Rating	P-2
NSR ST Issuer Rating	MX-1

Source: Moody's Investors Service

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