S&P Global Ratings

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Research Update:

Instituto Para La Proteccion al Ahorro Bancario 'BBB/A-2' Foreign Currency Ratings Affirmed; Outlook Still Negative

February 8, 2022

Overview

- Although Instituto Para La Protección al Ahorro Bancario's (IPAB) deposit insurance fund has decreased due to the payment of the guaranteed deposits of two intervened banks in the last couple years, we expect it to gradually recover and reach pre-pandemic levels by the end of 2022.
- We expect IPAB to maintain its almost certain likelihood of support from the Mexican government, given the entity's integral link to it and its critical role as the sole deposit insurer for the Mexican banking system.
- We affirmed our 'BBB/A-2' foreign currency global scale ratings and our 'mxAAA/mxA-1+' national scale issuer credit ratings on IPAB. We also affirmed our 'BBB+' and 'mxAAA' issue-level ratings.
- The negative global scale outlook on IPAB mirrors that on the sovereign, based on our view of the almost certain likelihood of support from the Mexican government.

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Rating Action

On Feb. 8, 2022, S&P Global Ratings affirmed its 'BBB/A-2' global scale foreign currency, 'BBB+/A-2' global scale local currency, and 'mxAAA/mxA-1+' national scale issuer credit ratings on IPAB. The outlooks on the long-term global and national scale ratings are negative and stable, respectively, reflecting in both cases those on the sovereign.

At the same time, we affirmed our 'BBB+' and 'mxAAA' issue-level ratings on IPAB's senior debt issuances (BPAS; its Spanish acronym).

Rationale

IPAB will maintain its importance to the government as sole deposit insurer for the Mexican banking system. The government's mandate is for IPAB to manage bank deposit insurance to rescue bank depositors if a Mexican bank fails. This has occurred recently with Banco Ahorro Famsa S.A. Institución de Banca Múltiple (BAF; not rated [NR]) and Accendo Banco S.A. Institución de Banca Múltiple (Accendo; NR). IPAB took control of these banks and paid the guaranteed deposits for their customers. In addition, the institute has managed the asset sales from these banks.

We also continue to consider that IPAB benefits from explicit and consistent support from the government. IPAB also manages the outstanding debt from past bailouts with the goal of gradually reducing it in real terms. Finally, part of the federal budget is assigned to pay the institute's legacy debt and to guarantee support for its outstanding debt placements.

The institute has had an efficient and timely response to deposit payment and liquidation processes. At the end of 2021, due to Accendo's bankruptcy, IPAB had already paid about MXN1.3 billion of the bank's guaranteed deposits, which was about 97% of total guaranteed deposits. This amount represented less than 3% of the total deposit insurance fund, and had no material effect on the fund's levels. Moreover, we expect the asset sale process will be taking place this year. In our view, this timely response--along with its response to BAF's failure--are aligned with global best practices, and illustrated a good resolution plan design and proper execution. This has contributed to the Mexican banking sector's stability by providing an orderly liquidation process.

We expect stable growth in the deposit insurance fund supported by the quota income from banks, with good coverage levels. We expect IPAB's deposit insurance fund to recover to pre-pandemic levels by the end of 2022, supported by consistent growth in the quota income from the banking system and the sale of BAF's assets, which we expect to occur during 2022. We forecast the fund to increase to about MXN68 billion in 2022, above the MXN56 billion before the pandemic.

In addition, the existing fund has sound coverage in terms of the total system's guaranteed obligations at about 0.7% in 2020, according to the last International Association of Deposit Insurers (IADI) survey, which compares favorably against other global regimes. We expect this coverage to return to 2019 levels of close to 1.0% as the fund recovers the lost resources from BAF and Accendo.

IPAB will continue to have solid financial flexibility. We expect the institute to maintain good financial flexibility without any further refinancing risk due to the government support. During 2021, the institute decreased its net debt in real terms 5.2% compared to the previous year. IPAB's average debt maturity profile is 2.5 years, and 22% of its debt matures this year. As of December 2021, the BPA182 bond is the largest share of IPAB's debt (39%), followed by BPAG91 (38%), and BPAG28 (23%). Moreover, there was higher demand for the institute's placements, specifically the BPA182, in the last quarter of 2021, due to its higher yield explained by the expectations of rising inflation.

Outlook

The negative global scale outlook on IPAB mirrors that on the sovereign. Any change in our ratings or outlook on Mexico (foreign currency: BBB/Negative/A-2; local currency: BBB+/Negative/A-2) would result in a similar action on IPAB.

The stable outlook on the national scale rating on IPAB also reflects that on the national scale sovereign rating.

Downside scenario

In addition to a potential downgrade of Mexico, we could also lower the ratings on IPAB if the likelihood of government support diminishes, which could jeopardize the institution's sustainability or ability to refinance its debt. However, we view this scenario as highly unlikely, given IPAB's importance for the Mexican banking system.

Upside scenario

We could revise IPAB's outlook to stable following a similar action on Mexico.

Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
Instituto Para La Proteccion al Ahorro Bancario	
Issuer Credit Rating	
Foreign Currency	BBB/Negative/A-2
Local Currency	BBB+/Negative/A-2
CaVal (Mexico) National Scale	mxAAA/Stable/mxA-1+
Instituto Para La Proteccion al Ahorro Bancario	
Senior Unsecured	
Local Currency	BBB+
CaVal (Mexico) National Scale	mxAAA

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such