

CREDIT OPINION

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Update



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Instituto para la Protección al Ahorro Bancario

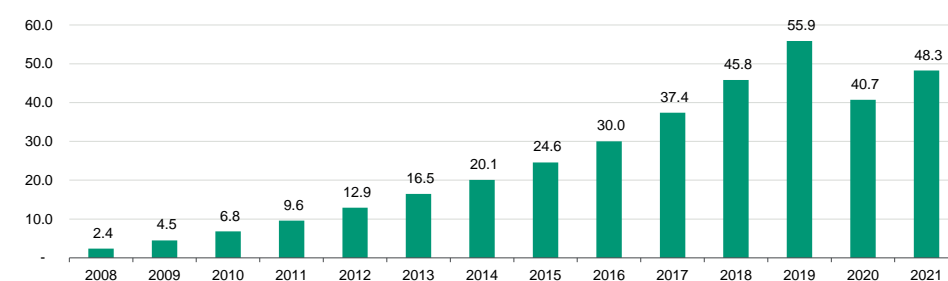
Update to credit analysis

Summary

[Instituto para la Protección al Ahorro Bancario's](#) (IPAB) Baa1 issuer rating incorporates the fact that IPAB is an integral part of the [Government of Mexico](#) (Baa1, Negative) and, therefore, benefits from implicit sovereign backing, which covers the deposit insurer's obligations. As a result, IPAB's rating and outlook are aligned with those of the Mexican government.

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

Exhibit 1
IPAB's reserves
 MXN billion



Source: IPAB's financial statements

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 institute executes government policies by providing bank depositor insurance coverage and maintaining financial system stability.

Credit challenges

- » IPAB's reserve fund to support banks is small overall and was greatly affected by the application of funds for the payment of guaranteed deposits of Banco Ahorro Famsa, S.A. in 2020, by an amount of MXN24.7 billion.

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

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

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.

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 MXV400,000 (Mexican inflation adjustment units or UDIs), equivalent to around MXN2.8 million at the exchange rate as of December 2021. The trust of IPAB is funded by the banks within the Mexican banking system with a 4-per-mille fee on their deposit liabilities. The trust's assets in 2020 decreased 27% to MXN40.7 billion because of the liquidation of Banco Ahorro Famsa, S.A. However, in 2021, the assets increased 19% to MXN48.3 billion because of the accretion of the 25% of the fees paid by the institutions to IPAB and despite the liquidation of Accendo Banco. In the second half of 2021, IPAB charged MXN1.3 billion to IPAB's Banking Protection Fund for the payment of guaranteed deposits to Accendo Banco's creditors.

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, before and during a bank remediation or liquidation, are likely to 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 mainly funded by bonds (Bonos de Protección al Ahorro [BPAs]), at 92.9% of total assets as of December 2021. 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. BPA maturities are skewed toward the next 12 months to 7 years, with about 22.3% of the outstanding BPAs maturing in 2022. The remaining portion extends through 2028.

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Historically, IPAB's bottom-line results were affected by high interest expenses, particularly during 2014-17. Nevertheless, in 2020 and 2021, IPAB benefited from the significant decrease in reference rates. Interest expenses declined 18.2% in 2021 from that in previous years, benefiting bottom-line results.

IPAB had a loss of MXN16.3 billion in 2021, compared with a net income of MXN8.6 billion in the previous year, mainly as a result of the decrease in the fee from the federal government, which decreased from MXN43.3 billion in 2020 to MXN11.2 billion in 2021.

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 the 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 2

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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