

CREDIT OPINION

24 July 2023

Update



Send Your Feedback

Contacts

Rodrigo Marimon +52.55.4840.1315
 Bernales
 AVP-Analyst
 rodrigo.bernales@moody.com

Saul Atlatenco +52.55.1253.5735
 Associate Analyst
 saul.atlatenco@moody.com

» Contacts continued on last page

CLIENT SERVICES

Americas 1-212-553-1653
 Asia Pacific 852-3551-3077
 Japan 81-3-5408-4100
 EMEA 44-20-7772-5454

Instit. para la Protec.al Ahorro Bancario

Update to credit analysis

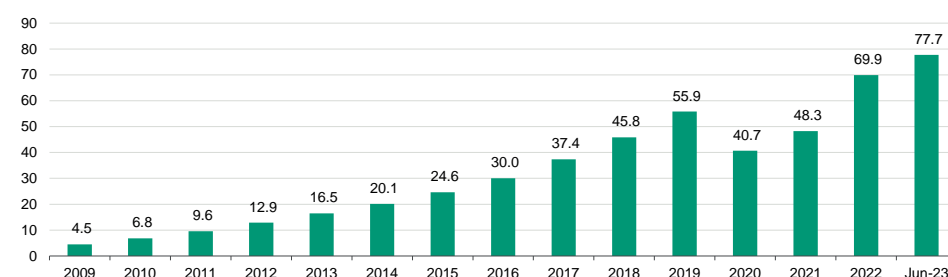
Summary

[Instituto para la Protección al Ahorro Bancario's](#) (IPAB) issuer ratings incorporate the fact that the IPAB is an integral part of the [Government of Mexico](#) (Baa2, stable) which covers the deposit insurer's obligations and, therefore, benefits from implicit sovereign backing. As a result, the IPAB's ratings and outlook are aligned with those of the Mexican government.

The IPAB's government support takes the form of a federal mechanism, which ensures the direct repayment of its 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 Baa2 rating captures the institute's 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

- » The IPAB is an integral part of the Mexican government, which highlights its sovereign status.
- » Federal mechanisms support the direct repayment of the IPAB's obligations.
- » The institute executes government policies by providing bank depositor insurance coverage and maintaining financial system stability.
- » Consistent increases in the fund's reserves size should be sufficient to back failing banks.

Credit challenges

- » Reserve fund to support banks is volatile and subject to the application of funds for the payment of guaranteed deposits.

Outlook

The outlook on IPAB's Baa2 rating is stable, in line with the stable outlook on Mexico's sovereign rating.

Factors that could lead to an upgrade

- » IPAB's ratings could be upgraded if Mexico's government bond rating were upgraded because they are aligned to level of the sovereign rating.

Factors that could lead to a downgrade

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

Profile

The 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. The Organic Law of the IPAB 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

The institute guarantees bank deposits up to MXV400,000 (Mexican inflation adjustment units or UDIs), equivalent to around MXN3.1 million at the exchange rate as of June 2023. 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, the IPAB charged MXN1.3 billion to the IPAB's Banking Protection Fund for the payment of guaranteed deposits to Accendo Banco's creditors. As of March 2023, the trust's assets stand at MXN73.7 billion which represent a 53% increase compared with December 2021.

Changes in regulations derived from the 2014 Financial Reform provided the 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.

The 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.

The deposit insurer'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 91.8% of total assets as of March 2023. 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 6 years, with about 14% of the outstanding BPAs maturing in 2023. The remaining portion extends through 2029.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Historically, the institute's bottom-line results were affected by high interest expenses, despite the institute benefited from the significant decrease in reference rates during 2020 and 2021, where interest expenses declined 18.2% in 2021 from that in previous year. However, the continuous hikes in the reference rates during the last months have already increased interest expenses 29.8% during the first quarter compared with the same period a year earlier.

The IPAB had a loss of MXN42.6 billion in 2022, compared with a loss of MXN16.3 billion in the previous year, mainly as a result of higher interest expenses, which increased to MXN86.3 billion in 2022, from MXN51.0 billion in 2021, while the fee from the federal government remained low at MXN15.4 billion, compared to MXN43.4 billion in 2020.

Support and structural considerations

The repayment of the 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, the institute's Baa2 rating mirrors the financial strength of the Mexican government.

Ratings

Exhibit 2

Category	Moody's Rating
INSTIT. PARA LA PROTEC. AL AHORRO BANCARIO	
Outlook	Stable
Issuer Rating	Baa2
ST Issuer Rating	P-2

Source: Moody's Investors Service

© 2023 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved. CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Charter Documents - Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER

1375110

Contacts

Rodrigo Marimon
Bernales
AVP-Analyst
rodrigo.bernales@moody.com

+52.55.4840.1315

Saul Atlatenco
Associate Analyst
saul.atlatenco@moody.com

+52.55.1253.5735

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454