

International Deposit Insurance Survey

Section 1: Background Information

1.1 Organization (deposit insurer) responsible for administering the deposit insurance system:

1.1.1 Organization Name:

Institute for the Protection of Banking Savings, IPAB (Instituto para la Protección al Ahorro Bancario)

1.1.2 Organization Address:

Varsovia 19, Col Juárez Del, Cuauhtémoc, Distrito Federal, CP 06600, Mexico

1.1.3 Organization Telephone No:

52.55.5209.5500

1.1.4 Organization Fax No:

52.55.5209.5689

1.1.5 Organization Internet Address:

www.ipab.org.mx

1.2 Contact Person(s):

1.2.1 Contact Person(s) Name:

Mr. Carlos Isoard (Member of the Governing Board) and Ms. Lorena Lara (Director of International Affairs)

1.2.2 Contact Person(s) Address:

Mr. Carlos Isoard, Varsovia 19, Fifth Floor, Col Juárez, Del Cuauhtémoc, CP 06600, Distrito Federal, Mexico and Ms. Lorena Lara, Hamburgo 213, Eighth Floor, Col Juárez, Del Cuauhtémoc, CP 06600, Distrito Federal

1.2.3 Contact Person(s) Telephone:

Mr. Carlos Isoard: 52.55.5209.5000 x 5011 and Ms. Lorena Lara: 52.55.5209.5728

1.2.4 Contact Person(s) Fax:

52.55.5209.5686

1.2.5 Contact Person(s) E-mail address:

Mr. Carlos Isoard: cisoard@ipab.org.mx and Ms. Lorena Lara: hllara@ipab.org.mx

1.2.6 Are there other deposit insurance systems operating in your country ? (i.e. applying to other types of non-bank or non-depository institutions e.g.. insurance, securities) Please state their name(s) and contact information:

In terms of article 107 of the Law of Popular Savings and Credit, funds in private trusts called Protection Fund(s) will cover deposits made by members of popular credit and savings institutions. Each fund will be

administered by a confederation of popular savings and credit institutions.

1.3 Please provide information on other participants in your financial system safety-net:

1.3.1 Name of Central Bank:

Bank of Mexico, BM (Banco de México)

1.3.2 Central Bank Address:

Avenida 5 de Mayo 2, Colonia Centro, Delegación Cuauhtémoc, CP 06059, Distrito Federal, México

1.3.3 Central Bank Telephone:

52.55.5237.2000

1.3.4 Central Bank Fax:

52.55.5237.2000

1.3.5 Central Bank Internet Address:

www.banxico.org.mx

1.3.6 Central Bank Contact Person:

Contact: Mr. Federico Rubli Kaiser Director of External Relations
http://www.banxico.org.mx/footer/contacto/contacto_sasweb.html

1.4 Financial Supervisor:

1.4.1 Financial Supervisor Name:

National Banking and Securities Commission, CNBV (Comisión Nacional Bancaria y de Valores)

1.4.2 Financial Supervisor Address:

Insurgentes Sur 1971, Col Guadalupe Inn, Del Álvaro Obregón, CP 01020, Distrito Federal, Mexico

1.4.3 Financial Supervisor Telephone:

52.55.1454.6454

1.4.4 Financial Supervisor Fax:

52.55.1454.6821

1.4.5 Financial Supervisor Internet Address and contact:

Contact: Ms. María Angélica González Saravia Cos, Director of International Affairs, E Mail:
aglezsaravia@cnbv.gob.mx

1.5 Other related entities:

1.5.1 Other Related Entities Name:

The entity in charge of the direction and regulation of the financial services sector is the Ministry of Finance and Public Credit, SHCP (Secretaría de Hacienda y Crédito Público)

1.5.2 Other Related Entities Address:

Palacio Nacional, Plaza de la Constitución s/n, Col. Centro, Del Cuauhtémoc, CP 06000, Distrito Federal,

Mexico

1.5.3 Other Related Entities Telephone:

52.55.3688.2355

1.5.4 Other Related Entities Fax:

52.55.3688.1216

1.5.5 Other Related Entities Internet Address:

www.shcp.gob.mx

Section 2: Objectives, Mandates & Powers

2.1.1 When and why was the DIS established (please provide details)?

The Institute for the Protection of Banking Savings or IPAB was established in 1999, upon approval, in December 1998, of the Law of Banking Savings Protection, LPAB. IPAB was created in order to have a dedicated agency to administer a new explicit deposit insurance system with limited coverage; handle banking resolutions; and to regulate financial assistance programs extended to banks. Moreover, LPAB ordered IPAB to assume most of the 1995 crisis related operations (assets and liabilities) and to conclude ongoing financial assistance programs.

2.1.2 What are the stated public policy objectives or mandate for your country's DIS? When was the last time they were reviewed and changed?

The public policy objective of IPAB is to contribute to financial stability and the effective functioning of the payments system. Based on these objectives, IPAB administers an explicit and limited deposit insurance system and is responsible for the resolution of banks. The last important changes to banking and deposit insurance legislation became law in June 2004 and July 2006. Legislative modifications include, among the most important: the introduction of a prompt corrective action program for banks in terms of their capital ratio; clarifying the causes for revoking a bank license and IPAB's role as the entity in charge of banking resolutions; the provision of additional resolution mechanisms (purchase of assets and assumption of liabilities, conditioned operation, bridge bank authority); the creation of safety net inter-agency coordination mechanisms for information sharing and for the management systemic bank failure events (Financial Stability Committee); and of a regime of legal protection for agencies and persons involved in banking resolutions. Legislative modifications also set forth conditions for the provision of financial assistance by IPAB to troubled banks.

2.1.3 What process was used to determine these objectives in your country?

This process ensued in the context of the aftermath of the 1995 crisis and of the series of reforms to the laws and regulations of the financial services industry with the objective of converging to international standards in the areas of deposit insurance, regulation, supervision, disclosure, accounting practices, capitalization, and risk control, among the most important ones.

2.1.4 What is the legal basis under which the DIS was established? Please provide a copy.

Legislation

Law of Banking Savings Protection, LPAB (also referred to in the survey as the deposit insurance law)

2.1.5 Is there a formal process for a periodic review of the policy objectives/mandates?

Yes

2.1.6 What sort of system do you have?

Government legislated and administered

2.1.7 Who makes decisions to pay depositor claims?

DIS

2.2 Which of the following powers has been provided to the DIS in order to carry out its mandate?

2.3 Authority to

2.3.1 Enter into contracts

Yes

2.3.2 Set regulations or by-laws for conduct of its business

Yes

2.4 Authority over entry and exit of member deposit taking institutions

2.4.1 Establish terms and conditions of membership

No

2.4.2 Authority to terminate the insured status of a member institution

No

2.5 Depositor reimbursement

2.5.1 Affect reimbursement of depositors claims

Yes

2.5.2 Access to depositor information

Yes

2.5.3 Use various methods of reimbursing depositors claims

Yes

2.6 Funding

2.6.1 How funding is provided

Yes

Article 21 of the Law of Banking Savings Protection empowers IPAB's Governing Board to set risk adjusted deposit insurance fees as well as to establish extraordinary fees within certain limits.

2.6.2 Terms and conditions of premiums or levies

Yes

2.6.3 Borrowing authorities and limits

Yes

2.7 Information Requirements

2.7.1 Access to information directly from member deposit taking institutions or its auditors

Yes

2.7.2 Access to information through supervisory authorities

Yes

2.8 Enforcement and intervention

2.8.1 Authority to conduct examinations and/or reviews

Yes

2.8.2 Ability to set standards or guidelines for member institutions

Yes

2.8.3 Authority to take enforcement actions against members (i.e. such as the authority to require a change in institutional control and/or behaviour).

No

2.8.4 Authority to cancel deposit insurance of a member institution

No

2.8.5 Authority to hold officers and directors of failed institutions legally liable for the failure of the institution

Yes

Article 112 of the Law of Credit Institutions empowers the supervisory agency (National Banking and Securities Commission) to impose pecuniary and prison sanctions on any person (including officers and directors of institutions) who directly intervenes in certain operations that lead to losses in the bank's capital. According to article 68 of the Law, IPAB has the following attributions in relation to judicial processes: ... XVI. Defend its rights in or outside tribunals and, as necessary, exercise legal and extra judicial actions of its competence, as well as submit itself to arbitration; XVII. Communicate to the Federal Fiscal Attorney the abnormalities that must be made known by it, as well as those detected by personnel working at the Institute in the undertaking of their tasks; XVIII. Denounce or prepare lawsuits before the District Attorney of the facts that come to light during the undertaking of its tasks, which could be constituted as a felony, or desist itself from, or grant pardon to, with prior authorization of the Governing Board, on matters applicable to its competence;...

2.9 Failure resolution

2.9.1 Authority to decide on appropriate form of failure resolution

Yes

2.9.2 Authority to provide financial assistance (e.g. in the form of a loan -- with or without security -- by purchasing assets from the institution or through some other process).

Yes

2.9.3 Authority to guarantee deposits with member institutions or guarantee loans to an institution by other parties

Yes

2.10 Authority to:

2.10.1 Undertake formal liquidation

Yes

2.10.2 Purchase and assumption (sale and merger)

Yes

2.10.3 Open assistance (bridge bank)

Yes

2.10.4 Other forms of failure resolution

Yes

2.11 Optimizing recoveries

2.11.1 Ability to act as a receiver

Yes

2.11.2 Ability to act as a liquidator

Yes

Section 3: Governance Arrangements

3.1.1 Is the DIS a legally separate organization from other public or private bodies? (e.g. central bank, supervisor, industry association)

Yes

3.1.2 What is the form of governance used by the DIS organization?

Board or Committee

null|null|null|null|null|

3.1.3 How is the governing body selected?

The Board is composed by the representatives of the financial safety net authorities and by individuals with proven academic and professional experience in financial/economic matters. The Minister of Finance and Public Credit, who serves as the Board's President, the Governor of the Central Bank, and the President of the National Banking and Securities Commission are represented in the board. To become members, the board's other four members must meet the criteria stated in article 78 of the Law of Banking Saving Protection, be nominated by the President of the Republic, and ratified by a two-thirds majority of the Senate, or in its recesses, by a like majority of the Permanent Commission of Congress.

3.1.4 What is the composition of the governing body?

The Governing Board of IPAB is composed of three aforementioned ex-officio members and four congressionally approved members.

3.1.5 What are the duties and responsibilities of the governing body?

Article 80 of the Law of Banking Savings Protection confers the following duties on the Governing Board: I. Resolve on the viability of the supports that the Institute provides as set forth in this Law, as well as on their terms and conditions; II. Declare the precautionary management under the assumption set forth in article 50 of this Law, as well as approve the liquidation or request for suspension of payments or bankruptcy of Institutions; III. Approve the ordinary fees that must be paid by the Institutions as set forth in article 22 hereof and by the criteria on differentiated fees in article 21 hereof; IV. Approve, with the prior opinion of the Ministry of Finance and Public Credit, the extraordinary fees to be paid by the Institutions in terms of article 23 of this Law; V. Establish policies and guidelines for the management, conservation and divestment of the goods that comprise the Institute's estate; VI. Establish the basis for the management and divestment of the Goods of the Institute, as set forth by articles 61 to 66 of this Law; VII. Authorize the acts mentioned in Section XIII of article 68 hereof; VIII. Determine the operations to be submitted for its consideration; IX. Authorize the creation of committees and other delegated entities to assist in the performance of its attributions and assign its management and coordination to board members referred to in article 75 of this Law, according to their experience, in the terms and conditions set forth in the Institute's Bylaw; X. Approve the reports to be sent to the Federal Executive and to the Congress of the Union; XI. Approve the reserves necessary for the adequate operation of the Institute; XII. Approve the Institute's Bylaw, to be submitted for its consideration by the Executive Secretary; XIII. Approve the Institute's basic administrative structure and its modifications as they may apply; XIV. Approve and enforce the service, internal control and internal regulations of the Institute; XV. Approve the revenues and expenses program of the Institute for each year, as well as the operations by which the Institute obtains financing; XVI. Approve the procedures and mechanisms for the internal control of the Institute's operations and management; XVII. Periodically assess the Institute's activities; XVIII. Request the necessary information from the Executive Secretary in order to carry out its assessment activities; XIX. Analyze and approve, if applicable, the report of the Executive Secretary; XX. Approve and authorize the annual publication of the Institute's financial reports, subject to the prior submission of the commissar's report and of the external auditors' opinion; XXI. Appoint, at the proposal of at least two members of the Board, the Executive Secretary of the Institute, and remove him/her based on a reasoned proposal from any of its members; XXII. Appoint and remove the Secretary and Pro-Secretary of the Governing Board from among the Institute's public officers; XXIII. Appoint and remove, at the proposal of the Executive Secretary, the public officers in the level immediately inferior to the Executive Secretary's; XXIV. Approve, at the proposal of the Executive Secretary, the appointment of the individuals who will act as proxies in the execution of the precautionary management programs in charge of the Institute and of those who will act as liquidators or administrators in proxy duties for the Institute, in the terms of this Law; XXV. Approve the salaries and benefits of the other employees of the Institute, taking into account the prevailing labor market conditions in the financial system; XXVI. Resolve on other matters that the Executive Secretary or any member of the Governing Board itself considers should be approved by it, and XXVII. In general, carry out all acts and operations necessary to improve the Institute's management.

3.1.6 Is there any direct or indirect representation in the management of the DIS by member insured institutions?

No

3.1.7 Is there any direct or indirect representation in the management of the DIS by the central bank?

Yes

3.1.8 Is there any direct or indirect representation in the management of the DIS by the regulator?

Yes

3.1.9 Is there any direct or indirect representation in the management of the DIS by the supervisor?

Yes

3.1.10 Is there any direct or indirect representation in the management of the DIS

by other?

Yes

The Internal Control unit, which has no vote, and represents the Ministry of the Public Function, whose goal is to ensure transparency in management and performance of institutions and civil servants of the Federal Public Administration.

3.1.11 Please provide a breakdown of the management structure of the DIS

Management of the Institute is in charge of an Executive Secretary. The Executive Secretary is IPAB's chief executive officer and is appointed by the Governing Board. The Executive Secretary is assisted by four Deputy Secretaries: 1) Deputy Secretary of Banking Savings Protection, assisted by: Director of Finance; Director of Deposit Insurance; Director of Banking Resolutions; 2) Deputy Secretary of Assets Recovery and International Affairs, assisted by: Director of Assets Management and Sales; Director of Supervision of Trusts and Assets Managers; Director of International Affairs 3) Deputy Secretary of Legal Affairs, assisted by: Director of Savings Protection; Director of Technical Issues and Recovery; Director of Contentious Matters; Director of Counsel and Compliance 4) Deputy Secretary of Administration, Budget and Systems, assisted by: Director of Information Systems; Director of Administration; Director of Programming, Budget and Accounting; There are 3 additional Directors who report directly to the Executive Secretary: Director of Social Communications and Institutional Liaison; Director of Risk Management; Director of Technical Assistance to the Executive Secretary.

3.1.12 Do you have an internal control and audit systems

Yes

3.1.13 Are directors and officers of the DIS and/or supervisors personally liable for their decisions in the normal course of their activities?

No

As long as they act within the scope of legal attributions as set forth in Article 122 Bis 35 of the Law of Credit Institutions. Please refer to response to question 4.1.7. for a more detailed description of the applicable legal protection regime.

3.1.14 Is there an advisory committee to the DIS?

No

3.1.15 Has the DIS ever taken legal action against directors of failed member institutions? Or others? What position did the person(s) hold?

Yes

During post-financial support audits performed on certain programs, where there exists an opinion of a crime or a felony as well as of irregularities detected, pertinent authorities have been informed and legal actions have been initiated independently of administrative or other rank held by the persons involved.

3.1.16 Please indicate which of the following tools are used as part of your accountability regime.

Audited Financial Statements, Other Reporting Requirements

null|null|null|null

Section 4: Human Resources & Infrastructure

4.1.1 What is the total number of employees at the DIS (e.g. full-time, part-time and contract) ?

To January 2008, the IPAB had 351 full time employees.

4.1.2 Are the majority of DIS employees dedicated staff or do they come from other

organizations (i.e. government, central bank, private sector)?

Yes

All IPAB employees are dedicated staff.

4.1.3 Does the DIS train and develop its own staff? If so, briefly describe programs which have been put in place for training and development?

Yes

IPAB provides training in the following areas: information technology, accounting, banking, financial, risks, laws (corporative, banking, financial), human resources, and managerial skills.

4.1.4 Is there shared training and development between the staff of the DIS and other authorities involved in financial sector supervision or regulation? (i.e. central bank, supervisor, regulator, other)

No

4.1.5 Are compensation and incentives offered sufficient to attract and retain skilled staff? Please elaborate.

4

4.1.6 Are confidentiality provisions for employees provided for?

Yes

4.1.7 Do employees of the DIS receive legal protection against lawsuits for their actions taken in good faith and acting in the best interests of the DIS?

Yes

The applicable legal framework is set forth in the Law of Credit Institutions (LIC) and in the guidelines approved by the governing bodies of the public entities involved in the bank resolution processes. In the case of IPAB, the guidelines approved by its governing board set forth the form, terms and conditions in accordance with which IPAB provides legal counsel and defense through an insurance policy as well as through the formation of a dedicated trust, in case that insurance coverage turns out to be insufficient. Legal protection is automatic. The policy excludes coverage for actions against an individual initiated by public oversight authorities or by IPAB. In terms of limits to liability, the LIC states that participating entities, their board members and their officers and employees, as well as designated agents, will not be held liable for the losses suffered by banking institutions arising from their insolvency, bankruptcy, or financial deterioration, when acts or omissions are committed during the lawful discharge of responsibilities. Regarding the actions or omissions of the Financial Stability Committee, which is composed of the heads of the public entities that participate in resolution processes, and whose object is to assess the potential for financial instability posed by a particular financial intermediary in a given situation, its members will not be held liable for damages when, taking into account the information available at the time of their decision, they opted, to the best of their knowledge and ability, for the most appropriate course of action. In cases when legal actions or proceedings are initiated against Committee members, ill intent on their part must be proven.

4.1.8 What percentage of the budget is spent on training and development and information technology?

In 2007, IPAB invested 3.15% of its administrative budget in training, development and information technology.

Section 5: Information Sharing & Interrelationship Among Safety-Net Players

5.1.1 Who performs examinations of DIS member institutions?

Other

On-site examinations are performed by the supervisor. The DIS has the prerogative to participate on such examinations carried out by the supervisor so as to analyze and evaluate information regarding insured deposits (or “Guaranteed Obligations”) and any financial information related to the deposit insurance system. All other entities including the DIS are legally authorized to carry out off-site evaluations. Under certain circumstances foreseen in the Law of Credit Institutions, IPAB can participate in on-site inspection visits carried out by the supervisor.

5.1.2 Please describe the examination process that is used to evaluate member institution performance?

The supervisor is the authority that evaluates member institution's performance. According to the law, the National Banking and Securities Commission (CNBV) must share corresponding information and relevant databases with IPAB. The examination process takes into account the evaluation of financial information of a banking institution, which can be carried out on-site as well as off-site. It is mandatory for banks to provide the DIS with information it requests in order to accomplish its purpose, including the data that permits an assessment of their financial situation. IPAB can also request that the CNBV carry out the necessary inspection visits in order to evaluate the financial and accounting situation of banks.

5.1.3 What information is collected from member institutions for the DIS and other parties?

The Central Bank and the CNBV collect several reports from financial institutions and have access to information on a daily and quarterly basis for stock, flow and on assets and liabilities, and capital stock transactions of institutions. Collected information also includes internal control and administrative matters. This information is shared with the DIS. Recent regulations also require banks to classify and make available to IPAB information on guaranteed and non-guaranteed obligations.

5.1.4 What arrangements (i.e. formal or informal) are in place between organizations responsible for deposit insurance and other parties comprising the safety-net (e.g. central bank, supervisor, regulator) regarding the sharing of information concerning member institutions? Please provide details of these agreements.

There are information agreements among DIS and safety-net members in order to share and request financial information to member institutions. In this regard, there is a Committee structured by the Ministry of Finance and Public Credit, the Central Bank, the CNBV and the IPAB, that meets regularly with the objective of reducing and standardizing the regulatory and supervisory reporting to authorities, banks and other financial entities, as well as to share the information provided by the banks among members of such Committee. Moreover, there is an agreement between the CNBV and IPAB, to collect, maintain, share and disclose information related to a financial institution's situation.

5.2 On a scale from 1 to 5, 1 being low and 5 being high, please rate both the accessibility (i.e. access to all necessary information for the DIS to fulfill its mandate) and timeliness (i.e. information is received when needed) of information that is shared amongst members of the safety net.

5.2.1 accessibility

5

5.2.2 timeliness

5

5.2.3 Is there a consistent definition/classification across authorities of problem institutions

Yes

5.2.4 When policy regarding the DIS and financial sector is developed or amended, are other bodies consulted and/or advised (e.g. central bank, supervisor, regulator, government, industry associations) ? If you do consult and/or advise what bodies do you do it with?

Consult, Advise

When a policy regarding DIS is developed or amended, IPAB participates actively along with the financial safety net members (Central Bank, CNBV and SHCP). Moreover, when the financial sector legislation needs to be amended, the bill is analyzed by the Federal Regulatory Improvement Commission. Additionally, the SHCP, as regulator, is the entity in charge of leading the proposed amendments to the financial sector legislation –in coordination with safety net members- before submitting a legislation proposal to Congress. Once in Congress, negotiations take place before its approval, disclosure and implementation.

5.2.5 Is discussion with other bodies encouraged prior to the implementation of new policy?

Yes

5.2.6 How often do you contact other DIS?

Regularly

5.2.7 Is the DIS consulted when the regulator, supervisor or central bank enters into an agreement with a financial institution that is experiencing problems?

Yes

Section 6: Membership

6.1.1 What types of institutions are covered in your DIS?

In Mexico, full or universal service banks are the only financial intermediaries covered by IPAB's deposit insurance. This type of banks can be part of a financial group and are allowed to provide a variety of retail and wholesale banking services to the general public.

6.1.2 Is membership in the DIS mandatory for designated deposit taking institutions?

Yes

6.1.3 Do you have terms and conditions of membership? (i.e. laws, regulations or agreements which member institutions have to abide by) If so, please explain the application process used and any conditions of membership imposed on institutions by the DIS.

No

6.1.4 Is the membership of foreign institutions (i.e. foreign bank branches and/or subsidiaries) covered in the same way as domestic institutions? If not, please describe the difference.

Yes

6.1.5 If more than one safety-net organization is responsible for the application process for membership, how is the application process coordinated between the parties responsible?

The application process for new banks is in charge of the National Banking and Securities Commission.

6.1.6 Are deposit-taking institutions required to re-apply for membership after a certain period of time?

No

6.1.7 How many member institutions do you have?

To December 31, 2007, the DIS had forty (40) member institutions.

6.1.8 What is the total level of assets, deposits and insurable deposits of all DIS member institutions?

To December 31, 2007 (figures in USD billions): Assets: 270 Insurable deposits: 152 Insured deposits: 96

Section 7: Coverage

7.1.1 Is there a formal definition of a deposit and or insured deposit used by your DIS? If so what is it?

Yes (please explain)

The Law of Banking Savings Protection refers to insured deposits as “Guaranteed Obligations”, banking obligations in the form of deposits, loans and credits.

7.1.2 What types of deposits are eligible for coverage in your DIS?

Savings account, Chequing account, Annuity contracts, Certificates of deposit, Foreign currency deposits, Other

null|null|null|null|null|null|null|null|null|null|null

7.1.3 Is coverage

per depositor per institution

7.1.4 What is the coverage limit per depositor?

As of January 1st, 2005, the maximum amount of coverage is the equivalent in Mexican Pesos of 400,000 UDIs, per natural or legal person and per institution. As a reference, to December 2007, 400,000 UDIs were equivalent to approximately USD 144,000.

7.1.5 How was this figures arrived at?

In 1998, when legislation on deposit insurance was being discussed, deliberations on coverage considered several issues, such as: 1) Purchasing power considerations of insurance in real vs. nominal terms. 2) Growing importance of investment integration in particular with the United States of America. 3) Convenience of a gradual transition from full blanket to limited and explicit coverage to facilitate an orderly adjustment. The first and second factors were considered during the final phase of the Program of Gradual Coverage Reduction. On January 1999, when Law of Banking Savings Protection took effect, the amount of coverage was very similar to the amount of coverage applicable in the United States of America (in terms of US Dollars), Mexico's largest trading and investment partner. The third factor was very important in deciding the seven-stage transition period (Program of Gradual Coverage Reduction) that ended in the current coverage limit. This timeframe allowed an orderly adjustment of the financial services industry to the new policy of explicit and limited coverage, particularly in terms of a stronger capitalization structure and a more effective regulatory and supervisory framework. In each stage of the Program certain deposits were progressively excluded arriving at the current criteria of coverage.

7.1.6 For eligible financial instruments with maturity dates, what is the longest contract term covered by the DIS?

There is no legal maturity limit of any financial product insured by the DIS.

7.1.7 What types of depositors are not eligible for coverage in your DIS?

Officers and directors of member institutions, Other
null|null|null|null|null|

7.1.8 Is the coverage amount indexed?

Yes

7.1.9 What is it indexed to?

The coverage amount is indexed to the behavior of prices as reflected in the Mexican peso equivalent of 400,000 UDIs, or Investment Units. An UDI is a unit of account indexed to the National Consumer Price Index. An UDI was equal to 1 Mexican peso on April 4, 1995.

7.1.10 Does your DIS use coinsurance? If coinsurance is used please describe the approach used.

No

7.1.11 Is the public widely aware of the presence of coinsurance?

7.1.12 Are coverage levels affected by resolution methods? If so, please explain.

Other

The coverage level is not affected by the resolution method, except in the case of systemic risk where the Financial Stability Committee could extend the coverage level up to 100% of all transactions of the troubled institution.

7.1.13 To what extent, is there a public expectation that the DIS coverage limit would be extended to 100% coverage in the event of a banking crisis or the failure of a very large institution? Please provide recent examples, if applicable.

Other

Based on the information available, there is no empirical evidence to support the existence of verifiable expectations of depositors regarding coverage limit extension. The Law establishes that the Financial Stability Committee has the prerogative to extend the DIS coverage limit up to 100% in the event of a banking crisis, in case the payment system is at risk or when an insured institution may affect other institutions, generating instability or insolvency.

7.1.14 How is a decision made on the insurance eligibility of new financial products?

Financial institutions are responsible of determining if any new financial product meets the Guaranteed Obligation's characteristics as stated in the deposit insurance law and if it is not explicitly excluded from coverage.

7.1.15 When member institutions merge how are insured deposits treated?

Coverage is extended to the claims of the natural or legal person in the newly merged institution in the terms stated by the Law of Banking Saving Protection, LPAB. In other words, according to the LPAB, coverage is provided per natural or legal person and per institution up to a coverage limit of 400,000 UDIs. Thus, if an individual has "Guaranteed Obligations" in two institutions that merged, the person's deposits will be covered up to 400,000 UDIs in the merged institution.

7.2 Does your country offer the following?

7.2.1 Islamic banking

No

7.2.2 Islamic deposit insurance

No

Section 8: Funding & Fund Management

8.1.1 What type of funding is used by the DIS?

A combination of the above two approaches

A combination of the two approaches is used. The ex – post portion is built from the 75% of the fees charged to the institutions which are set aside to pay for liabilities derived from the 1995 banking crisis. The ex - ante portion is built from the remaining 25%, which is applied to pay for the Institute's operating expenses and to built a preventive fund for potential bank failures.

8.1.2 Is the DIS funded by levying insurance premium assessments against member institutions or, by some other means such as general tax revenues?

Premium assessment

8.1.3 If insurance premiums are assessed, are they assessed as a flat rate or are they differential in some way, please explain? (e.g. risk based)

Insurance premiums are assessed on a flat rate basis, even though IPAB has the power to determine risk differentiated premiums.

8.1.4 What is the current premium rate? If there have been changes to this rate, details would be appreciated.

The current rate is the minimum ordinary rate of 40 basis points. In exceptional situations the Governing Board may assess a maximum extraordinary rate of 30 basis points, and the joint maximum of ordinary and extraordinary rates cannot exceed 80 basis points. All figures are expressed on an annual basis.

8.1.5 How often is the premium assessed?

The premium is assessed monthly.

8.1.6 Is the premium assessed on total deposits, insured deposits or something else?

Other

Proxy of total liabilities. I. CALCULATION OF LIABILITIES SUBJECT TO FEES. Liabilities subject to ordinary fee will be determined with the average daily balance from: Total bank liabilities (include demand deposit an time deposit). Bonds, Interbank loans, Other accounts payable (bank service). Subordinated obligations, Signed guarantee, Repurchase agreement and securities lending, Derivative financial instruments Minus: a. Domestic loans (with other commercial banks), b. Debt long-term bonds (with othe commercial banks).

8.1.7 Are premiums paid by member institutions tax deductible as a business expense?

Yes

8.1.8 For premiums that are differentiated please explain the risk assessment system that is used to ascertain a premium assessment.

Although the prerogative to asses differentiated fees is established in the deposit insuranse law, this has not ben done.

8.1.9 Does the DIS have a target with respect to the optimal size of the DIS fund? (Yes is chosen go to question 8.10 otherwise Skip the next 2 questions)

No (Skip the next question)

8.1.10 How is the optimum level (i.e. target) of the fund determined?

8.1.11 What investment policies (i.e. safeguards against abuse) exist concerning the use of the fund?

In terms of the Law of Banking Savings Protection, fund resources can only be invested in government securities "of high liquidity" or held in deposit at the Central Bank.

8.1.12 If a fund is not maintained, is an assessment levied on institutions after the failure of a financial institution has occurred? If so, please explain how the levies are determined and losses distributed among institutions.

No

8.1.13 Which of the following sources of additional funding, for emergency or liquidity purposes, does the DIS have access to?

Government funding

Access to private markets|null|null|

8.1.14 Are member institutions required by law to issue, on a regular basis, subordinated debt?

No

Section 9: Reimbursing Depositors

9.1.1 Please describe the procedure for reimbursing depositors used by your DIS?

Whenever the liquidation or mercantile dispute (bankruptcy) proceeding of a bank is declared and a guaranteed obligations pay-out process is chosen, IPAB makes such payments in the terms of the Law of Banking Savings Protection (LPAB). Within 5 days from the date when IPAB assumes as receiver or liquidator (whichever the case may be) for the bank in question, IPAB shall publish the procedure for the newspaper of nationwide circulation, and through other suitable means. Within 90 natural days after this publication, the pay-out process will take place, given that the eligible depositors (according to art. 6 of the LPAB) have filed, within 60 days of said publication of the procedure for the pay-out process, a claim for payment and copies of contracts, account statements or any other documenting proof of the eligible transaction help with the bank.

9.1.2 Are depositors required to file a claim when a member institution fails? If so, what is the process?

Yes

After the revocation of the banking licence of an institution, a courier letter is sent to all registered account holders containing the information, the payment options and the terms and limitations of the claims process. The claim form can also be obtained online. However, it must be presented at any of the banks branches to constitute a claim. That is, it cannot be filed online. As established in the Law, the claimant has a period of 60 calendar days to file the claim from the date when the claim reimbursement process is announced.

9.1.3 When is the DIS obligated to reimburse insured depositors?

From the date of the publication of the claim reimbursement process, IPAB has ninety calendar days to pay the guaranteed claims, assuming these were filed within the aforementioned sixty days filing process is announced.

9.1.4 Is there an established legal basis upon which to base the reimbursement process? Please explain.

Yes

Title II, Chapter II of the deposit insurance law deals specifically with the reimbursement process. It states the amount of Coverage, the type of coverage (per natural or legal person, per institution) as well as the form of payment and the terms and procedures for the submission and payment of reimbursement claim, among other related issues.

9.1.5 Is the DIS subject to explicit standards for prompt reimbursement? If so what are they?

Other

There are no explicit payment time limitations other than the aforementioned 90 calendar day limit.

9.1.6 What methods of payment can be used and under what circumstances are they used?

For the last case of depositor payout, which occurred in the fourth quarter of 2002, three payment methods were made available for claimants to choose from depending on particular circumstance: a wire transfer to the account of their choice at another banking institution in Mexico, a courier check mailed to the claimant's address, a check made available at the premises of the failed bank, and cash-payments up to the amount allowed by the Governing Board for the specific bank. For security reasons, the reimbursement check is issued with the legend "Non-Negotiable" and "For Deposit on Account", to prevent the payee from cashing the check if he/she does not deposit it before. Moreover, for additional security, an instruction is sent to the banks that handle the accounts where the claim is to be paid. This information is verified against the information presented by the depositor in its claim form. If there is a mismatch the bank refuses to pay the check.

9.1.7 Are the rules regarding clearing, set-off, trust accounts, and related issues well defined (through the legal system or formal agreement)? Please explain.

Other

Under Mexican legislation, set-off is not contemplated and trust accounts are not covered by deposit insurance. Compensation and liquidation of transfer orders on payments systems is regulated by the Law of Payments Systems.

9.1.8 What are financial institutions obligated to hold with respect to deposit records?

Article 52 of the Law of Credit Institution states the guidelines and the means to be used to carry out the account-keeping responsibilities of insured institutions. The institutions must record: The transactions and services contracted between the parties. The means of identification of the responsibilities inherent to their use. The means evidencing the creation, transmission, modification or extinction of the rights and obligations of the transactions concerned. In addition, banks have to comply with regulations issued by the Central Banks and the supervisor through by-law. Additionally, article 134 bis 3 of the Law of Credit Institutions, establishes that bank must classify the information regarding transaction considered guaranteed obligation as stated in the Law of Banking Savings Protection, in automatic data processing and management systems and by whichever other technological means, such as microfilm, magnetic archives and other media, in terms of the procedural regulations published in the Official Diary of the Federation in July of 2007. Among other issues, the regulations determine the data related to banking operations that are legally considered to be guaranteed obligations that must be automatically processed in the bank's systems. For example, "Guaranteed IPAB Account Holders" (or TGI in Spanish) must be singled out through a Unique Identifier (Clave Unica) able to associate all personal and balance, interests, and other calculation to a given date) where a person has an interest, as well as for operations involving non-guaranteed accounts.

9.1.9 When is the DIS given access to an institutions financial and depositor records?

Article 134 bis 3 of the Law of Credit Institutions foresees that IPAB may ask the supervisor (CNBV) to carry out inspection visits to the bank in order to verify that the information the bank are delivering to IPAB complies with the regulations mentioned in the previous question.

9.1.10 Does the DIS have the option of making advance payments to depositors in situations of dire need (i.e. in an emergency)?

No

9.1.11 Does the DIS make interest payments to depositors during the time taken for reimbursement? Please explain.

Other

According to article 8 of the Law of Banking Savings Protection, LPAB, the amount of guaranteed obligations to be paid is equal to the principal and interests accumulated as of the date when the IPAB “publishes the liquidation resolution”. From this time to the moment when the resources are actually paid, no interests accrue. Moreover, article 12 of the LPAB stipulates that “the amount to be paid by the Institute to each person will be fixed in Investment Units as of the date mentioned in Article 8, independently of the currency in which the guaranteed obligations... are denominated in, or of the contracted interest rates”. The above means that the payments to account holders after the date of publication of the liquidation notice of a failed institution and before the date of reimbursement will only vary in relation to the price level as mirrored by the value of Investment Units, or UDIs, not interest rates. Thus, if, during the period after the liquidation announcement of an institution, inflation occurs, there is an additional payment for the amount of the purchasing power loss as measured by the UDI. If deflation occurs, the reverse happens. Lastly, if the price level remains constant, the amount paid will not vary from the amount calculated at the date when the liquidation announcement was made.

9.1.12 What information is communicated to depositors regarding the reimbursement process?

The package contains the following documents: • Letter to clients of the failed bank • Claim reimbursement application form pre-filled with the depositor's data. • Instructions and payment process general guide • Evaluation questionnaire of service provided. The introductory letter explains what the IPAB is and its relation to the failed bank, the claim reimbursement application form including the available methods of payment, and the deadlines and other terms and conditions. The claim reimbursement application form must be signed by the claimant.

9.1.13 What process does the DIS use to ensure that depositor secrecy and confidentiality is maintained during the reimbursement process?

• If IPAB hires a specialized third party to execute the reimbursement process, a confidentiality letter is signed by the third party. • All system users other than IPAB's personnel must be approved by the failed bank's administration with the consent of IPAB. • The security of the entire process relies to a certain extent on the practices of the institution, as operative personnel from the bank are involved.

9.1.14 What steps are taken to verify, reconcile and settle insured deposit accounts?

The payment process consists of several procedures, with the following among the most important: 1. Initial upload: In this stage, information on the eligible depositor's balance, interest and other calculations, acquired by the Institute in terms of the aforementioned regulations, is loaded on to the Guaranteed Obligations System, in order to make the pay out process more agile and efficient. 2. The legal department loads the account information, including account holders considered not insured in terms of the law. 3. Claims process: If the claim is presented personally by the depositor and has information identical as in IPAB's system, the depositor is considered insured and the claim is considered as a simplified claim procedure, except operations involving legal provisions expressly excluding it from coverage. Otherwise, the claim goes to the analysis and legal procedures section for further review. 4. Payment process: A wire transfer is sent electronically to a pre-designated account of the claimant or a check is issued and sent by courier or made available at the failed bank premises.

9.1.15 What steps are taken to ensure that an institutions depositor records are accurate, up to date and accessible?

• Financial statements have to be audited by external auditing firms authorized by the supervisor, CNBV. • The CNBV can review and request revisions to the financial statements of a bank. Moreover, article 99 of the Law of Credit Institutions establishes that every act or contract that "changes the asset or liability position of the bank" must be recorded on a daily basis in the bank's accounting systems. The answers to 9.1.8 and 9.1.9 are also applicable to this question.

9.1.16 Does the DIS document its experiences with respect to each reimbursement action (i.e. lessons learned) in order to allow for continuous improvement?

Yes

During the payment process, computer systems allow the users to record comments or suggestions for process improvement, while serving as a knowledge base. In addition, surveys are conducted on depositors to evaluate the effectiveness of the reimbursement process and to pinpoint possible improvements in the process. The last step in the payment process is to generate a so-called "White Book" mandated for all public entities, which contains all relevant information of the payment process.

9.1.17 What technologies does the DIS use to facilitate the reimbursement process?

Improvements include the development of in-house html internet computer system linked to workflow software to be able to upload and download files to/from the failed bank to make all stages of the reimbursement process more efficient.

Section 10: Public Information & Awareness

10.1.1 What obligations are there to inform the public?

Article 6 of the IPAB's law specifies the bank's obligation to inform the public about the types and amounts of guaranteed obligations. On its part, in the month of December of every year IPAB must publish in the Official Diary of the Federation and in two major newspapers of nationwide circulation the list of guaranteed obligations for the following year. Central Bank's regulation 2019 also states the bank's obligation to inform its clientele of the institution's liability operations that are guaranteed by IPAB. IPAB must also report twice a year to Congress and to the Ministry of Finance and Public Credit on the financial support programs it puts in place.

10.1.2 Who is responsible for communicating information about the DIS to the general public?

DIS

Other|null|null|null|null|null|

10.1.3 Are these explicitly stated in policy or law?

Yes

Obligations are stated in the Law of Banking Savings Protection.

10.1.4 Are the terms and conditions of DIS explained in a manner that the general public can understand fully?

Yes

10.1.5 If so, what methods are utilized?

Brochures, Website

null|null|null|null|null|

10.1.6 At what point is information disclosed to the public about an institution that is having problems and how is information disclosed?

This occurs when the National Banking and Securities Commission publishes the revocation of the banking license of an institution; the bank's clientele is informed of the procedure to claim the reimbursement of guaranteed obligations of the bank. The information is disclosed in the media, website, brochures and through letters addressed to the bank clientele.

10.1.7 Has a survey of public awareness about the DIS been conducted? If so/ what were the results? If not why not? Please include supporting documentation.

Yes

Surveys on the effects of public awareness campaigns have been performed. Survey data show that

soon after the campaign is concluded there is significant remembrance of the DIS, but it fades as time passes, highlighting the importance of permanent public awareness efforts.

10.1.8 Has the DIS ever embarked on a public awareness campaign to increase awareness and knowledge? If yes, how many times has this been done and when was the last time?

Yes

In its 9 years of existence, the IPAB has carried out three national advertising campaigns, the last one took place in 2004.

10.1.9 Please describe the approach used; objectives, target audience, communication strategy, and timing results.

There have been mass media campaigns in public access television. The target audience were males and females 25 – 45 years old. The economic groups are users of bank services living in the 20 largest cities of the country. The message was conveyance of the basic characteristics of the deposit insurance system. These included the concept of limited and explicit deposit insurance for small and medium depositors and of coverage for all banking institutions. The ads were broadcast during a 3-month period in printed and electronic media. Another campaign included the broadcast of messages delivered through diverse media. The campaign also included the training of bank employees on the characteristics and limitations of deposit insurance using online instruction and testing technology and the delivery of messages via literature available in bank branches and through inserts in bank statements, newspapers and other media.

Section 11: Risk Assessment & Intervention

11.1.1 Does the DIS have a risk monitoring function to analyze and assess the risk of member financial institutions?

Yes

The IPAB may participate with the National Banking and Securities Commission (CNBV) in onsite examinations in order to review, verify and evaluate the information that banks have been providing the DIS, or in the event of a resolution process. The CNBV is responsible for examinations.

11.1.2 Does the DIS perform examinations of its member institutions? If not, who does?

Yes

11.1.3 Does the DIS receive information/data/statistics directly from its member institutions or from a third party, such as a regulator or supervisor? If so what information is received and how often?

Yes

Even though in certain conditions IPAB has the power to request information directly from banks, it has favored the use of on-line access to existent information systems of other financial safety net members. Current information contains aggregates on capitalization, insured deposits, and financial reports in monthly and quarterly basis. IPAB is working on obtaining from banks access to disaggregated information on guaranteed and non guaranteed information at the account holder level.

11.1.4 What is the risk assessment approach used by the DIS to monitor financial institutions? Please describe. Please be sure to include the criteria used to determine member institution risk.

The risk assessment process used by IPAB assesses the results obtained from three different approaches to risk analysis: financial, CAMELS, and econometric. All of them are run on a quarterly basis and the overall system is called Early Detection System, or EDS. The financial model analyzes the performance of the main fundamental ratios. These results are enhanced with a CAMELS assessment, giving as a result an interpretation of the behavior of financial ratios in the context of the institution's particular business and risk

profile. Furthermore, in the econometric model, the output is a probability of failure for each of all the insured institutions during apredefined period of time. The process concludes with the issuance of an executive report that flags particular institutions once a revision and conciliation process of the outputs from these models has taken place. In this process, the guiding criterion is the perception of the quality and the sufficiency of given capitalization levels of institutions. A member institution's assessment is a composite of relative weights given to several aspects of the bank and its financial performance.

11.1.5 Please list and describe the actions taken by the DIS in situations where member institutions are causing concern. Please indicate when coordination occurs with other supervisory/regulatory authorities and the mechanisms used.

In terms of article 134 Bis 2 of the Law of Credit Institutions, when the supervisor (CNBV) detects an institution that does not comply with the regulatory capitalization ratio requirement, it must inform this matter to the other members of the financial safety net. Furthermore, if the DIS detects an irregularity, it must report it to the CNBV. In Mexico, the handling of banks with financial problems consists of three successive stages. The current legal framework includes recent updates to the first and second stages, prompt corrective actions and resolutions process. The third phase, which envisions a dedicated bankruptcy framework for insolvent banks, is in development. Generally, the resolution process for a bank begins when its capital ratio (CR) lower than 8%. However, when the CR is below 8%, but higher than 4%, the bank is given the opportunity to continue in business under a “Conditioned Operation” regime. The Conditioned Operation regime entails the obligation of the bank to transfer into a trust 75% of its equity, naming IPAB as beneficiary, as well as to submit to authorities a Capital Restoration Plan. When the CR of the bank falls below 4%, it must be resolved. As the entity in charge or resolutions IPAB is kept constantly informed and becomes progressively involved in the resolution process of a financial intermediary as its financial situation deteriorates.

Section 12: Failure Resolution

12.1.1 Is your DIS involved in the failure resolution of member institutions?

Yes

12.1.2 Who determines whether a member institution has failed or is insolvent?

In terms of Article 28 of the Law of Credit Institutions, the Governing Board of the supervisory agency (National Banking and Securities Commission)determines the failure of an institution after it has heard the opinion of the bank involved, of IPAB and of the Central Bank.

12.1.3 Under what conditions can the DIS cancel/terminate the deposit insurance of a member institution?

The only condition under which the insured status of a bank can be ended is when its banking license is revoked. Only the National Banking and Securities Commission can issue and revoke banking licenses.

12.1.4 How is the failure/non viability of a member institution determined?

The causes leading to the revocation of a banking license are: 1. If the bank does not start operating within 30 days of being notified. 2. If the bank itself requests it; 3. If the bank dissolves, or enters into a liquidation or mercantile dispute process; 4. If the bank fails to comply with the minimum corrective measures; 5. If the bank does not meet capitalization requirements, i.e. its Capital Ratio falls below 8%; 6. If the bank shows liquidity problems.

12.1.5 How many member institutions have failed in your country in the last 20 years?

Mexican privately owned banks were expropriated in 1982 and remained under government control until June of 1991, when the re-privatization process of the 18 formerly private banks began. Even before the peso devaluation of December 1994, the government decreed interventions at certain banks, and in response to the financial crisis of 1995, put in place additional programs to deal with the banking sector crisis. The most important programs were the Capitalization and Loan Portfolio Purchase Program, the Financial Strengthening program, and the Interventions Program. Banks under such programs either: recovered and remain in business, recovered and were subsequently purchased by or merged with another bank; or entered

liquidation processes in charge of IPAB. From 1994 to May of 2008, twenty five institutions participated in one of the above programs and one bank went directly into liquidation. From September of 2001 to date, IPAB has been named receiver or liquidator of 13 banks, 12 of which had participated in one of the aforementioned programs.

12.1.6 Do banks go through the regular corporate bankruptcy process? If no, what is the process used?

Yes

At present banks do follow the regular corporate bankruptcy process for businesses whose liabilities equal or exceed a given threshold, with the following particularities for banks: A. Bankruptcy petitions can only be filed by IPAB or the CNBV; B. The process begins in a more advanced stage than for corporations, there is no conciliatory stage; C. IPAB designates the receiver with the approval of the judge. IPAB is working with other members of the financial safety net on a new, dedicated banking insolvency framework to substitute the mechanism currently in place.

12.1.7 Is the receiver of failed institutions also the one that disposes of the institutions? If not, who does?

Other

IPAB is the receiver; and if it were necessary, the liquidator, unless the liquidation process is voluntary and there are no insured deposits outstanding.

12.2 Which methods of failure resolution are used in your country to deal with failures. Also, please indicate the frequency of use of the various methods in the last 20 years.

12.2.1 Formal liquidation

Yes

Formal liquidation (13 occurrences)

12.2.2 Purchase and assumption (sale and merger)

Yes

Purchase and assumption (sale and merger) (new resolution alternative, no occurrences yet)

12.2.3 Open bank assistance (e.g. recapitalization)

Yes

Open bank assistance (e.g. recapitalization) (25 occurrences)

12.2.4 Bridge banks and other interim solutions

Yes

Bridge banks and other interim solutions (new resolution alternative, no occurrences yet)

12.2.5 What criteria are used to determine the method of failure resolution?

In cases where a bank's license has been revoked, IPAB's Governing Board will determine that the liquidation process be carried out through the following liquidation procedures: 1. Payment of guaranteed obligations 2. Transfer of assets and liabilities to another bank (P&A) 3. Transfer of assets and liabilities to a bank constituted, organized and operated by IPAB (Bridge Bank) 4. Any other alternative that is deemed the best option to protect the interests of depositors. In order to determine the liquidation procedure, the rule of least cost shall be applied. In Mexico, the least cost rule is understood as the one under which the projected cost of the liquidation procedures is lower than the total projected cost of a guaranteed obligations pay-out process. The total cost of the pay-out process will be calculated on the basis of the information available on the date when IPAB's Governing Board determines the resolution method. The cost of a pay-out process of a bank will be equivalent to the amount resulting from subtracting from the value of guaranteed obligations, the net present value that IPAB expects to recover from the sale of the bank's assets. In exceptional circumstances, the Financial Stability Committee can determine that a bank poses a systemic

risk when the bank's failure to honor its obligations, would: I. Generate serious negative effects in other bank or banks, in ways that might endanger their stability or solvency, provided that it might also affect the stability or solvency of the financial system, or II. Jeopardize the functioning of the payments system. In these cases, IPAB's Governing Board will determine a resolution method that corresponds to the following: a) Financial rehabilitation of the bank, provided the Financial Stability Committee has resolved to proceed with the payment of all operations in charge of the bank in question, or b) Partial payment, when the Financial Stability Committee resolves to pay less than 100% of non-insured obligations.

12.2.6 Is the deposit insurer required to resolve failed or failing insured depository institutions in a manner that is least costly to the DIS?

Yes

In terms of the decision rule as defined in the response to question 12.2.5. Only when the insolvent bank is determined to pose a systemic risk will there be an exception to the rule.

12.2.7 Please indicate what kind of private companies, if any, are included in the failure resolution process?

When dealing with the resolution process, private third parties may be hired to: 1. Deliver a Technical Study of the bank to be liquidated in order to determine the least costly resolution method. 2. Perform the role of receiver or liquidator. In other cases where IPAB was mandated to conclude pending cases, IPAB has hired specialized accounting or law firms to conduct audits or help in the resolution of pending litigation. IPAB can also retain asset liquidation firms to administer and liquidate assets on its behalf.

Section 13: Claims, Recoveries & Estate Management

13.1.1 Does the DIS play a role in the claims and recoveries process? If yes please describe this role

Yes

IPAB handles and settles all claims arising from a bank resolution. In addition, it has the mandate of liquidating crisis-related inherited assets as well as assets arising from resolutions undertaken by it after the crisis. Though IPAB does not hold title on many of the assets, it is the beneficiary of recovery flows as these are liquidated. In the case of assets arising from operations carried out by it in fulfillment of its mandate, IPAB can choose to alienate these assets to a specialized third party for liquidation or to liquidate the assets itself.

13.1.2 What is the primary objective of the DIS when dealing with claims and recoveries (i.e.. maximization of nominal and present value recoveries, financial system stability, system discipline)?

The primary objective is to maximize the value of recoveries in the least possible time.

13.1.3 What role does the private sector play in the claims, recovery process?

The private sector may be hired as a special service provider in the different processes executed by IPAB, including the liquidation, claims, and recovery processes related to the resolution of a failed or supported institution.

13.1.4 What approaches and strategies are adopted by the deposit insurer to accomplish the objectives of claims and recovery activities?

In the area of claims, there is a mandate to limit payments to legally due claims in the terms and time limits stated in the Law. In the recovery process, IPAB has a mandate of procuring the maximum possible recovery in the shortest time possible through open and public auction processes. Asset sales are conducted under three modalities. The first involves the shared participation in the assets' proceeds between IPAB and the party buying and administering (working out) the assets. This alienation procedure is known as "Transfer of Rights and Asset Management Agreements". The second strategy is known as a Management Agreement. In this modality, a pool of assets is entrusted to a specialized asset management company to manage and sell the assets under contract. Finally, there are final sales, where IPAB sells all rights and responsibilities on the assets to a buying party. Other strategies such as the pooling of assets with

marketability potential and the sale of regional asset pools segmented to appeal to different types of buyers have also been carried out by IPAB.

13.1.5 By what standard is the DIS judged with respect to performing its function in claims and recoveries (e.g.x. Comparative private sector or DIS benchmarks, internal assessments, past experience)?

In a banking resolution, an operational plan for liquidation is elaborated, and based on the plan, several metrics are constructed, measured and evaluated. An estimate for the recovery of the assets is also calculated. This estimate is produced based on the diagnosis of the goods available for sale in the context of prevailing and expected market conditions and past experience with sales of items of a similar nature. Monthly estimates and targets for its performance are then reviewed and restated if necessary during the year. These metrics are monitored and supervised by the Ministry of the Public Function and in some cases by auditing commissions of Congress or through audits performed by Congress' Superior Auditing Office of the Federation.

13.1.6 What assets have you found to be the hardest to recover? Why? What types of strategies have been used to recover different assets?

Assets with attached litigation processes have been among the hardest to recover. In some cases, the originating banking institutions may hold title, for example, to a real estate property, but finds it very difficult to obtain possession. Another set of assets that are quite difficult to liquidate are loan assets that originated with inadequate guarantees or collateral. In relation to assets with litigation processes, strategies are limited to the work out of the loans and to legal advice for administrators of assets. Another strategy is to divest as many assets as possible by liquidating them at minimum prices to agents better suited to enter into judicial or non-judicial agreements with the debtors given a strong upside potential. When it first came into operation, IPAB faced an internal secondary asset sales market not suited to withstand the volume of loans and real estate properties where it had an economic interest in having divested. Among the most important unfavorable conditions were: an inexperienced market in the development and implementation of asset divestment processes; few players, especially local investors; and insufficient resources to absorb a constant influx of transactions. This situation led IPAB into designing innovative procedures to allow it to begin divesting assets as soon as possible. Among these were auctioning loan portfolios where IPAB would participate alongside the winning investor in the rights to the cash flows deriving from collection and on the risk inherent to the transaction. As the domestic market began to familiarize itself with these transactions, it began to demand recovery processes without IPAB's participation. IPAB then changed its strategy and began to structure sealed offer public bidding processes for the different types of assets. One of the first significant results from this strategy was that it sparked interest among investors to participate in public bidding processes, which in turn, translated into higher recovery rates. A related result of this asset divestment mechanism was that winning bidders and the market in general began to learn from experience of the practical difficulties associated with collecting and recovering the purchased assets, a situation made evident by increasing collection and management costs, longer time frames invested in recovery efforts, and a realization of a higher overall business risk. The steep learning curve which the market went through, led to a reassessment of the offers that investors tendered in subsequent bidding processes, which were characterized by lower amounts. The internal market has now become familiar with the particularities of asset recovery processes. In fact, banks have replicated IPAB's divestment processes in their own assets sales.

13.1.7 Does the DIS have rights of subrogation (i.e. the subrogation of insurance entity to the rights of insured depositors) or an equivalent arrangement?

Yes

13.1.8 Is there depositor priority when banks fail? (i.e. Do depositor claims rank in priority above other unsecured creditors in the liquidation of a bank?)

Yes

13.1.9 Are rights of set-off available or imposed in your country's legal system? Please describe the various forms set-off can take.

No

Section 14: Other Issues

14.1.1 What is your view on recent trends and emerging issues in the financial sector in your country and the potential impact they might have on the DIS?

In the previous survey we noted the following: "The emergence of new financial services, the increasing control of foreign capital of institutions and the concentration of a large amount of assets in a small number of institutions, pose the most challenging areas for banking resolution procedures. On top, there is a need to be able to regulate and supervise more efficiently (i.e. at a lower cost), adding another vector of change. In the opinion of IPAB, the most important trends are the following: • Financial innovation (increasing provision of bank-like services from non-bank providers) • Financial integration • Financial concentration of banking assets and liabilities • Foreign capital control of institutions • Efficiency in regulation and supervision • Distribution of functions and responsibilities among the members of the safety net." The issues of innovation, integration, concentration and foreign majority ownership of financial intermediaries remain challenging and are not unique to emerging countries with open capital accounts, like Mexico. In the areas of efficiency in regulation and supervision and the distribution of functions and responsibilities there have been important changes since the last survey. Since May 2003, IPAB's staff has experienced a 35% reduction and supervision is now basically in charge of the supervisory agency, while IPAB is wholly responsible for resolutions. The following issues are gaining traction and are expected to represent additional challenges for IPAB. - Renewed banking sector growth in the context of limited deposit insurance coverage, financial stability and renewed public sector policies favoring increased competition and greater financial inclusion- Among the foremost modifications to banking legislation after the 1995 crisis was the abandonment of the regime of practically implicit and unlimited coverage. The creation of IPAB in 1999 signaled the beginning of a gradual transition away from the era of unlimited coverage of banking obligations to the current system of limited and explicit deposits coverage, in effect since January 1, 2005. The onset of limited deposit insurance occurs in a context of sustainable macroeconomic policies and financial stability. Also noteworthy since the last survey is the phase out of banking-crisis related assets from major bank's balance sheets, and renewed public sector policies aimed at favoring increased competition in the banking sector within an adequately regulated and supervised environment. From December 2002 to December 2007, the number of member banks has grown from 32 to 40, while bank assets have expanded 66% and deposits by 39%. Legislation passed in July of 2007 actively fosters greater transparency and inclusion in the financial services industry. Inclusion is sought by ordering the availability of a low cost, basic banking product for customers with balances below a certain amount, while transparency is favored through the obligation of intermediaries to adequately disclose key information regarding the costs and characteristics of their financial services to existing and potential customers. While Mexico has taken steps in the right direction, figures clearly highlight the challenge at hand. According to the International Finance Corporation's Policy Research Report on Access to Finance, the fraction of Mexico's households with access to finance (percent of households with a deposit or loan account in deposit taking institution) is between 20% and 40%, while in the most inclusive countries, more than 80% of households have access to finance. -Challenges- As the banking sector is expected to continue to grow, the challenge for IPAB will be to stand ready to manage the resolution of a potentially increasing number of member institutions. To do so will require institutional preparedness as well as coordination with other members of the Mexican financial safety net as well as with key safety net members in other countries. By maintaining and increasing public confidence, increased public awareness on the benefits and limitations of the deposit insurance system should also play a contributing role in the pursuit of IPAB's mandates. IPAB must prepare a workforce ready to execute available resolution mechanisms under scenarios of systemic and non-systemic risk. Coordination will involve the design of protocols for deployment under a variety of scenarios. Coordination and preparedness require training and skills at a level that effectively combines theory with practice. The sophistication of banking in an increasingly global financial system will require human resources with training in information technology and complex areas of law and finance, as well as hands-on experience in all aspects of a resolution.

14.1.2 Are there any issues related to deposit insurance which you would like to see more research in?

Interesting areas of research could focus on: • "Hands on" research and guidance on all aspects of actual banking resolutions (operating manuals and procedures for assets valuation and sales, guaranteed obligation calculations and resolution of claims, information technology, etc.) • Interrelationships within and among financial safety nets.