

FITCH ASSIGNS 'BBB+' FC IDR TO PERU'S BANCO AGROPECUARIO (AGROBANCO); OUTLOOK STABLE

Fitch Ratings-New York-31 October 2013: Fitch Ratings has assigned a Foreign Currency Long Term Issuer Default Rating (IDR) of 'BBB+' to Agrobanco. (Peru). The Rating Outlook is Stable. A complete list of rating actions follows at the end of this release.

KEY RATING DRIVERS

The ratings assigned to Agrobanco reflect the potential support from the Republic of Peru, whose ratings were recently upgraded by Fitch to 'BBB+/A-' (for further details on Fitch's recent action on Peru's sovereign ratings, please refer to the press release 'Fitch Upgrades Peru to 'BBB+'; Outlook Stable', dated Oct. 23, 2013.

In Fitch's opinion, Agrobanco is an integral and key part of the government's economic policy toward the agricultural sector. Hence, support from the government should be forthcoming, if needed, which underpins the fact that Agrobanco's IDRs are aligned to the sovereign's.

By the same token, Agrobanco's support rating and support rating floor, indicate the direct link between the entity's creditworthiness and that of its shareholder, the Republic of Peru.

Agrobanco is Peru's main development tool for the agricultural sector. This segment has rapidly grown in the past few years and has become exporter of selected products. However, poverty is concentrated in rural areas where agriculture is the main activity, hence the government's interest in promoting its development and improving the sector's access to funding.

The bank has been largely funding its operations with its own capital. Its balance sheet structure is 2/3 capital, 1/3 third-party funds. This structure is by design but will gradually change as the bank intends to continue growing while leveraging its capital.

Rapid growth allowed the bank to achieve a critical loan mass to be profitable as it enjoys very low funding costs - in part due to its limited leverage - and relatively controlled operating expenses and credit cost. Profitability is expected to converge to the industry average as funding costs increase and loan portfolios mature.

In spite of the risk inherent to the agricultural sector, the bank's proactive remedial management helped maintain asset quality in check. Diversification by region, product, type of loan and tenors, among others, as well as adequate collateral requirements contribute to limit credit risk. While rapid loan growth has somewhat diluted non-performing loans.

As is often the case with state-owned development banks, Agrobanco's funding is concentrated in few institutional lenders. This is somewhat mitigated by the structure of the funding, which is very long-term, and the fact that the bank's budget process is fully integrated within the government's budget. In addition, a large part of its portfolio matures within one year thus bolstering cash flows.

Being an integral part of the government and a key economic policy tool, Agrobanco cannot be completely exempt from political influence. However, Fonafe (the government agency in charge of Agrobanco) and the board push the bank to maintain high technical and professional standards while the expected opening of its capital to a third party should limit the risk of political influence and help improve corporate governance.

RATING SENSITIVITIES

As a state-owned development bank, Agrobanco's creditworthiness and ratings are directly linked to those of the Republic of Peru; hence, Agrobanco's ratings should move in line with any potential change in Peru's sovereign ratings.

Fitch has assigned the following ratings:

- Foreign Currency Long Term IDR 'BBB+'; Outlook Stable;
- Local Currency Long Term IDR 'A-'; Outlook Stable;
- Foreign Currency Short Term IDR 'F2';
- Local Currency Long Term IDR 'F2';
- Support Rating '2';
- Support Rating Floor 'BBB+'.

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Applicable Criteria and Related Research:

- 'Global Financial Institutions Rating Criteria', Aug. 15, 2012;

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