

## **FITCH AFFIRMS BANCO AGROPECUARIO'S IDR AT 'BBB+'; OUTLOOK STABLE**

Fitch Ratings-Monterrey-10 October 2014: Fitch Ratings has affirmed Banco Agropecuario (Agrobanco) Issuer Default Rating (IDR) at 'BBB+'. The Rating Outlook is Stable. Simultaneously, Fitch has affirmed at 'A-(emr)' the rating to a long-term senior unsecured loan. A complete list of ratings actions follows at the end of this release.

### **KEY RATING DRIVERS - IDRs & SUPPORT RATINGS**

Agrobanco's ratings reflect the potential support from the Republic of Peru, whose ratings were recently affirmed by Fitch at 'BBB+/A-', for further details please refer to the press release 'Fitch Affirms Peru's FC IDR at 'BBB+'; Outlook Stable', dated Sept. 30, 2014.

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 of '2' and support rating floor of 'BBB+', 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 as the largest individual source of financing for the sector (around 16% of the total). 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 improving the sector's access to funding.

Agrobanco shows a solid capital base and is entirely Tier I, it is not encumbered by goodwill or fixed assets. As loans grew rapidly, this has resulted in a decline of capital ratios. Agrobanco's Fitch core capital ratio has declined from an average of 90% of risk weighted assets in 2010-2011 to 31% at June 2014. Its tangible equity to tangible assets remains healthy around 24%, but Fitch expects this ratio to keep decreasing due to expected growth to levels below 20%. For the medium term, Fitch expects this ratio would remain above 15%.

Agrobanco achieved a very sound profitability based on its strong asset growth, ample margins, low financing costs and moderate operating and credit costs. During 2014 the bank's profitability is converging to the industry average due to funding costs has increased and the loan portfolio is maturing (more loan loss reserves). Fitch expects Agrobanco's profitability to remain around 1.5% of average assets while Peru's sound economic prospects and dynamic agricultural sector should foster healthy growth.

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, as well as adequate collateral requirements contribute to limit credit risk. Overall, credit risk at Agrobanco appears to be well controlled and adequately covered by reserves, but given the cyclical nature of its niche markets, deviations on its asset quality trends are expected to happen. As such, even when as of June 2014, nonperforming loans represented 1.7% of total loans (below its three year average), the portfolio of restructured loans increased up to 7% of total loans, influenced by the acquisition of

some trouble loans and the deterioration of a portion of its own loan portfolio, both influenced by a plague that affected coffee production.

Current low impairment levels may be affected not only by the build-up of restructured loans but also by the natural season of a fast growth loan portfolio and/or specific issues of the agricultural sectors. As such, Fitch expects that Agrobanco will keep enhancing its loan loss reserves, and hence, keeping profitability ratios below its historic average.

In Fitch's opinion, Agrobanco's funding is stable and adequately structured. Funding for Agrobanco comes from a balanced mix of its capital and third party funds. The proportion of third-party funds has increased gradually in recent years. Positively, these funds maturity profile is well distributed and the maturity of the bank's loans match sufficiently to meet its financial obligations in the short term to three years.

Being an integral part of the government and a key economic policy tool, Agrobanco cannot be completely exempt from political influence as happened with the recent acquisition of some restructured loans mentioned above. 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.

#### KEY RATING DRIVERS - SENIOR UNSECURED DEBT

The rating of 'A-(emr)' to a long-term senior unsecured loan contracted by Agrobanco through CITIBANK, N.A. in the amount of Peruvian Nuevos Soles (PEN) equivalent to USD45 million reflect that the support from the government should be forthcoming, if needed, to Agrobanco and any of its senior unsecured debt.

The subscript 'emr' was added to the rating of the local currency loan to reflect the embedded market risk of the exchange rate fluctuation between the PEN and the USD given that the loan is denominated in PEN while the settlement is in USD.

#### RATING SENSITIVITIES - IDRS, SUPPORT RATINGS & SENIOR UNSECURED DEBT

As a state-owned development bank, Agrobanco's creditworthiness and ratings are directly linked to those of the Republic of Peru so Agrobanco's ratings should move in line with those of the Sovereign. Downward risk for Agrobanco's IDRs & Support Ratings is limited given its parent support and Peru's sound economic prospects.

Although not a baseline scenario, Agrobanco's ratings could change if Fitch perceives a decrease in its strategic importance to the government's public policies.

Fitch has affirmed the following ratings:

Agrobanco

- Foreign Currency long-term IDR at 'BBB+'; Outlook Stable;
- Foreign Currency short-term IDR at 'F2';
- Local Currency long-term IDR at 'A-'; Outlook Stable;
- Local Currency short-term IDR at 'F2';
- Support Rating at '2';
- Support Rating Floor at 'BBB+';
- Local Currency Long-term rating to a long-term unsecured loan at 'A-(emr)'.

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Applicable Criteria and Related Research:  
--'Global Financial Institutions Rating Criteria' (Jan. 31, 2014).

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