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Banco Agropecuario S.A.

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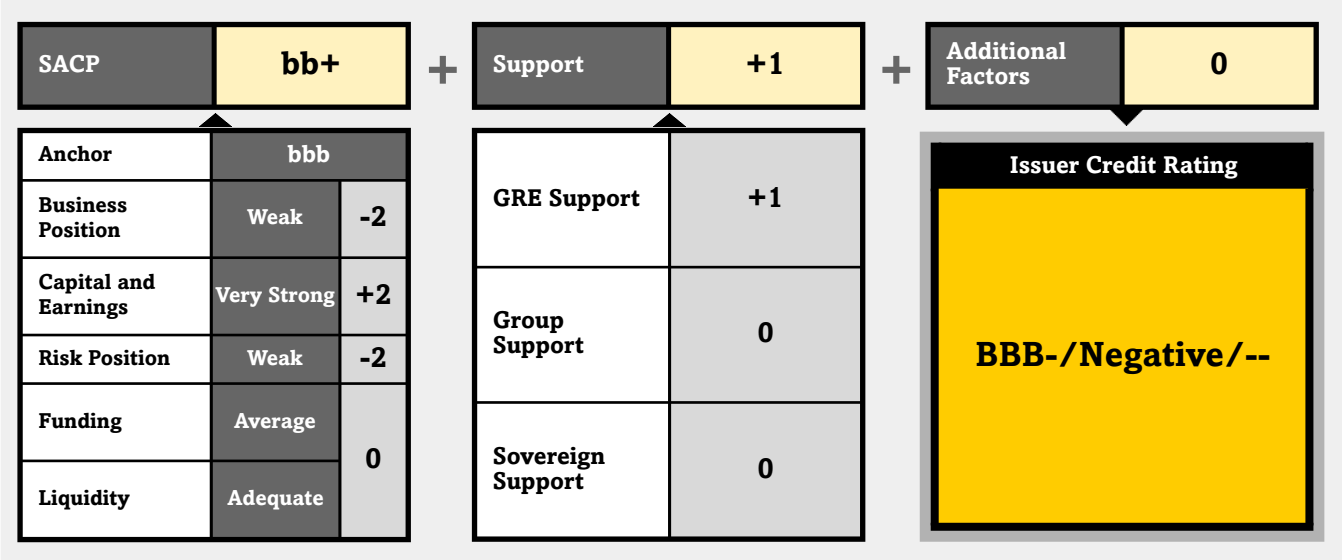
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Banco Agropecuario S.A.



Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> Support from its majority shareholder, the Republic of Peru; Operating in a banking system characterized by a strong track record of adequate regulation and good economic growth prospects; and Very strong capital position. 	<ul style="list-style-type: none"> Concentrated business position; and Focused on the cyclical agribusiness sector.

Outlook: Negative

Our negative outlook on Agrobanco reflects the negative trend in our banking industry risk assessment (BICRA) of Peru and that we could lower our rating on Agrobanco if we lower our BICRA on Peru. The negative trend in our BICRA is mainly due to the rising economic risk for banks operating in Peru, given the rapid growth in credit and private-sector leverage in the past few years, which have already begun to weaken the Peruvian banks' credit quality. The negative outlook on the bank recognizes the potential for rapid deterioration in the banks' asset quality, profitability, and capitalization if the private-sector debt burden becomes excessive if economic conditions worsen. In addition, we could downgrade Agrobanco if the government's likelihood to support the bank decreases or if its stable funding ratio drops to less than 90%.

We could revise our outlook on Agrobanco to stable if we revise our BICRA's economic risk trend to stable, which could follow more moderate credit growth in the system, reducing the risk of economic imbalances.

Rationale

The ratings on Agrobanco reflect its "weak" business and risk positions, "very strong" capital and earnings, "average" funding and "adequate" liquidity (as our criteria define the terms). The ratings also reflect our view of a "moderate" likelihood that the Republic of Peru would provide extraordinary and timely support to the bank in the event of financial distress, in accordance with our criteria for government-related entities.

Anchor: For a commercial bank operating only in Peru is 'bbb'

Our bank criteria use our BICRA economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a commercial bank operating only in Peru is 'bbb'.

Peru's economic resilience reflects almost 15 years of solid economic growth and its sound and consistent economic policies. However, Peru's GDP per capita of approximately \$6,700 as of the end of 2013 is lower than those of Peru's BICRA peers. Low income, poor debt capacity, and high dollarization in the economy, especially in the banking system, increase credit risk in the economy. Despite steadily rising real estate prices, we consider the risk of a housing bubble to be low, and the country's current account and external debt positions are manageable. Although private-sector leverage--measured as credit as a percentage of GDP--remains low, it has risen to about 32% as of December 2013 from about 18% in 2006. We consider that if this trend persists, it could increase the risks of economic imbalances.

We believe Peru has a sound regulatory framework; its supervisory coverage is ample; while its risk-based supervision occurs periodically and the regulator operates with high levels of professionalism. The financial system has generated strong profitability and adequate levels of capitalization in the past five years. In our view, there are no significant market distortions that could affect the financial system's competitive dynamics in the near term. We view the system's funding base as healthy and well diversified across deposits, domestic market debt, and external debt (banks and market). Furthermore, banks have recently somewhat reduced their dependence on external funding.

Table 1

Banco Agropecuario S.A Key Figures					
--Year-ended Dec. 31--					
(000s PEN)	2014*	2013	2012	2011	2010
Adjusted assets	1,930,769.0	942,212.0	438,757.0	321,389.0	334,889.0
Customer loans (gross)	1,279,249.0	900,564.0	433,491.0	291,345.0	299,386.0
Adjusted common equity	433,561.0	423,314.0	351,048.0	280,023.0	273,131.0
Operating revenues	94,049.0	97,699.0	64,154.0	52,440.0	38,868.0
Noninterest expenses	52,810.0	48,002.0	31,632.0	27,286.0	27,974.0
Core earnings	10,247.0	22,756.0	21,025.0	8,729.0	3,618.0

*Data as of Sept. 30. PEN--Peruvian nuevo sol.

Business position: Focus on a cyclical agricultural sector exposed to weather conditions

We view Agrobanco's business position as "weak" because it has a highly concentrated business profile compared with universal multipurpose banks operating in Peru, and it focuses on a cyclical sector that's exposed to weather

conditions. The bank supports the agricultural sector by increasing its access to banking products, and it manages assistance the government programs for the sector. With total assets of about Peruvian nuevo sol (PEN) 1.9 billion as of Sept. 30, 2014, Agrobanco is the fourth-largest public bank in Peru. It has a 7% market share in terms of loans among public banks, about a 15.2% share in the agricultural lending segment, but just a 0.6% market share in the country's financial system. Although the bank is concentrated in only one sector and it is very small in size, Agrobanco plans to continue raising its share in the sector and diversify its product offering. In our view, the bank benefits from little competition because other banks don't offer specialized products and long-term funding for the agricultural sector, while it's training its employees in banking and agribusiness and developing new products tailored for the sector's needs. Moreover, in our view, Agrobanco's management has adequate knowledge of the sector and has developed a well-defined business strategy. We expect the bank to continue expanding its portfolio at a higher pace than the industry average but still lower rate than in 2013.

Table 2

Banco Agropecuario S.A Business Position					
--Year-ended Dec. 31--					
(%)	2014*	2013	2012	2011	2010
Return on equity	3.2	5.9	6.7	3.2	1.2

*Data as of Sept. 30.

Capital and earnings: Very Strong projected RAC ratio

We view Agrobanco's capital and earnings as "very strong," based on our projected risk-adjusted capital (RAC) ratio before diversification of 25% for the next 18 months. Our forecast is based on our base-case scenario of loan growth of about 50% for 2014 and 25% in 2015, a return on average assets of 1.5%-2.0% for 2014 and 2015, and no dividend payout. We consider that Agrobanco has an adequate quality of capital, because its capital consists of only paid-in capital. However, we consider that the quality of its earnings could be vulnerable to the cyclical nature of its business focus. The bank's earnings have suffered from lower net interest margin (NIM). This has been mainly due to higher funding costs, given that Agrobanco was previously funded through equity but now it's increasingly funded through banking lines. Additionally, the bank is shifting from offering low-cost credit lines to transferring the higher funding costs to the ultimate borrowers. Although we expect its NIM to improve, it won't return to historical high levels.

Table 3

Banco Agropecuario S.A Capital And Earnings					
--Year-ended Dec. 31--					
(%)	2014*	2013	2012	2011	2010
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	90.1	88.7	84.3	83.2	89.4
Fee income/operating revenues	1.0	2.8	6.8	7.4	7.3
Market-sensitive income/operating revenues	0.0	0.0	0.0	0.0	0.0
Noninterest expenses/operating revenues	56.2	49.1	49.3	52.0	72.0
Preprovision operating income/average assets	3.8	7.2	8.6	7.7	3.4
Core earnings/average managed assets	1.0	3.3	5.5	2.7	1.1

*Data as of Sept. 30.

Risk position: Recent significant growth could expose the bank to additional risks

Agrobanco's risk position is "weak," based on the agribusiness sector's cyclical nature, the bank's concentrated loan portfolio, and its recent significant credit growth that could result in additional risks because of the bank's relatively short track record. Loans to coffee producers make up 18% of the bank's loans, and those to grape producers 16%. However, we believe the bank has satisfactory underwriting standards. In addition, its geographic diversity, low single-name exposure (its top 20 customers represent about 17.6% of its total loans and about 45% of capital) and its increasing focus on requiring insurance to borrowers mitigate its exposure to the sector's cyclicity. Nonperforming loans (NPLs) were 1.84% of total loans in September 2014, slightly lower than the industry average, and the loan loss reserves covered 204% of NPLs. Net charge-offs were 0.09% of average loans as of June 2014. We don't expect the impact of "El Niño" to significantly weaken the bank's asset quality performance because it's bound to end soon. We expect its NPLs to increase as the bank's growth levels off, but they should remain at manageable levels.

Table 4

Banco Agropecuario S.A Risk Position					
	--Year-ended Dec. 31--				
(%)	2014*	2013	2012	2011	2010
Growth in customer loans	56.1	107.7	48.8	(2.7)	20.0
Total managed assets/adjusted common equity (x)	4.5	2.2	1.2	1.1	1.2
New loan loss provisions/average customer loans	2.7	1.6	1.8	4.3	1.9
Net charge-offs/average customer loans	0.2	0.6	0.8	2.3	0.5
Gross nonperforming assets/customer loans + other real estate owned	1.8	1.5	2.5	3.8	2.7
Loan loss reserves/gross nonperforming assets	204.1	199.8	200.4	164.2	155.7

*Data as of Sept. 30.

Funding and liquidity: Adequate stable funding and liquidity ratios

We view Agrobanco's funding position as "average." Its stable funding ratio as measured by our methodology, was 110% as of September 2014, with a three-year average of 93%. The bank has historically been funded through equity and capital injections from the government, but Agrobanco has turned to bank credit lines recently, which reduces its dependence on the government. Agrobanco's liquidity remains "adequate," in our view, thanks to its broad liquid assets to short-term wholesale funding of 1.4 x in September 2014, averaging 1x for the past three years. We expect Agrobanco to maintain adequate funding lines and retain a stable funding ratio above 90%, which is in line with the "average" assessment of funding.

Table 5

Banco Agropecuario S.A Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2014*	2013	2012	2011	2010
Core deposits/funding base	0.0	0.0	0.0	0.0	0.0
Long term funding ratio	80.3	86.3	98.4	93.7	99.4
Stable funding ratio	110.2	86.3	94.0	97.1	101.0
Short-term wholesale funding/funding base	25.5	25.5	11.0	97.6	4.7
Broad liquid assets/short-term wholesale funding (x)	1.4	0.2	1.1	1.7	13.5
Short-term wholesale funding/total wholesale funding	25.5	25.5	11.0	97.6	4.7

Table 5

Banco Agropecuario S.A Funding And Liquidity (cont.)

*Data as of Sept. 30.

Support: "Moderate" likelihood of support from the Republic of Peru

Our view of the likelihood of support is based on Agrobanco's:

- "Limited important" role for the Republic of Peru (local currency: A-/Stable/A-2; foreign currency: BBB+/Stable/A-2) because as a development bank, Agrobanco focuses on the agricultural sector. Although we believe its role is increasing, the bank's track record is short and we believe its default/credit stress won't damage economy, given Agrobanco's still small share in the sector.
- "Strong" link with the government because it owns 100% of Agrobanco through the FONAFE, a government-controlled entity that regulates and direct the government's corporate activities and equity investments. We expect FONAFE to remain the bank's majority owner and provide support through capital injections, if required.

Related Criteria And Research

Related Criteria

- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Rating Methodology And Assumptions, Nov. 9, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of November 19, 2014)

Banco Agropecuario S.A

Counterparty Credit Rating

BBB-/Negative/--

Counterparty Credit Ratings History

29-Oct-2014

BBB-/Negative/--

22-Oct-2013

BBB-/Stable/--

Ratings Detail (As Of November 19, 2014) (cont.)

Sovereign Rating

Peru (Republic of)

Foreign Currency

BBB+/Stable/A-2

Local Currency

A-/Stable/A-2

Related Entities**Corporacion Financiera de Desarrollo S.A.**

Issuer Credit Rating

BBB+/Stable/A-2

Senior Unsecured

BBB+

Subordinated

BBB

Fondo Mivivienda S.A.

Issuer Credit Rating

BBB+/Stable/--

Senior Unsecured

BBB+

Peru (Republic of)

Issuer Credit Rating

Foreign Currency

BBB+/Stable/A-2

Local Currency

A-/Stable/A-2

Certificate Of Deposit

Local Currency

A-2

Senior Unsecured

A-

Senior Unsecured

BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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