

Buenos Aires, October 10th, 2013

**Banco Agropecuario S.A**

Attention: Nilton Guerrero Y. - Gerente Adjunto de la División de Finanzas  
Av. República de Panamá N° 3629, San Isidro

**Re: Banco Agropecuario S.A. Rated Confidential 'BBB-', Outlook Stable**

Dear Mr. Guerrero Y.:

Standard & Poor's Ratings Services ("Ratings Services") hereby affirms its issuer credit rating of **"BBB-"**, with a **Stable** Outlook.

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The rating is subject to the Terms and Conditions attached to the Engagement Letter applicable to the rating. In the absence of such Engagement Letter and Terms and Conditions, the rating is subject to the attached Terms and Conditions. The applicable Terms and Conditions are incorporated herein by reference.

Ratings Services is pleased to have the opportunity to provide its rating opinion. For more information please visit our website at [www.standardandpoors.com](http://www.standardandpoors.com). If you have any questions, please contact us. Thank you for choosing Ratings Services.

Sincerely yours,

The logo for Standard & Poor's, written in a classic cursive script. The word 'Standard' is on the top line, '&' is in the middle, and 'Poor's' is on the bottom line. The letters are fluid and interconnected.

Standard & Poor's Ratings Services

Analytical Contact

Name: Cynthia Cohen Freue

Telephone #: 54 11 4891 2161



# CONFIDENTIAL RATING RESEARCH UPDATE

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CONFIDENTIAL

**Banco Agropecuario S.A.**

**BANCO AGROPECUARIO S.A. RATED  
CONFIDENTIAL 'BBB-', OUTLOOK STABLE**

*Primary credit analyst: Cynthia Cohen Freue*

*Secondary contact: Jesus Sotomayor*

*Date: Oct. 10, 2013*

**Confidential Rating**

<ISSUER NAME> acknowledges and agrees that this confidential rating and the related reports are for its sole benefit and information and may not be disclosed except to <ISSUER NAME's> professional advisors who are bound by appropriate confidentiality obligations. If a confidential rating becomes public, Standard & Poor's reserves the right to publish it.

## OVERVIEW

- We are assigning our confidential 'BBB-' issuer credit rating to Peru-based Agrobanco.
- The ratings on Agrobanco reflect its stand-alone credit profile and our view that there is a "moderate" likelihood that the government would provide extraordinary timely support to Agrobanco in the event of financial distress.
- The stable outlook reflects our view that the bank will maintain its very strong capital position and will leverage its support from the government to develop the long-term funding required for the business.

## RATING ACTION

On Oct. 10, 2013, Standard & Poor's Ratings Services assigned its confidential 'BBB-' issuer credit rating on Banco Agropecuario S.A. (Agrobanco) at 'BBB-'. The bank's stand-alone credit profile (SACP) is 'bb+'. The outlook is stable.

## RATIONALE

The ratings on Agrobanco reflect its SACP and our view of a "moderate" likelihood of government support, according to our criteria for government-related entities. Our view of the likelihood of support is based on Agrobanco's:

- "Limited important" role for the government as Agrobanco is a development bank focused on the agricultural sector. Although we believe its role is increasing in importance, the bank's track record is short and we also consider its default/credit stress will not necessarily significantly affect the local economy, given its 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.

We consider the bank's role for the government could increase over the long term as it consolidates its business position in the agricultural sector. The bank could achieve this through a higher market share in the sector, its good performance, and the FONAFE's extended support.

The bank's SACP is based on its "weak" (as our criteria define the term) business and risk positions, "very strong" capital and earnings, and "average" funding and "adequate" liquidity.

Our bank criteria use our Banking Industry Country Risk Assessment (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'. Our economic risk score for Peru is '5', reflecting our opinion that economic improvements and the government's commitment to maintaining cautious fiscal policies and economic stability have strengthened its ability to withstand significant external shocks. In addition, the Peruvian economy is expanding, although this is not creating economic imbalances, in our opinion. However, the financial system's still-high, albeit decreasing, foreign currency exposure poses some risk. Our industry risk score for Peru is '4', reflecting sound regulations, regulators' strong track record, and the banking system's stable share of core deposits. Although the private pension system has helped deepen the domestic capital market, we believe the market remains narrow.

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 exposed to weather conditions. With total assets of about Peruvian soles (PEN) 619 million as of June 30, 2013, Agrobanco is the fourth-largest public bank in Peru, with a 4% market share in terms of loans among public banks, and 0.3%

among all financial institutions. Agrobanco's main role is to support the agribusiness sector in all segments and across all regions. Although the bank is concentrated in only one sector and it is very small in size, the bank intends to continue raising its share in the sector and diversify its product offering. In our view, the bank benefits from little competition, as the other banks don't offer specialized products and long-term funding for the agricultural sector and it is training its employees to increase their knowledge in banking as well as in the agricultural sector and developing new products that are designed for the needs of the sector. Moreover, in our view, Agrobanco's management has adequate knowledge in the sector and has developed a well-defined business strategy.

We view Agrobanco's capital and earnings as "very strong," based on our projected risk-adjusted capital (RAC) ratio before diversification of 33%-38% for the next 18 months. Our forecast is based on our base-case scenario of loan growth of about 75% for 2013 and 55% in 2013, a return on average assets of about 3.8% for 2011, 2012, and 2013, and no dividend payout. We consider that Agrobanco has an adequate quality of capital, because it doesn't have any hybrid instruments. However, we consider that the quality of its earnings could be vulnerable to the cyclical nature of its business focus.

Agrobanco's risk position is "weak," based on the agribusiness sector's cyclical nature, the bank's concentrated loan portfolio, and its significant growth in recent times that could expose the bank to additional risks, especially due to bank's relatively short track record. However, we consider the bank to have satisfactory underwriting standards and adequate knowledge of the sector. Its good geographic diversity, subsector mix, and low single-name exposure are also credit strengths. The top 20 exposures represent 15.4% of its total loans. The nonperforming loans (NPL) reached 3.5% of total loans in June 2013, slightly lower than the industry average of 2.1%, and were covered 120% by loan-loss reserves. At the same date, net charge-offs were 1.88% of average loans.

We view Agrobanco's funding position as "average." Although the bank is currently funded by equity and bank lines, we expect Agrobanco will leverage its support from the government to develop the long-term funding required for the business. Its stable funding ratio was 97.9% as of June 2013 with a three-year average of 94.09%. Agrobanco's liquidity remains "adequate," in our view thanks to its broad liquid assets to short-term wholesale funding averaging 9.1x for the past three years. Although this ratio decreased significantly in June 2013, it was due to a particular short-term line the bank took out until a long-term funding credit facility was accessed in July 2013.

## **Ratings Score Snapshot**

Issuer Credit Rating	BBB-/Stable
SACP	bb+
Anchor	bbb
Business Position	Weak (-2)
Capital and Earnings	Very Strong (+2)
Risk Position	Weak (-2)
Funding and Liquidity	Average and Adequate (0)
Support	(+1)
GRE Support	(+1)
Additional Factors	(0)

## Outlook

The stable outlook reflects our view that the bank will maintain its very strong capital position and will leverage its support from the government to develop the long-term funding required for the business. It also reflects our view that the bank will continue expanding and consolidating its market position.

## RELATED CRITERIA AND RESEARCH

- Banks: Rating Methodology and Assumptions, Nov. 9, 2011
- Bank Industry Country Risk Assessment Methodology and Assumptions, Nov. 9, 2011
- Rating Government-Related Entities: Methodology and Assumptions, Dec. 9, 2010

## RATINGS LIST

Banco Agropecuario S.A.

Counterparty Credit Rating      BBB-/Stable/--

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No Third-Party Beneficiaries. Nothing in this Agreement, or the credit rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of the credit rating. No person is intended as a third party beneficiary of this Agreement or of the credit rating when issued.

Binding Effect. This Agreement shall be binding on, and inure to the benefit of, the parties hereto and their successors and assigns.

Severability. In the event that any term or provision of this Agreement shall be held to be invalid, void, or unenforceable, then the remainder of this Agreement shall not be affected, impaired, or invalidated, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

Amendments. This Agreement may not be amended or superseded except by a writing that specifically refers to this Agreement and is executed manually or electronically by authorized representatives of both parties.

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