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Banco Agropecuario S.A

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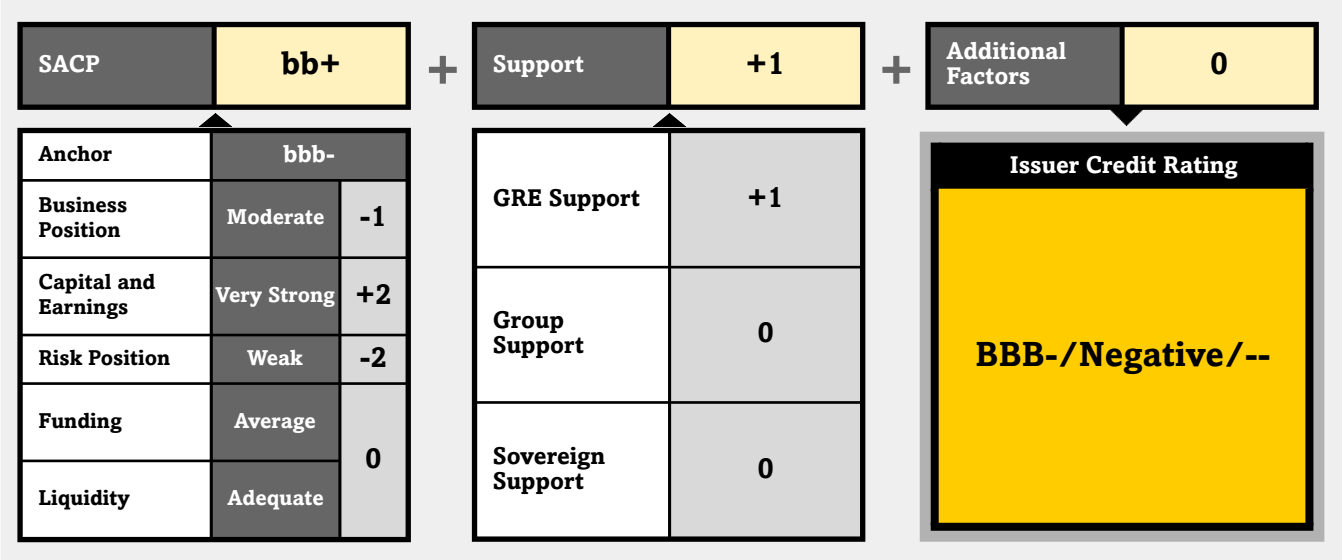
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Banco Agropecuario S.A



Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> Support from its majority shareholder, the Republic of Peru; Very strong capital position; and Leading position in the agricultural lending market with little competition from large banks, which do not offer specialized lending to the sector. 	<ul style="list-style-type: none"> Concentrated business position; and Focus on the cyclical, thus somewhat risky, agribusiness sector.

Outlook

The negative outlook reflects our belief that we could revise our assessment of the bank's capital position to "strong" from "very strong" as a consequence of lending growth and the higher economic risk score in the BICRA on Peru, which has resulted in higher risk weights for Peruvian banks.

Downside scenario

We could downgrade the bank if we project a risk-adjusted capital (RAC) ratio below 15%. This could occur if we were to downgrade the economic risk score in the BICRA--which already has a negative trend--to '7' or if the bank does not receive capital injections from the government that would allow it to maintain very strong capital ratios.

Upside scenario

We could revise the outlook to stable if we revise the economic risk trend to stable, and the bank receives a capital injection sufficient to maintain its RAC ratio well above 15%.

Rationale

The ratings on Agrobanco reflect its "moderate" business and risk positions, "very strong" capital and earnings, "average" funding and "adequate" liquidity (as our criteria define these terms). The ratings also reflect our view of a "moderately high" 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:'bbb-' for commercial banks operating in Peru

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-'.

We believe that economic risk for banks operating in Peru has increased. Economic growth has slowed down significantly since 2014 and we have revised our assessment of Peru's growth prospects. We expect growth to average 3.7% per year from 2015 to 2018, 2.8% in per capita terms, which will somewhat hinder Peru's ability to catch up to its more developed peers in the medium term. Nevertheless, we hold that a strong fiscal position, prudent monetary policies, and a credible and effective Central Bank provide the country with enough flexibility to withstand present and future external shocks. Credit growth rates have fallen since 2014, but credit growth continues to add above 2 percentage points (pps) to leverage (credit to GDP) per year, which increases the risk of economic imbalances. Although credit and real estate prices have been growing steadily, Peru does not have a real estate bubble, in our view. Real estate price growth has been framed by solid economic growth, an increase in household income, and a growing middle class. We have observed a rapid alignment of real estate prices growth with slower economic growth since 2014.

Low income levels, poor debt capacity, and still-high dollarization, especially in the banking system, increase credit risk in the economy. However, we believe that the authorities' strengthened commitment to more drastic policies as a means of reducing dollarization in the system could result in lower credit risk in the medium term.

We consider industry risk for banks operating in Peru to be, in general, lower than its peers'. We believe that Peru has a sound regulatory framework, with ample supervisory coverage, and periodic risk-based supervision under a highly professional regulator. Both the Peruvian Central Bank (BCRP) and

Superintendencia de Banca y Seguros (SBS, which regulates banks and insurance companies) are very active; in the past two years, authorities have introduced several prudent measures to ensure financial stability at the macro level amid a weakened economy with growing external risk. The financial system has registered strong profitability and adequate levels of capitalization in the past five years, and there are no significant market distortions that could alter the system's competitive dynamics in the near term. We also believe the country's financial system has a healthy and diversified funding mix through deposits, domestic market debt, and external debt (banks and markets), as well as strong government support to provide liquidity if needed.

Table 1

Banco Agropecuario S.A Key Figures					
	--Year-ended Dec. 31--				
(Mil. PEN)	2015*	2014	2013	2012	2011
Adjusted assets	2,067,358.0	1,893,930.0	942,212.0	438,757.0	321,389.0
Customer loans (gross)	1,463,356.0	1,446,028.0	900,564.0	433,491.0	291,345.0
Adjusted common equity	441,491.0	433,391.0	423,314.0	351,048.0	280,023.0
Operating revenues	69,365.0	115,845.0	97,699.0	64,154.0	52,440.0
Noninterest expenses	36,546.0	74,187.0	48,002.0	31,632.0	27,286.0
Core earnings	8,100.0	10,077.0	22,756.0	21,025.0	8,729.0

*Data as of June 30.

PEN-Peruvian nuevo sol.

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

We consider Agrobanco's business position to be "moderate" because, despite its limited scale and business diversification, it has significantly increased its penetration in the agricultural sector over the last three years and it is now the leading bank in the agricultural lending market. Moreover, it has little competition from large banks because they don't offer specialized lending to the sector, which further strengthens its business stability. However, we continue to view its business profile as highly concentrated compared to universal multipurpose banks operating in Peru.

Further, it focuses on a cyclical sector that is exposed to weather conditions. With total assets of about Peruvian nuevo sol (PEN) 2.129 billion as of July 2015, Agrobanco is the fourth-largest government-owned bank in Peru; it holds a 6.5% market share in terms of total loans among public banks, and 0.7% among all financial institutions. As of April 2015, the bank held a market share of about 16.2% in the agribusiness lending sector. The bank also lends and administers resources that the Ministry of Agriculture funds (the AgroPeru fund). Taking this fund into account, we estimate that the bank has a 21% market share in agribusiness lending. Agrobanco's main role is to support the agribusiness sector in all segments and across all regions. 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. Its employees have specialized knowledge of both the banking and the agricultural lending sector. Moreover, the bank has developed new products--that are not offered by traditional banks--that cater specifically to the sector's needs.

Furthermore, in our view, Agrobanco's management has adequate knowledge of the sector and has developed a well-defined business strategy.

Table 2

Banco Agropecuario S.A Business Position					
	--Year-ended Dec. 31--				
(%)	2015*	2014	2013	2012	2011
Return on equity	3.7	2.4	5.9	6.7	3.2

*Data as of June 30.

Capital and earnings:Very strong projected RAC ratio

We view Agrobanco's capital and earnings as "very strong," based on our projected RAC ratio before diversification of about 16% for the next 18 months. Our base-case scenario incorporates the impact of the recent BICRA downgrade to

'5' from '4' and the increase in the economic risk score to '6' from '5'. The higher economic risk score, which calibrates the risk weights for our RAC framework, has led to higher risk charges, and therefore lower RAC ratios for banks operating in Peru. Our forecast also incorporates our expectation for loan growth of about 25% in 2015 and 23% in 2016, alongside slightly improving net interest margins (NIMs) (due to the bank's efforts to secure more-economical funding), increasing loan loss provisions (from softer economic growth and the upcoming "El Niño" event, which will cause heavy rains in Peru), no dividend payouts, and a potential capital injection from the government (to maintain very comfortable regulatory capital requirements). We assess Agrobanco's quality of capital as adequate because it doesn't have any hybrid instruments. However, its quality of earnings could be vulnerable to the cyclical nature of agribusiness. Finally, if the economic risk score on Peru weakens to '7' or if the bank does not receive a capital injection from FONAFE that fulfills the requirements for high equity content under our hybrid criteria, we could revise the capital and earnings assessment to "strong". Because of these factors, the bank has a negative outlook.

Table 3

Banco Agropecuario S.A Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2015*	2014	2013	2012	2011
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	92.6	97.2	88.7	84.3	83.2
Fee income/operating revenues	2.4	1.7	2.8	6.8	7.4
Noninterest expenses/operating revenues	52.7	64.0	49.1	49.3	52.0
Preprovision operating income/average assets	3.3	2.9	7.2	8.6	7.7
Core earnings/average managed assets	0.8	0.7	3.3	5.5	2.7

*Data as of June 30.

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

We base our assessment of Agrobanco's "weak" risk position on the cyclicity of agribusiness, the bank's concentrated loan portfolio, and its significant growth in the past three years--all of which could constitute additional risk exposures, particularly because of the bank's relatively short track record.

However, the bank has satisfactory underwriting standards and adequate knowledge of the sector, in our view. We also believe the bank has good geographic and subsector diversity, and manageable single-name exposures. Agrobanco's nonperforming loan (NPL) to customer loan ratio was 2.6% as of June 2015 (the industry average was 2.7%) and its net charge-offs to average customer loans ratio was 0.3% as of December 2014. Its loan loss reserves to nonperforming assets (NPAs) ratio was comfortable--at 175% as of June 2015.

Our risk position assessment further captures our expectation that the "El Niño" event will likely hurt the bank's overall results.

Table 4

Banco Agropecuario S.A Risk Position					
	--Year-ended Dec. 31--				
(%)	2015*	2014	2013	2012	2011
Growth in customer loans	2.4	60.6	107.7	48.8	(2.7)

Table 4

Banco Agropecuario S.A Risk Position (cont.)					
Total managed assets/adjusted common equity (x)	4.7	4.4	2.2	1.2	1.1
New loan loss provisions/average customer loans	2.5	2.3	1.6	1.8	4.3
Net charge-offs/average customer loans	N.M.	0.3	0.6	0.8	2.3
Gross nonperforming assets/customer loans + other real estate owned	2.6	2.0	1.5	2.5	3.8
Loan loss reserves/gross nonperforming assets	175.1	175.1	199.8	200.4	164.2

*Data as of June 30.

Funding and liquidity: Average stable funding ratio (SFR) and "adequate" liquidity

We view Agrobanco's funding as "average". The bank continues to diversify its funding sources with long-term and more economical funding lines. Its stable funding ratio (SFR) stood at 94.9% as of June 2015, with a three-year average of 88.35%, but we expect this ratio to improve as the bank continues to work on lengthening its funding sources and secures approval to capture deposits (they have branches in locations where no other bank has, which should support deposit growth very shortly thereafter).

Agrobanco's liquidity remains "adequate" in our view. Its broad liquid assets to short-term wholesale funding ratio was 0.9x as of June 2015. This ratio temporarily weakened in December 2013, when the bank took on a particular short-term line until a long-term funding facility was available. The bank has since improved this ratio and we expect it to remain at acceptable levels.

Table 5

Banco Agropecuario S.A Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2015*	2014	2013	2012	2011
Long term funding ratio	77.2	66.7	86.3	98.4	93.7
Stable funding ratio	94.9	84.7	86.3	94.0	97.1
Short-term wholesale funding/funding base	29.1	43.3	25.5	11.0	97.6
Broad liquid assets/short-term wholesale funding (x)	0.9	0.7	0.2	1.1	1.7
Short-term wholesale funding/total wholesale funding	29.1	43.3	25.5	11.0	97.6

*Data as of June 30.

Support: "Moderately high likelihood" of support from the Republic of Peru

The ratings on Agrobanco reflect its SACP and our view of a "moderately high" 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 Republic of Peru (local currency: A-/Stable/A-2; foreign currency: BBB+/Stable/A-2). 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. Because of its still small share of the banking sector and limited history, we believe that a stress or default scenario would not significantly affect the local economy.
- "Very strong" link to the government, which owns 100% of Agrobanco through El Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado (FONAFE), a government-controlled entity that regulates and directs the government's corporate activities and equity investments. We have changed our view of the bank's

link to the government to "very strong" from "strong" because we expect FONAFE to remain the bank's majority owner and to provide support through capital injections if required. Our assessment also reflects the government's extended track record of support to the bank.

- The bank's SACP is based on its "moderate" business position, "very strong" capital and earnings, "weak" risk position, "average" funding, and "adequate" liquidity (as defined by our criteria).

Related Criteria And Research

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

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 October 22, 2015)

Banco Agropecuario S.A

Counterparty Credit Rating

BBB-/Negative/--

Counterparty Credit Ratings History

29-Sep-2015

BBB-/Negative/--

08-Sep-2015

BBB-/Watch Neg/--

29-Oct-2014

BBB-/Negative/--

22-Oct-2013

BBB-/Stable/--

Sovereign Rating

Peru (Republic of)

Foreign Currency

BBB+/Stable/A-2

Local Currency

A-/Stable/A-2

Ratings Detail (As Of October 22, 2015) (cont.)

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	
<i>Foreign Currency</i>	BBB+/Stable/A-2
<i>Local Currency</i>	A-/Stable/A-2
Certificate Of Deposit	
<i>Local Currency</i>	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. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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