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Research Update:

Various Rating Actions Taken On Peruvian Banks On BICRA Revision

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Overview

- We revised our Banking Industry Risk Assessment (BICRA) on Peru to group '5' from group '4'. We also revised the anchor for banks operating only in Peru to 'bbb-' from 'bbb' due to a higher economic risk in the country.
- We revised our economic risk score to '6' from '5'. We consider that economic resilience has weakened amid lower growth prospects.
- Trend on economic risk remains negative because we're still concerned that rapid credit growth could increase economic imbalances risk.
- As a result, we're lowering our ratings on five Peruvian banks. Also, we're affirming ratings on three banks.
- We're placing our rating on Banco Agropecuario on CreditWatch with negative implications until we evaluate the bank's potential mitigating factors to the mentioned negative developments.

Rating Action

On Sept. 8, 2015, Standard & Poor's Ratings Services lowered its ratings on the following Peruvian banks:

- Banco de Credito del Peru;
- Banco Interamericano de Finanzas S.A.;
- BBVA Banco Continental;
- MiBanco, Banco de La Microempresa S.A.; and
- Banco Internacional del Peru-Interbank.

At the same time, we affirmed our ratings on the following banks with a stable outlook:

- Scotiabank Peru S.A.A.;
- Corporacion Financiera de Desarrollo S.A.; and
- Fondo Mivivienda S.A.

Finally, we placed our ratings on Banco Agropecuario S.A on CreditWatch negative (see ratings list).

Rationale

The downgrade reflects our view of rising economic risk for banks operating in Peru. The greater economic risk reflects our reassessment of Peru's growth prospects. We believe that Peru's growth trajectory will no longer be consistently well above that of its peers with a similar stage of economic development.

Also, our trend on economic risk remains negative, reflecting the persistent rapid growth in credit and private-sector leverage in the past few years, which has been weakening the Peruvian banks' credit quality in the past three years.

Rating actions on banks

In our view, domestic banks now face tougher operating conditions, which we believe weakened their financial profiles, notably in terms of asset quality and capital and earnings. These combined effects have led to the downgrade of five banks.

These higher risks have lowered the starting point (anchor) when assigning a rating to a bank that operates in Peru. Therefore, we revised our anchor to 'bbb-' from 'bbb'. In addition, the higher economic risk score, which calibrates the risk weights for our risk-adjusted capital (RAC) framework, has led to higher risk charges, and therefore, lower RAC ratios for banks operating in Peru.

The outlook on Banco de Credito del Peru; BBVA Banco Continental; MiBanco, Banco de La Microempresa; and Banco Internacional del Peru - Interbank is now stable. The negative outlook on Banco Interamericano de Finanzas reflects the negative trend on the economic risk and its impact on our assessment of the bank's capital. We could lower the ratings on the bank further if we again revise the economic risk of Peru because our view of the bank's capital and earnings could shift to "moderate" from "adequate."

The ratings affirmation on three banks reflects their group or sovereign support, which offsets the impact of the higher economic and industry risks in Peru.

We're placing our rating of Banco Agropecuario on CreditWatch negative until we evaluate the bank's potential mitigating factors to the mentioned negative developments.

BICRA revision

Peru's GDP growth has slowed more than expected in 2014, to 2.4%, from more than 5% in previous years as a result of a slower activity among the main economic sectors. Slower growth is mostly associated with less favorable international conditions, which weakened Peru's exports and private-sector confidence and investment. On top of the external shocks, Peruvian economy stumbled from supply shocks--mostly in mining, agriculture, and fishing sectors--and from weaker public-sector investments given regional governments' budget execution problems. We expect a still sluggish growth, of 2.7%, in 2015 due to weaker terms of trade. We have revised our assessment on Peru's growth prospects; we expect growth to average 3.7% annually between 2015 and 2018 and to average 2.8% in per capita terms, which will protract Peru's catch-up with more developed peers.

We now expect Peru's economic growth to be slower absent more successful concerted efforts to advance structural reforms to keep up productivity improvements and continue to increase social inclusion, such as improving labor market flexibility, infrastructure, reducing bureaucracy and informality, and improving education quality.

Credit to the private sector growth has cooled down significantly in 2014 to 13.5% from 18.4% in 2013 and an average of 16.7% for the past four years. Nevertheless, credit to GDP continued to grow on average above two percentage points (pps) per year. Average annual change domestic credit in percentage points of GDP between 2011 and 2014 was 2.5%, and we forecast credit growth will add about 2.5 pps to leverage as well in 2015. However, amid a slight economic recovery in 2016, the ratio could fall closer to 2 pps, gradually moderating the increase in leverage. If credit growth doesn't continue to moderate in 2016 and instead continues to add well above of 2 pps to leverage, ushering in a more risky economic environment for Peruvian banks than that of regional BICRA peers, we could revise our economic imbalances score.

Private-sector leverage--measured as credit as a percentage of GDP--remains low, but it has risen to slightly above 39% as of December 2014 from 29% five years earlier, given the persistently sharp credit growth. In our view, the rapidly increasing leverage in the Peruvian private sector could weaken banks' asset quality, profitability, and capitalization if the private-sector debt burden becomes excessive if economic conditions worsen further.

While small and micro lending and mortgages were driving credit growth previously, credit cards and lending to corporates and medium enterprises have bolstered growth since 2014. We have observed a sharp slowing in lending to medium enterprises in the first half of 2015, while corporate lending has been robust mostly due to working capital loans and foreign trade loans. In addition, credit cards continued gathering speed as two major banks have increased competition in this segment.

As of June 2015, domestic currency denominated loans had grown about 26% while loans in foreign currency had contracted by more than 15%. We expect foreign currency lending to continue doing so for the entire year, but local currency loans should offset this effect and overall credit to the private sector to grow 12%-13%. The two latter factors are possible because of the Central Bank's recent measures to shrink dollarization in the domestic financial system and boost local currency credit growth.

Amid Peruvian sol's depreciation, private sector is shifting its savings to dollars, reducing liquidity and funding availability in domestic currency. In response, the central bank has significantly reduced reserve requirement on sol-denominated deposits to 6.5% as of June 2015 from 30% in 2013. Also since mid-2014, it has been offering cheap repos to banks to provide them with liquidity in local currency. Since December 2014, the central bank has also added the so-called conversion and expansion repos to the regular repos to encourage banks to foster conversion of loans from dollars to soles and higher

domestic currency lending.

Related Criteria And Research

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- 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

Ratings List

Ratings Lowered/Outlook Change

	To	From
Banco de Credito del Peru		
SACP	bbb	bbb+
Issuer Credit Rating	BBB/Stable/A-2	BBB+/Negative/A-2
Senior Unsecured Debt	BBB	BBB+
Subordinated Debt	BBB-	BBB
Junior Subordinated	BB	BB+
Banco Interamericano de Finanzas S.A.		
SACP	bb+	bbb-
Issuer Credit Rating	BB+/Negative/--	BBB-/Negative/--
BBVA Banco Continental		
SACP	bbb	bbb+
Issuer Credit Rating	BBB/Stable/A-2	BBB+/Negative/A-2
Senior Unsecured Debt	BBB	BBB+
Subordinated Debt	BBB-	BBB
MiBanco, Banco de La Microempresa S.A.		
SACP	bb+	bbb-
Issuer Credit Rating	BBB/Stable/A-2	BBB+/Negative/A-2
Banco Internacional del Peru - Interbank		
SACP	bb+	bbb
Issuer Credit Rating	BBB-/Stable/--	BBB/Negative/--
Subordinated Debt	BB	BBB-

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Corporacion Financiera de Desarrollo S.A.
Subordinated Debt BBB- BBB

Ratings Affirmed, SACP Revised

Scotiabank Peru S.A.A.
SACP bbb bbb+
Issuer Credit Rating BBB+/Stable/A-2

Corporacion Financiera de Desarrollo S.A.
SACP bbb bbb+
Issuer Credit Rating BBB+/Stable/A-2
Senior Unsecured Debt BBB+

Fondo Mivivienda S.A.
SACP bbb bbb+
Issuer Credit Rating BBB+/Stable/--
Senior Unsecured Debt BBB+

Rating Placed On CreditWatch

Banco Agropecuario S.A.
Issuer Credit Rating BBB-/Watch Neg/-- BBB-/Negative/--

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