FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms BanBif's IDRs at 'BB+'; Outlook Negative

Thu 21 Mar, 2024 - 4:45 PM ET

Fitch Ratings - Monterrey - 21 Mar 2024: Fitch Ratings has affirmed Banco Interamericano de Finanzas S.A.'s (BanBif) Long-Term (LT) Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BB+', and its Viability Rating (VR) at 'bb+'. The Rating Outlook for the Long-Term IDRs is Negative. Fitch has also affirmed Banbif's LC and FC Short-Term IDRs at 'B' and Government Support Rating (GSR) at 'bb-'.

The Negative Outlook on the LT IDRs mirrors the Outlook on Peru's sovereign rating and Operating Environment, as the bank is constrained by this rating based on its current intrinsic credit profile.

KEY RATING DRIVERS

IDRs Driven by the VR: BanBif's IDR are driven by its 'bb+' Viability Rating (VR), which considers the bank's modest franchise and a business model that yields limited profitability and tight capital metrics.

Modest Franchise: BanBif's business profile features a mid-size franchise (fifth largest in Peru) with a concentration on corporate loans. This focus contributes to controlled NPL ratios (loans 90+ days past due) but leads to high per-debtor concentrations and comparatively weak revenue generation. In 2023, the bank's total operating income stood at USD 198 million, markedly lower than that of Peru's largest banking institutions, underpinning our 'bb+'/stable assessment on this factor.

Firmado Digitalmente por:
BIAGIO DE VILLENA VASSALLO
Fecha: 21/03/2024 07:41:08 p.m.

Challenged Asset Quality: BanBif's NPL ratio increased in 2023 to 3.3% from 2.9% in 2022 due to a weakening retail loan sector affected by higher interest rates and inflation, following a sector-wide trend. The bank faces high concentration risk with its top 20 clients' exposure at 1.4x its CET1 capital (1.3x in 2022). Reserve coverage has dropped to 171.6% from over 200%, with a strategy to further reduce it to around 130%. Consequently, Fitch downgraded BanBif's asset quality score to 'bbb-'/stable, anticipating the NPL ratio to stabilize near 3%.

Modest Profitability: In 2023, BanBif's maintained a stable profit level, bolstered by increased interest income from its investment portfolio, coupled with positive outcomes from derivatives trading. This occurred notwithstanding a decrease in NIM to 3.1%. Despite higher NPLs, lower reserve coverage limited the impact of loan impairment charges while interest income from investments doubled compared to 2022. Fitch forecasts the operating profit-to-RWA ratio will stay between 1%-1.5% for the next couple of years, consistent with the 'bb+'/stable rating.

Tight CET1 Ratio: BanBif's CET1 ratio to RWA, at 9.7% as of December 2023, is the bank's main credit weakness, especially when compared to other rated peers. Fitch expects that BanBif will sustain a Common Equity Tier 1 (CET1) capital ratio below the 10% threshold. This stems from the bank's anticipated modest growth trajectory coupled with its restrained capacity for internal capital formation. Nonetheless, the bank's regulatory capital ratio remains well-positioned above the regulatory minimum, a status bolstered by the inclusion of subordinate debt instruments within its capital structure.

Funding Profile in line with Business Model: BanBif's funding relies heavily on customer deposits, with a major chunk from institutional clients who demand higher rates and can quickly react to market changes. By December 2023, the bank improved its loan-to-deposit ratio to 100.1%, down from 110.4%, due to a significant rise in deposits. BanBif also has access to bilateral loans, subordinated debt, and domestic debt issuances. Efforts to shift from institutional to retail deposits continue, despite strong competition from larger banks. The bank possesses a good proportion of highly liquid assets that supports its liquidity management.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-- BanBif's IDRs are sensitive to a material deterioration in the local operating environment or a negative sovereign rating action;

-- The ratings could be downgraded if the CET1 to RWA ratio falls consistently below 9% and an increased and sustained NPL ratio over 4%.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-- The IDRs have a Negative Outlook, which makes an upgrade highly unlikely over the rating horizon;

-- The VR could be upgraded if the bank manages to improve and sustain its operating profit to RWA ratio over 1.5% and CET1 to RWA ratio over 11%.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Government Support Rating

The bank's 'bb-' Government Support Rating (GSR) reflects its midsize franchise and lower systemic importance in the context of the investment-grade Peruvian OE. As BanBif is the sixth largest Peruvian bank, Fitch believes the probability of support from the government would be moderate, if required.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

-- The GSR would be affected if Fitch negatively changes its assessment of the government's ability and/or willingness to support the bank.

-- The GSR could also be downgraded if BanBif loses material market share in terms of loans and customer deposits.

-- Upside potential for the GSR is limited and can only occur over time with material growth of the bank's systemic importance.

VR ADJUSTMENTS

The OE score has been assigned above the implied score due to the following adjustment reasons: Sovereign rating (positive).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visithttps://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Banco Interamericano de Finanzas S.A.	LT IDR	BB+ Rating Outlook Negative	Affirmed	BB+ Rating Outlook Negative
	ST IDR	B	Affirmed	B
	LC LT IDR	BB+ Rating Outlook Negative	Affirmed	BB+ Rating Outlook Negative

LC ST IDR	B	Affirmed	B
Viability	bb+	Affirmed	bb+
Government Support	bb-	Affirmed	bb-

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 15 Mar 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Banco Interamericano de Finanzas S.A.	EU Endorsed, UK Endorsed

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