

CREDIT OPINION

26 April 2024

Update



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RATINGS

Banco Internacional del Perú S.A.A.

Domicile	Lima, Peru
Long Term CRR	Baa1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Baa1
Type	Senior Unsecured - Fgn Curr
Outlook	Negative
Long Term Deposit	Baa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Negative

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Banco Internacional del Perú S.A.A.

Update to credit analysis

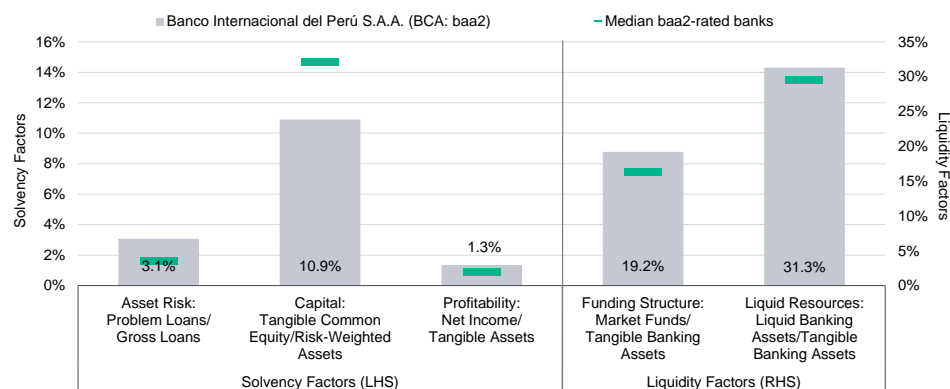
Summary

[Banco Internacional del Perú S.A.A.](#)'s (Interbank) baa2 Baseline Credit Assessment (BCA) reflects the bank's sound core earnings generation, which offsets the surge in its credit costs during 2023 and sustains overall profitability, as well as its resilient asset-quality metrics despite a difficult macroeconomic scenario. The BCA also takes into consideration Interbank's modest reliance on market funds and its ample core deposit funding base as one of the leading banks in [Peru](#) (Baa1 negative), features that support its higher-than-peer liquidity.

Interbank's Baa1 deposit and senior unsecured debt ratings benefit from one notch of uplift from its Adjusted BCA of baa2, and reflect our assumption of a moderate probability of government support in case of stress because of its systemic importance and sizable deposit market share. The negative outlook on the bank's deposit ratings are in line with the negative outlook on Peru's Baa1 sovereign debt ratings.

Exhibit 1

Rating Scorecard - Key financial ratios As of December 2023



Ratios are from Moody's banking scorecard. Capital ratio is as of most recent period; asset risk and profitability ratios are the worse of the most recent year-to-date period or the average of the last three years and the most recent year-to-date; funding structure and liquid resources ratios are as of the most recent year-end.

Source: Moody's Ratings

Credit strengths

- » A well-established and diversified retail bank franchise in Peru has historically supported recurrent sound earnings generation.
- » Despite a greater emphasis on retail lending, asset risks has remained below that of peers and the market average.
- » A stable deposit base and a diversified funding mix support strong liquidity.

Credit challenges

- » Interbank's tangible common equity (TCE) level is lower than peer average and could constrain its BCA.
- » Interbank's has been pressured in recent quarters by high provision expenses and higher funding costs.
- » A deterioration in the economic institutions, which have so far supported solid fundamentals in the financial system, could weaken the bank's financials.

Outlook

The negative outlook on Interbank's supported deposit and senior unsecured debt ratings is aligned to the negative outlook on Peru's sovereign rating, which reflects our view that social and political risks have intensified in the past year, threatening a deterioration in institutional cohesion, governability, policy effectiveness and economic strength through successive governments over the next few years. We expect the Peruvian government to maintain its robust economic institutions that have so far provided a supportive business environment for the country's banking system.

Factors that could lead to an upgrade

Upward pressure on Interbank's deposit ratings is limited given the negative outlook and its alignment to the sovereign debt rating, which has a negative outlook. However, we could raise Interbank's baa2 BCA if the bank records a significant and sustained reduction in its asset-risk metrics, higher levels of capital and profitability in excess of historical averages. However, an upgrade of the BCA would not result in an upgrade of supported ratings because they are already at the level of the sovereign rating.

Factors that could lead to a downgrade

A downgrade of the Peruvian government's ratings would result in downward pressure on the ratings of Interbank, in line with its negative outlook. In addition, Interbank's BCA and supported ratings could face downward pressure if the bank's asset-risk metrics weaken significantly and unexpectedly, constraining its profitability and capital levels.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

Banco Internacional del Perú S.A.A.**Banco Internacional del Perú S.A.A. (Consolidated Financials) [1]**

	12-23 ²	12-22 ²	12-21 ²	12-20 ²	12-19 ²	CAGR/Avg. ³
Total Assets (PEN Million)	67,905.6	66,380.2	68,042.5	67,824.1	52,303.1	6.7 ⁴
Total Assets (USD Million)	18,340.0	17,406.6	17,083.7	18,749.9	15,796.3	3.8 ⁴
Tangible Common Equity (PEN Million)	7,544.8	7,303.6	6,778.8	5,529.2	5,601.5	7.7 ⁴
Tangible Common Equity (USD Million)	2,037.7	1,915.2	1,702.0	1,528.6	1,691.7	4.8 ⁴
Problem Loans / Gross Loans (%)	3.1	2.6	3.0	3.2	2.5	2.9 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	10.9	10.6	10.9	10.4	10.8	10.7 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	14.3	12.2	14.6	16.0	12.2	13.9 ⁵
Net Interest Margin (%)	5.4	4.9	3.9	4.7	5.8	4.9 ⁵
PPI / Average RWA (%)	4.2	3.8	3.5	4.3	5.1	4.2 ⁶
Net Income / Tangible Assets (%)	1.3	1.8	1.8	0.4	2.4	1.5 ⁵
Cost / Income Ratio (%)	39.6	43.1	46.3	39.7	39.2	41.6 ⁵
Market Funds / Tangible Banking Assets (%)	19.2	19.1	20.2	21.8	17.3	19.5 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	31.3	31.7	36.2	39.6	29.7	33.7 ⁵
Gross Loans / Due to Customers (%)	106.2	105.4	98.0	96.1	106.1	102.3 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments. Basel II; LOCAL GAAP. May include rounding differences because of the scale of reported amounts. Compound annual growth rate (%) based on the periods for the latest accounting regime. Simple average of periods for the latest accounting regime. Simple average of Basel II periods.

Source: Moody's Ratings and company filings

Profile

Interbank is the fourth-largest bank in Peru with a market share of 13.4% in loans and third largest in deposits with a 13.6% market share as of December 2023. Interbank offers a wide array of commercial and retail banking services to individuals, micro businesses, small and medium-sized enterprises (SMEs), and large companies. As of December 2023, the bank reported total consolidated assets of PEN67.9 billion.

The bank was founded in 1897, and it is headquartered in Lima, Peru. Interbank is a subsidiary of InterCorp Financial Services Inc., one of the largest financial conglomerates in the country, engaged in universal banking through Interbank, insurance focused on life and annuities through Interseguro Compañía de Seguros S.A., investment banking and wealth management through Inteligo Sociedad Agente de Bolsa S.A., and digital payment services through Izipay S.A.C.

The bank's ultimate parent is InterCorp Perú Ltd., one of the largest Peruvian business groups that provides a variety of services to satisfy Peru's middle-class consumer preferences in financial services, retail ([InRetail Consumer](#) [Baa3 negative] and [InRetail Pharma S.A.](#) [Ba1 negative], including shopping malls through [InRetail Shopping Malls](#) [Ba2 positive]), real estate, education, and leisure and entertainment.

Detailed credit considerations

Diversified portfolio and prudent risk management will limit asset risk pressures from weaker operating conditions

Peru's macroeconomic imbalances and Interbank's higher exposure to retail lending than its local bank peers drove a deterioration in asset quality during 2023. Asset quality is challenged by the erosion in investment and business sentiments because of social and political risks that has resulted in much lower economic growth in Peru.

However, Interbank reported the lowest 90+ days past due loans (problem loans) among its Peruvian peers and lower than the system average as of December 2023. Asset risk is also limited by high loan loss reserves, which were bolstered in 2023, and will shore up credit losses from the expected seasoning of loans granted to higher-risk consumers and SMEs in 2023. As Peru's operating environment improves, prudent risk management and portfolio diversification will gradually benefit loan quality in 2024. El Niño's effects will be manageable, considering the low 4% credit exposure to fishing and agriculture in 2023.

As of December 2023, Interbank's problem loans accounted for 3.1% of gross loans, 50 basis points above year end 2022, yet still below the Peruvian banking system average of 3.7% in December 2023. Net charge-offs jumped to 3.4% of total loans in December 2023,

from 1.8% a year earlier, driven by higher past-due loans amid sustained inflation, social protests and climate events in 2023. Charge-offs increased was mainly driven by consumer loan book, which increased 87.6% YoY, reflecting worst operating conditions in the country, especially on the consumer segment. However, Interbank maintained an ample buffer of reserves at 5.3% of total loans, above the 5% in 2022.

As of December 2023, 56% of the bank's loan portfolio consisted of loans to individuals, including mortgages (21%). Over the last four years, Interbank focused on growing its consumer portfolio, particularly credit cards. Nevertheless, during 2023 we observed an important deceleration on this regard. While total loans grew 3.4% during 2023, consumer loans expanded only 5.2%, well below the 28.8% in 2022. We expect Interbank's growth to continue at single digit in 2024. Interbank will focus on lower-risk secured retail lending, including payroll loans and mortgages, while commercial lending should pick up as an economy recovery accelerates toward the end of 2024.

Capitalization levels remain stable, supported by strong earnings and moderation in growth

We expect Interbank to maintain a stable capital base, in line with continued earnings generation and subdued growth in risk-weighted assets (RWA).

Interbank's tangible banking assets to risk-weighted assets (TCE/RWA), Moody's-adjusted capitalization ratio, increased slightly to 10.9% in December 2023 from the 10.6% recorded a year earlier, but well below the system average of 13.9% in December 2023. The 30-basis point improvement in 2023 was related to positive bottom line results and a slowdown in new loan origination. Interbank's capitalization metric, has been historically below that of its domestic and regional peers as a result of its high dividend payout to the holding company, which reached 50% in 2023. The bank maintained a dividend payout of 50% of 2022 profit, or PEN585.8 million.

In terms of regulatory capital ratios, Interbank reported a sound 15.5% total capital ratio in December 2023, and 11.8% CET1 ratio, well above the regulatory threshold.

Profitability remains strong despite loan-loss provisioning pressures in 2023

Interbank's high earnings generation has historically been a key credit strength, supported by an ample net interest margin (NIM), stable loan loss provisioning and good cost efficiency. The bank's margins have traditionally exceeded those of its peers in Peru, benefiting from a greater share of higher-yielding loans as the bank focus on consumer loan book.

However, in 2023, Interbank's net income decreased 23% mainly affected by pressure on funding costs and much higher provision needs. The bank's net income stood at 1.3% of tangible assets as of December 2023, well below the 1.8% in 2022 and 2021. Interbank's loan loss provisions increased 77.9% in 2023, and represented 3.8% of gross loans, compared to the 2.2% reported in 2022. The increase was mainly concentrated in the credit cards segment and loans to medium-sized companies, related to deterioration in payment behavior by higher-risk unsecured retail clients.

Even though interest expenses went up 64% year over year in 2023, the bank managed to keep its net interest margin strong at 5.4% in year end 2023, 50 basis points above 2022 levels. Margins are likely to stabilize into 2024 supported by increases in interest income from higher business volumes and loan repricing, though to be likely contained by more cautious risk-taking, while lower benchmark rates will bring down funding costs.

On the other hand, operating expenses increased only 1% year over year, reflecting good cost controls and lower inflationary pressures in Peru. The bank's digitalization efforts have benefited the efficiency reflecting in less reliance on branches network, which have decreased 29% between 2023 and 2020.

Funding and liquidity are supported by a strong deposit franchise

Interbank has a large core deposit base mainly composed of retail deposits, a credit strength. The bank is the third-largest bank in Peru with 13.6% of the system's deposits in December 2023, and total deposits accounted for around 73% of total liabilities. Historically, half the bank's deposits have been sourced from individuals, limiting the bank's exposure to less reliable and more cost-sensitive institutional deposits.

Total deposits increased 2.5%, reflecting a 43% increase in term deposits, while current and savings accounts contracted 8.1% year over year in 2023. This trend is explained by the bank's depositors searching for higher returns amid the higher interest rates in Peru, one of

the main drivers for the overall increase in interest expense. The change in the deposits mix is reflected on cost of deposits that increased to 3.6% in 2023 from 2.6% in 2022. As of December 2023, 34% of the bank's deposits were in USD.

Interbank has strengthened its funding mix by increasing its retail and commercial deposit market share, and broadening its access to medium- and long-term debt. This strategy has helped the bank close its maturity gaps, thus shielding it from liquidity and refinancing risks. The bank has also been reducing its reliance on short-term bank lines by replacing them with medium-term committed bank facilities and capital market issuances. Despite tighter financial conditions globally, Interbank tapped international markets early in January 2024 with a \$300 million 2034 Tier 2 subordinated debt, indicating a gradual increase in demand from institutional investors supported by an accommodative credit conditions cycle in Peru.

To partially replenish its cash liquidity, the bank received interbank loans from correspondent banks for around \$190 million. The bank maintained ample holdings of liquid assets, at 31.3% of its tangible banking assets in December 2023, in the form of high-quality instruments, including cash, Peruvian central bank securities and due from banks.

Interbank's BCA is supported by Peru's Moderate + macro profile

Peru's [Moderate +](#) macro profile benefits from a long-standing track record of macroeconomic stability and market-friendly policies. Solid economic fundamentals, absence of major macroeconomic imbalances and robust economic institutions have provided a strong and stable environment that supports the country's investment-driven economy.

Social and political risks have intensified, which over the next few years can lead to a deterioration in institutional cohesion, governability, policy effectiveness and economic strength through successive governments. While the social unrest following the removal of the former president threatens to weaken the strength of Peru's institutions and governance, we expect Peru to maintain robust economic institutions that have so far provided a supportive business environment for the country's banking system. The Moderate + macro profile assessment will deteriorate if institutional strength weakens because of policies that disrupt the status quo of the central bank, the local regulator or the Ministry of Finance.

Bank lending accelerated during the pandemic but growth was mainly related to Reactiva Peru, a state guarantee program to limit asset risks. Peruvian banks remain largely funded by core deposits, and have benefited from ample access to central bank liquidity facilities. Dollarization remains relatively high in Peru. Nevertheless, most US dollar lending is made to US dollar earners with a natural hedge made up of US dollar deposits. The high concentration of the system provides strong pricing power to banks.

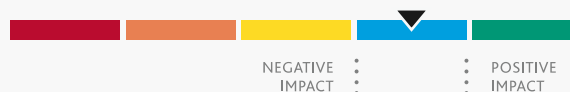
ESG considerations

Banco Internacional del Perú S.A.A.'s ESG credit impact score is CIS-2

Exhibit 3

ESG credit impact score

CIS-2



ESG considerations do not have a material impact on the current rating.

Source: Moody's Ratings

Interbank's **CIS-2** indicates that ESG considerations are not material to the rating to date. The bank's track record of conservative risk management practices mitigates the risks arising from its relevant board control and ownership concentration.

Exhibit 4

ESG issuer profile scores

Source: Moody's Ratings

Environmental

Interbank faces moderate exposure to environmental risks, primarily because of its portfolio exposure to carbon transition risk as a large, diversified bank in Peru. Its indirect exposure to physical climate risks is mitigated by the Government of Peru's adaptation and support efforts. In line with peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals.

Social

Interbank faces high industrywide social risks related to customer relations, stemming from its leading position as the second largest retail lender in Peru and its focus on lower-income retail clients. However, opportunities from financial inclusion and its digital growth strategy are reflected in a better-than-industry-average exposure to demographic and societal trends.

Governance

Interbank has low governance risks, and its risk management, policies and procedures are in line with industry best practices. Despite relevant board control and ownership concentration, the bank has demonstrated a solid track record of conservative risk management practices and strong governance.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations**Government support considerations**

Interbank's Baa1 deposit and senior unsecured debt ratings benefit from one notch of uplift from its Adjusted BCA of baa2, and reflect our assumption of a moderate probability of government support in case of stress because of its systemic importance and sizable deposit market share.

Because financial dollarization limits the Peruvian central bank's capacity to act as a lender of last resort, we consider the probability of government support only for systemically important banks. We do not incorporate government support into the bank's subordinated debt ratings based on an assessment of the ability and the willingness of local regulators to impose losses on holders of subordinated debt outside a liquidation process. In the case of Peru, banking regulators have the specific legal ability to impose losses on subordinated debtholders of a financial entity seeking debt restructuring or under an intervention according to the Peruvian Financial System Law. Our ratings for Interbank's dated subordinated debt are, therefore, one notch below its Adjusted BCA.

Counterparty Risk (CR) Assessment

Interbank's CR Assessment is positioned at Baa1(cr)/P-2(cr)

Interbank's CR Assessment is Baa1(cr)/Prime-2(cr). The CR Assessment is placed at the level of the bank's deposit rating, reflecting our view that the willingness of the Peruvian government to support any of the bank's obligations is limited by its own capacity.

Counterparty Risk Ratings (CRRs)

Interbank's local- and foreign-currency CRRs are positioned at Baa1/P-2

Interbank's long- and short-term CRRs are Baa1/Prime-2. The CRRs are placed at the level of the bank's deposit rating, reflecting our view that the Peruvian government's willingness to support any of the bank's obligations is limited by its own capacity to provide support.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the outcome of our scorecard may significantly differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard outcome and the individual scores are discussed in Rating Committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 5

Banco Internacional del Perú S.A.A.

Macro Factors

Weighted Macro Profile Moderate 100%
+

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	3.1%	baa2	↔	baa2	Loan growth	Expected trend
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel II)	10.9%	ba2	↔	ba2	Expected trend	
Profitability						
Net Income / Tangible Assets	1.3%	baa1	↔	a3	Expected trend	
Combined Solvency Score		baa3		baa3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	19.2%	baa2	↔	baa1	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	31.3%	baa1	↔	baa1	Quality of liquid assets	
Combined Liquidity Score		baa2		baa1		
Financial Profile				baa2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Baa1		
BCA Scorecard-indicated Outcome - Range				baa1 - baa3		
Assigned BCA				baa2		
Affiliate Support notching				0		
Adjusted BCA				baa2		

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	1	0	baa1	0	Baa1	Baa1
Counterparty Risk Assessment	1	0	baa1 (cr)	0	Baa1(cr)	
Deposits	0	0	baa2	1	Baa1	Baa1
Senior unsecured bank debt	-	-	-	1	Baa1	Baa1
Dated subordinated bank debt	-1	0	baa3	0		Baa3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
BANCO INTERNACIONAL DEL PERÚ S.A.A.	
Outlook	Negative
Counterparty Risk Rating	Baa1/P-2
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)
Senior Unsecured	Baa1
Subordinate	Baa3
BANCO INTERNACIONAL DEL PERU (PANAMA BRANCH)	
Outlook	Negative
Counterparty Risk Rating	Baa1/P-2
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)

Source: Moody's Ratings

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