

Banco Internacional del Peru S.A.A. - Interbank

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Banco Internacional del Peru S.A.A. - Interbank

Ratings Score Snapshot

Issuer Credit Rating

BBB-/Stable/--

SACP: bbb-

Support: 0

Additional factors: 0

Anchor	bbb-		ALAC support	0	Issuer credit rating BBB-/Stable/
Business position	Adequate	0	GRE support	0	
Capital and earnings	Adequate	0	Group support	0	
Risk position	Adequate	0	Sovereign support	0	
Funding	Adequate	0			
Liquidity	Adequate				
CRA adjustment		0			

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
High systemic importance for the Peruvian government, which is supportive of the financial system	Low per capita income weakens Peru's economic resilience and limits debt capacity.
Strong market position in Peru's retail segment	Political volatility dents short- to medium-term economic growth with a knock-on effect on the banking industry and the bank
Improved capitalization levels	Higher exposure to the retail segment than peers, which is more sensitive to conditions in the labor market

Banco Internacional del Peru S.A.A.'s (Interbank's) profitability is influenced by higher interest rates and the normalization in the business mix as government guaranteed loans fade. Over the last quarters, Interbank's profitability consolidated as a result of the gradual normalization in the loan portfolio mix, with increased participation in the retail and midsize enterprises segments and a decline in loans guaranteed by the Peruvian government under the "Reactiva Peru" program. Also, revenue benefited from higher loan interest rates despite the increase in funding costs. For 2023-2024, the mentioned factors should help Interbank maintain healthy profitability despite the increasing cost of risk.

Interbank's capitalization levels have improved. Although Interbank has resumed dividend distributions and risk weights on assets have changed due to a change in the portfolio mix (with a declining proportion of loans under government programs that have 0% weight), we expect Interbank's risk-adjusted capital (RAC) ratio to remain sound at

about 9.5%-9.7% for the next 12-24 months. This will be thanks to the mentioned improvements in profitability and capitalization of part of the results. Current capitalization levels would allow the bank to overcome the impact on its RAC ratio in a scenario of rising economic risk for Peru's banking industry.

We expect Interbank's asset quality metrics to remain weaker than historical levels, but compare well with the Peruvian financial system averages. Over the past quarters, asset quality metrics improved as loans granted under Reactiva continued amortizing and guarantees were activated. Also, as part of actions taken at the industry level to mitigate the impact on customers affected by protests and climate events, the bank rescheduled some loans granted in the first quarter of 2023. We expect the credit quality of the industry and Interbank to remain above pre-pandemic levels amid mild economic growth and continued political volatility and the residual effects of the previously mentioned events.

The ratings on Interbank incorporate its diversified and stable funding profile and sound liquidity coverage. The bank has a sticky deposit base and wide access to domestic and international capital markets and central bank funding linked to government programs.

Outlook

The stable outlook on Interbank reflects our expectation that it will maintain stable credit fundamentals over the next 24 months. A potential downgrade of Peru wouldn't directly affect Interbank because we already rate it below the sovereign.

Downside scenario

We could lower the ratings if we downgrade Peru and lower Interbank's stand-alone credit profile (SACP) by one notch. However, we don't consider this scenario likely at this point.

Upside scenario

We could take a positive rating action on the bank if we were to revise upward its SACP due to consistent strengthening in its capital.

Anchor: 'bbb-' For Commercial Banks Operating In Peru

Our bank criteria use our Banking Industry Country Assessment's (BICRA's) 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 (where Interbank mostly operates) is 'bbb-'.

Peru's economic risk reflects its low per capita GDP (about \$6,000) and the banking industry's high exposure to cyclical sectors such as SMEs and microlending. Due to political instability, we believe investors will likely remain more cautious, resulting in meager GDP growth in the next two years. In this context, moderate economic growth, and higher inflation and interest rates will continue to drag down the industry's asset quality, although mitigated by higher provisions and conservative underwriting practices.

The industry risk for banks operating in Peru reflects a solid regulatory framework, with ample supervisory coverage and periodic risk-based supervision. Profitability is recovering after the hit from the pandemic, and we believe the

financial system has healthy capital metrics and a diversified funding mix with a significant share of deposits from loyal customers. We also consider that the government has the ability to provide liquidity if necessary. The law on loan interest-rate caps and elimination charges for late payments didn't erode banks' profitability, but similar measures could weaken the system's competitive dynamics.

Business Position: Peru's Fourth-Largest Financial Institution And Second Largest In Consumer Lending

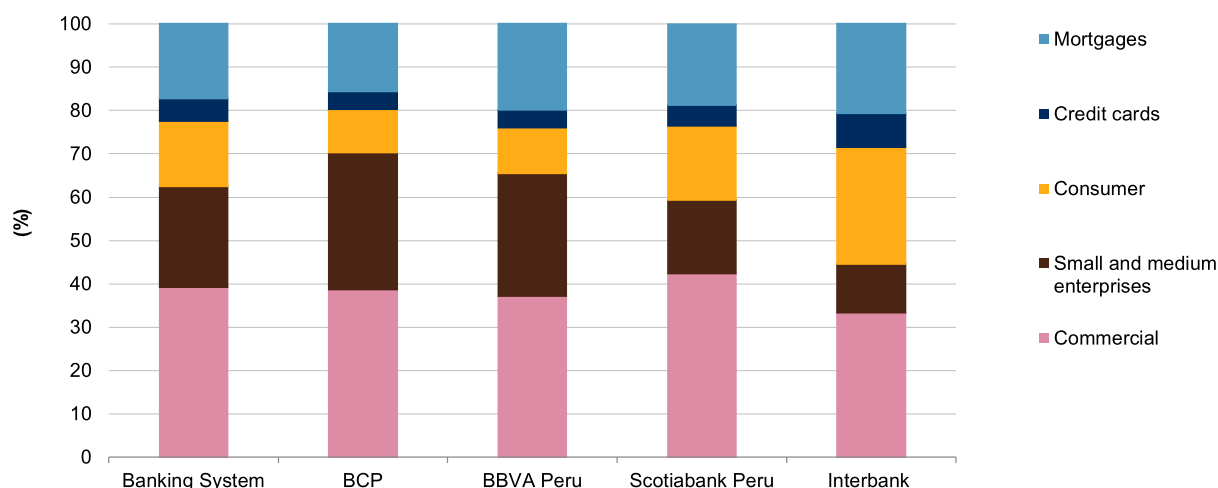
Interbank maintains a good competitive position as one of the largest banks in Peru, with significant presence in retail lending (about 22% of market share in consumer loans). The bank has a diverse business portfolio, operating in various segments in the country. As of March 2023, Interbank was the fourth-largest bank in terms of loans and the third largest in terms of deposits among 16 banks operating in Peru, with market shares of 13% and 14%, respectively.

After the pandemic's peak, the bank's loan portfolio began to shift back toward consumer loans. By the end of March 2023, about 44% of the portfolio consisted of wholesale loans segments (focused in large and medium companies) and 56% in retail loans (now with more focus in consumer loans than credit cards and including mortgages), compared with 45% and 55%, respectively, at the end of 2019. About 4% of the bank's portfolio consists of loans granted under the Reactiva Peru program (down from about 15% at the end of 2020).

For the next 12-24 months, we expect moderate credit growth with a faster pace for retail loans and incorporating further amortization of loans under the Reactiva program. By the end of March 2023, the bank's remaining stock of loans granted under Reactiva programs amounted to about 1.8 billion Peruvian nuevo soles (PEN), of which about 68% were rescheduled as part of further relief measures ruled by the government in previous years. Also, we expect the bank to further expand the use of its digital platform.

Chart 1**Loan portfolio breakdown for Peru's four largest banks**

As of March 2023



BCP Includes MiBanco and Scotiabank Peru includes CrediScotia. Source: SBS (Superintendencia de Banca, Seguros y AFP).

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Capital And Earnings: Consolidated Capitalization To Finance Growth

Our opinion of the bank's capital and earnings stems primarily from our RAC ratio forecast of 9.5%-9.7% for the next 12-24 months, given the following assumptions:

- Moderate GDP growth of 2.0% in 2023 and 2.8% in 2024, given the impact from political volatility and climate events.
- Inflation gradually receding with average levels of about 5.8% in 2023 and 3.0% in 2024 (from 7.9% in 2022).
- Single-digit loan growth in 2023-2024, considering the amortization of Reactiva loans and double-digit growth in certain segments such as retail.
- Sustained margins despite higher funding costs, given still high average interest rates in 2023. Domestic reference interest rates declining in the second half of 2023 and in 2024, resulting in lower funding costs, depending also on international funding rates.
- Return on average adjusted assets at about 1.6%-1.8% in the next two years, still below levels prior to the pandemic.
- Nonperforming loans (NPLs) of 3.2%-3.5% and net charge-offs of about 2.0%-2.5%, in line with the system's average. We also expect NPLs to remain comfortably covered by reserves.
- Dividend payout of about 50%.

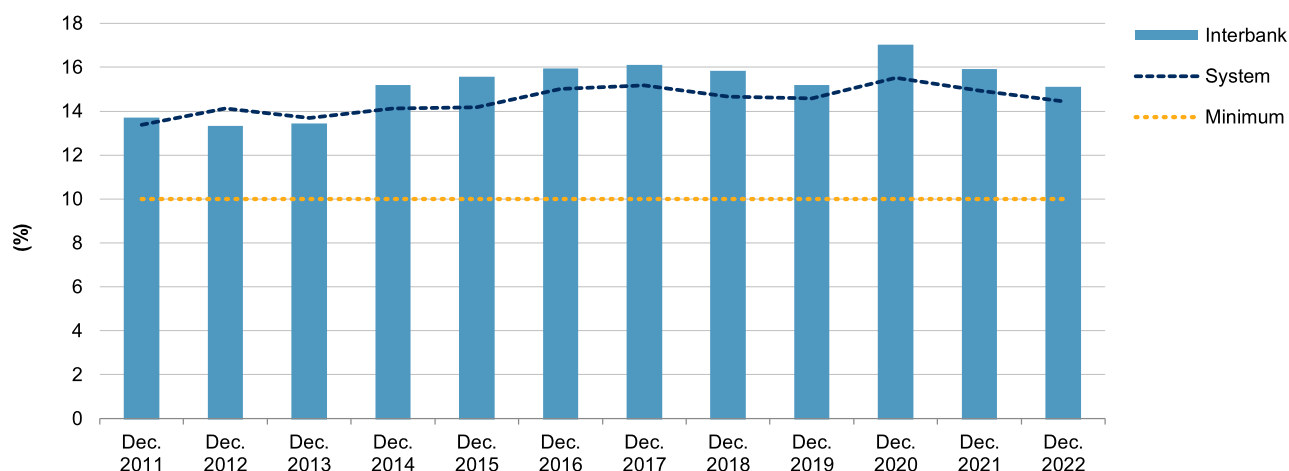
In 2022, Interbank's results remained similar to 2021 levels, considering a normalization in provision levels,

compensated by improved margins given increased loan interest rates and the full impact of the normalization in the loan portfolio mix. For 2023, we expect results to remain healthy given continued high margins despite increases in funding costs and compensating higher costs of risk.

Interbank maintains solid regulatory capital metrics with Tier 1 at 11.1% and total capital ratio of 15.2% at the end of March 2023, well above the 10% minimum (fully implemented by the end of March 2024) and in line with peers. Metrics consider the new solvency regulation implemented in 2023.

Chart 2

Interbank's relative capitalization levels BIS total capital



Source: Superintendencia de Banca, Seguros y AFP.

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Risk Position: Cost Of Risk Increasing But Manageable And In Line With System Average Trend

We consider Interbank to have a satisfactory risk profile, with operations mostly in lending and management of mismatches, along with moderate concentrations in loans and deposits. It maintains a low-complexity lending portfolio that is diversified by economic sector, single exposure, and business segment.

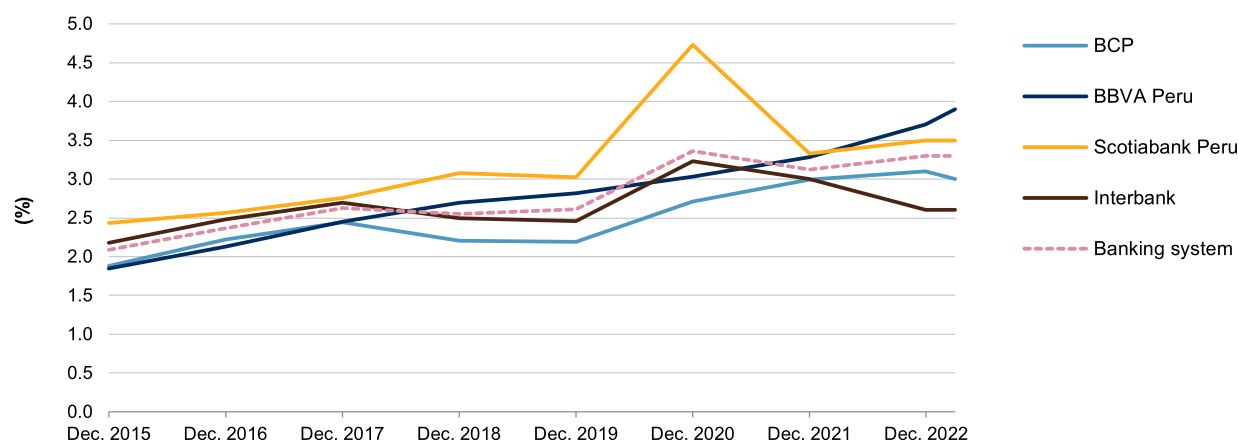
Over the past quarters, asset quality metrics improved as loans granted under Reactiva programs during the pandemic continued amortizing and guarantees were activated (for a total of about PEN 835 million as of March 2023). By the end of March 2023, Reactiva loans accounted for about 4% of the total loan portfolio. In the first quarter of 2023, as part of actions taken at the industry level to mitigate the impact on customers affected by protests and climate events, the bank rescheduled credit card loans, equivalent to 6% of the total credit card loan portfolio and less than 1% of the total portfolio. As a result, at the end of December 2022 and March 2023, Interbank's 90-day NPLs were 2.6% of total loans, down from 3.0% at the end of 2021 and 3.2% at the end of 2020. The banking system's NPL average was 3.3% at the end of December 2022 and March 2023, compared to 3.1% at the end of 2021, and 3.4% in 2020.

We expect the credit quality of Interbank and the industry to remain above pre-pandemic levels given mild economic growth and continued political volatility and the residual effects of the pandemic and climate events. In this context, we expect the cost of risk to be 2.7%-3.0% of total loans in 2023, then decline, following industry trends. The bank has a good level of provisions at 164% of NPLs as of March 2023.

The Peruvian financial system has a high level of dollarization. Although it has fallen consistently in the past decade thanks to the central bank's measures, it remains higher than those of regional peers such as Brazil, Chile, Colombia, and Mexico. Although banks generally offer dollar-denominated loans to borrowers with revenue in that currency such as exporters, we believe there's still a significant amount of such loans offered to non-dollar revenue generators. As of March 2023, about 27% of Interbank's lending portfolio was in dollars, figures that are in line with banking system's average.

Chart 3

Asset quality evolution for Peru's four largest banks
NPLs--loans 90 days past due



BCP Excludes MiBanco and Scotiabank Peru excludes CrediScotia. Source: SBS (Superintendencia de Banca, Seguros y AFP).
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Funding And Liquidity: Wide Access To The System's Retail Deposits And Adequate Liquidity

During the last quarters, the composition of the funding base changed with the amortization of some central bank repurchase agreements (repos) related to Reactiva programs and of bonds in the domestic and international markets (for a total of about \$525 million). These were compensated by an increase in term deposits (retail and institutional), additional repos from the central bank and Corporacion Financiera de Desarrollo S.A (COFIDE; BBB-/Stable/A-3), and lines from foreign correspondent banks.

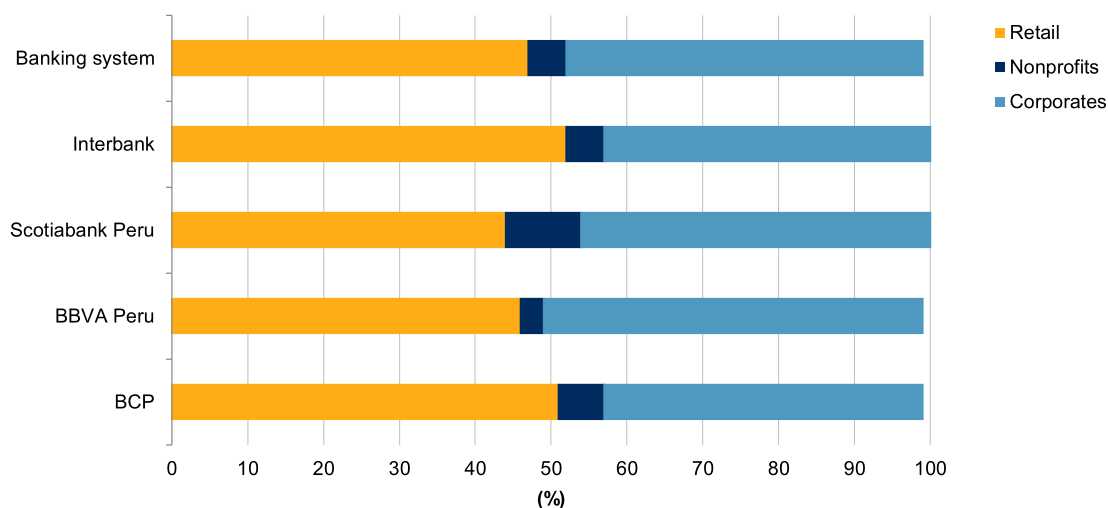
Interbank's funding base remains reliant on customer deposits, which represented about 79% of total funding as of March 2023, similar to levels for domestic peers. Retail deposits account for 51% of the bank's total deposits, which we deem as more stable during times of market distress. The funding base also incorporates central bank repos accounting for about 8% of the bank's funding as of March 2023 (down from 13% at the end of 2020 and 4% average historical levels under normal conditions). The remaining funding sources are interbank credit lines and other medium- to long-term financial obligations (including senior and subordinated bonds and capital).

Interbank has ample access to domestic and international capital markets. Consequently, our stable funding ratio (SFR) was 119% at the end of March 2023, after averaging 128% in the past three years. We expect Interbank's SFR will remain close to 120% for the next two years due to the bank's steadily growing deposit base and comfortable debt maturity distribution. Moreover, liquidity remains adequate, with broad liquid assets over short-term wholesale funding of 2.6x as of March 2023, compared with the 2.7x average for the past three fiscal years.

Chart 4

Deposits breakdown for Peru's four largest banks

As of March 2023



Segments may not total 100% due to rounding. BCP excludes MiBanco and Scotiabank Peru excludes CrediScotia.

Source: SBS (Superintendencia de Banca, Seguros y AFP).

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Support: Highly Strategic To Intercorp Financial Services

Intercorp Financial Services (IFS) is a nonoperating holding company--its main asset is Interbank, which made up 77% of the group's total assets and 79% of total equity as of March 2023. IFS also owns Interseguro, Inteligo, and Izipay (which operates in the payment segment). The long-term 'BBB-' issuer credit rating on IFS is one notch below our group credit profile of 'bbb', reflecting the reliance on dividends and other distributions from operating companies to meet the holding company's obligations.

Government Support: High Systemic Importance

We believe support is likely because Interbank is a highly systemically important bank to the Peruvian government, and because we've assessed the government as supportive of domestic banks. This gives additional cushion to our rating on the bank in case of downward pressures on its SACP.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
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ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

We view Interbank's exposure to environmental, social, and governance risks and opportunities as broadly in line with those of the industry and domestic peers.

Peru is somewhat exposed to natural disasters such as earthquakes, volcanic activity, landslides, and the El Niño climate phenomenon. However, IFS, through Interbank and like the rest of Peru's domestic banks, has been able to contain credit and operating losses at moderate levels during such conditions. Interbank has sound loan diversification. However, the Peruvian economy depends to some extent on the commodity metals sector, which domestic banks generally don't finance. Still, the banks are indirectly exposed to that sector through the whole supply chain (suppliers, subcontractors, and employees of the sector who are also retail clients).

The country's transition to a cleaner energy mix is an indirect and medium-term challenge for banks to manage, given that they have benefited from the wealth generated by the commodity metals sector and the large international investments in it. The political landscape has been marked by corruption investigations and political confrontation between the executive and legislative branches. The risk of social protests, particularly against some mining projects over profit or environmental concerns, will remain elevated, potentially impacting governability and investment decisions, and consequently, economic growth prospects. The ability to reconcile concerns among the central government, local authorities, and industries remains a challenge for Peru.

Key Statistics

Table 1

Banco Internacional del Peru S.A.A. - Interbank key figures					
	--Year-ended Dec. 31--				
(Mil. PEN)	2023*	2022	2021	2020	2019
Adjusted assets	66,757.1	65,938.1	67,647.0	67,379.5	51,893.5
Customer loans (gross)	46,057.0	45,629.4	43,316.0	41,859.9	36,413.2
Adjusted common equity	6,818.6	7,084.7	6,589.3	5,440.8	5,505.4
Operating revenues	1,195.7	4,355.6	3,730.9	3,790.8	4,103.9
Noninterest expenses	466.1	1,847.0	1,714.3	1,498.7	1,575.8
Core earnings	314.0	1,171.7	1,200.5	264.9	1,221.5

*Data as of March 31. PEN--Peruvian nuevo sol.

Table 2

Banco Internacional del Peru S.A.A. - Interbank business position					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Loan market share in country of domicile	13.0	12.8	12.4	12.8	12.7
Deposit market share in country of domicile	13.7	13.5	13.6	13.3	13.3
Total revenues from business line (currency in millions)	1,195.7	4,355.6	3,730.9	3,790.8	4,103.9
Other revenues/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	18.0	16.9	18.5	4.3	21.6

*Data as of March 31.

Table 3

Banco Internacional del Peru S.A.A. - Interbank capital and earnings					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Tier 1 capital ratio	11.1	10.8	12.5	11.5	11.3
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	72.0	75.3	72.4	76.0	69.8
Fee income/operating revenues	29.9	14.9	14.9	13.3	17.1
Market-sensitive income/operating revenues	-4.8	8.4	12.7	10.4	12.1
Cost to income ratio	39.0	42.4	45.9	39.5	38.4
Preprovision operating income/average assets	4.4	3.7	3.0	3.8	5.1
Core earnings/average managed assets	1.9	1.7	1.8	0.4	2.5

*Data as of March 31.

Table 4

Banco Internacional del Peru S.A.A. - Interbank risk position					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Growth in customer loans	3.7	5.3	3.5	15.0	11.1
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	22.2	22.8	22.0	21.0
Total managed assets/adjusted common equity (x)	9.9	9.4	10.3	12.5	9.5
New loan loss provisions/average customer loans	2.7	2.3	1.0	5.1	2.6
Net charge-offs/average customer loans	2.4	1.8	3.0	2.1	2.1
Gross nonperforming assets/customer loans + other real estate owned	3.0	3.0	3.6	3.4	2.6
Loan loss reserves/gross nonperforming assets	164.3	164.7	132.8	202.3	176.5

*Data as of March 31. N/A--Not applicable.

Table 5

Banco Internacional del Peru S.A.A. - Interbank funding and liquidity					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Core deposits/funding base	77.0	74.1	73.2	71.6	75.3
Customer loans (net)/customer deposits	98.0	101.0	93.9	90.1	101.9
Long-term funding ratio	88.7	90.0	88.3	86.0	91.6
Stable funding ratio	118.9	122.7	128.9	131.4	120.4
Short-term wholesale funding/funding base	12.6	11.2	13.0	15.4	9.1
Broad liquid assets/short-term wholesale funding (x)	2.6	2.8	2.8	2.6	3.2
Broad liquid assets/total assets	28.0	27.6	31.9	35.3	25.1
Broad liquid assets/customer deposits	42.1	42.7	49.5	55.2	38.5
Net broad liquid assets/short-term customer deposits	25.8	27.9	32.0	34.3	27.2
Short-term wholesale funding/total wholesale funding	54.5	43.1	48.4	54.0	36.7
Narrow liquid assets/three-month wholesale funding (x)	2.6	2.8	9.7	11.8	5.0

*Data as of March 31.

Table 6

Banco Internacional del Peru S.A.A. - Interbank rating component scores	
Issuer Credit Rating	BBB-/Stable/--
SACP	bbb-
Anchor	bbb-
Economic risk	6
Industry risk	3
Business position	Adequate
Capital and earnings	Adequate
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0

Table 6**Banco Internacional del Peru S.A.A. - Interbank rating component scores (cont.)**

Issuer Credit Rating	BBB-/Stable/--
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Credit Conditions Emerging Markets Q2 2023: Enduring Risks, March 28, 2023
- Outlooks On Four Peruvian Financial Institutions Revised To Negative From Stable On Same Action On Sovereign, Dec. 14, 2022

Ratings Detail (As Of May 23, 2023)*

Banco Internacional del Peru S.A.A. - Interbank	
Issuer Credit Rating	BBB-/Stable/--
Senior Unsecured	BBB-
Subordinated	BB+

Ratings Detail (As Of May 23, 2023)*(cont.)

Issuer Credit Ratings History

21-Mar-2022	BBB-/Stable/--
15-Oct-2021	BBB/Negative/--
15-Dec-2016	BBB/Stable/--

Sovereign Rating

Peru	
<i>Foreign Currency</i>	BBB/Negative/A-2
<i>Local Currency</i>	BBB+/Negative/A-2

Related Entities**InterCorp Financial Services Inc.**

Issuer Credit Rating	BBB-/Negative/A-3
Senior Unsecured	BBB-

InterCorp Peru Ltd.

Issuer Credit Rating	BBB-/Stable/--
Senior Unsecured	BBB-

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' 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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