

Fitch Affirms Banrural's IDR at 'BB+'; Outlook Negative

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has affirmed Banco de Desarrollo Rural, S.A.'s (Banrural) Issuer Default Rating (IDR) at 'BB+' and its Viability Rating (VR) at 'bb+'. The Outlook on the IDR remains Negative, aligned with Guatemala's Negative sovereign Rating Outlook. Banrural's long-term national ratings were also affirmed, at 'AA+(gtm)', with a Stable Outlook. A full list of rating actions follows at the end of this press release.

KEY RATING DRIVERS - VR, IDRS, NATIONAL RATINGS

The bank's ratings are driven by its VR, which represents Fitch's view as to the intrinsic creditworthiness of the bank. Banrural's VR reflects its strong local franchise, good capital position, high profitability, good credit quality and its stable and diversified deposit base. The VR also factors in the moderate concentrations in public sector funds, as well as the limited revenue diversification and low efficiency levels resulting from its micro-finance orientation.

Banrural's strong franchise is the result of its consistent strategy, ample geographic coverage and the creation of products and services adapted for its main consumers. Banrural benefits from a stable, well-diversified and low-cost deposit base, comprising mostly saving and current account deposits. However, the bank maintains a moderate concentration in its 20 largest depositors and in the public sector.

Banrural's micro-finance orientation limits its efficiency levels and income diversification. Its diversified and low-cost funding depends on its ample geographic coverage and unique ability to address the needs of rural population.

Banrural's good capital levels continue to compare positively with its main local peers and similarly rated international banks. Fitch Core Capital-to-risk-weighted assets stood at 15.5% at end 2013. Banrural's capitalization will remain sufficient to sustain growth, underpinned by strong profitability, boosted by its ample net interest margin, and moderate dividends payments.

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Banrural maintains its adequate risk profile despite the higher relative risk of its major segments. Reserves coverage for nonperforming loans has gradually improved and compares favorably with similarly rated peers at 2% of total loans. Loan portfolio concentration by individual credit is moderate, as is the entity's foreign currency exposure (8% of total loans).

KEY RATING DRIVERS - SUPPORT RATING AND SUPPORT RATING FLOOR

The bank's Support Rating (SR) and Support Rating Floor (SRF) reflect a moderate probability of support from the state, given Banrural's systemic importance in the banking system. This probability is limited by Guatemala's sovereign rating of 'BB+', Negative Outlook.

RATING SENSITIVITIES - VR, IDRS, NATIONAL RATINGS

The Negative Outlook implies that a downgrade of Guatemala's sovereign ratings will result in a downgrade of Banrural's IDRs and VR, given its association with the public sector, particularly on its funding side.

Banrural's National Ratings have limited downside potential given its strong financial profile relative to its local market. Ratings would be downgraded in the unlikely scenario of a sharp decline in capitalization (below 11%), and a period of sustained low earnings (Operating ROAA close to 1%).

If the sovereign ratings are eventually affirmed at 'BB+' and the Outlook revised to Stable from Negative, Banrural's Rating Outlook could be revised accordingly.

RATING SENSITIVITIES - SUPPORT RATING AND SUPPORT RATING FLOOR

Banrural's SR and SRF indicate that in the event of individual risk-profile deterioration,

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the IDR would not fall below 'BB-', given the agency's opinion that government support will be forthcoming. Changes on sovereign creditworthiness and/or propensity of support would affect SR and SRF.

Fitch has affirmed Banrural's ratings as follows:

--Long-term foreign currency IDR at 'BB+'; Outlook Negative;

--Short-term foreign currency IDR at 'B';

--Long-term local currency IDR at 'BB+'; Outlook Negative;

--Short-term local currency IDR at 'B';

--Viability rating at 'bb+';

--Support at '3';

--Support Rating Floor at 'BB-';

--National long -term rating at 'AA+(gtm)'; Outlook Stable;

--National scale short-term rating at 'F1+(gtm)'.

Additional information is available on www.fitchratings.com

Applicable Criteria and Related Research:

--Global Financial Institutions Rating Criteria, Aug. 15, 2012

--National Rating Criteria, Oct. 30, 2013

--2014 Outlook: Central America and the Dominican Republic Central (December 2013)

--Latin America Banks & Asset Quality Trends (October 2013)

--Central American Banks Profitability under Pressure Despite Strong Balance Sheets (September 2013)

--Guatemala (July 2013)

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686181

Additional Disclosure

Solicitation Status

http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=815532

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