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Mibanco - Banco de la Microempresa S.A.

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Mibanco - Banco de la Microempresa S.A.

Ratings Score Snapshot

Issuer Credit Rating
BBB-/Stable/A-3

SACP: bb+ → **Support: +1** → **Additional factors: 0**

Anchor	bbb-	
Business position	Adequate	0
Capital and earnings	Adequate	0
Risk position	Moderate	-1
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

ALAC support	0
GRE support	0
Group support	+1
Sovereign support	0

Issuer credit rating
BBB-/Stable/A-3

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
Strong support from its parent, Banco de Credito del Peru, the largest bank in Peru.	Peru's macroeconomic and political woes, which could erode domestic business conditions.
A leading market position, a long track record, and expertise in its target market, the Peruvian microlending sector.	A concentration in microlending, which tends to have higher-than-average exposure to economic credit cycles and losses (though the highly diversified customer base mitigates credit risks).
High levels of capitalization and provisioning to cope with unexpected adverse scenarios.	

We think Mibanco - Banco de la Microempresa S.A. will continue to benefit from the support of its parent. We see Mibanco as a core subsidiary of Banco de Credito del Peru (BBB-/Stable/A-3). Therefore, we equalize our Mibanco ratings with the 'bbb-' group credit profile for Banco de Credito del Peru.

Mibanco will maintain its stable intrinsic creditworthiness over the next few years. The bank's 'bb+' stand-alone credit profile (SACP)--which is our view of its creditworthiness based solely on its own merits and excluding group support--reflects its leading market position in the Peruvian microfinance sector, its healthy earnings prospects, and its solid capital levels for absorbing temporary pressures on asset quality. Moreover, Mibanco has an adequate funding and liquidity base, in line with the average for the Peruvian banking system.

Outlook

The stable outlook on Mibanco reflects the outlook on its parent, Banco de Credito del Peru (BCP), since the former is a core subsidiary of the group. The stable outlook on BCP for the next two years, in turn, mirrors the outlook on Peru.

We expect that the ratings on BCP will move in tandem with those on the sovereign because of BCP's high exposure to the domestic market. We rarely rate financial institutions higher than the sovereign where they operate because we consider it unlikely that these institutions would remain unaffected by developments in domestic economies.

On the other hand, if higher risks materialize, damaging the operating conditions for banks in Peru--indicated by a downward revision of the Banking Industry Country Risk Assessment (BICRA) economic risk score--it could hurt BCP's capitalization and intrinsic credit fundamentals, but not the ratings.

The stable outlook on BCP also considers that increased systemic risks for financial entities operating in Peru, combined with a hypothetical deterioration of BCP's intrinsic creditworthiness, would not have an impact on our rating on BCP (unless the SACP falls below 'bbb-', which is unlikely at this point).

Downside scenario

We could downgrade Mibanco if we downgrade BCP--which, in turn, could happen if we downgrade Peru.

Upside scenario

We could upgrade Mibanco if we were to take a similar action on BCP.

Key Metrics

Mibanco - Banco de la Microempresa S.A.--Key ratios and forecasts

	--Fiscal year ended Dec. 31--				
(%)	**2021a**	**2022a**	**2023a**	**2024f**	**2025f**
Growth in customer loans	3.6	4.4	(5.7)	4.0-6.0	6.0-8.0
Net interest income/average earning assets (NIM)	11.9	14.4	14.1	14.5-15.5	14.5-15.5
Return on average common equity	7.9	18.1	9.7	9.0-11.0	11.0-13.0
Return on assets	1.1	2.7	1.6	1.4-1.6	1.6-1.8
Gross nonperforming assets/customer loans	6.8	5.5	6.3	7.0-7.5	6.2-6.7
Net charge-offs/average customer loans	8.2	4.5	5.9	6.0-6.6	4.4-4.8
Risk-adjusted capital ratio	9.7	10.2	11.1	9.5-9.9	9.4-9.8

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

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

Our bank criteria use our BICRA 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 is 'bbb-'. Banks in Peru benefit from a record of consistent economic policies, solid economic institutions, and a credible and effective central bank. These factors help moderate the effects of recent events (for example, social disturbances and climate phenomena) and the country's prolonged political impasse, which limits growth prospects.

Peru's economic risk also reflects its low GDP per capita (about US$6,000) and the banking industry's high exposure to cyclical sectors such as small and midsize enterprises (SMEs) and microlending. After somewhat recovering in 2022 from the pandemic, profitability and asset quality remain somewhat weak. We think high loan loss provisions, good capitalization, and prudent underwriting practices help to contain losses in the system.

Banks also benefit from the country's solid regulatory framework, with ample supervisory coverage. The central bank and Superintendencia de Banca y Seguros--which regulates banks and insurers--are very active. In 2023, banks in Peru started implementing adjustments to align with Basel III principles. Despite some pressure on results, the system maintains good profitability and capital-building capacity.

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

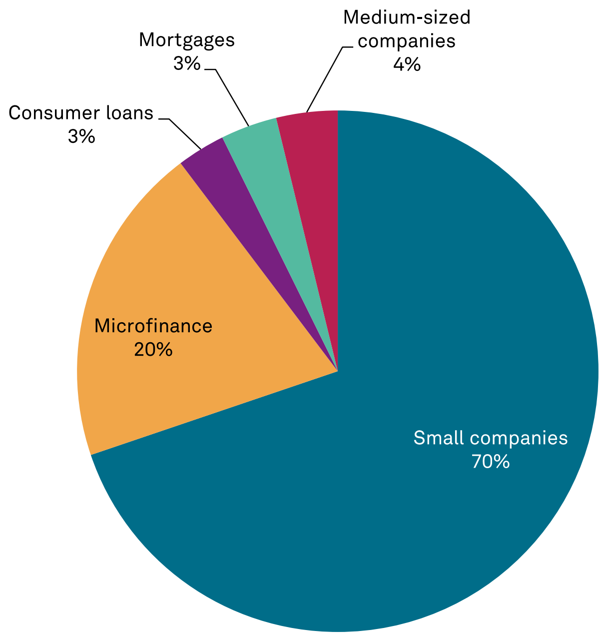
Business Position: A Leading Position In Peru's Microfinance Lending Segment And A Diverse Credit Portfolio

Mibanco is the leading provider of microcredits and loans to small enterprises in Peru, with respective market shares of 75.2% and 40.6% as of June 2024. The bank's good brand recognition has helped it retain a large customer base and solid market shares in those business lines. However, Mibanco controls a small share (3.6%) of the domestic banking system.

We expect Mibanco's credit portfolio to contract 1%-2% this year in nominal terms; it contracted 5.7% in 2023 and expanded 4.9% in 2022. The bank adopted more conservative underwriting standards following last year's challenging macroeconomic conditions in Peru, which were mainly caused by the country's volatile political landscape and adverse climate events.

Mibanco's portfolio mainly consists of microfinancing and lending to SMEs. However, the bank benefits from wide customer diversification, which has supported stable profits in recent years. It also benefits from a large share of stable revenue sources, because net interest income and net fee and commission income make up almost all of its operating revenue.

Mibanco - Banco de la Microempresa S.A.--Loan portfolio breakdown
As of May 2024



Source: S&P Global Ratings.

Our expectation is that Mibanco will maintain its return on equity in 2024 because of continued provisioning needs; it decreased to 9.7% last year from 18.1% in 2022. Although Mibanco's margins remained high, the rising cost of risk stemming from difficult domestic conditions affected its results.

The expertise of senior management and its initiatives to contain credit losses and gain cost efficiencies--including adopting a more efficient collection process and improved credit risk analysis--will help Mibanco's earnings reach pre-pandemic levels in 2025-2026, in our view. Moreover, we believe the ongoing support from its parent, BCP, will help Mibanco cope with any unexpected hits to its credit quality and profits.

Capital And Earnings: Sound Capitalization Provides A Buffer To Absorb Losses

Mibanco has good capacity to absorb credit losses, according to our risk-based capital model. We base our capital and earnings assessment on our estimate of the bank's risk-adjusted capital (RAC) ratio: about 10% for 2024-2026. The RAC ratio was 11.1% as of the end of 2023; however, we project that it will edge lower in 2024, to 9.8%, given the resumption of dividend distributions. Our base case includes the following assumptions:

- Real GDP growth in Peru of 2.7% in 2024 and 3.0%-3.1% in 2025-2026;

- Credit contraction at MiBanco of about 1% in 2024 and credit growth of 4% in 2025;
- A return on equity of about 10% in 2024 and about 13% in 2025; and
- A resumption of dividend payouts in 2024.

Mibanco's regulatory capital adequacy ratio of 18% as of April 2024 is well above the 10% required. The quality of the bank's capital is good because the bank's equity consists of paid-in capital, reserves, and retained earnings. Moreover, the lender benefits from historically strong earnings quality; it's reflected in its revenue structure, which mainly consists of net interest, fee, and commission income.

Risk Position: Asset Quality Is Weaker Than The System Average Because Of The Portfolio Mix

Like the other players in Peru's financial system, Mibanco has seen its asset quality weaken. The rise in nonperforming loans across the Peruvian financial system followed last year's domestic macroeconomic difficulties; the same factors that caused those difficulties (the country's volatile politics and adverse climate events) particularly hurt the quality of loans to SMEs, as well as consumer credit in the middle- and low-income segments of the population.

The deterioration of Mibanco's asset quality was faster than the industry average because of the bank's focus on high-risk segments that are more vulnerable to economic woes. The support that the bank receives from its parent and the bank's adequate capitalization enabled it to absorb the credit losses and keep its credit quality steady.

Mibanco's conservative underwriting and lending standards will enable it to maintain asset quality that is in line with asset quality at other Peruvian microlenders, such as the Cajas Municipales de Ahorro y Crédito. Mibanco's asset quality will remain manageable in 2024–2025, in our view, amid no lending growth and improvements in borrowers' capacity as GDP gradually expands. The bank's nonperforming loans ratio (according to the regulator's methodology) increased to 7.4% as of June 2024 from 6.4% in 2023; the average nonperforming loans ratio within Peru's banking system was 4.4% as of June 2024 and 4.3% last year.

Although the bank's credit portfolio is concentrated by business segment (given its focus on microfinancing and credit to small enterprises), it's well-diversified by customer because its 20 largest customers make up less than 1% of the portfolio. Furthermore, the bank has very low U.S. dollar-denominated lending exposure, which reduces credit risk when there is exchange-rate volatility.

Funding And Liquidity: A Large Share Of Customer Deposits And Adequate Liquidity

Mibanco has a very stable and diverse funding base thanks to its broad branch network. Moreover, about 80% of the funding base consists of customer deposits, while retail deposits make up 60% of total deposits. Mibanco also has other funding sources, such as local bonds, credit lines from foreign and domestic banks, and central bank repurchase agreements. The bank has enough stable funding sources to cover its funding needs, which can be seen in its stable funding ratio of about 100% in recent years; this is line with the stable funding ratios at its domestic peers.

The ratio of broad liquid assets at Mibanco to total short-term wholesale funding was 1.3x in June 2024, and it averaged 0.9x over the past three fiscal years--somewhat lower than the 1.5x average for its peers. We expect the bank to maintain effective liquidity risk controls and conservative liquidity management, as evidenced in the past.

Support: One Notch Of Uplift For Group Support

We consider Mibanco a core subsidiary of BCP because the microlender plays an important role in the group's business diversification strategy. The subsidiary has solid earnings prospects, and we believe BCP is committed to providing strong and long-term support to the subsidiary, if needed.

Environmental, Social, And Governance

Environmental, social, and governance factors have no material influence on our credit rating analysis of Mibanco.

We believe social factors have some positive influence on our evaluation of the bank's business position, because the entity is the leading microlender in Peru. However, its focus on those business segments, which tend to have higher-than-average exposure to economic credit cycles and losses, also negatively influences our assessment of the bank's credit profile. Therefore, social factors have no net influence on our analysis of the entity.

Peru is somewhat exposed to natural disasters such as earthquakes, volcanic activity, and landslides, and it's somewhat exposed to the El Niño climate phenomenon. However, like all of the other domestic banks, Mibanco has been able to contain credit and operating losses to moderate levels during such conditions.

Key Statistics

Table 1

Mibanco - Banco de la Microempresa S.A.--Key figures

		--Year ended Dec. 31--			
(Mil. PEN)	**2024***	**2023**	**2022**	**2021**	**2020**
Adjusted assets	16,371.6	16,288.0	16,663.3	15,548.5	15,381.3
Customer loans, gross	12,705.4	13,266.6	14,073.1	13,483.8	13,011.9
Adjusted common equity	2,237.6	2,570.5	2,365.5	1,959.7	2,081.9
Operating revenue	1,160.3	2,296.1	2,247.7	1,812.5	1,710.3
Noninterest expenses	601.2	1,211.4	1,165.3	1,087.0	1,011.7
Core earnings	130.8	265.9	438.4	179.1	(35.2)

*Data as of June 30. PEN--Peruvian nuevo sol.

Table 2

Mibanco - Banco de la Microempresa S.A.--Business position

		--Year ended Dec. 31--			
(%)	**2024***	**2023**	**2022**	**2021**	**2020**
Loan market share in country of domicile	N/A	N/A	3.9	3.9	4.0

Table 2

Mibanco - Banco de la Microempresa S.A.--Business position (cont.)					
		--Year ended Dec. 31--			
(%)	**2024***	**2023**	**2022**	**2021**	**2020**
Deposit market share in country of domicile	N/A	N/A	2.8	2.5	2.6
Total revenue from business line (mil. PEN)	N/A	N/A	N/A	N/A	N/A
Commercial banking/total revenue from business line	N.M.	N.M.	N.M.	N.M.	N.M.
Retail banking/total revenue from business line	N.M.	N.M.	N.M.	N.M.	N.M.
Commercial and retail banking/total revenue from business line	N.M.	N.M.	N.M.	N.M.	N.M.
Trading and sales income/total revenue from business line	N.M.	N.M.	N.M.	N.M.	N.M.
Corporate finance/total revenue from business line	N.M.	N.M.	N.M.	N.M.	N.M.
Brokerage/total revenue from business line	N.M.	N.M.	N.M.	N.M.	N.M.
Insurance activities/total revenue from business line	N.M.	N.M.	N.M.	N.M.	N.M.
Agency services/total revenue from business line	N.M.	N.M.	N.M.	N.M.	N.M.
Payments and settlements/total revenue from business line	N.M.	N.M.	N.M.	N.M.	N.M.
Asset management/total revenue from business line	N.M.	N.M.	N.M.	N.M.	N.M.
Other revenue/total revenue from business line	N.M.	N.M.	N.M.	N.M.	N.M.
Investment banking/total revenue from business line	N.M.	N.M.	N.M.	N.M.	N.M.
Return on average common equity	9.7	9.7	18.1	7.9	(1.6)

*Data as of June 30. PEN--Peruvian nuevo sol. N/A--Not applicable. N.M.--Not meaningful.

Table 3

Mibanco - Banco de la Microempresa S.A.--Capital and earnings					
		--Year ended Dec. 31--			
(%)	**2024***	**2023**	**2022**	**2021**	**2020**
Tier 1 capital ratio	N/A	N/A	12.4	14.0	17.7
S&P Global Ratings' RAC ratio before diversification	N/A	N/A	N/A	N/A	N/A
S&P Global Ratings' RAC ratio after diversification	N/A	N/A	N/A	N/A	N/A
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Double leverage	N.M.	N.M.	N.M.	N.M.	N.M.
Net interest income/operating revenue	99.7	98.2	99.1	97.8	97.5
Fee income/operating revenue	3.0	3.0	3.6	3.1	3.3
Market-sensitive income/operating revenue	0.0	0.4	0.5	1.3	0.9
Cost-to-income ratio	51.8	52.8	51.8	60.0	59.2
Preprovision operating income/average assets	6.7	6.5	6.6	4.6	4.9
Core earnings/average managed assets	1.6	1.6	2.7	1.1	(0.2)

*Data as of June 30. RAC--Risk-adjusted capital. N/A--Not applicable. N.M.--Not meaningful.

Table 4

Mibanco - Banco de la Microempresa S.A.--Risk position					
		--Year ended Dec. 31--			
(%)	**2024***	**2023**	**2022**	**2021**	**2020**
Growth in customer loans	(8.5)	(5.7)	4.4	3.6	21.3

Table 4

Mibanco - Banco de la Microempresa S.A.--Risk position (cont.)

		--Year ended Dec. 31--			
(%)	**2024***	**2023**	**2022**	**2021**	**2020**
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	N/A	N/A	N/A	N/A
Total managed assets/adjusted common equity (x)	7.4	6.5	7.2	8.1	7.5
New loan loss provisions/average customer loans	6.4	5.9	3.5	3.4	6.1
Net charge-offs/average customer loans	N.M.	5.9	4.5	8.2	1.7
Gross nonperforming assets/customer loans plus other real estate owned	7.3	6.3	5.5	6.8	7.1
Loan loss reserves/gross nonperforming assets	118.7	131.5	141.2	135.3	160.9

*Data as of June 30. RWA--Risk-weighted assets. N/A--Not applicable. N.M.--Not meaningful.

Table 5

Mibanco - Banco de la Microempresa S.A.--Funding and liquidity

		--Year ended Dec. 31--			
(%)	**2024***	**2023**	**2022**	**2021**	**2020**
Core deposits/funding base	78.9	76.0	71.1	62.8	65.3
Customer loans, net/customer deposits	111.2	122.9	141.1	147.4	135.7
Long-term funding ratio	98.2	98.6	89.1	77.4	79.9
Stable funding ratio	120.2	117.4	98.9	88.8	96.6
Short-term wholesale funding/funding base	2.1	1.7	12.9	25.9	23.3
Regulatory net stable funding ratio	N/A	N/A	N/A	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	13.2	14.3	1.7	0.7	0.9
Broad liquid assets/total assets	22.3	19.1	16.8	14.4	18.4
Broad liquid assets/customer deposits	35.7	32.0	30.9	27.4	33.7
Net broad liquid assets/short-term customer deposits	41.3	37.2	16.0	(17.3)	(2.5)
Regulatory liquidity coverage ratio	N/A	N/A	N/A	N/A	N/A
Short-term wholesale funding/total wholesale funding	10.1	7.1	44.5	69.7	67.2
Narrow liquid assets/three-month wholesale funding (x)	N/A	N/A	6.3	3.9	18.0

*Data as of June 30. N/A--Not applicable.

Mibanco - Banco de la Microempresa S.A.--Rating component scores

Issuer Credit Rating	**BBB-/Stable/A-3**
SACP	bb+
Anchor	bbb-
Economic risk	6
Industry risk	3
Business position	Adequate
Capital and earnings	Adequate
Risk position	Moderate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0

Mibanco - Banco de la Microempresa S.A.--Rating component scores (cont.)	
Issuer Credit Rating	**BBB-/Stable/A-3**
Support	+1
ALAC support	0
GRE support	0
Group support	+1
Sovereign support	0
Additional factors	0

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

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- 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
- 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

Ratings Detail (As Of August 9, 2024)*	
MiBanco Banco de La Microempresa S.A.	
Issuer Credit Rating	BBB-/Stable/A-3
Issuer Credit Ratings History	
26-Apr-2024	BBB-/Stable/A-3
14-Dec-2022	BBB/Negative/A-2
21-Mar-2022	BBB/Stable/A-2
16-Jul-2020	BBB+/Negative/A-2
Sovereign Rating	
Peru	
Foreign Currency	BBB-/Stable/A-3
Local Currency	BBB/Stable/A-2
Related Entities	
ASB Bank Corp.	
Issuer Credit Rating	BB+/Stable/B

Ratings Detail (As Of August 9, 2024)*(cont.)	
Banco de Credito del Peru	
Issuer Credit Rating	BBB-/Stable/A-3
Senior Unsecured	BBB-
Subordinated	BB+
Banco de Credito del Peru, Panama Branch	
Subordinated	BB+
Credicorp 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.