Economic Research Department

Financial Observatory

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Bank credit flow revived in October[1].

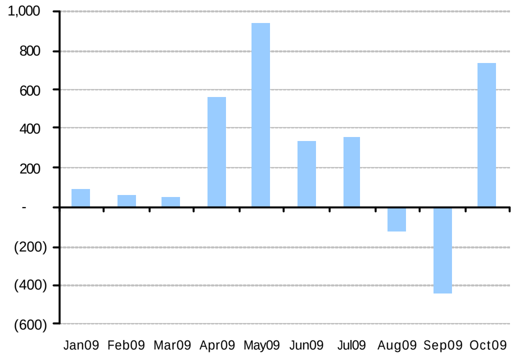
- **In October, total bank credit flow showed positive results of 737 million soles. This result is largely due to stronger credit in the trade segment in both soles and dollars.**
- **Interest rates on commercial loans in soles dropped in November. The drop in the interest rate on commercial loans in dollars was noteworthy.**
- **Bank default rates recorded a slight increase, from 1.58% in September to 1.63% in October. Microloans was the segment that recorded the greatest change.**
- **Banks have rearranged their liquidity structure in terms of currencies, increasing their liquid assets in soles and reducing their liquid assets in dollars**

The **credit flow in soles** continued to rise in October, recording 639 million soles (448 million soles in September). Unlike previous months, loans to companies were the reason behind this result, in particular those targeted at the trade sector (which accounted for around 67% of the flow of these credits in the month). It is worth mentioning that part of this increased growth could be linked to seasonal factors (start of the 2009 Christmas season). Housing loans continued to record the positive growth observed since May.

In October, after three consecutive months of negative results, credit in dollars posted a positive flow of US$34 million. This result is a reflection of the growth in commercial loans, especially products such as checking account overdrafts and factoring. It should be stressed that funding for foreign trade transactions continued to fall, although at a slower rate than previous months.

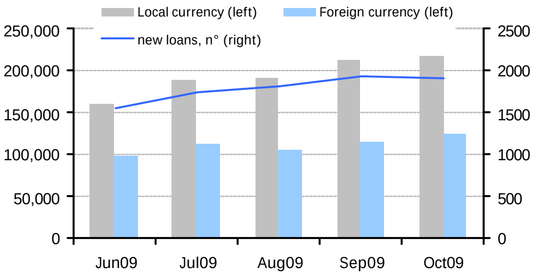
In light of these results, the **yoy credit growth rate** continued to decline, registering levels of 2.48% in October (18.3% in soles and -2.8% in dollars).

Chart 1: bank credit flow [1/ 2/]
(million soles)



1/ Valued at a constant exchange rate of 2.904 per USD
2/ Correcting for the effects of (i) the exit of Banco del Trabajo (January), (i
Scotiabank's transfer of its consumer credit portfolio to Crediscotia (April)
and (iii) the transfer of Credileasing's portfolio to Banco de Crédito.
Source: SBS
Produced by BBVA Banco Continental Economic Research Department

Chart 2: Mortgage loan disbursals
(million soles)



Source: SBS
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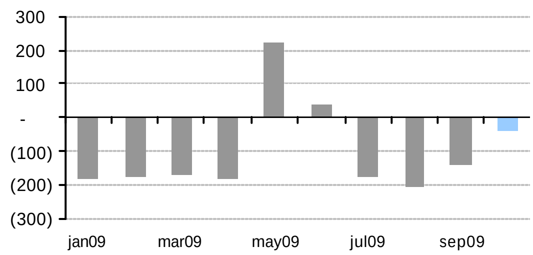
Chart 3: Credit flow for foreign trade transactions
(US$ million)



Source: SBS
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Credit balances valued at a fixed exchange rate of 2,904 soles per dollar.

November drop in interest rates on commercial loans

Interest rates on commercial loans **in soles** dropped by 100 bp in November. This hints at a lower perception of risk in a climate of improved economic activity and tight levels of liquidity in soles in banks. Also, in view of the performance of the BCR's policy rate, the 90-day corporate preferential rate remained relatively stable in November.

With the exception of the rate on consumer loans, which dropped by 120 bp, **dollar interest rates** remained stable, in accordance with interest rate trends on international markets.

Default rate records slight increase in October

The default rate calculated as bad debt portfolio divided by total portfolio recorded a slight increase in October, from 1.58% in September to 1.63%. However, this level falls short of the maximum level recorded during the year (1.69% in August). The microloans segment posted the greatest default rate increase, from 4.86% to 5.08% in the last month.

The bad debt portfolio of banks rose by around 4% in October, although bearing in mind provision levels, equivalent to 232% of the bad debt portfolio, this will not pose problems for banks.

In a less uncertain international climate, banks are rearranging their liquidity structure

In recent months, banks have continued to rearrange their liquidity structure, increasing their liquid assets in soles and reducing their liquid assets in dollars, against a backdrop of relative stability on international markets. At the moment, the liquidity structure of banks has gone back to how it was prior to the start of the recession.

Appraisal

After two consecutive months of negative results, October saw an upturn in credit flow, mainly in the business segment. The bank system's financial indicators continue to show strength and positive results, which has allowed it to deal with the recession without too many problems. In the coming months we expect an upturn in credit in line with GDP performance.

Table 1: bank interest rates (%)

	Local currency					Chg. pp	
	Dic-08	Ago-09	Sep-09	Oct-09	Nov-09	Nov-Oct	Nov-Dec08
Corporate 90 d.	7.5	2.0	1.8	1.8	1.7	-0.1	-5.8
Commercial	11.0	7.4	7.4	7.8	6.8	-1.0	-4.2
Small business	35.3	34.0	33.2	32.7	32.4	-0.3	-2.8
Consumer	37.8	44.1	41.7	41.7	42.7	1.0	4.9
Mortgage	11.4	10.1	10.0	9.9	9.8	-0.1	-1.6
	Foreign currency					Chg. pp	
	Dic-08	Ago-09	Sep-09	Oct-09	Nov-09	Nov-Oct	Nov-Dec08
Corporate 90 d.	5.2	1.5	1.4	1.2	1.2	0.0	-4.0
Commercial	9.3	7.4	7.4	6.8	6.7	-0.1	-2.6
Small business	23.9	23.2	22.7	22.3	22.4	0.2	-1.5
Consumer	20.8	21.9	22.0	22.6	21.4	-1.2	0.5
Mortgage	10.8	9.9	9.7	9.4	9.2	-0.2	-1.6

Source: SBS
Produced by BBVA Banco Continental Economic Research Department

Table 2: bank system financial indicators (%)

	Prom. IIT	Sep-09	Oct-09
Global capital (%) 1/	n.d	13.7	n.d
Delinquency (NPL/total)	1.6	1.6	1.6
Commercial	1.1	1.0	1.1
Small business	4.2	4.9	5.1
Consumer	2.9	2.9	2.9
Mortgage	0.8	0.9	0.9
Provisions (% NPL)	228.2	238.4	232.4
Efficiency 2/	43.9	43.7	43.7
ROE	28.1	25.8	25.2
Liquidity in local currency	24.0	35.8	41.5
Liquidity in foreign currency	57.2	42.7	39.6

1/ Equity as a percetage of assets and contingent total risk weighted (credit, market and operational)
2/ Operative expenses as a percentage of financial margin

Source: SBS
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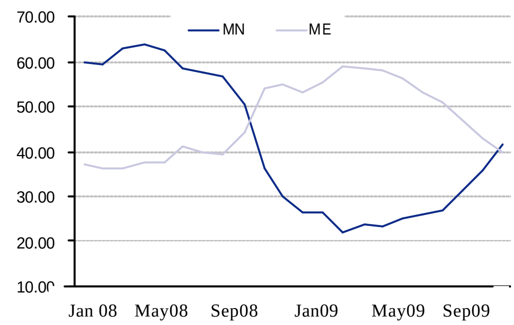
Chart 4: liquidity ratio in accordance with currency (%)



Source: SBS
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