Scotiabank Uruguay S.A.

Update

Ratings

Foreign Currency

Long-Term IDR	BBB+
Viability Rating	bb-
Support Rating	2

Local Currency

Long-Term IDR	A-

Sovereign Risk

Foreign-Currency Long-Term IDR	BBB-
Local-Currency Long-Term IDR	BBB

Outlooks

Foreign-Currency Long-Term IDR	Stable
Local-Currency Long-Term IDR	Stable
Sovereign Foreign-Currency Long-Term IDR	Stable
Sovereign Local-Currency Long-Term IDR	Stable

Financial Data

Scotiabank Uruguay

	31 Dec 14	31 Dec 13
Total assets (USDm)	1.993.8	1.908.4
Total assets (UYUm)	45.516.1	40.818.1
Total equity (UYUm)	3.274.3	2.500.9
Operating profit (UYUm)	337.1	85.5
Published net income (UYUm)	296.8	(203.3)
Comprehensive income (UYUm)	139.5	(245.2)
Operating ROAA (%)	0.75	0.23
Operating ROAE (%)	11.67	3.66
Internal capital generation (%)	8.26	(8.13)
Fitch Core Capital/weighted risks (%)	8.99	7.62
NPL ratio (%)	2.64	2.29
Reserves/Impaired Loans (x)	1.76	1.64

Related Criteria

'Global Bank Rating Criteria' (March 20,2015)

Related Research

2015 Outlook: Uruguayan Banks (Soft Landing for Uruguayan Banks)

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Key Rating Drivers

Strong Shareholders Support: Scotiabank Uruguay's IDRs and SR are driven by its ultimate parent, Bank of Nova Scotia (BNS, rated 'AA-' Stable Outlook), ability and propensity to provide support, if would be required. Fitch considers Scotiabank Uruguay as an important subsidiary for its parent while it benefits from strong synergies with BNS. In Fitch's view, Uruguay will remain as a strategic market for BNS, enhanced by the recent announcement of the acquisition of Discount Bank.

Improved Profitability and Capitalization: The bank's VR considers its improved profitability and capitalisation ratios, though they remain lower than those of its closest peers. The VR is also underpinned by the bank's ample liquidity and growing franchise while it is tempered by the below-average asset quality metrics.

Neutral Effects the Acquisition of Discount Bank: Fitch believes the expected acquisition of Discount Bank fits well into Scotiabank Uruguay's current business model and could allow potential cross-sales. The acquisition should contribute to customer and funding diversification. The acquisition of Discount Bank will not materially affect Scotiabank Uruguay's capital position as BNS is expected to finance the transaction and inject fresh capital to absorb future expenses related to the transaction.

Improved Capitalization: In Fitch's view, Scotiabank Uruguay's capital ratios could stabilize in 2015, following a relevant improvement in the past year (Fitch Core Capital [FCC] 2014: 9% vs. 2013: 7.6%). The positive trend in the bank's operating performance will also contribute in this regard. The acquisition of Discount Bank will not materially affect Scotiabank Uruguay's capital position as BNS is expected to finance the transaction and inject fresh capital to absorb future expenses related to the transaction.

Acceptable Asset Quality: Sixty-day non-performing loan (NPL) ratios remained above domestic private bank's averages; however, the bank has been able to contain further deterioration through recurrent loan sales and a consistent charge-off policy (1.33% of average loans). Fitch expects Scotiabank Uruguay's delinquency levels will continue to be relatively high considering its greater focus on retail loans.

Stable Funding and Ample Liquidity: Scotiabank Uruguay shows a growing, diversified, and stable funding structure. The bank's liabilities are largely made up of deposits, which have grown close to 20% over the last two years. While Scotiabank Uruguay operates on mostly short-term funding, its ample liquidity, relatively short-term nature of its loan portfolio, and potential for support from BNS, facilitates ALM.

Rating Sensitivities

Sovereign Considerations: Scotiabank Uruguay's FC IDR is capped by the country ceiling while its local currency IDR is two notches above the sovereign rating in local currency. Hence, positive rating actions are contingent upon upgrades in Uruguay's sovereign rating. In turn, changes in Scotiabank Uruguay's shareholder's ability or willingness to provide support could negatively affect its ratings.

Sustained Improvements in Financial Performance: Scotiabank Uruguay's VR could eventually be upgraded if the bank is able to sustain its recent improvements in profitability (i.e. operating ROAA of around 1% and FCC ratio above 9%). NPL ratios below 3% would also be positive for the rating. In turn, the VR could be negatively affected if Scotiabank Uruguay shows sustained operating ROAAs below 1% and FCC ratios below 8%. NPL ratios above 3% would also be negative for the rating.