MOODY'S
INVESTORS SERVICE

CREDIT OPINION
7 September 2023

Update

Send Your Feedback

RATINGS

Banco BBVA Peru S.A.

Domicile	Lima, Peru
Long Term CRR	Baa1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Baa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Rodrigo Marimon Bernales +52.55.4840.1315
AVP-Analyst
rodrigo.bernales@moodys.com

» *Contacts continued on last page*

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Banco BBVA Perú S.A.

Update to credit analysis

Summary

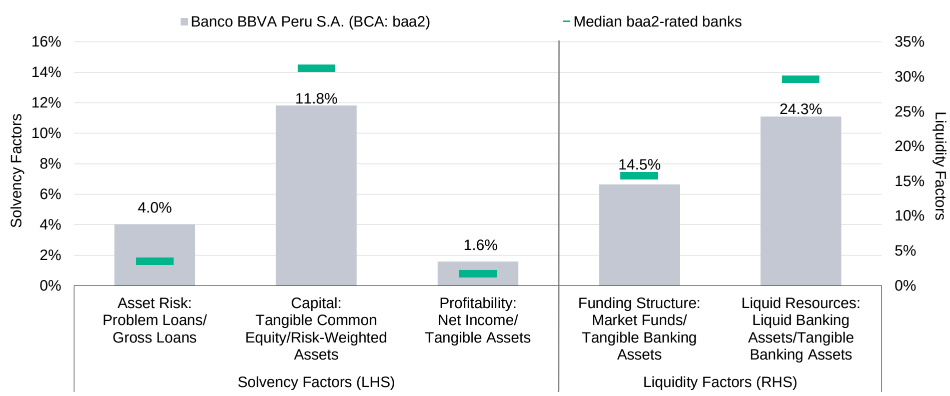
Banco BBVA Perú S.A.'s (BBVA) Baa1 deposit ratings and baa2 Baseline Credit Assessment (BCA) reflect the bank's adequate asset-risk metrics that are supported by disciplined risk policies and its good earnings generation capacity as the second-largest banking franchise in Peru (Baa1 negative). The ratings also capture its ample retail deposit base which limits reliance on market funding. However, BBVA's capitalization level remains moderate, resulting from its stronger expansion into unsecured consumer lending in recent years, which increased the bank's exposure to riskier assets.

The negative outlook considers our view that social and political risks have intensified, threatening, over the next few years, a deterioration in institutional cohesion, governability, policy effectiveness and economic strength in Peru.

BBVA's Baa1 deposit ratings benefit from one notch of uplift from its Adjusted BCA of baa2 and reflect our assumption of high probability of government support in case of stress, because of its systemic importance and sizable deposit market share.

Exhibit 1

Rating Scorecard - BBVA's key financial ratios against the global median of baa2-rated banks
As of June 2023



For the asset-risk and profitability ratios, we calculate the average of the three latest year-end numbers and the latest quarterly data, if available, and the ratio used is the weaker of the average versus the latest period. For the capital ratio, we use the latest reported figure. For the funding structure and liquid resources ratios, we use the latest year-end figures.
Source: Moody´s Investors Service

Credit strengths

» Adequate asset quality based on a well-balanced lending portfolio, industry diversification and conservative credit risk management

» Good earnings generation is based on adequate margins and high cost efficiency

» Ample base of granular low-cost deposits and limited use of market funds

Credit challenges

» Capitalization metrics are moderate and lower than those of its global peers

» A deterioration in the direction of economic institutions, such as the central bank, the bank regulator and the ministry of finance, that have so far supported solid fundamentals in the financial system could negatively affect the bank's financial strength

» Increase in problem loans related to the bank's expansion into consumer lending, as well as some delays in the realization of government guarantees

Outlook

The negative outlook on the supported deposit and senior unsecured debt ratings of BBVA, is aligned to the change in the outlook of Peru's sovereign rating to negative which reflects Moody's view that social and political risks have intensified.

Factors that could lead to an upgrade

Upward pressure on BBVA's BCA would arise from a higher capitalization and sustained improvement in profitability without an increase in delinquencies and credit costs.

Factors that could lead to a downgrade

Further deterioration in BBVA's asset quality resulting from its expansion into unsecured consumer lending and a delayed recovery in profitability, which would also create uncertainty around the recovery in its capital levels, would lead to downward pressure on the bank's BCA. Given moderate affiliate support from Banco Bilbao Vizcaya Argentaria, S.A. (BBVA Spain, A2/A3 stable, baa2) and high government support, BBVA's supported ratings would not be affected by a downgrade of its BCA.

Key indicators

Exhibit 2

Banco BBVA Peru S.A. (Consolidated Financials) [1]

	06-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (PEN Million)	100,217.8	97,898.1	101,373.3	107,233.0	81,659.9	6.0[4]
Total Assets (USD Million)	27,647.8	25,671.4	25,452.1	29,644.5	24,662.5	3.3[4]
Tangible Common Equity (PEN Million)	11,171.0	11,113.7	10,005.0	9,061.7	8,987.9	6.4[4]
Tangible Common Equity (USD Million)	3,081.8	2,914.3	2,512.0	2,505.1	2,714.5	3.7[4]
Problem Loans / Gross Loans (%)	4.0	3.7	3.3	3.0	2.8	3.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	11.8	11.6	11.3	11.3	11.4	11.5[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	18.3	17.2	16.7	15.9	14.0	16.4[5]
Net Interest Margin (%)	5.1	4.5	3.4	3.4	4.3	4.1[5]
PPI / Average RWA (%)	4.6	4.1	3.8	3.5	4.1	4.0[6]
Net Income / Tangible Assets (%)	2.1	2.1	1.5	0.6	2.0	1.7[5]
Cost / Income Ratio (%)	37.5	38.5	38.6	40.3	37.6	38.5[5]
Market Funds / Tangible Banking Assets (%)	14.2	14.5	22.5	19.9	14.6	17.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	25.1	24.3	25.8	34.1	26.5	27.2[5]
Gross Loans / Due to Customers (%)	106.3	109.4	116.3	97.6	104.5	106.8[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel II; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel II periods.

Sources: Moody's Investors Service and company filings

Profile

Banco BBVA Perú S.A. (BBVA) offers commercial and retail banking services to individuals, micro businesses, small and medium-sized enterprises (SMEs), and large companies. As of June 2023, BBVA was the second-largest Peruvian bank, with market shares of 20.1% in terms of loans and 18.4% in terms of deposits, and reported total consolidated assets of PEN100.2 billion ($27.6 billion).

BBVA was established in 1951 and is the result of the acquisition of Banco Continental in 1995 by Grupo Empresarial Breca (formerly known as Grupo Brescia) and Spain's Banco Bilbao Vizcaya Argentaria, S.A. (BBVA Spain, A2/A3 stable, baa2).[1]

The Breca Group is a diversified holding company with interests in mining, mainly through Minsur S.A., insurance through Rímac Seguros y Reaseguros (Baa2 stable), agriculture, retail, hospitals, cement and hotels.

Detailed credit considerations

Well-balanced lending portfolio and industry diversification

A well-balanced loan portfolio, conservative origination practices and industry diversification will preserve BBVA's asset quality as loans generated during the pandemic come due.

BBVA's 90+ day nonperforming loans (NPLs) increased to 4.0% of gross loans as of June 2023, compared with 3.7% as of June 2022 and are well above the Peruvian banking system's 3.5% as of June 2023, as a result of the bank's strategic shift towards consumer lending and rapid increase in small and medium-sized enterprises (SMEs)' NPLs. Some delays in the receipt of government guarantees has also resulted in some deterioration.

Asset quality could be further challenged by the erosion in investment and business sentiments because of social and political risks. In late 2022 and early 2023, the sectors most affected by road closures and the state of emergency, were agriculture, tourism, transportation and mining, particularly in the south of the country where protests were concentrated. The most exposed industries accounted for 27% of BBVA's loans, as of June 2023.

Nevertheless, BBVA has a sizable exposure to lower-risk corporate and residential mortgages, which accounted for 61% of gross loans as of June 2023 and will ensure that expected losses remain modest and lower than those of peers. The bank's ample use of the Reactiva Perú state guarantees has limited the deterioration. The bank's exposures to higher risk portfolios, such as consumer loans (excluding mortgages) represented 15.4% of gross loans as of June 2023, up from 11.4% in 2019.

Allowance for loan losses are at good levels of 6.6% as of June 2023 and still above pre-pandemic levels. We expect this level of coverage to mitigate any potential further deterioration.

Capitalization is moderate and lower than global peers, but benefits from improved profitability

BBVA's capitalization ratio has been historically below that of its domestic peers as a result of its high dividend payments. We expect BBVA's capitalization to remain in line with the current levels.

The bank's capitalization metric, measured as tangible common equity (TCE)/risk-weighted assets (RWA), was 11.8% as of June 2023, quite above its three-year average of 11.3%, but below that of the Peruvian banking system's average of around 13.2% as of March 2023, despite higher profitability.

Earnings generation benefits from adequate margins, low credit and operating costs

BBVA's good earnings generation is a key credit strength that stems from an ample net interest income (NIM), as well as low credit and operating costs. BBVA's margin has traditionally trailed those of its peers in Peru, but it has benefited in the last 12 months from the bank's expansion into consumer lending and the rapid increase in reference rates. We expect profitability will remain stable during the next 12 months, as a result of higher margins that offset a rise in credit costs related to higher than expected inflation and economic contraction during 2023.

Net income increased 5.1% in the first half of 2023, benefiting from a higher net interest margin (NIM), which offset higher provisioning costs. BBVA's net income increased to 2.1% of tangible assets as of June 2023, well above the last two years and in line with pre-pandemic levels. Through June 2023, credit costs stood at a low 2.1% of average gross loans in June 2023.

The bank's NIM benefited from the strategy to focus on consumer loans, the ample increase in reference rates and its retail deposit base. The NIM (Moody's calculation) increased to 5.1% as of June 2023, 112 basis points above June 2022, in spite of the increase in interest expenses.

In addition, BBVA's cost-to-income ratio remains relatively low at 37.5% in June 2023, slightly below 38.9% as of June 2022. The bank has contained operating expenses despite a high inflation environment.

Large deposit base remains a strength

BBVA's large core deposit base, mainly composed of retail deposits, is a strength. The bank has the second-largest market share in terms of deposits in the Peruvian banking system, at 18.4% as of June 2023. Demand accounts have historically constituted nearly 70% of the bank's total deposits, leading to high stability to the funding costs.

Although deposits have contracted since 2020, BBVA's deposits remained around 21% higher than the pre-pandemic levels, as of June 2023, similar to other banks in the region. Around half of the bank's deposits come from individuals and increased 5.2% during the twelve months ended June 2023. Moreover, although deposits continued to grow, they became more expensive in June 2023 due to a remarkable increase on term deposits, specially on retail term deposits which increased nearly 1.1x, compared to one year earlier. The bank's high dependence on US dollar-denominated deposits remained stable, reducing its balance-sheet currency mismatches and dependence on central bank currency swaps.

Market funds are low as percentage of tangible banking assets and stood at 14.2% as of June 2023, down from 19.5%, one year prior.

BBVA's liquid resources are high and largely invested in high-quality instruments, including cash, Baa1-rated Peruvian central bank instruments and sovereign treasuries, and US sovereign bonds. The bank's liquid assets totaled 25.1% of its tangible banking assets as of June 2023.

BBVA's BCA would be affected by deterioration of Peru's economic institutions, that sustain its Moderate (+) Macro Profile

Peru's Moderate (+) Macro Profile benefits from a long-standing track record of macroeconomic stability and market-friendly policies. Solid economic fundamentals, absence of major macroeconomic imbalances and robust economic institutions have provided a strong and stable environment that supports the country's investment-driven economy.

Social and political risks have intensified, threatening, over the next few years, a deterioration in institutional cohesion, governability, policy effectiveness and economic strength through successive governments. While social unrest threatens to weaken the strength of

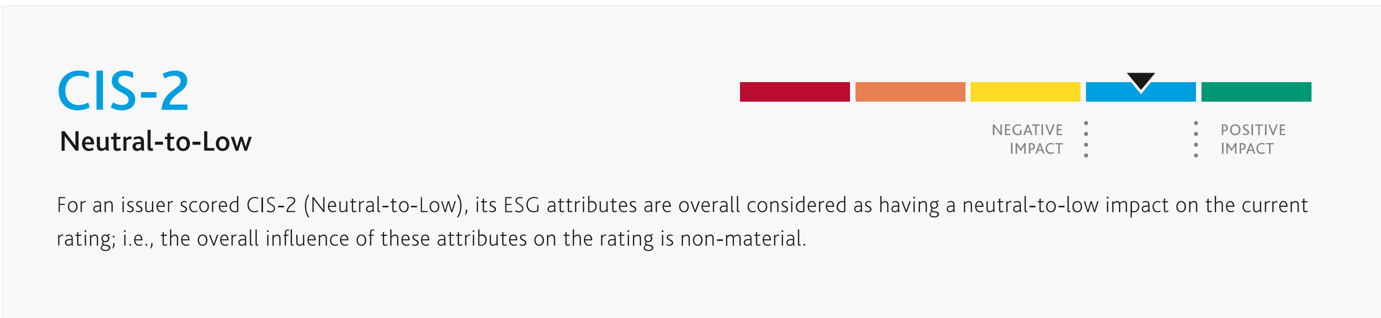
Peru's institutions and governance, Moody's expects that Peru will maintain robust economic institutions that have provided a supportive business environment for the country's banking system. The Moderate (+) Macro Profile assessment will deteriorate if institutional strength weakens because of policies that disrupt the status quo of the central bank, the local regulator or the Ministry of Finance.

Bank lending accelerated during the pandemic but growth was mainly related to the Reactiva Perú program, a state guarantee program that limits asset risks. Peruvian banks continue to be largely core deposit funded and have benefited from ample access to central bank liquidity facilities. Dollarization remains relatively high in Peru. Nevertheless, most US dollar lending is made to US dollar earners with a natural hedge made up of US dollar deposits. The high concentration of the system provides strong pricing power to banks.

ESG considerations

Banco BBVA Peru S.A.'s ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 3
ESG Credit Impact Score



Source: Moody's Investors Service

BBVA Peru's **CIS-2** indicates that ESG considerations are not material to the rating because of the limited credit impact of environmental, social and governance risk factors on the rating to date. Moreover, BBVA Peru's ratings benefit from a high level of government support. BBVA Peru has a track record of strong risk management and consistent earnings recurrence.

Exhibit 4
ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental

BBVA Peru faces environmental risks because of its indirect exposure to carbon transition risks through its commercial portfolio. In line with other subsidiaries of the BBVA group, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, BBVA Peru is engaging in developing its climate risk and portfolio management capabilities.

Social

BBVA Peru faces industrywide social risks related to customer relations. Opportunities from financial inclusion are reflected in a better-than-industry average exposure to demographic and societal trends. High cyber and personal data risks are mitigated by technology solutions and organizational measures to prevent data breaches.

Governance

BBVA Peru's governance risks and its risk management framework and corporate governance are in line with industry practices. Although the bank is not fully owned by Banco Bilbao Vizcaya Argentaria, S.A., we incorporate benefits to the subsidiary's board structure, policies and procedures score from those of its parent given the bank's strategic importance and public affiliation to the parent, the parent's oversight of its subsidiary board and the regulated nature of both entities. BBVA Peru has also demonstrated to have a prudent and stable financial strategy, in line with other subsidiaries of the group.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Affiliate support considerations

We incorporate a moderate likelihood of affiliate support from parent bank BBVA Spain, because of its importance to the franchise. BBVA's ratings nevertheless do not benefit from any uplift because BBVA Spain's intrinsic credit strength is in line with that of its Peruvian subsidiary BBVA (baa2).

Government support considerations

We assess a high likelihood of government support for BBVA's deposits, which results in one notch of uplift from its Adjusted BCA of baa2, because of its large deposit market share, high visibility into the Peruvian market and the significant systemic consequences of an unsupported failure. Financial dollarization limits the Peruvian central bank's capacity to act as a true lender of last resort.

Counterparty Risk (CR) Assessment

BBVA's CR Assessment is Baa1(cr)/P-2(cr)

BBVA's CR Assessment is Baa1(cr)/Prime-2(cr). The CR Assessment is placed at the level of the bank's deposit ratings, reflecting our view that the willingness of the Peruvian government to support any of the bank's obligations is limited by its own capacity.

Counterparty Risk Ratings (CRRs)

BBVA's local- and foreign-currency CRRs are Baa1/P-2

BBVA's long- and short-term CRRs are Baa1/Prime-2. The CRRs are placed at the level of the bank's deposit rating, reflecting our view that the Peruvian government's willingness to support any of the bank's obligations is limited by its own capacity to provide support.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the outcome of our scorecard may significantly differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard outcome and the individual scores are discussed in Rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 5

Banco BBVA Peru S.A.

Macro Factors		
Weighted Macro Profile	**Moderate +**	**100%**

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	4.0%	baa3	↔	baa3	Expected trend	Loan growth
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel II)	11.8%	baa3	↔	ba2	Expected trend	
Profitability						
Net Income / Tangible Assets	1.6%	a3	↓	baa1	Earnings quality	Expected trend
Combined Solvency Score		baa2		baa3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	14.5%	baa1	↔	baa1	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	24.3%	baa3	↔	baa2	Quality of liquid assets	
Combined Liquidity Score		baa2		baa1		
Financial Profile				baa2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				-		
BCA Scorecard-indicated Outcome - Range				baa1 - baa3		
Assigned BCA				baa2		
Affiliate Support notching				0		
Adjusted BCA				baa2		

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency Rating**	**Foreign Currency Rating**
Counterparty Risk Rating	1	0	baa1	-	Baa1	Baa1
Counterparty Risk Assessment	1	0	baa1 (cr)	-	Baa1(cr)	
Deposits	0	0	baa2	-	Baa1	Baa1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
BANCO BBVA PERU S.A.	
Outlook	Negative
Counterparty Risk Rating	Baa1/P-2
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)

Source: Moody's Investors Service

Endnotes

1 The bank ratings shown in this report are the deposit rating, senior unsecured debt rating and BCA.

REPORT NUMBER 1378757

Contacts

Rodrigo Marimon Bernales *AVP-Analyst* rodrigo.bernales@moodys.com	+52.55.4840.1315	**Ceres Lisboa** *Associate Managing Director* ceres.lisboa@moodys.com	+55.11.3043.7317

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S INVESTORS SERVICE