

CREDIT OPINION

16 March 2022

New Issue

 Rate this Research

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	Stable

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.

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Banco BBVA Perú S.A.

Update to credit analysis

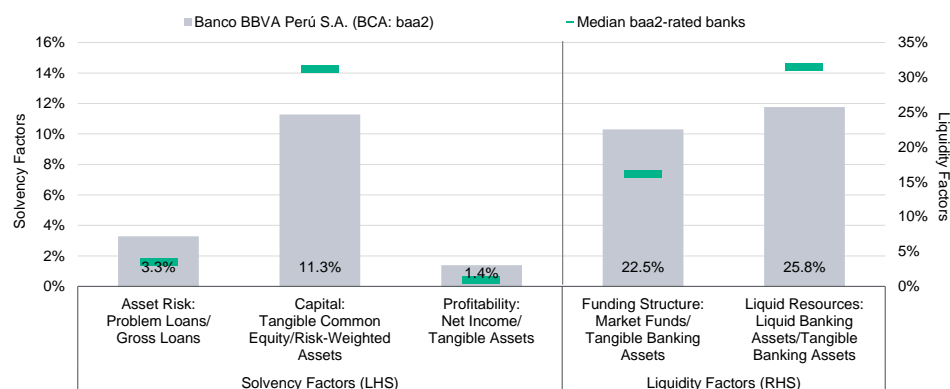
Summary

[Banco BBVA Perú S.A.](#)'s (BBVA) Baa1 deposit ratings and baa2 Baseline Credit Assessment (BCA) are commensurate with the bank's good asset-risk metrics that are supported by disciplined risk policies and its strong earnings generation capacity as the second-largest banking franchise in [Peru](#) (Baa1 stable). The bank's capitalization remain nevertheless moderate, despite an expansion into higher-yielding unsecured consumer loans.

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

Exhibit 1

Rating Scorecard - Key financial ratios As of December 2021



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

- » Good asset-quality metrics, which benefit from a well-balanced lending portfolio, industry diversification and conservative credit risk management
- » Strong 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 economic institutions that have so far supported the financial system's solid fundamentals would weaken Peruvian banks' credit strength

Outlook

The outlook on BBVA's ratings is stable, in line with the stable outlook on the Government of Peru's Baa1 rating. The outlook incorporates our expectation that BBVA's baa2 creditworthiness will be sustained by a recovery in profitability, good asset quality and access to core deposit funding, supported by a disciplined expansion into unsecured consumer lending.

Factors that could lead to an upgrade

Upward pressure on the BCA would arise from BBVA's higher capitalization and sustained improvement in profitability without an increase in delinquencies and credit costs. However, an upgrade of the BCA would not translate into an upgrade of the supported ratings, because they already are at the same level as those of the Peruvian government (Baa1).

Factors that could lead to a downgrade

A significant deterioration in BBVA's asset quality resulting from a further 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 and supported ratings.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

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

	12-21 ²	12-20 ²	12-19 ²	12-18 ³	12-17 ³	CAGR/Avg. ⁴
Total Assets (PEN Million)	101,373.3	107,233.0	81,659.9	74,874.4	76,521.9	7.3 ⁵
Total Assets (USD Million)	25,452.1	29,644.5	24,662.5	22,162.0	23,614.2	1.9 ⁵
Tangible Common Equity (PEN Million)	10,005.0	9,061.7	8,987.9	8,172.6	7,503.1	7.5 ⁵
Tangible Common Equity (USD Million)	2,512.0	2,505.1	2,714.5	2,419.0	2,315.4	2.1 ⁵
Problem Loans / Gross Loans (%)	3.3	3.0	2.8	2.7	2.4	2.9 ⁶
Tangible Common Equity / Risk Weighted Assets (%)	11.3	11.3	11.4	11.9	11.5	11.5 ⁷
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	16.7	15.9	14.0	13.6	12.9	14.6 ⁶
Net Interest Margin (%)	3.4	3.4	4.3	4.2	3.8	3.8 ⁶
PPI / Average RWA (%)	3.8	3.5	4.1	4.3	4.1	4.0 ⁷
Net Income / Tangible Assets (%)	1.5	0.6	2.0	2.0	1.8	1.6 ⁶
Cost / Income Ratio (%)	38.6	40.3	37.6	37.4	38.2	38.4 ⁶
Market Funds / Tangible Banking Assets (%)	22.5	19.9	14.6	15.1	20.7	18.6 ⁶
Liquid Banking Assets / Tangible Banking Assets (%)	25.8	34.1	26.5	26.1	30.2	28.5 ⁶
Gross Loans / Due to Customers (%)	116.3	97.6	104.5	106.4	105.4	106.0 ⁶

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel II; LOCAL GAAP. [3] Basel III; LOCAL GAAP. [4] May include rounding differences because of the scale of reported amounts. [5] Compound annual growth rate (%) based on the periods for the latest accounting regime. [6] Simple average of periods for the latest accounting regime. [7] 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 December 2021, BBVA was the second-largest Peruvian bank, with market shares of 21.4% in terms of loans and 19.3% in terms of deposits, and reported total consolidated assets of PEN101.4 billion (\$25.5 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, agriculture, retail, hospitals, cement and hotels, as well as insurance through [Rímac Seguros y Reaseguros](#) (Baa2 stable).

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. Ample use of state-guaranteed loans will also limit expected losses.

BBVA has a sizable exposure to lower-risk corporate and residential mortgages, which accounted for 58.7% of gross loans as of December 2021 and ensure that expected losses remain modest and lower than those of peers. The bank's ample use of the Reactiva Perú state guarantees limited the deterioration in its higher risk portfolios, including that of SMEs. In 2021, BBVA's loan book grew 5.6%, without Reactiva loans the portfolio would have increased by 13.3%.

BBVA's strategy to expand into higher-margin consumer lending benefited from the fast economic recovery in Peru during 2021. Consumer loans represented 11% of gross loans as of December 2021, compared with 9% a year earlier.

BBVA's 90+ day nonperforming loans (NPLs) increased as a result of high political uncertainty and volatility in the exchange rate. As of December 2021, NPLs increased to 3.3% of gross loans as of December 2021, compared with 3.0% a year earlier and slightly above the Peruvian banking system's 3.1% as of December 2021. The bank's asset quality will benefit from a good performance in its most sensitive exposures, those related to Reactiva, and those that were refinanced and reprogrammed, which represent a much lower 21% of the portfolio as of December 2021, down from 42% a year ago. Reserve coverage at 1.9x NPLs as of December 2021, will be an important mitigant in case of further deterioration as higher inflation lasts longer than expected, related to the Ukraine invasion.

In 2021, BBVA recorded the highest number of problem loans in its small consumer loans and credit card portfolio, while the problem loans in its large and medium-sized corporate portfolios increased only slightly.

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

BBVA's capitalization ratio has been historically below that of its domestic peers as a result of its high dividend payments. The bank's capitalization, measured as tangible common equity (TCE)/risk-weighted assets (RWA), was 11.3% as of December 2021, slightly below its three-year average of 11.6% and well below that of the Peruvian banking system's average of 12.6% as of September 2021.

Capitalization metrics benefitted from BBVA's earnings improved and moderate loan portfolio growth of 5.6%. Capital levels were also supported by the growth in Reactiva loans that benefit from a low loss given default because of a state guarantee, and as a result, have a lower risk weight. We expect BBVA's capitalization to remain in line with the current levels.

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

BBVA's high 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 will benefit from the bank's expansion into consumer lending as pandemic-related uncertainties decrease.

Net income increased 140% in 2021 compared with the previous year, benefiting from lower provisions and efficiency gains. Its net income/tangible assets increased to 1.6% as of December 2021 from 0.6% as of December 2020. BBVA's NIM remained stable at 3.4% during 2021, and will likely benefit from higher interest rates during 2022 and the bank's strategy to expand into higher-margin consumer lending in light of a continued economic recovery.

BBVA's cost-to-income ratio of 39% remains strong, as a result of cost controls supporting the bank's net income. The bank's operating costs were 2.0% of its assets in 2021, up slightly from 1.8% in 2020 but down from 2.3% in 2019 (pre pandemic metrics).

In addition, credit costs decreased in line with lower pandemic-related risks, at a low of 1.0% of gross loans and 23.7% of pre-provision income as of December 2021, down from 2.5% and 62.2%, respectively, in 2020.

Going forward, the bank will benefit from higher interest rates and ample deposit base that would lead to higher net interest margins.

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 around 19.3% as of December 2021. Demand accounts have historically constituted more than 70% of the bank's total deposits leading to high stability to the funding costs.

Although deposits decreased in 2021, BBVA's deposits remained around 20% higher than the pre-pandemic levels, similar to those of most banks in the region. Moreover, although deposits contracted, cheaper demand and savings deposits from individuals increased 14.8% during 2021. More than half of the bank's deposits come from individuals and increased 10.6% during 2021. During 2021 the bank also limited its exposure to less-reliable and more cost-sensitive institutional deposits by 2.6%. In addition, 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.

BBVA's market funding increased since the start of the pandemic, in line with the use of central bank lines to fund government-sponsored loans from the Reactiva program. The market funds as percentage of tangible banking assets stood at 2.5% as of December 2021 from 14.6% as of 2019.

In addition, 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 25.8% of its tangible banking assets as of December 2021, reflecting very high liquidity requirements in Peru.

BBVA's BCA is supported by Peru's 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, an absence of major macroeconomic imbalances and robust economic institutions have provided a strong and stable environment that supports the country's investment-driven economy.

Our Moderate + macro profile could deteriorate if institutional strength diminishes 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 state-guaranteed Reactiva Perú program that limits asset risks. Peruvian banks remain largely core deposit funded and have benefited from ample access to central bank liquidity facilities. Dollarization remains relatively high in Peru. Nevertheless, most of the US dollar lending is made to US dollar earners with a natural hedge made up of US dollar deposits. The high concentration in the system provides strong pricing power to banks.

ESG considerations

BBVA's exposure to environmental risks is low, consistent with our general assessment of the global banking sector. See our [environmental risk heat map](#) for further information.

BBVA's exposure to social risks is moderate, consistent with our general assessment of the global banking sector. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the areas of data security and customer privacy, which are mitigated by sizable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are further social risks. Social trends are also relevant in a number of areas, such as shifting customer preferences toward digital banking services increasing information technology costs, aging population concerns in several countries affecting the demand for financial services or socially driven policy agendas translating into regulations that affect banks' revenue base. See our [social risk heat map](#) for further information.

Governance is highly relevant for BBVA, as it is to all participants in the banking industry. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, whereas governance strengths can benefit a bank's credit profile. Governance risks are largely internal rather than externally driven, and for BBVA, we do not have any particular governance concerns. However, corporate governance remains a key credit consideration and requires ongoing monitoring.

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 moderate 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. Because financial dollarization limits the Peruvian central bank's capacity to act as a true lender of last resort, we consider the probability of government support for only systemically important banks.

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 3

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	3.3%	baa2	↔	baa3	Expected trend	Loan growth	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel II)	11.3%	ba2	↔	ba1	Expected trend		
Profitability							
Net Income / Tangible Assets	1.4%	baa1	↑	a3	Earnings quality	Expected trend	
Combined Solvency Score		baa3		baa3			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	22.5%	baa3	↔	baa1	Deposit quality		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	25.8%	baa2	↔	baa2	Quality of liquid assets		
Combined Liquidity Score		baa3		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 4

Category	Moody's Rating
BANCO BBVA PERU S.A.	
Outlook	Stable
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 ratings shown in this report are the bank's deposit rating, senior unsecured debt rating and BCA.

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