

CREDIT OPINION

11 November 2020

New Issue

✓ Rate this Research

RATINGS

Banco BBVA Peru S.A.

Domicile	Lima, Peru
Long Term CRR	A3
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

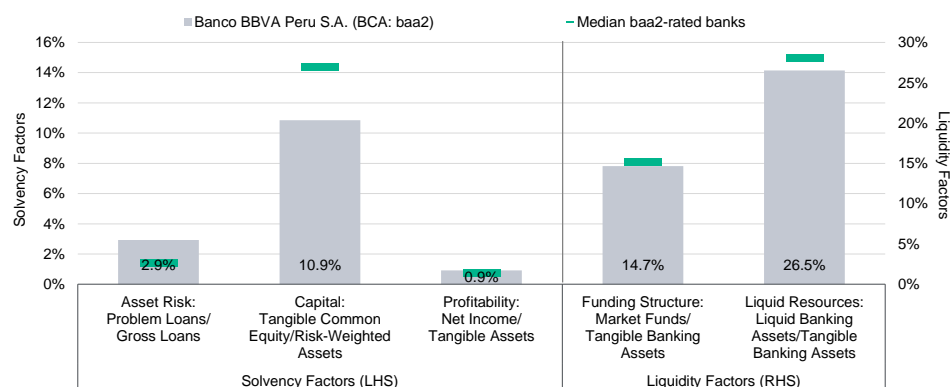
[Banco BBVA Perú S.A.](#)'s (BBVA) Baa1 deposit ratings reflect the bank's Baseline Credit Assessment (BCA) of baa2, which benefits from its good asset quality, high profitability and good capitalization, which is driven by its conservative credit risk management and a well-balanced loan mix, and robust reserve coverage. In addition, the bank benefits from a large base of granular low-cost deposits and strong pricing power as the second-largest banking franchise in Peru.

BBVA's deposit ratings of Baa1 incorporate our assessment of 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 significant deposit market share, high visibility in the Peruvian market and the significant systemic consequences of an unsupported failure.

Exhibit 1

Rating Scorecard - Key financial ratios

BBVA Peru's data as of June 2020



Source: Moody's Financial Metrics™

Credit strengths

- » Good asset-risk metrics, in line with the bank's well-balanced lending portfolio, industry diversification and conservative credit risk management
- » Strong earnings generation that benefits from ample margins and high cost efficiency
- » Ample base of granular low-cost deposits and limited use of market funds

Credit challenges

- » Lower capitalization metrics than those of its domestic peers
- » Asset quality and profitability will deteriorate because of the deep recession caused by the pandemic

Outlook

The outlook on BBVA's deposit ratings is stable, in line with the stable outlook on the [Government of Peru](#)'s A3 rating, and incorporates our view that BBVA's baa2 creditworthiness will be sustained by ample profitability, good asset quality and increasing core deposit funding, balanced by adequate capitalization and its disciplined expansion into unsecured consumer lending.

Factors that could lead to an upgrade

BBVA's ratings could be upgraded as a result of higher capitalization and sustained improvement in profitability, without increases in delinquencies and credit costs.

Factors that could lead to a downgrade

A significant deterioration in asset quality or lower capitalization would lead to a downgrade of the bank's ratings.

Key indicators

Exhibit 2

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

	06-20 ²	12-19 ²	12-18 ³	12-17 ³	12-16 ³	CAGR/Avg. ⁴
Total Assets (PEN Million)	96,965.9	81,659.9	74,874.4	76,521.9	78,524.2	6.2 ⁵
Total Assets (USD Million)	27,426.4	24,662.5	22,162.0	23,614.2	23,420.1	4.6 ⁵
Tangible Common Equity (PEN Million)	8,897.1	8,987.9	8,172.6	7,503.1	6,893.4	7.6 ⁵
Tangible Common Equity (USD Million)	2,516.5	2,714.5	2,419.0	2,315.4	2,056.0	5.9 ⁵
Problem Loans / Gross Loans (%)	2.9	2.8	2.7	2.4	2.1	2.6 ⁶
Tangible Common Equity / Risk Weighted Assets (%)	10.9	11.4	11.9	11.5	10.7	11.3 ⁷
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	15.6	14.0	13.6	12.9	12.0	13.6 ⁶
Net Interest Margin (%)	3.6	4.3	4.2	3.8	3.7	3.9 ⁶
PPI / Average RWA (%)	3.2	4.1	4.3	4.1	4.0	3.9 ⁷
Net Income / Tangible Assets (%)	0.9	2.0	2.0	1.8	1.7	1.7 ⁶
Cost / Income Ratio (%)	42.1	37.6	37.4	38.2	39.3	38.9 ⁶
Market Funds / Tangible Banking Assets (%)	16.4	14.6	15.1	20.7	24.1	18.2 ⁶
Liquid Banking Assets / Tangible Banking Assets (%)	29.2	26.5	26.1	30.2	32.1	28.8 ⁶
Gross Loans / Due to Customers (%)	99.1	104.5	106.4	105.4	105.3	104.1 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 midsize enterprises (SMEs) and large corporates. As of June 2020, BBVA was the second-largest Peruvian bank, with market shares of 20.6% in terms of loans and 21.1% in terms of deposits, and reported total consolidated assets of PEN96.9 billion (\$27.4 billion).

The bank operated a network of about 318 branches in Peru as of the same date and is regulated by Superintendencia de Banca, Seguros y AFP (SBS).

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.

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, baa2¹).

The Breca Group is a diversified holding with interests in mining, agriculture, retail, hospitals, cement and hotels, as well as insurance through [Rímac Seguros y Reaseguros](#) (Baa2 stable).

Recent developments

In August 2020, [we changed our outlook on the Peruvian banking system to negative](#) from the stable outlook in place since June 2019 and maintained in our April 2020 update at the onset of the pandemic. The negative outlook reflects increased asset risks because of the severe economic fallout of the pandemic-related lockdowns that stifled business activity but failed to contain the public health threat. The increase in asset risks will translate into higher loan delinquencies, which will reduce banks' profitability, although the government's response will help mitigate the short-term damage.

Detailed credit considerations

Well-balanced lending portfolio and industry diversification, but asset risk will deteriorate because of the pandemic

BBVA's well-balanced loan portfolio and industry diversification have helped preserve its asset quality despite the economic slowdown in Peru. The sizable, low-risk corporate and mortgage loan component, which accounts for almost 62% of gross loans, ensures that delinquencies are modest and below peers. However, BBVA's exposure to mid-sized companies, which makes up 22% of its loan book, has had a relatively poorer long-run performance because of the inherent higher risk of this segment.

While BBVA intends to grow its market share in unsecured consumer lending, which currently lags that of peers, the deterioration in operating conditions triggered by the coronavirus outbreak and containment measures implemented in Peru will delay its plans and help limit asset-quality deterioration. The bank's exposures to SMEs, the riskier sector in the Peruvian economy, will drive a further deterioration in NPLs in a less benign economic scenario led by the coronavirus outbreak. Nevertheless, the deterioration will be limited by the bank's conservative origination practices, the extent of measures taken by Peruvian authorities to mitigate the effects of the coronavirus outbreak, and the robust reserve coverage of 1.82x NPLs as of June 2020. Moreover, although Peru's GDP will contract in 2020, it will be followed by a very strong recovery. The bank has experienced high repayment among loans that were rescheduled at the onset of the pandemic. Only a small portion of borrowers that benefitted from rescheduled have not been able to pay.

BBVA's 90+ days nonperforming loans (NPL) to gross loans fell to 2.7% as of September 2020, slightly above the 2.6% average reported over the past three years but down 20 basis points from June 2020 and below the Peruvian banking system's 2.9% as of September 2020.

Adequate capitalization, but lower than that of domestic peers

BBVA's capitalization ratio is aided by consistently solid earnings generation and moderate loan growth, despite its higher-than-peer dividend payouts. BBVA's Moody's-adjusted capitalization ratio, measured as tangible common equity (TCE) relative to risk-weighted assets (RWAs), averaged 11.3% over the last four years and 11.4% as of September 2020, is below the 13% average for the Peruvian banking system as of June 2020. During the Q3 2020, the bank's capital benefitted from about a 50 basis point increase mainly because of contraction in RWAs.

We expect lower credit expansion and limited dividend payouts in 2020-21 to offset the lower profitability stemming from the pandemic, which will support its current capitalization levels.

Earnings generation will remain strong but will be strained by provisioning needs in the next few months

BBVA's high earnings generation is a key credit strength and it stems from ample and growing net interest margins (NIMs), as well as low credit and operating costs. The bank's margins have traditionally trailed those of its peers in Peru, but have benefitted from its expansion into consumer lending.

While we expect the bank to remain profitable in 2020, the low interest rates and the weak economy in Perú will strain interest and fee income for the rest of 2020. As payment holidays come to a close, the bank may face further increases in provisioning needs.

During the H1 2020, BBVA's net income declined 67% from the year-earlier period, primarily because of a sharp 135% jump in provisions, a move also made by other banks in the Peruvian banking system in times of significant market volatility and increased

risk conditions. However, already in the Q3 2020, net income increased to 26% when compared to Q2 2020, as a result of higher net interest income as a result of faster loan growth and lower funding costs, as well as increased fees related to more credit card use as the economy picked up, restructurings also boosted fees, which offset continued high provisions.

The bank's NIM remains ample and increased to 4% during Q3 2020, up from 3.6% during Q2 2020, mainly as a result of a contraction in interest expenses, as the bank benefitted from continued access to inexpensive core deposits, reflecting its large banking franchise in Peru. The bank's NIM nevertheless remains about 50 basis points below 2019's because of lower interest rates as short-term loans have come due, the bank's move towards lower risk portfolios and the use of Reactiva Perú, a program of government guaranteed loans with low rates which the bank has used to provide financing to troubled mid-sized companies. The bank's profitability will also benefit from the accelerated digitalization during the pandemic, on top of the bank's traditional cost discipline. In fact, operating expenses fell to 1.8% of total assets during Q3 2020 and Q2 2020, from 2.1% in Q1 2020 and Q2 2019.

Large deposit base remains a strength for the bank

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, with a 21.1% share as of June 2020. Demand accounts represented the bulk of the bank's total deposits, at 79%, in June 2020.

The bank's deposits grew 18% during the first half of the year. More than half of the bank's deposits come from individuals, limiting the bank's exposure to less-reliable and more cost-sensitive institutional deposits. In addition, the bank's high dependence on US dollar-denominated deposits has decreased, reducing the bank's balance-sheet currency mismatches and leaving it less dependent on central bank currency swaps. BBVA's gross loans/deposits was 100% as of June 2020, slightly below the historical levels of around 105%.

Market funding increased in line with the use of central bank lines to fund government-sponsored loans, to a still relatively low 22% of tangible banking assets as of Q3 2020, from 16% as of Q2 2020.

In addition, liquid resources are high and largely invested in high-quality instruments. Liquid assets totaled 30% of tangible banking assets as of June 2020, reflecting the very high liquidity requirements in Peru. BBVA's liquid resources are invested in high-quality instruments, including cash, A3-rated Peruvian central bank instrument and sovereign treasuries, and US sovereign bonds. In addition, between March and June 2020, there was a strong and atypical increase in total liquidity in the financial system as a result of the economic measures put in place by the Ministry of Economy and Finance, in coordination with the BCRP, Cofide and the bank regulator, to implement and execute short-term liquidity injection programs.

BBVA's BCA is supported by Peru's Moderate+ Macro Profile

Banks in Peru benefit from the country's track record of macroeconomic stability, supported by solid economic fundamentals, a market-friendly policy framework and strong economic institutions. Despite Peru's resilient, dynamic and investment-led economy, the country's income levels remain relatively low. Moreover, the country faces persistent institutional challenges stemming from corruption, political infighting, a weak judicial system and an inefficient bureaucracy, particularly at the local level.

ESG considerations

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

BBVA's exposure to social risks is moderate, consistent with our general assessment for 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 area of data security and customer privacy, which are partly 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 a further social risk. 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 risks 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, while 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. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

Affiliate support considerations

BBVA's Baa1 deposit ratings do not benefit from affiliate support because its parent, Banco Bilbao Vizcaya Argentaria, S.A. (BBVA Spain, A2 stable, baa2²), has an intrinsic strength that is in line with that of its Peruvian subsidiary (baa2).

Although the bank is very important to BBVA Spain and there is a moderate likelihood of parental support, if needed, the current support and dependence assumptions result in no uplift for BBVA's ratings.

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 important 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 the last resort, we consider a probability of government support for only systemically important banks.

Counterparty Risk Ratings (CRRs)

CRRs are opinions of the ability of entities to honor the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honored. CRR liabilities typically relate to transactions with unrelated parties. CRRs are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in the event of a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivative transactions and the uncollateralized portion of liabilities under sale and repurchase agreements.

BBVA's local- and foreign-currency CRRs are positioned at A3/Prime-2.

The CRR of A3 is two notches above BBVA's Adjusted BCA of baa2 based on our understanding of legal priorities of claim, as well as certain key rating assumptions described in our Banks rating methodology, the CRR would typically be positioned in line with the CR Assessment

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquid facilities.

BBVA's CR Assessment is positioned at A3(cr) and Prime-2(cr).

The CR Assessment of A3(cr) is two notches above BBVA's Adjusted BCA of baa2 based on our view that senior obligations represented by the CR Assessment will more likely be preserved than senior unsecured debt to minimize losses, avoid the disruption of critical functions and limit contagion. This CR Assessment reflects an issuer's probability of defaulting on certain operating liabilities and other contractual commitments that are less likely to be subject to the application of a resolution tool to ensure the continuity of operations.

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 output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output 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		2.9%	baa1	↓↓	baa3	Expected trend	Loan growth
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel II)		10.9%	ba2	↔	baa3	Expected trend	
Profitability							
Net Income / Tangible Assets		0.9%	baa3	↓↓	a3	Earnings quality	Expected trend
Combined Solvency Score			baa3		baa2		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		14.6%	baa1	↓	baa1	Deposit quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		26.5%	baa2	↔	baa2	Quality of liquid assets	
Combined Liquidity Score			baa1		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					A3		
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	1	A3	A3
Counterparty Risk Assessment		1	0	baa1 (cr)	1	A3(cr)	
Deposits		0	0	baa2	1	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	A3/P-2
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A3(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.
- [2](#) The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating (where available) and Baseline Credit Assessment.

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