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CREDIT OPINION
25 March 2021

New Issue

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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.

Contacts

Felipe Carvallo +52.55.1253.5738
VP-Sr Credit Officer
felipe.carvallo@moodys.com

Luis Fernando Baza +52.55.1253.5735
Associate Analyst
luis.baza@moodys.com

Ceres Lisboa +55.11.3043.7317
Senior Vice President
ceres.lisboa@moodys.com

» Contacts continued on last page

Banco BBVA Perú S.A.

Update to credit analysis

Summary

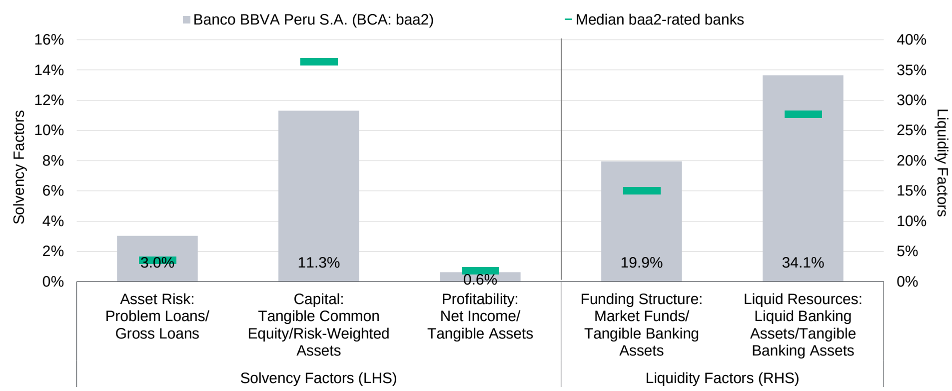
Banco BBVA Perú S.A.'s (BBVA) Baa1 deposit ratings reflect the bank's Baseline Credit Assessment (BCA) of baa2, which benefits from a good asset quality, high profitability and moderate capitalization metrics, which are driven by its conservative credit risk management and well-balanced loan mix. Through January 2021, BBVA has generated robust reserves that represent 6.5% of gross loans, up 153 basis points from December 2019, an important mitigant for expected deterioration related to the pandemic. In addition, BBVA's baa2 BCA 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 the bank's deposits, which results in one notch of uplift from its Adjusted BCA of baa2, because of its significant deposit market share, its high visibility in the Peruvian market and the significant systemic consequences of an unsupported failure.

Exhibit 1

Rating Scorecard - Key financial ratios

BBVA's data as of December 2020



Source: Moody's Financial Metrics™

Credit strengths

» Good asset-quality metrics benefit from a 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 to deteriorate because of the effects of 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 expectation that BBVA's baa2 creditworthiness will be sustained by its ample profitability, good asset quality and increasing core deposit funding, supported by its adequate capitalization and disciplined expansion into unsecured consumer lending.

Factors that could lead to an upgrade

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

Factors that could lead to a downgrade

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

Key indicators

Exhibit 3

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

	12-20[2]	12-19[2]	12-18[3]	12-17[3]	12-16[3]	CAGR/Avg.[4]
Total Assets (PEN Million)	107,230.9	81,659.9	74,874.4	76,521.9	78,524.2	8.1[5]
Total Assets (USD Million)	29,643.9	24,662.5	22,162.0	23,614.2	23,420.1	6.1[5]
Tangible Common Equity (PEN Million)	9,063.7	8,987.9	8,172.6	7,503.1	6,893.4	7.1[5]
Tangible Common Equity (USD Million)	2,505.7	2,714.5	2,419.0	2,315.4	2,056.0	5.1[5]
Problem Loans / Gross Loans (%)	3.0	2.8	2.7	2.4	2.1	2.6[6]
Tangible Common Equity / Risk Weighted Assets (%)	11.3	11.4	11.9	11.5	10.7	11.4[7]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	15.9	14.0	13.6	12.9	12.0	13.7[6]
Net Interest Margin (%)	3.4	4.3	4.2	3.8	3.7	3.9[6]
PPI / Average RWA (%)	3.5	4.1	4.3	4.1	4.0	4.0[7]
Net Income / Tangible Assets (%)	0.6	2.0	2.0	1.8	1.7	1.6[6]
Cost / Income Ratio (%)	40.3	37.6	37.4	38.2	39.3	38.6[6]
Market Funds / Tangible Banking Assets (%)	19.9	14.6	15.1	20.7	24.1	18.9[6]
Liquid Banking Assets / Tangible Banking Assets (%)	34.1	26.5	26.1	30.2	32.1	29.8[6]
Gross Loans / Due to Customers (%)	97.6	104.5	106.4	105.4	105.3	103.8[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 2020, BBVA was the second-largest Peruvian bank, with market shares of 21.65% in terms of loans and 21.63% in terms of deposits, and reported total consolidated assets of PEN107 billion ($29.6 billion).

The bank operated a network of about 318 branches and had 6,080 employees in Peru as of the same date, and is regulated by Superintendencia de Banca, Seguros y AFP.

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).

Recent developments

On 24 March 2021, we have changed our outlook for the Peruvian banking system to stable from negative, reflecting our view that the expected rebound in GDP growth and ample support packages will aid Peruvian banks' asset quality and boost profitability. Moreover, Peruvian banks have built up high loan loss reserves against the expected increase in delinquencies that will allow them to absorb pandemic-related losses. Provisioning will tail off and boost profitability, even if low rates, continued use of state-guaranteed lending and risk aversion pressure net interest margins. However, deterioration in social indicators, populist measures, and further delays in vaccine rollouts add to banks' risk aversion, which will lead to low loan growth over the next 12 to 18 months. Strong liquidity and solid core deposit funding will continue to support Peruvian banks' financial profiles in 2021.

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, conservative origination practices and industry diversification will help preserve asset quality through the economic recovery in Peru. Deterioration will also be limited by the bank's ample use of state-guaranteed loans. Loan loss reserves equivalent to 6.5% of gross loans as of January 2021, up 153 basis points from December 2019, will be an important mitigant.

The sizable, low-risk corporate and residential mortgage loan component, both of which account for 58% of gross loans as of January 2021, will ensure that delinquencies remain modest and below peers. However, BBVA's exposure to midsized companies, which makes up 28% of its loan book, has had a relatively poorer long-run performance because of the inherent higher risk of this segment.

The pandemic delayed BBVA's plans to grow its market share in unsecured consumer lending, which currently lags that of peers, which will help limit asset-quality deterioration. Consumer loans remain a low 10% of gross loans, as of January 2021.

Deterioration in BBVA's SME exposures, at 4% of gross loans, will be limited by the bank's ample use of the government's Reactiva Perú state-guarantees. In 2020, BBVA's loan growth of 19.6%, benefitted from the Reactiva program, without which loans would have have contracted 7.9%.

BBVA's nonperforming loan (NPL) ratio deteriorated slightly to 3.14% as of January 2021 from 2.81% in December 2019, which remains below the Peruvian banking system's average of 3.43% as of January 2021. Most deterioration in the bank's NPL ratio is related to its small consumer loan and credit card portfolios, with only slight deterioration in its large and midsize corporate portfolios, without major deterioration in large single borrowers. Nevertheless, the bank has experienced high repayment among loans that were rescheduled at the onset of the pandemic. Moreover, only a small portion of borrowers that benefitted from rescheduled have not been able to pay. BBVA's write-offs remain at a very low level, which account for less than 1% of its average gross loans and leases.

Adequate capitalization but lower than that of domestic peers

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 2020, slightly below its three-year average of 11.63%. The bank's capitalization metric was well below that of the Peruvian banking system average of 12.8% as of December 2020.

Although BBVA's earnings generation was lower than that in previous years and its loan portfolio grew at high 19% during 2020, its capitalization metrics remained stable because most of the growth was driven by the Reactiva loans that will benefit from a low loss given default because of the state guarantee, and as such have a low risk-weight.

We expect BBVA's capitalization to remain in line with current levels, benefiting from an improvement in profitability as provisions tail off.

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 stems from an ample and growing net interest margin (NIM), as well as low credit and operating costs. The bank's margins have traditionally trailed those of its peers in Peru, but will benefit from its expansion into consumer lending as pandemic-related uncertainties decrease.

Net income declined 60% during 2020 primarily because of very high provisions and significantly lower margins. Net income to tangible assets fell to 0.61% as of December 2020, from 2% a year earlier.

The bank's provisions grew 131% in 2020, driven by the necessity to create extraordinary reserves to face potential losses on the portfolio because of the pandemic. As a result, BBVA's loan loss provisions absorbed 62.2% of preprovision, pretax income as of December 2020, compared with 25% a year earlier.

In addition, BBVA's net interest margin (NIM) fell 94 basis points to 3.50% as of December 2020, hurt by Peru's lower reference rate. Although the bank has a retail deposit base, the decrease in its funding cost did not offset the decrease in its interest income. The reduction in margins hurt the bank's efficiency, with its cost-to-income ratio increasing to 40% as of December 2020 from 37.6% a year earlier.

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, at 21.6% share as of December 2020. Demand accounts have historically constituted more than 70% of the bank's total deposits.

The bank's deposits grew 28% during 2020, like those of most of the banks in the region. 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 dependence on central bank currency swaps.

BBVA's market funding increased in line with the use of central bank lines to fund government-sponsored loans from the Reactiva program to a still relatively low level of 19.9% of tangible banking assets as of Q4 2020, from 14.6% in the year earlier period.

In addition, BBVA's liquid resources are high and largely invested in high-quality instruments. The bank's liquid assets totaled 34.1% of its tangible banking assets as of December 2020, reflecting very high liquidity requirements in Peru. BBVA's liquid resources are invested in high-quality instruments, including cash, A3-rated Peruvian central bank instruments and sovereign treasuries, and US sovereign bonds. In addition, in 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 central bank, the Corporación Financiera de Desarrollo S.A. (Cofide, Baa3 stable, b2) 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 difficulties arising 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 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 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 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

BBVA's Baa1 deposit ratings do not benefit from affiliate support because its parent BBVA Spain has an intrinsic strength that is in line with that of its BBVA Perúvian 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 in 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 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, and certain key rating assumptions described in our Banks 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 consider only the risk of default rather than both the likelihood of default and the expected financial loss, and 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 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 4

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		3.0%	baa2	↓↓	baa3	Expected trend	Loan growth
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel II)		11.3%	ba2	↔	baa3	Expected trend	
Profitability							
Net Income / Tangible Assets		0.6%	ba2	↓↓	a3	Earnings quality	Expected trend
Combined Solvency Score			ba1		baa2		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		19.9%	baa2	↔	baa1	Deposit quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		34.1%	baa1	↔	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					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 5

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.

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Contacts

Felipe Carvallo +52.55.1253.5738
VP-Sr Credit Officer
felipe.carvallo@moodys.com

Ceres Lisboa +55.11.3043.7317
Senior Vice President
ceres.lisboa@moodys.com

Luis Fernando Baza +52.55.1253.5735
Associate Analyst
luis.baza@moodys.com

CLIENT SERVICES

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

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