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CREDIT OPINION
4 May 2020

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

Rodrigo Marimon Bernales +54.115.129.2651
Associate Analyst
rodrigo.bernales@moodys.com

Alexandre Albuquerque +55.11.3043.7356
VP-Senior Analyst
alexandre.albuquerque@moodys.com

Banco BBVA Perú S.A.

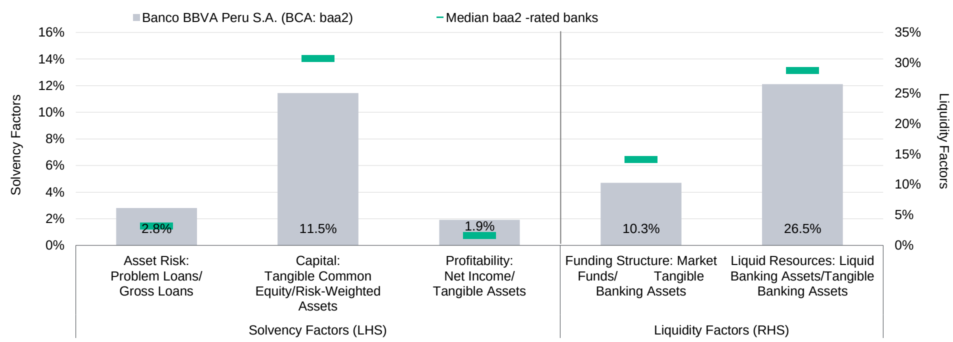
New issuer

Summary

On 27 April 2020, we assigned first-time Baa1 and Prime-2 long- and short-term global local- and foreign-currency deposit ratings to Banco BBVA Perú S.A. (BBVA). We also assigned a baa2 Baseline Credit Assessment (BCA) and Adjusted BCA. The outlook on all the ratings is stable.[1]

BBVA's baa2 BCA and Baa1 ratings incorporate the bank's good asset quality and high profitability, which derives from a large base of granular low-cost deposits and strong pricing power as the second-largest banking franchise in Peru (A3 stable). The BCA also takes into consideration BBVA's capitalization, which, although lower than that of its domestic peers, benefits from conservative credit risk management and a well-balanced loan mix, and robust reserve coverage.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Contained asset-risk metrics, in line with the bank's well-balanced lending portfolio and industry diversification

» Strong profitability, which will continue to benefit from ample margins and high efficiency

» Deep access to core deposits and limited use of market funds

Credit challenges

» Lower capitalization metrics than those of its domestic peers

- Increase in asset risks related to its expansion into consumer lending
- Expected deterioration in asset quality and profitability because of the deepening of the recession caused by the coronavirus crisis

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 a disciplined expansion into unsecured consumer lending.

Factors that could lead to an upgrade

Upward rating pressure would accumulate as a result of a higher capitalization and sustained improvements in profitability, without an increase in delinquencies and credit costs.

Factors that could lead to a downgrade

Conversely, a significant deterioration in asset quality resulting from further expansion into unsecured consumer lending or a lower capitalization would lead to downward pressure on the bank's ratings.

Key indicators

Exhibit 2

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

	12-19[2]	12-18[3]	12-17[3]	12-16[3]	CAGR/Avg.[4]
Total Assets (PEN Million)	81,659.9	74,874.4	76,521.9	78,524.2	1.3[5]
Total Assets (USD Million)	24,662.5	22,162.0	23,614.2	23,420.1	1.7[5]
Tangible Common Equity (PEN Million)	8,987.9	8,172.6	7,503.1	6,893.4	9.2[5]
Tangible Common Equity (USD Million)	2,714.5	2,419.0	2,315.4	2,056.0	9.7[5]
Problem Loans / Gross Loans (%)	2.8	2.7	2.4	2.1	2.5[6]
Tangible Common Equity / Risk Weighted Assets (%)	11.4	11.9	11.5	10.7	11.4[7]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	14.0	13.6	12.9	12.0	13.1[6]
Net Interest Margin (%)	4.3	4.2	3.8	3.7	4.0[6]
PPI / Average RWA (%)	4.1	4.3	4.1	4.0	4.1[7]
Net Income / Tangible Assets (%)	2.0	2.0	1.8	1.7	1.9[6]
Cost / Income Ratio (%)	37.6	37.4	38.2	39.3	38.1[6]
Market Funds / Tangible Banking Assets (%)	10.3	13.5	14.3	14.2	13.1[6]
Liquid Banking Assets / Tangible Banking Assets (%)	26.5	26.1	30.2	32.1	28.7[6]
Gross Loans / Due to Customers (%)	104.5	106.4	105.4	105.3	105.4[6]

[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] 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 midsized enterprises (SMEs) and large corporates. As of December 2019, BBVA was the second-largest Peruvian bank, with market shares of 20% in terms of loans and 19% in terms of deposits, and reported total consolidated assets of PEN81.7 billion ($24.7 billion).

The bank operated a network of 333 branches in Peru as of the same date and is regulated by Superintendencia de Banca, Seguros y AFP (SBS).

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[2]).

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

The rapid global spread of the coronavirus outbreak has led to a deteriorating economic outlook, a sharp decline in oil prices and broad financial market upheaval, generating an unprecedented credit shock across many sectors worldwide. Our baseline economic scenario assumes a pandemic-driven disruption of economic activity through June, followed by some recovery in the second half of 2020. However, the potential for downside outcomes is increasing. The greatest negative credit effects will be felt initially by banks operating in regions most immediately and acutely disrupted or those with concentrated lending to the most affected sectors, as well as more thinly capitalized banks and non-bank lenders.

To reflect the growing strain of the coronavirus disruption, in March 2020, we changed our outlook on Latin American banking systems to negative, reflecting our view that the disruption related to the coronavirus outbreak will exacerbate an existing slowdown in the region's economic growth. This will increase the strain on Latin American banks' operating environment and will erode banks' asset quality. The authorities' broad supplemental policy actions will provide support to banks' liquidity, and their adequate capitalization will help buffer stress losses. However, the recovery will likely be relatively more muted in the region than in advanced economies, in which case the credit-negative implications for banks will intensify.

In addition, we have kept a stable outlook on the Peruvian banking system, unchanged since June 2019. Although the economic disruption caused by the coronavirus outbreak will hamper banks' asset risk and profitability, capital is strong and the comprehensive government response should mitigate lasting negative effects.

Detailed credit considerations

Well-balanced lending portfolio and industry diversification, but asset risk could deteriorate because of the pandemic or a higher focus on retail lending

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 66% of gross loans, ensures that delinquencies are modest and below peers on these asset classes. However, BBVA's exposure to midsized companies, which makes up nearly 20% 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 11% 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.

BBVA's 90+ days nonperforming loan (NPL) ratio of 2.8% as of year-end 2019 deteriorated from 2.1% as of year-end 2016, in line with its higher risk appetite in the consumer lending portfolio, coupled with a deterioration in its SME loan book and credit card business. BBVA's risk management strategies differ from those of its peers, and had until 2016 incorporated a much higher exposure to lower-risk mortgage and commercial lending.

Asset risks for BBVA will rise even if its consumer lending focus is delayed, because of the slowdown in economic growth. 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 (1) conservative origination practices, (2) the extent of measures taken by Peruvian authorities to mitigate the effects of the coronavirus outbreak, and (3) the robust reserve coverage of 1.75x NPLs as of year-end 2019. Moreover, although Peru's GDP will contract in 2020, it will be followed by a very strong recovery.

The government's measures to support the economy through the crisis have been comprehensive, including direct support to households and small and midsized companies, as well as liquidity and funding at lower rates.

The bank's exposure to the construction entities under legal investigation related to a corruption scandal is about $222.5 million, equivalent to 8% of capital and 1% of gross loans.

Adequate capitalization, but lower than that of domestic peers

BBVA's capitalization ratio is aided by consistently solid profitability and moderate loan growth, despite its higher-than-peer dividend payouts. BBVA's Moody's-adjusted capitalization ratio, measured as tangible common equity relative to risk-weighted assets, averaged 11.3% over the last four years, below the 13% average for the Peruvian banking system.

We expect BBVA to maintain its capital base as its profitability continues to exceed its capital consumption, providing a good loss-absorption capacity and supporting loan expansion in the coming quarters. At the same time, we expect capital ratios to remain stable, even increase slightly, because loan origination will decrease during the coronavirus crisis.

Profitability will be affected by higher credit costs and lower business volumes, but will remain strong

BBVA's high profitability is a key credit strength and it stems from ample and growing net interest margins, as well as low credit and operating costs. The bank's margins have traditionally trailed those of its peers in Peru, reflecting its more conservative lending book, but its expansion into consumer lending helped boost margins to 4.3% in 2019, up from 3.7% in 2016. We expect the bank's robust net income/tangible assets of 2% as of December 2019 to weaken in line with the recent 200-basis-point policy rate cut, given its larger dependence on interest income than its peers.

In addition, margins benefit from BBVA's access to a broad base of stable and inexpensive core deposits, reflecting its large banking franchise in Peru. Furthermore, credit costs, which we expect will rise with more difficult operating conditions, have been low, and operating efficiency has been among the best in the region, supported by disciplined cost controls and digitization efforts. We expect credit costs to increase in line with the bank's strategy and the more difficult operating environment, but they will increase from low levels, at 25% of core earnings and 1.3% of gross loans in 2019. BBVA will continue to benefit from lean operations underscored by a low cost-to-income ratio of 38% in 2019, below the system's 41.2%.

Access to core deposits and the limited use of market funds support low funding costs

BBVA's large and growing base of granular low-cost core deposits, at three-quarters of total liabilities, limits its exposure to more volatile wholesale funding. BBVA's stable funding reflects its strong access to customer deposits as Peru's second-largest deposit taker. Market funding has been steadily declining since 2017's already low 14.3% to just 10.6% of tangible assets as of 2019.

Despite the higher-than-systemwide deposit dollarization, the US dollar-denominated deposits decreased from more than a half of the total of 54% in 2016 to almost 43% in December 2019, reducing the bank's balance-sheet currency mismatches and leaving it less dependent on central bank currency swaps.

In addition, liquid resources are high and largely invested in high-quality instruments. Liquid assets totaled 26.5% of tangible banking assets as of 2019, 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.

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, BBVA Spain, has an intrinsic strength that is in line with that of its Peruvian subsidiary (baa2).

Although we believe that the bank is very important to BBVA Spain and that there is a moderate likelihood of parental support, if needed, the current support and dependence assumptions result in no uplift of 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	2.8%	baa1	←→	baa3	Expected trend	Loan growth
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel II)	11.4%	baa3	←→	baa3	Expected trend	
Profitability						
Net Income / Tangible Assets	1.9%	a3	←→	a3	Earnings quality	Expected trend
Combined Solvency Score		baa2		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	10.3%	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

[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 See our press release Moody's assigns first-time Baa1 ratings to Banco BBVA Perú S.A., stable outlook.

2 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

M. Celina Vansetti +1.212.553.4845
MD-Banking
celina.vansetti-hutchins@moodys.com

Rodrigo Marimon Bernales +54.115.129.2651
Associate Analyst
rodrigo.bernales@moodys.com

Alexandre Albuquerque +55.11.3043.7356
VP-Senior Analyst
alexandre.albuquerque@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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