MOODY'S INVESTORS SERVICE

CREDIT OPINION
30 September 2022

Update

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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

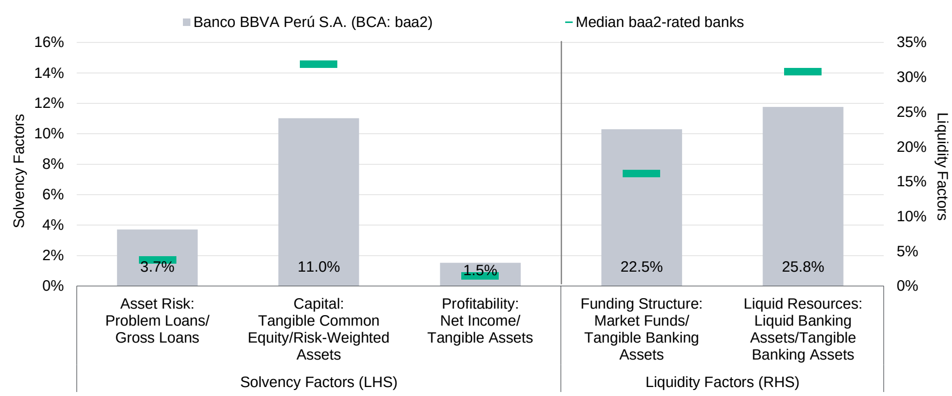
Summary

Banco BBVA Perú S.A.'s (BBVA) baa2 Baseline Credit Assessment (BCA) reflects 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 stable). In addition, the ratings and assessment capture the ample retail deposit base which limits reliance on market funding. On the other hand, the bank's capitalization remains moderate.

BBVA's Baa1 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 June 2022



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 NPLs related to specific large corporate problem loans

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 BCA will be sustained by a sustained recovery in profitability and lower problem loans, while maintaining 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 a 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.

Key indicators

Exhibit 2
Banco BBVA Peru S.A. (Consolidated Financials) [1]

	06-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[3]	CAGR/Avg.[4]
Total Assets (PEN Million)	100,450.1	101,373.3	107,233.0	81,659.9	74,874.4	8.8[5]
Total Assets (USD Million)	26,429.0	25,452.1	29,644.5	24,662.5	22,162.0	5.2[5]
Tangible Common Equity (PEN Million)	10,174.0	10,005.0	9,061.7	8,987.9	8,172.6	6.5[5]
Tangible Common Equity (USD Million)	2,676.8	2,512.0	2,505.1	2,714.5	2,419.0	2.9[5]
Problem Loans / Gross Loans (%)	3.7	3.3	3.0	2.8	2.7	3.1[6]
Tangible Common Equity / Risk Weighted Assets (%)	11.0	11.3	11.3	11.4	11.9	11.4[7]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	18.4	16.7	15.9	14.0	13.6	15.7[6]
Net Interest Margin (%)	4.0	3.4	3.4	4.3	4.2	3.9[6]
PPI / Average RWA (%)	3.8	3.8	3.5	4.1	4.3	3.9[7]
Net Income / Tangible Assets (%)	2.0	1.5	0.6	2.0	2.0	1.6[6]
Cost / Income Ratio (%)	38.9	38.6	40.3	37.6	37.4	38.6[6]
Market Funds / Tangible Banking Assets (%)	19.5	22.5	19.9	14.6	15.1	18.3[6]
Liquid Banking Assets / Tangible Banking Assets (%)	25.2	25.8	34.1	26.5	26.1	27.5[6]
Gross Loans / Due to Customers (%)	113.7	116.3	97.6	104.5	106.4	107.7[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 June 2022, BBVA was the second-largest Peruvian bank, with market shares of 20.6% in terms of loans and 19.7% in terms of deposits, and reported total consolidated assets of PEN100.5 billion ($26.4 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. (Ba1 stable), 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 has a sizable exposure to lower-risk corporate and residential mortgages, which accounted for 57% of gross loans as of June 2022 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 the first six months of 2022, BBVA's loan book contracted 1.6% year-over-year, as many Reactiva loans are being replaced or repaid, and a slowdown in large corporate lending, despite higher retail lending. As such, consumer loans (excluding mortgages) represented 12.4% of gross loans as of June 2022, up from 10% a year earlier.

BBVA's 90+ day nonperforming loans (NPLs) increased to 3.7% of gross loans, compared with 3.1% a year earlier and well above the Peruvian banking system's 3.2% as of June 2022, as a result of specific large corporate problem loans and the contraction in the bank's loan book.

Allowance for loan losses fell from a peak in 2020 of 207% of NPLs, but remain at good levels of 172% as of June 2022 and in line with 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 higher 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 11.0% as of June 2022, is below its three-year average of 11.3% and well below that of the Peruvian banking system's average of around 12% as of June 2022, despite contraction in the bank's loan book.

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 tan expected inflation.

Net income increased 98% in the first half of 2022 compared with the same period of previous year, benefiting from a deep contraction in credit costs, a higher net interest margin (NIM), and contained operating expenses. BBVA's net income increased to 2.0% of tangible assets as of June 2022, well above last two years and in line with pre-pandemic levels. Through June 2022, credit costs fell 56% year-over-year in line with lower pandemic-related risks, and stand at a low 0.9% of gross loans in June 2022, well below historic levels.

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 4% as of June 2022, 90 basis points above June 2021.

In addition, BBVA's cost-to-income ratio remains relatively low at 39% in June 2022, in line with year end 2021 and below 2020. 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 19.7% as of June 2022. Demand accounts have historically constituted more than 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 20% higher than the pre-pandemic levels, similar to other banks in the region. Moreover, although deposits contracted, cheaper demand and savings deposits from individuals increased 0.5% in June 2022 compared with a year earlier. Around half of the bank's deposits come from individuals and increased 5.4% during the twelve months ended June 2022. In addition, during the first half of 2022 the bank also limited its exposure to less-reliable and more cost-sensitive institutional deposits, decreasing by 12.0% YoY. 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. Market funds as percentage of tangible banking assets stood at 19.5% as of June 2022, down from 22.5% as of 2021.

On the other hand, 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 25.2% of its tangible banking assets as of June 2022.

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.

During 2020-2021 bank lending accelerated during the pandemic, but growth was mainly related to the Reactiva Perú program of government-guaranteed loans. During 2022, loan growth slowed as banks replaced government-guaranteed loans, with less restrictive traditional loans. 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 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

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		3.7%	baa2	↔	baa3	Expected trend	Loan growth
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel II)		11.0%	ba2	↔	ba1	Expected trend	
Profitability							
Net Income / Tangible Assets		1.5%	a3	↑↑	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 bank ratings shown in this report are the deposit rating, senior unsecured debt rating and BCA.

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