FitchRatings

Banks
Universal Commercial Banks
Peru

Banco BBVA Peru

Key Rating Drivers

Standalone Strength: Banco BBVA Peru's (BBVA Peru) Issuer Default Ratings (IDRs) are driven by its Viability Rating (VR) of 'bbb', which is in line with the implied VR and equivalent to the Shareholder Support Rating (SSR). The bank's robust business profile and sound financial profile support its VR. However, BBVA Peru's VR is constrained by Peru's (BBB/Stable) operating environment and Long-Term IDR, due to limited geographic diversification outside of Peru and material exposure to foreign currency.

BBVA Peru's strong position as Peru's second-largest bank, with market share of approximately 20% in loans and deposits, also influences its VR. BBVA Peru's VR reflects the company's good but slightly deteriorated asset quality and ample reserves, consistent profitability, and ample and diversified funding base.

Challenging Asset Quality: BBVA Peru's asset quality deteriorated during 2021 due to reduced growth — 5.74% in 2021, from 19.74% in 2020 — and the increase of loans under refinancing following the end of the Reactiva program. Ninety days' past-due loans (PDLs) reached 3.28% at YE 2021, from 3.03% at YE 2020. BBVA Peru's asset quality remained adequate for its rating category. Fitch expects the PDL ratio to remain stable or slightly improve during 2022 due to higher loan growth. However, some risks due to political uncertainty may slow economic recovery.

High Provisions: Reserves remain high due to voluntary provisions from 2020, and cover 1.9x 90-day PDLs at YE 2021, below 2020's 2.0x but still above loan loss reserve (LLR) coverage from 2017–2019. Fitch considers this adequate, given historical losses and the expected credit deterioration under relief programs.

Improving Financial Performance: BBVA Peru's performance during 2021 benefited from stable net interest margin (NIM) and lower loan impairment charges, which returned to prepandemic levels. In addition, devaluation resulted in higher foreign-exchange (FX) income from derivatives, and fee income returned to its usual level. The amount of Reactiva loans in the portfolio remains high and pressures the NIM ratio, as these loans have lower interest rates than typical commercial loans.

Operating profit/risk-weighted assets (RWAs) increased to 2.68% from 1.17% at YE 2020 and the 2017–2019 average of 3.01%; the ratio and is expected to return to prepandemic levels in 2022. Non-interest revenues maintained their sizable contribution of over 30% of total revenues, and include recurrent net fees and commissions from account maintenance, credit/debit card usage, asset management, corporate finance advisory and transfers.

Sufficient Capitalization: Capital metrics are weak relative to similarly rated commercial universal banks with 'bbb' operating environments and regional peers, although capitalization is enhanced by ordinary support from its ultimate parent, Banco Bilbao Vizcaya Argentaria, S.A. (BBVA; BBB+/Stable). The YE 2021 ratios were above regulatory requirements, with a regulatory capital ratio of 14.13%. BBVA Peru's YE 2021 Fitch Core Capital ratio (FCC) was at a relatively tight 11.7%, similar to YE 2020. This was supported by lower loan growth and still-positive mix thanks to Reactiva loans.

The relatively limited FCC is partially offset by BBVA Peru's still-adequate LLRs, which create additional cushion for risk absorption, as they exceed 90-day PDLs in an amount equivalent to 22% of the FCC at YE 2021. Fitch also assesses ordinary support from the parent bank in capitalization metrics. A conservative dividends payout ratio policy, even after 2020's strained results, should sustain capital conservation and support loan growth in 2022.

Ratings

Foreign Currency

Long-Term IDR	BBB
Short-Term IDR	F2

Local Currency

Long-Term IDR	BBB
Short-Term IDR	F2
Viability Rating	bbb
Shareholder Support Rating	bbb

Sovereign Risk

Long-Term Foreign-Currency IDR	BBB
Long-Term Local-Currency IDR	BBB
Country Ceiling	BBB+

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (November 2021)

Related Research

Weakening Governance a Risk for Peru Economy, Ratings (March 2022)

Financial Data

Banco BBVA Peru

(PEN Mil.)	12/31/21	12/31/20
Total Assets (USD Mil.)	25,470.1	29,651.2
Total Assets	101,495.8	107,337.3
Total Equity	10,168.7	9,361.9

Analysts

Robert Stoll
+1 212 908-9155
robert.stoll@fitchratings.com

Andres Marquez
+57 601 484-6771
andres.marquez@fitchratings.com

Firmado Digitalmente por:
CARLOS DAVID LOO PUN
Fecha: 26/04/2022 04:39:23 p.m.

Ample and Diversified Funding Base: Funding is stable and diversified, with wider access to domestic and foreign capital markets and adequate matching in currency and tenure. Capital market funding provides the bank with long-term funding and lower associated costs, which improves asset/liability matching. During 2021, deposits returned to historical levels after pension fund withdrawals and lower client investment and expenses. As a result, loans/deposits trends toward prepandemic levels, at 119.0% as of YE 2021, from the 2017–2019 average of 110.3%.

Shareholder Support Rating: Fitch believes that BBVA Peru is strategically important to BBVA's Latin American business dynamics, underpinning BBVA Peru's support rating of 'bbb'. Therefore, Fitch anticipates support from the parent, if required. South America is considered a key market for BBVA globally, as it contributes a significant percentage of revenues. Peru is strategic for BBVA in Spain, as it is the second-largest bank in the country and the largest among foreign banks. BBVA owns 92.24% of BBVA Peru.

Subordinated Debt: BBVA Peru's subordinated debt is rated 'BB+', reflecting its baseline notching for loss-severity to two notches from the company's VR.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Any negative rating action on the sovereign or in the operating environment assessment would lead to a similar action on BBVA Peru's VR.
- BBVA Peru's IDR and Outlook are driven by its VR. However, if the VR were downgraded, the Long-Term IDRs could become support-driven and remain one notch below the parent's, given Fitch's "higher of" approach and assessment that the subsidiary is strategically important.
- BBVA Peru's VR could be negatively affected if the bank's asset quality deteriorates significantly, causing a sustained decline in operating performance and capital cushions, such as a sustained decline in the bank's FCC/adjusted RWA ratio to less than 10%, assuming excess reserve maintenance, noncore loss absorbing capital or an operating profit/RWA ratio below 2.5%.
- BBVA Peru's senior debt ratings would move in line with their respective Long-Term IDRs.
- BBVA Peru's SSR would be affected by a negative change in BBVA's ability or willingness to support the bank.
- The subordinated notes' rating is sensitive to any changes in BBVA Peru's VR.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- There is limited upside potential for BBVA Peru's VR, given the sovereign's current rating and Stable Outlook.
- Over the medium term, ratings can be upgraded by the combination of improvements in the operating environment and the bank's financial profile.
- BBVA Peru's IDRs could benefit from a significant improvement of its parent's ability to provide support, as evidenced by BBVA's IDR.
- BBVA Peru's senior debt ratings would move in line with its Long-Term IDR.
- BBVA Peru's SSR would be affected by a positive change in BBVA's ability or willingness to provide support.
- The subordinated notes' rating is sensitive to any changes in BBVA Peru's VR.

Issuer Ratings (Including Main Issuing Entities)

Rating Level	Rating
Long-Term Foreign-Currency IDR	BBB
Short-Term Foreign-Currency IDR	F2
Long-Term Local-Currency IDR	BBB
Short-Term Local-Currency IDR	F2
Viability Rating	bbb
Shareholder Support Rating	bbb
Outlook/Watch	Stable

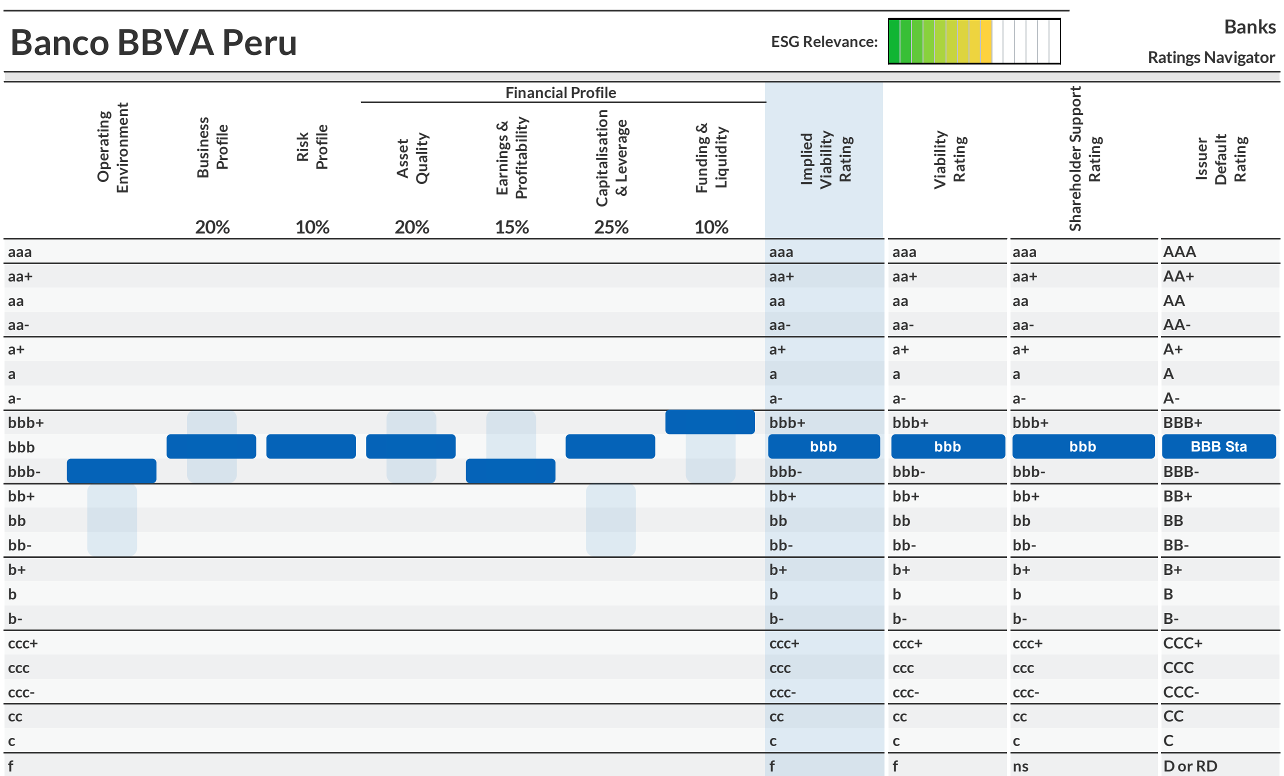
Source: Fitch Ratings.

Debt Rating Classes

Rating Level	Rating
Senior unsecured: Long-Term	BBB
Subordinated: Long-Term	BB+

Source: Fitch Ratings.

Ratings Navigator



Significant Changes

The Outlook on the Long-Term IDRs is Stable. Fitch believes the credit profile is sensitive to a material deterioration in the local operating environment or negative sovereign rating action. Operating environment pressures include slow recovery of the GDP due to greater political uncertainty and the challenging investment and business environment.

Brief Company Summary

Franchise

As a key part of BBVA's footprint in Latin America, BBVA Peru has a strong position as the second-largest bank in Peru. It had a sizable market share of 19.6% by assets, 21.1% by loans and 19.1% by deposits as of Dec. 31, 2021. BBVA Peru has historically focused on the corporate segment, outpacing its retail loans and deposits market share. The bank has been focusing its strategy in the midsize commercial loan and retail loan segments, avoiding strong competition in segments that could be less profitable, such as mortgages and credit cards.

After the Reactiva program ended in 2021, BBVA Peru focused on retail loan growth with payroll loans. BBVA Peru operates as a universal bank, offering a broad array of financial products as Peru's third-largest branch and ATM network, as well as Peru's largest express agents network. BBVA Peru's goal is to become the leader in digital banking while improving efficiency, in line with BBVA's global strategy.

Business Model

BBVA Peru's business model is that of a universal commercial bank where revenues stem primarily from intermediation, with a significant percentage of recurrent bank NIM and fees. Fitch believes BBVA Peru's business model is adequate for it to remain the second-largest player in the local market. The bank's wide and stable funding combined with its diversified loan portfolio contribute to sound net interest revenues.

Organizational Structure

BBVA Peru has a standard bank model which does not influence the ratings. Subsidiaries are established as separate legal entities for regulatory reasons. BBVA Peru Holding S.A.C (formerly NewCo Peru S.A.C) and Brescia Holding Continental S.A. have a combined stake of 46.12% in BBVA Peru. Minority interest remains at 7.76%. Fitch considers BBVA Peru a key subsidiary of BBVA within Latin American, which is strengthened by its performance in the Peruvian market.

Management and Strategy

Management Quality

BBVA Peru's management benefits from BBVA staff's expertise. Internal training programs and international rotation have helped create BBVA Peru's well-trained staff with significant experience and insight beyond Peru's borders.

Corporate Governance

BBVA Peru's board has nine directors with two committees: remunerations; and audit and compliance. A board member participates in the market risk committee and the country risk committee. The audit function reports directly to the board and BBVA's corporate audit group in a matrix structure; the compliance officer reports to the board. Fitch believes the bank's corporate governance is in line with the region's best practices, and in line with BBVA's structure.

Strategic Objectives

BBVA Peru has maintained a clear long-term strategy in recent years, focused on risk-adjusted profitability rather than market share. Accordingly, its medium-term strategy aims at achieving sustainable profitability by increasing business volumes while defending margins and seeking operating efficiency, without neglecting asset quality. BBVA Peru's focus is based on increasing diversification in its assets and liabilities.

Execution

BBVA Peru is historically conservative, adjusting its risk appetite to the environment. Credit activity has been cautious, as it avoids entering into commercial competition, primarily during the current harsh operating environment. BBVA Peru had better cost risk in 2021 compared with local peers. The bank's goal is to be the region's leading digital bank based on product digitalization, such as new product sales by digital channels; client digitalization and branch-specific incentives; digital sales team consolidation; post-lead management and risks; and server monitoring and stability.

Risk Profile

Underwriting Standards

BBVA Peru has a conservative risk appetite, aligned to that of BBVA, focusing on commercial loans, especially in midsize companies. It is growing its stake in retail loans, if the risk/reward balance is assessed as adequate. The bank is fully integrated within BBVA's risk management structure and culture and applies its global risk management policies. Risk management resides in a centralized area independent of the units where the risk is generated.

Risk Controls

BBVA Peru's risk management system is based on a corporate governance scheme in which BBVA and its subsidiaries (collectively, BBVA Group) determine the policies and controls for retail and wholesale loans, adapted to local regulation. Credit authority for corporations resides in credit committees where individual credit officers are entitled to approve credits, according to their expertise as opposed to their positions, considering the customer risk rating, transaction structure and market requirements.

Amounts above the credit committees' level or loans to local subsidiaries of global corporations that entail country risk must be approved by BBVA's head office. The credit criteria for lending to key economic sectors are outlined in detailed industry studies, where initial filters, including industry, size and anti-money laundering, among others, are set. Credits are analyzed using internal credit rating models that are more stringent than regulatory requirements and drive LLR allocation. Risk management verifies the adequate use of rating/scoring tools and adherence to credit policies, and the results are considered when delegating credit authority.

All collaterals assigned are to be properly instrumented and recorded in the corresponding register, while having the corresponding insurance policies. At YE 2021, 72.8% of loans had collateral, primarily mortgage guarantees or warrants and totaled PEN54,701 million, from PEN54,746 million at YE 2020.

Growth

Assets grew by 31% in 2020, evidenced by 19% growth in loans and 68% in cash, given the significant increase of deposits and Reactiva loans, which supported a 29% increase in commercial loans. Total loans grew by 5.7% during 2021 due to the bank's exclusively organic growth, resulting in a decrease in total assets of 5.4% due to a reduced cash and bonds portfolio. These ratios are slightly below those of the banking sector and support BBVA's decision to focus on sectors with good risk/return profiles. Fitch expects BBVA Peru to grow by 8%–10% during 2022, primarily focused on retail loans from payroll and corporate loans.

Market Risk

BBVA Peru faces market risk as a result of its lending, trading and investment businesses. The bank has an asset-liability committee that meets at least monthly and manages the structural risk of the balance sheet, while day-to-day decisions and the tactical management of short-term liquidity are left to the treasury. The bank's market risk is moderate, although its value at risk (VaR) increased during 2021 relative to 2020 due to higher market volatility, partially offset by a lower FX VaR.

Summary Financials

(PEN Mil., Audited – Unqualified, Years Ended Dec. 31)	2021 (USD Mil.)	2021	2020	2019	2018
Summary Income Statement					
Net Interest and Dividend Income	904	3,601.9	3,244.2	3,421.6	3,164.2
Net Fees and Commissions	219	873.4	811.5	812.8	813.4
Other Operating Income	178	709.1	659.7	692.9	581.3
Total Operating Income	1,301	5,184.4	4,715.4	4,927.3	4,558.9
Operating Costs	544	2,168.7	2,056.0	1,952.2	1,767.6
Pre-Impairment Operating Profit	757	3,015.7	2,659.4	2,975.1	2,791.3
Loan and Other Impairment Charges	189	752.7	1,751.2	757.9	744.1
Operating Profit	568	2,263.0	908.2	2,217.2	2,047.2
Other Non-Operating Items (Net)	(3)	(10.8)	(20.8)	22.1	(10.5)
Tax	174	691.7	239.2	630.2	567.8
Net Income	392	1,560.5	648.2	1,609.1	1,468.9
Other Comprehensive Income	(38)	(151.9)	96.3	30.8	(14.4)
Fitch Comprehensive Income	353	1,408.6	744.5	1,639.9	1,454.5
Summary Balance Sheet					
Assets					
Gross Loans	18,844	75,091.8	71,012.9	59,305.3	54,645.3
– of which impaired	618	2,463.0	2,151.5	1,666.5	1,470.0
Loan Loss Allowances	1,169	4,658.2	4,419.1	2,907.0	2,630.2
Net Loan	17,675	70,433.6	66,593.8	56,398.3	52,015.1
Interbank	179	712.1	5,498.9	3,782.8	3,198.8
Derivatives	463	1,843.5	1,001.9	572.3	459.3
Other Securities and Earning Assets	2,453	9,773.6	11,426.0	6,655.5	6,553.8
Total Earning Assets	20,769	82,762.8	84,520.6	67,408.9	62,227.0
Cash and Due from Banks	3,910	15,582.9	19,593.0	11,184.0	9,736.2
Other Assets	791	3,150.1	3,223.7	3,186.0	3,019.5
Total Assets	25,470	101,495.8	107,337.3	81,778.9	74,982.7
Liabilities					
Customer Deposits	15,813	63,013.2	70,737.7	54,556.5	48,946.5
Interbank and Other Short-Term Funding	4,337	17,282.1	16,948.9	5,760.7	4,399.6
Other Long-Term Funding	1,719	6,850.3	6,836.1	9,216.8	10,095.5
Trading Liabilities and Derivatives	403	1,607.1	891.0	510.7	546.3
Total Funding and Derivatives	22,272	88,752.7	95,413.7	70,044.7	63,987.9
Other Liabilities	646	2,574.4	2,561.7	2,553.7	2,642.6
Preference Shares and Hybrid Capital	N.A.	N.A.	N.A.	N.A.	N.A.
Total Equity	2,552	10,168.7	9,361.9	9,180.5	8,352.2
Total Liabilities and Equity	25,470	101,495.8	107,337.3	81,778.9	74,982.7
Exchange Rate		USD1 = PEN3.98	USD1 = PEN3.62	USD1 = PEN3.31	USD1 = PEN3.37

N.A. – Not applicable.
Source: Fitch Ratings, Fitch Solutions, Banco BBVA Peru.

Key Ratios

(%, Years Ended Dec. 31)	2021	2020	2019	2018
(Annualized as Appropriate)				
Profitability				
Operating Profit/Risk-Weighted Assets	2.7	1.2	2.9	3.1
Net Interest Income/Average Earning Assets	4.3	4.3	5.4	5.3
Non-Interest Expense/Gross Revenue	41.9	43.6	39.7	38.8
Net Income/Average Equity	16.4	7.0	18.9	19.0
Asset Quality				
Impaired Loans Ratio	3.3	3.0	2.8	2.7
Growth in Gross Loans	5.7	19.7	8.5	4.4
Loan Loss Allowances/Impaired Loans	189.1	205.4	174.4	178.9
Loan Impairment Charges/Average Gross Loans	1.0	2.7	1.3	1.4
Capitalization				
Common Equity Tier 1 Ratio	10.3	10.8	10.4	10.8
Fully Loaded Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital Ratio	11.7	11.7	11.6	12.1
Tangible Common Equity/Tangible Assets	9.7	8.5	10.9	10.8
Basel Leverage Ratio	N.A.	N.A.	N.A.	N.A.
Net Impaired Loans/Common Equity Tier 1	N.A.	(27.1)	N.A.	N.A.
Net Impaired Loans/Fitch Core Capital	(22.3)	(25.0)	(14.0)	(14.4)
Funding and Liquidity				
Gross Loans/Customer Deposits	119.2	100.4	108.7	111.6
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Total Non-Equity Funding	72.3	74.8	78.5	77.2
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.

N.A. – Not applicable.
Source: Fitch Ratings, Fitch Solutions, Banco BBVA Peru.

Key Financial Metrics — Latest Developments

Asset Quality

Asset quality deteriorated during 2021 due to lower loan growth — 5.74% in 2021, from 19.74% in 2020 — and the increase of loans under refinancing following the end of the Reactiva program. Ninety-day PDLs reached 3.28% at YE 2021 from 3.03% at YE 2020. Regulatory 30-day PDLs also deteriorated, reaching 3.70% at YE 2021, up from 3.22% at YE 2020. Nevertheless, BBVA Peru's asset quality remained adequate and is better than the industry average of 4.10% for regulatory 30-days PDL. It is also better than regional peers.

Fitch expects the PDL ratio to remain stable or slightly improve during 2022 due to higher loan growth, although some headwinds are present due to the political uncertainty that pressure economic recovery. Loans under the Reactiva program accounted for 15% of gross loans at YE 2021, down from 19% at YE 2020. Other refinancing loans represented 2% of gross loans, down from 19% at YE 2020.

Reserves continued to be high due to voluntary provisions from 2020 and covered 1.9x of 90-day PDLs at YE 2021, below the 2.0x recorded at YE 2020 but above 2017–2019 LLR coverage. Fitch views this as adequate, given the bank's historical losses and the expected credit deterioration under relief programs.

Fitch expects coverage ratios to return to pre-pandemic levels in the medium term, reflecting the bank's expected losses under the current operating environment, its conservative reserve policies and its adequate collection processes. BBVA Peru's loan portfolio is well diversified, with wholesale loans outpacing retail loans.

Earnings and Profitability

Borrower concentration remains moderate and stable compared with 2019, with the top-20 exposures accounting for about 12% of the gross portfolio at YE 2021, or the equivalent of 0.9x FCC at YE 2021, compared with 1.3x at YE 2020. These entities are classified in the best risk category.

Similar to Peru's banking industry, BBVA Peru's balance sheet remains partially U.S. dollar-denominated, but the bank has made significant progress in reducing the concentration of foreign-currency transactions. U.S. dollar-denominated loans accounted for approximately 25% of BBVA Peru's loan portfolio at YE 2021, which is stable compared with that of YE 2020. These loans are primarily extended to dollar-generating borrowers, but some mortgage and car loan exposure remains, and new lending is mostly in local currency. The ratio is affected by the Reactiva program loans, as they are issued in local currency only.

Other assets consisted of cash, loans and advances to banks, including to Central Bank of Reserves del Peru, and represented 16.1% of total assets at YE 2021, down from 23.4% at YE 2020, as a result of lower liquidity following the end of the Reactiva program. Investments, including trading securities and at fair value through income, available-for-sale securities and held-to-maturity securities, accounted for 9.6% of total assets at YE 2021.

Capitalization and Leverage

BBVA Peru's performance during 2021 was affected by stable NIM and lower loan impairment charges, which returned to prepandemic levels by the end of the year. Devaluation resulted in higher FX income from derivatives and fee income returned to its historical level. The still-high amount of Reactiva loans in the portfolio pressured NIM as a result of their lower interest rates compared with commercial loans.

Operating profit/RWAs increased to 2.68% at YE 2021, compared with 1.17% at YE 2020 and the 2017–2019 average of 3.01%, and is expected to return to prepandemic levels in 2022. Non-interest revenues maintained their sizable contribution of above 30% of total revenues and consist of recurrent net fees and commissions from account maintenance, credit/debit card usage, asset management, corporate finance advisory and transfers, among others.

BBVA Peru's costs are generally well controlled and benefit from cost sharing of some back-office functions with other BBVA franchises in the region. In addition, sharing BBVA's best practices and a clear focus on cost control allow BBVA Peru to be the most efficient in the banking system, with investments in digital transformation.

YE 2021 ratios were above regulatory requirements, with a regulatory capital ratio of 14.13% and common equity Tier 1 of 10.25%. In turn, its FCC ratio was 11.7% at YE 2021 and YE 2020. This was supported by lower loan growth and still positive mix. A conservative dividend payout ratio policy should sustain capital conservation and support loan growth during the review period.

BBVA Peru's still-adequate loan loss reserves create an additional cushion as they exceed 90-day PDLs in an amount equivalent to 22% of the FCC at YE 2021. Fitch also considers ordinary support from the parent bank to assess capitalization.

Funding and Liquidity

Funding is stable and diversified, with greater access to domestic and foreign capital markets and adequate matching in currency and tenure. Capital market funding provides the bank with long-term funding and lower associated costs, which improves asset/liability matching. During 2021, deposits returned to historical levels after pension fund withdrawals and lower client investment and expenses, as well as increasing liquidity originated from the Reactiva program, resulting in deposit growth during 2020. Deposits decreased by 10.9% at YE 2021, from 29.7% at YE 2020, but Fitch does not view this as a liquidity crunch.

Due to the above factors, the core Fitch metric of loans/deposits is returning to prepandemic levels, with 119% recorded at YE 2021, compared with the 2017–2019 average of 110.3%.

Local-currency deposits slightly declined to 59% at YE 2021 from 62% at YE 2020, in line with the industry. BBVA Peru's loans/deposits ratio in foreign currency was in 66% at YE 2021, down from 60% at YE 2020. Fitch expects this mix to continue, as BBVA Peru focuses on retail funding.

Shareholder Support

BBVA Peru is strategically important to the BBVA Group's business dynamics. Therefore, Fitch anticipates that support from the parent would be sufficient and immediate should the need arise. South America is considered a key market for BBVA globally, as it contributes a significant percentage of revenue. Peru is strategic for BBVA in Spain as it is the second-largest bank in the country and the biggest among foreign banks. BBVA owns 92.24% BBVA Peru.

Fitch withdrew BBVA Peru's Support Rating as it is no longer relevant following publication of our updated *Bank Rating Criteria* on Nov. 12, 2021. BBVA Peru has a SSR of 'bbb', per updated criteria.

Shareholder Support

Shareholder IDR	BBB+
Total Adjustments (notches)	-1
Shareholder Support Rating:	**bbb**
Shareholder ability to support	
Shareholder Rating	BBB+/ Stable
Shareholder regulation	1 Notch
Relative size	Equalised
Country risks	Equalised
Shareholder propensity to support	
Role in group	1 Notch
Reputational risk	1 Notch
Integration	1 Notch
Support record	1 Notch
Subsidiary performance and prospects	Equalised
Legal commitments	2+ Notches

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

Environmental, Social and Governance Considerations

FitchRatings **Banco BBVA Peru**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Banco BBVA Peru has 5 ESG potential rating drivers

- Banco BBVA Peru has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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