

# Credicorp Bank, S.A.

## Key Rating Drivers

**Weakened Operating Environment:** Credicorp Bank, S.A.'s (Credicorp) ratings are based on its intrinsic creditworthiness, which is highly influenced by the challenging Panamanian operating environment (OE), about which Fitch Ratings revised its assessment to 'bb+' from 'bbb-', with a negative trend. This action reflects the estimated economic contraction (17.7%) and high unemployment in 2020 due to the pandemic and its impact on financial performance of the institutions. The negative trend reflects the downward risks prevailing in 2021.

**Developed Business Model with Small Franchise:** The bank's viability rating (VR) is also highly influenced by its company profile, rated in the 'bb' category. With a market share close to 2% in terms of total loans and deposits as of September 2020, Credicorp's modest franchise is partially offset by a mature and developed business model and deep knowledge of its key market segments, which has resulted in consistent financial performance.

**Steady Financial Performance:** Credicorp's maintains a higher-than-peers financial profile, with a NPL ratio of 0.9% (versus the system's 2.1%) and loan loss reserves of 178.4% of NPLs as of 3Q20. In addition, a high CET1 metric of 19.4% provides the bank with a cushion to absorb losses against possible loan quality and profitability deterioration. However, according to Fitch rating criteria and in light of the weakened OE, the assessment of its financial factors resulted in ratings below the sovereign level, with exception of asset quality that has consistently remained at levels better than the industry.

**Loan Quality Exposed to Deterioration:** Given the current adverse situation, Fitch believes the bank's asset quality could be affected by the effects of the economic crisis once relief measures end in June 2021. However, its robust underwriting standards and risk controls could help to mitigate the impact, along with a low concentration of its 20 largest debtors due to its focus on retail loans.

**Profitability Prone to Pressure:** As of 3Q20, the operating profit to risk-weighted assets (RWA) metric stood at 2.7%, contrasting positively with the industry and some peers, and consistent with its new rating category. The agency estimates that profitability could be pressured by additional increases in provision expenses for NPLs related to the pandemic, as well as by a potential reduction in income derived from lower business dynamism.

**Deposit-Based Funding Structure:** Fitch believes the bank's funding structure is commensurate with its franchise and business model, comprising customer deposits (80.6% of total financing at 3Q20), and other sources. The relatively lower deposit base and access to international markets compared to Panama's largest banks limits Fitch's assessment of this factor.

## Rating Sensitivities

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Credicorp's IDRs and VR are sensitive to any further changes in Panama's operating environment. Negative changes in the banks' ratings would mirror any movement in Fitch's assessment of the OE.
- A deterioration of Credicorp's financial performance would result in downward movement in its ratings. A financial deterioration would be evident by an operating profit-to-RWA ratio consistently below 1.5% or a CET1 ratio below 15%.
- Because the support rating (SR) and support rating floor (SRF) for Credicorp are at the lowest levels in their respective scales, there is no downside potential for these ratings.

## Ratings

### Foreign Currency

Long-Term IDR	BB+
Short-Term IDR	B

### Local Currency

Viability Rating	bb+
Support Rating	5
Support Rating Floor	NF

### National

National Long-Term Rating	AA(pan)
National Short-Term Rating	F1+(pan)

### Sovereign Risk

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

### Outlooks

Long-Term Foreign-Currency IDR	Negative
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

## Applicable Criteria

Bank Rating Criteria (February 2020)

## Related Research

Fitch Ratings 2021 Outlook: Latin American Banks (December 2020)

Fitch Downgrades Panama's IDR to 'BBB-'; Outlook Negative (February 2021)

## Financial Data

### Credicorp Bank, S.A.

(PAB Mil.)	9/30/20	6/30/20
Total Assets (USD Mil.)	1,877.6	1,885.7
Total Assets	1,877.6	1,885.7
Total Equity	284.8	279.3

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**Factors that could, individually or collectively, lead to positive rating action/upgrade:**

- The Negative Rating Outlook for Credicorp's ratings would be revised to Stable if the OE outlook changed to Stable while credit metrics recover to close to pre-crisis levels.
- Upward movements in Credicorp's IDR and VR, although unlikely in the short to medium term for the Negative Outlook in its IDR, would stem from a substantial strengthening of its franchise that increases its competitive position.
- As Panama is a dollarized country with no lender of last resort, an upgrade in Credicorp's SR and SRF is unlikely.

## Significant Changes

### Panamanian Banks Ratings Following Sovereign Downgrade

Fitch conducted a portfolio review of Panamanian Banks with international scale ratings following the downgrade of the country's sovereign rating to 'BBB-' from 'BBB'. In addition, Fitch revised its assessment of the OE to 'bb+' from 'bbb-' with a negative trend (see "Fitch Downgrades Panama's IDR to 'BBB-'; Outlook Negative" at [www.fitchratings.com](http://www.fitchratings.com)).

### High Importance of Weaker Operating Environment

The OE strongly influences the VR of the banks operating in Panama. The downward revision of the Panamanian OE reflects the estimated economic contraction of 17.7%, and high unemployment rate of 18.5% in 2020, as a result of stringent lockdown measures due to the coronavirus pandemic, and its impact on financial performance across financial institutions. The negative trend reflects that downward risks prevail despite a gradual GDP recovery in 2021, due to the deterioration in the creditworthiness of domestic borrowers with a relevant proportion of loans under relief measures (around 36% of local loans at November 2020) and still high level of uncertainty.

As a result of the actions mentioned, Credicorp's Long-term IDR was downgraded to 'BB+' from 'BBB-', and its VR to 'bb+' from 'bbb-'. The Rating Outlook for the LT IDR remained Negative, which is aligned to the operating environment outlook, which reflects downside risks, which remain and could challenge the bank's financial profile.

The banks' national ratings are not directly impacted, as they reflect the relative strengths and weaknesses of each institution in a specific jurisdiction.

## Ratings Navigator

## Credicorp Bank, S.A.

ESG Relevance:


Banks  
Ratings Navigator

	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Support Rating Floor	Issuer Default Rating
aaa										aaa	AAA	AAA
aa+										aa+	AA+	AA+
aa										aa	AA	AA
aa-										aa-	AA-	AA-
a+										a+	A+	A+
a										a	A	A
a-										a-	A-	A-
bbb+										bbb+	BBB+	BBB+
bbb										bbb	BBB	BBB
bbb-										bbb-	BBB-	BBB-
bb+										bb+	BB+	BB+
bb										bb	BB	BB
bb-										bb-	BB-	BB-
b+										b+	B+	B+
b										b	B	B
b-										b-	B-	B-
ccc+										ccc+	CCC+	CCC+
ccc										ccc	CCC	CCC
ccc-										ccc-	CCC-	CCC-
cc										cc	CC	CC
c										c	C	C
f										f	NF	D or RD

## Sovereign Support Assessment

Support Rating Floor	Value		
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)	BBB- to BB		
Actual country D-SIB SRF	NF		
Support Rating Floor:	NF		
Support Factors	Positive	Neutral	Negative
Sovereign ability to support system			
Size of banking system relative to economy			✓
Size of potential problem			✓
Structure of banking system		✓	
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)		✓	
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in		✓	
Track record of banking sector support			✓
Government statements of support		✓	
Sovereign propensity to support bank			
Systemic importance			✓
Liability structure of bank		✓	
Ownership		✓	
Specifics of bank failure		✓	
Policy banks			
Policy role			
Funding guarantees and legal status			
Government ownership			

## Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

Higher influence

Moderate influence

Lower influence

Bar Arrows – Rating Factor Outlook

↑ Positive ↓ Negative

⇅ Evolving □ Stable

Credicorp's SR of '5' and SRF of 'NF' reflect that, although possible, external support cannot be relied upon given Panama's longstanding dollarized economy and lack of a lender of last resort. The agency's sovereign support assessment also considers with high importance the large size of the banking system relative to the size of the economy and history of lack of support.

## Summary Financials and Key Ratios

	Three Mos. – First Quarter 9/30/20		2020	2019	2018	2017
	USD Mil.	PAB Mil.	PAB Mil.	PAB Mil.	PAB Mil.	PAB Mil.
(Years Ended June 30)	Unaudited	Unaudited	Audited – Unqualified	Audited	Audited	Audited
<b>Summary Income Statement</b>						
Net Interest and Dividend Income	14	13.5	54.2	52.6	51.6	53.5
Net Fees and Commissions	3	2.5	(15.2)	14.5	12.7	13.6
Other Operating Income	5	5.1	41.1	12.8	16.4	10.8
Total Operating Income	21	21.1	80.1	79.9	80.7	77.9
Operating Costs	10	9.6	43.9	44.4	46.1	44.2
Pre-Impairment Operating Profit	12	11.5	36.2	35.5	34.6	33.7
Loan and Other Impairment Charges	2	2.4	10.6	6.5	7.0	4.3
Operating Profit	9	9.1	25.6	29.0	27.6	29.4
Other Non-Operating Items (Net)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Tax	1	0.7	2.5	3.7	3.5	4.5
Net Income	8	8.4	23.1	25.3	24.1	24.9
Other Comprehensive Income	0	0.4	0.3	2.1	(0.3)	2.9
Fitch Comprehensive Income	9	8.8	23.4	27.4	23.8	27.8
<b>Summary Balance Sheet</b>						
<b>Assets</b>						
Gross Loans	1,237	1,237.4	1,244.5	1,210.3	1,141.6	1,121.5
- of which Impaired	11	11.1	6.4	11.7	10.8	9.5
Loan Loss Allowances	20	19.8	17.2	14.9	14.8	16.8
Net Loan	1,218	1,217.6	1,227.3	1,195.4	1,126.8	1,104.7
Interbank	198	198.4	213.5	242.0	226.0	216.0
Derivatives	N.A.	N.A.	N.A.	N.A.	0.5	0.0
Other Securities and Earning Assets	345	344.6	329.1	294.1	282.0	272.7
Total Earning Assets	1,761	1,760.6	1,769.9	1,731.5	1,635.3	1,593.4
Cash and Due from Banks	21	21.3	20.4	17.7	19.3	20.5
Other Assets	96	95.7	95.4	92.5	79.4	77.0
Total Assets	1,878	1,877.6	1,885.7	1,841.7	1,734.0	1,690.9
<b>Liabilities</b>						
Customer Deposits	1,227	1,226.9	1,248.2	1,230.2	1,217.8	1,219.4
Interbank and Other Short-Term Funding	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Other Long-Term Funding	296	296.3	297.8	295.9	229.9	205.2
Trading Liabilities and Derivatives	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total Funding	1,523	1,523.2	1,546.0	1,526.1	1,447.7	1,424.6
Other Liabilities	70	69.6	60.4	55.6	50.8	48.8
Preference Shares and Hybrid Capital	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total Equity	285	284.8	279.3	260.0	235.5	217.5
Total Liabilities and Equity	1,878	1,877.6	1,885.7	1,841.7	1,734.0	1,690.9
Exchange Rate		USD1 = PAB1	USD1 = PAB1	USD1 = PAB1	USD1 = PAB1	USD1 = PAB1

N.A. – Not applicable. PAB – Panamanian Balboa.  
Source: Fitch Ratings, Fitch Solutions, Credicorp.

## Summary Financials and Key Ratios

(%, Years Ended June 30)	9/30/20	2020	2019	2018	2017
<b>Ratios (Annualized as Appropriate)</b>					
<b>Profitability</b>					
Operating Profit/Risk-Weighted Assets	2.7	1.9	2.4	2.4	2.7
Net Interest Income/Average Earning Assets	3.0	3.1	3.2	3.3	3.4
Non-Interest Expense/Gross Revenue	59.6	61.7	62.5	64.1	61.9
Net Income/Average Equity	11.9	8.6	10.3	10.6	12.1
<b>Asset Quality</b>					
Impaired Loans Ratio	0.9	0.5	1.0	1.0	0.9
Growth in Gross Loans	(0.6)	2.8	6.0	1.8	3.1
Loan Loss Allowances/Impaired Loans	178.4	268.8	127.4	137.0	176.8
Loan Impairment Charges/Average Gross Loans	0.8	0.8	0.5	0.6	0.4
<b>Capitalization</b>					
Common Equity Tier 1 Ratio	19.4	19.3	19.2	18.5	N.A.
Fully Loaded Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital Ratio	20.1	19.8	20.3	19.7	19.4
Tangible Common Equity/Tangible Assets	15.2	14.8	14.1	13.6	12.6
Basel Leverage Ratio	14.3	14.1	13.1	13.6	N.A.
Net Impaired Loans/Common Equity Tier 1	N.A.	N.A.	N.A.	N.A.	N.A.
Net Impaired Loans/Fitch Core Capital	(3.2)	(4.0)	(1.3)	(1.8)	(3.4)
<b>Funding and Liquidity</b>					
Loans/Customer Deposits	100.9	99.7	98.4	93.7	92.0
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Funding	80.6	80.7	80.6	84.1	85.6
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.	N.A.

N.A. – Not applicable.

Source: Fitch Ratings, Fitch Solutions, Credicorp.

## Environmental, Social and Governance Considerations

## Credit-Relevant ESG Derivation

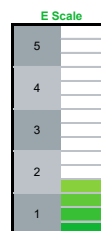
Credicorp Bank, S.A. has 5 ESG potential rating drivers

- ➔ Credicorp Bank, S.A. 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
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality



## 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.

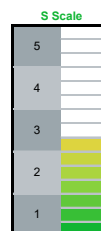
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far 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.

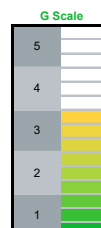
## Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
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; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
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	Company Profile; Financial Profile



## Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
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	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity, intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy



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](http://www.fitchratings.com/esg).

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