

Banco BBVA Peru

Primary Credit Analyst:

Ivana L Recalde, Buenos Aires + 54 11 4891 2127; ivana.recalde@spglobal.com

Secondary Contact:

Sergio A Garibian, Sao Paulo + 55 11 3039 9749; sergio.garibian@spglobal.com

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Ratings Score Snapshot

Issuer Credit Rating

BBB/Negative/A-2

SACP: bbb+

Support: 0

Additional factors: -1

Anchor	bbb-	
Business position	Strong	+1
Capital and earnings	Strong	+1
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
BBB/Negative/A-2

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Key Strengths

Sound business position given Banco BBVA Peru's diversified business portfolio and its status as the second-largest bank in Peru;
Solid operating performance and track record; and
Strategically important subsidiary of Banco Bilbao Vizcaya Argentaria S.A. (BBVA).

Key risks

Low per capita GDP weakens Peru's economic resilience and limits debt capacity; and
Political volatility affecting short to medium term economic growth in the country with impact on the banking industry and the bank.

The change in the business mix bolstered margins, partly compensating for a deterioration in asset quality metrics and impacts of adverse events in Peru. Over the last few years, in line with its parent's strategy, Banco BBVA Peru implemented a change in its loan mix by expanding its retail and small- to mid-size enterprise (SMEs) segments, diluting the wholesale segment's share. This change, the increase in interest rates, and the amortization of loans under government programs (granted during the pandemic and that accrued low interest rates) boosted margins, partly offsetting the deterioration in the bank's asset quality metrics (in line with the industry trend) and the impact of adverse events in Peru in 2023. The latter were social unrest at the beginning of 2023, weather events, and feeble economic growth. As a result, core earnings over average adjusted assets remained at about 1.9% in 2023.

The bank has adequate provisions to face losses stemming from weaker asset quality. As of the end of 2023, loan-loss reserves accounted for about 138% of non-performing loans (NPLs). We expect delinquency to remain still high in the first half of 2024 to then recede as economic conditions improve.

Capitalization to remain a credit strength. Capitalization metrics remain sound thanks to healthy profitability despite high provisioning requirements.

The ratings incorporate the bank's diversified and stable funding profile, and sound liquidity coverage. Banco BBVA Peru has a sticky deposit base. It also has a wide access to domestic and international capital markets, and to central bank funding (e.g., when actions were taken to reduce dollarization in the banking system, and more recently, to mitigate the impact of the pandemic).

Our ratings on Peru limit those on domestic financial institutions including on Banco BBVA Peru. This is because we don't consider that the entities could withstand a sovereign default scenario, given their large exposure to the country in the form of loans and securities.

Outlook

The negative outlook on Banco BBVA Peru reflects the outlook on Peru. We could lower the sovereign ratings if prolonged political impasse or further adverse developments reduce the predictability of policymaking or worsen institutional stability, auguring badly for economic policy outcomes. On the other hand, a downward revision of the bank's stand-alone credit profile (SACP; for instance, because of lower capitalization and/or higher credit risks) wouldn't result in a downgrade, given that Banco BBVA Peru is a strategically important subsidiary that could receive group support, which could result in up to three notches of uplift to the rating above the bank's SACP.

Downside scenario

We expect that the ratings on the bank will move in tandem with those on the sovereign in the next 12-24 months because of Banco BBVA Peru's high exposure to the domestic market. We rarely rate financial institutions higher than the sovereign where they operate, because we consider it unlikely that these institutions would remain unaffected by developments in domestic economies.

Upside scenario

We could revise the outlook on Banco BBVA Peru to stable if we were to take a similar action on the sovereign.

Key Metrics

Banco BBVA Peru--Key ratios and forecasts*

	--Fiscal year ended Dec-31 --				
(%)	2021a	2022a	2023a	2024f	2025f
Growth in customer loans	5.7	-1.7	2.4	5.0-7.0	6.0-7.5
Growth in total assets	-5.4	-3.4	6.4	2.5-3.5	5.0-6.0
Net interest income/average earning assets (NIM)	4.1	5.2	5.8	5.0-6.0	5.0-6.0
Return on average common equity	16.0	17.9	15.9	13.0-15.0	13.0-15.0
Return on assets	1.5	1.9	1.9	1.5-2.0	1.8-2.0

Banco BBVA Peru--Key ratios and forecasts* (cont.)

	--Fiscal year ended Dec-31 --				
(%)	2021a	2022a	2023a	2024f	2025f
Gross nonperforming assets/customer loans	3.7	4.3	4.7	4.4-4.7	3.9-4.2
Net charge-offs/average customer loans	0.5	0.6	1.2	1.0-1.3	0.9-1.3
Risk-adjusted capital ratio	10.4	10.6	10.0	10.0-10.5	10.4-10.7

*Forecast estimated by S&P Global Ratings. a--actual. f--forecast.

Anchor:'bbb-' For Commercial Banks Operating In Peru

Our bank criteria use our Banking Industry Country Assessment's (BICRA's) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a commercial bank operating only in Peru (where Banco BBVA Peru mostly operates) is 'bbb-'.

The banking sector in Peru has benefited from a record of consistent economic policies, solid economic institutions, and a credible and effective central bank. These factors have helped moderate the effects of social disturbances, weather events (Cyclone Yaku and El Niño), and the prolonged political impasse in the country that limits growth prospects. Peru's economic risk also reflects its low per capita GDP (about \$6,000) and the banking industry's high exposure to cyclical sectors such as SMEs and microlending. Asset quality metrics remain at weaker-than-historical levels because of the mentioned events. We believe high loan-loss provisions, good capitalization, and prudent underwriting practices will contain losses in 2024.

The industry risk for banks operating in Peru reflects a solid regulatory framework, with ample supervisory coverage and periodic risk-based supervision. We believe the financial system has healthy capital metrics and a diversified funding mix with a significant share of deposits from loyal customers. We also consider that the government has the ability to provide liquidity, if necessary. The law on loan interest-rate caps and the elimination of charges for late payments had a manageable impact on banks' profitability, but further similar measures could weaken the system's competitive dynamics.

Business Position: Peru's Second-Largest Bank With Sound Market Presence And Business Stability

Banco BBVA Peru's well-recognized franchise, wide and stable client base, and diversified business lines to remain a rating strength. The bank operates in a wide range of business lines including wholesale, retail, and investment banking products and services (through its various subsidiaries). However, as a commercial bank, its core business is lending (see chart 2).

As the second-largest lender in Peru with a market share in terms of loans of 21.4% as of December 2023 (see chart 1), Banco BBVA Peru continues to expand its digital services, underscoring its goal to become a modern, agile, and omni-channel bank. More than half of transactions in 2023 were performed through the mobile banking platform, and about 40% through the service platform for enterprises. The bank has a wide geographic coverage through its network

of retail branches (297), ATMs (1,604), and express agents (19,326).

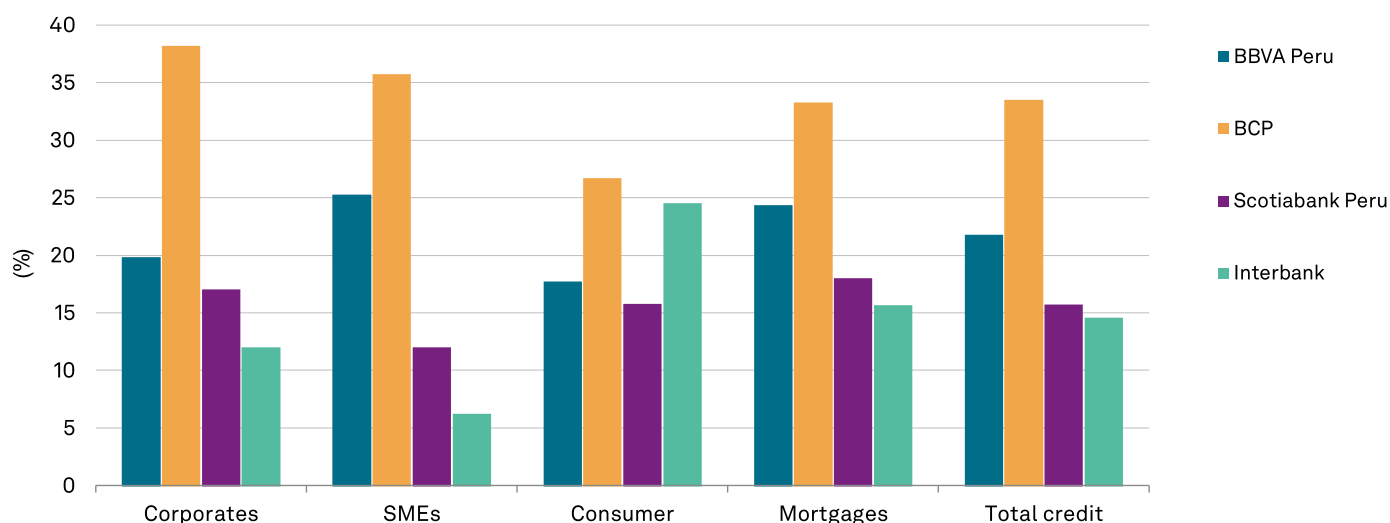
In the last three years, in line with its parent, the bank adjusted its strategy by expanding consumer and SME lending, helped by government programs implemented during the pandemic that increased the client base in the SME segment. At the same time, lending to corporations dropped because of competitive pressures and lower demand for credit, given lower private-sector investments in Peru, with some recovery in late 2023. As of December 2023, about 22% of total loans were allocated in the corporate segment, large companies (17%), mid-scale enterprises (18%), and small enterprises (5%), compared with the system average of 25%, 16%, 13%, and 6%, respectively. The remaining 38% of Banco BBVA Peru's loans were allocated in mortgages (21%), consumer loans (12%), and credit cards (5%), compared with the system averages of 19%, 15%, and 6%.

For 2024, we expect moderate growth in real terms, given low-single-digit GDP growth and modest impact of El Niño phenomena.

Chart 1

Sound market position across all business lines

Market share by business lines



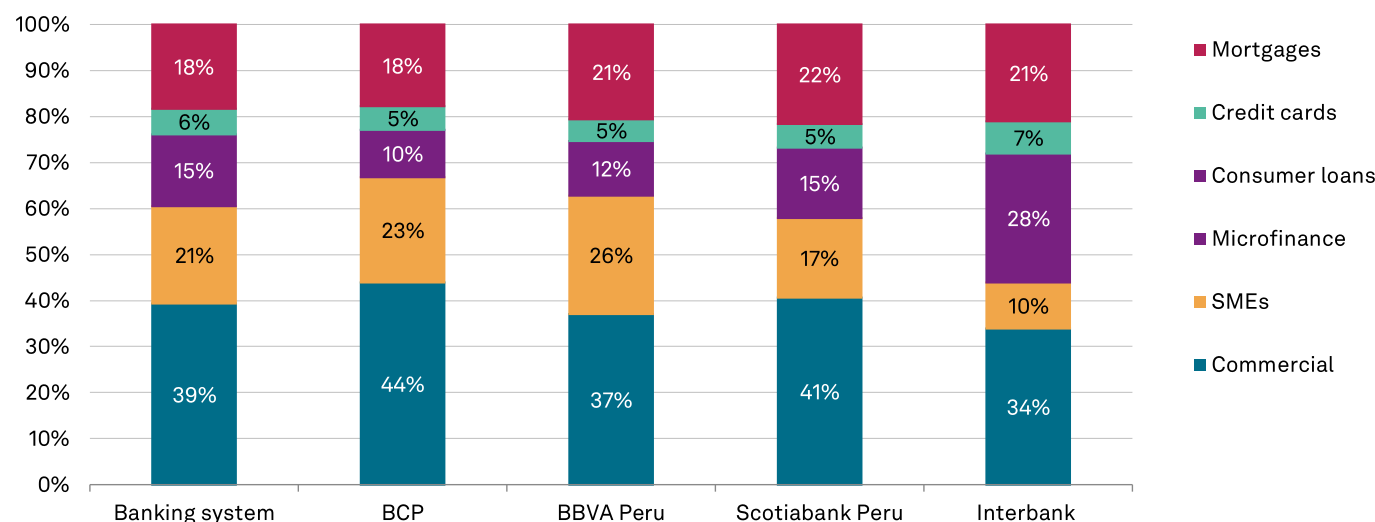
As of December 2023. BCP excludes MiBanco and Scotiabank Peru excludes CrediScotia. Source: Superintendencia de Banca y Seguros.

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Chart 2

A change in the portfolio mix with increasing exposure to SMEs and Retail

Peruvian banks portfolio breakdown



As of December 2023. BCP excludes MiBanco and Scotiabank Peru excludes CrediScotia. Source: Superintendencia de Banca y Seguros.

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Capital And Earnings: The Negative Economic Risk Trend Could Pressure The Risk-Adjusted Capital (RAC) Ratio, But Not Ratings

Our opinion of the bank's sound capital and earnings profile stems from robust capitalization metrics, high quality of capital, which mostly consists of paid-in capital and retained earnings, and healthy earnings generation. We expect the RAC ratio to be 10.0%-10.5% for the next 12-18 months (compared with 10% at the end of 2023) incorporating the our following base-case assumptions:

- Peru's real GDP to grow in low-single digits in 2024-2025.
- Moderate grow in loan portfolio in real terms;
- Net interest margins declining from peak levels in 2023 amid lower interest rates, but mitigated by the change in the loan mix;
- Cost of risk to remain high in 2024 and to decline gradually;
- Nonperforming loans (NPLs; according to the domestic regulatory criteria) of 4.5%-4.6% in 2024 and about 4% in 2025 amid moderate lending growth (calculated according to regulatory criteria); and
- A dividend payout ratio similar to historical levels of 50% of earnings for the next two years.

Banco BBVA Peru's Tier 1 ratio remained sound at 12.33% and BIS regulatory capital ratio at 15.59% as of December 2023, which are similar to the industry average and well in excess of the minimum regulatory capital level. We expect the bank to comply with regulatory changes in Peru that further align with Basel III principles. The implementation of such changes will take place between 2023 and 2026.

The prolonged political impasse in the country, which limits growth prospects, led us to keep the trend in economic risk in our BICRA as negative. If the economic risk score worsens, the anchor for banks operating in the country wouldn't probably be affected, but the risk weights we would apply to banks would increase to reflect the higher risk, which could weaken banks' RAC metrics, including those of Banco BBVA Peru. This could prompt us to revise downward the bank's SACP but not our ratings, which the sovereign rating limits.

In 2023, profitability remained healthy thanks to higher interest rates, the declining share of low-margin loans under government programs, rising volumes of retail and SME loans, and gains in the investment portfolio and results from financial transactions. These factors mitigated the impact of adverse events in Peru and the higher cost of risk related to higher exposure to riskier lending segments (that also accrue higher rates). As a result, return on average assets was about 1.9%, in line with the system average. We expect profitability to remain healthy in 2024 given high provisioning, which will contract as economic conditions improve.

Risk Position: Asset Quality Still Somewhat Weaker Than Industry Average Given Loan Mix Change

We consider Banco BBVA Peru to have a satisfactory risk profile, with operations mostly in lending and management of mismatches, along with moderate client concentrations in terms of loans and deposits.

Banco BBVA Peru has maintained risk diversification among several economic sectors, business segments, and individual obligors. As a result, we don't detect significant risk concentrations that could hamper the bank's risk position. As of December 2023, the 20 largest clients accounted for 11% of total loan portfolio. Banco BBVA Peru continues to focus on traditional banking operations. In this regard, it has no complex products or exposure to sophisticated derivatives operations (mostly used for hedging purposes), asset-backed securities, collateralized debt obligations, or structured credits.

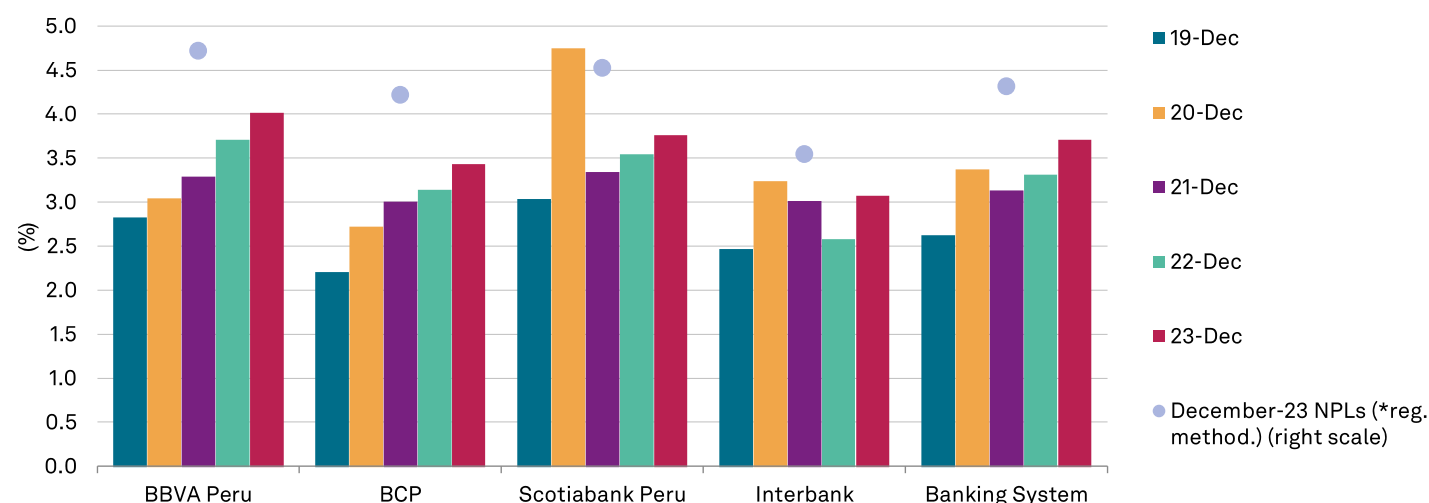
The level of dollar-denominated loans has been a concern in Peru. Although it has fallen consistently in the past decade thanks to the central bank's measures, it remains higher than those of regional peers. Although Peruvian banks generally offer dollar-denominated loans to borrowers with revenues in that currency such as exporters, there's a portion of such loans that are offered to borrowers that generate revenue in domestic currency. Banco BBVA Peru's dollar-denominated loans accounted for 27% of its total loans as of December 2023, similar to the industry average, mostly for clients with dollar-denominated revenue. Overall, we expect relatively stable dollarization levels.

Asset quality metrics slipped, with NPLs rising to about 4.7% of total loans by the end of December 2023 (calculated according to the regulatory criteria) from 4.4% at the end of 2022 (and 3.0% at the end of 2019, prior to the pandemic). The industry average was 4.3% as of December 2023 and 4.0% at the end of 2022 (compared with 3% in 2019). The rise in Banco BBVA Peru's NPLs stems from changes in the loan mix, adverse events in Peru, and the contraction in

economic activity in 2023. When considering the bank's NPLs plus charge-offs, metrics are more in line with the rest of players in the industry. We expect metrics to remain high in the first half of 2024, but to fall thanks to containment actions and as economy improves. The bank has adequate coverage metrics with loan-loss reserves accounting for 138% of nonperforming assets, while focusing on risk management and collections, especially in small enterprise and retail lending segments.

Chart 3**Deterioration of asset quality due to a change in the portfolio mix and events in Peru**

NPL to total loans comparison



NPLs based on 90 days past-due loans definition. BCP excludes MiBanco, and Scotiabank Peru excludes CrediScotia. *

Based on the regulator's methodology and on consolidated basis. Source: Superintendencia de Banca y Seguros.

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Funding and liquidity: Customer Deposits Represent The Bulk Of Funding

Core customer deposits remain the main funding source for Banco BBVA Peru: about 85% of its total funding base as of December 2023, compared with 82% at the end of 2022. This related to a slight gain in market share to 20.8% of total deposits in the banking system by the end of 2023 from 20.3% in 2022. The remaining 15% of funding are interbank credit lines and other financial obligations, including central bank repos to fund loans under government programs. The bank's core customer deposit base has manageable concentrations, and we don't expect major changes in this regard.

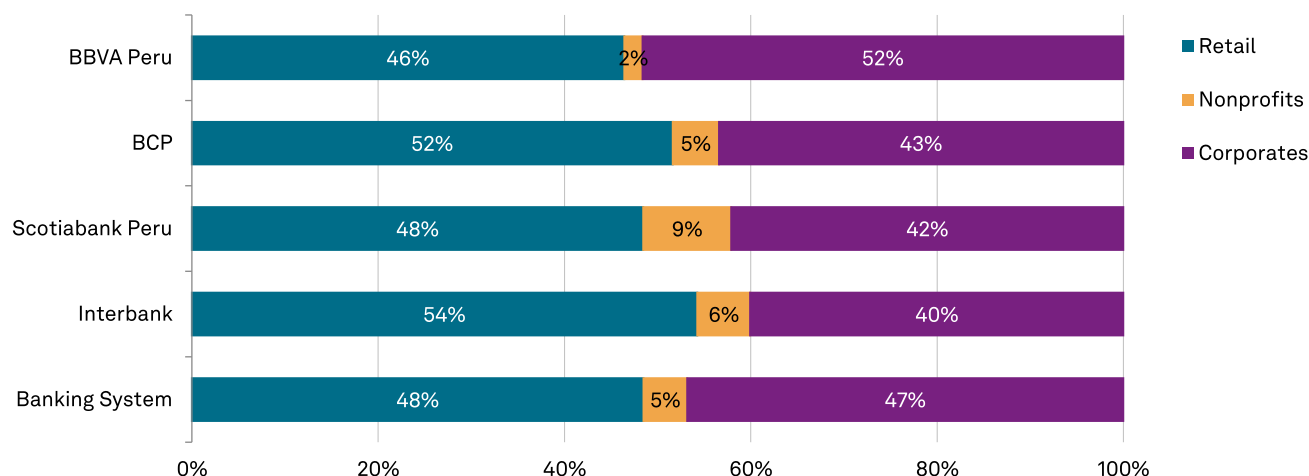
We consider that Banco BBVA Peru manages asset and liability risks well. The bank performs stress test analyses and has contingency plans in place. The bank's stable funding ratio (calculated by S&P Credit Ratings) was about 107% as of December 2023, which is in line with the average in the three previous years. We consider Banco BBVA Peru's

funding to be in line with the industry norm, and we view the bank's liquidity as adequate. As of December 2023, the bank's broad liquid assets (calculated by S&P Credit Ratings) covered 2.5x its short-term wholesale funding. The three-year average ratio in the previous was 1.6x. We consider Banco BBVA Peru's maturities for the next two years to be manageable, mainly consisting of domestic market instruments and repos.

Chart 4

Similar deposits breakdown as for the Peruvian banking system

Deposits breakdown by depositor



As of Dec 2023, BCP excludes MiBanco and Scotiabank Peru excludes CrediScotia. Source: Superintendencia de Banca y Seguros.

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Support:BBVA's Strategically Important Subsidiary

Spain-based BBVA (A/Stable/A-1) and the Breca group (not rated) jointly control 92.24% of Banco BBVA Peru. In our view, the bank is a strategically important subsidiary of BBVA, given that the Peruvian bank's operations, risk management practices, and strategy are consistent with those of the BBVA group. This status results in up to three notches of support for the issuer credit rating on Banco BBVA Peru, subject to a cap of one notch below the parent's group credit profile.

We view Banco BBVA Peru as having high systemic importance for the Peruvian financial system, given the bank's sound competitive position and its importance for the domestic payment system. However, our ratings on Peru limit those on domestic financial institutions including on Banco BBVA Peru, because we don't consider that the entities could withstand a sovereign default scenario, given their large exposure to the country in the form of loans and securities.

Environmental, Social, And Governance (ESG)

ESG credit factors don't influence Banco BBVA Peru's credit quality more than those of its industry and domestic peers. Banco BBVA Peru is aligned with the BBVA group's strategy in terms of climate change and sustainable development. This involves providing innovative solutions to clients to help them in the transition to a low carbon economy and promoting sustainable financing and inclusion.

Peru is somewhat exposed to natural disasters such as earthquakes, volcanic activity, landslides, and the El Niño climate phenomenon. However, Banco BBVA Peru, like the rest of the domestic banks, has been able to contain credit and operating losses at moderate levels during such conditions. The bank's exposure to the agriculture sector, for instance, is low. More generally, the bank's loan book is more diversified than of some domestic peers, reflecting Banco BBVA Peru's wider risk control framework. Nevertheless, the Peruvian economy depends to some extent on the commodity metals sector, which domestic banks generally don't finance. Still, banks are indirectly exposed to those sectors through the whole supply chain (suppliers, subcontractors, and employees of the sector who are also retail clients).

The country's transition to a cleaner energy mix is an indirect and medium-term challenge for banks to manage, given that they have benefited from the wealth generated by the commodity metals sector and the large international investments in it. The political landscape has been marked by corruption investigations and political confrontation between the executive and legislative branches. The risk of social protests, particularly against some mining projects over profit or environmental concerns, will remain elevated, with potential impact on governability and investment decisions, and consequently, on economic growth prospects. The ability to reconcile concerns among the central government, local authorities, and industries remains a challenge for Peru.

Key Statistics

Table 1

Banco BBVA Peru--Key figures					
	--Year-ended Dec. 31--				
(Mil. PEN)	2023	2022	2021	2020	2019
Adjusted assets	103,924.7	97,667.4	101,176.8	107,051.9	81,490.2
Customer loans (gross)	75,545.8	73,784.9	75,091.7	71,012.9	59,305.3
Adjusted common equity	11,863.2	10,966.4	9,882.5	8,957.4	8,869.0
Operating revenues	7,291.6	6,141.2	5,173.5	4,694.5	4,949.4
Noninterest expenses	2,894.6	2,481.0	2,168.6	2,055.9	1,952.2
Core earnings	1,873.7	1,921.8	1,560.5	648.2	1,609.1

PEN--Peruvian nuevo sol.

Table 2

Banco BBVA Peru--Business position					
	--Year-ended Dec. 31--				
(%)	2023	2022	2021	2020	2019
Loan market share in country of domicile	20.5	20.6	21.4	21.6	20.6
Deposit market share in country of domicile	20.3	20.3	19.3	21.6	21.0
Return on average common equity	15.9	17.9	16.0	7.0	18.4

Table 3

Banco BBVA Peru--Capital and earnings					
	--Year-ended Dec. 31--				
(%)	2023	2022	2021	2020	2019
Tier 1 capital ratio	12.3	10.6	10.3	10.8	11.0
S&P Global Ratings' RAC ratio before diversification	10.0	10.6	10.4	10.3	10.1
S&P Global Ratings' RAC ratio after diversification	8.3	8.5	8.1	8.1	7.8
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	73.5	75.1	69.6	69.1	69.1
Fee income/operating revenues	13.9	14.5	16.9	17.3	16.4
Market-sensitive income/operating revenues	11.3	10.0	13.5	14.1	13.8
Cost to income ratio	39.7	40.4	41.9	43.8	39.4
Preprovision operating income/average assets	4.3	3.7	2.9	2.8	3.8
Core earnings/average managed assets	1.9	1.9	1.5	0.7	2.1

Table 4

Banco BBVA Peru--Risk position					
	--Year-ended Dec. 31--				
(%)	2023	2022	2021	2020	2019
Growth in customer loans	2.4	(1.7)	5.7	19.7	8.5
Total diversification adjustment/S&P Global Ratings' RWA before diversification	21.6	25.0	28.2	27.1	28.4
Total managed assets/adjusted common equity (x)	8.8	8.9	10.3	12.0	9.2
New loan loss provisions/average customer loans	2.6	1.3	1.0	2.7	1.3
Net charge-offs/average customer loans	1.2	0.6	0.5	0.3	0.7
Gross nonperforming assets/customer loans + other real estate owned	4.7	4.3	3.7	3.2	3.0
Loan loss reserves/gross nonperforming assets	138.5	145.4	167.6	193.4	162.1

Table 5

Banco BBVA Peru--Funding and liquidity					
	--Year-ended Dec. 31--				
(%)	2023	2022	2021	2020	2019
Core deposits/funding base	82.6	81.1	72.6	75.1	79.1
Customer loans (net)/customer deposits	102.1	104.6	111.4	93.9	102.6
Long-term funding ratio	90.3	87.0	79.5	82.8	89.9
Stable funding ratio	107.5	104.5	99.7	115.4	111.2
Short-term wholesale funding/funding base	11.1	14.7	22.8	18.8	11.4

Table 5

Banco BBVA Peru--Funding and liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	2023	2022	2021	2020	2019
Broad liquid assets/short-term wholesale funding (x)	2.5	1.7	1.1	1.8	2.3
Broad liquid assets/total assets	22.3	20.8	22.5	30.2	22.3
Broad liquid assets/customer deposits	33.7	30.9	36.0	45.7	33.2
Net broad liquid assets/short-term customer deposits	40.9	37.4	18.4	61.9	48.4
Short-term wholesale funding/total wholesale funding	64.0	77.7	83.1	75.4	54.4
Narrow liquid assets/3-month wholesale funding (x)	9.0	8.5	8.4	15.8	5.0

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Peru's Banking Industry Country Risk Assessment Remains At Group '5', Despite Rising Economic Risks, Nov. 30, 2023

Ratings Detail (As Of February 26, 2024)*	
Banco BBVA Peru	
Issuer Credit Rating	BBB/Negative/A-2
Subordinated	BBB-
Issuer Credit Ratings History	
14-Dec-2022	BBB/Negative/A-2
21-Mar-2022	BBB/Stable/A-2
15-Oct-2021	BBB+/Negative/A-2

Ratings Detail (As Of February 26, 2024)*(cont.)

25-Jun-2021	BBB+/Stable/A-2
16-Jul-2020	BBB+/Negative/A-2
11-Mar-2019	BBB+/Stable/A-2
Sovereign Rating	
Peru	
Foreign Currency	BBB/Negative/A-2
Local Currency	BBB+/Negative/A-2
Related Entities	
Banco BBVA Argentina S.A.	
Issuer Credit Rating	
Argentina National Scale	raCCC+/Negative/raC
Senior Unsecured	
Argentina National Scale	raCCC+/Negative
Banco Bilbao Vizcaya Argentaria S.A.	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/-/A-1
Senior Subordinated	BBB+
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB
Banco Bilbao Vizcaya Argentaria Uruguay	
Issuer Credit Rating	BBB+/Stable/A-2
Uruguay National Scale	uyAAA/Stable/--
BBVA Global Markets B.V.	
Issuer Credit Rating	A/Stable/A-1
BBVA Mexico S.A.	
Issuer Credit Rating	BBB/Stable/A-2
CaVal (Mexico) National Scale	mxAAA/Stable/mxA-1+
Senior Unsecured	
CaVal (Mexico) National Scale	mxAAA
Subordinated	BB

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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