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Research Update:

BBVA Banco Continental Outlook Revised To Negative After Similar Action On Its Parent, 'BBB+/A-2' Ratings Affirmed

Primary Credit Analyst:
Cynthia Cohen Freue, Buenos Aires +54 (11) 4891-2161; cynthia.cohenfreue@spglobal.com

Secondary Contact:
Ivana L Recalde, Buenos Aires (54) 114-891-2127; ivana.recalde@spglobal.com

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Research Update:

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Overview

- We're revising our outlook on Peru-based BBVA Banco Continental to negative from stable following a similar action on its parent, Spain-based BBVA.
- We're also affirming our 'BBB+/A-2' ratings on the bank.
- We consider BBVA Banco Continental as a strategically important subsidiary of BBVA and, as such, it receives one notch of group support. Therefore, if we were to downgrade the parent, we could take the same rating action on BBVA Banco Continental.

Rating Action

On Aug. 24, 2018, S&P Global Ratings revised its outlook on BBVA Banco Continental to negative from stable following a similar action on its parent, Banco Bilbao Vizcaya Argentaria, S.A. (BBVA). We also affirmed our 'BBB+/A-2' ratings on the bank.

Rationale

The outlook revision on BBVA Banco Continental mirrors the same action we took on its parent, BBVA (A-/Negative/A-2) on Aug. 20, 2018. We consider BBVA Banco Continental to be a strategically important subsidiary of BBVA, and as such, it could be rated three notches higher than its SACP, but it's subject to a cap of one notch below the GCP of its ultimate parent. BBVA Banco Continental's SACP is 'bbb'. Therefore, if we were to lower the long-term issuer credit rating on BBVA to 'BBB+', we would lower the long-term rating on its Peruvian subsidiary to 'BBB'.

The material currency depreciation and consequent market turmoil in Turkey led us to take negative action on the local banking system, including downgrading Turkiye Garanti Bankasi A.S., a subsidiary of BBVA. We consider that the pace and magnitude of the negative developments in Turkey might also represent a meaningful risk for BBVA's financial profile. The rating action reflects our belief that current events in Turkey have the potential to negatively affect our view of the group's creditworthiness. Specifically, we consider that the heightened risks in Turkey might lower our expectations regarding the group's ability to strengthen its capital and improve its asset quality.

We could downgrade BBVA over our two-year outlook horizon if a material worsening of the economic and operating environment in Turkey hampers the bank's financial strength. Specifically, this could happen if the bank is unable to strengthen its capital and the risk-adjusted capital (RAC) ratio fails to exceed 7.0% consistently, or the group's asset quality deteriorates.

Our ratings on BBVA Banco Continental reflect its solid market share and business diversification, factors that confer significant stability to the bank's revenue and operating performance. We project the bank to maintain adequate RAC levels, roughly at 9.5% for the next 12-18 months mainly based on credit growth of 7%-8%, return on assets above 1.8%, and nonperforming loans ratio (NPLs) below 3%. System-wide asset quality metrics in Peru have consistently deteriorated in the past few years, and we expect them to start improving once GDP growth gains momentum and private investments in the country resume. In this sense, BBVA Banco Continental has above-average coverage levels that could mitigate potential credit provisions. The bank also has diversified and stable funding profile with an about 20% share of the country's retail deposit base and wide access to local and international capital markets. BBVA Banco Continental also holds sufficient liquidity and broad liquid assets to cover its short-term wholesale funding by 2x. As a result, the bank's SACP remains at 'bbb'.

Outlook

The negative outlook on BBVA Banco Continental reflects that on its parent and our expectation that it will remain a strategically important subsidiary to BBVA. We could downgrade the Peruvian subsidiary in the next two years if we take the same action on its parent because it currently receives a notch of support from its parent.

Upside scenario

We could revise our outlook on BBVA Banco Continental to stable if we also revise our outlook on its parent, or if the bank's capitalization levels improve, reaching a forecasted RAC ratio in the next two years comfortably above 10%, leading us to strengthen the bank's SACP. This could result from stronger-than-expected internal capital generation, lower credit growth, or a lower dividend payout.

Ratings Score Snapshot

Issuer Credit Rating	BBB+/Negative/A-2
SACP	bbb
Anchor	bbb-
Business Position	Strong (+1)

Capital and Earnings	Adequate (0)
Risk Position	Adequate (0)
Funding	Average (0)
Liquidity	Adequate (0)
Support	+1
GRE Support	0
Group Support	+1
Sovereign Support	0
Additional Factors	0

Related Criteria

- 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
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Outlook On Spain-Based BBVA S.A. Revised To Negative On Worsening Conditions In Turkey; 'A-/A-2' Ratings Affirmed, Aug. 20, 2018

Ratings List

Ratings Affirmed; Outlook Action

	To	From
BBVA Banco Continental		
Issuer Credit Rating	BBB+/Negative/A-2	BBB+/Stable/A-2

Ratings Affirmed

BBVA Banco Continental	
Senior Unsecured	BBB+
Subordinated	BBB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.