

RatingsDirect®

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

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria

Related Research

Ratings List

Research Update:

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

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

*Research Update: BBVA Banco Continental Outlook Revised To Negative After Similar Action On Its Parent,
'BBB+/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.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.