

Fitch: Argentine Bank Subs Positioned to Ride Out Volatility

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Fitch Ratings-New York: The Argentine banking subsidiaries of global banks are adequately positioned to weather the volatility that may arise from a possible default of Argentina's sovereign debt, according to Fitch Ratings. Argentina's possible default, which may occur following the July 30 expiration of a grace period on certain interest payments, could trigger increased foreign exchange volatility and affect the value of banking subsidiaries located in Argentina. It may also create a more challenging operating environment and reduce the profitability of banking subsidiaries there. However, foreign bank subsidiaries in Argentina are on better footing today than at the time of Argentina's last default in 2001. Bank holdings of central government securities are minimal. The majority of security portfolios are in local currency central bank securities that are not subject to the recent US federal court ruling on the sovereign debt held by several US investors. The banks' overall financial profiles are healthier than 13 years ago, with expanded capacity for loss absorption and minimal exposure to loans to the sovereign. BBVA, Santander, HSBC, Banco Itau and Citibank, among other banks have footprints in Argentina. Both BBVA and Santander each hold an over 5% share of Argentina's total deposit base. They are by far the largest of the global banks operating in the country. In Fitch's view, even with higher valuation volatility, the net exposure of global banks to Argentina is small and should not represent a significant burden to their parents. The intrinsic financial strengths of banking subs in Argentina are far higher than in 2001. For example, direct exposure to central government claims (loans and securities) are minimal, and in many cases zero. Many of the private sector banks boast equity/asset ratios of around 10% on average, while asset quality is deemed adequate with strong loan loss reserves. In times of increased economic pressures, however, even banks with adequate financial profiles can suffer contagion due to higher funding volatility. Fitch believes that the current liquidity position of the Argentine bank subsidiaries is strong, and we recognize that the central bank would be able to provide some local currency liquidity, should it be required. While deposit runs are the most serious threat that any of the banking subsidiaries could face in the event of a significant deterioration of the operating environment, Fitch sees further write-downs of equity investment in the Argentine subs as being the more likely immediate threat following any possible sovereign default and/or a deterioration of the operating environment. The Argentine subsidiaries represent no more than 1% of BBVA's and Santander's total assets, thus any contagion impact on these banks' parents should be limited. Fitch recognizes that parent company support from BBVA and Santander for their Argentine subsidiaries is not unlimited. Fitch's base case assumption is that if there was a need for support for bank-specific reasons, the support would be more likely to be provided than in a case for country-specific issues, including a deterioration of the operating/legal environment. The current ratings of Argentine bank subsidiaries are driven by the Viability Rating (VR) of each subsidiary and do not incorporate any benefit of institutional support, which is unique relative to Fitch's views with other subsidiaries of Spanish banks in Latin America. Data from the central bank of the Argentine Republic presently indicates limited signals of strain within the banking system. However, pressures could build if the operating environment deteriorates sharply following a possible sovereign default. Private sector deposits have increased in nominal terms in the 12 months period ending mid-July, the latest available data from the regulator; while excess liquidity in the form of holdings of central bank paper is high. The overall system liquidity ratio (which include cash in hand, securities held with the central banks and other very short term securities) has strengthened since the beginning of 2014 to around 37% of total deposits at June 30 from just under 30%, which is conservative compared to other markets. Nondeposit funding is small and foreign funding is limited. Fitch currently maintains 'B-' ratings with a Rating Outlooks Negative on the Argentine subsidiaries of BBVA and Santander. Fitch also maintains VRs of 'b-' on the subsidiaries of BBVA and Santander. The VR ratings are constrained by the

'B-' local currency rating of the sovereign, also Rating Outlook Negative. Any possible changes on the rating or outlook of the sovereign may trigger a review on the rating of those banks operating in Argentina following Fitch's criteria. Contact: Alejandro Garcia Garcia Senior Director +52 81 8399 9100 Edificio Connexity, Prol. Alfonso Reyes No. 2612 Col. Del Paseo Residencial Monterrey, Mexico Matthew Noll Senior Director Financial Institutions Fitch Wire +1 212 908-065233 Whitehall Street New York, NY Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com. The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings. ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.