

Banco Occidental de Descuento

Update

Ratings

Foreign Currency

Long-Term IDR	B-
Short-Term IDR	B
Individual	D/E
Viability	b-
Support	5

Local Currency

Long-Term IDR	B-
Short-Term IDR	B

National

Long-Term Rating ^a	BBB-(ven)
Country Ceiling	F3(ven)

Sovereign

Long-Term IDR	B+
Long-Term Local Currency IDR	B+
Country Ceiling	B+

^aUpgraded from 'BB' on Aug. 15, 2011.

Outlooks

Long-Term Foreign-Currency IDR ^a	Stable
Long-Term Local-Currency IDR ^a	Stable
Sovereign Long-Term IDR ^a	Stable

^aRevised from Negative on Aug. 15, 2011.

Financial Data

Banco Occidental de Descuento

	05/31/11 ^a	12/31/10
Total Assets (VEFm)	26,438	25,603
Equity (ISOm)	2,534	2,078
Net Income (ISOm)	314	365
ROAE (%)	34.99	17.50
ROAA (%)	2.91	1.47
Equity/Assets (%)	9.58	8.12

^aUnaudited interim financial statements.

Related Research

Venezuelan Banks: [Review and Outlook 2011](#), Nov. 3, 2010

Related Criteria

Global Financial Institutions Rating Criteria, Aug. 16, 2011

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Key Rating Drivers

Weak Financial Profile: Banco Occidental de Descuento's (BOD) ratings reflect its volatile profitability, weak asset quality, and tight capital base relative to both domestic (privately owned universal and commercial banks) and international (commercial banks with a long-term IDR of 'B-', 'B', or 'B+') peers. BOD's ratings also reflect the bank's privileged position in Venezuela's second largest economic region, as well as a diversified funding base and credit portfolio.

Good Market Share: BOD was Venezuela's sixth largest bank at the end of May 2011 (fourth largest considering only privately owned banks). It has a privileged market share in Venezuela's leading oil-producing region, the state of Zulia, and a stable deposit base.

Encumbered Capital Base: Fresh capital and retained earnings improved BOD's Fitch core capital to weighted risks ratio to 4.7% at the end of May 2011 from a low of 2.3% at the end of June 2009. This ratio remains significantly below the average of other large banks in the country and international peers due to the deduction of goodwill related to the pricey acquisition of a local bank (CorpBanca) in 2009. Nevertheless, Fitch's expects BOD's capital ratios to continue improving thanks to lower growth, sustained modest profitability, and fresh capital.

Pending Merger with CorpBanca: In the future, BOD's capital base may benefit from the effects of the merger with Corp Banca and a more stable profitability path. Some operating cost savings may occur as a product of the merger between these two operating brands. Additionally, new sizable capital injections expected to be received in August 2011 may help to narrow its capitalization weakness compared to other banks in the country and international peers. The merger is still pending regulatory approval.

Asset Quality Challenges: Asset quality metrics remains volatile and weak relative to Venezuelan banks and international peers, as past due loans reached 5.6% at the end of May 2011, more than twice the domestic banking system average. However, loan loss reserves have grown more than proportionally since 2008 thanks to an increase in operating profits, bringing reserve coverage of impaired loans to 151% at the end of May 2011. Fitch expects asset quality to remain volatile due to a more challenging operating environment.

Volatile Profitability: BOD's annualized ROAA almost doubled in the first five months of 2011 thanks to a stronger net interest margin and a robust increase in non-interest income as well as improvements in efficiency. However, profitability is likely to remain volatile given the bank's historical tendency toward abrupt changes in asset quality.

What Could Trigger a Rating Action

Sustained Improvement in Capitalization: Fitch could upgrade BOD's ratings if fresh capital and retained earnings lead to a marked improvement in its Fitch core capital ratio. By contrast, Fitch could downgrade BOD's ratings if capital ratios weaken and/or profitability decreases because of lower spreads and/or a further deterioration of its asset quality ratios.

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