

**Banks
Venezuela
Credit Update**

**Banco Provincial
(Provincial)**

Ratings

	Current Rating
Banco Provincial	
Long-Term IDR	B+
Short-Term IDR	B
Individual Support	D 5

Outlook

Stable

Financial Data

Banco Provincial	06/30/08	12/31/07
Total Assets (VEBm)	21,967,423	20,838,396
Total Equity (VEBm)	2,561,060	2,169,488
Net Income (VEBm)	512,774.4	811,168.8
ROAA (%)	4.79	4.42
Equity/Assets (%)	11.66	10.41

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Related Research

- *Venezuelan Banks: Review and Outlook, Mar 11, 2008*

Rating Rationale

- Banco Provincial's (Provincial) ratings reflects its adequate performance in a highly unstable operating environment; with good profitability, asset quality and capitalization ratios, based on a strong franchise, conservative risk control techniques and the operational support of Spain's Banco Bilbao Vizcaya Argentaria (BBVA). Provincial's ratings are constrained by the negative effects of government intervention over the bank business and overall private sector activities.
- An enhanced loan mix, the bank's low funding cost and appropriate asset and liability management; have benefited Provincial net interest margin, while controlled credit and administrative costs have also boosted its profitability. The return on average assets ratio has increased to 4.8% at end-June 2008, compared to 3% during year 2005; a trend somehow sustainable going forward.
- Provincial ample market share, in addition to its conservative credit risk tools have resulted in adequate loan growth and good asset quality ratios, above market trends. At end June 2008, the past due loan portfolio was 1% of total loans, but slightly increasing. Loan loss reserves have averaged 2.4% since year 2005, a level that might be tight considering the volatility of the operating environment.
- Higher profitability and a more conservative asset expansion have aided Provincial capital ratios, being that the equity to assets ratio improved to 11.7% at end-June 2008 from 8.5% at end-2006. Nevertheless, around 12% of Provincial's equity is represented by short term non deferral preferred shares which do not provide any cushion for unexpected losses according to Fitch Hybrid Criteria; as such the adjusted equity to assets ratio stands at 10.3%, ratio still adequate.

Support

Given Venezuela's subinvestment grade rating, the lack of a consistent policy regarding bank support and Fitch Ratings' view that current interference with the banking system could influence decisions that shareholders may face if Provincial were to require financial assistance, although possible, cannot be relied upon.

Key Rating Drivers

- The Outlook for the long-term issuer default rating (IDR) is Stable. Government intervention is a major risk for Venezuelan banks, nevertheless, Provincial conservative business plan, adequate risk control techniques, long lasting expertise, strong profitability and current capital base, provide some room of maneuver in case of further interventions.

Profile

Provincial was the fourth largest universal bank in Venezuela at June 2008 in terms of invested funds (assets plus investment funds) with a 8.5% asset market share. Provincial is 55% owned by Spain's BBVA, with Grupo Polar a major Venezuelan industrial, being the second largest shareholder with a 26% stake.