

Banks
Venezuela
Credit Update

Venezolano de Credito Banco
Universal
(Venezolano)

Ratings

| | Current Rating |
|-----------------------|----------------|
| Venezolano de Crédito | |
| Long-Term IDR | B+ |
| Short-Term IDR | B |
| Individual Support | D 5 |

Outlook

Stable

Financial Data

| Venezolano de Crédito | 06/30/08 | 12/31/07 |
|-----------------------|-----------|-----------|
| Total Assets (VEBm) | 3,745,143 | 3,849,832 |
| Total Equity (VEBm) | 382,161 | 323,332 |
| Net Income (VEBm) | 100,742 | 162,343.8 |
| ROAA (%) | 5.31 | 4.67 |
| Equity/Assets (%) | 10.20 | 8.40 |

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Related Research

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

Rating Rationale

- Venezolano de Crédito Banco Universal's (Venezolano) ratings reflect its well established franchise, good asset quality, above average profitability and overall conservative risk appetite. Venezolano's ratings are constrained by the negative effects of government intervention over the bank business.
- Along years, Venezolano asset quality have compared favorably with market trends (despite its higher concentration levels), based not only on its conservative credit risk approach, but also, given its ample participation on the corporate and high net worth segment; market sector where the bank enjoys a valuable franchise. As such, the past due loan to gross loan portfolio ratio have remained below 1% in the last five years. Loan loss reserves have averaged 1.5% since year 2005, a level that might be tight considering the volatility of the operating environment. Government exposure is limited to short term deposits at Central Bank (1.8 times equity at end-June 2008).
- Despite the nature of its funding base (corporate and high net worth market) Venezolano's strong franchise have resulted in a low funding cost, somehow pressured by the interest rate control imposed by the government. This privilege has allowed the bank to preserve and enhance its margins. As such, expanded margins, still controlled but increasing overheads and a very low credit cost have sustained its profitability ratios. For the 2005-2008 period its return on average assets ratio stood at 4.7%, below its previous records but still ample. Fierce competition and government controls will keep pressure over the bank's profitability.
- Despite historic sizable cash dividends, a more moderate growth of its balance sheet and still high profitability have enhanced the capitalization ratios for Venezolano. At end-June 2008 total equity to assets improved to 10.2%, above the market average but below the historic records of the bank.

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 Venezolano 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, Venezolano conservative management, long lasting expertise, strong profitability and current capital base, provide some room of maneuver in case of further interventions.

Profile

Venezolano is a small bank with less than 2% market share in terms of invested funds (assets + investment funds) at June-2008. Despite this fact, the bank is well positioned in the corporate and high net worth client market and also has been considered a refuge bank in times of stress. Established in 1925, Venezolano is owned by an array of local and international investors.

Balance Sheet Analysis — Venezolano de Crédito Banco Universal

Exchange Rate: USD1 = VEB2,147

| | 6/30/08 | | | | 12/31/07 | | 12/31/06 | | 12/31/05 | |
|---|--------------------|--------------------|-------------------------------|-----------------------------|------------------------------|-------------------------------|------------------------------|-------------------------------|------------------------------|-------------------------------|
| | 6 Months — Interim | | As % of Assets Original | Average VEBm Original | Year End VEBm Original | As % of Assets Original | Year-End VEBm Original | As % of Assets Original | Year-End VEBm Original | As % of Assets Original |
| | USDm Original | VEBm Original | | | | | | | | |
| A. LOANS | | | | | | | | | | |
| 1. Commercial | n.a. | n.a. | - | n.a. | n.a. | - | n.a. | - | n.a. | - |
| 2. Consumer | n.a. | n.a. | - | n.a. | n.a. | - | n.a. | - | n.a. | - |
| 3. Other | 799.9 | 1,717,295.4 | 45.85 | 1,703,096.3 | 1,688,897.1 | 43.87 | 970,865.7 | 31.22 | 723,893.0 | 42.12 |
| 4. Restructured | 1.0 | 2,207.9 | 0.06 | 2,470.5 | 2,733.1 | 0.07 | 3,813.7 | 0.12 | 3,667.3 | 0.21 |
| 5. Impaired | 7.1 | 15,326.8 | 0.41 | 11,732.7 | 8,138.5 | 0.21 | 4,260.5 | 0.14 | 3,697.3 | 0.22 |
| 6. (Loan Loss Reserve) | 11.6 | 25,012.3 | 0.67 | 23,766.4 | 22,520.5 | 0.58 | 13,752.0 | 0.44 | 12,440.5 | 0.72 |
| TOTAL A | 796.4 | 1,709,817.8 | 45.65 | 1,693,533.0 | 1,677,248.2 | 43.57 | 965,187.9 | 31.04 | 718,817.1 | 41.82 |
| B. OTHER EARNING ASSETS | | | | | | | | | | |
| 1. Deposits with Banks | 265.2 | 569,283.8 | 15.20 | 679,267.5 | 789,251.1 | 20.50 | 797,576.2 | 25.65 | 518,329.1 | 30.16 |
| 2. Government Securities | n.a. | n.a. | - | n.a. | n.a. | - | 442,246.0 | 14.22 | 0.0 | 0.00 |
| 3. Other Investments and Securities | 93.3 | 200,391.7 | 5.35 | 176,387.2 | 152,382.6 | 3.96 | 161,645.3 | 5.20 | 145,513.0 | 8.47 |
| 4. Investments in Subs and Assoc | 2.5 | 5,261.5 | 0.14 | 5,257.9 | 5,254.2 | 0.14 | 5,236.1 | 0.17 | 5,657.5 | 0.33 |
| 5. (Reserve for Investments & Securities) | 0.0 | 28.3 | 0.00 | 28.3 | 28.3 | 0.00 | 28.3 | 0.00 | 28.3 | 0.00 |
| TOTAL B | 360.9 | 774,908.7 | 20.69 | 860,884.1 | 946,859.6 | 24.59 | 1,406,675.3 | 45.24 | 669,471.3 | 38.95 |
| C. TOTAL EARNING ASSETS (A+B) | 1,157.3 | 2,484,726.5 | 66.35 | 2,554,417.2 | 2,624,107.8 | 68.16 | 2,371,863.2 | 76.28 | 1,388,288.4 | 80.77 |
| D. FIXED ASSETS | 14.5 | 31,153.6 | 0.83 | 29,923.9 | 28,694.3 | 0.75 | 27,768.6 | 0.89 | 28,401.7 | 1.65 |
| E. NONEARNING ASSETS | | | | | | | | | | |
| 1. Cash | 64.9 | 139,251.2 | 3.72 | 131,529.3 | 123,807.3 | 3.22 | 70,929.2 | 2.28 | 43,231.6 | 2.52 |
| 2. Reserves with Central Bank | 424.1 | 910,521.4 | 24.31 | 942,030.3 | 973,539.2 | 25.29 | 532,105.5 | 17.11 | 184,308.2 | 10.72 |
| 3. Other | 83.6 | 179,489.9 | 4.79 | 139,586.6 | 99,683.2 | 2.59 | 106,946.8 | 3.44 | 74,488.6 | 4.33 |
| TOTAL E | 1,744.4 | 3,745,142.6 | 100.00 | 3,797,487.2 | 3,849,831.8 | 100.00 | 3,109,613.3 | 100.00 | 1,718,718.5 | 100.00 |
| G. DEPOSITS AND MONEY MARKET FUNDING | | | | | | | | | | |
| 1. Demand | 1,119.5 | 2,403,637.3 | 64.18 | 2,475,488.3 | 2,547,339.4 | 66.17 | 1,812,273.7 | 58.28 | 940,276.6 | 54.71 |
| 2. Savings | 245.2 | 526,509.8 | 14.06 | 526,805.5 | 527,101.1 | 13.69 | 423,103.6 | 13.61 | 212,820.0 | 12.38 |
| 3. Time | 64.2 | 137,851.0 | 3.68 | 138,509.5 | 139,168.0 | 3.61 | 119,715.4 | 3.85 | 257,850.4 | 15.00 |
| 4. Deposits from Banks | 41.8 | 89,826.4 | 2.40 | 91,833.7 | 93,841.0 | 2.44 | 431,448.1 | 13.87 | 45,893.0 | 2.67 |
| 5. Other | 34.1 | 73,116.0 | 1.95 | 85,447.5 | 97,779.0 | 2.54 | 0.0 | 0.00 | n.a. | - |
| TOTAL G | 1,504.9 | 3,230,940.5 | 86.27 | 3,318,084.5 | 3,405,228.5 | 88.45 | 2,786,540.8 | 89.61 | 1,456,840.0 | 84.76 |
| H. OTHER FUNDING | | | | | | | | | | |
| 1. Subordinated Debt | 0.0 | 0.0 | 0.00 | 0.0 | 0.0 | 0.00 | 0.0 | 0.00 | 0.0 | 0.00 |
| 2. Other Long-Term Borrowing | 0.4 | 949.9 | 0.03 | 1,013.0 | 1,076.0 | 0.03 | 1,101.1 | 0.04 | 738.5 | 0.04 |
| I. OTHER (Non-Interest Bearing) | 61.1 | 131,091.3 | 3.50 | 125,643.2 | 120,195.0 | 3.12 | 94,028.2 | 3.02 | 80,356.1 | 4.68 |
| J. LOAN LOSS RESERVES (See A. Above) | | | | | | | | | | |
| K. OTHER RESERVES | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| L. EQUITY | | | | | | | | | | |
| 1. Preference Shares | 0.0 | 0.0 | 0.00 | 0.0 | 0.0 | 0.00 | 0.0 | 0.00 | 0.0 | 0.00 |
| 2. Common Equity | 178.0 | 382,160.9 | 10.20 | 352,746.6 | 323,332.3 | 8.40 | 227,943.2 | 7.33 | 180,783.9 | 10.52 |
| TOTAL L | 178.0 | 382,160.9 | 10.20 | 352,746.6 | 323,332.3 | 8.40 | 227,943.2 | 7.33 | 180,783.9 | 10.52 |
| M. TOTAL LIABILITIES AND EQUITY | 1,744.4 | 3,745,142.6 | 100.00 | 3,797,487.2 | 3,849,831.8 | 100.00 | 3,109,613.3 | 100.00 | 1,718,718.5 | 100.00 |

NA – Not Available
Source: Venezolano

Income Statement Analysis — Venezolano de Crédito

| | 6/30/08 | | 12/31/07 | | 12/31/06 | | 12/31/05 | |
|--------------------------------|--|--|--|--|--|--|--|--|
| | Income Expenses VEBm Original | As % of Total AV Earning Assets Original | Income Expenses VEBm Original | As % of Total AV Earning Assets Original | Income Expenses VEBm Original | As % of Total AV Earning Assets Original | Income Expenses VEBm Original | As % of Total AV Earning Assets Original |
| 1. Interest Received | 265,518.9 | 20.79 | 328,331.7 | 13.14 | 216,677.8 | 11.52 | 176,355.2 | 12.96 |
| 2. Interest Paid | 71,575.1 | 5.60 | 75,630.1 | 3.03 | 34,619.4 | 1.84 | 27,320.9 | 2.01 |
| 3. NET INTEREST REVENUE | 193,943.8 | 15.18 | 252,701.6 | 10.12 | 182,058.4 | 9.68 | 149,034.3 | 10.95 |
| 4. Other Operating Income | 57,085.8 | 4.47 | 129,508.4 | 5.18 | 82,858.9 | 4.41 | 78,532.5 | 5.77 |
| 5. Other Income | n.a. | - | n.a. | - | n.a. | - | n.a. | - |
| 6. Personnel Expenses | 58,352.3 | 4.57 | 100,045.4 | 4.01 | 72,366.2 | 3.85 | 56,079.1 | 4.12 |
| 7. Other Non-Interest Expenses | 63,303.8 | 4.96 | 89,972.5 | 3.60 | 71,010.2 | 3.78 | 64,856.3 | 4.77 |
| 8. Loan Loss Provisions | 2,159.7 | 0.17 | 11,852.3 | 0.47 | 1,752.7 | 0.09 | 254.6 | 0.02 |
| 9. Other Provisions | 0.0 | 0.00 | 0.0 | 0.00 | 0.0 | 0.00 | 0.0 | 0.00 |
| 10. OPERATING PROFIT | 127,213.8 | 9.96 | 180,339.8 | 7.22 | 119,788.2 | 6.37 | 106,376.8 | 7.82 |
| 11. Extraordinary Items | 128.5 | 0.01 | 12,232.8 | 0.49 | -604.9 | -0.03 | -409.8 | -0.03 |
| 12. PRETAX PROFIT | 127,342.3 | 9.97 | 192,572.6 | 7.71 | 119,183.3 | 6.34 | 105,967.0 | 7.79 |
| 13. Taxes | 26,600.0 | 2.08 | 30,230.0 | 1.21 | 21,800.0 | 1.16 | 22,900.0 | 1.68 |
| 14. NET INCOME | 100,742.3 | 7.89 | 162,342.6 | 6.50 | 97,383.3 | 5.18 | 83,067.0 | 6.10 |

Source: Venezolano

Ratio Analysis — Venezolano de Crédito

| | | 6/30/08 Original | 12/31/07 Original | 12/31/06 Original | 12/31/05 Original |
|--|---|---------------------|----------------------|----------------------|----------------------|
| I. PROFITABILITY LEVEL | | | | | |
| 1. Net Income/Equity (av) | % | 57.12 | 58.90 | 47.65 | 44.50 |
| 2. Net Income less Preference Dividend/Common Equity (av) | % | 57.12 | 58.90 | 47.65 | 44.50 |
| 3. Net Income/Total Assets (av) | % | 5.31 | 4.67 | 4.03 | 4.96 |
| 4. Operating Profit/Total Assets (av) | % | 6.70 | 5.18 | 4.96 | 6.36 |
| 5. Operating Profit before Provisions/Total Assets (av) | % | 6.81 | 5.52 | 5.03 | 6.37 |
| 6. Pre-Tax Profit/Total Assets (av) | % | 6.71 | 5.53 | 4.94 | 6.33 |
| 7. Cost/Income | % | 48.46 | 49.72 | 54.12 | 53.14 |
| 8. Cost/Total Assets (av) | % | 6.41 | 5.46 | 5.94 | 7.23 |
| 9. Net Interest Revenue/Total Assets (av) | % | 10.21 | 7.26 | 7.54 | 8.90 |
| II. CAPITAL ADEQUACY (Year End) | | | | | |
| 1. Internal Capital Generation | % | 57.12 | 58.90 | 21.60 | -6.13 |
| 2. Equity/Total Assets | % | 10.20 | 8.40 | 7.33 | 10.52 |
| 3. Free Capital/Banking Assets | % | 9.32 | 7.58 | 6.34 | 8.71 |
| 4. Equity/Loans | % | 22.35 | 19.28 | 23.62 | 25.15 |
| 5. Capital/Risks - Tier 1 | % | n.a. | n.a. | n.a. | n.a. |
| 6. Capital/Risks - Total | % | 16.00 | 15.00 | 15.80 | 15.92 |
| 7. Common Equity/Total Assets | % | 10.20 | 8.40 | 7.33 | 10.52 |
| III. LIQUIDITY (Year End) | | | | | |
| 1. Liquid Assets/Deposits & Money Mkt Funding | % | n.a. | n.a. | n.a. | n.a. |
| 2. Liquid Assets & Marketable Debt Securities/Deposits & Money Mkt Funding | % | 60.12 | 60.73 | 74.07 | 63.65 |
| 3. Loans/Deposits & Money Mkt Funding | % | 52.92 | 49.26 | 34.64 | 49.34 |
| IV. ASSET QUALITY | | | | | |
| 1. Loan Loss Provisions/Loans Gross (av) | % | 0.25 | 0.88 | 0.20 | 0.03 |
| 2. Loan Loss Provisions/Profit before Provisions and Taxes | % | 1.67 | 5.80 | 1.45 | 0.24 |
| 3. Loan Loss Reserves/Loans Gross | % | 1.44 | 1.32 | 1.40 | 1.70 |
| 4. Loan Loss Reserves/Impaired Loans Gross | % | 163.19 | 276.72 | 322.78 | 336.48 |
| 5. Impaired Loans Gross/Loans Gross | % | 0.88 | 0.48 | 0.44 | 0.51 |
| 6. Impaired Loans Net/Equity | % | -2.53 | -4.45 | -4.16 | -4.84 |
| 7. Charge-Offs/Loans Gross (av) | % | 0.00 | 0.17 | 0.01 | 0.02 |