

Fitch Upgrades Venezuelan Banks

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Fitch Ratings-New York-September 23, 2004: Fitch Ratings, the international rating agency, has upgraded the ratings of Venezuelan banks, as outlined below. The Rating Outlook remains Stable. The rating action follows Fitch's upgrade of the Bolivarian Republic of Venezuela's long-term foreign currency rating to 'B+' from 'B-' and its long-term local currency (Venezuelan bolivar) rating to 'B+' from 'B-'. The sovereign actions reflect Venezuela's improved creditworthiness following the resolution of uncertainty related to the August presidential recall referendum and on higher international liquidity. This rating action also reflects a relative improvement in the operating environment for banks supported by low interest rates and a rebound in economic activity that has resulted in an improvement of most of the banks' performance ratios. In addition, other concerns relating to possible politically motivated interference of the banking system, including but not limited to a distressed debt exchange by the government, directed lending, fees control, and interest rate ceilings, have diminished as these actions have either not taken place or done so in a watered-down form.

In terms of performance, banks have been able to maintain good profitability since 2002, backed initially by foreign exchange gains and strong interest income but since the imposition of foreign exchange controls in February 2003 largely by wide net interest margins. This has allowed banks to continue creating loan loss provisions and charging off significant portions of their loan portfolio, which, coupled with a slightly improving operating environment, has resulted in improving asset quality ratios (past-due to total loans of 2.8% at end-June 2004 with loan loss reserve coverage of over 200%; including restructured loans, these ratios are also manageable at 5.1% and 113%, respectively). In turn, equity to assets and risk-weighted capital ratios at most banks continue to be ample (although the latter ratio benefits from the zero risk-weighting of government securities), which is justified given the volatile environment.

Despite some external financing by the Venezuelan government in 2003 and 2004, local currency debt remains a crucial source of funds apart from oil exports. The increase in bank liquidity as a consequence of the foreign exchange control and low loan demand has resulted in an increase in government debt in the banks' books, mostly in the form of central government debt (Deuda Publica Nacional bonds and treasury bills) or CDs issued by the Central Bank. At the end of June 2004, government debt in the banks' books (including Central Bank CDs) reached a sizeable US\$13 billion, representing around 47% of invested funds (assets plus ceded investments) and 3.9 times the system's equity. Central Bank CDs represent almost one third of total government securities in the banks' balance sheet.

The banks will have to continue coping with sluggish loan demand and a lower interest rate environment, which will call for further efforts to improve their

operational efficiency. Although it is not a likely scenario, a possible liberalization of the foreign exchange market could put significant pressure over the banks' liquidity position. A detailed analysis of each of the institutions in the following list will be published during October 2004.

Banco del Caribe

- Long-term foreign upgraded to 'B+' from 'B-';
- Outlook Stable;
- Short-term foreign currency affirmed at 'B';
- Long-term local currency upgraded to 'B+' from 'B-';
- Short-term local currency affirmed at 'B';
- Individual affirmed at 'D';
- Support affirmed at '5';
- Long-term national rating upgraded to 'A+(ven)' from 'A-(ven)';
- Short-term national rating upgraded to 'F-1(ven)' from 'F-2(ven)'.

Banco Exterior

- Long-term foreign currency upgraded to 'B+' from 'B-';
- Outlook Stable;
- Short-term foreign currency affirmed at 'B';
- Long-term local currency upgraded to 'B+' from 'B-';
- Short-term local currency affirmed at 'B';
- Individual affirmed at 'D';
- Support affirmed at '5';
- Long-term national rating upgraded to 'A+(ven)' from 'A-(ven)';

--Short-term national rating upgraded to 'F-1(ven)' from 'F-2(ven)'.

Banco Mercantil

--Long-term foreign currency upgraded to 'B+' from 'B-';

--Outlook Stable;

--Short-term foreign currency affirmed at 'B';

--Long-term local currency upgraded to 'B+' from 'B-';

--Short-term local currency affirmed at 'B';

--Individual affirmed at 'D';

--Support affirmed at '5';

--Long-term national rating upgraded to 'AA(ven)' from 'A(ven)';

--Short-term national rating affirmed at 'F-1(ven)'.

Banco Occidental de Descuento

--Long-term foreign currency upgraded to 'B-' from 'CCC+';

--Outlook Stable;

--Short-term foreign currency upgraded to 'B' from 'C';

--Long-term local currency upgraded to 'B-' from 'CCC+';

--Short-term local currency affirmed at 'B';

--Individual affirmed at 'D/E';

--Support affirmed at '5';

--Long-term national rating upgraded to 'BBB(ven)' from 'BBB-(ven)';

--Short-term national rating affirmed at 'F-3(ven)'.

Banco Provincial

--Long-term foreign currency upgraded to 'B+' from 'B-';

--Outlook Stable;

- Short-term foreign currency affirmed at 'B';
- Long-term local currency upgraded to 'B+' from 'B-';
- Short-term local currency affirmed at 'B';
- Individual affirmed at 'D';
- Support affirmed at '5';
- Long-term national rating upgraded to 'AA(ven)' from 'A+(ven)';
- Short-term national rating affirmed at 'F-1(ven)'.

Banco de Venezuela

- Long-term foreign currency upgraded to 'B+' from 'B-';
- Outlook Stable;
- Short-term foreign currency affirmed at 'B';
- Long-term local currency upgraded to 'B+' from 'B-';
- Short-term local currency affirmed at 'B';
- Individual affirmed at 'D';
- Support affirmed at '5';
- Long-term national rating upgraded to 'AA(ven)' from 'A+(ven)';
- Short-term national rating affirmed at 'F-1(ven)'.

Banesco Banco Universal

- Long-term foreign currency upgraded to 'B-' from 'CCC+';
- Outlook Stable;
- Short-term foreign currency upgraded to 'B' from 'C';
- Individual affirmed at 'D/E';

--Support affirmed at '5';

--Long-term national rating upgraded to 'A-(ven)' from 'BBB(ven)';

--Short-term national rating upgraded to 'F-2(ven)' from 'F-3(ven)' .

Banco Venezolano de Credito

--Long-term foreign currency upgraded to 'B+' from 'B-';

--Outlook Stable;

--Short-term foreign currency affirmed at 'B';

--Long-term local currency upgraded to 'B+' from 'B-';

--Short-term local currency affirmed at 'B';

--Individual affirmed at 'D';

--Support affirmed at '5';

--Long-term national rating upgraded to 'A+(ven)' from 'A-(ven)';

--Short-term national rating upgraded to 'F-1(ven)' from 'F-2(ven)'.

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Note to Editors: Fitch Ratings' Support and Individual Ratings for Banks: Fitch's Individual ratings assess how a bank would be viewed if it were entirely independent and could not rely on external support. Its Support ratings deal with the question of whether a bank would receive support from its owners or from the state if it were to get into difficulty. These ratings are not debt ratings but rather, respectively, an assessment of the intrinsic strength of a bank and of any level of outside support that may, or may not, be available to it. A Support rating qualified by the suffix "T" indicates significant existing or potential transfer risk of economic and/or political origin that might prevent support for foreign currency creditors.

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