

Fitch Affirms Banco de Venezuela's Ratings

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Fitch Ratings-New York-10 August 2011: Fitch Ratings has affirmed Banco de Venezuela's (BdV) ratings as follows:

- Foreign currency Issuer Default Rating (IDR) at 'B+';
- Local currency IDR at 'B+';
- Short-term foreign currency IDR at 'B';
- Short-term local currency IDR at 'B';
- Individual rating at 'D';
- Viability rating at 'b+';
- Support rating at '4';
- Support floor at 'B+';
- National long-term rating at 'AAA(ven)';
- National short-term rating at 'F1+(ven)'.

The Rating Outlook on the long-term IDRs is Stable.

BdV's IDRs reflect support from its shareholder, Banco de Desarrollo Economico y Social de Venezuela's (BANDES, a state-owned development bank), as well as its strong franchise and adequate overall financial profile.

Despite an adequate financial profile, a change in either the sovereign's ratings or the willingness or capacity of the state to provide support will drive future rating actions on BdV's IDRs.

Continued slippage relative to similarly rated international peers (commercial banks with a long-term IDR of 'B-', 'B' or 'B+') in profitability, asset quality or capital ratios as a result of the implementation of the government's development driven business model could pressure BdV's Viability Rating.

The negative effects of government control over the financial sector and the broader economy, as well as high inflation, also weigh on BdV's ratings. Inflation averaged 29% in the five years ending in 2010 and is expected to remain at a similar level in 2011.

Fitch believes the state's willingness to support BdV should it be required is substantial given BANDES' (owned by the Venezuelan government which has a long-term foreign currency IDR of 'B+') 99% stake, the bank's strategic importance and BdV's large market share in deposits. However, Venezuela's sub-investment grade rating and the lack of a consistent policy regarding bank support in the past results in a limited probability of support.

BdV's financial performance has deteriorated since the government nationalized the bank in mid-2009, a trend Fitch expects to continue. This in part reflects a shift in the bank's business model to address the government's development needs as well as the absorption of clients from intervened problematic small- and medium-sized banks.

Asset quality ratios were in line with the domestic financial system average and compared favorably with international peers, however, these ratios benefit from regulatory forbearance, which allowed BdV to report past-due loans (amounting to 4.4% of gross loans) acquired from Banco Federal as current at year-end 2010 (YE10).

Although BdV's profitability ratios are in line with Venezuelan banks and international peers (even when adjusting for inflation), BdV's ROAA declined to 2.4% at YE10 from 4.4% at YE08 in spite of strong loan growth. Venezuelan banks are not required to adjust their financial statements for inflation. However, based on complimentary information which adjusts for inflation, BdV's ROAA would have been about half its reported level at YE10.

As profitability has not kept pace with asset growth, the bank's capital position has weakened. BdV's equity/assets ratio declined to 7.4% at the end of June 2011, from 9.9% at YE08. By contrast, BdV's regulatory capital ratio increased to 17.8% at YE10 from 13.8% at YE08 due to increased holdings of government debt.

BdV is the largest commercial bank in Venezuela with a 14% share of the financial system's assets at the end of June 2011 and the third largest branch network.

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Additional information is available at 'www.fitchratings.com' and 'www.fitchvenezuela.com'. The issuer did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

Applicable Criteria and Related Research:

--'Global Financial Institutions Rating Criteria', July 16, 2011;
--'Short-Term Ratings Criteria for Corporate Finance', Nov. 2, 2010;
--'National Ratings Criteria', Jan. 19, 2011.

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Global Financial Institutions Rating Criteria
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