Fitch Upgrades Mercantil Banco's L-T National Rating to 'AA+(ven)'

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Fitch Ratings-New York-29 October 2009: Fitch Ratings has upgraded the long-term National rating for Venezuela-based Mercantil, C.A. Banco Universal (MB) to 'AA+(ven)' from 'AA(ven)' and its short-term National rating to 'F1+(ven)' from 'F1(ven)'.

Fitch also affirms MB's international ratings as follows:

--Long-term foreign and local currency Issuer Default Ratings (IDR) at 'B+';
--Short-term foreign and local currency rating at 'B';
--Individual at 'D';
--Support 5.
--Support Floor NF.

The Rating Outlook for the long-term IDR is Stable.

The upgrade of MB's National ratings reflects its resilient performance in an extremely difficult operating environment, where government intervention and volatile economic activity have undermined private sector activities. This above average performance has been explained by MB's conservative business plan, adequate risk control techniques, long-lasting expertise, and strong capital base. Going forward those strengths should provide some room for maneuver in case of further intervention.

MB ratings reflect its strong franchise, stable retail deposit base, and adequate performance sustained by an above-average risk control culture. MB's ratings are constrained by the negative effects of government intervention over the bank business and overall private sector activities.

Venezuela's current sovereign rating is sub-investment grade, and the country lacks a consistent policy regarding bank support. Also, in Fitch's view, current interference with the banking system could influence decisions faced by shareholders. Given all of these factors, financial support, although possible, cannot be relied on in the event that MB should require it.

Interest rate caps and ceilings, control over fee income, the lack of foreign exchange gains, and still heavy operating costs have been mitigated by larger business volume, expansion of retail lending, and appropriate asset and liability management. MB's return-on-average-assets ratio has remained above 2% for a number of years, although decreasing. A precautionary loan loss provision policy since FY07 has reduced MB's profitability but should pay benefits in the medium-term. The complex set of controls imposed by the government on banking activity creates uncertainty about the ability of Venezuelan banks to keep posting strong results, although MB has proven it is able to handle those pressures.

Thanks to its above-average risk control tools and thorough knowledge of the Venezuelan market, MB has been able to sustain strong asset quality metrics despite the volatile operating environment. Since mid-2008, loan growth has been curbed by MB's management, while loan loss reserves have increased significantly. As such, the past due loan to total loan ratio remains below 1% since FY05, while loan loss reserves improved to 3.5% of total lending at June 30, 2009, a level considered prudent given the negative operating environment.

Controlled growth and still adequate profitability preserve MB's capital position, which is mostly unencumbered and all considered Tier I capital. At June 30, 2009, the equity-to-assets ratio stood at 8.8%, while the Fitch free-capital ratio, which excludes the burden of fixed and foreclosed assets, increased almost up to 7.4%, a level considered adequate given the risk profile of the bank and good provisioning.

MB was the second largest universal bank in Venezuela at June 2009 in terms of assets, with a 10.1% asset market share, and a leader in many market segments. MB is 99.9% owned by Mercantil Servicios Financieros (MSF), a holding company with major investments in Venezuela and the U.S.

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Additional information is available at 'www.fitchratings.com'.