

Fitch Upgrades Banco Occidental de Descuento's National Scale Ratings; Outlook Revised to Stable Ratings
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Fitch Ratings-New York-15 August 2011: Fitch Ratings has upgraded Venezuela-based Banco Occidental de Descuento's (BOD) long- and short-term National Scale ratings and revised the Rating Outlook of its international long-term Issuer Default Rating (IDR) to Stable from Negative. A full list of the ratings actions is provided below.

These rating actions are driven by the faster than expected recovery of the bank's capitalization ratios, due to a mix of fresh capital injections and increased, though still volatile, profits.

Fitch could upgrade BOD's ratings if sustained and consistent profitability leads to a marked improvement in its Fitch Core Capital ratio. By contrast, Fitch could downgrade BOD's ratings if capital ratios weaken and/or profitability decreases because of lower spreads and/or a deterioration of its asset quality ratios.

Despite BOD's systemic importance in the country (as the sixth largest bank with almost 6% of total deposits as of May 2011), Venezuela's sub-investment grade rating (LT FC IDR of 'B+') and the lack of a consistent policy regarding bank support in the past results in a limited probability of support from the government should it be required. Hence, BOD's '5' Support rating (Support Floor 'NF') is similar to that of all privately owned banks in the country. As such, BOD's IDRs are driven by its own financial strength, expressed in its 'b-' Viability Rating.

Fresh capital (around VEF875 million paid in May 2011) and retained earnings improved BOD's Fitch Core Capital-to-weighted risks ratio to 4.7% at the end of May 2011 from a low of 2.3% at the end of June 2009. Also, the bank is already committed to complete a similar capital injection in August 2011 that will help to strengthen this ratio even further. Despite those capital injections, this ratio will remain significantly below the average of other large banks in the country and similarly rated international peers (commercial banks with a long-term IDR of 'B-', 'B' or 'B+') due to the deduction of good will related to the pricey acquisition of a local bank in 2009 (CorpBanca C.A.). Nevertheless, Fitch expects BOD to sustain this improving trend in its capital ratios under a scenario of lower expected growth, modest profitability and an additional capital injection expected to be received in August 2011.

The expected merger with its subsidiary Corp Banca C.A. may help to further enhance this trend given its better capitalization ratios and similar profitability ratios. Additionally, some operating cost savings may occur as a product of the merger between these two operating brands. The merger is still pending regulatory approval.

Asset quality metrics remains volatile and weak relative to Venezuelan banks and international peers as past due loans reached 5.6% at the end of May 2011, more than twice the domestic banking system average. However, loan loss reserves have grown more than proportionally since 2008 thanks to the aforementioned increase in operating profits. A more challenging operating environment and the bank's past record of impairments suggest that this trend may continue over the medium term.

Capital is the Achilles heel of the bank, especially when the sizable burden of intangibles (goodwill and others) is considered (around 75% of its total equity). In the future, BOD's capital base may benefit from the effects of the merger with Corp Banca and a more stable profitability path. In addition, new sizable capital injections may help to narrow its capitalization weakness compared to other banks in the country and international peers.

BOD was Venezuela's sixth largest bank at the end of May 2011 (4th largest considering only privately owned banks). It has a privileged market share in Venezuela's leading oil-producing region, Zulia state. The bank is controlled by the bank's president through a holding company named Cartera de Inversiones with interests in an ample array of financial and non-financial companies mostly in Venezuela.

Fitch has taken the following rating actions:

- Foreign Currency IDR affirmed at 'B-', Outlook to Stable from Negative;
- Local Currency IDR affirmed at 'B-', Outlook to Stable from Negative;
- Short-Term Foreign Currency IDR affirmed at 'B';
- Short-Term Local Currency IDR affirmed at 'B';
- Individual Rating affirmed at 'D/E';
- Viability Rating affirmed at 'b-';
- Support Rating affirmed at '5';
- Support Floor affirmed at 'NF';
- National long-term rating upgraded to 'BBB-(ven)' from 'BB(ven)';
- National short-term rating upgraded to 'F3(ven)' from 'B(ven)'.

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Applicable Criteria and Related Research

--'Global Financial Institutions Rating Criteria', Jul. 16 2011.

--'Short-Term Ratings Criteria for Corporate Finance', Nov. 2 2010

--'National Ratings Criteria', Jan. 19 2011.

Applicable Criteria and Related Research:

Short-Term Ratings Criteria for Corporate Finance

Global Financial Institutions Rating Criteria

National Ratings Criteria

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