



Fitch Places Banco Occidental de Descuento's Ratings on Watch Negative after Corp Banca Acquisition

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Fitch Ratings-New York-06 February 2009: Fitch Ratings has placed Banco Occidental de Descuento's (BOD) Issuer Default Rating (IDR) and Individual Rating on Rating Watch Negative after BOD acquired from its shareholder (Cartera de Inversiones de Venezuela - CIV) Corp Banca C.A. (Corp Banca) for VEB2,400 billion in January 2009. The bank is in the process of obtaining shareholder and regulatory approvals in order to merge Corp Banca into BOD.

Fitch's ratings are as follows:

- Long-term Foreign and Local Currency IDRs at 'B-'; Rating Watch Negative;
- Short-term Foreign and Local Currency IDRs at 'B'; Rating Watch Negative;
- Individual at 'D/E'; Rating Watch Negative;
- Support at '5';
- Long-term National rating at 'BBB-(ven)';
- Short-term National rating at 'F-3(ven)'.

The Support Floor rating is affirmed at NF.

Fitch expects to downgrade BOD's IDR and Individual ratings if BOD is not able to replenish its capital base in order to compensate for the burden imposed by the aforementioned transaction, and also to comply with the capital regulatory guidelines imposed by the Banking Superintendence.

BOD's ratings reflect its strong regional presence and thorough knowledge in its area of influence. BOD's ratings are limited by a weak capital base, volatile asset quality ratios, low profitability and the negative effects of government intervention over the bank business.

Corp Banca is a mid-sized bank acquired by CIV in 2007 from the Chilean-based Corp Group. At the end of June 2008, Corp Banca managed assets of around USD3.2 billion and equity of USD237 million. Corp Banca is a meaningful player in the local credit card market, especially through the commercialization of American Express cards; Corp Banca also enjoys a good market share in the middle market (individuals and small- and medium-sized companies). Under CIV management, the bank has achieved considerable growth taking advantage of the strong franchise of BOD and the expansion plan of its parent. Also, both banks have been working on integrating operating platforms since 2008.

On Jan. 23, 2009, BOD completed the acquisition of 98% of the shares of Corp Banca, paying around VEB2,400 billion to CIV. This price represents more than two times BOD equity and also would result in a sizable goodwill (estimated around VEB1,500 billion, or more than 1 times (x) BOD's equity) that will impose further pressures to the already thin capital base of BOD. In addition, integration costs are still pending evaluation, but BOD expects to leverage itself on its previous merger experiences of smaller banks and saving and loans entities in order to minimize those expenses and possible implementation issues. In turn, the merger will help BOD to enhance its position as the fifth-largest bank in the country and expand its footprint in the central and eastern areas of the country, while the different profile of its customer base will help to boost further diversification.

Although the current transaction imposed further pressures to the already thin capital base of BOD (given that the Free Capital Ratio will plunge to negative levels due the size of the expected goodwill) and also reduced its liquidity levels, Fitch believes that BOD's strong franchise (especially in the Zulia region, the second-largest economic hub in the country) and the experience of its management team will offset some how those limitations and move forward to a less encumbered capital base. A future capital infusion or the realization of some non-recurring gains due the possible sale of some fixed assets could help to recover capital levels, but those are still contingent on happening. BOD was Venezuela's fifth-largest bank in terms of funds under management (assets + ceded investments) at year-end June 2008, with a 6.9% market share. It has a privileged market position in Venezuela's leading oil-producing region, Zulia. BOD is controlled by Cartera de Inversiones de Venezuela, which is controlled by BOD's president.

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