

**Fitch Affirms Banco De Venezuela's Local and Foreign Currency IDRs at 'B+'; Outlook Stable**

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Fitch Ratings-New York-19 August 2009: Fitch Ratings has affirmed Banco de Venezuela's (BdV) long-term local and foreign currency Issuer Default Ratings (IDRs) at 'B+' and removed the ratings from Rating Watch Evolving. The Rating Outlook is Stable.

Given its new ownership structure and strategic importance for the Venezuelan government, Fitch has upgraded BdV's Support Rating to '4' from '5', and long-term and short-term National Scale Ratings to 'AAA(ven)' from 'AA(ven)' and to 'F1+(ven)' from 'F1(ven)', respectively.

Fitch has taken the following actions:

- Long-term foreign and local currency IDRs affirmed at 'B+';
- Short-term foreign and local currency rating affirmed at 'B';
- Individual affirmed at 'D';
- Support Rating upgraded to '4' from '5';
- Support Floor Rating assigned 'B+';
- Long-term National rating upgraded to 'AAA(ven)' from 'AA(ven)';
- Short-term National rating upgraded to 'F1+(ven)' from 'F1(ven)'.

Fitch has removed the long-term foreign and local currency IDRs from Rating Watch Evolving. The Rating Outlook for the long-term ratings is Stable.

The rating actions follow the acquisition by the Venezuelan government (Long-term IDR 'B+' with a Stable Outlook by Fitch) of over 95% of the capital of BdV. The government now has doubled its footprint in the local financial system, with government-owned banks holding 21% of total assets (11% prior to the acquisition) and expanding their combined branch networks by 74%. With this acquisition, the government-owned banks stand as the largest banking group in the country.

BdV's IDRs reflect its strong franchise, adequate overall financial profile and the support from its new shareholder, the Venezuelan government. BdV's Individual Rating is driven by its adequate financial profile, good asset quality and above average profitability. The inception of a new business model driven by the development plans of the government - not necessarily driven to maximize profits - could hinder those strengths in the future. A new Board of Directors and a President, all presidents of other government-owned banks, were appointed.

BdV's ownership and strategic importance result in a substantial willingness of the government to provide support should it be required. According to Fitch's methodology, 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.

The Outlook for the long-term IDR is Stable, in line with the Outlook of the sovereign. Given its current level, BdV's IDR should be affected only by changes in Venezuela's sovereign rating. In turn, BdV's Individual Rating could be pressured by lower profitability or a deterioration of its asset quality ratios.

Based on a solid credit risk and cost control policy from its previous shareholder (Banco Santander from Spain), BdV has been able not only to cope with the constant volatility of the operating environment in Venezuela, but also stand as a benchmark in terms of profitability and good asset quality by posting solid Return on Average Assets (ROAA) ratios above 3% in the last five years.

Lower economic activity and the seasoning of a recently and rapidly built-up loan portfolio have slightly eroded BdV's asset quality ratios since 2008. At the end of June 2009 the past-due loans to total loans ratio increased to 1.4% (similar to the average for the largest banks in the country, but still below the 2.5% average of the system or the 12% posted by the government-owned banks), while loan loss reserve coverage decreased to a tight 123%. A possible expansion into economic sectors deemed as strategic by the government, but not necessarily with low risk, could hinder BdV asset quality if credit risk is not adequately controlled.

BdV's capital ratios remain steady (equity to assets was 9.4% at the end of June 2009) and stronger than the market average given its almost unencumbered by fixed and foreclosed assets. Cash dividends could decrease in the future and benefit BdV's capital position, considering such policy in other government owned companies. Nevertheless, a possible downturn in its profitability could limit its internal capital generation capacity.

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