Fitch Affirms IDR at ‘CCC’ and Upgrades Banco Nacional de Credito’s National Rating to ‘BBB(ven)’

Fitch Ratings, New York, 12 December 2016: Fitch Ratings has upgraded Banco Nacional de Credito, C.A., Banco Universal’s (BNC) Long Term National Scale Rating by one notch to ‘BBB(ven)’ and at the same time affirmed BNC’s long-term Issuer Default Rating (IDR) at 'CCC' and Viability Rating (VR) at 'ccc' following Fitch's peer review of Venezuelan Banks. No Outlook is assigned at this rating level. A full list of rating actions follows at the end of this press release.

The upgrade of the National Ratings reflects the improved capitalization, stable asset quality and liquidity metrics that are more in line with its peers. Although these factors did not impact the IDR rating which is constrained by the operating environment, they were deemed relevant enough to favorably impact the National ratings as the National Scale Credit Ratings are an assessment of credit quality relative to the rating of the lowest credit risk in a country. Fitch’s upgrade of BNC’s national long term rating also reflects changing relativities and greater compression of bank ratings on the local scale, as well as increasing uniformity of performance amid shared operating challenges.

KEY RATING DRIVERS – IDRS, VR, AND NATIONAL RATINGS
The operating environment continues to be the key factor constraining BNC´s VR, which drives its IDR and does not take into account state support. Like all Venezuelan banks, BNC’s VR is strongly linked to the creditworthiness of the sovereign, given the significant level of government intervention, high level of exposure to sovereign securities and its vulnerability to the government’s policy choices and the country´s economic performance.

BNC’s ratings are also heavily influenced by the bank’s capital, liquidity and funding profile. Although most deposits are available on demand, deposits have been stable, in part due to the government’s capital controls. Furthermore, expansive fiscal and monetary policies continue to drive deposit growth, BNC has a large negative mismatch between short-term assets and liabilities, and access to longer-term funding is limited, as is the case across the Venezuelan banking system.

Over the past three years, BNC’s loan growth had consistently exceeded that of the system, and its exposure to the public sector was among the highest compared with other Venezuelan universal/commercial banks rated by Fitch. However, the bank’s corporate focus, conservative lending policies and low-risk products have enabled the bank to report a low impaired loan to gross loan ratio, which compares favorably to its peers. The bank’s reserves for impaired loans to Gross loans improved to 2.2%, however this level was still slightly below the average of the banking system at September 30,2016. In light of the loan concentration and difficult operating environment that continues to impact the bank’s clients, Fitch views this reserve coverage level as weak.

High nominal loan growth has led to tighter capitalization however this was mitigated by fresh capital injections. The bank’s total regulatory capital ratio was slightly below the system’s average although the bank’s tangible common equity to tangible assets ratio was above that of the system. Capital levels are considered weak relative to Latin American peers in highly speculative countries, particularly in light of the low level of reserves compared with the size of the loan portfolio.

BNC’s profitability continued to lag that of its Venezuelan peers. Despite similar margins, the bank’s lower efficiency and limited cross-selling hinders profitability. The bank’s efficiency ratios were partly impacted by the bank’s growth strategy.

KEY RATING DRIVERS – SUPPORT RATING AND SUPPORT RATING FLOOR

BNC' Support Rating (SR) of '5' and Support Rating Floor (SRF) of 'NF' reflect Fitch's expectation of no support. Support cannot be relied upon given Venezuela's highly speculative rating and lack of a consistent policy on bank support.

RATING SENSITIVITIES – IDRS, VR and NATIONAL RATINGS

Should Venezuela's macroeconomic/political woes deepen, as reflected in its sovereign ratings, BNC's ratings could be downgraded. This is the main downside risk for BNC and the rest of Venezuela's banks.

Although not Fitch's base case, BNC's VR, National and long-term IDRs could be upgraded if the operating environment improves (more stable economic background, less intrusive regulation) and the bank reduces its exposure to the public sector. A sustained improvement of the bank's financial profile could be positive for the bank's national ratings.

RATING SENSITIVITIES – SUPPORT RATING AND SUPPORT RATING FLOOR

Venezuela's propensity or ability to provide timely support to these banks is not likely to change given the sovereign's very low speculative-grade ratings. As such, the SR and SRF have no upgrade potential.
The rating actions are as follows:

--Long-term foreign and local currency IDRs affirmed at 'CCC';
--Short-term foreign and local currency ratings affirmed at 'C';
--Viability rating affirmed at 'ccc';
--Support Rating affirmed at '5';
--Support Rating Floor affirmed at 'NF';
--Long-term national-scale rating upgraded to 'BBB(ven)' from 'BBB-(ven)';
--Short-term national-scale rating affirmed at 'F3(ven)'.

Contact:
Primary Analyst
Robert Stoll
Director
+1-212-908-9155

Secondary Analyst
Mark Narron
Director
+1-212-908-7898

Committee Chairperson
Alejandro Garcia, CFA
Managing Director
+1 212-908-9137
Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Global Bank Rating Criteria (pub.25 Nov 2016)
National Scale Rating Criteria (pub. 13 Oct 2013)