

Banco Nacional de Credito C.A. (/gws/en/esp/issr/82924935)**Fitch Affirms Banco Nacional de Credito's IDR at 'CC'; Downgrades National Rtg to 'BBB-(ven)'**

Fitch Ratings-New York-13 December 2017: Fitch Ratings has affirmed Banco Nacional de Credito, C.A. Banco Universal's (BNC) Viability Rating (VR) at 'cc' and its Long-Term Issuer Default Rating (IDR) at 'CC'. The LT IDR does not have an Outlook at this rating level. Fitch also affirmed BNC's Short-Term Foreign and Local Currency IDRs at 'C', its Support Rating at '5' and its Support Rating Floor at 'NF'. At the same time, the National Long-Term Rating was downgraded by one notch to 'BBB-(ven)' from 'BBB(ven)'. Fitch has taken these actions following a peer review of private-sector Venezuelan banks.

The one-notch downgrade of BNC's National LT rating reflects greater compression of bank ratings on the local scale given shared operating challenges. In particular, Fitch is concerned about the ability of all Venezuelan banks to maintain capitalization above regulatory minimums as failure to do so could increase the risks of government intervention. In addition, BNC exhibits higher vulnerability than market leaders due to its mid-sized franchise and relatively lower liquidity profile.

All of BNC's international ratings were affirmed as there have been no relevant changes in BNC's company profile or performance in the context of the bank's current ratings since the last review. Despite the downgrade of Venezuela's foreign LT Currency IDRs to 'Restricted Default', the bank's LT Foreign Currency IDR remains at 'CC', as the default had a minimal impact on its financial profile.

**KEY RATING DRIVERS
IDRS, VR AND NATIONAL RATINGS**

BNC's VR, IDRs and National ratings are highly influenced by the challenging Venezuelan operating environment, capitalization and liquidity. Hyperinflation distorts the comparison of financial metrics with regional peers (Latin American commercial banks with a VR of 'b+' and below).

Hyperinflation, a severe recession and interest rate controls characterize the Venezuelan operating environment. While official statistics have been unavailable since 2015, Fitch forecasts average inflation of 618.6% for 2017 and expects accelerating inflation to reach four digits in the near term. Regulator-imposed interest rate caps and floors, and high compulsory lending requirements that affect all the banks in the system also constrain BNC's risk management and profitability.

Similar to other universal banks operating in the Venezuelan banking system, inflation-led asset growth has pressured BNC's capital indicators. As of October 2017, BNC's regulatory capital ratio stood at 12.05%, only slightly above the 12.0% regulatory minimum and below the 13.1% banking system average. In the past, BNC has regularly been able to infuse new shareholder capital when needed to improve its ratios. However, in light of monetary supply growth, BNC's near-term solvency is highly dependent on regulatory forbearance.

Fitch recognizes that an adjustment of foreign currency assets to a more market-oriented exchange rate and a revaluation of fixed assets due to inflation would materially increase capitalization ratios. Nevertheless, in Fitch's view, this does not offset the inherent risk of operating in Venezuela given the depth of the economic crisis and the uncertainty of prospective regulatory measures. Capital ratios are likely to remain under pressure in 2018 due to inflation-induced growth and lower profitability.

Similar to other universal banks in the banking system, BNC relies almost entirely on customer deposits for funding. BNC's liquidity appears adequate for its market. Most liquid assets consist of cash and bank deposits, which accounted for 35.1% of total assets and covered nearly 39% of total customer deposits as of June 30, 2017. In this challenging operating environment Fitch views a greater proportion of cash favorably, as public sector securities may be of limited liquidity in a stress scenario given the shallow domestic debt market.

In addition, BNC and most of its peers are subject to tenor mismatches between assets and liabilities given the very short-term nature of the funding. BNC's management has mitigated this risk by conservatively lowering loan tenors to approximately 30 days.

BNC's nominal operating profit-to-average assets ratio improved to nearly 6% as of June 30, 2017, above the system average of 5.3%. BNC's impaired loans-to-gross loans ratio also remained low (0.06% at June 30, 2017), comparing favorably with domestic peers. Nevertheless, at 2% Fitch views reserve coverage of gross loans as low given the severity and uncertainty of the current economic, social & political crisis and historical NPL levels following economic adjustments seen in previous crises. Despite solid profitability and asset quality ratios, these do not weigh in Fitch's analysis due to the impact of inflation.

SUPPORT RATING AND SUPPORT RATING FLOOR

BNC's Support Rating (SR) of '5' and Support Rating Floor (SRF) of 'NF' reflect Fitch's expectation of no support given BNC's lower systemic importance; in addition, support cannot be relied upon given Venezuela's Restricted Default rating and lack of a consistent policy on bank support.

RATING SENSITIVITIES**IDRS, VR, AND NATIONAL RATINGS**

A resolution of the sovereign's Restricted Default could relieve pressure on the bank's VR and LT Foreign Currency IDR, which are currently capped at the country ceiling. The LT Local Currency IDR and Short-Term IDRs are capped at the sovereign and would move in line with a positive rating action of more than two notches on the sovereign. Nevertheless, upside potential to the bank's ratings is limited in the near term due to the current crisis.

While not Fitch's base case because of capital controls and domestic market liquidity, a persistent nominal decline in deposits would pressure ratings. A sustained decline in the bank's regulatory capital ratio, due either to nominal growth or losses, which increases the risk of some form of regulatory intervention, could lead to a downgrade.

SUPPORT RATING AND SUPPORT RATING FLOOR

Venezuela's propensity or ability to provide timely support to BNC is not likely to change given the sovereign's very low speculative-grade ratings. As such, the SR and SRF have no upgrade potential at this time.

BNC's rating actions are as follows:

- Long-Term Foreign and Local Currency IDR affirmed at 'CC';
- Short-Term Foreign and Local Currency IDR affirmed at 'C';
- Viability Rating affirmed at 'cc';
- Support Rating affirmed at '5';
- Support Rating Floor affirmed at 'No Floor';
- National Long-Term rating downgraded to 'BBB-(ven)' from 'BBB(ven)';
- National Short-Term rating affirmed at 'F3(ven)'.

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Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016) (<https://www.fitchratings.com/site/re/891051>)

National Scale Ratings Criteria (pub. 07 Mar 2017) (<https://www.fitchratings.com/site/re/895106>)

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