

Fitch Takes Rating Actions on Dominican Banks

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Fitch Ratings-New York-November 3, 2003: Fitch Ratings, the international rating agency, today changed the support ratings for Banco Popular Dominicano, Banco BHD and Bancrédito, to '5' from '4'. In addition, the long-term foreign currency ratings for Banco Popular Dominicano, Banco BHD and Banco Dominicano del Progreso were placed on Rating Watch Negative (RWN). Also, the long-term foreign currency rating of Bancrédito is downgraded to 'B-(RWN)' from 'B(RWN)' and the national long-term and short-term ratings were downgraded to 'BBB+(dom)' and 'F2(dom)' from 'A(dom)' and 'F1(dom)', respectively. In turn, the Individual rating for Banco del Progreso was downgraded to 'D/E' from 'D'. All other International and National ratings outstanding for Dominican banks remained unchanged.

The actions reflect the downgrade of the Dominican Republic's Long-term local and foreign currency ratings to 'B' (RWN) from 'B+' (RWN). This stems from liquidity concerns due to continued pressures on the sovereign's slim foreign exchange reserve position. In addition, Fitch remains concerned about the availability of multilateral funding over the coming year due to unresolved issues in the electricity sector. Foreign exchange reserves have fallen to US\$520.8 million as of the end of September 2003 from US\$583.1 million as of end July, in spite of an infusion of US\$123.5 million from the IMF in early September as part of its US\$618 million two-year Stand-By Arrangement approved on August 29.

Regarding the banking sector, following the collapse of Banco Intercontinental (BanInter) in April 2003 and the subsequent deposit outflows experienced by Bancrédito and Banco Mercantil, which had to be supported by the Central Bank and later sold to a local and an international group, respectively, the situation appears to have somewhat stabilized. Moreover, while some banks benefited from deposit flight to quality at the outset of the BanInter crisis, it appears that the stock of deposits at these major institutions has stabilized. However, Fitch sees the banking system as still vulnerable to further shocks and there are some trends of deterioration in many institutions, particularly regarding past-due loans and loan loss reserve coverage, which have weakened since April 2003. Also, equity to assets ratios have declined as a result of the balance sheet growth experienced by the major banks.

Nevertheless, as deposits have been channeled mostly into zero risk-weighted central bank paper, the banks' risk-weighted capital ratios have not been significantly affected and remain above the 10% minimum regulatory requirements. In this regard, given the growing level of government exposure and loan loss reserve shortfalls, Fitch considers that higher capital cushions would be desirable.

On June 17, 2003, Fitch took rating actions on Dominican banks, downgrading the best-rated banks to 'B' from 'BB-', among other changes. This was explained by the rapid deterioration of the operating environment and the expected impact that this would continue to have on banks' financial indicators. While this weakening has been in line with our expectations at some institutions, some others have deteriorated more rapidly.

The downgrade of Progreso's individual rating reflects a sharp increase in reported problem loans in the third quarter of 2003 that will require substantial additional provisioning. In turn, this could absorb the bank's profits for the year and potentially pressure a capital base already burdened by a high level of unproductive assets. However, the bank's foreign currency and national debt ratings remain unchanged.

On the other hand, the weaknesses at the sovereign level continue to impair the Dominican Republic's ability to provide substantial additional support in foreign currency to troubled financial

institutions, which triggered the changes in the support ratings at the major banks and the downgrade of Bancredito' s foreign currency and national ratings. In the meantime, the longterm foreign currency ratings of all banks rated by Fitch in the Dominican Republic are placed on Rating Watch Negative.

Fitch' s bank ratings in the Dominican Republic following today' s actions stand as follows:

Banco Popular Dominicano

- Long-term foreign currency ' B' ;
- Rating Watch Negative;
- Short-term foreign currency ' B' ;
- Individual ' D' ;
- Support ' 5' ;
- Long-term national ' AA(dom)' ;
- Short-term national ' F1+(dom)' .

Banco BHD

- Long-term foreign currency ' B' ;
- Rating Watch Negative;
- Short-term foreign currency ' B' ;
- Individual ' D' ;
- Support ' 5' ;
- Long-term national ' A+(dom)' ;
- Short-term national ' F1(dom)' .

Banco del Progreso

- Long-term foreign currency ' B' ;
- Rating Watch Negative;
- Short-term foreign currency ' B' ;
- Individual ' D/E' ;
- Support ' 5' ;
- Long-term national ' A(dom)' ;
- Short-term national ' F2(dom)' .

Bancredito

- Long-term foreign currency ' B' ;
- Rating Watch Negative;
- Short-term foreign currency ' B' ;
- Individual ' E' ;
- Support ' 5' ;
- Long-term national ' BBB+(dom)' ;
- Short-term national ' F2(dom)' .

Banco Mercantil

- Long-term foreign currency ' CCC' ;
- Rating Watch Negative;
- Short-term foreign currency ' C' ;
- Individual ' E' ;
- Support ' 5' ;

FitchRatings

--Long-term national ' BB(dom)' ;
--Short-term national ' B(dom)' .

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