

SPECIAL EDITION OCTOBER 2007

VENEZUELA

BUSINESS

BV267- OCTOBER 2007 - VENEZUELA Bs. 9.000
Bs. 2.9



100

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Juan Carlos Escotet

President of Banesco Banco Universal

“Current conditions in Venezuela are attractive for investment, especially in the banking sector”

By Marita Seara



Banescos leads the banking sector in the Top Companies study and is ranked tenth among the 100 companies analyzed for that end. This leading position, according to president Juan Carlos Escotet, has been possible thanks to Venezuelans' preference. This has had an impact on a business model based on quality and on services that are ahead of the requirements of the market. This preference can be seen in the fact that Banescos is the banking institution (two of the six main banks) with the highest growth in 2006, a rate of 34.4%.

Escotet emphasizes that the Bank's business model not only solo covers the national market but also the international one, because Banescos is present in Florida, Puerto Rico, and Panama. In fact, this bank started off as a universal bank in Panama early October with the opening of 7 agencies and already, before this inauguration, it was ranked 14th in terms of deposit amounts in that country.

Escotet also stressed that the expansion of the banking sector is due to an increase in the volume of businesses, as a result of an economic growth, but also to higher demand for financial services driven by the incorporation of sectors of the population that were previously excluded.

Business Venezuela (BV): What has made Banescos rank among the first companies of the Top 100 Companies?

Juan Carlos Escotet (JCE): Venezuelans' preference to carry out their financial operations. For us this preference of the public has turned into a mandate to do things right and that is why we have developed and maintained since our early beginnings a strategic management, which has allowed us to apply a business model that not only gives us the opportunity to provide financial services with the highest quality on the national market, and now international, but also that goes ahead of the requirements of the market and of the wishes of our clients. Our management is oriented towards obtaining the necessary profitability to leverage the growth required by the market and by our clients, shareholders and collaborators. We do this with the support of state-of-the-art technology and of the best human capital, in the framework of highly stimulating Mission and Values, always taking care, with great zeal, of our role as a socially responsible company.

BV: What have been the specific conditions that have allowed your company to invest and that have made it rank among the top ones?

JCE: The high prices of oil in the world have made it possible for the Venezuelan economy to reach high levels of economic activity over the last four years. This growth has been accompanied by the corresponding expansion of the monetary aggregates and by higher requirements of

financing, which translates into a higher level of financial intermediation with the ensuing opportunity to expand the banking business, especially if we work with the highest standards of quality like the ones that characterize our services.

BV: What has specifically characterized your sector?

JCE: The financial sector, specifically the banking sector, has been characterized by an important expansion in the volume of businesses. This growth has been accompanied by reasonable levels of profitability that largely allow the generation of a good part of the capital necessary to lever up the growth required by the dynamism of our economy.

The expansion of the banking business has also been characterized by the efforts of the majority of the financial institutions to increase the number of people using banking services through community banking programs, to attract previously excluded sectors, which now have the opportunity to improve their standards of living significantly.

BV: According to Sudeban we have 59 banks, 49 of which are private. This implies an increase in that category, when in 2006 there were only 45 private institutions. What is the reason behind this growth? Do you believe the conditions that encouraged such growth will remain?

JCE: The increase in the number of banks in Venezuela is due to, among other things, the greater and diverse requirements of financial services as a consequence of high growth rates the Venezuelan economy has gone through. It is evident that in this behavior we can see the emergence of new business opportunities. The segments of the market to show the greatest dynamism include that of the micro-finances, a concept we have been working on as a result of bringing banking services to an important sector of the population.

Besides those developed by different government organizations, there are important programs aimed at developing micro-finances undertaken by several private financial groups.

BV: Do you think the expansion of the banking activity will continue in 2008?

JCE: The increase of the Venezuelan economy, probably somewhat a bit slower, will keep in 2008 and the expansion of the banking activity will also continue. The highest levels of the economic activity bring about an expansion of the demand, from the point of view of quantity, quality, and diversity of the financial services. It is important for the banking system to have the capacity to generate the

supply of services necessary to meet the expected higher demand.

BV: Is the banking sector prepared for the Monetary Reconversion? How will this new monetary policy affect the banks? How does Banesco prepare?

JCE: Yes. In fact, banks are, probably, the economic sector that is mostly involved with the monetary reconversion. The monetary reconversion not only concerns the Central Bank of Venezuela or some public bodies. It is everybody's concern and achieving success in this matter calls for the active participation of all the sectors of society. The monetary reconversion represents a strong technological and operational impact for the banking sector. The banking business revolves around the currency both in active and passive operations and, therefore, banks cannot afford to make mistakes in its implementation.

That is why banks have been in close and permanent touch with the BCV with a view of ensuring the necessary success. Banks, ever since the monetary conversion was announced, have set up a special task force on the revision and establishment of all the necessary technological procedures and operations.

Banesco formed from the start a more than 250-strong task force whose goal is to carry out all the necessary activities for Banesco's adaptation to be successful. To develop its work, this team has the advice from a selected group of consultants, both national and foreign, with expertise in similar processes experienced by other countries, including Spain, Italy, Brazil, Argentina, and Mexico, among others.

BV: Will your institution make more investments in the country or your policy for 2008 will be to reinforce and keep what you have so far? Why?

JCE: In a booming business that must deliver on its clients' new and greater demands is not only necessary to reinforce and keep up what we have so far but it is also, and even more important to provide a better service; therefore, in our strategic plan we have already included the necessary investments to meet both demands.

BV: What are the guidelines an investor has to take into account when selecting a country, especially in this sector?

JCE: Every investor, when selecting a country to invest in, takes into account the general characteristics of the economy and the evolution of its levels of activity, focusing specifically on everything that has to do with the particular sector it wants to invest in.

In the case of the banking sector, besides what was men-

tioned before, it is necessary to take into account the characteristics of the set of regulations, from the institutions involved such as Central Bank, the Superintendence of Banks, the organization administering Insurance on Deposits and any other body related to the banking activity to the legal norms in force at all the levels of operations. It is important to know what operations can be done and which cannot be done, how foreign investors are treated, capital requirements, the treatment of the dividends and the relations with the main office, among others. In this sense, it is convenient to know not only the ongoing status of the legal framework but also its evolutions in the recent past and its trends for the future, because with this knowledge we can get a valid perception of the level of legal security we would enjoy.

BV: Are the conditions in Venezuela attractive to invest, especially in your sector? What keeps on bringing investors to our country?

JCE: The current conditions in Venezuela are attractive for investment, especially in the banking sector, because there are a lot of windows of opportunities for the development of the activity; however, some deficiencies and distortions in the set of regulations and the potential consequences of the proposed constitutional reform make it difficult to make decisions in this regard. If there were less uncertainty in this sense, private investment, domestic and foreign, would grow in abundance.

BV: What should be changed in the country to make it more attractive?

JCE: There are many things that should be changed in Venezuela in order to make the country more attractive to investors. There are also so many other things that should be maintained for the same end. Changes include everything related to legal security in terms of property rights and holding agreements. It is worth considering how the reduction of the uncertainty provoked by the weaknesses related to the legal security would benefit the development of the economic activity.

There are also many other aspects, too many to discuss now, we need to work on in order to improve Venezuela's attractiveness. These aspects include the great deal of controls (price control, exchange control, interest rate control, portfolio caps by activity branch, firing freeze, etc.) whose relaxation or elimination would contribute to improving the economic efficiency, which, once obtained, would result in greater social well-being.