



## Fitch Downgrades Credit Andorra to 'A-'; Outlook Stable Ratings

17 Jun 2011 11:29 AM (EDT) Fitch Ratings-London/Barcelona-17 June 2011: Fitch Ratings has downgraded Credit Andorra's (CA) Long-term Issuer Default Rating (IDR) to 'A-' from 'A', Short-term IDR to 'F2' from 'F1', and Individual Rating to 'B/C' from 'B'. The Outlook on the Long-term IDR is Stable. Simultaneously, the agency has downgraded CA's EUR150m issue of preference shares to 'BBB' from 'BBB+'.

Fitch has also downgraded CA's Support Rating to '5' from '4' and revised the Support Rating Floor to 'NF' from 'B', reflecting Fitch's re-assessment that, while propensity of external support may be high given the importance of banking to the Andorran economy, it cannot be relied upon in light of the sector's size relative to the Andorran economy. A full list of rating actions is at the end of this comment.

The downgrade of CA's IDRs and Individual Rating reflect the tough economic and real estate market conditions in Andorra, which have given rise to weaker loan quality at CA. The bank's capital base, while still satisfactory, has been reduced due to higher dividend payouts while the bank is expanding internationally, which also entails integration and execution risks. However, these risks are mitigated by the bank's prudent management. The ratings also reflect CA's healthy funding and liquidity position.

Downward pressure on CA's ratings would arise from a failure to control the quality of lending and if core capital levels are not restored or profitability declines considerably.

While overall returns remain sound, cost efficiency has been steadily weakening, and the bank has the challenge of sustaining profitability at acceptable levels for its rating in light of potentially higher credit impairments and expansion costs.

CA's loan portfolio is chiefly domestic, oriented to mortgages (63% of the total; 32% of which are residential) but concentrated by name, albeit generally well-controlled. Pure real estate loan exposure represents 10% of lending, of which 41% was for land financing. CA's impaired loans have increased to account for a 3.8% of total loans at end-Q111. However, foreclosed assets (largely in land) have escalated since 2009 and, if included, the ratio would be 5.3%, above peer levels. Factoring in EUR21m of still-available general reserves, loan impairment coverage is acceptable at 50%.

CA's large debt securities portfolio mainly includes held-to-maturity European sovereigns and state-guaranteed bonds. It also has around EUR290m of structured notes, including EUR140m of CDOs. The bond portfolio is largely of low credit risk, with 99% rated 'A-' or higher at end-2010.

Although the shift back to off-balance-sheet investment products continued in 2010, CA's retail deposit base remains large (loan-to-deposit ratio of 71% at end-2010), supporting healthy liquidity. CA's Fitch eligible capital/weighted risks ratio weakened to 17.1% at end-2010 from 21.2% at end-2009 following a large dividend payment. Underlying profitability suggests the bank has the capacity to strengthen this if it needs or chooses, but payout levels tend to be high and the bank is expanding internationally.

CA is the largest of Andorra's five banking groups with total funds under management of EUR9.1bn. It focuses on retail lending and private banking, with 517 staff (123 of whom outside Andorra), 17 branches, banks in Panama and Luxembourg, and a presence in Mexico, Spain and Switzerland.

The rating actions on CA are as follows:

Long-term IDR: downgraded to 'A-' from 'A', Outlook Stable  
Short-term IDR: downgraded to 'F2' from 'F1'  
Individual Rating: downgraded to 'B/C' from 'B'  
Support Rating: downgraded to '5' from '4'  
Support Rating Floor: revised to 'NF' from 'B'  
Preferred Stock: downgraded to 'BBB' from 'BBB+'

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Additional information is available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 16 August 2010; 'Short-term Ratings Criteria for Corporate Finance', dated 2 November 2010; and 'Rating 'Hybrid Securities' and 'Equity Credit for Hybrids & Other Capital Securities', dated 29 December 2009, are available at [www.fitchratings.com](http://www.fitchratings.com).

**Applicable Criteria and Related Research:**

Global Financial Institutions Rating Criteria  
Short-Term Ratings Criteria for Corporate Finance  
Rating Hybrid Securities  
Equity Credit for Hybrids & Other Capital Securities - Amended

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