Fitch Revises Andbanc's Outlook to Stable from Negative; Affirms at 'A-'

17 Jun 2011 11:26 AM (EDT) Fitch Ratings-London/Barcelona-17 June 2011: Fitch Ratings has revised Andorra Banc Agricol Reig's (Andbanc) Outlook on its Long-term Issuer Default Rating (IDR) to Stable from Negative. At the same time, Fitch has affirmed Andbanc's Long-term IDR at 'A-', Short-term IDR at 'F2' and Individual Rating at 'B/C'.

Fitch has also downgraded the 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 revision of the Outlook to Stable reflects Fitch's view that the bank has been able to manage down its acquired portfolio of relatively illiquid bonds and restore capital to almost pre-crisis levels. In addition, loan quality deterioration has decelerated thanks to enhanced recoveries. Profitability has remained acceptable, despite adverse market conditions over the past years.

The ratings also reflect a solid domestic and niche international franchise, and good management and liquidity. Downward rating pressure would arise if the loan quality weakened materially in light of muted economic prospects in Andorra and/or from a failure to sustain returns and manage risks inherent in its consistent international expansion.

Despite international growth stronger than its peers and persistently high credit costs, profitability has benefited from margin management and higher fees. Its cost/income ratio of 51% in Q111 still compared favourably and provides financial flexibility to cover further expansion costs and potentially higher credit impairment charges.

Part of the bond portfolio arose from the acquisition in 2008 of EUR578m in relatively illiquid securities held by the money-market mutual funds in one of its subsidiaries to avoid potential liquidity and reputational risks in case of higher-than-anticipated redemptions. This portfolio has been reduced to manageable amounts (EUR124m at end-2010), largely through sales and early redemptions, and consisted of held-to-maturity floating-rate notes and credit notes with sound credit ratings. The securities portfolio also included OECD medium-term sovereign issues and state-guaranteed debt notes.

The loan book is in mortgages (54% of the total) and well-secured Lombard loans (22%). Real estate development loans are 20% of total loans, which is above its peers, but tends to be with well-known diversified Andorran groups; impairments on this book are low. Single-name concentrations are high, but well-controlled.

Loan quality deteriorated significantly until end-2009 due to a EUR144m residential mortgage book of 2005-2007 vintages. However, Andbanc's level of impaired loans (NPLs) has been contained since then and accounted for 4.2% of total loans at end-Q111 (40% cover). Including foreclosures, mostly from its well-fragmented retail mortgage book, the NPL ratio would stand at 5.1% at the same date.

While funds continue to move back to off-balance-sheet products, Andbanc's liquidity remains sound thanks to an ample retail deposit base (loan-to-deposit ratio of 69% at end-Q111) and sizeable liquid assets (31% of end-2010 assets). Its regulatory total capital ratio of 22% at end-2010 (fully made up of core capital) is strong given its risk profile and expansion.

Andbanc is the second-largest bank in Andorra, with total funds under management of EUR7.8bn at end-2010. It focuses on private banking services, with 12 branches and increasing presence in Latin America and other European countries.

The rating actions on Andbanc are as follows:

Long-term IDR: affirmed at 'A-', Outlook revised to Stable from Negative
Short-term IDR: affirmed at 'F2'
Individual Rating: affirmed at 'B/C'
Support Rating: downgraded to '5' from '4'
Support Rating Floor: revised to 'NF' (No Floor) from 'B'

Contact:

Primary Analyst
Josep Colomer
Associate Director
+34 93 323 84 16
Fitch Ratings Espana SAU
Paseo de Gracia, 85
08008 Barcelona

Secondary Analyst
Josu Fabo
Analyst
+44 20 3530 1513

Committee Chairperson
James Longsdon
Managing Director
+44 20 3530 1076

Media Relations: Hannah Warrington, London, Tel: +44 20 3530 1153, Email: hannah.warrington@fitchratings.com.

Additional information is available at www.fitchratings.com.
Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 16 August 2010, and 'Short-term Ratings Criteria for Corporate Finance', dated 12 June 2007, are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria
Short-Term Ratings Criteria for Corporate Finance

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