



## Fitch Revises BPA's Outlook to Negative; Affirms at 'BB+' Ratings

17 Jun 2011 11:26 AM (EDT) Fitch Ratings-Barcelona/London-17 June 2011: Fitch Ratings has revised Andorra-based Banca Privada d'Andorra's (BPA) Outlook on its Long-term Issuer Default Rating (IDR) to Negative from Stable. The agency has affirmed the bank's Long-term IDR at 'BB+', Short-term IDR at 'B' and Individual Rating at 'C/D'.

Fitch has also downgraded the bank's Support Rating to '5' from '4' and revised the Support Rating Floor to 'NF' from 'B', reflecting Fitch's 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 Negative reflects Fitch's opinion that BPA could be downgraded over the medium term if it is unable to smoothly overcome the integration, execution and financial risks arising from pending acquisitions in onshore countries. The acquisitions will weaken capital and liquidity at a time when financial risks remain from a large portfolio of hybrid securities. Another challenge is to control loan quality deterioration, which could weigh further on profitability.

BPA's IDRs and Individual Rating also consider its respectable niche international franchise, still satisfactory profitability and below sector level of impaired loans.

BPA's profitability has held up well, despite a higher-than-peers' cost base and larger provisions for loans in arrears and reputational risks from private banking. BPA's cost/income ratio of 58% in Q111 is respectable and should help cushion potentially higher impairments.

BPA's bond portfolio represented 29% of assets at end-2010. Almost half the portfolio arose from the liquidation of two leveraged funds run by the bank's asset manager in Q408, which led it to cancel the loans and acquire the funds' assets. The latter were in hybrid capital, largely issued by banks and concentrated by name. A significant part of the yields on these hybrids is used to cover BPA's commitment to reimburse clients on their initial positions (net of defaults) in the funds over ten years. Fitch believes there is an increased likelihood of coupon deferrals or other form of loss in certain securities.

The loan portfolio, 52% of total assets, is oriented to private banking. 27% of the total was in secured Lombard loans and 47% in mortgages with high loan-to-value ratios. Real estate loan exposure, 16% of total loans, is largely for small projects in Andorra. Single-name loan concentrations are rather high. Although the level of loans in arrears has escalated, the impaired/total loans ratio of 3.5% at end-Q111 remained below peer levels and coverage was still a sound 43%.

Customer funds are reverting back to off-balance-sheet products. However, the bank still has a large deposit base and a solid loan/deposit ratio of 70% (or 87% including hybrid capital exposures). Fitch considers BPA's liquidity to be satisfactory.

BPA's regulatory capital ratio of 32.2% was strong and the bank plans to issue a EUR25m preferred stock in 2011. However, these capital levels are deemed necessary given BPA's risk profile and expansion plans, which will lead to large goodwill deductions from the outset.

BPA, Andorra's fourth-largest bank with funds under management of EUR3.1bn, focuses on private banking. It has eight branches and growing presence in Panama, Luxembourg, Spain and Switzerland. The share capital is mostly owned by a major Andorran family.

The rating actions on BPA are as follows:

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

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Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 16 August 2010, 'Equity Credit for Hybrids & Other Capital Securities', dated 29 December 2009, and 'Short-term Ratings Criteria for Corporate Finance', dated 02 November 2010, 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  
Equity Credit for Hybrids & Other Capital Securities - Amended

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