



## RATING ACTION COMMENTARY

# Fitch Downgrades Arab Tunisian Bank to 'B+'; Outlook Stable

Thu 28 May, 2020 - 11:56 ET

Fitch Ratings - London - 28 May 2020: Fitch Ratings has downgraded Arab Tunisian Bank's (ATB) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) to 'B+' from 'BB-'. The Outlook is Stable. At the same time, Fitch has downgraded ATB's Support Rating to '4' from '3'.

A full list of rating actions is below.

The ratings action follows the downgrade of Tunisia sovereign rating on 12 May 2020 and Country Ceiling to 'B+' from 'BB-'. The sovereign downgrade reflects the expected adverse impact of the COVID-19 pandemic on Tunisia's economy ( see "Fitch Downgrades Tunisia to 'B'; Outlook Stable" available on [www.fitchratings.com](http://www.fitchratings.com)).

Fitch has also revised its assessment of Tunisian banks' operating environment to 'b-/stable, from 'b-/negative, primarily to reflect heightened risks to the banks' credit profiles resulting from the economic implications of the pandemic. We expect banks' financial profiles to come under stress from the increased challenges in the operating environment, and the key credit metrics are likely to be weaker, notwithstanding regulatory relief. Fitch completed a peer review on Tunisian banks on 30 April 2020 and will continue to monitor the impact of the deterioration in the Tunisian operating environment on the banks' credit profile. The revised score on the operating environment has no impact on ATB's Viability Rating (VR).

## KEY RATING DRIVERS

### IDRS AND SUPPORT RATING

ATB is strategically important to its 64.2% shareholder and parent, Arab Bank Plc (AB, BB/Stable) and without any transfer and convertibility risks constraint (as reflected in the Country Ceiling), its Long-Term IDRs would be notched down once from its parent's. However, Tunisia's Country Ceiling of 'B+' constrains ATB's IDRs. Transfer and convertibility risks may restrict the subsidiary's ability to use parental support to service creditors.

We rate ATB's Foreign- and Local-Currency IDRs at the same level because in the event of intervention in the banking sector, our assessment is that authorities would make no distinction between the imposition of losses on creditors in local or foreign currencies. It is our view is that the risks to bank creditors in local and foreign currencies are equal given the weak operating environment.

The Stable Outlook on ATB's LT IDRs reflects that on the Tunisian sovereign rating.

### VR

The VR reflects the bank's speculative fundamental credit quality. ATB operates exclusively in Tunisia. Fitch projects Tunisia's GDP to contract 4.3% this year due to the pandemic-related shock, before returning to 4.7% growth in 2021. However, we see significant downside risk to our baseline scenario, given the rapidly evolving impact of the pandemic shock and uncertainty around its spread and the duration of containment measures, which have affected domestic economic activity.

ATB is a second-tier bank with a deposit market share of around 7% and it lends mainly to large corporates (around 44% of end-2019 loans), SMEs (20%), retail and very small companies (22%), and public sector companies.

The stock of impaired loans is rising and ATB's impaired loans/gross loans ratio reached 12.5% at end-2019, in line with the sector average. Measures announced in March 2020 allowing a broad range of customers to defer loan-servicing commitments and encouraging banks to restructure loans where necessary will slow the need to recognise impaired loans in the near-term. However, borrowers' ability to recover and resume debt servicing will largely

depend on the duration of lockdown measures in Tunisia, travel restrictions and global economic trends. Our outlook on asset-quality trends is negative.

Core capitalisation metrics declined in 2019 and ATB's Fitch Core Capital (FCC)/risk-weighted assets (RWAs) ratio reached 8.4% at end-2019. Unreserved impaired loans represented a high 55% of FCC and our view is that capitalisation is low and buffers are small. Dividends will not be distributed on 2019 profits, in line with regulatory guidelines, and we take a positive view of measures to preserve capital. Nevertheless, we expect pressure on capital in the near-term and the outlook on capitalisation and leverage metrics is negative.

The bank remains profitable despite the challenging operating environment, but performance metrics in 2019 and 2018 were weak as inflation and regulatory costs put pressure on overheads and impairment provisions are high. Loans grew 16% in 2019 following the appointment of a new CEO. We understand from management that volume growth is important if the bank is to improve its efficiency ratios, but rapid growth may now appear ill-timed given global economic uncertainty. Loan impairment charges are likely to continue to put pressure on operating performance and our outlook for earnings and profitability is negative.

Funding and liquidity are rating strengths for ATB and the outlook for these factors is stable. Its deposits, split between retail (47%) and corporate customers (53%), are stable and not concentrated by individual customer. Liquidity of the Tunisian dinar is tight in the banking sector but ATB's reliance on Central Bank of Tunisia repo finance, at around 10% of total funding, is not out of line with the sector average.

The central bank eased the maximum allowed 120% loans/deposits ratios for banks in March 2020 and broadened the range of securities it accepts as collateral for borrowing. The bank has additional protection in the form of contingency liquidity lines from AB, although they have not been utilised.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to negative rating action/downgrade:

## **IDRS AND SUPPORT RATING**

ATB's IDRs and Support Rating are sensitive to changes in Fitch's assumptions regarding AB's capacity and willingness to support the bank. They would be downgraded if AB's strategic interest in the bank weakens or if its IDR were downgraded by at least two notches. We are not expecting any such changes because AB's strategic interest in ATB has not altered and the Outlook for AB's rating is Stable.

ATB's Long-Term IDRs are also sensitive to changes in Tunisia's Country Ceiling, which is primarily sensitive to a change in Tunisia's Long-Term Foreign-Currency IDR, which is on Stable Outlook. ATB's Support Rating could withstand a one-notch downgrade of Tunisia's Country Ceiling before being downgraded.

## VR

Further deterioration in the bank's asset quality leading to a decline in profitability and capital ratios will result in a downgrade of the bank's VR. This could come from a sustained deterioration in the domestic operating environment.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

## IDRS AND SUPPORT RATING

An upgrade of ATB's IDRs and Support Rating would require an upgrade of Tunisia's Country Ceiling. This is highly unlikely in the near-term.

## VR

An upgrade of the VR would require sustained improvement in the operating environment allowing for a strengthening of asset quality, earnings and capitalisation, which is unlikely.

## BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches

over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

ATB's IDRs and Support Rating are driven by a limited probability of support, if required, from AB.

## ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

## RATING ACTIONS

ENTITY/DEBT	RATING		
Arab Tunisian Bank	LT IDR	B+	Downgrade
	ST IDR	B	Affirmed
	LC LT IDR	B+	Downgrade
	LC ST IDR	B	Affirmed

ENTITY/DEBT	RATING	
	Viability	b-
		Affirmed
	Support	4
		Downgrade

[VIEW ADDITIONAL RATING DETAILS](#)

## FITCH RATINGS ANALYSTS

### Jamal El Mellali

Associate Director

Primary Rating Analyst

+44 20 3530 1969

Fitch Ratings Ltd 30 North Colonnade, Canary Wharf London E14 5GN

### Ramy Habibi Alaoui

Senior Analyst

Secondary Rating Analyst

+971 4 424 1208

### Artur Szeski

Senior Director

Committee Chairperson

+48 22 338 6292

## MEDIA CONTACTS

### Louisa Williams

London

+44 20 3530 2452

[louisa.williams@thefitchgroup.com](mailto:louisa.williams@thefitchgroup.com)

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

## APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

## ADDITIONAL DISCLOSURES

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Arab Tunisian Bank

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