

Rating Action: Moody's affirms five Tunisian banks' ratings; changes outlooks to stable for four of the banks

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Actions follow outlook change on Ba3 government bond rating to stable from negative

Limassol, May 28, 2015 -- Moody's Investors Service has today affirmed and changed the outlooks to stable from negative on the deposit ratings of Amen Bank (Amen), Arab Tunisian Bank (ATB), Banque de Tunisie (BdT) and, Banque Internationale Arabe de Tunisie (BIAT). Concurrently, Moody's affirmed with a negative outlook the deposit rating of Société Tunisienne de Banque (STB). Moody's has also assigned Counterparty Risk Assessments (CR Assessments) to the five Tunisian banks, in line with its revised bank rating methodology published on 16 March 2015.

The stable outlook on the four banks' deposit ratings is primarily driven by the rating agency's assessment that the Tunisian government's capacity to support the banks is improving, as signalled by the recent change in outlook on Tunisia's government bond rating to stable from negative. The bank outlooks also reflect our expectation that challenges in the operating environment will ease over time, helping to stabilise the performance of the banking system. Moody's decision to maintain a negative outlook on STB's ratings reflects the risks still facing the bank in anticipation of its expected recapitalisation.

The decision to affirm the ratings reflects the rating agency's view that (1) the banks' credit profiles, including asset-quality metrics and loss-absorption buffers, will remain broadly stable at weak levels over the next 12-to-18 months; and (2) there is a very high probability that the government would extend support to the banking sector, in case of need.

Please see the bottom of the press release for a full list of affected ratings.

Please refer to "Moody's Investors Service affirms Tunisia's government issuer rating at Ba3 and changes the outlook to stable from negative" (https://www.moodys.com/research/--PR_325033) published on 25 May 2015, for more information on the sovereign rating action, and this link for the revised banking methodology: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_179038.

RATINGS RATIONALE

--- STABLE OUTLOOK ON DEPOSIT RATINGS FOR FOUR BANKS, NEGATIVE OUTLOOK FOR STB

The stabilisation of the rating outlooks for four Tunisian banks reflects Moody's view of an improvement in the government's capacity to provide support to the banks, if needed. This action is in line with the stable outlook assigned to Tunisia's Ba3 sovereign rating. It also reflects Moody's expectation that the improvement in Tunisia's operating environment, although it remains challenging, will help to stabilise existing asset and liquidity risks in the banking system.

The outlook on the sovereign takes into account (1) a significant decline in domestic political risk; (2) reduced external funding challenges; and (3) a gradual reduction in fiscal and external imbalances.

Moody's maintains a negative outlook on STB's ratings to reflect the specific risks related to the long-awaited recapitalisation of the bank, which continues to operate with negative equity under regulatory forbearance. Although already budgeted by the government, the recapitalisation is still pending the vote of the Parliament, a condition to the stabilisation of the bank's credit profile together with the implementation of a restructuring plan.

--- RATING AFFIRMATIONS

Moody's decision to affirm the banks' ratings reflects the rating agency's view that (1) the banks' credit profiles will remain broadly stable, at weak levels, over the next 12-to-18 months, conditioned by a still challenging operating environment, including relatively poor credit conditions and a tight funding base with limited liquidity buffers; and (2) Moody's view of a very high probability of government support.

--- BANK SPECIFIC DRIVERS

-- Amen Bank

Moody's has affirmed Amen Bank's B1 deposit ratings. This is based on a b3 baseline credit assessment (BCA), which reflects Moody's view that a high cost of funding will continue to challenge the bank's profitability in the next 12 months. This will negatively affect revenues, which are predominantly interest-driven, although it will continue to be moderated by a strong efficiency. The bank's BCA is also driven by weak -- albeit stabilising -- asset quality and high provisioning requirements that constrain the bank's profits. The bank also presents relatively weak capital buffers, with a tangible common equity-to-risk weighted asset ratio of 8.9% as of December 2014, and a tight liquidity profile and high reliance on funding from the central bank.

The B1 ratings also incorporate two notches of uplift from its BCA, based on Moody's assessment of a high probability of government support in case of need, given Amen's systemic importance with a market share of around 11% of deposits in Tunisia.

-- Arab Tunisian Bank

Moody's has affirmed ATB's Ba3 local-currency and B1 foreign-currency deposit ratings. This is based on a b1 BCA, reflecting Moody's view that pressure on funding costs amid intense competition for deposits in Tunisia will constrain the bank's profitability. Moody's also notes that even though the cost of risk still constrains the bank's profits, the cost of risk will ease as asset-quality metrics improve. The bank's BCA also factors in satisfactory capital buffers (above the Tunisian average), which partly mitigate the bank's high levels of asset concentration. Finally the bank's credit profile is supported by good liquidity buffers (liquid assets accounted for 27% of total assets as of December 2014) supported by a stable deposit funding base and low leverage compared with those of its domestic peers.

The Ba3 local-currency deposit rating incorporates one notch of parental uplift, based on Moody's assessment of a moderate probability of parental support from Arab Bank PLC (foreign deposits B2 stable, BCA ba2), the bank's 64% shareholder. The local-currency deposit rating does not incorporate any government support uplift, as it is already at the government rating level.

-- Banque de Tunisie

Moody's has affirmed BdT's Ba3 local-currency and B1 foreign-currency deposit ratings. This is based on BdT's b1 BCA reflecting sound capital buffers, with both Tier 1 and Capital Adequacy ratios above 20%, and stronger risk management compared with the other Tunisian banks. BdT benefits from the close cooperation with its shareholder Banque Federative du Credit Mutuel (deposits Aa3 on review for upgrade, BCA baa2 on review for upgrade). These strengths are moderated by funding cost pressure on profitability. In a tight liquidity environment, the increasing recourse to term deposits will remain a constrain on net interest margins and the bank's profitability. This constraint on profitability is nonetheless mitigated by a gradual reduction in the cost of provisioning, which represented only 10% of pre-provision income as of December 2014. The bank's credit profile is also moderated by a combination of low liquidity buffers and a high gross loans-to-deposits ratio of 117% as of December 2014, which exerts a negative pressure on the bank's ratings.

The local-currency deposit rating also incorporates one notch of uplift from BdT's BCA based on Moody's assessment of a high probability of government support in case of need, given BdT's market share of around 6% of deposits in Tunisia.

-- Banque Internationale Arabe de Tunisie

Moody's has affirmed BIAT's Ba3 local-currency and B1 foreign-currency deposit ratings. BIAT's b2 BCA reflects its profitability metrics, which benefit from improved efficiency and diversified revenue sources. Despite the high pressure on the cost of risk and funding costs, Moody's expects BIAT's profitability to continue to exceed those of most private Tunisian banks. The bank's weak asset-quality metrics, although stabilising since 2014, still remain weak alongside the bank's limited loss absorption capacity, with a tangible common equity (TCE)-to-risk weighted assets (RWA) ratio of 9.9% as of December 2014. The BCA also reflects the bank's good liquidity buffers underpinned by its market position as Tunisia's leading private bank, which translates into a strong deposit-gathering ability and ample reserves of liquid assets.

The local-currency deposit rating also incorporates two notches of uplift from BIAT's BCA based on Moody's assessment of a high probability of government support in case of need, given BIAT's importance with a market share of around 15% of deposits in Tunisia.

-- Société Tunisienne de Banque

Moody's has affirmed STB's B1 deposit ratings. The bank's BCA of caa3 reflects eroded capital buffers in the context of particularly weak asset quality, as a result of the bank's legacy exposures to troubled sectors and lenders. Moody's acknowledges the bank's announced recapitalisation plans, and the BCA reflects the expectation that the execution of the plans and related operational restructuring -- both critical to its sustained solvency -- will succeed. Moody's assessment also incorporates the challenges that the bank faces in terms of the reliability of its accounting and risk reporting, as highlighted by the reservations cited by external auditors in the last two full-year financial reports. The BCA also captures the bank's low liquidity buffers and pressures facing its deposit base.

The deposit ratings incorporate five notches of uplift from STB's BCA based on Moody's assessment of a high probability of government support in case of need, given STB's importance with a market share of around 12% of deposits in Tunisia, its 50.5% government ownership and evidence of past capital support.

WHAT COULD MOVE THE RATINGS UP/DOWN

Upward rating pressure on bank ratings could develop following sustained improvements in the operating conditions. STB's ratings could come under upwards pressure from a material reduction in provisioning requirements, an improvement in asset quality and/or higher liquidity buffers. Additionally, positive pressure on Amen's ratings could develop from an increase in the bank's loss-absorption buffers, a material reduction in problem loans and/or the constitution of a more stable and less expensive funding base.

Although not anticipated, downward pressure on the banks' ratings could develop following a deterioration in the operating environment or a downgrade of the government debt rating, signalling a reduction in the government's capacity to support banks in case of need. Additionally, for STB, negative pressure on the BCA and its long-term rating would develop from a failure to execute the planned recapitalisation and restructuring plan. For the four other banks, negative pressure on their BCAs and ratings would develop from a greater-than-expected weakening in the banks' asset quality, profitability, capital adequacy and/or liquidity profile.

ASSIGNMENT OF COUNTERPARTY RISK ASSESSMENTS

The CR Assessment takes into account the issuer's standalone strength as well as the likelihood of affiliate and government support in the event of need, reflecting the anticipated seniority of counterparty obligations in the liabilities hierarchy. CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

In most cases, the starting point for the CR Assessment -- which is an assessment of the ability to avoid defaulting on its operating obligations -- is one notch above the bank's adjusted BCA, which represents the rating agency's view of the probability of a bank failing on its obligations without considering government support. Moody's then incorporates a level of support uplift in line with that applied to deposit ratings.

As a result, the CR Assessment for Amen Bank and STB is Ba3(cr), which is one notch higher than their local-currency deposit rating, reflecting Moody's view that authorities are likely to honour the operating obligations the CR Assessment refers to, in order to preserve a bank's critical functions and reduce potential for contagion.

In the case of Banque de Tunisie and BIAT, given their very high local-currency deposit ratings, which are aligned with the Tunisian government bond rating at Ba3, Moody's also assigned a CR Assessment of Ba3(cr).

ATB's adjusted BCA of ba3 (which incorporates one notch of parental support) and local-currency deposit ratings are already in line with the government bond rating level without incorporating any additional notching for government support that the rating agency imputes in the other Tunisian banks' deposit ratings. In such cases, as per its revised bank rating methodology, the probability of support can be added to the assessment of the risks faced by counterparties and, therefore, Moody's assigned a CR Assessment of Ba2(cr) for ATB, one notch higher than its local-currency deposit rating.

LIST OF AFFECTED RATINGS

Assignments:

..Issuer: Amen Bank

.... Counterparty Risk Assessment, Assigned NP(cr)

.... Counterparty Risk Assessment, Assigned Ba3(cr)

..Issuer: Arab Tunisian Bank

.... Counterparty Risk Assessment, Assigned NP(cr)

.... Counterparty Risk Assessment, Assigned Ba2(cr)

..Issuer: Banque de Tunisie

.... Counterparty Risk Assessment, Assigned NP(cr)

.... Counterparty Risk Assessment, Assigned Ba3(cr)

..Issuer: Banque Internationale Arabe de Tunisie

.... Counterparty Risk Assessment, Assigned NP(cr)

.... Counterparty Risk Assessment, Assigned Ba3(cr)

..Issuer: Societe Tunisienne de Banque

.... Counterparty Risk Assessment, Assigned NP(cr)

.... Counterparty Risk Assessment, Assigned Ba3(cr)

Affirmations:

..Issuer: Amen Bank

.... Adjusted Baseline Credit Assessment, Affirmed b3

.... Baseline Credit Assessment, Affirmed b3

.... Short-term Deposit Rating (Foreign Currency), Affirmed NP

.... Short-term Deposit Rating (Local Currency), Affirmed NP

....Long-term Deposit Rating (Foreign Currency), Affirmed B1 stable

....Long-term Deposit Rating (Local Currency), Affirmed B1 stable

..Issuer: Arab Tunisian Bank

.... Adjusted Baseline Credit Assessment, Affirmed ba3

.... Baseline Credit Assessment, Affirmed b1

.... Short-term Deposit Rating (Foreign Currency), Affirmed NP

.... Short-term Deposit Rating (Local Currency), Affirmed NP

....Long-term Deposit Rating (Foreign Currency), Affirmed B1 stable

....Long-term Deposit Rating (Local Currency), Affirmed Ba3 stable

..Issuer: Banque de Tunisie

.... Adjusted Baseline Credit Assessment, Affirmed b1

.... Baseline Credit Assessment, Affirmed b1
.... Short-term Deposit Rating (Foreign Currency), Affirmed NP
.... Short-term Deposit Rating (Local Currency), Affirmed NP
....Long-term Deposit Rating (Foreign Currency), Affirmed B1 stable
....Long-term Deposit Rating (Local Currency), Affirmed Ba3 stable
..Issuer: Banque Internationale Arabe de Tunisie
.... Adjusted Baseline Credit Assessment, Affirmed b2
.... Baseline Credit Assessment, Affirmed b2
.... Short-term Deposit Rating (Foreign Currency), Affirmed NP
.... Short-term Deposit Rating (Local Currency), Affirmed NP
....Long-term Deposit Rating (Foreign Currency), Affirmed B1 stable
....Long-term Deposit Rating (Local Currency), Affirmed Ba3 stable
..Issuer: Societe Tunisienne de Banque
.... Adjusted Baseline Credit Assessment, Affirmed caa3
.... Baseline Credit Assessment, Affirmed caa3
.... Short-term Deposit Rating (Foreign Currency), Affirmed NP
.... Short-term Deposit Rating (Local Currency), Affirmed NP
....Long-term Deposit Rating (Foreign Currency), Affirmed B1 negative
....Long-term Deposit Rating (Local Currency), Affirmed B1 negative

Outlook Actions:

..Issuer: Amen Bank
....Outlook, Changed To Stable From Negative
..Issuer: Arab Tunisian Bank
....Outlook, Changed To Stable From Negative
..Issuer: Banque de Tunisie
....Outlook, Changed To Stable From Negative
..Issuer: Banque Internationale Arabe de Tunisie
....Outlook, Changed To Stable From Negative
..Issuer: Societe Tunisienne de Banque
....Outlook, Remains Negative

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in March 2015. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

The Local Market analyst for these ratings is Olivier Panis, +971.4.2379.533.

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