

Arab Tunisian Bank Long-Term Rating Raised to 'BB'; Short-Term Rating Affirmed; Outlook Stable

Primary Credit Analyst: Mohamed Damak

Secondary Credit Analyst: Anouar Hassoune

Additional Contact: FIG_Europe@standardandpoors.com

On Jan. 22, 2007, Standard & Poor's Ratings Services raised its long-term counterparty credit rating on Arab Tunisian Bank (ATB) to 'BB' from 'BB-'. At the same time, the 'B' short-term counterparty credit rating on the bank was affirmed. The outlook is stable. The rating action reflects the bank's slight improvements in profitability, asset quality, and capitalization, as well as strengthened risk management systems. The ratings continue to be supported by the bank's majority ownership by Jordan-based Arab Bank PLC (AB, BBB/Stable/A-3), its adequate business profile, and satisfactory liquidity position.

The long-term rating on ATB is uplifted from its stand-alone rating, as we consider the bank to be a strategically important subsidiary for AB, and support to be highly likely in case of need.

With total assets of Tunisian dinar (TND) 2.1 billion (\$1.6 billion at TND0.76 to \$1) at Sept 30, 2006, and a network of 56 branches, ATB has a market share of about 5% of the Tunisian banking system's assets and 9% of deposits. Its competitive position is underpinned by a good franchise and commercial dynamism, as well as an established position in providing relatively sophisticated services to corporate clients.

ATB's asset quality, although improving, remains weak, but NPLs are well covered by provisions. Standard & Poor's considers that asset quality indicators could moderately improve thanks to ATB's more active foray into the less-risky retail-banking segment.

Despite improvements over the past 18 months, the bank's profitability remains modest as a result of its only average efficiency, high level of new loan loss provisions, and large portfolio of low-yielding government securities (a positive factor for the bank's liquidity profile, however). Standard & Poor's expects the bank's profitability to be pressured by costs attached to branch network expansion and provisioning needs given ATB's objective to reach 100% coverage of NPLs by 2010.

With adjusted common equity to total assets of 7.8% at Sept. 30, 2006, ATB's capitalization is just adequate given the bank's risk profile. Capitalization could come under pressure if the bank continues to grow at the same pace or if asset quality indicators worsen. On a positive note, the bank intends to further increase its capital in the next couple of years and to keep a conservative dividend policy.

Outlook

The stable outlook reflects Standard & Poor's expectations that ATB's limited size, moderate profitability, and weak asset quality will limit the potential for an upgrade in the foreseeable future. The ratings could be, however, downgraded if macroeconomic conditions worsen, financial performance deteriorates, and asset quality falls.

Ratings List

	To	From
Counterparty Credit Ratings	BB/Stable/B	BB-/Stable/B

NB: This list does not include all ratings affected.