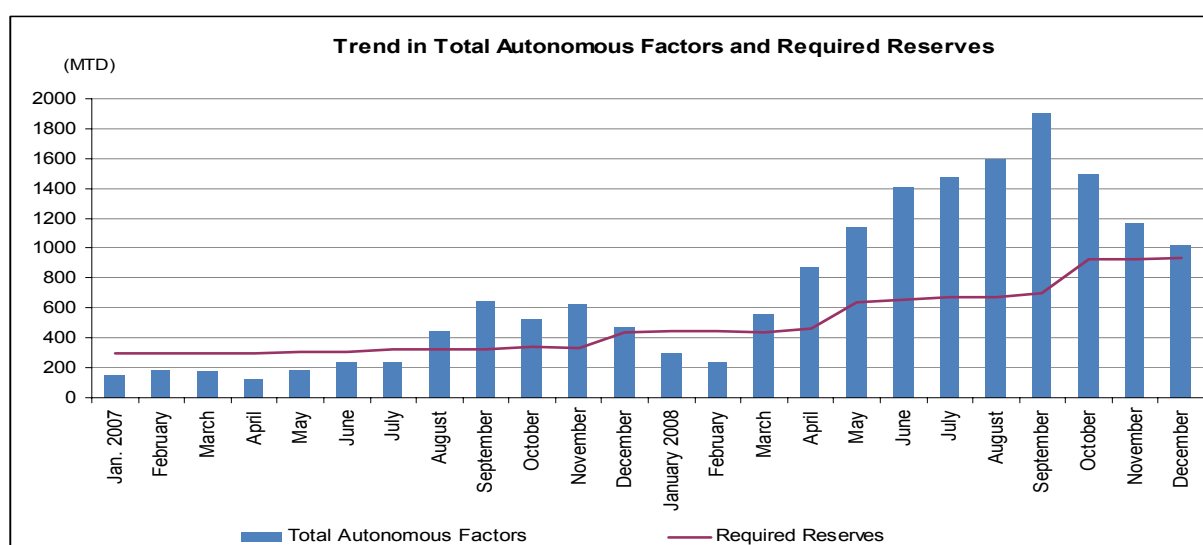


II. LIQUIDITY AND BALANCE OF THE FINANCIAL SYSTEM

There was excess liquidity on the money market in 2007 and this became even more acute in 2008, requiring greater intervention by the Issuing Institution to absorb the surplus and an increase, in two occasions, of the reserve requirement rates.

A. TRENDS IN FINANCIAL SYSTEM LIQUIDITY¹

As was the case in 2007, 2008 was characterised by a comfortable treasury position at banks (+767 MTD vs. +252 MTD in 2007). This was the result of a high increase in net assets abroad (+1,150 MTD), although this was mitigated by the restrictive effect of the higher volume of banknotes and coins in circulation (-393 MTD) and the drop in the net balance of public administration (-197 MTD). In this context, the Central Bank intervened in the framework of its monetary policy operations to absorb an average envelope of 418 MTD, compared to injection of 4 MTD in 2007. Consequently, assets in banks' ordinary current accounts at the Central Bank went up by 345 MTD to 682 MTD.



There were three distinct phases of bank liquidity in 2008 :

The first period, covering the first two months of the year, was characterised by tighter bank liquidity as a result of the restrictive effect of the net balance of public administration. This tightening would have been greater if it had not been for the higher level of net assets abroad. In effect, in dropping from 70 MTD in December 2007 to -267 MTD in February 2008, the net balance of public administration contributed to tighter liquidity at banks. This drop was due to : (a) the 147 MTD increase in the «Tunisian Government's miscellaneous accounts» following encashment of Tunisian Government's share of proceeds from sale of part of capital in the Tunisio-Kuwaiti Bank to the *Caisse d'Epargne* Group and (b) the 167 MTD increase in the balance of the Treasury current account following collection of sizeable tax revenue, although this was offset by considerable outlays for repayment of public debt and transfers to public enterprises and structures (661 MTD), notably social security structures, the Tunisian company for oil activities (ETAP), the Cereals Board and

¹ The analysis was made on the basis of average data.

the National Oil Board (ONH). Also of interest for the period under review, subscriptions to Treasury bonds amounting to 91 MTD (83 MTD in the form of bonds equivalent to Treasury bonds *BTA*) equalled redemption, meaning virtual stagnation in their outstanding balance.

Similarly, the item «other net factors», which went up by 110 MTD to 2,605 MTD in February 2008, had a restrictive impact on bank liquidity.

TRENDS IN BANK LIQUIDITY FACTORS

(Daily averages in MTD)

Description	Year 2007	Quarterly averages in 2008				Year 2008	Variation ¹ 2008 2007
		I	II	III	IV		
Banknotes and coins in circulation	-4,021	-4,305	-4,274	-4,554	-4,524	-4,414	-393
Net balance of public administration	+175	-203	-23	+123	+14	-22	-197
Of which: Treasury current account balance	-421	-660	-489	-456	-563	-542	-121
Net assets abroad	+6,974	+7,479	+7,970	+8,495	+8,550	+8,124	+1,150
Of which : Net assets in foreign currency	+8,924	+9,572	+9,799	+10,556	+11,127	+10,264	+1,340
Other net factors	-2,795	-2,604	-2,533	-2,404	-2,808	-2,588	+207
Of which : foreign currency pending assignment	-2,347	-1,957	-1,896	-1,929	-2,160	-1,986	+361
= Total autonomous factors (A)	+333	+367	+1,140	+1,660	+1,232	+1,100	+767
Calls for bids	-111	-53	-568	-979	-285	-471	-360
1-7 day-allowance uptakes	+4	0	+6	0	0	+1	-3
Net tapping transactions	0	0	-7	0	0	-2	-2
Open market transactions	+89	+25	+25	+25	+25	+25	-64
Repurchase options	+22	+115	0	0	0	+29	+7
= Monetary Policy Operations (B)	+4	+87	-544	-954	-260	-418	-422
= Assets in banks current accounts (A)+(B)	+337	+454	+596	+706	+972	+682	+345

¹ The (-) sign indicates a restrictive effect and the (+) sign indicates an expansive effect on bank liquidity.

On the other hand, net assets abroad (which came to 7,402 MTD in February 2008, up from 7,196 MTD in December 2007) contributed to better liquidity situation at banks. This improvement was due entirely to the 180 MTD drop in «intervention on the money market in foreign currency» and the 75 MTD drop in «foreign currency held by authorised intermediaries». The extent of this decrease was however mitigated by the 47 MTD drop in net assets in foreign currency, following higher expenditure for repayment of foreign debt as well as rising outlays for settling current transactions. The impact of this expenditure was however mitigated by encashment of inflows, notably income from privatisation of the above-mentioned capital in the Tuniso-Kuwaiti Bank and drawings on foreign borrowings, especially from the African Development Bank (ADB) and the European Investment Bank (EIB).

TRENDS IN BANK LIQUIDITY FACTORS BY PERIOD

(Daily averages in MTD)

Description	2 0 0 8			Variation ¹	
	Average Jan-Feb (1)	Average Mar-Sept (2)	Average Oct-Dec (3)	Period 2/ period 1	Period 3/ period 2
Banknotes and coins in circulation	-4,307	-4,398	-4,524	-91	-126
Net balance of public administration	-222	+19	+14	+241	-5
Of which :Treasury current account balance	-692	-490	-563	+202	-73
Net assets abroad	+7,392	+8,150	+8,550	+758	+400
Of which:Net assets in foreign currency	+9,549	+10,098	+11,127	+549	+1,029
Other net factors	-2,594	-2,491	-2,808	+103	-317
Of which : foreign currency pending assignment	-1,969	-1,916	-2,160	+53	-244
= Total autonomous factors (A)	+269	+1,280	+1,232	+1,011	-48
Calls for bids	+21	-691	-285	-712	+406
1-7 day-allowance uptakes	+1	+2	0	+1	-2
Net tapping transactions	0	-3	0	-3	+3
Open market transactions	+25	+25	+25	0	0
Repurchase options	+141	+9	0	-132	-9
= Monetary Policy Operations (B)	+188	-658	-260	-846	+398
= Assets in banks current accounts (A)+(B)	+457	+622	+972	+165	+350

¹ The (-) sign indicates a restrictive effect and the (+) sign indicates an expansive effect on bank liquidity.

Banknotes and coins in circulation came to 4,293 MTD in February 2008, a drop of 4 MTD compared to the December 2007 figure. This had a proportionate expansive effect on bank liquidity.

Trends in the autonomous factors of bank liquidity over the first two months of 2008 meant that banks had a greater need for liquidity. In this context, the Central Bank intervened in the framework of its monetary policy operations to inject an average envelope of 188 MTD. Consequently, there were 457 MTD in assets in banks' ordinary current accounts held at the Central Bank, an increase of 14 MTD compared to the figure posted in December 2007.

Over the period March-September, the treasury position at banks improved significantly and excess liquidity built up, reflecting the expansive effects caused by the higher level of net assets abroad and the net balance of public administration, the extent of which was held down by the restrictive effect caused by the increase in banknotes and coins in circulation.

TRENDS IN BANK LIQUIDITY FACTORS

(Data at the end of period in MTD)

Description	Dec. 2007	2 0 0 8				Variation ¹ Dec. 2008 Dec. 2007
		March	June	Sept.	Dec.	
Banknotes and coins in circulation	-4,348	-4,323	-4,368	-4,697	-4,641	-293
Net balance of public administration	+276	-108	+461	+529	+169	-107
Of which : Treasury current account balance	-323	-549	-140	-50	-397	-74
Net assets abroad	+7,298	+7,786	+8,044	+8,576	+8,822	+1,524
Of which: Net assets in foreign currency	+9,582	+9,727	+9,957	+10,737	+11,656	+2,074
Other net factors	-2,598	-2,608	-2,336	-2,523	-3,074	-476
Of which : foreign currency pending assignment	-1,978	-1,882	-1,889	-2,013	-2,128	-150
= Total autonomous factors (A)	+628	+747	+1,801	+1,885	+1,276	+648
Calls for bids	-279	-337	-1,128	-1,199	0	+279
1-7 day-allowance uptakes	0	0	+78	0	0	0
Net tapping transactions	0	0	0	0	0	0
Open market transactions	+25	+25	+25	+25	+25	0
Repurchase options	0	0	0	0	0	0
= Monetary Policy Operations (B)	-254	-312	-1,025	-1,174	+25	+279
= Assets in banks current accounts (A)+(B)	+374	+435	+776	+711	+1,301	+927

¹ The (-) sign indicates a restrictive effect and the (+) sign indicates an expansive effect on bank liquidity.

The 1,286 MTD increase in net assets abroad was influenced by the 1,268 MTD increase in net assets in foreign currency, following mobilisation of a significant level of external resources in the form of :

- foreign investment, notably by the Libyan company Laico (131 MTD), capital acquisition by "EMP ARFRICA FUND" in "SAH-LILAS" company (56 MTD), foreign institutionals' acquisition of capital in ARTES RENAULT company (74 MTD) as well as "Société Générale" shareholding in capital increase of UIB (57 MTD).

- some 507 MTD in drawings on foreign borrowing, especially from the EIB, the International Financial Corporation in Washington : IFC (an affiliate of the World Bank), the Japanese Bank for International Cooperation (JBIC), the African Development Bank (ADB), the North Investment Bank (NIB), and the French Development Agency (*Agence Française de Développement AFD*).

- foreign currency flows from tourism receipts and remittances by Tunisian workers abroad.

The effect of this income was however offset by expenditure for repayment of foreign debt and a growing trade deficit.

Also, the net balance of public administration, which rose by 543 MTD between March and September 2008, contributed to an improvement in bank liquidity. This was due mainly to a 387 MTD drop in the balance of the Treasury's current account along with a 147 MTD decrease in the «Tunisian Government's miscellaneous account», following transfer of the State's share in proceeds from privatisation of the BTK to the Treasury's current account. The lower level of Treasury assets at the Central Bank was attributable to the high level of

expenditure for redemption of Treasury bonds that had reached maturity, representing 1,001 MTD (630 MTD in the form of bonds equivalent to Treasury bonds) and transfers to public enterprises and structures in the amount of 2,738 MTD, which went mainly to social security funds, ETAP, and the Cereals Board. This drop would have been greater if it had not been for high tax revenue and encashment of the State's share in 2007 profits earned by the Central Bank of Tunisia (435 MTD), the Tunisian Chemical Group (265 MTD), *Tunisie Telecom* (129 MTD), and the Gafsa Phosphate Company (95 MTD). To these flows were added 227 MTD in transfers from the «Tunisian Government's special account in foreign currency» and encashment of proceeds from privatisation of the BTK as mentioned above, along with income from the European Union grant (36 MTD) and from a loan from the European Investment Bank (20 MTD). It should be noted that over the period under review, the balance of the Treasury's current account experienced strong fluctuations, varying between 27 MTD and 1,110 MTD. The fact that the issues announced in the Treasury's provisional schedule did not materialise, was a factor in the ensuing excess liquidity that characterised this entire period.

On the other hand, banknotes and coins in circulation went up by 285 MTD between March and September 2008, tightening bank liquidity by the same amount. Their level (varying between a minimum of 4,217 MTD and a maximum of 4,697 MTD) was marked by higher household expenditure over the summer, during Ramadan, and for the El Fitr holiday.

MAIN TRENDS IN AUTONOMOUS FACTORS OF BANK LIQUIDITY* (Daily average in MTD)

Description	Feb. 2008	Sep. 2008	Dec. 2008
	Dec. 2007	Feb. 2008	Sep. 2008
Banknotes and coins in circulation	+4	-285	-54
Net balance of public administration	-337	+543	-315
Of which: Treasury current account balance	-167	+387	-301
Net assets abroad	+206	+1,286	+46
Of which : Net assets in foreign currency	-47	+1,268	+736
Other net factors	-110	+124	-556
Of which: Foreign currency pending assignment	+12	-25	-250
= Total autonomous factors	-237	+1,668	-879

* The (-) sign indicates a restrictive effect and the (+) sign indicates an expansive effect on bank liquidity.

Given trends in the factors of bank liquidity over the period under review and despite the increase in the reserve requirement rate (up from 5% to 7.5%)¹ at the end of April 2008, excess liquidity continued to grow, reaching a maximum of 1,221 MTD in September and requiring commensurate intervention by the Central Bank on the money market throughout this period. Such intervention took the form of tapping for an average envelope of 658 MTD over the period March-September vs. an average injection of 188 MTD for the previous period. Consequently, assets in banks' ordinary current accounts at the Central Bank went up by 165 MTD to 622 MTD.

Over the last quarter of the year, the excess liquidity that characterised the money market over the previous period dropped markedly, following the restrictive effects occasioned by virtually all factors except net assets abroad and the impact of the increase in the reserve requirement rate, up from 7.5% to 10%² in October.

¹ Cf. BCT circular to banks n°2008-09 of 30 April 2008.

² Cf. BCT circular to banks n°2008-20 of 30 September 2008.

The net balance of public administration, down from 276 MTD in September to -39 MTD in December, had a restrictive effect on banks' treasury position. This trend was influenced by the 301 MTD increase in the balance of the Treasury current account, which fluctuated that month between a minimum of 50 MTD and a maximum of 832 MTD. This increase was due mainly to encashment of a significant amount of money, notably tax revenue, net subscriptions to Treasury bonds (482 MTD) and drawings on external borrowings, mainly from the *AFD* and the European Commission. The amount of these flows was offset by the volume of expenditure allotted for repayment of external debt and transfers by the Treasury to public enterprises and structures, for an envelope of 1,108 MTD that went to ETAP, social security funds, and the Cereals and Oil Boards.

Banknotes and coins in circulation amounted to 4,632 MTD in December (up from 4,578 MTD in September), contributing to a tighter (54 MTD) treasury position at banks. Over the period under review, they fluctuated between a minimum of 4,378 MTD on 19 November and a maximum of 4,731 MTD on 10 December, the latter being the maximum for the year.

On the other hand, net assets abroad, which went up by 46 MTD between September and December had an expansive effect on bank liquidity. This increase was the result of trends that diverged from one component to another, namely :

- a considerable increase in net assets in foreign currency (+736 MTD) following in particular inflows from foreign direct investment and portfolio investment notably GROUPAMA participation in capital increase of insurance and reinsurance company (STAR) and foreign investors acquisitions in capital increase by SOTACIB company, Arab Tunisian Bank and CAP SICAF company along with some 461 MTD in drawings on external borrowings, mainly, from AFD, IFC, EIB, ADB, the Arab Fund for economic and social development (FADES) and BNP Paribas Bank. Yet, major expenditure especially for repayment of external debt and widening of the current deficit offset the impact of this income ;

- the 176 MTD drop in «foreign currency held by authorised intermediaries» over the period under review, which exercised an expansive effect on bank liquidity, keeping in mind that the level of this account fluctuated between 29 MTD and 1,567 MTD, with a substantial drop over the last week of the year as banks invested their foreign currency on the money market, yielding a substantial increase in «intervention on the money market in foreign currency account», which came to an average of 777 MTD, posting a maximum of 2,037 MTD toward the end of the year ; and

- a 90 MTD increase in the «Tunisian Government's special account in foreign currency».

In light of trends in the autonomous factors of liquidity over the period under review, monetary policy operations led to average tapping of 260 MTD over the final quarter of the year, 398 MTD less than over the previous period (March-September). Consequently, assets in banks' current accounts went up by 350 MTD to 972 MTD, showing the impact of the increase in the reserve requirement rates decided at the end of September. The Central Bank did not intervene on the money market in December, which meant a high increase in assets in banks' current accounts, coming to 1,036 MTD, the highest level of the year.

B. MONETARY POLICY OPERATIONS ¹

In 2008 the Central Bank applied an active monetary policy, due to the excess liquidity that prevailed throughout the year with the exception of the first two months. This policy dictated an initial increase (at the end of April) in the reserve requirement rate for deposits with a maturity of less than three months. This measure, which helped offset the impact of excess liquidity, was not enough to absorb it all and it increased in the following months under the influence of the strong increase in net assets in foreign currency and massive repayment of Treasury bonds that fell due and were not renewed. From 382 MTD in April, excess liquidity reached an average of 1,197 MTD in September. In this context, in order to limit the impact of excess liquidity (notably on trends in interbanking rates), the Central Bank as of October proceeded with a second increase in the reserve requirement rates bringing the rate for deposits of less than three months to 10% and that of deposits lasting between 3 and 24 months (except deposits in special savings accounts) from 1% to 2%.

The impact of this measure along with the restrictive effect of State recourse to the domestic market (the State having intensified its Treasury bond issues over the last quarter of the year : 564 MTD) helped lessen excess liquidity, especially in December. In this context, and with a view to accompanying the measures taken by the State to support the economy and avoid fallout from the world economic crisis in the wake of easing of inflationary pressure, the Central Bank decided on 31 December 2008 to revise the reserve requirement rates downward, from 10% to 7.5% for deposits of no more than three months and from 2% to 1% for deposits lasting between three and 24 months (aside from deposits in special savings accounts)². This decision, applicable on 1 January 2009, allowed for injection of an envelope of some 250 MTD in the banking system, helping it to mobilise additional resources for financing economic activity.

1. MONETARY POLICY OPERATIONAL FRAMEWORK

The excess liquidity that marked the treasury position at banks in 2008 required intervention by the Issuing Institution in the framework of its monetary policy operations to absorb an average envelope of 418 MTD, compared to an average injection of 4 MTD a year earlier. Most of these interventions were carried out in the form of negative calls for bids for periods of up to one month (-471 MTD). The outstanding balance of open market operations remained at 25 MTD throughout the year, unchanged since October 2007.

Transactions on the interbank market increased by 60% to post an average of 581 MTD. This trend reflected a 223 MTD increase in forward transactions, which represented 67% of total, while sight transactions fell by 5 MTD. There was a much higher volume of transactions between banks over the last quarter of the year under review, reaching 864 MTD on average, compared to 460 MTD over the same period the year before.

In line with trends in bank liquidity, monetary policy operations went through three distinct phases in 2008.

¹ The analysis was made on the basis of average data.

² Cf. BCT circular to banks n° 2008-24 of 31 December 2008.

Over **the first two months of 2008**, marked by a tighter treasury position at banks, the Central Bank intervened to inject an average envelope of 188 MTD. Related monetary policy operations involved mainly repurchase options (142 MTD) and to a lesser degree calls for bids and one-day allowance uptakes.

QUARTERLY TRENDS IN THE VOLUME OF MONETARY POLICY OPERATIONS

(Daily averages in MTD)

Description	Year 2007	Quarterly averages 2008				Year 2008
		I	II	III	IV	
Calls for bids	-111	-53	-568	-979	-285	-471
1-7 day-allowance uptakes	+4	0	+6	0	0	+1
Net tapping transactions	0	0	-7	0	0	-2
Open market transactions	+89	+25	+25	+25	+25	+25
Repurchase options	+22	+115	0	0	0	+29
Total	+4	+87	-544	-954	-260	-418

Interbank transactions came to an average of 594 MTD.

The second period went from March to September, characterised by a better treasury position at banks and thus excess liquidity over this entire period. Consequently the Central Bank intervened to absorb excess liquidity, notably by negative calls for bids of a duration of between a week and a month, for amounts varying between a minimum of 199 MTD in March and a maximum of 1,221 MTD in September, involving average tapping of 691 MTD for the period. A comfortable treasury position at banks starting in March led the Central Bank to opt for early repayment of a purchase transaction with commitment to re-sell, carried out in February in the amount of 189 MTD. Over the period under review, four transactions in the form of 1-to-7 day allowance uptakes took place, involving amounts of between 3 MTD and 166 MTD. In the framework of fine tuning, the Central Bank intervened the last week of June to absorb an envelope of 230 MTD.

TRENDS IN THE VOLUME OF MONETARY POLICY OPERATIONS

(Data of end of period in MTD)

Description	Dec. 2007	2008			
		March	June	Sept.	Dec.
Calls for bids	-279	-337	-1,128	-1,199	0
1-7 day-allowance uptakes	0	0	+78	0	0
Net tapping transactions	0	0	0	0	0
Open market transactions	+25	+25	+25	+25	+25
Repurchase options	0	0	0	0	0
Total	-254	-312	-1,025	-1,174	+25

Transactions in the interbank compartment decreased by 138 MTD compared to the previous period, coming to 456 MTD, influenced mainly by a drop in sight transactions (-125 MTD). Though down by 13 MTD, forward transactions, experienced an increase in their share of total, coming to 68% for the period under review, compared to 55% for the previous period.

Over the last quarter of 2008, monetary policy operations carried out by the Central Bank decreased considerably, corresponding to average tapping of 260 MTD because of a much lower level of excess liquidity. In this context, intervention by the Issuing Institution took the form of negative calls for bids for durations of between one week and one month. Because of the gradual lessening of excess liquidity, the average monthly volume of tapping in the form of calls for bids came to 588 MTD in October, 251 MTD in November, and 14 MTD in December.

MAIN TRENDS IN MONETARY POLICY OPERATIONS

(Daily averages in MTD)

Description	Feb. 2008 Dec. 2007	Sep. 2008 Feb. 2008	Dec. 2008 Sep. 2008
Calls for bids	+66	-1,221	+1,206
1-7 day-allowance uptakes	-9	-1	0
Net tapping transactions	0	0	0
Open market transactions	0	0	0
Repurchase options	+194	-194	0
Total	+251	-1,416	+1,206

Over the period under review, activities on the interbank market once again picked up, particularly in December. In effect, the average volume of transactions almost doubled, coming to 864 MTD, an increase of 408 MTD. The majority of transactions (72%) involved forward transactions.

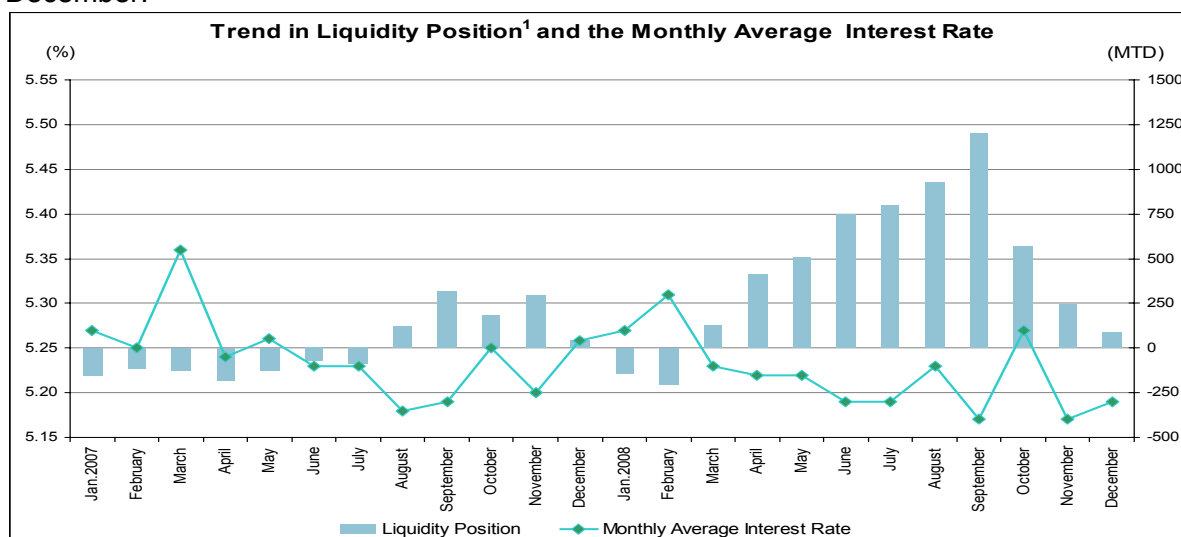
2. TRENDS IN INTEREST RATES

The day-to-day weighted interest rate on the money market was particularly dynamic in 2008, reflecting the liquidity situation on this market. It varied between 4.90% and 5.38%, in line with bank liquidity position.

There was tight bank liquidity over the first two months of the year and this meant market needs amounting to some 142 MTD in January and 205 MTD in February. The day-to-day weighted rate went up as demand rose, varying between 5.10% and 5.38% and giving rise to average monthly money market rates (TMM) of 5.27% and 5.31% respectively.

For the period March to September, liquidity surplus ranged between 126 MTD and 1,223 MTD. The day-to-day weighted rate varied between 5% and 5.38%, taking pressure off the average monthly money market rate, which posted between 5.17% and 5.23%.

Over the last quarter of the year there was some absorption of excess liquidity, leading to considerably lower level of liquidity position, moving from 572 MTD in October to 88 MTD in December. The day-to-day weighted rate thus ranged between 4.90% and 5.38%. Consequently, the TMM posted 5.27% in October, 5.17% in November and 5.19% in December.



¹ The liquidity position is equal to the difference between the total of autonomous factors and the amount of required reserves.

The rate of 5.32% was applied to repurchase options for the transaction launched in January and 5.37% for that taking place in February.

The Central Bank's key rate remained at 5.25% and the savings interest rate stayed at 3.25% throughout the year.

C. TRENDS IN ACTIVITY AT BANKS AND OTHER FINANCIAL INSTITUTIONS

1. BANKS¹

The network of bank branches grew with creation of 107 new units for a total of 1,167 branches in 2008, one per 8,800 inhabitants compared to one per 9,600 inhabitants a year earlier. This expansion involved mainly the greater Tunis area (49), central eastern Tunisia (31) and the north eastern region (17). The electronic banking network expanded, with installation of 146 new cash dispensers and automatic teller machines (ATMs), bringing the total to 1,246. The number of electronic payment terminals rose by 1,006 new units to 9,583 at the end of 2008.

a. Banking uses and resources

Rapid growth in banks' core resources (13.8% vs. 11.8% a year earlier) led to easy cash flow starting in March and so the Central Bank of Tunisia (BCT) intervened to sterilise excess liquidity by raising the reserve requirement rate on two occasions, continuing to pursue its policy to regulate the market by absorbing liquidity.

(i) Uses

Trends in bank uses were marked in 2008 by faster growth in financing of the economy and in treasury accounts, while State indebtedness went down.

USE OF FUNDS AND RESOURCES

(In MTD)

Description	2007	2008			
		March	June	Sept.	Dec.
Financing of the economy	27,458	28,119	29,083	30,305	31,495
Claims on the State	2,810	2,810	2,413	2,362	2,495
Treasury accounts	3,436	3,524	3,788	4,120	4,764
Other net headings	-1,326	-1,416	-896	-1,392	-1,606
Total uses = Total resources	32,378	33,037	34,388	35,395	37,148
Monetary and quasi-monetary resources	25,630	26,382	28,016	29,215	29,622
Special resources	2,412	2,370	2,336	2,319	2,343
Provisions	2,061	2,087	2,351	2,435	2,406
Available core funds	2,554	2,535	2,735	2,625	2,777
BCT financing	-279	-337	-1,050	-1,199	0

❖ Financing of the economy

Financing of the economy, which represents 85% of overall uses, went up in 2008 by 14.7%, compared to 9.8% the year before. Such faster growth reflects growth in loans from ordinary resources and banks' acquisition of shares in the capital of economic and financial units, while loans from special resources continued to diminish.

¹ Our analysis involves Tunisia's 20 banks: ATB, BFT, BNA, ATTIJARI BANK (formerly BS), BT, AB, BIAT, STB, UBCI, UIB, BH, CB Onshore, BTK, STUSID BANK, TQB, BTE, BTL, BTS, ABC and BFPME.

The outstanding balance of loans from ordinary resources came to 27,948 MTD in 2008, an increase of 16.3% vs. 11% a year earlier. This trend was due in particular to changes in the discount portfolio, which is its main component (20.5% or 3,352 MTD vs. 12.9% or 1,872 MTD in 2007) and of the item «overdrawn current accounts» (16.6% or 394 MTD vs. 11.4% or 243 MTD).

Non performing loans grew in 2008 at a slower pace than the year before (1.6% vs. 5.1%) and their share in overall loans from ordinary resources fell from 20.4% in 2007 to 17.8% in 2008. The volume of claims that were written off and transferred to debt collection companies has continued to drop, from 572 MTD in 2006 to 138 MTD in 2007 and 128 MTD in 2008.

An analysis of the structure of loans by maturity shows an increase in the share of medium and long term loans, up from 47.4% in 2007 to 50.4% in 2008, to the detriment of the share in short term loans that dipped from 52.6% to 49.6%, reflecting in particular a drop in current expenditure.

75% of new loans in 2008 (2,827 MTD) went to professionals in various sectors, i.e. services (57%), industry (39%) and agriculture (4%). Loans to private individuals came to 922 MTD or 25% of total, due mainly to a sustained increase in the outstanding balance of housing loans. And the outstanding balance of loans from special resources came to 1,691 MTD at the end of the year under review, a decrease although at a slower pace than the year before (-1.9% vs. -2.7%). This trend reflects mainly the lower level of credit financed from external loan funds (-5.1% or -55 MTD vs. -5.6% or -64 MTD). Loans financed from State funds were rather up (3.5% or 22 MTD vs. 2.5% or 15 MTD) regarding loans granted, mainly, on FONAPRA (12 MTD) and FOSDA (8 MTD). Banks' securities portfolio went up by 8.9% in 2008 to 1,856 MTD, compared to 7% and 1,704 MTD respectively a year earlier. This trend was due mainly to acquisition of holdings by certain banks in the capital of their own capital risk investment funds as tax-exempt reinvestment and by creation of a mutual investment fund «FCP OPTIMA» with 50 MTD totally subscribed to by three Tunisian banks.

FINANCING OF THE ECONOMY

(In MTD)

Description	2007	2008			
		March	June	Sept.	Dec.
Loans from ordinary resources	24,031	24,640	25,620	26,877	27,948
Loans from special resources	1,723	1,708	1,706	1,673	1,691
Securities portfolio	1,704	1,771	1,757	1,755	1,856
Total	27,458	28,119	29,083	30,305	31,495

❖ Claims on the State

State indebtedness to banks went down by 11.2% (-315 MTD) to 2,495 MTD at the end of 2008 vs. an increase of 8% or 208 MTD in 2007, influenced mainly by a drop in the global outstanding balance of Treasury bonds in banking's portfolio (-12.6% or -297 MTD vs. +11.2% or +239 MTD). Subscriptions to these securities came to 735 MTD at the end of 2008 (77% in the last quarter of the year) compared to 1,488 MTD a year earlier, while repayments remained at a level similar to that of 2007, i.e. 1,174 MTD and 1,151 MTD respectively.

❖ Treasury accounts

Treasury accounts continued on an upward turn, although at a faster pace (38.6% or 1,328 MTD vs. 31.6% or 826 MTD). This trend reflects mainly an increase in the item «ordinary current accounts» opened both in dinars at the central bank (+937 MTD) in line with higher rates for the reserve requirements and in foreign currency. The sizeable increase in banks' foreign currency accounts at the Issuing Institution (+626 MTD) was due to changing behaviour in this area. Those banks that used to place non resident holdings (especially those of exporting companies) at foreign banks prior to the international financial crisis, became more prudent following bankruptcy at a sizeable number of international banks, thus avoiding involvement in any risk of default.

TREASURY ACCOUNTS

(In MTD)

Description	2007	2 0 0 8			
		March	June	Sept.	Dec.
Treasury	276	286	285	322	272
Ordinary current accounts	388	416	699	738	1,325
Postal current account deposits	7	5	5	6	6
Foreign currency accounts	1,253	1,157	1,172	1,412	1,879
Minus : Other BCT financing	17	3	15	30	18
Bank correspondents (net amount)	1,455	1,532	1,589	1,597	1,239
Head offices, branches&agencies (net amount)	74	131	53	75	61
Total	3,436	3,524	3,788	4,120	4,764

(ii) Resources

Highly influenced by faster trends in monetary and quasi monetary resources (which make up 80%), the sum total of banking resources rose by 14.7% in 2008, up from 10.4% the year before. This faster pace also reflected notable progress in provisions and in available core funds, while special resources continued to fall.

❖ Monetary and quasi-monetary resources

In rising to 29,622 MTD in 2008, monetary and quasi-monetary resources went up by 15.6%, compared to 13.7% a year earlier. Totalling 9,062 MTD at the end of 2008, monetary resources grew at a lower rate than the year before (12.3% vs. 16.7%). This deceleration was due mainly to slower growth in sight deposits, both by residents (11.7% vs. 16%) and non-residents (14% vs. 19.2%). The trend in resident deposits was influenced by slower growth in deposits by individual companies (1.6% vs. 15.9%) and private companies (12.2% vs. 14.7%) and a drop in deposits by public companies other than social security funds (-13.3% vs. +30.6%).

On the other hand, quasi-monetary resources grew in 2008 (17.1% vs. 12.4% in 2007), reflecting considerable recovery in the outstanding balance of resident certificate of deposit (+34.9% vs. -1%) and faster growth in special savings accounts at banks (10.2% vs. 7.9%). Renewed growth in the outstanding balance of resident certificates of deposit involved mainly subscriptions by private companies (+264 MTD), social security funds (+64 MTD), private individuals (+32 MTD) and individual companies (+29 MTD) that were offset by public companies' subscriptions (-56 MTD).

Resident forward deposits and other financial products grew at a slightly slower pace, down from 21.5% in 2007 to 20.1% in 2008, reflecting slower growth in deposits by public companies and social security funds (+153 MTD vs. +948 MTD), insurance companies (+91 MTD vs. +230 MTD) and individual companies (+174 MTD vs. +241 MTD). Forward deposits and other financial products held by private individuals, on the other hand, enjoyed recovery (+615 MTD vs. -320 MTD), while those of private companies grew at a faster pace (+539 MTD vs. +224 MTD).

Non resident forward deposits and other financial products went up by 36.6% in 2008, compared to 24.8% the year before.

MONETARY AND QUASI-MONETARY RESOURCES

(In MTD)

Description	2007	2008			
		March	June	Sept.	Dec.
Monetary resources	8,072	8,138	8,654	8,941	9,062
Residents' sight deposits	6,249	6,298	6,922	6,955	6,983
Non residents' sight deposits	1,823	1,840	1,732	1,986	2,079
Quasi-monetary resources	17,558	18,244	19,362	20,274	20,560
of which : Residents' forward deposits & other financial products	7,185	7,516	7,856	8,278	8,626
Residents' savings accounts	6,042	6,193	6,304	6,449	6,659
Residents' home savings accounts	1,122	1,131	1,133	1,145	1,168
Residents' certificates of deposit	988	916	1,384	1,609	1,333
Residents bonds & borrowings with a more than 1 year maturity	264	260	393	397	380
Non residents' forward deposits and other financial products	714	726	828	787	975
Total	25,630	26,382	28,016	29,215	29,622

After experiencing a drop of 27.5% in 2007, the outstanding balance of bonds and borrowings with a more than one year maturity held by residents went up by 43.9% in 2008 in the wake of the higher volume of bond issues over the period under review. This involved mainly the Bank of Housing BH (70 MTD in May), the Tunisian Banking Company STB (50 MTD in May) and the Attijari Bank (50 MTD in December). These issues were for various maturities ranging from 15 to 25 years with fixed rates of between 6.85% and 7% and variable rates corresponding to the money market average rate plus 1.5% and 2%. It should be noted that most debenture loans are issued at fairly longer maturities and fixed rates, in line with BCT recommendations with respect to adequacy between banks' resources and uses.

❖ Special resources

Special resources posted 2,343 MTD in 2008, a further drop of 2.9% or 69 MTD vs. 0.7% or 16 MTD the year before. This reflected lower external loan funds (-8.6% or -137 MTD vs. -2.6% or -42 MTD) that were however offset by higher State funds (8.5% or 68 MTD vs. 3.4% or 27 MTD).

❖ Available core funds

To meet international standards, banks in 2008 continued to increase core funds. Some banks increased their capital, as was the case for UIB (90 MTD, of which 70 MTD was in cash and the rest by issue of certificates of investment) and ATB (20 MTD, of which 14 MTD was in cash and the rest by incorporation of reserves). The latter generated issue premiums

amounting to some 35 MTD, bringing their outstanding balance to 404 MTD at the end of 2008, an increase of 5.5% vs. 10.4% the year before.

Issue of two subordinated borrowings¹ by Amen Bank and UIB in 2008 for respective amounts of 40 MTD and 80 MTD involved an outstanding balance of 347 MTD at the end of 2008. The first borrowing was issued at fixed rates of 6.5% and 7%, corresponding to maturities of 15 and 20 years respectively, while the second was divided into two categories remunerated at the average annual rate of the BCT's call for bids for a ten-year maturity for the first portion and an indeterminate maturity for the second. An additional envelope of 195 MTD assigned to reserves and coming from 2007 earnings helped boost their level to 1,306 MTD in 2008 vs. 1,111 MTD a year earlier. This increase thus reflects mainly that of extraordinary reserves (149 MTD) and special regime reserves (22 MTD).

AVAILABLE CORE FUNDS

(In MTD unless otherwise indicated)

Description	2007	2008			
		March	June	Sept.	Dec.
(1) Core funds	3,410	3,405	3,600	3,644	3,852
of which : Paid-up capital	1,679	1,679	1,679	1,769	1,786
Reserves	1,111	1,106	1,302	1,263	1,306
Issue premiums	383	383	383	375	404
Subordinated borrowings	227	227	227	227	347
(2) Fixed assets & worthless securities net of amortisation	856	870	865	1,019	1,075
Buildings & furniture	1,231	1,248	1,263	1,288	1,347
Worthless securities	224	231	228	371	369
Amortisation	-599	-609	-626	-640	-641
Available core funds (1-2)	2,554	2,535	2,735	2,625	2,777

❖ Provisions

In line with BCT and XIth Development Plan objectives to bring the banking sector's rate of provisioning to 70% in 2009 and in order to prepare banks for adoption of Basel II norms, efforts continued in this area and succeeded in bringing the outstanding balance of provisions up to 2,406 MTD in 2008, an increase of 16.7%.

b. Operation and financial conditions at banks²

Banking activity in 2008 was characterised by an increase in almost all intermediary operating balances compared to 2007 figures, following positive trends in activity and better financial indicators, especially those linked to the quality of portfolios at banks. This helped banks to increase their interest margins by 123.9 MTD (14.3%) vs. 98.7 MTD (12.9%) in 2007. Interest and similar income went up by 256.8 MTD (13.8%) following a 210.5 MTD (12.7%) increase in proceeds from loan transactions, in connection with a major 12.8% increase in the average outstanding balance of loans in 2008. Loan yield thus came to 7%, the same figure as the year before.

¹ Funds from this kind of borrowing must meet the following conditions:

- The initial duration is five years or more. Even if there is no due date set, early repayment is made on the basis of notification by the Governor of the BCT.
- Repayment prior to due date is not mentioned in any clause in the loan agreement.
- If the bank is liquidated, these borrowings can be repaid only after settlement of all other existing debts.

² Provisional figures for 2008.

As for accrued interest and similar charges, the 132.9 MTD (13.3%) increase was due mainly to interest on remunerated deposits, which went up by 121.6 MTD or 17.1%.

NET BANKING PROCEEDS

Description	In MTD		Variation 2008/2007	
	2007	2008	In MTD	In %
(+) Interest and similar income	1,865.6	2,122.4	256.8	13.8
(-) Accrued interest and similar charges	1,001.1	1,134.0	132.9	13.3
(=) Interest margin	864.5	988.4	123.9	14.3
(+) Net commissions on banking transactions	321.1	356.1	35.0	10.9
(+) Net gains on commercial securities portfolio and financial transactions	226.2	255.7	29.5	13.0
(+) Investment portfolio income	74.7	83.8	9.1	12.2
(=) Net banking proceeds	1,486.5	1,684.0	197.5	13.3

In line with trends in banking activity, net commissions on banking operations, notably those tied to foreign trade and monetics, went up by 35 MTD (10.9%) compared to 26 MTD (8.8%) the year before.

On another front, net gains from the commercial securities portfolio and financial transactions recorded a gain of 29.5 MTD (13%) vs. 31.7 MTD (16.3%) in 2007, coming mainly from higher profits from foreign exchange at banks. Income from the investment securities portfolio went up by 9.1 MTD or 12.2%, vs. 6.8 MTD or 10% the year before, to 83.8 MTD.

Net banking proceeds at deposit banks rose by 197.5 MTD (13.3%) vs. 163.2 MTD (12.3%) the year before to 1,684 MTD at the end of 2008.

Thanks to higher net banking proceeds, banks pursued their efforts to cover risk by allotting an amount of 402.6 MTD to provisions for claims in 2008 (vs. 565.1 MTD in 2007), following an exceptional effort by one bank to constitute provisions and in the framework of clearing up its finances. On another side, banks were able to keep operating costs down, posting an increase of 45.7 MTD (6.4%) in 2008 vs. 43.6 MTD (6.5%) in 2007. The increase in net banking proceeds that was greater than the increase in operating costs brought about a significant 2.9 percentage point increase in the operating ratio to 45.4% at the end of 2008.

NET FISCAL YEAR RESULTS

Description	In MTD		Variation 2008/2007	
	2007	2008	In MTD	In %
Net banking proceeds	1,486.5	1,684.0	197.5	13.3
(+) Other operating proceeds	24.5	25.1	0.6	2.4
(-) Operating costs	718.9	764.6	45.7	6.4
* Staff costs	525.0	566.8	41.8	8.0
* General operating costs	193.9	197.8	3.9	2.0
(-) Allocation for amortisation	73.9	68.2	-5.7	-7.7
(-) Allocation for provisions and result of correction of assets on claims (off balance sheet and liabilities)	565.1	402.6	-162.5	-28.8
(-) Allocation for provisions and result of correction of assets on investment portfolio	-34.4	-0.7	33.7	98.0
(=) Operating result	187.5	474.4	286.9	153.0
(+) Balance in gain (+)/loss (-) from other current items	1.5	1.1	-0.4	-26.7
(-) Tax on profit	68.0	79.9	11.9	17.5
(=) Net fiscal year income	121.0	395.6	274.6	226.9
(=) Result after accounting changes	114.8	395.6	280.8	244.6

Thanks to the increase in net banking proceeds and control of operating costs, banks managed to significantly improve their operating results by 286.9 MTD (153%) to reach 474.4 MTD at the end of 2008. Thus net results came to 395.6 MTD, an increase of 280.8 MTD above the 2007 figure. The increase in net results at banks contributed to better profitability, with ROE up from 10.1% at the end of 2007 to 11.2% in 2008 and ROA increasing from 0.9% to 1% over the same period.

PROFITABILITY AND FINANCIAL SOUNDNESS INDICATORS (In %)

Description	2006	2007	2008
Return on equity (ROE)	7.0*	10.1*	11.2
Return on assets (ROA)	0.6*	0.9*	1.0
Risk coverage ratio	11.4	11.3	11.7

* Exclusive of deficit results posted at end 2006 and 2007 by two local banks.

Banks continued efforts to improve their financial bases by increasing their capital. This helped boost core funds by 435.6 MTD (12.6%) to 3,905.5 MTD. With net core funds at banks growing faster than incurred risks, the average ratio for coverage of risk went up from the previous year's figure to 11.7%. As for portfolio quality, 2008 was marked by ongoing efforts to keep risk down and dynamic processing of non performing loans by banks, which caused a 2.1 percentage point drop in the share of these loans in overall commitments to 15.5%, compared to 17.6% at the end of 2007. Net of provisions and reserved bank charges, this share came to 7.4% vs. 9.1% at the end of 2007.

INDICATORS OF BANKS' PORTFOLIO QUALITY (In %)

Description	2006	2007	2008
Share of non performing loans in total commitments	19.3	17.6	15.5
Share of non performing loans net of provisions and reserved charges in total commitments	10.9	9.1	7.4
Rate of coverage of non performing loans by provisions and reserved charges	49.0	53.2	56.8

The rate of coverage of non performing loans by provisions improved significantly, by 3.6 percentage points to 56.8% at the end of 2008, following a major effort by banks in the area of provisioning and reserved bank charges.

2. LEASING COMPANIES¹

a. Uses and resources

The leasing sector pursued its contribution to financing of investment, although at a slower pace than in 2007. This is shown through disbursements that grew by 12.7% in 2008 (vs. 37.3% in 2007) to 822.7 MTD, giving the leasing a 10.6% rate of penetration in gross fixed capital formation.

This growth rate which is in line with normal cyclical patterns for this financial product linked to renewal of transport equipment in certain sectors is also led by a drop in demand for real estate financing, down from 13.4% in 2007 to 5.3% in 2008.

¹ Provisional figures for 2008.

(In MTD unless otherwise indicated)

Description	2006	2007	2008
Disbursements	531.4	729.8	822.7
Of which : real estates	56.6	97.6	43.6
Private GFCF	5,526	6,544	7,762
Rate of penetration (in %)	9.6	11.2	10.6

It is expected that the sector will continue to grow in 2009, especially in light of the presidential decision to reduce excessive interest rates and plans to expand the sector's network notably in inland areas of the country. There will also be efforts to increase synergy between businesses in the sector and their parent banks.

As was the case for the disbursements, the outstanding balance of leasing went up by 8.9% to reach 1,380.3 MTD at the end of 2008, financed mainly by 1,018.5 MTD in borrowed resources, representing 4.5 times the sector's core funds compared to 5.4 times in 2007, thanks to consolidation of the sector's bases (up 33.5 MTD).

41.3% of these borrowings come from banking resources (12.7% in the form of leasing certificates) and 38.7% from bond resources, yielding a share of some 42.4% in issues on the bond market, despite competition from banks.

(In MTD unless otherwise indicated)

Description	2006	2007	2008
Outstanding balance of leasing	1,113.9	1,267.4	1,380.3
Core funds	153.3	170.5	228.1
Borrowed resources	794.6	920.0	1,018.5
of which : External resources (share in %)	24.5	17.7	11.4
Bank resources (share in %)	24.9	34.9	41.3
Bond resources (share in %)	40.3	36.5	38.7

b. Operation

Activity in the sector generated 2008 income¹ that was up by 15.8% to 132.2 MTD, for yield on leasing that rose by 0.6 percentage point to 10.2% compared to 2007, following better rotation of financing that helped limit the drop in the sector's overall effective rate to 0.6 percentage point over the past two years.

NET PROCEEDS

Description	In MTD		Variation 2008/2007	
	2007	2008	In MTD	In %
(+) Proceeds on leasing transactions	114.2	132.2	18.0	15.8
(+) Factoring income	0.2	0.4	0.2	100.0
(-) Financial charges	59.2	66.9	7.7	13.0
(=) Interest margin	55.2	65.7	10.5	19.0
(+) Investment proceeds	3.2	3.4	0.2	6.3
(+) Other operating proceeds	1.5	2.0	0.5	33.3
(=) Net proceeds	59.9	71.1	11.2	18.7

Given the higher level of proceeds and the lower cost of borrowed resources in the sector, down by 0.3% to 7% in 2008, net proceeds posted an increase of 18.7% or 11.2 MTD to

¹ Following entry into force of the accounting norm n°41 governing rental contracts.

71.1 MTD, 25.4 MTD of which went to cover operating charges that grew at a quite lower rate than net proceeds, with operating ratio going from 39.5% in 2007 to 35.7% in 2008.

NET FISCAL YEAR RESULT

Description	In MTD		Variation 2008/2007	
	2007	2008	In MTD	In %
(=) Net proceeds	59.9	71.1	11.2	18.7
(-) Net allocation for provisions	8.8	7.3	-1.5	-17.0
(-) Operating costs	23.7	25.4	1.7	7.2
* Staff costs	13.1	14.2	1.1	8.4
* General operating charges	10.6	11.2	0.6	5.7
(-) Allocation for amortisation	2.3	2.5	0.2	8.7
(=) Operating result	25.1	35.9	10.8	43.0
(+) Balance in gain/loss from other ordinary items	-0.7	0.3	1.0	142.9
(-) Tax on profits	5.5	8.2	2.7	49.1
(=) Net fiscal year result	18.9	28.0	9.1	48.1

Thanks to operating and risk costs that were kept down and in line with the higher quality of the portfolio, profits in the sector went up in 2008 by 48.1% (9.1 MTD) to 28 MTD, which contributed to the ongoing improvement in profitability indicators recorded by the sector for the second straight year.

(In %)

Description	2006	2007	2008
Leasing yield	9.4	9.6	10.2
ROA	0.2	1.5	2.1
ROE	1.4	12.5	14.0

c. Financial situation

Financial conditions in the sector were marked by ongoing improvements in the portfolio quality and a drop of some three percentage points in its share of non performing loans to 11.4% and better coverage of claims by provisions and reserved charges, posting 77.8% at the end of 2008 thanks to adoption of rules for more rigorous provisioning, abandoning inclusion of guarantees in the form of either financed or extra-project assets, greater collection efforts, limited additional risk, and recourse by companies in the sector to the technique of writing off non performing loans.

(In %)

Description	2007	2008
Share of non performing loans	14.3	11.4
Share of non performing loans net of provisions and reserved margins	4.0	2.8
Rate of coverage of non performing loans	74.9	77.8
Solvency ratio	15.3	19.4

The leasing sector meets all prudential rules, notably the solvency ratio that went up markedly from 15.3% at the end of 2007 to 19.4% at the end of 2008, following consolidation of the sector's core funds thanks to capital increase and mobilisation of complementary core funds in the form of subordinated borrowings.

3. OFFSHORE BANKS¹

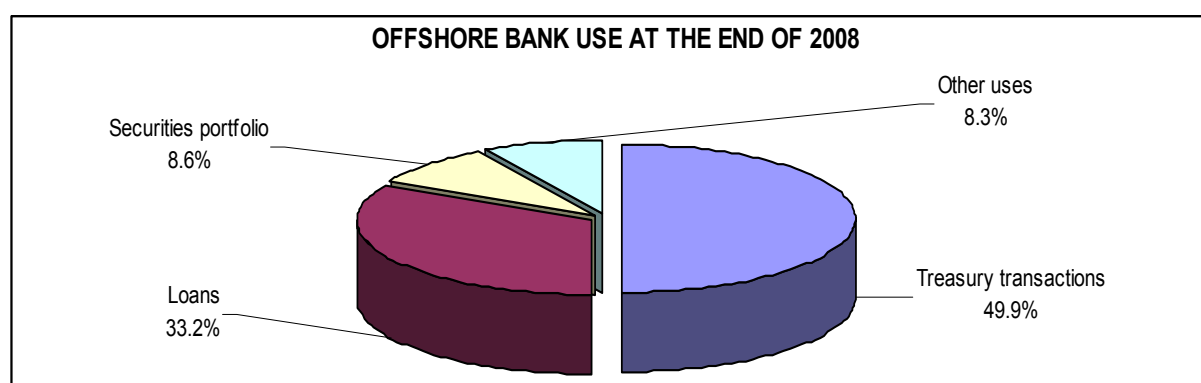
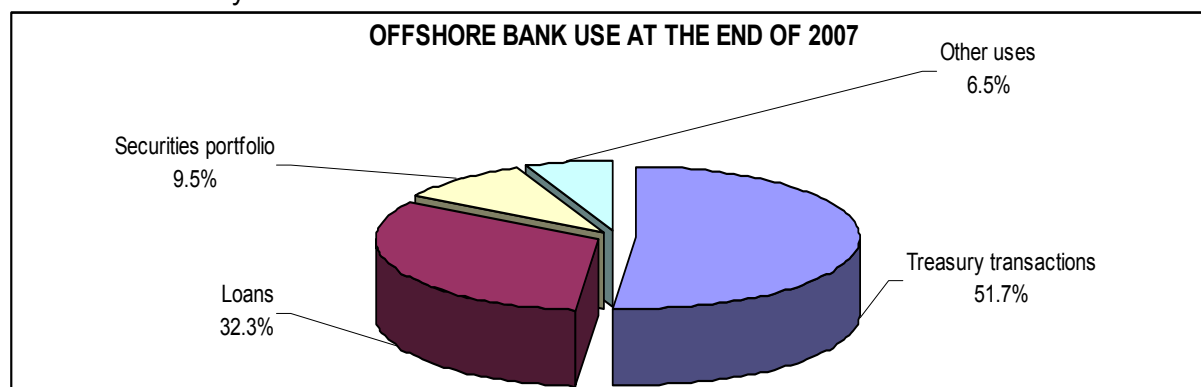
a. Uses and resources

2008 was marked by slower growth in offshore banking activity. In effect, total assets went up by USD 107.8 million (4.4%) compared to USD 287.8 million (13.4%) at the end of 2007 to USD 2,535.6 million. This slower growth was due mainly to investment transactions tied to the international financial crisis, with such transactions remaining the main activity of offshore banks, for a share in total assets that is comparable to 2007 : 49.9%.

OFFSHORE BANK USE OF FUNDS

Description	In million USD		Variation 2008/2007	
	2007	2008	In M\$US	In %
Treasury transactions	1,310.7	1,351.5	40.8	3.1
Cash holdings and ordinary accounts	54.6	87.5	32.9	60.3
Investment at Banks	1,256.1	1,264.0	7.9	0.6
Banks set up in Tunisia	459.8	310.7	-149.1	-32.4
Banks set up abroad	796.3	953.3	157.0	19.7
Loans	785.0	841.1	56.1	7.1
To residents	537.4	533.4	-4.0	-0.7
To non residents	247.6	307.7	60.1	24.3
Securities portfolio	229.5	219.3	-10.2	-4.4
Other uses	102.6	123.7	21.1	20.6
Total	2,427.8	2,535.6	107.8	4.4

Investment at banks more or less stagnated at the same USD 1,264 million level as the year before, one quarter of which was placed at banks located in Tunis, representing 60.5% of funds collected by the offshore sector vs. 81.9% in 2007.



¹ Provisional figures for 2008.

Financing transactions also grew at a slower pace (USD 56.1 million or 7.1% vs. USD 82.1 million or 11.7% in 2007) to USD 841.1 million, representing almost a third of total assets of offshore banks for the third year in a row.

This slower growth rate is attributable to loans to residents, which virtually stagnated at the same USD 533.4 million level as at end 2007 compared to USD 77 million (16.7%) increase a year earlier, noting that offshore banks with Tunisian holdings are the most active in this field. But loans to non residents grew by USD 60.1 million (24.3%) to USD 307.7 million.

The securities portfolio went down by USD 10.2 million (4.4%) to USD 219.3 million as a result of slower activity at an offshore bank operating on the stock markets of the Gulf countries. The outstanding balance of the securities portfolio held by residents remained at the same level as end 2007 (USD 80 million), of which USD 70.5 million were in the form of subscription to bonds issued by the Central Bank of Tunisia for the State.

Offshore banks with Tunisian holdings continued to contribute to financing of the Tunisian economy for the second straight year, but at a slower pace, with an outstanding financing balance (loans + holdings) of USD 532.2 million, 86.8% of the sector's overall intervention with residents.

Description	Offshore banks with Tunisian shareholdings		Other offshore banks		Total offshore banks	
	In M\$US	Share (in %)	In M\$US	Share (in %)	In M\$US	Share (in %)
Loans + shareholdings	777.2	83.4	154.9	16.6	932.1	100.0
Residents	532.2	86.8	81.0	13.2	613.2	65.8
Non Residents	245.0	76.8	73.9	23.2	318.9	34.2

Surety bonds, used mainly to finance foreign trade among the countries of the Maghreb, more or less stagnated at the same level as a year earlier (USD 1,040.1 million), with 92.7% provided by three banks with Libyan holdings.

SURETY BONDS

Description	In million \$E.U		Variation 2008/2007	
	2007	2008	In M \$E.U	In %
Total surety bonds	1,033.1	1,040.1	7.0	0.7
Confirmation of documentary loans	578.7	589.8	11.1	1.9
Opening of documentary loans	186.0	174.8	-11.2	-6.0
Guarantees	263.3	263.8	0.5	0.2
Other surety bonds	5.1	11.7	6.6	129.4

This level of activity was financed in particular by client deposits with 38.7% and banking resources with 34.4%. But client deposits grew, although at a slower pace than a year ago : USD 80.4 million (8.9%) vs. USD 125.9 million (16.2%) to USD 980.8 million from non resident deposits. Resident deposits more or less stagnated at the same USD 277.5 million level of end 2007, 98.8% of which were taken in by two offshore banks.

OFFSHORE BANK RESOURCES

Description	In million USD		Variation 2008/2007	
	2007	2008	In M\$US	In %
Banks' investment	970.7	872.9	-97.8	-10.1
Banks set up in Tunisia	561.5	513.2	-48.3	-8.6
Banks set up abroad	409.2	359.7	-49.5	-12.1
Clients' deposits	900.4	980.8	80.4	8.9
Resident	274.2	277.5	3.3	1.2
Non resident	626.2	703.3	77.1	12.3
Core funds	318.9	353.7	34.8	10.9
Provisions	85.8	92.8	7.0	8.2
Other resources	152.0	235.4	83.4	54.9
Total	2,427.8	2,535.6	107.8	4.4

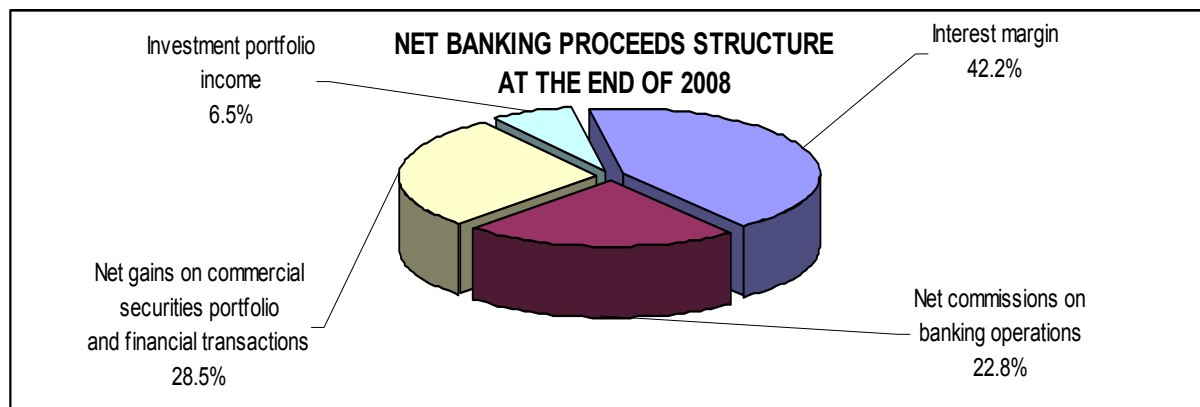
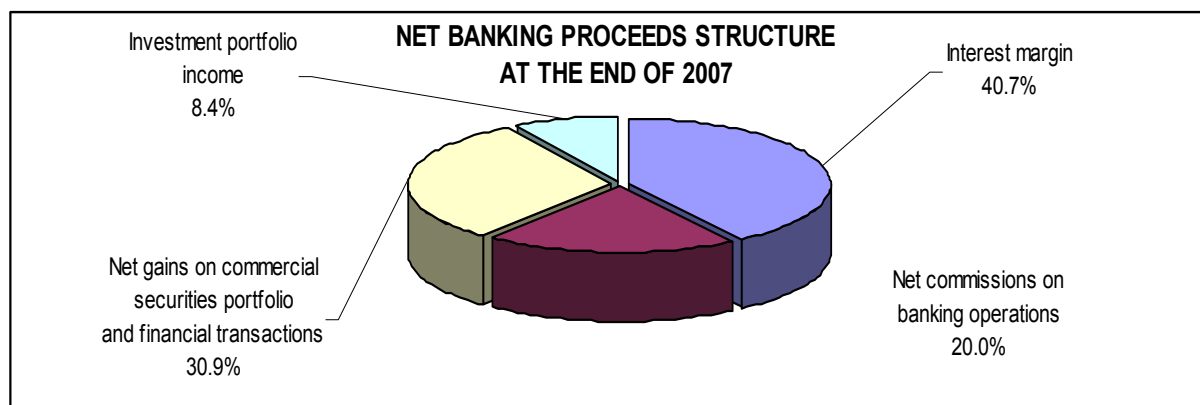
b. Operation

Along with slower growth in the activity of offshore banks, their operating indicators improved at a slower rate than the year before, as seen in the USD 16.3 million increase in net banking proceeds (+18.7%) to USD 103.6 million, compared to an increase of 16.1 million USD (+22.6%) for 2007, under the influence of lower accrued interest and similar charges (USD -5.3 million or -8.6%) and the sizeable increase in net commissions on banking operations (USD 6.1 million or 34.9%).

NET BANKING PROCEEDS

Description	In million USD		Variation 2008/2007	
	2007	2008	In M\$US	In %
(+) Interest and similar income	97.2	100.1	2.9	3.0
(-) Accrued interest and similar charges	61.7	56.4	-5.3	-8.6
(=) Interest margin	35.5	43.7	8.2	23.1
(+) Net commissions on banking operations	17.5	23.6	6.1	34.9
(+) Net gains on commercial securities portfolio and financial transactions	27.0	29.5	2.5	9.3
(+) Investment portfolio income	7.3	6.8	-0.5	-6.8
(=) Net banking proceeds	87.3	103.6	16.3	18.7

The structure of net banking proceeds shows a contribution of 42.2% for treasury and financing operations, 35% for market activity, and 22.8% for commercial activity.



In line with growth in net banking proceeds that was higher than growth in operating charges, the operating ratio went up by 3.2 percentage points to 29%, with staff costs fully covered by net commissions.

NET FISCAL YEAR RESULT

Description	In million USD		Variation 2008/2007	
	2007	2008	In M\$US	In %
Net banking proceeds	87.3	103.6	16.3	18.7
(-) Allocation for provisions and result of correction of assets on claims off-balance sheet and liabilities	10.2	8.1	-2.1	20.6
(-)Allocation for provisions and result of correction of assets on investment portfolio	0.1	0.0	-0.1	-100.0
(+) Other operating proceeds	0.1	0.0	-0.1	-
(-) Operating charges	28.1	30.0	1.9	6.8
* Staff costs	16.9	19.3	2.4	14.2
* General operating costs	11.2	10.7	-0.5	-4.5
(-)Allocation for amortisation	2.4	2.4	0.0	0.0
(=) Operating result	46.6	63.1	16.5	35.4
(+) Balance in gain/loss from other current items	0.0	0.5	0.5	-
(-) Tax on profits	0.1	0.0	-0.1	-100.0
(=) Result of current activities	46.5	63.6	17.1	36.8
(+) Balance in gain/loss from other extraordinary items	0.0	0.0	0.0	-
(=) Net fiscal year result	46.5	63.6	17.1	36.8

2008 generated net profits of USD 63.6 million vs. USD 46.5 million in 2007, given lesser provisioning efforts compared to the year before. Profitability indicators continued to improve, especially return on equity.

Description	(In %)		
	2006	2007	2008
ROA	2.1	2.1	2.9
ROE *	13.6	13.6	17.8

* Offshore banks holding legal and financial autonomy.

c. Financial situation

Offshore banks follow overall prudential rules, notably the solvency ratio, which remained at 24%. This confirms operational capacity for these banks to enhance activity.

The quality of assets remains satisfactory, with a 9.8% share of non performing loans in total commitments at end 2008 and 72% coverage of these assets by provisions and reserved banking charges, respecting thus the targets set by the Central Bank of Tunisia for 2009, i.e. 15% for share of non performing loans and 70% for coverage of claims by provisions.

Description	(In %)		
	2006	2007	2008
Risk coverage ratio	22.1	23.9	24.0
Share of gross non performing loans in total commitments	11.3	9.4	9.8
Share of non performing loans net of provisions and reserved charges in total commitments	3.6	2.7	3.0
Rate of coverage of non performing loans by provisions and reserved charges	72.8	73.6	72.0

4. FACTORING COMPANIES AND MERCHANT BANKS¹

a. Factoring companies

(i) Uses and resources

Factoring continued to contribute to financing of the economy and management of commercial claims at a slightly higher rate. This is reflected in the volume of purchased invoices, up from 8.5% in 2007 to 10.4% in 2008 for a total of 451.1 MTD at the end of 2008, 83.2% of which was for domestic activity.

This trend would have been greater if it had not been for clearing up of finances at one company in the sector which predominated its work schedule, and a decrease in last chance factoring in line with its risky nature. The outstanding balance of guaranteed invoices came to 16.6 MTD in 2008 vs. 27.7 MTD in 2007, thanks to better selection of invoices, made necessary by payment incidents in 2007 for this activity that led to higher insurance rates.

Intervention by the sector in 2008 benefited 511 members for 24,156 buyers compared to 464 members for 22,852 buyers in 2007, representing a concentration of 47 buyers per member in 2008 a level comparable to that of 2007.

The outstanding balance of financing grew at a slower pace (5.5%) than the volume of purchased invoices : 10.4% to 100.4 MTD at the end of 2008, influenced by a shorter time-frame for

¹ Provisional figures for 2008.

financing of payments and slower rotation of financing than in 2007, with a ratio of 99.5% for encashment/disbursement at the end of 2008 vs. 104.5% at the end of 2007.

Description	In MTD		Variation 2008/2007	
	2007	2008	In MTD	In %
Volume of purchased invoices	408.7	451.1	42.4	10.4
Outstanding balance of financing	95.2	100.4	5.2	5.5
Core funds	21.1	19.7	-1.4	-6.6
Borrowed resources	68.6	68.5	-0.1	-0.1
Of which :				
Short term borrowings from banks (in%)	24.9	22.9	-	-2.0
Treasury bills (in %)	41.6	40.1	-	-1.5
Debenture loans	29.2	35.0	-	5.8

Activity in the sector was financed in particular by 68.5 MTD in borrowed resources at the end of 2008, representing 3.5 times equity in the sector, with 63% of short term resources in the form of treasury bills and banking borrowings and 35% in bond resources following issue in 2008 of a 10 MTD debenture loan that relayed a portion of short term resources.

(ii) Operation

Income from factoring in 2008 went up at about the same rate as income from activity : 7.4% or 1 MTD for a total of 14.2 MTD.

Description	In MTD		Variation 2008/2007	
	2007	2008	In MTD	In %
Financing commissions	8.6	8.8	0.2	2.3
(-) Financial charges	4.7	4.8	0.1	2.1
(=) Interest margin	3.9	4.0	0.1	2.6
(+) Factoring commissions	4.6	5.4	0.8	17.4
(+) Securities portfolio income	0.3	0.2	-0.1	-33.3
(+) Other operating proceeds	0.1	0.0	-0.1	-
(=)Net Factoring proceeds	8.9	9.6	0.7	7.9

62% of this income is from financing commissions that more or less stagnated at the same 8.8 MTD level as in 2007, giving a loan yield that was down by 0.3 percentage point to 8.7%, in line with the poorer quality of the portfolio in a company of the sector. Factoring commissions increased however by 17.4% or 0.8 MTD (vs. 2.3% or 0.1 MTD in 2007), totalling 5.4 MTD. Thus net factoring proceeds went up by 7.9% (0.7 MTD) to 9.6 MTD, an increase favoured by a 0.3 percentage point drop in the cost of resources of the sector to 6.5%. But operating costs went up by 18.9% to 45.8% of net proceeds : 4.4 MTD, of which 52% or 2.3 MTD were for staff costs that rose by 9.5% following the wage increase and recruitment of seven people for a new total of 79 staff members at the end of 2008 and a rate of executives of 59.5% vs. 54.2% in 2007.

Indicators	In M T D		Variation 2008/2007	
	2007	2008	In MTD	In %
(=) Net factoring proceeds	8.9	9.6	0.7	7.9
(-) Operating costs	3.7	4.4	0.7	18.9
* Staff costs	2.1	2.3	0.2	9.5
* General operating costs	1.6	2.1	0.5	31.3
(-) Allocation for amortisation	0.4	0.4	-	-
(-) Allocation for provisions net of refunds	5.8	4.6	-1.2	-20.7
(=) Operating results	-1.0	0.2	1.2	120.0
(-) Taxes	0.5	1.0	0.5	100.0
(=) Net results	-1.5	-0.8	0.7	46.7

The sector posted a loss for the second straight year (0.8 MTD vs. 1.5 MTD in 2007), due essentially to ongoing clearing up of the portfolio at one of the sector's companies with a significant risk cost. In effect, the provisioning effort came at 4.6 MTD or 47.9% of net proceeds in 2008 vs. 5.8 MTD or 65% in 2007, yielding less deteriorated profitability indicators.

(In %)

Indicators	2006	2007	2008
Return on loans	9.4	9.0	8.7
ROA	2.8	-1.5	-0.8
ROE	12.6	-6.3	-3.8

(iii) Financial situation

The quality of the sector's portfolio fell for the second straight year in the wake of the 2 percentage point higher share of non performing loans to 16.8%, but coverage of these claims by provisions and reserved bank charges improved by 91% in 2008 compared to 77.7% in 2007.

(In %)

Indicators	2006	2007	2008
Share of non performing loans	12.1	14.7	16.8
Share of non performing loans net of provisions and reserved charges	6.9	3.7	1.8
Rate of coverage of non performing loans	46.2	77.7	91.0
Solvency ratio	22.9	21.6	20.1

The sector has a solvency ratio that is well above the regulatory minimum (up to 20.1% in 2008).

b. Merchant banks

Business at merchant banks in 2008 was comparable to that of 2007, generating net proceeds of 2.3 MTD, as was the case the year before. Activities continued to focus on support operations and selling of public holdings, notably those tied to attribution of the license to install and run the public land line and mobile phone telecommunications network, along with opening of capital in the Tunisian insurance and reinsurance company (STAR) to a strategic investor (the French insurance company GROUPAMA), along with a number of studies and advisory missions for several private companies. This is a fine illustration of the confidence, expertise and business savvy that the sector has developed in financial engineering, advisory and support services, which are decisive in carrying out the work entrusted to it with distinction.

Description	In MTD		Variation 2008/2007	
	2007	2008	In MTD	In %
Operating proceeds	2.2	2.3	0.1	4.5
Net banking proceeds	2.3	2.3	0.0	0.0
Operating costs	1.9	1.8	-0.1	-5.3
- <i>Wage bill</i>	<i>0.5</i>	<i>0.6</i>	<i>0.1</i>	<i>20.0</i>
- <i>General operating costs</i>	<i>1.4</i>	<i>1.2</i>	<i>-0.2</i>	<i>-14.3</i>
Allocations for provisions and amortisation	-0.2	-0.1	0.1	-50.0
Net results	0.5	0.4	-0.1	-20.0

A large portion of the sector's net proceeds went for operating costs (78.3% or 1.8 MTD), and profits of 0.4 MTD were posted in 2008 vs. 0.5 MTD in 2007.