

CHAPTER 5 – ACTIVITY AND FINANCIAL SITUATION AT LENDING INSTITUTIONS

Activity at lending institutions has been marked by sustained growth over the past three years. These institutions managed total assets that grew by more than 40%, exceeding the country's GDP in nominal terms in 2010. This increase in activity at lending institutions took place in a climate of tougher competition, especially in the areas of strategic financing, major businesses, private individuals and real estate. Banks focused on expanding their network, with 295 new branches for a total of 1335 agencies at the end of 2010. This corresponds to one branch office per 7900 inhabitants, with one citizen out of two holding a bank account. This competitive environment led to a slight drop in interest margins on loans granted not only by banks but also by leasing companies, which in turn led to better conditions on loans to businesses and private individuals.

MAIN INDICATORS OF LENDING INSTITUTIONS AND NON RESIDENT BANKS

	2008	2009	2010
Structure and size			
Number	42	42	42
Banks	20	20	21
Non resident banks	8	8	8
Leasing institutions	10	10	9
Factoring institutions	2	2	2
Merchant banks	2	2	2
Total assets (in MTD)	51,180	57,619	65,036
Banks share (in %)	91.5	90.5	89.9
Total assets/GDP in current prices (in %)	92.6	98.0	102.6
Loans to the clients (in MTD)	31,854	35,168	42,116
Clients deposits (in MTD)	29,970	33,994	38,295
Indicators tied to banking service extension			
Bank branch network	1,109	1,208	1,335
Number of inhabitants per bank branch (in thousands)	9.1	8.7	7.9
Number of accounts per 100 inhabitants	49	53	54

Activity growth was accompanied by a move to recapitalise and mobilise subordinated loans, helping banks to post a 51.6% (1683 MTD) increase in net core funds, 92% (182 MTD) at financial institutions. The ratio for coverage of risk remained at 11.6% for the most part for banks, 17% for leasing companies, 21.5% for factoring companies and 22.2% for non resident banks.

SECTION 1 – BANKS

1. Activity

2010 was marked by exceptional growth in the outstanding balance of loans, coming in at 19.9% vs. an average of 11.7% over the last three years.

Description	2008	2009	2010
Progress rate for loans (in %)	15.2	10.0	19.9
Progress rate for deposit (in %)	15.5	12.3	12.2
Rate of coverage of loans by deposits ¹ (in %)	104.9	106.3	98.5

¹ This rate is calculated on the basis of the ratio between the outstanding balance of deposits and the outstanding balance of loans on ordinary resources.

Although deposits by clients were up, they grew at a pace that was considerably lower than that of loans, yielding a drop in the rate of coverage of loans by deposits to below 100%, compared to an average of 105.7% over the past three years. This was caused by the tightening of bank liquidity that occurred starting the second half of 2010, requiring massive intervention by the Central Bank of Tunisia to provide bank refinancing.

1-1. Resources

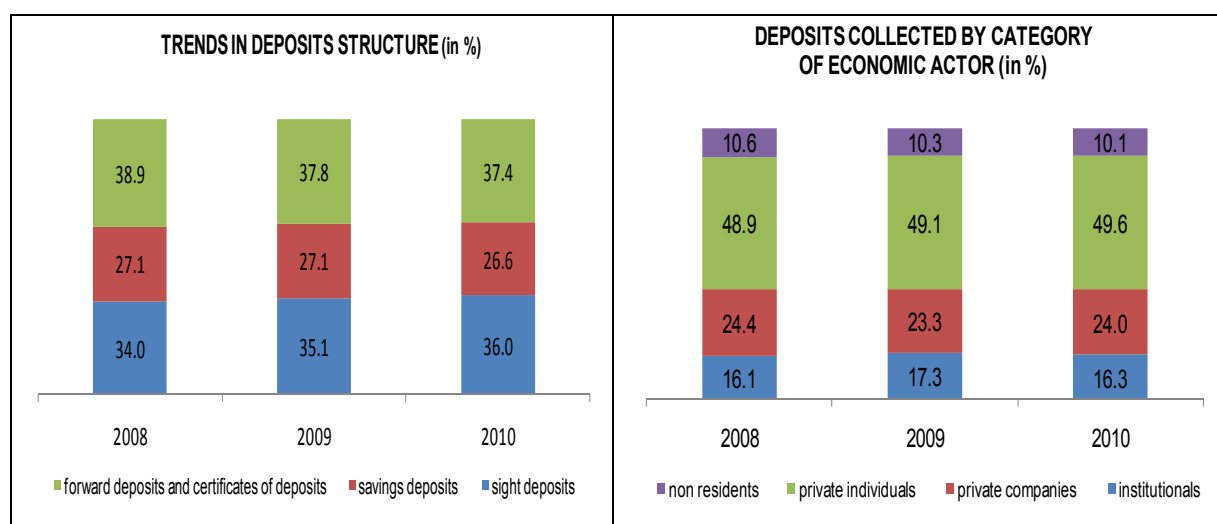
In order to meet the high level of financing needs in 2010, banks intensified their efforts to mobilise resources not only from clients (+3975 MTD or 11.1%) but also in the form of debenture loans floated by five banks for a total of 330 MTD.

(In MTD unless otherwise indicated)

Description	2008	2009	2010	Variation			
				2009/2008		2010/2009	
				In MTD	In %	In MTD	In %
Client resources	32,535	35,889	39,864	3,354	10.3	3,975	11.1
Client deposits	29,001	32,559	36,531	3,558	12.3	3,972	12.2
Sight deposits	9,866	11,419	13,153	1,553	15.7	1,734	15.2
Savings deposit	7,844	8,826	9,721	982	12.5	895	10.1
Forward deposits and certificates of deposits	11,291	12,314	13,657	1,023	9.1	1,343	10.9
Financial intermediation	3,534	3,330	3,333	-204	-5.8	3	0.1
Treasury bonds	2,834	2,648	2,498	-186	-6.6	-150	-5.7
Treasury bills	700	682	835	-18	-2.6	153	22.4
Borrowed resources¹	3,357	3,455	3,590	98	2.9	135	3.9
<i>of which : debenture loans</i>	659	899	1,110	240	36.4	211	23.5
Total operating resources	35,892	39,344	43,454	3,452	9.6	4,110	10.4

Competition between banks on the deposits market focused particularly on mobilisation of forward deposits and certificates of deposit, with one third of the overall increase in deposits in 2010 coming from this source of deposits, up from 28.7% in 2009.

Sight deposits grew at a sustained rate that was comparable to that of 2009, thanks to growing activity in distribution of credit. 68.2% of this increase was from deposits by private individuals (+680 MTD or +17.7%) and businesses (+500 MTD or +11.3%).

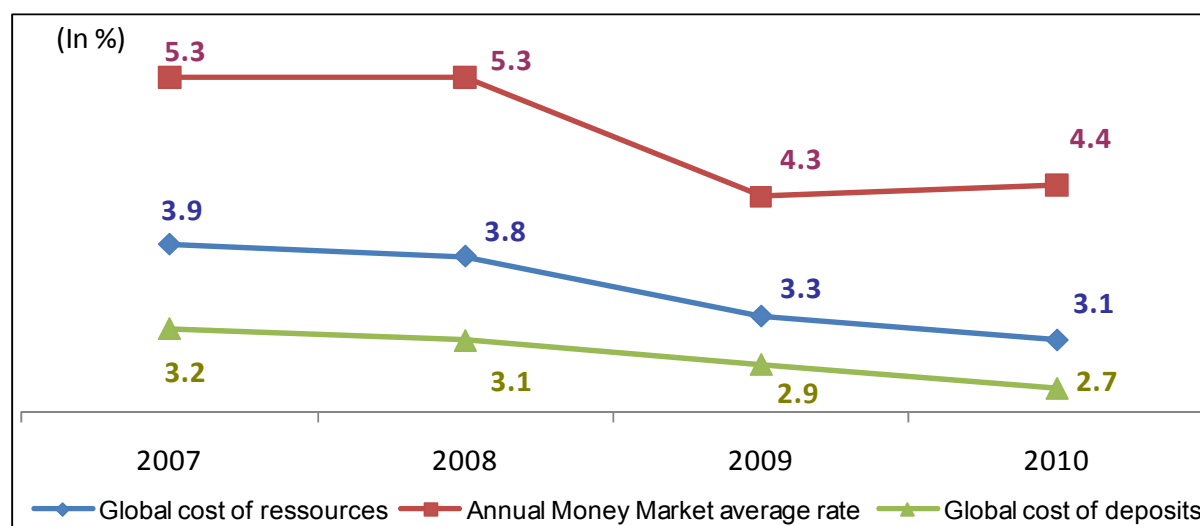


¹ Special resources, bonds, bonds convertible into stocks, subordinated loans and other borrowings.

Savings deposits were up at a slightly slower pace, due to a virtually unchanged outstanding balance of home savings accounts at 1244 MTD as of end 2010. Special savings accounts posted a growth rate of 11.2% in 2010 to 8047 MTD, representing 22% of the overall outstanding balance of bank deposits.

The overall structure of deposits by category has not undergone any significant change over the past three years, reflecting the stability of deposits by category of depositor, with private individuals providing 49.6% and private companies 24% of overall deposits.

Thanks to bank liquidity surplus in the first five months of the year and stability of the deposit structure, which is still made up of 36% of sight deposits, the global cost of deposit decreased by 0.2 percentage point in 2010, coming to 2.7%.



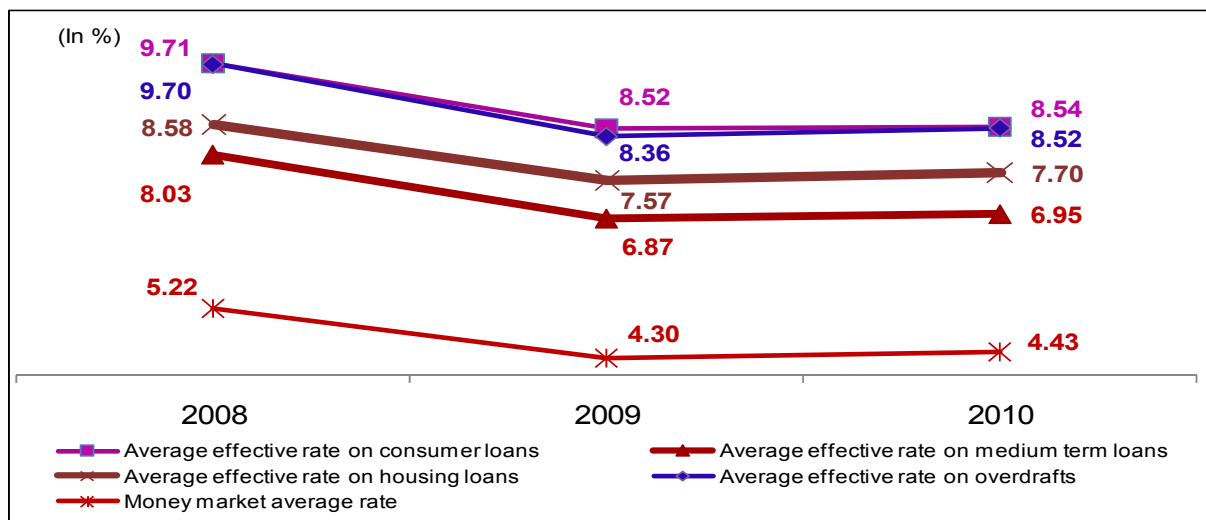
1-2. Uses

Deposit bank uses posted an important increase of 17.9% or 6627 MTD, 97% of which coming from credit activity.

(In MTD unless otherwise indicated)

Description	2008	2009	2010	Variation			
				2009/2008		2010/2009	
				In MTD	In %	In MTD	In %
Loans to the clients	29,330	32,264	38,691	2,934	10.0	6,427	19.9
Securities portfolio	3,984	4,806	5,006	822	20.6	200	4.2
Shareholding and transactions	1,916	2,265	2,564	349	18.2	299	13.2
Treasury bonds	2,068	2,541	2,442	473	22.9	-99	-3.9
Overall operating uses	33,314	37,070	43,697	3,756	11.3	6,627	17.9

Banks were particularly active in 2010 on both segments of the loan market : businesses and private individuals. Overall, 70% of additional loans in 2010 went to businesses and the rest to private individuals. Additional financing for businesses was characterised by relative concentration on a number of major undertakings and certain branches of activity. Almost one third of the increase in the outstanding balance of loans to professionals concerned investment in ten major initiatives, both public and private, in the areas of cement production, energy, telecommunications and various other industrial activities.



As for financing conditions, the impact of competition was reflected in average effective rates for the main lines of credit. For 79 base point drop in the money market average rate between 2008 and 2010, the average effective rate went down by 117 base points on consumer loans, 118 base points on overdrafts, 88 base points on housing loans, and 108 base points on medium term loans.

Shareholding and transactions' securities portfolio grew by 299 MTD (13.2%), in line with the higher level of funds available at venture capital mutual investment companies (SICAR) and participation by two public banks in the Tunisian Foreign Bank's capital increase. The overall outstanding balance of the stock portfolio represented 3.6% of banks' overall operating uses and 31.6% of their net core funds as at end 2010.

The outstanding balance of Treasury bonds held in banks' portfolio dropped slightly, in line with a decrease in net issues by the State.

1-3. The status of liquidity

Starting from a situation of globally surplus liquidity over the first five months of 2010, banks experienced a more or less sharp tightening of their cash position starting in June 2010, in line with faster growth in loan activity. Thus the Central Bank of Tunisia had to increase its intervention on the money market, which involved average daily volume of 919 MTD over the last seven months of 2010, compared to average daily tapping of 768 MTD over the first five months of 2010.

Bank liquidity tightening became greater in the first half of 2011, in light of the combined impact of a significant narrowing of the outstanding balance of collected deposits (0.6% or 204 MTD) and a relatively sustained 8% increase in the outstanding balance of loans. This situation was exacerbated by a sharp increase in unpaid claims (+628 MTD or 57.6%) and in the outstanding balance of debit current accounts (811 MTD or 21.4%), which reflects the difficulty encountered by banks in the area of claim collection and the level of facilities available to help businesses meet current expenses and operating needs.

In support of banks' efforts to provide financing to the economy, the Central Bank of Tunisia adopted accommodating monetary policy that helped make up for drying up of liquidity on the interbank market. Thus the Central Bank lowered the reserve requirement rate on three occasions, down from 12.5% to 2% and injected average daily liquidity of some 2412 MTD over the first half of 2011.

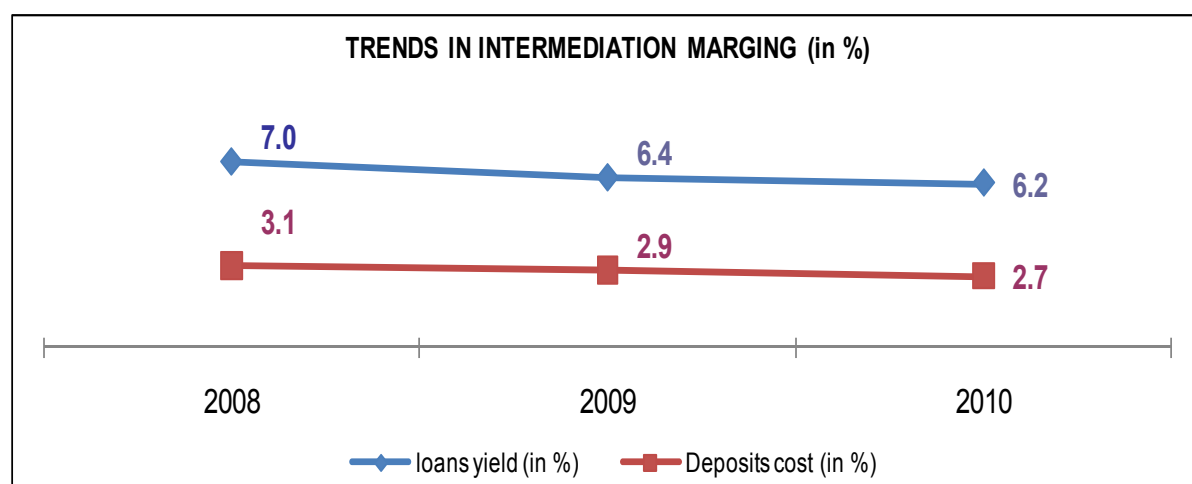
(In MTD unless otherwise indicated)

Description	Variation			
	1 st half 2010		1 st half 2011	
	In MTD	In %	In MTD	In %
Clients' deposit	1,722	5.3	204	0.6
Sight deposit	1,073	9.4	614	4.7
Savings deposit	233	2.6	240	2.5
Forward deposit and certificate of deposits	416	3.4	-650	-4.8
Loans to clients	3,286	10.2	3,090	8.0
<i>of which : Bank discount</i>	<i>2,593</i>	<i>11.3</i>	<i>1,659</i>	<i>5.8</i>
<i>Debit current accounts</i>	<i>575</i>	<i>22.8</i>	<i>817</i>	<i>27.8</i>

Consequently, banks had to back up their additional re-uses over the first half of 2011 with resources mainly from the money market, which had an impact on the rate of coverage of loans by deposits, down from 98.5% at the end of 2010 to 91.5% at the end of June 2011.

2. Operational results and profitability indicators

The combined effect of high production in 2010 and the 0.2 percentage point drop in the cost of resources led to notable improvement in the global net interest margin in the sector. This increase would have been greater if it had not been for a 0.2 percentage point drop in the loan portfolio's global yield, in line with additional risk in 2010.



The combined impact of the increase in interest margins and commissions led to a more sustained improvement in the net banking proceed.

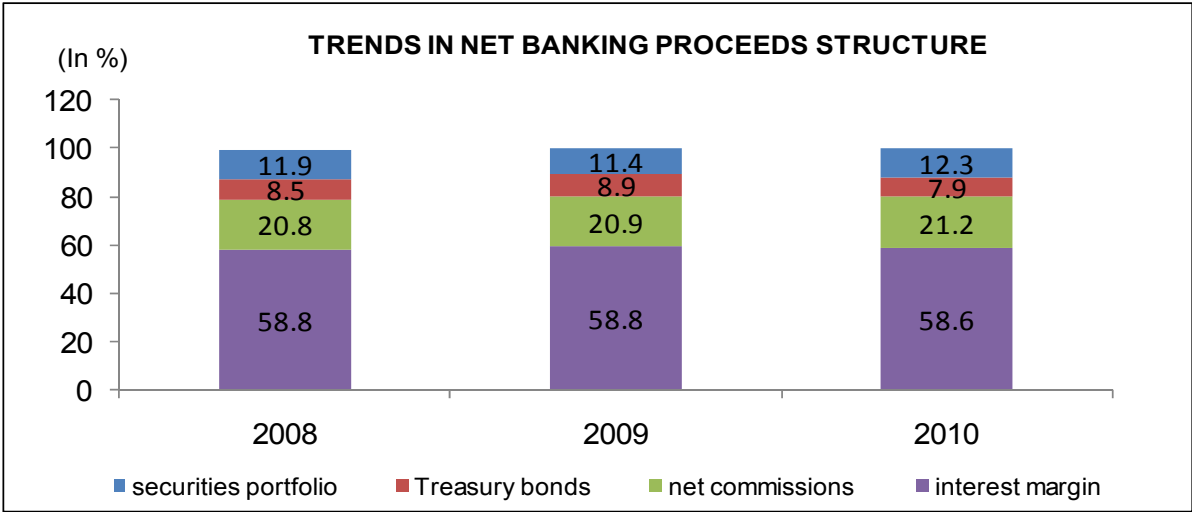
(In MTD unless otherwise indicated)

Description	In MTD			Variation 2009/2008		Variation 2010/2009	
	2008	2009	2010 ¹	In MTD	In %	In MTD	In %
Interest margin	990.8	1,061.7	1,176.6	70.9	7.2	114.9	10.8
Net proceed	1,683.8	1,805.0	2,008.1	121.2	7.2	203.1	11.3
Operating charges	764.7	852.8	932.8	88.1	11.5	80.0	9.4
Net allotment to provisions ²	402.0	377.5	494.3	-24.5	-6.1	116.8	30.9
Net result	394.6	453.2	421.7	58.6	14.9	-31.5	-6.9

¹ Exclusive of 164 MTD in losses from previous financial years entered in 2010 by one local bank.

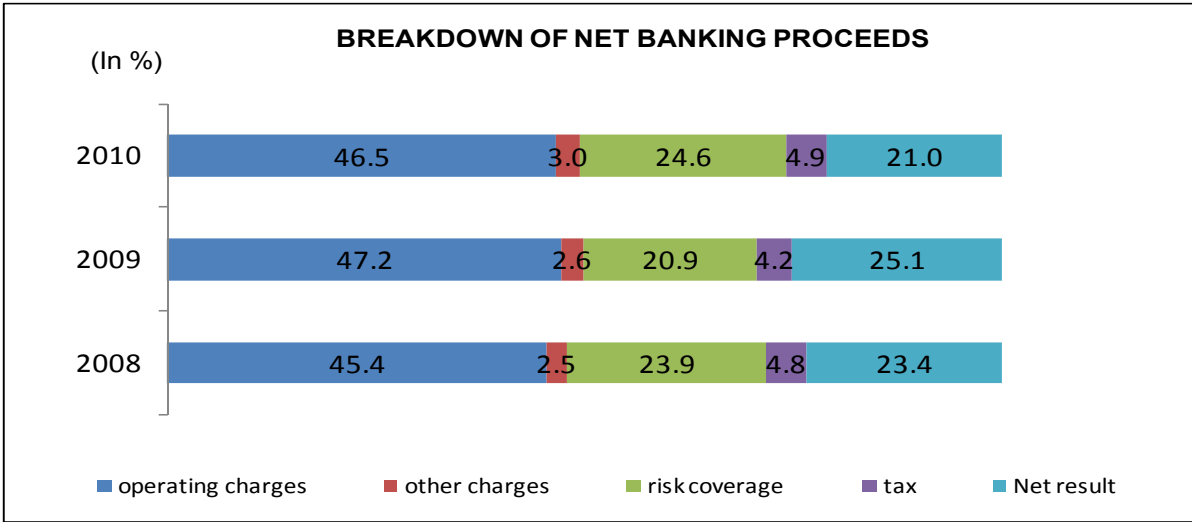
² Net allotments to provisions and result of value correction on claims and investment portfolio.

The structure of net banking proceed remained globally unchanged, with a stable 58.6% contribution from the interest margin and 21.2% from commissions.



Thanks to an increase in net banking proceed, bank’s operating ratio improved slightly, going from 47.2% in 2009 to 46.5% in 2010.

24.6%¹ of global net banking proceed in 2010 was assigned to provisions, compared to 22.3% on average the two previous financial years. In terms of volume, the amount of allotments to provisions for the financial year¹ came to 494.3 MTD, a quarter of which was assigned to covering risk at businesses linked to the former regime.



On this basis, global net result¹ in the sector dropped by 31.5 MTD or 6.9% from the 2009 figure. If we take into account losses from previous years entered in 2010 by one local bank, global net result at banks would come in at 257.7 MTD.

Just an amount of 122.9 MTD (28%) was distributed as dividends, compared to 151.4 MTD (33%) in 2009. This reflects the prudent attitude of banks, made necessary by conditions prevailing in 2011.

Profitability indicators for the sector show an ROA of 0.9%² and an ROE of 10%².

¹ Exclusive of 164 MTD in losses from previous financial years entered in 2010 by one local bank.
² Indicators calculated exclusive of 164 MTD in losses from previous financial years entered in 2010 by one local bank.

	(In %)		
Description	2008	2009	2010 ¹
ROA	1.0	1.0	0.9
ROE	11.2	11.7	10.0

Difficulties met by banks in the area of debt collection over **the first half of 2011** along with soaring cost for resources were relatively reflected on their operating accounts. In fact, overall net banking proceeds of the sector posted a lower growth rate : 74 MTD or 7.7% compared to the level recorded in the first half of 2010. This compares to 96 MTD or 11.1% in the same period of the previous year.

3. Financial situation

3-1. Portfolio quality

The sharp increase in non performing loans (NPLs) in 2010 (7% vs. 0.3% in 2009), along with the events that took place in Tunisia in 2011 after closing the financial year, were reflected in the quality of banks' portfolio. In effect, the outstanding balance of non performing loans went up in 2010 by 17.2% or 927 MTD, 49% of which was attributable to classification of businesses tied to the former regime. Nonetheless, because of the sharp increase in loans, NPL's ratio fell by 0.2 percentage point to 13%.

Description	2008	2009	2010
NPL's ratio (in %)	15.5	13.2	13.0
Coverage rate of non performing loans by provisions and accrued interest (in %)	56.8	58.3	58.5

The major effort deployed by banks to cover additional risk for 2010 led to stabilisation of the rate of coverage of non performing loans by provisions at 58.5%, the level as in 2009.

There remain major disparities between banks with regard to indicators of portfolio quality and coverage of risk.

NPL's ratio			Coverage rate of non performing loans by provisions and accrued interest		
	Nbr. of banks	Share in total assets of the sector (in %)		Nbr. of banks	Share in total assets of the sector (in %)
Less than 10%	8	42.3	70% and more	9	37.4
Between 10% and 15%	4	33.6	Between 50% and 70%	7	42.0
15% and more	8	24.1	Less than 50%	4	20.6

3-2. Financial bases

Banks' net regulatory capital went up over the past three years, by 1672 MTD or 51.3%. This increase was made possible by stockholders' input of some 502 MTD, non distributed profits in the amount of 924 MTD, and mobilisation of subordinated loans and of bonds convertible into shares in the amount of 386 MTD.

In 2010, regulatory capital within the banking system rose by 529 MTD (12%). This increase was due mainly to assignment of profits to reserves (324 MTD) and to stockholder input (215 MTD).

(In MTD unless otherwise indicated)

Description	2008	2009	2010
Regulatory net capital	3,782	4,404	4,933
Basic net core capital	3,406	3,838	4,322
Supplementary core capital	376	566	611
<i>of which : subordinated loans and bonds convertible into shares</i>	<i>304</i>	<i>491</i>	<i>537</i>
Capital adequacy ratio (in %)	11.7	12.2	11.6

Still, the global capital adequacy ratio in the sector fell by 0.6 percentage point in 2010 to 11.6%, in line with rapid development in loan activity.

Ratio	2008		2009		2010	
	Nbr. of banks	Share in total assets of the sector (in %)	Nbr. of banks	Share in total assets of the sector (in %)	Nbr. of banks	Share in total assets of the sector (in %)
Less than 8%	2	8.1	1	0.9	1	1.0
Between 8% and 10%	3	34.8	3	26.4	5	46.4
Between 10% and 15%	5	34.4	6	58.3	4	36.5
15% and more	10	22.7	10	14.4	10	16.1

Breakdown of capital adequacy ratio by banks shows that the 14 banks that hold 52.6% of total assets in the sector post ratios exceeding 10%.

SECTION 2 – LEASING ESTABLISHMENTS

1. Activity

The leasing sector posted a 2.7 percentage point increase in its contribution to financing of the economy in 2010, which brings the rate of penetration in private GFCF to 15.4%. This was made possible by the faster pace of growth in disbursements, up from 23.9% in 2009 to 36.6% in 2010 for a total of 1391.9 MTD, of which 93.8% involved financing of moveable goods, notably in the form of rolling stock.

(In MTD unless otherwise indicated)

Description	2008	2009	2010	June 2010	June 2011 ¹
Disbursements	822.7	1,019.3	1,391.9	739.0	560.2
<i>of which : real estates</i>	<i>43.6</i>	<i>48.8</i>	<i>86.4</i>	<i>43.7</i>	<i>29.6</i>
Rate of penetration (in %)	10.3	12.7	15.4	-	-
Average effective rate (in %)	11,524	11,109	10,484	10,645	10,113

Expansion of the sector's network in 2010 (9 new branches) contributed to this growth. But events in Tunisia in 2011 affected activity in the sector, with disbursements dropping by one quarter despite opening of another four agencies, bringing the total to 50 as of end June 2011.

Growing activity in the sector has been accompanied by a significant drop in the global effective rate over the past three years. Continuing in the first half of 2011, this trend reflected the tough competition that has marked the sector.

The outstanding balance of leasing rose by a quarter in 2010 to 2068.5 MTD, 80% of which was financed from borrowed resources, of which 41% were bank loans and 45% debenture loans. In effect, leasing companies were the main actors on the bond market, with 380 MTD (57.6%) of issues on this market in 2010.

¹ Provisional figures.