

### 3. Financial situation

At the end of 2010 the sector posted a satisfactory financial situation, as illustrated by a higher quality portfolio, with a 7.5% share for non performing loans and a comfortable rate of coverage (76%) at the end of 2010, in favour of keeping down additional risk and adopting a provisioning policy based on major discounts for guarantees. This situation however was affected by events in the first half of 2011, leading to worsening of non performing loans and decline in provisioning rates for these claims.

(In %)

Description	2008	2009	2010	June 2011 <sup>1</sup>
NPL's ratio	11.5	8.7	7.5	10.3
Rate of coverage of non performing loans by provision and reserved margin	77.3	78.9	76.0	56.9
Capital adequacy ratio	19.9	20.0	17.0	-

The solvency ratio dropped by three percentage points, in line with greater activity, but it remained at the satisfactory level of 17%, thanks in particular to adoption of prudent policy regarding distribution of dividends, capital increase at a number of leasing companies, and recourse to subordinated loans.

## SECTION 3 – FACTORING COMPANIES

### 1. Activity

The factoring sector played a greater role in managing and financing commercial claims, as reflected in the higher volume of invoices purchased and the greater number of clients.

(In MTD unless otherwise indicated)

Indicators	2009	2010	June 2010	June 2011 <sup>1</sup>	Variation 2010/2009	
					In MTD	In %
<b>Volume of purchased invoices</b>	<b>485.4</b>	<b>549.9</b>	<b>261.7</b>	<b>246.8</b>	<b>64.5</b>	<b>13.3</b>
<i>of which : domestic invoices</i>	<i>406.6</i>	<i>485.1</i>	<i>228.3</i>	<i>223.1</i>	<i>78.5</i>	<i>19.3</i>
<b>Outstanding balance of financing</b>	<b>121.2</b>	<b>137.7</b>	<b>128.8</b>	<b>132.0</b>	<b>16.5</b>	<b>13.6</b>
<b>Number of adherents</b>	<b>640</b>	<b>740</b>	-	-	<b>100.0</b>	<b>15.6</b>

The events that took place in the first half of 2011 were not without effect on activity in the sector, as seen in the lower volume of purchased invoices and a drop in the outstanding balance of financing, 5.7% and 4.1% respectively, at the end of June 2011.

(In MTD unless otherwise indicated)

Indicators	2009	2010	June 2010	June 2011 <sup>1</sup>	Variation 2010/2009	
					In MTD	In %
<b>Capital stock equity</b>	<b>21.7</b>	<b>30.1</b>	<b>23.6</b>	<b>31.6</b>	<b>8.4</b>	<b>38.7</b>
<b>Borrowed resources</b>	<b>87.5</b>	<b>94.3</b>	<b>88.1</b>	<b>88.6</b>	<b>6.8</b>	<b>7.8</b>
Bank borrowings (in %)	44.7	47.8	35.8	40.7	-	3.1
Treasury bills (in%)	37.0	43.7	48.3	41.2	-	6.7
Debenture loans (in %)	18.3	8.5	15.9	18.1	-	-9.8

Activity in the sector was financed in 2010 by borrowed resources, notably in the form of short term bank loans and treasury bills. Accessory recourse to debenture loans is in line with the objective of stabilising a portion of resources.

<sup>1</sup> Provisional figures.

## 2. Operating results and profitability indicators

2010 activity in the sector generated 15.9 MTD in income from factoring, of which 62.3% involved financing commissions and 37.7% factoring commissions.

(In MTD unless otherwise indicated)

Indicators	2009	2010	June 2010	June 2011 <sup>1</sup>	Variation 2010/2009		Variation June 2011/2010	
					In MTD	In %	In MTD	In %
Interest margin	4.0	4.9	2.3	2.7	0.9	22.5	0.4	17.4
Net proceeds from factoring	9.6	11.4	5.3	5.7	1.8	18.8	0.4	7.5
Operating charges	5.5	5.5	2.7	2.6	0	0	-0.1	-3.7
Net allotment to provisions <sup>2</sup>	-0.3	0.3	-0.1	1.1	0.6	-	1.2	-
Net result	3.3	4.0	1.9	1.6	0.7	21.2	-0.3	-15.8

Income in the sector covered 31.4% of financial costs. The increase in net proceeds from factoring along with keeping down of operating charges yielded an 8.9 percentage point increase in the operating ratio, posting 48.3% at the end of 2010. Activity in the sector yielded 4 MTD in profits in 2010, helping the sector to maintain the level of its profitability.

(In %)

Indicators	2009	2010	June 2011 <sup>1</sup>
ROA	3.1	3.0	2.4
ROE	17.3	14.8	10.3

The sector's profitability indicators were affected by the events that occurred over the first half of 2011 and this led to a drop of 15.8% in the sector's results.

## 3. Financial situation

The quality of the sector's portfolio improved in 2010, thanks to ongoing efforts to clear up finances at one of the companies in this sector. The situation worsened over the first half of 2011 because of fallout from current events, but coverage of non performing loans has remained at a respectable level.

(In %)

Indicators	2009	2010	June 2011
NPL's ratio	13.1	11.9	13.7
Rate of coverage of non performing loans by provisions and accrued interest	83.9	82.6	84.4
Capital adequacy ratio	17.9	21.5	-

Solvency in the sector improved in 2010, following discharge of losses by one of the companies in the sector and an increase in its capital.

## SECTION 4 – MERCHANT BANKS

2010 activity at merchant banks recorded a steeper drop than in 2009 and this carried over into the first half of 2011, as reflected in an ongoing drop in income. This drop was due to concentration of activity in the sector on assistance mission to the State in restructuring public structures, a number of which have been frozen, while others ended activity in 2009 and have not been revived. Activity in the sector consequently yielded a 0.9 MTD decline in 2010 and a further 0.1 MTD drop at the end of June 2011, taking into account the weight of operating costs and the constitution of provisions in 2010 for partial non collection of income because of the events that were to take place at a later date.

<sup>1</sup> Provisional figures.

<sup>2</sup> Net allotments to provisions and result of correction of values on claims and portfolio investment.