Report on Banks

January 2022

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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Published on March 23, 2022.
The data reported are provisional and subject to changes. Information corresponds to end-of-month data.
Data of charts and Latest Regulations of this issue. Statistics Annexes for the financial system and the ensemble of financial institutions. Glossary of abbreviations and acronyms.

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Executive Summary

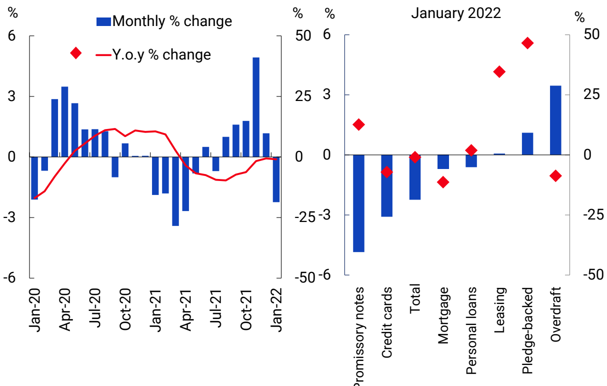
- At the beginning of 2022, the inherent aspects of the aggregate financial system continued to be strong, in a context of reduced financial intermediation with private sector partly due to seasonal factors. The sector maintained limited exposures to the risks inherent in financial transactions as well as relatively high coverage levels with liquidity and solvency. Specifically, the liquidity and solvency indicators stand above their average values in the last 15 years.
- In terms of provision of payment service, driven by the changes timely implemented by the BCRA, the use of electronic instruments has been gradually consolidating. In the context of the 3.0 Transfer program and, upon commencement of the interoperability of transactions with QR code effective as from November 2021, payments by transfer initiated through such modality have significantly increased: +28.5% in amounts in real terms and +42.2% in number, when comparing the daily average of transactions in February 2022 against December 2021.
- As regards the solvency of the ensemble of financial institutions, an increase was observed in January in the level of its main indicators. The Regulatory Capital (RC) in terms of risk-weighted assets (RWAs) totaled 26.4% for the aggregate of the financial system (+0.8 percentage points (p.p.) against December 2021 and +2.1 p.p. year-on-year (y.o.y.)), whereas the capital surplus position (RC minus the regulatory requirement) reached 227.7% of the minimum requirement over the period (+11.4 p.p. over the month and +34.6 p.p. y.o.y.).
- Over the month, the stock of liquid assets in a broad sense of the financial system was equal to 68.1% of deposits, slightly below the level recorded in December 2021 (-0.6 p.p.), but higher than the value of January last year (+3.7 p.p. y.o.y.). Within the framework of actions implemented by the BCRA to reshape its monetary policy instruments, the composition of liquidity in pesos of the financial system started to change in early 2022 in favor of LELIQ holdings and to the detriment of repos with this Institution.
- The stock of loans to the private sector in domestic currency went down 2.2% in real terms against the end of 2021 (+1.6% in nominal terms), thus standing at a level similar to that of January last year in homogeneous currency (-1% y.o.y. in real terms, or +49.2% in nominal terms). The "Credit Line for Productive Investment of micro, small and medium-sized enterprises (MSMEs) (LFIP)" boosted by the BCRA continue to stand out at the beginning of this year and accumulated disbursements for $1.74 trillion from October 2020 (date of implementation) to February 2022, covering the credit needs of around 220,000 companies. Given the outstanding role to channel loans to the MSMEs sector, the BCRA has recently extended the LFIP until September 30, 2022.
- The ratio of non-performing to total loans to private sector posted no significant changes against the end of 2021, and stood at 4.3% in January. Over the period, a slight reduction was observed in the ratio of non-performing loans to households (down to 4.1%), while there was a slight increase in the ratio of loans for companies (up to 4.7%). During the month, total provisions of the financial system accounted for 4.9% of total loans to the private sector and 112.3% of the non-performing portfolio.
- In January, the stock of private sector deposits in pesos shrank 2.1% in real terms (+1.7% in nominal terms). This performance was explained by a decrease of 6.5% in real terms in sight accounts (-2.8% in nominal terms), whereas time deposits posted a 3.1% increase in real terms (+7.2% in nominal terms). The positive evolution of time deposits occurred in the context of an increase of the minimum interest rate established by the BCRA in the first days of the month. Then, in February, and more recently in March, new increases of minimum interest rates were established, to reach a nominal annual percentage rate of 43.5% (equal to an effective annual percentage rate of 53.3%) for time deposits in domestic currency up to $10 million in the case of natural persons. For the rest of private sector depositors, the minimum interest rate also rose up to 41.5% nominal APR (50.4% effective APR). These provisions are aligned with the BCRA's Objectives and Plans for 2022, seeking to encourage positive real returns for investments in pesos. In year-on-year terms, the stock of private sector deposits in pesos grew 4.9% in real terms in January, with increases in sight accounts (6.3% y.o.y. in real terms) and in time deposits (3.5% y.o.y. in real terms).
- In the last 12 months up to January 2022, the total comprehensive income in homogenous currency of the ensemble of financial institutions was equivalent to 1.3% of assets (ROA) and 8.3% of equity (ROE). These ratios are standing at lower levels than those of the same period of 2021.

I. Financial Intermediation Activity

In January 2022, the financial system's intermediation activity with private sector went down, partly due to the influence of seasonal factors. Taking into account the differences in the balance sheet of the aggregate financial system for the items in domestic currency[1] —expressed in homogeneous currency—, there was a decrease of broad liquidity and of lending to the private sector . These monthly changes were offset by a contraction of the stock of deposits in pesos. In the segment of items of the balance sheet in foreign currency, a similar performance was observed over the month,[2] with decreases in the stock of loans to the private sector and in liquidity, and a drop in private sector deposits.

The stock of loans in domestic currency to the private sector went down 2.2% in real terms in January (+1.6% in nominal terms), [3] with decreases in most credit facilities except for overdrafts, pledge-backed loans and assets under financial lease (see Chart 1). Thus, in January, the stock of loans to the private sector in pesos, expressed in homogeneous currency, stood at a level similar to that recorded in the same period of 2021 (-1% y.o.y. in real terms or +49.2% in nominal terms).

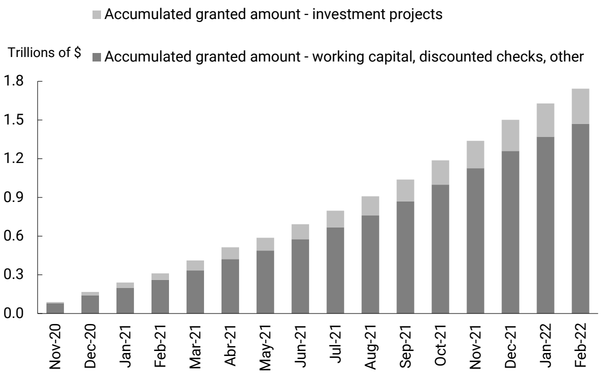
Chart 1 | Stock of loans to the private sector in pesos
In real terms* - Financial System



*Not seasonally adjusted. Total includes adjustments of principal and interest accrued. Source BCRA.

In the first month of 2022, the "Credit Line for Productive Investment of MSMEs" (LFIP) continued to expand.[4] Since the implementation of this credit line in October 2020 until February 2022, around $1.74 trillion have been disbursed (see Chart 2) to almost 220,000 companies. Out of this total amount, around 15.7% was intended for investment projects. Given the outstanding role of the LFIP to channel loans to the sector of MSMEs, the BCRA has recently decided to extend it until September 30, 2022.[5]

Chart 2 | Credit Line for Productive Investment (LFIP) of MSMEs



Note: Data up to end of each month. Data subject to correction. Source: BCRA

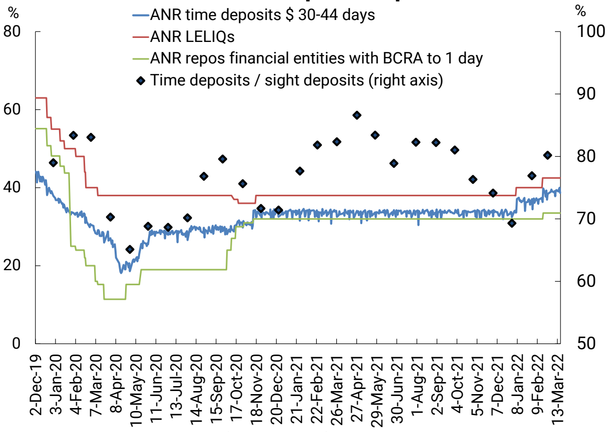
In January, the stock of loans to the private sector in foreign currency went down 1.8% —in currency of origin. Taking into consideration the total stock of loans to the private sector (in domestic and

1 Differences of the balance sheet stock expressed in homogeneous currency. Information taken from the Monthly Accounting Reporting System (January 2022, latest information available at the time of publication of this Report).
2 Expressed in currency of origin.
3 Including capital adjustments and accrued interest.
4 For further detail, see the Consolidated Text on "Credit Line for Productive Investment of MSMEs".
5 For further detail, see Press Release and Communication "A" 7475.

foreign currency), in the first month of the year, there was a 2.3% contraction in real terms against the end of 2021 (+1.5% in nominal terms), thus accumulating a 5.4% y.o.y drop in real terms (+42.5% y.o.y. in nominal terms).

In terms of the ensemble of financial institutions' funding, the stock of private sector deposits in pesos contracted 2.1% in real terms in January against 2021 year-end (+1.7% in nominal terms). This monthly performance was explained by a 6.5% decrease of sight accounts in real terms (-2.8% in nominal terms), whereas time deposits posted a 3.1% rise in real terms (+7.2% in nominal terms). Specifically, in January, the increase of private sector time deposits in domestic currency was explained by traditional deposits at a fixed interest rate (+3.9% in real terms) and, to a lesser extent, by the UVA segment (+1.9% in real terms).[6]

Chart 3 | Interest rates and deposits in pesos*

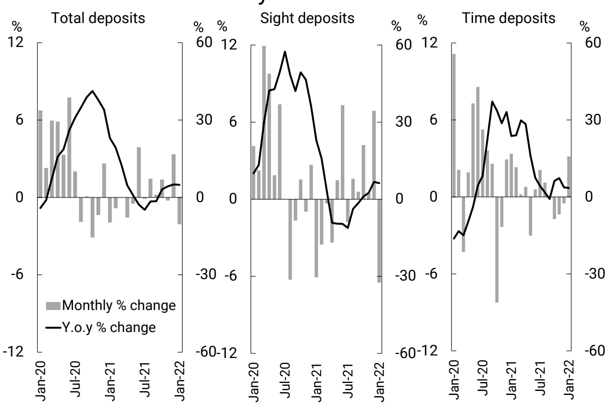


*Balance sheet stock in pesos (private sector). Last value is estimated . Source: BCRA

In addition to seasonal factors, the positive performance of private sector time deposits in domestic currency in the first month of 2022 occurred in the context of an increase of the minimum interest rate provided for by the BCRA in the first days of the month.[7] Subsequently, in February and more recently in March, new increases were established for minimum interest rates,[8] up to a nominal annual percentage rate of 43.5% (equal to an effective annual percentage rate of 53.3%) for time deposits in pesos up to $10 million available to natural persons. For the rest of private sector depositors, the minimum interest rate also went up in January, in February and in March, to 41.5% nominal APR (50.4% effective APR). With these changes, at the beginning of 2022, there was an increase in the average interest rates as per amount for time deposits in pesos (see Chart 3). These provisions are aligned with the BCRA's Objectives and Plans for 2022, seeking to encourage positive real returns on investments in domestic currency.

Chart 4 | Stock of private sector deposits in pesos

In real terms* - Financial System



*Non-seasonally adjusted. Source: BCRA

In the first month of 2022, private sector deposits in foreign currency contracted 2.8% —in currency of origin—, mainly due to the performance of sight accounts. As a result, the total stock of private sector deposits (in domestic and foreign currency) fell 2.5% in real terms in January (+1.3% in nominal terms).

In year-on-year terms, the stock of private sector deposits in pesos grew 4.9% in real terms (+58% in nominal terms) in January (see Chart 4). This

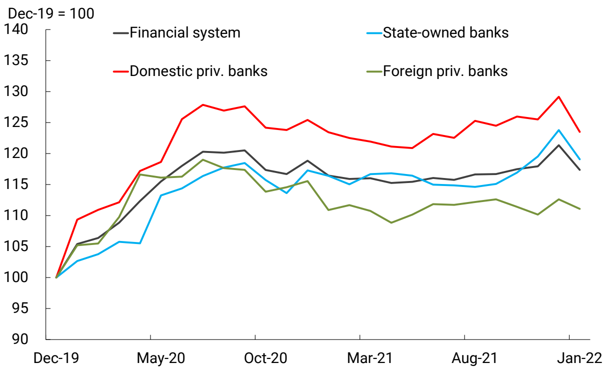
6 In turn, time investments in pesos declined 2% in real terms against December 2021.
7 See Communication "A" 7432.
8 See Communications "A" 7459 and "A" 7474.

performance was explained by the growth of sight accounts (6.3% y.o.y. in real terms; 60% y.o.y. in nominal terms) and of time deposits (3.5% y.o.y. in real terms; 55.9% y.o.y. in nominal terms). The stock of public sector deposits in domestic currency also went up in year-on-year terms in January 2022 (3.5% y.o.y. in real terms; 55.8% y.o.y. in nominal terms). Thus, the total stock of private and public sector deposits in pesos grew 4.8% y.o.y. in real terms (+57.8% y.o.y. in nominal terms). Taking into consideration total deposits (all currencies and both sectors), the stock in real terms by the end of January 2022 posted no significant changes against the stock recorded 12 months ago (+0.1% y.o.y. in real terms and +50.7% y.o.y. in nominal terms).

II. Aggregate Balance Sheet Evolution and Composition

In January, the total stock of assets of the ensemble of financial institutions contracted 3.3% in real terms against the end of 2021, with a decrease in all groups of financial institutions. In a year-on-year comparison, the aggregate financial system's assets did not exhibit significant changes in real terms (+0.8% y.o.y.; +51.8% y.o.y. in nominal terms) (see Chart 5).

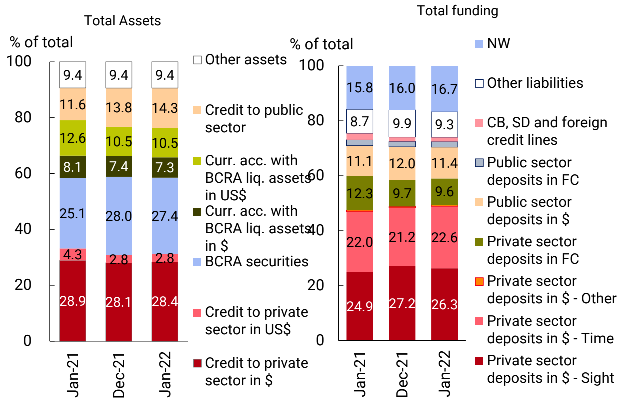
Chart 5 | Financial system's total assets
In real terms



Source: BCRA

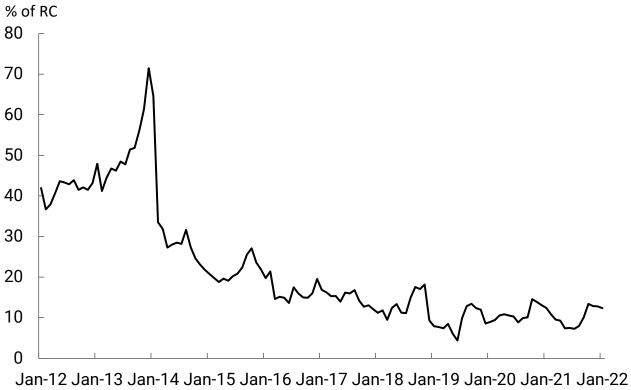
With reference to the main components of the financial system's total assets, at the beginning of the year, a slight increase was observed in the share of loans to the public and private sectors in pesos (see Chart 6), whereas a decrease was observed in the relative share of BCRAs' instruments. In January, regarding the composition of total funding of the ensemble of financial institutions, there was a slight increase in the relative share of equity and of the private sector time deposits in pesos, whereas there was a contraction in the

Chart 6 | Composition of total assets and funding
Financial System – Share %



Source: BCRA

Chart 7 | Foreign currency assets – Foreign currency liabilities + Foreign currency forward position — Financial System



Source: BCRA

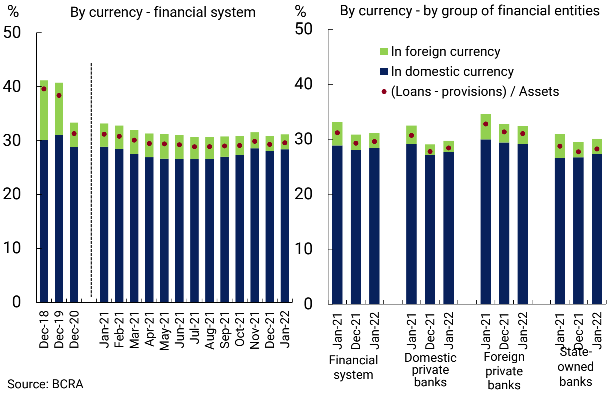
share of private sector sight accounts in pesos and of public sector deposits in domestic currency (see Chart 6).

In the context of actual macroprudential regulation, the foreign currency mismatch faced by the ensemble of financial institutions and their debtors continued to be limited at the beginning of 2022. In January, the positive differential between assets and liabilities in foreign currency[9] of the financial system totaled 12.3% of the regulatory capital (see Chart 7), down 0.4 p.p. against December 2021 and in line with the value recorded in January 2021 (-0.1 p.p. y.o.y.).

III. Portfolio Quality

In January, the gross exposure of the financial system to the private sector (in both domestic and foreign currency) stood at 31.2% of total assets,[10] up 0.3 p.p. against December 2021 (-2 p.p. y.o.y.). This increase was mainly driven by domestic private financial institutions and state-owned banks. When considering only lending in pesos, this ratio stood at 28.4%, up 0.3 p.p. against the previous month (-0.5 p.p. y.o.y.) (see Chart 8). The share of lending to the private sector in foreign currency in total assets remained unchanged against the end of 2021, at 2.8% (-1.5 p.p. y.o.y.), standing at minimum values within the last 6 years.

Chart 8| | Stock of loans to the private sector / Assets

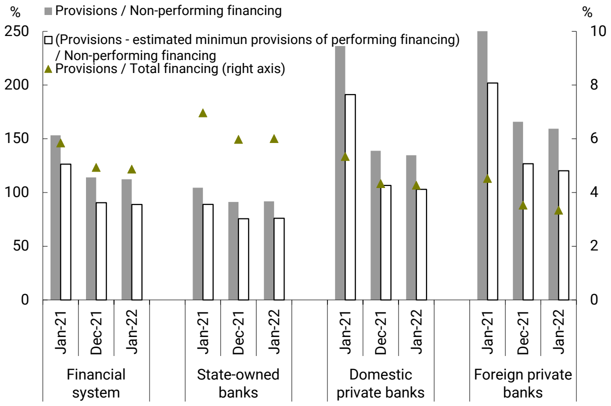


Source: BCRA

Following the decrease observed in the prior 5-month period, the ratio of non-performing loans to the private sector for the aggregate financial system posted no significant changes against December 2021, and stood at around 4.3% (+0.5 p.p. y.o.y.) (see Chart 9). The evolution of the portfolio quality has occurred in the context of the targeted focus of financial relief measures adopted, when applicable, during the pandemic.[11]

Chart 9 | Loans to the private sector and provisions

By group of institutions



Source: BCRA

In January, the ratio of non-performing loans to households stood at 4.1% of the total stock of loans for this segment (see Chart 10), slightly below the level recorded in the previous month (-0.1

9 Including purchase and sale forward transactions in foreign currency, classified as off-balance.

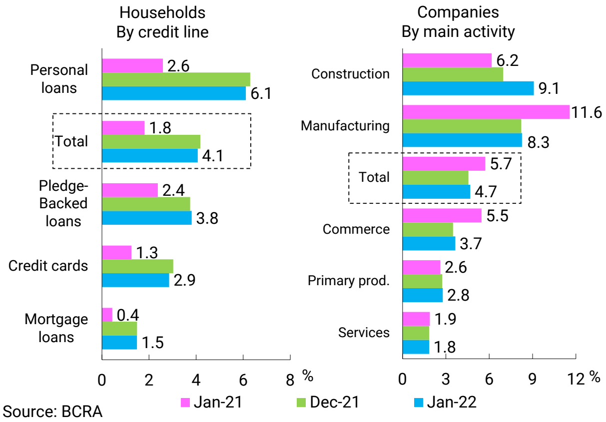
10 This ratio reached 29.6% if credit to the private sector is netted from the stock of accounting provisions.

11 See Communication "A" 6938, Communication "A" 7107, Communication "A" 7181, Communication "A" 7245 and Item 2.1.1. of the Consolidated Text on "Financial Services in the framework of the Health Emergency provided for by Executive Order No. 260/2020 CORONAVIRUS (COVID-19)".

p.p. against December and +2.3 p.p. y.o.y.). The monthly performance was mainly due to the drop in the delinquency rate of loans intended for consumption (credit cards and personal loans). In turn, the ratio of non-performing loans to companies stood at 4.7% over the period, slightly above the figure recorded in December (+0.1 p.p. m.o.m.; and -1 p.p. y.o.y.). This increase against the previous month was explained by an increase in the ratio of activities related to Construction.

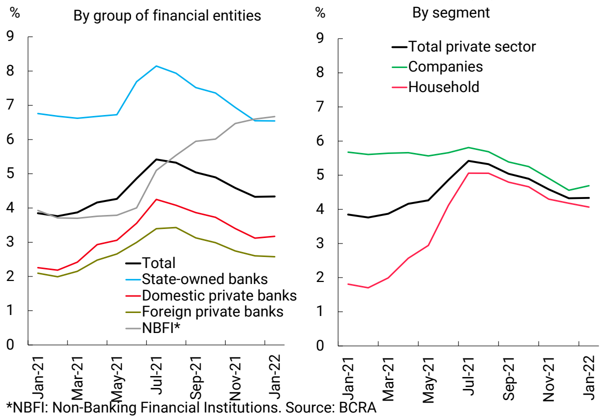
In January, the ratio of non-performing loans to companies stood at 4.9% of total lending to the private sector, slightly below the figure recorded in December and 1 p.p. below the figure recorded a year ago. At the beginning of 2022, provisions continued to exceed the non-performing portfolio (see Chart 11), with a ratio which stood at 112.3% over the month at systemic level (-1.7 p.p.; -39.4 p.p. y.o.y.). In January, the stock of regulatory provisions attributable to the non-performing portfolio (according to the criteria set by the rules on regulatory minimum provisions for loan loss exposure) accounted for 88.9% of such portfolio for the ensemble of financial institutions.

Chart 10 | Non-performing loans to the private sector
Non-performing financing / Total financing (%)



Source: BCRA

Chart 11 |Non-performing loans to the private sector
Non-performing financing / Total financing (%)

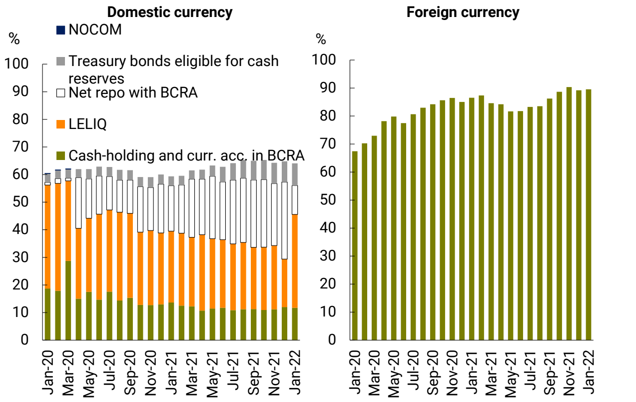


*NBFI: Non-Banking Financial Institutions. Source: BCRA

IV. Liquidity and Solvency

From high levels if compared to the average of the last 15 years, the broad liquidity[12] of the ensemble of institutions contracted slightly at the beginning of this year. The broad liquidity ratio stood at 68.1% of total deposits in January (64.1% for the items in pesos and 89.5% for the segment in foreign currency, see Chart 12), down 0.6 p.p. against December 2021 (-0.7 p.p. for the segment in

Chart 12 | Financial system liquidity
In % of deposits



Source: BCRA

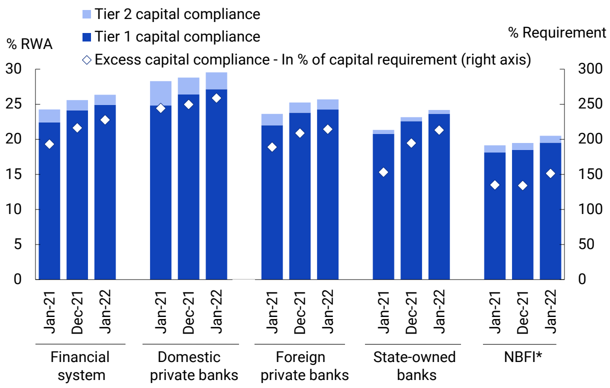
12 It considers liquid assets, assets admitted for compliance with minimum cash requirements, and BCRA instruments, in domestic currency and in foreign currency.

pesos and +0.4 p.p. for items in foreign currency). The composition of liquidity in pesos started to change at the beginning of the year within the context of the reshaping of monetary policy instruments,[13] which is aligned with the BCRA's Objectives and Plans for 2022. Thus, over the month, the share of LELIQs went up whereas the share of net repos with the BCRA contracted.[14, 15] In the last twelve months up to January, liquid assets in a broad sense (in both domestic and foreign currency) grew 3.4 p.p. of deposits at systemic level.

In January, as regards the financial system's solvency, there was an increase in capital adequacy for all groups of financial institutions. The Regulatory Capital (RC) of the ensemble of financial institutions grew 0.8 p.p. and accounted for 26.4% of risk-weighted assets (RWAs) against December (+2.1 p.p. y.o.y., see Chart 13). Tier 1 Capital, with a greatest capacity to absorb potential losses, continued to account for over 94% of total regulatory capital. The capital surplus position (difference between RC and the regulatory minimum capital requirement) rose 11.4 p.p. of the regulatory capital requirement over the month and totaled 227.7% for the ensemble of financial institutions (+34.6 p.p. y.o.y.).

One of the ways that may serve to illustrate the high level of coverage currently shown by the aggregate financial system in the face of the credit risk assumed consists, for instance, in considering indicators such as the ratio between the regulatory capital surplus position and the loans to the private sector net of provisions. In January, this ratio stood at 33% for the ensemble of institutions, up 4.4

Chart 13 | Compliance with regulatory capital
By group of financial institutions



*NBFI: Non-Banking Financial Institutions. Source: BCRA

Table 1 | Financial system statement of income

In %a. of netted assets	last 12 months to..		Diff.
	Jan-21	Jan-22	
Financial margin	**11.5**	**12.1**	**0.5**
Interest income	8.2	7.9	-0.4
Interest expenses	-9.0	-11.3	-2.3
CER and CVS adjustments	1.3	1.4	0.1
Foreign exchange price differences	0.8	0.6	-0.3
Gains on securities	8.8	9.1	0.4
Returns on repo	1.6	4.5	2.8
Other finacial income	-0.3	0.0	0.3
Service income margin	**1.8**	**1.9**	**0.0**
Loan loss provisons	**-1.6**	**-1.0**	**0.6**
Operating costs	**-6.6**	**-6.4**	**0.2**
Tax charges and other	**-1.7**	**-1.6**	**0.1**
Net monetary position	**-1.9**	**-3.6**	**-1.7**
Other Comprehensive Income (OCI)	**0.3**	**-0.1**	**-0.4**
Return on assets	**1.9**	**1.3**	**-0.6**
Return on equity in %	**13.0**	**8.3**	**-4.7**

Source: BCRA

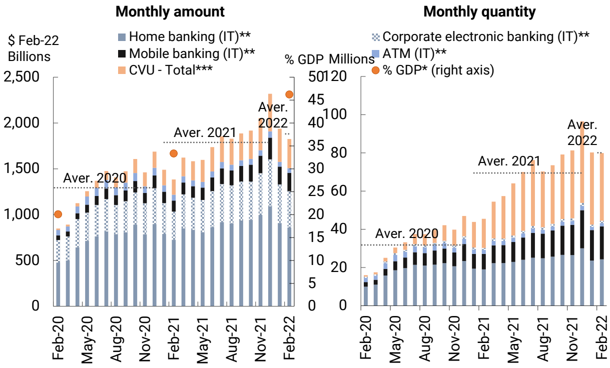
13 First of all, three increases were established (in January, February and March) for the interest rates on 28-day Liquidity Bills (LELIQs) (which will continue to be the reference rate with respect to monetary policy). It was also decided to expand the maximum limit on holdings of 28-day LELIQs up to an amount pro rata the stock of private sector time deposits of each financial institution. A new 180-day LELIQ was created. The auctions of bills started to take place twice a week for 28-day LELIQs, and once a week for 180-day LELIQs. These changes are intended to begin a process of migration of monetary sterilization towards longer maturity terms, and to extend the BCRA's reference rates curve. As to instruments with shorter terms, 7-day reverse repos are gradually eliminated and overnight reverse repos continue to be in effect. In line with the rise of the monetary policy interest rate, in order to encourage full transmission to returns on time deposits in pesos, the BCRA increased the minimum limits of interest rates on time deposits (see Section I. Financial Intermediation Activity). For further detail, see Monetary Policy Report (IPOM) – March 2022 and Press Releases of January 6, 2022, February 17, 2022 and March 22, 2022.
14 These changes in the composition of liquidity continued in February.
15 As regards minimum cash requirement, as from January, the balances of deposit accounts of Payment Service Providers (PSP) offering payment accounts where the funds of their clients are deposited shall be subject to a 100% minimum reserve requirement (see Communication "A" 7429). Besides, over the month, the percentages were increased for deduction of minimum cash associated with loans to MSMEs, and the percentage admitted to deduct for new loans of investment projects under the "Credit Line for Productive Investment for MSMEs" was increased to 30% (see Communication "A" 7432).

p.p. against the figure recorded in early 2021 and quite above the average of the last ten years — 14.9%.

As to the internally-generated funds of the sector, in the first month of the year, the financial system recorded positive profitability ratios, slightly above those recorded by the end of 2021. Thus, in the aggregate of the last 12 months up to January, the total comprehensive income in homogeneous currency totaled 1.3% of assets (ROA) and 8.3% of equity (ROE), posting a year-on-year drop of 0.6 p.p. and 4.7 p.p. respectively (see Table 1). The main factors impacting on the above-stated year-on-year performance were the increase in the cost of funding for deposits, higher monetary losses (an effect of inflation on the financial system's balance sheet) and the reduction of income from interest on loans. In turn, this evolution was partially offset by higher income from premiums for repo transactions and a reduction of loan loss provisions, among other factors.

V. Payment System

Chart 14 | Instant Transfers



Source: BCRA. *Three-month moving average annualized in terms of nominal GDP estimated for the same period, Not-seasonally adjusted. **IT between accounts open at financial entities (from and to a CBU) ***Transfers where accounts are opened at PSP (from and/or to CVU). Note: high value transfers and batch transfers are not included.

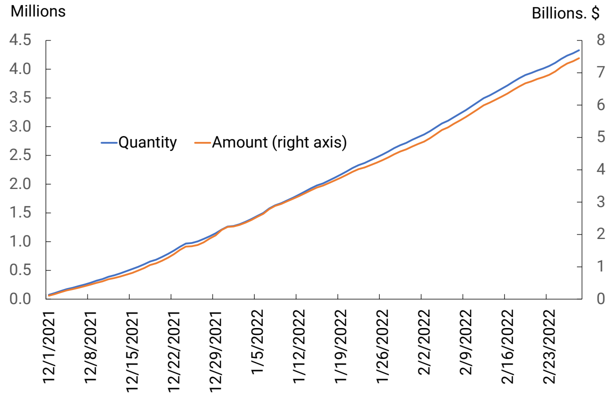
In line with the seasonality inherent in this period, in February instant transfers declined against the previous month in number (-0.4%) and in amount in real terms (-5.8%). However, in year-on-year terms, these transactions have kept a significant momentum: instant transfers expanded 75.7% y.o.y. in number and 31.8% y.o.y. in amount, in real terms. This year-on-year performance was explained by increases in transactions made between accounts opened at financial institutions via CBU (Uniform Banking Codes) (+47% y.o.y. in number and +23.9% y.o.y. in amount in real terms) and in transactions involving accounts with payment service providers —PSP— from and/or to CVU (Uniform Virtual Codes) (+133.2% y.o.y. in number and +89.9% y.o.y. in amount in real terms). Therefore, the relative share of transactions involving a CVU increased in total instant transfers up to 44.3% in number (+10.9 p.p. y.o.y.) and 17.4% in amount (+5.3 p.p. y.o.y.). It is estimated that, as of February, instant transfers accounted for 46.2% of GDP[16] (+12.9 p.p. against the same month of 2021, see Chart 14).[17]

Within the framework of the 3.0 Transfer initiative and as from the passing of regulations by the BCRA to boost and implement the interoperability of transactions initiated with QR code,[18] during February, the daily average of payments by transfer through this modality significantly rose against

16 When considering annualized amounts of the last three months.
17 In the context of a positive performance of instant transfers, with an increasing momentum of the segment where Payment Service Providers are involved (from and/or to CVU), the BCRA reinforced its measures to improve the security of digital wallets (Press Release of February 24, 2022).
18 See Press Release of January 22, 2022.

the level recorded in December 2021: 28.5% in amount in real terms and 42.2% in number (see Chart 15). In the period from November 29, 2021 (commencement of the full scheme of payments with interoperable QR code) to February 28, 2022, the number of transactions accrued reached 4.3 million, equivalent to an amount of $7.45 billion (with an average of $1,721 per transaction).

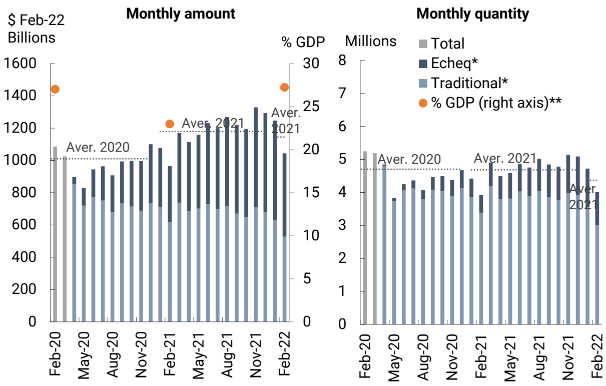
Chart 15 | Payments with interoperable QR (3.0 Transfer)
Accumulated since November 29, 2021*



* Since 11/29/2021 only Coelsa operations are inform, at 12/22/2021 Prisma operation are incorporate and from 01/06/2022 Red Link. Source: BCRA

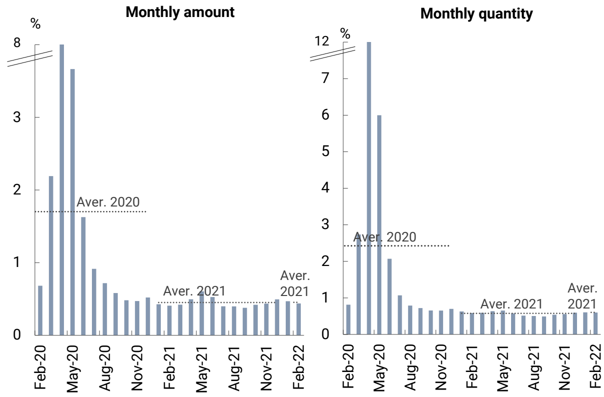
In February, and partly associated with seasonal factors, there was a decrease in the clearing of checks against January (-15% in number and -16.3% in amount in real terms). However, on a year-on-year comparison, the clearing of checks grew 2.2% in number and 8.2% in amount in real terms; this increase was explained to its full extent by transactions made with electronic checks (+85.4% in number and +49.5% in amount, in real terms). Thus, in February, the share of ECHEQs has continued to go up in total cleared checks and has accounted for 25% in number (+11.2 p.p. y.o.y.) and 49.4% in amount in real terms (+13.7 p.p. y.o.y., see Chart 16). It is estimated that the amount of cleared checks in GDP terms totaled 27.2% as of February (+4.3 p.p. y.o.y.).

Chart 16 | Cleared checks



Source: BCRA. *Desegregation available from Apr-20. **Three-month moving average annualized in terms of nominal GDP estimated for the same period, Not-seasonally adjusted.

Chart 17 | Bounced checks for insufficient funds



Source: BCRA. Note: Including bouncing of traditional checks and Echeqs.

In February, the ratio of bounced checks for insufficient funds, in terms of total cleared checks,[19] continued to stand at reduced levels, without significant changes against January (+0.01 p.p. to 0.6% in number and -0.03 p.p. to 0.4% in amount, see Chart 17).

19 It considers both physical instruments and electronic checks.