Central Bank of Argentina

Report on BANKS

MARCH 2004

Year I - No. 7

CONTENTS

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SUMMARY

Profitability:

* Private banks recorded similar results to the previous month, although there were significant differences in their composition. The first quarter recorded an annualized loss of 2% of netted assets (NA), 1 p.p. lower than the loss in the same quarter of the previous year. If the impact of the court-ordered amortization payments and adjustments to the valuation of public sector assets is disregarded, annualized adjusted ROA for private banks was virtually nil.

* Private bank gains from securities were an annualized 1.1% of NA, unlike the situation in the previous month, when gains under this heading were almost nil. Revaluation of foreign currency assets and liabilities during the month were responsible for an annualized loss of 0.6% of NA from the impact of the appreciation of the peso on the asset position in dollars of private banks.

* Private bank interest income from traditional banking activities doubled to an annualized 0.8% of NA. Increased interest accrual on loans and a fall in interest paid on time deposits explained the improvement in these results over recent months. As a consequence of this improvement, the coverage of costs by operating income from regular banking business rose to 87% in the first quarter, a notable improvement compared to the same quarter of 2003.

Flow of funds:

* Lending to the private sector was the leading use of funds by private banks during March. The $900 million net increase in lending was the largest rise in loan balances in recent years. Pledge-backed loans recorded a positive change during the month, which was added to the growth that has already been taking place in short-term loans.

* Private bank deposits went up 2% in the month, becoming the main source of funds for such institutions, with a net increase of $1.8 billion in deposits from the private non-financial sector. Current account and savings account deposits continued to record growth, more than offsetting the decline in time deposits. Deposits in dollars recorded the largest rise since the end of the Convertibility regime.

Portfolio quality:

* Non-performance by loans to the private non-financial sector fell 3 p.p. to 24.6% in March (the best level recorded by private banks since January 2003). This performance was mainly due to an improvement in the commercial loan portfolio, led by actions taken by retail banks with nationwide branches, including the sale of loan portfolios by some institutions. The ratio for the system as a whole was 29.2%

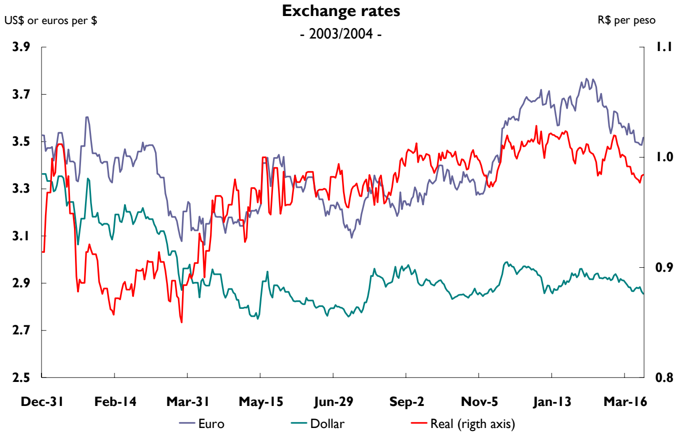
* Coverage by provisions for the portfolio of loans by private banks to the private non-financial sector rose by 3.2 p.p. to 84.4%.

Note: This Report contains information from March 2004 balance sheets available at 27/04/04. Description centers mainly on the behavior of the main financial variables for the private bank aggregate (including breakdowns by uniform sub-groups), except for certain variables that explicitly refer to public banks and the entire financial system. Figures provided (particularly in the case of profitability) are preliminary, and may be subject to change.

Context

1- The macroeconomic context in March was noted for stability in prices and interest rates, together with an appreciation of the peso. The change in the Consumer Price Index (CPI) was 0.6%. The Reference Stabilization Coefficient[1] (CER) increased 0.2%. The peso appreciated by 2.4% against the dollar, while against the euro and the real the appreciations were of 3.8% and 2% respectively (see Chart 1). Financial market interest rates remained at levels similar to those of the previous month. The interest rate on time deposits for 30 to 44-day terms was 2.4%, maintaining the level at the end of February. A similar situation took place in the call money market, where the average rate on operations was 1.2%. There was only a slight drop in interest rates for Central Bank bills (LEBAC). Rates for 6-month maturities in pesos dropped from 3.08% to 2.88%, while rates for one-year maturities declined from 7.67% to 7.15%. In the case of LEBAC in pesos adjusted by the CER index, the declines in 6-month and one-year rates were similar to those for unadjusted bills in pesos.

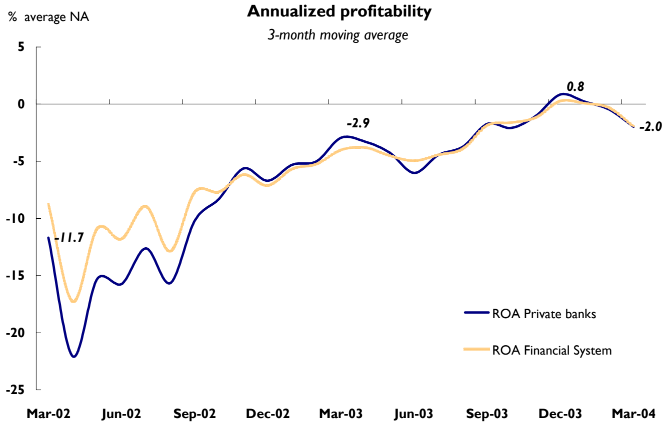
Chart 1
Exchange rates
- 2003/2004 -



Profitability

2- Private bank results were similar to those for the previous month, with losses totaling almost \$137 million. This has meant annualized results (a.) of -1.4% in terms of netted assets (NA) and -11.6% in terms of net worth (NW). **As a result, losses for the first quarter of 2004 totaled almost \$570 million (-2%a. of NA).** As shown on Chart 2, this level of losses represents an improvement over the same period of the previous year (-2.9%a. of NA), although there has been a deterioration in terms of the profits recorded in the previous quarter (0.8%a. of NA). Nevertheless, if adjusted to exclude the impact of the main non-recurring factors (amortization of court-ordered deposit payments and adjustments to the valuation of holdings of public sector assets[2]) results were almost nil in terms of NA (-\$8 million) for the first quarter of 2004. This was a slight improvement compared to the loss of -0.4%a. of NA in the same quarter of the previous year.

Chart 2
Annualized profitability
3-month moving average



3- Accumulated losses for the system as a whole in the first quarter of 2004 amount to just under \$870 million (-1.9%a. of AN and -16%a. of NW). Once again, this is an improvement compared to the same quarter of 2003 (when ROA was -4%a.), although compared to the immediately preceding quarter (ROA of -0.6%a.) there has been a deterioration. Results adjusted to exclude changes of a non-recurring nature in the first quarter of the year totaled -\$190 million (-0.4%a. of NA) for the system as a whole.

4- Although the monthly result for the private banks sector remained stable, there were certain changes in its composition. In particular, **improvements recorded under headings such as gains from securities, income from interest, and income from**

[1] Compiled on the basis of the geometric mean rate calculated on the change in CPI in the previous month.
[2] Com. "A" 3911 and 4084.

Chart 3
Net interest income
Private banks - 3-month moving average

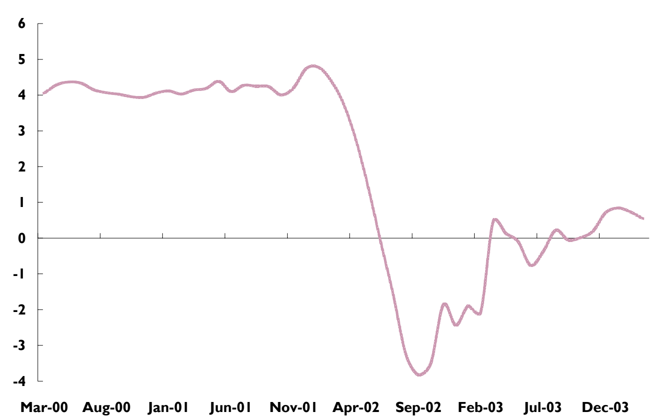


Chart 4
Return on loans and costs of deposits
- Non financial sector- 3-month moving average - annualized figures
Private banks

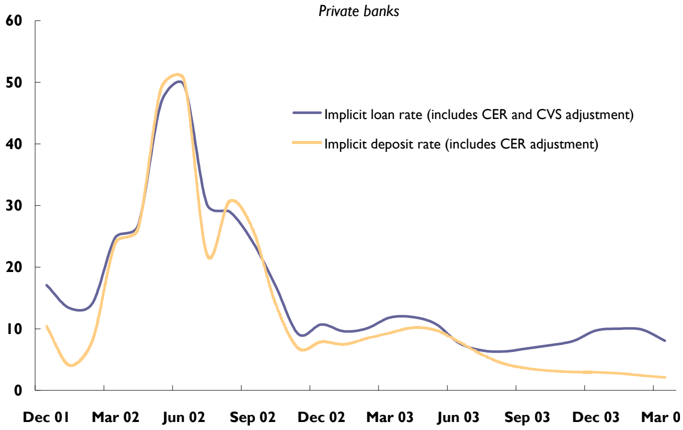
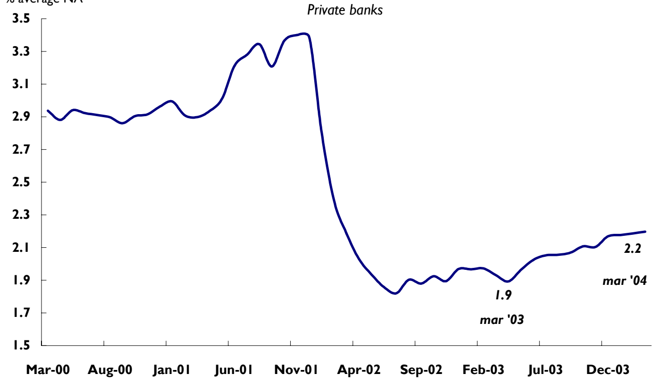


Chart 5
Service income margin
3-month moving average - annualized figures -
Private banks



services, as well as the drop in loan loss provisions, were offset by negative exchange rate differences (in the context of an appreciation of the local currency), a slight increase in operating costs and a rise in certain sundry income items.

5- The heading recording the largest variation in March was gains on securities, which in the case of private banks rose from a nil level in February to 1.1%a. of NA. Certain sales of government securities had been carried out below book value during February.

6- Exchange rate differences led to losses of 0.6%a. of NA for private banks, as the reference exchange rate fell from 2.92 to 2.85 $/US$ during March. These negative results were mainly caused by the price adjustment in local currency of the position in securities denominated in foreign currency[3]. The performance of this heading was one of the main reasons for continued losses in March, despite improvements under various operating headings.

7- Private bank income most closely associated with traditional banking activity recorded a promising performance. **Interest income doubled during the month to 0.8%a. of NA**. Although it remains low in historical terms, this change is a significant improvement compared to the negative margins recorded during the economic crisis (see Chart 3). This monthly increase was explained by greater interest accrual on loans (led by interest on promissory note acceptances), while interest expenses fell slightly because of the lower interest rate paid on time deposits (largely due to the decline in time deposits compared to sight deposits). Chart 4 shows there has been an increase in interest accrued on loans at the same time as a drop in the cost of funding, leading to the gradual improvement in income from interest recorded in recent months. **CER and CVS adjustments also increased, although less sharply,** ending at a level of 1.3%a. of NA.

8- Income from services increased 0.3 p.p. to a level of 2.3%a. of NA from higher income from account maintenance charges and "Other income," while there was a drop in commissions paid (see Chart 5). This performance is in line with the growing recovery since the second half of 2002 in such private bank operating income.

9- Led by increases in salaries paid and sundry costs (which were higher than the drop in accrued depreciation), **operating costs increased 0.2 p.p. to a level of 4.7%a. of NA**. Nevertheless, **given the increase in net income from traditional banking business[4], the coverage of costs by operating income went up from 81% in February to almost 97% in March**. Chart 6 shows that the coverage of costs by traditional banking income reached almost 87% in the accumulated total for the first quarter of 2004, an increase of 4 p.p. compared to the same quarter of 2003.

[3] The "exchange differences" heading also includes gains on foreign currency trading on the spot market.
[4] Income from interest, CER / CVS adjustments and income from services.

Chart 6
Operating costs and coverage with net operating revenue
- 3-month moving average - annualized figures -
Private banks

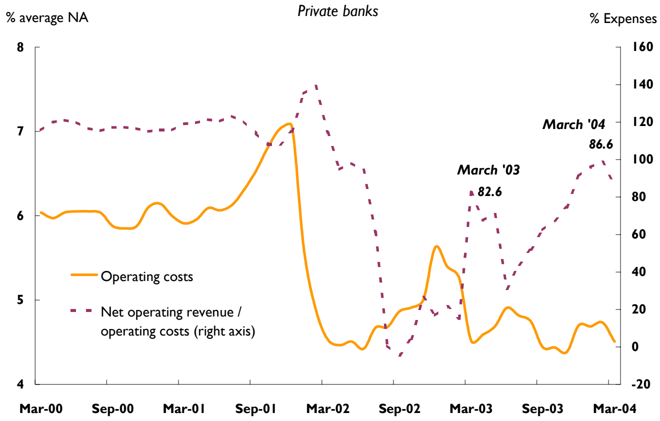
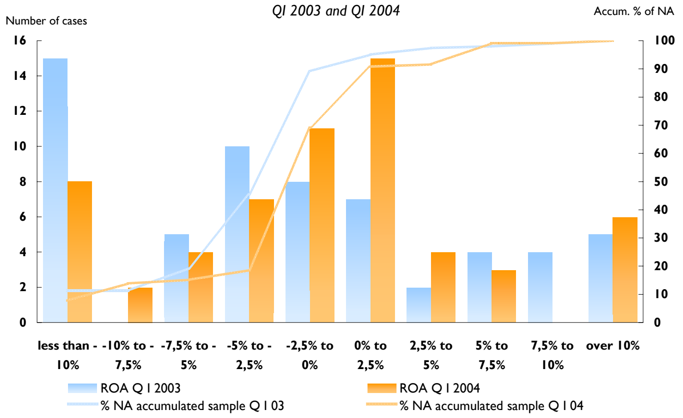


Table 1
Profitability by group
Annualized ROA in % - by type and area coverage

	2003	QI 03	QI 04	Feb 04	Mar-04	% share of NA (Mar)*
Public	-2.9	-5.4	-1.8	-1.2	-4.1	*28.4*
Private	-2.5	-2.9	-2.0	-1.4	-1.4	*70.7*
Retail	-2.5	-3.0	-1.8	-1.0	-1.1	*67.5*
National coverage	-3.2	-3.6	-2.4	-1.4	-1.4	*54.7*
Regional coverage	0.7	-0.2	0.7	0.4	0.8	*12.2*
Specialized	0.2	3.6	1.3	10.0	-3.9	*0.6*
Wholesale	-1.1	-1.7	-5.9	-10.3	-9.9	*3.1*
Non-bank institutions	-4.5	-21.3	-3.3	-10.4	-2.7	*0.9*
TOTAL	**-2.6**	**-4.0**	**-1.9**	**-1.4**	**-2.2**	***100.0***
TOTAL adjusted **	-1.7	-2.4	-0.4	-0.3	-1.3	

(*) Percentage share of total NA according to March figures.
(**) Net of the amortization of court-ordered releases and the application of Com "A" 3911 and 4084.

Chart 7
Distribution of annualized ROA for private banks
QI 2003 and QI 2004



10- Loan loss provisions continued to decline in the context of an improved economic outlook and the recoveries recorded in recent months. **Private bank loan loss provisions in March were cut back to half the level of the previous month, to 0.5%a. of NA.**

11- As a result of these developments, **the operating result for private banks was slightly positive (0.1%a. of NA), a monthly improvement of almost 2 p.p.** Operating losses for the first quarter of 2004 totaled 1.6%a. of average NA, compared to a profit of 0.2%a. of NA in the first quarter of the previous year.

12- Lastly, the private bank sundries heading (excluding amortization of court-ordered payments of deposits) rose by almost 0.4 p.p.. The March level was largely due to a single institution that recorded a significant income tax charge at the same time as releasing a provision that had been set up for that purpose. Eliminating the impact of this particular transaction, **sundry income was lower as a result of increased charges for other provisions.**

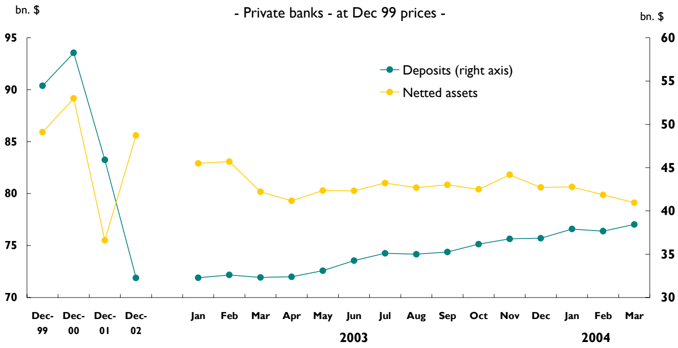
13- Table 1, which analyzes the ROA for the various banking sector sub-groups, shows that **private banks with the greatest weighting (retail banks with nationwide branches) did not record any change in their ROA compared to the previous month. Nevertheless, taking the aggregate for the first quarter, this sub-group records a loss level (-2.4%a. of NA) lower than in the same period of 2003**. Comparison between the first quarters of 2003 and 2004 shows that losses were also lower for the remaining private bank sub-groups (and in particular regional retail banks, which went from a loss to a profit position), except for specialized retail banks, which although profitable in both periods have seen a decline in their profits in 2004. Losses by public banks in the first quarter of 2004 were running at one third of the rate recorded in the same period of 2003.

14- In terms of individual banks, **of the 60 private institutions for which data was available for the month of March, 28 recorded profits in the first quarter of 2004.** Of the private institutions recording a negative ROA for this quarter, 15 recorded lower losses than in the same period of 2003. Chart 7 showing distribution according to accumulated ROA in the first quarters of 2003 and 2004 indicates that in the latest period the number of cases with positive ROA has increased, with a rise in the percentage of assets held by the sample of banks not recording losses.

Activity level and flow of funds

15- **Once again, the activity level for private banks grew in March. This was displayed by the increase in deposits, which rose 3% in real terms;** this increase, which offset the decline in placements with public banks, caused the consolidated financial system to record a drop in deposits of 0.7% (for the first quarter of the year there was an increase of 4%).

Chart 8
Netted assets and deposits
- Private banks - at Dec 99 prices -



16- Private bank netted assets remained relatively stable during the month, falling only 0.5%, in part as a result of the effect of the appreciation of the local currency on items in dollars and certain specific transactions abroad as detailed below (see Chart 8).

17- Following the slight rise recorded in February, **deposits[5] (excluding CEDRO) once again became the main source of funds for private banks during March.** The increase of over $1.8 billion was almost entirely explained by the growth of deposits by the private non-financial sector, led by a rise of almost $2 billion in sight deposits, more than compensating for the decline in time deposits. As a percentage of total private non-financial sector deposits (excluding CEDRO), these time deposits continue to lose ground to current account deposits, dropping 2 p.p. during the month (see Chart 9). In the breakdown between local and foreign currency, **deposits in dollars in private banks continued to show the rising trend seen in the last year, growing by 10% in March. In nominal terms, this increase was the largest since the end of the currency board** (see Chart 10).

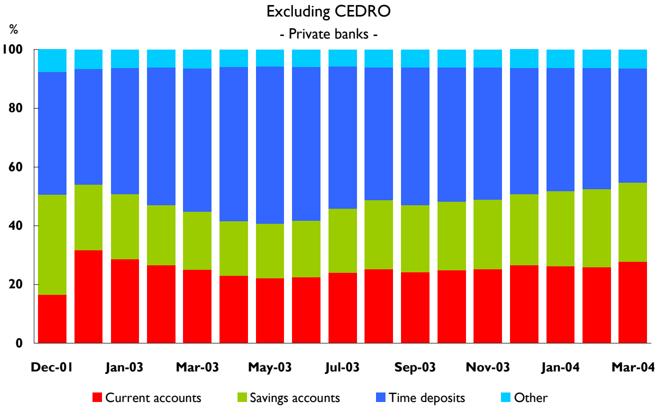
Table 2
Estimated sources and uses of funds
Private banks - March 2004
million pesos

Source		Uses	
Deposits (excluding CEDRO)	1,845	Loans to Non financial private sector	930
Refund due to excess *pesification* of current accounts with the BCRA	140	Liquid assets [1]	565
Outstanding bonds and subordinated debt holdings	65	CEDRO	285
LEBAC	20	Foreign lines of credit	245
		Financial sector net	25
		Other	20

[1] Minimum cash compliance (cash, current accounts with the BCRA and special collateral accounts) and other liquid assets (with foreign branches or head offices).

18- During March some private banks received payments, while others made them as a result of the excess conversion into pesos (*pesificación*) of current accounts with the Central Bank and abroad, as laid down by Com. "A" 4043[6]. These transactions did not affect bank results, as the corresponding entitlement or liability had been recorded at the time of publication of the regulation (see Reports for December and January).

Chart 9
Breakdown of non-financial private sector deposits
Excluding CEDRO
- Private banks -



19- Private bank LEBAC holdings remained stable during the month, although there was a change in composition by currency. A drop was recorded in holdings of bills in pesos that was almost entirely offset by bills in pesos adjusted by CER. There was little change in the total for bills in dollars. The remaining source of funds during March came from the sale of corporate bonds and subordinated debt in dollars for $65 million. Balance sheet totals for these holdings recorded an even larger drop because of other debt swap transactions carried out during the month involving these instruments, as well as investments in trusts, but these movements did not generate flows of funds.

20- Funds taken by private banks were mainly used to make loans to the private non-financial sector. The balance of loans

[5] It will be recalled -see Methodology at the end of the Report- that the estimate of sources of funds derived from the increase recorded in the balance for deposits excludes the effects of changes in the exchange rate on items in foreign currency and adjustments to principal from rises in the CER coefficient, and the increase in the balance of interest accrued and not collected.
[6] This Communication established the procedure for calculating the amount of the balances of the foreign currency accounts opened at the Central Bank not affected by the conversion into pesos as a result of the terms of section 10 of Decree 214/02. It defined the methodology for determining the amount susceptible to reimbursement -Isr- by the Central Bank (if the result was positive) or the amount to be reimbursed by financial institutions (if the result was negative).

Chart 10
Dollar deposits
Private banks

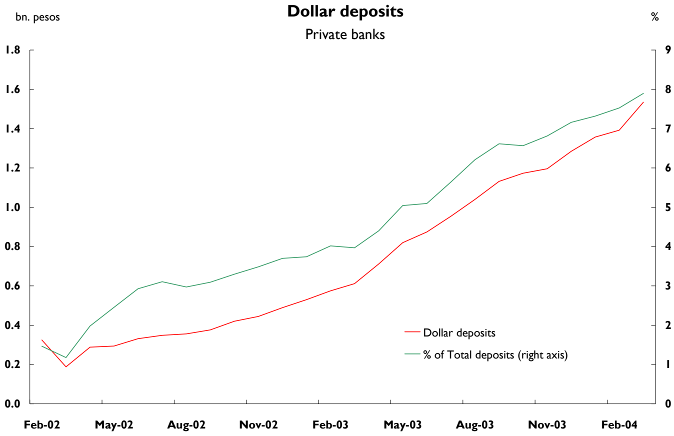


Chart 11
CEDRO
- Private banks - Includes CER adjustment -

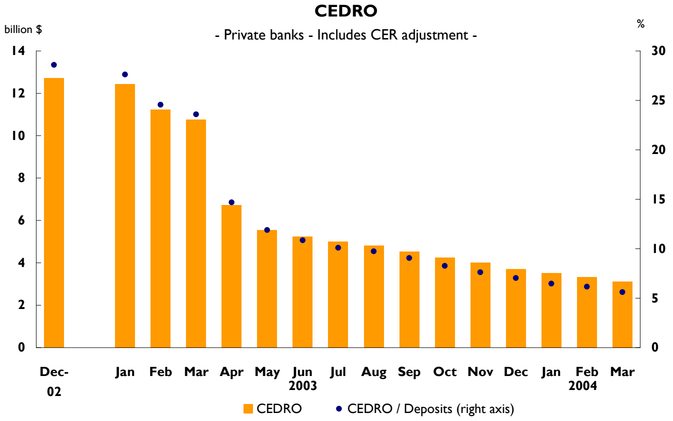
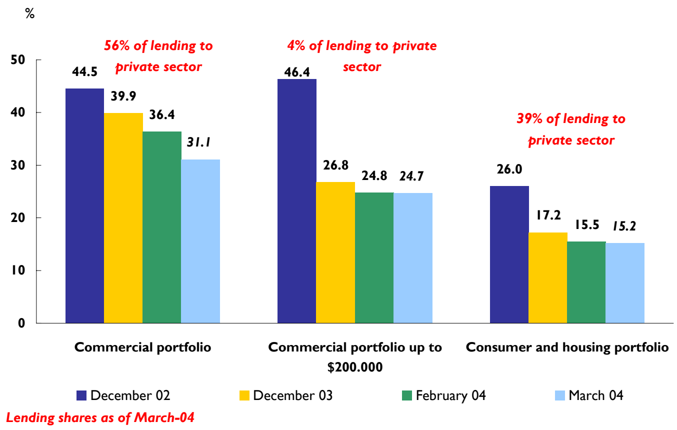


Chart 12
Non-performing portfolio by type of lending
Private bank lending to the private sector



to the private sector[7] **recorded the sharpest rise in recent years, with new lending totaling $900 million.** Short-term credit lines continued to lead this increase, with current account overdrafts showing the largest rise (13%). Within the collateralized loan segment, pledge-backed loans (typically for cars and equipment) turned back their recent decline, growing by 5%[8] with a notable increase in such loans by specialized and regional banks. Credit card and consumer loan lines continued their upward trend, recording increases of 6% and 5% respectively.

21- The second most significant use of funds by private banks was to increase holdings of liquid assets, which rose by $565 million during the month (2% in real terms), representing 14% of NA in March (1 p.p. higher than in February). Within the private bank sub-group, only specialized banks recorded a drop in their holdings of liquid assets, with their participation in NA falling 1 p.p.. Public banks recorded a significant decline in these assets as a result of the action by one nation-wide bank, leading to a 3 p.p. drop in terms of NA.

22- Reduction of the CEDRO balance held by private banks required a use of funds estimated at $285 million (this calculation includes CER and the exchange rate difference from the settlement of certificates as a result of court orders). CEDRO accounted for 5.6% of total deposits in March, a drop of 0.5 p.p. (see Chart 11).

23- The repayment of foreign lines of credit required the use of funds for approximately $245 million, following the settlement by one bank of debt with its head office. In addition to this transaction, because of its impact on liabilities and indirectly on assets, it should be mentioned that foreign loan balances fell by approximately US$280 million during March by means of transactions that did not generate flows of funds. As indicated in previous issues of this report, **private financial institutions have continued with the process of settling foreign liabilities, mainly by handing over government securities in dollars or through the capitalization of such debt by their head offices (in the case of banks of foreign capital).**

24- Another significant change in balance sheet totals not giving rise to a source of funds, although altering the composition of the various asset captions, has been **the sale of interests in foreign financial institutions by one local bank[9]. As a result of this transaction investments in corporations fell to 50% of the February total, as can be seen from the balance sheet table in the statistical exhibit at the end of this report.**

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[7] The effect of changes in the exchange rate on items in foreign currency has been removed, and adjustments for CER and CVS, accrued interest and the reductions generated by the writing-off of uncollectible loans against memorandum accounts have not been taken into consideration. See section on methodology.
[8] This growth has been determined on the basis of changes in end-of-month balances; if average daily balances are used a slight drop can be seen.
[9] This transaction was carried out under the Program for Normalization and Recovery (*Plan de Regularización y Saneamiento*) intended to improve the bank's situation regarding certain prudential regulations; the program includes the capitalization of its debt with its head office.

Table 3
Non-performing portfolio by group
As a % of non-financial private sector lending

	Dec-02	Dec-03	Feb-04	Mar-04	Share of lending to private sector(*)
Public	41.6	41.4	40.4	40.0	*30.7*
Private	37.4	30.4	27.7	24.6	*67.8*
Retail	37.5	30.3	27.5	24.6	*65.1*
National coverage	38.7	33.4	30.9	27.8	*51.0*
Regional coverage	27.6	15.8	13.4	12.4	*12.9*
Specialized	36.5	31.2	19.3	17.4	*1.2*
Wholesale	33.7	31.9	31.8	25.7	*2.7*
Non-bank institutions	36.5	16.3	18.9	18.0	*1.5*
TOTAL	**38.6**	**33.5**	**31.4**	**29.2**	*100.0*

(*) According to March figures.

Chart 13
Change in portfolio non-performance
QI-04 over Q4-03 - Private banks

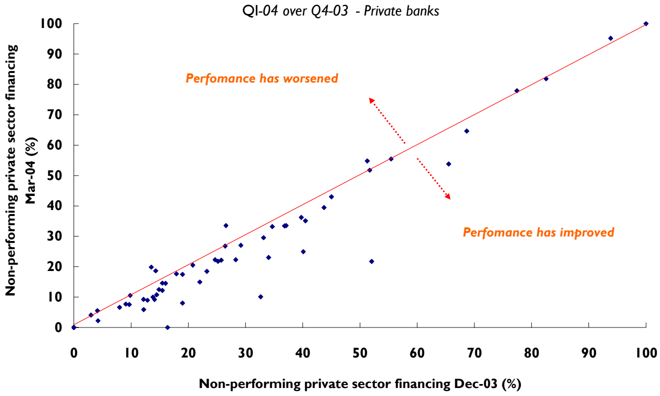
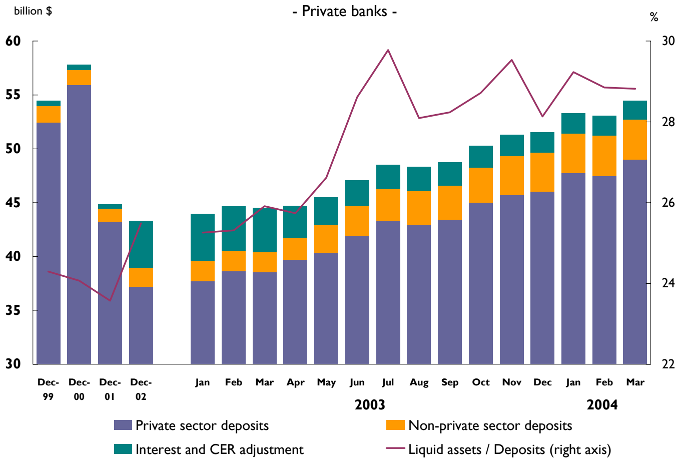


Chart 14
Deposits and liquidity
- Private banks -



Credit[10], liquidity and currency mismatching risk

25- Improvement to the non-performance level for the portfolio of lending to the private sector accelerated, dropping almost 3 p.p. in March to a level of 24.6% in the case of private banks (almost 6 p.p. below its level at the end of the previous quarter). The change during the month is explained by a significant fall (close to 11%) in non-performing loans, within the context of a slight increase in the volume of loans to the private sector. This decline in the amount of loans classified as non-performing resulted from the action by several large retail banks, in some cases involving major portfolio sell-offs.

26- As shown on Chart 12, the progress in loan portfolio quality in March was led by commercial lending. While consumer and housing loans and the portfolio of commercial loans for less than $200,000 recorded very slight improvement, **the commercial portfolio recorded a strong 5 p.p. drop in its non-performance (to a level of 31%),** a fall similar to that recorded over 2003 as a whole. In the year to date, non-performance for this portfolio has seen a drop of almost 9 p.p., while consumer and housing loans (showing a lower level of non-performance at close to 15%) improved their quality by 2 p.p. compared to December 2003.

27- Although this reduction in non-performance took place across the various private bank sub-groups, **gains during March were led by retail banks with branches nationwide (the group with the greatest weighting) with an improvement of almost 3 p.p.** (6 p.p. if compared with December 2003). Table 3 shows that this month there has also been a notable reduction in non-performance levels in the wholesale bank segment (almost 6 p.p.).

28- Considered individually, there was a widespread improvement in the quality of the portfolio compared to the previous quarter (see Chart 13). **Out of 61 private banks providing information for December 2003 and March 2004, 41 reported a decline in non-performance**, while for 8 institutions there was no change.

29- As mentioned when analyzing the flow of funds, private banks built up their liquid assets during the month, increasing their totals by 2% in real terms. This increase was similar to that recorded in the balance for total deposits, so that the **liquidity ratio[11] remained stable at a level of 29% (see Chart 14). Liquidity continued to be higher in the dollar segment than in pesos, although in March the foreign currency ratio dropped 13 p.p. to a level of 109%.** Peso liquidity amounted to 22% of deposits in that currency (1 p.p. higher than in February).

30- As a result of foreign transactions carried out during the month, foreign currency mismatch for private banks

[10] Unless otherwise specified, this section refers to the quality of loans to the private non-financial sector.
[11] Measured as the quotient between the balance sheet totals for minimum cash compliance and other available funds and that for total deposits (including CER restatement).

Chart 15
Foreign currency mismatch
- Private banks -

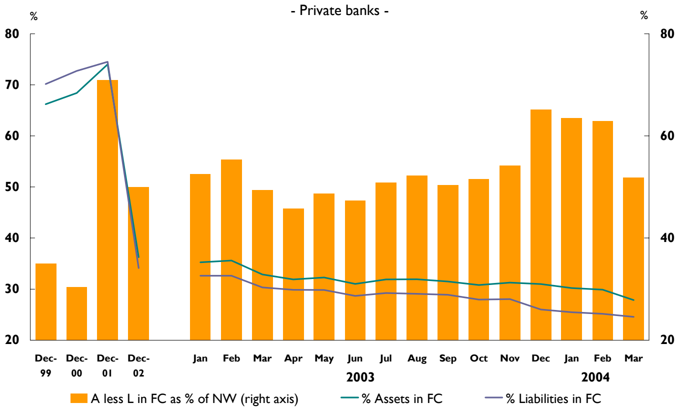


Chart 16
Netted assets and net worth
- Private banks -

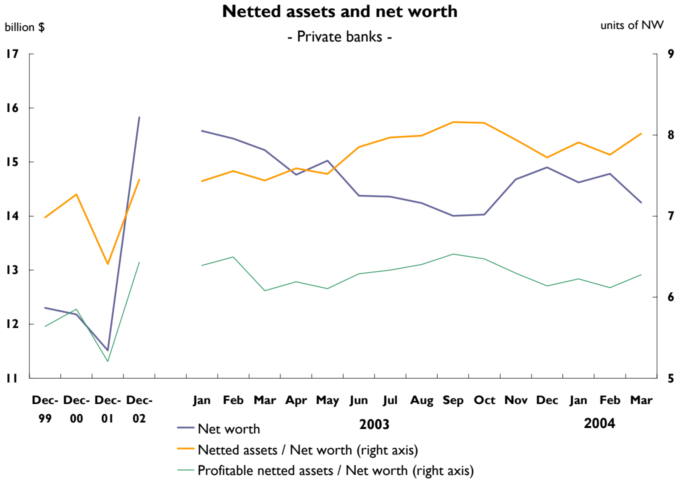
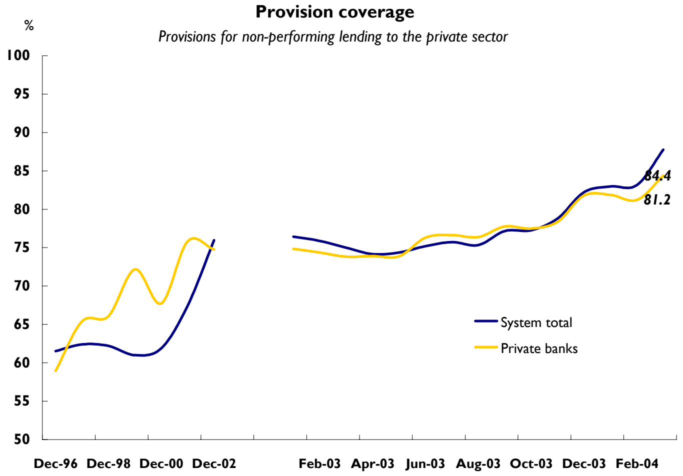


Chart 17
Provision coverage
Provisions for non-performing lending to the private sector



(measured as the difference between total assets and total liabilities in dollars) recorded a drop of 11 p.p. in terms of net worth, reaching a level of 52% at the end of March. These transactions were mainly carried out by private banks with branches nationwide (see Chart 15).

Solvency

31- The net worth of private banks fell by 3.6% during the month, reflecting the impact of the losses for the month and certain non-recurring transactions that affected results for previous years as well as other net worth accounts[12]. **As a consequence of this drop, the leverage ratio, defined as net assets over net worth, recorded a slight increase, rising from 7.8 to 8** (see Chart 16).

32- Private banks increased provision coverage for their portfolio of non-performing lending to the private sector, with a rise from 81.2% to 84.4% (see Chart 17). As for coverage with collateral, the percentage of non-performing lending covered by preferred guarantees increased by almost 2 p.p. to a level of 27%.

33- Despite the slight fall in net worth, as a result of the drop in the total for non-performing lending **there was a further decline in the exposure to private sector credit risk.** The private bank ratio for non-performing loans to the private sector not covered by provisions as a percentage of net worth fell close to 2 p.p. to 6.8% in March (see Chart 18). This change was led by private retail banks with branches nationwide, for which exposure dropped by almost 3 p.p. to a level of 12% of their net worth.

34- Significant improvement was recorded in minimum capital indicators for both private banks and the system as a whole. Private bank capital compliance (in terms of adjusted stockholders' equity, or *Responsabilidad patrimonial computable*) rose by 5.5% in the month, reaching 15% of total risk-weighted assets (1 p.p. more than in February). This increase in compliance was due to the drop recorded under "deductible accounts" as a result of the mentioned sale of investments in foreign institutions, offsetting the drop in net worth. The current position as a percentage of total requirement stood at 163% in March, rising 60 p.p. in the month.

Outlook for April

35- Based on information available on bank performance during April, **it is expected that private bank financial statements will record an improvement in results following a gradual recovery in interest margins (from increased lending as well as improved interest rates), with a marginal contribution from CER adjustments.**

[12] The adjustment to the results of previous years and movements in the "Unrealized valuation difference" net worth account was related to the sale of investments in financial institutions abroad mentioned earlier in this report.

Chart 18
Exposure to private sector counterparty risk
(Non-performing portfolio - Provisions) / Net worth

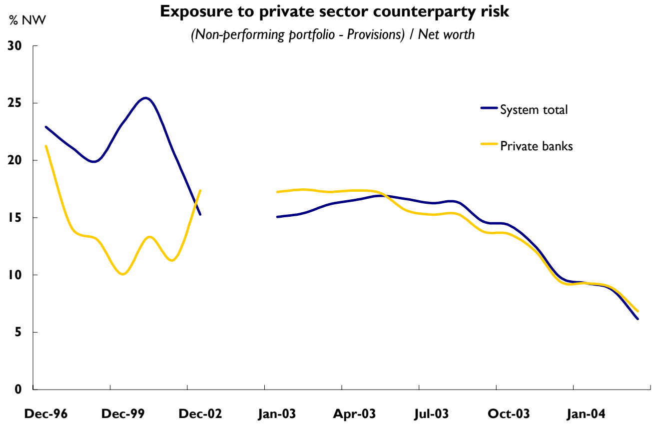


Table 4
Main developments in April

	Mar	Apr	Chg.%
Prices			
Exchange rate ($/US$) 1	2.86	2.85	-0.34
CPI	144.20	145.43	0.85
CER[1]	146.78	147.52	0.50
	%		Chg.(p.p.)
Average percentage rates			
Lending			
Private banks			
Overdraft	13.1	12.6	-0.5
Promissory notes	8.2	8.7	0.5
Mortgage	9.5	10.8	1.3
Pledge-backed	15.0	12.9	-2.1
Personal	43.0	42.2	-0.8
Public banks			
Overdraft	22.5	19.8	-2.7
Promissory notes	12.4	14.8	2.4
Mortgage	8.2	8.3	0.1
Pledge-backed	14.4	15.1	0.7
Personal	14.6	14.7	0.1
30- to 44-day time deposit	2.4	2.4	0.0
6-month LEBAC in pesos, w/o CER	2.9	2.6	-0.3
	millions $		Chg. %
Balance[1] - Private banks			
Peso deposits - Private sector	44,931	45,765	1.9
Sight deposits	25,506	26,493	3.9
Time deposits	16,688	16,717	0.2
Peso loans - Private sector	19,020	19,291	1.4
Overdraft	4,609	4,694	1.8
Promissory notes	3,223	3,351	4.0
Mortgage	5,326	5,272	-1.0
Pledge-backed	474	485	2.5
Personal	1,524	1,598	4.9

(1) End of month figure.

36- Loan totals continued to increase slightly in April, led by overdrafts and promissory note acceptances. As a result, although there is still a certain downward trend in interest rates in the case of most of the credit lines available (except for promissory notes and mortgage lending), it is likely that interest income will continue to rise. On the matter of funding, there was growth in sight deposits in April, while time deposit totals remained almost unchanged. Given that at the same time the rate on time deposits for 30 to 44-day terms has not shown significant variation, interest expense should remain constant or decline mildly from the effects of the changes in the structure of liabilities (including the consequences of debt restructuring processes). This will result in **a continuation of the gradual recovery in the interest rate margin.**

37- **The completion during April of the debt restructuring process by one of the largest private institutions could have an impact on aggregate private bank profitability for the month.** If the positive results for that institution from the restructuring of corporate bonds and bank debt are posted in April, this will mean a significant real (although non-recurring) increase in system profits. Furthermore, in terms of current results, the restructuring will contribute in coming months to a gradual recovery in the aggregate profit margin for private banks.

38- **CER adjustments should remain relatively unchanged at above 1%a. of NA**[13], as the index rose from 146.8 to 147.5 in April, showing slightly higher growth than in the previous month. This profitability heading has been stable, reflecting a certain upward trend, with variations explained not so much by changes in the index but by specific instances of accumulated CER recognition on assets for which the adjustment had not previously been accrued.

39- Due to their performance in recent months, the remaining current income and expenditure lines (particularly income from services and operating costs) will show a stable performance. **As long as loan portfolio quality continues to improve, loan loss provisions should remain at an acceptable level, and there may be recoveries leading to increased accounting income from the release of provisions.**

[13] Unless recognition is given to significant CER adjustments not accrued to date.

Latest regulations

This section contains a summary of the main regulations related to the business of financial intermediation issued during the month (referenced by the date on which they came into force).

Communication "A" 4114 dated March 12, 2004 established the mechanism to be followed by banks so they could take part in the compensation system laid down by Chapter II of Law 25,796 and Decree 117/04. This section authorized the Executive Branch to issue "National Government Bonds in pesos at variable rate due 2013" to compensate financial institutions in a full and final manner for the effects of the introduction of general regulations applying the CVS index to some of their assets and the CER index to some of their liabilities. Given the optional nature of this compensation, financial institutions were to indicate their participation by April 30, 2004 using the specimen note provided, lack of presentation of the note leading to it being considered that the bank in question had desisted from the claim for compensation, without right to any subsequent claim.
In addition, it was clarified that the "National Government Bonds in pesos at variable rate due 2013" received as compensation could be booked at their technical value, giving them the same treatment as bonds received in the context of compensation for the uneven conversion of assets and liabilities into pesos (the so-called "pesificación asimétrica", Sections 28 and 29 of Decree 905/02).

Note: On May 6, 2004, by means of Com. "A" 4136, the deadline for financial institutions to indicate their participation in the compensation regime was extended to May 18, 2004.

Notes on methodology

(a) Aggregate balance sheet information is taken from the Monthly Accounting Information System (non-consolidated balances). To calculate data for the system aggregate, for institutions not providing data for the month under review, the latest information available is repeated in the aggregate balance sheet. When estimating income flows, however, consideration is given exclusively to those institutions providing data on the month in question.

(b) Due to the possible lack of data for a number of banks at the time of writing this Report, and given the possibility of subsequent corrections to the data provided by financial institutions, the data included – particularly for the last month mentioned – is of a preliminary nature. As the latest available data is always used, data related to earlier periods may not coincide with what had been previously mentioned in earlier issues of the Report. In these cases, the latter version should be considered as that of the best quality.

(c) Data on deposits and loans relate to balance sheet information and do not necessarily agree with those gathered by the centralized System of Information Requirements (SISCEN). Reasons for discrepancies include the exact date taken into account for the calculation of monthly variances and the items included in the definition adopted in each case.

(d) Qualitative information on specific transactions involving specific banks has been taken from the notes to the financial statements of the banks, or obtained on the basis of inquiries made of the supervisors at the Superintendence of Financial and Exchange Institutions.

(e) Estimates of the main sources and uses of funds: this table summarizes the aggregate principal movements of funds in the corresponding period, derived mainly from the institutions assets and liabilities management policies. In view of the source of this information – the main variations in the aggregate balance sheet headings for the institution aggregate – and the purpose of the table, when preparing it certain changes have been made, mainly on the grounds that changes related to the revaluation of items (for exchange rate or inflation adjustment, etc.) should be eliminated, as should those related to the accrual of provisions, depreciation and amortization, changes in the way certain transactions are recorded and the elimination from the balance sheet of assets for which recovery is doubtful (with 100% provisioning). In particular, balances of foreign currency items at the end of the period are restated at the exchange rate at the beginning of the period.

(f) The profitability indicators provided have been calculated on the basis of monthly results estimated on the basis of the changes in the amount of accumulated results during the year in progress. Unless otherwise indicated, profitability ratios have been annualized.

(g) Initially, the breakdown by group of banks was determined on the basis of the majority existing in decision-making – in terms of shareholders' meeting votes – distinguishing between privately-owned institutions and public institutions. With the aim of deepening the analysis, private institutions were further broken down according to their geographical and commercial coverage. As a result, wholesale banks were defined as those specializing in the large corporation and investor segment, which usually do not depend for their funding on deposits from the private non-financial sector. Retail banks were divided into those carrying out business at national level, those located in specific geographical regions – municipal, provincial or regional institutions – and institutions specializing in a financial sector niche market – generally smaller institutions. Lastly, it should be noted that this grouping has been carried out solely for analytical purposes and does not represent the only methodological criterion for grouping, while in addition, the detailing of the characteristics of each group of institutions has been established in a general manner.

Glossary

%a.: annualized percentage.
Adjusted profit: Total profit excluding payments made due to court-ordered releases and adjustments to the valuation of public sector assets according to Com. "A" 3911 and 4084.
Consolidated (or aggregate) assets and liabilities: Those arising from excluding operations between financial system institutions.
Gains from securities: Includes income from government securities, short-term investments, corporate bonds, subordinated debt and options. In the case of government securities, it includes the results accrued from income, quotation differences, exponential increase on the basis of the internal rate of return (IRR), and from sales, as well as the charge for impairment to value.
Income from services: Commissions collected less commissions paid. Includes commissions on liabilities, credits, securities, guarantees granted, rental of safe deposit boxes and foreign trade and exchange transactions, excluding in the case of the latter results from the trading of foreign currency, which are recorded in the "Exchange difference" accounts (here included under the heading "Other financial results"). Outflows include commissions paid, contributions to the Banking Social Services Institute (ISSB), other contributions on service income and charges accrued for gross income tax.
Interest income (interest margin): Interest collected less interest paid on financial intermediation, on an accrual basis – taken from balance sheet – rather than on a cash basis. Includes interest on loans of government securities and premiums on repos and reverse repos.
Liquid assets: Minimum cash compliance – cash, current account at Central Bank and special accounts in guarantee – and other liquid items, including correspondent accounts.
MAE: Mercado Abierto Electrónico. Electronic over-the-counter market.
Net operating revenue: Interest income plus net adjustments according to the CER and CVS indexes in relation to financial intermediation plus service income.
Net worth exposure to counterparty risk: :Non-performing portfolio net of allowances in terms of net worth.
Netted assets and liabilities (NA): Those net of accounting duplications inherent to the recording of swaps, whether term or unsettled spot transactions.
NFPS: Non financial private sector.
Non-performing portfolio: Portfolio in categories 3 to 6, as per the debtor classification system.
Operating costs: Includes remuneration, social security payments, services and fees, sundry expenses, taxes and amortization.
Operating profits: Result from interest and net adjustments according to the CER and CVS indexes in relation to intermediation plus service income, less tax charges in relation to interest and services and operating costs.
Other financial results: Income from financial leasing, adjustments to valuation of credit to the public sector, contribution to the deposit guarantee fund, interest on liquid funds, difference in market price of gold and foreign exchange, premiums on the sale of foreign currency and other unidentified income (net).
Private sector credit: Loans to the private sector and private sector securities.
Public sector credit: Loans to the public sector, holdings of government securities and compensation receivable from the Federal Government.
ROA: Net profits as a percentage of netted assets. When referring to accumulated results the denominator includes the average netted assets for the reference months.
ROE: Net profits as a percentage of net worth. When referring to accumulated results the denominator includes the average net worth for the reference months.
Other: In the profitability structure, sundry gains – including gains from long-term investments, loan recoveries and release of allowances – and sundry losses – including losses on long-term investments, amortization of differences from court orders, loss on sale or impairment of fixed assets, amortization of goodwill.
SEFyC: Superintendence of Financial and Exchange Institutions.

Statistical exhibit

Balance sheet - Private sector

In current pesos (millions)	Dec 99	Dec 00	Dec 01	Dec 02	Mar 03	Dec 03	Feb 04	Mar 04	Change (%) Month on month	Change (%) Accum. 2004	Change (%) Year on year
Netted assets	**85,918**	**88,501**	**73,796**	**117,928**	**113,202**	**115,093**	**114,651**	**114,255**	**-0.3**	**-0.7**	**0.9**
Liquid assets	13,228	13,920	10,576	11,044	11,539	14,500	15,308	15,704	2.6	8.3	36.1
Public bonds	6,433	7,583	1,627	19,751	17,206	22,047	21,236	20,460	-3.7	-7.2	18.9
Private bonds	410	563	451	273	150	172	165	200	21.0	16.1	33.8
Loans	56,916	56,035	52,319	51,774	49,683	47,230	47,213	48,861	3.5	3.5	-1.7
Public sector	6,389	8,172	13,803	25,056	25,341	23,784	23,439	24,951	6.5	4.9	-1.5
Private sector	47,705	45,103	36,636	26,074	23,503	22,816	23,061	23,254	0.8	1.9	-1.1
Financial sector	2,823	2,760	1,880	644	840	630	713	656	-8.1	4.0	-21.9
Provisions over loans	-3,119	-3,248	-3,957	-7,463	-6,619	-5,223	-4,897	-4,551	-7.1	-12.9	-31.2
Other netted credits due to financial intermediation	4,470	5,730	4,489	26,235	24,030	20,670	20,252	19,698	-2.7	-4.7	-18.0
Purchases (net)	487	1,103	807	380	334	698	612	659	7.6	-5.6	97.1
Corporate bonds and subordinated debt	1,022	724	665	1,514	1,380	1,394	1,024	844	-17.6	-39.4	-38.8
Unquoted trusts	958	1,609	1,637	6,205	6,359	3,573	3,582	3,528	-1.5	-1.3	-44.5
Compensation receivable	0	0	0	15,971	14,306	13,812	13,463	13,170	-2.2	-4.7	-7.9
BCRA	12	35	865	377	315	415	426	373	-12.4	-10.2	18.5
Assets under financial leases	796	776	752	553	515	387	390	393	0.7	1.5	-23.7
Shares and participation	1,371	1,651	1,703	3,123	3,203	2,791	2,925	1,467	-49.8	-47.4	-54.2
Fixed assets and sundry	3,246	3,225	3,150	5,198	5,112	4,902	4,839	4,936	2.0	0.7	-3.5
Foreign branches	48	75	112	-109	-100	-136	-187	-68	-63.4	-49.7	-31.2
Other assets	2,120	2,190	2,574	7,549	8,482	7,753	7,406	7,156	-3.4	-7.7	-15.6
Netted liabilities	**73,615**	**76,322**	**62,281**	**102,101**	**97,982**	**100,192**	**99,868**	**100,004**	**0.1**	**-0.2**	**2.1**
Deposits	54,447	57,833	44,863	44,445	45,615	52,625	54,070	55,501	2.6	5.5	21.7
Public sector (1)	1,342	1,276	950	1,636	1,709	3,077	3,471	3,498	0.8	13.7	104.7
Private sector (1)	52,460	55,917	43,270	38,289	39,637	47,097	48,468	50,029	3.2	6.2	26.2
Current account	5,022	4,960	7,158	8,905	7,781	11,588	11,712	13,067	11.6	12.8	67.9
Savings account	9,702	9,409	14,757	6,309	6,166	10,547	12,085	12,664	4.8	20.1	105.4
Time deposit	35,218	39,030	18,012	11,083	15,163	18,710	18,702	18,268	-2.3	-2.4	20.5
CEDRO	0	0	0	9,016	7,437	2,409	2,139	1,978	-7.5	-17.9	-73.4
Other netted liabilities due to financial intermediation	16,185	15,401	14,082	48,364	44,917	40,825	39,858	38,570	-3.2	-5.5	-14.1
Call money	2,146	2,293	1,514	836	924	726	709	676	-4.7	-6.9	-26.9
BCRA lines	274	83	1,758	16,624	16,827	17,030	17,065	17,057	0.0	0.2	1.4
Outstanding bonds	4,990	4,939	3,703	9,073	7,837	6,674	6,607	6,416	-2.9	-3.9	-18.1
Foreign lines of credit	6,680	5,491	4,644	15,434	13,562	9,998	9,647	8,608	-10.8	-13.9	-36.5
Sales (net)	492	510	99	349	309	168	193	186	-3.7	10.5	-39.8
Subordinated debts	1,683	1,668	1,700	3,622	3,205	1,850	1,532	1,492	-2.6	-19.4	-53.4
Other liabilities	1,299	1,420	1,637	5,671	4,246	4,891	4,408	4,441	0.7	-9.2	4.6
Net worth	**12,304**	**12,178**	**11,515**	**15,827**	**15,219**	**14,902**	**14,782**	**14,251**	**-3.6**	**-4.4**	**-6.4**

(1) Does not include accrual on interest or CER.

Profitability structure

Private banks - in annualized terms

As % of	Yearly						2003	2004	Monthly	
netted assets	1999	2000	2001	2002	2003	2004	H II	H I (*)	Feb-04	Mar-04
Net interest income	4,5	4,1	4,3	-0,2	0,1	0,5	0,3	0,5	0,4	0,8
Restatement by CER and CVS	0,0	0,0	0,0	1,1	0,9	1,2	1,1	1,2	1,2	1,3
Service income margin	3,1	2,9	3,2	2,0	2,0	2,2	2,1	2,2	2,0	2,3
Gains on securities	1,1	1,4	1,2	2,5	1,7	0,2	2,1	0,2	0,0	1,1
Foreign exchange price adjustments	0,3	0,2	0,3	4,4	-0,3	0,1	0,9	0,1	0,2	-0,6
Adjustments to the valuation of government securities (**)	0,0	0,0	0,0	0,0	-0,6	-0,3	0,0	-0,3	-0,1	0,0
Other financial income	0,3	0,5	0,7	-0,1	-0,2	-0,2	-0,1	-0,2	-0,2	-0,1
Operating costs	-6,3	-6,0	-6,4	-4,8	-4,6	-4,5	-4,6	-4,5	-4,5	-4,7
Loan loss provisions	-2,2	-2,5	-3,0	-5,0	-1,3	-0,9	-1,0	-0,9	-1,0	-0,5
Tax charges	-0,4	-0,4	-0,5	-0,4	-0,3	-0,3	-0,3	-0,3	-0,4	-0,3
Income tax	-0,5	-0,4	-0,3	-0,2	-0,3	-0,7	-0,1	-0,7	0,0	-2,0
Amortization payments for court-ordered releases	0,0	0,0	0,0	0,0	-0,7	-0,9	-0,1	-0,9	-0,9	-0,9
Other	0,5	0,4	0,7	-3,0	1,0	1,6	-0,7	1,6	1,7	2,1
Monetary results	0,0	0,0	0,0	-7,5	0,0	0,0	0,0	0,0	0,0	0,0
ROA before income tax	0,8	0,6	0,5	-11,1	-2,2	-1,3	-0,3	-1,3	-1,4	0,6
ROA before monetary results	0,3	0,1	0,2	-3,8	-2,4	-2,0	-0,5	-2,0	-1,4	-1,4
ROA	0,3	0,1	0,2	-11,3	-2,5	-2,0	-0,5	-2,0	-1,4	-1,4
ROA adjusted (***)	0,3	0,1	0,2	-11,3	-1,2	0,0	0,3	0,0	-0,1	-0,5
Indicators (%)										
ROE	**2,3**	**0,8**	**1,4**	**-79,0**	**-19,1**	**-15,7**	**-3,7**	**-15,7**	**-10,9**	**-11,6**
Operating profit / NA	-0,3	-0,5	-1,3	-4,8	-1,4	-1,6	-0,3	-1,6	-2,2	0,1
Operating revenue / operating costs	120,5	116,9	117,1	58,8	66,5	86,6	77,1	86,6	81,1	96,8
Interest income (with CER and CVS) / loans	..	13,9	16,1	24,7	9,0	8,1	8,3	8,1	8,3	8,2
Interest payments (with CER and CVS) / deposits	..	5,7	7,8	21,9	5,8	2,1	3,2	2,1	2,1	1,8

Note: interest income and the loan balances correspond to non-financial sector transactions.

(*) As of March 2004, annualized

(**) Com. "A" 3911. Adjustments to the valuation of government securities according to Com. "A" 4084 are included under the "gains from securities" heading.

(***) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and 4084.

Portfolio quality - Private banks

As percentages	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Jan 04	Feb 04	Mar 04
Non-performing loans (overall)	7.6	8.3	9.9	19.8	15.7	15.4	14.4	12.6
Loans to the non-financial private sector	8.9	9.8	14.0	37.4	30.4	29.7	27.7	24.6
Commercial portfolio	6.2	7.6	15.2	44.5	39.9	39.9	36.4	31.1
Commercial portfolio up to $200,000	11.7	14.6	16.4	46.4	26.8	26.5	24.8	24.7
Consumption and housing portfolio	12.5	11.9	12.4	26.0	17.2	15.8	15.5	15.2
Provisions / Non-performing loans	69.4	67.7	75.7	73.4	81.2	84.3	83.8	81.4
(Non-performing - Provisions) / Overall financing	2.3	2.7	2.4	5.3	2.9	2.4	2.3	2.4
(Non-performing - Provisions) / Net worth	11.5	13.4	11.4	18.6	10.0	8.3	7.9	8.5