Report on Banks

SEPTEMBER 2005

Central Bank of Argentina

Year III - No. 1

Contents

Note: This report contains information from September 2005 balance sheets available on 17/11/05. 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.

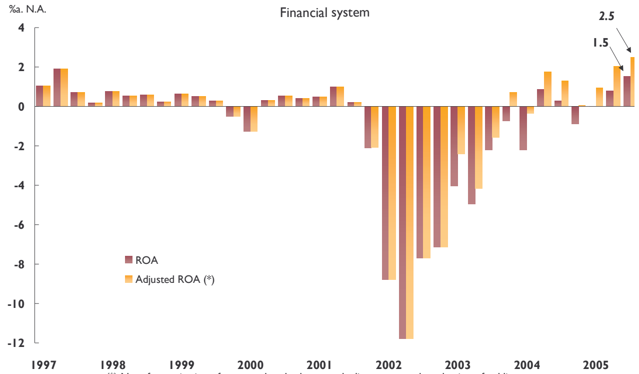
Published on November 22, 2005

For comments, enquiries or electronic subscription:
analisis.financiero@bcra.gov.ar

Summary

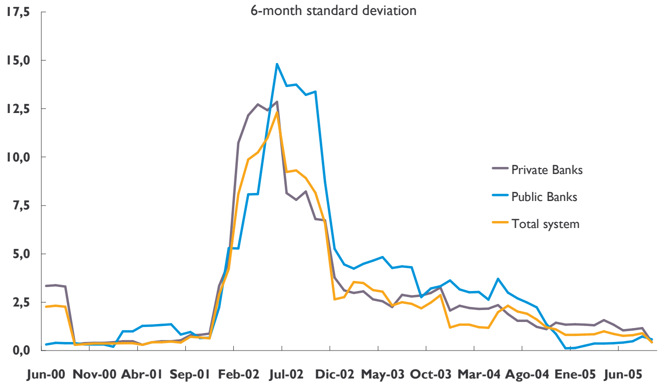
- **At the close of the third quarter of 2005 the financial system continues to add depth to its intermediation activities, a dynamic that is expected to continue in coming months.** Various factors (cut-backs in exposure to the public sector, improved quality of the portfolio of loans to the private sector, reduced borrowing from the Central Bank and consolidation of positive results) have helped to ensure that bank balance sheets continue to record a steady improvement, so that the growth recorded is based on firmer ground.
- **The financial sector posted profits for $283 million (1.7%a. of assets) in September, total profits for 2005 to date amounting to $1.19 billion (0.8%a. of assets).** Unlike previous months, the monthly change in profitability was led by private banks, with profits of $167 million, or 1.7%a. of their assets, while official banks recorded positive results for approximately $106 million or 1.5%a. of assets.
- **Private bank profitability gains this month were largely explained by better gains on securities, as well as rising interest income.** This has made it possible to more than offset the drop in exchange rate differences and CER adjustments, and the seasonal increase in cost structure (operating costs and loan loss provisions). There has also been an increase in sundry income and tax charges.
- Increased profitability has helped with the steady improvement in financial system solvency, and capital contributions have a similar effect. Although in September only one small capital contribution was made, the financial system has built up capital injections for $11.7 billion since the beginning of 2002. **Aggregate private bank net worth recorded an increase of 0.9% in September, for total growth of 9.3% in 2005 to date. In regulatory terms, private bank capital compliance rose slightly during the month, to 17% of risk-weighted assets.**
- **Although during September totals for private sector lending rose 2.4% or 33%a. (driven by commercial lending lines), consolidated financial system assets recorded a slight decline (-0.6%), mainly due to the use of resources to settle liabilities to the Central Bank in advance.**
- **The quality of loans to the private sector continued to improve in September, with the system as a whole recording a cut-back of 0.8 p.p. in non-performance, to a level of 10.6%** (8 p.p. less than the ratio recorded in December 2004).
- **Financial system exposure to the public sector dropped 1.3 p.p. in September to a level of 32% of total assets**, a total decline of 7.5 p.p. in 2005 to date. The monthly movement was once again explained by private banks, which recorded a drop of almost 1.5 p.p. in their exposure, to 29.7% of assets.
- **Balance sheet totals for consolidated financial system deposits grew by 0.8% (10.7%a.) in September,** mainly from rising private sector deposits (which went up 1.1% or 14.6%a.). These were mostly used to establish time deposits (up 1.6% or 21%a.).
- Significant progress was made in September with the normalizing of financial system liabilities, following **a large volume of early repayment of liabilities in relation to rediscounts granted by the Central Bank. One major private bank repaid the full amount of its liabilities to this Institution, so that there are only 9 banks that record outstanding debts at the end of September** (and by early November this number had been reduced to 6 banks).
- It is estimated that **the main origins of resources for private banks in September were the lowering of liquid assets by almost $1.65 billion, an increase in private sector deposits for $1.21 billion, and a further cut-back in exposure to the public sector ($1.2 billion). Most of the resources gained were used for the accelerated reduction of liabilities to the Central Bank ($2.0 billion), although a significant portion of resources was used to increase holdings of LEBAC and NOBAC ($1.26 billion) and to increase lending to the private sector ($930 million).**

Chart 1
Annualized Quarterly Profit
Financial system



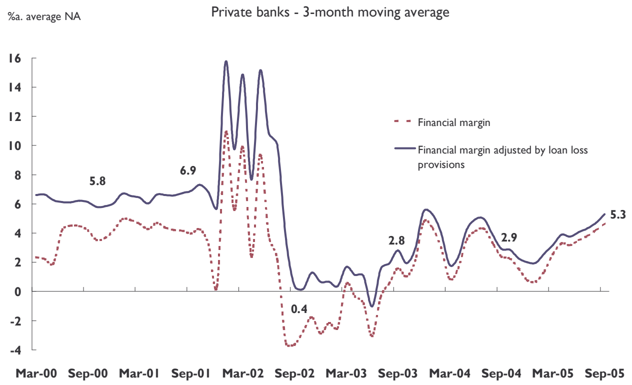
Source: BCRA
(*) Net of amortization of court-ordered releases and adjustments to the valuation of public sector assets..

Chart 2
Historical Volatility of Results
6-month standard deviation



Source: BCRA

Chart 3
Financial Margin
Private banks - 3-month moving average



Source: BCRA

Profitability:
Quarter ends with notable gains

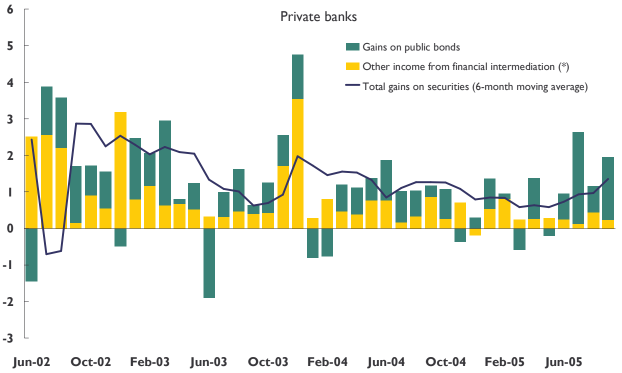
In September the financial system recorded a gain of close to $283 million or an annualized 1.7% (a.) of assets. This level of profitability, slightly above that recorded in the previous year, is the highest so far in 2005. As a result, the financial system has ended the third quarter of the year with a result of $793 million or 1.5%a. of assets. A gradual improvement has been seen from quarter to quarter (see Chart 1): ROA was 0% and 0.8% in the first and second quarters of 2005, respectively, while in the third quarter of the year it reached a level of 0.3%a.. This improvement is particularly encouraging, as it implies a process of internal capital rebuilding, which, together with the new contributions made by financial institutions, translates into a steady recovery in the solvency of the financial system. **In the year to date, gains of close to $1.19 billion (0.8%a. of assets) have been recorded, a figure that rises to $2.8 billion (1.8%a.) if the calculation of the amortization of payments made under court orders and the adjustments to the valuation of public sector assets are excluded. These profits contrast with the loss-making situation that prevailed in the 2002-2004 period**, although the volatility of results is still slightly higher than the lowest pre-crisis levels (see Chart 2).

September's profits reflect a sound performance by both public banks (which recorded profits for $106 million or 1.5%a. of their assets) and private banks (with profits for $167 million or 1.7%a. of assets). In both cases the performance by results over the course of the year shows a clearly positive trend, with the highest profits for the year to date being recorded towards the end of the third quarter. In the case of public banks, the quarter has ended with profits of $372 million (1.8%a.), with gains of $719 million (1.2%a.) in the year to date. In the third quarter of the year, private banks obtained positive results for $428 million (1.4%a.), a figure that rises to $455 million (0.5%a.) for 2005 to date.

In the case of private banks, the progress for the month in relation to results has been a reflection of several factors. **In September, financial margin increased, led by an improvement in gains on securities and higher interest accrual, offsetting the declines recorded by exchange differences, and to a lesser extent, CER accrual.** Together with increased sundry income and lower tax charges, the improved financial margin enabled the offsetting of increases in the cost structure (mainly of a seasonal nature, reflecting quarterly balance sheet closings), under the heading of loan loss provisions and operating costs.

Private bank financial margin rose 0.7 percentage points (p.p.) in September, to 5.6%a. of assets. This margin totaled 5.3%a. for the quarter, the highest level for the year for private banks, and a notable change from the same quarter of the previous year, when the level was close to 3%a. (see Chart 3). **The improvement for the month in the financial margin for private banks was led by an increase of 0.9 p.p.**

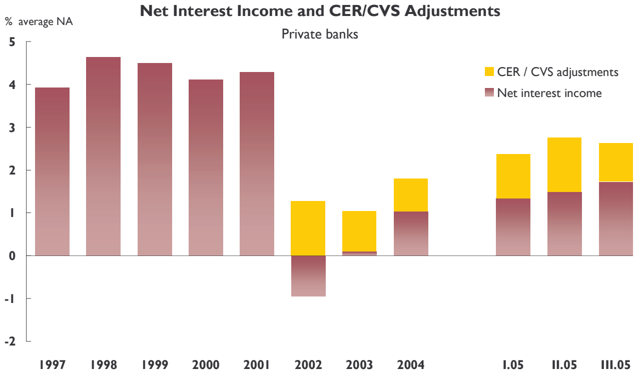
Chart 4
Gains on Securities
Private banks



Source: BCRA

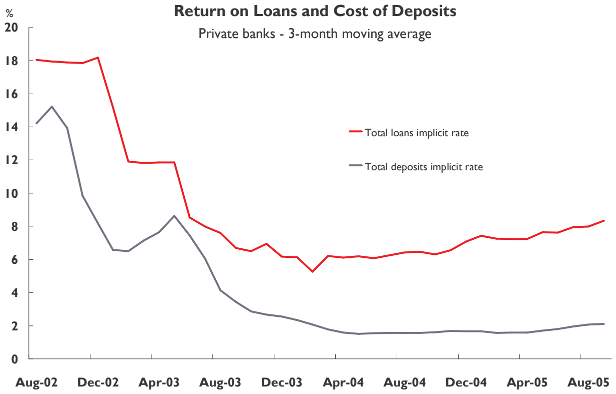
(*) Gains on outstanding bonds, shares and other.

Chart 5
Net Interest Income and CER/CVS Adjustments
Private banks



Source: BCRA

Chart 6
Return on Loans and Cost of Deposits
Private banks - 3-month moving average



Source: BCRA

in gains on securities, to a level of 2.1%a. (see Chart 4). Most of this increase reflects adjustments of a non-recurring nature[1], to which can be added (in the limited cases in which banks marked their bond holdings to market) improvements derived from the rise in market prices. As has been mentioned in recent Reports, gains on securities is particularly volatile. The higher gains on securities in September more than offset the decline recorded in exchange rate differences, one of the headings that had grown most in the previous month. In September, with an exchange rate stable at a level of 2.91 $/US$, the income from revaluation of assets and liabilities in foreign currency went from 1%a. to 0.6%a. of private bank assets.

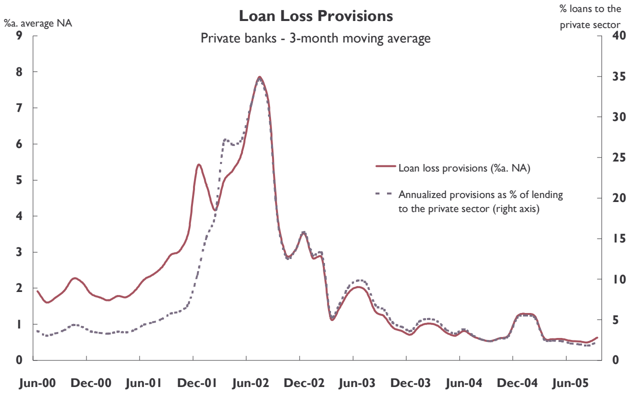
The portion of financial margin that reflects the result obtained from traditional intermediation activities **(sum of interest income and CER adjustments), also recorded a slight increase during the month: it rose 0.2 p.p. to 2.8%a. of private banks assets** (see Chart 5 showing quarterly performance). **This behavior was explained by interest income, which increased 0.3 p.p. for the month to 2%a. of assets, driven by growth in interest charged on loans, at the same time as interest on deposits remained stable.** The increase in income from interest on loans is consistent with the current growth bias of financial intermediation, and the gradual improvement in the quality of the private sector loan portfolio (see Chart 6). As forecast in the previous issue of this Report, **this monthly increase has made it possible to offset a slight decline in accrued CER adjustments, in the context of a lower variation in the index**[2].

The improvement for the month in the financial margin for private banks was accompanied by an increase in loan loss provisions, which can be expected at each quarterly financial statement closing period. **Such charges practically doubled in September, reaching a level of 1%a. of assets or 3.5%a. measured in terms of the balance for loans to the private sector** (see Chart 7, showing a moving quarterly average). Nevertheless, viewed in perspective, such charges remain at relatively low levels for private banks: at September last year they accounted for 4.4%a. of the balance of loans to the private sector, while in the same month of 2003 the level was 6.1%a.. This performance is a reflection of various factors: high levels of provision during the crisis (leading subsequently to a considerable increase in the release of such provisions, when the situation became more favorable), a steady reduction in arrears as from mid- 2003[3] and the current growth in lending at a time of solid macroeconomic variables, translated into a lower counterpart risk for banks.

For the third month in succession, private bank income from services remained at 2.9%a. of assets, a similar level to that recorded prior to the crisis. As a result, they have ended the quarter with growth of 0.3 p.p. in terms of assets (see Chart 8), a sign of the steady growth in bank current income base. This increased income robustness is in line with the current growth in the level of financial intermediation, with growth in both deposits and loans. Nevertheless,

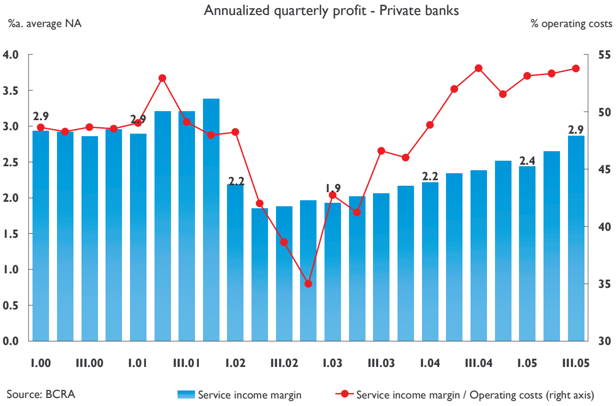
[1] For example, two banks recorded non-recurring gains related to the subscription of BODEN 2012 (compensation) bonds.
[2] The smoother rise in this index was partly offset by certain adjustments for positive CER of a non recurring nature made by a few specific banks, and by the lower accrual of CER payable by one large institution that settled in advance all its debt under the so-called matching mechanism.
[3] For further detail on this point, see section on Portfolio Quality.

Chart 7
Loan Loss Provisions
Private banks - 3-month moving average



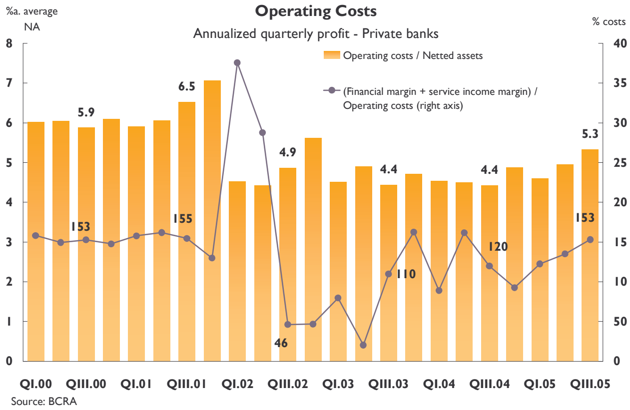
Source: BCRA

Chart 8
Service Income Margin
Annualized quarterly profit - Private banks



Source: BCRA

Chart 9
Operating Costs
Annualized quarterly profit - Private banks



Source: BCRA

the increase in service income has been more than proportionate to the increase in private sector deposits and loans, an indication of the efforts made by banks to expand their sales of services. This increase in income from services has also made it possible to cover a growing percentage of operating costs. In the third quarter of the year coverage reached 54% of such costs, almost 5 p.p. above the level recorded prior to the crisis.

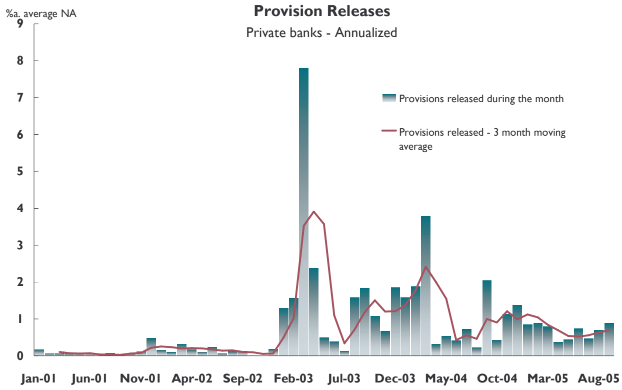
This improvement in private bank income base in September ensured that the increase recorded in administration costs (in part due to the type of adjustments normally made at the end of accounting quarters) did not lead to a lower coverage of costs by income. Although these costs increased by 0.2 p.p. in the month (to 5.4%a. of assets), the ratio of their cover by income (financial margin and income from services) also rose, from 150% to 156%. In the quarter just ended the coverage reached 153%, more than 30 p.p. above the level recorded by private banks one year earlier, and far from the minimum levels seen during the crisis (see Chart 9).

Sundry income was another of the components of the income statement showing sharp movement during the month. This heading rose 0.3 p.p. in the month to a level of 1.1%a. of private bank assets. This behavior was mainly explained by two factors. On the one hand, there was an increase in the volume of provisions released. Although the release of provisions has taken place at a lower rate than in 2003 and 2004, it has been recording an upward trend in recent months (see Chart 10). In addition, in September there was a drop in the setting up of provisions for the uncollectability of sundry receivables, and to a lesser extent, charges for other provisions were also lower.

Lastly, **the remaining categories recorded a more stable behavior. Income tax accrual by private banks fell slightly this month.** Categories related to the gradual recognitions of the effects of the last crisis did not show any significant change: whereas the amortization of payments under court orders recorded a slight decline to a level of 0.9%a. of private bank assets, public sector bond valuation adjustments continued to have a moderate impact on the statement of income, in line with the schedule of progressive adjustments established by Com. “A” 3911 and subsequent modifying regulations.

Analyzing the quarterly performance of the different bank sub-groups making up the financial system, it can be seen that there has been a widespread improvement in profitability in the July-September 2005 period, in general associated with a strengthening of the income base (see Table 1). The performance of private retail banks with a national reach (the group with the largest weighting) and wholesale banks has been particularly notable. Although they record the lowest levels of ROA, their profits have shown a significant improvement compared with the losses seen in the same quarter of the previous year. Smaller banks in specific niche markets (specialized retail banks and regional banks) record an above-average ROA. Only

Chart 10
Provision Releases
Private banks - Annualized



Source: BCRA

in the case of non-bank financial institutions has there been a drop for the quarter in ROA[4].

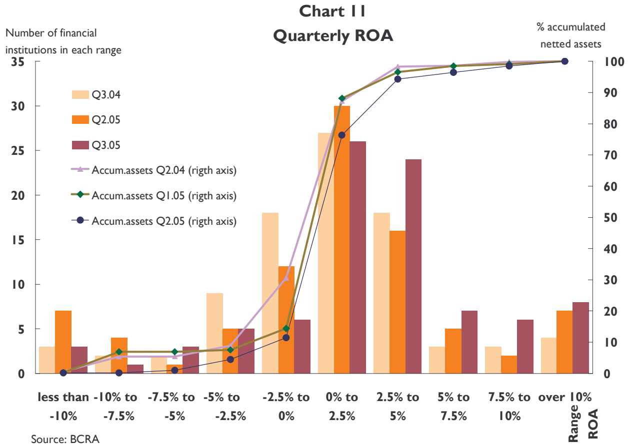
The widespread improvement for the quarter can also be seen at individual level (see Chart 11). Out of a total of 89 financial institutions[5], 71 banks posted positive results this quarter, whereas in the same period of 2004 and in the immediately preceding quarter (the second quarter of 2005), the number of institutions recording profits totaled 55 and 60, respectively. At the same time, **banks recording losses represented a declining portion of financial system assets:** this percentage, which amounted to 31% of assets in the third quarter of 2004, fell to 14% in the previous quarter, and to 11% this quarter.

Table I
Profitability by groups
Annualized ROA in % - by type and area coverage

	2004	2005 *	Q2 04	Q2 05	Q3 05	Percentage share of NA (Q2-05)**
Public	0.3	1.2	0.8	0.9	1.8	*39.8*
Private	-1.0	0.5	-0.1	0.7	1.4	*59.3*
Retail	-1.0	0.5	0.0	0.7	1.4	*56.6*
National coverage	-1.5	0.0	-0.6	0.2	0.8	*43.0*
Regional coverage	1.2	2.5	2.4	2.5	3.2	*13.0*
Specialized	0.5	2.2	0.6	-0.3	4.3	*0.6*
Wholesale	-1.9	-0.4	-2.1	-0.1	1.0	*2.7*
Non-bank institutions	2.2	1.0	6.0	1.9	-1.5	*0.9*
TOTAL	**-0.5**	**0.8**	**0.3**	**0.8**	**1.5**	***100***
TOTAL adjusted (***)	0.7	1.8	1.3	2.0	2.5	*100*

(*) Up to September, annualized.
(**) Percentage share of total NA according with data available for the mentioned period.
(***) Net of the amortization of court-ordered releases and adjustments to the valuation of public sector assets (Com "A" 3911 and 4084).
Source: BCRA

Chart 11
Quarterly ROA



Source: BCRA

Outlook for October

On the basis of the performance by financial system results in the year to date and the expectations regarding the evolution of the macroeconomic environment and the banking business, it is expected that in coming months the dynamic of the steady recovery will be maintained. Notwithstanding the volatility persisting in certain specific income statement lines, **the flow of current profits is expected to grow stronger and more stable, at the same time as financial intermediation expands, ensuring that solvency of the local financial system comes from within.**

Specifically as regards October, information available to date encourages optimism regarding the sustainability of the positive results being recorded (see Table 2). **The significant growth in lending achieved in the month (particularly notable in commercial lines), combined with some increase in the rates on the more dynamic short-term lines (overdrafts), will be translated into a broader interest income base.** This effect will more than compensated for by an increase in interest paid, as the growth in the balance of time deposits was lower in relative terms, although there was a slight rise in interest paid under this heading. In addition, the larger growth by CER in October compared with the previous month, added to the lower volume of liabilities subject to adjustment (mainly from the reduction in liabilities due to the Central Bank) would lead to larger adjustments for this coefficient in the month. Also, unlike in September, the increase in the $/US$ exchange rate in October would generate an increase in results from exchange rate differences. **These positive developments would be reflected in a rising trend for financial results, which could be partly offset by a certain decline in gains on securities,** given the existence of adjustments of a non-recurring nature in September. In the case of the cost structure, after the end of the quarter some reduction could be seen in loan loss provisions and operating costs. No major changes are expected in the case of the remaining headings.

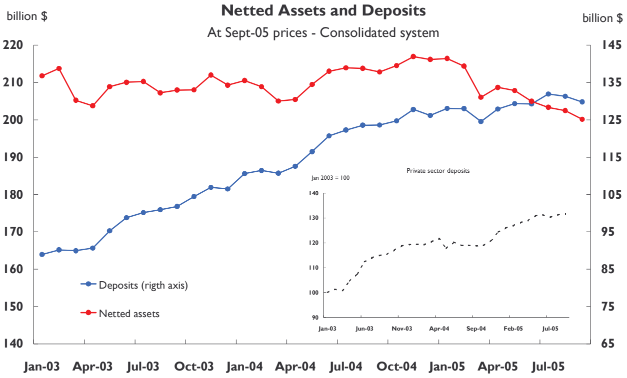
[4] This performance has been due to one institution in particular that posted losses when it sold a significant volume of government securities that were recorded at their technical parity. If this institution is excluded from the sample, the ROA for non-bank financial institutions rises from 3.5%a in the second quarter of 2005 to 6.2% in the third.
[5] This calculation only includes those financial institutions present in all three periods mentioned.

Table 2
Main Developments in October

	Sep	Oct	Ch %
Prices			
Exchange rate ($/US$) [1]	2.91	3.01	3.3
CPI	164.79	166.07	0.8
CER [1]	1.667	1.684	1.0
	%		Ch.(p.p.)
Average percentage rates			
Lending [2]			
Overdraft	14.6	15.0	0.4
Promissory notes	10.6	10.6	0.0
Mortgage	10.9	11.0	0.0
Pledge-backed	10.0	9.9	-0.1
Personal	24.8	24.7	-0.1
30- to 44-day time deposit	3.7	3.9	0.2
1-year LEBAC in pesos, w/o CER	8.8	8.9	0.1
7 day BCRA repos	4.3	4.5	0.3
	million $		Ch %
Balance[1,2] - Private banks			
Peso deposits - Private sector	56,193	56,399	0.4
Sight deposits	30,665	30,853	0.6
Time deposits	25,518	25,536	0.1
Peso loans - Private sector	29,267	30,271	3.4
Overdraft	6,699	7,369	10.0
Promissory notes	6,646	6,815	2.5
Mortgage	5,001	4,912	-1.8
Pledge-backed	1,104	1,163	5.3
Personal	3,310	3,389	2.4

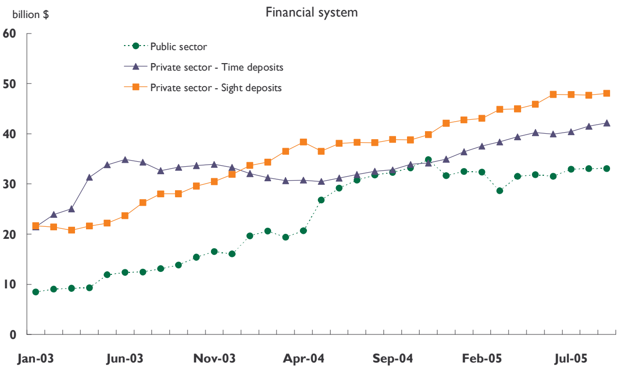
([1]) End of month figure.
([2]) Estimation based on SISCEN data (provisional data subject to change).
In million of pesos
Source: INDEC and BCRA.

Chart 12
Netted Assets and Deposits
At Sept-05 prices - Consolidated system



Source: BCRA

Chart 13
Deposits by Type
Financial system



Source: BCRA

Activity:
Accelerated normalization of liabilities

Financial intermediation continued to grow in September, consolidating the trend seen in 2005 to date. This improvement was reflected in a favorable performance by both deposits and credit lines for the private sector. Nevertheless, as a result of the application of resources made by financial institutions in order to significantly reduce their liabilities to the Central Bank, a decline of 0.6% took place in the netted assets of the consolidated financial system (see Chart12).

In September, the total balance of deposits in the consolidated financial system[6] posted growth of 0.8% (10.7%a.), accumulating a positive variation of 16.4%a. during 2005. Such development is consistent with a context of continuous improvement in the risk profile for financial institutions, and growing public confidence in the financial system, added to the influence -with a lower relative weight- of the slightly upward trend adopted in recent months by interest rates paid on deposits.

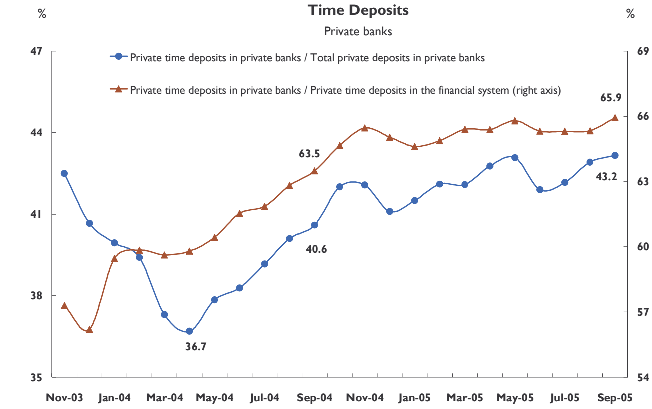
Private sector deposits (see Chart 13) **accounted for almost all the growth in financial system deposits during September (increasing 1.1% or 14.6%a.)**. This month **time deposits went up 1.6% or 21%a.,** while sight deposits reversed the negative trend recorded in previous months, rising by 0.8% (9.9%a.). Public sector deposits in the financial sector remained almost unchanged. **Growth by private sector time deposits during the first nine months of 2005 (20.6% or 28.4%a.) has reinforced the gradual lengthening of average terms for funding of financial institutions**. It is expected that this continuous growth by time deposits, complementing a recovery by medium and long-term placements on capital markets, will enable a gradual lengthening of terms for private sector credit.

The increase in deposits in private banks (1.3% or 16.7%a.) was once again explained by private sector deposits (which increased 1.7% or 21.8%a.), confirming the trend in previous months. For the third month in a row, private sector economic agents were more inclined to use their resources for time deposits, causing an increased participation of the latter in the funding from deposits by private banks (see Chart 14). Deposits by the public sector recorded a slight drop (-1.8% or -23.4%a.) in this bank sub-group.

As seen in the last two months, **in September private sector time deposits adjusted by CER posted growth (4.4% or 67.8%a.). Approximately half the monthly variation was explained by the Pension Funds´ (AFJPs) adjustable deposits, which grew 4.3% (66.5%a.), accumulating an increase of close to 49.5% (70.9%a.) during 2005** (see Chart 15). **Adjustable time deposits, with a weighting of 5% in the investment portfolios of the pension funds,**

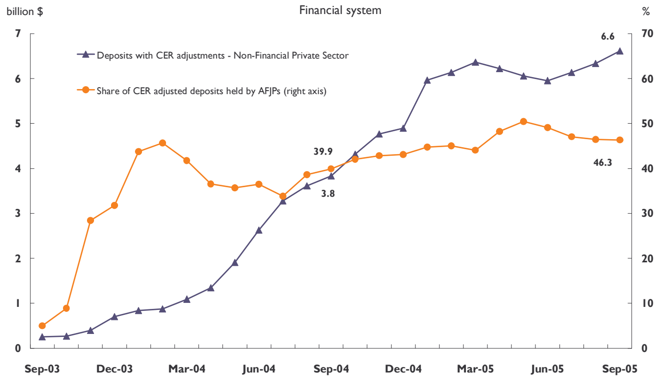
[6] Includes deposits of residents abroad and deposits of government securities, as well as interest and total adjustments accrued. Does not include the deposits of the financial system, nor rescheduled deposits to be exchanged for government securities.

Chart 14
Time Deposits
Private banks



Source: BCRA

Chart 15
Time Deposits with CER Adjustments
Financial system



Source: BCRA & SAFJP

Table 3
Loans to the Private Sector by Group of Banks

% change based on balance sheet totals

	2005	Q2 2005	Q3 2005	Sep-05	Share of total 2005
Public banks					
Total loans	**31**	**35**	**23**	**23**	**28**
Commercial	79	124	59	51	23
Consumer	71	64	52	64	29
Collateralized	-2	-8	-5	-13	41
Other	-51	-99	-100	-61	19
Private banks					
Total loans	**38**	**47**	**40**	**35**	**70**
Commercial	50	77	43	36	77
Consumer	53	52	60	74	64
Collateralized	6	10	8	17	56
Other	28	11	54	6	81
Total system					
Total loans	**36**	**43**	**36**	**33**	**100**
Commercial	56	87	47	40	100
Consumer	58	51	61	75	100
Collateralized	4	4	5	8	100
Other	6	-9	-23	-6	100

Does not include accrued interest or CER/CVS adjustments. Balance sheet totals not adjusted by transfers between loan portfolios and trust funds or by loans written off balance sheets.
The private bank group include a financial institutions currently undergoing a restructuring process and under administration of a national public bank.
Loans in foreign currency expressed in pesos considering the average exchange rate for the period .
Commercial loans include overdraft, acceptance of promissory notes and export credit
Consumer loans include credit card and personal loans.
Collateralized loans include pledge-backed loans and mortgages
Source: BCRA

account for 90% of their total investment in banks, and over 46% of total financial system adjustable deposits.

In line with the favorable performance by lending recorded during 2005, **in September the balance of financial system loans to the private sector**[7] **recorded an increase of 2.4% or 33%a.** (see Table 3). **Lending granted by private banks recorded an increase (2.5% or 35%a.) that was higher than that recorded by official banks (1.8% or 23%a.).** In turn, **private banks were responsible for almost three-quarters of the monthly growth in lending to the private sector.** This increased dynamism has taken place in the third quarter of the year, a period in which private banks recorded an increase in their lending to the private sector of 8.8% (40%a.), while in the case of public banks the increase was 5.4% (23%a.). For 2005 to date, the difference in the growth rate for the two groups of banks dropped to 7 p.p..

In September commercial lending lines were responsible for 53% of the increase in lending by the consolidated financial system. Among these lines, **there was a notable increase in promissory notes for companies (7.9%), mainly led by private banks.** There was also a positive variation in current account overdrafts, which went up 0.3%. In September, for the first time this year, loans for export and pre-export finance recorded a drop of -5.5%, a movement seen in a number of institutions. Nevertheless, this credit line still recorded an increase of 87% (130%a.) in 2005.

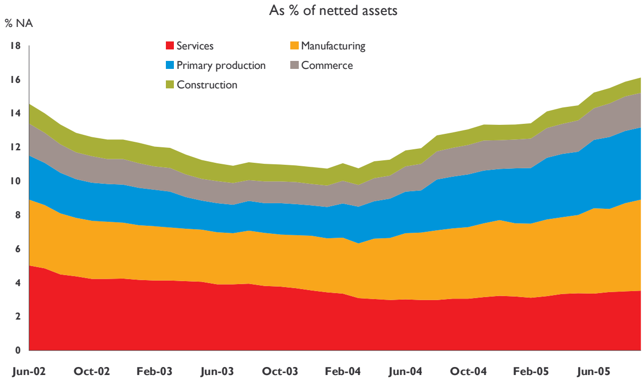
Financial system lending to companies[8] **continues to focus on those productive sectors showing greatest dynamism in the current macroeconomic context** (both local and international). In September, lending to industry and primary production of goods accounted for 60% of all lending to companies (see Chart 16), 4 p.p. more than in December 2004. Trade and construction maintained their share steady at 13% and 6%, respectively. Only the services sector showed a drop in its share, losing 2 p.p. in the year to date 2005 to a level of 22% of the loan portfolio.

In September there was a marked increase in lending to households (4.8%), mainly reflected in the personal loans lines (6.6%),[9] **with private banks playing an active role.** Credit card loans recorded an increase during the month (2.2%), in line with the increased use of "plastic" as a means of payment.

Collateralized loans increased in September for the second month in succession, in the context of a sound macroeconomic performance and lower uncertainty. **Pledge-backed loans increased 2.2% in September, a figure that rises to 4.8% when adjusted for the setting up of a trust by one private bank, while mortgage loans continue to show signs of recovery, growing 0.3% in the month.** New mortgage loans totaled $280 million in September (see Chart 17), driven by a

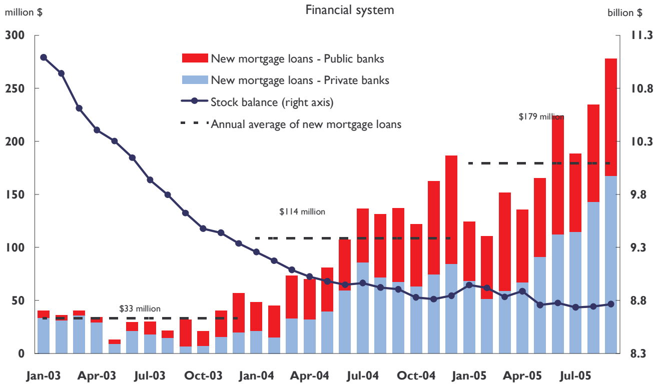
[7] Calculation made on the basis of balance sheet totals. Loans in foreign currency are stated in pesos (if the balances of various months are considered, an average exchange rate is used). Does not include interest or adjustments. Not adjusted for unrecoverable loans written off from the balance sheet.
[8] For purpose of analysis, using information from the Debtor Status Report, the calculation has included those loans granted to legal persons and commercial loans granted to individuals.
[9] A change that reaches 7.3% if adjustment is made for the setting up of a financial trust with personal loans by one private institution during the month.

Chart 16
Bank Exposure to Economic Sectors
As % of netted assets



Source: BCRA

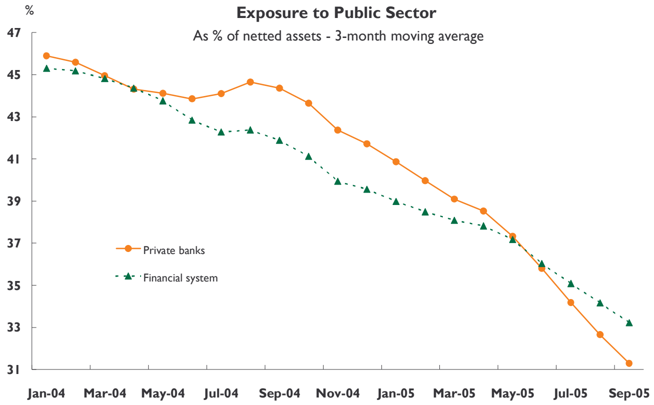
Chart 17
Financial System Mortgage Loans
Financial system



Note: Stock balance not adjusted by transfer between loan portfolios and trust funds or by loans written off balance

Source: BCRA

Chart 18
Exposure to Public Sector
As % of netted assets - 3-month moving average



Source: BCRA

small group of public and private banks that have kept pace with the growing dynamism of the local real estate market.

In September the consolidated financial system recorded a drop of 1.3 p.p. in its exposure to the public sector[10], to a level of 32% of total assets[11] (see Chart 18). Consequently, there has been a drop of almost 7.5 p.p. during 2005, explained by a series of factors. Strategies for the sale of secured loans and other government securities held in portfolio (in some cases to investors and banks abroad) contributed to ensuring that banks complied with the limits established by the Central Bank (maximum exposure by bank of 40% of total assets as from 2006). The reduction also reflects the receipt of pending compensation from the Government, part of which is made in cash, as a result of the existence of coupons that had already fallen due. **Once again, private banks led the way with this declining exposure to the Government, with a reduction for the month of almost 1.5 p.p. in September, to a level of 29.7% of total assets.**

In September, private banks recorded a decline of almost US$150 million in their foreign currency mismatching[12], to US$1.18 billion (see Chart 19). Private bank dollar assets recorded a drop for the month (US$25 million), mainly reflecting the lower balance of loans to the private sector in foreign currency and the receipt in cash of part of the compensation in dollars pending receipt from the Government. In addition, foreign currency liabilities from private banks recorded a monthly increase (almost US$130 million), a result among other factors of a rise in deposits in that currency.

In terms of estimated cash flows for private banks in September (see Table 4), **the main source of funds was generated by the reduction in bank liquid assets. This movement was mainly associated with the settlement of liabilities with the Central Bank, making use of resources previously used to perform repos with this Institution.** As a result, private bank repo transactions dropped approximately $1.71 billion during the month. Complementarily, there was a drop in other private bank cash resources ($160 million) and an increase in minimum cash reserve compliance ($215 million). This decline in liquid assets was reflected in a drop of 2.6 p.p. in the private bank liquidity index[13], to a level of 22.8% of deposits (see Chart 20). **Growth in private sector deposits generated additional resources for $1.21 billion for the private banks during the month.** Lastly, the decline in exposure to the public sector continues to be one of the main sources of funds for these institutions ($1.2 billion).

Within the framework of the process of normalization of bank liabilities to the Central Bank, instrumented by means of mechanisms established by this Institution, in September private banks made payments for approximately $2.0 billion. In addition to the monthly payments made under the so-called "matching" system,

---

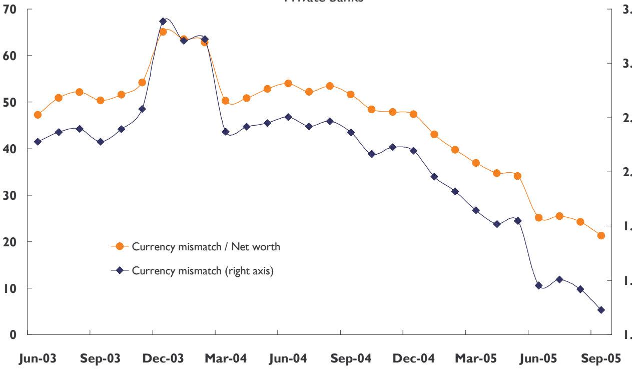
[10] Exposure to the public sector includes balance sheet totals for government securities (excluding LEBAC and NOBAC), loans to the public sector, and compensation receivable.

[11] This figure is a weighted average for the system. At present, various banks individually exceed the 40% limit on exposure of their assets to the public sector.

[12] Foreign currency-denominated assets include branches abroad (a non-monetary item).

[13] Defined as the sum of minimum cash reserve requirements by financial institutions at the Central Bank, other available funds, and the balance of bank repos with the Central Bank.

Chart 19
Currency Mismatch
Private banks



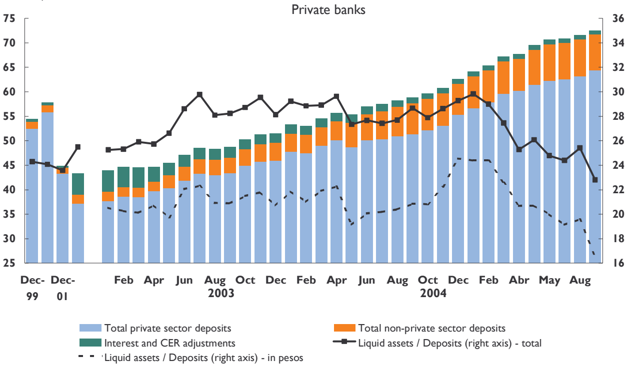
Source: BCRA

Table 4
Estimated Sources and Uses of Funds
Private banks - September 2005
million pesos

Source		Uses	
Liquid assets (2)	1,650	BCRA rediscounts	2,000
Private sector deposits	1,210	LEBAC and NOBAC stocks	1,260
Loans to the public sector	1,200	Loans to non-financial private sector (1)	930
Others	265	Public sector deposits	135

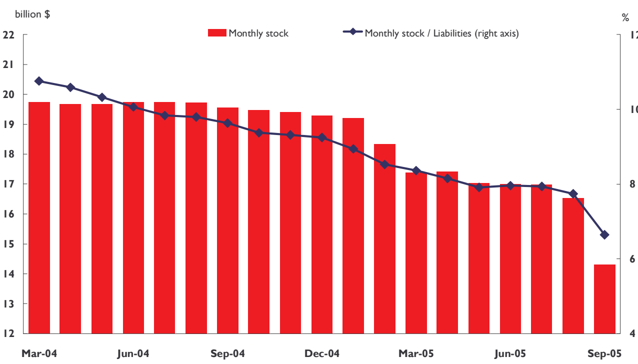
(1) Adjusting for credit written off from balance sheet and transfers between loan portfolios and trust funds.
(2) Minimum cash compliance (cash, current account with the BCRA and special collateral accounts), other liquid assets (with foreign branches or head offices) and reverse repos with the BCRA.
Source: BCRA

Chart 20
Deposits and Liquidity
Private banks



Source: BCRA

Chart 21
BCRA Rediscounts



Source: BCRA

one private bank repaid its debt in full (for an amount of close to $1.83 billion). Using this tool, further 2 private banks decided to significantly reduce their liabilities to the Central Bank. As a result, **by the end of September the financial system had accumulated payments for close to $8.9 billion since March 2004 in relation to debt repayable by the matching mechanism, and only 9 banks still recorded debts from rediscounts** (see Chart 21). This trend towards the reduction in liabilities with the Central Bank is expected to persist in coming months, in line with the strategies adopted by banks (both public and private) to improve their risk to return ratios. **In October and November another 3 banks prepaid their debts with this Institution in full,** at the same time as one large public bank (both in terms of its assets and its share of the remaining rediscounts) made a repayment of a considerable volume during the same period.

Two other leading uses of funds by private banks in September were an **increase in holdings of LEBAC and NOBAC (approximately $1.26 billion) and lending to the private sector ($930 million).** New lending to the private sector accounted for almost three-quarters of the funding received from private deposits in September. Uses of funds during the month were completed by a reduction in public sector deposits (almost $135 million).

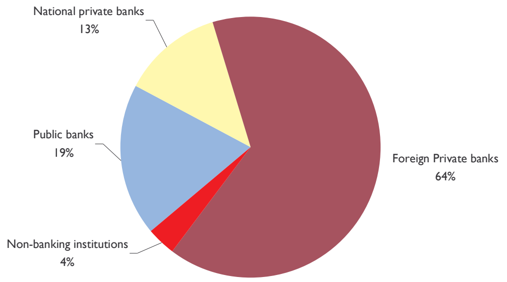
Although in September there were no major capital injections (only one private institution made an irrevocable capital contribution for a relatively small amount) the consolidated financial system has accumulated capitalization for over $11.7 billion since the beginning of 2002 (see Chart 22). **Net worth of the private banks group recorded a monthly increase of 0.9%** and a total of almost 9.3% in the accumulated for the year.

In line with the drop for the month in assets and the slight increase in net worth posted by private banks in September, their leverage recorded a slight decline (almost 0.1 p.p.) to a level of 7.5 times (see Chart 23), continuing the trend seen over the year as a whole. As regards of regulatory requirements, the slight monthly fall in risk-weighted assets of private banks resulted in a capital compliance for counterpart risk of 17%. Lastly, the overall capital position (compliance less requirement) dropped almost 1.8 p.p. in the month to 149.8%, as a result of a reduction in compliance excess by banks.

Portfolio quality:
Widespread reduction in non-performance

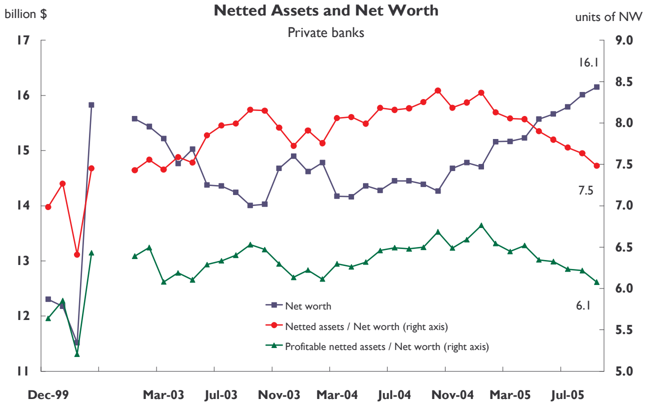
The quality of loans to the private sector maintained its widespread gradual improvement in September, reflecting the sustained growth of the domestic economy, with improved business prospects for companies and higher family income. These developments have translated into a lower implicit credit risk for new loans, at the same time as they improve the capacity of the various agents to keep their payments up-to-date and restructure delinquent debt. In this context, **in September the non-performing ratio for the financial system**

Chart 22
Capital Contributions
Jan 2002 - Sep 2005



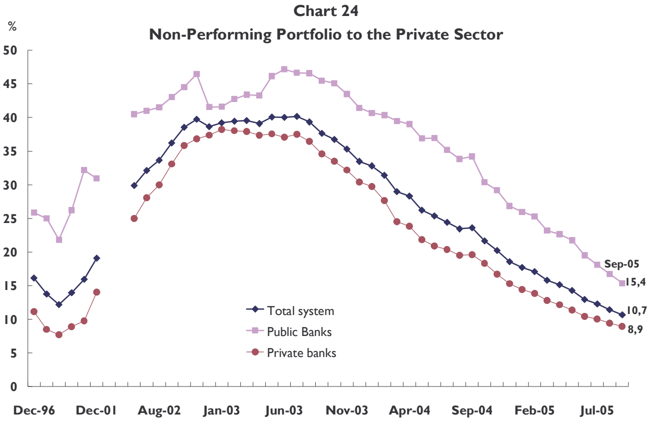
Source: BCRA

Chart 23
Netted Assets and Net Worth
Private banks



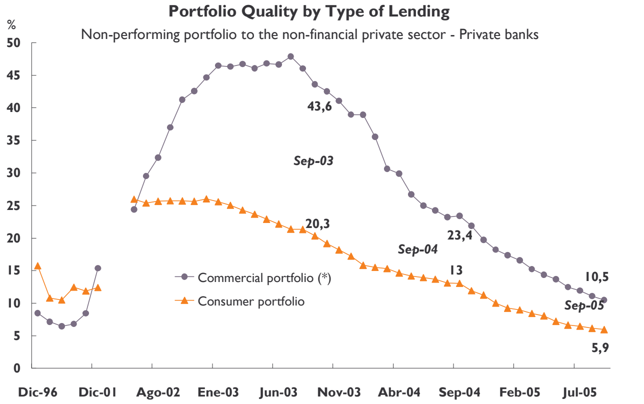
Source: BCRA

Chart 24
Non-Performing Portfolio to the Private Sector



Source: BCRA

Chart 25
Portfolio Quality by Type of Lending
Non-performing portfolio to the non-financial private sector - Private banks



Source: BCRA (*) Includes commercial loans treated as consumer loans for classification purposes.

recorded a decline of 0.8 p.p. to a level of 10.6%, accumulating a drop of almost 8 p.p. in 2005 to date (see Chart 24).

The reduction for the month in non-performance was linked to both the granting of new loans (with a lower counterpart risk) and a drop in the non-performing loan total. As in previous months, **public banks accounted for a large part of the improvement for the month in the quality of the financial system portfolio. Although these banks started from relatively higher levels of non-performance, they recorded a drop in this ratio for the month of 1.4 p.p. to 15.3%, for a total cut-back in the year of 11.5 p.p.. The non-performance ratio for private banks posted a reduction of 0.5 p.p. in the month to a level of 8.9%** (close to the pre-crisis average), accumulating a drop of 6.4 p.p. in 2005 to date.

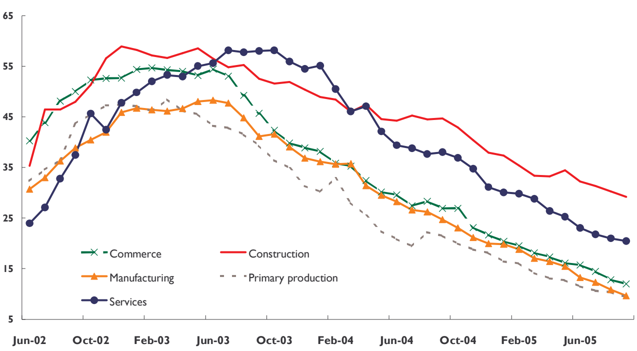
In the case of private banks, both the commercial portfolio and the consumer loans continue to show a steady reduction in their delinquency levels. Although consumer loans still record a higher credit quality than commercial loans, it is the latter category that has posted the greatest progress in recent months, with a gradual convergence in its levels of non-performance (see Chart 25). **In September the non-performance of the private bank commercial portfolio reached a level of 10.5%, with a drop for the month of 0.6 p.p. and almost 8 p.p. on the basis of the accumulated total for 2005.** In addition, **in September the consumer loan portfolio recorded a reduction of 0.3 p.p. in its non-performance to a level of 5.8%**, almost half its pre-crisis average[14].

On an aggregate basis, **the financial system continues to channel a greater volume of resources to those productive sectors with the greatest dynamism, such as industry and the primary production of goods. These in turn record lower levels of non-performance, given their lower implicit risks** (see Chart 26). This trend gained in strength in September, and it is expected that it will continue to do so in coming months, in the context of favorable prospects, both domestic and international, for these sectors. In addition, growth in the real estate market and progress in the restructuring of public utility company debts will lead to significant improvements in the quality of loans destined to those sectors.

At the end of the third quarter of the year there has been an overall improvement in the loan quality of the various sub-groups of banks making up the local financial system. In general terms, **both retail banks with a nationwide reach and public banks** (the two sub-groups with the greatest weighting) have led this movement, given the greater potential for improvement (relatively sharper portfolio deterioration) shown by these sub-groups. **They recorded drops for the quarter in non-performance of almost 2 p.p. and 4 p.p. respectively, with cut-backs for the year of close to 8 p.p. and 12 p.p.**, to levels equivalent to half those recorded at the end of 2004. Furthermore, regional retail banks and specialized banks, as well as non-bank financial institutions, continue to be the sub-groups with the best credit portfolio quality,

[14] Comparisons of indicators between moments that are remote in time are made for indicative purposes, as differences respond to various factors, including changes in rules for classification.

Chart 26
Non-Performance by Economic Sector
Non-performing portfolio / Total financing



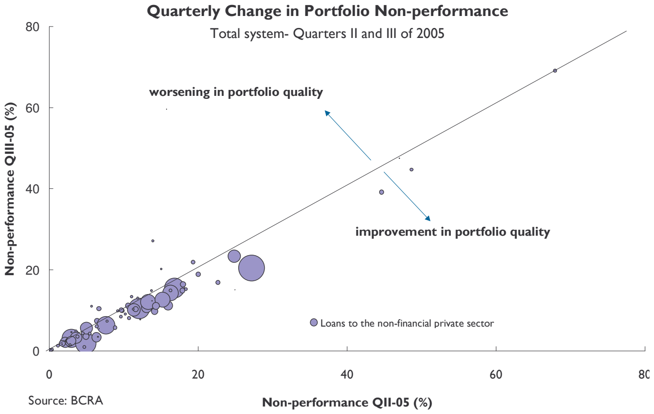
Source: BCRA

Table 5
Non-performing Portfolio by Group
As % of non-financial private sector lending

	Dec-02	Dec-03	Sep-04	Dec-04	Jun-05	Sep-05	Share of lending to private sector(*)
Public	44.9	46.8	34.2	26.8	19.5	15.4	27.5
Private	37.5	30.9	19.6	15.3	10.5	8.9	70.3
Retail	37.7	30.9	19.8	15.3	10.4	8.8	67.8
National coverage	38.8	34.0	21.3	17.1	11.4	9.5	51.3
Regional coverage	27.7	16.0	15.3	10.5	7.3	6.4	15.0
Specialized	36.5	32.4	13.8	11.5	8.9	8.8	1.5
Wholesale	33.7	32.0	15.4	14.8	12.8	12.0	2.5
Non-financial institutions	36.6	16.6	10.8	7.6	7.7	7.0	2.2
TOTAL	**39.6**	**35.2**	**23.6**	**18.6**	**13.0**	**10.7**	**100.0**

(*) Last month.
Source: BCRA

Chart 27
Quarterly Change in Portfolio Non-performance
Total system- Quarters II and III of 2005



Source: BCRA

with non-performance indicators ranging between 6% and 9% (see Table 5).

Considering the quarterly change in the portfolio quality at individual level, **there has been widespread improvement and gains by banks with a greater weighting in terms of loans** (see Chart 27), a sign of the significant progress made by large banks in the administration of their loan portfolios.

A larger fall in the amounts rated as non-performing than that recorded by balance sheet provisions meant that in September coverage through provisions improved: **this indicator recorded a slight increase (2.4 p.p.) to a level of 103% in the case of private banks**. In a similar manner, **public banks also recorded increased coverage, with provisions reaching 135% of their total non-performing loans**. As a result, the provisioning ratio for the financial system reached a level of 115% in September (2 p.p. higher than in August). This trend generated a further improvement in the indicator of exposure of net worth to credit risk: **the ratio of non-performing loans not covered by provisions as a percentage of net worth remained at mildly negative levels for both private and public banks.**

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" 4414 – 08/September/05
This instruction alters the criterion for the valuation of unlisted public and private sector securities as from August 2005. At the end of each period the stocks of these securities are to be increased exponentially on the basis of their internal rate of return. This will affect holdings of Lebac, Nobac, corporate bonds, subordinated debt and financial trust debt certificates. This measure is not applicable to securities covered by the terms of Communication "A" 3911 and complementary regulations.

Communication "A" 4418 – 13/September/05
Modification of rules on the evaluation of financial institutions. In the case of rating agencies stating their interest in participating in the regime, as an option to the requirements requested (performing bank ratings in no less than 10 countries, of which at least five must be in Latin America) the alternative has been made available for the rating agencies to have been registered with the National Securities Commission for at least three years, and having performed during the last two years ratings of debt paper issued by at least five different financial institutions. In addition, notwithstanding the suspension of the regulations on this matter, companies may become registered without complying with the requirement to submit a specimen of the report, by attaching the supporting working papers.

Communication "A" 4421 – 23/September/05
The regulation of Credit Cooperatives has been modified to relax certain aspects and thus improve the conditions for an adequate development of the sector. The main changes are as follows: i) the maximum participation allowed to be held by public utility cooperatives in the capital of credit cooperatives has been increased, ii) other types of cooperatives can participate in their capital, iii) it has been allowed for the participation of public utility cooperatives in credit cooperatives to reach up to 50% in the case of those located in districts of less than 40,000 inhabitants; in the case of cooperatives with a different aim, the limit is up to 25% of net worth for the same population segment, iv) it shall not be mandatory for each member to pay in the capital at the time it is subscribed (except in the case of cooperatives, which must pay in all the capital subscribed), v) the maximum amount for the taking of time deposits has been increased from $12.000 to $20.000, vi) the margin for credit cooperatives to grant loans with payment in full at maturity or in irregular installments has been increased, with the introduction of a system of rising limits on the basis of the term in business of the credit cooperative, up to a maximum for the total portfolio of this time of laws of 100% in the fourth year, vii) also on the basis of a rising scale, the limit for loans credited to current accounts has been increased, reaching 200% in the fourth year, viii) the prohibition on installing ATMs has been lifted.

Communication "A" 4423 – 23/September/05
Regulations on credit policy. Application of lending capacity in foreign currency. Financing of investment projects increasing or related to the manufacture of goods for export have been added as an approved use of lending capacity, with the clarification that transactions in which the financing is granted by means of the participation of the institution in "syndicated loans" is included, whether with domestic or foreign entities.

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 of the Superintendency 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 institutions aggregate – and the purpose of the table, when preparing it certain changes have been made, mainly on the ground that changes related to the revaluation of items (for exchange rate or inflation adjustments, 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 the 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, 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 a 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. The group of private banks includes 3 institutions currently in the process of restructuring, which are under the management of a national public bank.

Glossary

%a.: annualized percentage.
%i.a.: interannual 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 modifications.
ASE: Adjusted stockholders' equity, for Responsabilidad Patrimonial Computable (RPC) in Spanish. The measure for compliance with bank capital regulations.
Consolidated (or aggregate) assets and liabilities: Those arising from excluding operations between financial institutions.
Financial margin: Income less outlays of a financial nature. Includes interest income, gains from securities, CER/CVS adjustments, exchange rate differences and other financial results. Does not include the items affected by Com. A 3911 and modifications.
Gains on securities: Includes income from government securities, short-term investments, corporate bonds, subordinated debt, options and from other income from financial intermediation. 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 deposits 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.
Liquidity ratio: Liquid assets as a percentage of total deposits.
mill.: million
Netted assets (NA) and liabilities: Those net of accounting duplications inherent to the recording of repurchase agreements, term transactions or unsettled spot transactions.
Net worth exposure to counterparty risk: Non-performing portfolio net of allowances in terms of net worth.
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.
ON: Corporate bonds (Obligaciones Negociables).
OS: Subordinated debt (Obligaciones Subordinadas).
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).
PN: Net worth (Patrimonio Neto).
p.p.a.: annualized percentage points
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.
Quotation differences: Income from the monthly updating of foreign currency-denominated assets and liabilities. The heading also includes income arising from the purchase and sale of foreign currency, arising from the difference in the price agreed (net of direct costs generated by the transaction) and the book value.
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.
SMEs: Small and Medium Enterprises.
US$: United States dollars

Statistics: Financial System

Balance Sheet

In current pesos (millions)	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Sep 04	Dec 04	Aug 05	Sep 05	Change (%) Month on month	Change (%) Accum. 2005	Change (%) Year on year
Assets	**153,140**	**163,550**	**123,743**	**187,532**	**186,873**	**206,971**	**212,562**	**217,926**	**220,087**	**1.0**	**3.5**	**6.3**
Liquid assets[1]	20,423	20,278	13,005	17,138	27,575	31,041	29,154	27,512	24,079	-12.5	-17.4	-22.4
Public bonds	8,531	10,474	3,694	31,418	45,062	48,527	55,382	60,447	63,199	4.6	14.1	30.2
Lebac/Nobac	0	0	0	n/a	n/a	14,747	17,755	25,023	27,758	10.9	56.3	88.2
Portfolio	0	0	0	n/a	n/a	9,927	11,803	19,073	21,116	10.7	78.9	112.7
Repo	0	0	0	n/a	n/a	4,819	5,953	5,950	6,642	11.6	11.6	37.8
Private bonds	477	633	543	332	198	236	387	382	387	1.3	-0.2	64.1
Loans	83,850	83,277	77,351	84,792	68,042	75,676	73,617	79,064	79,364	0.4	7.8	4.9
Public sector	12,138	15,164	22,694	44,337	33,228	34,689	30,866	27,519	26,436	-3.9	-14.4	-23.8
Private sector	67,934	64,464	52,039	38,470	33,398	38,921	41,054	49,618	50,720	2.2	23.5	30.3
Financial sector	3,778	3,649	2,617	1,985	1,417	2,066	1,697	1,927	2,208	14.6	30.1	6.8
Provisions over loans	-6,001	-6,907	-6,987	-11,952	-9,374	-8,160	-7,500	-6,089	-5,834	-4.2	-22.2	-28.5
Other netted credits due to financial intermediation	33,679	42,361	21,485	39,089	27,030	32,794	32,554	28,536	30,687	7.5	-5.7	-6.4
Corporate bonds and subordinated debt	1,115	794	751	1,708	1,569	1,000	1,018	855	817	-4.5	-19.8	-18.3
Unquoted trusts	1,336	2,053	2,065	6,698	4,133	2,870	3,145	3,400	3,637	7.0	15.7	26.7
Compensation receivable	0	0	0	17,111	14,937	15,621	15,467	9,683	8,532	-11.9	-44.8	-45.4
BCRA	81	141	84	3,360	650	538	376	382	355	-7.0	-5.7	-34.0
Other	31,146	39,373	18,585	10,212	5,741	12,765	12,547	14,215	17,346	22.0	38.2	35.9
Assets under financial leases	814	786	771	567	397	561	611	972	1,060	9.1	73.6	89.1
Shares and participation	1,838	2,645	2,688	4,653	4,591	3,471	3,871	4,200	4,293	2.2	10.9	23.7
Fixed assets and sundry	4,973	4,939	4,804	8,636	8,164	7,905	7,782	7,588	7,518	-0.9	-3.4	-4.9
Foreign branches	996	1,115	1,057	3,522	3,144	3,402	3,524	3,518	3,549	0.9	0.7	4.3
Other assets	3,560	3,950	5,334	9,338	12,043	11,519	13,180	11,796	11,786	-0.1	-10.6	2.3
Liabilities	**136,252**	**146,267**	**107,261**	**161,446**	**164,923**	**185,356**	**188,683**	**192,260**	**194,186**	**1.0**	**2.9**	**4.8**
Deposits	81,572	86,506	66,458	75,001	94,635	112,634	116,655	129,406	130,723	1.0	12.1	16.1
Public sector [2]	7,232	7,204	950	8,381	16,040	32,296	31,649	33,050	33,040	0.0	4.4	2.3
Private sector [2]	73,443	78,397	43,270	59,698	74,951	78,366	83,000	94,659	95,883	1.3	15.5	22.4
Current account	6,478	6,438	7,158	11,462	15,071	16,729	18,219	20,975	21,192	1.0	16.3	26.7
Savings account	13,047	13,008	14,757	10,523	16,809	22,122	23,866	26,702	26,863	0.6	12.6	21.4
Time deposit	48,915	53,915	18,012	19,080	33,285	32,811	34,944	41,491	42,154	1.6	20.6	28.5
CEDRO	0	0	0	12,328	3,217	1,527	1,046	184	22	-88.0	-97.9	-98.6
Other netted liabilities due to financial intermediation	50,361	55,297	36,019	75,737	61,690	65,830	64,928	57,087	57,491	0.7	-11.5	-12.7
Call money	3,793	3,545	2,550	1,649	1,317	1,795	1,461	1,667	1,988	19.3	36.1	10.8
BCRA lines	315	102	4,470	27,837	27,491	27,814	27,726	21,874	19,398	-11.3	-30.0	-30.3
Outstanding bonds	5,087	4,954	3,777	9,096	6,675	7,953	7,922	5,959	5,912	-0.8	-25.4	-25.7
Foreign lines of credit	10,279	8,813	7,927	25,199	15,196	10,558	8,884	5,914	5,854	-1.0	-34.1	-44.6
Other	30,886	37,883	17,295	11,955	11,012	17,710	18,934	21,673	24,338	12.3	28.5	37.4
Subordinated debts	2,206	2,255	2,260	3,712	2,028	1,546	1,415	1,338	1,376	2.9	-2.7	-11.0
Other liabilities	2,113	2,210	2,524	6,997	6,569	5,345	5,685	4,429	4,595	3.7	-19.2	-14.0
Net worth	**16,888**	**17,283**	**16,483**	**26,086**	**21,950**	**21,615**	**23,879**	**25,667**	**25,902**	**0.9**	**8.5**	**19.8**
Memo												
Netted assets	126,432	129,815	110,275	185,356	184,371	196,984	202,447	205,588	204,604	-0.5	1.1	3.9
Consolidated netted assets	122,270	125,093	106,576	181,253	181,077	192,990	198,462	201,385	200,123	-0.6	0.8	3.7

(1) Includes margin accounts with the BCRA

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

n/a: not available

Source: BCRA

Statistics: Financial System

Profitability structure

In annualized terms

As % of	Annual						First 9 months		Monthly			Last
netted assets	1999	2000	2001	2002	2003	2004	2004	2005	Jul-05	Aug-05	Sep-05	6 months
Financial margin	5.6	5.7	5.7	6.5	1.1	3.1	3.3	4.3	5.2	5.3	5.2	4.8
Net interest income	4.3	4.0	3.8	-1.7	-0.5	0.9	0.9	1.4	1.5	1.5	1.6	1.5
Restatement by CER and CVS	0.0	0.0	0.0	3.9	1.3	1.0	1.1	1.5	1.4	1.6	1.1	1.5
Foreign exchange price adjustments	0.9	1.2	1.2	1.7	1.1	0.4	0.6	0.2	-0.1	1.0	0.4	0.3
Gains on securities	0.2	0.1	0.2	2.8	-0.5	1.0	0.9	1.2	2.3	1.2	1.9	1.4
Other financial income	0.2	0.4	0.5	-0.1	-0.3	-0.2	-0.3	0.1	0.1	0.1	0.1	0.1
Service income margin	2.9	2.8	3.0	1.9	1.9	2.0	2.0	2.3	2.4	2.4	2.4	2.3
Loan loss provisions	-2.1	-2.4	-2.6	-4.7	-1.1	-0.8	-0.7	-0.6	-0.4	-0.5	-0.9	-0.6
Operating costs	-5.9	-5.8	-6.1	-4.4	-4.2	-4.1	-4.1	-4.4	-4.7	-4.6	-4.8	-4.6
Tax charges	-0.4	-0.4	-0.5	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4
Income tax	-0.3	-0.3	-0.2	-0.2	-0.2	-0.1	-0.2	-0.3	-0.2	-0.5	-0.3	-0.3
Adjustments to the valuation of government securities [1]	0.0	0.0	0.0	0.0	-0.4	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.2
Amortization payments for court-ordered releases	0.0	0.0	0.0	0.0	-0.6	-0.9	-0.9	-0.9	-0.9	-0.8	-0.8	-0.9
Other	0.5	0.4	0.6	-1.8	0.9	0.8	0.7	0.9	0.5	0.8	1.3	1.0
Monetary results	0.0	0.0	0.0	-5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA before income tax	0.6	0.4	0.2	-8.7	-2.7	-0.3	-0.2	1.1	1.6	2.1	2.0	1.5
ROA before monetary results	0.2	0.0	0.0	-3.1	-2.9	-0.5	-0.3	0.8	1.4	1.6	1.7	1.2
ROA	**0.2**	**0.0**	**0.0**	**-8.9**	**-2.9**	**-0.5**	**-0.3**	**0.8**	**1.4**	**1.6**	**1.7**	**1.2**
ROA adjusted [2]	0.2	0.0	0.0	-8.9	-1.9	0.7	0.9	1.8	2.3	2.6	2.5	2.3
Indicators (%)												
ROE	**1.7**	**0.0**	**-0.2**	**-59.2**	**-22.7**	**-4.2**	**-2.8**	**6.4**	**11.1**	**12.9**	**13.1**	**9.5**
Financial margin + service income margin / Operating costs	142.5	147.4	143.3	189.1	69.3	124.8	128.3	149.2	161.3	166.9	159.0	155.4
Interest income (with CER and CVS) / loans	..	13.0	15.2	11.8	13.1	10.3	10.7	12.7	12.1	12.9	12.1	12.8
Interest payments (with CER and CVS) / deposits	..	5.3	7.3	9.2	5.7	1.8	1.8	2.3	2.3	2.6	2.3	2.3

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

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

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

Source: BCRA

Portfolio quality

As percentages	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Sep 04	Dec 04	Jul 05	Aug 05	Sep 05
Non-performing loans (overall)	11.5	12.9	13.1	18.1	17.7	12.8	10.7	7.7	7.3	6.9
Non-performing loans to the non-financial private sector	14.0	16.0	19.1	38.6	33.5	23.6	18.6	12.3	11.4	10.6
Commercial portfolio (*)	12.1	14.9	20.7	44.0	38.0	28.8	22.8	15.2	14.0	13.1
Consumption and housing portfolio	16.6	17.3	17.5	31.4	28.0	14.7	11.0	7.2	6.9	6.5
Provisions / Total non-performing loans	59.6	61.1	66.4	73.8	79.2	88.2	102.9	112.8	113.6	115.6
(Total non-performing - Provisions) / Overall financing	4.7	5.0	4.4	4.7	3.7	1.5	-0.3	-1.0	-1.0	-1.1
(Total non-performing - Provisions) / Net worth	24.7	26.2	21.6	17.2	11.9	5.5	-1.0	-3.2	-3.2	-3.4

(*) Include commercial loans treated as consumer loans for classification purposes.

Source: BCRA

Statistics: Private Banks

Balance Sheet

In current pesos (millions)	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Sep 04	Dec 04	Aug 05	Sep 05	Change (%) Month on month	Change (%) Accum. 2005	Change (%) Year on year
Assets	**108,778**	**119,371**	**82,344**	**118,906**	**116,633**	**123,691**	**128,065**	**131,530**	**131,016**	**-0.4**	**2.3**	**5.9**
Liquid assets [1]	13,228	13,920	10,576	11,044	14,500	16,343	15,893	14,814	14,872	0.4	-6.4	-9.0
Public bonds	6,433	7,583	1,627	19,751	22,260	19,393	24,817	28,681	28,399	-1.0	14.4	46.4
Lebac/Nobac	0	0	0	n/a	n/a	5,953	8,359	14,872	14,423	-3.0	72.5	142.3
Portfolio	0	0	0	n/a	n/a	5,278	5,611	11,264	12,458	10.6	122.1	136.0
Repo	0	0	0	n/a	n/a	675	2,749	3,608	1,965	-45.5	-28.5	191.2
Private bonds	410	563	451	273	172	205	333	310	310	0.2	-6.7	51.2
Loans	56,916	56,035	52,319	51,774	47,017	53,044	50,741	53,438	53,074	-0.7	4.6	0.1
Public sector	6,389	8,172	13,803	25,056	23,571	24,874	21,420	17,746	16,665	-6.1	-22.2	-33.0
Private sector	47,705	45,103	36,636	26,074	22,816	27,193	28,213	34,418	35,221	2.3	24.8	29.5
Financial sector	2,823	2,760	1,880	644	630	978	1,107	1,274	1,189	-6.7	7.3	21.6
Provisions over loans	-3,119	-3,248	-3,957	-7,463	-5,225	-4,299	-3,717	-2,924	-2,876	-1.6	-22.6	-33.1
Other netted credits due to financial intermediation	27,330	36,600	13,037	27,212	22,148	24,750	25,753	23,209	23,115	-0.4	-10.2	-6.6
Corporate bonds and subordinated debt	1,022	724	665	1,514	1,394	820	829	650	632	-2.7	-23.7	-22.9
Unquoted trusts	958	1,609	1,637	6,205	3,571	2,171	2,362	2,319	2,503	7.9	6.0	15.3
Compensation receivable	0	0	0	15,971	13,812	14,836	14,657	9,388	8,236	-12.3	-43.8	-44.5
BCRA	12	35	865	377	415	311	311	311	291	-6.4	-6.5	-6.6
Other	25,338	34,232	9,870	3,146	2,955	6,611	7,594	10,541	11,454	8.7	50.8	73.2
Assets under financial leases	796	776	752	553	387	545	592	949	1,036	9.2	75.1	90.1
Shares and participation	1,371	1,651	1,703	3,123	2,791	1,550	1,892	2,173	2,236	2.9	18.2	44.2
Fixed assets and sundry	3,246	3,225	3,150	5,198	4,902	4,755	4,678	4,584	4,546	-0.8	-2.8	-4.4
Foreign branches	48	75	112	-109	-136	-71	-53	-72	-70	-2.8	32.8	-1.3
Other assets	2,120	2,190	2,574	7,549	7,816	7,475	7,137	6,370	6,373	0.1	-10.7	-14.7
Liabilities	**96,474**	**107,193**	**70,829**	**103,079**	**101,732**	**109,302**	**113,285**	**115,519**	**114,868**	**-0.6**	**1.4**	**5.1**
Deposits	54,447	57,833	44,863	44,445	52,625	58,935	62,685	71,591	72,516	1.3	15.7	23.0
Public sector [2]	1,342	1,276	950	1,636	3,077	6,130	6,039	7,329	7,194	-1.8	19.1	17.4
Private sector [2]	52,460	55,917	43,270	38,289	47,097	51,400	55,384	63,222	64,429	1.9	16.3	25.3
Current account	5,022	4,960	7,158	8,905	11,588	12,673	13,966	15,709	15,847	0.9	13.5	25.0
Savings account	9,702	9,409	14,757	6,309	10,547	13,845	14,842	16,685	16,839	0.9	13.5	21.6
Time deposit	35,218	39,030	18,012	11,083	18,710	20,831	22,729	27,109	27,785	2.5	22.2	33.4
CEDRO	0	0	0	9,016	2,409	1,153	798	168	7	-96.0	-99.1	-99.4
Other netted liabilities due to financial intermediation	39,045	46,271	22,629	49,341	42,367	44,968	45,083	39,718	38,063	-4.2	-15.6	-15.4
Call money	2,146	2,293	1,514	836	726	1,466	1,070	1,163	1,376	18.3	28.5	-6.1
BCRA lines	274	83	1,758	16,624	17,030	17,793	17,768	12,882	10,726	-16.7	-39.6	-39.7
Outstanding bonds	4,990	4,939	3,703	9,073	6,674	7,953	7,922	5,959	5,912	-0.8	-25.4	-25.7
Foreign lines of credit	6,680	5,491	4,644	15,434	9,998	6,892	5,444	3,935	3,879	-1.4	-28.8	-43.7
Other	24,954	33,466	11,010	7,374	7,939	10,865	12,878	15,779	16,171	2.5	25.6	48.8
Subordinated debts	1,683	1,668	1,700	3,622	1,850	1,402	1,304	1,239	1,277	3.1	-2.1	-8.9
Other liabilities	1,299	1,420	1,637	5,671	4,890	3,996	4,213	2,972	3,014	1.4	-28.5	-24.6
Net worth	**12,304**	**12,178**	**11,515**	**15,827**	**14,900**	**14,389**	**14,780**	**16,012**	**16,148**	**0.9**	**9.3**	**12.2**
Memo												
Netted assets	85,918	88,501	73,796	117,928	115,091	118,744	121,889	122,237	120,816	-1.2	-0.9	1.7

(1) Includes margin accounts with the BCRA

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

Source: BCRA

Statistics: Private Banks

Profitability structure

In annualized terms

As % of	Annual						First 9 months		Monthly				Lats
netted assets	1999	2000	2001	2002	2003	2004	2004	2005	Jun-05	Jul-05	Aug-05	Sep-05	6 months
Financial margin	6.1	6.2	6.4	7.6	2.3	2.9	3.2	4.2	3.8	5.4	4.9	5.6	4.7
Net interest income	4.5	4.1	4.3	-0.2	0.1	1.0	1.0	1.5	1.4	1.5	1.7	2.0	1.6
Restatement by CER and CVS	0.0	0.0	0.0	1.1	0.9	0.8	0.9	1.1	0.6	0.9	0.9	0.8	1.1
Foreign exchange price adjustments	1.1	1.4	1.2	2.5	1.7	0.6	0.8	0.3	0.5	0.2	1.0	0.6	0.4
Gains on securities	0.3	0.2	0.3	4.4	-0.3	0.8	0.9	1.1	1.0	2.6	1.2	2.1	1.4
Other financial income	0.3	0.5	0.7	-0.1	-0.2	-0.3	-0.3	0.1	0.3	0.2	0.1	0.1	0.1
Service income margin	3.1	2.9	3.2	2.0	2.0	2.4	2.3	2.7	2.7	2.9	2.9	2.9	2.8
Loan loss provisions	-2.2	-2.5	-3.0	-5.0	-1.3	-0.9	-0.8	-0.6	-0.6	-0.5	-0.4	-1.0	-0.6
Operating costs	-6.3	-6.0	-6.4	-4.8	-4.6	-4.6	-4.5	-5.0	-5.3	-5.4	-5.2	-5.4	-5.1
Tax charges	-0.4	-0.4	-0.5	-0.4	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Income tax	-0.5	-0.4	-0.3	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1
Adjustments to the valuation of government securities [1]	0.0	0.0	0.0	0.0	-0.6	0.0	-0.1	-0.1	-0.5	0.0	0.0	0.0	-0.1
Amortization payments for court-ordered releases	0.0	0.0	0.0	0.0	-0.7	-1.0	-0.9	-1.0	-1.0	-1.0	-1.0	-0.9	-1.0
Other	0.5	0.4	0.7	-3.0	1.0	0.7	0.7	0.8	2.1	0.5	0.8	1.1	1.0
Monetary results	0.0	0.0	0.0	-7.5	0.0	0.0	0.0	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	-0.8	-0.4	0.6	0.9	1.4	1.5	1.8	1.2
ROA before monetary results	0.3	0.1	0.2	-3.8	-2.4	-1.0	-0.6	0.5	0.7	1.2	1.4	1.7	1.0
ROA	**0.3**	**0.1**	**0.2**	**-11.3**	**-2.5**	**-1.0**	**-0.6**	**0.5**	**0.7**	**1.2**	**1.4**	**1.7**	**1.0**
ROA adjusted [2]	0.3	0.1	0.2	-11.3	-1.2	0.2	0.7	1.6	2.2	2.2	2.4	2.5	2.1
Indicators (%)													
ROE	**2.3**	**0.8**	**1.4**	**-79.0**	**-19.1**	**-8.1**	**-5.0**	**3.9**	**5.1**	**9.2**	**10.5**	**12.4**	**8.0**
Financial margin + service income margin / Operating costs	146.0	151.9	150.9	199.3	92.6	115.0	123.5	137.5	123.9	153.3	149.8	155.8	144.3
Interest income (with CER and CVS) / loans	..	13.9	16.1	24.7	9.0	8.2	8.5	10.9	9.0	10.4	11.1	10.6	10.9
Interest payments (with CER and CVS) / deposits	..	5.7	7.8	21.9	5.8	2.2	2.2	2.9	2.6	3.0	3.2	2.7	2.9

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

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

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

Source: BCRA

Portfolio quality

As percentages	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Sep 04	Dec 04	Jun 05	Jul 05	Aug 05	Sep 05
Non-performing loans (overall)	7.6	8.3	9.9	19.8	15.7	10.4	8.9	6.5	6.4	6.2	6.0
Non-performing loans to the non-financial private sector	8.9	9.8	14.0	37.4	30.4	19.6	15.3	10.5	10.0	9.4	8.9
Commercial portfolio (*)	6.8	8.4	15.4	44.7	39.0	23.4	18.2	12.5	11.9	11.1	10.5
Consumption and housing portfolio	12.5	11.9	12.4	26.0	17.2	13.0	10.0	6.6	6.4	6.1	5.8
Provisions / Total non-performing loans	69.4	67.7	75.7	73.4	79.0	83.7	95.7	98.8	100.7	100.6	103.1
(Total non-performing - Provisions) / Overall financing	2.3	2.7	2.4	5.3	3.3	1.7	0.4	0.1	0.0	0.0	-0.2
(Total non-performing - Provisions) / Net worth	11.5	13.4	11.4	18.6	11.2	6.5	1.3	0.3	-0.2	-0.1	-0.6

(*) Include commercial loans treated as consumer loans for classification purposes.

Source: BCRA