Report on *Banks*

SEPTEMBER 2006

Central Bank of Argentina

Year IV - No. 1

Contents

Note: includes information for September 2006 available by 23/10/06. This Report focuses on the description of the performance of the financial system, including breakdowns into homogeneous sub groups. The data exhibited (in particular, the ones concerning profitability) are provisional, and are subject to revisions later.

Published on November 15, 2006

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

Summary

- In September **the financial system increased its levels of traditional financial intermediation:** deposits were taken and applied to private sector lending in a context of low credit risk. This process is leading banks to strengthen their more stable sources of income, recording positive results in a competitive environment. The foregoing, added to further capitalizations, is leading to continued improvement in financial system solvency.

- **Once again, there was evidence of the effects of the Central Bank's policy for the crowding-in of private sector credit.** In September, loans to the private sector totaled 28.4% of total financial system assets, exceeding by over 4 p.p. exposure to the public sector, which dropped 0.3 p.p. to 24.2% of total assets.

- **In September private sector deposits increased 0.8% ($940 million).** The rise in interest rates paid for longer terms is contributing to the migration of savings from sight to time deposits. Private banks recorded a 2.2% growth in private time deposits, explaining almost the entire increase in private sector deposits. Public sector deposits increased almost $1.7 billion (4%) in September.

- **The financial system continued to improve the quality of its liabilities**: while in September financial institutions made payments to the Central Bank for $273 million under the matching schedule, in October and November these disbursements totaled $249 million. During 2005 and in 2006 to date, the financial system has repaid more than 70% of the original amount of rediscounts granted during the crisis.

- **Loans to the private sector went up 3.4% in September, for an accumulated growth of 41%a. in 2006.** Services and commerce were the main beneficiaries of loans during the month ($400 million each). These commercial loans were mostly instrumented in the form of promissory notes ($700 million). Personal loans continued to record an upward trend ($600 million), while mortgage loans went up close to $130 million in the month (accumulating 10% in 2006 to date).

- The increase in financial system credit exposure to the private sector took place in the context of declining credit risk. **The non-performance ratio on private sector lending fell 0.3 p.p. in the month, to historical minimum of 5%**. Widespread improvement in financial system portfolio quality took place in both public and private banks. In the last 12 months this improvement has meant the financial system non-performing ratio has dropped by half.

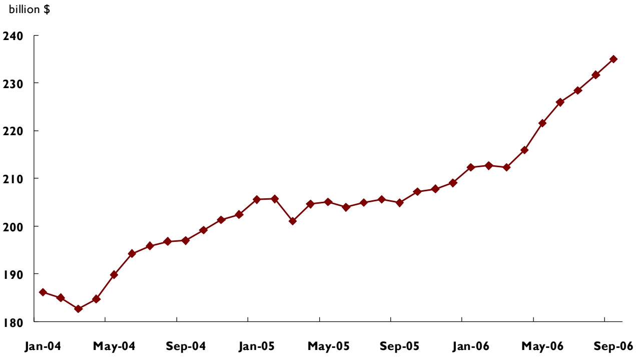
- In the context of a recovery in financial intermediation, **book profits accrued by the financial system in September reached $332 million (1.7%a. of assets).** As a result, the third quarter of 2006 ended with profits of almost $1.05 billion (1.8%a.), recording an accumulated total for the year to date of $2.85 billion (1.7%a.). This improvement in results has been recorded by 88% of all financial institutions accounting for 98% of financial system assets.

- As a result of such profits, **the financial system achieved a 1% increase in net worth**. This meant that despite the rise in banking intermediation, solvency indicators remained stable at appropriate levels: capital integration stood at 16.4% of assets at risk.

Activity

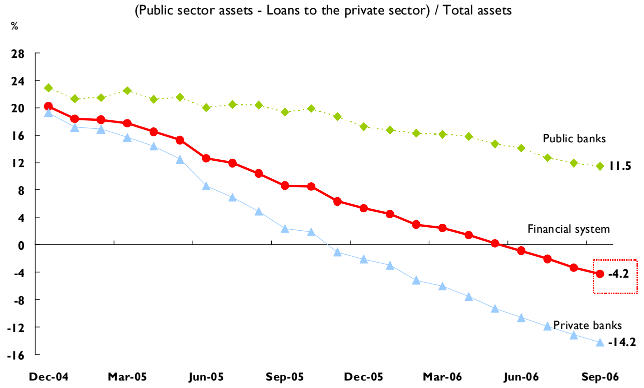
Time deposit yield curve grows steeper

Chart 1
Netted Assets
Financial system



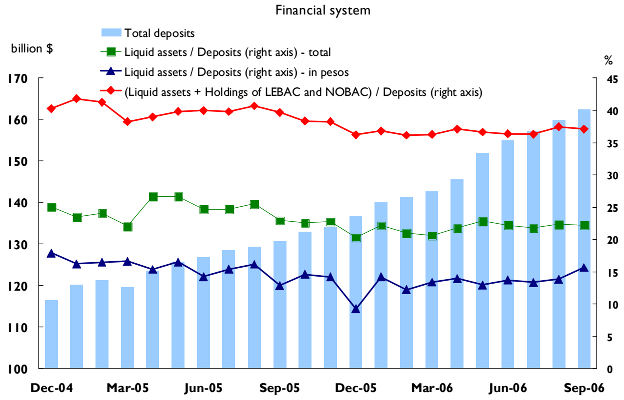
Source: BCRA

Chart 2
Public and Private Financing Spread
(Public sector assets - Loans to the private sector) / Total assets



Source: BCRA

Chart 3
Deposits and Liquidity
Financial system



Source: BCRA

Banks continue to gradually increase their financial intermediation volumes. Financial system netted assets rose 1.4% in September (0.5% in real terms) (see Chart 1), accumulating an annualized increase of 17%a. at the end of the third quarter of 2006 (7%a. in real terms).

Encouraged by Central Bank regulations, the Argentine financial system has reinforced the private credit crowding-in process (see Chart 2). In September, the weighting of public sector assets[1] in the financial system portfolio fell 0.3 p.p. to a level of 24.2% of total assets (26% of netted assets), for a drop for the year of 6.3 p.p.. The performance for the month was mainly explained by private banks, which recorded a decline in their public sector assets of 0.4 p.p., to 20.8% of total assets. In the year to date the exposure of private banks to the public sector has accumulated a drop of 7.3 p.p.. Public banks recorded a reduction in their exposure to the public sector of 0.1 p.p. to 29.4% of total assets.

With the aim of further deepening the normalization of the financial system, changes were made to minimum cash requirement regulations[2]. Cash holdings, calculated at 100% for liquidity requirement purposes, as from September were restricted to 67%. In addition, the financial system reduced repos with the Central Bank by $2.5 billion, to make up liquidity compliance by means of their current accounts at the Central Bank, while cash in treasury recorded a drop of $190 million. Private banks reduced their Central Bank repos by $1.1 billion, and their holdings of LEBAC and NOBAC by $430 million, while liquidity in accounts at the Central Bank went up by $1.85 billion. Public banks reduced their Central Bank repos by $1.4 billion, at the same time as the balance of their accounts at the Central Bank rose by $1.2 billion and their LEBAC and NOBAC holdings fell by $450 million.

In addition to complying with the changes in regulations established by the Central Bank, financial institutions recorded an improvement in their peso liquidity indicators. This ratio rose almost 2 p.p. to 15.7% (see Chart 3). In addition, the increase in total liquid assets was more than offset by the growth by total deposits. In September the liquidity ratio for the financial system dropped slightly (0.1 p.p.) to 22.2%.

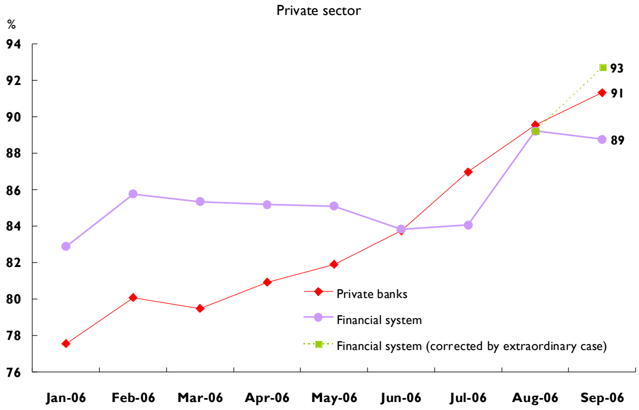
Non-financial sector deposits were the main source of resources for banks in September. Two thirds of the growth in total deposits (1.6%, $2.6 billion) was explained by deposits from the public sector (up 4%, $1.7 billion), while private sector deposits rose 0.8%, or close to $950 million. In the segment of private sector deposits, there was greater growth in sight deposits (1.1%, $640 million) than in time deposits (0.6%, $300 million). Nevertheless, this movement was largely

[1] Exposure to the public sector includes the position in government securities (taking into account compensation receivable) and loans to the public sector. It does not include LEBAC and NOBAC.
[2] See Communications "A" 4549 and "A" 4580.

Chart 4

Time Deposits / Sight Deposits

Private sector

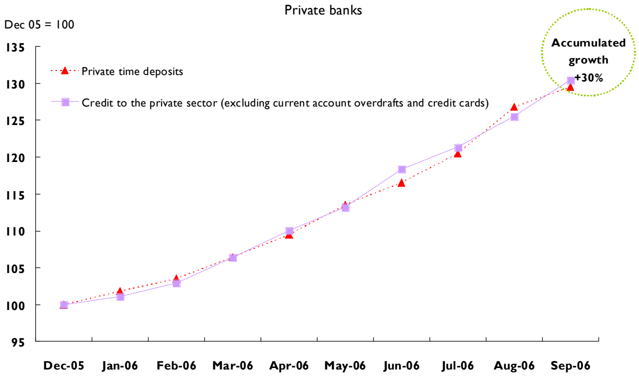


Source: BCRA

Chart 5

Private Time Deposits and Credit to the Private Sector

Private banks

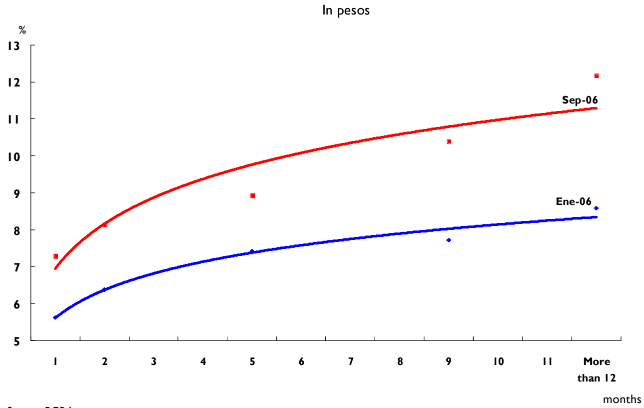


Source: BCRA

Chart 6

Private Time Deposits Yield Curves

In pesos



Source: BCRA

influenced by one public sector bank that lowered its private sector time deposits by approximately $700 million[3]. Adjusted for this specific transaction, private sector time deposits went up 2% and reached a level equivalent to 93% of total private sector sight deposits (see Chart 4).

In private banks, over two-thirds of the increased deposit stock (1.2%, $1.1 billion) was a consequence of rising private sector deposits (1%, $750 million). This growth took place almost entirely in time deposits (2.2%). **Central Bank signals to the market have been aimed in this same direction, to encourage a lengthening in the term of deposits, and therefore in the terms of credit lines.** During the first nine months of 2006 there was a close relation between time deposits and longer-term credit lines (see Chart 5). **The behavior of financial institutions was reflected in the performance by time deposit interest rates, with a sharper upturn in the yield curve** (see Chart 6).

The financial system continued to increase its lending to the private sector. In September total bank loans[4] to the private sector increased 3.4% ($2.35 billion), totaling growth of 41%a. in the first nine months of 2006. Private financial institutions were behind the dynamism seen in the month (3.4%, $1.65 billion), while in the case of official banks, private loans went up 2.9% ($500 million)[5].

Notwithstanding the significant growth in loans to the private sector, penetration by bank credit is still very uneven[6]. The Ciudad Autónoma de Buenos Aires (CABA) not only records the largest proportion of private sector credit in terms of geographic gross domestic product (GGDP), it has also shown the greatest post-crisis dynamism (see Chart 7). Nevertheless, it is notable that in the rest of the geographical regions, except Cuyo, the penetration by bank financing in economic activities has increased.

In September there was a widespread rise in loans to the various sectors of the economy. The increased stock for loans to companies (which went up 3.3%) was largely accounted for by two sectors: commerce and services increased their borrowing by $400 million each, with both branches of economic activity posting a significant relative growth (7.5% and 4%, respectively) (see Chart 8). Although the construction sector represents only 6% of total loans to companies, it recorded a notable 24% increase in borrowings for the quarter. Lending by promissory notes was the main type of credit line used by companies during the month ($700 million, 4.6%). Less significantly, current account overdrafts increased by $300 million (3%), while loans for export finance and pre-finance grew by $230 million (3.9%).

---

[3] This change was basically explained by a single client that did not renew its time deposits for close to $750 million.

[4] Calculation made on the basis of balance sheet stocks. Loans in foreign currency are stated in pesos. Does not include interest or adjustments. Not adjusted for unrecoverable loans written off from balance sheet.

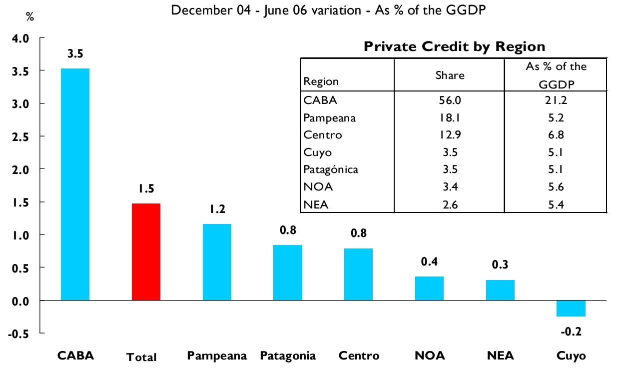
[5] The balance corresponds to non-bank financial entities (NBFE).

[6] The criterion adopted to divide Argentine territory into different geographical regions has been as follows: NOA (Catamarca, Tucumán, Jujuy, Salta and Santiago del Estero), NEA (Corrientes, Formosa, Chaco and Misiones), Cuyo (Mendoza, San Juan, La Rioja and San Luis), Región Pampeana (Buenos Aires and La Pampa), Región Central (Córdoba, Santa Fé and Entre Ríos) and Región Patagónica (Santa Cruz, Chubut, Río Negro, Neuquén and Tierra del Fuego). The Región CABA is formed only by the Ciudad Autónoma de Buenos Aires.

Chart 7

Credit Growth by Regional Coverage

December 04 - June 06 variation - As % of the GGDP



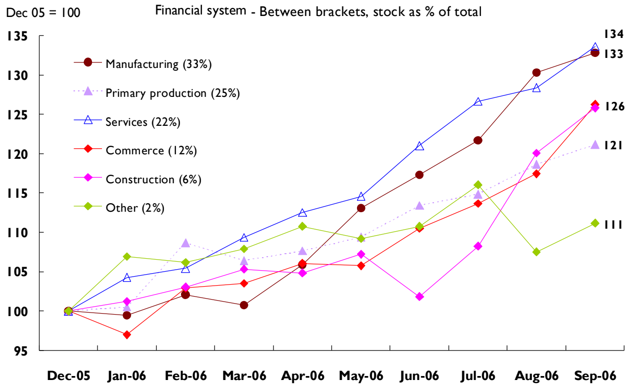
Region	Share	As % of the GGDP
CABA	56.0	21.2
Pampeana	18.1	5.2
Centro	12.9	6.8
Cuyo	3.5	5.1
Patagónica	3.5	5.1
NOA	3.4	5.6
NEA	2.6	5.4

Source: BCRA from INDEC data.

Chart 8

Lending by Economic Sectors

Financial system - Between brackets, stock as % of total

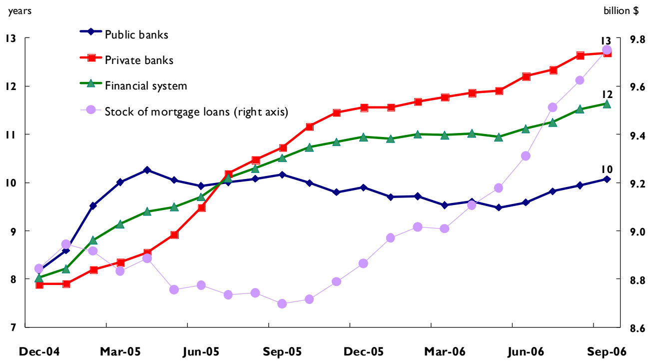


Source: BCRA

Chart 9

Mortgage Loans to Households

Average maturity weighted by amounts - 3-month moving average



Source: BCRA

Credit lines associated with household consumption went up 3.7% in September. This was mainly a result of the $600 million (5.6%) increase for the month in personal loans, a figure higher than the monthly average recorded in the rest of the year ($450 million). The growth in these credit lines is even more significant when adjusted to take into account the setting up of financial trust funds in the period (6.4%, or $700 million).

Incentives generated by the Central Bank are encouraging longer-term credit lines, mortgage lending in particular. There has been a cut in the capital requirement for banks in relation to mortgage loans for up to $200,000, and they may finance 100% of the value of the property (90% in the case of loans for between $200,000 and $300,000). In addition, regulations introduced by the Central Bank are also prompting banks to include in their evaluation of debtor repayment capacity the receipts for rental payments, and payments of items such as public utility bills, in line with recommendations to implement systems for screening and credit scoring models to improve the credit-granting process.

In September pledge-backed loans increased at a rate of 4.5% ($150 million). Although this credit line represents just 5% of total lending to the private sector, by the end of the third quarter of the year it had accumulated a total increase of 44% ($1.05 billion). Mortgage loans rose 1.3% ($130 million) in the month (10%, $900 million in 2006 to date), a figure that rises to 2% when adjusted for the setting-up of a financial trust. **The higher mortgage loan total was accompanied by a lengthening of terms by all groups of banks** (see Chart 9)

The economic growth of the productive sector, in addition to promoving traditional bank lending, also encourages companies to make growing use of alternative sources of medium and long-term finance, such as leasing. Although the total for such financing (in excess of $2 billion) did not record significant change in the month, if the effect generated by the setting up of a financial trust formed with such underlying assets[7] is excluded, the corporate leasing financing stock can be seen to have risen almost 7% in the month.

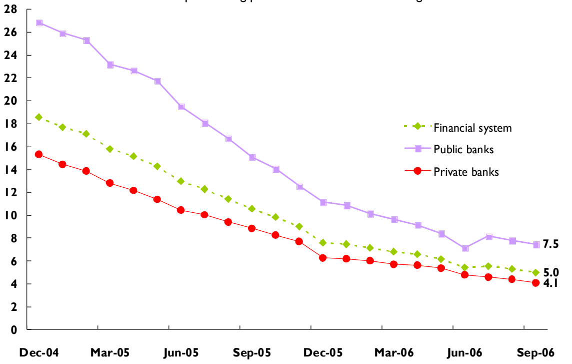
In September the financial system made payments to the Central Bank for $273 million under the matching schedule. Furthermore, in the months of October and November banks made disbursements for $249 million for the same reason, making a total of $6.6 billion between January and November 2006. In this context, the outstanding stock of rediscounts in the matching schedule totals $6.4 billion (including principal, interest and CER adjustment).

[7] Established for an amount of $150 million.

Chart 10

Non-Performing Credit to the Private Sector

Non-performing portfolio as % of total financing

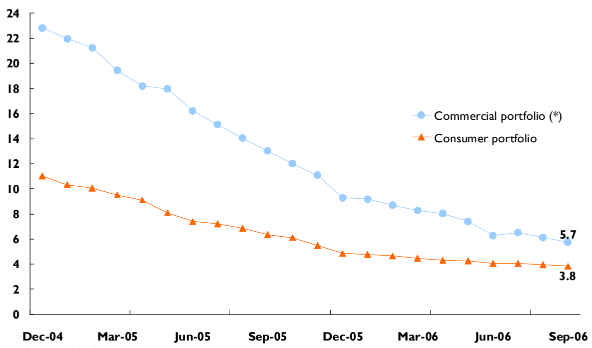


Source: BCRA

Chart 11

Portfolio Quality by Type of Lending

Non-performing portfolio to the non-financial private sector as % of total financing - Financial system

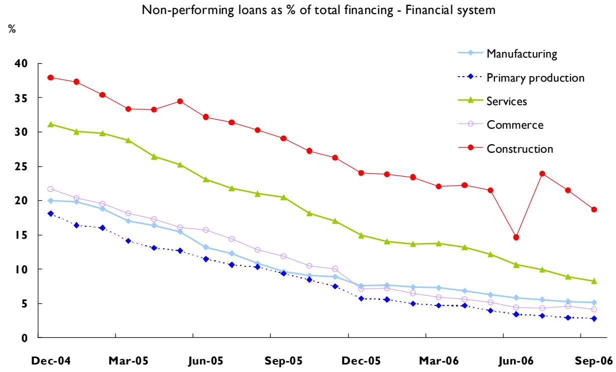


Source: BCRA (*)Includes commercial loans treated as consumer loans for classification purposes.

Chart 12

Non-Performance by Economic Sector

Non-performing loans as % of total financing - Financial system

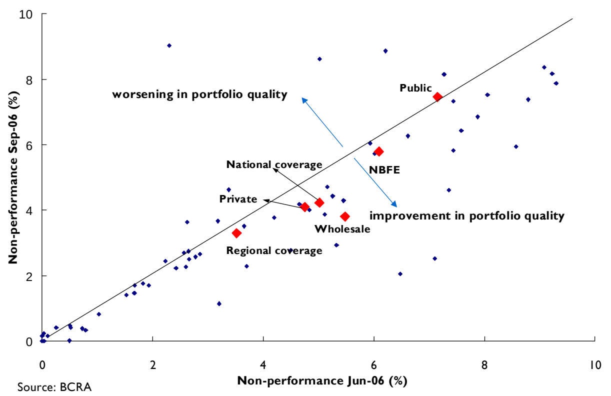


Source: BCRA

Chart 13

Quarterly Change in Portfolio Non-Performance

Non-performing financing to the private sector (%) - Financial system



Source: BCRA

Portfolio quality:

Private sector delinquency level reaches record low: 5%

An appropriate regulatory framework established by the Central Bank, added to the favorable macroeconomic context and prudent credit policies adopted by financial institutions, have enabled the financial system to continue to gain strength in the face of corporate and consumer credit risk. Deepening the downward trend that has begun two years ago, **in September the non-performing loan ratio recorded a drop of 0.3 p.p., reaching a record low of 5%** and accumulating a drop for the year of 2.6 p.p**.** (see Chart 10). In September the financial system increased the level of its coverage by means of provisions by 3.3 p.p. to 131.6%.

The monthly improvement in the quality of the private sector loan portfolio was linked to lower levels of delinquency recorded by both public and private banks. In September, public banks posted a drop in their non-performing ratio of 0.3 p.p. to a level of 7.5%, accumulating a drop for the year of 3.7 p.p.. Private banks also saw a decline of 0.3 p.p. (to 4.1%), achieving a reduction for the year of 2.2 p.p..

In September there was a decline in the delinquency level of both commercial and consumer loans, although it was the former that led the monthly trend. Commercial loans lowered their delinquency level by 0.4 p.p. (to 5.7%), while non-performance by consumer loans fell 0.2 p.p. (to 3.8%). Despite the fact that delinquency on the consumer portfolio remains below that seen in the case of commercial loans (see Chart 11), the difference between the two types of credit lines continues to decline: in September 2005 it was 6.7 p.p., while in September this year the gap had narrowed to 1.9 p.p..

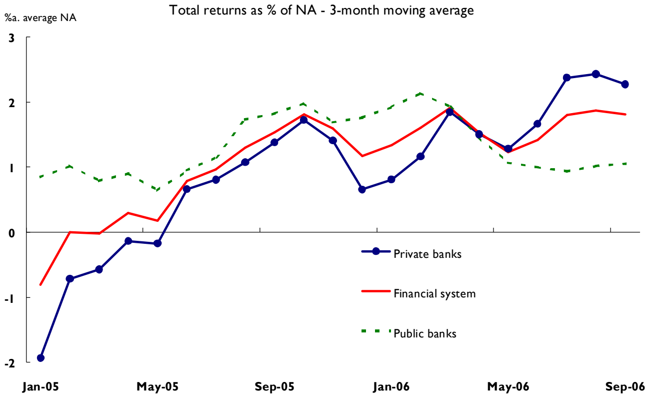
Improved company repayment capacity has allowed the financial system to gain strength in the face of corporate default risk. In September the improvement in portfolio quality took place in all branches of economic activity. In the construction sector the non-performing ratio fell almost 3 p.p. to 18.7%, in the service sector the drop was 0.6 p.p. (to 8.3%), while in the commerce sector the fall was 0.5 p.p., to 4.1% (see Chart 12). Lastly, in line with the marked increase in its borrowing, in the first nine months of the year the services sector recorded the most significant improvement in portfolio quality, from 14.9% to 8.3%.

In the third quarter of 2006 there was widespread improvement in financial institution non-performing levels. Although public banks showed a slight worsening in the quality of its portfolio, this was due to the effects of the reclassification of one company at a single bank. Private banks with a nationwide scope (the sub-group with the greatest weighting in terms of loans) reduced 0.8 p.p. their delinquency level to 4.2%. The remaining sub-groups (private banks with a regional coverage, specialized banks, wholesale banks and NBFE) also recorded a general decline in their levels of non-performance in the period.

Chart 14

Annualized Profitability

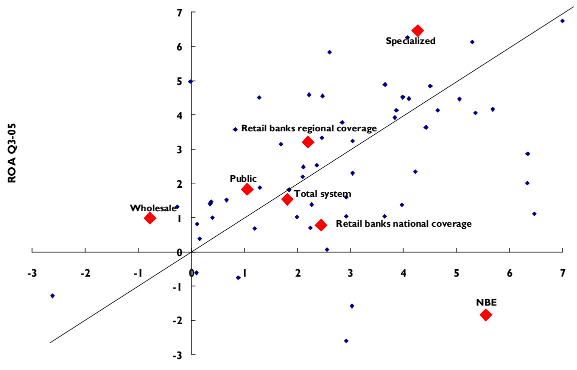
Total returns as % of NA - 3-month moving average



Source: BCRA

Chart 15

Profitability of Financial Institutions

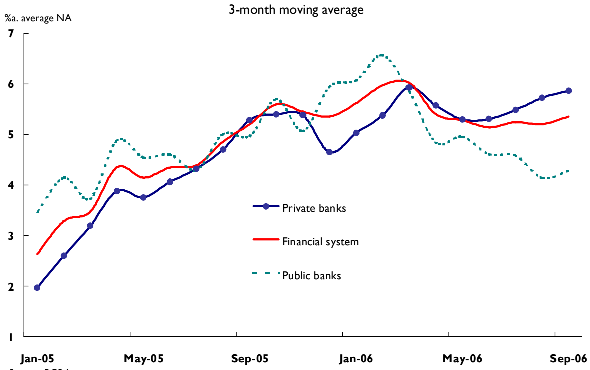


Source: BCRA

Chart 16

Financial Margin

3-month moving average



Source: BCRA

Considered individually, **the quarter improvement in portfolio quality was also widespread; over 75% of financial institutions (85% of private sector loans) recorded progress in the third quarter of 2006** (see Chart 13).

Profitability:

Widespread good performance during 2006 third quarter

In September banks maintained their trend towards the consolidation of their profitability levels, approaching a profit path that shows certain signs of stability. Encouraged by regulations issued by the Central Bank, as from 2005 the financial system moved away from the loss-making scenario resulting from the crisis in 2001-2002.

In September, banks registered profits of close to $332 million (an annualized (a.) 1.7% of netted assets[8]) (see Chart 14), in line with the monthly average observed during 2006 ($320 million). At the end of the third quarter of 2006, profits for the period totaled almost $1.05 billion (1.8%a. of assets), a value that compares favorably with the $790 million (1.4%a. of assets) and $785 million (1.5%a. of assets) obtained in the second quarter of this year and in the same period of 2005 respectively. As a result, in the first nine months of 2006, banks recorded a ROA of 1.7%a. (close to $2.85 billion), 0.9 p.p. of assets higher than the amount recorded in the same period last year[9].

As in previous months, both private and public banks posted book profits in September. Private banks registered profits for the month of close to $230 million (2%a. of assets), recording positive results for $760 million (2.3%a. of assets) in the third quarter of the year, and $1.87 billion (1.9%a. of assets) during the course of 2006. Public banks recorded profits of over $80 million (1%a. of assets) in September, a figure that rises to $250 million (1.1%a. of assets) and $890 million (1.3%a. of assets) in the third quarter and the first nine months of the year, respectively.

During the third quarter of 2006 the good performance was widespread: financial institutions accounting for 98% of assets (88% in terms of the number of banks) registered gains. Nevertheless when comparison is made with the same quarter of the previous year, performance has been uneven among the different groups of banks (see Chart 15). Private retail banks with a nation-wide scope recorded an increase of 1.4 p.p. in their profitability compared with the same period of 2005 (to a level of 2.4%a. of their assets). Retail regional banks posted a drop for the quarter in their profitability totaling 0.7 p.p. (to a level of 2.2%a. of their assets). Specialized private retail banks recorded a decline in their results, while wholesale banks posted a loss for the quarter, explained by losses on securities registered by one

[8] In this section, all references to assets should be understood as referring to netted assets (see Glossary).

[9] If profitability is calculated excluding the effect of those headings related to the gradual recognition of the effects of the 2001-2002 crisis (amortization of court-ordered payments and adjustments to the valuation of public sector assets) the adjusted ROA of the financial system totals 2.5%a. of assets in September, for an accumulated profitability of 2.7%a. in 2006.

particular bank. Lastly, public banks posted a reduction in their profitability of 0.7 p.p. to 1.1%a. of their assets[10].

Bank financial margin recorded a 0.3 p.p. drop in September to a total of 5.1%a. of assets, an accumulated 1.2 p.p. greater than that in 2005 (see Chart 16 showing a quarterly moving average). Bank **interest margin** dropped by slightly less than 0.1 p.p. in September to a total of 1.6%a. of assets (see Chart 17). This change for the month was explained by the slightly lower accrual of interests revenues. Nevertheless, in the year to date the recovery of financial intermediation has boosted interest margin, which rose 0.4 p.p. of assets compared with the accumulated total for 2005. Furthermore, bank gains from the holding and negotiation of **securities** dropped almost 0.1 p.p., to a level of 2.2%a. of assets (see Chart 18). The moderate deterioration in the prices of certain government securities held in bank portfolios (marked to market) explained this result. In the first nine months of 2006 this source of profits was 0.7 p.p. higher than in the same period of 2005. The drop in profits from **exchange rate differences** also contributed to the reduction in financial margin, falling 0.2 p.p. in September to 0.4%a. of assets. For their part, **CER adjustments** held steady at 0.8%a. of assets.

Chart 17
Net Interest Income
Financial system

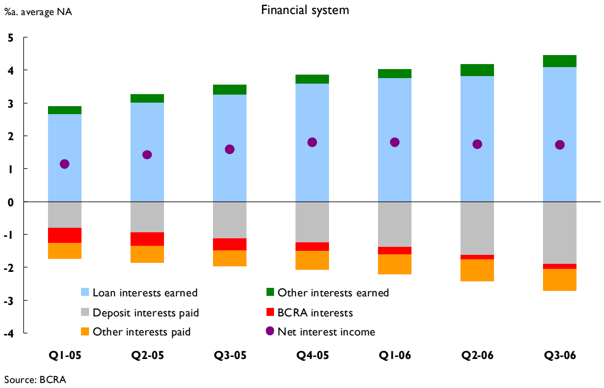
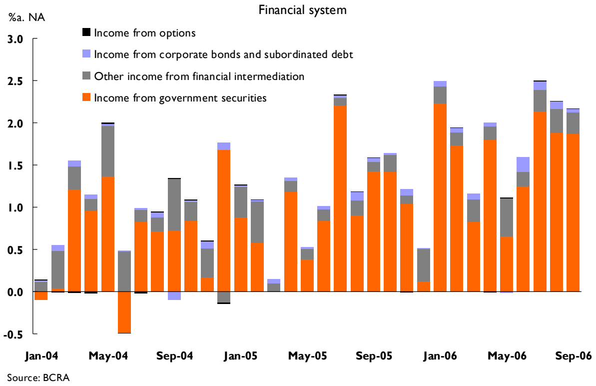
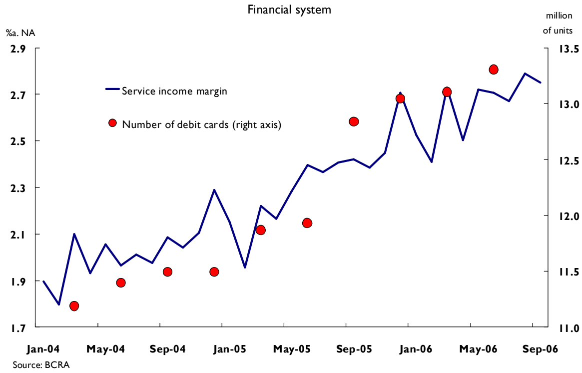


Chart 18
Gains on Securities
Financial system



Service income margin, a low-volatility source of revenue, remained at 2.8%a. of assets (see Chart 19). Notwithstanding this figure for the month, service income margin rose by 0.3 p.p. of assets when comparing the total for 2006 to the same period of the previous year. As a result, this source of banking revenue has maintained its growth pattern that began after the crisis in 2001-2002, led mainly by higher income from the administration of deposits. Rising bank deposits not only generate income from account maintenance, they also provide commissions from the use of electronic means of payment, transfers between accounts, etc. Increased productive activity and levels of formal employment are driving these sources of income. As a result, more than half of all financial system operating costs are covered by service income margin, a trend that is particularly evident in private banks, a group that has attained service income levels that are higher than pre-crisis levels.

Chart 19
Service Income Margin
Financial system



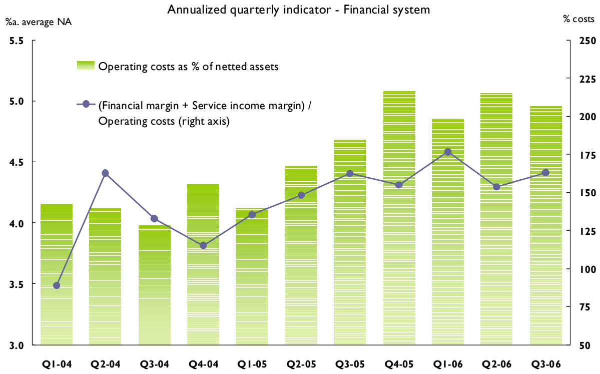
Unlike the two previous months, in September financial system loan loss provisions recorded a slight raise of 0.1 p.p. to 0.5%a. of assets, partly as a result of the increase in lending to the private sector[11] and the closing of the quarterly period for banks. Nevertheless, this banking indicator remains at historically low levels. Between January and September 2006 it reached a level of 0.5%a. of assets, while in the 1999-2001 period it was in excess of 2%a. of assets. This phenomenon reflects the recovery in financial system private sector loan portfolio. Related to loans to the private sector, loan loss provisions totaled 1.8%a. in September, almost 2.8 p.p. less than in the same month of 2005.

[10] For a detailed description of the profitability structure of the different groups of banks in recent years, see Financial Stability Bulletin II-06 available at www.bcra.gov.ar.
[11] Central Bank regulations on the setting up of provisions require a minimum 1% provision to be made for the portfolio in a normal condition. For further details, see the ordered text of the "Previsiones Mínimas por Riesgo de Incobrabilidad" available at www.bcra.gov.ar.

Chart 20

Operating Costs

Annualized quarterly indicator - Financial system

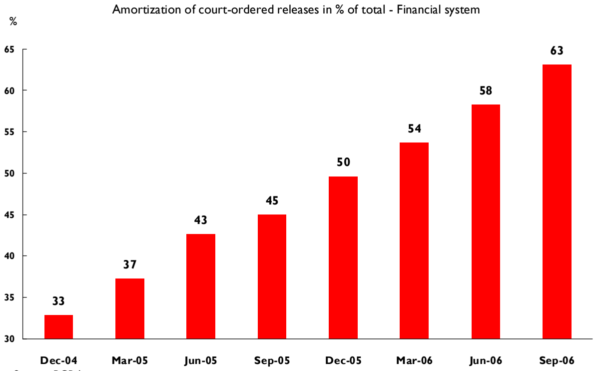


Source: BCRA

Chart 21

Amortization of Court-Ordered Releases

Amortization of court-ordered releases in % of total - Financial system



Source: BCRA

Table 1

Main Developments in October 2006

	Sep	Oct	Var. Sep.%	Var. Oct.%
Prices				
Exchange rate ($/US$)[1]	3.104	3.093	0.2	-0.4
CPI	182.0	183.6	0.9	0.9
CER[1]	1.85	1.86	0.6	0.8
			Var p.p.	Var p.p.
Government securities - annual IRR[1]				
Boden $ 2007	1.7	2.7	-1.3	1.0
Boden U$S 2012	8.5	8.1	0.0	-0.4
Discount $	6.6	6.6	0.1	0.0
BOGAR$	5.8	5.8	0.0	0.0
			Var p.p.	Var p.p.
Average percentage rates				
Lending [2]				
Overdraft	17.0	16.7	0.5	-0.3
Promissory notes	13.0	12.9	0.1	-0.1
Mortgage	11.5	11.5	0.2	0.0
Pledge-backed	10.5	10.7	0.5	0.2
Personal	24.4	24.5	-0.5	0.1
30 to 44 day time deposit	7.1	7.1	-0.1	0.0
1-year LEBAC in pesos, w/o CER	11.5	11.4	-0.2	-0.1
7 day BCRA repos	5.8	6.0	0.0	0.3
			Var %	Var %
Balance[2,3] - Financial system				
Peso deposits - Private sector	99,559	101,052	1.0	1.5
Sight deposits	53,661	54,895	-0.9	2.3
Time deposits	45,898	46,157	3.2	0.6
Peso loans - Private sector	57,407	59,588	3.1	3.8
Overdraft	10,426	10,918	1.4	4.7
Promissory notes	12,603	13,077	3.9	3.8
Mortgage	9,393	9,604	0.7	2.2
Pledge-backed	3,223	3,359	4.2	4.2
Personal	11,116	11,804	5.8	6.2

(1) End of month figure.

(2) Estimation based on SISCEN data (provisional data subject to change).

(3) Monthly average. In million of pesos.

Source: INDEC and BCRA.

After holding steady in the last two months, operating costs dropped 0.1 p.p. in September to a level of 4.9%a. of assets. A similar fall of 0.1 p.p. was recorded by both private and public banks, although this latter group posts lower cost levels. As a result, in the third quarter of the year operating costs recorded a slight decline to 5%a. of assets (see Chart 20). Despite these circumstantial changes, the favorable outlook for the financial system is leading to a recovery in the number of branches as well as their personnel, in a context of gradually rising wages. Despite the slight fall in operating costs in September, the drop for the month in financial margin led to a decline of almost 3 p.p. in the coverage of these costs by income (financial margin and results), to a total of close to 160%.

Sundry results of the financial system increased 0.5 p.p. in September to 0.9%a. of assets, after recording a significant decline in the previous month (as a result of extraordinary non-recurring losses in one nationwide private bank[12]). It should be mentioned that the sundry income level for September was in line with those accrued over the course of 2006.

Headings linked to the gradual recognition of the effects of the crisis (amortization of court-ordered payments and adjustments to the valuation of public sector assets) recorded a drop of 0.3 p.p. in September, to a level of 0.8%a. of assets. This performance for the month was mainly a consequence of the accelerated amortization of losses on court-ordered payments by one private bank during August, and a positive adjustment to this item in September by one large public institution. Banks have already registered close to 63% of the losses arising from the payment of deposits under court orders (see Chart 21). Public sector asset valuation adjustments remained stable at 0.2%a. of assets.

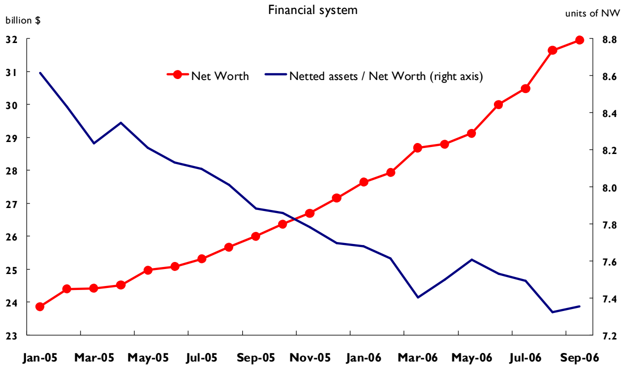
Outlook for October

In recent quarters financial institutions have continued to strengthen their book profit positions, in the context of a gradual rebuilding of their main sources or resources associated with traditional financial intermediation. Heading towards the 2006 year-end closing, it is expected that this trend will continue, in line with the steady growth of the economy. Financial policy implemented by the Central Bank for the encouragement of traditional financial intermediation so as to strengthen the solvency of the financial system, is reinforcing this trend.

On the basis of the information available at the time this Report is being published, **it is estimated that financial institutions will continue to post positive results in October.** As in recent months, growth has been recorded in total lending to the private sector, mainly through personal loans and overdraft facilities, in a context of uneven variations in the interest rates applied (see Table 1). There was a drop in the rate of growth by time deposits as interest rates stabilized, leading to forecasts of rising results from interest in October. CER adjustments should record a slight increase for the month, given the

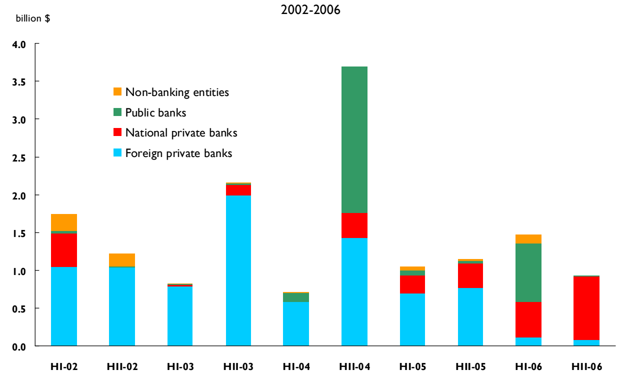
[12] As part of the process of take-over by two other banks. For further details see the August issue of this Report.

Chart 22
Solvency
Financial system



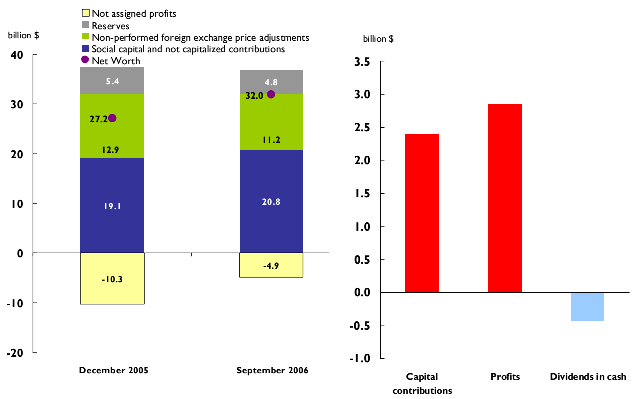
Source: BCRA

Chart 23
Capital Contributions
2002-2006



Source: BCRA

Chart 24
Composition and Evolution of Net Worth



Source: BCRA

larger rise in this index in October compared with the previous month. Income from services will maintain its positive trend, which could gain strength from the increase in sight deposits in October. A higher gain is expected on security holdings because of the increase in the price of one of the main government securities held in portfolio (BODEN 12), which has been partly offset by a drop in the price of the BODEN 07 bond. Lastly, it is estimated that gains from exchange rate differences will post a drop, because of the fall in the nominal peso-dollar exchange rate during the month.

Solvency:

Progressive normalization of net worth composition

Facing the closing of the third quarter of the year, **financial institutions continue to strengthen their balance sheets in the context of an appropriate balance of risks.** Positive book results, combined with capitalizations have promoted the consolidation of financial system solvency.

In September bank net worth recorded a rise of 1% (close to $320 million), showing growth of almost 18% for the year (see Chart 22). Although in September there was a slight increase in financial intermediation leverage, it still stands at levels lower than those seen at the end of 2005.

During September **one private national bank received a capitalization of $10 million**. The financial system has recorded capital contributions for approximately $2.4 billion during 2006, and $7.94 billion since October 2004 (see Chart 23).

As is the case with the rest of the financial system balance sheet, **capital composition is also in the process of returning to normal**. This has been based on the absorption of losses accumulated in previous years, and in particular those derived from the 2001-2002 crisis. There has been a drop of $5.12 billion in 2006 in non-assigned results, an increase in capital stock of $1.75 billion and a reduction in adjustments and reserves for $2.3 billion. These changes are largely explained by the mentioned capitalizations ($2.4 billion) and by the positive results obtained by the financial system during the year ($2.85 billion), with a remaining balance mainly related to the distribution of cash dividends (approximately $430 million in the first half of 2006) (see Chart 24).

In this context, **the banking sector continues to consolidate its solvency indicators, exceeding the requirements established by the Central Bank and minimum international standards.** As in previous months, the marked increase in lending has led capital compliance by banks as a whole to remain steady at 16.4% of risk-weighted assets. In addition, excess capital compliance by the financial system reached 136% of capital requirement in September, slightly above the August level. These high levels for the financial system are consistent with an adequate compliance with capital by January 2007, when a further adjustment is made to the moderating coefficients established as a result of the crisis.

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" 4572 – 15/Sept/06
Changes to the regulation on credit administration. In the case of special operations making use of specific evaluation methods (screening systems and credit scoring models), it is only required that the file contain details enabling the identification of the customer. Pledge loans for cars for a principal amount that does not exceed $50,000 have been added, as well as financing by means of credit cards with a limit of $15,000 that have been included within personal loans.

Communication "A" 4573 – 17/Sept/06
Changes to the regulation on Minimum Cash Requirements. As from October 2006 the limit based on the reference rate as from which remunerated sight accounts have a 100% reserve requirement has been lowered (from 50% to 35% of the previous month's BADLAR rate).

Communication "A" 4576 – 28/Sept/06
Minimum capital for financial institutions. To encourage the capitalization of the financial system, as from 1/Oct/06 the calculation of compliance with the *Responsabilidad Patrimonial Computable* (RPC) includes instruments representative of long-term debt. These instruments possess similar features to bonds, such as payment of a periodic coupon, and to shares, regarding their capacity to absorb losses, derived from the fact that the coupons are not paid if there is no distributable profit, and they have a lower precedence for collection compared with the remaining liabilities of the bank.

Communication "A" 4577 – 28/Sept/06
Net global foreign currency position. As from 1/Jan/07 the net global foreign currency position shall not be able to exceed 15% of the RPC. As part of the conditions to be able to apply the lending capacity generated by deposits in foreign currency, banks must confirm that their customers have sufficient payment capacity, measured on the basis of at least two scenarios in which significant variations of different magnitude in the exchange rate are contemplated.

Communication "A" 4578 – 28/Sept/06
It has been established that financial institutions, except for credit cooperatives, shall be able to open temporary customer attendance offices, which should count on the prior approval of the Central Bank, under certain conditions (for example, the office should operate in a locality where there is no branch of any financial institution). They will be able to perform all transactions allowed for branches, except provide bank current account services, although they will be able to receive deposits for such accounts opened at other branches. These offices should close or be transformed into branches when the installation of a branch by another bank is authorized.

Communication "A" 4579 – 29/Sept/06
Regulations on bank current accounts have been changed in relation to reports of losses of documents and value items.

Communication "A" 4580 – 29/Sept/06
Changes to Minimum Cash Requirements regulation. Effective as from 1/Oct/06, the application of the schedule related to the calculation of cash at banks, both in transit and in security carriers, has been deferred. Under the rule, the calculation shall only be able to include 67% of all the items covered (measured as an average in the month to which the provision corresponds).

Methodology:

(a) Aggregate balance sheet information is taken from the Monthly Accounting Information System (non-consolidated balances). With a view to calculating 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. In turn, for the analysis of profitability, only taken into consideration are 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 drafting 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. Consequently, and given the fact that the latest available data are always used, data in connection with earlier periods may not match what was previously mentioned in prior issues of the Report. In such cases, the latter release should be considered the highest quality available one.

(c) Unless provided to the contrary, data on deposits and loans relate to balance sheet information, and do not necessarily agree with those gathered via the Centralized System of Information Requirements (SISCEN). Reasons for discrepancies include: the exact date taken into account for the calculation of monthly variations 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 banks financial statements, or obtained on the basis of inquiries made to the supervisors with the Superintendence of Financial and Exchange Institutions.

(e) Profitability indicators are calculated based on monthly results estimated on the grounds of the changes in the amount of aggregated results during the current fiscal year. Unless a provision is made to the contrary, profitability ratios are annualized.

(f) Initially, the breakdown by group of banks was determined on the basis of majority involvement in decision taking –in terms of Shareholders meetings votes- differentiating between privately-owned institutions from public banks. Also and with a view to deepening the scope of the analysis, private institutions were identified according to geographic and business scope of their operations. Thus, wholesale banks were defined as those specializing in the large corporations and investors sector, which usually do not depend for their funding on deposits from the private sector. On the other hand, retail banks were divided into those carrying out business at the domestic level, located in certain geographic regions –municipalities, provinces, or regions- and institutions specializing in a financial sector niche market –generally smaller institutions. Lastly, it should be noted that the grouping herein has solely been carried out for analytical purposes and does not imply the only methodological grouping criterion; whereas, on the other hand, the listing of features pertaining to each set of institutions has been established in a general manner.

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.
CEDRO: *Certificado de Depósito Reprogramado*. Rescheduled Stabilization Coefficient.
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 from 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 Annex: Financial System

Chart 1: Financial Soundness Indicators (see Methodological note in next page)

As %	1996	1997	1998	1999	2000	2001	2002	2003	2004	Sep 2005	2005	Aug 2006	Sep 2006
1.- Liquidity	22.3	26.1	23.1	25.0	23.4	19.6	22.8	29.1	29.6	22.8	20.1	22.1	22.1
2.- Lending to the public sector	19.2	19.2	19.3	21.8	21.8	25.8	49.1	47.2	41.5	34.1	32.4	26.8	26.6
3.- Lending to the private sector	57.8	56.2	57.2	53.7	49.7	47.2	20.8	18.1	20.3	24.7	26.7	30.0	30.6
4.- Private non-performing loans	16.2	13.8	12.2	14.0	16.0	19.1	38.6	33.5	18.6	10.5	7.6	5.3	5.0
5.- Net worth exposure to private sector	24.9	22.5	20.6	24.7	26.2	21.9	17.3	12.4	-1.0	-3.2	-4.1	-3.3	-3.7
6.- ROA	0.6	1.0	0.5	0.2	0.0	0.0	-8.9	-2.9	-0.5	0.8	0.9	1.7	1.7
7.- Adjusted ROA	-	-	-	-	-	-	-	-1.9	0.7	1.8	2.0	2.7	2.7
8.- Efficiency	142	136	138	142	147	143	189	69	125	149	151	165	164
9.- Capital compliance	23.8	20.8	20.3	21.0	20.1	21.4	-	14.5	14.0	14.9	15.3	16.4	16.4
10.- Excess capital compliance	64	73	49	54	58	54	-	116	185	174	173	134	136

Source: BCRA

Chart 2: Balance Sheet

In current pesos (millions)	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Sep 05	Dec 05	Aug 06	Sep 06	Change (%) Month on month	Accum. 2006	Last 12 months
Assets	**163,550**	**123,743**	**187,532**	**186,873**	**212,562**	**220,445**	**222,732**	**250,051**	**252,938**	**1.2**	**13.6**	**14.7**
Liquid assets[1]	20,278	13,005	17,138	27,575	29,154	24,054	21,166	30,114	33,008	9.6	55.9	37.2
Public bonds	10,474	3,694	31,418	45,062	55,382	63,193	66,733	65,629	62,871	-4.2	-5.8	-0.5
Lebac/Nobac	0	0	-	-	17,755	27,755	28,340	32,416	30,104	-7.1	6.2	8.5
Portfolio	0	0	-	-	11,803	21,064	21,067	24,142	24,169	0.1	14.7	14.7
Repo	0	0	-	-	5,953	6,690	7,273	8,275	5,935	-28.3	-18.4	-11.3
Private bonds	633	543	332	198	387	387	387	801	738	-7.9	90.5	90.8
Loans	83,277	77,351	84,792	68,042	73,617	79,339	83,664	93,921	96,731	3.0	15.6	21.9
Public sector	15,164	22,694	44,337	33,228	30,866	26,468	25,317	21,263	21,339	0.4	-15.7	-19.4
Private sector	64,464	52,039	38,470	33,398	41,054	50,663	55,898	69,448	71,803	3.4	28.5	41.7
Financial sector	3,649	2,617	1,985	1,417	1,697	2,208	2,450	3,210	3,589	11.8	46.5	62.5
Provisions over loans	-6,907	-6,987	-11,952	-9,374	-7,500	-5,823	-4,953	-4,224	-4,231	0.2	-14.6	-27.3
Other netted credits due to financial intermediation	42,361	21,485	39,089	27,030	32,554	30,744	26,746	33,222	33,308	0.3	24.5	8.3
Corporate bonds and subordinated debt	794	751	1,708	1,569	1,018	817	873	775	776	0.1	-11.1	-4.9
Unquoted trusts	2,053	2,065	6,698	4,133	3,145	3,640	3,888	4,516	4,633	2.6	19.2	27.3
Compensation receivable	0	0	17,111	14,937	15,467	8,532	5,841	5,197	5,227	0.6	-10.5	-38.7
Other	39,514	18,669	13,572	6,392	12,924	17,755	16,144	22,734	22,672	-0.3	40.4	27.7
Assets under financial leases	786	771	567	397	611	1,060	1,384	1,984	1,987	0.2	43.6	87.4
Shares and participation	2,645	2,688	4,653	4,591	3,871	4,298	4,525	5,626	5,739	2.0	26.8	33.5
Fixed assets and miscelaneous	4,939	4,804	8,636	8,164	7,782	7,517	7,546	7,488	7,508	0.3	-0.5	-0.1
Foreign branches	1,115	1,057	3,522	3,144	3,524	3,549	3,652	3,870	3,892	0.6	6.6	9.7
Other assets	3,950	5,334	9,338	12,043	13,180	12,126	11,882	11,620	11,388	-2.0	-4.2	-6.1
Liabilities	**146,267**	**107,261**	**161,446**	**164,923**	**188,683**	**194,449**	**195,571**	**218,412**	**220,982**	**1.2**	**13.0**	**13.6**
Deposits	86,506	66,458	75,001	94,635	116,655	130,729	136,778	159,871	162,438	1.6	18.8	24.3
Public sector[2]	7,204	950	8,381	16,040	31,649	33,046	34,320	41,427	43,090	4.0	25.6	30.4
Private sector[2]	78,397	43,270	59,698	74,951	83,000	95,883	100,794	116,164	117,063	0.8	16.1	22.1
Current account	6,438	7,158	11,462	15,071	18,219	21,192	23,475	24,911	25,017	0.4	6.6	18.0
Savings account	13,008	14,757	10,523	16,809	23,866	26,863	29,077	33,395	33,932	1.6	16.7	26.3
Time deposit	53,915	18,012	19,080	33,285	34,944	42,154	42,822	52,018	52,324	0.6	22.2	24.1
CEDRO	0	0	12,328	3,217	1,046	22	17	16	16	-0.5	-8.1	-27.4
Other netted liabilities due to financial intermediation	55,297	36,019	75,737	61,690	64,928	57,755	52,071	51,547	51,521	-0.1	-1.1	-10.8
Call money	3,545	2,550	1,649	1,317	1,461	1,988	2,164	2,945	3,315	12.6	53.2	66.7
BCRA lines	102	4,470	27,837	27,491	27,726	19,398	17,005	11,204	11,046	-1.4	-35.0	-43.1
Outstanding bonds	4,954	3,777	9,096	6,675	7,922	5,912	6,548	6,499	6,542	0.7	-0.1	10.7
Foreign lines of credit	8,813	7,927	25,199	15,196	8,884	5,744	4,684	4,846	4,795	-1.1	2.4	-16.5
Other	37,883	17,295	11,955	11,012	18,934	24,713	21,670	26,053	25,823	-0.9	19.2	4.5
Subordinated debts	2,255	2,260	3,712	2,028	1,415	1,376	1,381	1,287	1,244	-3.4	-9.9	-9.6
Other liabilities	2,210	2,524	6,997	6,569	5,685	4,589	5,341	5,706	5,779	1.3	8.2	25.9
Net worth	**17,283**	**16,483**	**26,086**	**21,950**	**23,879**	**25,996**	**27,161**	**31,639**	**31,956**	**1.0**	**17.7**	**22.9**
Memo												
Netted assets	129,815	110,275	185,356	184,371	202,447	204,921	209,044	231,664	234,983	1.4	12.4	14.7
Consolidated netted assets	125,093	106,576	181,253	181,077	198,462	200,432	204,160	225,000	227,885	1.3	11.6	13.7

(1) Includes margin accounts with the BCRA. (2) Does not include accrual on interest or CER.

Source: BCRA

Statistics Annex: Financial System

Chart 3: Profitability Structure

	Annual						First 9 months		Monthly			Last
Amounts in million of pesos	2000	2001	2002[1]	2003	2004	2005	2005	2006	Jul-06	Aug-06	Sep-06	12 months
Financial margin	7,291	6,943	13,991	1,965	6,075	9,441	6,660	9,137	1,048	1,048	1,003	11,919
Net interest income	5,106	4,625	-3,624	-943	1,753	3,063	2,128	2,928	358	323	320	3,863
CER and CVS adjustments	0	0	8,298	2,315	1,944	3,021	2,293	2,050	160	161	161	2,779
Foreign exchange price adjustments	185	268	5,977	-890	866	751	270	813	39	117	78	1,294
Gains on securities	1,481	1,490	3,639	1,962	1,887	2,373	1,792	3,185	476	436	424	3,766
Other financial income	519	559	-299	-480	-375	233	177	162	15	11	19	218
Service income margin	3,582	3,604	4,011	3,415	3,904	4,781	3,473	4,404	509	538	539	5,711
Loan loss provisions	-3,056	-3,096	-10,007	-2,089	-1,511	-1,130	-943	-868	-118	-79	-106	-1,054
Operating costs	-7,375	-7,362	-9,520	-7,760	-7,998	-9,432	-6,791	-8,252	-942	-971	-960	-10,892
Tax charges	-528	-571	-691	-473	-584	-737	-519	-758	-88	-97	-94	-976
Income tax	-446	-262	-509	-305	-275	-530	-432	-598	-58	-75	-62	-696
Adjustments to the valuation of government securities [1]	0	0	0	-701	-320	-366	-213	-388	-41	-33	-42	-541
Amortization payments for court-ordered releases	0	0	0	-1,124	-1,686	-1,867	-1,402	-1,271	-143	-186	-124	-1,736
Other	535	702	-3,880	1,738	1,497	1,629	1,346	1,442	328	78	179	1,725
Monetary results	0	0	-12,558	69	0	0	0	0	0	0	0	0
Total results	**3**	**-42**	**-19,162**	**-5,265**	**-898**	**1,790**	**1,179**	**2,849**	**494**	**223**	**332**	**3,459**
Adjusted results[3]	-	-	-	-3,440	1,337	4,023	2,794	4,508	678	441	498	5,737
Annualized indicators - As % of netted assets												
Financial margin	5.7	5.7	6.5	1.1	3.1	4.6	4.3	5.5	5.5	5.4	5.1	5.5
Net interest income	4.0	3.8	-1.7	-0.5	0.9	1.5	1.4	1.8	1.9	1.7	1.6	1.8
CER and CVS adjustments	0.0	0.0	3.9	1.3	1.0	1.5	1.5	1.2	0.8	0.8	0.8	1.3
Foreign exchange price adjustments	0.1	0.2	2.8	-0.5	0.4	0.4	0.2	0.5	0.2	0.6	0.4	0.6
Gains on securities	1.2	1.2	1.7	1.1	1.0	1.2	1.2	1.9	2.5	2.3	2.2	1.7
Other financial income	0.4	0.5	-0.1	-0.3	-0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Service income margin	2.8	3.0	1.9	1.9	2.0	2.3	2.3	2.6	2.7	2.8	2.8	2.6
Loan loss provisions	-2.4	-2.6	-4.7	-1.1	-0.8	-0.5	-0.6	-0.5	-0.6	-0.4	-0.5	-0.5
Operating costs	-5.8	-6.1	-4.4	-4.2	-4.1	-4.6	-4.4	-5.0	-5.0	-5.0	-4.9	-5.0
Tax charges	-0.4	-0.5	-0.3	-0.3	-0.3	-0.4	-0.3	-0.5	-0.5	-0.5	-0.5	-0.4
Income tax	-0.3	-0.2	-0.2	-0.2	-0.1	-0.3	-0.3	-0.4	-0.3	-0.4	-0.3	-0.3
Adjustments to the valuation of government securities [1]	0.0	0.0	0.0	-0.4	-0.2	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
Amortization payments for court-ordered releases	0.0	0.0	0.0	-0.6	-0.9	-0.9	-0.9	-0.8	-0.8	-1.0	-0.6	-0.8
Other	0.4	0.6	-1.8	0.9	0.8	0.8	0.9	0.9	1.7	0.4	0.9	0.8
Monetary results	0.0	0.0	-5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA	**0.0**	**0.0**	**-8.9**	**-2.9**	**-0.5**	**0.9**	**0.8**	**1.7**	**2.6**	**1.2**	**1.7**	**1.6**
ROA adjusted[3]	0.0	0.0	-8.9	-1.9	0.7	2.0	1.8	2.7	3.6	2.3	2.5	2.6
ROE	*0.0*	*-0.2*	*-59.2*	*-22.7*	*-4.2*	*7.1*	*6.3*	*12.8*	*19.5*	*8.4*	*12.5*	*12.0*

(1) Data at December 2002 currency (2) Com. "A" 3911. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains from securities" heading.

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

Source: BCRA

Chart 4: Portfolio Quality

As percentages	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Sep 05	Dec 05	Jul 06	Aug 06	Sep 06
Non-performing loans (overall)	12.9	13.1	18.1	17.7	10.7	6.9	5.2	4.1	4.0	3.8
Non-performing loans to the non-financial private sector	**16.0**	**19.1**	**38.6**	**33.5**	**18.6**	**10.5**	**7.6**	**5.6**	**5.3**	**5.0**
Commercial portfolio (*)	14.9	20.7	44.0	38.0	22.8	13.0	9.3	6.5	6.1	5.7
Consumption and housing portfolio	17.3	17.5	31.4	28.0	11.0	6.3	4.8	4.0	4.0	3.9
Provisions / Total non-performing loans	61.1	66.4	73.8	79.2	102.9	114.7	125.1	126.8	128.3	131.6
(Total non-performing - Provisions) / Overall financing	5.0	4.4	4.7	3.7	-0.3	-1.0	-1.3	-1.1	-1.1	-1.2
(Total non-performing - Provisions) / Net worth	26.2	21.6	17.2	11.9	-1.0	-3.2	-4.1	-3.4	-3.4	-3.7

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

Source: BCRA

Methodological note (chart 1):

1.-(Cash compliance according to BCRA + Other cash holdings + Central Bank repos) / Total deposits; **2.-**(Public bonds position (without LEBAC and NOBAC) + Loans to the public sector + Compensation receivable) / Netted assets; **3.-**Loans to the private sector / Netted assets; **4.-**Non-performing loans to the non-financial private sector / Loans to the non-financial private sector; **5.-**(Total non-performing loans – Provisions) /Net Worth. The non-performing loans includes loans classified in situation 3,4,5, and 6; **6.-**(Accumulated annual results /Average monthly netted assets - % Annualized; **7.-**(Accumulated annual results – Amortization of Court ordered payments – Adjustments to the valuation of government securities) / Average monthly netted assets - % Annualized; **8.-**(Financial margin (Net interest income + Restatement by CER and CVS + Gain on securities + Foreign exchange price adjustments + Other financial income) + Service income margin) / Operating costs; **9.-**Capital compliance (Responsabilidad Patrimonial Computable) / Risk – adjusted assets according to the norm of BCRA about Minimum Capital Compliance; **10.-**(Capital Compliance minus requirements, included franchises) / Capital requirements.

Statistics Annex: Private Banks

Chart 5: Financial Soundness Indicators (see Methodological note in next page)

As %	1996	1997	1998	1999	2000	2001	2002	2003	2004	Sep 2005	2005	Aug 2006	Sep 2006
1.- Liquidity	23.6	26.9	22.8	24.3	24.1	23.6	24.8	27.6	29.2	22.7	21.1	21.4	21.9
2.- Lending to the public sector	15.9	16.9	17.0	20.4	19.9	23.2	49.9	47.7	43.1	29.7	29.4	23.3	23.4
3.- Lending to the private sector	59.5	57.4	58.9	55.5	51.0	49.6	22.1	19.8	23.1	29.1	31.7	36.5	37.3
4.- Private non-performing loans	11.1	8.5	7.7	8.9	9.8	14.0	37.4	30.4	15.3	8.9	6.3	4.4	4.1
5.- Net worth exposure to private sector	21.6	14.3	13.2	11.5	13.4	11.4	18.6	11.2	1.9	-0.3	-2.2	-2.5	-2.8
6.- ROA	0.6	0.7	0.5	0.3	0.1	0.2	-10.7	-2.5	-1.0	0.5	0.5	1.9	1.9
7.- Adjusted ROA	-	-	-	-	-	-	-	-1.2	0.2	1.5	1.6	3.0	3.0
8.- Efficiency	144	135	139	146	152	151	168	93	115	138	136	158	158
9.- Capital compliance	15.9	15.4	14.6	18.9	18.0	17.6	-	14.0	15.1	17.1	17.8	18.8	18.6
10.- Excess capital compliance	33	47	27	60	49	43	-	88	157	148	155	124	125

Source: BCRA

Chart 6: Balance Sheet

In current pesos (millions)	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Sep 05	Dec 05	Aug 06	Sep 06	Change (%) Month on month	Change (%) Accum. 2006	Change (%) Last 12 months
Assets	**119,371**	**82,344**	**118,906**	**116,633**	**128,065**	**130,991**	**129,680**	**143,002**	**144,765**	**1.2**	**11.6**	**10.5**
Liquid assets[1]	13,920	10,576	11,044	14,500	15,893	14,831	14,074	17,432	19,126	9.7	35.9	29.0
Public bonds	7,583	1,627	19,751	22,260	24,817	28,393	29,966	29,545	27,290	-7.6	-8.9	-3.9
Lebac/Nobac	0	0	-	-	8,359	14,420	15,227	16,282	14,638	-10.1	-3.9	1.5
Portfolio	0	0	-	-	5,611	12,386	12,899	14,097	14,097	0.0	9.3	13.8
Repo	0	0	-	-	2,749	2,033	2,328	2,185	541	-75.2	-76.7	-73.4
Private bonds	563	451	273	172	333	310	307	702	624	-11.1	103.2	101.0
Loans	56,035	52,319	51,774	47,017	50,741	53,010	56,565	63,208	64,916	2.7	14.8	22.5
Public sector	8,172	13,803	25,056	23,571	21,420	16,665	15,954	11,824	11,810	-0.1	-26.0	-29.1
Private sector	45,103	36,636	26,074	22,816	28,213	35,157	39,031	49,011	50,672	3.4	29.8	44.1
Financial sector	2,760	1,880	644	630	1,107	1,189	1,580	2,373	2,435	2.6	54.1	104.8
Provisions over loans	-3,248	-3,957	-7,463	-5,225	-3,717	-2,817	-2,482	-2,246	-2,244	-0.1	-9.6	-20.3
Other netted credits due to financial intermediation	36,600	13,037	27,212	22,148	25,753	23,157	16,873	18,982	19,668	3.6	16.6	-15.1
Corporate bonds and subordinated debt	724	665	1,514	1,394	829	632	675	577	578	0.1	-14.4	-8.6
Unquoted trusts	1,609	1,637	6,205	3,571	2,362	2,506	2,444	2,914	3,000	2.9	22.7	19.7
Compensation receivable	0	0	15,971	13,812	14,657	8,236	5,575	4,890	4,916	0.5	-11.8	-40.3
Other	34,267	10,735	3,523	3,370	7,905	11,784	8,179	10,601	11,176	5.4	36.6	-5.2
Assets under financial leases	776	752	553	387	592	1,036	1,356	1,894	1,887	-0.4	39.1	82.1
Shares and participation	1,651	1,703	3,123	2,791	1,892	2,236	2,416	3,467	3,588	3.5	48.5	60.5
Fixed assets and miscelaneous	3,225	3,150	5,198	4,902	4,678	4,546	4,575	4,549	4,572	0.5	-0.1	0.6
Foreign branches	75	112	-109	-136	-53	-70	-148	-136	-138	0.9	-6.8	96.8
Other assets	2,190	2,574	7,549	7,816	7,137	6,357	6,178	5,606	5,475	-2.3	-11.4	-13.9
Liabilities	**107,193**	**70,829**	**103,079**	**101,732**	**113,285**	**114,749**	**112,600**	**123,215**	**124,759**	**1.3**	**10.8**	**8.7**
Deposits	57,833	44,863	44,445	52,625	62,685	72,516	75,668	86,795	87,869	1.2	16.1	21.2
Public sector [2]	1,276	950	1,636	3,077	6,039	7,194	6,946	7,117	7,369	3.5	6.1	2.4
Private sector [2]	55,917	43,270	38,289	47,097	55,384	64,429	67,859	78,435	79,174	0.9	16.7	22.9
Current account	4,960	7,158	8,905	11,588	13,966	15,847	17,946	18,595	18,673	0.4	4.1	17.8
Savings account	9,409	14,757	6,309	10,547	14,842	16,839	18,362	20,674	20,671	0.0	12.6	22.8
Time deposit	39,030	18,012	11,083	18,710	22,729	27,785	27,736	35,169	35,930	2.2	29.5	29.3
CEDRO	0	0	9,016	2,409	798	7	3	2	2	-3.2	-23.2	-67.8
Other netted liabilities due to financial intermediation	46,271	22,629	49,341	42,367	45,083	37,949	32,349	31,884	32,366	1.5	0.1	-14.7
Call money	2,293	1,514	836	726	1,070	1,376	1,488	1,973	2,323	17.7	56.1	68.9
BCRA lines	83	1,758	16,624	17,030	17,768	10,726	10,088	6,999	6,888	-1.6	-31.7	-35.8
Outstanding bonds	4,939	3,703	9,073	6,674	7,922	5,912	6,548	6,499	6,502	0.1	-0.7	10.0
Foreign lines of credit	5,491	4,644	15,434	9,998	5,444	3,768	2,696	2,158	2,112	-2.2	-21.6	-44.0
Other	33,466	11,010	7,374	7,939	12,878	16,168	11,530	14,254	14,541	2.0	26.1	-10.1
Subordinated debts	1,668	1,700	3,622	1,850	1,304	1,277	1,319	1,227	1,183	-3.6	-10.3	-7.3
Other liabilities	1,420	1,637	5,671	4,890	4,213	3,008	3,264	3,309	3,341	1.0	2.4	11.1
Net worth	**12,178**	**11,515**	**15,827**	**14,900**	**14,780**	**16,242**	**17,080**	**19,786**	**20,005**	**1.1**	**17.1**	**23.2**
Memo												
Netted assets	88,501	73,796	117,928	115,091	121,889	120,749	123,271	134,272	135,859	1.2	10.2	12.5

(1) Includes margin accounts with the BCRA. (2) Does not include accrual on interest or CER.

Source: BCRA

Statistics Annex: Private Banks

Chart 7: Profitability Structure

	Annual						First 9 months		Monthly			Last
Amounts in million of pesos	**2000**	**2001**	**2002[1]**	**2003**	**2004**	**2005**	**2005**	**2006**	**Jul-06**	**Aug-06**	**Sep-06**	**12 months**
Financial margin	5,441	5,282	10,628	2,575	3,415	5,253	3,827	5,504	691	643	625	6,930
Net interest income	3,598	3,519	-304	107	1,214	2,069	1,425	2,007	238	221	218	2,651
CER and CVS adjustments	0	0	1,476	1,082	900	1,215	977	648	47	44	58	886
Foreign exchange price adjustments	160	256	6,189	-312	666	576	313	586	47	72	55	848
Gains on securities	1,232	962	3,464	1,892	959	1,259	1,011	2,132	341	294	278	2,380
Other financial income	450	546	-197	-195	-322	134	100	131	18	12	15	165
Service income margin	2,554	2,598	2,782	2,341	2,774	3,350	2,433	3,141	362	385	379	4,059
Loan loss provisions	-2,173	-2,464	-6,923	-1,461	-1,036	-714	-552	-520	-79	-53	-63	-682
Operating costs	-5,263	-5,224	-6,726	-5,310	-5,382	-6,303	-4,550	-5,461	-626	-638	-633	-7,214
Tax charges	-379	-418	-512	-366	-393	-509	-353	-534	-59	-66	-66	-691
Income tax	-393	-216	-337	-295	-202	-217	-140	-190	-31	-31	-20	-268
Adjustments to the valuation of government securities [1]	0	0	0	-665	-51	-201	-93	-141	-15	-10	-14	-248
Amortization payments for court-ordered releases	0	0	0	-791	-1,147	-1,168	-879	-854	-90	-136	-90	-1,143
Other	307	615	-4,164	1,178	846	1,156	753	922	257	24	113	1,325
Monetary results	0	0	-10,531	-20	0	0	0	0	0	0	0	0
Total results	**93**	**174**	**-15,784**	**-2,813**	**-1,176**	**648**	**447**	**1,868**	**410**	**118**	**231**	**2,069**
Adjusted results[3]	-	-	-	-1,357	252	2,016	1,418	2,862	515	264	335	3,460
Annualized indicators - As % of netted assets												
Financial margin	6.2	6.4	7.6	2.3	2.9	4.3	4.2	5.7	6.3	5.7	5.5	5.4
Net interest income	4.1	4.3	-0.2	0.1	1.0	1.7	1.6	2.1	2.2	2.0	1.9	2.1
CER and CVS adjustments	0.0	0.0	1.1	0.9	0.8	1.0	1.1	0.7	0.4	0.4	0.5	0.7
Foreign exchange price adjustments	0.2	0.3	4.4	-0.3	0.6	0.5	0.3	0.6	0.4	0.6	0.5	0.7
Gains on securities	1.4	1.2	2.5	1.7	0.8	1.0	1.1	2.2	3.1	2.6	2.5	1.9
Other financial income	0.5	0.7	-0.1	-0.2	-0.3	0.1	0.1	0.1	0.2	0.1	0.1	0.1
Service income margin	2.9	3.2	2.0	2.0	2.4	2.7	2.7	3.3	3.3	3.4	3.3	3.2
Loan loss provisions	-2.5	-3.0	-5.0	-1.3	-0.9	-0.6	-0.6	-0.5	-0.7	-0.5	-0.6	-0.5
Operating costs	-6.0	-6.4	-4.8	-4.6	-4.6	-5.1	-5.0	-5.7	-5.7	-5.7	-5.6	-5.7
Tax charges	-0.4	-0.5	-0.4	-0.3	-0.3	-0.4	-0.4	-0.6	-0.5	-0.6	-0.6	-0.5
Income tax	-0.4	-0.3	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-0.2	-0.2
Adjustments to the valuation of government securities [1]	0.0	0.0	0.0	-0.6	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2
Amortization payments for court-ordered releases	0.0	0.0	0.0	-0.7	-1.0	-1.0	-1.0	-0.9	-0.8	-1.2	-0.8	-0.9
Other	0.4	0.7	-3.0	1.0	0.7	0.9	0.8	1.0	2.4	0.2	1.0	1.0
Monetary results	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	**0.1**	**0.2**	**-11.3**	**-2.5**	**-1.0**	**0.5**	**0.5**	**1.9**	**3.8**	**1.1**	**2.0**	**1.6**
ROA adjusted[3]	0.1	0.2	-11.3	-1.2	0.2	1.6	1.5	3.0	4.7	2.4	3.0	2.7
ROE	*0.8*	*1.4*	*-79.0*	*-19.1*	*-8.1*	*4.1*	*3.8*	*13.5*	*26.2*	*7.2*	*13.8*	*11.5*

(1) Data at December 2002 currency (2) Com. "A" 3911. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains from securities" heading.

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

Source: BCRA

Chart 8: Portfolio Quality

As percentages	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Sep 05	Dec 05	Jul 06	Aug 06	Sep 06
Non-performing loans (overall)	8.3	9.9	19.8	15.7	8.9	6.0	4.4	3.6	3.5	3.2
Non-performing loans to the non-financial private sector	**9.8**	**14.0**	**37.4**	**30.4**	**15.3**	**8.9**	**6.3**	**4.6**	**4.4**	**4.1**
Commercial portfolio (*)	8.4	15.4	44.7	39.0	18.2	10.5	7.3	5.0	4.8	4.4
Consumption and housing portfolio	11.9	12.4	26.0	17.2	10.0	5.7	4.2	3.8	3.6	3.5
Provisions / Total non-performing loans	67.7	75.7	73.4	79.0	95.7	101.5	114.6	119.6	121.5	125.6
(Total non-performing - Provisions) / Overall financing	2.7	2.4	5.3	3.3	0.4	-0.1	-0.6	-0.7	-0.7	-0.8
(Total non-performing - Provisions) / Net worth	13.4	11.4	18.6	11.2	1.3	-0.3	-2.2	-2.4	-2.5	-2.8

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

Source: BCRA

Methodological note (chart 5):

1.-(Cash compliance according to BCRA + Other cash holdings + Central Bank repos) / Total deposits; **2.-**(Public bonds position (without LEBAC and NOBAC) + Loans to the public sector + Compensation receivable) / Netted assets; **3.-**Loans to the private sector / Netted assets; **4.-**Non-performing loans to the non-financial private sector / Loans to the non-financial private sector; **5.-**(Total non-performing loans – Provisions) /Net Worth. The non-performing loans includes loans classified in situation 3,4,5, and 6; **6.-**(Accumulated annual results /Average monthly netted assets - % Annualized; **7.-**(Accumulated annual results – Amortization of Court ordered payments – Adjustments to the valuation of government securities) / Average monthly netted assets - % Annualized; **8.-**(Financial margin (Net interest income + Restatement by CER and CVS + Gain on securities + Foreign exchange price adjustments + Other financial income) + Service income margin) / Operating costs; **9.-**Capital compliance (Responsabilidad Patrimonial Computable) / Risk – adjusted assets according to the norm of BCRA about Minimum Capital Compliance; **10.-**(Capital Compliance minus requirements, included franchises) / Capital requirements.