Report on Banks

September 2022

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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

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Executive Summary

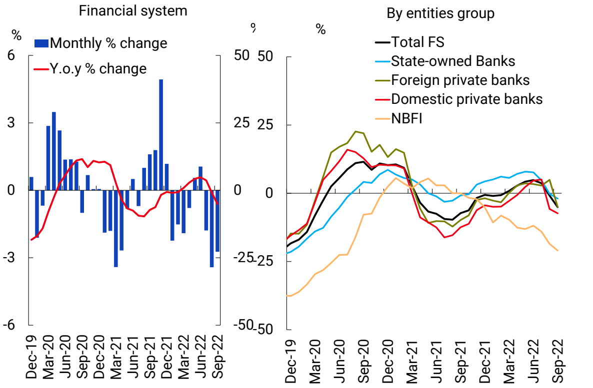
- Starting from high levels if compared to the average of the last 10 years, there was an increase in the aggregate financial system's main liquidity and solvency ratios in September. In addition, there was an increase in deposits in pesos in real terms and a reduction in financing to the private sector in real terms over the period. In turn, the expansion of electronic means of payments continued to consolidate.
- Instant transfers between accounts opened at financial institutions (via Uniform Banking Codes - CBUs) expanded 58.3% in number and 6.8% in amount in real terms in the last 12 months, and the performance of transactions made via Mobile Banking was especially remarkable. The use of electronic checks (ECHEQs) has kept a sizable growth path and accounted for 32.3% of the total number of documents cleared over the period (+11 percentage points (p.p.) year-on-year (y.o.y.)) and for 57.9% of their amounts (+12.1 p.p. y.o.y.).
- The stock of private sector deposits in pesos in the ensemble of financial institutions grew 3.2% in real terms over the month, mainly due to the performance of time deposits (+4.1% in real terms) and, to a lesser extent, to the increase in sight accounts (+0.5% in real terms).
- In September, the stock of loans in domestic currency granted by the financial system to the private sector shrank 2.7% in real terms (+3.3% in nominal terms). Under the framework of the "Credit Line for Productive Investment of Micro, Small and Medium-Sized Enterprises (MSMEs)" (LFIP), nearly ARS3.3 trillion have been disbursed from its implementation in November 2020 to October 2022, benefitting over 327,200 companies (it is estimated that the stock of loans under the LFIP reached ARS932.8 billion as of September, equivalent to 12.5% of the total stock of loans granted to the sector). For the purpose of consolidating the Electronic Credit Invoices (FCEM) as financing instrument for MSMEs, the BCRA set in motion the Database of Credit Invoices Not Paid Upon Maturity (CenFIV), in order to give transparency to transactions, improve the traceability of this instrument and contribute to create a credit history.
- Over the month, the financial system's non-performing ratio of loans to the private sector continued to stand at 3.1%, posting no significant changes against August and standing 1.9 p.p. below the figure recorded in September 2021. In turn, there was an increase in the provisioning of the sector over the period, totaling 4% of the private sector portfolio (+0.2 p.p. month-on-month (m.o.m.) and -2 p.p. y.o.y.) and 128.8% of the non-performing portfolio of loans (+9.1 p.p. m.o.m. and +18.1 p.p. y.o.y.).
- In September, liquid assets in a broad sense totaled 72.3% of the financial system's deposits, up 2.5 p.p. against August and up 3.5 p.p. against the same period of 2021.
- The Regulatory capital (RC) of the ensemble of financial institutions stood at 28.7% of risk-weighted assets (RWAs) (+0.8 p.p. m.o.m. and +2.3 p.p. y.o.y.). The capital position —regulatory capital net of the minimum regulatory requirement— of the financial system stood at 258% of the regulatory requirement over the period (+10.6 p.p. m.o.m. and +33 p.p. y.o.y.) and at 39.6% of the stock of loans to the private sector net of provisions (+1.9 p.p. m.o.m. and 6.9 p.p. y.o.y.). In addition, the leverage ratio (within the guidelines defined by the Basel Committee) reached 14.3% for the ensemble of financial institutions (+1.1 p.p. y.o.y.), standing quite above the figures required by the domestic regulations.

- In the aggregate of the first nine months of 2022, the financial institutions accrued a total comprehensive income in homogeneous currency equivalent to 1.5% annualized (a.) of assets (ROA) and to 9%a. of equity (ROE). These values have been higher than those of the same period of 2021 and lower than those of 2020.

I. Financial Intermediation Activity

Taking into account the most relevant movements (in homogenous currency) of the financial system's balance sheet for the items in pesos, the stock of deposits of both the private and the public sector was on the rise, while financing to the private sector declined in September. In turn, broad liquidity and financing to the public sector rose over the period.[1] Regarding the items in foreign currency, the changes in the main items (in currency of origin) were similar to those observed in the items in pesos during the period under analysis.[2]

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



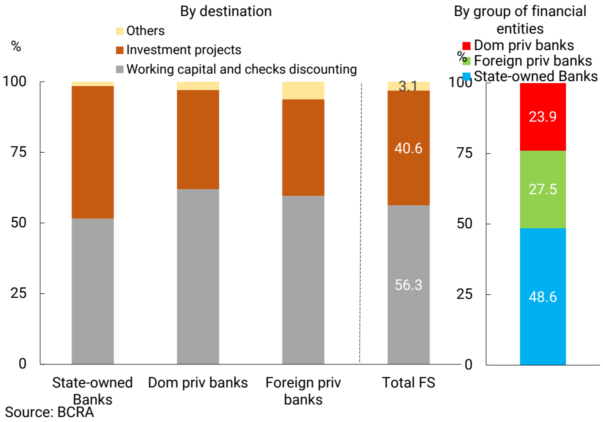
*Not seasonally adjusted. Total includes adjustments of principal and interest accrued. Source BCRA.

In September, the stock of loans in domestic currency to the private sector declined 2.7% in real terms (+3.3% in nominal terms), with drops in almost all credit lines (except for assets under financial lease).[3] In year-on-year terms, the stock of lending in pesos has dropped 5.1% in real terms (+73.7% in nominal terms, see Chart 1).

So far this year, the "Credit Line for Productive Investment of MSMEs" (LFIP) has consolidated as one of the main credit stimulus programs implemented by the BCRA. From its launch (in November 2020) to October 2022, nearly ARS3.3 trillion has been disbursed, benefitting over 327,200 enterprises. As of September, it has been estimated that the stock of loans granted under the LFIP totaled over ARS932.8 billion, equivalent to 12.5% of the total lending provided to the private sector. Approximately 40.6% of the estimated total stock of the LFIP was provided to investment projects (see Chart 2), with a higher share of state-owned banks. A new quota of the LFIP is in force as from October, and it will extend until March 2023, under conditions similar to the current ones.[4]

1 The monthly performance of broad liquidity was largely explained by the increase in repo transactions and LELIQs. In part, the monthly rise of both instruments mirrored the BCRA's sterilization needs in the face of the liquidity expansion resulting from the "Export Increase Program", which allowed for the settlement of soybean exports at an exceptional and temporary exchange rate of ARS200 per dollar. For further detail, see the Monthly Monetary Report corresponding to September 2022.
2 In addition, it is worth mentioning that there was an increase in the deposits with a variable return based on the evolution of the exchange rate over the period. These deposits (both sight accounts and time deposits) are available for the agricultural sector provided settlements in foreign currency are made. In addition to this increase of deposits, the financial institutions underwrote Internal Bills of the BCRA in dollars that can be settled in pesos at the Benchmark Exchange Rate (LEDIV) at zero rate, an instrument designed to hedge such positions. See Communication "A" 7557.
3 Including capital adjustments and accrued interest.
4 Communication "A" 7612.

Chart 2 | Credit Line for Productive Investment (LFIP) of MSMEs – Estimated stock as of Sep 2022– Share % in total

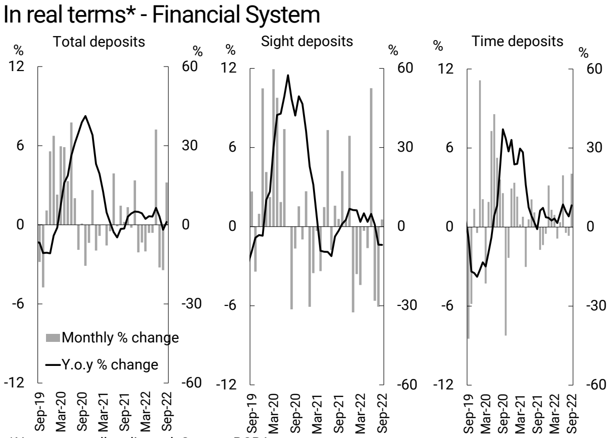


Source: BCRA

As a supplementary measure devoted to consolidate the Electronic Credit Invoices (FCEM) as instrument for lending to MSMEs, the BCRA has set in motion the [Database of Credit Invoices Not Paid Upon Maturity (CenFIV)](). The CenFIV will give transparency to operations and create a credit history, improving the traceability of this instrument.[5] This is an additional measure adopted by the Central Bank to increase the financing alternatives available to MSMEs and, in the specific case of the FCEMs, the measure will increase and facilitate the use of these invoices by means of a simpler process which is more consistent with the daily transactions of small and medium-sized enterprises.

In September, the stock of loans in domestic currency to the private sector went down 1.9% against August.[6] In this context, the total stock of lending (in domestic and foreign currency) to the private sector has accumulated a drop of 2.7% in real terms over the month (+3.4% in nominal terms) and of 9.4% in real terms in a year-on-year comparison (+65.8 % y.o.y., in nominal terms).

Chart 3 | Stock of private sector deposits in pesos
In real terms* - Financial System



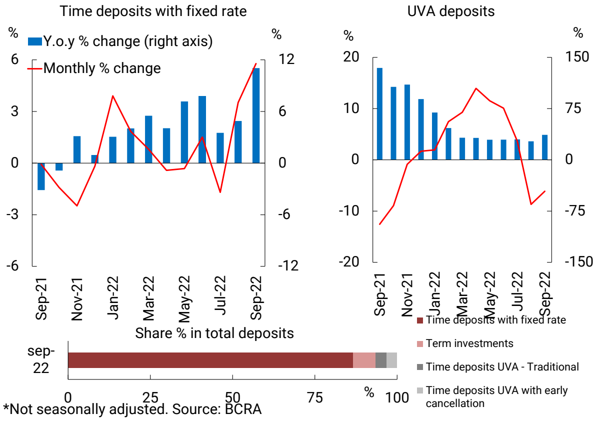
*Non-seasonally adjusted. Source: BCRA

In terms of the financial system's funding, the stock of private sector deposits in domestic currency went up 3.2% in real terms over the month (+9.6% in nominal terms, see Chart 3). Sight accounts rose 0.5% in real terms in September (+6.8% in nominal terms), while time deposits grew 4.1% in real terms (+10.5% in nominal terms).

Within the framework of the interest rate structure regularization process, the BCRA has readjusted the return on saving in domestic currency in the financial system so far this year. In this context, in September, traditional time deposits (at a fixed interest rate) went up 5.8% in real terms against August (+12.3% in nominal terms) and 11% in real terms in a year-on-year comparison (+103.2% y.o.y. in nominal terms) (see Chart 4). In turn, over the period, the stock of deposits denominated in UVA shrank 6.1% in real terms (-0.3% in nominal terms), even though they have continued to grow in year-on-year terms (36.5% y.o.y. in real terms or +149.9% y.o.y. in nominal terms).

5 For further detail, see Press Release of November 1, 2022.
6 Expressed in currency of origin.

Chart 4 | Stock of private sector time deposits in pesos
In real terms* - Financial system



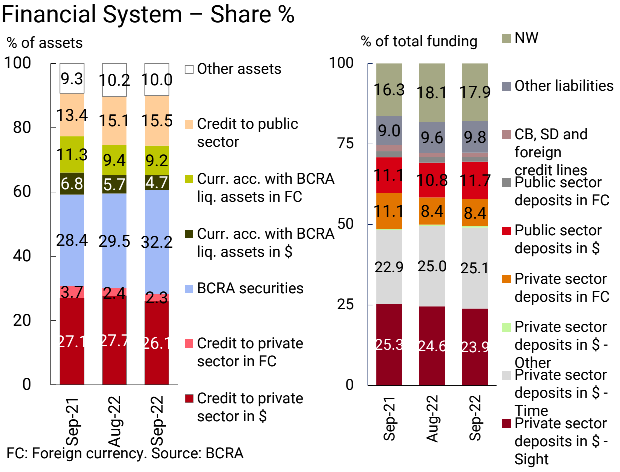
*Not seasonally adjusted. Source: BCRA

Regarding the items in foreign currency, the stock of private sector deposits in this denomination grew 2.6% in currency of origin in September, mainly due to the performance of sight accounts. The total stock of private sector deposits (in domestic and foreign currency) went up 3.1% in real terms in September against August (+9.5% in nominal terms), dropping 3.9% in real terms in a year-on-year comparison (+75.8% y.o.y. in nominal terms).
The stock of private sector deposits in pesos went up slightly in a year-on-year comparison as of September (+1.1% in real terms y.o.y. or +84.9% in nominal terms y.o.y.), mainly due to the abovementioned performance of time deposits. In turn, public sector deposits in pesos rose 3.6% in real terms y.o.y. (+89.6% y.o.y. in nominal terms). Consequently, the total stock of deposits in domestic currency, considering both sectors, grew 2.2% y.o.y. in real terms (+87% y.o.y. in nominal terms) as of September. In this context, the total stock of deposits (all currencies and sectors) shrank 2.7% y.o.y. in real terms (+78% y.o.y. in nominal terms) over the period.

II. Aggregate Balance Sheet Evolution and Composition

In September, the assets of the financial sector increased 3.4% in real terms (+9.8% in nominal terms), due to the rise in the stock of deposits in pesos (see the previous Section). This monthly performance was widespread across all groups of banking financial institutions. In a year-on-year comparison, total assets went down 1.4% (+80.3% in nominal terms).

Chart 5 | Composition of assets and total funding
Financial System – Share %



FC: Foreign currency. Source: BCRA

Regarding the components of the aggregate financial system's total assets in September, there was an increase in the share of the BCRA's instrument holding stock and of loans to the public sector.[7] In turn, there was a decrease in the relative share of loans to the private sector in pesos and of balances in the current accounts held by the institutions at the BCRA in the same denomination over the month (see Chart 5). Regarding the components of the aggregate financial system's total funding, there was an increase in the share of the public sector deposits in pesos, accompanied by a decrease in the relative share of private sector sight accounts in pesos and net worth over the month.

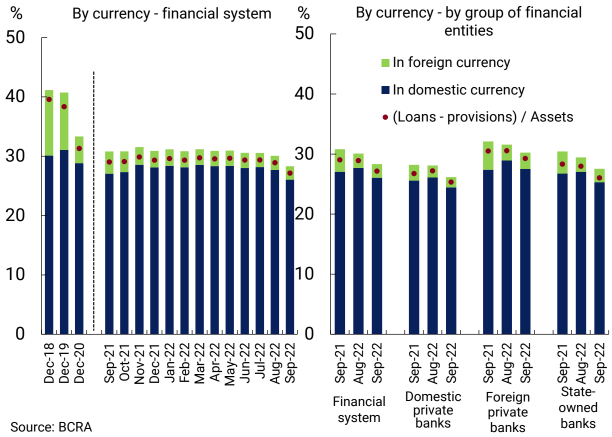
7 For further detail on the evolution of BCRA's instruments, see footnote 1.

In September, the estimated differential between assets and liabilities in foreign currency stood at 25.1% of the regulatory capital at systemic level (+0.1 p.p. m.o.m. and +15.1 p.p. y.o.y.).[8] In turn, the positive differential between assets and liabilities with capital adjustment by CER (or denominated in UVA) totaled 57.6% of the Regulatory capital (RC) at aggregate level (+3.7 p.p. m.o.m. and -1.1 p.p. y.o.y.) over the month.

III. Portfolio Quality

In September, the financial system's gross exposure to the private sector (in domestic and foreign currency) contracted 1.8 p.p. of assets to 28.3% (-2.5 p.p. y.o.y.), within a context of a significant rise in assets.[9] This evolution was widespread across all homogenous groups of banking financial institutions (see Chart 6). Regarding lending in pesos, this ratio stood at 26.1% over the period (-1.6 p.p. m.o.m. and +1 p.p. y.o.y.), while the share of loans to the private sector in foreign currency in the financial system's total assets stood at 2.3% (-0.1 p.p. m.o.m. and -1.5 p.p. y.o.y.). The stock of loans to the private sector net of provisions corresponding to the ensemble of financial institutions accounted for 27.2% of assets over the month, down 1.8 p.p. and 1.9 p.p. against the figure recorded in August and against the same period of 2021, respectively.

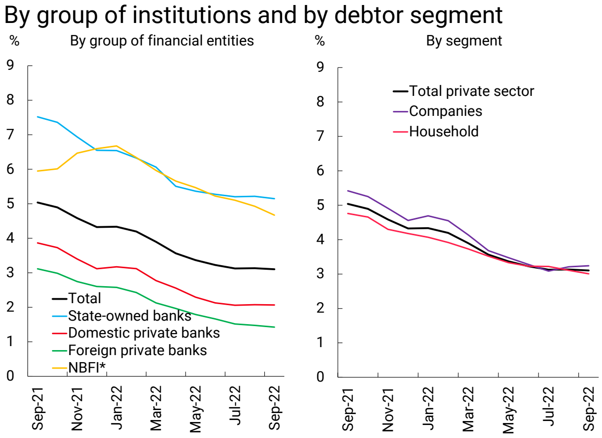
Chart 6 | Stock of loans to the private sector / Assets



Source: BCRA

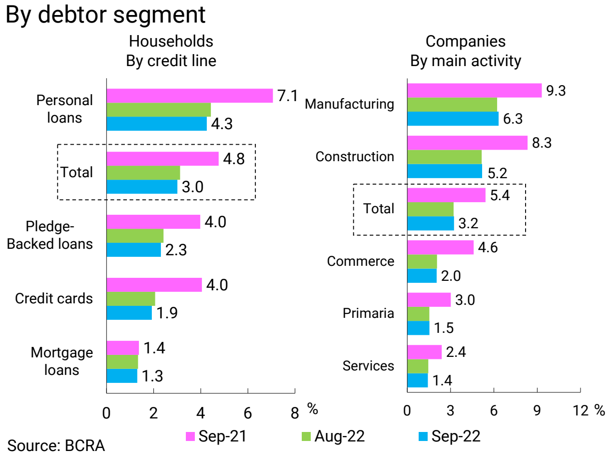
In September, the financial system's non-performing ratio of loans to the private sector continued

Chart 7 | Non-performing loans to the private sector
By group of institutions and by debtor segment



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

Chart 7 | Non-performing loans to the private sector
By debtor segment



Source: BCRA

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8 Including purchase and sale forward transactions in foreign currency, classified as off-balance. The deposits from the agricultural sector subject to a variable return based on the evolution of the exchange rate are included in liabilities.
9 For further detail about the evolution of assets, see Sections 1 and 2.

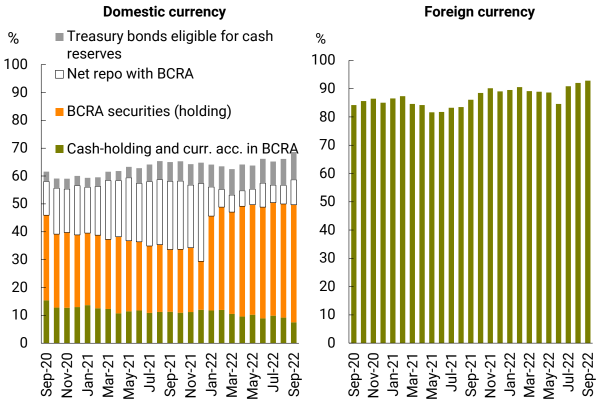
to stand at 3.1%, posting no significant changes against August (see Chart 7). A breakdown by credit segment shows that there was a slight drop in the delinquency ratio of loans to households (personal loans and credit cards, see Chart 8), while the corporate portfolio quality posted no significant changes (this performance was widespread across all economic sectors, see Chart 8). In year-on-year terms, the delinquency ratio of the private sector contracted 1.9 p.p. at systemic level (-1.8 p.p. in the segment of loans to households and -2.1 p.p. in the segment of loans to companies).

In September, the financial system's stock of provisions was on the rise, reaching 4% of the private sector's total portfolio (+0.2 p.p. m.o.m. and -2 p.p. y.o.y.) and 128.8% of the non-performing portfolio (+9.1 p.p. m.o.m. and +18.1 p.p. y.o.y.).[10] Over the period, the stock of regulatory provisions net of those attributable to debtors' categories 1 and 2 (according to the criteria set by the rules on regulatory minimum provisions for loan loss exposure) stood at around 97% of the non-performing portfolio at systemic level.

IV. Liquidity and Solvency

By the end of the third quarter, the financial system's liquidity ratios stood at historically high levels. As of September, liquid assets in a broad sense totaled 72.3% of the financial system's deposits, up 2.5 p.p. against August (see Chart 9). The monthly increase of liquidity was evident in the segment in pesos (2.5 p.p. of deposits to 68.6%) and also in the segment in foreign currency (3.7 p.p. of deposits to 95.7%). In terms of the composition of liquidity in domestic currency, between ends of month, there was an increase in the share of net repo transactions with the BCRA and of BCRA's instrument holdings. In year-on-year terms, the broad liquidity ratio of the ensemble of financial institutions went up 3.5 p.p. of total deposits (+3.6 p.p. y.o.y. for the segment in domestic currency and +9.6 p.p. y.o.y. for the segment of items in foreign currency).

Chart 9 | Financial system liquidity

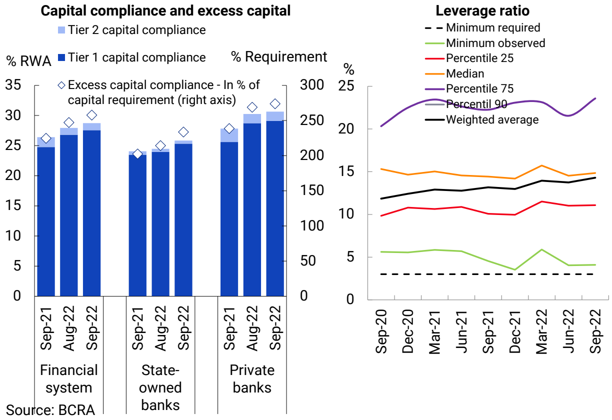


Source: BCRA

Regarding the sector's solvency, in September, there was an increase in the level of the main ratios monitored by the BCRA (see Chart 10). The aggregate financial system's Regulatory capital (RC) —largely made up by common equity Tier 1 capital— accounted for 28.7% of risk-weighted assets (RWAs) over the month, up 0.8 p.p. against August and up 2.3 p.p. in year-on-year terms. The financial system's capital position —regulatory capital net of the regulatory minimum requirement— totaled 258% of the regulatory requirement over the period (+10.6 p.p. m.o.m and +33 p.p. y.o.y.)

10 The increase in the provisioning levels was mainly accounted for by the segment denominated in foreign currency.

Chart 10 | Financial system's solvency indicators

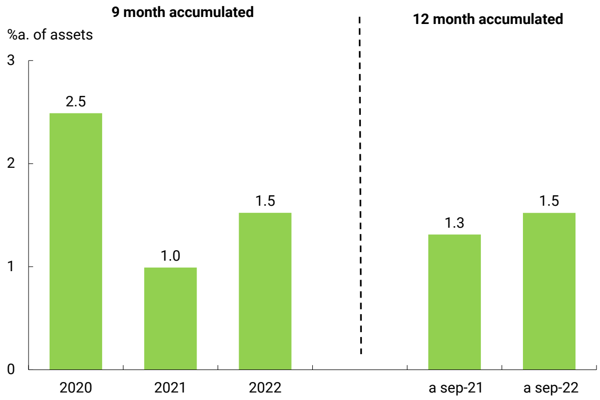


Source: BCRA

and 39.6% of the stock of loans to the private sector net of provisions (+1.8 p.p. m.o.m. and 6.3 p.p. y.o.y.).

In the same line, the leverage ratio —defined according to the guidelines recommended by the Basel Committee [11]— stood at 14.3% for the ensemble of financial institutions, up 0.6 p.p. against the value recorded by mid-2022 and up 1.1 p.p. against the value of the same month of 2021. The level of this ratio is standing significantly above the value required by our domestic regulations (see Chart 10).

Chart 11 | Financial system's total comprehensive income in homogeneous currency



Source: BCRA

In terms of the sector's profitability, the financial institutions have accrued a total comprehensive income in homogeneous currency equivalent to 1.5% annualized (a.) of assets (ROA) and to 9%a. of equity (ROE) in the aggregate of the first nine months of the year. These values were higher than those of the same period of 2021, but lower than those of the same period of 2020 (see Chart 11).

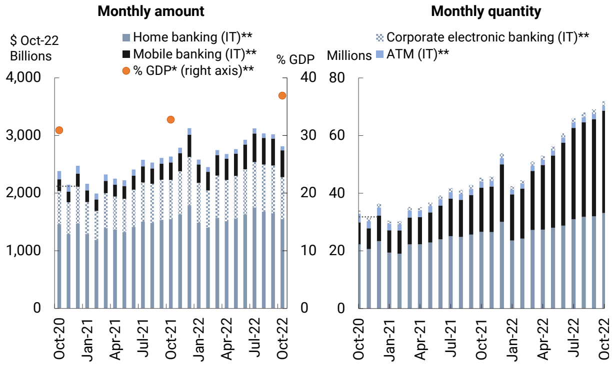
Considering the aggregate of the last 12 months up to September, the ensemble of financial institutions has accrued a ROA of 1.5% and a ROE of 9.1%, up 0.2 p.p. and 0.7 p.p. against the same period of 2021 (see Chart 11). In a year-on-year comparison, there was higher income from securities, which was partially offset by increases in expenses for interest paid and rises in losses due to exposure to monetary items.

V. Payment System

In October, instant transfers between accounts opened at financial institutions via Uniform Banking Codes (CBUs)[12] went up in number (+4%) but went down in amount in real terms (-6.9%) against September (see Chart 12). In year-on-year terms, these transactions expanded 58.3% in number and 6.8% in amount in real terms, with a remarkable performance of transactions made via Mobile Banking. As a result, there was an increase in the relative share of transactions via Mobile Banking in total instant transfers between CBUs to 49.4% in number (+15.6 p.p. y.o.y.) and 16.6% in amount (+5.1 p.p. y.o.y.). It is estimated that, as of October, instant transfers between

11 Basel's ratio is defined as the quotient between the capital loss-absorbing capacity to total exposure measure.
12 Given the information available at the time of preparing this Report, transactions made via instant transfers using Uniform Virtual Codes (CVUs) have not been included.

Chart 12 | Instant transfers between CBUs



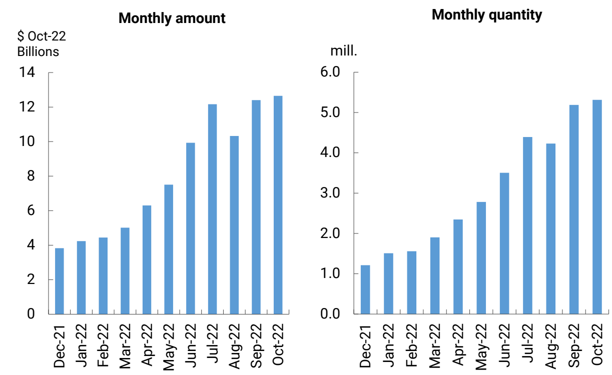
Source: BCRA. *Three-month moving average annualized in terms of nominal GDP estimated for the same period, Not-seasonally adjusted. **IT between accounts open at financial entities (from and to a CBU) ***Transfers where accounts are opened at PSP (from and/or to CVU: CBU to CVU, CVU to CBU and CVU to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

CBUs have accounted for 36.9% of GDP[13] (+4.2 p.p. against the same month of 2021). In October, the average value of total instant transfers made via CBUs stood at ARS39,126.

In October, payments by transfer (PCTs) initiated via interoperable QR codes increased against September, in both number and amount in real terms (+2.4% and +2%, respectively, see Chart 13). The average value of payments by transfer via interoperable QR codes amounted to $2,381 in October.[14]

In September (latest information available), there was a decrease in transactions made with debit cards against August: 0.8% in number and 3.9% in amount in real terms, due in part to seasonal factors. However, purchases made with debit cards went up in year-on-year terms (+21.6% in number and +5.2% in amount in real terms). This year-on-year performance has been mainly accounted for by onsite transactions, posting an increase in their relative share since the beginning of the year due to a greater economic openness after the pandemic. It is estimated that the amount of the transactions made via debit card in the last three months (annualized) accounted for 8.3% of GDP (up 0.5 p.p. against the same month of 2021). In turn, the average value of the transactions made via debit card amounted to ARS3,394 over September.

Chart 13 | Payments by transfer (PCTs) via interoperable QR codes



In October, the clearing of checks declined against September in both number (1.1%) and amount in real terms (5.7%). However, check clearing went up in year-on-year terms in number and amount (+2.7% and 4.2%, respectively). This evolution was entirely accounted for by the performance of electronic checks (ECHEQs). Consequently, the share of transactions with ECHEQs continued to go up in the total clearing of documents and reached 32.3% in number (+11 p.p. y.o.y.) and 57.9% in amount (+12.1 p.p. y.o.y.) in October. It is estimated that the amount of checks cleared in the last three months (annualized) was equivalent to 26.9% of GDP (+1.5 p.p. y.o.y.). In October, the average value of physical instruments and electronic checks cleared over the month amounted to ARS258,150 and ARS743,000, respectively.

13 When considering annualized amounts of the last three months.
14 For further detail, see the Monthly Report on Retail Payments – September 2022.

Lastly, the ratio of bounced checks for insufficient funds in terms of total cleared checks stood at moderate levels (0.75% in number and 0.59% in amount) in October, standing at values similar to those of September and at slightly higher values in a year-on-year comparison.