Report on Banks

OCTOBER 2005

Central Bank of Argentina

Year III – No. 2

Contents

Note: This report contains information from October 2005 balance sheets, available on 15/12/05. Description centers mainly on the behavior of the main financial variables for the private bank aggregate (including breakdowns by uniform subgroups), except for certain variables that explicitly refer to public banks and the entire financial system. Figures provided (particularly in the case of profitability) are preliminary, and may be subject to change.

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Summary

- **Financial system balance sheets continued to show signs of steady improvement during October 2005.** Financial intermediation is still growing, the distortions to the composition of assets and liabilities that followed from the past crisis are gradually declining, the quality of assets continues to recover and profitability remains on an upwards trend, aiding progress in terms of solvency.

- **Netted assets of the consolidated financial system returned to the growth path, expanding by 0.9%. The stock of loans to the private sector increased by 2.7% in October, mainly driven by commercial credit lines (up 2.9%). Consumer credit maintained remarkable momentum (up 6.5%).**

- **The quality of lending to the private sector continued to improve, with non-performance declining to 9.9% for the entire financial system and 8.3% for private banks.** Among the latter, the strongest performance among credit lines was in credit card lending, pledge-backed securities, overdrafts and personal loans, all with non-performance levels below 6%.

- **Financial system exposure to the public sector remained at around 32% of total assets.** This type of exposure has declined by 7.1. p.p. over the last 12 months.

- **The consolidated financial system´s total deposit balance increased by 2% in October**, driven both by private deposits (up 1.9%) and public sector deposits (up 2.3%).

- **The normalization of financial system liabilities continued in October, with further contractions in debts with the Central Bank.** A set of institutions made substantial early repayments as part of the so-called matching framework, so by the end of October only 8 banks had outstanding rediscount liabilities with the Central Bank. The financial system has made accumulated payments within this framework for $8.4 billion during the first 10 months of 2005. Repayment is an ongoing process: by early December, only 5 institutions had this type of debt with the Central Bank.

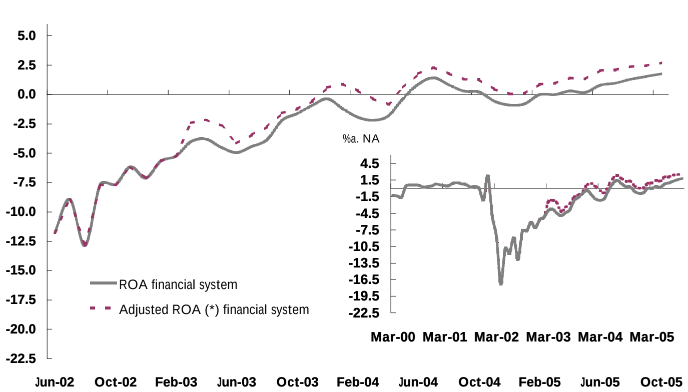
- **The estimated flow of funds for private banks in October shows that the main sources of funds were an increase in private sector deposits ($900 million), a reduction in credit to the public sector ($405 million), a cutback in holdings of LEBAC and NOBAC and the sale of financial trusts ($370 and $150 million, respectively). More than half of the additional resources were allocated to new lending to the private sector ($1.13 billion),** while payments to the Central Bank due to outstanding rediscount debt ($540 million) and increases in liquid assets ($365 million) were the other main uses of funds.

- **The financial system registered earnings of $360 million (2.1%a. of assets) in October, for an accumulated profit of close to $1.55 billion (0.9%a.) so far in 2005.** Public banks made a $140 million (2.1%a.) profit over the month, while private bank profits were $210 million (2.1%a.).

- **The improvement in private bank profits over the month was largely explained by an already anticipated decline in costs (loan loss provisions and operating costs).** The financial margin increased to some extent, with exchange rate differences and CER-adjustment offsetting a slight decline in interest income and gains from securities.

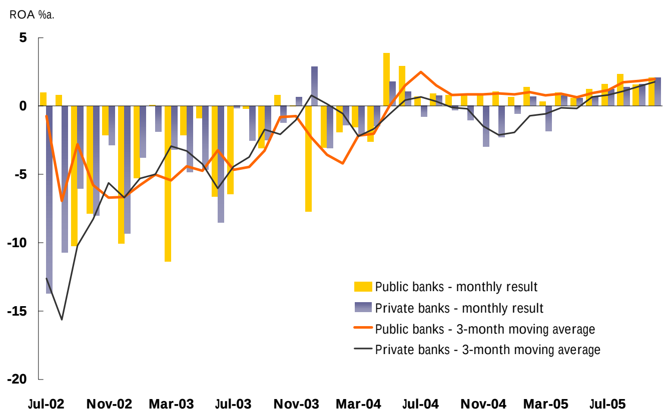
- **The growing profitability of financial institutions, as well as new capital contributions, are contributing to improve financial system solvency.** Including a single capital injection in October (for approximately $26 million), accumulated contributions amount to almost $1.51 billion so far in 2005. The financial system's net worth increased by 1.4% in October, for an accumulated increase of 11.2% during 2005.

Chart 1
Annualized Profitability
3-month moving average



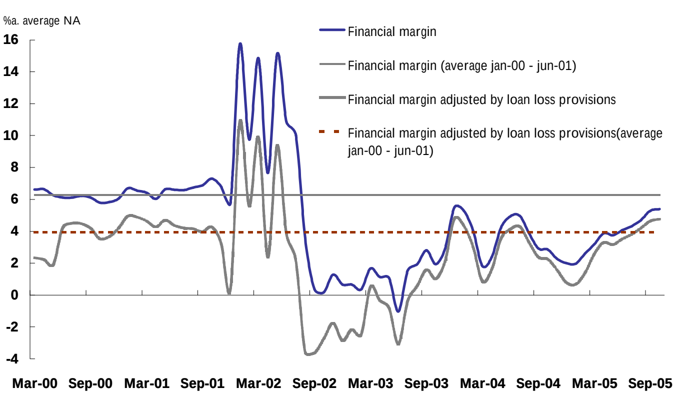
Source: BCRA (*) Excluding amortization of payments for court ordered releases and the effects of Com. "A" 3911.

Chart 2
ROA Public and Private Banks



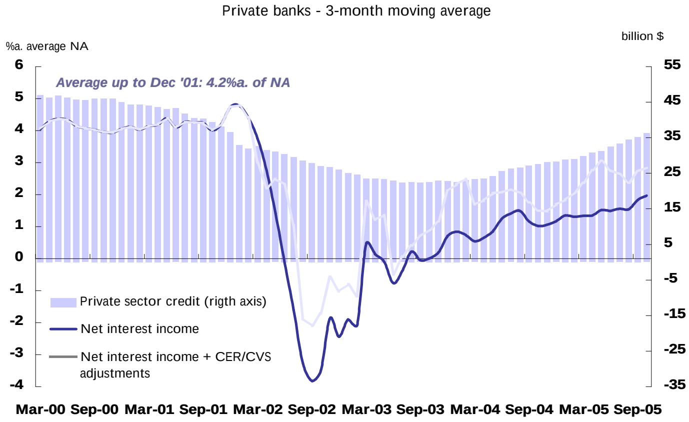
Source: BCRA

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



Source: BCRA

Chart 4
Net Interest Income and CER/CVS Adjustments
Private banks - 3-month moving average



Source: BCRA

Profitability:
Financial margin on the rise, costs declining

The financial system's profitability continued to increase gradually and helped – jointly with the normalization of institutions' asset and liability structures and the improvement in the quality of lending to the private sector – sustain the ongoing recovery in solvency. Profits registered by the financial system amounted to $360 million, or an annualized (a.) 2.1% of assets, the highest level so far in 2005. Profits accumulated through October amounted to almost $1.55 billion (0.9%a. of assets), or almost $3.3 billion (1.9%a.) excluding the headings that gradually account for the impact of the crisis (i.e. court-ordered releases and adjustments to the valuation of public sector assets). Put in proper perspective, these profitability figures show that there has been a marked recovery compared to the prevailing losses up until the end of 2004 (see Chart 1). It should be pointed out that the gradual improvement in profitability is still taking place with a certain degree of volatility, mostly due to the existence of balance sheet mismatches (e.g. currency and interest rate mismatches).

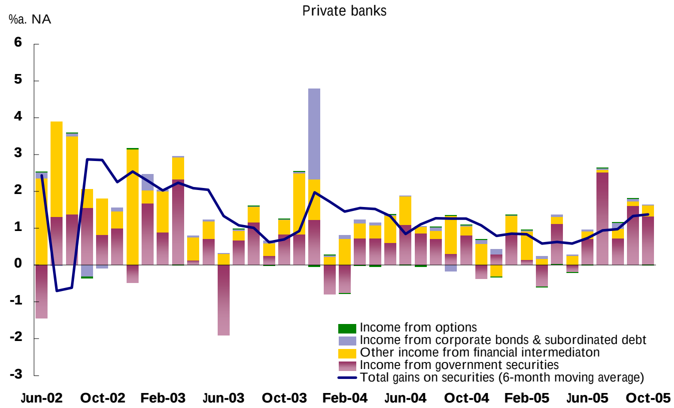
Monthly results improved both for private and public banks. Private banks registered profits of about $210 million (2.1%a. of assets), or $660 million (0.6%a.) so far in 2005. Public bank profits amounted to almost $140 million (2.1%a.) in October, or about $860 million (1.3%a. of assets) so far this year[1]. Although public banks attained profits and greater stability in returns as from mid-2004 (ahead of private banks), profitability for both bank groups has been similar in recent months (see Chart 2).

The improvement in private bank earnings during October can be mainly attributed to a decline in cost structures, which was expected following the adjustments made by banks in September ahead of the end of the quarter. The financial margin expanded to a certain degree, and underwent a change in composition: interest income declined slightly, and was more than offset by a small increase in CER-adjustment and earnings due to exchange-rate differences. There was a minor decline in other results and service income remained unchanged.

The private bank financial margin increased by 0.3 percentage points (p.p.) to a new record high for the year: 5.8%a. of assets, more than 2 p.p. above the level reached during the first half of 2005 (see Chart 3 for the quarterly moving average). The improvement in the financial margin came from a broad-based improvement in several components. Core results due to traditional financial intermediation (interest income plus CER restatement) declined slightly, from 3.1%a. to 2.9%a. of assets (see Chart 4 for the quarterly moving average). This was caused by a 0.3 p.p. decline in interest income,

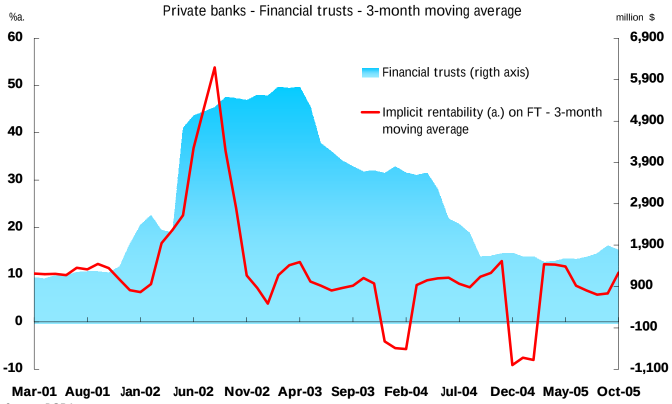
[1] If amortization payments for court-ordered releases and adjustments to the valuation of government securities (Com. "A" 3911 and follow-up regulation) are removed from the calculation, the accumulated result for 2005 is $1.73 billion (1.7%a. of assets) for private banks and $1.56 billion (2.3%a.) for public banks.

Chart 5
Gains on Securities
Private banks



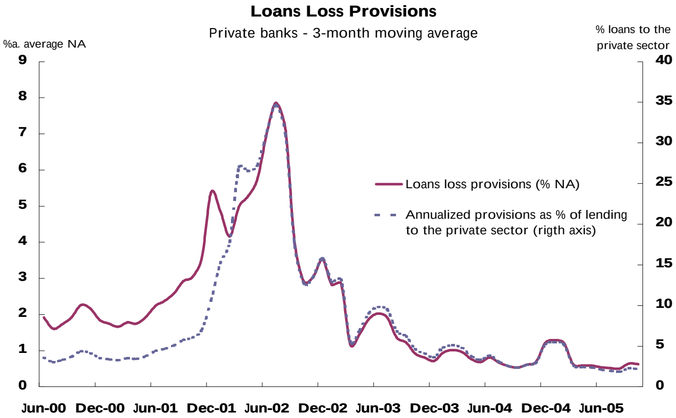
Source: BCRA

Chart 6
Gains on Financial Trusts
Private banks - Financial trusts - 3-month moving average



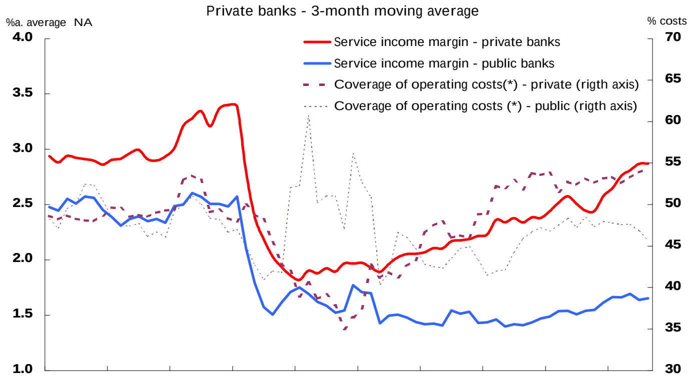
Source: BCRA

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



Source: BCRA

Chart 8
Service Income Margin
Private banks - 3-month moving average



Source: BCRA
(*) Service income margin / operating costs

down from September's peak value for 2005[2]. Private bank interest income was 2%a. of assets in October, still higher than the level recorded during the first half of the year (1.4%a.) and consistent with sustained growth in lending to the private sector. The month's decline in interest income was partly offset by a slight increase in net restatement by CER, which amounted to 0.9%a. of assets. The corresponding decline in interest income plus CER restatement was more than offset in turn by adjustments due to restatement of items in foreign currency (exchange rate differences). The result from this heading amounted to 1.2%a. of assets, which (together with loan loss provisions) showed the largest change in October.

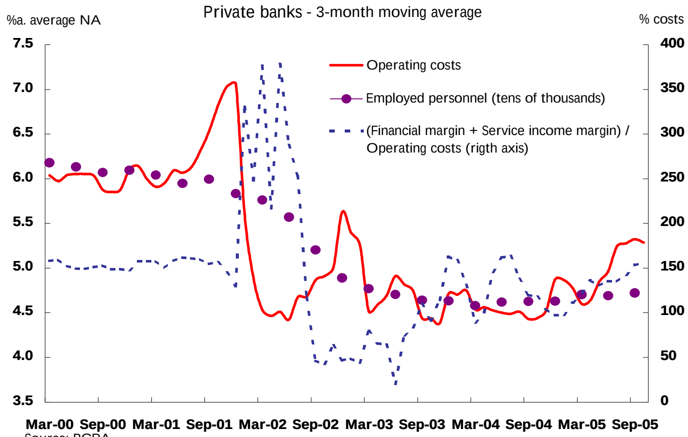
Although private bank gains from securities declined slightly, they remain at a relatively high level: 1.6%a. of assets (compared to 0.7%a. during the first half of 2005 and 0.8% for 2004). As in recent months, the improvement in gains from securities is mostly due to earnings from government securities (see Chart 5), which are explain by an heterogeneous set of factors[3]. In October there was also some growth in results due to stakes in financial trusts, although mostly registered by a single institution. This caused the rate of return on these trusts – which is usually about 10%a. – to almost double temporarily during the month (see Chart 6 for a quarterly moving average).

Following an increase in September – which occurs regularly for months at the close of quarterly balances – loan loss provisions cut back by almost half in October, to 0.4%a. of private bank assets. This level is closer to that registered during the first half of the year (0.6% of assets), and is still low compared to that in recent years (see Chart 7). In terms of the balance of lending to the private sector, provisions amounted to 1.4%a., which compares favorably to the same month in 2003 and 2004, when they stood at 2.3%a. and 1.8%a., respectively, of private bank credit. Furthermore, loan loss provisions amounted to slightly less than 4%a. of outstanding credit to the private sector before the crisis. The current environment of low provision costs is still a reflection of lower credit risk due to the ongoing expansion in economic activity. Following a sizeable increase in provision coverage during the past crisis, provisions are in place for the entire private bank non-performing portfolio (see the Portfolio Quality section), so that apart from possible individual adjustments, loan loss provisions are expected to remain low.

Service income is currently another of the pillars of private bank revenues. These results remained stable in October, at around 2.9%a. of assets. In line with the recovery of financial intermediation, service income remained above the level registered during the first half and the same month the year earlier (2.5%a. and 2.4%a., respectively). The weight of these results was larger among private than public banks. Although service income has also been on the rise for public banks, they stand at less than 2%a. of assets and cover approximately

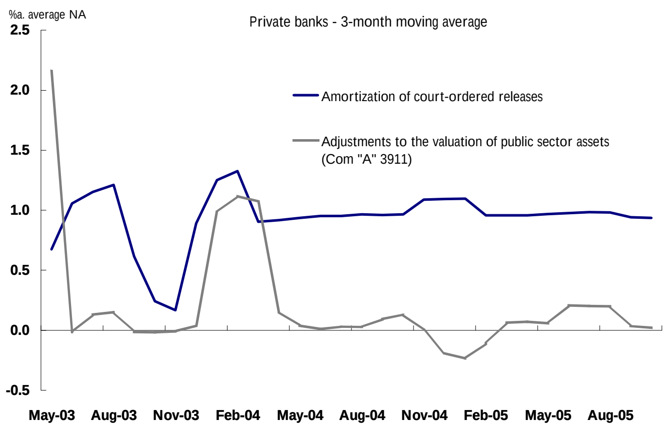
[2] According to corrections made to balance sheets in September, interest income for that month amounted to 2.3%a. of assets, arising from non-recurring adjustments made by one institution in accrual related to guaranteed loans. Excluding this institution from the sample causes the interest income figure to decline slightly, to around 2%a. of assets.
[3] For instance, in October there were some changes in valuation (arising from releases of certain guarantees and existing priority orderings) as well as earnings due to trading in some specific banks, which managed to offset the losses of some banks that have a substantial part of their portfolio at market values (as the prices of several important government securities fell during the month).

Chart 9
Operating Costs



Source: BCRA

Chart 10
Amortization of Court-ordered Releases and Adjustments in Public Sector Assets



Source: BCRA

Table 1
Main Developments in October

	Oct	Nov	Ch %
Prices			
Exchange rate ($/US$) [1]	3.01	2.97	-1.2
CPI	166.07	168.08	1.2
CER [1]	1.684	1.698	0.9
			Ch.(p.p.)
Average percentage rates			
Lending [2]			
Overdraft	15.4	16.3	0.8
Promissory notes	10.5	10.6	0.1
Mortgage	11.0	10.9	-0.1
Pledge-backed	10.3	10.1	-0.2
Personal	24.9	24.6	-0.3
30- to 44-day time deposit	4.2	4.5	0.3
1-year LEBAC in pesos, w/o CER	8.9	8.9	0.0
7 day BCRA repos	4.5	4.5	0.0
			Ch %
Balance[1,2] - Private banks			
Peso deposits - Private sector	56,822	57,394	1.0
Sight deposits	31,487	32,449	3.1
Time deposits	25,323	24,934	-1.5
Peso loans - Private sector	30,376	31,509	3.7
Overdraft	7,230	7,350	1.7
Promissory notes	6,847	7,268	6.2
Mortgage	4,915	4,935	0.4
Pledge-backed	1,167	1,226	5.0
Personal	3,389	3,676	8.5

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

45% of operating costs, almost 10 p.p. less than for private banks (see Chart 8).

Operating costs also had a positive effect on private bank profitability during October. After increasing in September to 5.4%a. of assets, costs declined by 0.1 p.p. during the month. Looking back, operating costs have been on the rise throughout 2005, driven by recovering wages and the expansion strategies pursued by some banks given the improved business environment. As an example of the latter, the private bank labor force amounted to 47,215 as of September, almost 900 jobs more than at the beginning of the year[4]. The upward trend in operating costs should be understood jointly with the initial contraction in this heading's weighting – following the crisis, these outlays were reduced from slightly above 6%a. to 4.5%a. (see Chart 9), as assets grew at a higher rate than operating costs. It is also worth pointing out that the coverage of operating costs by income (financial margin plus service income) is also recovering – the coverage ratio for private banks came to 163% in October, above pre-crisis levels (around 150%) although with higher volatility than in the past.

The remaining headings within the profitability structure did not undergo substantial changes. Private banks' other income declined slightly, but remained at about 1%a. of assets. Tax charges increased slightly, to 0.5%a. of private bank assets, with the weighting of the income tax doubling from 0.2%a. to 0.4%a. in October. Headings that gradually account for the effects of the past crisis were stable: amortization payments for court-ordered releases increased slightly to 1%a. of private bank assets, while the weighting for adjustments to the valuation of public sector assets remained almost nil (see Chart 10). Regarding the latter, the regulation framework put in place following the initial impact ensures that adjustments are gradual, with a low effect on results.

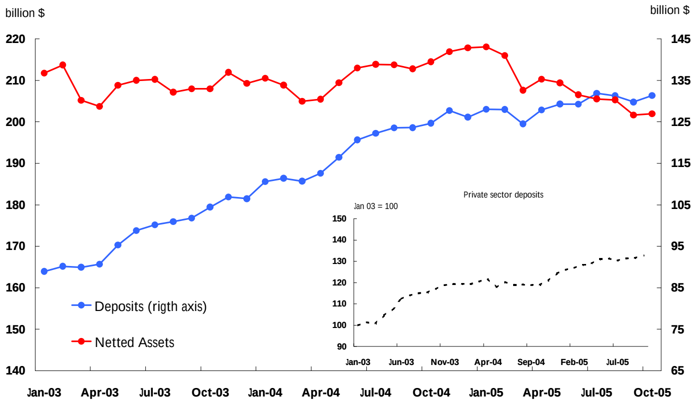
Outlook for November

Although liable to temporary shocks, the trend for bank profits is expected to remain positive and gradually increasing, in line with the recovery in operating profits seen throughout 2005. This in turn would contribute to the gradual strengthening of financial system solvency. As banks being to enjoy increasingly healthy balance sheets and make upward corrections to their business outlook, under increasingly stable macroeconomic conditions, they can in turn continue to expand financial intermediation and therefore improve their financial indicators.

Given the information available as of writing this report, results for November may be somewhat lower than in October (which were the highest so far this year). A slightly lower exchange rate between month ends could imply losses due to exchange rate differences. Gains from securities, which remained high through October, are likely to decline. The financial margin's more stable components are expected to perform more favorably. Interest income is expected to grow – interest revenues are set to increase due to the substantial expansion in all

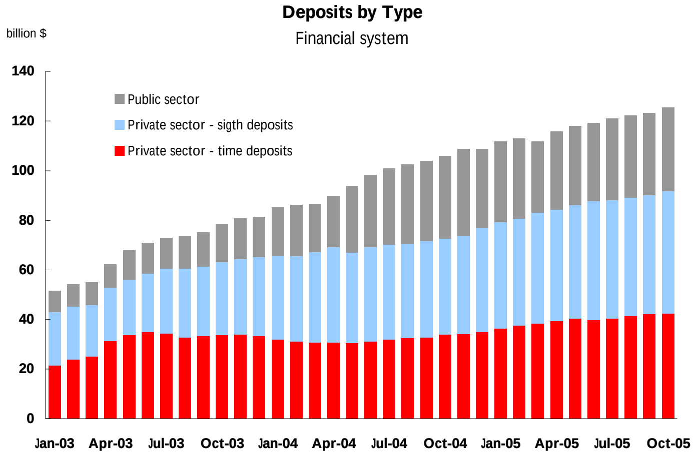
[4] The entire financial system's labor force amounted to 86,200 employees in September, with an accumulated 790 job increase during the year.

Chart 11
Netted Assets and Deposits
At Oct 05 - Consolidated system



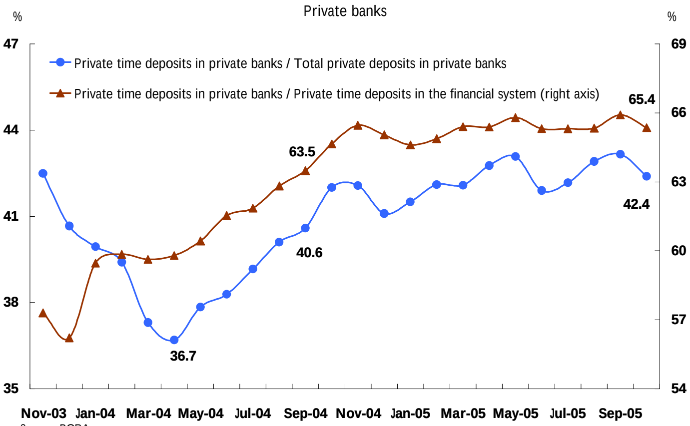
Source: BCRA

Chart 12
Deposits by Type
Financial system



Source: BCRA

Chart 13
Time Deposits
Private banks



Source: BCRA

lines of credit to the private sector (see Table 1), with the strongest increase coming from credit lines with the highest yields (e.g. overdrafts and personal loans). The improvement in interest revenues is also expected to be driven by the sustained recovery in the quality of loans to the private sector. In turn, the increase in revenues is not expected to be offset by an increase in the cost of funding – although time deposit rates are on a slight upward trend, the balance of this type of deposit is on the decline. The CER index increased by 0.9% in November, slightly less than the increase in October. The corresponding adjustments could therefore decline to a certain extent, but without a substantial change from recent levels[5].

Amortization payments of court-ordered releases are expected to become less significant in coming months, following the enforcement of the Central Bank's new regulation framework (Com. "P" 48409). The framework grants institutions the possibility of extending the previously set time period they had been granted for registering court-order related losses on the balance sheet, on the condition that they grant new long term commercial loans[6].

Activity: *Broad-based growth in credit*

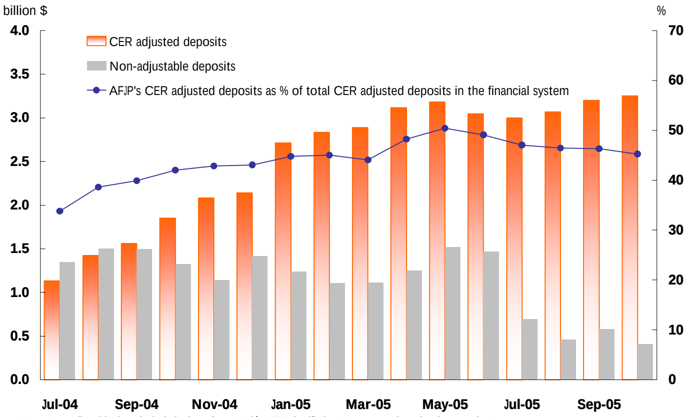
The volume of financial intermediation gave further signs of growth in October, with increases both in deposits and in credit to the private sector. This in turn caused a 0.9% (12%a.) increase in the netted assets of the consolidated financial system (see Chart 11 for the path of the series in real terms[7]), or a higher 1.4% (17.8%a.) increase for private institutions.

The consolidated financial system's total deposit balance[8] increased by 2% (26.8%a.) in October, for an accumulated 17.4%a. increase so far in 2005 (see Chart 12). This progress corresponds to the ongoing normalization of financial institution balance sheets, which is based on a steady improvement in banks' risk profiles and the gradual recovery of private agents' trust in the domestic financial system.

Private sector deposits with the consolidated financial system grew by 1.9% in October. Unlike September, the increase in sight deposits (2.6%) was greater than in time deposits (0.8%). The latter, however, have increased by 26.5%a. so far in 2005, to a total $42.5 billion of which 12% is in US dollar deposits. Public sector deposits with the consolidated financial system increased by 2.3% in October, to about $34 billion.

[5] Banks continue to cut back on their (CER-adjusted) debt with the Central Bank. Two medium sized institutions paid off all of their outstanding liquidity assistance debt in November.
[6] This scheme allows institutions to defer registering losses due to exchange rate differences (that were incorporated into assets) for an amount equivalent to 50% of new commercial lending granted by financial institutions, under the condition that loans have an average life of no less than 2 years and that the expansion in credit does not have a negative effect on the granting of credit over a shorter term. An upper limit was set on the total amount deferrable: 10% of the compliance capital of each financial institution.
[7] Adjusted by the CPI.
[8] Includes deposits of residents abroad and deposits of government securities, as well as interest and total adjustments accrued. Does not include financial sector deposits or rescheduled deposits to be swapped for government securities.

Chart 14
Pension Funds. Time Deposits



Note: Non-adjustable deposits include those from Nación AFJP classified as "Investments in regional economies"
Source: BCRA from Superintendencia de Administradoras de Fondos de Jubilaciones y Pensiones data

Table 2

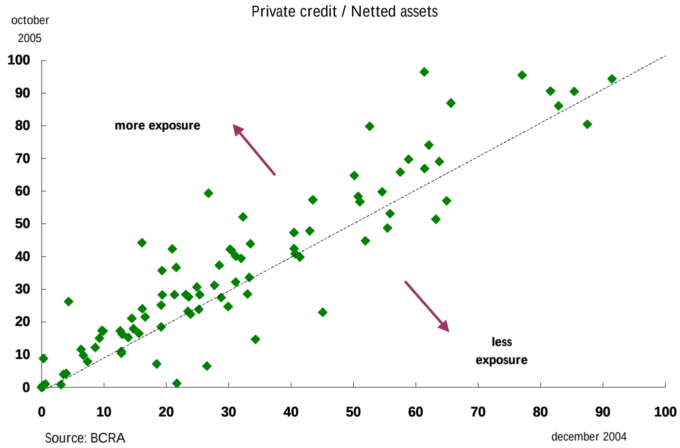
Loans to the Private Sector by Group of Banks

% change based on balance sheet totals

	2005	Q2 2005	Q3 2005	Oct-05	Share of total 2005
Public banks					
Total loans	**31**	**35**	**23**	**30**	**28**
Commercial	72	124	59	25	23
Consumer	71	64	52	74	29
Collateralized	-1	-8	-5	-14	41
Other	-45	-99	-100	-6	19
Private banks					
Total loans	**37**	**47**	**39**	**37**	**70**
Commercial	50	77	44	45	77
Consumer	60	52	60	136	64
Collateralized	4	10	4	6	56
Other	18	11	49	-38	81
Total system					
Total loans	**36**	**43**	**35**	**37**	**100**
Commercial	55	87	48	41	100
Consumer	63	51	61	113	100
Collateralized	4	4	2	12	100
Other	1	-9	-19	-32	100

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

Chart 15
Exposure to Private Sector Credit risk
Private credit / Netted assets



Source: BCRA

Total deposits in the private bank subgroup increased by 1.7%, mostly driven by private sector deposits (up 1.8%). Regarding the latter, sight deposits increased by 3.4% over the month, under greater demand for liquidity by the public. Time deposits with private institutions declined slightly over the month, following a substantial increase in the previous three months. These changes caused time deposits to decline as a share of private bank sources of funding (see Chart 13). Government deposits with private banks increased by 1% over the month.

Private sector CER-adjusted time deposits increased by almost 4% during October. Pension fund managers (AFJPs) only accounted for about a fifth of the total increase (see Chart 14), as their CER-adjusted deposits grew by 1.6%, but their share of this type of deposits stands at 45.3% of total adjusted deposits with the financial system. These types of deposits in turn represent 89% of funds allocated by pension fund managers with financial institutions.

The stock of outstanding loans[9] by the financial system to the private sector increased by 2.7% (37%a.), for an accumulated increase of 36%a. so far in 2005 (see Table 2). As in recent months, lending by private banks (up 2.7%, or 37%a.) was more dynamic than that of public banks (up 2.2%, or 30%a.), a pattern that appears more significant considering that these banks accounted for three-fourths of the monthly change in the amount of credit. The difference between the growth rates for both bank groups amounted to 6.6 p.p. so far in 2005, although private banks' relative share of the credit market remains at around 70%.

Looking back over 2005, most financial institutions have increased their exposure to the private sector (see Chart 15). This broad trend shows that institutions are diversifying their portfolios and strengthening their role in domestic financial intermediation.

Commercial loans (up 2.9%) stood for more than half the monthly increase in credit, but consumer lines are still growing at a relatively robust pace (up 6.5%). The most relevant among the former were current account overdrafts (up 6.9%), and the momentum in promissory note acceptances was sustained (increased 3.1%). Lending to finance and pre-finance exports declined slightly in October (down 1.3%), but is expected to turn up again during the last months of the year following an update to regulation recently put into effect by the Central Bank[10].

Lending for household consumption continued to grow strongly in October (6.5%), driven in first place by personal loans (up 5.9%[11]). Credit granted by credit cards also increased (7.9%[12]) again in October. Credit card lending is expected to sustain growth in coming months, due to seasonal patterns and the commercial strategies carried out by financial institutions.

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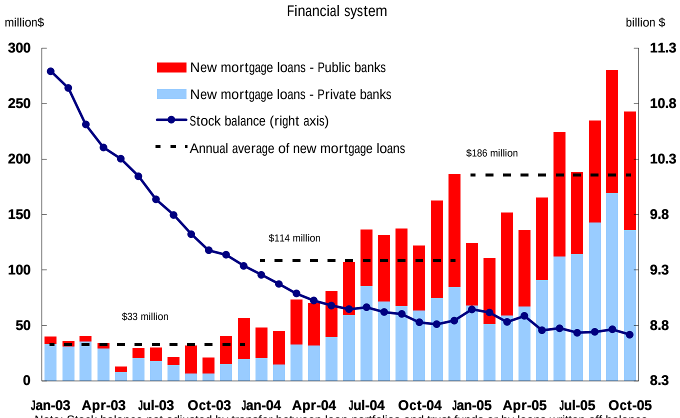
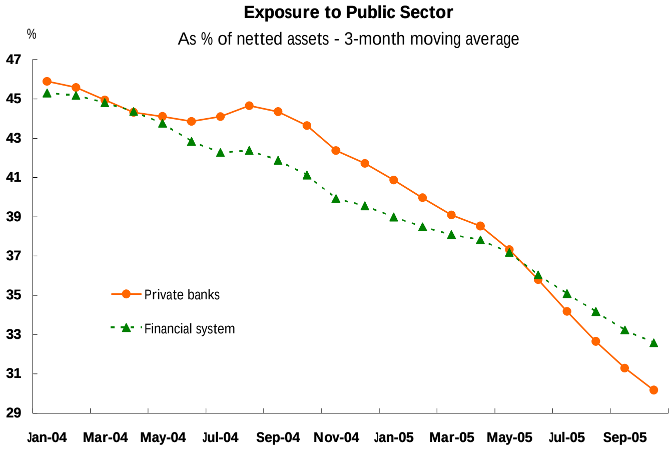
[9] Calculated from balance sheet totals. Loans in foreign currency are stated in pesos (if the balances of various months are considered, an average exchange rate is used). Does not include interest or adjustments. Not adjusted for unrecoverable loans written off from the balance sheet.
[10] Com. "A" 4443.
[11] Adjusted for reclassification between personal and credit card loans carried out in October by one private institution, as well as the setting up of a financial trust by another institution.
[12] Adjusted for the reclassification between personal loans and credit card debt mentioned above.

Chart 16
Mortgage Loans
Financial system



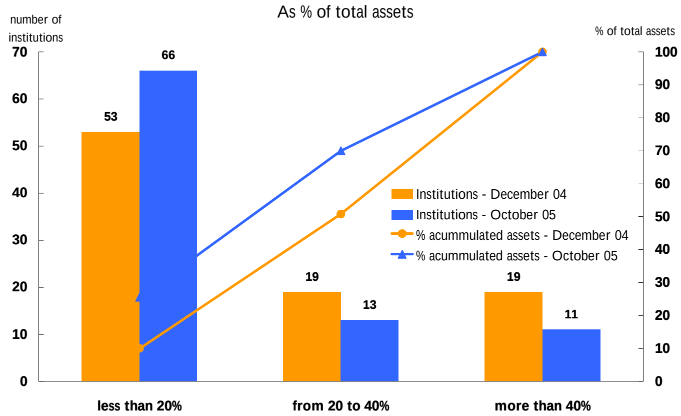
Note: Stock balance not adjusted by transfer between loan portfolios and trust funds or by loans written off balance
Source: BCRA

Chart 17
Exposure to Public Sector
As % of netted assets - 3-month moving average



Source: BCRA

Chart 18
Exposure to Public Sector
As % of total assets



Source: BCRA

The stock of outstanding mortgage loans increased by 1.7%[13] in October, with the amount of new credit granted surpassing the flow of cancellations. This growth is in parallel to the favorable macroeconomic context and the corresponding decline in uncertainty that the public faces when making decisions about medium and long term debt. The growth in the level of new mortgage loans granted (see Chart 16) shows an even composition between public and private institutions, with $846 million and $1.01 billion in new loans so far this year. Pledge-backed loans (typically for autos and equipment) increased by 4.3% over the month, which can be attributed to healthy growth in sales of autos and machinery.

The financial system's exposure to the public sector increased slightly in October[14], but remains at around 32% of total assets (see Chart 17 for a quarterly moving average). This change was mainly linked to the increase in the $/US$ exchange rate, affecting the valuation of foreign-currency denominated securities held by institutions. Aside from month-to-month changes, the consolidated financial system's ratio of exposure to the public sector had declined by a total 7.1 p.p. over the past 12 months, as institutions diversify their assets and gradually prepare for compliance with the regulatory constraints put in place by the Central Bank (a maximum exposure of 40% of total assets per institution will be enforced as from 2006[15]). As of October 2005, 79 institutions[16] maintained public sector exposure below 40% of total assets (encompassing almost 70% of financial system assets), which is 7 institutions more than in December 2004 (when institutions with exposure below 40% represented approximately 51% of total assets, see Chart 18).

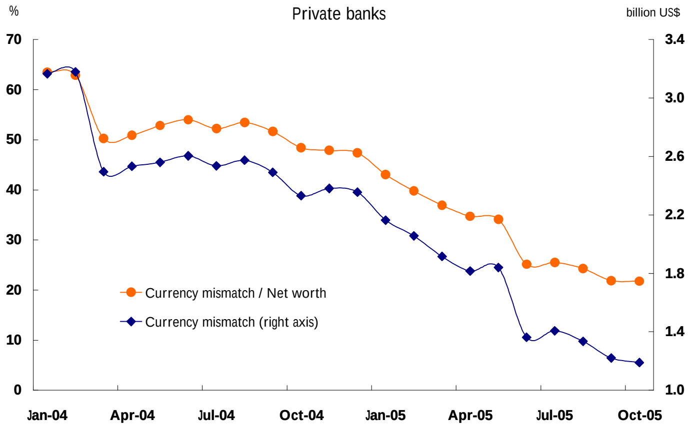
Exposure to the public sector by private institutions declined slightly in absolute terms, and the decline is even greater if the effect arising from the monthly increase in the $/US$ exchange rate is removed.

The private institution subgroup further reduced its foreign currency mismatch in October[17], which declined by almost US$30 million to a total US$1.19 billion (see Chart 19). US dollar denominated assets held by these institutions declined by almost $35 million over the month due to several factors, chief among which was a decline in the stock of loans in foreign currency. The dollar denominated liabilities of private institutions declined by about US$5 million.

Regarding the estimated flow of funds for private banks in October (see Table 3), the main source of funds was an increase of almost $900 million in the balance of deposits by the private sector. Supplementing this, a decline in the stock of lending to the public sector supplied a further $405 million in funds for this institution subgroup. A reduction in holdings of LEBAC and NOBAC securities as well as the sale of financial trusts and mortgage backed

[13] Adjusted for one large institution's issue of mortgage backed securities (*cédulas hipotecarias*) during the month.
[14] Exposure to the public sector includes balance sheet totals for government securities (excluding LEBAC and NOBAC), loans to the public sector and compensation receivable.
[15] Starting in January 2006, the minimum capital requirement for institutions surpassing the maximum 40% will be increased by an amount equivalent to the level of excess exposure.
[16] Includes non-bank financial institutions.
[17] Foreign-currency denominated assets include branches abroad (a non-monetary item).

Chart 19
Currency Mismatch
Private banks



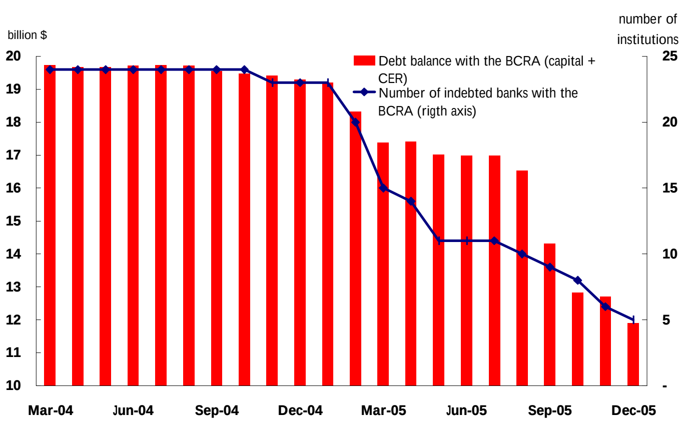
Source: BCRA

Table 3
Estimated Sources and Uses of Funds
Private banks - October 2005
million pesos

Source		Uses	
Private sector deposits	900	Loans to non-financial private sector (1)	1,066
Loans to the public sector	407	BCRA rediscounts	540
LEBAC and NOBAC stocks	374	Liquid assets (2)	324
Trust transfers (3)	150		
Others	210		

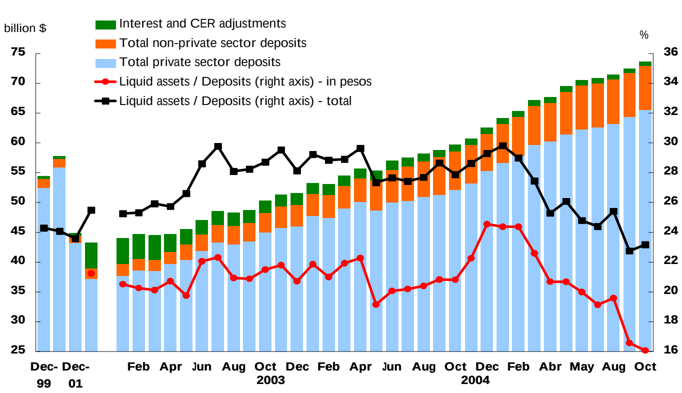
(1) Adjusting for credit written off from balance sheet and transfers between loan portfolios and trust funds.
(2) Minimum cash compliance (cash, current account with the BCRA and special collateral accounts), other liquid assets (with foreign branches or head offices) and reverse repos with the Central Bank
(3) Include certificates of participation in real-state trusts
Source: BCRA

Chart 20
Liabilities with the BCRA



Source: BCRA

Chart 21
Deposits and Liquidity
Private banks



Source: BCRA

securities (*cédulas hipotecarias*) were sources of funds for a further $370 and $150 million, respectively. Regarding the latter source of funds, financial institutions have increased asset securitization (both for public and private assets) substantially in recent months, a process that allows them to obtain resources that enables them to grant new lending to the private sector.

More than half of the new resources obtained by private banks in October (approximately $1.13 billion) were allocated to private sector lending. As part of the ongoing process through which financial institutions are normalizing their liabilities with the Central Bank, private banks made payments for $26 million corresponding to the October installment of the so-called matching framework, and early cancellations of liabilities for almost $513 million. Out of the entire financial system, as of the end of October only 8 banks had outstanding rediscount liabilities with the Central Bank (of which 4 were private), while in early December only 5 (2 private) had outstanding liabilities, due to complete repayments from three medium-sized banks. As of early December, the financial sector's outstanding rediscount debt encompassed by the matching framework amounted to $11.9 billion[18] (see Chart 20).

Unlike the previous month, private banks allocated new funds to liquid assets[19] in October, which increased by almost $365 million. The breakdown of these assets also changed – there were increases in other liquid assets ($580 million) and in minimum cash compliance ($505 million), which jointly surpassed the decline over the month in financial institutions' reverse repos with the Central Bank (almost $720 million). As a result, the private bank liquidity indicator increased by 0.4 p.p. to 23.2% of deposits (see Chart 21).

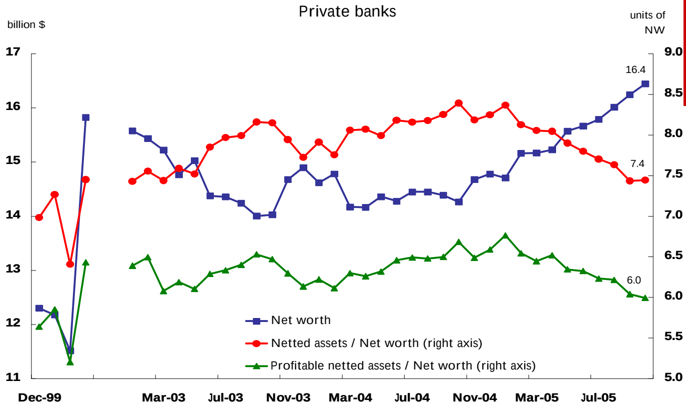
The financial system's solvency indicators improved in October thanks to a $26 million capital contribution to a non-bank financial institution (for an accumulated $1.51 billion in capital contributions to the financial system during 2005), as well as the banking sector's positive results over the period[20]. As a result, the financial system's net worth increased by 1.4% over the period (an accumulated increase of 11.2% during 2005), while the net worth of private banks increased by 1.2% (11.3% so far this year).

Changes to both the assets and net worth of private financial institutions during October did not cause a change in the leverage ratio, which remained at 7.4 (see Chart 22). Capital compliance in terms of credit-risk weighted assets increased by 0.4 p.p. in October for private bank, to 17.5%. As credit risk capital compliance increased beyond requirements, surplus capital (compliance less requirement) increased by 3.7 p.p. to 151.7%.

[18] Including capital and CER adjustment.
[19] Defined as the sum of financial institution minimum cash reserve compliance with the Central Bank, other available funds and the balance of bank reverse repos with the Central Bank.
[20] Furthermore, a large foreign-controlled private institution undergoing a $110 million capitalization process (swapped for credit lines with its home office) made a correction to its September balance sheets, attributing the increase in net worth to that month.

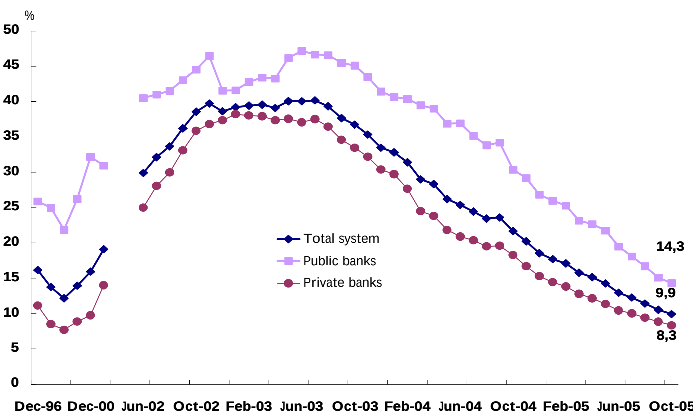
Portfolio quality:
Financial system non-compliance at around 10%

Chart 22
Netted Assets and Net Worth
Private banks



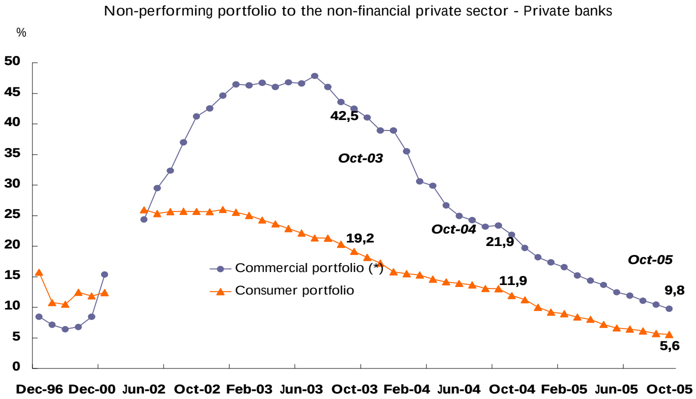
Source: BCRA

Chart 23
Non-performing Portfolio to the Private Sector



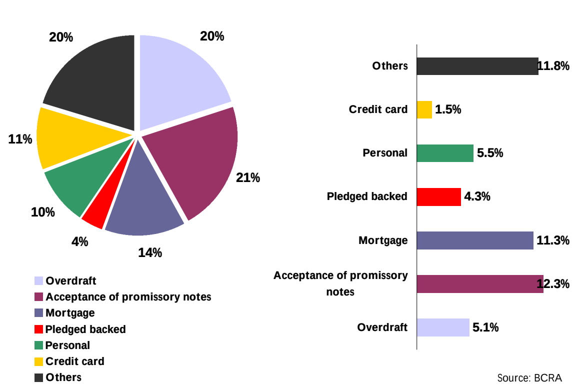
Source: BCRA

Chart 24
Portfolio Quality by Type of Lending
Non-performing portfolio to the non-financial private sector - Private banks



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

Chart 25
Composure and Non-performance Financing to the Private Sector
Private banks

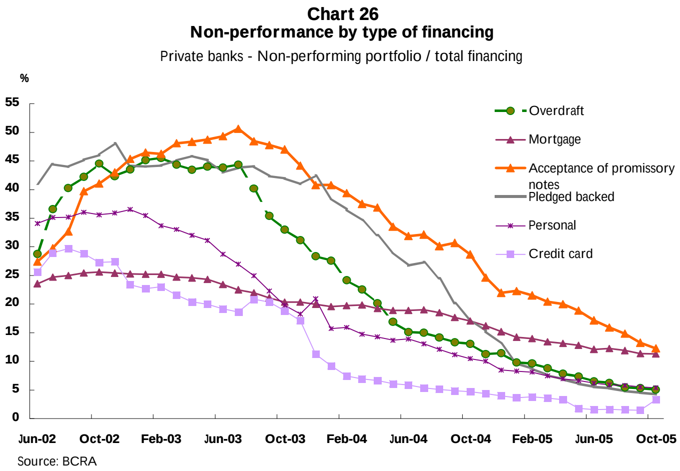


The quality of the portfolio of lending to the private sector sustained a gradual and broad-based improvement during October. Under the environment provided by sustained growth in the domestic economy, the improved outlook for businesses and higher income for households imply lower credit risk on new lending, while agents recover their capacity to fulfill payments and restructure delinquent debt. As a result, the non-performance ratio for financial system loans to the private sector fell 0.6 p.p. in October to 9.9%, for an accumulated 8.6 p.p. drop so far this year (see Chart 23).

The monthly decline in the non-performance of the financial system's portfolio of lending to the private sector was due both to the granting of new credit (with lower counterparty risk), as well as the decline in the amount of non-performing credit. As in recent months, public banks accounted for most of the monthly improvement in the financial system's portfolio. Although these institutions have higher levels of non-performance to begin with, their delinquency ratio declined by 0.8 p.p. in October (to 14.3%), for a 12.5 p.p. reduction so far this year. The non-performance ratio for private banks fell 0.6 p.p. in October, to 8.3%, for an accumulated 7 p.p. decline so far in 2005. The private bank portfolio's non-performance level is currently the lowest in the past five years, although long-term comparisons must take into account that there have been changes to the relevant regulations.

For private banks, the improvement in portfolio non-performance occurred both in commercial and consumer loan portfolios. Although consumer lending is still improving in relative terms, most of the progress in recent months has come from commercial lending, and delinquency levels for both types of lending are converging (see Chart 24). Non-performance of the private bank commercial portfolio reached a level of 9.8%, down 0.7 p.p. over the month (8.5 p.p. so far this year). Consumer loan portfolio non-performance declined by 0.1 p.p. to 5.6%, almost half its average pre-crisis level. This improvement from historical values is, among other factors, due to the substantial growth in this segment – which follows from lower credit risk conditions – and to improvements in portfolio management (e.g. given the increase in accounts used to deposit wages and cross-sales made to their beneficiaries, the flow of available information increases and the risks involved in granting new credit are contained).

A breakdown of private bank portfolio non-performance among different credit instruments shows that the improvement was broad-based but levels are still not uniform across instruments. In relative terms, non-performance was lowest for credit card debt, pledge-backed loans, overdrafts and personal loans, with delinquency below 6% (see Chart 25). Although portfolio quality for promissory note acceptances and mortgage loans has improved sharply since mid-2003 (see Chart 26), delinquency levels are still above average.



In parallel to the decline in non-performance, private banks reduced the balance of provision coverage in October. However, as the decline in the total amount of non-performing loans fell by a greater amount, private bank's provision coverage indicator increased to almost 106%, well above historical values of around 70%. Public banks have also increased coverage (with provision coverage at almost 140% of non-performing debt), so the provision coverage ratio for the entire financial system is 118%. This has led the indicator of net worth exposure to credit risk to improve persistently: the ratio of non-performing loans not covered by provisions as a percentage of net worth remains at slight negative values, both for private and public banks.

Latest Regulations

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

Communication “A” 4426 – 07/October/05
Regulation on pension fund investments. Asset rating. The list of assets not subject to evaluation was updated to remove two types of mortgage backed securities (“*Cédulas Hipotecarias Rurales*” and “*Cédulas Hipotecarias Especiales*”) issued by the Banco de la Nación Argentina, as these instruments have been entirely settled.

Communication “A” 4429 – 25/October/05
Adjustments to regulations on “Relationships between financial institutions and their clients”. Officials and their deputies in charge of attending client queries and complaints are not required to attend claims related to judicial actions or legally stipulated administrative actions for which derivation to other areas of the institution is appropriate.
Boards or internet sites announcing the service in question must indicate the communication methods available for clients to make claims, one of which must be in writing.
Lastly, within the internal procedures they follow to satisfy client claims and queries, institutions must aim to appoint alternate officials by branch or region to carry out these tasks, notwithstanding which each branch must display boards announcing the name of the head official, duly reported to the Central Bank, that will be on call for client claims, as well as information on any appointed deputies.

Methodology

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

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

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

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

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

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

(g) Initially, the breakdown by group of banks was determined on the basis of the majority existing in decision-making – in terms of shareholders' meeting votes – distinguishing between privately-owned institutions and public institutions. With the aim of deepening the analysis, wholesale banks were defined as those specializing in the large corporation and investor segment, which usually do not depend for their funding on deposits from the private non-financial sector. Retail banks were divided into those carrying out business at a national level, those located in specific geographical regions – municipal, provincial or regional institutions – and institutions specializing in a financial sector niche market – generally smaller institutions. Lastly, it should be noted that this grouping has been carried out solely for analytical purposes and does not represent the only methodological criterion for grouping, while, in addition, the detailing of the characteristics of each group of institutions has been established in a general manner. The group of private banks includes 3 institutions currently in the process of restructuring, which are under the management of a national public bank.

Glossary

%a.: annualized percentage.
%i.a.: interannual percentage.
Adjusted profit: Total profit excluding payments made due to court-ordered releases and adjustments to the valuation of public sector assets according to Com. “A” 3911 and modifications.
ASE: Adjusted stockholders’ equity, for Responsabilidad Patrimonial Computable (RPC) in Spanish. The measure for compliance with bank capital regulations.
Consolidated (or aggregate) assets and liabilities: Those arising from excluding operations between financial institutions.
Financial margin: Income less outlays of a financial nature. Includes interest income, gains from securities, CER/CVS adjustments, exchange rate differences and other financial results. Does not include the items affected by Com. A 3911 and modifications.
Gains 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: Financial System

Balance Sheet

In current pesos (millions)	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Oct 04	Dec 04	Sep 05	Oct 05	Change (%)		
										Month on month	Accum. 2005	Year on year
Assets	**153,140**	**163,550**	**123,743**	**187,532**	**186,873**	**211,729**	**212,562**	**220,067**	**219,268**	**-0.4**	**3.2**	**3.6**
Liquid assets[1]	20,423	20,278	13,005	17,138	27,575	29,107	29,154	24,043	26,813	11.5	-8.0	-7.9
Public bonds	8,531	10,474	3,694	31,418	45,062	55,283	55,382	63,193	60,560	-4.2	9.4	9.5
Lebac/Nobac	0	0	0	n/a	n/a	17,644	17,755	27,755	24,136	-13.0	35.9	36.8
Portfolio	0	0	0	n/a	n/a	10,613	11,803	21,116	20,039	-5.1	69.8	88.8
Repo	0	0	0	n/a	n/a	7,032	5,953	6,639	4,097	-38.3	-31.2	-41.7
Private bonds	477	633	543	332	198	363	387	387	390	0.9	0.7	7.6
Loans	83,850	83,277	77,351	84,792	68,042	72,726	73,617	79,299	81,388	2.6	10.6	11.9
Public sector	12,138	15,164	22,694	44,337	33,228	30,966	30,866	26,436	26,547	0.4	-14.0	-14.3
Private sector	67,934	64,464	52,039	38,470	33,398	39,769	41,054	50,655	52,207	3.1	27.2	31.3
Financial sector	3,778	3,649	2,617	1,985	1,417	1,991	1,697	2,208	2,634	19.3	55.2	32.3
Provisions over loans	-6,001	-6,907	-6,987	-11,952	-9,374	-7,977	-7,500	-5,773	-5,726	-0.8	-23.7	-28.2
Other netted credits due to financial intermediation	33,679	42,361	21,485	39,089	27,030	35,371	32,554	30,730	27,468	-10.6	-15.6	-22.3
Corporate bonds and subordinated debt	1,115	794	751	1,708	1,569	1,025	1,018	817	873	6.8	-14.3	-14.9
Unquoted trusts	1,336	2,053	2,065	6,698	4,133	2,888	3,145	3,640	3,649	0.2	16.0	26.3
Compensation receivable	0	0	0	17,111	14,937	15,515	15,467	8,532	8,172	-4.2	-47.2	-47.3
BCRA	81	141	84	3,360	650	419	376	355	338	-4.8	-10.2	-19.4
Other	31,146	39,373	18,585	10,212	5,741	15,524	12,547	17,386	14,436	-17.0	15.1	-7.0
Assets under financial leases	814	786	771	567	397	595	611	1,060	1,154	8.8	88.8	93.9
Shares and participation	1,838	2,645	2,688	4,653	4,591	3,487	3,871	4,293	4,357	1.5	12.6	25.0
Fixed assets and sundry	4,973	4,939	4,804	8,636	8,164	7,863	7,782	7,517	7,499	-0.2	-3.6	-4.6
Foreign branches	996	1,115	1,057	3,522	3,144	3,441	3,524	3,549	3,650	2.8	3.6	6.1
Other assets	3,560	3,950	5,334	9,338	12,043	11,471	13,180	11,769	11,717	-0.4	-11.1	2.1
Liabilities	**136,252**	**146,267**	**107,261**	**161,446**	**164,923**	**190,200**	**188,683**	**194,072**	**192,899**	**-0.6**	**2.2**	**1.4**
Deposits	81,572	86,506	66,458	75,001	94,635	114,530	116,655	130,729	133,040	1.8	14.0	16.2
Public sector [2]	7,232	7,204	950	8,381	16,040	33,214	31,649	33,046	33,802	2.3	6.8	1.8
Private sector [2]	73,443	78,397	43,270	59,698	74,951	78,940	83,000	95,883	97,661	1.9	17.7	23.7
Current account	6,478	6,438	7,158	11,462	15,071	16,468	18,219	21,192	22,131	4.4	21.5	34.4
Savings account	13,047	13,008	14,757	10,523	16,809	22,298	23,866	26,863	27,157	1.1	13.8	21.8
Time deposit	48,915	53,915	18,012	19,080	33,285	33,893	34,944	42,154	42,506	0.8	21.6	25.4
CEDRO	0	0	0	12,328	3,217	1,346	1,046	22	22	-0.8	-97.9	-98.4
Other netted liabilities due to financial intermediation	50,361	55,297	36,019	75,737	61,690	68,715	64,928	57,378	53,567	-6.6	-17.5	-22.0
Call money	3,793	3,545	2,550	1,649	1,317	1,712	1,461	1,988	2,412	21.3	65.1	40.9
BCRA lines	315	102	4,470	27,837	27,491	27,798	27,726	19,398	18,140	-6.5	-34.6	-34.7
Outstanding bonds	5,087	4,954	3,777	9,096	6,675	7,934	7,922	5,912	6,077	2.8	-23.3	-23.4
Foreign lines of credit	10,279	8,813	7,927	25,199	15,196	10,464	8,884	5,744	5,899	2.7	-33.6	-43.6
Other	30,886	37,883	17,295	11,955	11,012	20,807	18,934	24,336	21,038	-13.6	11.1	1.1
Subordinated debts	2,206	2,255	2,260	3,712	2,028	1,524	1,415	1,376	1,423	3.4	0.6	-6.6
Other liabilities	2,113	2,210	2,524	6,997	6,569	5,432	5,685	4,589	4,869	6.1	-14.4	-10.4
Net worth	**16,888**	**17,283**	**16,483**	**26,086**	**21,950**	**21,529**	**23,879**	**25,994**	**26,370**	**1.4**	**10.4**	**22.5**
Memo												
Netted assets	126,432	129,815	110,275	185,356	184,371	199,190	202,447	204,543	206,894	1.1	2.2	3.9
Consolidated netted assets	122,270	125,093	106,576	181,253	181,077	195,291	198,462	200,063	201,957	0.9	1.8	3.4

(1) Includes margin accounts with the BCRA

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

n/a: not available

Source: BCRA

Statistics: Financial System

Profitability structure

In annualized terms

As % of netted assets	Annual						First 10 months		Monthly			Last	
	1999	2000	2001	2002	2003	2004	2004	2005	Aug-05	Sep-05	Oct-05	6 months	12 months
Financial margin	5.6	5.7	5.7	6.5	1.1	3.1	3.2	4.5	5.3	5.1	6.3	5.0	4.2
Net interest income	4.3	4.0	3.8	-1.7	-0.5	0.9	0.9	1.4	1.5	1.8	1.7	1.6	1.4
Restatement by CER and CVS	0.0	0.0	0.0	3.9	1.3	1.0	1.1	1.5	1.6	1.1	1.4	1.4	1.3
Foreign exchange price adjustments	0.9	1.2	1.2	1.7	1.1	0.4	0.6	0.3	1.0	0.5	1.5	0.5	0.2
Gains on securities	0.2	0.1	0.2	2.8	-0.5	1.0	0.9	1.2	1.2	1.6	1.6	1.4	1.2
Other financial income	0.2	0.4	0.5	-0.1	-0.3	-0.2	-0.2	0.1	0.1	0.1	0.1	0.1	0.1
Service income margin	2.9	2.8	3.0	1.9	1.9	2.0	2.0	2.3	2.4	2.4	2.4	2.4	2.3
Loan loss provisions	-2.1	-2.4	-2.6	-4.7	-1.1	-0.8	-0.7	-0.6	-0.5	-0.9	-0.4	-0.6	-0.7
Operating costs	-5.9	-5.8	-6.1	-4.4	-4.2	-4.1	-4.1	-4.5	-4.6	-4.8	-4.7	-4.7	-4.5
Tax charges	-0.4	-0.4	-0.5	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4
Income tax	-0.3	-0.3	-0.2	-0.2	-0.2	-0.1	-0.1	-0.3	-0.5	-0.3	-0.6	-0.4	-0.3
Adjustments to the valuation of government securities [1]	0.0	0.0	0.0	0.0	-0.4	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Amortization payments for court-ordered releases	0.0	0.0	0.0	0.0	-0.6	-0.9	-0.9	-0.9	-0.8	-0.8	-0.9	-0.9	-0.9
Other	0.5	0.4	0.6	-1.8	0.9	0.8	0.7	0.8	0.8	1.3	0.5	1.0	0.9
Monetary results	0.0	0.0	0.0	-5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA before income tax	0.6	0.4	0.2	-8.7	-2.7	-0.3	-0.2	1.2	2.1	2.0	2.7	1.7	0.8
ROA before monetary results	0.2	0.0	0.0	-3.1	-2.9	-0.5	-0.3	0.9	1.6	1.7	2.1	1.4	0.6
ROA	**0.2**	**0.0**	**0.0**	**-8.9**	**-2.9**	**-0.5**	**-0.3**	**0.9**	**1.6**	**1.7**	**2.1**	**1.4**	**0.6**
ROA adjusted [2]	0.2	0.0	0.0	-8.9	-1.9	0.7	0.9	1.9	2.6	2.6	3.1	2.4	1.6
Indicators (%)													
ROE	**1.7**	**0.0**	**-0.2**	**-59.2**	**-22.7**	**-4.2**	**-2.9**	**7.4**	**12.9**	**12.6**	**16.5**	**11.0**	**4.3**
Financial margin + service income margin / Operating costs	142.5	147.4	143.3	189.1	69.3	124.8	128.1	152.9	166.9	159.1	183.7	157.6	145.8
Interest income (with CER and CVS) / loans	..	13.0	15.2	11.8	13.1	10.3	10.3	12.7	12.9	12.6	12.6	12.7	12.3
Interest payments (with CER and CVS) / deposits	..	5.3	7.3	9.2	5.7	1.8	1.8	2.3	2.6	2.3	2.6	2.3	2.2

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

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

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

Source: BCRA

Portfolio quality

As percentages	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Oct 04	Dec 04	Aug 05	Sep 05	Oct 05
Non-performing loans (overall)	11.5	12.9	13.1	18.1	17.7	12.3	10.7	7.3	6.9	6.5
Non-performing loans to the non-financial private sector	14.0	16.0	19.1	38.6	33.5	21.7	18.6	11.4	10.5	9.9
Commercial portfolio (*)	12.1	14.9	20.7	44.0	38.0	26.5	22.8	14.0	13.0	12.2
Consumption and housing portfolio	16.6	17.3	17.5	31.4	28.0	13.3	11.0	6.9	6.3	6.1
Provisions / Total non-performing loans	59.6	61.1	66.4	73.8	79.2	92.7	102.9	113.6	114.7	118.2
(Total non-performing - Provisions) / Overall financing	4.7	5.0	4.4	4.7	3.7	0.9	-0.3	-1.0	-1.0	-1.2
(Total non-performing - Provisions) / Net worth	24.7	26.2	21.6	17.2	11.9	3.2	-1.0	-3.2	-3.2	-3.8

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

Source: BCRA

Statistics: Private Banks

Balance Sheet

In current pesos (millions)	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Oct 04	Dec 04	Sep 05	Oct 05	Change (%) Month on month	Change (%) Accum. 2005	Change (%) Year on year
Assets	**108,778**	**119,371**	**82,344**	**118,906**	**116,633**	**125,617**	**128,065**	**130,991**	**130,841**	**-0.1**	**2.2**	**4.2**
Liquid assets [1]	13,228	13,920	10,576	11,044	14,500	15,429	15,893	14,831	16,126	8.7	1.5	4.5
Public bonds	6,433	7,583	1,627	19,751	22,260	24,051	24,817	28,393	27,634	-2.7	11.4	14.9
Lebac/Nobac	0	0	0	n/a	n/a	7,172	8,359	14,420	13,328	-7.6	59.4	85.8
Portfolio	0	0	0	n/a	n/a	5,548	5,611	12,458	12,458	0.0	122.1	124.5
Repo	0	0	0	n/a	n/a	1,623	2,749	1,961	869	-55.7	-68.4	-46.4
Private bonds	410	563	451	273	172	313	333	310	312	0.6	-6.2	-0.4
Loans	56,916	56,035	52,319	51,774	47,017	50,076	50,741	53,010	54,266	2.4	6.9	8.4
Public sector	6,389	8,172	13,803	25,056	23,571	21,387	21,420	16,665	16,696	0.2	-22.1	-21.9
Private sector	47,705	45,103	36,636	26,074	22,816	27,594	28,213	35,157	36,231	3.1	28.4	31.3
Financial sector	2,823	2,760	1,880	644	630	1,095	1,107	1,189	1,339	12.6	20.9	22.3
Provisions over loans	-3,119	-3,248	-3,957	-7,463	-5,225	-4,163	-3,717	-2,817	-2,821	0.2	-24.1	-32.2
Other netted credits due to financial intermediation	27,330	36,600	13,037	27,212	22,148	25,697	25,753	23,157	21,160	-8.6	-17.8	-17.7
Corporate bonds and subordinated debt	1,022	724	665	1,514	1,394	839	829	632	697	10.3	-15.9	-16.9
Unquoted trusts	958	1,609	1,637	6,205	3,571	2,191	2,362	2,506	2,457	-1.9	4.0	12.2
Compensation receivable	0	0	0	15,971	13,812	14,719	14,657	8,236	7,882	-4.3	-46.2	-46.5
BCRA	12	35	865	377	415	318	311	291	281	-3.3	-9.6	-11.7
Other	25,338	34,232	9,870	3,146	2,955	7,630	7,594	11,493	9,844	-14.4	29.6	29.0
Assets under financial leases	796	776	752	553	387	579	592	1,036	1,127	8.7	90.4	94.5
Shares and participation	1,371	1,651	1,703	3,123	2,791	1,544	1,892	2,236	2,287	2.3	20.9	48.2
Fixed assets and sundry	3,246	3,225	3,150	5,198	4,902	4,734	4,678	4,546	4,543	-0.1	-2.9	-4.0
Foreign branches	48	75	112	-109	-136	-69	-53	-70	-76	8.2	43.3	9.7
Other assets	2,120	2,190	2,574	7,549	7,816	7,426	7,137	6,357	6,282	-1.2	-12.0	-15.4
Liabilities	**96,474**	**107,193**	**70,829**	**103,079**	**101,732**	**111,353**	**113,285**	**114,749**	**114,396**	**-0.3**	**1.0**	**2.7**
Deposits	54,447	57,833	44,863	44,445	52,625	59,782	62,685	72,516	73,717	1.7	17.6	23.3
Public sector [2]	1,342	1,276	950	1,636	3,077	6,157	6,039	7,194	7,253	0.8	20.1	17.8
Private sector [2]	52,460	55,917	43,270	38,289	47,097	52,252	55,384	64,429	65,579	1.8	18.4	25.5
Current account	5,022	4,960	7,158	8,905	11,588	12,421	13,966	15,847	16,747	5.7	19.9	34.8
Savings account	9,702	9,409	14,757	6,309	10,547	13,870	14,842	16,839	17,038	1.2	14.8	22.8
Time deposit	35,218	39,030	18,012	11,083	18,710	21,912	22,729	27,785	27,780	0.0	22.2	26.8
CEDRO	0	0	0	9,016	2,409	1,018	798	7	7	-0.6	-99.2	-99.3
Other netted liabilities due to financial intermediation	39,045	46,271	22,629	49,341	42,367	46,118	45,083	37,949	36,245	-4.5	-19.6	-21.4
Call money	2,146	2,293	1,514	836	726	1,346	1,070	1,376	1,709	24.2	59.7	26.9
BCRA lines	274	83	1,758	16,624	17,030	17,804	17,768	10,726	10,472	-2.4	-41.1	-41.2
Outstanding bonds	4,990	4,939	3,703	9,073	6,674	7,934	7,922	5,912	6,077	2.8	-23.3	-23.4
Foreign lines of credit	6,680	5,491	4,644	15,434	9,998	6,895	5,444	3,768	3,890	3.2	-28.5	-43.6
Other	24,954	33,466	11,010	7,374	7,939	12,138	12,878	16,168	14,097	-12.8	9.5	16.1
Subordinated debts	1,683	1,668	1,700	3,622	1,850	1,379	1,304	1,277	1,328	4.0	1.9	-3.7
Other liabilities	1,299	1,420	1,637	5,671	4,890	4,074	4,213	3,008	3,106	3.3	-26.3	-23.8
Net worth	**12,304**	**12,178**	**11,515**	**15,827**	**14,900**	**14,264**	**14,780**	**16,242**	**16,445**	**1.2**	**11.3**	**15.3**
Memo												
Netted assets	85,918	88,501	73,796	117,928	115,091	119,689	121,889	120,749	122,410	1.4	0.4	2.3

(1) Includes margin accounts with the BCRA

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

n/a: not available

Source: BCRA

Statistics: Private Banks

Profitability structure

In annualized terms

As % of	Annual						First 10 months		Monthly			Last	
netted assets	1999	2000	2001	2002	2003	2004	2004	2005	Aug-05	Sep-05	Oct-05	6 months	12 months
Financial margin	6.1	6.2	6.4	7.6	2.3	2.9	3.2	4.3	4.9	5.5	5.8	4.9	3.9
Net interest income	4.5	4.1	4.3	-0.2	0.1	1.0	1.0	1.6	1.7	2.3	2.0	1.8	1.6
Restatement by CER and CVS	0.0	0.0	0.0	1.1	0.9	0.8	0.8	1.0	0.9	0.8	0.9	1.0	1.0
Foreign exchange price adjustments	1.1	1.4	1.2	2.5	1.7	0.6	0.7	0.4	1.0	0.6	1.2	0.6	0.3
Gains on securities	0.3	0.2	0.3	4.4	-0.3	0.8	0.9	1.2	1.2	1.8	1.6	1.4	1.0
Other financial income	0.3	0.5	0.7	-0.1	-0.2	-0.3	-0.3	0.1	0.1	0.1	0.1	0.1	0.1
Service income margin	3.1	2.9	3.2	2.0	2.0	2.4	2.3	2.7	2.9	2.9	2.9	2.8	2.7
Loan loss provisions	-2.2	-2.5	-3.0	-5.0	-1.3	-0.9	-0.7	-0.6	-0.4	-1.0	-0.4	-0.6	-0.8
Operating costs	-6.3	-6.0	-6.4	-4.8	-4.6	-4.6	-4.5	-5.0	-5.2	-5.4	-5.3	-5.3	-5.0
Tax charges	-0.4	-0.4	-0.5	-0.4	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.5	-0.4	-0.4
Income tax	-0.5	-0.4	-0.3	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.4	-0.2	-0.1
Adjustments to the valuation of government secur	0.0	0.0	0.0	0.0	-0.6	0.0	-0.1	-0.1	0.0	0.0	0.0	-0.1	0.0
Amortization payments for court-ordered releases	0.0	0.0	0.0	0.0	-0.7	-1.0	-0.9	-0.9	-1.0	-0.9	-1.0	-1.0	-1.0
Other	0.5	0.4	0.7	-3.0	1.0	0.7	0.7	0.8	0.8	1.1	1.0	1.1	0.9
Monetary results	0.0	0.0	0.0	-7.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA before income tax	0.8	0.6	0.5	-11.1	-2.2	-0.8	-0.5	0.8	1.5	1.7	2.4	1.4	0.2
ROA before monetary results	0.3	0.1	0.2	-3.8	-2.4	-1.0	-0.7	0.6	1.4	1.6	2.1	1.2	0.1
ROA	**0.3**	**0.1**	**0.2**	**-11.3**	**-2.5**	**-1.0**	**-0.7**	**0.6**	**1.4**	**1.6**	**2.1**	**1.2**	**0.1**
ROA adjusted [2]	0.3	0.1	0.2	-11.3	-1.2	0.2	0.6	1.7	2.4	2.5	3.1	2.3	1.1
Indicators (%)													
ROE	**2.3**	**0.8**	**1.4**	**-79.0**	**-19.1**	**-8.1**	**-5.4**	**5.2**	**10.5**	**11.7**	**15.4**	**9.5**	**0.8**
Financial margin + service income margin / Operat	146.0	151.9	150.9	199.3	92.6	115.0	122.5	140.1	149.8	156.0	162.8	145.7	130.6
Interest income (with CER and CVS) / loans	..	13.9	16.1	24.7	9.0	8.2	8.1	10.9	11.1	10.6	11.2	10.7	10.5
Interest payments (with CER and CVS) / deposits	..	5.7	7.8	21.9	5.8	2.2	2.2	2.6	3.2	2.7	3.3	2.9	2.7

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

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

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

Source: BCRA

Portfolio quality

As percentages	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Oct 04	Dec 04	Aug 05	Sep 05	Oct 05
Non-performing loans (overall)	7.6	8.3	9.9	19.8	15.7	10.5	8.9	6.2	6.0	5.7
Non-performing loans to the non-financial private sector	8.9	9.8	14.0	37.4	30.4	18.3	15.3	9.4	8.9	8.3
Commercial portfolio (*)	6.8	8.4	15.4	44.7	39.0	21.9	18.2	11.1	10.5	9.8
Consumption and housing portfolio	12.5	11.9	12.4	26.0	17.2	11.9	10.0	6.1	5.7	5.6
Provisions / Total non-performing loans	69.4	67.7	75.7	73.4	79.0	85.8	95.7	100.6	101.4	105.8
(Total non-performing - Provisions) / Overall financing	2.3	2.7	2.4	5.3	3.3	1.5	0.4	0.0	-0.1	-0.3
(Total non-performing - Provisions) / Net worth	11.5	13.4	11.4	18.6	11.2	5.4	1.3	-0.1	-0.3	-1.2

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

Source: BCRA