Report on Banks

Central Bank of Argentina

DECEMBER 2005

Year III - No. 4

Contents

Note: This report contains information from December 2005 balance sheets available on 13/02/06. Description centers mainly on the behavior of the main financial variables for the private bank aggregate (including breakdowns by uniform sub-groups), except for certain variables that explicitly refer to public banks and the entire financial system. Figures provided (particularly in the case of profitability) are preliminary, and may be subject to change.

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Summary

- **During 2005 the financial system took a significant step towards the normalizing of its operations. It achieved an increase in lending to the private sector and a reduction in its exposure to the public sector, at the same time as asset quality improved. In addition, there was a significant and healthy reduction in obligations (rediscounts) with the Central Bank, while funding by deposits gained strength. For the first time since the crisis, the financial system recorded a profit for the year. Increased profitability and the new capitalization recorded were reflected in an improvement in solvency indicators.**

- **The widespread loss situation that the financial system had been experiencing since the 2001-2002 crisis was turned around over the course 2005**. Banks posting annual profits for the year just ended (68 out of 89) accounted for 90% of total assets. In 2005 the improvement took place in both financial margin (closely associated with the increase in normal intermediation business) and the rising trend in income from services, as well as the lower loan loss provisions as a consequence of the favorable macroeconomic situation.

- **In December the financial system reported profits of close to $232 million (1.3%a. of assets), ending 2005 with positive results for $1.96 billion (a ROA of 1%). Public banks gained almost $129 million in December (1.8%a. of assets)**, for a total profit of $1.09 billion (1.3% of assets) in 2005. In the same month, **private banks posted profits for $93 million (0.9%a. of assets)**, a positive result that rose to $810 million (0.7% of assets) for 2005 as a whole.

- **The profits recorded in December by private banks were mainly driven by the results from the difference in exchange rate and higher sundry income.** There was an increase in gains on securities and net income from services, movements that were able to offset seasonal increases in the cost structure (loan loss provisions and operating costs).

- **Over the course of 2005 the financial system received injections of capital for almost $2.28 billion, including capitalization for $530 million during the last month of the year**. Capital contributions, added to profits for the year, improved the solvency of the financial system: during 2005 the net worth of the consolidated financial system rose 15.7%. During the year, capital compliance in terms of risk-weighted assets increased by 1.5 percentage points (p.p.) to a level of 15.5%.

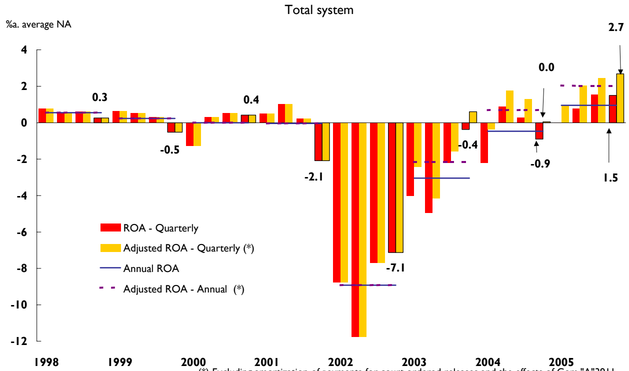
- Balance sheet totals for bank debt with the Central Bank declined steadily over the whole of 2005 (with a drop of 40%), mainly reflecting the effects of **payments made by banks under the so-called matching mechanism. Total repayments amounted to $9.4 billion.**

- **Financial system exposure to the public sector recorded a slight drop in December to a level of 30.4% of total assets, an overall decline of 9.1 p.p. in 2005.** In the specific case of private banks, exposure fell almost 13 p.p. to 28% of total assets.

- **The non-performance ratio recorded a drop of 1.4 p.p. in the last month of 2005, to a level of 7.6% of loans. Public banks recorded a larger fall in their portfolio non-performance than private banks, with declines of 15.6 p.p. and 9 p.p., respectively.** The financial system continued to use most of the resources gained to finance those sectors of the economy showing the best performance and recording lower non-performance indicators.

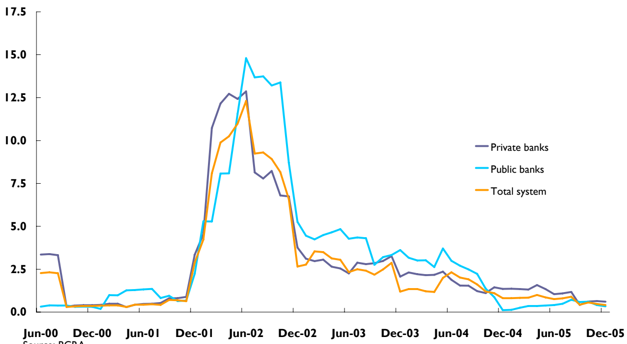
- **In addition to the changes in balance sheet composition (with a significant improvement in quality), during 2005 financial system activity levels followed an upward path.** In 2005 private sector loans and deposits increased by 39% and 21% respectively.

Chart 1
Annualized Profitability
Total system



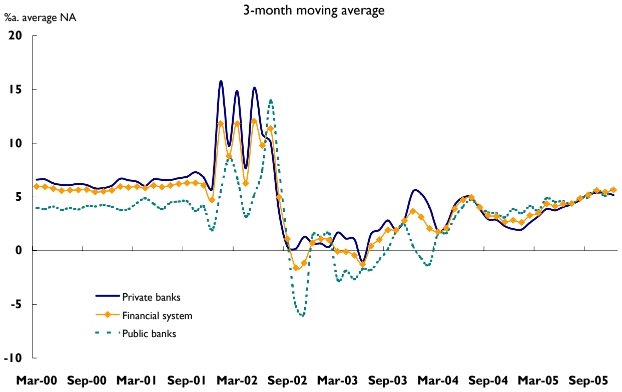
(*) Excluding amortization of payments for court ordered releases and the effects of Com."A"3911.
Source: BCRA

Chart 2
Historical Volatility of Results
ROA standard deviation over 6 months



Source: BCRA

Chart 3
Financial Margin
3-month moving average



Source: BCRA

Profitability:
Annual profits for first year since crisis

In December the financial system continued to post positive accounting results, totaling a profit of approximately $232 million (an annualized –a.– 1.3% of assets). As a result, the last quarter of 2005 ended with a gain of close to $780 million (1.5%a. of assets), a similar amount to that recorded in the previous quarter ($785 million or 1.5%a. of assets) and significantly higher than the losses in the same period of 2004 (-$451 million or -0.9%a. of assets) (see Chart 1). In this context, **the financial system ended 2005 with a positive result of nearly $1.96 billion (1% of assets), close to the profitability levels seen in other emerging economies[1] and firmly reversing the loss situation of previous years**: -0.5% of assets in 2004, -2.9% in 2003 and -8.9% during 2002. Over the course of 2005 financial institutions rapidly improved their results, with losses in the aggregate being recorded in only two months (in 2004 eight months had shown negative results). At the same time, there was a gradual decline in the volatility of results[2] (see Chart 2). If the amortization of court-ordered payments and the adjustments to the valuation of government securities were to be excluded, in order to obtain a better determination of current profitability levels, financial system profits in December would total approximately $496 million (2.8%a. of assets), with accumulated profits for $4.19 billion (2% of assets) during 2005.

In December public banks recorded profits for almost $129 million (1.8%a. of assets), while private institutions earned $93 million (0.9%a. of assets). As a result, both public and private banks ended the fourth quarter by posting profits: $372 million (1.8%a. of assets) and $364 million (1.2%a. of assets), respectively. On an annual basis, **2005 ended with profits being recorded by all the different bank categories, reversing the loss-making situation of previous years. While official banks accumulated profits for $1.09 billion (ROA of 1.3%) in 2005, private banks posted gains for $810 million (ROA of 0.7%) in the same period**.

In the case of private banks, growth in profitability during December was mainly explained by an increase in other income (a heading that had fallen sharply in November), **at the same time as there were slight increases in financial margin and income from services.** In addition, the cost structure of private banks (operating costs and loan loss provisions) recorded a seasonal increase in December, a performance that did not overshadow the overall result for the month.

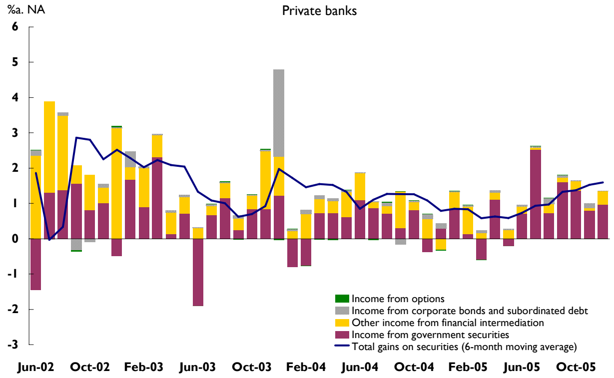
Private bank financial margin in December amounted to 4.9%a. of assets, an increase over the previous month of 0.1 percentage points (p.p.). The level of this item was 0.5 p.p. and 2 p.p. higher than that recorded for the whole of 2005 and 2004 respectively (see Chart 3, showing a moving quarterly average). The change for the month was

[1] In recent years emerging country regions have obtained ROAs in the order of 1% (Global Financial Stability Report – September 2005).
[2] Volatility in financial results is largely explained by the main remaining mismatches (in currency and interest rates), added to the effect of lines that are traditionally more volatile, such as gains on securities and sundry results.

Chart 4

Gains on Securities

Private banks

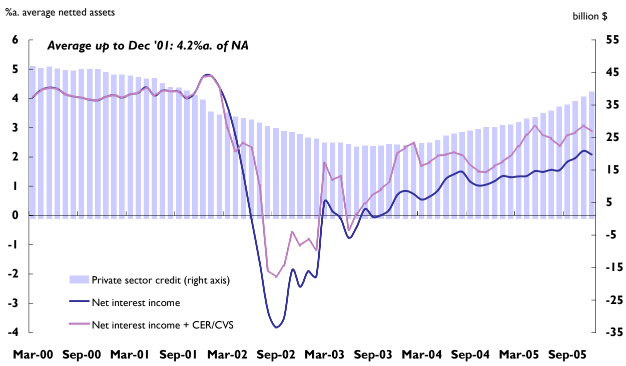


Source: BCRA

Chart 5

Net Interest Income and CER/CVS Adjustments

Private banks - 3-month moving average

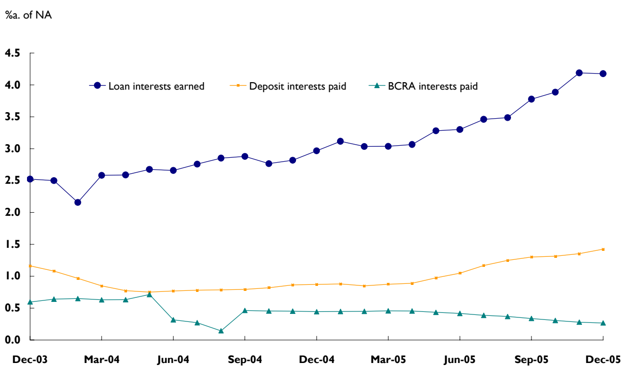


Source: BCRA

Chart 6

Main Components of Net Interest Income

3-month moving average - As annualized % of netted assets - Private banks



Source: BCRA

explained by a combination of factors. On the one hand, there was an increase in the $/US$ exchange rate between month ends (6 cents), added to the results from currency trading, that generated an increase of almost 0.9 p.p. in gains on the revaluation of assets and liabilities in foreign currency for private banks (up from 0.2%a. of assets to 1.1%a. in December). In addition, **private bank gains on government securities recorded an increase for the month of 0.4 p.p., reaching a level of 1.4%a. of their assets**, a figure more in line with the levels recorded in 2005 under this heading[3] (see Chart 4). Part of this change for the month was related to the profits obtained from the sale of a financial trust by one bank.

The core component of private bank financial margin, total income from interest and net CER adjustments, fell more than 0.8 p.p. in December to 2.5%a. of assets. This reduction in the month was mainly explained by an exceptional fall of 0.5 p.p. in interest income[4], an item that accounted for 1.9%a. of assets for this group of banks in December. Despite this decline, results from interest recorded in December were 0.5 p.p. and 0.2 p.p. higher than those recorded in the first half of the year and over 2005 as a whole, and accumulated growth of 0.5 p.p. has been recorded when compared with the same month of the previous year (see Chart 5). The positive trend seen in this income statement heading during 2005 was due particularly to the rising interest accrual on loans to the private sector, in a context of moderate increases in the payments recorded for interest on deposits, and the decline in disbursements related to the outstanding debt with the Central Bank[5] (see Chart 6). In addition, although the CER index rose in December, net adjustments for this coefficient recorded a drop of over 0.3 p.p. in private banks, to a level of 0.6%a. of their assets. This monthly change was mainly explained by a significant adjustment made by one large private bank[6].

During December there was a seasonal increase in loan loss charges by private banks on their loans to the private sector. The cost of provisions reached 0.7%a. of assets for these banks, 0.3 p.p. above the level of the previous month (see Chart 7 showing the moving quarterly average). These temporary increases can be expected at bank quarter and year-ends, and generally reflect provisions of a global nature. In terms of total loans to the private sector, these charges rose 0.8 p.p. in December to 2.3%a., a figure in line with that recorded in the first half of the year and below pre-crisis levels. This is a clear indication of the favorable economic scenario that prevailed, in a context of orderly macroeconomic policies, factors that have helped to ensure a steady decline in private sector credit risk.

In December the pattern of steady improvement in private bank net commission income was maintained (with a rise of 0.1 p.p. for the month), reaching its highest level for the year (3.1%a. of assets). In absolute terms, net income from services in December recorded a year-

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[3] In November this heading had been particularly affected by the losses posted by one large bank.

[4] It should be noted that this item had reached an unusually high level in the previous month (see November issue of this Report).

[5] During 2005, a group of 12 private financial institutions repaid their loans from the Central Bank in full in advance, using the mechanism commonly known as "matching". In addition, some of the remaining debtor entities made advance repayments for a significant amount.

[6] If the effect caused by this bank is excluded, the accrual of CER results by the private bank group records a rise of 0.1 p.p. in December to a level of 1%a. of assets, a figure that is more in line with those recorded during 2005.

Chart 7

Loan Loss Provisions

Private banks - 3-month moving average

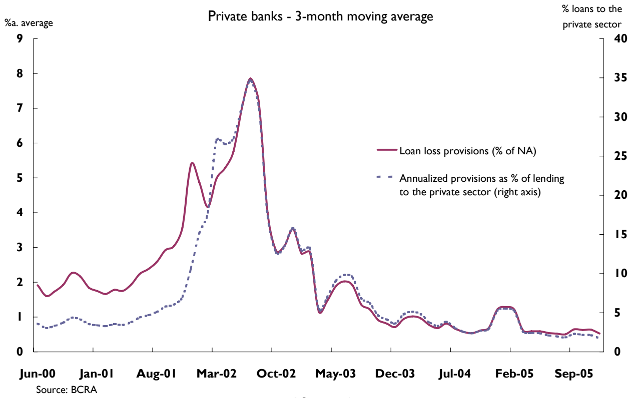


Chart 8

Service Income Margin

Private banks - 3-month moving average

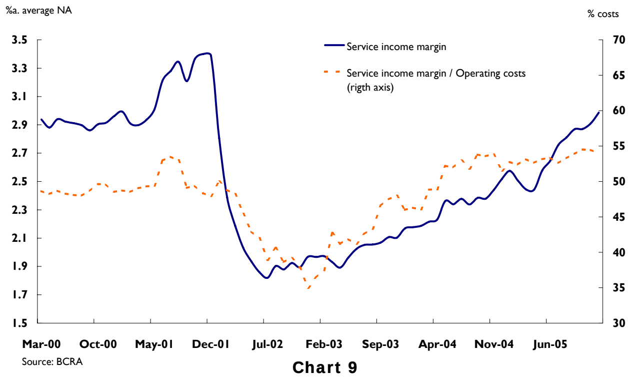


Chart 9

Operating Costs

Annualized quarterly indicator - Private banks

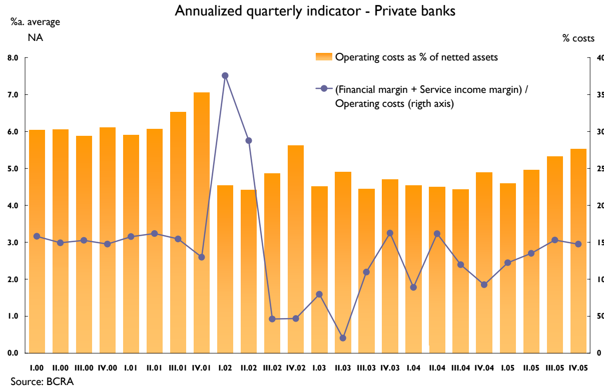
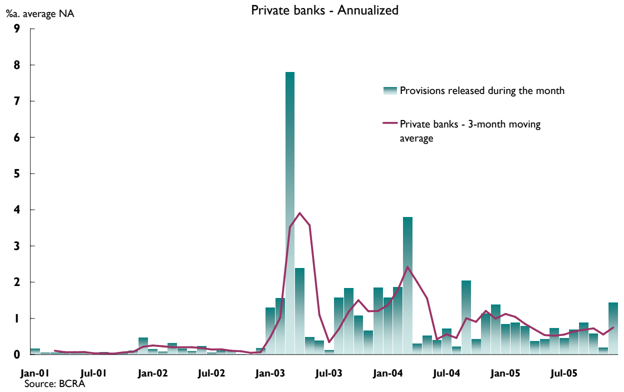


Chart 10

Provision Releases

Private banks - Annualized



on-year increase of 17.4%, a change that rises to 20.8% if the accumulated total for all of 2005 is compared with the previous year. This heading registered a substantial increase on financial institution income statements as from 2002 (see Chart 8), driven particularly by the generation of higher income from the sale of transactional services, at the same time as banks succeeded in gradually rebuilding their traditional financial intermediation business.

The increase in private bank income during December more than offset the seasonal rise in operating costs. In December operating costs recorded an increase of more than 0.5 p.p. to 5.9%a. of private bank assets, showing a slight upward trend during 2005 (see Chart 9). The monthly increase under this heading was mainly explained by the policy for granting bonuses to employees and managers by certain banks, and to a lesser extent, by increases in spending on advertising. The level reached by operating costs in December has meant an increase of 0.5 p.p. compared with the second half of 2005, although it is still below the values recorded in pre-crisis years. This increase for the month generated a drop of almost 9.5 p.p. in the ratio for the coverage of these expenses by net income, to 135%. There was also a slight drop in this ratio for the quarter (down 5.5 p.p. to 148%), which becomes a significant increase (almost 55 p.p.) when compared with the same quarter of 2004.

Private bank other income rose by 2.2 p.p. in December, from an almost non-existent level in the previous month. This growth for the month was explained by several factors. One specific bank made a once-only recovery of expenses incurred in a merger process, and several banks released provisions originally set up to cover loan losses, pending lawsuits and government securities (see Chart 10). As a result, in December there was a marked increase in private bank other income, although this has been a notoriously volatile heading throughout 2005.

In December private banks increased their income tax accrual by more than 0.1 p.p., taking this heading to 0.2%a. of assets. Lastly, headings related to the gradual recognition of the recent crisis performed unevenly. On the one hand, **the amortization of court-ordered payments fell slightly in December (0.1 p.p.), to 0.9%a. of private bank assets, a similar value to that recorded over 2005 as a whole.** On the other, **adjustments to the valuation of public sector assets increased 1 p.p. in December, rising from a level of almost zero in the previous month**[7].

Taking the year as a whole, during 2005 the various groups of banks recorded positive results, with the exception of private wholesale banks, which reduced their losses (see Table 1). While public banks, private regional banks and specialized institutions increased their profits, private banks with a national reach turned around their loss situation. **The increased profitability recorded in 2005 by the various bank groups was driven by the significant rise in financial margin** (see Table 2), **a movement mainly associated with the increased flow of interest income from lending activities.** In addition, the repayment

[7] This heading was particularly affected by the adjustment made by one private bank in anticipation of the receipt of secured bonds (Decree 977/2005), for the receivables due to it from various government areas.

Table 1

Profitability by Groups

Annualized ROA in % - By type and area coverage

	2004	2005	4Q '04	3Q '05	4Q '05	Percentage share of NA (4Q. '05)*
Public	0.3	1.3	0.9	1.8	1.8	*35.5*
Private	-1.0	0.7	-2.1	1.4	1.2	*63.5*
Retail	-1.0	0.7	-2.3	1.4	1.3	*60.5*
National coverage	-1.5	0.0	-2.3	0.8	0.4	*45.9*
Regional coverage	1.2	3.0	-2.3	3.2	4.5	*13.8*
Specialized	0.5	3.0	-0.4	6.5	3.1	*0.7*
Wholesale	-1.9	-0.9	2.3	1.0	-2.1	*3.0*
Non-bank institutions	2.2	3.0	0.9	-1.8	8.9	*1.0*
TOTAL	-0.5	1.0	-0.9	1.5	1.5	*100.0*
TOTAL adjusted (**)	0.7	2.0	0.0	2.5	2.7	*100.0*

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

Table 2

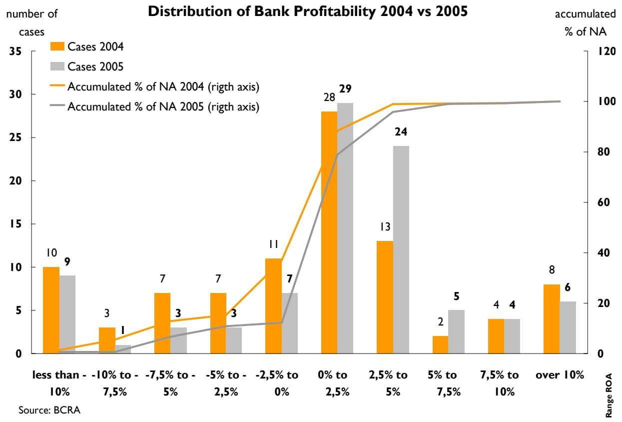
Profitability Structure by Group of Banks

	Private banks		Public banks	
	2004	2005	2004	2005
Financial margin	2.9	4.4	3.3	4.8
Net interest income	1.0	1.7	0.5	0.9
Restatement by CER and CVS	0.8	1.0	1.4	2.2
Foreign exchange price adjustments	0.8	1.2	1.3	1.3
Gains on securities	0.6	0.5	0.2	0.2
Other financial income	-0.3	0.1	-0.1	0.1
Service income margin	2.4	2.7	1.5	1.6
Loan loss provisions	-0.9	-0.6	-0.6	-0.5
Operating costs	-4.6	-5.1	-3.2	-3.5
Tax charges	-0.3	-0.4	-0.2	-0.3
Income tax	-0.2	-0.2	-0.1	-0.3
Adjustments to the valuation of government securities	0.0	-0.2	-0.4	-0.2
Amortization payments for court-ordered releases	-1.0	-1.0	-0.7	-0.9
Other	0.7	0.9	0.7	0.6
Monetary results	0.0	0.0	0.0	0.0
ROA	**-1.0**	**0.7**	**0.3**	**1.3**
ROA adjusted	0.2	1.8	1.4	2.4

Source: BCRA

Chart 11

Distribution of Bank Profitability 2004 vs 2005



Source: BCRA

of obligations to the Central Bank and steadily rising deposit rates helped to ensure that interest outflows were slightly higher.

In the specific case of private banks, annual profits were also driven by increased income from assets and services, in a promising macroeconomic context that was reflected in a lower credit risk and encouraged a reduction in loan loss provisions. These improvements on an annual basis were partly offset by a significant increase in the operating costs registered by this group of banks. **Public banks recorded a marked increase in their results from the accrual of CER adjustments, mainly due to their higher net position in assets adjusted by this index.** These gains were partly offset by the rising operating and tax costs recorded by public banks.

The improved profitability of financial institutions during 2005 was widespread. **The number of banks recording profits increased sharply from 55 in 2004 to 68 during 2005**[8]. This trend was reinforced by the greater proportion of large banks recording positive results. **In 2005 the group of banks showing positive ROA held almost 90% of the assets of the financial system, while in 2004 banks recording profits held only 63%** (see Chart 11)**.**

Outlook for January

In view of the positive results recorded by the financial system during 2005, and as the macroeconomic context continues to favor the development of banking business, there is expected to be a consolidation of bank profits in coming months. Despite this trend, however, there is likely to be some degree of fluctuation in certain income statement headings derived from the mismatching that still exists.

Specifically referring to January 2006, available information encourages optimism regarding the sustainability of profits (see Table 3). **The notable growth seen by the various credit lines** (and particularly in the case of company current account overdrafts and family personal loans) **should be reflected in a growing interest income base, despite the uneven development of interest rates on loans.** In the case of funding by means of deposits, during January time deposits increased as interest rates rose gradually, a factor that could partly offset higher income from lending activity.

The CER index maintained its growth in the first month of 2006, while the $/US$ exchange rate posted an increase, an adjustment that will result in a further increase in income from exchange rate differences. On the matter of the cost structure, following the end of the quarter and the closing of annual balance sheets there could be a decline in loan loss provisions and operating costs, with a return in January to levels more in line with those recorded during the course of 2005. Lastly, there will probably be some adjustment under the other income heading, which rose strongly in December.

[8] At the end of 2005 there were 89 financial institutions in operation, two less than at the end of 2004

Activity:
Steady recovery in balance sheet net worth

In the context of the process of recovery by the sector, and despite a significant adjustment to the structure of the overall balance sheet, during 2005 the financial system continued to see an increase in its activity levels. Consolidated assets for all financial institutions grew 3% in 2005, while the balances of loans and deposits did so by 39% and 21% respectively (25% and 11% in 2004). In the year under review the development of financial system assets has been strongly influenced by the changes that have taken place in the composition of their funding, an adjustment that was to be expected in the years following the crisis in 2001-2002. Specifically, **in December 2005 total assets for the consolidated financial system recorded a positive variation for the third month in succession, this time of 12.6%a..**

Following changes observed in both assets and liabilities, the financial system has been developing a new composition for its overall balance sheet. There has been a reduction in the significance of the distortions caused by the 2001-2002 crisis, and a picture has developed that is more consistent with the new macroeconomic context (see Table 4). On the assets side, although the phenomenon is in a relatively early stage, **lending to the private sector has gradually been regaining its weighting in the total, to the detriment of exposure to the public sector.** In the case of liabilities, **the private sector deposit base has been gaining ground as a traditional source of funding,** at the same time as exceptional assistance from the Central Bank has been declining steadily. The other funding category that has so far seen a decline in its relative importance has been financing from abroad.

One of the distinctive aspects of the performance by the financial system in 2005 has been the significant recovery in lending to the private sector[9]. This category of bank assets, which recorded an increase of 3% (45%a.) in December, grew by 39% in 2005, compared with an improvement of 25% in 2004 (see Table 5). The private bank segment led this gain, with growth of 41% in 2005 (a rate 9 p.p. higher than that of public banks), accounting for almost three-quarters of the increase for the year in loans to the private sector by the financial system.

Broken down by purpose of the credit lines, although both commercial and consumer loans recorded significant growth in 2005, it was the latter that posted the highest growth for the year, as was the case in 2004. Nevertheless, growth rates for both types of loan have increased evenly in the overall portfolio of credit assistance to the private sector. **Consumer loans increased during the second half of 2005, especially in the final months of the year, in part reflecting seasonal factors. In December 2005 personal loan totals increased**

Table 3

Main Developments in January

	Dec	Jan	Ch %
Prices			
Exchange rate ($/US$) [1]	3.03	3.06	1.1
CPI	169.95	172.12	1.3
CER [1]	1.717	1.737	1.1
	%		Ch.(p.p.)
Average percentage rates			
Lending [2]			
Overdraft	17.1	17.4	0.4
Promissory notes	11.6	11.3	-0.3
Mortgage	11.6	11.6	0.1
Pledge-backed	10.2	9.4	-0.8
Personal	24.4	24.0	-0.4
30 to 44 day time deposit	4.1	5.7	1.6
1-year LEBAC in pesos, w/o CER	n.d.	n.d.	-
7 day BCRA repos	5.0	5.0	0.0
	million $		Ch %
Balance[1,2] - Private banks			
Peso deposits - Private sector	59,027	59,274	0.4
Sight deposits	33,975	33,879	-0.3
Time deposits	25,048	25,389	1.4
Peso loans - Private sector	32,945	33,662	2.2
Overdraft	6,952	7,363	5.9
Promissory notes	8,122	7,939	-2.3
Mortgage	4,992	5,031	0.8
Pledge-backed	1,287	1,353	5.2
Personal	3,882	4,162	7.2

([1]) End of month figure.

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

In million of pesos

Source: INDEC and BCRA.

Table 4

Balance Sheet Structure - Main Concepts

Consolidated financial system - %

	1997/2000	Dec-04	Dec-05
ASSETS	***100.0***	***100.0***	***100.0***
Liquid assets	16.3	17.7	13.9
LEBAC	-	6.0	10.2
Loans to the public sector	16.3	42.5	34.2
Loans to non-financial private sector	56.4	20.9	27.3
Others	11.0	12.9	14.4
LIABILITIES + NW	***100.0***	***100.0***	***100.0***
Public sector deposits	6.6	16.1	16.8
Private sector deposits	60.6	42.1	49.3
BCRA lines	0.3	14.1	8.3
OB,SD and lines	12.8	9.3	6.2
Others	5.9	8.1	7.2
NW	13.8	10.3	12.3

Source: BCRA

[9] Calculation made on the basis of balance sheet totals. Loans in foreign currency are stated in pesos (if the balances of various months are considered, an average exchange rate is used). Does not include interest or adjustments. Not adjusted for unrecoverable loans written off from the balance sheet.

Table 5

Loans to the Private Sector by Group of Banks

% change based on balance sheet totals

	2004	2005	H-I 05	H-II 05	Dec-05	Share of total 2005
Public banks						
Total loans	**23**	**32**	**35**	**30**	**24**	**28**
Commercial	51	55	89	54	21	23
Consumer	116	73	81	66	81	29
Collateralized	-3	-1	-1	-3	14	41
Other	-13	-45	-47	-67	-69	18
Private banks						
Total loans	**26**	**41**	**36**	**45**	**52**	**70**
Commercial	42	50	54	47	51	77
Consumer	39	70	50	94	161	64
Collateralized	-1	7	4	10	18	57
Other	13	22	17	28	-19	82
Total system						
Total loans	**25**	**39**	**36**	**42**	**45**	**100**
Commercial	44	55	61	49	43	100
Consumer	56	69	57	82	124	100
Collateralized	-1	7	4	10	18	100
Other	8	6	-1	14	-18	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.

Financial system includes non-banking institutions. 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.

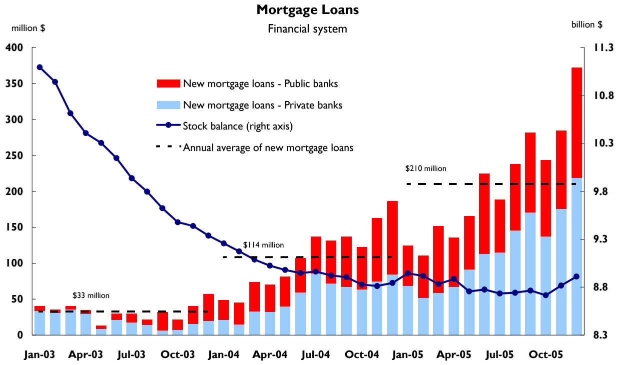
Commercial loans include overdraft, acceptance of promissory notes and export credit.

Source: BCRA

Chart 12

Mortgage Loans

Financial system



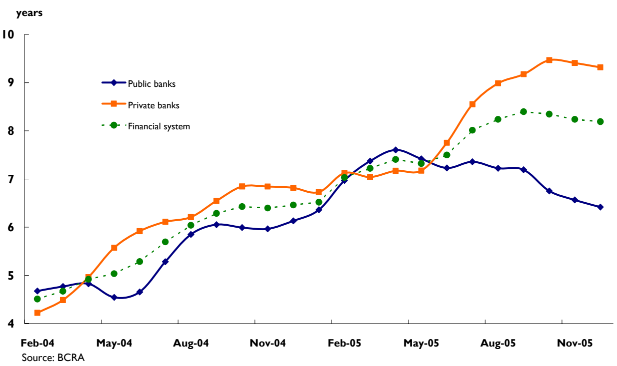
Note: Stock balance not adjusted by transfer between loan portfolios and trust funds or by loans written off balance sheet.

Source: BCRA

Chart 13

New Mortgage Loans: Average Maturity

3-month moving average



Source: BCRA

6%[10], **while credit card lending rose by 8%. Commercial loans, accounting for almost 60% of the total in absolute terms for loans to the private sector during the whole of 2005, recorded a relative slowing in their growth rate in the last quarter of the year. This development has registered the effect of the reduced dynamism of current account overdrafts (the balance of which increased 5% over the three months, including a drop of 2.4% in December).**

For the first time since the crisis, **in 2005 collateralized credit lines (pledge and mortgage loans) recorded an increase for the year, in line with the current less uncertain macroeconomic situation.** This change in context is gradually improving the principal variables that impact on both the demand and supply for this type of lending. **Balance sheet totals for this credit line grew by almost 7% in 2005**[11], including a rise of 10%a. in the second half. **In December 2005, loans secured by real guarantees increased 1.4%**, while if the effect of the setting up of financial trusts using these loans as underlying assets is ignored, the increase totaled 2.5%.

The breakdown of this heading showed **that there was a strengthening of growth in pledge-backed lending.** Although starting from an exceptionally low level, these loans **increased by almost 41% in 2005 for the financial system as a whole**, compared with a change of 29% in the previous year. **This change was based on the performance recorded by private banks, which registered an increase of 61% in their pledge-backed loans in 2005**. In addition, during 2005 there was a notable improvement in the growth of mortgage lending compared with previous years (see Chart 12). On the basis of a steady increase in the volume of loans granted each month (twice as many new loans were granted in December 2005 as in the same month of the previous year), and despite significant activity in the setting up of financial trusts on the basis of such assets, **financial system mortgage loan totals have begun to record positive variations during 2005: in December the increase amounted to 1% (excluding the effect of switches into trusts, the increase totaled 2.3%), while in the last quarter growth totaled 2%. Another positive aspect of mortgage lending in recent years has been the lengthening of the terms for which such loans have been granted. Whereas in December 2004 the average term for the financial system as a whole was 6.6 years, in the same month of 2005 it totaled 7.6 years** (see Chart 13), a term that rises from 7 to 8.8 years over the same period in the case of private banks.

In December 2005 financial system exposure to the public sector[12] **fell slightly to a level of 30.4% of assets** (see Chart 14). On an annual basis, **the financial system recorded a drop of 9.1 p.p. in its exposure to the public sector during 2005**, mainly explained by the strategy adopted by banks for the sale of the government debt in their portfolios, and by the receipt in cash of pending compensation. **The private bank segment recorded a fall of almost 13 p.p. in its exposure to this sector, to a level of 28% of its assets.**

[10] Excluding the impact of personal loans transferred to financial trusts, the monthly increase totaled 6.6%.

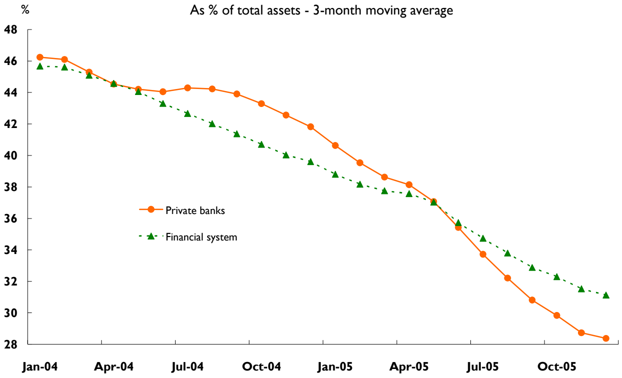
[11] No adjustment is made for changes caused by the setting up or winding up of financial trusts.

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

Chart 14

Exposure to Public Sector

As % of total assets - 3-month moving average

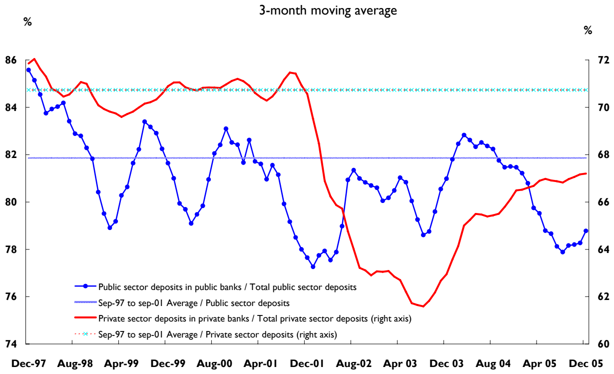


Source: BCRA

Chart 15

Deposits by Sector and Type of Institutions

3-month moving average

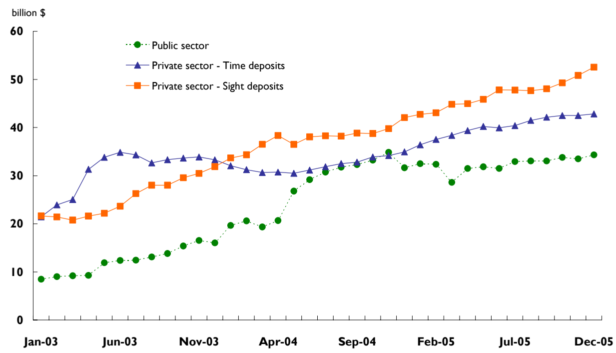


Source: BCRA

Chart 16

Deposits by Type

Financial system

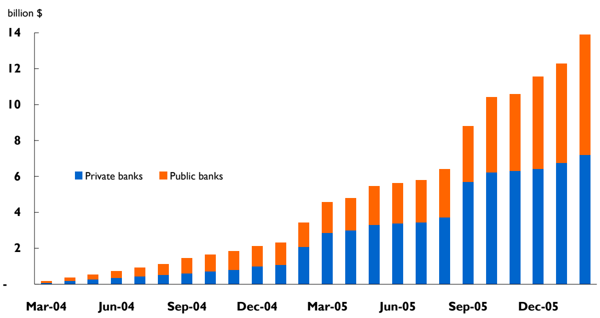


Source: BCRA

Chart 17

Acummulated Payments to BCRA

Matching schedule - By type of banks



Note: Include installments paid in auctions, anticipated cancellations and current matching schedule

Source: BCRA

The principal aspects of the behavior of financial system liabilities during 2005 included the consolidation of private sector deposit growth, a significant repayment of loans granted by the Central Bank at the time of the crisis in 2001-2002, and a reduction in funding provided by non-residents. The movements recorded in December 2005 on this side of the banking balance sheet confirmed the trends that were noted over the year as a whole. Firstly, **total consolidated financial system deposits[13] rose by almost 2% in the final month of the year, for an increase of 17.4% over 2005 as a whole** (approximately 5% in real terms). **Unlike the situation in the previous year, in 2005 private sector deposits accounted for most of the increase in total deposits (87%), growing by 21%**, including a rise of 1.7% in December. Based on the performance of such deposits, private banks accounted for almost 65% of the total change in consolidated financial system deposits recorded during 2005. At December 2005, almost 67% of private deposits in the financial system were deposited in private banks, reinforcing the trend observed since the second half of 2003, and achieving an increase of 6 p.p. since their lowest point (see Chart 15).

Sight deposits accounted for almost 60% of the total growth in private sector deposits in 2005, with growth of 25% for the year (32% during 2004). This performance included an increase of almost 3.4% in December, largely due to normal liquidity requirements for the month. **Time deposits, which increased again in December (by almost 1%), recorded a sharper growth rate compared with the previous year, rising by 23% in 2005**, compared with a rise of 5% in 2004. In view of this relative growth, and after remaining stable at around 50% since the second half of 2004, the share of total private deposit funding accounted for by sight deposits showed a slight increase in the last quarter of 2005, to a level of 52% in December (see Chart 16).

Balance sheet totals for financial system obligations with the Central Bank declined steadily throughout 2005, recording a fall for the year of almost $10.7 billion, equivalent to 40% of the balance at December 2004. This performance was mainly a reflection of the effect of payments made by banks under the so-called matching system (see Chart 17). In the context of significant liquidity, during 2005, banks speeded the normalizing of their obligations, seeking to eliminate the distortions that existed after the crisis in 2001-2002. **During 2005 payments under all headings made in accordance with the matching mechanism totaled approximately $9.4 billion, with private banks accounting for almost 60%**. Only 24% of all repayments made took place in accordance with the established schedule, while 76% were made using the extraordinary mechanisms foreseen in the regulations: early settlement (62%) and tendering of advance payments (14%). In 2006 it is expected that these mechanisms will continue to contribute to the reduction of such financial system liabilities.

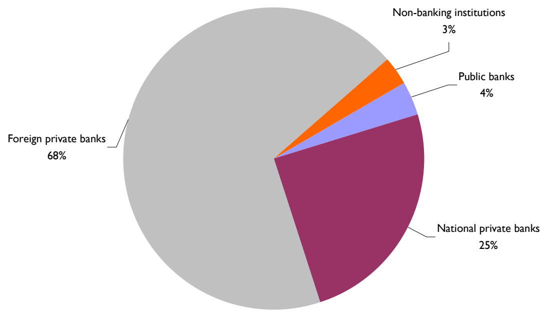
Another liability item showing significant variation over the course of 2005 was borrowing from abroad. **The aggregate for direct credit**

[13] Includes deposits belonging to residents abroad and deposits in government securities, as well as total accrued interest and adjustments. Does not include financial sector deposits.

Chart 18

Capital Contributions

January - December 2005

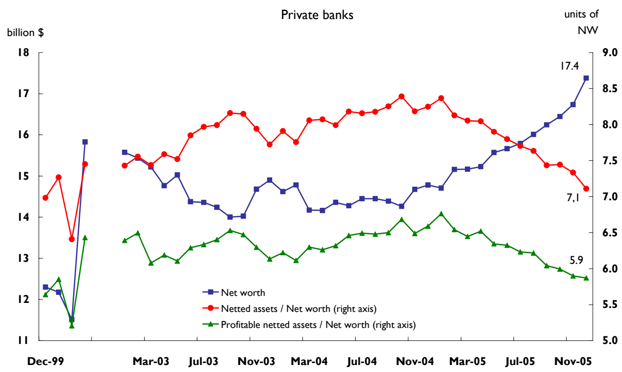


Source: BCRA

Chart 19

Netted Assets and Net Worth

Private banks



Source: BCRA

Table 6

Estimated Sources and Uses of Funds

Private banks - December 2005

million pesos

Source		Uses	
Liquid assets (2)	1,340	Loans to non-financial private sector (1)	1,540
Private sector deposits	1,150	Financial sector (net)	520
Trust transfers (3)	350	Public sector deposits	410
Loans to the public sector	180	BCRA rediscounts	120
		LEBAC and NOBAC stocks	90
		Others	340

(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

lines from abroad and corporate bonds and subordinated debt denominated in dollars fell by almost 33% during the year (-US$2.0 billion), including a variation of 3% in the last month of 2005. Private banks accounted for almost three-quarters of the change for the year. The reduction of external funding has been taking place by means of significant capitalization, transfers of assets (government securities in particular) and payments in cash.

In the final month of 2005 two private foreign banks received the capitalization of obligations to their principal shareholders for almost $530 million. As a result, **the financial system recorded total contributions of new capital for $2.28 billion during 2005, two thirds made by foreign banks** (see Chart 18). These capital contributions, combined with the increased profits posted by banks, were behind the steady improvement in the solvency of the financial system. As a result, **bank net worth grew by 2.8% in December, accumulating an increase of 15.7% in 2005**. Specifically, **private bank net worth expanded by 3.8% in the last month of 2005, a figure that rose to 17.6% for the year as a whole.**

In the case of private banks, the increases in assets and net worth recorded in December were reflected in a slight 0.2 p.p. drop in their leverage ratio, to a level of 7.1 times (see Chart 19). **Capital compliance in terms of credit-risk weighted assets of the financial system recorded a moderate increase in December to a level of 15.5%, accumulating expansion of 1.5 p.p. over the course of 2005. This compliance ratio for private banks maintained its upward trend in the last month of 2005, rising 0.3 p.p. to a level of 18.2%.** Capital requirements for this latter group of banks did not record significant changes in December, so that the increase in compliance was reflected in an increase in the overall capital position (compliance less requirement) to a level of almost 160% of the requirement.

The composition of the estimated cash flow for private banks in December (see Table 6) reaffirmed the pattern of gradual normalization of financial intermediation observed during the course of 2005. In particular, **sources of funds for private banks in the last month of the year were mainly provided by a reduction in liquid banking assets[14] (down $1.34 billion), reflected in a reduction of 1.9 p.p. in the liquidity ratio of these banks to a level of 21.5%**[15] (see Chart 20). This liquidity ratio is gradually approaching those seen in other emerging economies. Furthermore, **the increase in deposits by the private sector in December (approximately $1.15 billion) generated almost 40% of the resources available to private banks for the month.**

In December over half the new resources taken were allocated to new lending to the private sector (almost $1.54 billion), strengthening the trend seen during 2005. At the same time, during the month there was a reduction in the net financial position of

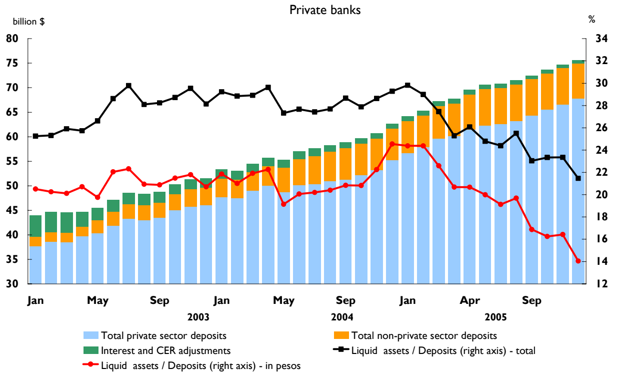
[14] Defined as the sum of minimum cash reserve requirements by financial institutions at the Central Bank, other available funds, and the balance of bank repos with the Central Bank..

[15] This movement for the month was made up of an increase of $1.15 billion in the LEBAC and NOBAC for reverse repos with the Central Bank, more than offset by the reduction of $2.22 billion and $273 million in minimum cash reserve compliance and other liquid items respectively.

Chart 20

Deposits and Liquidity

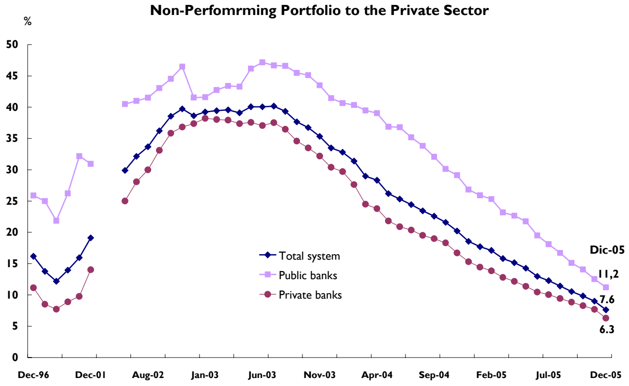
Private banks



Source: BCRA

Chart 21

Non-Perfomrming Portfolio to the Private Sector

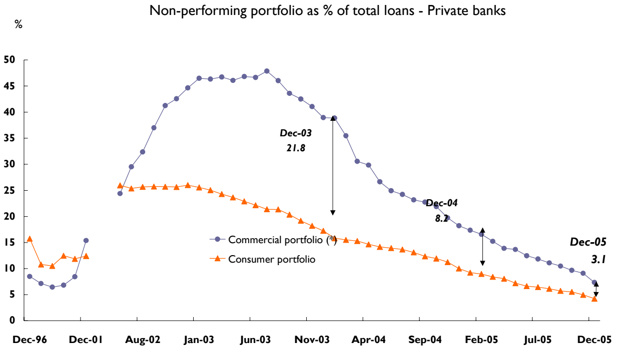


Source: BCRA

Chart 22

Portfolio Quality by Type of Lending

Non-performing portfolio as % of total loans - Private banks

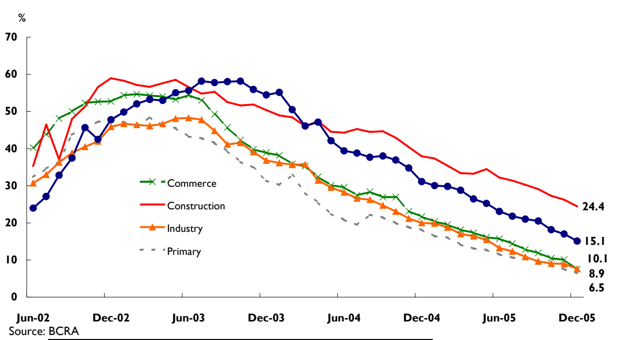


Source: BCRA (*) Includes commercial loans treated as consumer loans for classification purposes.

Chart 23

Private Sector Portfolio Quality by Economic Sector

Non-performing portfolio / Total financing - Financial system



Source: BCRA

private banks with the rest of the financial system (by approximately $520 million) and public sector deposits in this group of banks fell (by $410 million). The main uses of funds by private banks in the month were completed by payments made to the Central Bank under the matching system ($120 million) and the moderate increase ($90 million) in LEBAC holdings.

Portfolio quality:
Year ends with significant improvement in non-performance

The quality of the portfolio of loans to the private sector recorded a significant improvement in the last month of 2005. Robust expansion by economic activity, favorable income forecasts by companies and families for coming months, as well as prudent lending policies by banks were the main causes for the decline in credit risk, and therefore in the non-performance levels recorded in the recent past. In this context, **in December the non-performance ratio for the financial system recorded a drop of 1.4 p.p.**[16] **to a level of 7.6%, for a total decline during the year of almost 11 p.p.**(see Chart 21).

The decline for the month in non-performance in the financial system was a result both of the granting of new loans (with a lower counterpart risk) and of the drop in the amount of non-performing loans. Contrary to the situation in recent months, **in December private banks accounted for most of the improvement in the quality in the portfolio of the financial system. While public banks recorded a drop for the month of 1.3 p.p. in this ratio, to 11.2% (for a total decline for the year of 15.6 p.p.), the ratio for private banks dropped from 1.4 p.p. in December to 6.3% (a reduction for the year of 9 p.p.).**

In the case of private banks the change in non-performance levels was not uniform across all types of lending. Although consumer loans still showed an improved credit quality, commercial loans recorded the greatest improvement in recent months (see Chart 22). **In December the commercial portfolio held by private banks totaled 7.3%, with a sharp reduction for the month of 1.8 p.p., a figure that rose to 11 p.p. for 2005** as a whole. On the other hand, **the portfolio of consumer loans recorded a drop in non-performance for the month of 0.8 p.p., to 4.2% of such loans.**

Viewed over the medium term, **the financial system continued to allocate a large proportion of its resources to the financing of the most dynamic productive sectors, industry and commodity producers in particular. In turn, these activities continued to show the lowest non-performance levels** (8.9% and 6.5% respectively) (see Chart 23)**, given their lower implicit risk**. This trend has grown stronger in recent periods and is expected to continue in coming months, in the context of a favorable outlook for domestic and international sales by these sectors.

[16] Part of this drop was due to the ceding of non-performing loans by a large private bank, and to the transfer to memorandum accounts of loans in a similar situation by a major public institution.

Table 7

Non-Performing Portfolio by Group

As a % of non-financial private sector financing

	Dec-02	Dec-03	Dec-04	Sep-05	Dec-05	% percentage of private sector financing (*)
Public	44.9	46.8	26.8	15.1	11.2	26.9
Private	37.5	30.9	15.3	8.9	6.3	70.8
Retail	37.7	30.9	15.3	8.7	6.2	68.2
National coverage	38.8	34.0	17.1	9.4	6.3	51.3
Regional coverage	27.7	16.0	10.5	6.3	5.5	15.3
Specialized	36.5	32.4	11.5	8.9	7.8	1.6
Wholesale	33.7	32.0	14.8	11.6	9.1	2.5
Non-bank institutions	36.6	16.6	7.6	7.1	6.7	2.3
TOTAL	**39.6**	**35.2**	**18.6**	**10.5**	**7.6**	**100.0**

(*) Last month

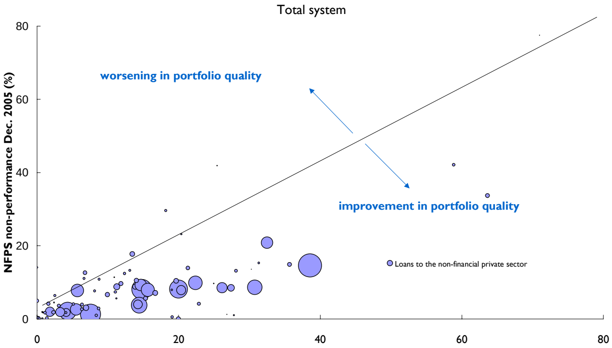
Source: BCRA

Chart 24

Year on Year Change in Portfolio Non-Performance

Non-performing financing to the private sector (%)

Total system

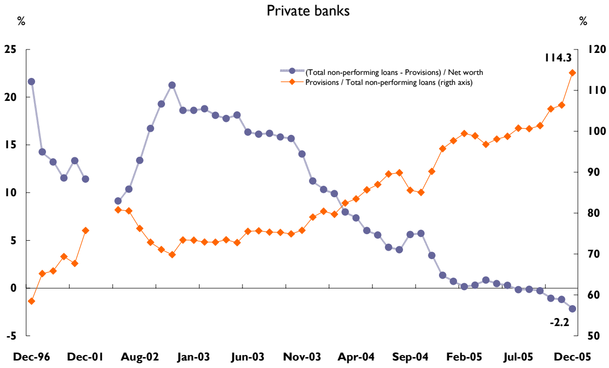


Source: BCRA

Chart 25

Provisions and Exposure to Counterpart Credit Risk

Private banks



Source: BCRA

In annual terms, in 2005 there was widespread improvement in the portfolio quality of the various bank sub-groups making up the local financial system. As in recent periods, **both nationwide retail private banks and public banks** (the two sub-groups with the greatest weighting and relatively sharper deterioration in their portfolios) led this movement. These bank groups **recorded quarterly declines of 3 p.p. and 4 p.p. respectively in their non-performance, accumulating reductions of close to 10 p.p. and 15 p.p. during 2005** (see Table 7). Regional private banks (the third most significant sub-group in terms of loans) registered a drop for the quarter of almost 0.8 p.p. in their non-performance ratio, for a total decline of 5 p.p. during the year. Lastly, the sub-groups with the lowest relative weight (specialized banks, wholesale banks and non-banking financial institutions) also recorded a decline for the quarter in their non-performance levels.

In general terms, **the portfolio quality of financial institutions (particularly that of the larger banks in terms of volume of loans) recorded significant improvement over the whole of 2005** (see Chart 24). This is a clear sign of the considerable progress made by large banks in the administration of their loan portfolios.

In view of the sharp drop in non-performing loans, the reduction in balance sheet provisions did not prevent increased coverage by provisions. **In December this indicator posted a significant rise (almost 8 p.p.), to 114% in the case of private banks**. In addition, **public banks as well as the financial system as a whole recorded higher provision coverage ratios, which totaled 142% and 124% respectively.** This trend generated a further improvement in the exposure of net worth to credit risk: **the ratio of non-performing loans not covered by provisions as a percentage of net worth remained at moerately negative levels for all groups of banks** (see Chart 25).

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" 4449 – 2/December/05
Changes to regulations on minimum cash in pesos. A quarterly position is established for the period from December one year and January and February of the following year, for which reserve requirement and compliance shall be based on the average in that period for the items involved. In no day of the mentioned period shall minimum compliance be allowed to fall below 35% of the minimum cash requirement for November 2005. In addition, the requirement rate has been lowered by one percentage point for sight deposits and 2 percentage points for time deposits for the various residual periods, in both cases for those denominated in pesos. In the case of deposits constituting the liabilities of mutual investment funds, the rate is cut from 25% to 18%.

Communication "A" 4451 – 5/December/05
This instruction establishes the accounting treatment to be given to "Discount Bonds," "Quasi-par Securities" and "GDP-linked Coupons." In the case of the first two items, as well as lowering the total by the amount of the servicing collected (without calculating accrued interest or restatement), the total shall be reduced by the amounts received from the sale of the "GDP-linked Coupons" or the collection of their servicing. In the case of the "Quasi-par Securities" and the "GDP-linked Coupons," from the moment they begin to list separately, these items should be recorded at market value.

Communication "A" 4453 – 9/December/05
A new application for foreign currency lending capacity has been added to Credit Policy regulations. This is lending to customers included in the commercial and commercial loans assimilated to consumption categories seeking to import capital goods that will increase the production of goods for the domestic market. To grant such loans, banks should confirm that their customers possess sufficient payment capacity, on the basis of at least two scenarios that contemplate significant variations in the exchange rate.

Communication "A" 4455 – December/December/05
As from December 1, 2005 banks recording excesses in their credit risk spread limits on loans to the non-financial public sector arising from loans already granted at February 28, 2003 and/or those granted subsequently in expressly-approved transactions shall be able to perform operations with national government securities requiring market risk capital compliance (based on volatility informed by the Central Bank) within the margin established, without being obliged to lower the excesses. The admitted margin shall not be in excess of 15% of the adjusted stockholders' equity on the last day of the previous month. The margin shall be established by considering either i) the market value of non-financial public sector assets in portfolio used to calculate those limits; ii) the recording at market value of holdings of national sovereign debt securities, to which end the market value of the securities involved shall be determined as at the close of business on the day prior to the date of their recording; iii) funds received from amortization -together with the adjustment according to the Reference Stabilization Coefficient ("CER")- corresponding to the public sector assets involved.

Communication "A" 4465 – 30/December/05
This instruction clarifies the treatment to be given under the various regulations to the guarantees provided by national funds operating with the express authorization of the Central Bank, granting them a treatment similar to that established for the guarantees granted by reciprocal Guarantee Companies.

Communication "A" 4466 – 30/December/05
Approval has been granted for the registration of risk rating agency Evaluadora Latinoamericana S.A. on the Central Bank register, to be able to participate in asset rating.

Communication "A" 4467 – 30/December/05
"Debtor classification," "Minimum provision for loan uncollectibility risk" and "Credit grading" regulations have been modified.
The following facilities have been extended:

· In the case of the Classification rule, the term according to which commercial portfolio debtors that have entered into payment agreements with banks can be reclassified as in a normal situation has been extended until June 30, 2006.
· In the case of Credit Grading rules, the possibility of granting new disbursements of funds in excess of 300% of the adjusted shareholders' equity of the customer, with the prior approval of the Board or equivalent authority of the lending entity has been extended until June 30, 2006.
· Similarly, in the case of the calculation of the risk concentration ratio, the exclusion of Compensation Bonds or Promissory Notes received under the terms of articles 28 and 29 of Decree 905/02 and subsequent modifications has been extended until December 31, 2008.

In addition, the possibility in the case of debt financing with a discount on principal that the provision to be set up should be equivalent to the amount resulting from deducting the amount of the discount granted from the provision required on the debt prior to refinancing has now been made permanent. Debtor classification is then to be performed on the resulting amount according to the general rules, as long as the remaining conditions for these categories are observed.

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	Dec 04	Nov 05	Dec 05	Change (%)	
									Month on month	Accum. 2005
Assets	**153,140**	**163,550**	**123,743**	**187,532**	**186,873**	**212,562**	**220,850**	**222,976**	**1.0**	**4.9**
Liquid assets[1]	20,423	20,278	13,005	17,138	27,575	29,154	26,615	21,165	-20.5	-27.4
Public bonds	8,531	10,474	3,694	31,418	45,062	55,382	61,353	66,883	9.0	20.8
Lebac/Nobac	0	0	0	n/a	n/a	17,755	24,712	28,092	13.7	58.2
Portfolio	0	0	0	n/a	n/a	11,803	20,096	20,820	3.6	76.4
Repo	0	0	0	n/a	n/a	5,953	4,616	7,273	57.6	22.2
Private bonds	477	633	543	332	198	387	361	403	11.5	4.1
Loans	83,850	83,277	77,351	84,792	68,042	73,617	82,829	83,666	1.0	13.7
Public sector	12,138	15,164	22,694	44,337	33,228	30,866	25,671	25,317	-1.4	-18.0
Private sector	67,934	64,464	52,039	38,470	33,398	41,054	54,130	55,899	3.3	36.2
Financial sector	3,778	3,649	2,617	1,985	1,417	1,697	3,028	2,450	-19.1	44.3
Provisions over loans	-6,001	-6,907	-6,987	-11,952	-9,374	-7,500	-5,424	-4,945	-8.8	-34.1
Other netted credits due to financial intermediation	33,679	42,361	21,485	39,089	27,030	32,554	26,223	26,674	1.7	-18.1
Corporate bonds and subordinated debt	1,115	794	751	1,708	1,569	1,018	853	873	2.3	-14.3
Unquoted trusts	1,336	2,053	2,065	6,698	4,133	3,145	3,864	3,847	-0.4	22.3
Compensation receivable	0	0	0	17,111	14,937	15,467	6,030	5,841	-3.1	-62.2
BCRA	81	141	84	3,360	650	376	339	353	4.1	-6.2
Other	31,146	39,373	18,585	10,212	5,741	12,547	15,137	15,759	4.1	25.6
Assets under financial leases	814	786	771	567	397	611	1,264	1,384	9.5	126.5
Shares and participation	1,838	2,645	2,688	4,653	4,591	3,871	4,419	4,535	2.6	17.2
Fixed assets and sundry	4,973	4,939	4,804	8,636	8,164	7,782	7,497	7,536	0.5	-3.2
Foreign branches	996	1,115	1,057	3,522	3,144	3,524	3,643	3,652	0.2	3.6
Other assets	3,560	3,950	5,334	9,338	12,043	13,180	12,070	12,023	-0.4	-8.8
Liabilities	**136,252**	**146,267**	**107,261**	**161,446**	**164,923**	**188,683**	**194,151**	**195,506**	**0.7**	**3.6**
Deposits	81,572	86,506	66,458	75,001	94,635	116,655	134,272	136,778	1.9	17.2
Public sector [2]	7,232	7,204	950	8,381	16,040	31,649	33,488	34,320	2.5	8.4
Private sector [2]	73,443	78,397	43,270	59,698	74,951	83,000	99,135	100,795	1.7	21.4
Current account	6,478	6,438	7,158	11,462	15,071	18,219	22,921	23,476	2.4	28.9
Savings account	13,047	13,008	14,757	10,523	16,809	23,866	27,914	29,077	4.2	21.8
Time deposit	48,915	53,915	18,012	19,080	33,285	34,944	42,497	42,822	0.8	22.5
CEDRO	0	0	0	12,328	3,217	1,046	22	17	-18.9	-98.3
Other netted liabilities due to financial intermediation	50,361	55,297	36,019	75,737	61,690	64,928	53,303	52,019	-2.4	-19.9
Call money	3,793	3,545	2,550	1,649	1,317	1,461	2,766	2,164	-21.8	48.1
BCRA lines	315	102	4,470	27,837	27,491	27,726	17,917	17,005	-5.1	-38.7
Outstanding bonds	5,087	4,954	3,777	9,096	6,675	7,922	6,343	6,548	3.2	-17.3
Foreign lines of credit	10,279	8,813	7,927	25,199	15,196	8,884	4,995	4,684	-6.2	-47.3
Other	30,886	37,883	17,295	11,955	11,012	18,934	21,281	21,618	1.6	14.2
Subordinated debts	2,206	2,255	2,260	3,712	2,028	1,415	1,376	1,383	0.5	-2.3
Other liabilities	2,113	2,210	2,524	6,997	6,569	5,685	5,200	5,326	2.4	-6.3
Net worth	**16,888**	**17,283**	**16,483**	**26,086**	**21,950**	**23,879**	**26,699**	**27,470**	**2.9**	**15.0**
Memo										
Netted assets	126,432	129,815	110,275	185,356	184,371	202,447	207,829	209,328	0.7	3.4
Consolidated netted assets	122,270	125,093	106,576	181,253	181,077	198,462	202,430	204,436	1.0	3.0

(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 1999	2000	2001	2002	2003	2004	2005	Monthly Oct-05	Nov-05	Dec-05	Last 6 months
Financial margin	5.6	5.7	5.7	6.5	1.1	3.1	4.7	6.3	4.9	5.7	5.4
Net interest income	4.3	4.0	3.8	-1.7	-0.5	0.9	1.5	1.7	2.0	1.7	1.7
Restatement by CER and CVS	0.0	0.0	0.0	3.9	1.3	1.0	1.5	1.4	1.5	1.3	1.4
Foreign exchange price adjustments	0.9	1.2	1.2	1.7	1.1	0.4	0.4	1.5	0.0	1.3	0.7
Gains on securities	0.2	0.1	0.2	2.8	-0.5	1.0	1.2	1.6	1.2	1.4	1.6
Other financial income	0.2	0.4	0.5	-0.1	-0.3	-0.2	0.1	0.1	0.2	0.0	0.1
Service income margin	2.9	2.8	3.0	1.9	1.9	2.0	2.3	2.4	2.4	2.7	2.5
Loan loss provisions	-2.1	-2.4	-2.6	-4.7	-1.1	-0.8	-0.6	-0.2	-0.5	-0.4	-0.6
Operating costs	-5.9	-5.8	-6.1	-4.4	-4.2	-4.1	-4.6	-4.7	-4.8	-5.4	-4.8
Tax charges	-0.4	-0.4	-0.5	-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	-0.3	-0.6	-0.1	0.2	-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	-0.7	-0.2
Amortization payments for court-ordered releases	0.0	0.0	0.0	0.0	-0.6	-0.9	-0.9	-0.9	-1.0	-0.8	-0.9
Other	0.5	0.4	0.6	-1.8	0.9	0.8	0.8	0.4	0.6	0.4	0.8
Monetary results	0.0	0.0	0.0	-5.8	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	1.2	2.8	1.1	1.1	1.8
ROA before monetary results	0.2	0.0	0.0	-3.1	-2.9	-0.5	1.0	2.2	1.0	1.3	1.5
ROA	**0.2**	**0.0**	**0.0**	**-8.9**	**-2.9**	**-0.5**	**1.0**	**2.2**	**1.0**	**1.3**	**1.5**
ROA adjusted [2]	0.2	0.0	0.0	-8.9	-1.9	0.7	2.0	3.1	2.1	2.8	2.6
Indicators (%)											
ROE	**1.7**	**0.0**	**-0.2**	**-59.2**	**-22.7**	**-4.2**	**7.7**	**17.3**	**7.6**	**10.1**	**11.9**
Financial margin + service income margin / Operating costs	142.5	147.4	143.3	189.1	69.3	124.8	153.4	185.4	152.8	156.3	163.4
Interest income (with CER and CVS) / loans	..	13.0	15.2	11.8	13.1	10.3	12.8	12.4	13.8	13.1	12.8
Interest payments (with CER and CVS) / deposits	..	5.3	7.3	9.2	5.7	1.8	2.4	2.6	2.6	2.8	2.5

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	Dec 04	Jun 05	Sep 05	Nov 05	Dec 05
Non-performing loans (overall)	11.5	12.9	13.1	18.1	17.7	10.7	7.9	6.9	6.0	5.2
Non-performing loans to the non-financial private sector	14.0	16.0	19.1	38.6	33.5	18.6	13.0	10.5	9.0	7.6
Commercial portfolio (*)	12.1	14.9	20.7	44.0	38.0	22.8	16.2	13.0	11.1	9.3
Consumption and housing portfolio	16.6	17.3	17.5	31.4	28.0	11.0	7.4	6.3	5.5	4.8
Provisions / Total non-performing loans	59.6	61.1	66.4	73.8	79.2	102.9	110.8	114.7	118.5	124.7
(Total non-performing - Provisions) / Overall financing	4.7	5.0	4.4	4.7	3.7	-0.3	-0.9	-1.0	-1.1	-1.3
(Total non-performing - Provisions) / Net worth	24.7	26.2	21.6	17.2	11.9	-1.0	-2.8	-3.2	-3.6	-4.1

(*) 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	Dec 04	Nov 05	Dec 05	Change (%) Month on month	Change (%) Accum. 2005
Assets	**108,778**	**119,371**	**82,344**	**118,906**	**116,633**	**128,065**	**130,884**	**129,982**	**-0.7**	**1.5**
Liquid assets [1]	13,228	13,920	10,576	11,044	14,500	15,893	16,431	14,073	-14.4	-11.5
Public bonds	6,433	7,583	1,627	19,751	22,260	24,817	28,590	30,117	5.3	21.4
Lebac/Nobac	0	0	0	n/a	n/a	8,359	13,737	14,980	9.0	79.2
Portfolio	0	0	0	n/a	n/a	5,611	12,458	12,458	0.0	122.1
Repo	0	0	0	n/a	n/a	2,749	1,279	2,521	97.2	-8.3
Private bonds	410	563	451	273	172	333	282	323	14.6	-3.0
Loans	56,916	56,035	52,319	51,774	47,017	50,741	55,192	56,577	2.5	11.5
Public sector	6,389	8,172	13,803	25,056	23,571	21,420	15,905	15,954	0.3	-25.5
Private sector	47,705	45,103	36,636	26,074	22,816	28,213	37,652	39,043	3.7	38.4
Financial sector	2,823	2,760	1,880	644	630	1,107	1,635	1,580	-3.3	42.7
Provisions over loans	-3,119	-3,248	-3,957	-7,463	-5,225	-3,717	-2,735	-2,482	-9.3	-33.2
Other netted credits due to financial intermediation	27,330	36,600	13,037	27,212	22,148	25,753	18,878	16,857	-10.7	-34.5
Corporate bonds and subordinated debt	1,022	724	665	1,514	1,394	829	681	675	-0.8	-18.5
Unquoted trusts	958	1,609	1,637	6,205	3,571	2,362	2,586	2,401	-7.2	1.6
Compensation receivable	0	0	0	15,971	13,812	14,657	5,766	5,575	-3.3	-62.0
BCRA	12	35	865	377	415	311	278	279	0.3	-10.2
Other	25,338	34,232	9,870	3,146	2,955	7,594	9,567	7,927	-17.1	4.4
Assets under financial leases	796	776	752	553	387	592	1,236	1,356	9.7	129.1
Shares and participation	1,371	1,651	1,703	3,123	2,791	1,892	2,339	2,423	3.6	28.1
Fixed assets and sundry	3,246	3,225	3,150	5,198	4,902	4,678	4,540	4,565	0.6	-2.4
Foreign branches	48	75	112	-109	-136	-53	-77	-148	91.9	179.9
Other assets	2,120	2,190	2,574	7,549	7,816	7,137	6,209	6,321	1.8	-11.4
Liabilities	**96,474**	**107,193**	**70,829**	**103,079**	**101,732**	**113,285**	**114,148**	**112,603**	**-1.4**	**-0.6**
Deposits	54,447	57,833	44,863	44,445	52,625	62,685	74,764	75,668	1.2	20.7
Public sector [2]	1,342	1,276	950	1,636	3,077	6,039	7,354	6,946	-5.6	15.0
Private sector [2]	52,460	55,917	43,270	38,289	47,097	55,384	66,553	67,861	2.0	22.5
Current account	5,022	4,960	7,158	8,905	11,588	13,966	17,539	17,947	2.3	28.5
Savings account	9,702	9,409	14,757	6,309	10,547	14,842	17,517	18,362	4.8	23.7
Time deposit	35,218	39,030	18,012	11,083	18,710	22,729	27,444	27,736	1.1	22.0
CEDRO	0	0	0	9,016	2,409	798	6	3	-55.7	-99.6
Other netted liabilities due to financial intermediation	39,045	46,271	22,629	49,341	42,367	45,083	34,830	32,347	-7.1	-28.3
Call money	2,146	2,293	1,514	836	726	1,070	2,001	1,488	-25.7	39.0
BCRA lines	274	83	1,758	16,624	17,030	17,768	10,254	10,088	-1.6	-43.2
Outstanding bonds	4,990	4,939	3,703	9,073	6,674	7,922	6,343	6,548	3.2	-17.3
Foreign lines of credit	6,680	5,491	4,644	15,434	9,998	5,444	3,025	2,696	-10.9	-50.5
Other	24,954	33,466	11,010	7,374	7,939	12,878	13,207	11,527	-12.7	-10.5
Subordinated debts	1,683	1,668	1,700	3,622	1,850	1,304	1,312	1,319	0.5	1.2
Other liabilities	1,299	1,420	1,637	5,671	4,890	4,213	3,243	3,269	0.8	-22.4
Net worth	**12,304**	**12,178**	**11,515**	**15,827**	**14,900**	**14,780**	**16,736**	**17,379**	**3.8**	**17.6**
Memo										
Netted assets	85,918	88,501	73,796	117,928	115,091	121,889	122,730	123,573	0.7	1.4

(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 netted assets	Annual 1999	2000	2001	2002	2003	2004	2005	Monthly Oct-05	Nov-05	Dec-05	Last 6 months
Financial margin	6.1	6.2	6.4	7.6	2.3	2.9	4.4	5.8	4.8	4.9	5.2
Net interest income	4.5	4.1	4.3	-0.2	0.1	1.0	1.7	2.0	2.4	1.9	2.0
Restatement by CER and CVS	0.0	0.0	0.0	1.1	0.9	0.8	1.0	0.9	0.9	0.6	0.8
Foreign exchange price adjustments	1.1	1.4	1.2	2.5	1.7	0.6	0.5	1.2	0.2	1.1	0.7
Gains on securities	0.3	0.2	0.3	4.4	-0.3	0.8	1.2	1.6	1.0	1.4	1.6
Other financial income	0.3	0.5	0.7	-0.1	-0.2	-0.3	0.1	0.1	0.2	0.0	0.1
Service income margin	3.1	2.9	3.2	2.0	2.0	2.4	2.7	2.9	3.0	3.1	2.9
Loan loss provisions	-2.2	-2.5	-3.0	-5.0	-1.3	-0.9	-0.6	-0.4	-0.4	-0.7	-0.6
Operating costs	-6.3	-6.0	-6.4	-4.8	-4.6	-4.6	-5.1	-5.2	-5.4	-5.9	-5.4
Tax charges	-0.4	-0.4	-0.5	-0.4	-0.3	-0.3	-0.4	-0.5	-0.5	-0.6	-0.5
Income tax	-0.5	-0.4	-0.3	-0.2	-0.3	-0.2	-0.2	-0.4	-0.1	-0.2	-0.2
Adjustments to the valuation of government securities [1]	0.0	0.0	0.0	0.0	-0.6	0.0	-0.2	0.0	0.0	-1.0	-0.2
Amortization payments for court-ordered releases	0.0	0.0	0.0	0.0	-0.7	-1.0	-1.0	-1.0	-1.0	-0.9	-0.9
Other	0.5	0.4	0.7	-3.0	1.0	0.7	0.9	1.1	0.0	2.2	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
ROA before income tax	0.8	0.6	0.5	-11.1	-2.2	-0.8	0.8	2.6	0.5	1.2	1.5
ROA before monetary results	0.3	0.1	0.2	-3.8	-2.4	-1.0	0.7	2.2	0.4	0.9	1.3
ROA	**0.3**	**0.1**	**0.2**	**-11.3**	**-2.5**	**-1.0**	**0.7**	**2.2**	**0.4**	**0.9**	**1.3**
ROA adjusted [2]	0.3	0.1	0.2	-11.3	-1.2	0.2	1.8	3.2	1.4	2.8	2.4
Indicators (%)											
ROE	**2.3**	**0.8**	**1.4**	**-79.0**	**-19.1**	**-8.1**	**5.1**	**16.5**	**3.1**	**6.4**	**9.5**
Financial margin + service income margin / Operating costs	146.0	151.9	150.9	199.3	92.6	115.0	140.3	165.0	144.5	135.1	150.3
Interest income (with CER and CVS) / loans	..	13.9	16.1	24.7	9.0	8.2	11.0	11.0	11.0	11.8	11.0
Interest payments (with CER and CVS) / deposits	..	5.7	7.8	21.9	5.8	2.2	3.0	3.3	3.2	3.5	3.2

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	Dec 04	Jun 05	Sep 05	Nov 05	Dec 05
Non-performing loans (overall)	7.6	8.3	9.9	19.8	15.7	8.9	6.5	6.0	5.4	4.4
Non-performing loans to the non-financial private sector	8.9	9.8	14.0	37.4	30.4	15.3	10.5	8.9	7.7	6.3
Commercial portfolio (*)	6.8	8.4	15.4	44.7	39.0	18.2	12.5	10.5	9.1	7.3
Consumption and housing portfolio	12.5	11.9	12.4	26.0	17.2	10.0	6.6	5.7	5.0	4.2
Provisions / Total non-performing loans	69.4	67.7	75.7	73.4	79.0	95.7	98.8	101.5	106.4	114.3
(Total non-performing - Provisions) / Overall financing	2.3	2.7	2.4	5.3	3.3	0.4	0.1	-0.1	-0.3	-0.6
(Total non-performing - Provisions) / Net worth	11.5	13.4	11.4	18.6	11.2	1.3	0.3	-0.3	-1.2	-2.2

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

Source: BCRA