Report on *Banks*

DECEMBER 2006

Central Bank of Argentina

Year IV - No. 4

Contents

Note: This report contains information from December 2006 balance sheets available on 25 January 2007. Description centers mainly on the behavior of the financial system (including breakdowns by uniform sub-groups). Figures provided (particularly in the case of profitability) are preliminary, and may be subject to change.

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

Summary

The financial policy pursued by the Central Bank notably strengthened the financial system during 2006. On the one hand, iliquidity rediscounts have almost been eliminated, and deposits are growing in both size and maturity; on the other, lending to the private sector exceeds that to the public sector, consolidating bank results (with profits for the second year in a row), reinforcing the solvency of the system.

1. Encouraged by Central Bank regulations, **bank exposure to the public sector fell by 9.1 p.p.** of total assets in 2006, to a level of 21.7%, releasing financial resources for companies and households. **For the first time since the crisis, during 2006 the weighting of credit to the private sector in bank assets exceeded exposure to the Government.** Over the last two years the share of assets accounted by the public sector declined almost 18 p.p.. This has resulted in a monetary and financial system that for the first time in a decade is independent from the needs of the public sector.

2. **Growth in lending to the private sector was over 40%** for the year (28% in real terms), achieving a share of close to 11.1% of GDP, 1.4 p.p. more than at the end of 2005.

3. Growth in private sector lending was accompanied by a significant improvement in the quality of loans, with **non-performance levels reaching historical minimum (4.5% of private sector loans), below the average for Latin America**.

4. In line with the regulatory incentives established by the Central Bank for an extension in the maturity of bank funding, for the first time since the crisis, in 2006 **private sector time deposits grew at a faster rate (27%) than private sector sight deposits (20%)**.

5. In 2006 the financial system **continued to bring anticipated payments under the so-called matching schedule**, during the year making almost 40% of all payments made since the system began. Of the 24 financial entities originally taking part in the matching schedule, only 2 remain, 81% of the initial debt having been repaid since 2005, a development that has been given an impulse by the mechanisms introduced by the monetary authority.

6. Financial entities recorded their highest accrued profits since the crisis (**2% of assets and 14.8% of net worth**). These profits, added to capitalizations that has been carried out, led to **consolidation of bank solvency**. During the year, despite the strong increase in intermediation, the increase in net worth (23.4%) was responsible for a recovery in solvency indicators, reaching levels well in excess of Central Bank minimum requirements.

7. **An increase in the more stable sources of income has been noted:** interest and service income. The growing role of the domestic capital market was reflected in financial system results via the increase in income from holding and trading of financial assets.

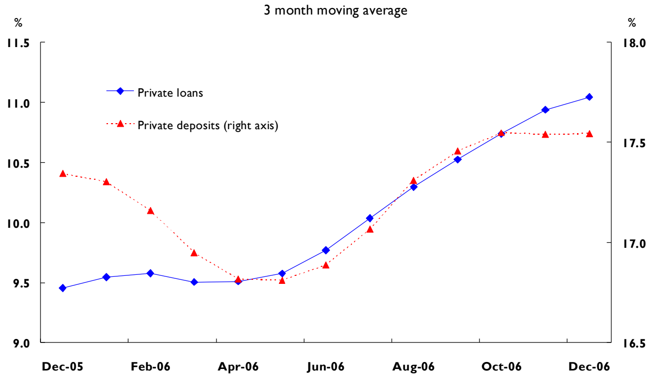
8. **Credit lines for longer maturities are gradually recovering**. Mortgage loans rose 17% in the year, while new facilities to companies have included a larger proportion of longer-term loans.

9. The benefits of **complementation of banks and capital markets** are beginning to be seen, such as the development of instruments for more efficient risk management. In 2006 the notable and continuous increase in securitization of banking assets (close to $3.0 billion) has been an example of this.

10. **In line with the notable development observed in the volume of banking intermediation over the course of 2006, and given the growth expected for the domestic economy, a favorable context can be foreseen for banking activity in 2007**. Steady consolidation is expected for those more stable sources of revenue, such income from lending and transactional activity.

Chart 1

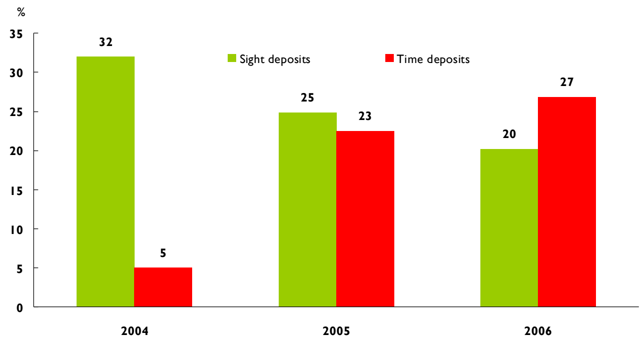
Financial Intermediation
Private loans and deposits as % of GDP
3 month moving average



Source: BCRA

Chart 2

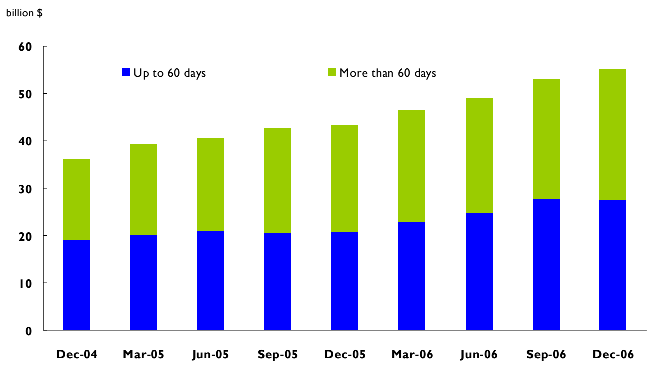
Private Deposits
Yearly % change - Financial system



Source: BCRA

Chart 3

Time Deposits Funding Composition
Financial system



Source: BCRA

Activity

Normalization of balance sheets and financial deepening in 2006

In line with the normalization of banking activity that has taken place over the course of 2006, financial institutions continued to increase their level of intermediation, a situation that was reflected in a **gradual increase in the share of deposits** (17.5% of GDP) **and private sector loans in output** (11.1%[1] of GDP, 1.4 p.p. above the level recorded in 2005) (see Chart 1). In December, bank netted assets fell 0.3% (1.3% in real terms), a change mainly explained by the behavior of one large financial institution. Despite this monthly dynamic, **during 2006 financial system netted assets recorded an increase of 18% (7% in real terms), well above the level seen in 2005**, consolidating the recovery of the financial system.

In the specific case of December, **the drop in exposure to the public sector**[2] ($5.2 billion), largely led by on private bank, **and the increase in private sector deposits** ($1.95 billion) **constituted the main sources of funds for banks.** Liquid assets declined at the end of the year ($750 million), mainly associated with a drop in repo transactions with the Central Bank (close to $3.0 billion). In addition, there was an increase in bank funding abroad (almost $600 million), a change linked to the placement of subordinated obligations (US$150 million) by one domestic capital private bank.

In the last month of the year one large private bank significantly reduced its liabilities with the Central Bank (almost $3.0 billion), thus accounting for one of the main uses of funds. In addition, banks made use of funds **for the increase in lending to the private sector observed in December ($1.65 billion)**[3] -including leasing transactions and changes in private securities. One private bank made payments to the Central Bank for $1.7 billion under the matching schedule in a transaction for completion in January. In addition, the drop in public sector deposits ($1.25 billion), the payment in cash of part of a liability for the purchase of Boden ($1.05 billion), matching schedule disbursements for the month ($130 million), and the increase in holdings of Lebac and Nobac ($100 million), completed the uses of resources in December.

Total non-financial deposits[4] grew 0.4% ($700 million) in December, a change explained by the increase in private sector deposits (1.6%, $1.95 billion) and by the decline in public sector deposits (2.6%, $1.25 billion). In the context of increased liquidity needs by the general public because of higher year-end spending, **private sector sight deposits** (up 4.2%, $2.55 billion) **explained the rise in private sector deposits in December**, while time deposits recorded a drop

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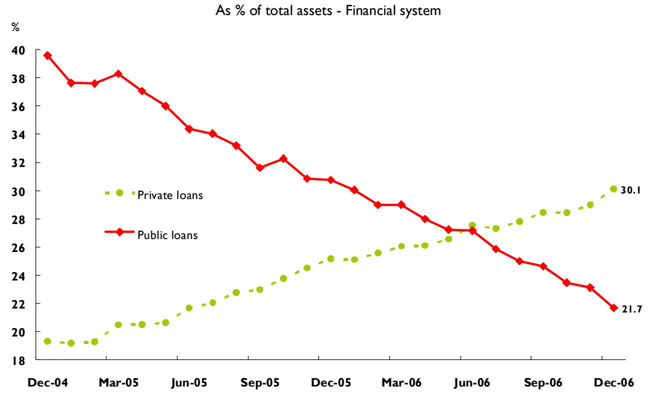
[1] Calculation made on the basis of balance sheet totals. Include non-resident loans, accrued interest and adjustments. Not adjusted for unrecoverable loans written off from the balance sheet.
[2] Exposure to the public sector includes the position in government securities (taking into account compensation receivable) and loans to the public sector. It does not include LEBAC and NOBAC.
[3] Adjusted for the setting up of financial trusts during the month. Over the course of 2006 the securitization of bank assets totaled $3.0 billion.
[4] Including accrued interest and adjustments.

Chart 4

Public and Private Sector Exposure

As % of total assets - Financial system

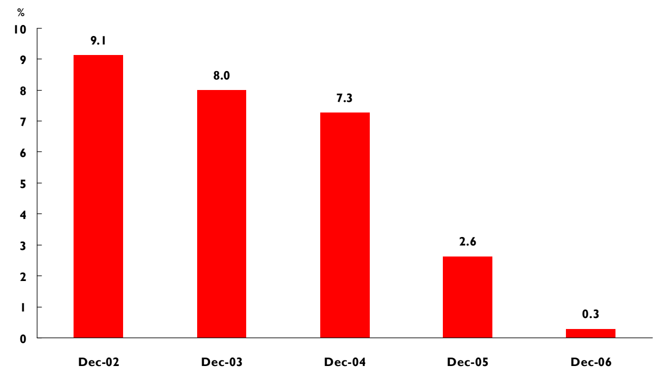


Source: BCRA

Chart 5

National Government Receivable Compensations

As % of total assets

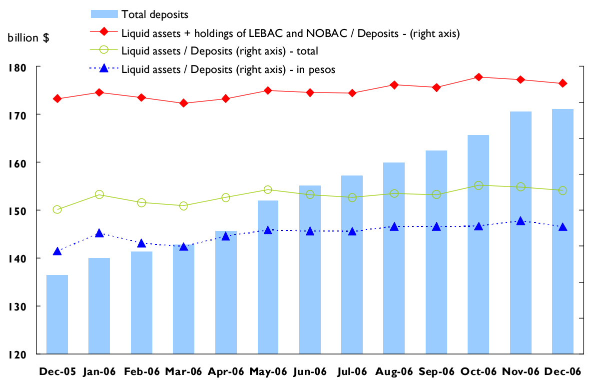


Source: BCRA

Chart 6

Deposits and Liquidity

Financial system



Source: BCRA

(0.7%, $350 million)[5]. Nevertheless, there has been an evident trend in favor of deposits for longer terms: **in 2006 private sector time deposits recorded a growth rate (27%) higher than that shown by sight deposits (20%)** (see Chart 2). This dynamic is in line with the measures implemented by the Central Bank with the aim of increasing the term of bank funding, encouraging the availability of medium and long term financing for productive purposes. Private banks recorded a similar performance in December: total non-financial deposits grew 2.1% ($1.95 billion), driven by growth in private sector deposits (3%, $2.5 billion) and the decline in official sector deposits ($650 million). In this context, the increase in private sector sight deposits (5.8%, $2.4 billion) was greater than that recorded in time deposits (0.7%, almost $300 million)[6].

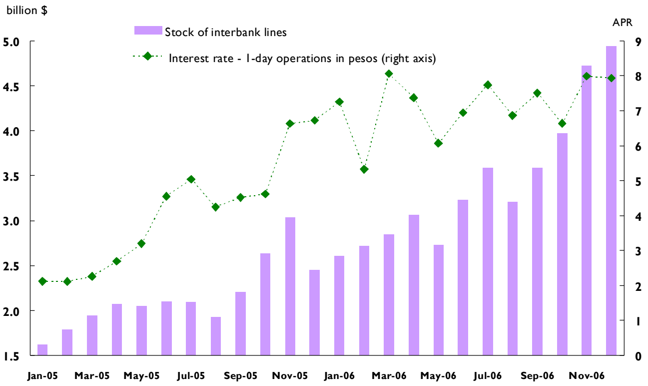
During 2006 the increase in financial system time deposit totals showed some divergence between maturity periods (see Chart 3). Deposits for less than 60 days (accounting for half the term funding for the financial system) displayed a relatively greater growth (34%) than that shown by deposits for terms of longer than two months (21%). The lower rate of growth by deposits for longer terms is in part linked to the reduction in CER-adjusted deposits in a context of lower inflation expectations for 2007 and a lower investment by Pension Funds (AFJPs) in such instruments.

In December the weighting of public sector assets in bank portfolios dropped 1.4 p.p., to 21.7% of total assets (22.9% of netted assets) (see Chart 4), accumulating a reduction of 8.8 p.p. and 9.1 p.p. in 2005 and 2006 respectively. The behavior for the month was mainly caused by one private bank that received part of its compensation pending from the Government in cash. As a result, **balance sheet totals for pending compensation fell significantly in 2005 and 2006 to only 0.3% of total financial system assets** (see Chart 5). Private banks posted a reduction of 3.2 p.p. of assets in their exposure to the public sector in December, to 16%, accumulating a decline of 12.1 p.p. in 2006. Public banks increased its exposure to the Government slightly in the last month of the year (to 30.8%), while over 2006 it showed a reduction of 4.4 p.p..

The financial entity liquidity ratio dropped 0.5 p.p. in December, to 22.7% of bank deposits (see Chart 6), although over the course of 2006 this indicator grew 2.6 p.p.. **Because of greater demand for liquidity by the public in December associated with increased year-end spending, banks lowered their liquid assets** (approximately $750 million), with a particular drop in repo transactions with the Central Bank (almost $3.0 billion), switching to the holding of liquidity in current accounts in the Central Bank (which went up $2.0 billion) and in cash in treasury (almost $250 million). When taking Lebac and Nobac holdings (up $100 million) into account, the liquidity indicator also shows a fall, to 37.7% of deposits in December. In the particular case of private banks, the liquidity indicator increased 0.7 p.p. in the last month of 2006 (2.3 p.p. for the year) to 23.7% of total deposits, reaching 43.4% when including Lebac and Nobac holdings.

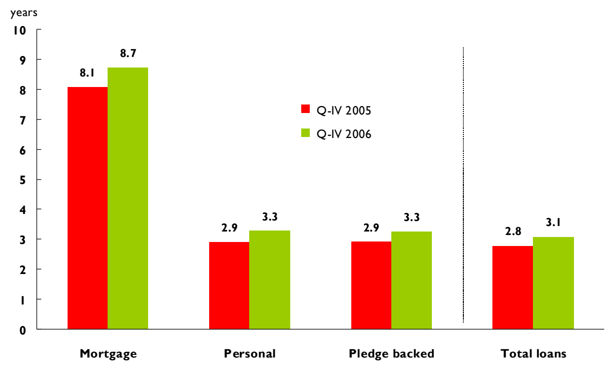
[5] The Others heading fell $250 million.
[6] The Others heading fell $160 million.

Chart 7
Call Market



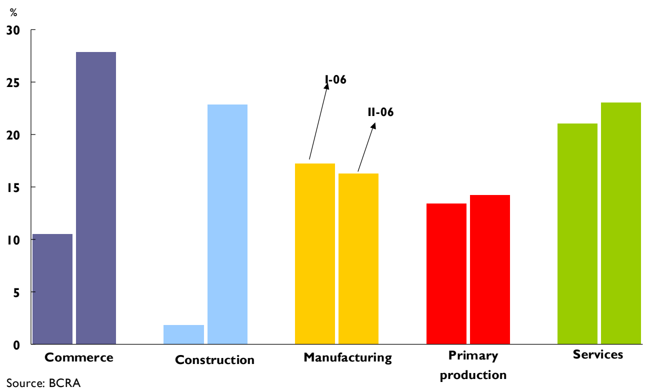
Source: BCRA

Chart 8
Lending to the Private Sector
Average maturity weighted by amounts



NOTE: Do not include current account overdraft and credit cards.
Source: BCRA

Chart 9
Lending by Economic Sector
Half-yearly % change - Financial system



Source: BCRA

The market for interbank loans continued to show marked dynamism. Average interest rates for overnight call remained steady in December (around 7.9%), while the average daily trading volume increased to $1.6 billion. As a result, the interbank loans total stood at $4.95 billion (rising 4.7% in December), more than twice the value recorded at the end of 2005 (see Chart 7). In the last month of 2006 the call market recorded a certain increase in the degree of concentration in terms of takers, a contrary effect to that shown by lenders.

Financial system loans to the private sector[7] increased 1.4% ($1.05 billion) in December, accumulating a growth of over 40% during 2006 (28% in real terms), the largest growth rate seen in the post-crisis period. The improvement in income recorded by the various productive sectors and households, combined with improved prospects for the banking business, is reflected in both the rise in lending to the private sector and the extension of the maturity of new loans. In the last quarter of 2006 new private loans duration averaged somewhat over 3.1 years, almost 4 months longer than in the same period of 2005 (see Chart 8). Loans to households in particular extended their average duration by 7 months (to 4.4 years).

Industry and services were the productive sectors behind the growth in bank financing to companies over the course of 2006. Loans to industry increased almost $2.15 billion (16%) in the second half (see Chart 9), totaling growth of $4.1 billion (36%) for the year. The increase for services totaled $2.14 billion (23%) with a rise of $3.75 billion (49%) during 2006. Resources for the primary production sector rose $1.55 billion (14%) in the second half of 2006, ending the year with an increase of $2.8 billion (30%), while commerce gained $1.4 billion (28%) in the second half, and $1.9 billion (41%) for the year. Loans for construction gained $520 million (25%) in the last 12 months. In this context, **industry and primary goods production have been the sectors together receiving over half of all lending to companies** (31% and 25%, respectively). This increase in credit resources was in part driven by the lower repayment risk in the sector, with a non-performance level that dropped 4.5 p.p. in the year to 5.2% of loans.

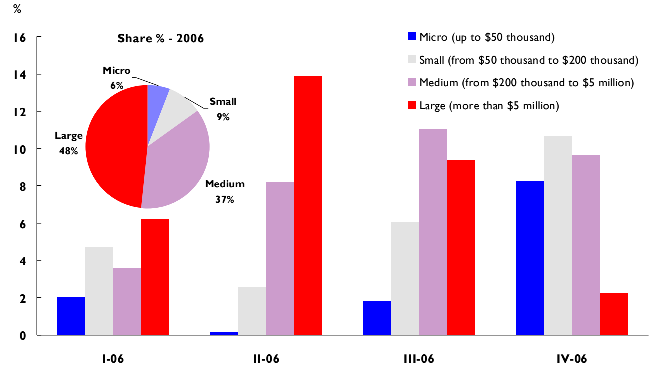
Increased lending to companies was seen across all loan segments in 2006: while credit lines in excess of $5 million (mainly directed at large corporations) went up 35% ($6.0 billion) until accounting for almost half of total lending, loans for between $200 thousand and $5 million (especially directed at mid-size companies) increased 36% ($ 4.65 billion). **Loans of between $50 thousand and $200 thousand and those for under $50 thousand (small companies and micro-undertakings) increased 26% ($900 million) and 13% ($300 million) respectively in 2006**, with notable dynamism in the second part of the year (see Chart 10), in part benefiting from measures to assist small and medium-size enterprises implemented by the Central Bank. Industry and services led the growth in total lending to companies in 2006 (with increases of $4.1 billion and $3.75 billion, respectively).

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

Chart 10

Lending to Companies by Amount Range

Quarterly % change - Financial system

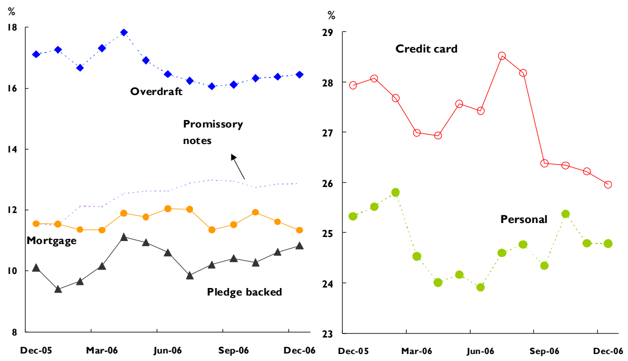


Source: BCRA

Chart 11

Lending Interest Rates

Loans to the private sector

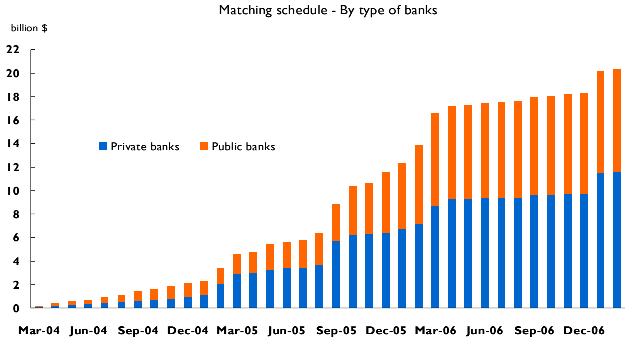


Source: BCRA

Chart 12

Matching - Accumulated Payments

Matching schedule - By type of banks

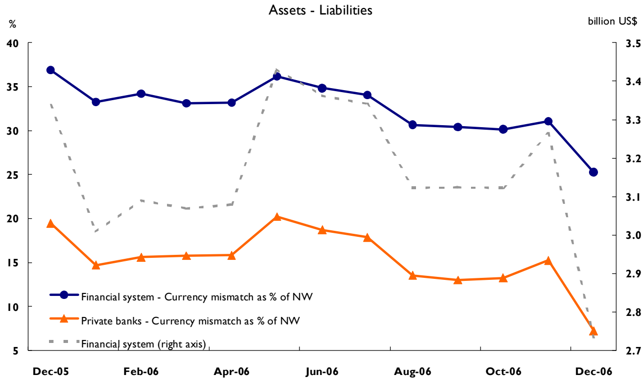


Note: Include quotes, overdraft and early payments.
Source: BCRA

Chart 13

Currency Mismatch

Assets - Liabilities



Source: BCRA

Over the course of 2006 loans granted by means of promissory notes and overdrafts showed a gradual convergence in their costs: while interest rates on the former rose during the year (132 basis points -b.p.- to 12.9%), in the case of the latter they recorded a decline (66 b.p., to 16.4%) (see Chart 11). Export loans showed a slight rise in interest rates. **Household consumer credit also reflected the strong competition that exists among financial institutions:** whereas interest rates on personal loans dropped 55 b.p. in 2006 to 24.8%, those set for credit cards fell 200 b.p. to 26%.

Mortgage loan totals rose 3.3% ($330 million) in December, the largest monthly increase in the post crisis period, taking the increase for the year to 17%. This deepening of the mortgage market is in part being driven by the easing of requirements to qualify for such loans, as well as by the longer terms in the lines being offered: in the last quarter of 2006 these loans were being granted for an average of 8.7 years, almost 8 months more than in the same period of 2005. Given the favorable outlook for the real estate and car markets in 2007, it is expected that loans with real guarantee will continue to gain in strength in coming months.

Bank leasing is becoming established as a medium and long term financing alternative to traditional credit lines. **In 2006 bank leasing for companies increased 62% ($840 million) until reaching a total of $2.2 billion**. Services and industry led this rise, recording increases of 63% ($250 million) and 67% ($220 million), respectively, in their financing by means of this mechanism.

In the last month of 2006 the financial system made payments to the Central Bank for almost $130 million, accumulating disbursements under the matching schedule during 2006 for almost 40% of the total payments made since the start of the system. Payments under this heading totaled $1.86 billion[8] and $124 million in January and February 2007, respectively (see Chart 12). As a result**, since 2005 the financial system settled 81% of the original debt for liquidity assistance granted during the recent crisis,** there being only two banks currently recording outstanding debt.

Financial system foreign currency mismatching recorded a drop of close to US$550 million in December. The significant reduction in exposure to the public sector in dollars (slightly over US$450 million) led the reduction in assets in this currency. The increase in indebtedness abroad, led by one domestic private bank that placed subordinated debt abroad (US$150 million), explained a large part of the change in liabilities in that currency. As a result, **foreign currency mismatching in terms of net worth registered a 5.8 p.p. drop in December,** to 25.3% (see Chart 13), **with a total drop of 12 p.p. over the course of 2006.**

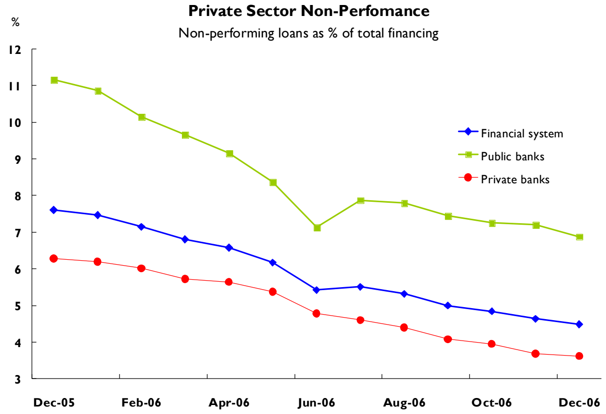
Portfolio quality:

Solid position of the financial system in the face of private sector credit risk

[8] For further details, see the previous issue of this Report (page 5).

Chart 14

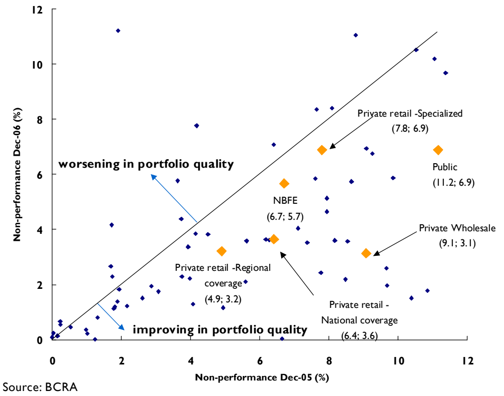
Private Sector Non-Perfomance
Non-performing loans as % of total financing



Source: BCRA

Chart 15

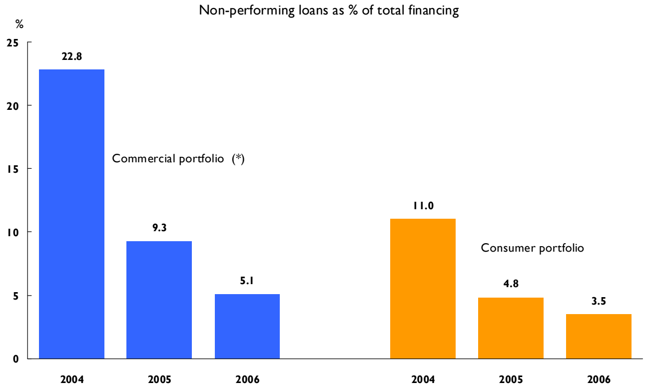
Quarterly Change in Portfolio Non-Performance
Non-performing financing to the private sector (%) - Financial system



Source: BCRA

Chart 16

Non-Performance Credit to the Private Sector by Type of Line
Non-performing loans as % of total financing



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

In the context of increased bank lending to companies and households, the financial system continues to strengthen its position with regard to the risk from lending to the private sector. This trend has been driven by the prudent strategies adopted by banks at the time of granting new loans, the positive macroeconomic performance that improves debtor repayment capacity, as well as the regulatory incentives implemented by the Central Bank to extend private sector lending. Specifically **in December, the non-performance ratio recorded a drop of 0.1 p.p. to 4.5%**, accumulating a reduction of 3.1 p.p. in the last twelve months (see Chart 14).

The increasing robustness of the financial system in the face of the risk of private sector repayment is taking place in both public and private banks. In December public banks recorded a drop of 0.3 p.p. in their non-performance ratio to 6.9%, accumulating a reduction of 4.3 p.p. in 2006. The improvement in private banks was slightly lower, as non-performance dropped 0.1 p.p in the month to 3.6%, for a year-on-year reduction of 2.7 p.p..

In this context, **all private bank groups have shown an improvement in the quality of their lending.** Delinquency levels for private banks with national coverage (the sub-group accounting for over half of all lending) dropped 2.8 p.p. in 2006, to 3.6% (see Chart 15), while private banks with regional coverage posted a drop in their non-performance of 1.7 p.p., to 3.2%. There was a notable improvement in loan portfolio in the case of wholesale banks during 2006: their level of delinquency fell almost 6 p.p. to 3.1%. The remaining financial institution sub-groups (specialized banks and non-bank financial institutions) also disclosed reductions for the year in their repayment risk.

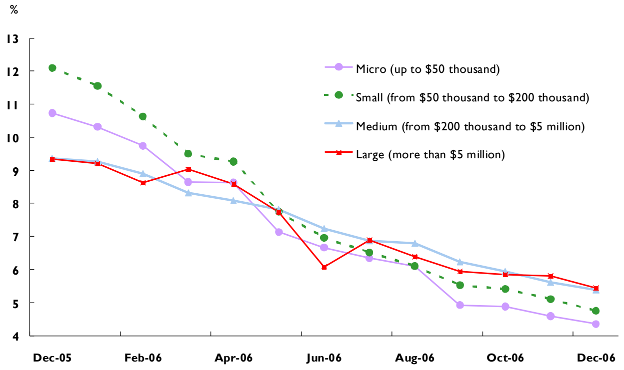
In line with the trend registered in the last two years, **in December the level of commercial loan delinquency showed a greater decline than that displayed by consumer loans**. The non-performance ratio for commercial loans dropped 0.1 p.p. in the month to 5.1%, showing a significant reduction of 4.2 p.p. in 2006. Consumer loan delinquency was down 0.1 p.p. in December to 3.5%, accumulating a drop of 1.3 p.p. in the last 12 months (see Chart 16). As a result, the delinquency differential between the two types of credit line has continued to narrow: whereas at the end of 2005 commercial loan non-performance almost doubled that of the consumer portfolio, in December 2006 this ratio was down to under 50%. If the ten largest corporate debts in an irregular situation were to be excluded, the delinquency of the financial system commercial portfolio would be below that of consumer loans.

Although in 2006 the improvement in the portfolio quality of loans to companies took place in all loan size segments, **loans for between $50 thousand and $200 thousand, and those for less than $50 thousand (mainly associated with small companies and micro-undertakings) showed the largest reductions in non-performance ratios** (see Chart 17). In particular, the level of delinquency in loans granted for between $50 thousand and $200 thousand, and those for under $50 thousand dropped 7.3 p.p. and 6.4 p.p. in the year, to levels of 4.8% and 4.3%, respectively. Non-performance in loans for over $5 million

Chart 17

Non-Performance Lending to Companies by Amount Range

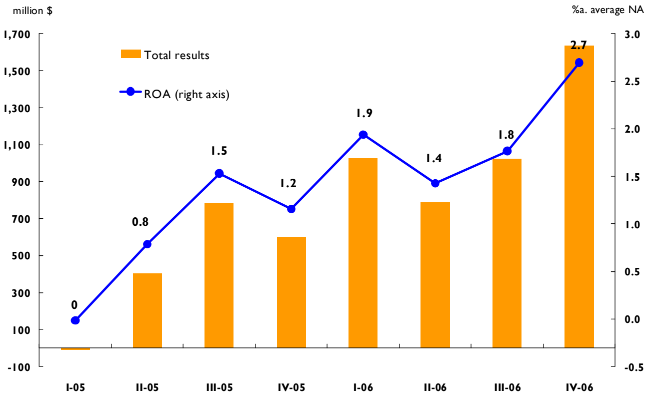
Non-performing portfolio as % of total financing - Financial system



Source: BCRA

Chart 18

Quarterly Profitability - Financial System

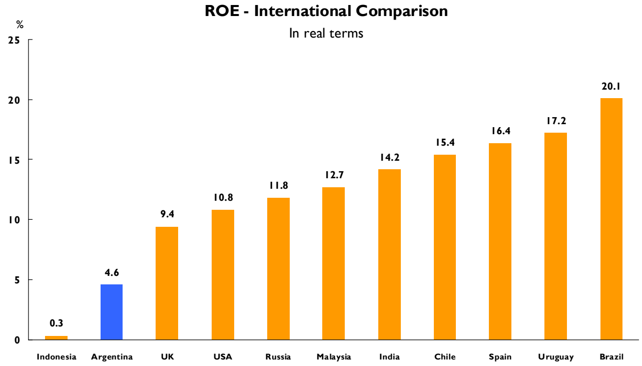


Source: BCRA

Chart 19

ROE - International Comparison

In real terms



Note: ROE data; 2006: Argentina and Chile (December), Uruguay (September), Spain and Brazil (June) and USA (March); 2005: United Kingdom, Malaysia, Russia and Indonesia; 2004: India.
Source: BCRA from IMF and Central Banks data.

(mainly to large corporations) fell 3.9 p.p. in 2006, to 5.4%, while in the case of lines for between $200 thousand and $5 million the reduction was 4 p.p., reaching a level of 5.4%.

The increase in the exposure of banks to the private sector is taking place within a framework of prudent credit policies adopted by financial institutions. This is reflected in the increase in the level of provision coverage by the financial system, to 130.5% of non-performing loans in 2006. The ratio of non-performing loans not covered by provisions in terms of net worth stood at –3.4%.

Profitability:

Accrued profits for the year are almost double those for 2005

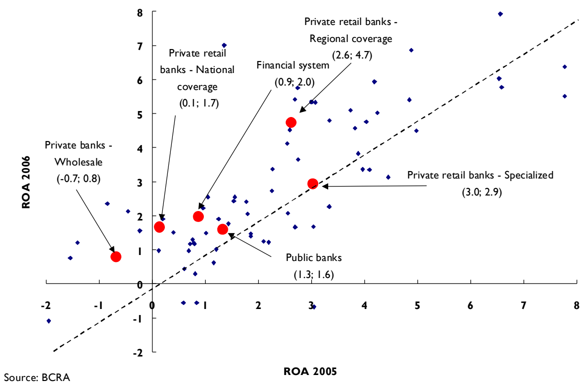
The significant expansion in financial intermediation activity seen in 2006 made it possible to consolidate bank profitability. In December, the financial system achieved a profitability of an annualized (a..) of 3.5% of netted assets (25.4%a. of net worth[9]) (see Chart 18), the highest monthly figure recorded in the post-crisis period. As a result, **banks ended 2006 with a positive result totaling 2% of assets (14.8% of net worth), more than doubling the profits recorded in 2005**. Nevertheless, real profitability in terms of net worth stood at 4.6%, a figure that is still below the performance of other emerging economies (see Chart 19). The lack of monthly figures showing aggregate losses during 2006 is a further sign of the firm development of domestic banking activity.

Both private and official banks accrued book profits during December, although there was a notable increase in the results obtained by the latter group. Private banks recorded gains for almost 2.8%a. of assets (19.2%a. of net worth) in December, totaling 2.2% of assets (15.1% of net worth) in 2006. Official banks recorded profits of 4.3%a. of assets (37.4%a. of net worth) in the final month of 2006, a figure that becomes 1.6% of assets for 2006 as a whole.

All groups of banks increased the volumes of business during 2006, a situation that led to increased earnings: 77 out of a total of 90 financial institutions obtained profits for the year, representing approximately 89% of total assets. In particular, there was a notable annual growth of 2.1 p.p. in the profitability of private retail banks with regional coverage (up to 4.7% of their assets) (see Chart 20), a trend that was led by the increased gains on the holding and trading of financial assets and from interest. Private banks with national coverage recorded profit growth of 1.6 p.p. (totaling a ROA of 1.7%), with growing dynamism in gains on securities and from service income margin. In addition, wholesale banks moved away from their loss-making environment, recording profitability of 0.8%a. of their assets, while private specialized retail banks recorded a slight drop in their profits (to 2.9%). Public banks have been maintaining a relatively steady profit path, achieving a profitability of 1.6% of their assets in 2006, 0.3 p.p. above the figure recorded in the previous year.

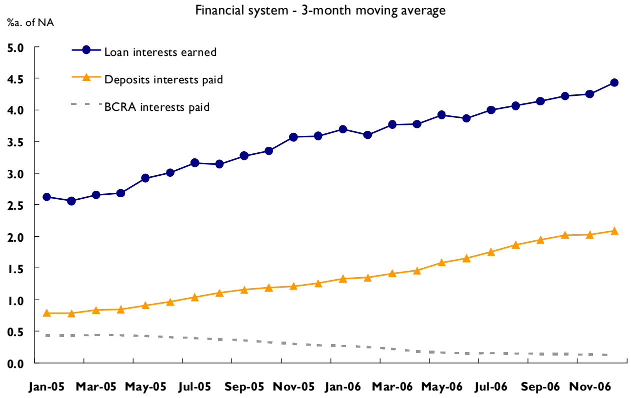
[9] In this section, all references to assets should be understood as referring to netted assets (see Glossary)

Chart 20
Profitability of Financial Institutions
2005 and 2006



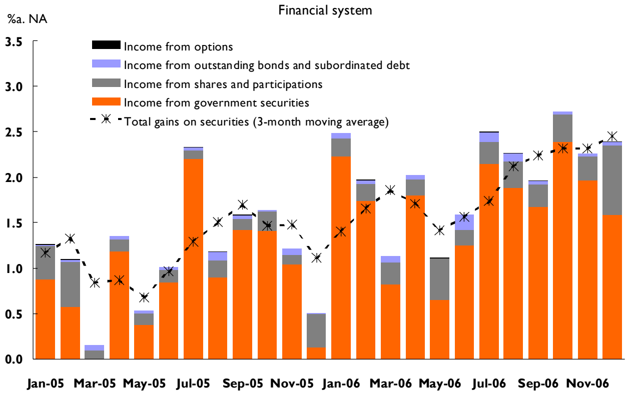
Source: BCRA

Chart 21
Net Interest Income Breakdown
Financial system - 3-month moving average



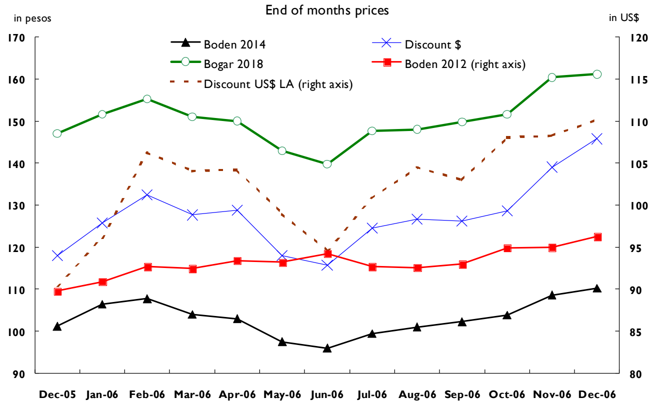
Source: BCRA

Chart 22
Gains on Securities
Financial system



Source: BCRA

Chart 23
Main Government Securities
End of months prices



Source: Reuters

In December bank financial margin increased 0.3 p.p. to a level of 5.8%a. of assets, totaling 5.7% over the course of 2006 (1.1 p.p. more than in 2005). This growth for the month reflected the combined effect of a series of factors. **Interest results recorded growth of 0.1 p.p. of assets in December** (to 1.9%a.) mainly driven by the increased accrual of interest income (see Chart 21), a development that was partly offset by higher outflows on deposits.

Overall, **during 2006 bank interest results recorded an improvement of 0.3 p.p. of assets compared with the previous year (almost 33% more in absolute terms)**. This trend has been mainly driven by increased interest accrual on loans (up 42% for the year), in line with the steady growth in lending to the private sector and the lower delinquency levels in the private sector loan portfolio. Part of this growth was offset by increased interest payments on deposits (up 49% in 2006), reflecting both the steady rate of increase in time deposits and higher deposit rates.

Gains on the revaluation of assets and liabilities in foreign currency showed a slight increase in December to 0.2%a. of assets, almost 0.2 p.p. less than the figure registered for the year as a whole. Although the peso-dollar exchange rate between month ends did not show significant change, gains on the trading of foreign currency and one specific transaction by a large public bank explained this behavior for the month. **Bank gains on bond holding and trading increased by 0.1 p.p. of assets in December, to a level of 2.4%a.** (see Chart 22), **almost 0.4 p.p. above the level for the whole of 2006**. The monthly variation was in part explained by the positive performance by the main government securities held by financial institutions and marked to market (see Chart 23), as well as by certain profits on sales and improved quotations of some financial trusts during the month. Net CER adjustments remained stable at 1.2%a. of assets.

Income from services continued its gradual recovery in December (increasing 0.2 p.p. of assets), until reaching its highest level in recent years: 3%a.. **Driven by the generation of income from transactional activity, during 2006 there was notable growth of almost 30% in service income margin, to a level of 2.7% of assets**. The increase recorded during 2006 in this income statement heading was due in particular to increased deposit income, and to a lesser extent, to resources provided by commissions on loans (see Chart 24). Taking a medium-term view, net income from services has become consolidated as one of the main sources of bank profitability, with a low intrinsic volatility, complementing net interest income.

Although in anticipation of the end of quarterly and annual periods there tend to be temporary increases in loan loss charges (with a general reclassification of the account), during December they posted a drop of 0.1 p.p. of assets to 0.4%a.. In terms of the private sector loan total, **loan loss charges fell 0.4 p.p. in the last month of the year to 1.2%, a lower level than that seen over the course of 2006**. The maintaining of these charges at reduced levels is an indication of the positive effects of economic policies on private sector borrowers, significantly reducing their repayment risk.

Chart 24
Service Income Margin Breakdown
Financial system - 3-month moving average

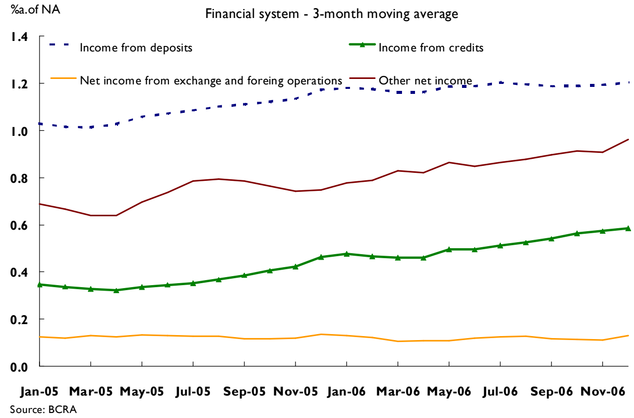


Chart 25
Operating Costs
Annualized quarterly indicator - Financial system

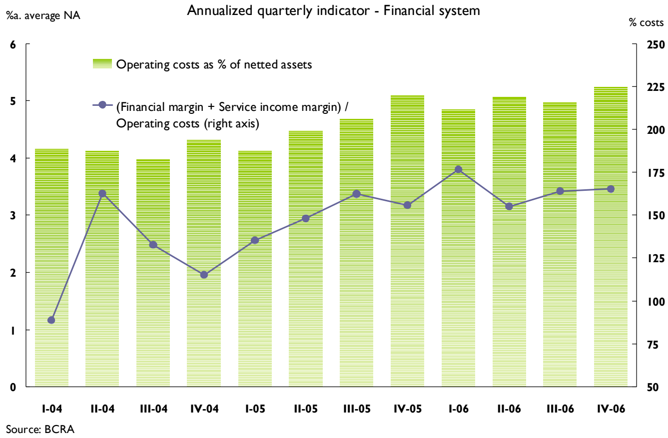


Table 1
Main Developments in January 2007

	Dec	Jan	Var. Dec%	Var. Jan%
Prices				
Exchange rate ($/US$)[1]	3.070	3.107	0.0	1.2
CPI	186.7	188.8	1.0	1.1
CER[1]	1.89	1.91	0.7	0.9
	%	%	Var p.p.	Var p.p.
Government securities - annual IRR[1]				
BOGAR $ 2018	5.0	4.1	11	-85
BODEN U$S 2012	7.6	6.6	-6	-93
Discount $	5.7	5.5	-37	-28
Discount U$S NY	7.7	7.3	-71	-45
	%	%	Var p.p.	Var p.p.
Average percentage rates				
Lending [2]				
Overdraft	16.8	15.9	47	-85
Promissory notes	12.6	12.1	-53	-55
Mortgage	11.5	11.4	-19	-3
Pledge-backed	10.6	9.5	5	-116
Personal	24.6	25.0	-8	39
30 to 44 day time deposit	7.4	7.5	25	14
LEBAC in $ without CER - 1 year	11.2	10.9	-6	-26
7 day BCRA repos	6.3	6.5	0	24
BADLAR	7.9	7.7	52	-16
	Mill. $	Mill. $	Var %	Var %
Balance[2,3] - Financial system				
Peso deposits - Private sector	105,652	107,919	2.8	2.1
Sight deposits	58,468	58,889	4.9	0.7
Time deposits	47,184	49,030	0.2	3.9
Peso loans - Private sector	63,713	64,435	3.3	1.1
Overdraft	11,662	11,150	3.0	-4.4
Promissory notes	13,978	14,245	3.8	1.9
Mortgage	9,853	10,094	0.3	2.4
Pledge-backed	3,647	3,774	4.0	3.5
Personal	13,020	13,417	3.6	3.0

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

The increased income obtained by banks during December more than offset the seasonal increase (0.6 p.p. of assets) **in operating costs.** Within the context of the disbursements usually made at year-end (payment of the corresponding portion of the statutory annual bonus, voluntary annual bonuses, etc.) operating costs totaled 5.7%a. of assets in December, exceeding by 0.7 p.p. the value recorded during the course of the year. This increase for the month led to a slight decline in the level of coverage of these costs by net income, to 155%, a figure that totals 165% for 2006. In addition to this specific increase, **operating costs have been recording an upward trend in recent periods** (see Chart 25)**, in line with the gradual increase in the physical structure of the bank sector** (branches and personnel) **and in the recovery of wages in the sector.**

Financial system other income continued to record high figures (1.8%a. of assets, almost 0.3 p.p. more than in the previous month), from the profits earned on interests in subsidiaries, sales of off-balance sheet loan portfolios, and the release of provisions on loans. As a result, this normally volatile heading on bank income statements reached a level of 1% of assets during 2006, 0.2 p.p. more than in the previous year.

During December one large public bank showed a positive adjustment to its income tax adjustment, impacting on the aggregated profitability for the sector. **Bank income tax accrual made a positive contribution to monthly results in an amount of 0.4%a. of assets.** Those headings reflecting gradual recognition of the effects of the recent crisis (amortization of court-ordered payments and adjustments to the valuation of public sector assets) totaled 0.9%a. of aggregate assets.

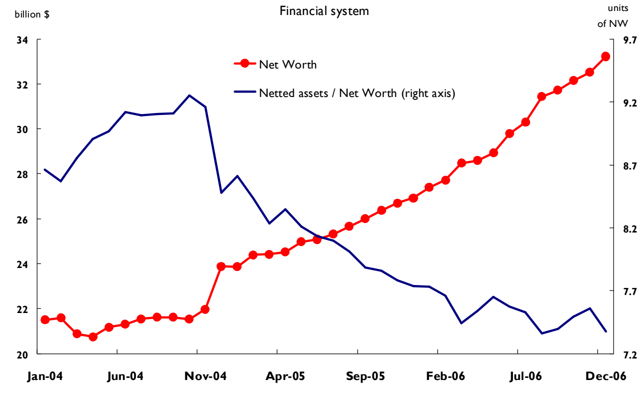
Outlook for January

In line with the outstanding performance recorded in banking intermediation volumes over the course of 2006, and given the expected scenario for domestic growth, a favorable framework for banking activity can be forecasted for 2007. Steady consolidation of those more stable sources of income, such as income from lending and transactional activities, can be expected.

On the basis of the information available at the time this Report is being published (see Table 1), **it is estimated that banks will continue to record profits in January**, although at a more moderate level than at the end of 2006. **The increase in private sector lending in January, particularly in the case of personal loans and promissory notes**, in a context of uneven performance by interest rates (which have risen in the case of the former and fallen in the case of the latter), **will help to boost bank interest income.** Increased time deposit totals in a context of slightly higher interest rates on new deposits, will partly offset the increased gains derived from loans. The bond market has continued to improve, contributing to results, given the holdings of such assets that have been marked to market.

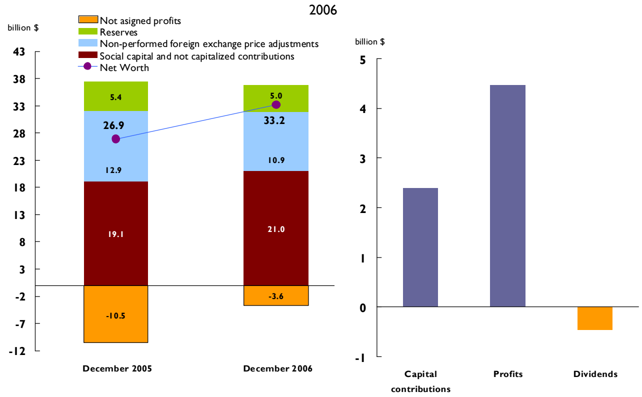
The greater rise in the CER coefficient in January compared with December and the increase in the peso-dollar exchange rate are factors that will contribute to an increase in bank profits. **The cost structure could shrink in January, in line with the reduction in the impact of**

Chart 26
Solvency
Financial system



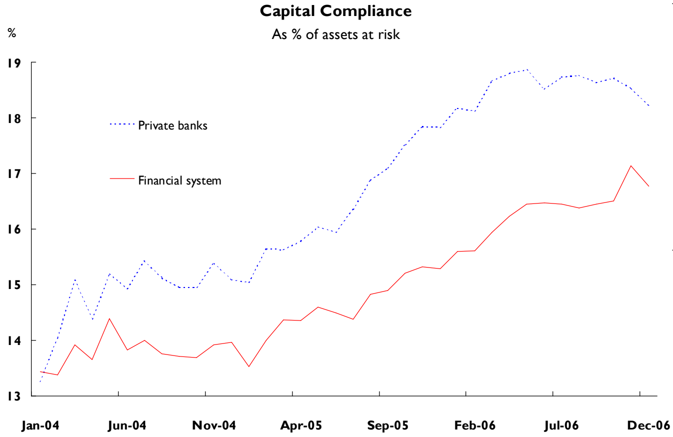
Source: BCRA

Chart 27
Composition and Evolution of Net Worth
2006



Source: BCRA

Chart 28
Capital Compliance
As % of assets at risk



Source: BCRA

extraordinary disbursements related to the end of the fiscal year. Sundry results will tend to adjust to values more in accordance with the average for 2006 that will have a lower impact from extraordinary income items.

Solvency:

2006 ends with the greatest growth in net worth since the crisis

In line with the trend seen over the whole of 2006, **in December financial institutions continued to strengthen their financial position, in the context of an adequate balance of risk.** The positive book results for 2006, and to a lesser extent further capitalization processes, have strengthened the solvency of the sector.

Financial system net worth went up 2.2% (approximately $700 million) in December, posting the biggest annual increase since the crisis: 23.4% (see Chart 26). In December one private domestic bank received a capital contribution of $5 million, and the year ended with total new capital contributions for the financial system of $2.4 billion. Unlike in the previous three months, in December bank leverage recorded a decline, in line with the trend observed during 2006.

In 2006 there was a significant improvement in financial institution capital composition. Banks absorbed accumulated losses from previous years (originating mainly during the recent crisis) for approximately $6.89 billion, reflected in a drop for the year of 65% in retained earnings. At the same time, capital increased by $1.92 billion (10%), a development that was accompanied by a reduction of $2.5 billion (14%) in adjustments and reserves. This improvement in the composition of capital was largely the result of the profits earned by banks during 2006, and the capital contributions received during the period, while cash dividend distribution accounted for the remainder (close to $460 million in the first nine months of the year) (see Chart 27).

At the end of 2006 the financial system achieved levels of solvency that exceeded the regulatory requirements of the Central Bank. Bank capital compliance in terms of assets at risk totaled 16.8% at the end of the year (see Chart 28), almost 1.5 p.p. more than at the end of 2005. Financial system capital compliance totaled 136% of the requirement in December, ensuring compliance with capital requirements in the first month of 2007, when there will be a further adjustment to ratios moderating capital requirements in accordance with the schedule established after the recent crisis.

Latest regulations:

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

Communication "A" 4602 – 04/12/06
Reserve requirements. The requirement on "Special accounts in US dollars for the deposit of the guarantees required in futures and options transactions" and on "Special sight accounts in foreign currency" has been eliminated. In the case of the opening of sight accounts in dollars for the deposit of the guarantees required in self-regulated markets in futures and options transactions, the restriction that such accounts could only be held in financial institutions has been lifted, allowing transfers between authorized special accounts.

Communication "A" 4611 – 29/12/06
Bank current account regulation. The term for the imitation of endorsements on checks has been extended.

Methodology:

(a) Aggregate balance sheet information is taken from the Monthly Accounting Information System (non-consolidated balances). With a view to calculating data for the system aggregate, for institutions not providing data for the month under review, the latest information available is repeated in the aggregate balance sheet. In turn, for the analysis of profitability, only taken into consideration are those institutions providing data on the month in question.

(b) Due to the possible lack of data for a number of banks at the time of drafting this Report, and given the possibility of subsequent corrections to the data provided by financial institutions, the data included –particularly for the last month mentioned- is of a preliminary nature. Consequently, and given the fact that the latest available data are always used, data in connection with earlier periods may not match what was previously mentioned in prior issues of the Report. In such cases, the latter release should be considered the highest quality available one.

(c) Unless provided to the contrary, data on deposits and loans relate to balance sheet information, and do not necessarily agree with those gathered via the Centralized System of Information Requirements (SISCEN). Reasons for discrepancies include: the exact date taken into account for the calculation of monthly variations and the items included in the definition adopted in each case.

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

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

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

Glossary:

%a.: annualized percentage.
%i.a.: interannual percentage.
Adjusted profit: Total profit excluding payments made due to court-ordered releases and adjustments to the valuation of public sector assets according to Com. "A" 3911 and modifications.
ASE: Adjusted stockholders' equity, for Responsabilidad Patrimonial Computable (RPC) in Spanish. The measure for compliance with bank capital regulations.
Consolidated (or aggregate) assets and liabilities: Those arising from excluding operations between financial institutions.
CEDRO: *Certificado de Depósito Reprogramado*. Rescheduled Stabilization Coefficient.
Financial margin: Income less outlays of a financial nature. Includes interest income, gains from securities, CER/CVS adjustments, exchange rate differences and other financial results. Does not include the items affected by Com. A 3911 and modifications.
Gains from securities: Includes income from government securities, short-term investments, corporate bonds, subordinated debt, options and from other income from financial intermediation. In the case of government securities, it includes the results accrued from income, quotation differences, exponential increase on the basis of the internal rate of return (IRR), and from sales, as well as the charge for impairment to value.
Income from services: Commissions collected less commissions paid. Includes commissions on liabilities, credits, securities, guarantees granted, rental of safe deposits boxes and foreign trade and exchange transactions, excluding in the case of the latter results from the trading of foreign currency, which are recorded in the "Exchange difference" accounts (here included under the heading "Other financial results"). Outflows include commissions paid, contributions to the Banking Social Services Institute (ISSB), other contributions on service income and charges accrued for gross income tax.
Interest income (interest margin): Interest collected less interest paid on financial intermediation, on an accrual basis – taken from balance sheet – rather than on a cash basis. Includes interest on loans of government securities and premiums on repos and reverse repos.
Liquid assets: Minimum cash compliance – cash, current account at Central Bank and special accounts in guarantee – and other liquid items, including correspondent accounts.
Liquidity ratio: Liquid assets as a percentage of total deposits.
mill.: million
Netted assets (NA) and liabilities: Those net of accounting duplications inherent to the recording of repurchase agreements, term transactions or unsettled spot transactions.
Net worth exposure to counterparty risk: Non-performing portfolio net of allowances in terms of net worth.
Non-performing portfolio: Portfolio in categories 3 to 6, as per the debtor classification system.
Operating costs: Includes remuneration, social security payments, services and fees, sundry expenses, taxes and amortization.
ON: Corporate bonds (Obligaciones Negociables).
OS: Subordinated debt (Obligaciones Subordinadas).
Other financial results: Income from financial leasing, adjustments to valuation of credit to the public sector, contribution to the deposit guarantee fund, interest on liquid funds, difference in market price of gold and foreign exchange, premiums on the sale of foreign currency and other unidentified income (net).
PN: Net worth (Patrimonio Neto).
p.p.a.: annualized percentage points
Private sector credit: Loans to the private sector and private sector securities.
Public sector credit: Loans to the public sector, holdings of government securities and compensation receivable from the Federal Government.
Quotation differences: Income from the monthly updating of foreign currency-denominated assets and liabilities. The heading also includes income arising from the purchase and sale of foreign currency, arising from the difference in the price agreed (net of direct costs generated by the transaction) and the book value.
ROA: Net profits as a percentage of netted assets. When referring to accumulated results the denominator includes the average netted assets for the reference months.
ROE: Net profits as a percentage of net worth. When referring to accumulated results the denominator includes the average net worth for the reference months.
RPC: Adjusted stockholders´s equity, calculated towards meeting capital regulations. (Responsabilidad Patrimonial Computable)
SMEs: Small and Medium Enterprises.
US$: United States dollars

Statistics Annex: Financial System

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

As %	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Nov 2006	2006
1.- Liquidity	22.3	26.1	23.1	25.0	23.4	19.6	22.8	29.1	29.6	20.1	23.2	22.7
2.- Lending to the public sector	19.2	19.2	19.3	21.8	21.8	25.8	49.1	47.2	41.5	32.8	24.9	22.9
3.- Lending to the private sector	57.8	56.2	57.2	53.7	49.7	47.2	20.8	18.1	20.3	26.8	31.2	31.8
4.- Private non-performing loans	16.2	13.8	12.2	14.0	16.0	19.1	38.6	33.5	18.6	7.6	4.6	4.5
5.- Net worth exposure to private sector	24.9	22.5	20.6	24.7	26.2	21.9	17.3	12.4	-1.0	-4.1	-4.0	-3.3
6.- ROA	0.6	1.0	0.5	0.2	0.0	0.0	-8.9	-2.9	-0.5	0.9	1.8	2.0
7.- ROE	4.1	6.3	3.9	1.7	0.0	-0.2	-59.2	-22.7	-4.2	7.0	13.8	14.8
8.- Efficiency	142	136	138	142	147	143	189	69	125	151	168	166
9.- Capital compliance	23.8	20.8	20.3	21.0	20.1	21.4	-	14.5	14.0	15.3	17.1	16.8
10.- Excess capital compliance	64	73	49	54	58	54	-	116	185	173	143	136

Source: BCRA

Chart 2: Balance Sheet

In current pesos (millions)	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Nov 06	Dec 06	Change (%) Last month	Change (%) Annual
Assets	**163,550**	**123,743**	**187,532**	**186,873**	**212,562**	**221,962**	**264,843**	**258,457**	**-2.4**	**16.4**
Liquid assets[1]	20,278	13,005	17,138	27,575	29,154	20,819	36,233	38,483	6.2	84.9
Public bonds	10,474	3,694	31,418	45,062	55,382	66,733	66,115	64,252	-2.8	-3.7
Lebac/Nobac	0	0	-	-	17,755	28,340	31,215	28,945	-7.3	2.1
Portfolio	0	0	-	-	11,803	21,067	25,459	25,559	0.4	21.3
Repo	0	0	-	-	5,953	7,273	5,756	3,386	-41.2	-53.4
Private bonds	633	543	332	198	387	389	572	818	43.0	110.0
Loans	83,277	77,351	84,792	68,042	73,617	84,171	104,031	103,623	-0.4	23.1
Public sector	15,164	22,694	44,337	33,228	30,866	25,836	22,508	20,857	-7.3	-19.3
Private sector	64,464	52,039	38,470	33,398	41,054	55,885	76,800	77,824	1.3	39.3
Financial sector	3,649	2,617	1,985	1,417	1,697	2,450	4,722	4,942	4.7	101.7
Provisions over loans	-6,907	-6,987	-11,952	-9,374	-7,500	-4,930	-4,276	-4,001	-6.4	-18.8
Other netted credits due to financial intermediation	42,361	21,485	39,089	27,030	32,554	26,721	33,024	25,905	-21.6	-3.1
Corporate bonds and subordinated debt	794	751	1,708	1,569	1,018	873	780	768	-1.5	-12.0
Unquoted trusts	2,053	2,065	6,698	4,133	3,145	3,883	5,049	4,932	-2.3	27.0
Compensation receivable	0	0	17,111	14,937	15,467	5,841	4,778	763	-84.0	-86.9
Other	39,514	18,669	13,572	6,392	12,924	16,124	22,417	19,442	-13.3	20.6
Assets under financial leases	786	771	567	397	611	1,384	2,169	2,259	4.1	63.2
Shares and participation	2,645	2,688	4,653	4,591	3,871	4,532	6,047	6,377	5.5	40.7
Fixed assets and miscellaneous	4,939	4,804	8,636	8,164	7,782	7,546	7,537	7,578	0.5	0.4
Foreign branches	1,115	1,057	3,522	3,144	3,524	3,647	3,234	2,788	-13.8	-23.5
Other assets	3,950	5,334	9,338	12,043	13,180	10,950	10,157	10,374	2.1	-5.3
Liabilities	**146,267**	**107,261**	**161,446**	**164,923**	**188,683**	**195,044**	**232,321**	**225,234**	**-3.1**	**15.5**
Deposits	86,506	66,458	75,001	94,635	116,655	136,492	170,569	171,056	0.3	25.3
Public sector[2]	7,204	950	8,381	16,040	31,649	34,019	46,937	45,732	-2.6	34.4
Private sector[2]	78,397	43,270	59,698	74,951	83,000	100,809	121,325	123,266	1.6	22.3
Current account	6,438	7,158	11,462	15,071	18,219	23,487	26,420	26,889	1.8	14.5
Savings account	13,008	14,757	10,523	16,809	23,866	29,078	34,207	36,305	6.1	24.9
Time deposit	53,915	18,012	19,080	33,285	34,944	42,822	54,682	54,319	-0.7	26.8
CEDRO	0	0	12,328	3,217	1,046	17	14	14	-5.0	-22.6
Other netted liabilities due to financial intermediation	55,297	36,019	75,737	61,690	64,928	52,072	54,583	45,965	-15.8	-11.7
Call money	3,545	2,550	1,649	1,317	1,461	2,164	4,364	4,579	4.9	111.6
BCRA lines	102	4,470	27,837	27,491	27,726	17,005	10,874	7,686	-29.3	-54.8
Outstanding bonds	4,954	3,777	9,096	6,675	7,922	6,548	6,491	6,603	1.7	0.8
Foreign lines of credit	8,813	7,927	25,199	15,196	8,884	4,684	4,228	4,240	0.3	-9.5
Other	37,883	17,295	11,955	11,012	18,934	21,671	28,627	22,858	-20.2	5.5
Subordinated debts	2,255	2,260	3,712	2,028	1,415	1,381	1,186	1,642	38.5	18.9
Other liabilities	2,210	2,524	6,997	6,569	5,685	5,099	5,983	6,572	9.8	28.9
Net worth	**17,283**	**16,483**	**26,086**	**21,950**	**23,879**	**26,918**	**32,522**	**33,222**	**2.2**	**23.4**
Memo										
Netted assets	129,815	110,275	185,356	184,371	202,447	208,275	245,870	245,032	-0.3	17.6
Consolidated netted assets	125,093	106,576	181,253	181,077	198,462	203,391	237,369	236,176	-0.5	16.1

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

Source: BCRA

Statistics Annex: Financial System

Chart 3: Profitability Structure

Amounts in million of pesos	Annual							Monthly		
	2000	2001	2002[1]	2003	2004	2005	2006	Oct-06	Nov-06	Dec-06
Financial margin	7,291	6,943	13,991	1,965	6,075	9,475	12,873	1,214	1,127	1,162
Net interest income	5,106	4,625	-3,624	-943	1,753	3,069	4,094	391	365	377
CER and CVS adjustments	0	0	8,298	2,315	1,944	3,051	2,996	207	255	235
Foreign exchange price adjustments	185	268	5,977	-890	866	751	928	49	27	49
Gains on securities	1,481	1,490	3,639	1,962	1,887	2,371	4,633	546	462	480
Other financial income	519	559	-299	-480	-375	233	223	21	19	21
Service income margin	3,582	3,604	4,011	3,415	3,904	4,781	6,151	562	574	611
Loan loss provisions	-3,056	-3,096	-10,007	-2,089	-1,511	-1,173	-1,164	-100	-105	-78
Operating costs	-7,375	-7,362	-9,520	-7,760	-7,998	-9,437	-11,434	-986	-1,050	-1,142
Tax charges	-528	-571	-691	-473	-584	-737	-1,080	-99	-101	-121
Income tax	-446	-262	-509	-305	-275	-581	-705	-100	-94	89
Adjustments to the valuation of government securities[2]	0	0	0	-701	-320	-410	-690	-54	-60	-46
Amortization payments for court-ordered releases	0	0	0	-1,124	-1,686	-1,867	-1,696	-137	-141	-147
Other	535	702	-3,880	1,738	1,497	1,729	2,218	176	313	369
Monetary results	0	0	-12,558	69	0	0	0	0	0	0
Total results	**3**	**-42**	**-19,162**	**-5,265**	**-898**	**1,780**	**4,473**	**475**	**463**	**698**
Adjusted results[3]	-	-	-	-3,440	1,337	4,057	6,859	666	664	890
Annualized indicators - As % of netted assets										
Financial margin	5.7	5.7	6.5	1.1	3.1	4.6	5.7	6.0	5.5	5.8
Net interest income	4.0	3.8	-1.7	-0.5	0.9	1.5	1.8	1.9	1.8	1.9
CER and CVS adjustments	0.0	0.0	3.9	1.3	1.0	1.5	1.3	1.0	1.2	1.2
Foreign exchange price adjustments	0.1	0.2	2.8	-0.5	0.4	0.4	0.4	0.2	0.1	0.2
Gains on securities	1.2	1.2	1.7	1.1	1.0	1.2	2.0	2.7	2.3	2.4
Other financial income	0.4	0.5	-0.1	-0.3	-0.2	0.1	0.1	0.1	0.1	0.1
Service income margin	2.8	3.0	1.9	1.9	2.0	2.3	2.7	2.8	2.8	3.0
Loan loss provisions	-2.4	-2.6	-4.7	-1.1	-0.8	-0.6	-0.5	-0.5	-0.5	-0.4
Operating costs	-5.8	-6.1	-4.4	-4.2	-4.1	-4.6	-5.0	-4.9	-5.1	-5.7
Tax charges	-0.4	-0.5	-0.3	-0.3	-0.3	-0.4	-0.5	-0.5	-0.5	-0.6
Income tax	-0.3	-0.2	-0.2	-0.2	-0.1	-0.3	-0.3	-0.5	-0.5	0.4
Adjustments to the valuation of government securities[2]	0.0	0.0	0.0	-0.4	-0.2	-0.2	-0.3	-0.3	-0.3	-0.2
Amortization payments for court-ordered releases	0.0	0.0	0.0	-0.6	-0.9	-0.9	-0.7	-0.7	-0.7	-0.7
Other	0.4	0.6	-1.8	0.9	0.8	0.8	1.0	0.9	1.5	1.8
Monetary results	0.0	0.0	-5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA	**0.0**	**0.0**	**-8.9**	**-2.9**	-0.5	0.9	2.0	2.4	2.3	3.5
ROA adjusted[3]	0.0	0.0	-8.9	-1.9	0.7	2.0	3.0	3.3	3.2	4.4
ROE	*0.0*	*-0.2*	*-59.2*	*-22.7*	*-4.2*	*7.0*	*14.8*	*17.7*	*17.1*	*25.4*

(1) Data at December 2002 currency (2) Com. "A" 3911. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains from securities" heading.
(3) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and 4084.
Source: BCRA

Chart 4: Portfolio Quality

As percentages	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Sep 06	Oct 06	Nov 06	Dec 06
Non-performing loans (overall)	12.9	13.1	18.1	17.7	10.7	5.2	3.8	3.7	3.5	3.4
Non-performing loans to the non-financial private sector	**16.0**	**19.1**	**38.6**	**33.5**	**18.6**	**7.6**	**5.0**	**4.8**	**4.6**	**4.5**
Commercial portfolio (*)	14.9	20.7	44.0	38.0	22.8	9.3	5.7	5.5	5.2	5.1
Consumption and housing portfolio	17.3	17.5	31.4	28.0	11.0	4.8	3.8	3.7	3.6	3.5
Provisions / Total non-performing loans	61.1	66.4	73.8	79.2	102.9	125.1	131.5	132.1	134.4	130.5
(Total non-performing - Provisions) / Overall financing	5.0	4.4	4.7	3.7	-0.3	-1.3	-1.2	-1.2	-1.2	-1.0
(Total non-performing - Provisions) / Net worth	26.2	21.6	17.2	11.9	-1.0	-4.1	-3.7	-3.7	-4.0	-3.4

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

Methodological note (chart 1):

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

Statistics Annex: Private Banks

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

As %	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Nov 2006	2006
1.- Liquidity	23.6	26.9	22.8	24.3	24.1	23.6	24.8	27.6	29.2	21.5	23.0	23.7
2.- Lending to the public sector	15.9	16.9	17.0	20.4	19.9	23.2	49.9	47.7	43.1	29.5	20.6	16.9
3.- Lending to the private sector	59.5	57.4	58.9	55.5	51.0	49.6	22.1	19.8	23.1	31.7	38.4	38.7
4.- Private non-performing loans	11.1	8.5	7.7	8.9	9.8	14.0	37.4	30.4	15.3	6.3	3.7	3.6
5.- Net worth exposure to private sector	21.6	14.3	13.2	11.5	13.4	11.4	18.6	11.2	1.9	-2.2	-3.1	-3.0
6.- ROA	0.6	0.7	0.5	0.3	0.1	0.2	-11.3	-2.5	-1.0	0.5	2.1	2.2
7.- ROE	4.1	6.3	4.3	2.3	0.8	1.4	-79.0	-19.1	-8.1	4.1	14.6	15.1
8.- Efficiency	144	135	139	146	152	151	168	93	115	136	160	158
9.- Capital compliance	15.9	15.4	14.6	18.9	18.0	17.6	-	14.0	15.1	17.8	18.5	18.2
10.- Excess capital compliance	33	47	27	60	49	43	-	88	157	155	122	116

Source: BCRA

Chart 6: Balance Sheet

In current pesos (millions)	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Nov 06	Dec 06	Change (%)	
									Last month	Annual 2006
Assets	**119,371**	**82,344**	**118,906**	**116,633**	**128,065**	**129,680**	**154,576**	**152,409**	**-1.4**	**17.5**
Liquid assets[1]	13,920	10,576	11,044	14,500	15,893	14,074	20,694	22,293	7.7	58.4
Public bonds	7,583	1,627	19,751	22,260	24,817	29,966	26,942	27,663	2.7	-7.7
Lebac/Nobac	0	0	-	-	8,359	15,227	15,463	15,952	3.2	4.8
Portfolio	0	0	-	-	5,611	12,899	13,963	13,963	0.0	8.2
Repo	0	0	-	-	2,749	2,328	1,500	1,989	32.6	-14.6
Private bonds	563	451	273	172	333	307	467	688	47.2	124.1
Loans	56,035	52,319	51,774	47,017	50,741	56,565	70,088	69,294	-1.1	22.5
Public sector	8,172	13,803	25,056	23,571	21,420	15,954	11,726	10,036	-14.4	-37.1
Private sector	45,103	36,636	26,074	22,816	28,213	39,031	55,049	55,632	1.1	42.5
Financial sector	2,760	1,880	644	630	1,107	1,580	3,313	3,626	9.5	129.5
Provisions over loans	-3,248	-3,957	-7,463	-5,225	-3,717	-2,482	-2,275	-2,231	-1.9	-10.1
Other netted credits due to financial intermediation	36,600	13,037	27,212	22,148	25,753	16,873	22,692	18,386	-19.0	9.0
Corporate bonds and subordinated debt	724	665	1,514	1,394	829	675	583	613	5.1	-9.2
Unquoted trusts	1,609	1,637	6,205	3,571	2,362	2,444	3,186	2,981	-6.4	22.0
Compensation receivable	0	0	15,971	13,812	14,657	5,575	4,774	760	-84.1	-86.4
Other	34,267	10,735	3,523	3,370	7,905	8,179	14,149	14,033	-0.8	71.6
Assets under financial leases	776	752	553	387	592	1,356	2,045	2,126	4.0	56.8
Shares and participation	1,651	1,703	3,123	2,791	1,892	2,416	3,848	4,042	5.0	67.3
Fixed assets and miscellaneous	3,225	3,150	5,198	4,902	4,678	4,575	4,607	4,652	1.0	1.7
Foreign branches	75	112	-109	-136	-53	-148	-138	-139	0.6	-6.1
Other assets	2,190	2,574	7,549	7,816	7,137	6,178	5,606	5,635	0.5	-8.8
Liabilities	**107,193**	**70,829**	**103,079**	**101,732**	**113,285**	**112,600**	**133,945**	**131,437**	**-1.9**	**16.7**
Deposits	57,833	44,863	44,445	52,625	62,685	75,668	92,136	94,074	2.1	24.3
Public sector[2]	1,276	950	1,636	3,077	6,039	6,946	7,691	7,029	-8.6	1.2
Private sector[2]	55,917	43,270	38,289	47,097	55,384	67,859	83,173	85,693	3.0	26.3
Current account	4,960	7,158	8,905	11,588	13,966	17,946	19,874	20,604	3.7	14.8
Savings account	9,409	14,757	6,309	10,547	14,842	18,362	21,491	23,165	7.8	26.2
Time deposit	39,030	18,012	11,083	18,710	22,729	27,736	37,766	38,043	0.7	37.2
CEDRO	0	0	9,016	2,409	798	3	2	1	-32.4	-50.9
Other netted liabilities due to financial intermediation	46,271	22,629	49,341	42,367	45,083	32,349	36,850	31,815	-13.7	-1.7
Call money	2,293	1,514	836	726	1,070	1,488	3,016	3,384	12.2	127.5
BCRA lines	83	1,758	16,624	17,030	17,768	10,088	6,829	3,689	-46.0	-63.4
Outstanding bonds	4,939	3,703	9,073	6,674	7,922	6,548	6,451	6,413	-0.6	-2.1
Foreign lines of credit	5,491	4,644	15,434	9,998	5,444	2,696	2,212	2,249	1.7	-16.6
Other	33,466	11,010	7,374	7,939	12,878	11,530	18,343	16,080	-12.3	39.5
Subordinated debts	1,668	1,700	3,622	1,850	1,304	1,319	1,186	1,642	38.5	24.5
Other liabilities	1,420	1,637	5,671	4,890	4,213	3,264	3,773	3,907	3.5	19.7
Net worth	**12,178**	**11,515**	**15,827**	**14,900**	**14,780**	**17,080**	**20,631**	**20,972**	**1.7**	**22.8**
Memo										
Netted assets	88,501	73,796	117,928	115,091	121,889	123,271	143,182	143,797	0.4	16.7

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

Source: BCRA

Statistics Annex: Private Banks

Chart 7: Profitability Structure

	Annual							Monthly		
Amounts in million of pesos	2000	2001	2002[1]	2003	2004	2005	2006	Oct-06	Nov-06	Dec-06
Financial margin	5,441	5,282	10,628	2,575	3,415	5,253	7,592	759	698	671
Net interest income	3,598	3,519	-304	107	1,214	2,069	2,774	256	251	260
CER and CVS adjustments	0	0	1,476	1,082	900	1,215	829	56	59	66
Foreign exchange price adjustments	160	256	6,189	-312	666	576	725	50	53	37
Gains on securities	1,232	962	3,464	1,892	959	1,259	3,077	378	318	288
Other financial income	450	546	-197	-195	-322	134	187	19	17	21
Service income margin	2,554	2,598	2,782	2,341	2,774	3,350	4,379	401	408	429
Loan loss provisions	-2,173	-2,464	-6,923	-1,461	-1,036	-714	-714	-61	-76	-50
Operating costs	-5,263	-5,224	-6,726	-5,310	-5,382	-6,303	-7,593	-646	-681	-805
Tax charges	-379	-418	-512	-366	-393	-509	-759	-68	-70	-88
Income tax	-393	-216	-337	-295	-202	-217	-345	-54	-52	-48
Adjustments to the valuation of government securities[2]	0	0	0	-665	-51	-201	-170	-12	-11	-8
Amortization payments for court-ordered releases	0	0	0	-791	-1,147	-1,168	-1,161	-97	-101	-108
Other	307	615	-4,164	1,178	846	1,156	1,635	116	238	343
Monetary results	0	0	-10,531	-20	0	0	0	0	0	0
Total results	**93**	**174**	**-15,784**	**-2,813**	**-1,176**	**648**	**2,864**	**339**	**354**	**336**
Adjusted results[3]	-	-	-	-1,357	252	2,016	4,195	448	465	452
Annualized indicators - As % of netted assets										
Financial margin	6.2	6.4	7.6	2.3	2.9	4.3	5.7	6.6	5.8	5.6
Net interest income	4.1	4.3	-0.2	0.1	1.0	1.7	2.1	2.2	2.1	2.2
CER and CVS adjustments	0.0	0.0	1.1	0.9	0.8	1.0	0.6	0.5	0.5	0.5
Foreign exchange price adjustments	0.2	0.3	4.4	-0.3	0.6	0.5	0.5	0.4	0.4	0.3
Gains on securities	1.4	1.2	2.5	1.7	0.8	1.0	2.3	3.3	2.7	2.4
Other financial income	0.5	0.7	-0.1	-0.2	-0.3	0.1	0.1	0.2	0.1	0.2
Service income margin	2.9	3.2	2.0	2.0	2.4	2.7	3.3	3.5	3.4	3.6
Loan loss provisions	-2.5	-3.0	-5.0	-1.3	-0.9	-0.6	-0.5	-0.5	-0.6	-0.4
Operating costs	-6.0	-6.4	-4.8	-4.6	-4.6	-5.1	-5.7	-5.6	-5.7	-6.7
Tax charges	-0.4	-0.5	-0.4	-0.3	-0.3	-0.4	-0.6	-0.6	-0.6	-0.7
Income tax	-0.4	-0.3	-0.2	-0.3	-0.2	-0.2	-0.3	-0.5	-0.4	-0.4
Adjustments to the valuation of government securities[2]	0.0	0.0	0.0	-0.6	0.0	-0.2	-0.1	-0.1	-0.1	-0.1
Amortization payments for court-ordered releases	0.0	0.0	0.0	-0.7	-1.0	-1.0	-0.9	-0.8	-0.8	-0.9
Other	0.4	0.7	-3.0	1.0	0.7	0.9	1.2	1.0	2.0	2.9
Monetary results	0.0	0.0	-7.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA	**0.1**	**0.2**	**-11.3**	**-2.5**	**-1.0**	**0.5**	**2.2**	**2.9**	**3.0**	**2.8**
ROA adjusted[3]	0.1	0.2	-11.3	-1.2	0.2	1.6	3.2	3.9	3.9	3.8
ROE	*0.8*	*1.4*	*-79.0*	*-19.1*	*-8.1*	*4.1*	*15.1*	*20.0*	*20.6*	*19.2*

(1) Data at December 2002 currency (2) Com. "A" 3911. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains from securities" heading.
(3) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and 4084.
Source: BCRA

Chart 8: Portfolio Quality

As percentages	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Sep 06	Oct 06	Nov 06	Dec 06
Non-performing loans (overall)	8.3	9.9	19.8	15.7	8.9	4.4	3.2	3.1	2.9	2.9
Non-performing loans to the non-financial private sector	**9.8**	**14.0**	**37.4**	**30.4**	**15.3**	**6.3**	**4.1**	**4.0**	**3.7**	**3.6**
Commercial portfolio (*)	8.4	15.4	44.7	39.0	18.2	7.3	4.4	4.3	3.9	3.9
Consumption and housing portfolio	11.9	12.4	26.0	17.2	10.0	4.2	3.5	3.3	3.3	3.2
Provisions / Total non-performing loans	67.7	75.7	73.4	79.0	95.7	114.6	125.7	126.6	129.7	129.5
(Total non-performing - Provisions) / Overall financing	2.7	2.4	5.3	3.3	0.4	-0.6	-0.8	-0.8	-0.9	-0.9
(Total non-performing - Provisions) / Net worth	13.4	11.4	18.6	11.2	1.3	-2.2	-2.8	-2.9	-3.1	-3.0

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

Methodological note (chart 5):

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