Report on Banks

JANUARY 2006

Central Bank of Argentina

Year III - No. 5

Contents

Note: This report contains information from January 2006 balance sheets available on 10/03/06. 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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For comments, enquiries or electronic subscription:
analisis.financiero@bcra.gov.ar

Summary

- **The financial system began 2006 reinforcing the positive trends seen in 2005: growing levels of financial intermediation, restructuring of balance sheets (with declining exposure to the public sector, lower loan portfolio non-performance, and a reduced weighting of Central Bank financing on the liabilities side), improved profitability and gradually recovering solvency.**

- In response to the incentives implemented by the Central Bank (introduction of balance sheet limits, consolidation of the process for valuation at market price and normalization of capital requirements), **financial system exposure to the public sector continued to drop, reaching less than 30% of total assets in January (26.8% for private banks)**, a reduction of over 8p.p. in the last 12 months (12.2 p.p. for private banks).

- **The behavior of lending to the private sector has reflected the changes in regulations generated by the Central Bank in the last year**, including most significantly: the impulse given to Reciprocal Guarantee Companies, raising of the maximum amount for a commercial loan to be considered as a consumer loan, changes to requirements for consumer loans for less than $15 thousand, elimination of margins, extension of the term for coverage by guarantees, possibility of increasing the ratio of loans to net worth, longer amortization periods for court ordered payments in exchange for the granting of medium and long-term loans for production, extension of the range of uses for deposits in foreign currency to the financing of production and investment, granting of preferred guarantee treatment to trusts for the financing of construction, and exclusion of immobilized assets from the guarantees set up for the import of capital goods.

- Financial system netted assets rose 1.5% in January (0.7% in the case of private banks). **There was an increase for the month of 1.9% (25% in annualized terms) in total financial system loans to the private sector. In the last eighteen months leasing transactions have shown significant dynamism, reaching in January a total financial system stock of close to $1.5 billion (more than twice the balance recorded one year earlier).** Growth under this heading was to a large extent explained by loans in the segments strongly biased towards small and medium-size businesses.

- **Private sector loan portfolio non-performance fell in January to 7.5% for the financial system as a whole, a decline of 10p.p. compared with the same month of the previous year.** Non-performance in public banks dropped in January by 0.3p.p. (to 10.9%), while in the case of private banks the fall was 0.1p.p. (to 6.2%). Changes in Central Bank regulations, the favorable macroeconomic environment and the improvements in risk evaluation by banks have been behind this improvement in the quality of private sector assets.

- **The normalization of bank obligations with the Central Bank by means of the "matching" mechanism is accelerating during the first quarter of 2006, with payments amounting to almost $5 billion, taking the total since the beginning of 2005 to $14.5 billion.** This process, encouraged by the mechanism for the bringing forward of installments introduced by the Central Bank at the beginning of 2005, also led to a significant reduction in the number of banks with obligations in the form of rediscounts, from 23 at the beginning of 2005 to only 3 at the end of March 2006.

- **In January the financial system recorded profits for close to $470 million or an annualized 2.7% of its assets,** with a ROA above that of the same month of the previous year (when losses were recorded), and that for the whole of 2005 (0.9%). A similar trend has been recorded by private banks, which posted a profit of $275 million this month (ROA of 2.7%a.).

- **The improvement during the month in private bank profitability** was largely explained by seasonal factors (lower operating costs, fewer adjusting entries than at year-end closing in December), and a significant increase in gains from securities. Furthermore, there has been an increase in core financial margin (result from interest and CER adjustments), partly offset by lower exchange rate differences.

- **Increased profitability meant that solvency indicators continued to improve,** with an increase of 1.7% in financial system net worth and a slight decline in leverage. Capital compliance in terms of risk-weighted assets for the system as a whole rose to 15.6% (18.2% in the case of private banks).

Chart 1

Annualized Profitability

3-month moving average

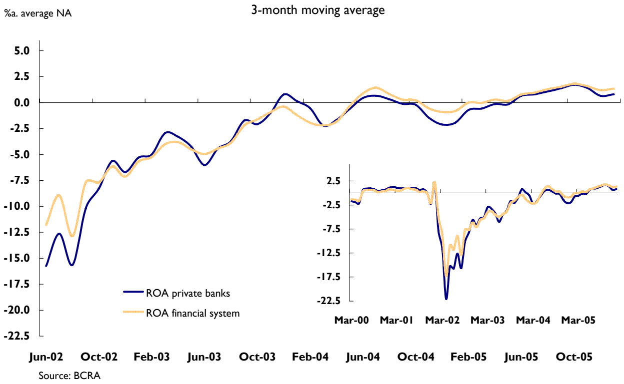


Chart 2

Historical Volatility of Results

Private banks - ROA annualized standard deviation over 6 months

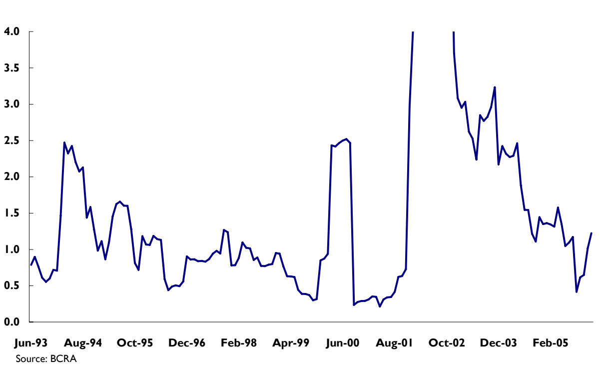
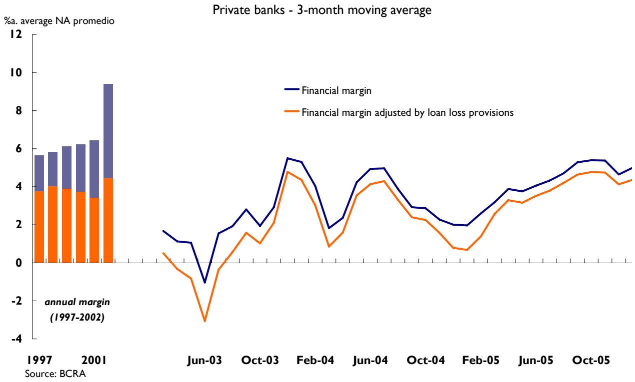


Chart 3

Financial Margin

Private banks - 3-month moving average



Profitability:

Increased profits, although volatility still significant

The financial system began 2006 showing the same positive and rising profitability trend that had been seen in the previous year, a period during which there was a strong surge in financial intermediation activity (in an environment of economic dynamism and a more moderate credit risk), and when improvements took place in yields on bank holdings of financial assets (reflecting the new post-debt exchange scenario). **In January the financial system as a whole recorded profits of $469 million, equivalent to an annualized (a.) 2.7% of assets, a notable improvement on the negative result recorded in the same month of the previous year.** The ROA for January 2006 is above the 0.9% recorded in 2005[1] and differs sharply from the loss-making context seen between 2002 and 2004 (see Chart 1). In addition, if the influence of headings directly related to the gradual recognition of the effects of the crisis in 2001-2002 is excluded from results, the adjusted profitability for January becomes 3.7%a. of financial system assets, 1.7 percentage points (p.p.) above the figure accumulated in 2005.

Public banks accounted for $183 million of the January profit total, obtaining a return of 2.6%a. on assets. Private banks posted gains of $275 million (2.7%a.). In both cases these results were an improvement on the previous month and on January 2005. For both types of institution, the January ROA has been higher than that recorded in the last 12 months, with ROA 1.2 p.p. and 2.2 p.p. higher than that recorded in 2005 for public banks and private banks respectively. Nevertheless, **the volatility of results -although lower than that recorded during the height of the recent crisis- continues to be significant, particularly in the case of private banks**[2] (see Chart 2), **so that the levels of profitability in January should not be viewed as representative of those to be recorded in coming months.**

The improvement for the month in private bank profitability has been due to several factors. In first place, **the seasonality of the cost structure** (operating costs increase in December), to which can be added the effect of **movements and adjustments of an extraordinary nature that tend to be made at the end of the accounting year, which last December affected items such as the valuation of public sector securities and gains on securities** (an effect that was offset by an improvement of a similar magnitude under the "Others" heading). Lastly, **in January there was some improvement in interest income and CER adjustments** that was only partially offset by lower exchange difference gains.

Private bank financial margin doubled from December to January, to a level of 6.8%a., 2.5p.p. higher than the level for the whole of 2005 (see Chart 3, showing quarterly moving average). **This monthly**

[1] Information for December 2005 for several banks has been rectified, for which reason there could be discrepancies with regard to the information originally reported in the Report on Banks for the previous month, affecting both the month and the aggregate for 2005.
[2] Volatility measured as the standard deviation of annualized ROA in the last six months is 1.2% for private banks in January, almost three times the minimum levels recorded prior to the crisis.

Chart 4

Gains on Securities

Private banks

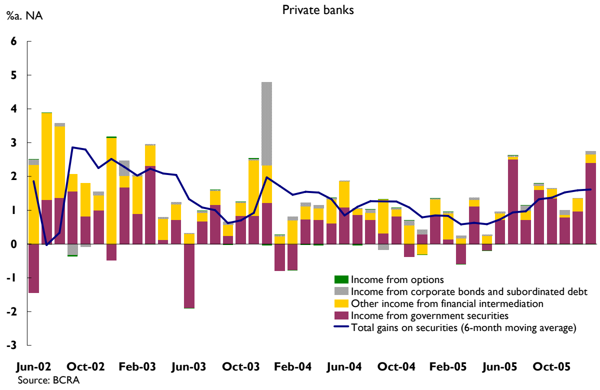


Chart 5

Net Interest Income

Private banks - 3-month moving average

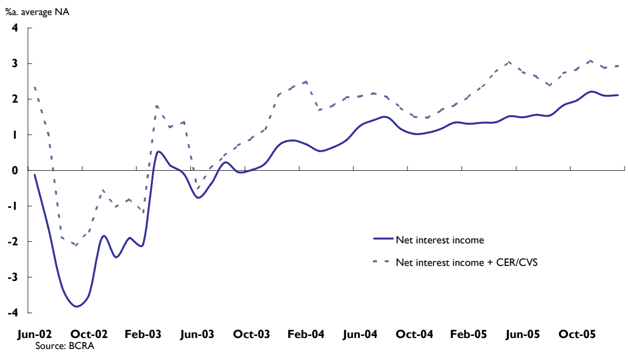
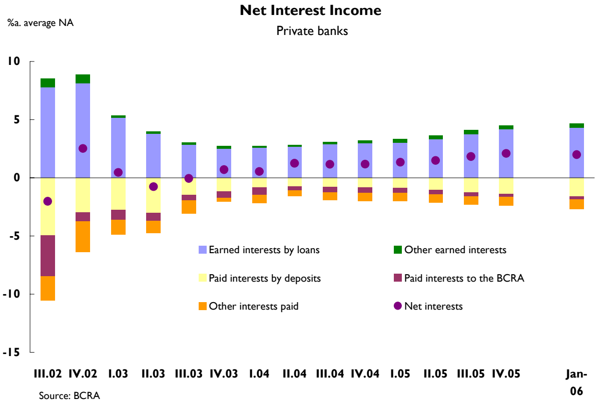


Chart 6

Net Interest Income

Private banks



behavior was driven by one of the most volatile lines of the income structure, gains on securities (see Chart 4). This heading rose from -0.2%a. in December to 2.7%a. in January, well above its average levels (private bank gains on securities were 1.3%a. of their average assets in the second half of 2005 and 1% for the year as a whole). The result for December had been influenced by the action of one particular bank[3]. Gains on securities in January were quite widespread (more than half of all banks recorded higher income under this heading), for several reasons, including the performance of bond market prices. Although a considerable portion of private bank government securities portfolios are made up of unlisted bonds or are held in investment accounts, changes in market prices (with a widespread increase in the parity of securities with a significant weighting in bank portfolios) had a direct impact on those institutions that are already valuing their assets (or a large proportion of them) following such prices[4]. In addition, increased profits have been recorded from government security trading. Lastly, certain banks posted non-recurring gains from certain specific transactions[5].

Core financial margin, the sum of results from interest and CER adjustments, improved 0.6p.p. in January, reaching level of 3%a. of private bank assets (see Chart 5, showing a quarterly moving average), 0.3p.p. above the total recorded for 2005 as a whole. **The monthly movement was mainly explained by net CER adjustments, which doubled to 1%a. of assets.** This increase took place despite a change in the CER index similar to that for December, as in that month there had been once-only negative adjustments recorded by two banks. If these two institutions are excluded from the calculation, private bank CER results change from 1.1%a. in December to 1%a. in January. **Results from interest also rose during the month, although less sharply, attaining a level of 2%a.. This monthly change was led by an increase in loan interest** (only partly offset by higher interest payments on deposits), and in addition there was a drop in interest paid to the Central Bank. These changes are in line with the trend seen over the last year, ensuring that the interest result for January was 0.7p.p. above the level recorded at the beginning of 2005 (see Chart 6). The monthly improvements in results from interest and CER adjustment were only partly offset by **lower income from the revaluation of assets and liabilities in foreign currency. Exchange differences were down 0.2p.p. this month (to 0.9%a. of assets),** as the increase in the nominal exchange rate (3 cents) was lower than that in December (6 cents).

Loan loss charges, which to a certain extent adjust the financial margin on the basis of expected recoverability, remained at a level of

[3] This bank sold a large amount of government securities, marked much of its portfolio to market and set up a significant provision for impairment of value of government securities (contained in the correction filed for its December balance sheet). The adjustments that were made also had a negative impact on CER accruals.

[4] On the basis of Central Bank regulations (cap on exposure to public sector, gradual move towards marking securities to market), the recovery of bond prices and the trading possibilities that exist, various banks have already valued their entire holdings of government securities at market price. Nevertheless, a significant portion of bank bond portfolios (particularly in the case of public banks) continues to be made up of unlisted securities or investment portfolio securities, valued in accordance with Central Bank regulations. In this case, price changes do not have a direct impact on the income statement.

[5] One bank settled its Central Bank rediscounts in advance, releasing guarantees that were applied to the advances for the coverage bond, implying a change in the valuation methodology. Another bank received a significant part of its outstanding compensation, with a positive impact on its gains from securities.

Chart 7

Loans Loss Provisions

Private banks- 3-month moving average

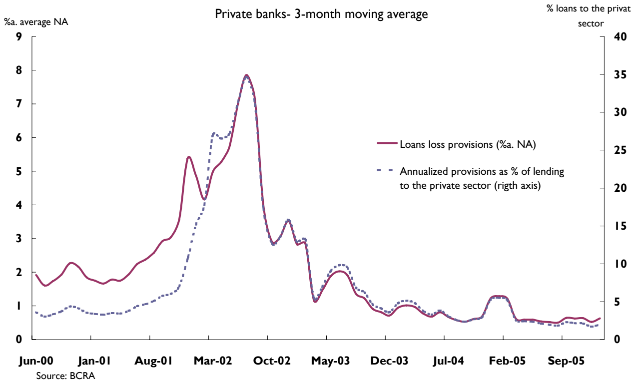


Chart 8

Service Income Margin and Main Components

Private banks - 3-month moving average

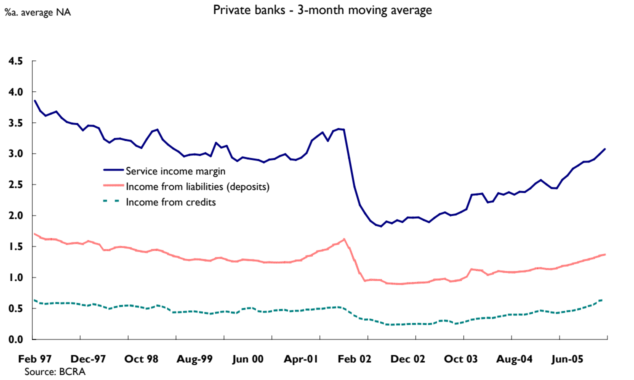


Chart 9

Operating Costs

Private banks - 3-month moving average

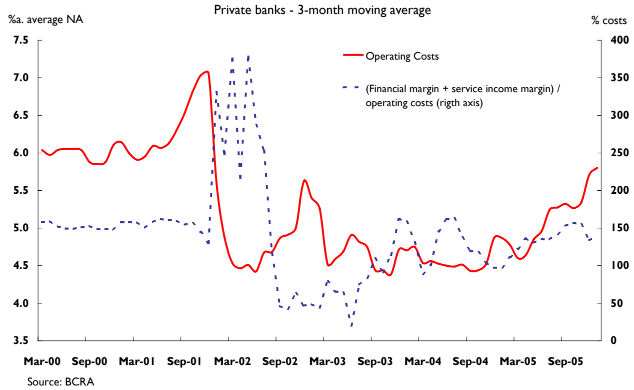
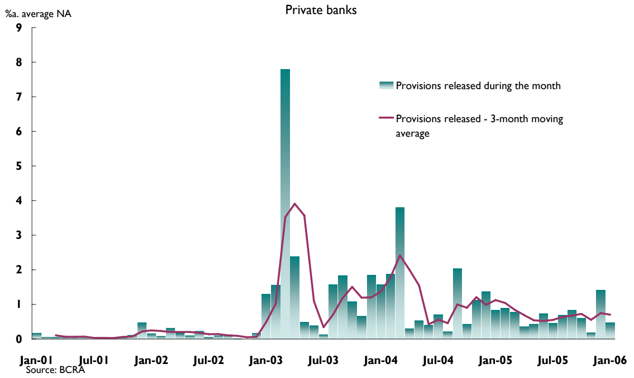


Chart 10

Provisions Releases

Private banks



0.7%a. of private bank assets (only 0.1p.p. higher than both their level at the beginning of 2005 and that for the year as a whole). **In terms of total loans to the private sector, the cost of these provisions is 2.3%a., a level that is still relatively low** in historical terms (see Chart 7). Although most banks reduced the amounts of loan loss provisions in January (a situation that normally takes place after the increase for which the December closing of the accounting year is noted), the level remained steady as a result of action by three banks.

Private bank income from services remained at a level of 3.1% of assets, the highest seen in recent years. This indicator is 0.4p.p. and 0.7p.p. higher than in 2005 and 2004, respectively. **This has provided increased cover of costs: in January income from services covered 57% of private bank operating costs**, whereas in 2005 and 2004 this ratio was 53% and 51%, respectively. **The positive trend in net commission income is consistent with the increased dynamism of financial intermediation and transactional banking**, as a large portion of commission income is linked to the handling of deposits and the granting of loans (see Chart 8). The weighting of income from services is greater in private banks than in public institutions: measured as a percentage of assets, service income for the first group is almost twice as high as in the case of the second group.

After a rise in December, private bank operating costs fell back 1p.p. in January, to a level of 5.5%a. of assets. Nevertheless, viewed in perspective it is possible to detect an upward trend in operating costs, which this month were 1.1p.p. higher than in January 2005. This trend is in line with the gradual recovery in wages and the increase that has taken place in the number of personnel employed, given the improved business prospects for the domestic financial system. The total number of employees at December 2005 was close to 48,350 in private banks (87,780 for the system as a whole), with growth of close to 4% during the year (3% for the system as a whole[6]). **The gradual increase in costs was exceeded by the dynamism of income, so that the ratio of coverage of costs by net income, although still remaining highly volatile (basically because of the variability of income), shows a significant recovery in recent years. This coverage ratio reached a level of 180% for private banks**, whereas for full years 2005 and 2004 it was 137% and 115% respectively (see Chart 9).

Other income was another heading with a greater variation in January for private banks, dropping 1.9p.p. to a level of 0.8%a., measured in terms of private bank assets. This income had risen sharply in December, reflecting a significant release of provisions not directly linked to financial intermediation by several banks (see Chart 10) and the recovery of expenses by one merged institution, movements that were discontinued in January. Although other income continues to be a particularly volatile heading, the level reached in January is close to its average, accounting for profits of 0.9% and 0.7% of average assets for private banks in 2005 and 2004, respectively.

In the case of headings related to the gradual recognition of the recent crisis, **while the amortization of court-ordered payments remained at 0.9%a. of private bank assets, adjustments to the valuation of public**

[6] Public banks recorded a slight decline (less than 1%) in their personnel numbers over the course of 2005.

Table 1

Main Developments in February

	Jan	Feb	Ch %
Prices			
Exchange rate ($/US$) [1]	3.06	3.07	0.2
CPI	172.12	172.80	0.4
CER [1]	1.737	1.758	1.2
			Ch.(p.p.)
Average percentage rates			
Lending [2]			
Overdraft	17.5	17.2	-0.3
Promissory notes	11.5	11.9	0.4
Mortgage	11.7	11.9	0.1
Pledge-backed	9.5	9.9	0.5
Personal	25.0	25.0	0.1
30 to 44 day time deposit	5.8	6.3	0.5
3-month LEBAC in pesos, w/o CER	7.3	7.2	0.0
7 day BCRA repos	5.0	5.0	0.0
			Ch %
Balance[1,2] - Private banks			
Peso deposits - Private sector	59,332	58,803	-0.9
Sight deposits	33,906	33,073	-2.5
Time deposits	25,421	25,726	1.2
Peso loans - Private sector	33,671	34,555	2.6
Overdraft	7,274	7,988	9.8
Promissory notes	7,921	7,974	0.7
Mortgage	5,031	5,050	0.4
Pledge-backed	1,353	1,399	3.4
Personal	4,152	4,254	2.5

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

Table 2

Loans to the Private Sector by Group of Banks

% change based on balance sheet totals

	2005	3Q-05	4Q-05	Jan-06	Share of total 2006
Public banks					
Total loans	**32**	**23**	**37**	**26**	**27**
Commercial	55	59	48	14	24
Consumer	73	52	80	66	28
Collateralized	-1	-5	-13	15	39
Other	-45	-100	-63	21	12
Private banks					
Total loans	**41**	**39**	**52**	**23**	**70**
Commercial	50	44	49	5	76
Consumer	70	60	134	94	66
Collateralized	7	4	18	30	57
Other	22	49	10	-10	88
Total system					
Total loans	**39**	**35**	**48**	**25**	**100**
Commercial	55	48	49	7	100
Consumer	69	61	106	91	100
Collateralized	7	2	18	28	100
Other	6	-19	9	-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

sector assets fell by 0.9p.p.. As a result, valuation adjustments (which in December had grown in a non-recurring manner as a consequence of the changes made by one bank) reverted to a level similar to that recorded in recent months (0.1%a. of assets), in line with the progressive adjustment nature of the corresponding regulation.

Outlook for February

In February it is expected that bank profitability will be in line with the trend towards recovery that has been observed in recent months, with an increasingly strengthened core income that will make it possible to face the gradual increase that has taken place in the cost structure and the cost of funding. Nevertheless, given the profit level recorded in January (and the gains on securities in particular), profitability for February is likely to be lower[7], returning to levels closer to the average for recent months.

In the case of core income from financial intermediation, it is expected that interest results will continue to improve this month. Intermediation volumes in February show an increase in lending to the private sector that continues to be higher than that recorded by time deposits (see Table 1), and is being driven by segments with a greater relative gross yield (overdrafts and personal loans). Therefore, despite the gradual increase in the cost of funding (and the uneven trend in lending rates), it appears likely that interest results will maintain their positive trend. Based on the performance of the CER index (which has grown at almost one third of the rate recorded in previous month), the corresponding adjustments should be lower, although the final performance of this heading could be affected by changes in the position held by banks in instruments that accrue CER. For example, in February a decline continued to be recorded in adjustable debt with the Central Bank in excess of the schedule originally defined by the so-called matching mechanism. Furthermore, on the basis of the experience in previous months, the possibility of non-recurring adjustments cannot be ruled out (for example, from adjustments to the valuation of government security portfolios). Exchange differences will be positive but lower than in January, as the exchange rate increased more gradually in February.

The remaining income statement headings are expected to continue to reflect the trend observed to date. Income will be slightly higher, loan loss provisions will be comparatively lower, and operating costs will show a certain upward inclination.

Activity:
Steady decline in exposure to public sector

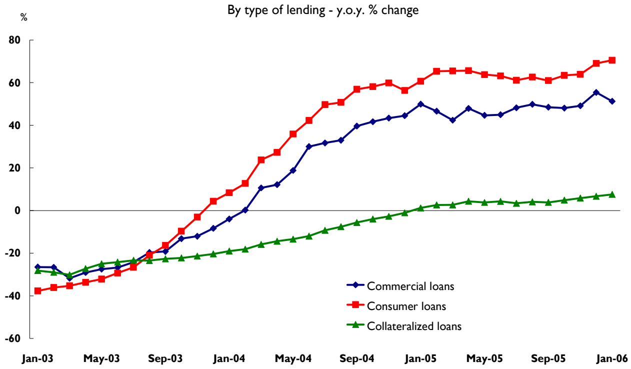
Financial intermediation activity continued to grow in the first month of 2006, as traditional banking business gradually recovered. **Consolidated financial system assets rose 1.5% in January (19.7%a.),** reaching 2.8% in year-on-year terms, in a context in which deposits

[7] Assuming there are no major non-recurring adjustments.

Chart 11

Loans to the Private Sector

By type of lending - y.o.y. % change

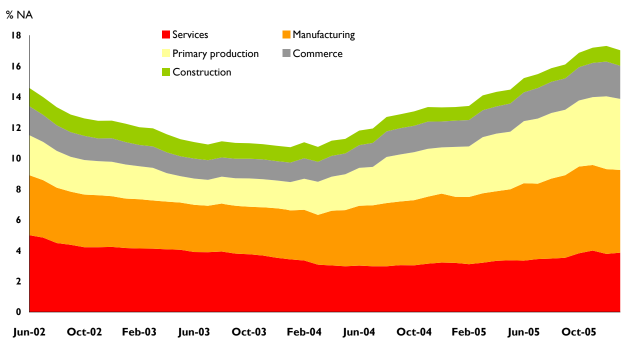


Source: BCRA

Chart 12

Banks Exposure to Economic Sectors

As % of netted assets

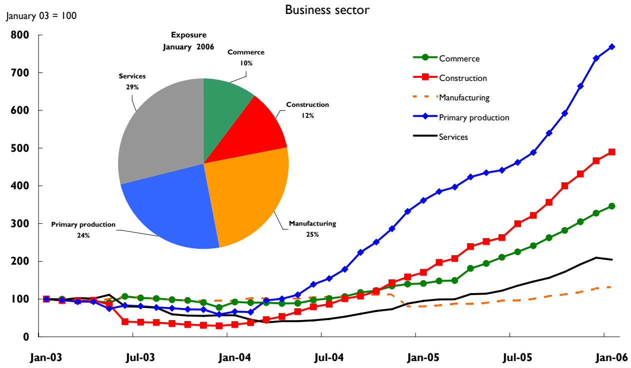


Source: BCRA

Chart 13

Leasing Operations

Business sector



Source: BCRA

and lending to the private sector have increased. **Private bank netted assets rose 0.7% (8.5%a.) in January**, with an increase of 0.9% compared with the same month in 2005.

In January total loans by the financial system to the private sector[8] went up by 1.9% (25%a.) (see Table 2). Unlike previous months, **in January loans originated by public banks recorded a greater relative dynamism (2%) compared with private banks (1.8%), although the latter accounted for three-quarters of the monthly change in the total for loans to the private sector.**

As in previous months, **consumer loans recorded greater relative growth (5.5%) in January in comparison to commercial lines (0.6%)** (see Chart 11). **Consumer credit was mainly driven by personal credit lines** (up 5%[9]), a change that was partly due to the gradual decline in interest rates in this segment. **Credit card lending showed notable growth in January** (6.2%), a result of both higher consumption in vacation months and the incentives forming part of the commercial strategies adopted by banks and the leading goods and services outlets.

In the case of commercial loans **there has been a significant increase in current account overdrafts** (3.2%), while there was little change in the volume of discounted promissory notes. Export pre-finance and finance loans fell slightly in January (-0.8%), although they recorded growth of 87.3% compared with the same month of the previous year.

Loans to companies[10] (62% of financial system lending to the private sector) continues to be focused on productive sectors showing the greatest dynamism in the current macroeconomic context. In January 2006, lending to industry and the primary production of goods accounted for almost 60% of the total balance of lending to companies (see Chart 12), 2p.p. more than in the same month of the previous year. The rise in the share of lending allocated to such sectors was offset by a drop over the year of 2p.p. in loans to the services sector. Commerce and construction totals remained stable (at 13% and 6%, respectively).

Over the course of the last eighteen months the assets on financial lease heading began to gain in importance among banking assets, being used mainly by companies to obtain capital goods. The stock of resources channeled through this mechanism totaled almost $1.45 billion in January, twice the level recorded in the same month of the previous year. Although industry and primary production account for almost half of all lending to companies (see Chart 13), note should be taken of the growing dynamism evidenced by sectors such as commerce and construction. In addition, almost 55% of these loans have been granted in the under $500 thousand segment (generally

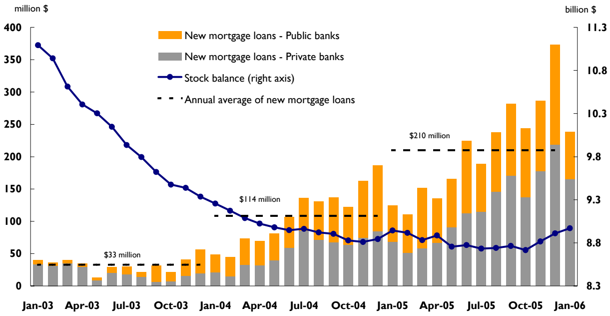
[8] Calculation made on the basis of balance sheet totals. Loans in foreign currency are stated in pesos (if the balances of various months are considered, an average exchange rate is used). Does not include interest or adjustments. Not adjusted for unrecoverable loans written off from the balance sheet.

[9] Growth rises to 5.9% if the effect of the setting up of a financial trust with such loans by one private bank is taken into account.

[10] For purposes of this analysis, information from the Status of Debtors Report on loans granted to legal persons and commercial loans granted to individuals has been considered.

Chart 14

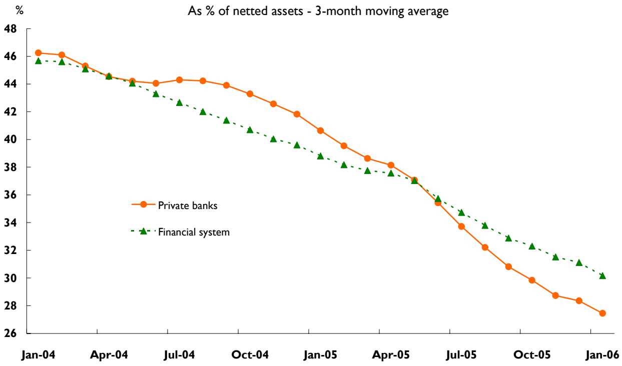
Mortgage Loans
Financial system



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

Chart 15

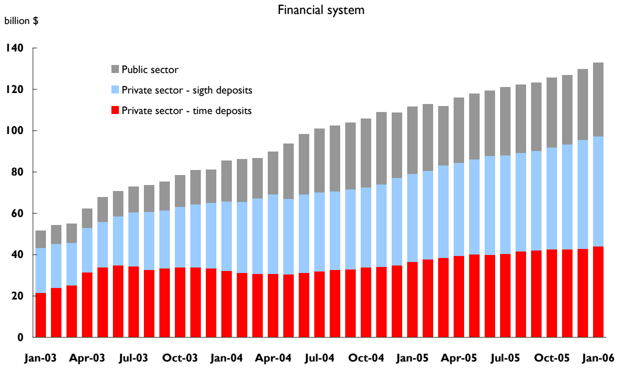
Exposure to Public Sector
As % of netted assets - 3-month moving average



Source: BCRA

Chart 16

Deposits by Type
Financial system



Source: BCRA

associated with SMEs), which has been responsible for almost two-thirds of the year-on-year increase in such loans.

In January collateralized credit lines maintained the recovery seen since mid-2005, with growth of 2.1%. Within such loans, **pledge-backed credit rose significantly during the month (5.8%)**, mainly driven by the performance of farm machinery and automobile sales. **Mortgage loans increased for the eighth consecutive month** (see Chart 14), with a rise of 1.2% in January. **The granting of new mortgage loans totaled $238 million in January, less than the record reached last December but higher than the monthly average for 2005.** As in previous periods, almost 70% of these new loans were made by private banks. This notable recovery in mortgage lending is a result of the positive macroeconomic context in which the uncertainty faced by the public when considering incurring in medium and long-term indebtedness has been reduced.

The Central Bank has provided fundamental support for the healthy expansion of the financial system in recent months, having introduced a series of regulatory changes that have been reflected in higher totals for lending to the private sector. In particular, the use of Reciprocal Guarantee Companies has been promoted, the maximum amount for classifying a commercial line as for consumption has been raised (from $200 thousand to $500 thousand), requirements for the granting of consumer loans for less than $15 thousand have been simplified, margin requirements have been eliminated, the term of guarantee coverage has been extended, and the possibility has been granted of increasing the loans to net worth ratio. In addition, the term for amortization of court orders has been extended in exchange for the granting of new loans for productive purposes, the range of uses of foreign currency deposits in the financing of production and investment has been extended, financial trusts for construction have been granted preferred guarantee status, and guarantees set up for the import of capital goods have been excluded from immobilized assets.

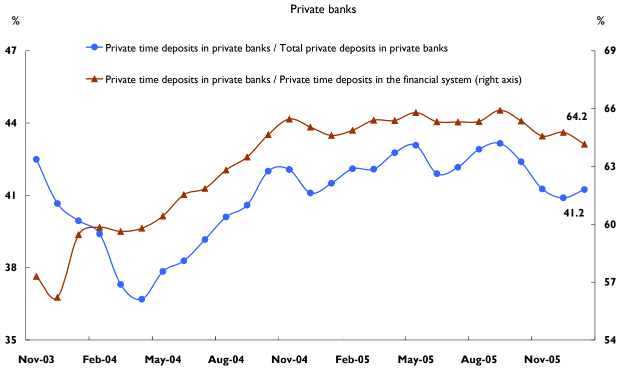
In response to the incentive policy implemented by the Central Bank (introduction of net worth ratios, consolidation of the process of marking securities to market, and the normalization of capital requirements), in the first month of 2006 the financial system continued to cut back its exposure to the public sector[11]. The weighting of government securities in portfolio fell 1p.p. in the month, to a level of 29.4% of total assets (see Chart 15). This represents a significant year-on-year reduction of 8.15p.p., associated particularly with steps taken by the Central Bank, the receipt by banks of pending compensation (some of which was paid in cash) and strategies for the sale of government securities. **This process continues to be led by private banks, which recorded a drop of almost 1.2p.p. (to 26.8% of assets) in their exposure to the public sector**, with a fall of 12.2p.p. compared with January 2005.

[11] 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 17

Time Deposits

Private banks

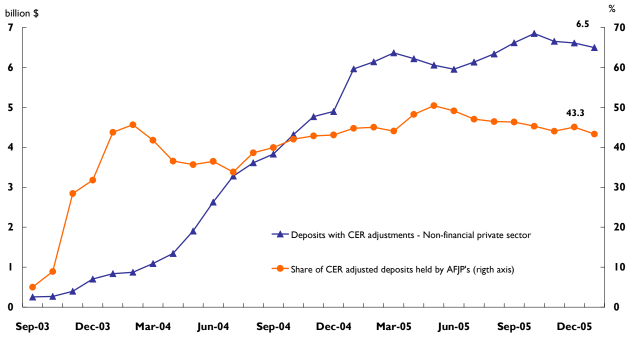


Source: BCRA

Chart 18

Time Deposits whith CER Adjustments

Financial system

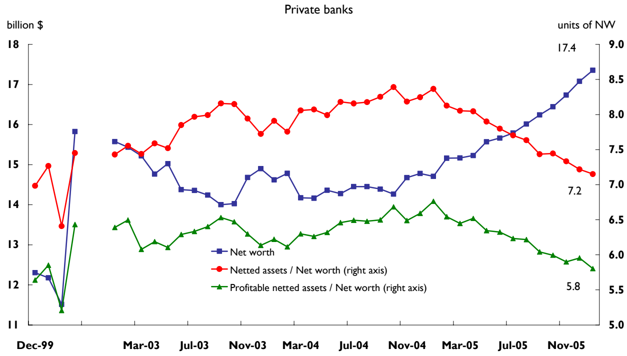


Source: BCRA and SAFJP

Chart 19

Netted Assets and Net Worth

Private banks



Source: BCRA

On the borrowing side total financial system deposits[12] **went up by almost 2.5%, the largest relative growth recorded in the last 9 months. Over 60% of this increase was accounted for by private sector deposits** (see Chart 16), **which rose 2% in January**. Unlike previous months, in the first month of 2006 most of these new private sector deposits (60%) was directed towards public banks, although private institutions still hold more than two-thirds of all such deposits.

In January there was a more robust growth by time deposits (2.9%), while sight deposits posted a moderate monthly increase (1.1%). Time deposits in particular maintained their growth trend, reaching close to 43% of total private sector deposits in the financial system. Public sector deposits in the consolidated financial system rose by 3.8% during the month.

In the specific case of private banks, total deposits increased once again in January (0.9%), driven in particular by higher placements by the private sector (1.2%). Time deposits in private banks recorded a positive trend (up 2%), in line with the trend seen in 2005. In January the demand for liquidity by the public declined, being reflected in a more moderate increase in sight deposits (0.3%). **As a result, at the beginning of 2006 the share accounted for by time deposits in private bank funding totaled slightly over 41%** (see Chart 17), reversing the declining trend of the three previous months. At the same time, official sector deposits in private banks declined for the second month in succession (-1%), accounting for a small proportion (9%) of the funding by deposits of this group of institutions.

Private sector CER-adjusted time deposits recorded a drop in January (-1.4%), mainly as a result of a decline (-5.2%) in the adjustable deposits held by the Pension Funds (see Chart 18). Since mid-2005 these institutional investors have been recording a downward trend in their exposure to the banking sector, preferring to invest in other types of financial assets. Nevertheless, these investors continue to hold a high proportion of financial system adjusted deposits (almost 43%).

Although banks received no new capital injections in January, their rising profitability and the capitalizations already committed helped to ensure the steady recovery in their solvency. **The net worth of the financial system grew by 1.7% in January, accumulating an increase of 16.4% compared with the same month of 2005. In the particular case of private banks, net worth rose by 1.6% in January, for a year-on-year change of 18%.**

Growth for the month in private bank assets and net worth caused a slight drop in their leverage, to 7.15 times (see Chart 19). **In terms of regulatory requirements, capital compliance measured as a percentage of risk-weighted assets recorded a slight increase of 0.3p.p. for both the financial system and for private banks, reaching a level of 15.6% and 18.2%, respectively.** Lastly, in January private bank total capital position (compliance in excess of total requirement) dropped 38p.p. to a level of 117%. This reduction reflects the impact

[12] 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.

Table 3

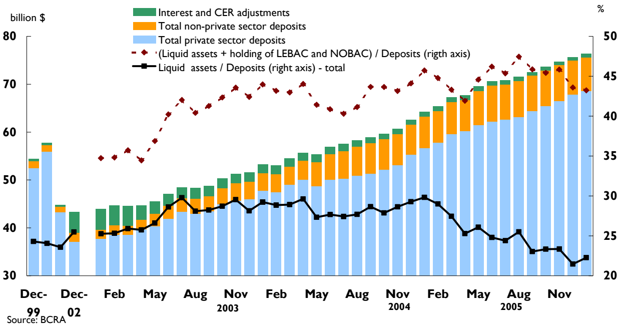
Estimated Sources and Uses of Funds
Private banks - January 2006
million pesos

Source		Uses	
Loans to the public sector	870	Loans to non-financial private sector (1)	740
Private sector deposits	660	Liquid assets (2)	700
LEBAC and NOBAC stocks	500	BCRA rediscounts	315
Repos with financial system	170	Trust transfers	180
O.B and S.D and foreign lines of credit	60	Public sector deposits	80
		Private assets	60
		Others	185

(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
Source: BCRA

Chart 20

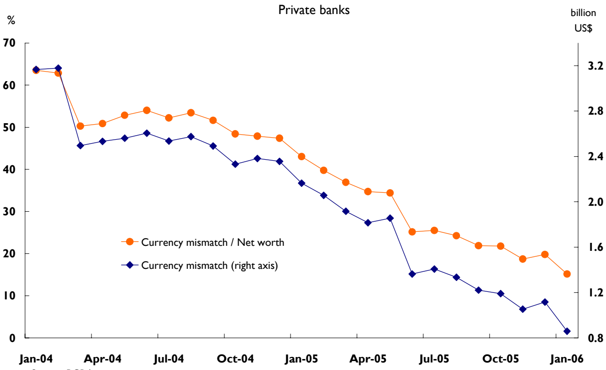
Deposits and Liquidity
Private banks



Source: BCRA

Chart 21

Currency Mismatch
Private banks



Source: BCRA

of scheduled increases in capital requirements for both credit risk -associated with public sector assets- as well as for interest rate risk[13].

In January estimated cash flows for private banks (see Table 3) **continued to indicate the gradual return to normal of traditional financial intermediation. Sources of funds for the private bank group were led by a drop in exposure to the public sector ($870 million), which explained almost 40% of the new resources.** The rise in private sector deposits ($660 million), lower holdings of LEBAC and NOBAC ($500 million), repos with the rest of the financial system ($170 million) and a slight increase in financing received from non-residents ($60 million), completed the sources of funds for private banks this month.

Almost **one third of the new resources obtained in January by private banks were channeled towards increasing the balance of loans to the private sector (close to $740 million)**, a development in line with the trend seen throughout 2005. In addition, **an amount of $700 million was invested in liquid assets[14], generating an increase of 0.8p.p. in the private bank liquidity ratio, to a level of 22.3%[15]** (see Chart 20). This change was explained by increased minimum cash and other liquid fund reserve requirements (for approximately $1.86 billion), partly offset by a reduction in LEBAC for reverse repos with the Central Bank ($1.17 billion).

In addition, **private banks made payments to the Central Bank for almost $315 million in January, over 80% of such funds representing early resettlement of installments agreed under the so-called "matching" mechanism.** On an aggregate basis, in the first quarter of 2006 the financial system speeded the normalization of its obligations to the Central Bank, recording payments for almost $5 billion and accumulating total repayments for $14.5 billion since the beginning of 2005. This process, mainly a result of the mechanism introduced by the Central Bank in 2005 for the bringing forward of installments, was translated into s significant reduction in the number of banks with liabilities because of the rediscounts: of the 23 that existed at the beginning of 2005, only 3 remained at the end of March 2006.

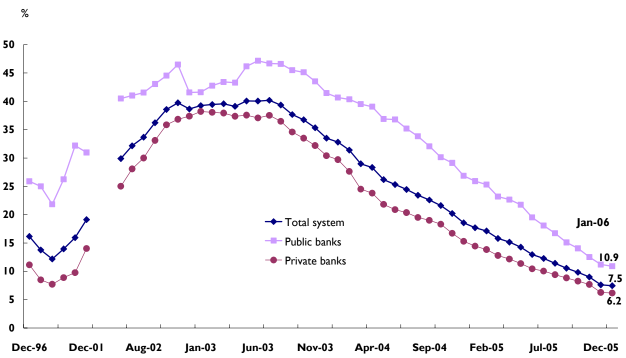
Increased holdings by private banks of financial trust certificates ($180 million) and lower public sector deposits ($80 million), completed the use of funds in January.

Private banks recorded a significant drop of approximately US$260 million in their foreign currency mismatching[16] during January, to US$860 million or 15.2% of net worth (see Chart 21). While dollar assets of this group of banks recorded an increase for the month of almost US$60 million (mainly from term transactions), liabilities in foreign currency rose by approximately US$320, in part explained by

[13] See ordered text on Minimum Capital for Financial Institutions (www.bcra.gov.ar). For further details on capital adequacy for banks, see Financial Stability Bulletin for the first half of 2004, Chapter II.
[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 ratio stood at 42.3% in January 2006 if holdings of LEBAC and NOBAC are taken into account.
[16] Foreign currency assets include branches abroad (a non-monetary item).

Chart 22

Non-Performing Portfolio to the Private Sector

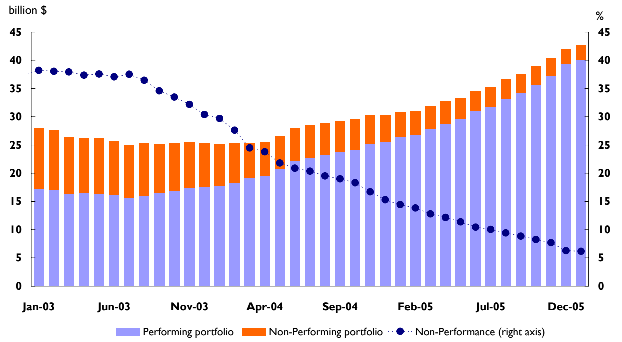


Source: BCRA

Chart 23

Private Sector Loan Performance

Private banks

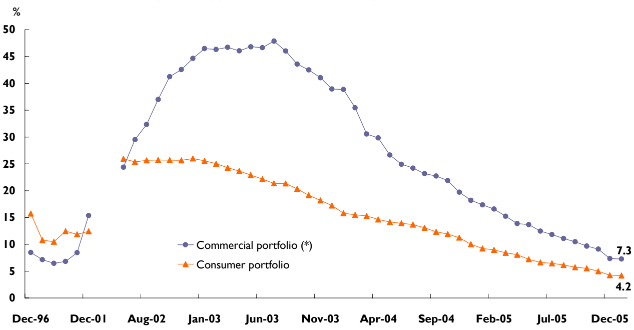


Source: BCRA

Chart 24

Portfolio Quality by Type of Lending

Non-performing portfolio to the non-financial private sector - Private banks



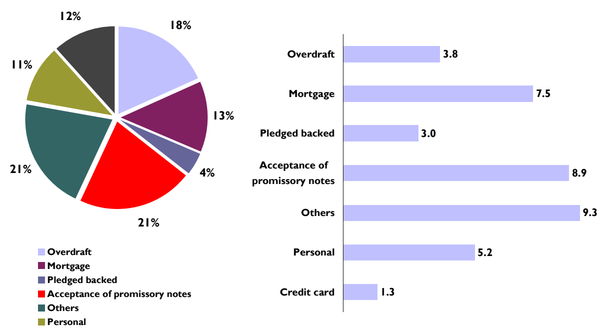
(*) Includes commercial loans treated as consumer loans for classification purposes.

Source: BCRA

Chart 25

Composure and Non-Performance Financing to the Private Sector

Private banks - January 2006



Source: BCRA

an increase in corporate bonds issued abroad and higher foreign currency deposits.

Portfolio quality:

Lower non-performance, greater coverage by provisions

In the first month of the year the quality of the private sector loan portfolio continued to evolve positively, with a non-performing level that maintained the declining trend that had been shown since 2003 and that gained in strength since the beginning of last year. Regulatory changes by the Central Bank, the favorable macroeconomic performance, the improved financial profile of families and companies, and the improvements in the evaluation of risk by banks have helped to achieve this progress in the quality of private sector assets. **In January the financial system non-performance ratio recorded a drop of 0.1p.p. to a level of 7.5%, with a decline in the last 12 months in excess of 10p.p.** (see Chart 22).

As has been seen in recent periods, the overall improvement in financial system portfolio quality was explained by two factors: growth in new lending (with a lower counterpart risk), and a reduction in the amount of loans classified as non-performing (see Chart 23). The fall in the non-performance ratio was experienced by both private and public banks, although it was the latter that were mainly behind the improvement in the portfolio quality for the financial system as a whole. **Whereas private banks recorded a drop in their non-performance ratio of 0.1p.p. (to 6.2%), for public banks the non-performance ratio dropped 0.3p.p. (to 10.9%).** Although this latter group records a relatively greater deterioration in its loan portfolio, **the non-performance gap between public and private banks continues to narrow steadily: in January it reached a level of 4.7p.p., less than half that seen twelve months earlier.**

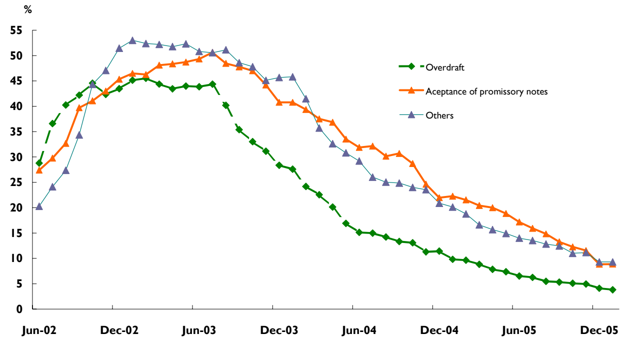
In the specific instance of private banks, although in recent months the reduction in commercial loan delinquency has been greater than that shown by consumer loans, in January 2006 both portfolios performed in a similar manner, showing very slight declines in non-performance. As a result, **commercial and consumer portfolio non-performance reached levels of 7.3% and 4.2%, respectively** (see Chart 24). Viewed in perspective, although the commercial portfolio continues to demonstrate a greater relative deterioration, the gap between the non-performance levels of the two types of portfolio has narrowed considerably.

The improvement in private bank portfolio quality (which accounts for almost 75% of all financial system loans to the private sector) was widespread across the different types of credit line, although there were significant variations in terms of non-performance by type of financial instrument. Credit card lending, pledge-backed loans, overdrafts and personal loans (a group of credit lines accounting for almost 60% of lending to the private sector by private banks) were noted for recording non-performance levels of under 6% (see Chart 25). Despite the greater relative decline in the quality of promissory

Chart 26

Non-Performance by Type of Financing

Private banks - Non-performaing portfolio / total financing

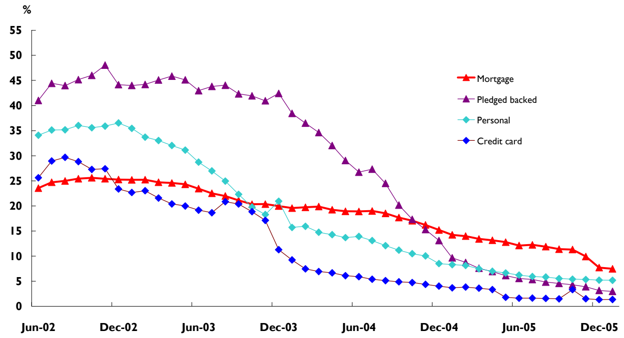


Source: BCRA

Chart 27

Non-Performance by Type of Financing

Private banks - Non-performing portfolio / total financing

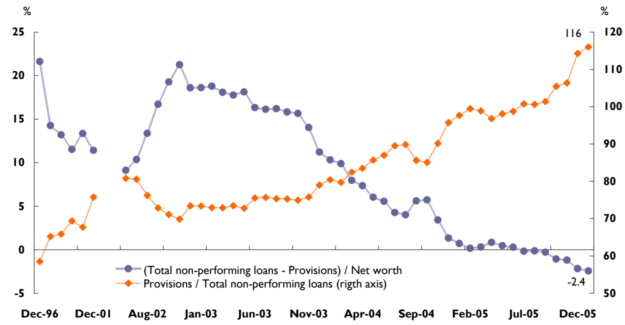


Source: BCRA

Chart 28

Provisions and Exposure to Counterpart Credit Risk

Private banks



Source: BCRA

note and mortgage loan portfolios, both lines of credit recorded significant drops in their non-performance level in the last 12 months of 13.4p.p. and 6.8p.p. respectively (see Charts 26 and 27).

In the case of public banks, it can be seen that personal loans, credit card lending and overdrafts (lines that account for 30% of their lending to the private sector) posted non-performance ratios of under 6%. Lastly, although in the case of public banks promissory notes (23% of private sector lending by public banks) show lower non-performance levels than they do for private banks, in the case of mortgage loans (27% of loans to the private sector by official banks), private banks record lower relative delinquency ratios.

Despite the recording of a slight increase in private bank non-performing loans, higher balance sheet provisions lead to greater provision coverage. In January this indicator posted a rise of almost 2p.p. to a level of 116%. **Public banks also recorded an increase in their provision coverage ratio (to a level of 144%).** As a result, coverage for the financial system as a whole reached a level of 126%. The increase in private bank net worth, added to the mentioned rise in provisions and non-performing loans, resulted in continued improvement in the exposure of net worth to credit risk (see Chart 28). **The ratio of non-performing loans not covered by provisions as a percentage of net worth remained at negative levels for all groups of banks.**

Latest regulations

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

Communication "A" 4473 – 9/January/06
Changes to regulations on minimum cash. As from February 1 2006, sight deposits and other obligations remunerated at over 75% of the average BADLAR rate for private banks in the previous month will have a minimum cash reserve requirement of 100%.

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	Jan 05	Dec 05	Jan 06	Year on year: Month on month	Year on year: Year on year
Assets	**153,140**	**163,550**	**123,743**	**187,532**	**186,873**	**212,562**	**218,791**	**222,718**	**227,064**	**2.0**	**3.8**
Liquid assets[1]	20,423	20,278	13,005	17,138	27,575	29,154	29,246	21,166	27,700	30.9	-5.3
Public bonds	8,531	10,474	3,694	31,418	45,062	55,382	56,884	66,733	61,801	-7.4	8.6
Lebac/Nobac	0	0	0	n/a	n/a	17,755	20,783	28,340	23,728	-16.3	14.2
Portfolio	0	0	0	n/a	n/a	11,803	13,097	20,820	19,841	-4.7	51.5
Repo	0	0	0	n/a	n/a	5,953	7,686	7,520	3,886	-48.3	-49.4
Private bonds	477	633	543	332	198	387	399	387	466	20.4	16.8
Loans	83,850	83,277	77,351	84,792	68,042	73,617	75,015	83,653	85,178	1.8	13.5
Public sector	12,138	15,164	22,694	44,337	33,228	30,866	30,946	25,317	25,548	0.9	-17.4
Private sector	67,934	64,464	52,039	38,470	33,398	41,054	41,967	55,886	57,028	2.0	35.9
Financial sector	3,778	3,649	2,617	1,985	1,417	1,697	1,620	2,450	2,602	6.2	60.6
Provisions over loans	-6,001	-6,907	-6,987	-11,952	-9,374	-7,500	-7,399	-4,954	-4,984	0.6	-32.6
Other netted credits due to financial intermediation	33,679	42,361	21,485	39,089	27,030	32,554	36,006	26,742	27,852	4.1	-22.6
Corporate bonds and subordinated debt	1,115	794	751	1,708	1,569	1,018	999	873	903	3.4	-9.7
Unquoted trusts	1,336	2,053	2,065	6,698	4,133	3,145	3,026	3,888	4,062	4.4	34.2
Compensation receivable	0	0	0	17,111	14,937	15,467	15,237	5,841	5,516	-5.6	-63.8
BCRA	81	141	84	3,360	650	376	387	353	437	23.8	13.1
Other	31,146	39,373	18,585	10,212	5,741	12,547	16,357	15,786	16,935	7.3	3.5
Assets under financial leases	814	786	771	567	397	611	645	1,384	1,490	7.7	131.1
Shares and participation	1,838	2,645	2,688	4,653	4,591	3,871	3,897	4,524	4,621	2.1	18.6
Fixed assets and sundry	4,973	4,939	4,804	8,636	8,164	7,782	7,767	7,546	7,522	-0.3	-3.2
Foreign branches	996	1,115	1,057	3,522	3,144	3,524	3,460	3,652	3,705	1.5	7.1
Other assets	3,560	3,950	5,334	9,338	12,043	13,180	12,989	11,884	11,713	-1.4	-9.8
Liabilities	**136,252**	**146,267**	**107,261**	**161,446**	**164,923**	**188,683**	**194,928**	**195,546**	**199,425**	**2.0**	**2.3**
Deposits	81,572	86,506	66,458	75,001	94,635	116,655	120,344	136,778	140,091	2.4	16.4
Public sector [2]	7,232	7,204	950	8,381	16,040	31,649	32,490	34,320	35,602	3.7	9.6
Private sector [2]	73,443	78,397	43,270	59,698	74,951	83,000	85,630	100,794	102,807	2.0	20.1
Current account	6,478	6,438	7,158	11,462	15,071	18,219	18,518	23,475	23,367	-0.5	26.2
Savings account	13,047	13,008	14,757	10,523	16,809	23,866	24,222	29,077	29,765	2.4	22.9
Time deposit	48,915	53,915	18,012	19,080	33,285	34,944	36,410	42,822	44,079	2.9	21.1
CEDRO	0	0	0	12,328	3,217	1,046	954	17	17	-0.3	-98.2
Other netted liabilities due to financial intermediation	50,361	55,297	36,019	75,737	61,690	64,928	67,798	52,060	52,547	0.9	-22.5
Call money	3,793	3,545	2,550	1,649	1,317	1,461	1,356	2,164	2,357	8.9	73.8
BCRA lines	315	102	4,470	27,837	27,491	27,726	27,652	17,005	16,236	-4.5	-41.3
Outstanding bonds	5,087	4,954	3,777	9,096	6,675	7,922	7,685	6,548	6,830	4.3	-11.1
Foreign lines of credit	10,279	8,813	7,927	25,199	15,196	8,884	8,763	4,684	4,478	-4.4	-48.9
Other	30,886	37,883	17,295	11,955	11,012	18,934	22,342	21,659	22,647	4.6	1.4
Subordinated debts	2,206	2,255	2,260	3,712	2,028	1,415	1,380	1,381	1,372	-0.6	-0.6
Other liabilities	2,113	2,210	2,524	6,997	6,569	5,685	5,405	5,327	5,414	1.6	0.2
Net worth	**16,888**	**17,283**	**16,483**	**26,086**	**21,950**	**23,879**	**23,864**	**27,172**	**27,639**	**1.7**	**15.8**
Memo											
Netted assets	126,432	129,815	110,275	185,356	184,371	202,447	205,549	209,030	212,341	1.6	3.3
Consolidated netted assets	122,270	125,093	106,576	181,253	181,077	198,462	201,642	204,146	207,228	1.5	2.8

(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 Nov-05	Dec-05	Jan-06	Last 6 months
Financial margin	5.6	5.7	5.7	6.5	1.1	3.1	4.6	4.9	4.8	7.1	5.6
Net interest income	4.3	4.0	3.8	-1.7	-0.5	0.9	1.5	2.0	1.7	1.7	1.7
Restatement by CER and CVS	0.0	0.0	0.0	3.9	1.3	1.0	1.5	1.5	1.3	1.8	1.4
Foreign exchange price adjustments	0.9	1.2	1.2	1.7	1.1	0.4	0.4	0.0	1.3	1.0	0.9
Gains on securities	0.2	0.1	0.2	2.8	-0.5	1.0	1.2	1.2	0.5	2.4	1.4
Other financial income	0.2	0.4	0.5	-0.1	-0.3	-0.2	0.1	0.2	0.0	0.1	0.1
Service income margin	2.9	2.8	3.0	1.9	1.9	2.0	2.3	2.4	2.7	2.5	2.5
Loan loss provisions	-2.1	-2.4	-2.6	-4.7	-1.1	-0.8	-0.6	-0.5	-0.4	-0.6	-0.5
Operating costs	-5.9	-5.8	-6.1	-4.4	-4.2	-4.1	-4.6	-4.8	-5.7	-4.9	-4.9
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	-0.1	0.2	-0.6	-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	-0.7	-0.3	-0.2
Amortization payments for court-ordered releases	0.0	0.0	0.0	0.0	-0.6	-0.9	-0.9	-1.0	-0.8	-0.8	-0.9
Other	0.5	0.4	0.6	-1.8	0.9	0.8	0.8	0.6	0.7	0.7	0.7
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	1.1	1.1	0.2	3.3	1.9
ROA before monetary results	0.2	0.0	0.0	-3.1	-2.9	-0.5	0.9	1.0	0.4	2.7	1.6
ROA	**0.2**	**0.0**	**0.0**	**-8.9**	**-2.9**	**-0.5**	**0.9**	**1.0**	**0.4**	**2.7**	**1.6**
ROA adjusted [2]	0.2	0.0	0.0	-8.9	-1.9	0.7	2.0	2.1	1.9	3.7	2.7
Indicators (%)											
ROE	**1.7**	**0.0**	**-0.2**	**-59.2**	**-22.7**	**-4.2**	**7.1**	**7.6**	**3.3**	**20.5**	**12.4**
Financial margin + service income margin / Operating costs	142.5	147.4	143.3	189.1	69.3	124.8	150.8	152.8	131.4	196.8	164.3
Interest income (with CER and CVS) / loans	..	13.0	15.2	11.8	13.1	10.3	12.8	13.8	13.1	13.4	13.0
Interest payments (with CER and CVS) / deposits	..	5.3	7.3	9.2	5.7	1.8	2.4	2.6	2.8	2.9	2.6

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

(1) Com. "A" 3911. Adjustments to the valuation of government unlisted 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.

Portfolio quality

As percentages	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Jan 05	Nov 05	Dec 05	Jan 06
Non-performing loans (overall)	11.5	12.9	13.1	18.1	17.7	10.7	10.2	6.0	5.2	5.1
Non-performing loans to the non-financial private sector	14.0	16.0	19.1	38.6	33.5	18.6	17.7	9.0	7.6	7.5
Commercial portfolio (*)	12.1	14.9	20.7	44.0	38.0	22.8	22.0	11.1	9.3	9.2
Consumption and housing portfolio	16.6	17.3	17.5	31.4	28.0	11.0	10.4	5.5	4.8	4.8
Provisions / Total non-performing loans	59.6	61.1	66.4	73.8	79.2	102.9	102.7	118.5	124.6	125.7
(Total non-performing - Provisions) / Overall financing	4.7	5.0	4.4	4.7	3.7	-0.3	-0.3	-1.1	-1.3	-1.3
(Total non-performing - Provisions) / Net worth	24.7	26.2	21.6	17.2	11.9	-1.0	-0.9	-3.6	-4.1	-4.2

(*) 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	Dc 01	Dec 02	Dec 03	Dec 04	Ene 05	Dec 05	Jan 06	Change (%) Last month	Change (%) Year on year
Assets	**108,778**	**119,371**	**82,344**	**118,906**	**116,633**	**128,065**	**130,992**	**129,681**	**133,034**	**2.6**	**1.6**
Liquid assets [1]	13,228	13,920	10,576	11,044	14,500	15,893	15,082	14,074	16,008	13.7	6.1
Public bonds	6,433	7,583	1,627	19,751	22,260	24,817	25,842	29,966	27,660	-7.7	7.0
Lebac/Nobac	0	0	0	n/a	n/a	8,359	10,539	15,227	13,315	-12.6	26.3
Portfolio	0	0	0	n/a	n/a	5,611	6,054	12,899	12,138	-5.9	100.5
Repo	0	0	0	n/a	n/a	2,749	4,485	2,328	1,177	-49.4	-73.7
Private bonds	410	563	451	273	172	333	312	307	384	25.0	23.1
Loans	56,916	56,035	52,319	51,774	47,017	50,741	51,427	56,565	57,515	1.7	11.8
Public sector	6,389	8,172	13,803	25,056	23,571	21,420	21,503	15,954	16,105	0.9	-25.1
Private sector	47,705	45,103	36,636	26,074	22,816	28,213	28,862	39,031	39,788	1.9	37.9
Financial sector	2,823	2,760	1,880	644	630	1,107	1,062	1,580	1,621	2.6	52.6
Provisions over loans	-3,119	-3,248	-3,957	-7,463	-5,225	-3,717	-3,633	-2,482	-2,518	1.5	-30.7
Other netted credits due to financial intermediation	27,330	36,600	13,037	27,212	22,148	25,753	27,762	16,873	19,458	15.3	-29.9
Corporate bonds and subordinated debt	1,022	724	665	1,514	1,394	829	812	675	703	4.1	-13.4
Unquoted trusts	958	1,609	1,637	6,205	3,571	2,362	2,250	2,444	2,624	7.4	16.6
Compensation receivable	0	0	0	15,971	13,812	14,657	14,418	5,575	5,251	-5.8	-63.6
BCRA	12	35	865	377	415	311	320	279	373	33.8	16.5
Other	25,338	34,232	9,870	3,146	2,955	7,594	9,962	7,900	10,507	33.0	5.5
Assets under financial leases	796	776	752	553	387	592	624	1,356	1,460	7.7	133.8
Shares and participation	1,371	1,651	1,703	3,123	2,791	1,892	1,902	2,415	2,482	2.8	30.5
Fixed assets and sundry	3,246	3,225	3,150	5,198	4,902	4,678	4,676	4,575	4,557	-0.4	-2.5
Foreign branches	48	75	112	-109	-136	-53	-58	-148	-150	1.3	158.2
Other assets	2,120	2,190	2,574	7,549	7,816	7,137	7,056	6,179	6,179	0.0	-12.4
Liabilities	**96,474**	**107,193**	**70,829**	**103,079**	**101,732**	**113,285**	**116,284**	**112,601**	**115,680**	**2.7**	**-0.5**
Deposits	54,447	57,833	44,863	44,445	52,625	62,685	64,272	75,668	76,383	0.9	18.8
Public sector [2]	1,342	1,276	950	1,636	3,077	6,039	6,264	6,946	6,869	-1.1	9.7
Private sector [2]	52,460	55,917	43,270	38,289	47,097	55,384	56,746	67,859	68,610	1.1	20.9
Current account	5,022	4,960	7,158	8,905	11,588	13,966	13,943	17,946	17,571	-2.1	26.0
Savings account	9,702	9,409	14,757	6,309	10,547	14,842	15,034	18,362	18,843	2.6	25.3
Time deposit	35,218	39,030	18,012	11,083	18,710	22,729	23,524	27,736	28,279	2.0	20.2
CEDRO	0	0	0	9,016	2,409	798	734	3	3	-1.3	-99.6
Other netted liabilities due to financial intermediation	39,045	46,271	22,629	49,341	42,367	45,083	46,777	32,349	34,722	7.3	-25.8
Call money	2,146	2,293	1,514	836	726	1,070	958	1,488	1,525	2.5	59.2
BCRA lines	274	83	1,758	16,624	17,030	17,768	17,738	10,088	9,642	-4.4	-45.6
Outstanding bonds	4,990	4,939	3,703	9,073	6,674	7,922	7,685	6,548	6,830	4.3	-11.1
Foreign lines of credit	6,680	5,491	4,644	15,434	9,998	5,444	5,534	2,696	2,470	-8.4	-55.4
Other	24,954	33,466	11,010	7,374	7,939	12,878	14,862	11,530	14,256	23.6	-4.1
Subordinated debts	1,683	1,668	1,700	3,622	1,850	1,304	1,271	1,319	1,312	-0.5	3.2
Other liabilities	1,299	1,420	1,637	5,671	4,890	4,213	3,964	3,265	3,264	0.0	-17.7
Net worth	**12,304**	**12,178**	**11,515**	**15,827**	**14,900**	**14,780**	**14,708**	**17,080**	**17,354**	**1.6**	**18.0**
Memo											
Netted assets	85,918	88,501	73,796	117,928	115,091	121,889	123,051	123,272	124,113	0.7	0.9

(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							Monthly			Last
	1999	2000	2001	2002	2003	2004	2005	Nov-05	Dec-05	Jan-06	6 months
Financial margin	6.1	6.2	6.4	7.6	2.3	2.9	4.3	4.8	3.4	6.8	5.2
Net interest income	4.5	4.1	4.3	-0.2	0.1	1.0	1.7	2.4	1.9	2.0	2.0
Restatement by CER and CVS	0.0	0.0	0.0	1.1	0.9	0.8	1.0	0.9	0.5	1.0	0.8
Foreign exchange price adjustments	1.1	1.4	1.2	2.5	1.7	0.6	0.5	0.2	1.1	0.9	0.8
Gains on securities	0.3	0.2	0.3	4.4	-0.3	0.8	1.0	1.0	-0.2	2.7	1.4
Other financial income	0.3	0.5	0.7	-0.1	-0.2	-0.3	0.1	0.2	0.0	0.1	0.1
Service income margin	3.1	2.9	3.2	2.0	2.0	2.4	2.7	3.0	3.1	3.1	3.0
Loan loss provisions	-2.2	-2.5	-3.0	-5.0	-1.3	-0.9	-0.6	-0.4	-0.7	-0.7	-0.6
Operating costs	-6.3	-6.0	-6.4	-4.8	-4.6	-4.6	-5.1	-5.4	-6.5	-5.5	-5.5
Tax charges	-0.4	-0.4	-0.5	-0.4	-0.3	-0.3	-0.4	-0.5	-0.6	-0.5	-0.5
Income tax	-0.5	-0.4	-0.3	-0.2	-0.3	-0.2	-0.2	-0.1	-0.2	-0.3	-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	-1.0	-0.1	-0.2
Amortization payments for court-ordered releases	0.0	0.0	0.0	0.0	-0.7	-1.0	-1.0	-1.0	-0.9	-0.9	-0.9
Other	0.5	0.4	0.7	-3.0	1.0	0.7	0.9	0.0	2.7	0.8	1.1
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	0.7	0.5	-0.5	2.9	1.5
ROA before monetary results	0.3	0.1	0.2	-3.8	-2.4	-1.0	0.5	0.4	-0.7	2.7	1.3
ROA	**0.3**	**0.1**	**0.2**	**-11.3**	**-2.5**	**-1.0**	**0.5**	**0.4**	**-0.7**	**2.7**	**1.3**
ROA adjusted [2]	0.3	0.1	0.2	-11.3	-1.2	0.2	1.6	1.4	1.2	3.7	2.4
Indicators (%)											
ROE	**2.3**	**0.8**	**1.4**	**-79.0**	**-19.1**	**-8.1**	**4.1**	**3.1**	**-4.9**	**19.1**	**9.3**
Financial margin + service income margin / Operating costs	146.0	151.9	150.9	199.3	92.6	115.0	136.5	144.5	99.7	180.2	147.6
Interest income (with CER and CVS) / loans	..	13.9	16.1	24.7	9.0	8.2	11.0	11.0	11.8	11.9	11.2
Interest payments (with CER and CVS) / deposits	..	5.7	7.8	21.9	5.8	2.2	3.0	3.2	3.5	3.7	3.3

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

(1) Com. "A" 3911. Adjustments to the valuation of government unlisted 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	Jan 05	Nov 05	Dec 05	Jan 06
Non-performing loans (overall)	7.6	8.3	9.9	19.8	15.7	8.9	8.3	5.4	4.4	4.4
Non-performing loans to the non-financial private sector	8.9	9.8	14.0	37.4	30.4	15.3	14.4	7.7	6.3	6.2
Commercial portfolio (*)	6.8	8.4	15.4	44.7	39.0	18.2	17.4	9.1	7.344	7.270
Consumption and housing portfolio	12.5	11.9	12.4	26.0	17.2	10.0	9.2	5.0	4.249	4.185
Provisions / Total non-performing loans	69.4	67.7	75.7	73.4	79.0	95.7	97.7	106.4	114.3	116.0
(Total non-performing - Provisions) / Overall financing	2.3	2.7	2.4	5.3	3.3	0.4	0.2	-0.3	-0.6	-0.7
(Total non-performing - Provisions) / Net worth	11.5	13.4	11.4	18.6	11.2	1.3	0.7	-1.2	-2.2	-2.4

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

Source: BCRA