Report on Banks

February 2019

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Executive Summary

- In February, the financial system's solvency indicators increased slightly at aggregate level. Compliance with capital requirements accounted for 16.6% of risk-weighted assets (RWA), up 0.5 percentage points (p.p.) against January. This compliance in excess of the requirement —capital position— went up 7 p.p. in terms of the regulatory requirement against January up to a level of 89% in February. Both indicators stood above the indicators observed in February 2018.

- The financial system's liquidity ratios continued to go up in the second month of the year. The broad liquidity indicator reached 57.6% of total deposits (58.2% in pesos), up 0.8 p.p. against January. In the year-on-year (y.o.y.) comparison, broad liquidity grew 12.2 p.p. of deposits.

- The stock of deposits in pesos of the private sector in real terms went down slightly against January and accumulated a drop of 2.2% y.o.y, characterized by an increase of time deposits and a decrease of sight deposits. Private sector deposits in pesos accounted for 38.4% of the financial systems total funding in February. Specifically, the weight of private sector time deposits in total funding went up 2.7 p.p. y.o.y. to 20.2%.

- Lending in pesos to the private sector dropped in February while its year-on-year fall has reached 23.5%, in real terms in both cases. Regarding the composition of the financial system's total assets, the share of loans to the private sector stood at 40.4%, without significant changes against January's figures.

- In February, the non-performance ratio of total loans to the private sector stood at 3.8%, up 0.3 p.p. against January (+1.9 p.p. y.o.y.). The delinquency ratio of loans to companies was 3.5% in February (evidencing a monthly increase of 0.4 p.p. and a year-on-year increase of 2.5 p.p.), while the delinquency ratio of loans to households stood at en 4.4% (evidencing a monthly increase of 0.2 p.p. and a year-on-year increase of 1.4 p.p.). The non-performing ratio of mortgage loans to households stood at the same levels of January: 0.25% for the UVA segment and 0.6% for the other segments. Coverage of the non-performing portfolio with provisions continued to be high.

- In February, the nominal income accrued by the financial system accounted for 4.1%a. of assets —ROA— and 37.1%a. of equity —ROE—. This monthly result includes the accounting profit from the sale of a participating interest of a group of institutions in Prisma Medios de Pago S.A. In the last 12 months, the financial system has accumulated a ROA of 4.3% (and a ROE of 38.7%).

- Regarding the measures recently adopted by the Central Bank of Argentina (BCRA) in order to provide more options to savers and encourage competition among institutions, now the users have the possibility of making time deposits online with institutions where they do not have sight accounts.

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The data reported are provisional and subject to changes. Information corresponds to end-of-month data.

Data of Charts and **Latest Regulations** of this issue. **Statistics Annexes** for the financial system and ensembles of financial institutions. **Glossary** of abbreviations and acronyms.

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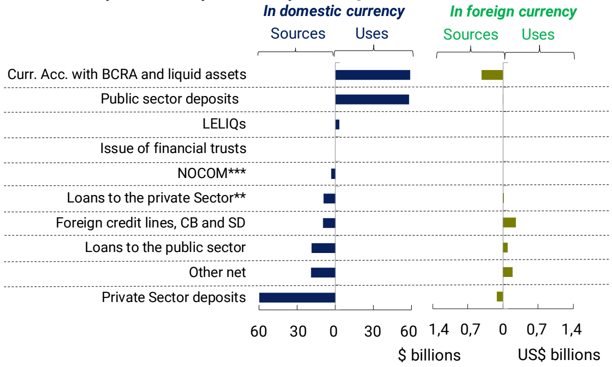
I. Financial Intermediation Activity

Based on the monthly cash flow estimated for the month[1], among the domestic currency items, in February, the main source of funds for the aggregate of the financial system was the increase of private sector deposits (see Chart 1). Even though to a lesser extent, other sources of bank funding in pesos were the reduction of financing and the issue of Corporate Bonds. These funds were mostly applied to the increase of liquid assets —mainly current accounts with the BCRA— and to the reduction of public sector deposits. Regarding items in foreign currency, the use of liquidity was the main source of funds for banks, followed by private sector deposits. According to the change in the balance sheet stock, these resources were largely used to reduce foreign credit lines.

Chart 1 | Cash Flow Estimate February 2019

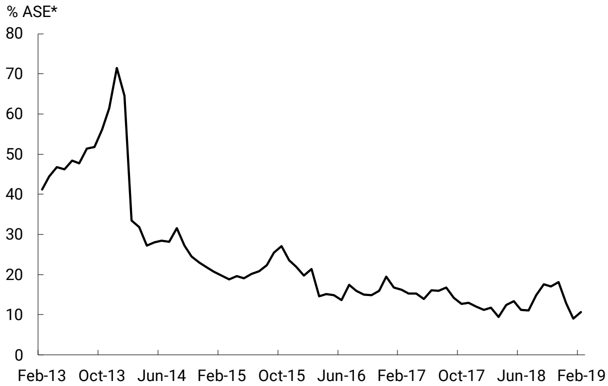
Financial system – By currency of origin



* Including assets admissible for calculation of the compliance with minimum cash requirement. **Including principal of the loans (excluding accrued interest and capital adjustments). ***NOCOM: BCRA´s Cash Clearing Notes. Source: BCRA

Given the evolution of the main items stated above, in February the financial system's balance sheet went down at aggregate level: total assets dropped 2.1% in real terms against January (+0.9% y.o.y.), recording monthly declines in all groups of banks.

Chart 2 | FC Assets – FC Liabilities + off-balance FC Forward Net Purchases (Financial System)



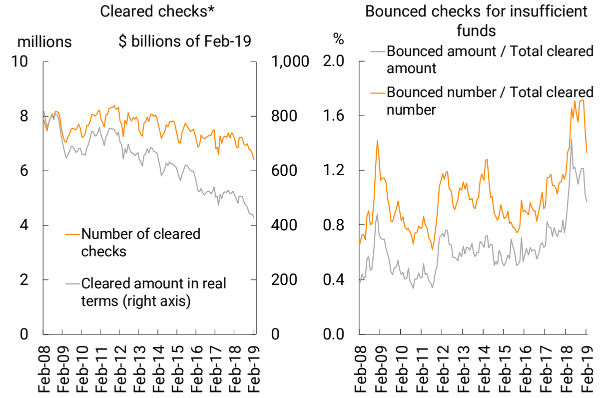
* Adjusted Stockholders´ Equity. Source: BCRA

The share of foreign currency assets in the total assets of the financial system grew slightly in February up to 28% (+7.1 p.p. y.o.y.). The relative weight of foreign currency liabilities in total funding —liabilities plus net worth— also went up slightly in February to 27.6% (+7.9 p.p. y.o.y.). The main reason behind these monthly increases was the rise of $/US$ nominal exchange rate between ends of months (+5.3%). The spread between assets and liabilities in foreign currency —including forward net purchases of foreign currency— stood at 10.7% of the Adjusted Stockholders' Equity (RPC) in February, slightly above the figure recorded in January (see Chart 2).

With respect to the transactions of the National Payment System, during the month instant transfers of funds increased in number but decreased in real amounts. Against February 2018, instant transfers went up in terms of both number of transactions (+76% y.o.y.) and amounts traded (+8.9% y.o.y. in real terms). In turn, cleared checks continued to reduce in February in terms of both number and amount, in real terms. The amount and the number of bounced checks for

[1] Taking into account differences of the balance sheet stock.

Chart 3 | Cleared and Bounced Checks



*Note: 3-month moving average. Source: BCRA

insufficient funds relative to the total of cleared checks dropped in February (see Chart 3), thus resuming the levels recorded in the first quarter of 2018.

II. Deposits and Liquidity

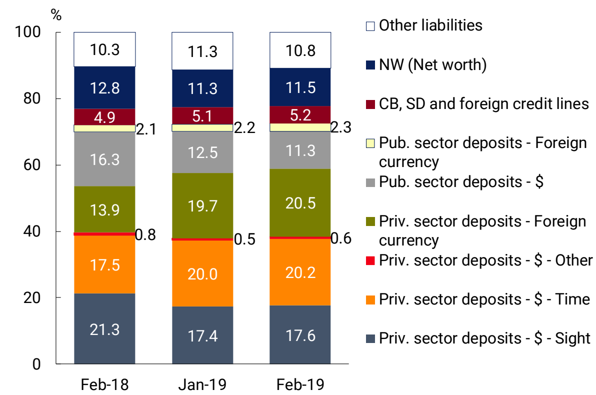
The stock of private sector deposits in pesos decreased 0.9% in real terms in February against January (+2.8% in nominal terms), in part due to the seasonality of the period. The drop between ends of month was mainly accounted for by a 1.3% decline in real terms of time deposits (+2.4% in nominal terms), and a 0.8% decline in real terms of sight deposits a (+3% in nominal terms). Private sector deposits in foreign currency grew 0.4% in February in currency of origin. Together with public sector deposits that dropped as well in the period, the total stock of deposits went down 2.1% in real terms in February.

In the last 12 months, private sector deposits in pesos fell 2.2% in real terms; there was an increase in the stock of time deposits (+16.3% y.o.y. in real terms) and a decrease in the stock of sight deposits (-16.6% y.o.y. in real terms). Private sector deposits in foreign currency expanded 15.7% against February 2018 in currency of origin. The total stock of deposits grew 2.3% in real terms in a year-on-year comparison.

In February, the share of all types of private sector deposits went up in total funding —liabilities plus net worth— of the financial system (to 58.9%, see Chart 4), while the weight of public sector deposits went down (to 13.6%).

In line with the declining trend of the reference interest rate of LELIQs during early February, the average nominal interest rate for time deposits in pesos of the private sector contracted in the second month of the year.

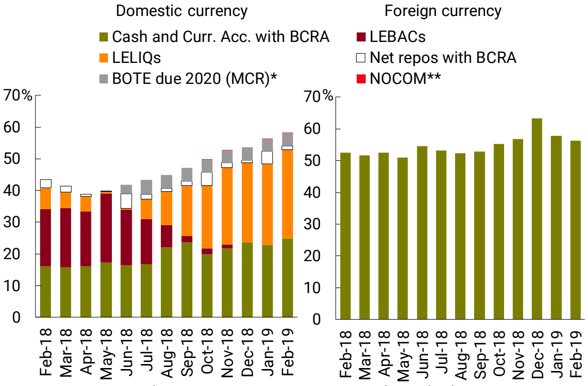
Chart 4 | Total Funding (Liabilities + NW) – Financial System



Source: BCRA

In order to provide more options to savers and encourage competition among institutions, the BCRA has recently authorized users to make online time deposits with institutions where they do not have a sight account.[2] The measure will be effective for digital channels on deposits in pesos. These time deposits will be non-transferable and, once the term agreed upon for the deposit has elapsed, both principal and interest will be transferred to the original sight account. These transactions are free of charge for the users. The transaction will start at the banks offering rates for non-clients and will end in the home banking channel of the bank where the user holds a sight account.

Chart 5 | Composition of Bank Liquidity – As % of Deposits



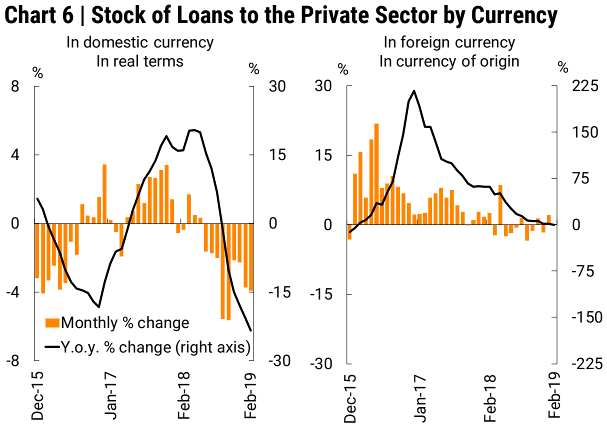
*MCR: Minimum cash requirement. ** NOCOM: BCRA´s Cash Clearing Notes
Source: BCRA

Liquidity indicators of the ensemble of financial institutions expanded in February. The broad liquidity indicator[3] stood at 57.6% of total deposits over the month (58.2% if items in pesos are taken into account), up 0.8 p.p. against the level recorded in January (+1.8 p.p. for the segment in domestic currency, see Chart 5). The main reason behind the increase was a higher stock of LELIQs and of current accounts of banks with the BCRA. In a year-on-year comparison, broad liquidity grew 12.2 p.p. of deposits (+14.8 p.p. for the ratio in pesos). In turn, the liquidity in foreign currency totaled 56.4% of deposits in foreign currency in the period, down 1.5 p.p. against January but up 3.8 p.p. against February 2018.

III. Credit and Portfolio Quality

In February, the stock of loans in pesos to the private sector fell 3.9% in real terms against January (-0.3% in nominal terms).[4] The stock of all credit lines in pesos contracted in real terms against the previous month. In turn, the stock of loans in foreign currency to the private sector recorded no significant changes in February (+0.1% in currency of origin, see Chart 6).

Chart 6 | Stock of Loans to the Private Sector by Currency



Source: BCRA

In year-on-year terms, loans in domestic currency to the private sector dropped 23.5% in real terms, while loans in foreign currency did not post significant changes against the figure recorded one year ago (-0.3% y.o.y. in currency of origin).

[2] Communication "A" 6667. Banks shall be required to adjust to this measure before April 30.
[3] Liquid assets, compliance with minimum cash requirements, and BCRA's instruments, in domestic currency and in foreign currency.
[4] Including adjustments of principal and interest accrued. Even if we take into account the seasonal factors attributable to the month, the stock of loans in pesos to the private sector dropped in real terms in February.

The total stock of loans (in domestic and foreign currency) granted to companies shrank 1.5% in real terms against January (+2.2% in nominal terms). In a year-on-year comparison, the stock of lending to companies fell 15% in real terms, recording a drop in the stock of loans, in real terms, to all productive sectors, except for primary production (+5.9% y.o.y.). In turn, the stock of loans to households contracted 3.3% in real terms in February (+0.3% in nominal terms). On the other hand, lending to households shrank 13.4% y.o.y. in real terms.[5]

In February, the share of loans to the private sector in total bank assets continued to stand at around 40.4%, without significant changes against January (-0.1 p.p.). Against February 2018, this ratio accumulated a 6.9 p.p. drop.

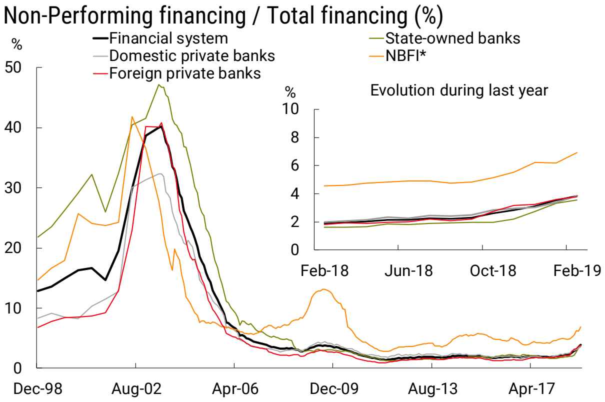
The average lending interest rates in pesos dropped in February in all credit lines, except for credit cards. The interest rates agreed for commercial loans (promissory notes and overdrafts) exhibited the sharpest drops over the month. In turn, the average interest rates on UVA loans went up slightly for mortgage loans and personal loans, but went down for promissory notes and pledge-backed loans.

In February, the non-performing ratio of loans to the private sector reached 3.8%, going up 0.3 p.p. against January (+1.9 p.p. y.o.y.; see Chart 7). The delinquency ratio of loans to companies rose 0.4 p.p. up to 3.5% (+2.5 p.p. y.o.y.) in the second month of the year. In turn, the delinquency ratio of loans to households reached 4.4% in February, up 0.2 p.p. against the value recorded in January (+1.4 p.p. y.o.y.). Likewise, the non-performing ratio of mortgage loans to households stood at low levels, similar to those of January: 0.25% for the UVA segment and 0.6% for other segments.

The estimated stock of provisions attributable to non-performing loans accounted for 71% of such portfolio in February (see Chart 8). Taking into consideration the total stock of accounting provisions (in other words, provisions allocated to the performing and the non-performing portfolio), provisioning of the aggregate financial system accounted for 98% of the portfolio of non-performing loans to the private sector.

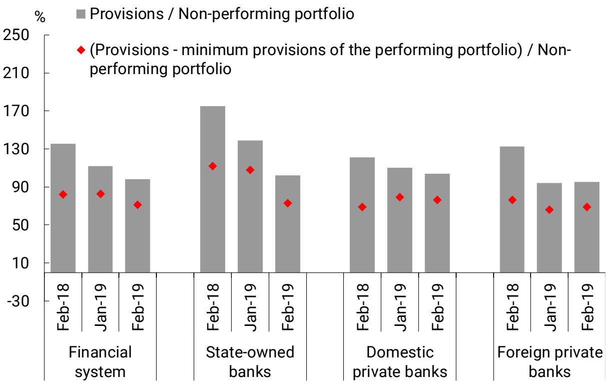
Chart 7 | Ratio of Non-Performing Loans to the Private Sector

Non-Performing financing / Total financing (%)



*NBFI: Non-Banking Financial Institutions
Source: BCRA

Chart 8 | Financial System Provisions



Source: BCRA

[5] Information obtained from the Debtors' Database (domestic currency and foreign currency). Loans to residents abroad are not included. Any adjustments of principal and interest accrued are considered. Financing to companies is herein defined as the loans granted to legal persons and commercial loans granted to natural persons. In contrast, loans to households are those granted to natural persons unless such financing has a commercial purpose.

IV. Solvency

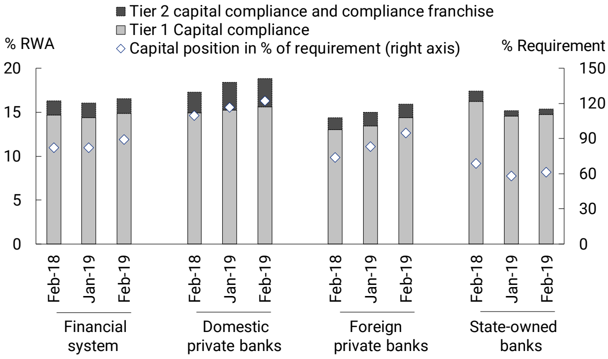
In February, the financial system's indicators of solvency improved slightly (see Chart 9). Compliance with capital requirements accounted for 16.6% of risk-weighted assets (RWA), over the month (90% of which was accounted for by Tier 1 capital), up 0.5 percentage points (p.p.) against January and 0.3 p.p. y.o.y. The compliance in excess of the requirement also increased in February, reaching 89% of the regulatory minimum requirement.

Over the month, the ensemble of banks recorded a nominal income equivalent to 4.1%a. of assets —ROA— (see Chart 10), similar to the value of January (+0.1 p.p.). Considering the aggregate of 12 months up to February 2019, the nominal income totaled 4.3% of assets (+1.5 p.p. y.o.y.) and 38.7% of equity (+15.2 p.p. y.o.y.).[6]

The financial margin of the ensemble of banks stood at 8.9%a. of assets in February, down 2.6 p.p. against January. The monthly contraction was mainly due to lower income for securities. In the aggregate of 12 months up to February, the financial margin reached 10.7% of assets, up 0.4 p.p. in the year-on-year comparison.

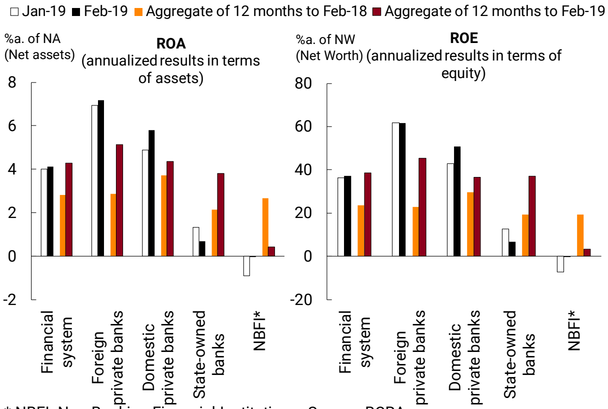
Net income from services accounted for 2%a. of assets in February, down 0.2 p.p. against January. In the aggregate of 12 months, net income from services totaled 2.2% of assets, down 0.5 p.p. in year-on-year terms.

Chart 9 | Compliance and Excess of Regulatory Capital



Tier 1 Capital compliance: Basic Net Worth
Tier 2 Capital compliance: Supplementary Net Worth
Source: BCRA

Chart 10 | Profitability by Group of Financial Institutions



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

In February, loan loss provisions continued to stand at 1.7%a. of assets (1.4% of the assets in the aggregate for the last 12 months, +0.4 p.p. y.o.y.). Administrative expenses accounted for 6%a. of assets over the month, dropping 0.2 p.p. against January (6.2% of assets in the last 12 months, -0.8 p.p. y.o.y.).

[6] Considering income and loss, including Other Comprehensive Income (*Otros Resultados Integrales* - ORI).

Lastly, in February, the results went up 2.6 p.p. of assets to 3.2%a., mainly due to the effect of the sale of Prisma Medios de Pago S.A. on the balance sheets of some private banks. In turn, at aggregate level, Other Comprehensive Income (ORI) reached 1.4%a. of assets over the month, up 1.3 p.p. against January, mainly due to the performance of state-owned banks.