

Report on Banks

April 2019



BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Executive Summary

- The solvency levels of the ensemble of financial institutions presented no significant changes in April, and they stood at high levels. During the month, total compliance with capital requirements reached 15.7% of risk-weighted assets. The total regulatory capital continued to sizably exceed the minimum cash requirement, standing for 181% of the latter.
- The liquidity indicators of the financial system continued to go up in April. The broad liquidity ratio reached 60% of total deposits (60.8% in pesos), 1.1 p.p. above the level of March (a similar increase for the segment in pesos). In a year-on-year (y.o.y.) comparison, the broad liquidity rose 18 p.p. of deposits (+22 p.p. for the ratio in pesos).
- Private sector deposits in pesos fell 1.8% in real terms in April (+1.5% nominal). In turn, private sector deposits in foreign currency grew 1.4% in the month (in currency of origin). The share of private sector total deposits in total funding –liabilities plus net worth– of the financial system stood at 58.9% in April (without significant changes against March and +4.9 p.p. y.o.y.).
- In April, lending in pesos to the private sector went down 2.3% in real terms against March (+1% in nominal terms), whereas lending in foreign currency to this sector rose 0.9% (in currency of origin). The share of lending to the private sector in bank assets was 39% (-0.4 p.p. against March and -9.9 p.p. y.o.y.).
- The non-performing ratio of loans to the private sector reached 4.2% in April, 0.1 p.p. above the value recorded in March. The delinquency of loans to companies accounted for 4% of the total portfolio (+0.1 p.p. against March), whereas delinquency of loans to households was 4.6% in April (+0.1 p.p. against March). The non-performing ratio of mortgage loans to households remained low (0.3% in the UVA segment and 0.6% in other segments). The coverage with provisions of the total of non-performing loans stood at high levels. The estimated balance of accounting provisions attributable to the non-performing portfolio accounted for 75% of such portfolio (100% if taking into consideration the total stock of provisions).
- In April, the nominal income accrued by the sector accounted for 4.1%a. of assets –ROA– and 38.6%a. of equity –ROE–. In the aggregate of the last 12 months, the ROA was 4.5% and the ROE was 41.4%.
- With respect to transactions of the National Payment System, during April, the real amount of instant transfers rose against last month. In this context, cleared checks –both in numbers and in real values– recorded a new decrease. Bounced checks for insufficient funds relative to the total cleared dropped in April, thus going back to the values recorded a year ago.

Published on June 13, 2019.

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 Annex** for the financial system and ensembles of financial institutions. **Glossary** of abbreviations and acronyms

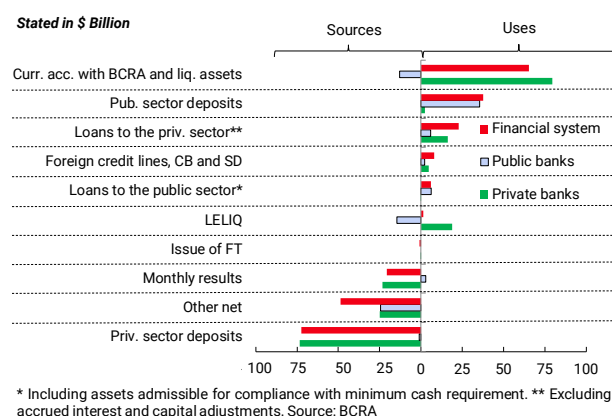
[Electronic subscription](#) | [Opinion poll](#) | [Previous issues](#). For comments and enquiries: analisis.financiero@bcra.gob.ar

The content of this Report may be freely reproduced provided reference is made to "Report on Banks - BCRA"

I. Financial Intermediation Activity

Based on the monthly cash flows estimate for the financial system,¹ the increase in nominal terms of private sector deposits was the most relevant source of funds (see Chart 1). In turn, these funds were mostly applied to increasing the balance of current accounts held by banks with the BCRA. To a lesser extent, in April, income accrued constituted another source of funds, while other relevant application of funds comprised the reduction of public sector deposits and the increase of lending to the private sector. To a large extent, the source and application of funds mentioned above were explained by private banks, except for the fall of public sector deposits (that took place mostly in public banks, offset by the reduction of liquid assets).

Chart 1 | Cash Flow Estimate – April 2019



In the context of the changes in these items of the balance sheet, the total bank assets went down 0.9% in real terms in the month (+2.5% in nominal terms), even though in year-on-year terms (y.o.y.), such total increased 2.2%.

The relative share of items denominated in foreign currency in the bank balance sheet exhibited no significant changes during this month. Foreign currency assets (30.3% of the total) consists mainly of liquidity (14.5% of total assets) and loans to tradable sectors (11.9% of total assets), whereas foreign currency liabilities (30% of total funding) is explained to a greater extent by deposits. The spread between assets and liabilities in foreign currency, including items of the balance sheet and foreign currency forward purchases and sales classified as off-balance sheet items, stood at 11.1% of the regulatory capital (up 0.9 p.p. against March and down 1.3 p.p. against the value recorded a year ago).

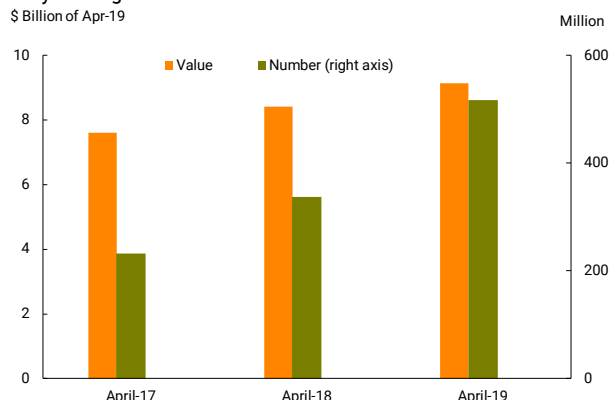
In relation to transactions in the National Payment System, in this month, the daily average real amount of instant transfers increased against March but the number of transactions stood stable. In year-on-year terms, the number and real value traded during the month exceeded the number and value recorded a year ago (see Chart 2). In turn, both the number and the value of cleared checks continued to go down in April. Bounced checks for insufficient funds relative to the total of cleared checks fell in April (-0.17 p.p. in amounts, down to a level of 0.87%), thus going back to the values recorded a year ago (see Chart 3).

¹ Taking into account differences of the balance sheet stock.

Chart 2 | Instant Transfers of Funds

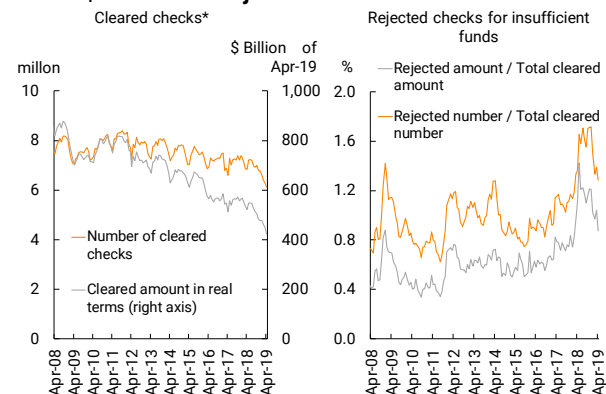
Daily Average

\$ Billion of Apr-19



Source: BCRA

Chart 3 | Cleared and Rejected Checks



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

II. Deposits and Liquidity

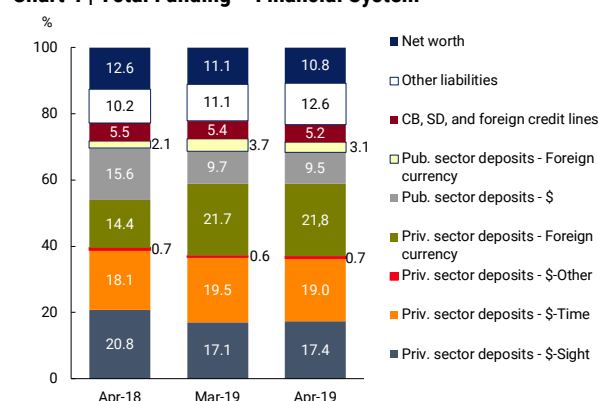
The stock of private sector deposits in pesos decreased 1.8% in real terms in April (+1.5% in nominal terms). This evolution was explained by time deposits, whereas sight accounts rose slightly in real terms. Private sector deposits in foreign currency grew 1.4% in April in the currency of origin. Given the decrease in nominal terms of public sector deposits, the stock of total deposits went down 2.5% in real terms in April.

In the last 12 months to April, private sector deposits in domestic currency decreased 4.9% in real terms, with an increase of time deposits (+6.7% y.o.y. in real terms) which partially offset the decline of sight deposits (-14.9% y.o.y. in real terms). Private sector deposits in foreign currency expanded 13.1% in currency of origin against April 2018. Against this backdrop, the stock of total deposits grew 2.1% y.o.y. in real terms.

The relative importance of private sector deposits in total funding –liabilities plus net worth– of the financial system totaled 58.9% in April (with no significant changes against March and +4.9 p.p. y.o.y.). In the last 12 months, the share of deposits in foreign currency and time deposits in pesos expanded, to the detriment of sight accounts in pesos (see Chart 4).

The liquidity indicators of the financial system went up again in April. The broad liquidity ratio² stood at 60% of total deposits in the month (60.8% for items in pesos), 1.1 p.p. above the level recorded in March (a similar value for the segment in domestic currency, see Chart 5). The monthly increase of liquidity was mainly due to higher cash

Chart 4 | Total Funding – Financial System

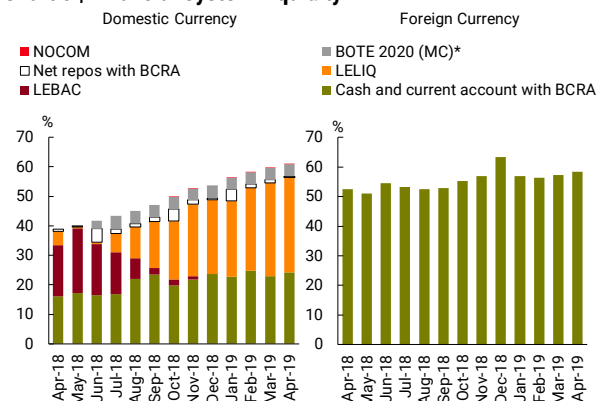


Source: BCRA

² Liquid assets, compliance with minimum cash requirements, and BCRA's instruments, in domestic currency and in foreign currency.

holdings and balances in current accounts of institutions with the BCRA. In a year-on-year comparison, the broad liquidity indicator grew 18 p.p. of deposits (+22 p.p. for the ratio in pesos). Liquid assets in foreign currency totaled 58.4% of deposits in the same denomination in the period (+1 p.p. and +5.8 p.p. against March 2019 and April 2018, respectively).

Chart 5 | Financial System Liquidity

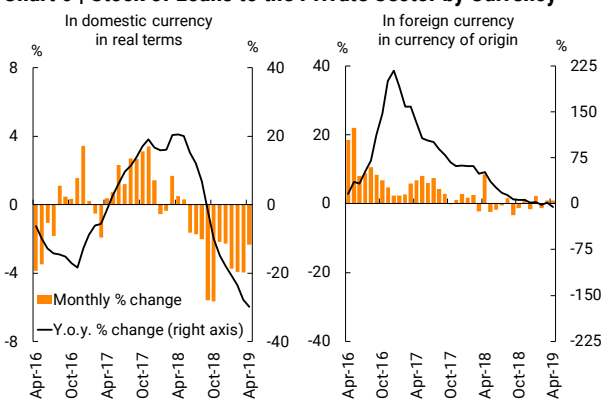


*MC: Minimum Cash. Source: BCRA

III. Credit and Portfolio Quality

In April, the stock of loans in domestic currency to the private sector decreased 2.3% in real terms, against the previous month (+1% in nominal terms).³ This drop was widespread among all credit lines and in all ensembles of financial institutions. Loans in foreign currency to the private sector went up 0.9% in the period (in currency of origin, see Chart 6), with a greater momentum of credit cards.

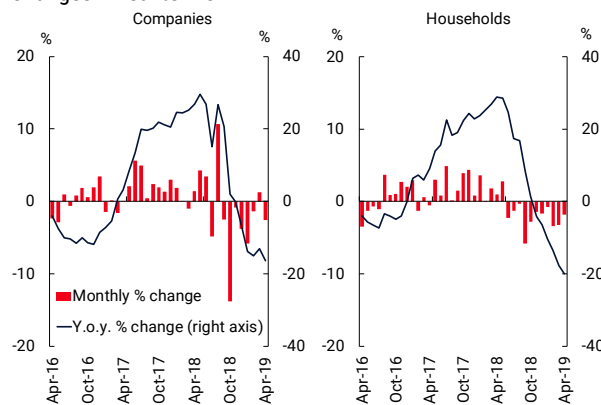
Chart 6 | Stock of Loans to the Private Sector by Currency



Source: BCRA

In year-on-year terms, loans in pesos to the private sector fell 29.8% in real terms, mainly due to the performance of commercial lines (promissory notes, assets under financial lease and overdrafts). Loans in foreign currency went down 5.7% y.o.y. in currency of origin.

Chart 7 | Stock of Total Loans to the Private Sector Changes in real terms



Source: BCRA

A breakdown by sector shows that total lending to companies (in domestic currency and in foreign currency) contracted 2.6% in real terms in the month (+0.8% in nominal terms) and 16.4% y.o.y. in real terms (see Chart 7).⁴ Loans to commerce and construction posted the most sizable relative year-on-year drops. In turn, lending to households fell 1.8% in real terms against the previous month (+1.6% in nominal terms). In a year-on-year comparison, loans to

³ Including adjustments of principal and interest accrued.

⁴ 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 those 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.

households fell 20% y.o.y. in real terms, mainly due to the performance of pledge-backed and personal loans.

The share of lending to the private sector in total bank assets slightly decreased with respect to the previous month (-0.4 p.p.), down to 39% in April. In year-on-year terms, this ratio accumulated a drop of 9.9 p.p. in aggregate, mostly accounted for by private banks.

The non-performing ratio of loans to the private sector reached 4.2% in April, exceeding in 0.1 p.p. the value recorded in March and 2.2 p.p. above the level shown a year ago (see Chart 8). The delinquency of loans to companies accounted for 4% of the total portfolio (+0.1 p.p. with respect to March and +2.9 p.p. y.o.y.), whereas delinquency of lending to households stood at 4.6% in the month (+0.1 p.p. against March and +1.5 p.p. y.o.y.). The non-performing ratio of mortgage loans to households posted no significant changes in the period (0.3% in case of the UVA segment and 0.62% in other segments).

In April, the estimated stock of provisions attributable to non-performing loans accounted for 75% of such portfolio, posting no significant changes against the previous month (see Chart 9). Meanwhile, total accounting provisions (allocated to the performing and the non-performing portfolio) covered 100% of the portfolio of non-performing loans to the private sector.

Chart 8 | Non-Performing Loans to the Private Sector

Non-Performing Financing / Total Financing (%)

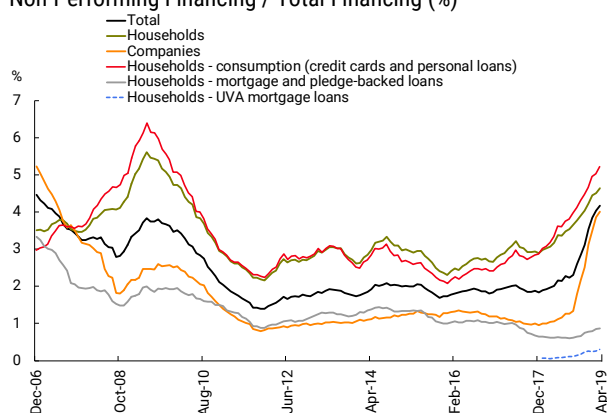
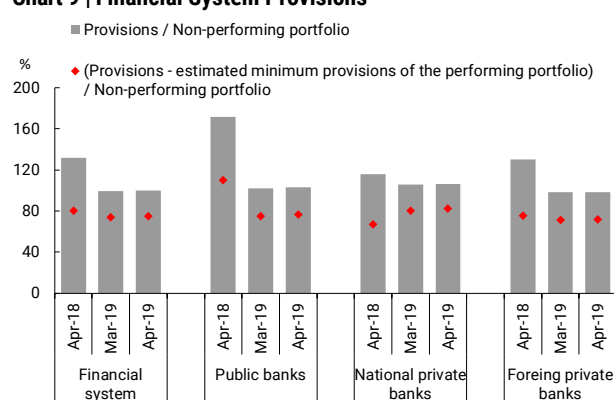


Chart 9 | Financial System Provisions



IV. Solvency

In April, solvency indicators of the aggregate financial system posted no significant changes, and remained within a range of high values. In the month, total compliance with capital requirements reached 15.7% of risk-weighted assets (RWA), slightly below than the value recorded in March and with no significant changes in a year-on-year comparison (see Chart 10). This level of compliance continued to sizably exceed the minimum regulatory capital requirement, standing for 181% of the latter. Almost 90% of total compliance was explained again by Tier 1 capital.

The ensemble of financial institutions accrued nominal income in April equivalent to 4.1%a. of assets –ROA– and 38.6%a. of equity –ROE– (see Chart 11). Such income was lower than in March

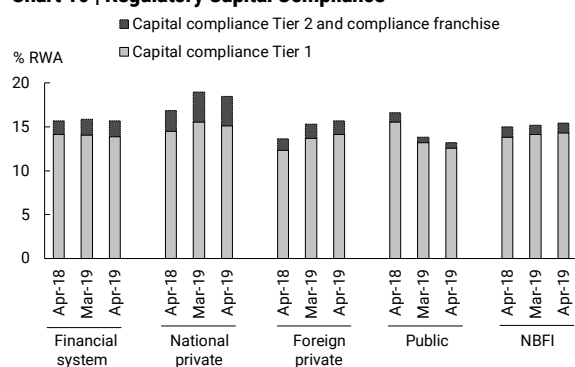
(-1.6 p.p. of assets). In the last 12 months to April, the ROA of the financial system reached 4.5% of assets (+1.8 p.p. y.o.y.) and the ROE was 41.4% (+18.7 p.p. y.o.y.).

The financial margin of the sector reached 13%a. of assets in April. This level was lower than the value recorded in March, due to a decrease of income from securities, higher expenses for interest and lower income from interest; these effects were moderated by an increase in the positive CER adjustment and by an increase in positive exchange differences. In the aggregate of the last 12 months to April, the financial margin accounted for 11.3% of assets, up 0.9 p.p. in a year-on-year comparison.

In April, income from services stood at 2%a. of assets. Taking into account the aggregate of 12 months, such net income totaled 2.1% of assets (-0.4 p.p. y.o.y.).

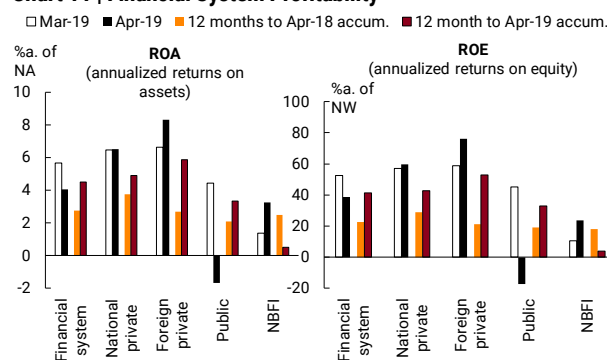
Loan loss provisions fell in April, down to 1.6%a. of assets (levels similar to the aggregate of the last

Chart 10 | Regulatory Capital Compliance



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

Chart 11 | Financial System Profitability



Source: BCRA

12 months, +0.4 p.p. y.o.y.). Administrative expenses reached 6.3%a. of assets in the month, up 0.1 p.p. against March (6.2% of assets in the last 12 months, -0.7 p.p. y.o.y.).