



Financial Stability Report

First Half 2012



BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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ISSN: 1668-5164
Online edition

Publication date | April 2012

Published by Economic Research Deputy General Management

Central Bank of Argentina

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Preface

Financial stability is a state of affairs in which the financial services sector can channel the savings of the population and provide a nationwide payments system in a manner that is efficient, secure and sustainable over time. In the framework of the execution of consistent and stable macroeconomic policies, the resilience of the financial sector in the face of negative shocks serves to define the degree of approach towards a financial stability scheme.

The strong interrelationship between financial stability and sustained economic growth explains why the former is a social good that the state has to generate and protect. This is why the promotion of financial stability is one of the principal functions of most central banks.

The Central Bank of Argentina, according to article 4 of its charter, has a mandate “to supervise the sound operation of the financial market”. It is the Central Bank understanding that in order to enhance the effectiveness of the policies that it undertakes its usual regulatory and supervisory powers must be complemented by a communications strategy that is transparent and accessible to the public in general.

With this purpose in mind it publishes the Financial Stability Report (FSR) that presents an overall assessment of developments in the conditions of financial stability. In the FSR the different channels of information that are available on the subject are merged, to provide the Central Bank’s views on the outlook for the financial system. Furthermore, between each half-yearly issue of the FSR, the Central Bank releases a monthly Report on Banks to keep the public up to date about the more recent developments in the financial system.

According to the depth of detail that the reader requires, the FSR can be approached in two different ways. Reading the Central Bank Outlook and the Balance of Risks, together with the summary and main topics of each chapter, enables the reader to grasp the gist of the FSR. Naturally, a full reading of the FSR provides an in depth evaluation of the issues it covers, enriched by the treatment of special topics that are included in the Boxes.

The date of publication of the next issue of the FSR will be on October 1, 2012, on the Central Bank website.

Buenos Aires, April 3, 2012

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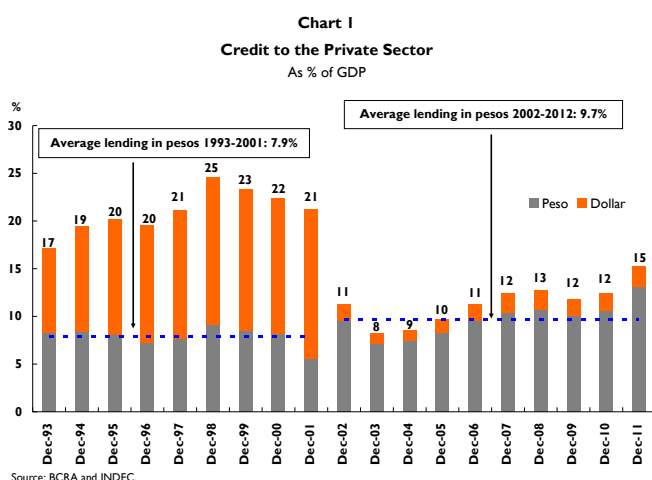
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Central Bank Outlook

In March 2012, the National Executive Branch sent a bill to Congress to amend the Central Bank Charter, an initiative that was recently enacted. The new Charter extends the central bank's main mandate which now includes financial stability, employment and economic development with social equity as policy objectives, in addition to keeping the stability of our currency.

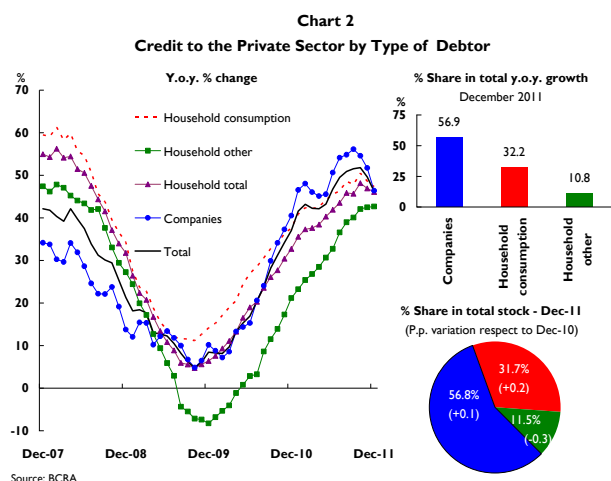
To comply with this new mandate, the Charter enlarges the room for maneuver of the central bank by providing the monetary authority with new powers and concrete tools to operate on the credit channel and regulate its conditions; at the same time, it also widens its capacity to create differential policies aimed at specific sectors, such as the small and medium-sized enterprises or the regional economies, and to protect competition and financial service consumers. Simultaneously and in order to prevent potential gray areas in the regulation from becoming a source of risk for financial stability, the regulatory powers of the central bank on other players of the financial system, such as the payments system, the clearing houses, the remittance agencies and the armored funds and securities carriers, have also been extended.



In particular and regarding financial stability, the size of the global crisis has reinvigorated this policy objective at international level, leading some countries to explicitly introduce this goal into their central bank's mandate, while others have strengthened the interaction between monetary policy and financial entities' regulation and supervision.

In 2011, the financial intermediation volume expanded at a significant rate. Lending to the private sector went up by 46.2%, and accounted for nearly 15% of GDP, slightly over 3 p.p. above the ratio recorded by the end of 2009. Even though this value still stands below the historical records, the weight of the lending granted in pesos has recovered significantly in recent years — reaching an average of 9.7% in the last 10 years against 7.9% in the 1990s—, thus lessening the sources of risk related to indebtedness in foreign currency.

Credit expansion in 2011 was mainly driven by financing to companies, in particular by lending to the manufacturing sector. Loans to households have also increased at a high rate; in this sector, pledge-backed loans and credit lines for consumption have experienced a marked momentum.



By means of the Bicentenary Productive Financing Program, the BCRA has already allocated almost \$4.4 billion to financial entities through 11 auctions. Under this program, 13 banks have provided financing to a group of companies for \$2.3 billion. Seventy-five per cent of this amount was devoted to financing manufacturing activities.

The growth of financial system activity was accompanied by improvements in this sector's operating infrastructure. Since early 2011, a new guideline was adopted to authorize the opening of new branches. The new rule establishes that the banks willing to open branches in areas well-served by the financial infrastructure must include in their request a proposal to open the same amount of branches in areas with fewer banking services. Upon the application of this criterion, the central bank authorized the opening of 67 branches in areas of reduced banking services, equivalent to almost 70% of the net opening of branches. In the same period, financial system payroll increased by 3% and reached its maximum level in 11 years. In 2011, the number of branches has also gone up (by 2.4%) together with the number of ATMs (up 15.1%). Within this framework, the number of inhabitants per both branch and ATM has gone down, particularly in the geographical areas of the country with relatively less banking infrastructure.

Throughout the year, no sizable changes were observed in the global composition of the intrinsic risks faced by banks, exhibiting a favorable balance between the main exposures and the coverage taken. Starting from high levels, bank liquidity indicators have gradually fallen, mainly in the second half of the year, in line with credit expansion. Despite this, the sector has shown a high availability of resources serving as a good protection against liquidity risk.

Within a context where lending to the private sector has increased its relative weight in the system's assets, the banks have managed to preserve a favorable position against counterparty risk. The non-performance ratio of lending to the private sector reached its historical minimum value at the end of 2011 and the non-performing portfolio was being covered in excess by accounting provisions. Indebtedness levels of both households and companies stood at moderate levels, supporting the payment capacity of the credit holders.

Short-term capital flow macroprudential regulation and the economic policy scheme based on a managed float exchange rate, have kept foreign exchange volatility under control, reducing the currency risk faced by the financial system to historically low levels. During the

second half of 2011 and within a context of increased volatility in the international financial markets, foreign currency mismatch went up as a result of the increase in net foreign currency term purchases by the entities, especially foreign-capital banks. However, this mismatch was below the peaks recorded by late 2008-early 2009, and also below the levels prior to 2005.

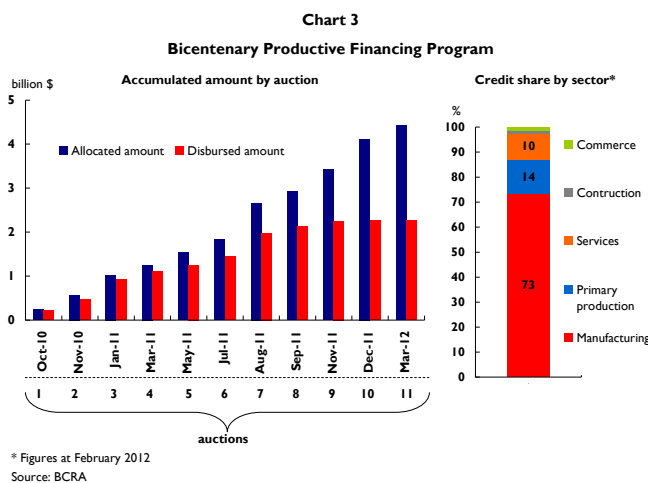
By the end of 2011, there were isolated sources of volatility in some domestic financial variables, with increases in the main interest rates. From October 2011 to January 2012, private sector's deposits in dollars dropped by 18% of its stock balance. The low figures in dollars of banks' balance sheets —these deposits had amounted to 19% of total deposits in October— and the current scheme of liquidity requirements per type of currency, within a context of an increasing amount of deposits in pesos, reduced the impact of this episode on lending, favoring a gradual reduction of volatility during the first quarter of 2012.

In this context, financial system interest risk exposure went up, even though standing at moderate levels. The transitory nature of interest rate fluctuations had a reduced impact on the financial system balance sheets. In turn, and despite these sources of volatility, banks' exposure to market risk fell in the second half of 2011, mainly due to the reduction of government securities and monetary regulatory instruments at market value.

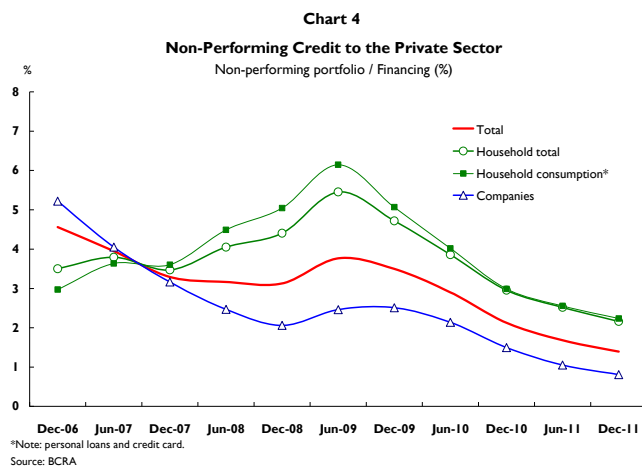
Throughout 2011, the financial system has exhibited high solvency indicators. The net worth of financial entities as a whole grew by 22% in the year, mainly due to accounting profits and, to a lesser extent, to capital contributions. All groups of financial entities have kept excess capital compliance against the minimum regulatory requirements.

According to Basel III, the Central Bank has implemented new measures to consolidate banking solvency standards, establishing a new requirement of additional capital to cover operational risk and extending the capital conservation buffer prior to profit distribution. The additional capital requirement for operational risk is equivalent to 15% of the positive gross income average of the last three years and will be applied on a gradual basis until its full implementation by December 2012 (Box 3). In turn, the financial entities recording profits will only be authorized to distribute dividends if their regulatory capital, after the distribution, stands at least 75% above the requirement.

At global level, the economic activity is still signaling a weak outlook, with lower-than-expected growth rates. In the United States, at the beginning of 2012, the



estimated period for low interest rates was extended to late 2014, and new quantitative easing measures cannot be ruled out in the future, in a context where the labor market is still undergoing a delicate situation. In turn, Europe would suffer a recession as a result of a more restrictive bias in its fiscal policy and of a lingering uncertainty despite the improvement recorded in recent months. In spite of an increasing liquidity, the European credit outlook is still weak, limiting the capacity for economic recovery in the short run. In the specific case of Greece, there are still doubts over the sustainability of its debt (as evidenced by the 10-year yields of the recent bond swap); in addition, the factors that will finally boost the economy so that it can resume its growth path are still unclear.



In turn, developing economies are still showing moderate growth rates (though above those of the advanced countries) and more contained inflationary pressures. As a result of lower tensions in the financial markets –within a context of low interest rates in the developed marketplaces and a recovery of commodity prices– portfolio inflows into emerging financial markets have been on the rise, leading to improvements in stock prices and cuts in debt spreads. In line with these developments, the currencies of most emerging economies have tended to appreciate in the first months of this year, which led some countries to intervene more aggressively in the exchange rate market and to adopt additional measures to contain this trend. Expectations for the financial markets of emerging economies are moderately positive in the next months, even though in a context where the risk of a lower growth pace still prevails, mainly due to persistent doubts over the global growth level.

For the remaining months of 2012, the Argentine financial system is expected to keep a reduced risk exposure map, even though the financial performance might be influenced in part by the behavior of the international scenario. The financial system would continue to strengthen the growth of financial intermediation, with both companies and households, within a context of adequate liquidity and solvency levels.

I. International Context

Summary

Global economic activity evidenced some slowdown greater than expected during the second half of 2011 and early 2012, particularly in advanced countries. Nevertheless, differences amongst regions were observed. The Euro Zone exhibited recession whilst the United States and Japan continued evidencing moderate growth levels while developing countries remained showing greater momentum.

Advanced economies evidenced a persisting context of weakness in labor markets, fragility in financial systems and financing difficulties in some countries in the Euro Zone. Considering this situation, the monetary authority in the United States announced that it would keep the benchmark interest rate at low levels for a period of time longer than predicted and set, for the first time, an explicit long term inflation target. Authorities in the Euro Zone implemented a set of measures, including the intervention of the European Central Bank (ECB) through the supply of medium term liquidity lines at a low cost, Greece's debt swap with private investors and the early implementation of a new European Stability Mechanism. Despite a context of recession, discussions to define stricter fiscal criteria progressed and additional adjustment policies in public accounts were disclosed.

On the other hand, although emerging regions exhibited some moderate growth, they continued being the main drivers of global improvement. Over the last months, monetary and fiscal policies continued being implemented to stimulate economic activity by applying measures to contain the appreciation of their currencies.

Commodity prices fell over the second half of 2011, although they ended the year with year-on-year (y.o.y.)

rises. At the start of 2012, some upward pressures were observed, once again, on prices of major agricultural commodities influenced by the presence of the La Niña climate phenomenon, with negative effects on part of the 2011/12 agricultural harvest season in South America while geopolitical conflicts in the Middle East and north of Africa continued driving oil prices.

Taking into account the economic performance observed over the last months, global growth perspectives continued being adjusted downwards, anticipating for the year a more uncertain international context than forecasted six months ago.

Uncertainty about the economic evolution of advanced economies will continue generating volatility and this could impact on commodity prices. However, in the absence of a collapse of the international economy similar to the one recorded at the end of 2008, a sharp fall of commodity prices is deemed little likely.

Financial markets in the United States and Europe posted an oscillating performance over the last months which went from worsening during the last quarter of 2011 to evidencing some recovery over the course of 2012. The most recent relative improvement resulted mainly from monetary policy measures implemented in the United States and Europe. Financial assets of emerging economies accompanied this evolution, with a remarkable rise in the stock prices over the first months of 2012, sovereign debt spread cuts and fund inflows related to portfolio flows. Despite all these improvements, different tension hotspots still exist which could generate new volatility episodes over the coming months.

Chart 1.1

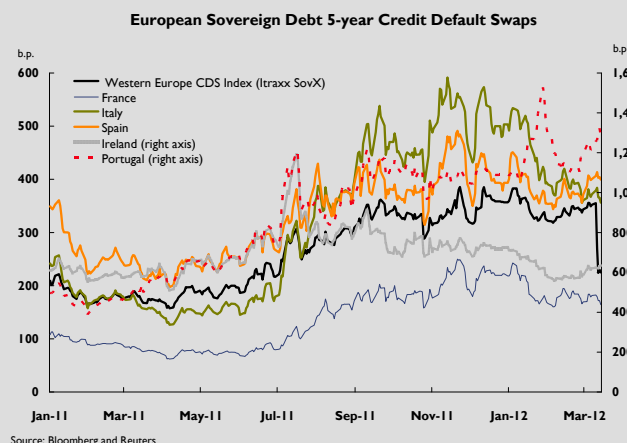
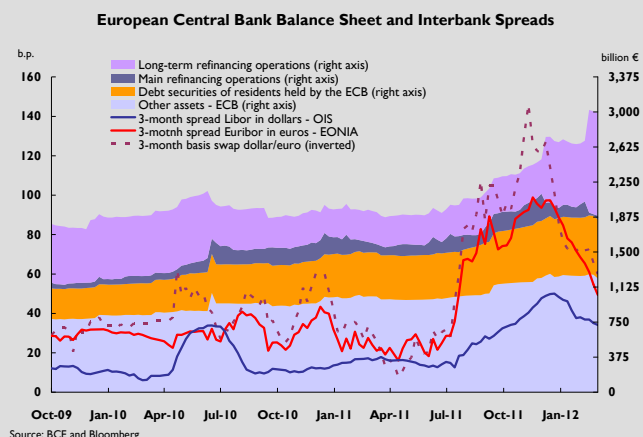
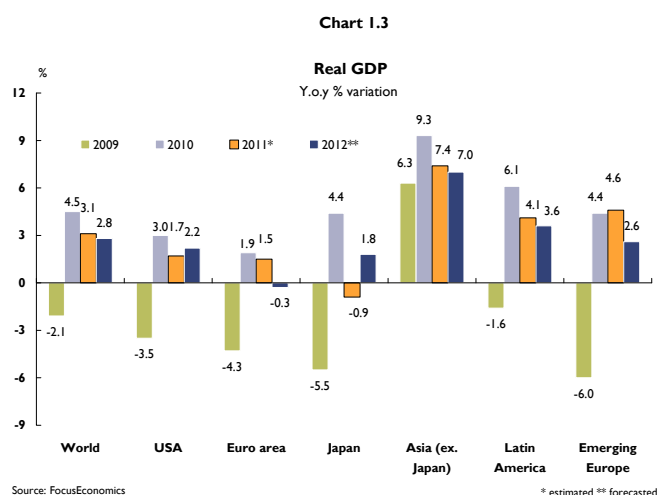


Chart 1.2



International Context

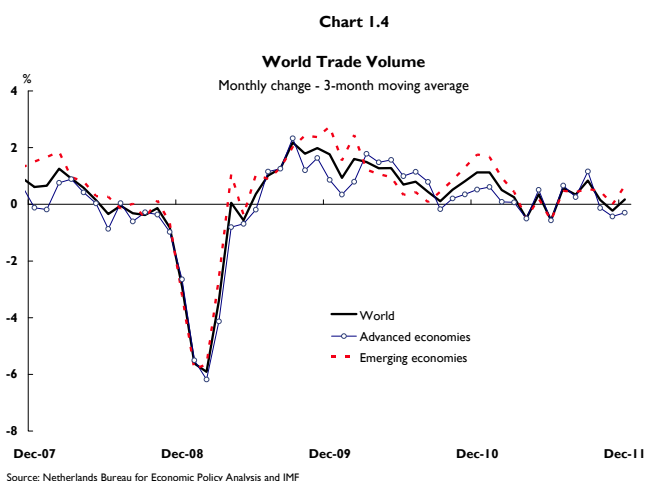
The global growth pace level observed during the second half of 2011 and the start of 2012 was lower than expected basically due to the weak performance of the most developed economies



Global economy grew 3.1% in 2011, exhibiting a more limited expansion in the second half of the year. The lower growth pace continued being observed in most regions in the world with a slowdown greater than expected in the case of advanced countries and a lower boost in the case of emerging economies. According to market forecasts, global production would rise 2.8% in 2012 (see Chart I.3).

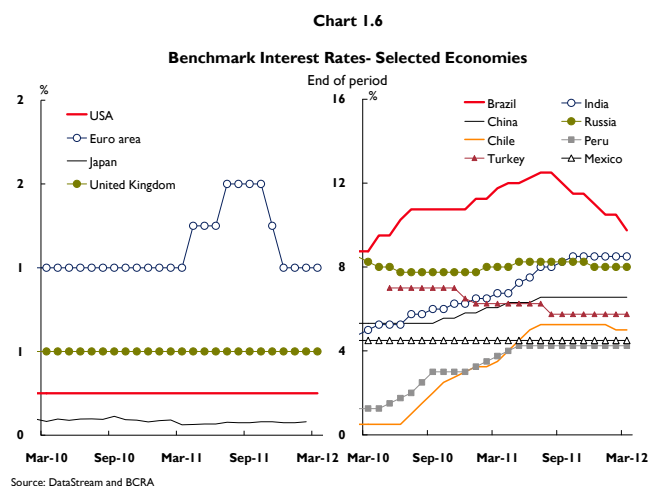
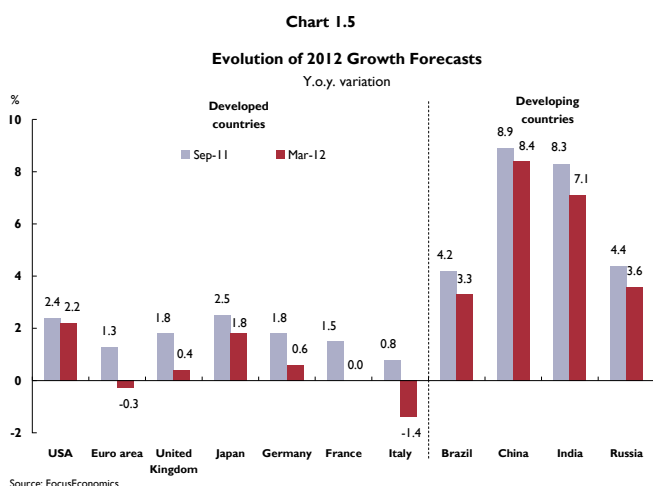
In line with this performance, international trade volumes also moderated their growth pace, climbing 6.9% in 2011 with a contraction performance by the end of such year against previous months (see Chart I.4). A 3.8% rise has been predicted for 2012, led by developing countries.

The trend of a world growing at different speeds would persist this year: while the United States and Japan face low growth perspectives, Europe is expected to undergo recession while developing countries would continue boosting the rise of international economic activity (see Chart I.5).



In a context of high financial volatility, authorities in advanced countries continued implementing measures to assure liquidity in their respective markets. The US Federal Reserve (Fed) and central banks in the Euro Zone, England, Canada, Japan, and Switzerland agreed on short term liquidity lines in dollars at a lower cost in late November, establishing, at the same time, bilateral swap lines between different monetary authorities. On the other hand, the Fed announced it would keep its monetary policy benchmark interest rate at exceptionally low levels until late 2014 (an additional year against what had been announced in previous meetings). The monetary authority set, for the first time, an explicit long term inflation target (2% y.o.y. of the private consumption deflator). However, no specific value was defined regarding the unemployment rate that would be compatible with the Fed's dual purpose (inflation and unemployment) given that long term levels corresponding to this variable are affected, according to the institution, by factors that are not related to the monetary policy¹.

¹ Particularly, it was mentioned that if there was some conflict between both objectives, the size of deviations against values intended and the potential time that prices and unemployment would take to return to such levels would be considered upon deciding on the direction of the



In order to prevent the financial crisis in Europe from worsening, the European Central Bank (ECB) offered financial entities liquidity lines at a 3-year term and at low costs for unlimited amounts, while easing conditions of guarantees that may be eligible as collateral for these transactions². Furthermore, the minimum reserve requirement coefficient was reduced. It should be noted that the rise in funding available for banks was accompanied by a sharp rise in their deposits with the ECB amidst a context still marked by uncertainty; meanwhile, lending to the private sector (non-financial companies and households) continued slowing down³ and exhibiting very low annual growth rates. Actions taken by the ECB were accompanied by additional measures to contain a crisis contagion possibility and by the formalization of the Greek debt swap with private investors (see Box 1).

Despite the contraction scenario in the economic activity level, most European Union members continued putting in place additional public account adjustment policies within a framework to advance on discussions to unify stricter fiscal criteria. Countries agreed on curbing their debt or including a budget balance “golden rule” in their legislation (they would accept a structural deficit of up to 0.5% of GDP, preferably, at a constitutional or equivalent level).

With respect to developing economies, emerging Asia and Latin America exhibited a better relative performance. Nevertheless, some growth moderation was observed that could be reflecting the economic slowdown impact on the developed world. In any case, Argentina’s major trading partners would continue recording greater momentum in economic activity against the international average.

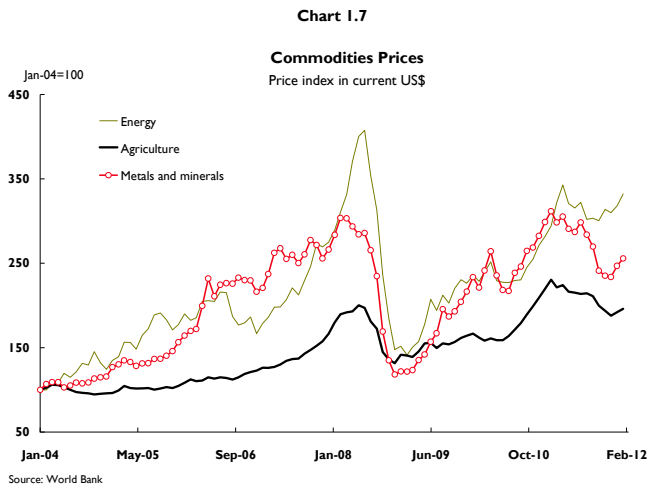
In general, the growth slowdown context with relatively stable inflation rates led to the implementation of countercyclical economic policy measures in the main emerging countries. Such is Brazil’s case that, in view of the deterioration of the industrial sector performance and in order to limit the negative impact of the deepening of the international crisis registered during the last months of 2011, it decided to implement tax reductions, expand certain tax exemptions, and reduce the monetary policy benchmark interest rate. On the other hand, China reduced bank minimum reserve requirement ratios

monetary policy. At present, it is estimated that this situation would lead the Fed to a reduction in the unemployment rate rather than containing the evolution of prices in the short term.

² The interest rate will be the one corresponding to that of Main Refinancing Operations (MRO) of the ECB, which currently stands at 1%. There were two auctions; one in December and another one in February.

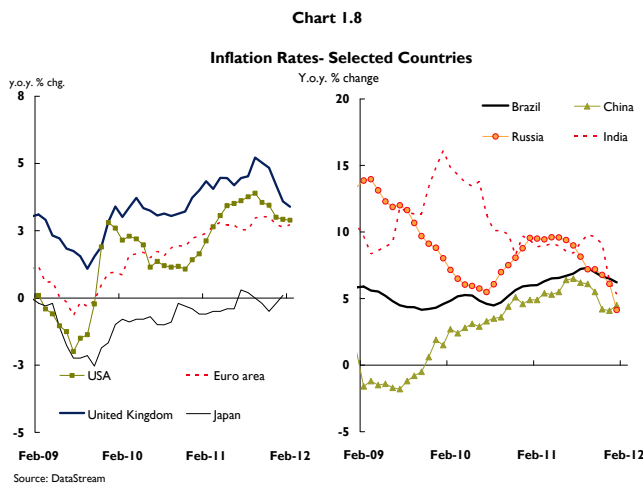
³ There were declines in the balance of loans to companies over the first months of the year. A similar phenomenon (rise in banks’ surplus reserves instead of reactivating lending to the private sector after the implementation of measures to shore up access to funding) was recorded in the United States within the framework of the 2008-2009 crisis.

following five consecutive hikes recorded since early 2011 while in other economies the upward trend in benchmark interest rates for the monetary policy stopped or such rates were cut (see Chart I.6).



Commodity prices decreased during the second half of last year even though they averaged 2011 exhibiting rises against the year before (see Chart I.7). Meanwhile, upward pressures arose once again on agricultural commodity prices in early 2012. Such hikes were influenced by the presence of the La Niña climate phenomenon, which adversely affected part of the 2011/12 agricultural harvest season production in South America. In addition, geopolitical conflicts in the Middle East and north of Africa continued boosting oil prices. Although commodity prices recovered partially over the last months, the sharp fall evidenced by late 2011 allowed easing inflation pressures, specially in emerging countries (see Chart I.8). Looking ahead, the uncertainty and vulnerability framework observed at a global level is expected to keep prices contained both in advanced and developing economies.

In absence of a collapse in the world economy similar to the one experienced in late 2008 and without recording sizeable changes in rates among the main currencies, a sharp drop in commodity prices against the current levels is deemed little likely. In the special case of food, the persistence of demand structural factors is estimated to continue shoring up its prices.



Financial markets went from an ongoing deterioration until late 2011 to a partial recovery over the first months of 2012

The evolution of financial markets observed during the last six months was mostly accounted for by the initial worsening of tensions in the Euro Zone (last quarter of 2011, see Chart I.1) and a subsequent relative improvement mainly subject to policy measures implemented in Europe and the United States. Some economic indicators that are better than expected in the United States added to all this over the last months.

A growing uncertainty about the contagion potential of the debt crisis in Europe persisted during the last months of 2011 with emphasis on large economies in a vulnerable situation –Spain, Italy and even France— and on the risk related to the banking sector in the region⁴. However, the risk perceived was mitigated during the first months of 2012 partly due to the aforementioned liquidity injection by the ECB and as a result of a sign of more coordination between European authorities, that was brought about by

⁴ With doubts about its capacity to refinance significant debt maturities scheduled for the 2012-2013 period as well as its solvency.

Box 1 / Policy Responses in View of the Debt Crisis in Europe

The deepening of the crisis in Europe led regional authorities to submit new measures in October and December. Although the improvement made with respect to the different announcements was dissimilar, the sharp liquidity injection by the ECB and the formalization of the Greek debt swap with private creditors allowed financial markets to show some improvements. However, there still exist doubts about policy parameters followed, so the European situation is still generating uncertainty

Although several measures to contain the crisis⁵ had been announced last July, a sharp deterioration in debt markets in Europe was observed during the third quarter of 2011. In view of this situation, authorities in the European Union submitted a new set of measures in October. On this occasion, announcements were based on⁶:

- I) *Acknowledgment of the need for sharper debt reductions in the Greek debt swap with private creditors and further financial aid for such country.* Unlike the proposal made in July (with nominal 20% debt reductions), a 50% haircut was proposed this time for the debt swap with private creditors planned for early 2012 (finally a swap was formalized but in March 2012). For their part, countries in the Euro Zone together with the IMF pledged to contribute €30 billion to make the offer for bond holders more attractive and up to €100 billion in aid so that Greece would cover its financing needs until 2014 and would recapitalize its banks⁷.
- II) *Need to progress towards an improvement in the capitalization of European bank entities.* A temporary capital buffer was established to cover the exposure in European sovereign bonds at the market value recorded in late September and to reach a basic TIER 1 capital ratio (following the Basel 2.5 criteria) of 9% over risk-weighted assets by mid-2012⁸. It was also established that compliance with this requirement would be fulfilled by prioritizing private sources and assuring that deleverage would

not be excessive. In addition, it was announced that guarantees would be given so that banks could access long term financing.

- III) *Willingness to leverage the temporary European Financial Stability Facility (EFSF) until reaching an amount close to a trillion euros.* This would be carried out through a flexible combination of the use of EFSF funds to grant guarantees in new sovereign debt issues and the creation of financial vehicles with investment of public and private agents at a global level to grant loans, recapitalize banks and/or purchase sovereign bonds.

Given the absence of detailed information regarding the measures launched and doubts about their effectiveness to solve the crisis, tensions in financial markets worsened in November (see Chart I.2). Thus, new announcements were made in December in relation to an agreement on a new fiscal rule and more policy coordination. The proposal to anticipate the execution of the European Stability Mechanism (ESM), of a permanent nature⁹ and to provide the IMF with new financing for up to €200 billion by EU countries to underpin the volume of available funds to help vulnerable economies was added to all this. However, the measure that had the most sizeable impact on financial markets in the region was the provision of funds at a 3-year term and with low cost by the ECB (which also expanded the range of assets admitted as collateral).

The first advancements regarding the measures announced in October were related to temporary capital requirements for banks. Last December, EBA¹⁰ published the final calculation of capital needs that must be complied with by late June for €14.7 billion for the aggregate of European banks. Most of this amount corresponds to financial entities of Greece, Spain, Italy, Germany, France, Portugal, and Belgium (see Chart B.1.1). At first, there were serious concerns about the potential impact of this measure on the credit market given that it could promote deleverage measures that would include granting less lending in the region (the pace of which remained moderated in late 2011 and early 2012, despite the liquidity injection carried out by the ECB). According to plans submitted by entities at the end of January (and still subject to revision/approval), in principle, most of the requirements would be met with

⁵ See Box 1 of Financial Stability Report II-2011.

⁶ In addition, a commitment was announced to guarantee fiscal discipline and speed up structural reforms in EU member countries, as well as 10 measures to improve governance in the Euro Zone and a request to the President of the European Council to identify measures to strengthen monetary union.

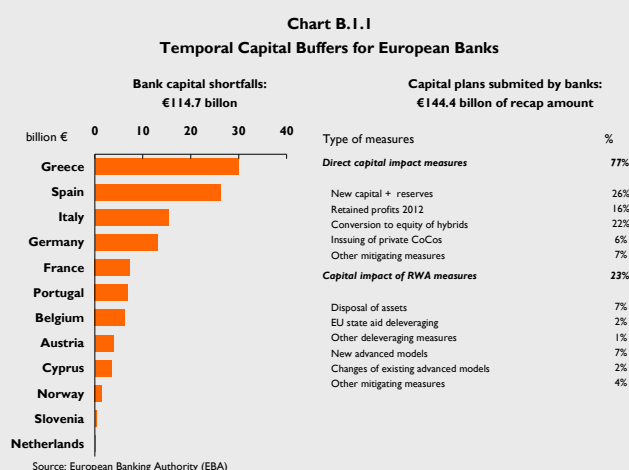
⁷ This treatment is different from the one applied to other cases, such as that of Argentinian crisis in 2001-2002 and the subsequent debt swap (where there were not fund contributions by international financial institutions).

⁸ It implies the creation of a capital buffer of an extraordinary nature but it does not modify accounting regulations or regulatory capital requirements.

⁹ As of July 2012 (it had originally been stated it would become effective in 2013).

¹⁰ European Banking Authority, which exists since 2011 (takes responsibilities of the Committee of European Banking Supervisors).

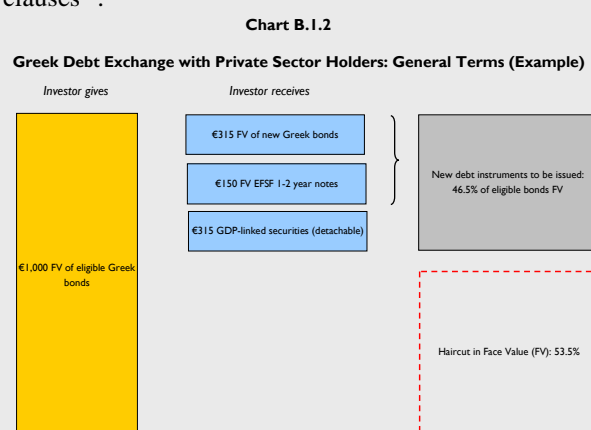
measures with a direct impact on capital¹¹ and only a marginal part of the proposals would be linked to less credit for the regional economy¹². However, even if these temporary requirements are complied with, fears about pressure towards more deleverage remain subject to the high existing indebtedness levels and requirements that the transition towards Basel III entails as from 2013.



With respect to the situation of Greece in particular, an agreement was reached at the end of February which combined measures of European authorities (more aid to Greece, retroactive reduction of interest rates for the existing aid) and the private sector (sovereign bonds swap) to make the Greek debt burden go from more than 160% of GDP to a level of 120.5% in 2020. Thus, countries within the zone (together with the IMF) provided Greece with a second aid package for up to €130 billion¹³, subject to strict conditionality. Indeed, the Greek government had to commit itself to implement additional spending adjustments and to work on a set of economic reforms and privatizations. A more strict monitoring added to this, coupled with the introduction of provisions within the Greek legal framework that explicitly describe the debt payment priority and the implementation of a special account where funds to service these payments would be deposited quarterly (making sure that funds from the EU-IMF are used to

this end). Finally, the second aid package for Greece was subjected to the formalization of the debt swap transaction with the private sector.

The latter implied a combined offering of Greek securities at terms of up to 30 years and average rates below 4% (coupons are staggered in an upward fashion) and EFSF notes at up to 2 years, which implies a 53.5% reduction in face value and over 70% in the present value against eligible Greek bonds (see Chart B.1.2). In addition, investors receive GDP-linked units with a term equal to that of new Greek bonds¹⁴. The swap had an 85.8% acceptance which was extended to almost 96% following the activation of the existing collective action clauses¹⁵.



The Hellenic Republic also delivered 6-months EFSF notes in discharge of all unpaid interest accrued up to 24-Feb-12 (the amount in each case depends on the eligible bond).
Source: BCRA based on the Terms published by the Hellenic Republic Ministry of Finance.

In terms of the leveraging of the Stability Facility, even though governments from other countries were initially expected to be attracted (like that of China) to invest in vehicles to be created, the worsening of the crisis registered at the end of 2011 and the downgrade of several European economies made any progress in this regard difficult. Nevertheless, the early implementation of the ESM was approved and the possibility of allowing the EFSF and the ESM to act simultaneously and/or to revise the amount related to these funds started being debated. At the end of March, an agreement was reached to increase the effective amount of action of these funds¹⁶.

¹¹ New capital, use of reserves and retained future profits, conversion of hybrids into shares and, to a lesser extent, issue of new hybrid instruments accepted as capital within the framework of this temporary requirement. These measures account for 77% of the amount of improvement measures proposed (which exceeded €144 billion, surpassing the estimated buffers).

¹² As per banks' individual announcements, and in order to comply with capital requirements, some entities chose to reduce their presence outside Western Europe (including sales of assets and business units). In the case of Latin America, some business unit sales of a Spanish bank were recorded.

¹³ This allowed clearing doubts regarding the country's capacity to face significant maturities at the end of March.

¹⁴ These units paid up to 1% annually if Greece's nominal GDP exceeds the figure established in the prospectus and if real growth is positive and surpasses that used as reference.

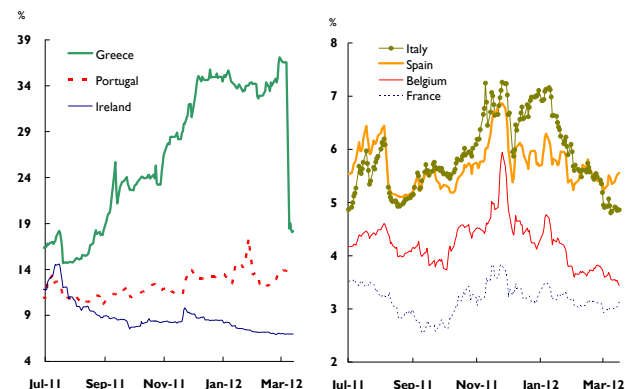
¹⁵ The introduction of CACs for sovereign bonds with local legislation in a retroactive fashion made the Greek debt be rated in selective default by the main rating agencies (see Box 2). The subsequent use of these CACs led to the triggering of credit default swaps on the Greek debt.

¹⁶ Unused funds from the EFSF will allow the ESM to have effective lending capacity of €500 billion (moreover, the payment of governments' instalments for this mechanism was made in advance). This amount adds to aid already pledged by the EFSF (€200 billion).

In spite of these partial improvements, the situation in Europe is far from being resolved. There are doubts regarding the sustainability of the Greek debt¹⁷ and the political approach applied to this case. Indeed, it is not clear how Greece is going to resume the necessary growth dynamics to comply with the targets set, given the demanding conditions related to the second aid package (which is focused on fiscal adjustment policies) and the impossibility to devalue the currency to boost the supply of tradable goods. Thus, although the situation in financial markets started exhibiting less tension (in relative terms) over the last months, the context remains challenging and the potential need of implementing additional measures to help vulnerable economies and/or contain the possibility of contagion may not be ruled out.

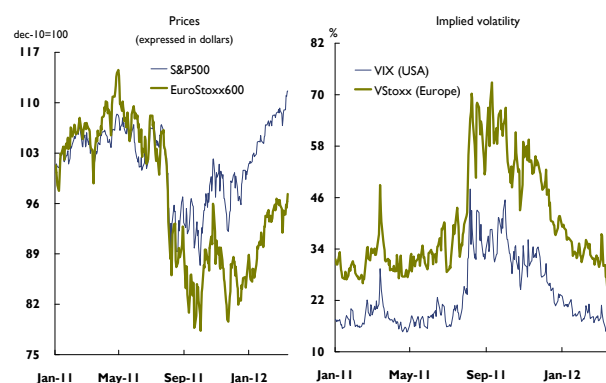
¹⁷ Indeed, new Greek bonds evidenced a still inverted curve in the second half of March and yields at a 10-year term within a range of 18-20%.

Chart I.9
10-year European Sovereign Debt Yields



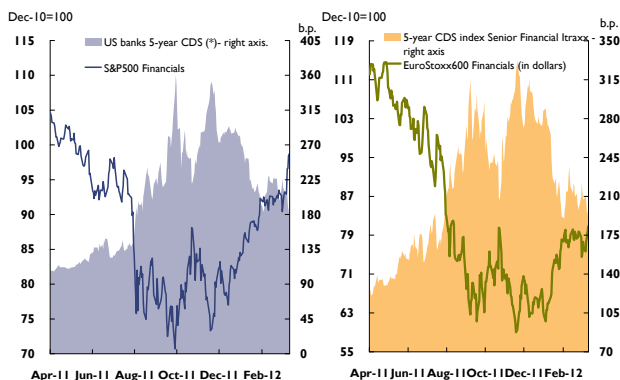
Source: Bloomberg

Chart I.10
US and Europe Stock Markets



Source: Bloomberg

Chart I.11
American and European Financial Sectors: Stock Markets and CDS Spreads



Source: Bloomberg (*) Simple average of 5-year CDS for 6 major banks

the announcement of new policy measures. The weakening of the most extreme hypotheses regarding the crisis in Europe was reflected on the gradual adjustment of debt yields of large vulnerable economies –in auctions and on the secondary market (see Chart I.9)— and on spreads on the interbank market which had recorded growing tensions (see Chart I.2). Together with the extension of the period of low interest rates expected in the United States, these factors led to a recovery in appetite for risk of investors at a global level during the first months of 2012.

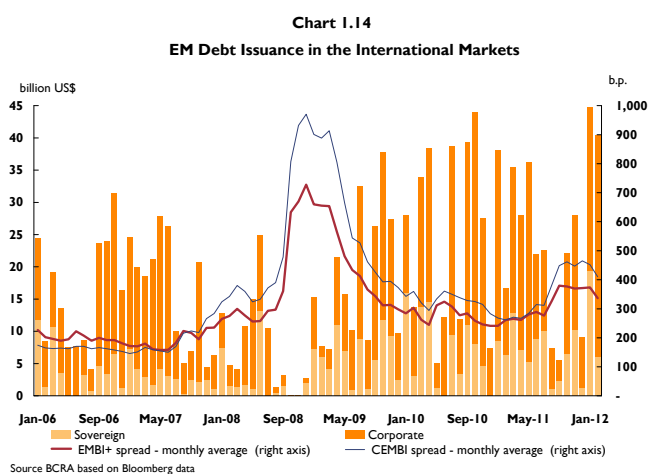
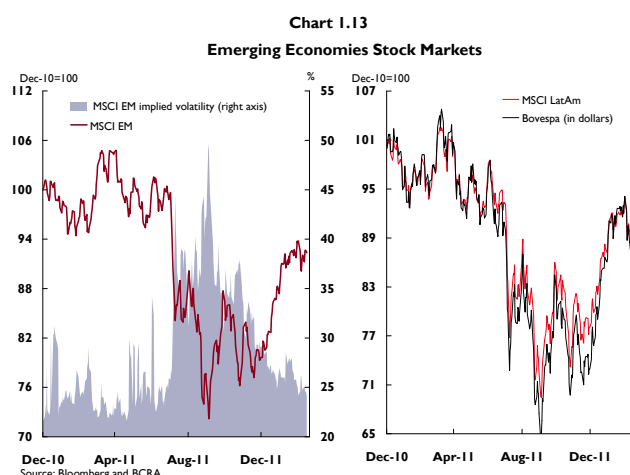
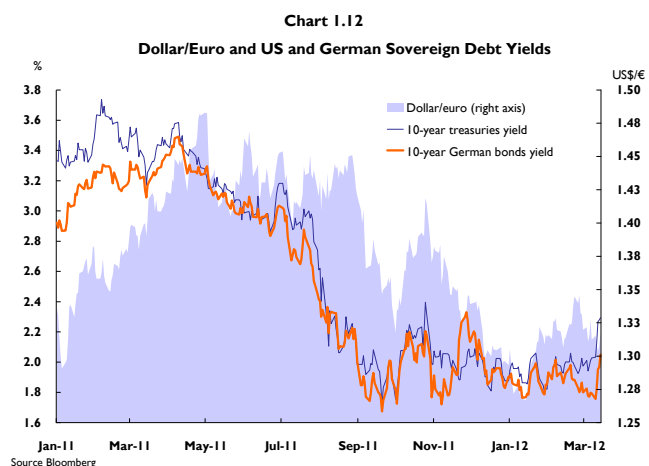
In this context, stock exchange indexes of the United States and Europe have reversed, since December, the negative trend that prevailed in the second half of 2011 and started evidencing an improvement in prices and an adjustment in the expected volatility (see Chart I.10). Since the end of September, the S&P 500 and the Euro Stoxx600 have exhibited rises of over 24% and 18% respectively measured in dollars. The broadest stock exchange indexes in the United States and those specifically pertaining to the financial sector could recover the levels observed by mid-2011 in February. In the European case, stock exchange indexes measured in dollars had been evidencing losses of about 10% at a general level and 20% in the case of banks since mid-2011 (see Chart I.11).

Despite the improvement observed in stock exchange markets, yields of treasuries and long-term German bonds remained within a range of about 1.8%-2.3%¹⁸ (see Chart I.12), however they exhibited some expansion trend by mid-March. On the other hand, after having reached its maximum revaluation against the euro in over a year, the US dollar depreciated against the European currency over the first quarter of 2012 (although the US dollar has accumulated a slight depreciation since late September) while the expected volatility for this exchange rate was adjusted downwards. It should be noted that speculative investors' short positions in euros that rose significantly over the last months of 2011, started to exhibit cuts in late January 2012. On the other hand, the dollar tended to appreciate against the yen over the last months –thereby accumulating an 8% revaluation since September- in a context where the Bank of Japan expanded its sovereign bond program and provided signs it would not allow the Japanese currency to keep on appreciating¹⁹.

Over the last months, emerging economies' financial assets accompanied the better context recorded in international markets and the rise in commodity prices

¹⁸ The Fed continued implementing its maturity rotation policy of assets in its portfolio (favoring long term assets), while the possibility of a potential rise in the asset purchase program continued being considered in financial markets.

¹⁹ The yen appreciated even more than 10% against the US dollar between early April and late October 2011.



Stock exchange indexes in emerging economies have exhibited a sharp positive trend since mid-December reversing the losses accumulated over the last months of 2011. Thus, share prices for the aggregate of emerging countries have accumulated a 20% rise since late September as per the MSCI EM (measured in dollars), while the volatility expected for the main components of this index contracted gradually after evidencing a sharp rise between August and October (see Chart I.13). Latin American stock exchanges exhibited a more marked improvement than that of the aggregate of emerging countries²⁰, and the Brazilian Bovespa should be highlighted given it has recorded an increase in excess of 30% since late September. This improvement in prices registered over the first months of 2012 was accompanied by significant inflows in investment funds specialized in variable income pertaining to economies of emerging markets, which recovered part of net outflows recorded in 2011.

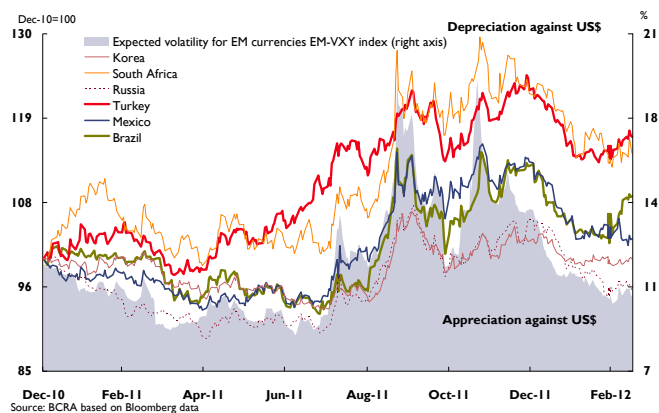
Emerging sovereign debt risk spreads (EMBI+ EM) have been cut by about 120 bp since late September subject to a more marked contraction that has been observed since early 2012. Less activity in terms of debt issuances in international markets by emerging economy agents was observed over the second half of 2011 (a performance mainly accounted for by corporate sector issues) while they exhibited momentum once again during the first months of 2012. Thus, a new monthly record in sovereign debt issuances was registered in January whilst corporate debt transactions in February were for amounts close to the historical maximums (see Chart I.14). It is worth mentioning that countries in Latin America (like Brazil and Mexico) managed to obtain financing at low rates.

In line with stocks and sovereign prices' bonds of emerging economies, their currencies appreciated against the dollar and exhibited less expected volatility (see Chart I.15). In Latin America, the Brazilian real accumulated an appreciation of almost 10% against the US dollar between late September 2011 and late February 2012 (after devaluating almost 20% over the third quarter of 2011), which led the Central Bank to the implementation of measures to contain this situation (the real depreciated almost 5% in March).

In general terms, emerging market assets are expected to show a positive performance this year subject to the context of low interest rates in financial markets of developed economies, the support of commodity prices and greater relative momentum in the level of activity in developed economies. However, there still exist tension hotspots

²⁰ The price/profit ratio for the MSCI Latin America has averaged a level of 12.8 times so far this year, exceeding the average of 2011 (11.6) but below the mean recorded in 2009 and 2010 (14.4 and 15.2).

Chart I.15
Emerging Economies Currencies vis à vis US dollar



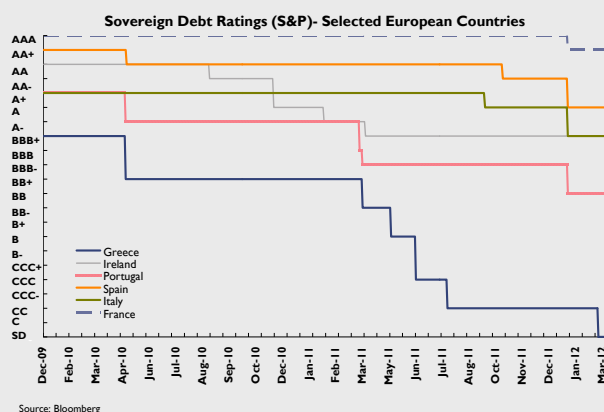
especially regarding the situation in Europe and uncertainty about the economic evolution at a global level. Although the risk perceived was adjusted downwards over the last months, the European crisis remains unsolved and, depending on the ambitious targets set for vulnerable economies, the re-emergence of tension episodes may not be ruled out. On the other hand, caution in view of economic indicators that intensified doubts about growth in several large economies was renewed during the second half of March. This could give rise to investors taking profits after recording an improvement in the price of assets of emerging economies during the first months of the year

Box 2 / Credit Rating Agencies' Role in Financial Markets

The debate regarding the effects derived from actions taken by credit rating agencies on financial markets' stability gained momentum over the last years. This issue, which was included in the international reform agenda after the subprime crisis in the US, gained relevance recently because of the multiple downgrades observed in sovereign ratings within the debt crisis framework in Europe. In this context, progress is being made on several measures to improve transparency and the regulation of rating agencies trying, also, to decrease the influence of their actions on the market, although there has not been any consensus yet about what the most viable alternatives would be

In a context marked by the sovereign debt crisis in Europe, credit rating agencies (CRAs) have downgraded many countries in the region including not only Greece but also large economies such as France (see Chart B.2.1). This led to reactivating the debate about CRAs' role and the effects of their actions on financial markets, the treatment of which gained special relevance following the 2008-2009 international financial crisis.

Chart B.2.1



CRAs are expert agents that give their opinion about the relative credit risk related to several issuers and instruments by providing an ordinal measurement: ratings corresponding to a specific scale. This process, which should be aimed at contributing to the treatment of information asymmetries existing in financial markets and facilitating decision making by investors²¹, affects market access by various issuers and their financing costs.

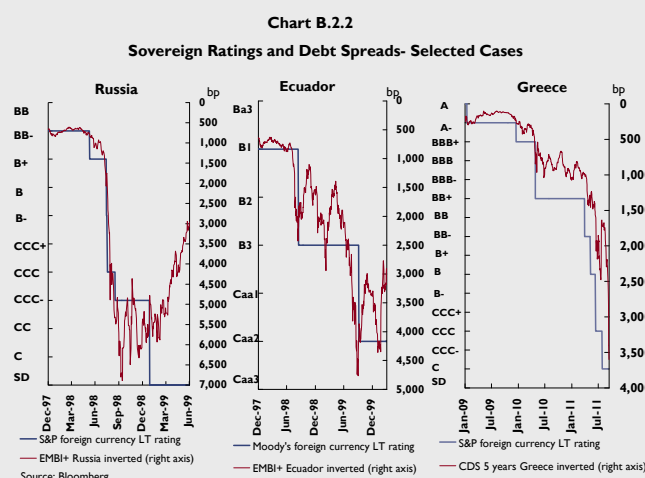
²¹ Apart from providing information (order based on credit quality, "investment grade" certification), rating agencies have a monitoring role by providing an outlook about the future evolution of credit ratings.

Although the main CRAs have been operating since the first half of the 20th century, they have become more influential over the last 20 years on account of different factors. Such factors include several interrelated elements: the emergence of instruments and new types of financial assets (of a complex nature in some cases), the ongoing growth of activity in capital markets, and the development of institutional investors. The Basel II accord added to this last decade, since it validated the use of ratings in the calculation of banks' capital requirements.

Ratings granted by CRAs impact on decisions taken by several market agents, including financing providers (banks, mutual funds, insurance companies, etc.), debt issuers and the public administration. Their presence within the regulatory and supervision framework (like in the abovementioned banks' capital requirements) is coupled with their use mainly by institutional investors (for example, to determine what assets may be eligible to be part of their portfolio) and their consideration in various market practices (to classify instruments that may be eligible as guarantee in certain operations and the haircuts applied, amongst other items).

The growing relevance of ratings over the last two decades was accompanied by criticism about measures taken by CRAs. Part of the latter are based on methodology issues and the quality of ratings granted, issues that are worsened by the potential impacts of risk rating agencies' actions on financial markets' stability. Indeed, CRAs tend to combine quantitative methods with qualitative criteria although the assumptions used and the incidence of different factors on the final rating are not transparent enough. Questions about the transparency of CRAs are combined with doubts about the efficiency of the rating process aiming at their accuracy and the timing of changes (reactive and non-anticipatory, and usually with late overreactions once tensions have materialized²², exacerbating existing problems) and their procyclical nature (given the high correlation existing between rating agencies and market spreads, see Chart B.2.2).

²² The Asian debt crisis recorded at the end of the '90s was an emblematic case. Cases not related to the sovereign debt include corporate examples (Enron, Parmalat, etc.) or the subprime crisis in the US and its impact on structured products at a global level.



Critical views about CRAs are also addressed to the existence of conflicts of interest and incentive problems (especially regarding the rating of instruments within the private sector) given that the prevailing business model means the issuer is the one paying for the rating. Thus, there are incentives for the issuers to negotiate with different rating agencies to obtain the best possible rating²³. In addition to all this, CRAs may sell consulting services to issuers. Despite all this, alternative models (for example, investors paying for the service or establishing public rating agencies) also have limitations²⁴.

The market structure of CRAs is also questioned; although there is a significant number of rating agencies in the world, the market performance is, in practice, of an oligopoly nature. The core of the business is concentrated in 3 companies²⁵; in addition, there are significant fixed costs (including those related to reputation issues) that complicate entering the sector, as well as high profitability margins and few incentives to compete. Finally, given the relevance of the measures taken by CRAs and their market structure, criticism has also considered that the sector regulation and monitoring have historically been lax and/or inefficient.

Within the framework of the debate about the need to reform the financial sector in a broad sense that took place at an international level after the 2008-2009 crisis, several kinds of measures have been proposed to work on problems related to CRAs in particular. Within the scope of the G20, countries committed, in 2008, to speed up the implementation of measures to improve transparency and follow up of rating agencies and to ask rating agencies to solve conflicts of interest. In addition to all this, there was an agreement to reduce reliance of rating agencies on existing rules and regulations with related works of the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB). Furthermore, the IOSCO²⁶ was asked to review rating agencies' code of behavior to improve the rating procedure and to administer existing conflicts of interest; agencies were asked to comply with this revised code in 2009.

The G20 parameters have been included in several initiatives boosted at a national and regional level. In the US case, the 2010 Dodd-Frank Act reinforced the regulation powers of the Securities and Exchange Commission with respect to CRAs²⁷ and expanded the requirements the latter should comply with (placing emphasis on internal controls, information provision, transparency of methodologies, and the performance of ratings, the presence of independent directors and CRAs accountability²⁸), apart from requesting a revision of the existing regulations to rule out all references to rating agencies and requirements related to the use of the ratings, replacing them with other suitable alternatives. CRAs started being regulated in Europe as from 2010 focusing on the registry (including the validation of ratings by non-European agencies), the business monitoring (including conflicts of interest, methodologies, and transparency) and the supervision by the European Securities and Markets Authority—that has been operating since 2011—, meanwhile, work has been done since the end of last year to progress on a new proposal of the European Commission that includes new measures regarding competition and accountability²⁹. Japan also introduced a supervision system for CRAs (registration, quality controls).

²³ This was more evident in the case of the rating of structured products.

²⁴ For example, payment by the investor (the model originally used) generates a free riding problem. In the case of establishing a public rating agency, and as long as ratings continued being relevant, there would be incentives not to cut ratings.

²⁵ Two of them are from the US and the third one has European capital (although it has its headquarters both in Europe and in the United States). It has been estimated that by late 2011 there were more than 70 rating agencies at an international level, although in many cases they are partnered with or related to the main 3 CRAs. However, there are minor American and European rating agencies while there are also relevant cases of rating agencies in other countries and regions (such as China, India, Japan, Australia and Canada).

²⁶ International Organization of Securities Commissions.

²⁷ The Credit Rating Agency Reform Act had already been launched in 2006 and demanded registration with the SEC and compliance with requirements related to the publication of data and submission of reports (although it did not work with methodologies). The information requirements were expanded in 2009, including methodology-related issues.

²⁸ Analogous to that of other market agents, such as auditors and investment analysts.

²⁹ Apart from the proposals of less reference to credit rating agencies in regulations (for example: for fund managers) and more frequency and transparency for sovereign ratings (and the assumptions used), now there is the requirement of rotation in the use of rating agencies and more civil liability for agencies in cases of mistakes in the opinions announced.

At a local level, measures have placed emphasis on improving transparency. As from 2011, rating agencies must disclose their rating manuals and/or methodologies and the fees they charge for their services³⁰ through the National Securities Commission (CNV).

In short, a set of measures is being defined aimed at improving the quality standard and transparency in ratings published. This has been accompanied by efforts to limit the relevance of rating agencies in financial markets although it is still necessary to reach consensus about the existing options given the limitations other potential alternatives have.

³⁰ The information mentioned is available at the CNV (National Securities Commission) website:
http://www.cnv.gob.ar/inf FINAN/calif/pub/esp/app/ca_CR_Sel.asp?Lang=0

II. Local Context

Summary

In 2011, the Argentine economy grew around 9% in year-on-year (y.o.y) terms, with a similar pace to that of 2010 (see Chart II.1). This expansion was due in part to the increase of domestic demand. The labor market continued consolidating, and reached record figures in terms of employment and activity, as a result of which unemployment stood at a minimum rate. Households' consumption was mainly boosted by the improvements in employment and wages, accompanied by a higher credit supply and an increase in government transfers.

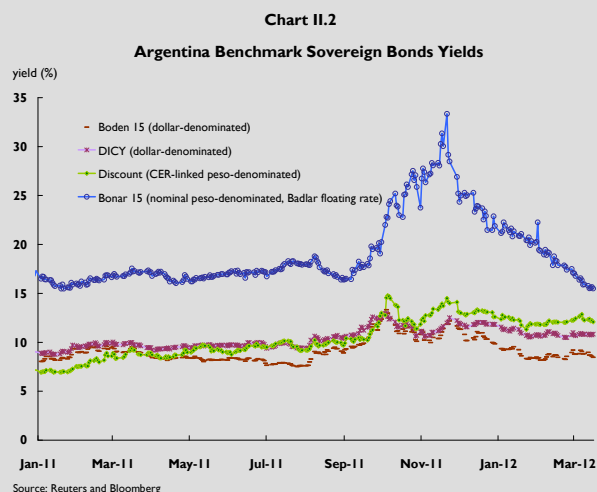
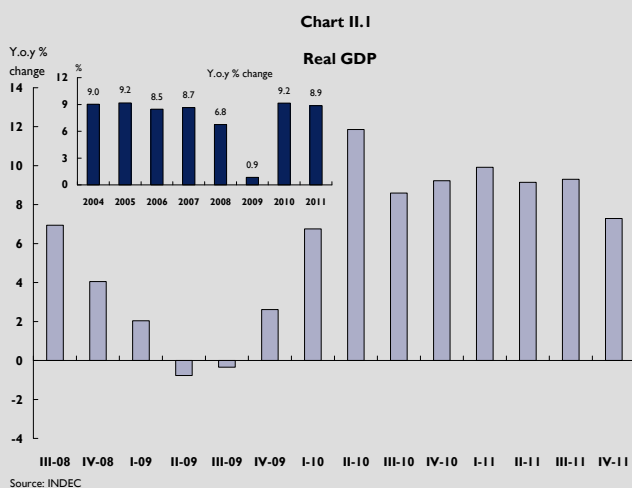
Investment went up around 17% y.o.y throughout the year, and was mainly devoted to the purchase of durable equipment, signaling the need to expand productive capital within a context of high levels of installed capacity utilization. Thus, capital spending stood around 25% of GDP, reaching the maximum level of the series that started in 1993.

Inflation exhibited lower increase rates by the end of 2011 and early 2012, and this trend is estimated to continue in the rest of the current year. The absence of domestic shocks in primary product prices, within a context of more moderate international commodity prices, contributed to a reduced hike in the prices of goods, unlike the situation of one year ago.

In line with the trend observed in international markets, the financial assets of Argentina showed a heterogeneous performance in recent months, with a higher volatility in the last quarter of 2011 and a

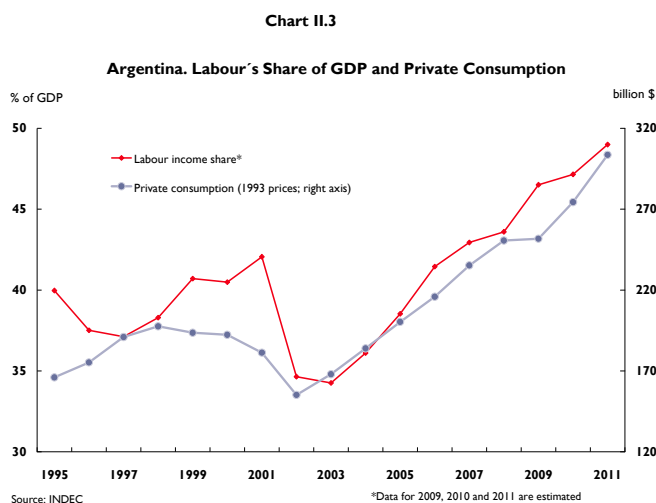
recovery in the first months of 2012. The recent improvement resulted in a widespread expansion of government securities and stock prices as from September 2011, within a context of increasing traded volumes. Regarding financing through markets, trusts and corporate bonds lost momentum (largely due to a context of increased uncertainty by the end of 2011, and to the seasonal effect of the first months of this year) even though trading of deferred payment checks broke a new record. In turn, the cost of financing was more volatile in the case of instruments issued by private sector borrowers, with sharp increases by the end of 2011 (consistent with the Private Bank BADLAR) which have reversed in recent months.

In 2011, the Central Bank of Argentina met the targets of the Monetary Program within the base scenario. In addition, it achieved other objectives related to an increase in the economic monetization levels and credit deepening. In the first months of 2012, the economic activity continued to grow, mainly driven by domestic demand. Like in the second half of 2011, the economic expansion pace moderated in early 2012, a trend that would prevail in the rest of the year in line with the estimated lower increase of external demand. As a result, the Argentine economy is expected to continue expanding in 2012.



II.1 Macroeconomic Context

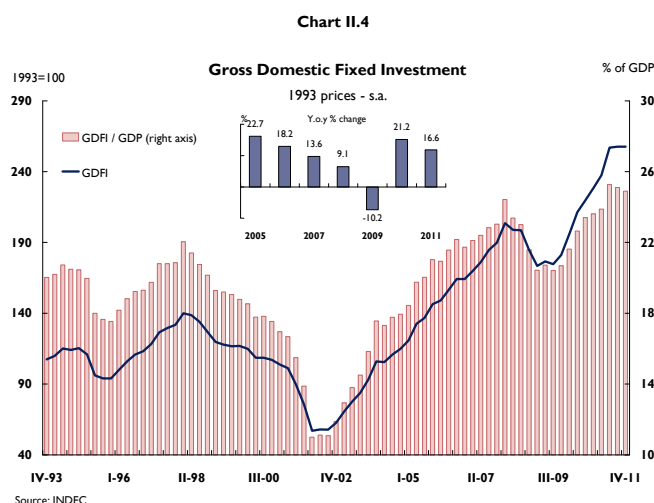
The domestic economic activity expanded markedly throughout 2011, recording an 8.9% growth rate, above the average increase of the 2003-2008 expansionary cycle, largely boosted by households' consumption and investment



In the second half of 2011, the economic activity continued expanding markedly, even though its growth rate has exhibited some moderation against the first half, within an international context of increasing uncertainty and weaker perspectives (see Chapter I). The domestic production of goods and services went up by 8.3% y.o.y in the second half of 2011, down 1.2 percentage points (p.p.) against the growth pace of the first half.

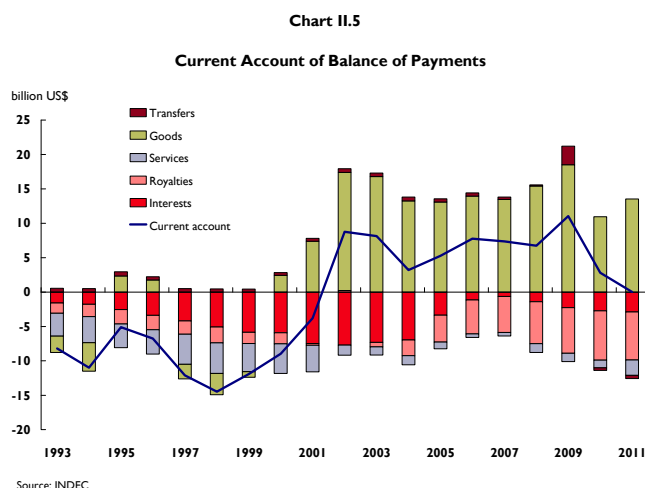
Households' consumption has consolidated as the main engine of domestic demand (see Chart II.3). Households' spending was mainly due to the increase of the wage bill (given the combined improvement of wages and employment levels), supplemented by higher government transfers and the increasing level of bank financing.

The sustained economic growth continued to underpin the labor market, mainly through the creation of new jobs, but also through improvements in employment quality. The unemployment rate was 6.7% of the labor force (PEA) in the fourth quarter of 2011, down 0.6 p.p. against the rate recorded one year ago, and reaching the minimum values of the last two decades.



Investment was once again the most dynamic component of GDP, even though its expansion rate declined in the last quarter of 2011 against the rates recorded in the previous quarters. Investments made to purchase machinery should be especially highlighted, signaling the need of companies to raise their production pace within a context of historically high levels of utilization of the installed capacity. Investment in construction was also on the rise, impacting strongly and positively on job creation despite the more moderate activity of the last months of 2011. Thus, in 2011, the investment rate stood at 24.5% of GDP, up 1.6 p.p. against the figure recorded in 2010 (see Chart II.4).

Exports consolidated their growing trend in the second half of 2011, boosted by the increase of shipments of primary products and their byproducts, and by the improved sales of industrial goods. Total exports of goods went up by over 7% y.o.y in the second half of 2011, ending the year with a 5.9% rise. In the opposite direction, imports of all groups of goods exhibited a



reduction of their y.o.y. growth rate by late 2011. Total imports of goods grew around 14% y.o.y. in the second half of last year, and went up by 19% in the year average.

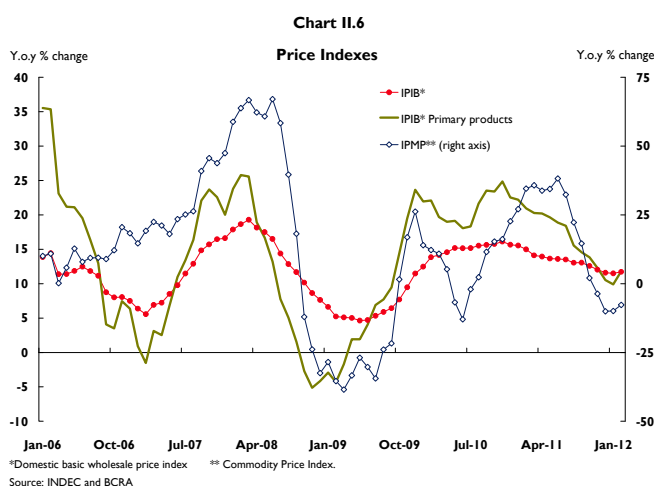
Net exports have impacted negatively on GDP growth in 2011, with a negative contribution of around 1.3 p.p. in the second half of 2011. In turn, terms of trade improved by 6.1% throughout last year, since export prices exceeded import prices, mainly driven by primary products and farming manufactures.

Thus, the trade balance stood at high levels in historical terms, reaching US\$10.35 billion, down 11% against the values recorded in the previous year. This result is attributed to the US\$3.25 billion deficit of the fuels and lubricants item. If this item is excluded, the trade surplus amounted to US\$13.60 billion, up 41.8% against 2010 figures.

As a result, the trade balance of goods has underpinned once again the current account balance. In 2011, there were higher payments abroad from earnings and dividends resulting from the increased economic activity and the profitability of investments corresponding to 2010, while the interest paid also went up (see Chart II.5).

By the end of the year, the various price indicators available showed a decrease in the y.o.y growth pace against the values of late 2010 and the rest of 2011. This slowdown in the prices of goods benefited from the moderation of food international prices, added to the absence of domestic shocks in the meat market, unlike what had happened throughout 2010 (see Chart II.6). The decline was noticeable despite the increase in service prices, especially the unregulated segments, such as health care and education.

The Central Bank met the targets of the 2011 Monetary Program within the base scenario, in addition to meeting other objectives related to an increase in economic monetization levels and credit deepening



In 2011, the Central Bank met the targets set in the Monetary Program (PM) within the base scenario (see Chart II.7). In December, total means of payment (M2) and private sector means of payment (private M2) increased by 28.9% y.o.y. and 30.7% y.o.y., respectively, up only 1 p.p. and 1.5 p.p. against the forecasts of the base scenario.

In 2011, other objectives of the PM were also achieved, mainly in relation to an increase in monetization levels

and credit deepening. The Central Bank continued with its policy of fund auctions under the Bicentenary Productive Financing Program (PFPB); in addition, an auction and disbursement pace consistent with the higher momentum noticeable in the second half of 2011 is anticipated for 2012.

Thus, like in the first half of 2011, loans in pesos to the private sector were the main reason behind the increase in the means of payment (see Chart II.8). It is worth mentioning that in the first months of 2012, the expansion pace of credit to the private sector lost some ground due in part to seasonal factors related to our summer holidays.

On the other hand and in order to reduce exchange rate volatility, the Central Bank continued to operate in the foreign currency market. In the second half of 2011, there was a seller net balance, within a context of portfolio reallocation by the non-financial private sector in favor of assets in foreign currency. Vis-à-vis this situation, the BCRA pumped the liquidity required and renewed LEBAC and NOBAC maturities only in part. This measure allowed to preserve the momentum of loan granting by banks, and also served to reduce the pressures on interest rates. However, by the end of 2011, the seller position started to reverse and, by mid November, the Central Bank accumulated daily net purchases for US\$100 million on average, a trend that has been kept so far in 2012. Thus, foreign currency purchases by the Central Bank reached US\$3.34 billion in 2011, and US\$2.79 billion so far in 2012 (until mid March).

The balance of international reserves closed 2011 at US\$46.38 billion, showing a decline both in the second half and throughout the year. Nevertheless, if the amount equivalent to debt payments made through the Fund for Payments to International Financial Organizations and the Argentine Debt Reduction Fund is added to the stock of reserves, the balance would have increased more than US\$3.7 billion along the year (see Chart II.9). Likewise, since mid December, and in line with the purchase of foreign currency, an increase in the stock of international reserves has been noticeable, a trend that has consolidated since early 2012.

The private sector's time deposits in pesos have exhibited a good performance in the second half of 2011, and especially in the last quarter, favored by the interest rate increases of such deposits. In the second half, time deposits went up by 12.3% (\$11.75 billion), recording a y.o.y. variation rate of 31.7%. As a result, they have reached the highest average month-on-month (m.o.m.) growth rate of recent years (see Chart II.10). In line with this momentum, in the first two months of 2012, they have reached a record 11.3% growth rate for

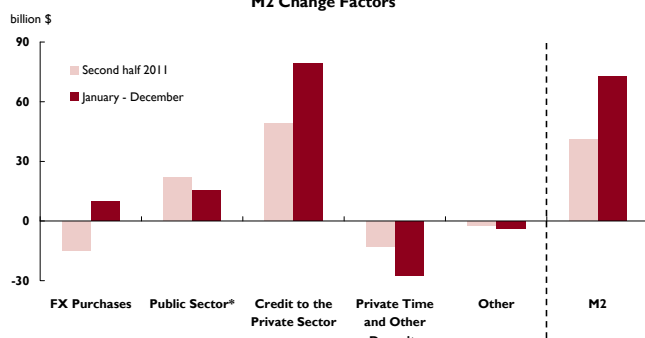
Chart II.7

Targets of 2011 Monetary Program - M2
Growth rate vis-à-vis December 2010

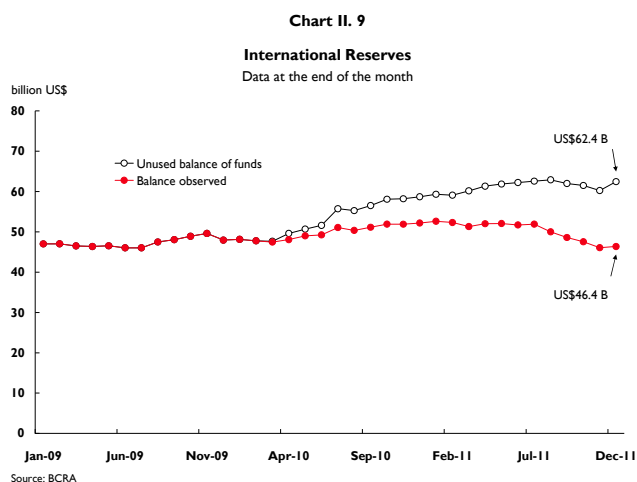


Chart II.8

M2 Change Factors



*Includes the effect of monetary transactions with the BCRA, the variation of local bank loans and time deposits and other deposits in local banks, in pesos, of public sector. Instead, sight deposits in pesos of public sector in local banks are part of M2.
Source: BCRA

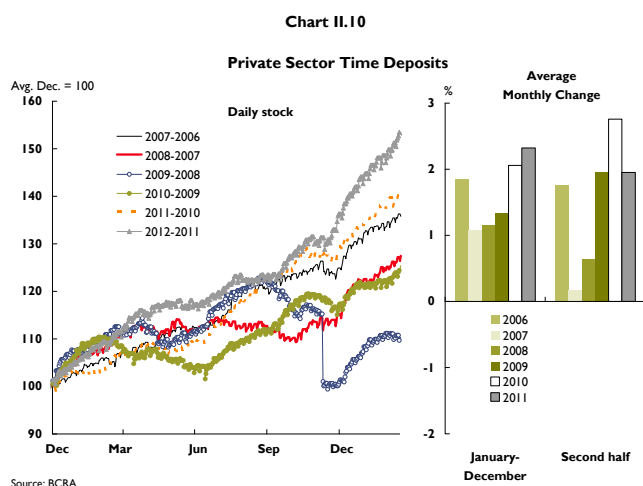


the period (\$12.15 billion). In turn, the broadest monetary aggregate (M3), including cash held by the public, settlement checks in pesos and total deposits in pesos, went up by 12.4% in the second half of 2011 and by 30.3% in y.o.y. terms.

Regarding private sector's deposits in foreign currency, they exhibited an increasing trend up to the third quarter of last year, thus accumulating in the first nine months of 2011 an increase of US\$2.79 billion, an amount partially offset in the fourth quarter. However, in the last weeks of 2011, these deposits resumed their growth and remained relatively stable so far in 2012.

In 2012, the Argentine economy is expected to continue growing, even though at more moderate levels vis-à-vis a global context of economic deceleration

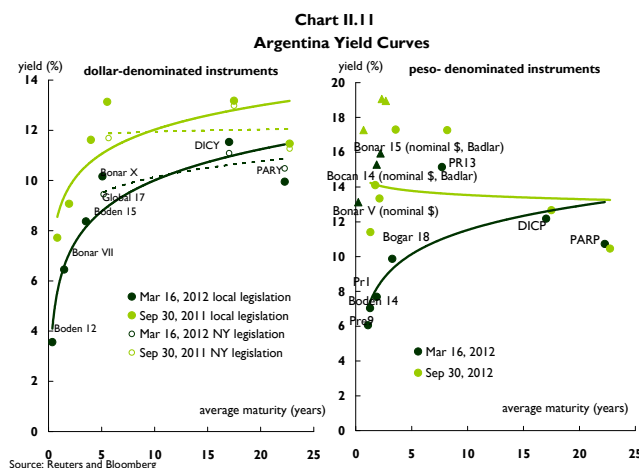
The Argentine economy would moderate its economic expansion in 2012, in the context of an expected slowdown in the global economy, which will impact on international trade flows. Anyway, the fact that the performance of Argentina's main trading partners—especially China and Brazil— will continue to exceed the world average will turn out to be favorable for our country. Domestic demand is expected to continue boosting GDP. In the absence of shocks, prices would keep their declining trend as evidenced in 2011, given the global deceleration of the economic activity which would limit the increases in commodity prices.



II.2 Capital Markets

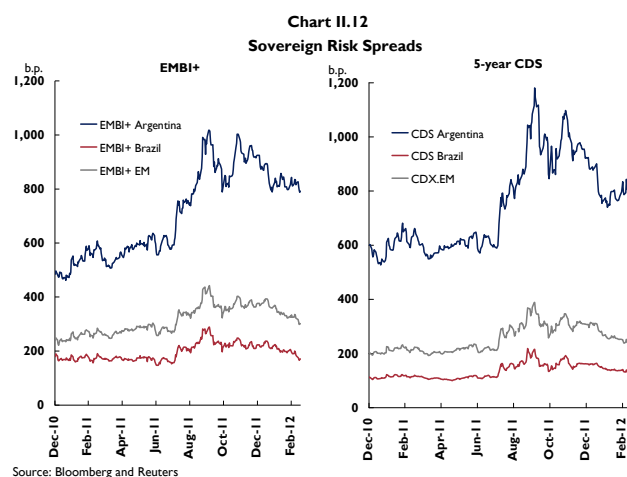
Unlike the situation in the last quarter of 2011, international financial markets are showing a relative recovery so far this year, with an improvement in the prices of stocks of higher relative risk and decreasing volatility. In Argentina, fixed income instruments and shares were in line with the trend observed in emerging markets in general, and have accumulated price improvements since late September 2011. This accumulated performance is consistent with the improvement recorded in recent months, at the same time that caution still prevails with reference to the situation in Europe, which might result in episodes of tension in the near future.

The performance of government securities has been in line with the ups and downs of international financial markets, but showing an improvement so far in 2012



Even though the prices of Argentine government securities have had a volatile performance in October and November 2011, they started to recover in December on a sustained and widespread basis, accumulating improvements since late September 2011³¹. In the case of dollar bonds, the yields required by investors contracted between October 2011 and March 2012 by 270 basis points (bp) on average along the length of the curve of instruments under local legislation and by 160 bp on average for those under US legislation (see Chart II.11). In turn, bonds in pesos with CER adjustment lost 400 bp on average along the length of the curve, with more marked decreases in the medium tranche (where they reached over 700 bp) (see Chart II.2). In turn, the yields of nominal peso-denominated bonds went down by 350 bp on average in this period, affected by the performance of Private Bank BADLAR rate³². Finally, the prices of GDP-linked units (UVP), the instruments with the best performance in 2011 (with a sizable payment made in December 2011 due to the 2010 growth effect), have improved so far this year.

Due to the lower yields of the Argentine government securities in dollars under international legislation, and the slight increase of the long-term US Treasury bonds since late September, the sovereign risk differentials of Argentina recorded a decrease, in line with the performance of fixed income instruments of emerging economies. According to the EMBI+ of Argentina, prepared by J.P. Morgan, our debt spread contracted by 200 bp since the end of September and, in March 2012, it was standing around 790 bp. In turn, the 5-year credit default swap (CDS) contract on the Argentine debt had lost 350 bp to nearly 740 bp by mid March (see Chart II.12).



The direct placement of bonds to intra-public sector entities has continued to be the National Government's main funding mechanism, and debt service payments continued to be made with international reserves of free availability. On the other hand, the stock of short-term bills remained relatively stable at around \$5.7 billion. With respect to bond issuances, most of them were instrumented as government securities in dollars, even though instruments in pesos with Private Bank BADLAR-based coupons plus a spread (BNA Loan and Bonar 16) were also issued.

In a context of higher volatility of BADLAR rate, a renewed interest arose for LEBACs

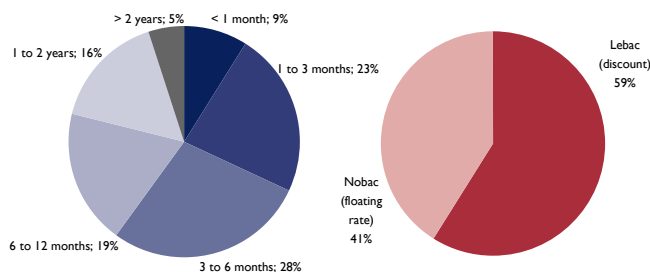
³¹ Until mid March. Despite the recovery observed by the end of the year (during part of December), most government securities ended 2011 with remarkable price drops, which were sharper in the curve of instruments in pesos plus CER.

³² Even though the benchmark rate stands currently at similar levels than those of September 2011 (around 13%), a sharp increase was recorded between October and November, and it has gradually corrected since mid November (when it reached a maximum value of nearly 23%).

Chart II.13

LEBAC and NOBAC Stock Composition

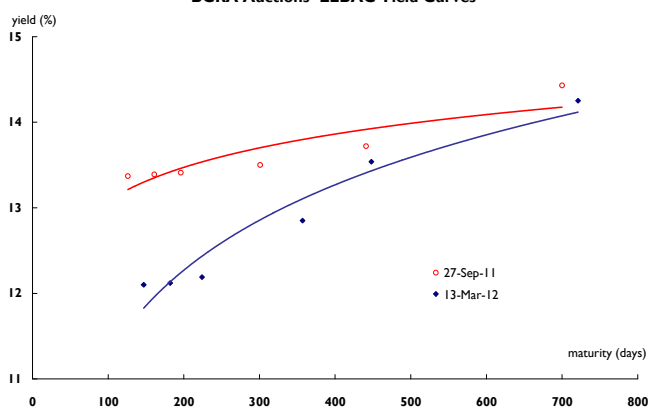
Outstanding stock by type of interest rate and maturity as of Mar-12



Source: BCRA

Chart II.14

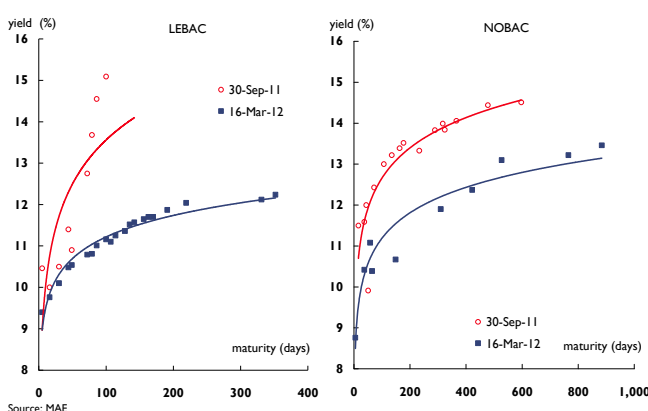
BCRA Auctions- LEBAC Yield Curves



Source: BCRA

Chart II.15

BCRA Secondary Market Yield Curves



Source: MAE

The Central Bank continued with its sterilization policy, with the issue of LEBAC and NOBAC bills and notes to the primary market as one of its main tools. By mid March 2012, the stock of bills and notes in circulation was standing around \$80 billion, virtually unchanged against the amount in circulation by the end of September last year, and also against March 2011. In recent months, the auctions of the BCRA mainly focused on bills, in parallel with a widespread reduction in yields, in line with a marked increase in the volumes traded³³. By mid March, LEBACs accounted for 59% of the total stock of BCRA's instruments (see Chart II.13). In terms of cut-off rates, LEBACs experienced a decrease of 80 bp on average against the rates allocated by the end of September, with sharper reductions in shorter terms (see Chart II.14). With a view to promoting the private sector's time-deposit taking, as from the last auction in February this year, the Central Bank has applied a new allocation mechanism for shorter-term LEBACs. For this instrument, the BCRA defines in the auction announcement both the amount to be allocated and the interest rate³⁴. Later on, at the auction, the amount to be allocated is distributed taking into account the increase of the private sector's time deposits in pesos of the last four weeks. Thus, the financial entities that have increased, or at least kept, their balance of time deposits in the last four weeks will have access to the auction. The amount of the auction is distributed among these firms and those with the highest increases in their time deposits in pesos will have a higher quota.

The increased demand for LEBACs was also noticeable in the secondary market, in terms of both prices and volumes. The interest rates moved in line with the performance of the primary market, with yields recording by mid March levels 220 bp below, on average, to those posted on late September (see Chart II.15). In the case of NOBACs, the rates traded contracted by 150 bp on average in the required yields along the length of the curve, while the terms shortened.

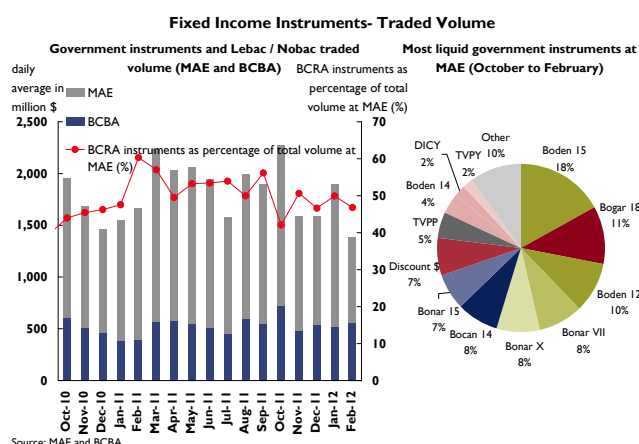
The volume of fixed income instruments traded in local markets has recorded a slight recovery

The amounts traded in fixed income instruments (including BCRA bills and notes) have recorded a 6% y.o.y. expansion. As a result, since the end of September, around \$1.55 billion were traded on average on a daily basis. With respect to BCRA's instruments, based on information from the electronic over-the-

³³ Until November last year, there had been a strong demand for NOBACs (with placements for over 1,000-day terms), within a context of increase in Private Bank BADLAR rate.

³⁴ See Communication "B" 10299.

Chart II.16

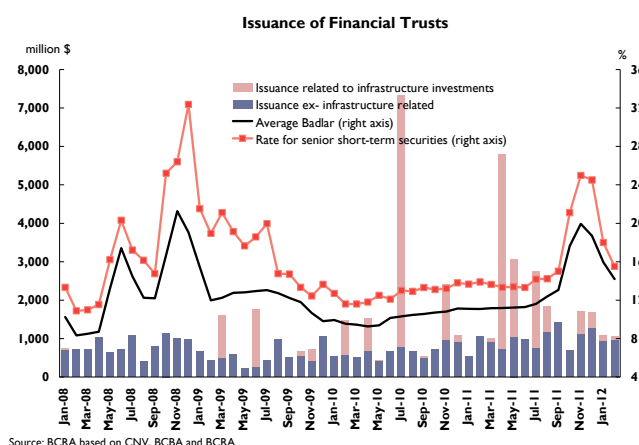


counter market (MAE), they have accounted for almost half the total traded in fixed income instruments between October and February. Among the transactions with government securities, short-term bonds in dollars (especially Bodén 15), followed by bonds in pesos carrying a coupon based on BADLAR (Bodén 14 and Bodén 15), have stood out (see Chart II.16).

Financing to the private sector has contracted and its cost has been subject to higher volatility, mainly due to the international situation of the last quarter of 2011

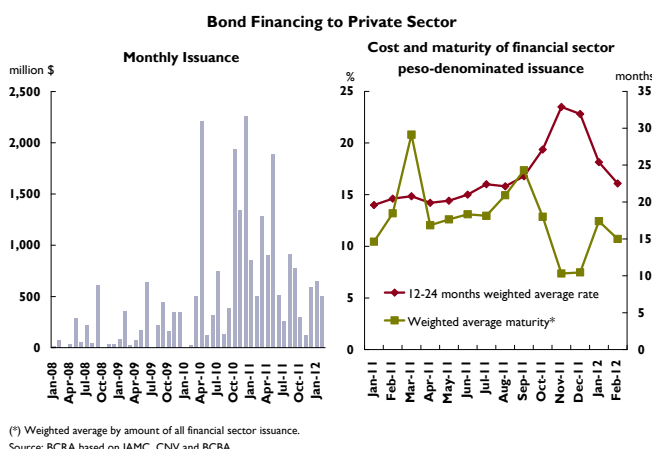
Financing to the private sector and to infrastructure works through capital market instruments has lost ground since September, largely affected by the international situation of the last quarter of 2011, which impacted on risk appetite and raised funding costs. Thus, total financing amounted to around \$9.1 billion between October 2011 and February 2012, resulting in a y.o.y. decline close to 38%.

Chart II.17



The financial trust continued to be the main financing instrument in capital markets. Through the securitization of various types of credits to the private sector (personal loans and credit card coupons) and of assets related to infrastructure works, this mechanism accounted for \$6.2 billion between October 2011 and February 2012 (against \$5.8 billion in the same period, 12 months ago). Out of this amount, \$5 billion correspond to securitization of credit to the private sector, up 18% y.o.y. in this period, despite the uncertainty that characterized international markets and the increase of interest rates at domestic level³⁵ (see Chart II.17). The cut-off rate of the most credit-worthy instruments increased by 1,000 bp in November and December against the values recorded in September, in line with the increase of Private Bank BADLAR. On the contrary, in the first quarter of the current year, there was a sharp contraction of the rates, which reached levels similar to those of the third quarter of 2011.

Chart II.18



In the domestic market, a reduction was noticeable in the financing obtained by local companies through bonds (see Chart II.18) due, to a large extent, to the impact of the international crisis on global debt markets by the end of 2011. Issues in pesos from banks and non-banking financial entities have kept their firm trend and accounted for over 75% of the total amount issued between October 2011 and February 2012. The cost of financing in pesos increased in November and

³⁵ Despite the reduction in financing volume to infrastructure works, if compared to the sizable placements of previous months, financing was obtained for several programs of residential housing units in several Argentine provinces and also for power generation works based on alternative energy sources.

Chart II.19
SME Bonds Issuance

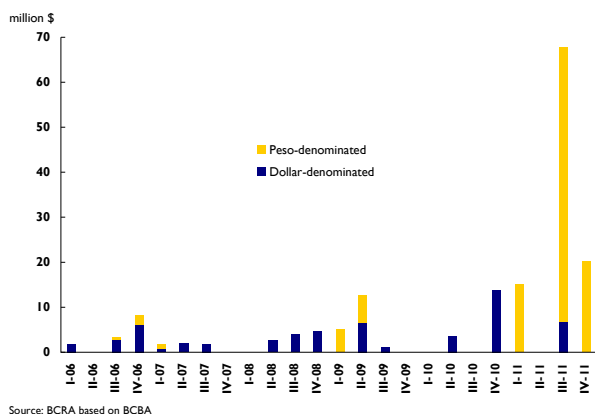


Chart II.20
Trading of Deferred Payment Checks

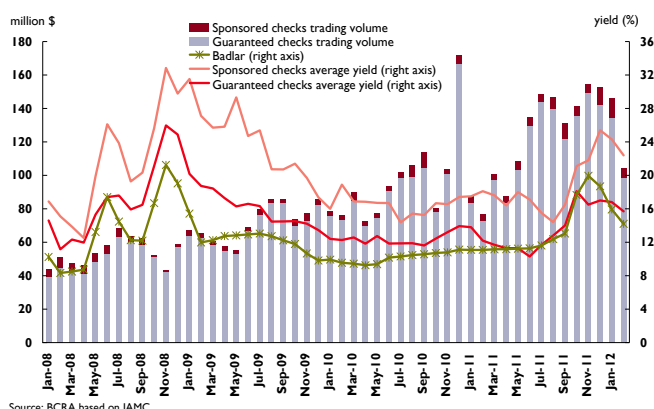
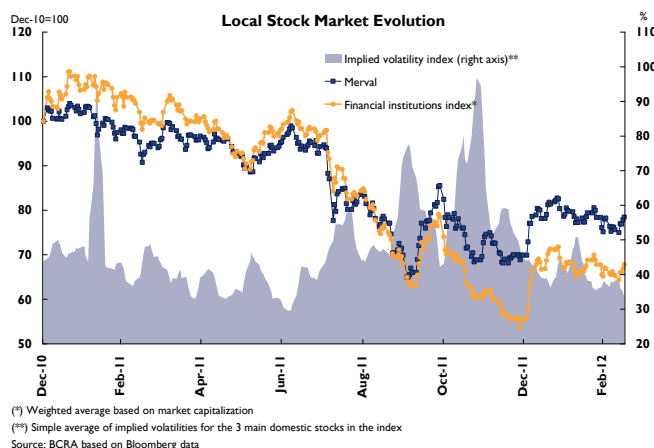


Chart II.21
Local Stock Market Evolution



December, and declined sharply in the first months of the current year, in line with the pattern followed by the Private Bank BADLAR (benchmark rate for these instruments). Short-term issues (between 9 and 12 months) in pesos have prevailed in this period even though in the first months of 2012, there was a recovery of instruments' maturity. Likewise, SME corporate bond issues broke a new record in late 2011 (see Chart II.19). In fact, between October and December 2011, there were three issues for \$20 million³⁶, against the \$17.5 million issued throughout 2010³⁷.

The volume of deferred payment checks traded in the capital markets broke a new record between October 2011 and February 2012 (see Chart II.20). Despite the shortening of the negotiated terms, the discount rates required by the market stood below BADLAR rate, especially in the guaranteed check segment. The average weighted rate scaled up to a maximum of 18% in this period (400 bp above September level), markedly below the pace of increase of BADLAR rate and of the level reached by such rate. In November and December, it even lost ground. Given that the guaranteed deferred payment check is the main financing instrument in this segment of the capital markets, the limited fluctuation of the rates contributed to prevent a sizable cost increase for SMEs which tend to access to financing through the domestic market.

Recovery of domestic stock prices

In line with global markets, the Merval index recorded an important increase (in pesos and dollars) in the first months of 2012, reversing the negative trend seen in 2011 (see Chart II.21). Thus, between late September and mid February, the index went up 12% in pesos and 8% in dollars, with a less volatile performance in recent months. With respect to banks' shares, after the weakness observed in 2011, prices showed a widespread recovery at the beginning of 2012, exceeding the improvements recorded by other sectors (even though the recovery lessened later on). In turn, the trading volume in shares has also recovered, to such an extent that, so far this year, the daily traded volume amounted on average to \$48 million, after the marked contraction observed in November and December.

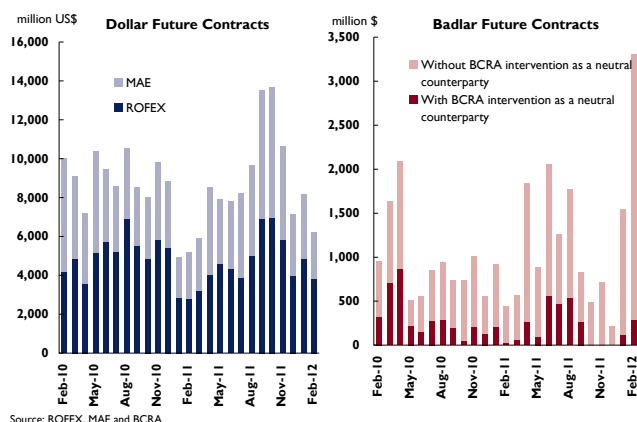
Higher liquidity in the market for forward exchange rate derivatives

³⁶ Such issues occurred after a sizable volume agreed upon in September, when issues were financed for \$53 million among six instruments.

³⁷ Due to the size of these companies, the amounts are relatively low with respect to large companies that finance themselves through bonds. This is why SMEs' issues accounted for 1.2% of total financing through bonds in 2011.

Chart II.22

Financial Derivatives Trading Volume



After reaching record levels in September and October, trading in exchange rate derivatives has decreased since the end of 2011, within a context of low rates in pesos in the domestic markets and more restricted expectations of nominal exchange rate devaluation (see Chart II.22). The implicit rates validated in the trading of more liquid contracts followed a pattern similar to that of the BADLAR rate; as a result, they went up during October and then went down on a steady basis. In turn, a maximum spread value was reached in November between BADLAR rate and the implicit rates of short-term contracts. On the other hand, there were fewer transactions in BADLAR rate futures and a shortening of the terms traded in the last part of 2011, at the time when the Private Bank BADLAR rate increased, while in the first months of 2012, a quick recovery of the volume traded was noticeable (in February, a historical record was broken) with declining agreed-upon rates.

III. Debtors Performance

Summary

By the end of 2011, the aggregate indebtedness of Argentine companies stood at 23.5% of GDP, remaining below the records of previous years and below the values seen in other emerging economies and developed countries; this is a signal of the potential for growth in the next years.

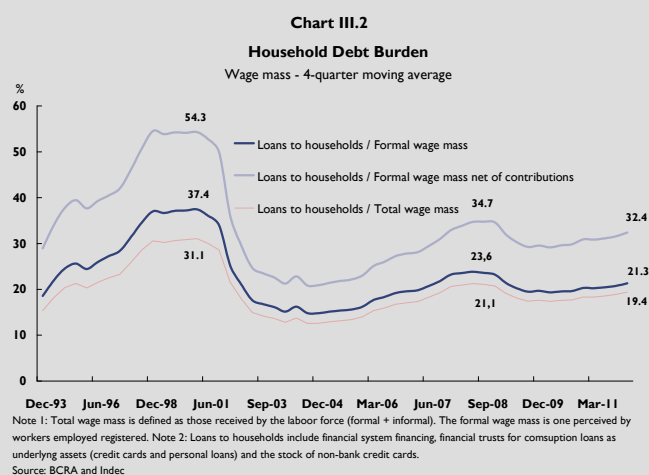
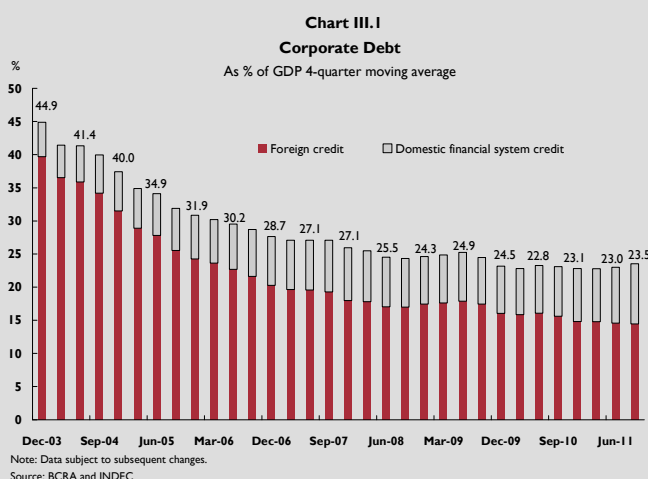
The activity levels of all productive sectors were on the rise in the last months of 2011, even though their performance has been heterogeneous. The manufacturing and construction sectors continued to be the main drivers of goods production. In the case of primary production, the reduced agricultural production was offset by a better performance of the cattle-breeding sector. In turn, service production was expanding strongly at year-end closing.

While commercial and primary production companies have cut their indebtedness levels on the margin, the remaining sectors have gradually increased those levels. In this context, all productive sectors keep their leverage at relatively low levels, thus contributing positively to their financial position.

Households' income has recovered due to the improvements experienced by the labor market and to the income public policies intended for the poorest sectors. This occurred within a context of higher indebtedness levels by households, even though standing at comparatively low figures against both the historical records and the remaining countries' values. This situation underpins the financial position and the payment capacity of households.

Banks' gross exposure to the public sector has gone down once again. The primary result of the non-financial public sector (NFPS) stood at \$4.92 billion in 2011. The public sector has recorded lower indebtedness levels (42% of GDP, 3 p.p. below the ratio of late 2010), with a drop in the obligations with private holders (higher refinancing risk).

In 2012, the economic activity is expected to continue expanding, driven by the domestic market. In turn, the indebtedness levels of both companies and households are likely to increase gradually.



III.1 Financial System Debtors

In the second half of 2011, credit to the private sector has increased its share in banks' assets, especially with reference to loans intended for the productive sector

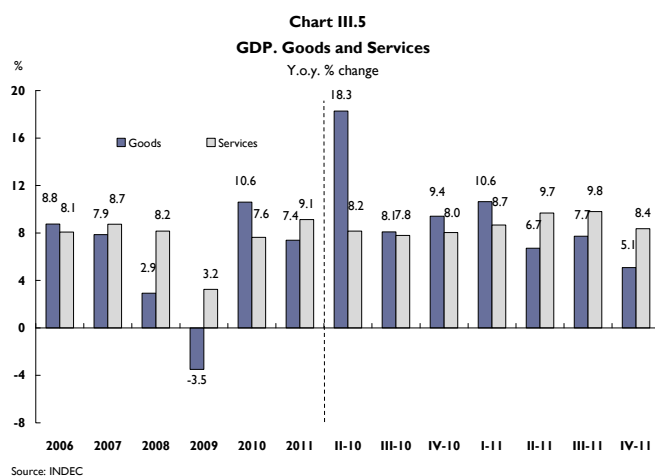
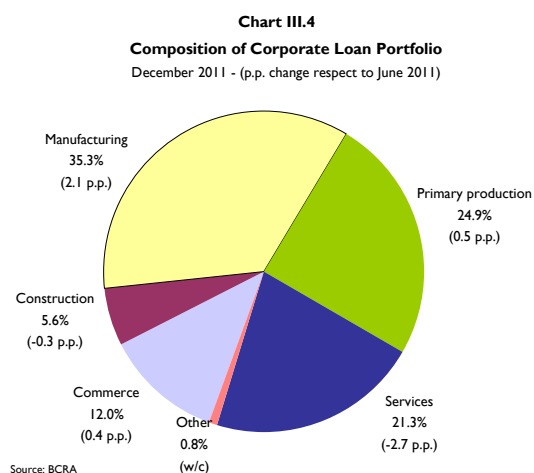
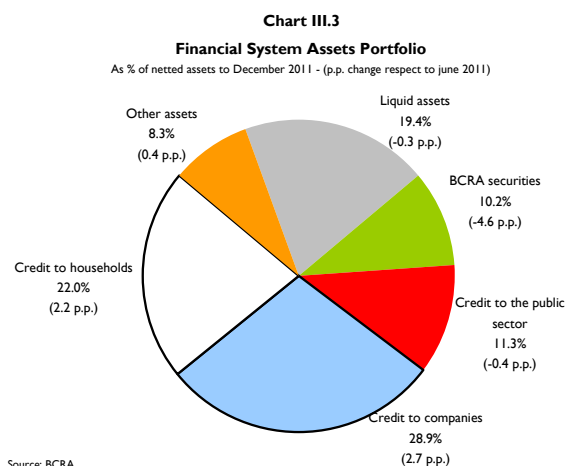
Lending to the private sector has increased its weight in the financial system's assets during the second half of 2011, with a higher relative growth of the resources channeled to companies (they went up by 2.7 p.p. to 28.9% of assets) against those meant for households (up 2.2 p.p. to 22% of assets) (see Chart III.3). The manufacturing sector has consolidated its position as the sector capturing more banking resources, accounting for 35.3% of total lending (see Chart III.4), up 2.1 p.p. in the second half of the year. The primary production of goods came second in terms of share and has also increased its weight in banking resources, while services have decreased their weight on the margin. Banks' exposure to the public sector has gone down during this period (see Chapter V) in line with the trend observed in recent years.

III.2 Corporate Sector

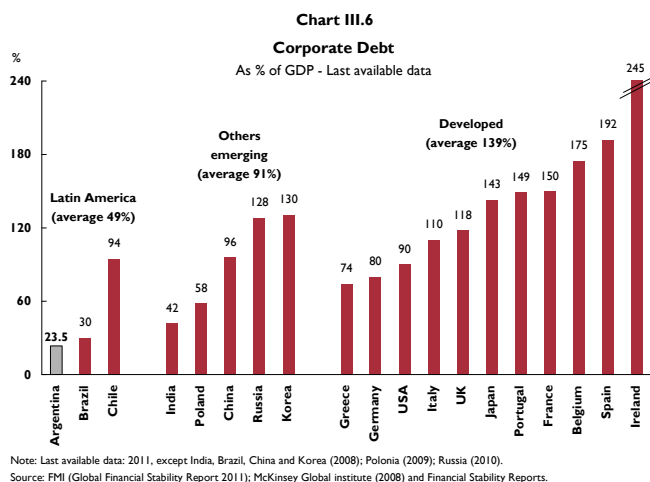
The activity of the corporate sector expanded at the end of 2011 (even though the different production sectors have exhibited a mixed performance) in a context of reduced indebtedness levels, which contributes to a sound financial position of the financial sector's main debtor

GDP expanded steadily in the second half of 2011 (see Chart III.5), though exhibiting some moderation in its performance by the end of last year and the first months of the current one. The manufacturing and construction sectors were once again the main drivers of the production of goods. The farming sector has grown moderately, with an increase in the cattle-breeding activity that offset the drop experienced by the agricultural activity (due to climate factors). In turn, the services sector expanded firmly in the second half of 2011, with an outstanding evolution in wholesale and retail trade, transport and communications.

Corporate indebtedness went up by 0.7 p.p. in recent months (from March to September 2011³⁸) to 23.5% of GDP (see Chart III.1), standing below the figures recorded in previous years and also against other economies (see Chart III.6). In this period, the resources from non-residents have gradually lost weight relative to total indebtedness (they accounted for 61% in September 2011, down 14 p.p. against the value recorded five years ago) and, in return, there was an



³⁸ Latest information available.

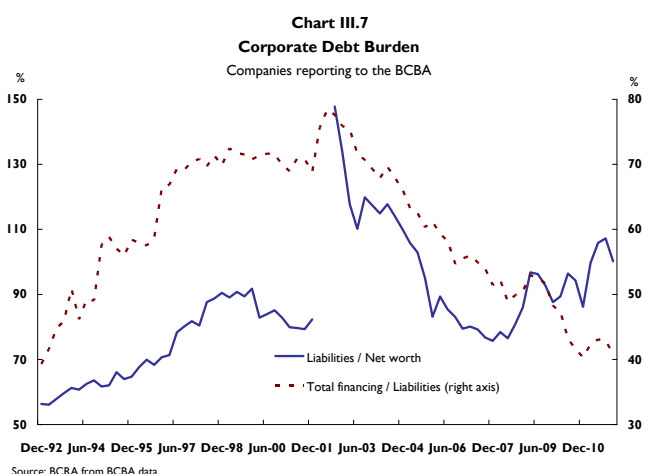


increase in the financing from the domestic financial system. For the subset of publicly-traded companies, a slight drop in their leverage levels has been noticeable in the second half of 2011 (see Chart III.7), after the increase recorded in the first half of that year.

For 2012, the economic activity is expected to continue on the rise, though at a more moderate pace. It is likely that the corporate sector's indebtedness levels will continue to increase in the months ahead, within a context where some production sectors will probably require more resources to strengthen the expansion of their productive capacity. However this sector's leverage would remain at low levels, giving support to its payment capacity.

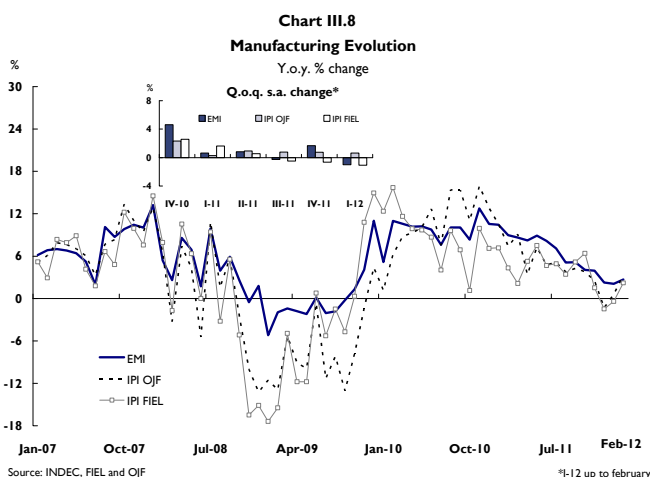
Productive Sectors

The manufacturing companies have expanded their activity and reduced their indebtedness levels in recent months, and this allowed them to sustain their payment capacity



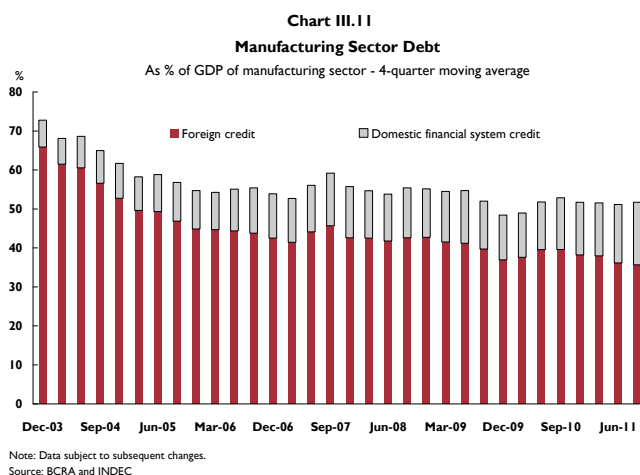
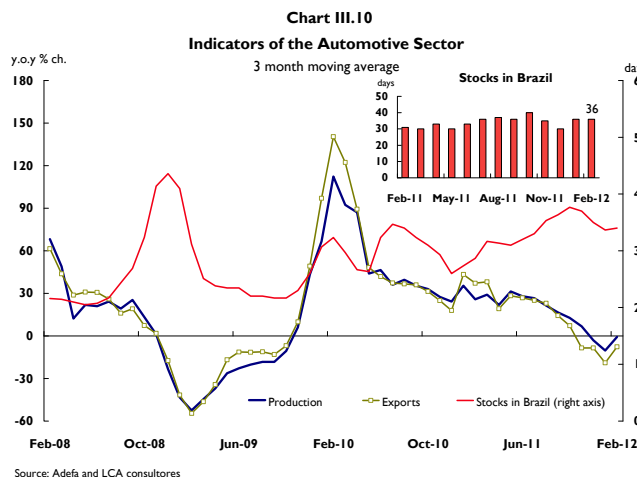
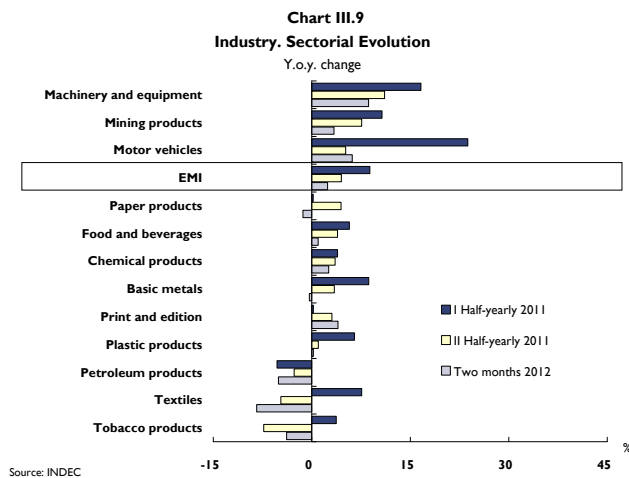
The manufacturing sector grew in the second half of 2011 and early 2012, but at a slower pace if compared to the first half of last year. The increase of households' consumer spending and a higher demand from abroad have been the main reasons behind the improvement in the manufacturing activity (see Chart III.8).

The metal-mechanical industry was the sector that grew the most, largely contributing to the manufacturing sector's growth (see Chart III.9). The automotive sector has broken once again a new production record, even though its year-on-year (y.o.y) growth rate has lost ground. The sales of vehicles to the domestic market have grown steadily, while exports have experienced a moderate increase vis-à-vis a lower demand from Brazil, as a result of the rise of vehicle stocks against the levels recorded in previous periods (see Chart III.10).



Non-metal minerals were one of the best performing sectors, driven by investments in construction that boosted the demand for cement, glass and other materials. The food industry has gone up once again, favored by the increase in the manufacturing of beverages, dairy products and white meat, which have offset the decreasing trend of grain and oilseed milling activities and of red meat production.

In line with the increase of the productive activity along the year, the installed capacity utilization (ICU) was on the rise, reaching a peak in the second half of 2011. On a



sector-by-sector basis, the metal-mechanical industry, non-metal minerals, paper & cardboard and automobiles were the activities that recorded the highest increases in ICU in the second half of 2011.

The manufacturing companies' estimated leverage level increased gradually in the last months to nearly 51.7% of the sector GDP (see Chart III.11) (September, 2011³⁹) even though, in year-on-year terms, it recorded a 1.2 p.p. drop. The share of the resources provided by the domestic financial sector has increased in the total leverage of these companies (and accounted for nearly 31% of total indebtedness).

Lower agricultural activity by 2011 year-end within a context of a better performance by the cattle-breeding sector. The indebtedness of primary production firms has fallen gradually

Agricultural production lost ground in the second half of 2011 and the first months of the current year. As a result of lower yields, wheat production of the 2011/2012 cycle would have reached 13.4 million tons by the end of the year, down 15% against the production of the previous cycle (see Table III.1).

In the opposite direction, the activity of the livestock sector went up in the second half of 2011. In this respect, dairy production recorded an increase of around 11% in year-on-year terms, the same as poultry slaughtering, which went up around 10% y.o.y in the same period. In turn, bovine slaughtering dropped once again, even though the slump was less marked than in the first half of the year.

The indebtedness level of primary sector firms lost ground in the last months of 2011 –from March to September⁴⁰ (see Chart III.12)– after the increase recorded by late 2008 and part of 2009. As a result, the primary sector reached a 37.5% indebtedness level in terms of its sector GDP (down 1.9 p.p. in the last half) and, on the margin, an increasing use of resources from the domestic financial sector was noticeable (43% of total financing) in return for the lower indebtedness with non-residents.

The activity of service companies has increased even though a heterogeneous performance was noticeable among sub-sectors, within a context of low indebtedness levels and an adequate payment capacity

³⁹ Latest information available.

⁴⁰ Latest information available.

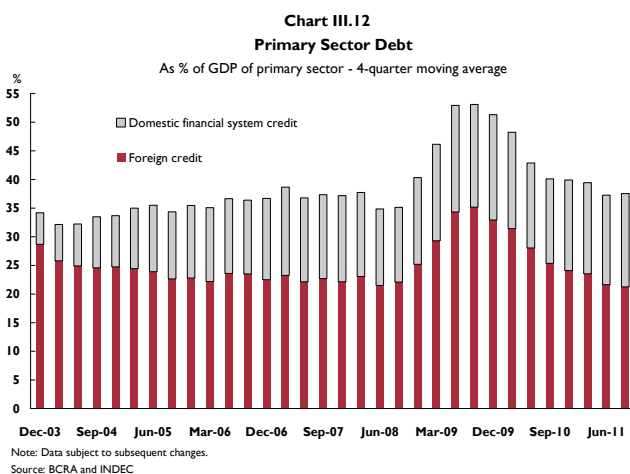
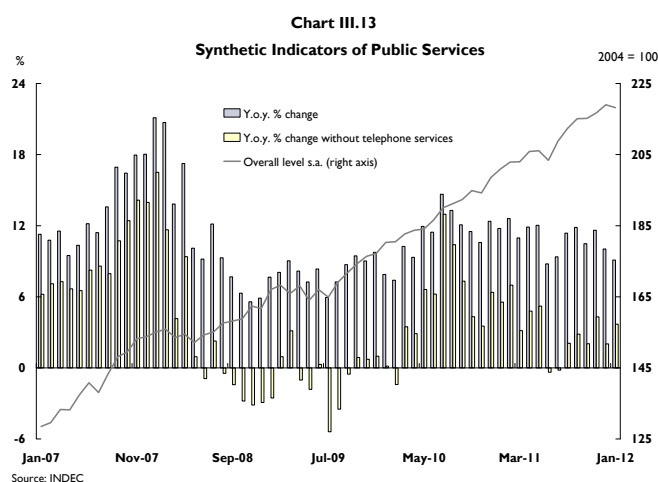


Table III.1
Grain Production

	2008-09 thousands tns	2009-10 thousands tns	2010-11 thousands tns	2011-12 thousands tns (Preliminary)	% change 2011-12 vs. 2010-11	Diff. in thousand tns 2011-12 vs. 2010-11
Corn	13,121	22,680	23,000	21,250	-8	-1,750
Wheat	8,373	9,000	15,800	13,410	-15	-2,390
Sorghum	1,752	3,630	4,440	4,000	-10	-440
Soybean	31,000	52,680	48,900	44,250	-10	-4,650
Sunflower	2,450	2,320	3,665	3,700	1	35

Source: BCRA from MAGyP data.



Public services' consumption grew at a high rate in the second half of 2011 (see Chart III.13), the same as in the first six months of the year. This trend has kept its pace in early 2012. Telephony was once again the sector that increased the most, largely contributing to the expansion of services in general.

Except for telephony, the other services grew at a slower pace in the second half of the year and the first months of 2012. In this context, the circulation of vehicles along toll roads gained momentum, with a marked increase in the circulation of buses and light trucks. Power, gas and water supply also went up during this period, mainly due to the increase in electricity demand and, to a lesser extent, to the rise in natural gas and water consumption. In turn, the transportation sector exhibited a negative performance. In particular, passenger transportation was impacted adversely by the unfavorable weather conditions —ashes from Puyehue volcano— which hindered domestic flights and also affected international flights. Meanwhile, cargo transportation also went down, probably as a result of the reduced agricultural activity, despite the improvement exhibited by the manufacturing activity and wholesale and retail trade.

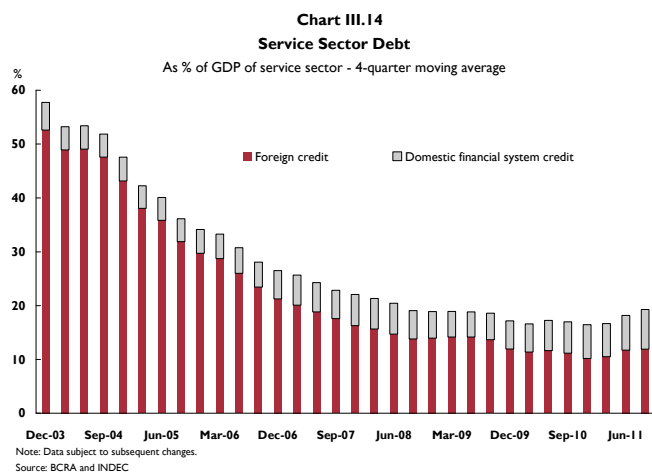
The indebtedness levels of service companies rose on the margin (2.6 p.p. between March and September 2011⁴¹, to 19.3% of their sector GDP), even though it was one of the least leveraged sectors of the economy (see Chart III.14).

Services are expected to continue growing in 2012, even though at a more moderate rate, mainly driven by communications and transportation, and also by trade and other sectors related to tourism. In a context of low indebtedness levels, this evolution will contribute to consolidate the financial soundness of the sector's companies.

Commercial companies are sustained their growth within a context of low indebtedness levels, context that impact positively on their payment capacity

Commercial activities moved up in the second half of 2011 and early 2012. Sales at supermarkets and malls grew steadily in the second half of 2011 at a pace similar to that of the first half (see Chart III.15). This positive performance was underpinned by promotion campaigns and financing plans implemented by financial entities jointly with the commercial store chains, and by the increase of the credit lines for consumption. The sales of household appliances as well as electronic and home

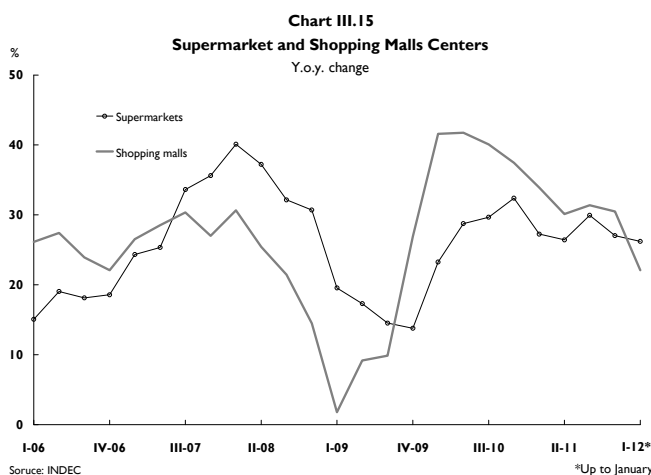
⁴¹ Latest information available.



products in general were on the rise, together with the sales of vehicles. In this context, commercial firms have gradually reduced their indebtedness levels in recent months, reaching 17% of their sector GDP in September 2011⁴². It is worth mentioning that half of this value is made up by resources from the domestic financial system.

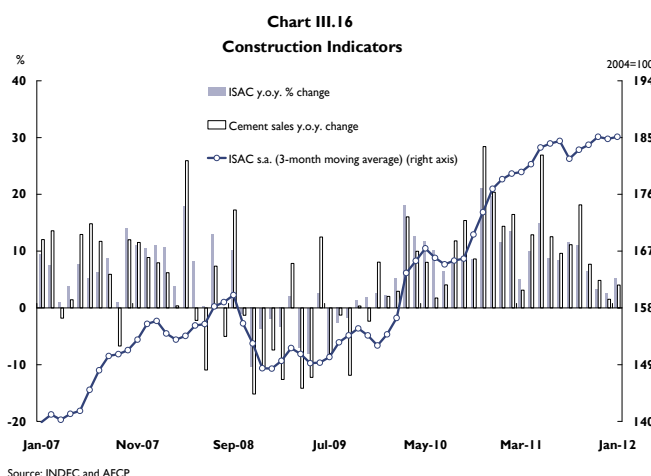
For 2012, commercial activity expectations continue to be positive, in line with the expected increases of households' income and the continuity of banking financing intended for households' consumption. These factors, combined with the low indebtedness level of the sector's companies, will have a positive impact on their financial positions.

The construction activity has expanded steadily in recent months (with some deceleration on the margin), exhibiting low but gradually-increasing indebtedness levels



The construction sector has been one of the main drivers of the economic activity in the second half of 2011 and early 2012; nevertheless, as it happened with the remaining economic activities, its growth pace has decelerated (see Chart III.16).

The expansion was widespread and reached all the segments of this sector. In this respect, the public sector's constructions recorded the highest increases, especially in relation with road and infrastructure works. Within the private works, the construction of commercial and industrial buildings stood out, while housing start-ups and oil-related constructions also improved but to a lesser extent.



This sector's firms have increased their indebtedness levels to approximately 15.5% of their GDP in September⁴³ (up 0.4 p.p. and 1.3 p.p. against the values recorded six months and one year ago, respectively). The construction business continues to be the productive sector with the lowest relative indebtedness level.

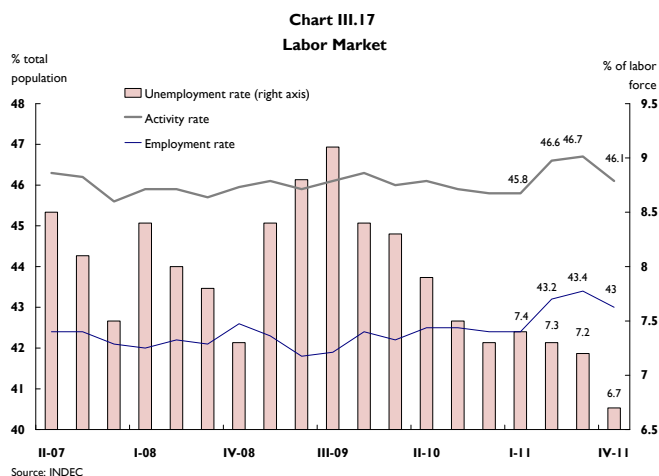
In 2012, the sector is expected to continue growing within a context of low leverage levels, even though some moderation in its activity is likely to occur –the same as in the remaining sectors– but still sustaining its payment capacity.

III.3 Households

Households' income continued to be on the rise, underpinned by a robust labor market and active

⁴² Latest information available.

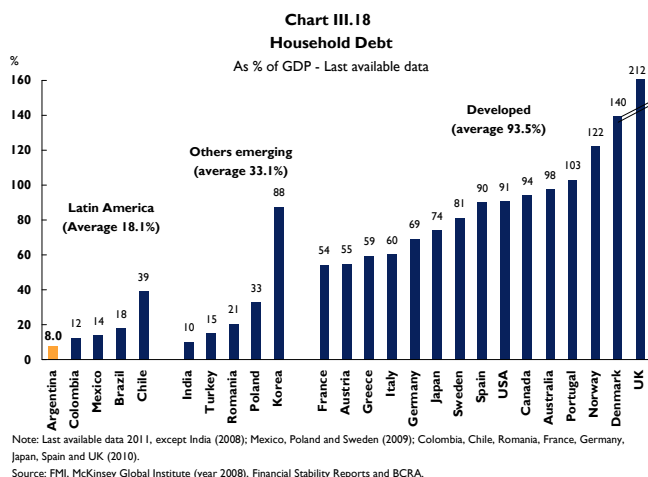
⁴³ Latest information available.



public policies, which have impacted positively on this sector's payment capacity, in a context of low indebtedness levels

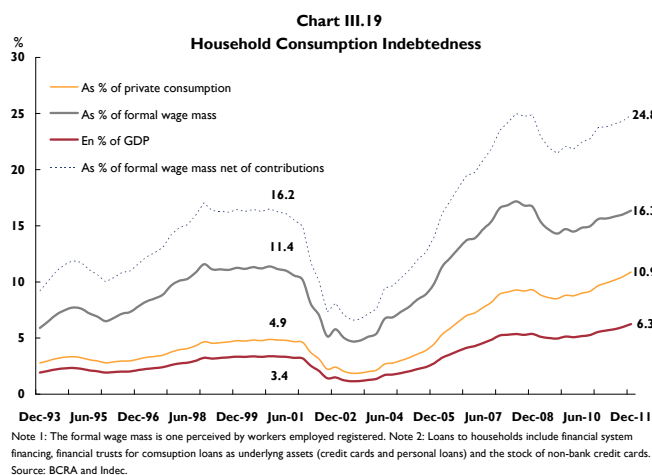
The employment rate has continued to grow in the second half of the year (see Chart III.17) which, combined with the wage improvements, resulted in a new increase of the wage bill in GDP terms.

Public policies have impacted positively on income increases, especially among the most vulnerable sectors. During this six-month period, government transfers for family allowances were also on the rise in year-on-year terms, including the Universal Child Allowance for Social Protection (AUH); in turn, retirement and pension benefits also recorded increases, together with the minimum wage.



In this positive context, loans to households continued to grow in this six-month period, resulting in a gradual increase of households' total indebtedness level (see Chart III.2). Households' debt accounted for 32.4% of the formal wage bill –net of contributions to social security– by the end of 2011, with a positive variation of 1.3 p.p. in the six-month period and of 1.5 p.p. against 2010; nevertheless, this value continues to stand below the figures of other emerging countries and also of developed economies (see Chart III.18). The increase in households' indebtedness was mainly due to the impact of credit lines for consumption (personal loans and credit cards) (see Chart III.19).

The expectations of a sustained economic growth, a robust labor market and deeper public policies are signaling an increase of households' available income in 2012, which would boost private consumption and households' payment capacity.



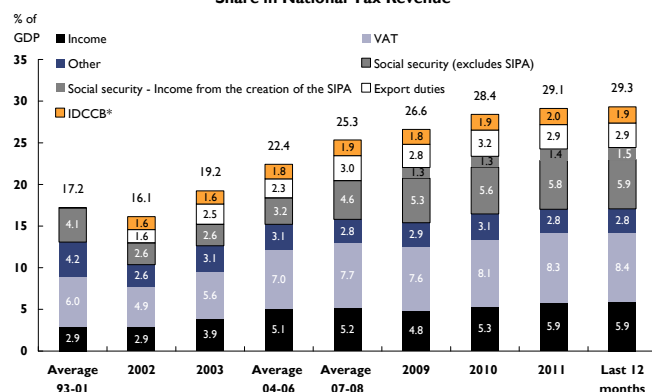
III.4 Public Sector

Tax revenue has met the needs of the public accounts and allowed to sustain a slight surplus in the primary result in 2011 and in the first months of 2012

In the second half of 2011, tax collection recorded high rates of nominal increase, a trend that continued in early 2012, mainly driven by the taxes related to the economic activity and employment⁴⁴. The year-on-year growth was boosted by VAT, social security resources and the income tax. As a result, tax revenue reached a new historical peak, standing around 29.3% of GDP (see Chart III.20).

⁴⁴ For a more detailed analysis of the Public Sector revenue and spending, see the Inflation Reports of the fourth quarter of 2011 and the first quarter of 2012.

Chart III.20
Share in National Tax Revenue



* Tax on Credit and Debits to bank accounts.
Source: BCRA from Treasury Secretariat and INDEC data.

In 2011, primary spending went up (see Chart III.21), mainly driven by social security payments, wages of government employees and current transfers to the private sector (see Chart III.22).

The Non-Financial Public Sector (NFPS) primary result reached \$4.92 billion in 2011 (a slightly positive value in GDP terms) (see Chart III.23). Interest payments were high in 2011, resulting in a deterioration of the fiscal result against 2010 figures. A large part of the y.o.y. increase was due to the fact that, in 2010, GDP-linked coupons did not need to be paid because the required conditions had not been met⁴⁵, while in 2011 this obligation required around \$10.6 billion.

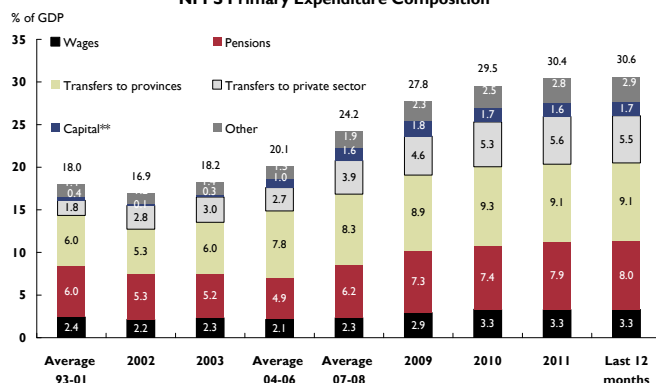
Throughout 2012, tax collection would keep its increasing trend, in line with the estimated evolution of the economic activity and the trade flows.

Tax revenue from sub-national sources and from the federal tax-revenue sharing system has exhibited a marked momentum, the same as the transfers of the NFPS to the provinces, with y.o.y variation rates in both cases that exceeded 30%.

Out of the total provincial revenue, around 60% corresponded to the federal tax-revenue sharing system, mainly related to VAT and income tax, while the remaining 40% corresponded to the sub-national districts' own resources.

The national government's exposure to the private sector—which, in principle, entails a higher financing risk—continued to lose ground due to the debt reduction policy

Chart III.22
NFPS Primary Expenditure Composition*



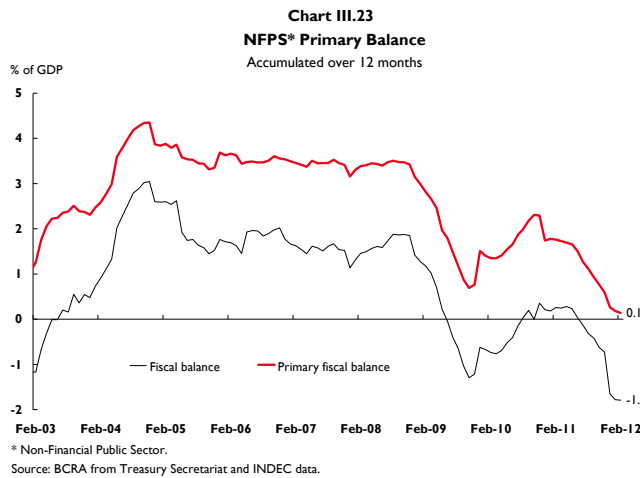
*Includes automatic transfers to provinces; **Excludes capital transfers to provinces.
Source: BCRA from Treasury Secretariat and INDEC data.

In 2011, the National Treasury met its financing needs mainly through the use of intra-public sector domestic funds. The same as in 2010, the National Government resorted to the Argentine Debt Reduction Fund in order to service public debt maturities with private debt holders and with International Financial Institutions (IFI) with international reserves⁴⁶. The remaining financing came mainly from the BCRA Temporary Advances, the National Social Security Administration-Guarantee and Sustainability Fund (ANSeS-FGS) and the Banco de la Nación Argentina (BNA).

The National Public Debt (DPN) totaled US\$175.32 billion in September 2011, thus going down in GDP terms and standing close to 42%, down 3 p.p. against the

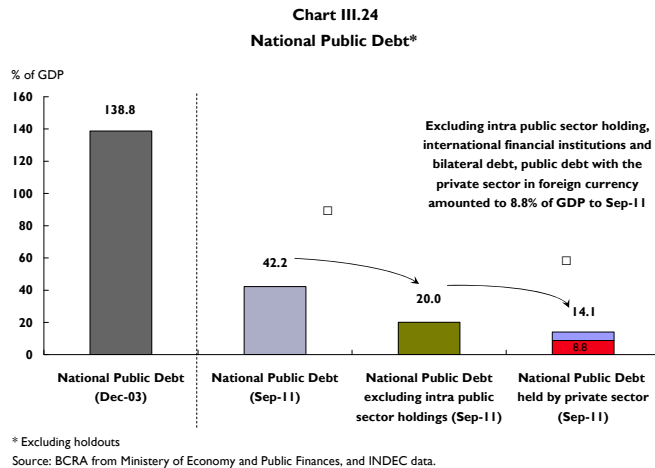
⁴⁵ According to the 2005 Debt Swap prospect, there was no need to pay this instrument in 2010 since 2009 economic growth (0.9%) did not exceed the base scenario for that year (3.29%).

⁴⁶ Decree No. 2054/2010 and Decree No. 276/2011.



ratio of December 2010. The implementation of the financing policy has allowed, once again, for reducing the debt stock held by private holders, which is in general considered to entail a higher risk. In fact, the debt held by the private sector went down to 33% of the total stock (-3 p.p. in the first nine months of last year to 14.1% of GDP) (see Chart III.24). Almost 53% of the National Public Debt was mainly related to intra-public sector agencies, and 14% to IFIs, Paris Club and other bilateral institutions.

Considering the financing policy to be applied in 2012, the portion of the debt held by the private sector is estimated to decrease relative to GDP.



The same as in 2010, the decision was made to distribute the funds of the Advances of the National Treasury (ATN) to the provinces for partial cancellation of the loans granted to the sub-national districts in 2011. In addition, the National Government has extended for two years (2012 and 2013) the grace period for the payment of amortization and interests of the debt held by the provinces with the National Government, under the framework of the Federal Program of Debt Reduction of the Argentine Provinces⁴⁷. This measure entails a financial relief for these jurisdictions of around \$13.6 billion, given that they had to face maturities in 2012 and 2013 for around \$6.8 billion a year.

Regarding the issues of the sub-national districts, special mention should be made of the issues by the Provinces of Buenos Aires, Neuquén and the City of Buenos Aires (see Table III.2) in 2011, for a total of US\$1.1 billion. In the first quarter of the current year, the City of Buenos Aires has issued debt once again for US\$415 million, while Salta issued US\$185 million, and it is likely that other provinces will follow suit in the rest of the year in terms of this type of financing.

Table III.2
Debt Placements of the Subnational Jurisdictions in the Market 2010- IQ 2012

Date	Jurisdiction	Structure	Amount (cash value) - Million USD	Term (years)	Annual rate of return	Pay frequency	Legislation
Apr-10	Ciudad de Bs As	Bond	475	5	12.50%	Half-yearly	International
Jul-10	Chubut	Trust fund	104	10	9.75%	Quarterly	International
			46				National
Aug-10	Córdoba	Bond	400	7	12.375%	Half-yearly	International
Oct-10	Prov. Buenos Aires	Bond	550	5	12.00%	Half-yearly	International
Oct-10	Córdoba*	Bond	196	7	11.72%	Half-yearly	International
Oct-10	Prov. Buenos Aires*	Bond	250	5	11.50%	Half-yearly	International
Jan-11	Prov. Buenos Aires	Bond	750	10	11.25%	Half-yearly	International
Apr-11	Neuquén	Bond	260	10	8.0%	Quarterly	International
Dic-11	Ciudad de Bs As	Bond	85	1	9.25%	Annual	International
Feb-12	Ciudad de Bs As	Bond	415	5	10.0%	Half-yearly	International
Mar-12	Salta	Bond	185	10	9.50%	Quarterly	International

(*) Correspond to extensions of previous debt placements.
Source: Bloomberg

⁴⁷ In turn, as from 2012, the province of Chubut was also included in the Program.

IV. Financial Sector

Summary

Banks continued increasing its financial intermediation level (deposits and lending) with the private sector in 2011 within a framework where the share of assets of greater liquidity fell. The financial system ended the seventh consecutive year with accounting benefits thereby consolidating its solvency levels. Particularly, bank lending to the private sector in terms of GDP recorded a significant rise, until reaching a little over 15% of GDP, although there still exists high development potential for the coming years. On the other hand, the institutional investor portfolio continued growing until reaching 15% of GDP. In the case of the Guarantee Sustainability Fund (FGS), a rise in sovereign bonds, productive projects and time deposits has been observed (to the detriment of liquid assets).

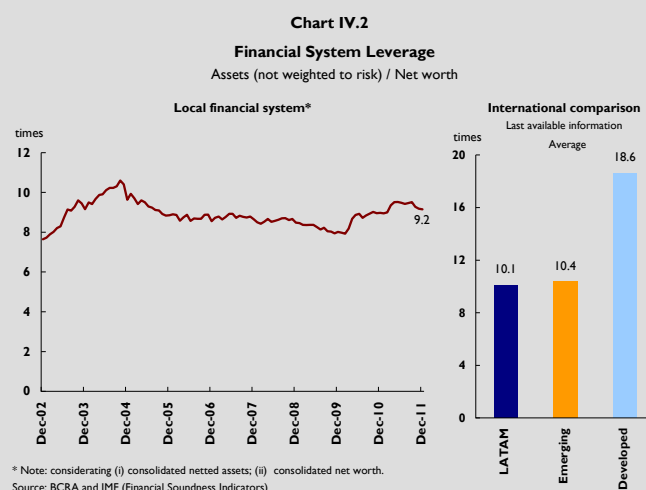
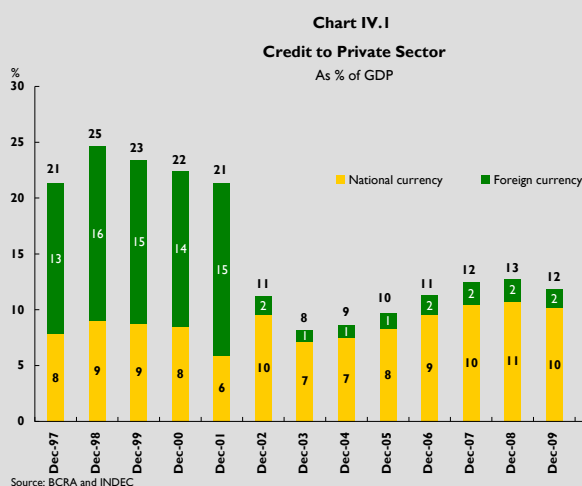
Lending to households and companies recorded a 46.2% growth rate during the year, with a greater expansion pace in the case of credit granted to the corporate sector (especially during the first part of the year). Bank financing to the industrial sector evidenced the greatest contribution to the total growth of loans given to corporations. The significant momentum shown by pledge-backed loans and the contribution of lines for consumption purposes should be underscored amongst lending to households.

The financial system has exhibited suitable solvency levels. Banks' net worth expanded almost 22% in 2011 and it was mainly influenced by book profits, and, to a lesser extent, by capital contributions, movements

partially offset by decisions to allocate dividends of a set of entities. In a context with a sharp rise in the volume of financial intermediation, capital compliance dropped 2.2 p.p. in 2011 until amounting to 15.5% of credit risk-weighted assets (RWA). Nevertheless, all financial entity groups kept a significant surplus in compliance levels against minimum capital legal requirements.

Greater accounting benefits (both in amount and in percentage of assets) were accumulated during the second half of 2011 against the first six months of the year, mainly resulting from a rise in net income derived from interest. Thus, the financial system ended the year with profits equivalent to 2.7% of assets, a value similar to that of 2010. All groups of banks accrued profits, with a slight improvement in the case of public banks and some reduction in the case of private entities. Considering income sources of the financial system, the contribution of less volatile segments (results derived from interest and services) should be highlighted, to the detriment of those which evidence greater volatility (results derived from securities).

Considering the start of 2012, banks are expected to continue accruing profits driven by more stable income. On the other hand, the new measures taken by the BCRA regarding capital requirement and capital conservation ratio will promote a sounder financial system that will allow facing an international context that is still uncertain.



IV.1 Financial entities⁴⁸

IV.1.1 Activity

The expansion of banks' financial intermediation level with the private sector accelerated in 2011

Lending granted to different economic sectors and households rose significantly during 2011 whilst private sector deposits gained share in the financial system total funding. Financing to the private sector and private sector deposits grew at high rates during the year, exhibiting some slowdown over the last months. Within this framework, bank assets with greater liquidity started losing share gradually.

Consolidated and netted assets of the financial system rose 24.2% in the cumulative of 2011 (21.8% annualized —a.— during the second half of the year) boosted, mainly, by private banks. Lending to the private sector increased 46.2% in 2011 (9.2 p.p. more than the year before) and went from accounting for 43% of assets in December 2010 to 51% by late 2011. In contrast, liquid assets reduced their share in assets, totaling 19.4% last December, 2.8 p.p. less in year-on-year (y.o.y.) terms (see Table IV.1).

Bank financing to the private sector reached 15.2% of GDP at the end of 2011, 2.7 p.p. higher than in 2010, evidencing the highest growth rate of the last years. Thus, the balance of credit to the private sector climbed 7 p.p. in terms of GDP since late 2003. Although this value is still below those observed in other emerging economies and local records before 2002, it should be noted that the current share of lending granted in pesos broadly exceeds that in foreign currency unlike what happened over a decade ago (see Chart IV.1). This contributes to the soundness of the Argentine financial system by minimizing potential balance impacts of the peso-dollar foreign exchange volatility.

The rise in lending to the private sector was registered in all homogeneous groups of financial entities and the performance of public banks and non-bank financial entities (NBFE) should be underscored. Particularly, public banks increased lending to the private sector by almost 60% in 2011, more than doubling the figure recorded a year ago. This group of entities accounted for 35% of the annual growth of credit to the private sector (13 p.p. more than the value recorded over the same period the year before), in contrast to less share of private banks (it stood at 61%, 14 p.p. less y.o.y.). Thus, the total stock of lending to the private sector as of December 2011 was

Table IV.1
Balance Sheet

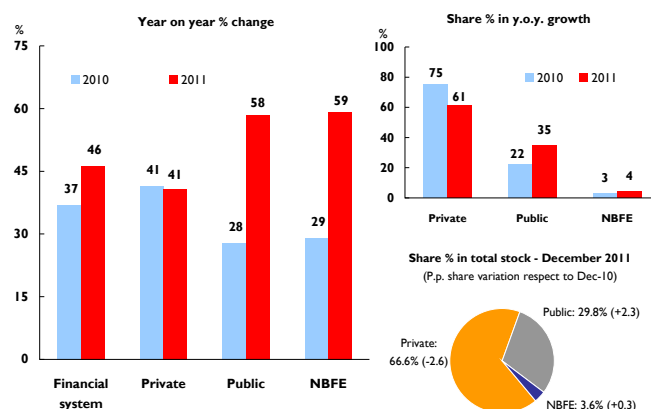
Financial System - As % of netted assets

	Dec-10	Jun-11	Dec-11	Change in p.p.		Stock variation	
				II H - 11	Y.o.y.	II H - 11 (%a.)	Last 12 months (%)
Assets	100	100	100				
Liquid assets	22	20	19	-0.3	-2.8	18	8
BCRA securities	13	15	10	-4.6	-2.9	-42	-4
Credit to the public sector	13	12	11	-0.5	-2.0	11	5
Credit to the private sector	43	46	51	4.9	7.7	49	46
Other assets	8	8	8	0.5	0.1	37	26
Liabilities + Net Worth	100	100	100				
Public sector deposits	25	24	22	-1.8	-2.4	5	12
Private sector deposits	54	56	56	-0.3	1.5	21	28
Outs. Bonds, sub. Debt and foreign lines of credit	2	2	3	0.2	0.6	46	62
Other liabilities	8	7	8	1.4	0.6	76	34
Net worth	11	11	11	0.4	-0.2	30	22

Source: BCRA

Chart IV.3

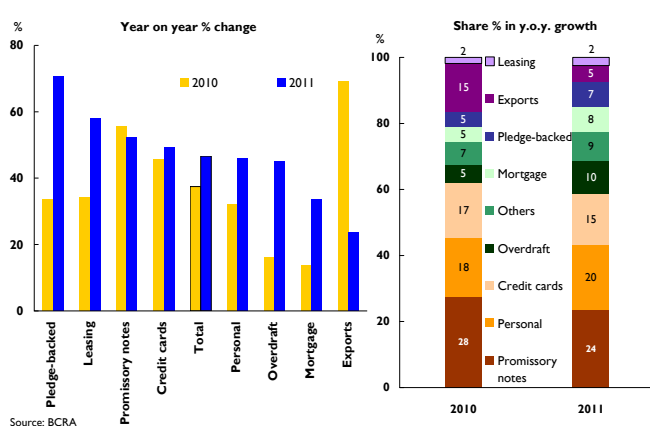
Credit to the Private Sector by Group of Financial Entities



Source: BCRA

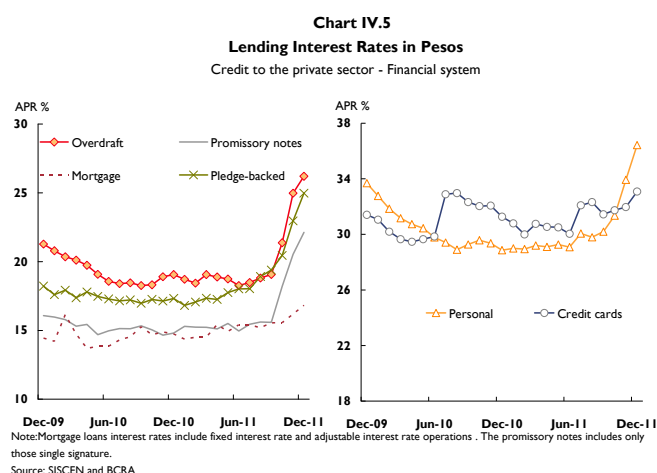
Chart IV.4

Credit to Private Sector by Type of Line



Source: BCRA

⁴⁸ The analysis of this section includes financial entities supervised and regulated by the BCRA exclusively (Law N° 21.526).



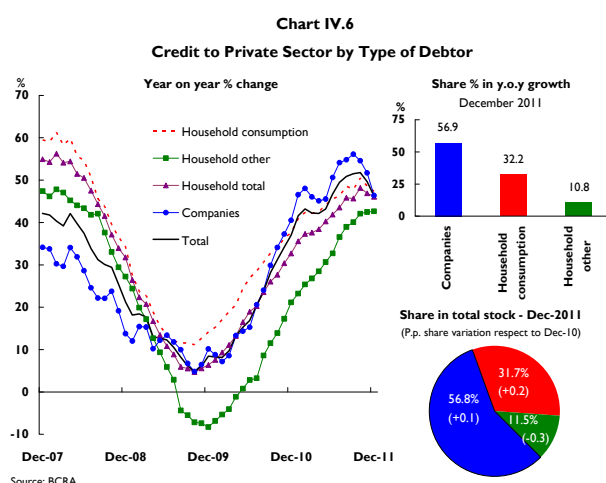
distributed as follows: 66.6% in private banks, 29.8% in public banks and 3.6% in NBFIE (see Chart IV.3).

Most lending lines evidenced growing momentum in 2011 against the previous year. Particularly, the performance of pledge-backed loans, leasing, promissory notes, and credit cards should be highlighted, which, as a whole, contributed to almost 50% of the annual growth of lending. On the other hand, personal loans, overdrafts, mortgage loans, and exports increased at a pace slightly lower than the average (see Chart IV.4).

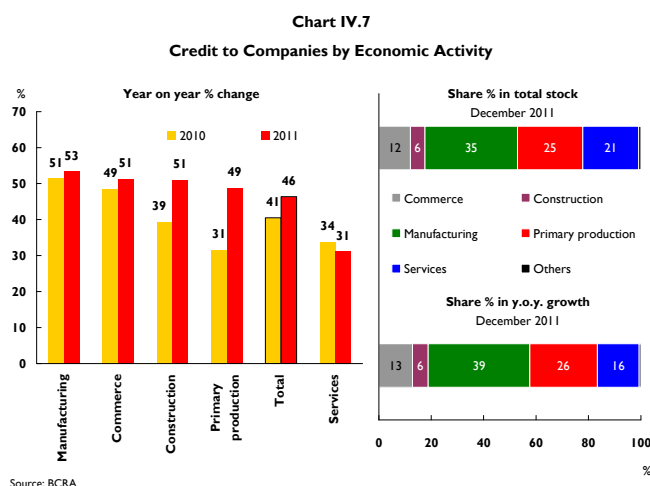
Lending interest rate charged on the different loan lines granted to the private sector, in pesos, exhibited a heterogeneous performance between the first and second half of the year. While lending interest rates showed a minor fall during the first part of 2011, a generalized rise was observed in all lines over the second half of the year (especially, during the last quarter; see Chart IV.5). This trend started to reverse at the start of 2012.

The growth pace of lending granted to firms continued exceeding that of households

The growth of bank lending to the private sector was mainly boosted by lines aimed at the corporate sector in 2011. During the first part of the year, lines aimed at corporations performed better than those for households; such gap started to narrow by the end of the last quarter of 2011. Thus, financing to corporations grew 46.4% in 2011, and accounted for 57% of the annual hike in total credit to the private sector, thereby gaining share in the total stock of bank lending (see Chart IV.6).



Unlike what happened during the previous year, lending to corporations during 2011 was mainly boosted by public banks. Thus, this group of banks increased its share in the total stock of lending to the corporate sector by 4.6 p.p. in 2011 accounting for 32% of the total.



The growth of lending to corporations in 2011 accelerated in all productive sectors except in the case of companies providing services (see Chart IV.7). Credit to the industrial sector evidenced the greatest share in the rise of total lending to corporations (39% of the total); additionally, it was the sector posting the best relative performance. Excluding the residual segment of financing from \$200,000 to \$5 million, the remaining credit segments exhibited greater momentum in 2011 against the previous year (see Chart IV.8). The growth of the segment with the largest relative size should be noted (loans in excess of \$5 million). Thus, this segment accounted for two thirds of the annual rise of lending to

Chart IV.8
Credit to Companies by Residual Stock Range

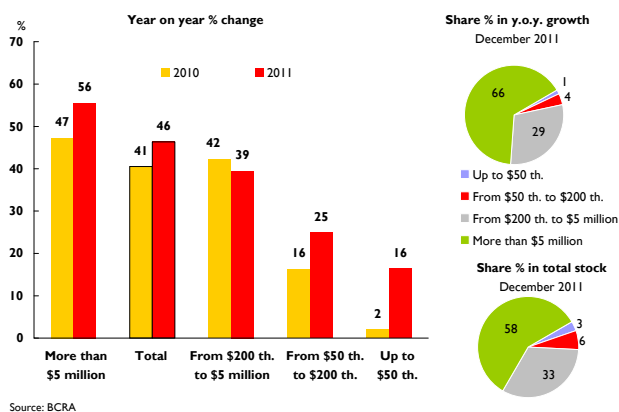


Chart IV.9
Bicentenary Productive Financing Program

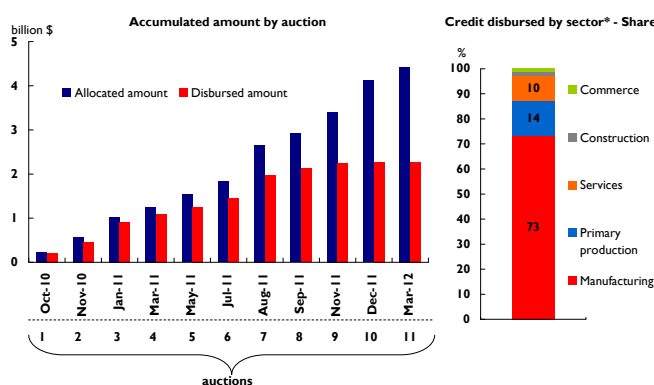
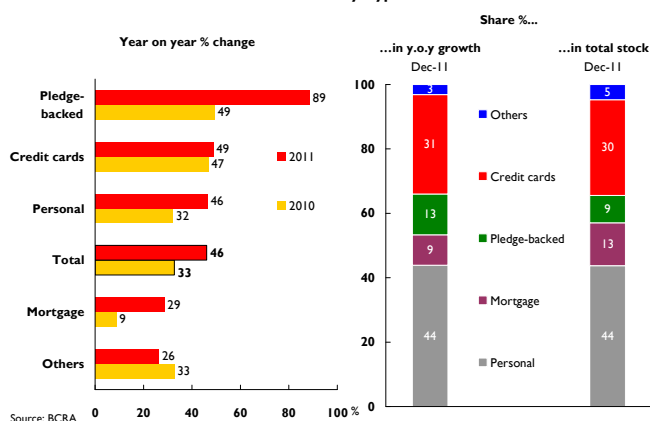


Chart IV.10
Credit to Families by Type of Line



the corporate sector and represented 58% of the stock as of December 2011.

In order to stimulate the supply of lending aimed at productive investment, the Central Bank has continued conducting fund auctions within the framework of the so-called Bicentenary Productive Financing Program⁴⁹. Up until now, 347 projects have been approved by the assessing units of the Ministries of Industry, Economy, and Agriculture, out of which almost 65% correspond to small and medium-sized enterprises. Such projects comprise all productive sectors, particularly, laboratories, automotive, poultry, commercial and logistic sectors⁵⁰. Under such Program, the Central Bank has allocated a total amount of \$4.4 billion through 11 auctions. By the end of February 2012, the 13 participating banks had channeled companies a total sum of \$2.3 billion pesos. Almost three quarters of such amount were aimed at the industrial tranche. Its regional distribution reaches 17 provinces, promoting job creation and investment in all of them. Additionally, the expansion of the scope of credit lines of the Program was ordered in February 2012 thereby admitting the application of part of such funds to working capital financing projects aimed at facilitating the production of capital goods⁵¹ (see Chart IV.9).

Pledge-backed loans aimed at households expanded almost 90% in 2011

Financing to households exhibited a 46.1% y.o.y. expansion in 2011, driven by the performance of lines aimed at consumption (personal loans and credit cards) and the momentum shown by pledge-backed loans. Thus, loans for consumption purposes contributed almost three quarters to annual growth whilst lines with real collateral contributed 22% (mainly through pledge-backed loans) (see Chart IV.10). More than two thirds of the growth of lending granted to households was accounted for by private banks; such share reaches three quarters of the total rise when considering lines for consumption purposes in particular.

The financial system reduced its exposure to the public sector in 2011 as a result of debt relief state policy

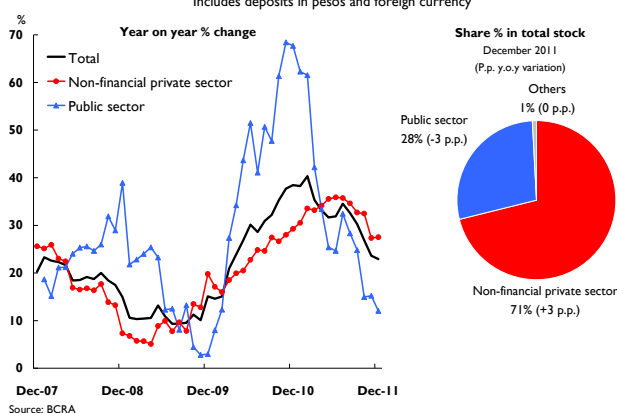
Together with the rise of lending to the private sector, during both halves of 2011, the group of banks reduced its exposure to the public sector gradually. Thus, lending to the public sector stood at 10.6% of assets, 1.6 p.p. less than at the end of 2010. On the other hand, if funding

⁴⁹ The purpose of this Program is to grant funding of up to 5 years to financial entities to generate loans for investment.

⁵⁰ Information obtained from the Industry Ministry.

⁵¹ Communication "A" 5278.

Chart IV.11
Total Deposits of Financial System
Includes deposits in pesos and foreign currency

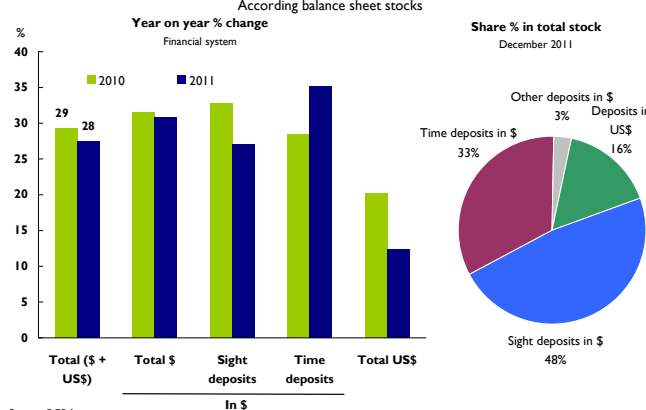


banks obtain through public sector deposits is considered, the financial system would continue exhibiting a debtor net position against the public sector for an amount equivalent to 10.1% of total assets (see Chart V.20).

Private sector deposits are gaining share in total funding of the financial system. Time deposits exhibited an outstanding performance

Total deposits in the financial system (in pesos and in foreign currency) ended the year with a 22.9% growth rate, lower than that observed 12 months before. Unlike what happened during the previous year, total deposits in the financial system in 2011 were mainly driven by private sector deposits which increased their share gradually (see Chart IV.11).

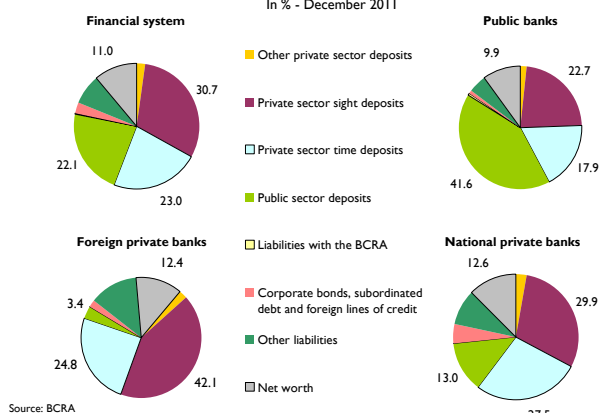
Chart IV.12
Non-Financial Private Sector Deposits
According balance sheet stocks



Private sector deposits ended 2011 with a 27.5% annual rise, exhibiting a fall in their growth pace during the second half of the year. These deposits were primarily driven by the evolution of time deposits in pesos (see Chart IV.12), which practically offset the lower growth pace of sight deposits in pesos⁵². Consequently, deposits in pesos rose 30.9% in 2011, standing slightly below the figure recorded during the year before. On the other hand, the growth observed in deposits in foreign currency up to October 2011 was partly offset by the reduction in the stock recorded at the end of the year. Thus, deposits in foreign currency ended 2011 with a 12.4% hike, 7.8 p.p. less than in 2010.

Public sector deposits evidenced a reduction in their expansion pace since the start of the year losing share within total deposits and going from accounting for 31% at the end of 2010 to 28% in December 2011. The lowest annual performance was primarily accounted for by the evolution of sight deposits and was mostly observed in public banks.

Chart IV.13
Funding Composition by Group of Financial Entities
In % - December 2011



Private sector deposits reached 56% of total funding—liabilities and net worth— of the financial system in December 2011, up 1.4 p.p. against the end of the previous year. More share of private sector sight and time deposits was recorded, which reached 30.7% and 23% of total funding respectively. On the other hand, public sector deposits totaled a 22.1% weighting of total funding of the financial system during the last month of the year (2.4 p.p. less than 12 months before) (see Chart IV.13), with a greater role in public banks.

⁵² As well as that of other deposits which include court-ordered deposits, inactive accounts, payment orders, escrow deposits, deposits related to foreign exchange transactions and other deposits.

Chart IV.14

Estimation of Total Deposits in Pesos Funding Cost

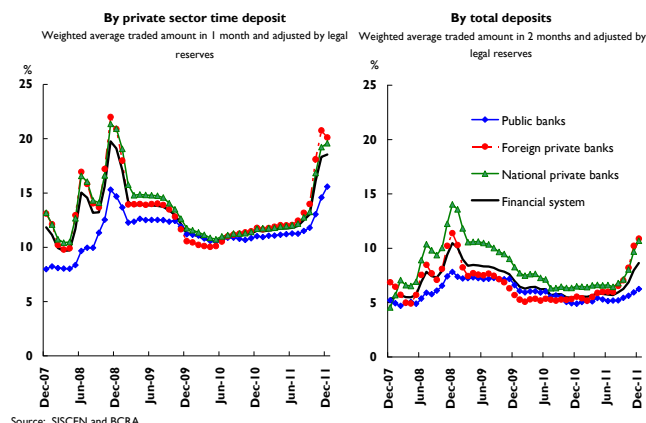


Chart IV.15

Interest Rates Spread for Operations in Pesos

Difference between lending interest rate and deposit cost*

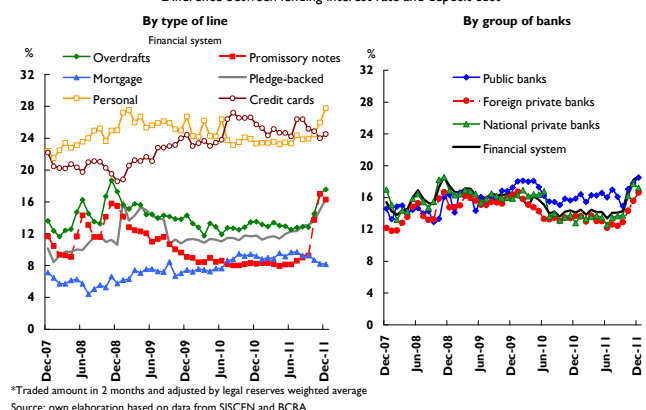
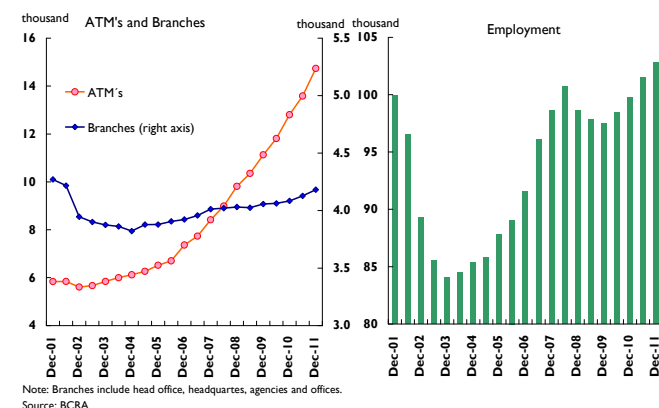


Chart IV.16

Financial System Operational Structure



Unlike what happened a year ago, the share of corporate bonds, subordinated bonds and foreign lines increased gradually in 2011 in the total funding of banks. Twenty two financial entities issued corporate bonds during the year, receiving funds for \$4.04 billion⁵³ (14 banks issued debt for \$1.38 billion over the second half of the year).

The cost of funding through deposits in pesos rose during the last months of the year when making a 6-month or annual comparison (see Chart IV.14). This rise was observed in all homogeneous groups of banks and was mainly derived from the dynamics of the interest rate on time deposits. It should be noted that this trend started to reverse during the first months of 2012.

The greatest rise in lending interest rates in pesos at the end of 2011 exceeding funding rates led to a rise in the bank spread (see Chart IV.15). All groups of banks raised their interest rate spread during the second half of the year and over the year, trend that started to reverse at the beginning of 2012.

Employment within the bank sector reached the highest level since the exit from the 2001-2002 crisis

Staffing within the financial system ended 2011 exhibiting historically high values (see Chart IV.16). The financial system recorded a total of 103,000 employees last December and posted a 3.1% rise over the year. This growth rate exceeded the expansion of the employment level in the economy as a whole, mainly on account of the performance shown by private financial entities (see Table IV.2). On the other hand, during the year, the amount of bank branches expanded 2.4% whilst the number of automatic teller machines increased 15.1%, evidencing a greater boost during the second half of the year. The financial system infrastructure expansion took place within a framework that keeps a growing trend in the average number of accounts per branch and employee (see Chart IV.17), which evidences an increasing degree of operating efficiency in the financial system.

Access to financial services by the population in different regions of the country keeps increasing (see Chart IV.18). The indicator of inhabitants per automatic teller machine improved (fell) in 2011 in all geographic zones of the country thereby narrowing the gap observed amongst regions with higher and lower coverage and reached a minimum level during the last years. When making an international comparison, the amount of inhabitants per automatic teller machine considering the

⁵³ Out of which, 13 issues for a total of \$1 billion corresponded to short term securities (up to 12 months).

Table IV.2
Evolution of Employment
In thousand

	Financial system				31 aglomer. EPH
	Total	Banks		NBFE	Empl. - Underemplo.
		Priv.	Pub.		
IQ-10 (Min. FS**)	97.5	56.5	37.8	3.1	9,413
IVQ-10	99.7	59.0	37.7	3.1	9,638
IVQ-11 (Max. FS***)	102.8	61.5	38.0	3.3	9,831
Variation- In %					
IVQ-11 vs IQ-10	5.5	8.8	0.4	5.8	4.4
IVQ-11 vs IVQ-10	3.1	4.3	0.8	6.9	2.0

**Considering the period IVT-07 to IVT-11.

***Considering the post crisis period 2001-2002.

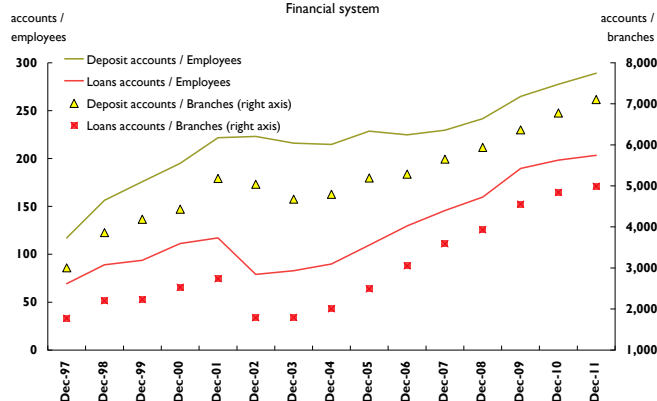
Source: BCRA and INDEC

country's aggregate stood slightly below the average recorded in emerging countries.

Meanwhile, the amount of inhabitants per bank branch also exhibited a gradual improvement in different geographic zones, especially, in those with lower coverage levels. This evolution was partly driven by the strategy of the BCRA aimed at deepening the scope of financial services. Within this framework, a new criterion was set in late 2010 to authorize the opening of new bank branches: in those cases where financial entities apply for the opening of new branches in areas having greater financial infrastructure, such application shall be accompanied by a proposal to open the same amount of branches in zones with lower banking levels⁵⁴. Upon the implementation of this new rule, the opening of 67 new branches in zones with a relatively lower banking level⁵⁵ was authorized over the course of 2011, which accounted for almost 69% of the net opening of branches during the year.

Chart IV.17

Number of Accounts in Terms of Employees and Branches
Financial system



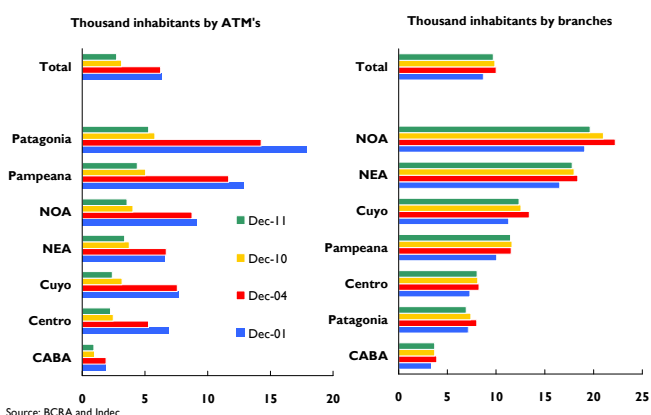
Source: BCRA

A medium-sized national private bank was purchased by a foreign private bank during the first half of the year. Although financial system concentration levels did not show significant changes (see Chart IV.19), this transaction primarily reflected some increase in the share of foreign private banks in the total stock of lending and deposits pertaining to the private sector. Public banks also evidenced a rise in financing to the private sector in 2011 whilst national private banks reduced their weighting.

IV.1.2 Capital position

The financial system has exhibited suitable solvency levels

Chart IV.18
Financial System Regional Coverage



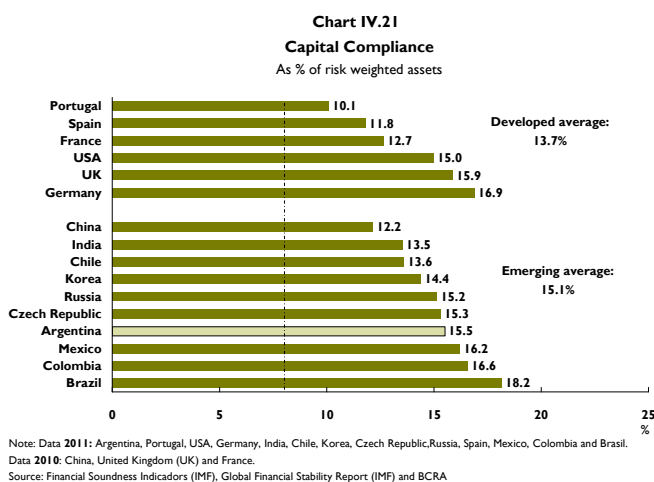
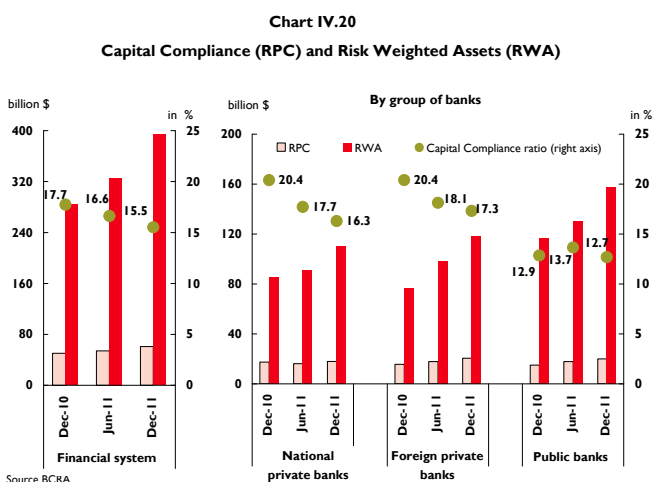
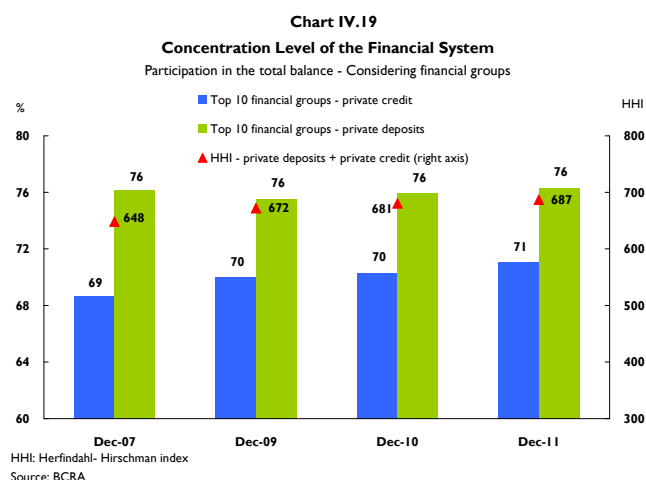
Source: BCRA and Indec

The consolidated financial system net worth expanded 21.8% in 2011, evidencing greater acceleration during the second half of the year –31.8% a.-, given that, over the first six months of the year, a higher concentration of financial entities that allocated dividends was observed. The rise in net worth was boosted mainly by book profits and, to a lesser extent, capitalizations carried out in 2011. The latter totaled almost \$1 billion thereby exceeding the record of the last three years.

The financial system leverage level increased slightly in 2011, receiving part of the effect derived from a better performance shown by lending to the private sector, which was combined with the decision to allocate dividends in certain entities mentioned above. Thus, assets accounted for 9.2 times the net equity and this

⁵⁴ Communication "A" 5167.

⁵⁵ Also, 8 applications are still under the approval process.



record is lower than that of the region and other emerging and developed economies (see Chart IV.2).

Capital compliance of the domestic financial system is aligned with the values recorded in other economies in Latin America and above the average observed in developed countries

The regulatory capital compliance ratio fell during 2011, and exhibited a similar performance over the first and second half of the year. Thus, capital compliance of the financial system in December 2011 stood at 15.5% of credit risk-weighted assets (RWA), 2.2 p.p. less than at the end of the previous year. Both private and public banks reduced their capital compliance ratio as a result of the growth in credit (see Chart IV.20). The Argentine financial system exhibits solvency levels that are aligned with the average registered in other emerging economies and above the average of developed economies (see Chart IV.21). On the other hand, and at an aggregate level, the domestic financial system recorded a surplus in capital compliance equivalent to 62% of the total requirement and this situation has been observed in all homogeneous groups of banks.

In view of a more volatile international scenario, this institution has recently adopted a set of measures⁵⁶ aimed at deepening solvency standards of banks even more. It should be noted that such measures take place within the framework of commitments undertaken within the framework of the Basel Committee on Banking Supervision. An additional capital requirement was set under the new regulation for the coverage of the operational risk (see Box 3) and the capital conservation limit, or buffer, was expanded prior to the allocation of profits. The operational risk capital requirement equals 15% of positive gross income recorded over the last three fiscal years and will be applied gradually⁵⁷. On the other hand, banks with profits to be allocated, shall only do so if their capital compliance surplus, following the corresponding allocation, exceeds the requirement by, at least, 75% (modifying the 30% limit set in 2010).

Seventh consecutive year with accounting benefits for the financial system

Banks' book profits over the second half of 2011 totaled \$8.3 billion, 30% higher than the figure accrued during the first half of the year, amounting to \$14.72 billion. In terms of total assets, the financial system recorded a 2.9% ROA in the second part of the year, up 0.4 p.p.

⁵⁶ Communication "A" 5272 and Communication "A" 5273.

⁵⁷ 50% of the new regulatory requirement must be complied since February 2012 and 75% since August, while the total shall be complied since December 2012.

Table IV.3
Profitability Structure: Financial System
Annualized indicators as % average netted assets

	93-00	2009	2010	2011	II-10	I-11	II-11
Financial margin	6.1	8.6	8.5	8.0	9.3	7.5	8.5
Net interest income	4.9	4.3	4.3	4.6	4.3	4.2	5.0
CER and CVS adjustments	0.0	0.4	0.6	0.3	0.6	0.3	0.3
Gains on securities	0.8	3.3	3.2	2.6	4.0	2.5	2.7
Foreign exchange price adjustments	0.0	0.8	0.5	0.6	0.5	0.6	0.6
Other financial income	0.3	-0.1	-0.1	0.0	-0.1	-0.1	0.0
Service income margin	3.5	3.9	3.8	3.9	3.9	3.8	4.0
Operating costs	-6.7	-6.7	-6.9	-6.7	-6.9	-6.6	-6.8
Loan loss provisions	-2.2	-1.1	-0.8	-0.7	-0.8	-0.6	-0.7
Effects of the 2001-2002 crisis (*)	-	-0.3	-0.2	-0.1	-0.2	-0.1	-0.1
Tax charges	-0.5	-1.0	-1.0	-1.1	-1.0	-1.0	-1.2
Other	0.7	0.3	0.5	0.5	0.5	0.6	0.5
Total result before income tax	0.8	3.6	4.0	3.9	4.8	3.5	4.3
Income tax	-0.3	-1.3	-1.2	-1.2	-1.5	-1.0	-1.4
ROA	0.5	2.3	2.8	2.7	3.3	2.5	2.9
Adjusted ROA (**)	-	2.6	3.0	2.8	3.4	2.6	3.0
ROE	3.4	19.2	24.4	25.3	29.2	23.3	27.1
ROE (before income tax)	5.2	29.5	34.5	36.6	42.7	32.3	40.4

(*) Includes amortization payments for court-ordered releases and adjustment of public sector assets.

(**) Excluding the effects of the 2001-2002 crisis.

Source: BCRA

against the first half of the year mainly due to higher results derived from interest (see Table IV.3). Hence, the set of entities ended the year with a 2.7% ROA, slightly below the figure recorded in 2010. All groups of financial entities registered positive results, with a slight improvement in the case of public banks and a reduction in the case of private entities.

Banks' financial spread rose 1 p.p. of assets during the last 6 months of 2011 compared to the first half of the year, until reaching 8.5%a. The financial margin stood at 8% in the 2011 cumulative thereby evidencing a gradual fall in y.o.y. terms (see Chart IV.22).

In a context with higher financial intermediation levels and with a slight rise in interest rate spreads by the end of 2011, results derived from interest grew at an outstanding pace

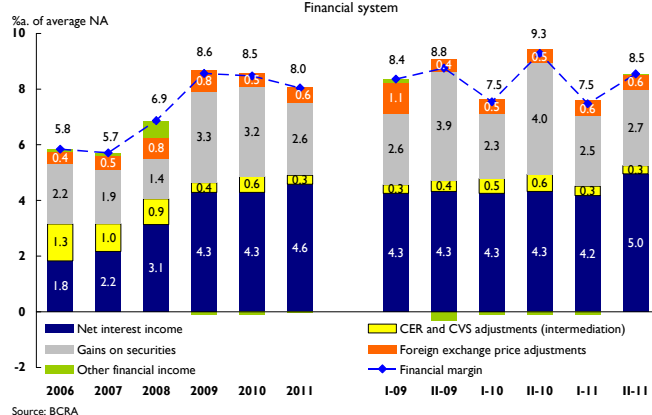
Net income derived from interest continued being the main financial system income source. These results grew 0.8 p.p. over the second half of the year against the first half of 2011 and stood at 5%a. of assets (see Chart IV.23). This performance was influenced by a combined effect of higher financial intermediation levels with a gradual rise in spread levels. In this context, a slight rise in spreads traded in the margin (see Chart IV.15) as well as in the spread of implicit rates in pesos was observed during the second part of the year. Thus, net income derived from interest stood at 4.6% of assets during 2011, up 0.3 p.p. against the previous year and was mainly driven by private banks (national and foreign).

Results derived from securities rose slightly over the second half of the year until reaching 2.7%a. of assets. Considering an annual outlook, this income source fell significantly; however, it is worth mentioning that the record of last year stood at relatively high levels (especially during the second half of 2010). Therefore, income derived from securities ended the year at 2.6% of assets, with a 0.6 p.p. y.o.y. decline.

Together with the gradual reduction in the mismatching of CER-adjusted items in terms of net worth (see Chapter V), this income started losing share within the financial margin. During 2011, these results fell 0.3 p.p. of assets down to 0.3%. The annual reduction was mainly accounted for by public banks, a group that concentrates most of this mismatching and, hence, related-net income (see Table IV.4). In a context with limited foreign exchange volatility and a slight increase in the broad mismatching of foreign currency (see Chapter V), income derived from foreign exchange rate differences evidenced a minor annual rise until reaching

Chart IV.22

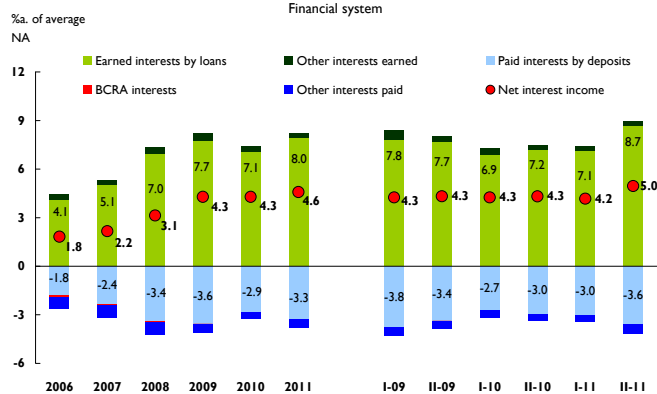
Financial Margin Composition
Financial system



Source: BCRA

Chart IV.23

Net Interest Income
Financial system



Source: BCRA

Table IV.4
Profitability Structure by Type of Banks
2011 - Annualized indicators as % average netted assets

	Private banks			Public Banks	NBFE
	Total	National	Foreign		
Financial margin	9.0	8.4	9.6	6.4	16.6
Net interest income	6.1	5.6	6.6	2.1	15.8
CER and CVS adjustments	0.1	0.0	0.2	0.6	0.0
Gains on securities	2.1	2.4	1.8	3.4	0.4
Foreign exchange price adjustments	0.7	0.5	0.9	0.4	0.4
Other financial income	0.0	-0.1	0.1	-0.1	0.0
Service income margin	5.0	4.7	5.3	2.5	5.4
Operating costs	-7.8	-7.6	-8.1	-5.0	-10.6
Loan loss provisions	-0.9	-0.9	-0.8	-0.4	-2.3
Effects of the 2001-2002 crisis (*)	-0.1	0.0	-0.1	-0.2	0.0
Tax charges	-1.4	-1.5	-1.3	-0.6	-1.9
Other	0.6	0.7	0.5	0.5	1.4
Total result before income tax	4.4	3.7	5.1	3.1	8.6
Income tax	-1.4	-1.1	-1.7	-0.9	-3.1
ROA	3.0	2.6	3.4	2.3	5.5
Adjusted ROA (**)	3.0	2.6	3.5	2.5	5.5
ROE	25.6	23.1	28.1	25.2	20.9
ROE (before income tax)	37.8	33.5	42.3	34.9	9.1

(*) Includes amortization payments for court-ordered releases and adjustment of public sector assets.

(**) Excluding the effects of the 2001-2002 crisis.

Source: BCRA

0.6% of assets. Positive results related to this concept were reflected in private and public banks.

Net income from services increased slightly over the year especially during the second half. Results derived from services were influenced by the momentum observed in segments mainly related to commissions charged on insurance policies and credit card issues. The rise in these results was mostly driven by private banks (see Chart IV.24).

More stable net income during the year (results from services and interest) gained share within the main net income sources (4.5 p.p. up to 68%). In contrast, net income with greater volatility, results derived from securities, reduced their weighting (-4.2 p.p. to 21%) (see Chart IV.25).

Lower operating costs and loan loss provisions in terms of assets in all homogeneous groups of entities along 2011

Operating costs fell slightly during the year to 6.7% of assets. The drop was generalized amongst different groups of banks (see Chart IV.26). The reduction in these expenses was primarily driven by staff-related items (remuneration and social security contributions), which account for 60% of total operating costs at a system level.

Charges on loan loss provisions of the financial system stood at 0.7% of assets in 2011, 0.1 p.p. less than the record of the previous year. Private banks accounted for most of the annual fall (see Chart IV.27), although public banks have evidenced lower levels in these charges. The decrease in these expenditures was more relevant during the first six months of the year, when a greater reduction in the stock of non-performing loans was observed. On the other hand, the coverage level of non-performing loans by provisions rose 28 p.p. during 2011 until reaching 171%.

The financial system faced up tax-related expenditures in 2011 (income tax and other tax charges) for an amount equivalent to 2.3% of assets, growing slightly against the previous year. The y.o.y. rise was mainly accounted for by private banks given that public banks decreased their expenditures. On the other hand, adjustments for loans to the public sector and the amortization of court ordered releases (results of the 2001-2002 crisis) accounted, as a whole, for only 0.1% of assets, falling 0.1 p.p. against 2010. Both public and private banks exhibited a reduction, but it should be noted that these expenditures are mostly concentrated in the case of public banks.

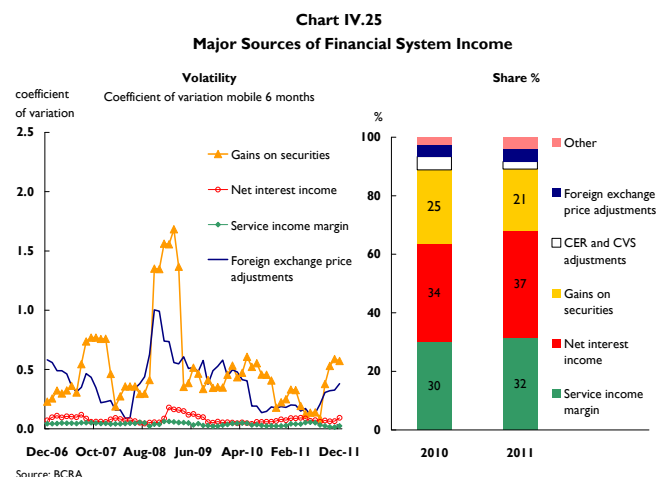
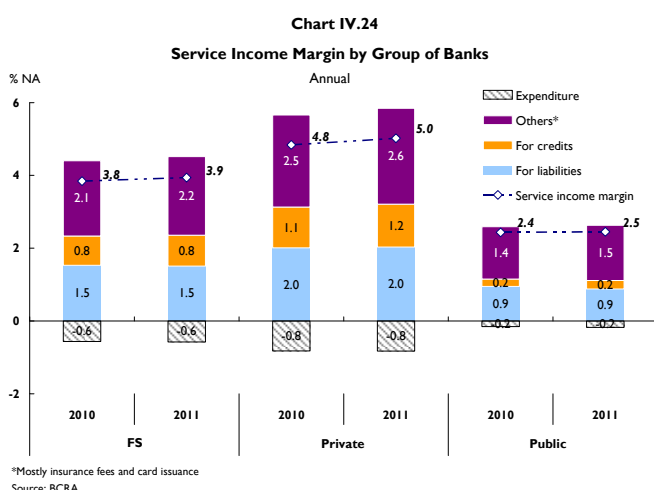
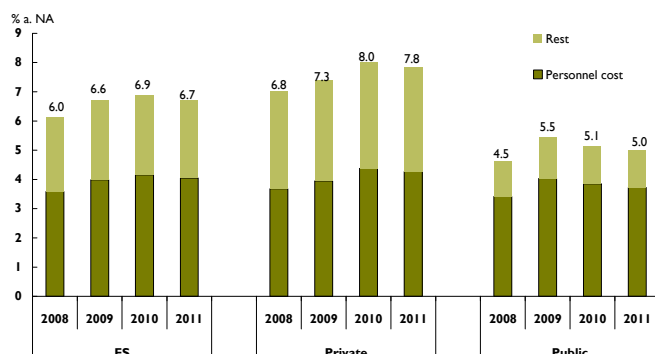
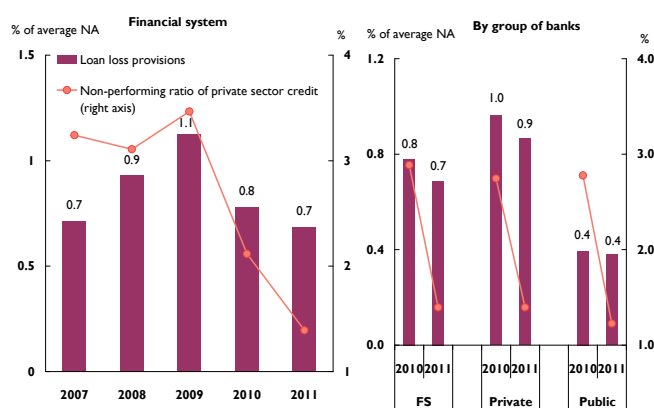


Chart IV.26
Operating Costs
As % of netted assets



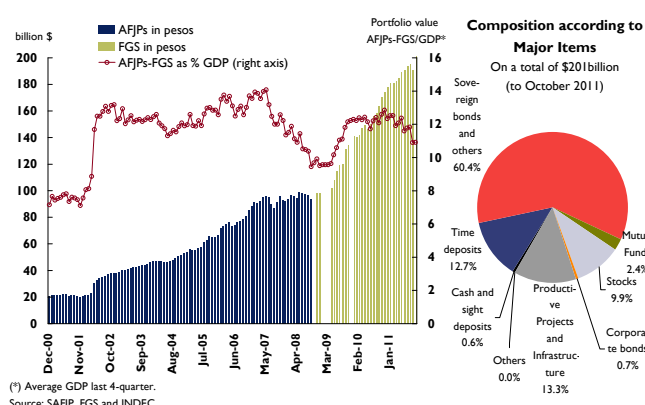
Source: BCRA

Chart IV.27
Loan Loss Provisions



Source: BCRA

Chart IV.28
Evolution of Portfolio Managed by Social Security Fund (FGS)



(*) Average GDP last 4-quarter.
Source: SAJFP, FGS and INDEC

Considering 2012, the financial system is expected to consolidate its solvency levels

Banks would start 2012 with book profits, driven by more stable net income, which will allow them to keep consolidating their solvency levels. The new measures adopted by the BCRA regarding capital requirements and capital conservation ratio will promote greater soundness of the financial system and will allow continuing facing up an international context with financial turbulences suitably; moreover, it will also allow progressing on the compliance with the commitments undertaken within the framework of international agreements on regulatory standards.

IV.2 Institutional investors

The asset portfolios administered by the three main institutional investor groups at a local level —the Guarantee Sustainability Fund (FGS), administered by the ANSES, insurance companies and mutual funds (MF) — continued growing over the last months until exceeding \$270 billion in aggregate terms as of September 2011 (equivalent to almost 15% of average GDP last year)⁵⁸, exhibiting a 5% rise during the last 6 months and a 19% hike y.o.y.. Regarding fixed income investments, the most relevant assets in the portfolios of each of the main investor sub-groups, the share in the total was 53% as of September.

The FGS portfolio kept growing, with a rise in sovereign bonds, productive projects and time deposits and a decline in liquid assets

The portfolio administered by the FGS, the major domestic institutional investor after the change in the social security scheme effected in October 2008, continued growing during last year. Thus, the investment portfolio as of October 2011⁵⁹ exceeded \$201 billion, evidencing a 9% rise over the last 6 months and an 18% hike y.o.y. in nominal terms (see Chart IV.28). In GDP terms, the portfolio equaled almost 11% of GDP as of October. In line with what happened over the previous year, the three main portfolio headings (sovereign bonds, productive projects and time deposits) were the components that rose the most during 2011⁶⁰.

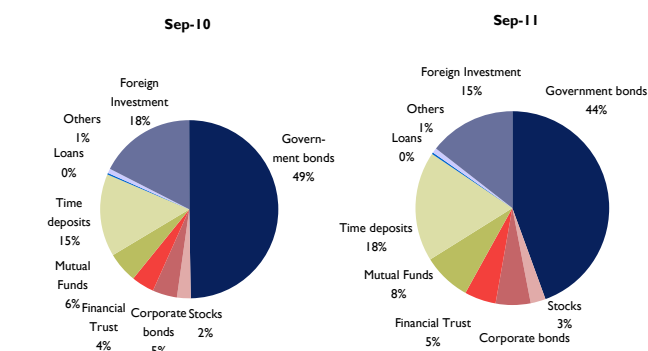
The rise in the value of sovereign bonds (item that accounted for 60% of the total portfolio) is mostly

⁵⁸ Considering the last month with available information for the three institutional investor groups. On the other hand, when adding the latest information available for every group (October for FGS, September for insurance companies and February 2012 for MF), a total of over \$290 billion is obtained (almost 16% of average GDP in 2011). In gross terms (without consolidation).

⁵⁹ Latest information available.

⁶⁰ A lower part of the growth observed in the portfolio is accounted for by the contributions that the FGS received from the ANSeS, which totaled \$3 billion between January and October 2011.

Chart IV.29
Breakdown of Insurance Companies Portfolio

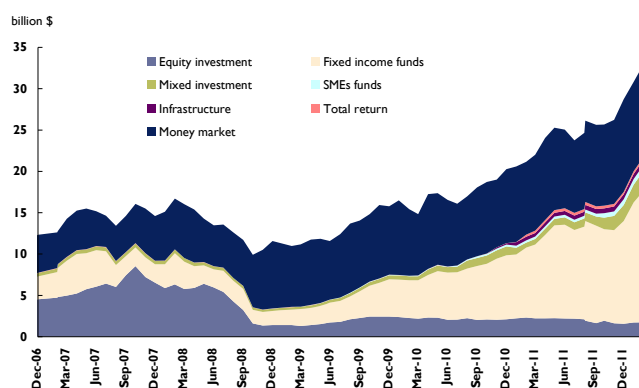


Note: Foreign investment include Government and corporates bonds, stocks, mutual funds, time deposits and other equity investments.
Source: own elaboration based on data from Superintendencia de Seguros de la Nación.

explained by a rise in the financing to the National Treasury through direct bond subscriptions, which surpassed net sales on the secondary market⁶¹. On the other hand, the rise observed in the amount aimed at productive and infrastructure projects, the second most relevant heading, is mostly accounted for by new disbursements in ongoing projects while new projects started being developed⁶². In contrast to these movements and the rise in investments in MF⁶³, a sizeable drop was observed in liquid assets⁶⁴.

Considering information available as of September 2011⁶⁵, insurance companies' investment portfolio amounted to \$56.6 billion, with 8% increase over a six-month period and 19% y.o.y.. Domestic sovereign bonds concentrated 44% of the portfolio although the heading reduced its share in the total portfolio over the last year (see Chart IV.29). Investments in domestic mutual funds grew 70% from September 2010 to September 2011, whilst corporate bonds and financial trusts did so by over 50% during the same period. On the other hand, investments by insurance companies abroad totaled \$8.2 billion as of September of last year (almost 15% of the total portfolio), exhibiting a 2% y.o.y. decline in nominal terms.

Chart IV.30
Mutual Funds Net Worth Evolution



Source: own elaboration based on data from Cámara Argentina de Fondos Comunes de Inversión

Regarding MF, total equity amounted to about \$33 billion by the end of February 2012, up 50% y.o.y.. Fixed income funds continued gaining weighting and accounted for 48% of total equity of MF, whilst they represented 40% of the total in February 2011 (see Chart IV.30). In contrast, variable income funds and those of money market (which invest in more liquid assets) lost some share during last year. Equity administered by variable income funds fell in nominal terms due to the falls registered in share prices and the sell of positions, due to the impact of the worsening of the crisis in Europe. Nevertheless, some recovery was evidenced as of February. On the other hand, the growth shown by funds investing in assets issued by domestic small and medium-sized companies should be underscored. Indeed, equity administered by these funds grew about 145% y.o.y. as of February 2012, although they only account for 2% of total MF equity.

⁶¹ In terms of amounts, sovereign bond sales on the secondary market exceeded purchases. With respect to prices, bonds had accumulated drops in their prices as of October 2011 against late 2010; such falls stood at about 20% in the case of long term bonds in dollars and 30% in the case of those in pesos with a CER-adjustment.

⁶² Disbursements in ongoing project are related to power generation and water and road infrastructure works, whilst new projects, of lower amounts, are aimed at financing the construction of housing units in different provinces.

⁶³ They grew over 60% as of October 2011. On the other hand, following the decline observed in prices in 2011, domestic stocks lost share (accounting for less than 10% of the total by October, and being the fourth component in terms of relevance) while corporate bonds also reduced their share.

⁶⁴ Liquid assets accounted for 0.6% of the portfolio as of October 2011 while such figure amounted to 7.8% in late 2010 and 9% in October 2010 (when it had reached a maximum value).

⁶⁵ Latest available information.

V. Financial System Risks

Summary

The risk exposure map that the financial system faces did not exhibit significant changes over the second half of 2011, when financial intermediation activity kept the expansion trend observed in previous periods. Volatility focuses were observed in some financial markets by the end of the year that disappeared gradually at the start of 2012. Markets were affected temporarily by external tensions, and this phenomenon was seen in other economies.

Within a context of significant growth in lending, bank liquidity indicators fell over the second half of 2011. Some diversification and expansion of terms of funding sources was observed in this context.

Lending to the private sector gained weighting in total financial system assets over the period. Non-performance of banking lending to the private sector stood at a historical minimum at the end of 2011, and a sizeable coverage level by means of provisions for the delinquent portfolio was kept. Companies and households' payment capacity would have remained without significant changes amidst a context of relative low levels of indebtedness and increase in income.

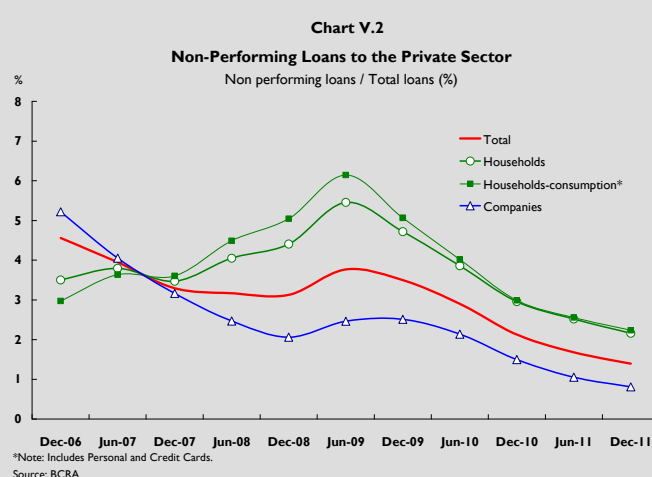
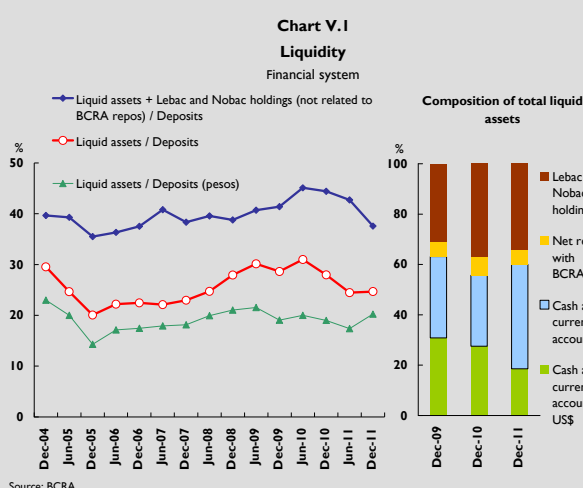
The financial system increased slightly its exposure to currency risk over the second half of the year from

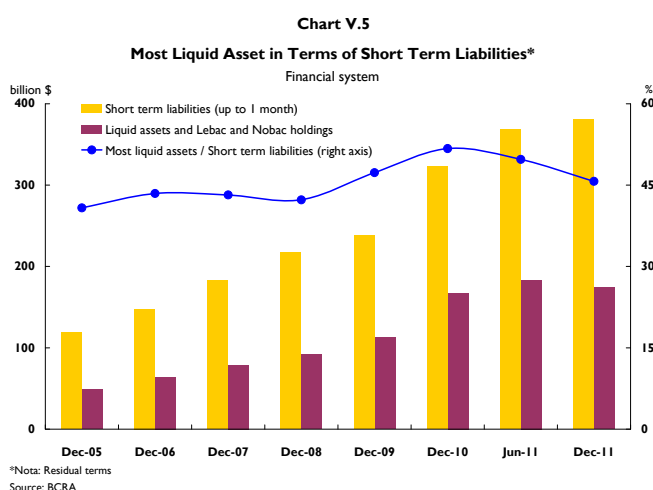
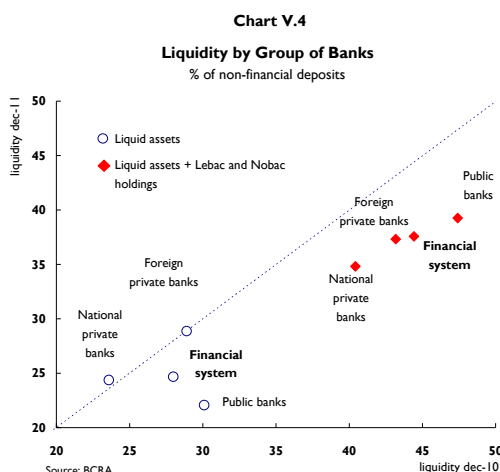
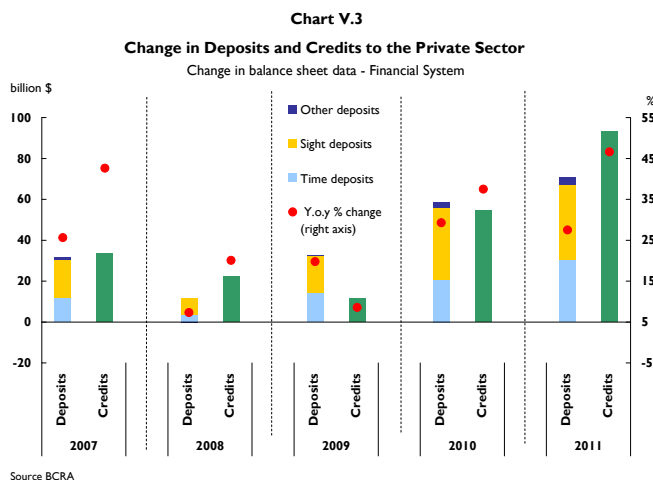
moderate levels. Currency mismatching of banks grew over a period characterized by a minor rise in foreign exchange rate volatility and was mainly boosted by more net foreign currency term purchases.

Following a prolonged stability period, the main domestic interest rates posted a temporary rise by the end of 2011. Consequently, and from limited levels, the financial system increased its interest rate risk exposure.

Financial system exposure to market risk fell during the second half of the year, mainly due to the drop observed in the portfolio of sovereign bonds and monetary regulation instruments at a reasonable market value.

The Central Bank has recently adopted measures aimed at deepening solvency standards of banks establishing an additional capital requirement for the coverage of operational risks (which will equal 1.9% of credit risk weighted assets) (see Box 3) and expanding the capital buffer requirement prior to the allocation of profits. These measures enhance the financial system capacity to absorb the impact of the materialization of a potential adverse scenario.





V.1 Liquidity risk

The banking system has kept a reduced liquidity risk exposure

The financial system could carry out its activities within a favorable context in 2011. By the end of the year, isolated volatility focuses were observed in some financial variables that disappeared gradually at the start of 2012. The set of financial entities could face this temporary volatility situation on account of the suitable liquidity and solvency levels that were established over the last years. The BCRA financial policy strategy, set within the framework of a managed floating exchange rate scheme, contributed to moderating potential fluctuations of financial indicators and mitigating the private agents' portfolio change that was observed in late 2011. Amendments made in due time to certain minimum reserve requirements in the foreign currency segment helped reduce the impact on bank lending.

The rise in private sector deposits recorded in 2011 was, once again, the most significant fund source for the financial system. The size of the rise observed in these deposits was slightly lower than the hike seen in the balance of credit to companies and households (see Chart V.3). The annual expansion of public sector deposits was the second fund source for financial entities.

Bank funding of a longer term raised its relative relevance in 2011. Total deposits extended their maturity over the period, mainly due to the momentum of private sector time deposits in pesos. In addition, financial entities received funds over the year through corporate bonds, medium term instruments that contributed to expanding the average duration of funding.

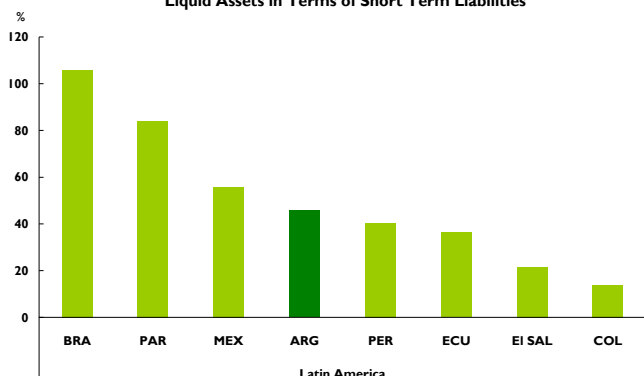
As a result of the rise in lending, financial system liquidity indicators fell slightly over the year

In a context of significant growth registered in financial intermediation with the private sector, coverage of banks regarding liquidity risk fell gradually in 2011 although indicators remained at relatively high levels (see Chart V.1). It should be noted that between late 2007 and mid-2010 (following the effect of the international financial crisis), liquidity of the aggregate financial system had experienced a sizeable hike.

During 2011, and particularly over the second half of the year, financial system liquid assets in a broad sense⁶⁶ fell

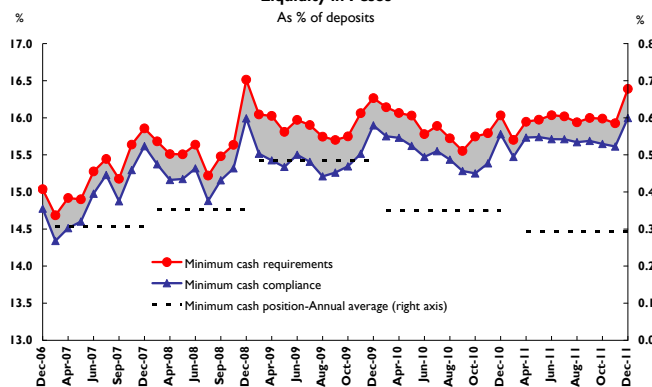
⁶⁶ Considering domestic and foreign currency. The definition includes liquid assets (compliance with the "minimum cash" requirement and other concepts, accounts with correspondents mainly) plus the net credit stock of repo transactions of financial entities against the BCRA using monetary regulation instruments of this Institution plus LEBAC and NOBAC holdings not related to repo transactions.

Chart V.6
Liquid Assets in Terms of Short Term Liabilities



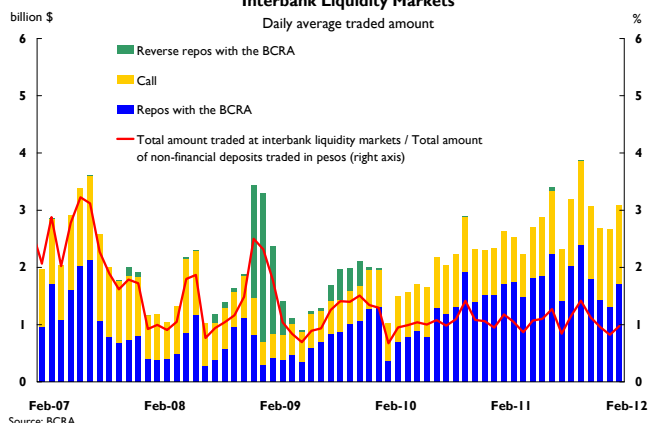
* Note: last available data 2011
Source: Financial Soundness Indicators (FSI) and BCRA

Chart V.7
Liquidity in Pesos
As % of deposits



Note: Decembers reflect requirements, integration and position of the quarterly period (December to February).
Source: BCRA

Chart V.8
Interbank Liquidity Markets
Daily average traded amount



Source: BCRA

in terms of total deposits until reaching levels that were more aligned with those recorded before the start of the international financial crisis. Considering this broad definition, all bank groups reduced their liquidity indicators in 2011 (see Chart V.4). The liquidity indicator (in pesos and in foreign currency) that does not take into account LEBAC and NOBAC holdings remained stable over the second half of the year and, thus, it evidenced a moderate decrease in 2011. In terms of the structure, Central Bank bills and notes holdings as well as liquid assets in foreign currency reduced their share in assets through out the year.

The financial system continued exhibiting broad coverage of short term liabilities⁶⁷ through liquid assets in a broad sense. Although such coverage fell slightly in 2011 down to 46%, it remains at a level higher than the one observed over the 2005-2009 period (see Chart V.5). This indicator is aligned with the average recorded in countries within the region (see Chart V.6).

Liquidity regulatory requirements, which must be complied with the currency representing the liabilities, were easily fulfilled by financial entities

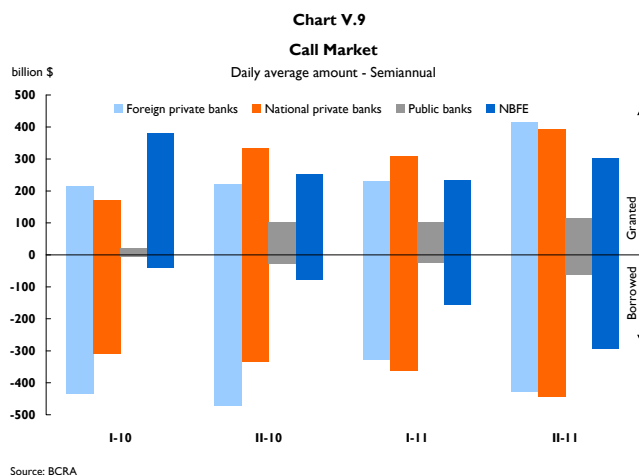
Liquidity regulatory requirements for financial entities continued being easily covered over the period. When taking into account the segment in pesos in the quarterly calculation comprising the December-February period for minimum cash, the financial system compliance level exhibited a surplus amounting to 0.45% of deposits (see Chart V.7). On the other hand, the liquidity compliance surplus for deposits in foreign currency recorded over this period was 34.9% of deposits. It should be noted that within the framework of the new Central Bank Charter, these liquidity requirements may only be complied with through deposits in current accounts with this Institution.

In order to prevent the temporary reduction of deposits in foreign currency recorded in November 2011 from having a relevant effect on lending for export purposes, the BCRA ordered a temporary readjustment of minimum cash regulations⁶⁸.

The volume traded within financial markets continued rising over the year and repo transactions amongst entities prevailed

⁶⁷ Short term liabilities are herein defined as those with a maturity term under a month (Source: BCRA Accounting Reporting System for quarterly release).

⁶⁸ Communication "A" 5246. The default application of funds corresponding to deposits of such kind (the part of deposits of this kind that a bank did not apply to financing in foreign currency) must be excluded from the calculation basis since November to determine the daily minimum compliance in foreign currency. The daily balance of banks' current account in dollars with the BCRA may not be less than 50% of the minimum cash requirement of the previous month. As from November, only the requirement for deposits is considered, whilst the total requirement was considered before (which includes the default application of funds).

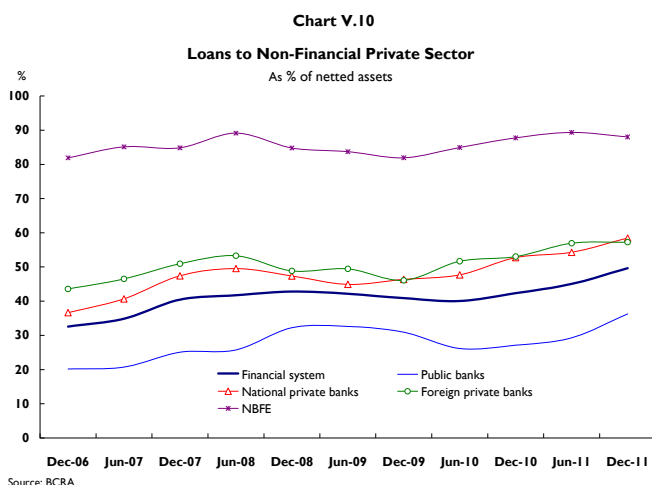


The amount traded in the call market, as well as the amount of total repo transactions amongst financial entities (see Chart V.8) continued expanding during the second half of 2011 and the latter accounted for more than half of financial transactions. Like in the first part of the year, NBFE and public banks over the second half of the year were net fund lenders in the call market whilst private banks were fund borrowers (see Chart V.9).

V.2 Credit risk

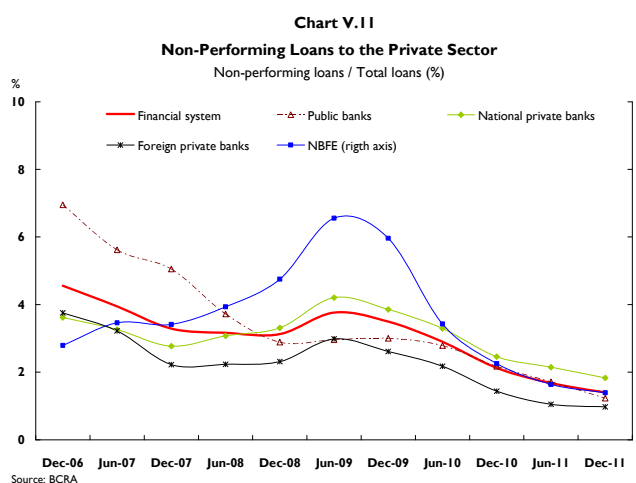
V.2.1 Private sector

Lending to the private sector gained share in total assets of the financial system amidst a context where banks kept their position against the counterparty risk



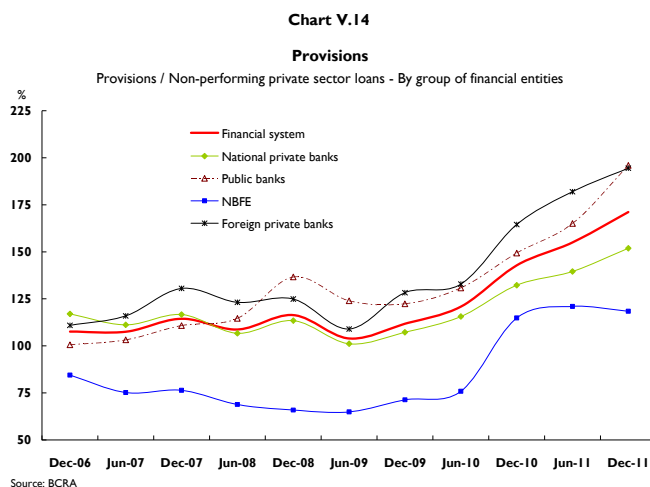
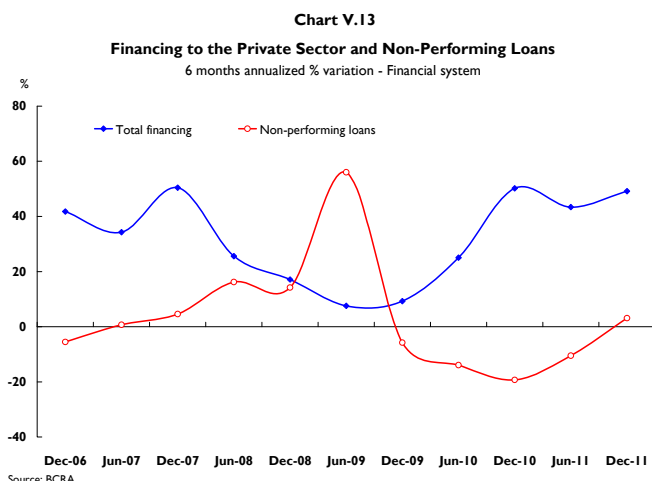
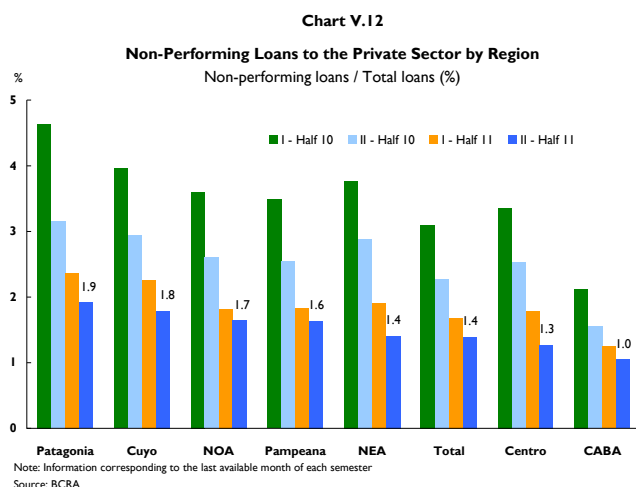
Financial system gross exposure to the private sector continued increasing over the second half of 2011, until accounting for almost half of aggregate banking assets (see Chart V.10). All entity groups exhibited a gradual rise of financing weighting to the private sector. Amidst a context of moderate indebtedness levels by companies and households and a positive performance of income, the private sector repayment risk remained limited. This was reflected in decreasing delinquency levels of bank lending. In addition, financial entities kept a sound coverage with accounting provisions. Thus, the financial system has evidenced a limited balance sheet exposure to the private sector repayment risk.

Private sector lending non-performance stood at a historical minimum at the end of 2011, with sound credit risk coverage



The private sector lending non-performance ratio fell 0.3 p.p. in the second half of 2011 (0.7 p.p. over the year), reaching a 1.4% historical minimum. This positive performance comprised all financial entity groups (see Chart V.11) and was accounted for by improvements in the segment of lending to companies and loans to households (see Chart V.2). The falling trend observed in delinquency was spread in all regions in the country and a lower dispersion level in the non-performance ratio of lending to the private sector amongst geographical zones was observed at the end of 2011 (see Chart V.12).

The decrease in the delinquency ratio of financing to the private sector over the second half of 2011 was boosted by a greater expansion pace of the total stock of loans within a framework where the stock of delinquent loans remained practically stable (see Chart V.13).



From reduced delinquency levels, loans in force in mid-2011 worsened their situation slightly during the second half of the year. The delinquency ratio of this lending stood at 1.8% by the end of the year slightly surpassing the figure recorded in June 2011.

The set of financial entities registered a high coverage level of non-performing loans by provisions. At the end of 2011, the coverage ratio for the financial system increased up to 171% (see Chart V.14). All financial entity groups continued exhibiting a coverage level exceeding the total stock of non-performing loans.

The ratio of loans to the private sector with guarantees⁶⁹ increased slightly up to 16% of the total during the second part of 2011. Delinquency in lending to the private sector without guarantees stood at 1.4% in December 2011, slightly below the level recorded by mid-2011.

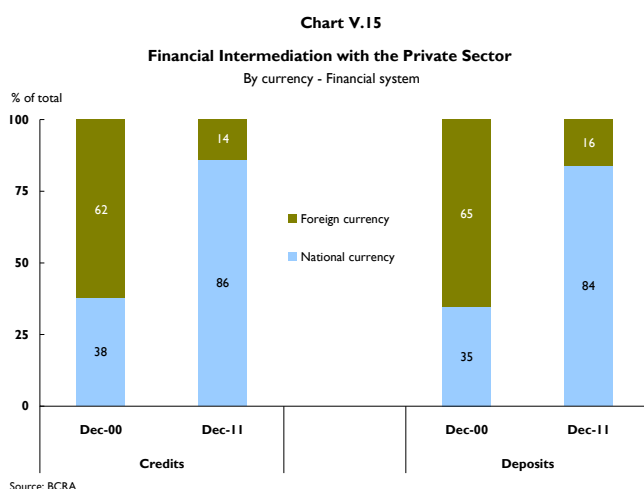
Given the reduced dollarization level in the financial system balance, credit risk faced by banks derived from potential fluctuations in the nominal foreign exchange rate is very low. It should be noted that this financial system strength was generated within the framework of the current macroprudential regulation. Financial entities may only offer lending in foreign currency to agents with income related to the evolution of the foreign exchange rate. Unlike what happened over a decade ago, financing to the private sector in foreign currency has a moderate share in total financing at present (see Chart V.15).

Companies

The financial system exposure to the productive sector increased whilst delinquency of this portfolio fell

The share of lending to companies in financial system assets rose once again over the second half of 2011 until reaching 28.2% of the total (see Chart V.16). Particularly, the contribution of public banks to the provision of lending to companies should be highlighted (see Chapter IV). The economic activity levels recorded during the second half of the year and the moderate indebtedness levels by the productive sector (see Chapter III) boosted some improvement in companies' payment capacity. Thus, the position of banks against companies' credit risk evidenced some improvements over the year.

⁶⁹ Collateral in the form of ceding or assignment of rights in relation to securities or notes (Preferred Class "A") and real rights on assets or third party commitments (Preferred Class "B") which duly instrumented ensure that the entity will be able to avail itself of funds to settle the obligation entered into by its customer. For further details, see the Central Bank's ordered text on Guarantees.



The delinquency level recorded in loans granted to companies fell 0.2 p.p. during the second half of 2011 (0.7 p.p. over the year), until reaching 0.8% of total lending to this sector. All financing lines to the productive sector improved their credit performance over the period. The fall in delinquency was generalized amongst production segments and the most relevant drops were observed in the case of loans to construction, commerce and primary production, sectors that ended the year exhibiting the lowest delinquency ratios (see Chart V.17).

Households

Weighting of lending to households in bank assets increased and lending quality improved

The financial system continued increasing its exposure to households over the second part of the year (see Chart V.18), mainly through lending for consumption purposes and, to a lesser extent, through loans with real collateral. Improvements were, once again, observed in the labor market over the period while the sector indebtedness remained growing from reduced levels (see Chapter. III). Delinquency in lending to households fell over the 6-month period improving the financial system position against households' counterparty risk.

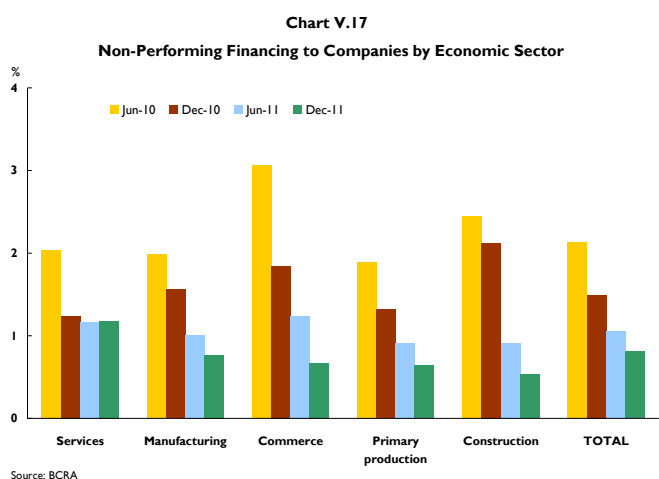
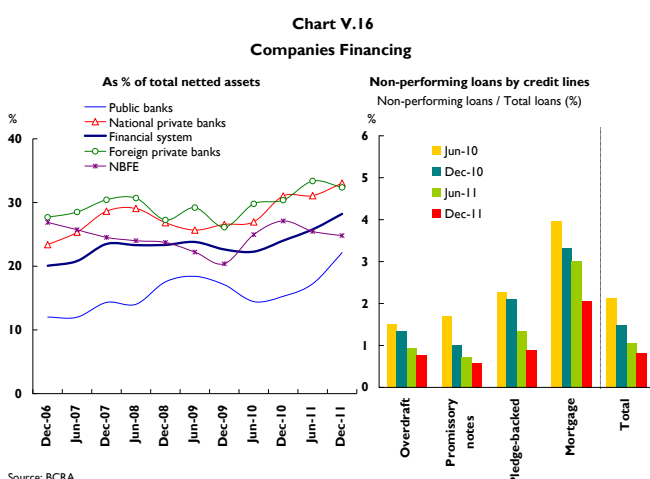
The delinquency ratio of loans to households decreased 0.4 p.p. over the second half of the year (0.8 p.p. in all 2011), down to 2.2%. All financing lines improved their credit performance over the period and lending for consumption purposes kept the relatively highest non-performing indicators.

It has been estimated that within the stock of loans to households recorded as of late 2011, the segment of loans granted between 2009 and 2010 to individuals that were included in the financial system over such period exhibited a relative higher delinquency level (see Chart V.19). It has also been calculated that loans to relatively new debtors (included between 2009 and 2011) accounted for almost 40% of the total balance of financing to households.

V.2.2 Public sector

Financial system gross exposure to the public sector fell over the period

In line with the significant growth observed in financial intermediation with the private sector, banks' exposure to the public sector continued falling. Exposure of the group of banks to this sector by the end of 2011 stood at 10.6%



Box 3 / Local Progress within the Framework of Basel II and III: Implementation of a Minimum Capital Requirement for Operational Risk

Argentina has been making efforts to converge to the international standards for banking regulation, efforts that will continue in next periods⁷⁰. In essence, this path seeks to strengthen the position of the local entities vis-à-vis the current deterioration of the global markets, and to protect them against potential future scenarios of similar characteristics that may impact on the Argentine credit market. As a result, progress is being made to comply with the commitments undertaken at the G20, the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (BCBS), organizations of which Argentina is an active member

The set of standards from the BCBS, commonly known as Basel II, outlined an intrinsically more complex and risk-sensitive framework than the recommendations made available by the end of the 1980s (known as Basel I), whose original purpose was to ensure the regulation convergence of G10 member countries. Gradually, other countries joined the effort and the new standard became a reference for banking supervision at international level, among other aspects. More recently, at the Pittsburgh Summit held in September 2009, the G20 leaders committed to adopt the Basel II capital framework in 2011.

Not only did Basel II modify the method used for credit risk assessment by banks but it also introduced a new requirement against operational risk. Even more, the role of the sovereign supervisory institutions was described in more detail (Pillar 2), in addition to the relevance of the market discipline (Pillar 3). Pillar 2 has also established that Basel II recommendations are in fact a floor for financial entities' capital. The supervisory authorities are entitled to increase such requirement whenever the banks' capitalization level is insufficient in terms of the characteristics and risk profile of their jurisdictions.

In recent years, the Central Bank of Argentina has implemented a series of provisions that could be framed under Basel II Pillar 2. Thus, in 2008 and 2011⁷¹, general guidelines for risk management (see Box 4) and

specific guidelines for operational risk management were introduced. Likewise, in January 2012⁷², a section related to operational risk management, effective as from February 2012, was added to the ordered text of Minimum Capitals of Financial Entities.

As mentioned above, the operational risk capital requirement is one of the innovations added by Basel II to the traditional credit and market risk requirements, with the purpose that banks can have sufficient reserves to absorb losses originated in process, personnel and system failures, or attributable to external events. Examples of reasons for such losses are fraud (both internal and external), work security failures, discrimination events, professional negligence, abusive commercial practices, product failures and natural disasters. Coverage must include the legal risk (inherent in adverse court judgments, private settlements and fines), while strategic or reputational risk is not included.

Operational risk is not exclusively related to financial services. Other industries have also started to assess this risk in recent years⁷³, even though risk modeling is still at an initial stage. Basel II offers three approaches for its calculation and urges banks to make ongoing progress in terms of sophistication and risk sensitivity as they develop more advanced measurement practices and systems. These methods are: (i) Basic Indicator Approach (BIA); (ii) Standardized Approach and (iii) Advanced Measurement Approaches (AMA).

Only the BIA approach is allowed by the Argentine regulatory framework. It consists in a requirement equivalent to 15%⁷⁴ of the bank's three-year annual average positive gross income (accrued interests and commissions, net of the amounts paid but without deducting the provision for default and the administrative expenses). The financial margin acts as a proxy of the activity volume and, therefore, of the risk of suffering operational events.

⁷⁰ See the path to Basel III, September 2011: www.bcra.gov.ar/pdfs/marco/Hoja%20de%20Ruta%20Basilea%20III.pdf

⁷¹ Communications "A" 4793, 4854 and 5203.

⁷² Communication "A" 5272.

⁷³ For example, the impact of pollution in the case of extraction activities and of catastrophic events (such as the attacks of September 11, 2001) for data processing services.

⁷⁴ Parameter calibrated in Basel II framework.

In order to ensure that banks will have sufficient time for their capitalization upon this new regulatory framework, a transition period has been established: by April 2012, the financial entities will have to comply with 50% of the new requirement, by August, 75%, and by December 2012, 100%. It is estimated that once the 100% has been complied with, the total requirement for the financial system will increase by an amount equivalent to 1.9% of credit risk-weighted assets. With the introduction of the operational risk requirement, it is estimated that the minimum capital requirement at the financial system level will amount to around 11.4% of the credit risk-weighted assets.

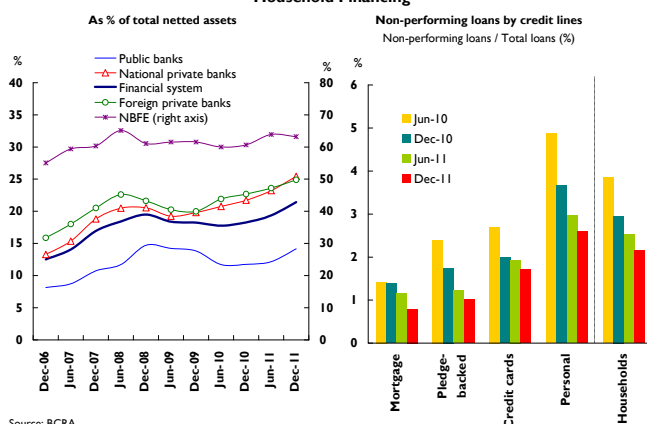
As a result, our regulatory framework shows a remarkable degree of progress in terms of its adjustment to Basel II framework, with substantial improvements regarding Pillar 2 (guidelines on operational risk management and stress tests to be performed by the entities) and Pillar 1 (incorporation of the operational risk capital requirement and high degree of progress to migrate to the Standardized Approach for credit risk, including the changes of Basel 2.5 and Basel III). In addition, and unlike what has been provided for by Basel standards, Argentina has limits in place as to currency mismatch, a potential source of risks for the financial systems of emerging economies under a situation of dollarization.

The recommendations known as Basel III keep the provisions established in Basel II but widen significantly the regulatory framework, restrict the definition of eligible capital to improve the capacity for loss absorption by the entities and make the information that banks are required to publish more transparent. Unlike Basel II, the new standards are not restricted to preserve the liquidity and solvency of the individual entities but, by adopting a macroprudential approach, seek to capture the effect of accumulation and contagion of risks in the financial system. In short, the BCBS defines Basel III as a comprehensive set of performance patterns, seeking to improve the capacity of the financial sector to face the disturbances caused by the economic and financial tensions. With the conviction that the new standards will limit the likelihood and severity of future crises, the G20 leaders committed to incorporate such standards into their local legislations and to implement them as from January 2013 according to the pre-established schedule until its full effectiveness in January 2019.

In line with the commitments undertaken, Argentina is currently working to comply with Basel III

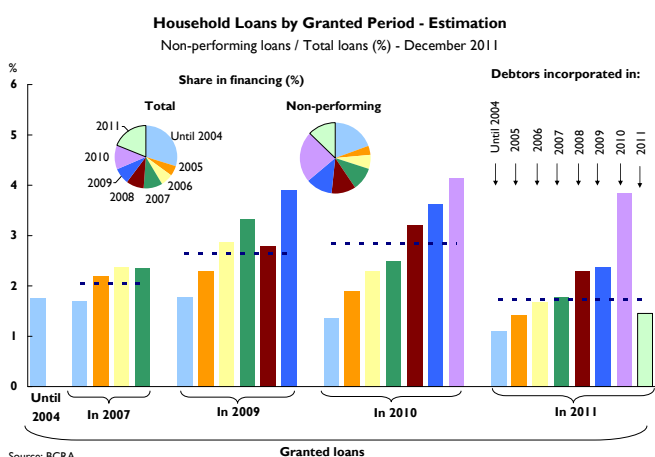
recommendations, taking into account the context inherent in an emerging economy, the experienced gained with the management of the past financial crises as well as the special characteristics of the Argentine financial system and its legislation. In this sense, there is already in place a capital conservation buffer with a requirement higher than the equivalent established by Basel III; at the same time, total leverage is currently substantially below the limit agreed upon in such framework. Thus, the Argentine system is operating in aggregate with a sizable excess regulatory capital; in this sense, the current common equity exceeds the total minimum requirements established by Basel III (to be incorporated in full as from 2019). Regarding the new liquidity standards, the regulatory framework in force in Argentina imposes more stringent requirements than those established at international level.

Chart V.18
Household Financing



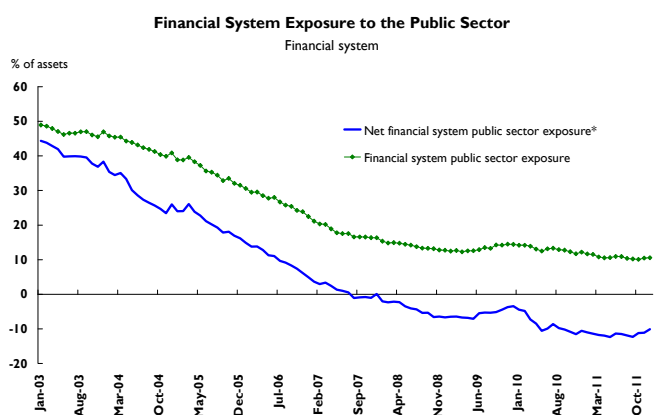
Source: BCRA

Chart V.19



Source: BCRA

Chart V.20



* Note: (Position in government securities (not including Lebac or Nobac) + Loans to the public sector - Public sector deposits) / Total Assets. Source: BCRA

of total assets, falling 1.6 p.p. over the year. In consolidated terms amongst jurisdictions and considering funding obtained by the aggregate financial system through public sector deposits, aggregate financial entities would continue evidencing a net debtor position for an amount equivalent to 10.1% of total assets (see Chart V.20). Current values of exposure to the public sector are lower than those observed in other economies within the region and in other emerging and developed countries.

V.3 Currency risk

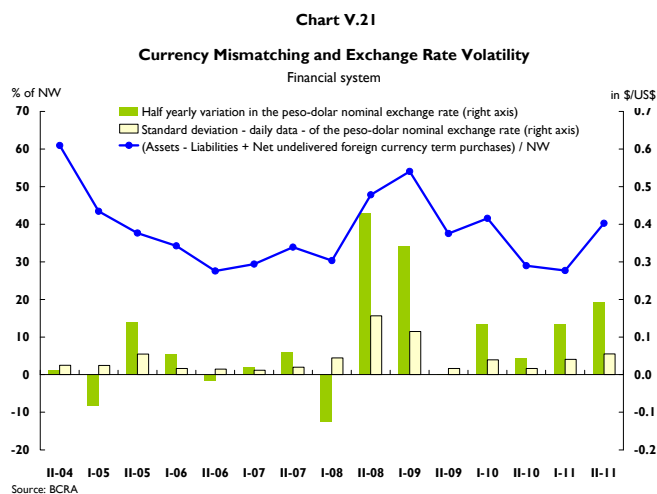
From moderate levels, the financial system increased its exposure to currency risk slightly over the second half of 2011

Over the second half of the year and amidst a context with greater financial turbulences at an international level, the domestic financial system active foreign currency mismatching rose together with a slight increase in foreign exchange rate volatility. Thus, financial entities raised their balance sheet exposure to currency risk although it remained below the peaks observed in late 2008 – early 2009 and levels before 2005. By the end of the year, broad mismatching⁷⁵ reached 40.3% of the financial system net worth, 12.6 p.p. higher than the figure recorded by mid-2011 (see Chart V.21).

The rise observed over a 6-month period in the financial system foreign currency broad mismatching was mainly accounted for by more net term purchases of foreign currency without delivery of the underlying asset (foreign currency derivatives) made by private banks (see Chart V.22). To a lesser extent, changes in assets and liabilities in foreign currency also contributed to the mismatching rise over the period. Particularly, the fall in financial system liabilities in foreign currency over the second half of the year (deposits mainly) exceeded the reduction of assets (liquidity primarily).

As a result of the dynamics observed in the second half of the year, net term purchases of foreign currency to be paid in pesos made by banks gained share in the broad mismatching of the aggregate financial system. By the end of 2011, such mismatching was divided in practically equal parts between net term purchases of foreign currency and the difference between assets and liabilities (see Chart V.23). Private banks account for about 90% of net forward purchases of foreign currency of the system whilst public banks kept about 80% of the difference between assets and liabilities in this currency.

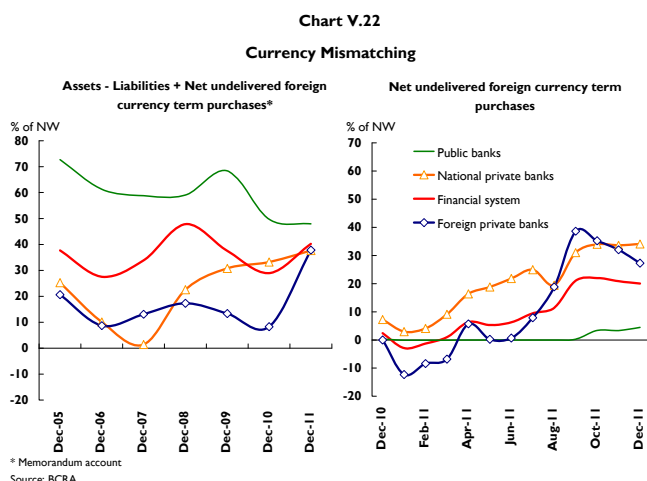
⁷⁵ Includes asset and liability items and term foreign currency transactions in memorandum accounts.



V.4 Interest rate risk

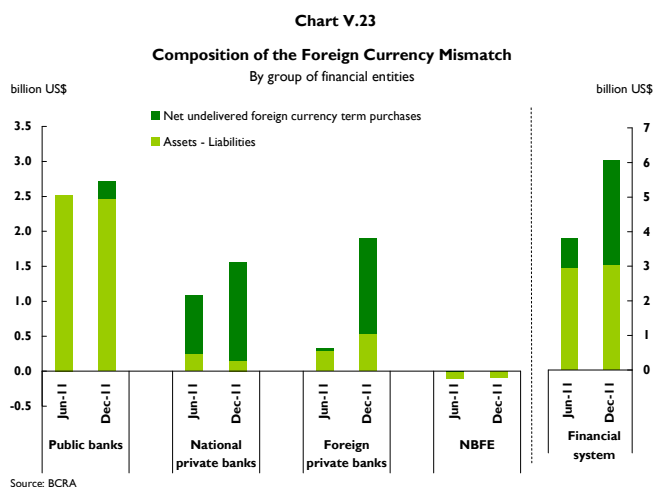
The financial system increased its balance sheet exposure to interest rate risk over the second part of 2011, from moderate levels recorded previously

Exposure of the group of banks to interest rate risk rose in the second half of 2011. Within this framework, and from moderate levels, the minimum capital requirement for this risk grew in the various groups of financial entities (see Chart V.24), and the relative rise recorded in foreign private banks should be highlighted. Particularly, this minimum requirement amounted to 8.7% of total capital compliance for the aggregate financial system, 0.6 p.p. higher than in mid-2011. Financial intermediation transactions in pesos with no CER-adjustment led the rise in the minimum capital legal requirement mainly, within a framework of some volatility in interest rates over the period.



Following the peak recorded in November 2011, the main interest rates in pesos exhibited a gradual fall that remained during the start of 2012. This situation contributed to the fact that the financial system balance sheet impact of the interest rate mismatching was of a temporary nature.

Because of the nature of banking transactions in general, asset flows (income from interest) exhibit less sensitivity to changes in the interest rate, in comparison to flows derived from liabilities (expenses from interest). This lower degree of response basically results from transactions arranged at a fixed interest rate in a context of longer duration of assets. In order to manage the interest rate risk, banks count on the futures market where the BCRA participates with the so-called “*función giro*”. This market has been gradually increasing its depth from low levels (see Chapter II).



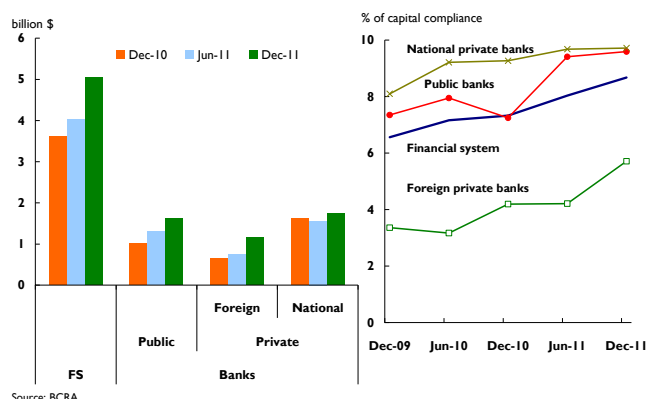
The mismatching of CER-adjusted headings continued losing relevance for banks

Given a lower holding of securities with CER-adjustment, over the second part of the year the financial system reduced its positive mismatching between assets and liabilities adjusted by this indicator. This movement was mainly driven by public banks. Such mismatching accounted for 37% of aggregate net worth by the end of 2011, almost 8 p.p. below the levels recorded by mid year. Thus, financial entities kept a low exposure to real interest rate risk.

V.5 Market risk

Chart V.24

Minimum Capital Requirements for Interest Rate Risk By group of financial entities



Financial system exposure to market risk fell over the second half of the year

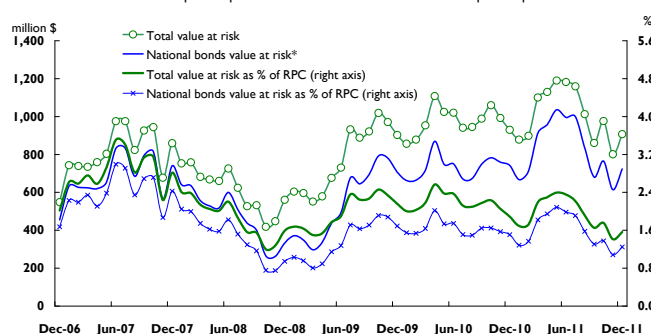
The regulatory capital requirement for banks in relation to market risk fell slightly over the second half of the year (see Chart V.25), until accounting for 1.6% of total capital compliance. The drop was mainly explained by the fall in the value at risk derived from national bonds⁷⁶, a component that accounted for 80% of the total market requirement. Hence, the market risk had a low weighting in the balance of risks of banks.

The fall of financial entities exposure to this risk over the second half of 2011 mainly resulted from the reduction of the portfolio of sovereign bonds and monetary regulation instruments at a reasonable market value. In addition, such instruments under this appraisal criterion lost share in the total stock of sovereign bonds, LEBACs and NOBACs over this period (see Chart V.26).

Chart V.25

Market Value at Risk

Total minimum capital requirements and national bonds minimum capital requirements*



*Included positions: (i) public bonds, LEBAC and NOBAC considered in the list of volatilities (issued by this Institution) and recorded to fair market value and (ii) share of MF which concern the securities and instruments mentioned previously.

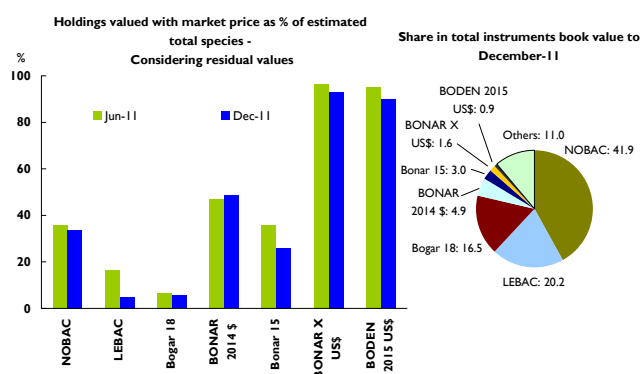
On the other hand, prices and volatilities of the main sovereign bonds and BCRA bills and notes in banks' portfolio exhibited a mixed performance over the second part of 2011, with a heterogeneous effect on the exposure against the market risk.

V.6 Risk balance

The structure of financial system risks over the second half of 2011 exhibited minor changes against the perception recorded over the first half of 2011. In view of temporary decoupling of some financial variables registered at the end of 2011, the banking system continued developing its intermediation activity without major changes. During the period, a satisfactory combination between exposures and risk coverage prevailed.

Chart V.26

Securities* in the Financial System Portfolio**



* Position of government securities and monetary regulation instruments (LEBAC and NOBAC). **We consider "fair market value" holdings.

Considering 2012, banks' risk administration will continue being subject to the evolution of the international context, setting challenges. Within this framework and taking into account a scenario with more moderate domestic growth, it has been estimated that private sector credit risk faced by the financial system could rise slightly although it would remain at low levels. In view of this factor, the financial system would keep high levels of coverage by provisions and capital position. Banks are expected to keep their strength and financial intermediation is expected to continue expanding

⁷⁶ Consolidated positions: (i) government securities and monetary regulation instruments issued by the Central Bank included on the volatility listing published by this Institution, recorded at fair value, and (ii) mutual funds quota shares when they are based on securities and instruments mentioned in the previous point.

Box 4 / Guidelines for Corporate Governance and Risk Management

In order to continue advancing with the international commitments undertaken by the country, two regulations were made available by mid 2011: “Guidelines for corporate governance at financial entities”⁷⁷ and “Guidelines for risk management at financial entities”⁷⁸

In terms of corporate governance, the purpose of the new regulations⁷⁹ is to assist banks in the improvement of their internal governance systems, thus contributing to preserve their solvency and the claims of the depositors. The deeper knowledge acquired about the internal processes of financial entities allows the supervisor to improve its monitoring process and to strengthen the stability of the financial system as a result. In times of distress, it is critical for companies to rely on an adequate corporate governance system, and the role of the Board of Directors becomes a key issue.

The BCRA has set forth that, as from January 2012, the financial entities must have an effective corporate governance code in place which—taking into account the guidelines approved in the recent regulatory framework—is required to address all the risks faced by the entity on a comprehensive basis. This code refers to the manner in which the entity’s authorities are required to manage its activities and businesses, in terms of policy-making, fulfillment of security levels, the risks to be taken on, the protection of the depositors’ rights and the entity’s accountability in front of its shareholders. The code to be established must be consistent with the size, complexity, economic relevance and risk profile of the financial entity and the economic group it belongs to.

These guidelines provide several criteria and concepts to be taken into account by the financial entities in terms of the responsibilities of the Board of Directors and the Top Management and in terms of the required audits — both internal and external—, and include standards applicable to the following aspects: independence, committees, definition of strategic objectives, organizational values, accountability levels, internal control, personnel economic incentive policy, risk management, information transparency —adequate disclosure— and “Know your organizational structure”. Each entity’s Board of Directors must approve and supervise the implementation of the above-mentioned code; in this sense, it has been considered that a composition of such Board that encourages independent judgment for decision-making is a healthy practice. In turn, the Top Management is required to ensure consistency among the policies approved by the Board of Directors, the activities performed by the entity and the risks undertaken, among other aspects.

Likewise, the creation of specialized committees (risk management, personnel compensation, etc.) is highly recommended; in addition, the members of such committees are required to be independent⁸⁰. In relation with the economic incentive policy for personnel, the good practices adopted are seeking to discourage an excessive risk-taking.

On the other hand, the design of a set of guidelines for the entities’ risk management had been one of the courses of action identified by the Central Bank in its self-assessment of the “Basic principles for an efficient banking supervision” (made in 2010). The issue and implementation of these guidelines⁸¹ has contributed to improve the fulfillment of the principles of market and interest rate risk management in the investment portfolio, reinforcing and ordering the requirements for credit and liquidity risk management. As a result,

⁷⁷ Communication “A” 5201.

⁷⁸ Communication “A” 5203.

⁷⁹ The preparation of these guidelines was based on the principles published by the Organization for Economic Cooperation and Development (OECD), the principles published by the BCBS in “Enhancing corporate governance for banking organizations” (2006), the “Combined Code on Corporate Governance” of the British Financial Reporting Council, the “*Estándares mínimos de gestión para instituciones financieras*” (Minimum Management Standards for Financial Institutions) (2007) of the Central Bank of Uruguay, the documents “Principles for Sound Compensation Practices” and “Principles for Sound Compensation Practices - Implementation Standards”, published by the Financial Stability Forum (FSF) and the Financial Stability Board (FSB) (2009), “Compensation Principles and Standards Assessment Methodology” of the BCBS (2010) and the criteria established by the National Securities Commission.

⁸⁰ According to the characteristics of independence established in the regulation.

⁸¹ The preparation of these guidelines was based on the BCBS standard and on the documents published by this Committee: “*Principios básicos para una supervisión bancaria eficaz*” (Basic Principles for an Efficient Banking Supervision), “Principles for the Management of Credit Risk” (2000), “Principles for Sound Liquidity Risk Management and Supervision” (2008), “Principles for Management and Supervision of Interest Rate Risk” (2004), “International Convergence of Capital Measurement and Capital Standards: A Revised Framework - Comprehensive Version” (2006) and “Principles for Sound Stress Testing Practices and Supervision” (2009).

Argentina's local regulation was aligned to the standards in force in other countries of the region, such as Brazil, Chile, Uruguay, Colombia and Peru.

Under this regulatory framework, the financial entities are required, as from January 2012, to have a comprehensive risk management process in place. This process must be in line with the size and economic relevance of the entity, and also with the nature and complexity of its operations. In addition, banks are required to establish an internal process to assess the consistency between their capital and their risk profile through a unit that will be responsible for the assessment, follow-up, control and mitigation of all their risks, and this unit must be independent from the area originating such risks.

This comprehensive risk management process will consist of sections with specific guidelines for each risk (credit, liquidity, market and interest rate risks), and the standard will also apply to the operational risk management established in Communication "A" 4793. In addition to specific guidelines on the processes involved in each risk, the implementation of good practices and the responsibilities inherent to the Board of Directors and the Top Management, among other aspects, are also set forth. It is also established that the entities are required to disclose general information to the public that may help assess the soundness of the management framework applicable to the different risks.

Lastly, the regulation also makes specific reference to the use of prospective stress tests, which consist in the assessment of the financial position of an entity in a severely adverse but likely scenario. These tests are highly relevant and instrumental to provide the risk assessment faced by companies, overcome the limitations of models and historical data, support the internal and external communication, establish capital and liquidity planning procedures, contribute to determine the risk tolerance levels and facilitate the development of contingency and risk mitigation plans under a range of potential adverse situations.

It is worth pointing out that before the issue of the provisions detailed above, the Superintendency of Financial and Foreign Exchange Institutions (SEFyC) had detected a remarkable heterogeneity in the development of these disciplines by the entities. The reasons behind this heterogeneity were the differences in the size and complexity of the transactions among banks and also the existence of organizational cultures and styles of governance inherent in each institution. As from the issue of these regulations, the financial entities in general are surveying the gap between their existing risk management tools and the best practices established by the new framework, in order to make the corresponding adjustments.

Within the framework of the new schedule of inspection visits to the entities by the SEFyC, to be performed as from the second quarter of 2012, special emphasis will be placed on the control of such aspects, so as to confirm not only the formalization of such practices through policies and limits approved by the top authorities of the financial entity but also their application in the regular management of the business. It should be remembered that the effective application of these good practices will contribute to strengthen both the individual entities and the financial system as a whole.

VI. Payment System

Summary

During 2011, a deepening was recorded in the use of payment methods other than cash, such as credit and debit cards, transfers and direct debits. This evolution took place in a context of greater security conditions for the use of these payment instruments.

In 2011, both the volume and the quantity of cleared checks kept expanding. Besides, a sustained growth was verified of the number of debit and credit cards; debit card use was boosted as a result of the increase of wage accounts vis-à-vis the expansion of formal employment in the economy. Like in previous years, an increase was evidenced in the use of direct debits for the regular payment of services.

The use of immediate transfers of funds for the execution of transactions was expanded. Since the implementation of this new modality, at the end of April 2011, and up to February 2012, funds have been transferred for an aggregate amount above \$51.2 billion, through 11.4 million transactions. In the second half of the year, over 95% of these transfers belonged to the segment up to \$10,000. Retail and immediate transfers, in aggregate, amounted to 15.9% of GDP at the end of 2011, above the 2010 level.

In the last two years, the BCRA has designed and implemented instruments aimed at promoting people's greater access and use of banking services, including the Universal Free Bank Account (CGU), which by mid March 2012 amounted to 101,200 units (with a 35% growth in the second half of 2011). On the other hand, since the re-launching of the settlement check to February 2012, transactions were accumulated for US\$229 million in foreign currency and for \$157 million in local currency.

The BCRA continued moving forward with its purpose of making the National Payment System more dynamic and efficient, thus providing an environment of lesser risks in transactions. The amount of truncated documents for which no image is sent has been recently raised to \$10,000 under the Uniform Federal Clearing (CFU), in order to speed up the terms for sending and distributing check images. In December 2011, the models for a set of certificates of time deposits were approved, and therefore, financial entities must provide their clients with such certificates, in accordance with the standardized characteristics set forth in the rules and regulations of the BCRA.

Chart VI.1

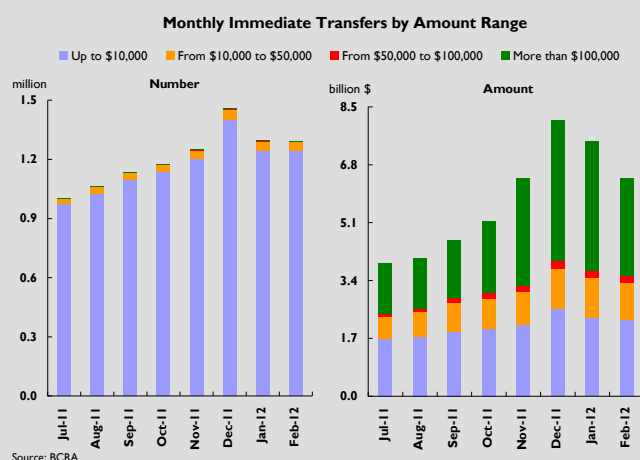


Chart VI.2

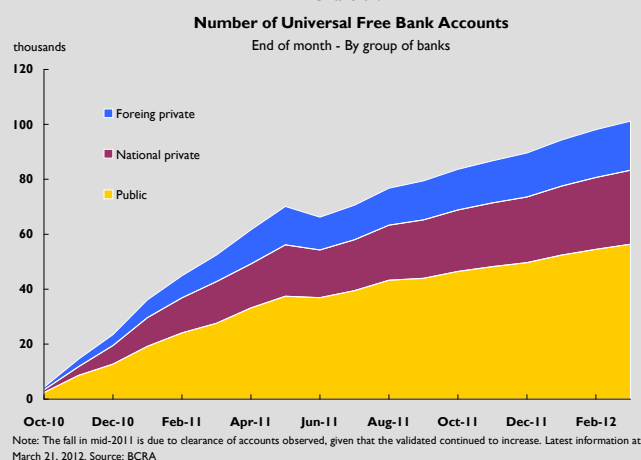
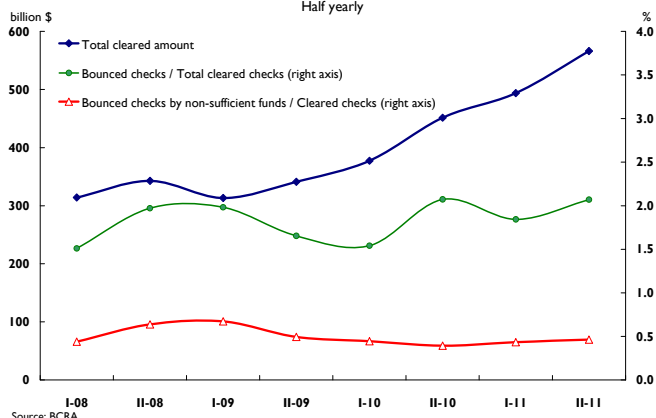


Chart VI.3
Cleared and Bounced Checks
Half yearly

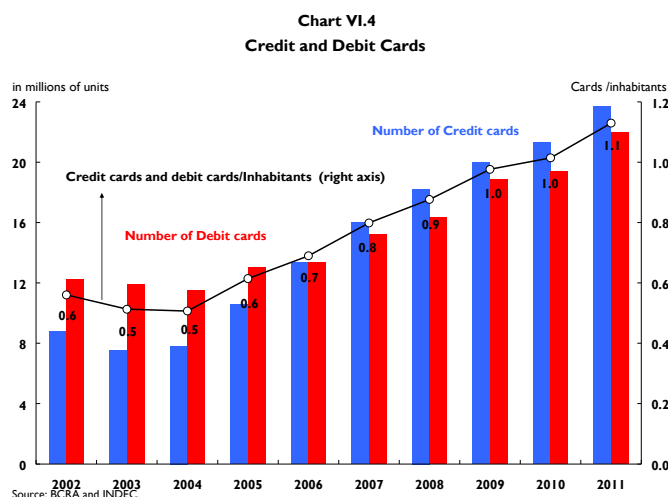


VI.1 National Payments System

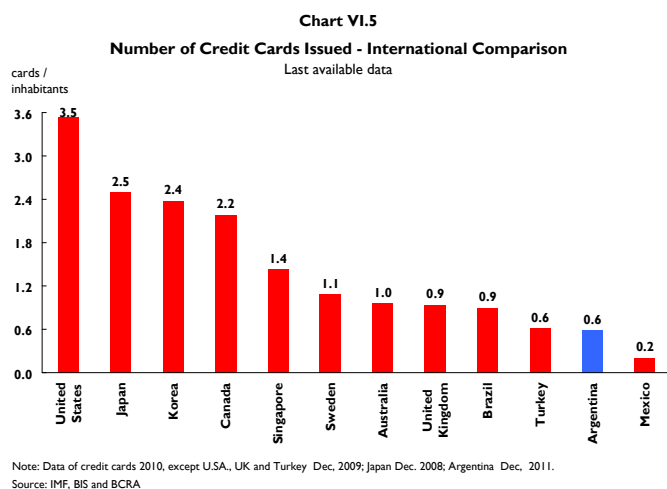
Increase of cleared checks, in a context of limited levels of bounced checks

In the second half of 2011, the financial system kept increasing the provision of payment means services for the local economy. Thus, the volume of cleared checks gradually increased in the second half of the year, both with respect to the immediately prior half and in year-on-year (y.o.y.) terms, for a total of 50 million traded documents (for an amount near \$570 billion). Besides, in the last months of last year, a slight increase of bounced checks for nonsufficient funds has been observed (see Chart VI.3), even though still at low levels.

The credit and debit card market kept a sustained growth at the end of 2011



Payment means other than cash kept expanding. The debit and credit card market went up 12.3% in 2011, which represented an increase of more than twice the amount verified one year ago. Thus, at the end of the year, there was a total of 1.1 debit and credit cards per inhabitant (see Chart VI.4). In particular, debit cards showed a 13.5% boosting in 2011 (5 times more than in the previous year), with a remarkable evolution of public banks. The growth of wage accounts, which finds its origin in the expansion of formal employment in the economy, partly drove this trend. Besides, the number of credit cards grew 11.1% in 2011, exceeding the increase of last year, mainly boosted by private banks. The availability of credit cards in terms of population kept presenting room for improvement if compared to other emerging and developed economies (see Chart VI.5).

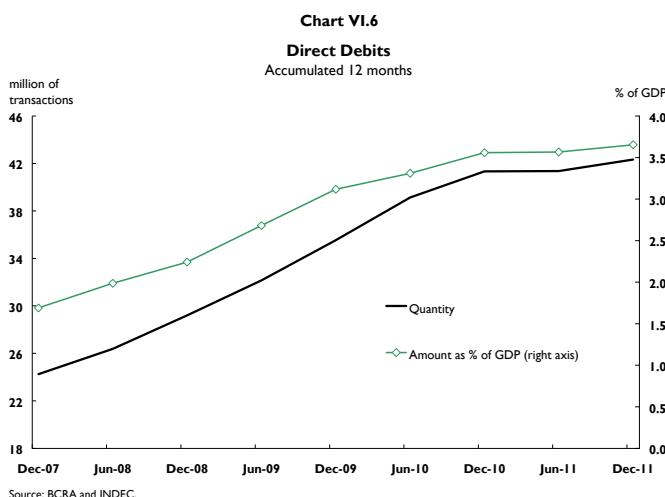


The use of direct debits for payment of services (electricity, water supply, social security, credit cards, among others) kept on increasing among the population as a whole: during 2011 both the amount and the number of transactions through this channel were on the rise (see Chart VI.6).

Ongoing deepening in the use of immediate transfers of funds

Since the implementation of immediate transfers⁸² in April 2011 and up to February 2012 (see Chart VI.1), funds have been transferred for an aggregate amount exceeding \$51.2 billion (\$32.2 billion in the second half of 2011), through 11.4 million transactions (7.1 million

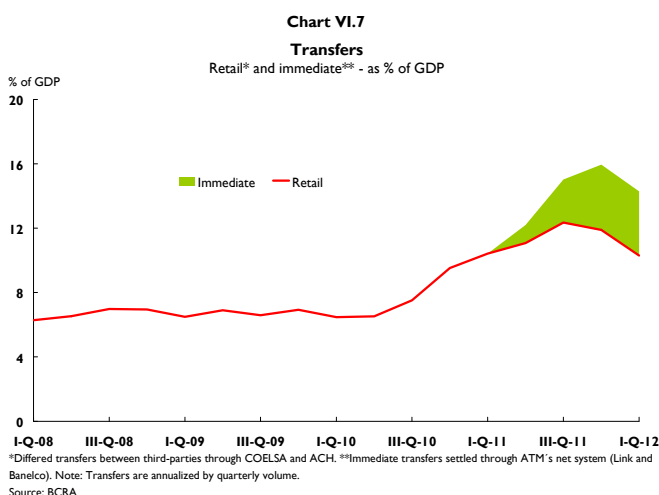
⁸² They are cleared through the ATMs networks and are credited online.



in the second half of 2011). During the second half of 2011, over 95% of such transfers belonged to the segment up to \$10,000, even though in terms of amounts, the segment exceeding \$100,000 prevailed (45% of the total). At the beginning of 2012, the number of immediate transfers gradually declined, partly due to seasonal factors.

The number of retail transfers channeled through clearing houses—with a 24-hour term to be credited—decreased 9% in the second half of the year with respect to the first half, because they were partly replaced by immediate transfers. All together, retail and immediate transfers amounted to 15.9% of GDP at the end of 2011 (see Chart VI.7), up 3.7 p.p. and 6.4 p.p. against mid 2011 and late 2010.

In the last two years, the BCRA has developed instruments aimed at promoting a greater access and use of banking services by the population. Such instruments included the implementation of the Universal Free Bank Account (CGU)⁸³ which, by mid March 2012, amounted to 101,200⁸⁴ units (see chart VI.2). This product showed a remarkable share of public financial entities. For the purpose of providing greater security for transactions involving high amounts (for example, purchase of real property and vehicles, among others) and to discourage the use and moving of cash, the BCRA re-introduced the settlement check. From this moment up to February 2012, transactions were accumulated for US\$229 million in foreign currency and for \$157 million in local currency (see Chart VI.8).



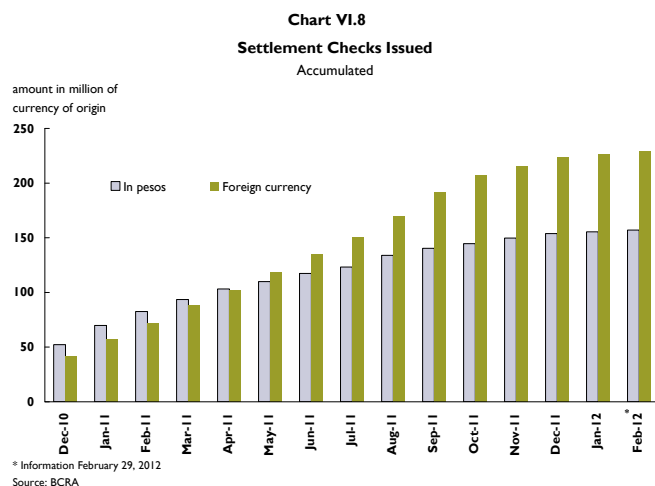
On the other hand, the total amount of transactions executed through the Electronic Means of Payment (MEP) –high-value payment system– showed a 19% increase with respect to the first half of 2011 (7% in terms of the number of transactions), even though it was slightly less deep in GDP terms (see Chart VI.9).

⁸³ This account is available to any individual not having another account, since it is at no cost and the only requirement is to submit the National Identity Card (DNI).

⁸⁴ Out of which, approximately 12,700 accounts were undergoing the validation process, until completion of requirement verification for applicants.

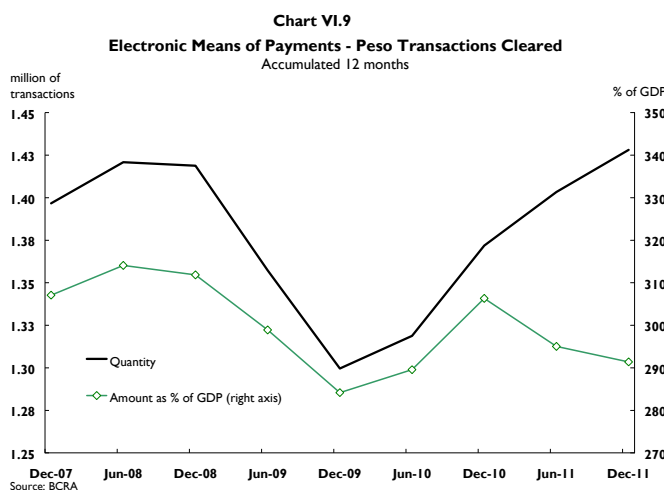
VI.2 Modernization of the Payment System

The BCRA adopted measures aimed at making the National Payment System (SNP) more dynamic and efficient, thus providing an environment of lesser risks for the execution of payments



Since 2006 the process of truncated checks is complete and it is applied throughout the Argentine territory. This means that physical documents are not moved, they remain in the possession of depositary entities and such entities send the relevant electronic information and, if applicable, the respective image. In this context, as from September 2011, the amount of truncated documents for which no image is sent was increased to \$10,000 (from \$5,000)⁸⁵ under the Uniform Federal Clearing (CFU), in order to speed up the terms for sending and distributing check images.

In December 2011, the models for a set of certificates of time deposits were approved. Besides, as from the end of 2011, financial entities must provide their clients with certificates of time deposits in accordance with the characteristics set forth in the rules and regulations of the BCRA. The standardization of these documents provides the entities with more tools for verification and control, thus contributing, in part, to mitigate their operational risk (for example, deriving from possible frauds).



Likewise, and for the purpose of minimizing potential computer frauds related to immediate transfers, during the second half of 2011, the BCRA established new recommendations⁸⁶ for financial entities regarding the execution of such transactions. In the context of the “know your client” policy, before executing any transfer of funds, financial entities are recommended to take into account some special precautions⁸⁷.

⁸⁵ Communication “A” 5224.

⁸⁶ Communication “A” 5230.

⁸⁷ Some of such precautions refer to considering in greater detail such accounts presenting the following characteristics: destination accounts not previously associated by the party originating the transfer through ATMs, at the financial entity’s branch or by any other means that the financial entities may deem relevant; destination accounts which have not been opened for longer than 180 days; accounts that have not recorded any deposits or withdrawals for 180 days prior to the date when the immediate transfer is ordered.

Statistics Annex – Financial System

Chart 1 | Financial Soundness Indicators

As %	2002	2003	2004	2005	2006	2007	2008	2009	2010	Jun 2011	2011
1.- Liquidity	22.8	29.1	29.6	20.1	22.5	23.0	27.9	28.6	28.0	24.5	24.7
2.- Credit to the public sector	48.9	47.0	40.9	31.5	22.5	16.3	12.7	14.4	12.2	10.9	10.6
3.- Credit to the private sector	20.8	18.1	19.6	25.8	31.0	38.2	39.4	38.3	39.8	42.8	47.4
4.- Private non-performing loans	38.6	33.5	18.6	7.6	4.5	3.2	3.1	3.5	2.1	1.7	1.4
5.- Net worth exposure to the private sector	16.6	11.5	1.1	-2.5	-0.8	-1.5	-1.7	-1.3	-3.2	-3.7	-4.3
6.- ROA	-8.9	-2.9	-0.5	0.9	1.9	1.5	1.6	2.3	2.8	2.5	2.7
7.- ROE	-59.2	-22.7	-4.2	7.0	14.3	11.0	13.4	19.2	24.4	23.3	25.3
8.- Efficiency	189	69	125	151	167	160	167	185	179	171	179
9.- Capital compliance	-	14.5	14.0	15.3	16.9	16.9	16.9	18.8	17.7	16.6	15.5
10.- Capital compliance Tier I	-	-	13.5	14.1	14.1	14.6	14.2	14.5	13.1	12.2	10.9
11.- Excess capital compliance	-	115.9	185.1	173.5	134.0	92.8	89.8	99.8	86.3	73.1	62.2

Source: BCRA

Chart 2 | Balance Sheet

In million of current pesos	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Jun 11	Dec 11	Change (in %)	
												H11-11 / H1-11	H11-11 / H11-10
Assets	187,532	186,873	212,562	221,962	258,384	297,963	346,762	387,381	510,304	569,837	628,994	10.4	23.3
Cash disposal ¹	17,138	27,575	29,154	20,819	37,991	46,320	58,676	71,067	93,085	95,782	104,389	9.0	12.1
Public bonds	31,418	45,062	55,382	66,733	64,592	62,678	65,255	86,318	117,951	128,130	112,906	-11.9	-4.3
Lebac/Nobac	-	-	17,755	28,340	29,289	36,022	37,093	43,867	76,948	89,633	71,050	-20.7	-7.7
Portfolio	-	-	11,803	21,067	25,767	31,598	25,652	34,748	61,855	78,316	59,664	-23.8	-3.5
Repo ²	-	-	5,953	7,273	3,521	4,424	11,442	9,119	15,093	11,317	11,386	0.6	-24.6
Private bonds	332	198	387	389	813	382	203	307	209	238	212	-11.1	1.2
Loans	84,792	68,042	73,617	84,171	103,668	132,157	154,719	169,868	230,127	274,698	332,317	21.0	44.4
Public sector	44,337	33,228	30,866	25,836	20,874	16,772	17,083	20,570	25,907	29,342	31,346	6.8	21.0
Private sector	38,470	33,398	41,054	55,885	77,832	110,355	132,844	145,247	199,202	238,910	291,708	22.1	46.4
Financial sector	1,985	1,417	1,697	2,450	4,962	5,030	4,793	4,052	5,018	6,446	9,263	43.7	84.6
Provisions over loans	-11,952	-9,374	-7,500	-4,930	-3,728	-4,089	-4,744	-5,824	-6,232	-6,425	-7,173	11.6	15.1
Other netted credits due to financial intermediation	39,089	27,030	32,554	26,721	26,039	29,712	38,152	33,498	39,009	38,674	40,806	5.5	4.6
Corporate bonds and subordinated debt	1,708	1,569	1,018	873	773	606	912	1,146	1,433	1,819	1,658	-8.9	15.7
Unquoted trusts	6,698	4,133	3,145	3,883	4,881	5,023	5,714	5,942	6,824	7,088	7,967	12.4	16.7
Compensation receivable	17,111	14,937	15,467	5,841	763	377	357	16	0	0	0	-17.6	-33.3
Other	13,572	6,392	12,924	16,124	19,622	23,706	31,169	26,395	30,752	29,767	31,182	4.8	1.4
Leasing	567	397	611	1,384	2,262	3,469	3,935	2,933	3,936	4,893	6,222	27.2	58.1
Shares in other companies	4,653	4,591	3,871	4,532	6,392	6,430	7,236	6,711	7,921	8,059	9,134	13.3	15.3
Fixed assets and miscellaneous	8,636	8,164	7,782	7,546	7,619	7,643	7,903	8,239	9,071	9,478	10,110	6.7	11.5
Foreign branches	3,522	3,144	3,524	3,647	2,782	2,912	3,153	3,926	3,283	3,481	3,541	1.7	7.9
Other assets	9,338	12,043	13,180	10,950	9,953	10,347	12,275	10,337	11,943	12,828	16,530	28.9	38.4
Liabilities	161,446	164,923	188,683	195,044	225,369	261,143	305,382	339,047	452,752	508,780	558,877	9.8	23.4
Deposits	75,001	94,635	116,655	136,492	170,898	205,550	236,217	271,853	376,344	429,225	462,537	7.8	22.9
Public sector ³	8,381	16,040	31,649	34,019	45,410	48,340	67,151	69,143	115,954	127,036	129,905	2.3	12.0
Private sector ³	59,698	74,951	83,000	100,809	123,431	155,048	166,378	199,278	257,595	298,976	328,463	9.9	27.5
Current account	11,462	15,071	18,219	23,487	26,900	35,245	39,619	45,752	61,306	71,031	76,804	8.1	25.3
Savings account	10,523	16,809	23,866	29,078	36,442	47,109	50,966	62,807	82,575	97,444	103,636	6.4	25.5
Time deposit	19,080	33,285	34,944	42,822	54,338	65,952	69,484	83,967	104,492	119,003	135,082	13.5	29.3
CEDRO	12,328	3,217	1,046	17	13	0	0	0	0	0	0	-	-
Other netted liabilities due to financial intermediation	75,737	61,690	64,928	52,072	46,037	46,225	57,662	52,114	60,029	64,136	76,038	18.6	26.7
Interbanking obligations	1,649	1,317	1,461	2,164	4,578	4,310	3,895	3,251	4,201	5,414	7,947	46.8	89.2
BCRA lines	27,837	27,491	27,726	17,005	7,686	2,362	1,885	270	262	781	1,920	145.7	631.6
Outstanding bonds	9,096	6,675	7,922	6,548	6,603	6,938	5,984	5,033	3,432	5,897	6,856	16.3	99.7
Foreign lines of credit	25,199	15,196	8,884	4,684	4,240	3,864	4,541	3,369	3,897	4,966	6,467	30.2	66.0
Other	11,955	11,012	18,934	21,671	22,930	28,752	41,357	40,191	48,236	47,077	52,849	12.3	9.6
Subordinated debts	3,712	2,028	1,415	1,381	1,642	1,672	1,763	1,922	2,165	1,851	2,065	11.6	-4.6
Other liabilities	6,997	6,569	5,685	5,099	6,792	7,695	9,740	13,159	14,213	13,569	18,236	34.4	28.3
Net worth	26,086	21,950	23,879	26,918	33,014	36,819	41,380	48,335	57,552	61,057	70,117	14.8	21.8
Memo													
Netted assets	185,356	184,371	202,447	208,275	244,791	280,336	321,075	364,726	482,532	543,244	601,992	10.8	24.8
Consolidated netted assets	181,253	181,077	198,462	203,286	235,845	271,652	312,002	357,118	472,934	532,167	587,418	10.4	24.2

(¹) Includes margin accounts with the BCRA. (²) Booked value from balance sheet (it includes all the counterparts). (³) Does not include accrual on interest or CER.

Source: BCRA

Methodological note (chart 1)

1.- (Minimum cash compliance at the BCRA + Other cash holding + Financial entities net credit balance by Lebac and Nobac repo operations against the BCRA) / Total deposits; **2.-** (Public bonds position (without LEBAC and NOBAC) + Loans to the public sector + Compensation receivable) / Total assets; **3.-** (Loans to the private sector + Leases) / Total assets; **4.-** Non-performing loans to the non-financial private sector / Loans to the non-financial private sector; **5.-** (Total nonperforming private sector financing – Private sector financing loss provisions) / Net worth. The non-performing loans includes loans classified in situation 3,4,5 and 6; **6.-** Accumulated annual results / Average monthly netted assets - % Annualized; **7.-** Accumulated annual results / Average monthly net worth - % Annualized; **8.-** (Financial margin (Net interest income + CER and CVS adjustments + Gains on securities + Foreign exchange price adjustments + Other financial income) + Service income margin) / Operating costs; **9.-** Capital compliance (Responsabilidad Patrimonial Computable) / Risk - adjusted assets according to the regulation of BCRA about Minimum Capital Compliance; **10.-** Capital compliance Tier 1 / Risk weighted assets, according to the BCRA rule on minimum capital; **11.-** (Capital compliance minus requirements, included forbearances) / Capital requirements.

Statistics Annex – Financial System (cont.)

Chart 3 | Profitability Structure

Amount in million of pesos	Annual										Half Year			Change (in %)	
	2002 ¹	2003	2004	2005	2006	2007	2008	2009	2010	2011	H11-10	H1-11	H11-11	H11-11 / H1-11	H11-11 / H11-10
Financial margin	13,991	1,965	6,075	9,475	13,262	15,134	20,462	28,937	35,490	43,665	20,764	19,202	24,463	27	18
Net interest income	-3,624	-943	1,753	3,069	4,150	5,744	9,573	14,488	17,963	24,904	9,660	10,720	14,183	32	47
CER and CVS adjustments	8,298	2,315	1,944	3,051	3,012	2,624	2,822	1,196	2,434	1,727	1,391	881	846	-4	-39
Foreign exchange price adjustments	5,977	-890	866	751	944	1,357	2,307	2,588	2,100	3,025	1,057	1,430	1,595	11	51
Gains on securities	3,639	1,962	1,887	2,371	4,923	5,144	4,398	11,004	13,449	14,220	8,931	6,454	7,766	20	-13
Other financial income	-299	-480	-375	233	235	264	1,362	-339	-457	-211	-275	-284	73	-126	-127
Service income margin	4,011	3,415	3,904	4,781	6,243	8,248	10,870	13,052	16,089	21,407	8,630	9,853	11,554	17	34
Loan loss provisions	-10,007	-2,089	-1,511	-1,173	-1,198	-1,894	-2,839	-3,814	-3,267	-3,734	-1,731	-1,623	-2,111	30	22
Operating costs	-9,520	-7,760	-7,998	-9,437	-11,655	-14,634	-18,767	-22,710	-28,756	-36,353	-15,340	-16,991	-19,361	14	26
Tax charges	-691	-473	-584	-737	-1,090	-1,537	-2,318	-3,272	-4,120	-5,967	-2,296	-2,649	-3,319	25	45
Adjust. to the valuation of government securities ²	0	-701	-320	-410	-752	-837	-1,757	-262	-214	-336	-63	-191	-144	-25	128
Amort. payments for court-ordered releases	0	-1,124	-1,686	-1,867	-2,573	-1,922	-994	-703	-635	-290	-293	-135	-154	14	-47
Other	-3,880	1,738	1,497	1,729	2,664	2,380	1,441	918	2,079	2,931	1,038	1,466	1,465	0	41
Monetary results	-12,558	69	0	0	0	0	0	0	0	0	0	0	0	0	0
Total results before tax ³	-18,653	-4,960	-623	2,360	4,901	4,938	6,100	12,145	16,665	21,323	10,708	8,930	12,393	39	16
Income tax	-509	-305	-275	-581	-595	-1,032	-1,342	-4,226	-4,904	-6,604	-3,372	-2,509	-4,095	63	21
ROA³	-19,162	-5,265	-898	1,780	4,306	3,905	4,757	7,920	11,761	14,720	7,336	6,421	8,298	29	13
ROA adjusted ⁴	-	-3,440	1,337	4,057	7,631	6,665	7,508	8,885	12,610	15,345	7,692	6,748	8,597	27	12
Annualized indicators - As % of netted assets											change in p.p.				
Financial margin	6.5	1.1	3.1	4.6	5.8	5.7	6.7	8.6	8.5	8.0	9.3	7.5	8.5	1.1	-0.7
Net interest income	-1.7	-0.5	0.9	1.5	1.8	2.2	3.1	4.3	4.3	4.6	4.3	4.2	5.0	0.8	0.6
CER and CVS adjustments	3.9	1.3	1.0	1.5	1.3	1.0	0.9	0.4	0.6	0.3	0.6	0.3	0.3	0.0	-0.3
Foreign exchange price adjustments	2.8	-0.5	0.4	0.4	0.4	0.5	0.8	0.8	0.5	0.6	0.5	0.6	0.6	0.0	0.1
Gains on securities	1.7	1.1	1.0	1.2	2.2	1.9	1.4	3.3	3.2	2.6	4.0	2.5	2.7	0.2	-1.3
Other financial income	-0.1	-0.3	-0.2	0.1	0.1	0.1	0.4	-0.1	-0.1	0.0	-0.1	-0.1	0.0	0.1	0.1
Service income margin	1.9	1.9	2.0	2.3	2.7	3.1	3.6	3.9	3.8	3.9	3.9	3.8	4.0	0.2	0.2
Loan loss provisions	-4.7	-1.1	-0.8	-0.6	-0.5	-0.7	-0.9	-1.1	-0.8	-0.7	-0.8	-0.6	-0.7	-0.1	0.0
Operating costs	-4.4	-4.2	-4.1	-4.6	-5.1	-5.5	-6.1	-6.7	-6.9	-6.7	-6.9	-6.6	-6.8	-0.2	0.1
Tax charges	-0.3	-0.3	-0.3	-0.4	-0.5	-0.6	-0.8	-1.0	-1.0	-1.1	-1.0	-1.0	-1.2	-0.1	-0.1
Adjust. to the valuation of gov. securities ²	0.0	-0.4	-0.2	-0.2	-0.3	-0.3	-0.6	-0.1	-0.1	-0.1	0.0	-0.1	-0.1	0.0	0.0
Amort. payments for court-ordered releases	0.0	-0.6	-0.9	-0.9	-1.1	-0.7	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.1
Other	-1.8	0.9	0.8	0.8	1.2	0.9	0.5	0.3	0.5	0.5	0.5	0.6	0.5	-0.1	0.0
Monetary results	-5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total results before tax ³	-8.7	-2.7	-0.3	1.1	2.2	1.9	2.0	3.6	4.0	3.9	4.8	3.5	4.3	0.9	-0.5
Income tax	-0.2	-0.2	-0.1	-0.3	-0.3	-0.4	-0.4	-1.3	-1.2	-1.2	-1.5	-1.0	-1.4	-0.5	0.1
ROA³	-8.9	-2.9	-0.5	0.9	1.9	1.5	1.6	2.3	2.8	2.7	3.3	2.5	2.9	0.4	-0.4
ROA adjusted ⁴	-8.9	-1.9	0.7	2.0	3.4	2.5	2.5	2.6	3.0	2.8	3.4	2.6	3.0	0.4	-0.4
ROE before tax ³	-57.6	-21.4	-2.9	9.3	16.2	13.9	17.2	29.5	34.5	36.6	42.7	32.3	40.4	8.1	-2.3
ROE ³	-59.2	-22.7	-4.2	7.0	14.3	11.0	13.4	19.2	24.4	25.3	29.2	23.3	27.1	3.8	-2.2

(1) Data at December 2002 currency (2) Com. "A" 391 I. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains from securities" heading.

(3) As of January 2008, data to calculate financial system consolidated result is available. This indicator excludes results and asset headings related to shares and participation in other local financial entities.

(4) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 391 I and 4084.

Source: BCRA

Chart 4 | Portfolio Quality

As percentage	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Jun 11	Dec 11
Non-performing loans (overall)	18.1	17.7	10.7	5.2	3.4	2.7	2.7	3.0	1.8	1.5	1.2
Provisions / Non-performing loans	72.3	76.8	97.8	115.3	108.2	115.2	117.0	115.3	147.7	160.3	176.1
(Total non-performing - Provisions) / Overall financing	5.0	4.1	0.2	-0.8	-0.3	-0.4	-0.5	-0.5	-0.9	-0.9	-0.9
(Total non-performing - Provisions) / Net worth	18.2	13.3	0.8	-2.6	-0.9	-1.6	-1.8	-1.7	-3.6	-4.1	-4.6
Non-performing loans to the non-financial private sector	38.6	33.5	18.6	7.6	4.5	3.2	3.1	3.5	2.1	1.7	1.4
Provisions / Non-performing loans	73.8	79.0	96.9	114.8	107.6	114.4	116.4	111.8	142.8	155.0	171.2
(Total non-performing - Provisions) / Overall financing	10.1	7.0	0.6	-1.1	-0.3	-0.5	-0.5	-0.4	-0.9	-0.9	-1.0
(Total non-performing - Provisions) / Net worth	16.6	11.5	1.1	-2.5	-0.8	-1.5	-1.7	-1.3	-3.2	-3.7	-4.3

Source: BCRA

Statistics Annex – Private Banks

Chart 5 | Financial Soundness Indicators

As %	2002	2003	2004	2005	2006	2007	2008	2009	2010	Jun 2011	2011
1.- Liquidity	24.8	27.6	29.2	21.5	23.7	25.7	34.1	29.8	26.0	25.4	26.7
2.- Credit to the public sector	50.0	47.7	41.6	28.5	16.3	9.5	6.3	6.1	4.4	3.5	3.4
3.- Credit to the private sector	22.4	19.9	22.5	31.1	37.9	46.6	44.0	43.3	50.3	52.5	54.5
4.- Private non-performing loans	37.4	30.4	15.3	6.3	3.6	2.5	2.8	3.3	2.0	1.6	1.4
5.- Net worth exposure to the private sector	19.0	12.9	3.6	-0.4	-1.4	-2.0	-1.8	-1.6	-3.4	-3.9	-4.4
6.- ROA	-11.3	-2.5	-1.0	0.5	2.2	1.6	1.9	3.0	3.2	2.6	3.0
7.- ROE	-79.0	-19.1	-8.1	4.1	15.3	10.9	15.2	22.9	24.5	22.1	25.6
8.- Efficiency	168	93	115	136	158	152	166	195	176	169	178
9.- Capital compliance	-	14.0	15.1	17.8	18.6	19.2	18.3	22.6	20.4	17.9	16.8
10.- Capital compliance Tier I	-	-	14.7	16.1	15.3	16.7	14.9	17.2	15.2	15.0	12.5
11.- Excess capital compliance	-	88.2	157.1	155.0	115.8	86.9	86.4	121.3	100.4	79.2	70.3

Source: BCRA

Chart 6 | Balance Sheet

In million of current pesos	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Jun 11	Dec 11	Change (in %)	
												H11-11 / H1-11	H11-11 / H11-10
Assets	118,906	116,633	128,065	129,680	152,414	175,509	208,888	229,549	280,025	320,983	364,122	13.4	30.0
Cash disposal ¹	11,044	14,500	15,893	14,074	22,226	29,418	37,044	43,562	49,730	54,500	58,877	8.0	18.4
Public bonds	19,751	22,260	24,817	29,966	27,663	24,444	29,552	47,949	48,903	50,638	50,055	-1.1	2.4
Lebac/Nobac	-	-	8,359	15,227	15,952	17,684	23,457	31,575	34,422	36,952	34,246	-7.3	-0.5
Portfolio	-	-	5,611	12,899	14,220	15,639	12,858	27,413	31,148	31,438	23,908	-24.0	-23.2
Repo ²	-	-	2,749	2,328	1,732	2,045	10,598	4,161	3,274	5,514	10,338	87.5	215.7
Private bonds	273	172	333	307	683	310	127	233	184	172	164	-4.9	-10.8
Loans	51,774	47,017	50,741	56,565	69,294	88,898	98,529	101,722	143,202	170,979	202,117	18.2	41.1
Public sector	25,056	23,571	21,420	15,954	10,036	6,413	6,249	1,694	1,625	1,286	1,215	-5.5	-25.2
Private sector	26,074	22,816	28,213	39,031	55,632	78,587	88,426	96,790	137,308	164,270	193,126	17.6	40.7
Financial sector	644	630	1,107	1,580	3,626	3,898	3,854	3,238	4,270	5,423	7,777	43.4	82.1
Provisions over loans	-7,463	-5,225	-3,717	-2,482	-2,227	-2,365	-2,871	-3,653	-3,926	-4,048	-4,574	13.0	16.5
Other netted credits due to financial intermediation	27,212	22,148	25,753	16,873	18,387	17,084	25,265	21,258	20,241	25,291	29,338	16.0	44.9
Corporate bonds and subordinated debt	1,514	1,394	829	675	618	430	699	734	757	965	796	-17.5	5.2
Unquoted trusts	6,205	3,571	2,362	2,444	2,982	3,456	3,869	4,198	4,500	4,411	5,268	19.4	17.1
Compensation receivable	15,971	13,812	14,657	5,575	760	377	357	16	0	0	0	-	-
Other	3,523	3,370	7,905	8,179	14,027	12,822	20,339	16,311	14,984	19,915	23,273	16.9	55.3
Leasing	553	387	592	1,356	2,126	3,149	3,451	2,569	3,519	4,381	5,452	24.4	54.9
Shares in other companies	3,123	2,791	1,892	2,416	4,042	3,762	4,538	4,067	4,934	5,021	5,998	19.5	21.6
Fixed assets and miscellaneous	5,198	4,902	4,678	4,575	4,677	4,685	4,926	5,096	5,808	6,171	6,663	8.0	14.7
Foreign branches	-109	-136	-53	-148	-139	-154	-178	-202	-215	-225	-240	6.3	11.7
Other assets	7,549	7,816	7,137	6,178	5,682	6,277	8,505	6,946	7,646	8,102	10,271	26.8	34.3
Liabilities	103,079	101,732	113,285	112,600	131,476	152,153	182,596	198,438	243,766	283,975	321,123	13.1	31.7
Deposits	44,445	52,625	62,685	75,668	94,095	116,719	135,711	154,387	198,662	229,581	253,705	10.5	27.7
Public sector ³	1,636	3,077	6,039	6,946	7,029	7,564	19,600	17,757	23,598	29,124	27,664	-5.0	17.2
Private sector ³	38,289	47,097	55,384	67,859	85,714	107,671	114,176	134,426	173,203	198,471	223,141	12.4	28.8
Current account	8,905	11,588	13,966	17,946	20,604	27,132	30,188	46,297	52,519	57,586	66,891	9.6	24.4
Savings account	6,309	10,547	14,842	18,362	23,165	30,169	32,778	40,999	53,085	63,330	66,891	5.6	26.0
Time deposit	11,083	18,710	22,729	27,736	38,043	45,770	46,990	54,058	67,568	75,307	89,924	19.4	33.1
CEDRO	9,016	2,409	798	3	1	0	0	0	0	0	0	-	-
Other netted liabilities due to financial intermediation	49,341	42,367	45,083	32,349	31,750	29,323	39,298	34,235	34,427	44,226	53,973	22.0	56.8
Interbanking obligations	836	726	1,070	1,488	3,383	1,979	1,160	1,668	1,903	2,362	3,524	49.2	85.2
BCRA lines	16,624	17,030	17,768	10,088	3,689	675	649	41	57	193	456	136.2	701.9
Outstanding bonds	9,073	6,674	7,922	6,548	6,413	6,686	5,672	4,626	2,802	4,779	5,119	7.1	82.7
Foreign lines of credit	15,434	9,998	5,444	2,696	2,249	1,833	2,261	1,262	1,716	2,794	4,252	72.2	147.8
Other	7,374	7,939	12,878	11,530	16,015	18,150	29,555	26,638	27,949	34,097	40,622	19.1	45.3
Subordinated debts	3,622	1,850	1,304	1,319	1,642	1,668	1,759	1,918	2,148	1,833	1,948	6.3	-9.3
Other liabilities	5,671	4,890	4,213	3,264	3,989	4,443	5,828	7,897	8,528	8,335	11,497	37.9	34.8
Net worth	15,827	14,900	14,780	17,080	20,938	23,356	26,292	31,111	36,259	37,008	42,999	16.2	18.6
Memo													
Netted assets	117,928	115,091	121,889	123,271	143,807	166,231	192,074	216,100	267,364	303,658	344,101	13.3	28.7

(¹) Includes margin accounts with the BCRA. (²) Booked value from balance sheet (it includes all the counterparties). (³) Does not include accrual on interest or CER.

Source: BCRA

Methodological note (chart 5)

1.- (Minimum cash compliance at the BCRA + Other cash holding + Financial entities net credit balance by Lebac and Nobac repo operations against the BCRA) / Total deposits; **2.-** (Public bonds position (without LEBAC and NOBAC) + Loans to the public sector + Compensation receivable) / Total assets; **3.-** (Loans to the private sector + Leases) / Total assets; **4.-** Non-performing loans to the non-financial private sector / Loans to the non-financial private sector; **5.-** (Total nonperforming private sector financing – Private sector financing loss provisions) / Net worth. The non-performing loans includes loans classified in situation 3,4,5 and 6; **6.-** Accumulated annual results / Average monthly netted assets - % Annualized; **7.-** Accumulated annual results / Average monthly net worth - % Annualized; **8.-** (Financial margin (Net interest income + CER and CVS adjustments + Gains on securities + Foreign exchange price adjustments + Other financial income) + Service income margin) / Operating costs; **9.-** Capital compliance (Responsabilidad Patrimonial Computable) / Risk - adjusted assets according to the regulation of BCRA about Minimum Capital Compliance; **10.-** Capital compliance Tier 1 / Risk weighted assets, according to the BCRA rule on minimum capital; **11.-** (Capital compliance minus requirements, included forbearances) / Capital requirements.

Statistics Annex – Private Banks (cont.)

Chart 7 | Profitability Structure

Amount in million of pesos	Annual										Half Year			Change (in %)	
	2002 ¹	2003	2004	2005	2006	2007	2008	2009	2010	2011	HII-10	HI-11	HII-11	HII-11 / HI-11	HII-11 / HII-10
Financial margin	10,628	2,575	3,415	5,253	7,778	8,960	12,964	19,724	21,837	27,234	12,254	11,936	15,297	28	25
Net interest income	-304	107	1,214	2,069	2,826	4,191	7,727	10,572	12,842	18,518	6,988	8,081	10,437	29	49
CER and CVS adjustments	1,476	1,082	900	1,215	858	662	651	185	244	288	136	144	144	0	5
Foreign exchange price adjustments	6,189	-312	666	576	740	990	1,620	1,646	1,493	2,064	775	970	1,094	13	41
Gains on securities	3,464	1,892	959	1,259	3,154	2,888	1,637	7,343	7,464	6,358	4,517	2,907	3,450	19	-24
Other financial income	-197	-195	-322	134	199	229	1,329	-22	-205	6	-163	-166	172	-204	-206
Service income margin	2,782	2,341	2,774	3,350	4,459	5,881	7,632	9,198	11,345	15,243	6,054	6,955	8,288	19	37
Loan loss provisions	-6,923	-1,461	-1,036	-714	-737	-1,174	-1,863	-2,751	-2,253	-2,633	-1,203	-1,143	-1,490	30	24
Operating costs	-6,726	-5,310	-5,382	-6,303	-7,741	-9,735	-12,401	-14,807	-18,819	-23,821	-10,019	-11,201	-12,621	13	26
Tax charges	-512	-366	-393	-509	-769	-1,105	-1,715	-2,380	-2,927	-4,300	-1,610	-1,897	-2,403	27	49
Adjust. to the valuation of government securities ²	0	-665	-51	-201	-170	-100	-267	0	47	-40	38	-40	0	-100	-100
Amort. payments for court-ordered releases	0	-791	-1,147	-1,168	-1,182	-1,466	-688	-367	-441	-133	-200	-62	-72	16	-64
Other	-4,164	1,178	846	1,156	1,641	1,576	916	398	1,382	1,723	807	909	815	-10	1
Monetary results	-10,531	-20	0	0	0	0	0	0	0	0	0	0	0	0	0
Total results before tax ³	-15,447	-2,518	-973	865	3,279	2,836	4,579	9,014	13,272	18,272	6,121	5,458	7,815	43	28
Income tax	-337	-295	-202	-217	-365	-380	-1,168	-3,001	-2,733	-4,293	-1,572	-1,757	-2,536	44	61
ROA³	-15,784	-2,813	-1,176	648	2,915	2,457	3,412	6,014	7,438	8,980	4,549	3,701	5,279	43	16
ROA adjusted ⁴	-	-1,357	252	2,016	4,267	4,023	4,367	6,381	7,832	9,153	4,711	3,802	5,350	41	14
Annualized indicators - As % of netted assets											change in p.p.				
Financial margin	7.6	2.3	2.9	4.3	5.9	5.8	7.3	9.8	9.3	9.0	9.9	8.4	9.5	1.1	-0.4
Net interest income	-0.2	0.1	1.0	1.7	2.1	2.7	4.4	5.3	5.5	6.1	5.6	5.7	6.5	0.8	0.8
CER and CVS adjustments	1.1	0.9	0.8	1.0	0.6	0.4	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Foreign exchange price adjustments	4.4	-0.3	0.6	0.5	0.6	0.6	0.9	0.8	0.6	0.7	0.6	0.7	0.7	0.0	0.1
Gains on securities	2.5	1.7	0.8	1.0	2.4	1.9	0.9	3.7	3.2	2.1	3.6	2.0	2.1	0.1	-1.5
Other financial income	-0.1	-0.2	-0.3	0.1	0.2	0.1	0.8	0.0	-0.1	0.0	-0.1	-0.1	0.1	0.2	0.2
Service income margin	2.0	2.0	2.4	2.7	3.4	3.8	4.3	4.6	4.8	5.0	4.9	4.9	5.1	0.2	0.3
Loan loss provisions	-5.0	-1.3	-0.9	-0.6	-0.6	-0.8	-1.1	-1.4	-1.0	-0.9	-1.0	-0.8	-0.9	-0.1	0.0
Operating costs	-4.8	-4.6	-4.6	-5.1	-5.9	-6.3	-7.0	-7.4	-8.0	-7.8	-8.1	-7.9	-7.8	0.1	0.3
Tax charges	-0.4	-0.3	-0.3	-0.4	-0.6	-0.7	-1.0	-1.2	-1.2	-1.4	-1.3	-1.3	-1.5	-0.2	-0.2
Adjust. to the valuation of gov. securities ²	0.0	-0.6	0.0	-0.2	-0.1	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amort. payments for court-ordered releases	0.0	-0.7	-1.0	-1.0	-0.9	-0.9	-0.4	-0.2	-0.2	0.0	-0.2	0.0	0.0	0.0	0.1
Other	-3.0	1.0	0.7	0.9	1.2	1.0	0.5	0.2	0.6	0.6	0.7	0.6	0.5	-0.1	-0.1
Monetary results	-7.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total results before tax ³	-11.1	-2.2	-0.8	0.7	2.5	1.8	2.6	4.5	4.3	4.4	4.9	3.8	4.8	1.0	-0.1
Income tax	-0.2	-0.3	-0.2	-0.2	-0.3	-0.2	-0.7	-1.5	-1.2	-1.4	-1.3	-1.2	-1.6	-0.3	-0.3
ROA³	-11.3	-2.5	-1.0	0.5	2.2	1.6	1.9	3.0	3.2	3.0	3.7	2.6	3.3	0.7	-0.4
ROA adjusted ⁴	-11.3	-1.2	0.2	1.6	3.2	2.6	2.5	3.2	3.3	3.0	3.8	2.7	3.3	0.6	-0.5
ROE before tax ³	-77.3	-17.1	-6.7	5.5	17.2	12.6	20.4	34.4	33.5	37.8	39.2	32.6	42.6	10.0	3.3
ROE ³	-79.0	-19.1	-8.1	4.1	15.3	10.9	15.2	22.9	24.5	25.6	29.2	22.1	28.8	6.6	-0.4

(1) Data at December 2002 currency (2) Com. "A" 391 I. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains from securities" heading.

(3) As of January 2008, data to calculate financial system consolidated result is available. This indicator excludes results and asset headings related to shares and participation in other local financial entities.

(4) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 391 I and 4084.

Source: BCRA

Chart 8 | Portfolio Quality

As percentage	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Jun 11	Dec 11
Non-performing loans (overall)	19.8	15.7	8.9	4.4	2.9	2.2	2.5	3.1	1.9	1.5	1.3
Provisions / Non-performing loans	71.4	73.0	89.2	102.7	114.2	123.4	118.5	115.9	143.5	154.9	168.3
(Total non-performing - Provisions) / Overall financing	5.7	4.2	1.0	-0.1	-0.4	-0.5	-0.5	-0.5	-0.8	-0.8	-0.9
(Total non-performing - Provisions) / Net worth	20.0	14.4	3.4	-0.4	-1.4	-2.1	-1.9	-1.7	-3.4	-4.0	-4.4
Non-performing loans to the non-financial private sector	37.4	30.4	15.3	6.3	3.6	2.5	2.8	3.3	2.0	1.6	1.4
Provisions / Non-performing loans	72.4	75.0	88.3	102.4	113.9	122.7	118.0	115.1	143.0	154.1	167.1
(Total non-performing - Provisions) / Overall financing	10.3	7.6	1.8	-0.1	-0.5	-0.6	-0.5	-0.5	-0.9	-0.9	-0.9
(Total non-performing - Provisions) / Net worth	19.0	12.9	3.6	-0.4	-1.4	-2.0	-1.8	-1.6	-3.4	-3.9	-4.4

Source: BCRA

Abbreviations and Acronyms

AEIRR: Annual Effective Internal Rate of Return

AFJP: *Administradora de Fondos de Jubilaciones y Pensiones.*

ANSES: *Administración Nacional de Seguridad Social.* National Social Security Administration.

APE: *Acuerdos Preventivos Extra-judiciales.* Preliminary out-of-court agreements.

APR: Annual Percentage Rate.

b.p.: basis points.

BADLAR: Interest rate for time deposits over one million pesos between 30 and 35 days for the average of financial entities.

BCBA: *Bolsa de Comercio de Buenos Aires.* Buenos Aires Stock Exchange.

BCRA: *Banco Central de la República Argentina.* Central Bank of Argentina.

BIS: Bank of International Settlements.

BM: Monetary Base. Defined as money in circulation plus current account deposits in pesos by financial entities in the BCRA.

Boden: *Bonos del Estado Nacional.* Federal Bonds.

Bogar: *Bonos Garantizados.* Guaranteed Bonds.

BoJ: Bank of Japan.

Bonar: *Bonos de la Nación Argentina.* Argentine National Bonds.

BOVESPA: São Paulo Stock Exchange.

CAMEL: Capital, Assets, Management, Earnings and Liquidity.

Cdad. de Bs. As.: *Ciudad de Buenos Aires.* Buenos Aires City.

CDS: Credit Default Swaps

CEC: *Cámaras Electrónicas de Compensación.* Electronic Clearing Houses.

CEDEM: *Centro de Estudios para el Desarrollo Económico Metropolitano.* Study Center for Metropolitan Economic Development.

CEDRO: *Certificado de Depósito Reprogramado.* Rescheduled Deposit Certificate.

CER: *Coeficiente de Estabilización de Referencia.* Reference Stabilization Coefficient.

CIMPRA: *Comisión Interbancaria para Medios de Pago de la República Argentina.*

CNV: *Comisión Nacional de Valores.* National Securities Commission

CPI: Consumer Price Index.

CPI Others: *CPI excluidos los bienes y servicios con alta estacionalidad, volatilidad o los sujetos a regulación o alto componente impositivo.* CPI excluded goods and services with high seasonal and irregular components, regulated prices or high tax components

Credit to the public sector: includes the position in government securities (excluding LEBAC and NOBAC), loans to the public sector and compensation receivable.

CVS: *Coeficiente de Variación Salarial.* Wage variation coefficient.

DGF: Deposit Guarantee Fund.

Disc: Discount bond.

EB: Executive Branch.

ECB: European Central Bank.

EMBI: Emerging Markets Bond Index.

EMI: *Estimador Mensual Industrial.* Monthly Industrial Indicator

EPH: *Encuesta Permanente de Hogares.* Permanent Household Survey.

Fed: Federal Reserve of US.

FOMC: Federal Open Market Committee (US).

FS: Financial Stability.

FSR: Financial Stability Report.

FT: Financial trust.

FUCO: *Fondo Unificado de Cuentas Corrientes Oficiales.* Unified Official Current Account Fund.

FV: Face value.

GDP: Gross Domestic Product.

HHI: Herfindahl-Hirschman Index.

IADB: Inter-American Development Bank.

IAMC: *Instituto Argentino de Mercado de Capitales.*

ICs: Insurance Companies.

IDCCB: *Impuesto a los Débitos y Créditos en Cuentas Bancarias.* Tax on Current Account Debits and Credits.

IFI: International Financial Institutions: IMF, IADB and WB.

IFS: International Financial Statistics.

IMF: International Monetary Fund.

INDEC: *Instituto Nacional de Estadísticas y Censos.* National Institute of Statistics and Censuses.

IndeR: *Instituto Nacional de Reaseguros.* National Institute of Reinsurance.

IPMP: *Índice de Precios de las Materias Primas.* Central Bank Commodities Price Index.

IPSA: *Índice de Precios Selectivo de Acciones.* Chile Stock Exchange Index.

IRR: Internal Rate of Return.

ISAC: *Índice Sintético de Actividad de la Construcción.* Construction Activity Index.

ISDA: International Swaps and Derivates Association.

ISSP: *Índice Sintético de Servicios Públicos.* Synthetic Indicator of Public Services.

Lebac: *Letras del Banco Central de la República Argentina.* BCRA bills.

LIBOR: London Interbank Offered Rate.	OS: <i>Obligaciones Subordinadas</i> . Subordinated debt.
m.a.: Moving average.	P / BV : Price over book value.
M2: Currency held by public + quasi-monies + \$ saving and current accounts.	p.p.: Percentage point.
M3: Currency held by public + quasi-monies + \$ total deposits.	Par: Par bond.
MAE: <i>Mercado Abierto Electrónico</i> . Electronic over-the-counter market.	PGN: <i>Préstamos Garantizados Nacionales</i> . National Guaranteed Loans.
MAS: Mutual Assurance Societies.	PF: Pension Funds.
MC: Minimum cash.	PPP: Purchasing power parity.
MEC: Electronic Open Market.	PPS: Provincial public sector.
MECON: Ministerio de Economía y Producción. Ministry of Economy and Production.	PS: Price Stability.
MEP: <i>Medio Electrónico de Pagos</i> . Electronic Means of Payment.	PV: Par Value.
MERCOSUR: <i>Mercado Común del Sur</i> . Southern Common Market.	q.o.q: quarter-on-quarter % change.
MERVAL: <i>Mercado de Valores de Buenos Aires</i> . Executes, settles and guarantees security trades at the BCBA.	REM: BCRA Market expectation survey.
MEXBOL: <i>Índice de la Bolsa Mexicana de Valores</i> . México Stock Exchange Index.	ROA: Return on Assets.
MF: Mutual Funds.	ROE: Return on Equity.
MIPyME: <i>Micro, Pequeñas y Medianas Empresas</i> . Micro, Small and Medium Sized Enterprises.	Rofex: Rosario Futures Exchange.
MOA: <i>Manufacturas de Origen Agropecuario</i> . Manufactures of Agricultural Origin.	RPC: <i>Responsabilidad Patrimonial Computable</i> . Adjusted stockholder's equity, calculated towards meeting capital regulations.
MOI: <i>Manufacturas de Origen Industrial</i> . Manufactures of Industrial Origin.	RTGS: Real-Time Gross Settlement.
MP: Monetary Program.	s.a.: Seasonally adjusted.
MR: Market rate.	SAFJP: <i>Superintendencia de Administradoras de Fondos de Jubilaciones y Pensiones</i> . Superintendency of Retirement and Pension Funds Administrations.
MRO: <i>Main refinancing operations</i> .	SAGPyA: <i>Secretaría de Agricultura, Ganadería, Pesca y Alimentos</i> . Secretariat for agriculture, livestock, fisheries, and food.
MSCI: Morgan Stanley Capital International.	SEDESA: <i>Seguro de Depósitos Sociedad Anónima</i> .
NA: Netted assets.	SEFyC: Superintendence of Financial and Exchange Institutions.
NACHA: National Automated Clearinghouse Association.	SIOPEL: <i>Sistema de Operaciones Electrónicas</i> . Trading software used on the over-the-counter market.
NBFE: Non-Bank Financial Entities (under Central Bank scope)	SME: Small and Medium Enterprises.
NBFI : Non-Bank Financial Intermediaries (out of Central Bank scope)	SSN: <i>Superintendencia de Seguros de la Nación</i> .
NDP: National public debt.	TA: <i>Adelantos transitorios del BCRA al Tesoro</i> . Temporary advances.
NFPS: Non-financial national public sector's.	TD: Time Deposits.
Nobac: <i>Notas del Banco Central</i> . BCRA notes.	TFC: Total financial cost.
NPS: National Payments System.	TGN: <i>Tesorería General de la Nación</i> . National Treasury
NW: Net worth.	UFC: Uniform Federal Clearing.
O/N: Overnight rate.	UIC: Use of Installed Capacity.
OCT : <i>Operaciones Compensadas a Término</i> . Futures Settlement Round.	UK: United Kindom.
OECD: Organization for Economic Co-operation and Development.	US\$: United States dollar.
ON: <i>Obligaciones Negociables</i> . Corporate bonds.	US: United States of America.
ONCCA: <i>Oficina Nacional de Control Comercial Agropecuario</i>	UTDT: Universidad Torcuato Di Tella.
	VaR: Value at Risk.
	VAT: Value added Tax.
	WB: World Bank.
	WPI: Wholesale Price Index.

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