Central Bank of Argentina

Report on BANKS

FEBRUARY 2004

Year I - No. 6

CONTENTS

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SUMMARY

* The positive trend in profitability observed in the final months of 2003 was maintained in February. Private banks recorded losses for almost $135 million, 50% less than in January. Losses for February were almost nil if results are adjusted to remove the main factors of a non-recurrent nature, such as the amortization payments of court-ordered deposit releases and the effects of adjustments to the value of public sector assets.

* The coverage of operating costs by operating revenue continued at a rate of close to 80% in February, as the incipient recovery in interest rate margins of recent months has been maintained. This has led to an improvement in operating profits in quarterly average terms of almost 0.5 p.p. compared to the previous quarter.

* Lending to the public sector by private banks fell by 1.3% during the month, mainly as a result of the sale of dollar-denominated securities. These funds, together with the decline in liquid assets ($260 million) and LEBAC holdings ($235 million) made up the source of funds for private banks.

* As has been happening since the end of 2003, lending to the private sector has again recorded a further and larger increase in February. Such assets represented the main use of funds by private banks, with $470 million placed in such a manner during the month.

* Total private bank deposits recorded a drop in real terms of 1%, led by a decline in placements by the private sector. The increase by public sector deposits in private banks in February was almost 6%.

* Private bank net worth rose by 1.1% because of the capitalization of foreign debt as part of the continuing process for the settlement of liabilities being carried out mainly by foreign banks.

* Private bank loan portfolio non-performance fell by 2 p.p. during the month (to a level of 27.7%), with an accumulated drop of 9 p.p. since the beginning of 2003. This improvement in debtor quality has been reflected in lower loan loss charges.

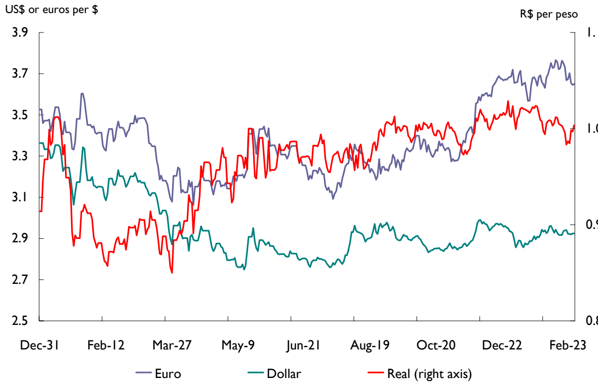
* It is expected that private bank results will continue to improve in March. A rise is predicted for the interest rate margin following the growth in short-term lending.

Note: This Report contains information from February 2004 balance sheets available at 16/04/04. Description centers mainly on the private bank aggregate (including breakdowns by uniform sub-groups), except for certain variables that refer to public banks and the entire financial system. Figures provided (particularly in the case of profitability) are preliminary, and may be subject to change.

Context

1- The context in which financial institutions operated during February was marked by price stability and a slight downward trend in interest rates. There was almost no change in the Consumer Price Index, which increased by 0.1%. The Reference Stabilization Coefficient[1] (CER) recorded an increase of 0.38%. The peso also remained stable, appreciating 0.3% against the dollar. The local currency remained almost unchanged in relation to the euro, ending February at $ 3.65 per euro, and fell –0.6% against the Brazilian real. The downward trend of interest rates continued in financial markets. The cut-off rate for Central Bank bills (LEBAC) saw a smaller drop than in previous months, with a fall from 3.20% to 3.08% for 6-month bills, while rates for one-year maturities declined from 7.85% to 7.67%. Interest rates for time deposits with 30- to 44-day terms fell from 2.9% to 2.3% between month-ends. Lastly, interest rates on the call money market also saw a drop in the average rate of operations, which fell from 1.6% to 1.2%.

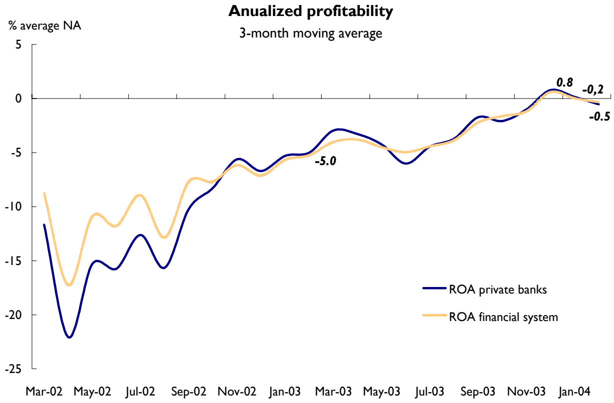
Chart 1
Exchange rates
- 2003/2004 -



Profitability[2]

2- As expected due to the specific factors with a negative impact on profitability in January, private banks managed to reduce their losses in February 2004, cutting them by half compared to the previous month. In annualized terms the three-month moving average for private bank profitability in February amounted to –0.5% in terms of netted assets (NA) and –4.2% in terms of net worth (NW), clear progress compared to the losses recorded for comparable periods over the last two years (see Chart 2). ROA for the system as a whole was -0.3%, while ROE was -2.8%.

Chart 2
Anualized profitability
3-month moving average



3- The monthly improvement in profitability arising from accounting information submitted by private banks (in nominal terms there was an improvement from -$298 million to -$134 million, while as percentage of NA profitability went from –3.1 to –1.4), **was related to the release of provisions and the lower weight in February from costs related to adjustments to the valuation of holdings of public sector assets.** There was also a non-recurring increase in CER and CVS adjustments and a slight drop in loan loss provisions.

4- If profitability is adjusted to exclude the non-recurring effects from the application of Com. "A" 3911 and 4084 (which regulated an adjustment to the valuation of public sector assets) and the amortization payments of court-ordered deposit releases, the losses for February total only $8 million, compared to adjusted profits of $50 million recorded in January. This has meant a slight decline in the adjusted result, from 0.5% of NA in January to –0.1% in February. On the basis of adjusted profitability over the last three months, the ratio is 1.9% of NA, with an improvement of almost three percentage points (p.p.) from the previous three months.

5- In monthly terms, the release of provisions by several banks meant that sundry income was the income heading with the largest variation in February, with earnings from this heading increasing 0.7

[1] Compiled on the basis of the geometric mean rate calculated on the change in CPI in the previous month.
[2] Unless otherwise specified, profitability figures are stated in annualized terms (See point f of the Methodology).

p.p. to a total of 0.8% of NA. The release was largely related to the sale of assets covered with considerable provisions (see following section).

6- **Gains from securities recorded by private banks were negligible as a result of actions by certain institutions that sold large holdings of securities at a market price below that at which they were recorded on their balance sheets.** Nevertheless, gains from securities recorded a slight improvement compared to the losses in January, a month that reflected most of the cost of the adjustment to the valuation of unlisted government securities as required by Com. "A" 4084[3].

7- The stability of the exchange rate through February meant that private banks did not record any significant results from exchange rate differences. Furthermore, **given the impact of the adjustment to the valuation of public sector assets in January (Com. "A" 3911), the "Other financial results" heading contributed to the improvement in monthly results** by changing from -0.4% to –0.1% of NA.

8- **The main operating income headings for private banks remained stable in February. Interest income was positive for the fourth month in succession** (0.4% of NA), a significant improvement after the losses recorded under this heading during 2002 and much of 2003. **Income from services declined slightly, although remaining at around 2% of NA.** This income – which after the crisis and as a result of the deterioration of the margin on financial intermediation has become the principal source of operating income for banks – fell in February as a result of a decline in income from liabilities, loans and "Other income" (see Chart 3). Lastly, **CER and CVS adjustment accrued by private banks increased by 0.2 p.p. of NA,** to a level of 1.2%. Nevertheless, this latter increase arose as a result of a non-recurring action by a single large institution, which lumped the accrual of restatements on its loans to certain companies, rather than because of any change in the CER.

9- **Private bank operating costs recorded a slight increase during February, led by payments for services and fees.** As a result, the coverage of costs by operating income remained above the level reached for 2003 as a whole (close to 65%). Chart 4 shows the recent progress made by banks in terms of this ratio. Based on a lagged three-month moving average, the ratio is close to 100%, although it is still below pre-crisis levels (around 120%).

10- **Private bank loan loss provisions recorded a moderate decline in February, reaching 1% of NA,** barely below the level reached throughout 2003 (1.3% of NA) and significantly below the level for 2002 (5%). Measured in terms of the average balance of loans to the private sector, these provisions came to an annualized 5% over the last three months. As shown in Chart 5, the ratio is significantly below the peak recorded in mid-2002 (close to 35%), but still slightly above pre-crisis levels (between 3% and 4%).

11- Lastly, **the three-month average** for operating profits (including loan loss provisions and gains from securities) for private banks

Chart 3
Breakdown of the service income margin
Private banks

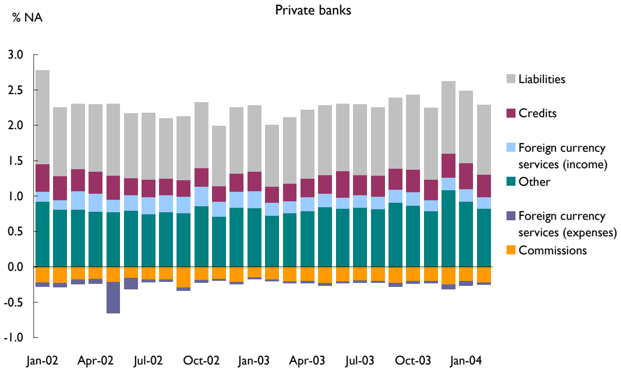


Chart 4
Operating costs
Private banks - 3-month moving average

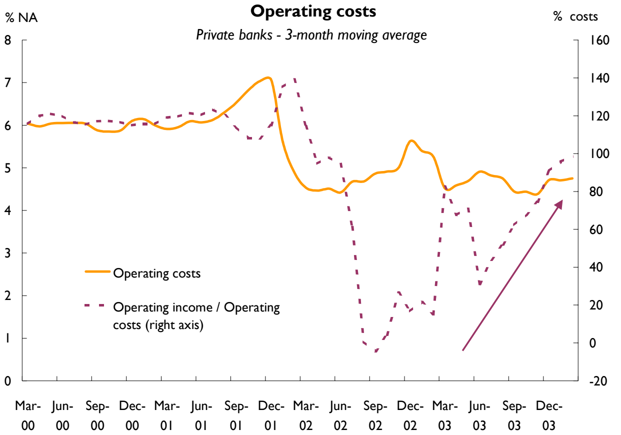
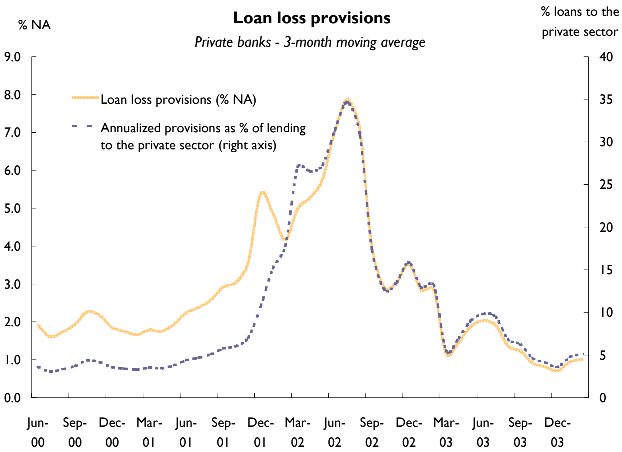


Chart 5
Loan loss provisions
Private banks - 3-month moving average



[3] For further information, see the previous issue of this Report. In February there were also certain isolated cases of institutions that recorded this adjustment with a delay.

Table 1

Profitability by group

Annualized ROA in % - by type and area coverage

	2003	Last 3 months	Jan 04	Feb 04	% share of NA (Feb)*
Public	-2.9	0.1	-1.0	-1.2	*37.9*
Private	-2.5	-0.5	-3.1	-1.4	*61.3*
Retail	-2.5	-0.5	-3.3	-1.0	*58.3*
National coverage	-3.2	-1.1	-4.3	-1.4	*47.3*
Regional coverage	0.7	2.4	1.0	0.4	*10.6*
Specialized	0.2	-2.6	-1.9	10.0	*0.5*
Wholesale	-1.1	-0.8	1.9	-10.3	*3.0*
Non-bank institutions	-4.5	-4.6	-1.0	-10.4	*0.8*
TOTAL	**-2.6**	**-0.3**	**-3.1**	**-1.4**	*100*

(*) Percentage share of total NA according to February figures.

Chart 6

Netted assets and deposits

At Dec-99 prices - Private banks

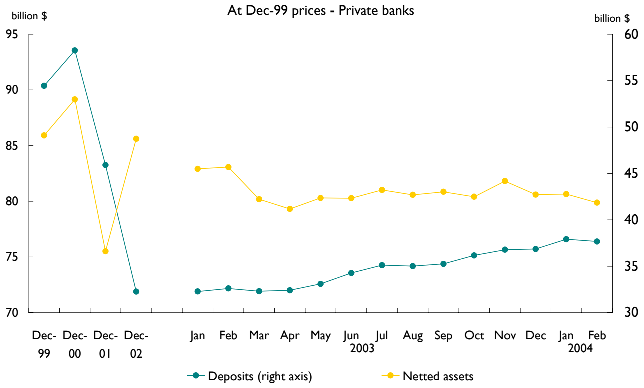


Table 2

Estimated sources and uses of funds

Private banks - Feb-2004

In million pesos

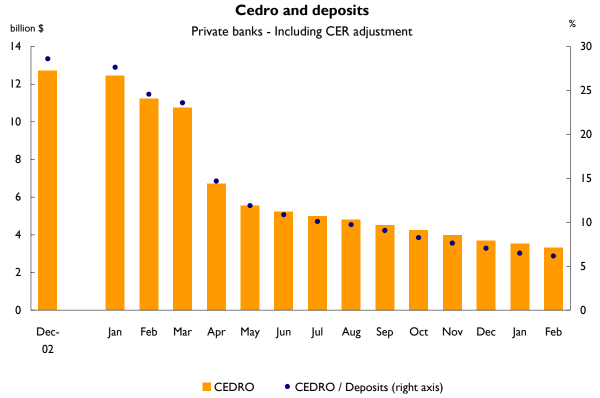
Source		Uses	
Government securities	290	Loans to private sector	470
LEBAC	235	Financial sector (net)	80
Liquid assets [1]	260	Outstanding and sub. bonds, foreign credit	140
Loans to the public sector	165	CEDRO	215
Outstanding bonds and trust holdings	435		
Deposits (excluding CEDRO)	85	Other	565

[1] Minimum cash compliance (cash, current accounts with the BCRA and special collateral accounts) and other liquid assets (with foreign branches or head offices).

Chart 7

Cedro and deposits

Private banks - Including CER adjustment



reached a level of **0.2% of NA, while in the previous three months the level was –0.8%**.

12- Analyzed by segments according to coverage, **private retail banks with nationwide branches (the private bank group with the largest weighting) have recorded an annualized loss in the last three months of 1.1% of NA** (see Table 1), lower than that recorded by specialized private banks. Private regional retail banks recorded a better performance, with a positive ROA of 2.4%. As a result of the profits obtained in December following the adjustments made to the accrual of CER/CVS, the profitability of public banks in the last three months has been moderately positive (0.1% of NA).

13- In terms of the individual banks, **of the 62 private institutions for which data was available for the month of February, 27 recorded profits** and 7 recorded lower losses than in January.

Activity level and flow of funds

14- **The activity level for private banks, as measured by the evolution of NA, showed a 1% real fall in February, a change similar to that of the system as a whole.** In a context of high liquidity and low interest rates (compared to historical levels), deposit-taking by private banks followed a similar trend, with deposits posting a decline in real terms for the first month since the beginning of 2003, as can be seen from Chart 6. The drop arose from the behavior of private sector peso deposits, as those in foreign currency increased during the month; this movement between currencies was also seen for the system as a whole. Public sector bank deposits rose by 6% in February. Lending to the private sector increased by 2% in the month (1.3% in real terms), remaining on the upward trend seen since the end of 2003.

15- Cash flow analysis shows that approximately 30% of the funds taken by private banks during the month were used to increase the portfolio of loans to the private sector[4] (see Table 2). **Short-term loans rose by $280 million; as anticipated in January, the rise was led by the granting of current account overdrafts for $330 million during the month**[5]. Personal loans and credit card lending jointly fell by $50 million due to seasonal factors, in view of the significant increase recorded in December and January as a result of Christmas and new year spending.

16- Another use of funds was **the settlement of CEDRO for an estimated $215 million in February, similar to the previous month's level** (this calculation includes CER adjustments and the exchange difference from the settlement of certificates under the terms of court orders). The outstanding stock of these certificates continues to decline, recording a drop of 5% during the month (see Chart 7). **The repayment of foreign lines of credit required a flow of $140 million, reflecting the repurchase of own debt (in the form of corporate bonds and foreign lines of credit) by a single institution, which has**

[4] The effect of changes in the exchange rate of items in foreign currency has been removed, as well as CER and CVS adjustments, accrued interest and reductions caused by the writing off of uncollectible loans against memorandum accounts. See the methodology section.

[5] It should be noted that this growth is calculated from the change in month-end closing balances; the increase is lower when the figure is calculated as the average of daily balances, as this type of loan is generally used by companies with very short-term liquidity needs.

Chart 8
Asset portfolio
Private banks

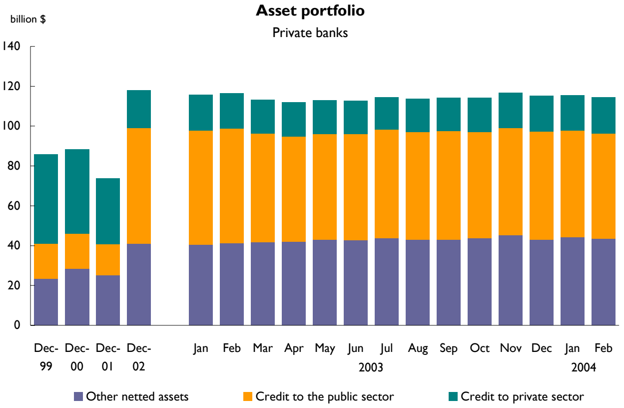


Chart 9
Breakdown of non-financial private sector deposits
Private banks

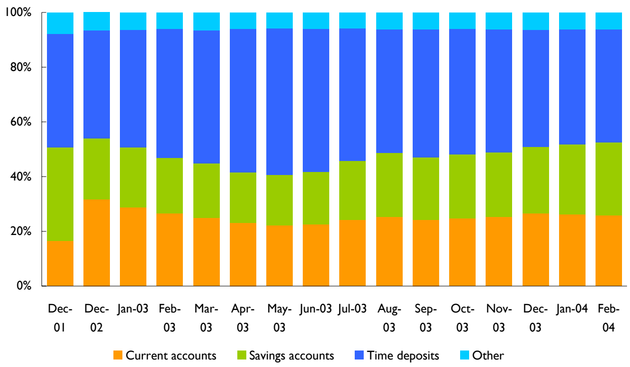
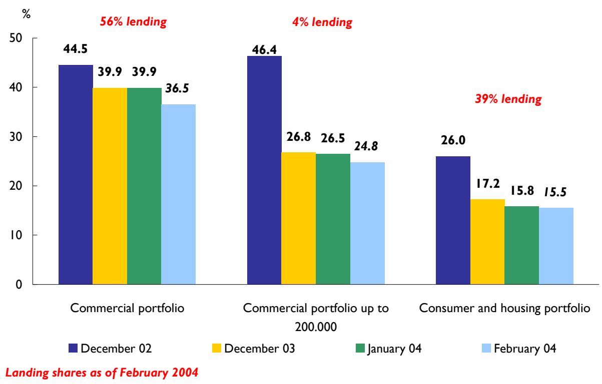


Chart 10
Non-performing portfolio by type of lending
Private bank lending to the private sector



made further progress along the debt restructuring process that it begun at the end of 2003.

17- The main source of funds for private banks derived from changes in public sector assets. Sales of government securities at market prices generated almost $300 million during February; as was the case last month, this involved the sale of BODEN 2012 bonds in dollars for over US$100 million. A further $165 million were generated by the collection of amortization payments on national government peso denominated bonds received in compensation for the conversion of assets and liabilities into pesos (the so-called *pesificación asimétrica*). Partly as a result of these effects, **credit to the public sector fell during the month[6] by 1.3%, although still the largest share of NA at 46%** (0.2 p.p. less than in January, see Chart 8).

18- Liquid assets provided a source of funds, falling by $260 million. Although the balance fell by 2% between month-ends in February, its share of NA remained close to 13%, similar to the level recorded since the middle of 2003. **Unlike the situation in previous months, when LEBAC represented a use of funds for private banks, these securities provided a source of funds in February, as holdings declined by $235 million.**

19- One significant source of funds arose mostly from a single institution, which sold corporate bonds, secured loans and stakes in trusts made up of several companies. These transactions generated $435 million during the month, and had an impact on sundry income through the reversal of provision on these items, as mentioned in the previous section.

20- Unlike last month, in February deposits (excluding CEDROs)[7] contributed only $85 million to the cash flows of private banks. Breakdown between the public and private sectors shows that deposits from the private sector fell $125 million, with a notable increase in sight deposits, as anticipated in last month's report. Between savings accounts and current accounts the increase was $220 million, not enough to offset the drop in time deposits. In terms of monthly balance sheet totals, private sector deposits fell by 1% during the month (although remaining 4% above the December balance), in a context of a steady decline in interest rates and also due to the effect of the tax on bank account debits and credits that led to returns on time deposits being virtually nil. Chart 9 shows the drop in time deposits compared to sight deposits as a share of total deposits.

Credit[8] and liquidity risk

21- During February there were further signs of a gradual improvement in the quality of the private sector loan portfolio, with non-performance falling 2 p.p. to 27.7% in the case of private banks. For the financial system aggregate, portfolio non-performance dropped

[6] The calculation includes government securities, lending to the public sector and compensation received from the national government.
[7] It will be recalled -see Methodology at the end of the Report- that the estimate of sources of funds derived from the increase recorded in the balance for deposits excludes the effects of changes in the exchange rate on items in foreign currency and adjustments to principal from rises in the CER coefficient, and the increase in the balance of interest accrued and not collected.
[8] Unless otherwise specified, this section refers to the quality of loans to the private non-financial sector.

Table 3
Non-performing portfolio by group
As a % of non-financial private sector lending

	Dec-02	Dec-03	Jan-04	Feb-04	Share of lending to private sector(*)
Public	41.6	41.4	40.7	40.2	*30.8*
Private	37.4	30.4	29.7	27.7	*67.6*
Retail	37.5	30.3	29.7	27.6	*65.1*
National coverage	38.7	33.4	33.2	30.9	*52.0*
Regional coverage	27.6	15.8	15.0	13.8	*11.9*
Specialized	36.5	31.2	19.1	19.3	*1.2*
Wholesale	33.7	31.9	30.0	31.8	*2.5*
Non-bank institutions	36.5	16.3	16.1	18.9	*1.5*
TOTAL	**38.6**	**33.5**	**32.8**	**31.4**	*100.0*

(*) According to February figures.

Chart 11
Deposits and liquidity
Private banks

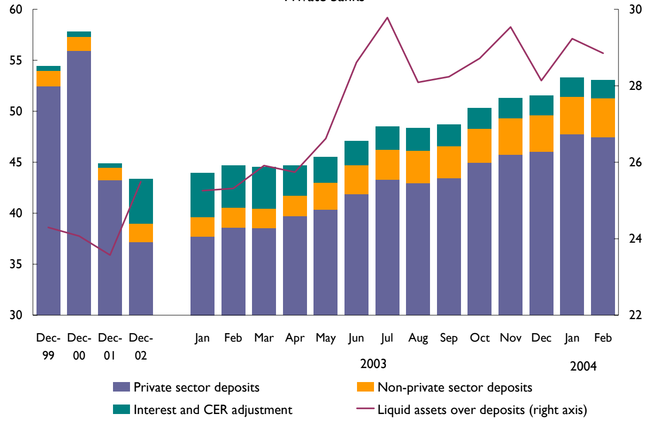
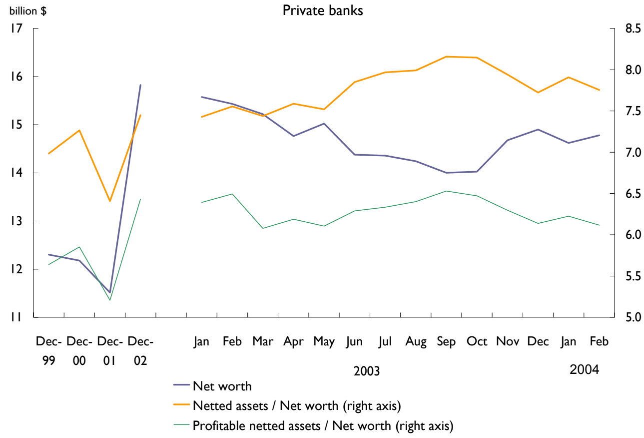


Chart 12
Netted assets and net worth
Private banks



1.5 p.p. to 31.4%, almost 8 p.p. below the non-performance level one year earlier.

22- Unlike previous months, **the gain recorded in the quality of the portfolio of private banks was led by the commercial loan portfolio** (see Chart 10). Although this segment continued to record the highest level of non-performance (with a ratio of close to 36%) it posted the greatest improvement in February, with a drop of almost 3 p.p. as a result of an increase in loans and a drop in non-performing totals. The drop in non-performing loans was partly due to the action of one bank that sold significant holdings of assets that were heavily provisioned, as mentioned in the section on profitability. Consumer and housing loans continued to record the lowest level of non-performance (approximately 15%) and remained on a downward trend, although the decline was lower than a month earlier.

23- Breaking down private banks into sub-groups shows that **retail banks with a nation-wide coverage – the group with the greatest weighting – led the monthly fall in non-performance,** although the indicator for this segment is still well above those for regional retail banks and specialized banks (see Table 3). Public banks continue to show the highest level of non-performance, with a level of 40%.

24- **Financial system liquidity remained high in February. The decline in the holding of liquid assets by private banks was greater than the fall in deposits, so that the broad liquidity coefficient[9] declined slightly compared to the previous month (0.4 p.p.) to a level** of 29% (see Chart 11). Public banks continued to record higher liquidity than other bank groups, with a coefficient of 33% at the end of February, stable compared to January.

25- Broken down by currency, **liquidity for private banks and the system as a whole was higher and rising in the foreign currency segment**. The liquid assets to deposits ratio for the consolidated system was 134%, rising 4 p.p. during the month, while liquidity in pesos was 23% (dropping almost 1 p.p.).

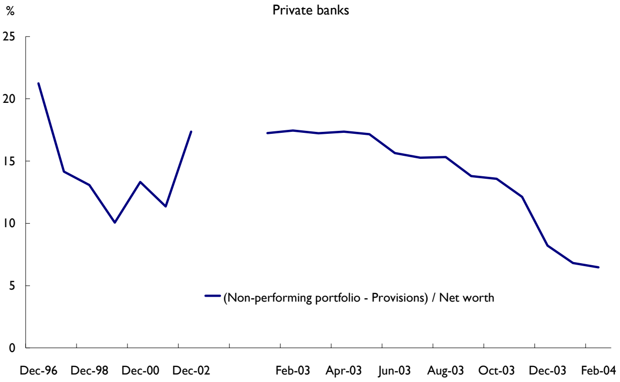
26- **The increase in sight deposits in recent months led to a 2 p.p. fall in February in the liquidity ratio measured in terms of these deposits, both for private banks and the consolidated system.** Public banks also recorded a higher liquidity ratio than private banks according to this coefficient, and the difference was more marked in this case – their ratio was 67% in February, compared to 58% for private banks.

Solvency

27- **The net worth of private banks rose by 1.1% as a result of the capitalization of foreign debt for approximately $290 million (US$ 100 million), despite the negative impact from monthly results.** Given the performance of netted assets as explained above, and the increase in net worth, the leverage ratio – defined as net assets over net worth – recorded a slight drop to 7.8 at the end of the month (see Chart 12).

[9] Measured as the ratio of balance sheet totals for minimum cash compliance plus other liquid assets over total deposits (including CER restatement).

Chart 13
Exposure to private sector counterparty risk
Private banks



28- **In the context of rising net worth, a drop in the value of non-performing loans that slightly exceeded the decline in provisions caused a moderate drop in the exposure of net worth to private sector credit risk**[10]**,** which ended at a level of 6.5% for private banks. The gradual decline of the indicator has been recorded since early 2003, and it reached a level below the historical average by the end of the year (see Chart 13**).** The change in February was led by retail banks with a nationwide coverage (for which exposure dropped 1 p.p. to close to 11% of NW), and by wholesale banks. The rest of the private bank sub-groups, on the other hand, registered mostly unchanged exposure, in all cases below 5%. Public banks recorded private sector credit risk exposure of close to 10%, with a decrease of 0.5 p.p. compared to the previous month.

29- **Private bank provision coverage remained at a level of 86%, while for public banks it increased 1 p.p. to just below the level for private banks. Private bank loan coverage by means of preferred guarantees increased by almost 2 p.p. to a level of 25%,** while in the case of public banks this coverage was maintained at a level of 33%.

30- **Indicators related to minimum capital regulation were positive both for the system as a whole and for the private bank segment**. Compliance as a percentage of risk-weighted assets remained at around 14% for both groups; excess compliance was equivalent to 100% of total requirements[11] for private banks and 125% for the system as a whole.

Outlook for March

31- Based on the information available at the closing date for this report, **it is expected that banks will continue to cut back on their losses in March. Profits are possible if there is an improvement in income from securities and if the margin on financial intermediation continues to recover gradually.**

32- Information on loans and deposits and their corresponding interest rates **suggests that interest income will continue to be positive and growing**. As can be seen from Table 4, loan totals continued to rise in March, with a large increase in current account overdrafts (14%) and personal loans (5%). Despite the fact that lending rates have continued decline, the significant return on these two types of loan compared to more liquid assets leads to expectations for an increase in interest income. As for funding, following an increase in deposits driven by lower cost segments (savings and current accounts, rather than time deposits), and as long as the borrowing rate for time deposits remains unchanged, interest outlays should tend downwards, confirming expectations for an improvement in the interest rate margin.

33- As the slight increase in CER / CVS accrual in February was a consequence of an extraordinary adjustment carried out by one large

Table 4

Main developments in March

	Feb	Mar	Chg. %
Prices			
Exchange rate ($/US$)[1]	2.92	2.86	-2.34
CPI	143.34	144.20	0.60
CER[1]	146.55	146.78	0.16
	%		Chg. (p.p.)
Average percentage rates			
Lending	20.3	19.2	-1.1
Private banks	20.2	19.1	-1.1
Overdraft	22.1	20.6	-1.5
Promissory notes	9.3	8.3	-1.0
Mortgage	9.9	9.5	-0.4
Pledge-backed	12.8	15.0	2.2
Personal	45.3	43.0	-2.3
Public banks	22.2	22.0	-0.2
Overdraft	22.6	22.5	-0.1
Promissory notes	12.8	12.1	-0.7
Mortgage	7.4	8.2	0.8
Pledge-backed	15.1	14.4	-0.7
Personal	14.7	14.6	-0.2
30- to 44-day time deposit	2.3	2.4	0.1
6-month LEBAC in pesos, w/o CER	3.1	2.9	-0.2
	million $		Chg. %
Balance[1] - Private banks			
Peso deposits - Private sector	43,060	43,879	1.9
Sight deposits	23,811	25,380	6.6
Time deposits	17,230	16,641	-3.4
Peso loans - Private sector	18,210	18,893	3.7
Overdraft	4,031	4,623	14.7
Promissory notes	3,182	3,223	1.3
Mortgage	5,375	5,295	-1.5
Pledge-backed	458	460	0.5
Personal	1,445	1,518	5.0

(1) End of month figure.

[10] Measured as the value of loans to the private sector in a non-performing state not covered by provisions, as a percentage of net worth.
[11] This includes the capital requirement for credit risk, interest rate risk and market risk and the additional requirement for the role as custodian and/or registration agent, and for failure to comply with technical ratios, as well as forbearances. Excluding forbearances, the excess compliance would amount to 98% for private banks and 105% for the entire system.

institution, **it is expected that CER accrual will be lower in March, although further positive adjustments of a non-recurring nature cannot be ruled out.** As the staggered wage increases for private sector workers have now ended, the CVS index should rise more gradually, although the impact of this on aggregate CER and CVS adjustment will be marginal. CVS accruals will end in March, because under the terms of Law 25,796, as from April the corresponding loans will no longer be adjusted by this index .

34- Due to their performance in recent months, **the remaining current income lines are expected to develop in a relatively stable manner,** with income from services at around 2% of NA and operating costs at close to 4.5%. As long as there are no non-recurring adjustments by major institutions, loan loss provisions should remain under 1% of NA, in line with the steady increase in higher-quality lending. Furthermore, based on evidence from recent periods there could be a significant release of provisions.

Latest regulations

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

Communication "A" 4093 (dated February 6, 2004) raised the limit established for the ratio of illiquid assets, taking it to 100% of the institution's adjusted stockholders' equity (or *Responsabilidad Patrimonial Computable*, up from 90%), thus setting the limit in accordance with international standards. For the regulation not to hinder access to credit, it allows until December 31, 2005 for banks to exclude federal government bonds and promissory notes received under the terms of sections 28 and 29 of Decree 905 issued in 2002 from the calculation to determine risk concentration.

The regulation also considered companies with the corporate purpose of issuing debit, credit and similar cards, leasing capital goods or real estate and factoring sales credit, which due to the economic and financial crisis suffered a fall in their adjusted stockholders' equity that limited their ability to refinance liabilities. Such refinancing has been excluded from credit grading regulations and from the calculation of the ratio for illiquid assets and other items (because as related companies they were already covered by this ratio), as long as the financial institutions hold an interest in such companies in excess of 50% of equity or votes. It should be noted that such activities may also be carried out within the structure of the financial institution itself, when the funds are destined to unrelated third parties.

As some financial institutions received assets covering the granting of loans or in lieu of their payment, this regulation also laid down that such items recorded in the net worth of financial institutions until March 31, 2003 should not be included until December 31, 2004 in the calculation of excesses in the ratio on illiquid assets and other items.

In accordance with the terms of Decree 117 issued in 2004, **Communication "A" 4103 (dated February 19, 2004)** regulated the treatment for loans to individuals secured by mortgages on sole family dwellings originally entered into for amounts in excess of US$ 250,000, which will be subject to the application of the CVS index until January 18, 2003. As from that date it was laid down that the balance of the debt would be subject to the application of the CER and agreed interest, which should not be higher than a maximum rate in force. The balance of the debt as of January 27, 2004, calculated in accordance with the above-mentioned procedure, is required to be rolled over with the agreement of a new maturity, so that the amount of the first installment arising from the restructuring does not exceed the amount of the last installment paid. In addition, it established that as from October 1, 2002 and through until March 31, 2004, loans originally granted to individuals as mortgages on sole family dwellings up to the sum of US$ 250,000, personal loans for up to US$ 12,000 and pledge loans up to US$ 30,000 are to be adjusted according to the CVS index, no other restatement coefficient being applicable as from April 1, 2004.

In addition, this communication adjusted the treatment to be granted to debts of under $400,000, not covered by the above-mentioned situations, depending on whether they are liabilities to be paid in installments or in full at maturity. In the first case, until March 2, 2004 debtors will be able to restructure their debt by capitalizing accrued and accumulated CER until September 30, 2002, in accordance with a calculation methodology that ensures installments are not higher than the last installment paid under the terms originally agreed. In the second case, CER accrued and accumulated until September 30, 2002 is to be paid under a payment schedule that in no instance shall involve less than five monthly installments, or by means of a single payment 120 days from the date of the original maturity, subject to interest rate ceilings.

Notes on methodology

(a) Aggregate balance sheet information is taken from the Monthly Accounting Information System (non-consolidated balances). To calculate data for the system aggregate, for institutions not providing data for the month under review, the latest information available is repeated in the aggregate balance sheet. When estimating income flows, however, consideration is given exclusively to those institutions providing data on the month in question.

(b) Due to the possible lack of data for a number of banks at the time of writing this Report, and given the possibility of subsequent corrections to the data provided by financial institutions, the data included – particularly for the last month mentioned – is of a preliminary nature. As the latest available data is always used, data related to earlier periods may not coincide with what had been previously mentioned in earlier issues of the Report. In these cases, the latter version should be considered as that of the best quality.

(c) Data on deposits and loans relate to balance sheet information and do not necessarily agree with those gathered by the centralized System of Information Requirements (SISCEN). Reasons for discrepancies include the exact date taken into account for the calculation of monthly variances and the items included in the definition adopted in each case.

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

(e) Estimates of the main sources and uses of funds: this table summarizes the aggregate principal movements of funds in the corresponding period, derived mainly from the institutions assets and liabilities management policies. In view of the source of this information – the main variations in the aggregate balance sheet headings for the institution aggregate – and the purpose of the table, when preparing it certain changes have been made, mainly on the grounds that changes related to the revaluation of items (for exchange rate or inflation adjustment, etc.) should be eliminated, as should those related to the accrual of provisions, depreciation and amortization, changes in the way certain transactions are recorded and the elimination from the balance sheet of assets for which recovery is doubtful (with 100% provisioning). In particular, balances of foreign currency items at the end of the period are restated at the exchange rate at the beginning of the period.

(f) The profitability indicators provided have been calculated on the basis of monthly results estimated on the basis of the changes in the amount of accumulated results during the year in progress. Unless otherwise indicated, profitability ratios have been annualized.

(g) Initially, the breakdown by group of banks was determined on the basis of the majority existing in decision-making – in terms of shareholders' meeting votes – distinguishing between privately-owned institutions and public institutions. With the aim of deepening the analysis, private institutions were further broken down according to their geographical and commercial coverage. As a result, wholesale banks were defined as those specializing in the large corporation and investor segment, which usually do not depend for their funding on deposits from the private non-financial sector. Retail banks were divided into those carrying out business at national level, those located in specific geographical regions – municipal, provincial or regional institutions – and institutions specializing in a financial sector niche market – generally smaller institutions. Lastly, it should be noted that this grouping has been carried out solely for analytical purposes and does not represent the only methodological criterion for grouping, while in addition, the detailing of the characteristics of each group of institutions has been established in a general manner.

Glossary

Consolidated (or aggregate) assets and liabilities: Those arising from excluding operations between financial system institutions.
Gains from securities: Includes income from government securities, short-term investments, corporate bonds, subordinated debt and options. In the case of government securities, it includes the results accrued from income, quotation differences, exponential increase on the basis of the internal rate of return (IRR), and from sales, as well as the charge for impairment to value.
Income from services: Commissions collected less commissions paid. Includes commissions on liabilities, credits, securities, guarantees granted, rental of safe deposit boxes and foreign trade and exchange transactions, excluding in the case of the latter results from the trading of foreign currency, which are recorded in the "Exchange difference" accounts (here included under the heading "Other financial results"). Outflows include commissions paid, contributions to the Banking Social Services Institute (ISSB), other contributions on service income and charges accrued for gross income tax.
Interest income (interest margin): Interest collected less interest paid on financial intermediation, on an accrual basis – taken from balance sheet – rather than on a cash basis. Includes interest on loans of government securities and premiums on repos and reverse repos.
Liquid assets: Minimum cash compliance – cash, current account at Central Bank and special accounts in guarantee – and other liquid items, including correspondent accounts.
MAE: Mercado Abierto Electrónico. Electronic over-the-counter market.
Net operating revenue: Interest income plus net adjustments according to the CER and CVS indexes in relation to financial intermediation plus service income.
Net worth exposure to counterparty risk: :Non-performing portfolio net of allowances in terms of net worth.
Netted assets (NA) and liabilities: Those net of accounting duplications inherent to the recording of repurchase agreements, term transactions or unsettled spot transactions.
NFPS: Non financial private sector.
Non-performing portfolio: Portfolio in categories 3 to 6, as per the debtor classification system.
Operating costs: Includes remuneration, social security payments, services and fees, sundry expenses, taxes and amortization.
Operating profits: Interest income and net CER and CVS adjustments related to intermediation, plus service income and gains from securities, less tax charges in relation to interest and services, operating costs and loan loss provisions.
Other financial results: Income from financial leasing, adjustments to valuation of credit to the public sector, contribution to the deposit guarantee fund, interest on liquid funds, difference in market price of gold and foreign exchange, premiums on the sale of foreign currency and other unidentified income (net).
Private sector credit: Loans to the private sector and private sector securities.
Public sector credit: Loans to the public sector, holdings of government securities and compensation receivable from the Federal Government.
ROA: Net profits as a percentage of netted assets. When referring to accumulated results the denominator includes the average netted assets for the reference months.
ROE: Net profits as a percentage of net worth. When referring to accumulated results the denominator includes the average net worth for the reference months.
Other: In the profitability structure, sundry gains – including gains from long-term investments, loan recoveries and release of allowances – and sundry losses – including losses on long-term investments, amortization of differences from court orders, loss on sale or impairment of fixed assets, amortization of goodwill.
SEFyC: Superintendence of Financial and Exchange Institutions.

Statistical exhibit

Balance sheet

Private banks

In current pesos (millions)	Dec 99	Dec 00	Dec 01	Dec 02	Feb 03	Dec 03	Jan 04	Feb 04	Change (%) Month-on-month	Change (%) Up to Feb 04	Change (%) Year-on-year
Netted assets	**85,918**	**88,501**	**73,796**	**117,928**	**116,610**	**115,093**	**115,646**	**114,651**	**-0.9**	**-0.4**	**-1.7**
Liquid assets	13,228	13,920	10,576	11,044	11,306	14,500	15,583	15,308	-1.8	5.6	35.4
Public bonds	6,433	7,583	1,627	19,751	19,738	22,047	21,859	21,236	-2.8	-3.7	7.6
Private bonds	410	563	451	273	174	172	168	165	-1.6	-4.1	-4.8
Loans	56,916	56,035	52,319	51,774	50,586	47,230	46,876	47,213	0.7	0.0	-6.7
Public sector	6,389	8,172	13,803	25,056	25,237	23,784	23,605	23,439	-0.7	-1.4	-7.1
Private sector	47,705	45,103	36,636	26,074	24,585	22,816	22,636	23,061	1.9	1.1	-6.2
Financial sector	2,823	2,760	1,880	644	764	630	635	713	12.3	13.2	-6.7
Provisions over loans	-3,119	-3,248	-3,957	-7,463	-6,996	-5,223	-5,054	-4,897	-3.1	-6.2	-30.0
Other netted credits due to financial intermediation	4,470	5,730	4,489	26,235	25,484	20,670	20,688	20,252	-2.1	-2.0	-20.5
Purchases (net)	487	1,103	807	380	315	698	638	612	-4.0	-12.3	94.0
Corporate bonds and subordinated debt	1,022	724	665	1,514	1,417	1,394	1,390	1,024	-26.3	-26.6	-27.7
Unquoted trusts	958	1,609	1,637	6,205	6,452	3,573	3,740	3,582	-4.2	0.3	-44.5
Compensation receivable	0	0	0	15,971	15,267	13,812	13,629	13,463	-1.2	-2.5	-11.8
BCRA	12	35	865	377	375	415	415	426	2.5	2.6	13.6
Assets under financial leases	796	776	752	553	529	387	384	390	1.5	0.8	-26.3
Shares and participation	1,371	1,651	1,703	3,123	3,144	2,791	2,882	2,925	1.5	4.8	-7.0
Fixed assets and sundry	3,246	3,225	3,150	5,198	5,160	4,902	4,875	4,839	-0.7	-1.3	-6.2
Foreign branches	48	75	112	-109	-111	-136	-137	-187	36.5	37.2	67.8
Other assets	2,120	2,190	2,574	7,549	7,598	7,753	7,522	7,406	-1.5	-4.5	-2.5
Netted liabilities	**73,615**	**76,322**	**62,281**	**102,101**	**101,175**	**100,192**	**101,024**	**99,868**	**-1.1**	**-0.3**	**-1.3**
Deposits	54,447	57,833	44,863	44,445	45,764	52,625	54,371	54,070	-0.6	2.7	18.1
Public sector (1)	1,342	1,276	950	1,636	1,726	3,077	3,263	3,471	6.4	12.8	101.1
Private sector (1)	52,460	55,917	43,270	38,289	39,728	47,097	48,794	48,468	-0.7	2.9	22.0
Current account	5,022	4,960	7,158	8,905	8,204	11,588	11,936	11,712	-1.9	1.1	42.8
Savings account	9,702	9,409	14,757	6,309	6,245	10,547	11,646	12,085	3.8	14.6	93.5
Time deposit	35,218	39,030	18,012	11,083	14,468	18,710	19,067	18,702	-1.9	0.0	29.3
CEDRO	0	0	0	9,016	7,848	2,409	2,276	2,139	-6.0	-11.2	-72.7
Other netted liabilities due to financial intermediation	16,185	15,401	14,082	48,364	46,693	40,825	40,135	39,858	-0.7	-2.4	-14.6
Call money	2,146	2,293	1,514	836	893	726	654	709	8.4	-2.4	-20.6
BCRA lines	274	83	1,758	16,624	16,298	17,030	17,052	17,065	0.1	0.2	4.7
Outstanding bonds	4,990	4,939	3,703	9,073	8,503	6,674	6,666	6,607	-0.9	-1.0	-22.3
Foreign lines of credit	6,680	5,491	4,644	15,434	14,507	9,998	9,788	9,647	-1.4	-3.5	-33.5
Sales (net)	492	510	99	349	275	168	183	193	5.4	14.7	-29.9
Subordinated debts	1,683	1,668	1,700	3,622	3,468	1,850	1,830	1,532	-16.3	-17.2	-55.8
Other liabilities	1,299	1,420	1,637	5,671	5,250	4,891	4,688	4,408	-6.0	-9.9	-16.0
Net worth	**12,304**	**12,178**	**11,515**	**15,827**	**15,435**	**14,902**	**14,622**	**14,782**	**1.1**	**-0.8**	**-4.2**

(1) Does not include accrual on interest or CER.

Profitability structure

Private banks - in annualized terms

As % of	Yearly						2003	2004	Monthly	
netted assets	1999	2000	2001	2002	2003	2004	H2	H1	Jan-04	Feb-04
Net interest income	4.5	4.1	4.3	-0.2	0.1	0.4	0.3	0.4	0.4	0.4
Restatement by CER and CVS	0.0	0.0	0.0	1.1	0.9	1.1	1.1	1.1	1.0	1.2
Other financial income	0.5	0.7	1.0	4.3	-1.0	-0.2	0.8	-0.2	-0.4	-0.1
Service income margin	3.1	2.9	3.2	2.0	2.0	2.1	2.1	2.1	2.2	2.0
Gains on securities	1.1	1.4	1.2	2.5	1.7	-0.2	2.1	-0.2	-0.5	0.0
Operating costs	-6.3	-6.0	-6.4	-4.8	-4.6	-4.4	-4.6	-4.4	-4.4	-4.5
Loan-loss provisions	-2.2	-2.5	-3.0	-5.0	-1.3	-1.1	-1.0	-1.1	-1.2	-1.0
Tax charges	-0.4	-0.4	-0.5	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4
Income tax	-0.5	-0.4	-0.3	-0.2	-0.3	0.0	-0.1	0.0	0.0	0.0
Other	0.5	0.4	0.7	-3.0	0.3	0.5	-1.6	0.5	0.1	0.8
Monetary results	0.0	0.0	0.0	-7.5	0.0	0.0	0.0	0.0	0.0	0.0
ROA before income tax	0.8	0.6	0.5	-11.1	-2.2	-2.2	-0.3	-2.2	-3.0	-1.4
ROA before monetary results	0.3	0.1	0.2	-3.8	-2.4	-2.3	-0.5	-2.3	-3.1	-1.4
ROA	0.3	0.1	0.2	-11.3	-2.5	-2.3	-0.5	-2.3	-3.1	-1.4
Indicators (%)										
ROE	**2.3**	**0.8**	**1.4**	**-79.0**	**-19.1**	**-17.7**	**-3.7**	**-17.7**	**-24.5**	**-10.9**
Operating profit / NA	-0.3	-0.5	-1.3	-4.8	-1.4	-2.5	-0.3	-2.5	-2.8	-2.2
Operating revenue / operating costs	120.5	116.9	117.1	58.8	66.5	81.3	77.1	81.3	81.4	81.1
Interest income (with CER and CVS) / loans	..	13.9	16.1	24.7	9.0	8.0	8.3	8.0	7.7	8.3
Interest payments (with CER and CVS) / deposits	..	5.7	7.8	21.9	5.8	2.3	3.2	2.3	2.4	2.1

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

Portfolio quality

Private banks

As percentages	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Jan 04	Feb 04
Non-performing loans (overall)	7.6	8.3	9.9	19.9	15.7	15.4	14.4
Loans to the non-financial private sector	8.9	9.8	14.0	37.4	30.5	29.7	27.7
Commercial portfolio	6.2	7.6	15.2	44.5	39.9	39.9	36.5
Commercial portfolio up to $200,000	11.7	14.6	16.4	46.4	26.8	26.5	24.8
Consumption and housing portfolio	12.5	11.9	12.4	26.0	17.2	15.8	15.5
Provisions / Non-performing loans	69.4	67.7	75.7	73.3	81.2	84.3	83.8
(Non-performing - Provisions) / Overall financing	2.3	2.7	2.4	5.3	2.9	2.4	2.3
(Non-performing - Provisions) / Net worth	11.5	13.4	11.4	18.7	10.0	8.3	7.9