Report on *Banks*

MARCH 2006

Central Bank of Argentina

Year III - No. 7

Contents

Note: This report contains information from March 2006 balance sheets available on 15/05/06. Description centers mainly on the behavior of the main financial variables for the private bank aggregate (including breakdowns by uniform sub-groups), except for certain variables that explicitly refer to public banks and the entire financial system. Figures provided (particularly in the case of profitability) are preliminary, and may be subject to change.

Published 18 May 2006

For comments, enquiries or electronic subscription:
analisis.financiero@bcra.gov.ar

Summary

- **In the first quarter of 2006 the financial system strengthened its traditional financial intermediation revenue base as financial positions continued to improve** (with lower exposure to public sector risk, increased lending to the private sector, improved quality for the private sector loan portfolio and a rapid reduction in obligations to the Central Bank) in addition to **growing solvency** (because of both the consolidation of profits and the greater flows of capitalization received).

- **Bank exposure to the public sector has continued its downward trend: in March it dropped to 28.3% of total assets** (24.9% for private banks), a reduction of 11.2 percentage points (p.p.) since early 2005 (16.2 p.p. for private banks). **This drop in exposure to the public sector has been offset by growth in lending to the private sector. As a result, private sector financing rose to account for close to 26.2% of total assets, having grown by 6.5 p.p. since the beginning of 2005.**

- **While in March the financial system made repayments of rediscounts for $2.64 billion, in April and May these payments totaled $636 million,** further deepening the normalization of financial institution balance sheets and taking accumulated repayments to $15.15 billion since the beginning of 2005.

- **In March banks recorded profits for $201 million or an annualized (a.) 1.1% of its assets,** driven by both positive results from private financial institutions ($116 million or 1.1%a. of assets) and by the profits recorded by public banks ($79 million or 1.1%a. of assets). As a result, **the first quarter of 2006 ended with positive results for $983 million or 1.9%a. of assets, the highest profitability recorded since mid-1997. During the month there was a notable performance by net income from services and interest, strengthening the bank revenue base showing the lowest inherent volatility.**

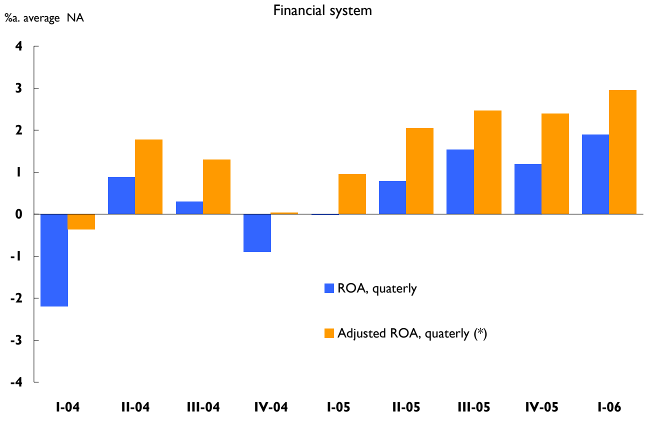
- **In the third month of 2006 three financial institutions performed capitalizations for a total of $530 million.** Since 2002 the financial system has received capital injections for close to $13.1 billion, with a total of $6.1 billion since the end of 2004. Capitalization in March, combined with profit consolidation, generated an increase in financial system solvency indicators. **Banking net worth rose 2.7% in the month (accumulating growth of 21% since the beginning of 2005).** In private banks, net worth increased 3.4% in March (22% since the end of 2004).

- Non-performance levels in the case of financial system loans to the private sector continued their downward path. **In March the portfolio non-performance ratio dropped 0.3 p.p. to a level of 6.8%. In public banks the delinquency rate fell 0.5 p.p. to a historically low single-digit level** (9.7%). In private banks the non-performance level fell 0.3 p.p. (to 5.7%).

- In a context of rising levels of financial intermediation, **during March total deposits held in the financial system rose by 1%. The full amount of this increase was accounted for by private sector deposits, which grew by 1.8%. There was a particularly notable 2% rise in time deposit totals.** Loans to the private sector went up 1.2% in March.

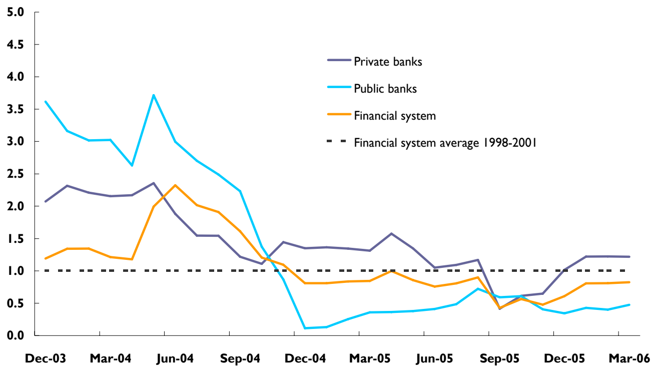
- **The main sources of funds for private banks during the month were the increase in the balance of deposits by the private sector ($1.72 billion), the lower exposure to the public sector ($960 million) and the capitalization received ($500 million). Repayment of debt to the Central Bank for the rediscounts granted ($1.48 billion), the increase in liquid assets ($1.01 billion) and the growth in the balance of loans to the private sector ($750 million) represented the main uses of funds during March.**

Chart 1
Annualized Profitability
Financial system



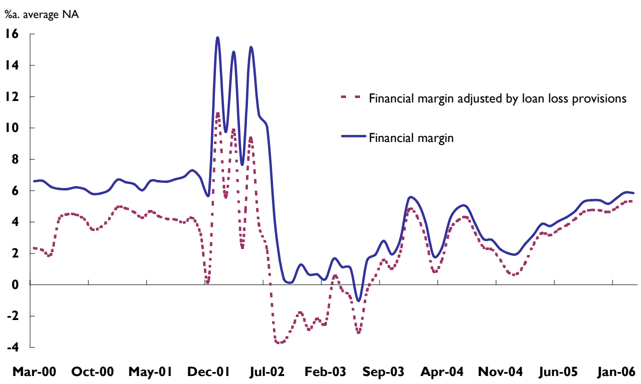
Source: BCRA (*)Excluding amortization of payments for court ordered releases and the effects of Com. "A" 3911.

Chart 2
Historical Volatility of Results
ROA % annualized standard deviation over 6 months



Source: BCRA

Chart 3
Financial Margin
Private banks - 3-month moving average



Source: BCRA

Profitability:

Largest quarterly profit since 1997

In March the financial system posted profits of almost $201 million or an annualized (a.) 1.1% of assets, ending the first quarter of 2006 with a profit of $983 million or 1.9%a. of assets. This represents a significant improvement (61%) compared with the positive results of $611 million (1.2%a. of assets) in the last quarter of last year, and a significant reversal of the losses for almost $8 million in the same period of 2005 (see Chart 1). **In this context, in the first quarter the financial system recorded its highest profit since mid-1997**. Financial system results are therefore continuing to gain strength, driving a gradual recovery in the system's own capital, which together with the new injections of capital made by banks have ensured the strengthening of the sector's solvency[1]. If, to be able to count on a measure of current profitability, the influence of those headings related to the gradual recognition of the effects of the recent crisis are excluded from results (amortization of court orders and adjustments to the valuation of public sector assets) **the adjusted profitability of the financial system totals 2.2%a. of assets in March, ending the first quarter of 2006 at around 2.9%a. of assets.**

Profits in March were a sign of positive performance by both private banks (which recorded profits for $116 million or 1.1%a. of its assets) and public banks (with profits for $79 million or 1.1%a. of assets). Profitability has maintained a clearly upward trend in both types of financial institution: while public banks recorded profits of close to $412 million (1.9%a. of assets) in the first quarter of 2006, private banks ended the quarter with profits for $546 million (1.8%a.), amounts well in excess of the performance noted in the same period of 2005.

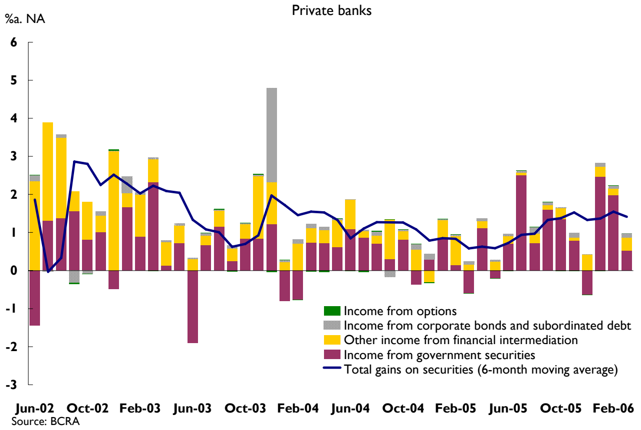
Variability in profitability continues to be a relevant factor when analyzing the performance of the sector (see Chart 2). Although some factors inherited from the recent crisis persist, generating a certain degree of volatility (changes in the valuation of assets, active mismatching in foreign currency, etc.), **the financial system is beginning to reflect the changes in price of government securities that it holds in its portfolio that have been marked to market.** Despite fluctuations, domestic public debt instruments have recorded a positive trend.

In the specific case of private banks, the slight decline for the month in profitability was a result of lower gains on the holding of financial assets, partly offset by steady growth in income from services. Furthermore in March higher net interest income and gains from exchange rate differences were recorded, in the context of a steady recovery in traditional financial intermediation activities and a slight increase in the price of the dollar in terms of the domestic currency.

Private bank financial margin dropped 1.1 percentage points (p.p.) in March, to a level of 4.8%a. of assets. Despite this change for the

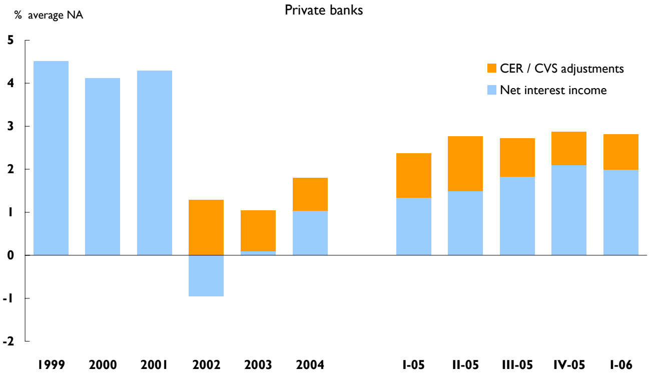
[1] For an overall view of the profitability of the financial system, see Chapter V of the Financial Stability Bulletin for the First Half of 2006.

Chart 4
Gains on Securities
Private banks



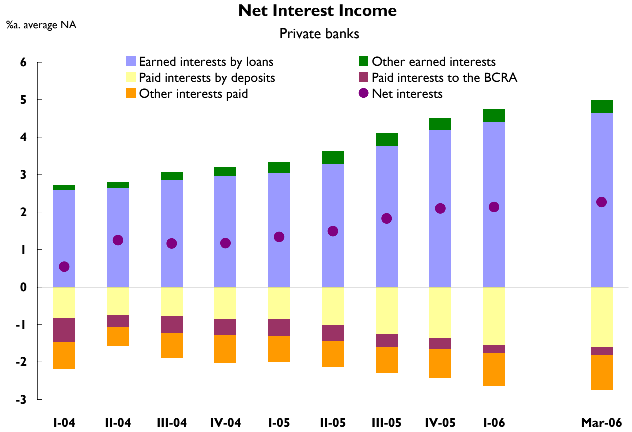
Source: BCRA

Chart 5
Net Interest Income and CER/CVS Adjustments
Private banks



Source: BCRA

Chart 6
Net Interest Income
Private banks



Source: BCRA

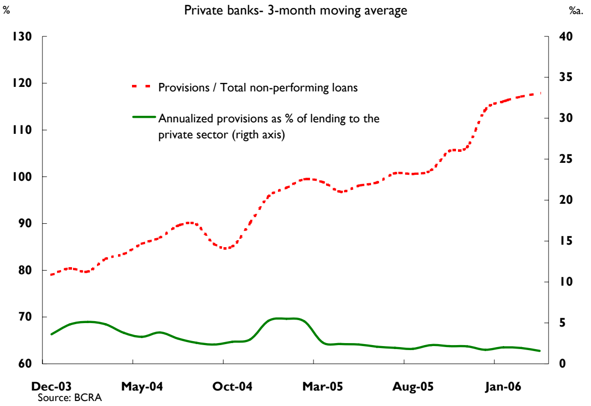
month, **this item totaled 5.8%a. of assets for this group of banks in the first quarter of 2006, almost twice the figure recorded in the same period of the previous year (3.2%a.)** (see Chart 3). **The decline for the month in the financial margin for private banks was led by a drop of 1.3 p.p. in gains on securities, a heading that totaled 0.9%a. of assets** (see Chart 4). This monthly change was influenced by both specific and system-wide factors. Certain financial institutions had recorded extraordinary once-only adjustments in the previous month, while one leading bank made a large negative valuation adjustment in March. In addition, during March there was a slight fall in prices of leading government securities (in pesos and in dollars) held by financial institutions, affecting in particular those banks that value such holdings at market price. As in February, **this month gains from exchange rate differences increased by almost 0.1 p.p. to 0.6%a. of assets.**

Core financial margin (the sum of the results from interest and CER adjustments) recorded a slight increase for private banks in March, rising 0.1 p.p. to 3.1%a. of assets (see Chart 5 showing development for the quarter). **This result was driven by interest income, a heading that went up over 0.1 p.p. in the month to 2.3%a. of assets, mainly driven by growth in interest on loans.** This latter change was a result of the current increase in traditional banking intermediation activity and the gradual improvement in the quality of the portfolio of loans to the private sector. Interest expense rose moderately during the month, following a slight increase in rates on time deposits and a higher balance for such deposits, effects that were partly offset by a decline in payments of outstanding debt with the Central Bank in view of the growing volume of early settlement of such obligations (see Chart 6). Lastly, net CER adjustments by private banks recorded a slight fall in March to a level of 0.8%a. of its assets, in the context of a drop in the coefficient.

Based on a gradual improvement in private sector loan portfolio quality, prudent policy by banks lending to the private sector, the high level of provisioning that took place during the recent crisis, and the current growth in lending in a context of encouraging macroeconomic indicators, **loan loss charges remained stable in March at low level in historical terms of 0.4%a. of assets**. In terms of total loans to the private sector, loan loss charges fell slightly to 1.2%a. (see Chart 7, showing a moving quarterly average). As a result, those charges continue at a relatively low level for the private bank group. In March 2005 they were equivalent to 3.2%a. of the balance of loans to the private sector, while in the same month of 2004 their level was 3.6%a..

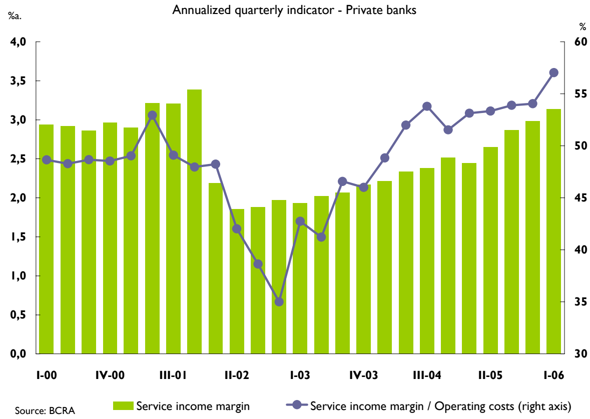
In March private bank net income from services continued to gain strength (rising 0.5 p.p.) to reach its highest level in recent years (3.4%a. of assets). Net income from services in March recorded a year-on-year increase of 37%, a change that amounts to 29.9% if the total for the first quarter of the year is compared with the same period of the previous year. As a result, this income statement heading maintained the steady growth it has been recording since 2002 (see Chart 8), driven by income linked to the increased level of activity in the field of financial services.

Chart 7
Loans Loss Provisions
Private banks- 3-month moving average



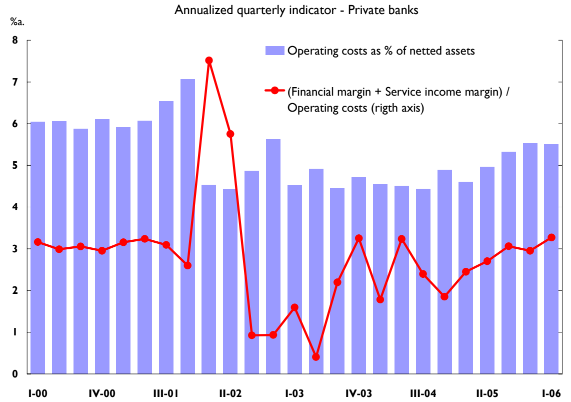
Source: BCRA

Chart 8
Service Income Margin
Annualized quarterly indicator - Private banks



Source: BCRA

Chart 9
Operating Costs
Annualized quarterly indicator - Private banks



Source: BCRA

Table 1
Profitability by Groups
Annualized ROA in % - By type and area coverage

	2004	2005	1Q-05	4Q-05	1Q-06	Percentage share of NA (I-06)*
Public	0.3	1.4	0.8	1.8	1.9	*40*
Private	-1.0	0.5	-0.6	0.7	1.8	*59*
Retail	-1.0	0.6	-0.5	0.8	1.7	*56*
National coverage	-1.5	-0.1	-1.1	-0.4	1.0	*42*
Regional coverage	1.2	3.0	1.7	4.5	4.1	*13*
Specialized	0.5	3.0	2.3	3.2	2.5	*1*
Wholesale	-1.9	-0.7	-2.2	-1.3	2.9	*3*
Non-bank institutions	2.2	3.0	2.6	8.7	4.8	*1*
TOTAL	**-0.5**	**0.9**	**0.0**	**1.2**	**1.9**	***100***
TOTAL adjusted (**)	0.7	2.0	0.9	2.4	2.9	*100*

(*) Percentage share of total NA according with data available for the mentioned period.
(**) Net of the amortization of court-ordered releases and adjustments to the valuation of public sector assets (Com "A" 3911 and 4084).
Source: BCRA

In March there was a slight increase in private bank operating costs (a little over 0.1 p.p., to a level of 5.6%a. of assets), a movement that combined with the drop for the month in financial margin, was reflected in a reduction of close to 14.6 p.p. in the coverage of these costs by income (financial margin and income from services) **to a level of 147%**. Despite this change for the month, the first quarter of 2006 ended with coverage of 163% for this item in the case of private banks, 40 p.p. higher than the figure recorded in the same period of the previous year (see Chart 9).

Private bank other income rose 0.5 p.p. in March to 0.7%a. of assets. This behavior was linked in particular to lower charges for other provisions recorded by one large private institution. Although the release of provisions was lower than in previous months, it continues to have a positive effect on this income statement heading.

Headings associated with the gradual recognition of the costs of the recent crisis in 2001-2002 did not show significant change. While amortization of court-ordered payments remained stable at 0.9%a of assets of private banks, adjustments to the valuation of public sector assets rose 0.1 p.p. to 0.2%a. of assets, in line with the schedule for progressively higher adjustments laid down by Com. "A" 3911 and its modifications.

From a quarterly perspective, **most bank groups recorded an improvement in their profitability in the January-March 2006 period, with rising income from financial intermediation** (see Table 1). Private regional retail banks and wholesale banks in particular recorded significant profits, while non-bank financial institutions also continued to report high profitability in the period. Unlike the previous period, retail banks operating nationwide (the group with the largest weighting) recorded profits in the aggregate, while specialized retail banks obtained a more moderate ROA.

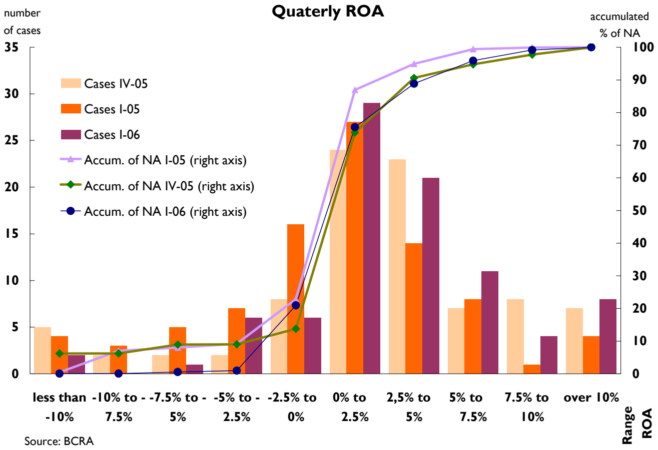
This robust recovery in bank profitability in the quarter was widespread across financial institutions (see Chart 10). **Out of a total of 89 financial institutions, in the first quarter of the year 74 posted profits, whereas in the same period of 2005 only 56 institutions recorded positive results.**

Outlook for April

On the basis of the performance by financial system results in the first quarter of 2006, and in view of the expectations on macroeconomic performance and banking business, it is expected that in coming months there will be a steady growth in profitability for the sector. Notwithstanding the volatility that still persists for some headings of the income statement, the trend towards an increasingly robust and stable income base is being reinforced. This trend will be spurred by continued growth by traditional financial intermediation, generating an endogenous growth for banking solvency.

Specifically as regards the month of April, information available to date enables the positive outlook for bank results to be maintained. (see Table 2). The continued growth of the main lines of loans to the

Chart 10
Quaterly ROA



Source: BCRA

Table 2
Main Developments in April 2006

	Mar	Apr	Ch. %
Precios			
Exchange rate ($/US$)[1]	3.081	3.048	-1.1
CPI	174.88	176.6	1.0
CER[1]	1.768	1.8	1.0
			Ch. p.p.
Average percentage rates			
Lending [2]			
Overdraft	17.3	17.1	-0.2
Promissory notes	12.3	12.8	0.5
Mortgage	11.3	11.6	0.2
Pledge-backed	9.4	9.7	0.3
Personal	25.0	24.8	-0.2
30 to 44 day time deposit	6.0	6.5	0.5
3-month LEBAC in pesos, w/o CER	7.2	7.2	-0.1
7 day BCRA repos	5.0	5.0	0.0
			Ch. %
Balance[2,3] - Private banks			
Peso deposits - Private sector	59,700	61,169	2.5
Sight deposits	31,271	31,834	1.8
Time deposits	26,128	26,905	3.0
Peso loans - Private sector	34,328	34,835	1.5
Overdraft	7,578	7,541	-0.5
Promissory notes	7,987	8,165	2.2
Mortgage	5,032	5,068	0.7
Pledge-backed	1,423	1,483	4.2
Personal	4,363	4,618	5.8

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

private sector seen during the month, together with a certain increase in interest rates, could be reflected in a more robust interest income base. This trend could serve to offset any possible increase in interest paid, both because of higher interest paid on time deposits and the higher total of such deposits. Furthermore, the increase in CER in April compared with the previous month, combined with the lower balance of obligations for rediscounts subject to adjustment (mainly as a result of the accelerated early repayment by banks of such obligations to the Central Bank) could lead to greater adjustments on the basis of this index in April. Unlike previous months, the reduction in the nominal $/US$ exchange rate in April could cause a decline in gains from differences in the exchange rate. On the other hand, some recovery is expected in bond income, in the context of the higher prices being recorded by leading sovereign debt securities. On the matter of the cost structure, following the quarterly period-end closing there could be some decline in loan loss charges and operating costs, although the former currently remain at a relatively low level. In short, it is expected that financial system profitability in April will continue to provide encouraging signs on the state of the banking business.

Activity:
Marked growth in time deposits

Together with steady economic growth, the financial system continues to gradually increase its financial intermediation volumes. **In March total loans by the financial system[2] to the private sector rose 1.2% (15%a.), ending the first quarter of 2006 with an increase of 5.9% (26%a.).** The increase in loans granted by private banks was very similar to that recorded by public banks, as in both cases the rise was 1.1% (see Table 3). Nevertheless, in the first quarter of the year the increase in loans granted by public banks (6%) was greater than that recorded by private financial institutions (5.5%).

In March, the growth in the total for financial system loans to the private sector was mainly driven by the increase in consumer credit, while commercial credit showed a slight drop. **In March consumer loans went up 3.4%, while commercial loans fell 1.6%** (see Chart 11). In the case of the latter, there was a notable increase in loans granted by means of discounted promissory notes (2.4%) and, to a lesser extent, growth in pre-export and export finance (1%). Nevertheless, these movements were insufficient to offset the drop of 7.9% in overdraft totals. The rise in consumer credit in March was particularly affected by the dynamic of personal loans, which went up by 5.5%. Increased credit card financing (0.7%) also contributed to the rise in consumer credit.

If the significant growth in financial trusts that has taken place mainly since mid-2005 is considered, the greater dynamism in lending activity becomes evident. In particular, the rise in personal

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

Table 3

Loans to the Private Sector by Group of Banks

% change based on balance sheet totals

	QI - 05	QI - 06	Mar-06	Share of total 2006
Public banks				
Total loans	**37**	**26**	**14**	**27**
Commercial	48	31	3	24
Consumer	82	43	45	28
Collateralized	13	11	11	39
Other	-67	0	-37	12
Private banks				
Total loans	**52**	**24**	**14**	**70**
Commercial	49	11	-23	76
Consumer	135	52	48	66
Collateralized	17	15	2	57
Other	10	44	328	87
Total system				
Total loans	**48**	**26**	**15**	**100**
Commercial	49	16	-17	100
Consumer	107	53	50	100
Collateralized	17	17	9	100
Other	8	30	233	100

Does not include accrued interest or CER/CVS adjustments. Balance sheet totals not adjusted by transfers between loan portfolios and trust funds or by loans written off balance sheets.
Financial system includes non-banking institutions. The private bank group include a financial institutions currently undergoing a restructuring process and under administration of a national

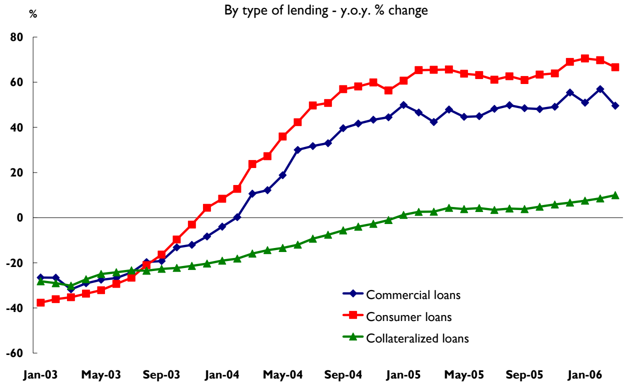
Loans in foreign currency expressed in pesos considering the average exchange rate for the period.

Commercial loans include overdraft, acceptance of promissory notes and export credit.
Source: BCRA

Chart 11

Loans to the Private Sector

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

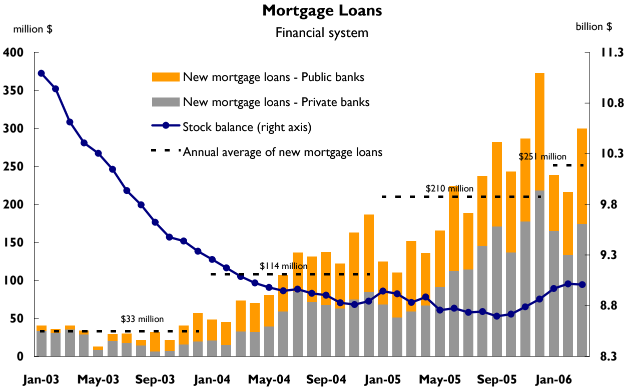


Source: BCRA

Chart 12

Mortgage Loans

Financial system



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

loans adjusted to contemplate the setting-up of financial trusts was 6%, while the adjusted growth in the case of credit card financing has been 1.8%.

The financial system continues to gradually increase its medium and long-term lending to the private sector. **In March collateralized loans rose by 0.7% (or 9.8% y.o.y.),** reinforcing the positive trend begun six months earlier. This monthly growth was mainly driven by **pledge-backed loans (3.6% higher), while mortgage loans did not record significant change** (see Chart 12). New mortgage lending totaled $300 million for the month, 62% of which being granted by private banks. Nevertheless, **total mortgage loans adjusted for the setting-up of financial trusts posted growth of 1.1%.**

Financial system lending to companies continues to concentrate on those sectors showing the greatest relative growth. Although in March lending to industry and primary production of goods saw a loss of share of under 1 p.p., it still represents almost 58% of total lending to companies (see Chart 13). Retail trade and construction held their share at 13% and 6%, respectively. The services sector slightly increased its share to 23% of the loan portfolio.

In a context of very sound fiscal accounts, and in line with the firm trend seen in the last eighteen months, **the financial system continued to reduce its exposure to the public sector in March[3]. The weighting of public sector assets in the total asset portfolio held by the financial system dropped 0.5 p.p. in the month to 28.3%[4]** (see Chart 14), accumulating a decline of 11.2 p.p. since the end of 2004. Once again, this trend was driven by private banks, which recorded a fall in their exposure of 0.8 p.p. to 24.9%, for a total drop of 16.2 p.p. since the end of 2005. This drop in financial system exposure to the public sector has had as its counterpart the growth in lending to the private sector. Private sector credit lines reached almost 26.2% of total assets, growth of 6.5 p.p. since the beginning of 2005.

In March bank liabilities continued to show signs of a return to normal. **In the third month of 2006 total deposits in the financial system went up 1%[5], with all the growth being accounted for by the increase in private sector deposits (1.8%)**, as public sector deposits in the financial system dropped slightly (1%) (see Chart 15). Unlike the situation in previous months, in March 95% of new private sector deposits were made in private banks.

Total deposit growth in the financial system this month was mainly explained by the 2% increase in time deposits. As a result such deposits ended the first quarter of 2006 having increased by 7.4%, almost three times the rate of growth by sight deposits.

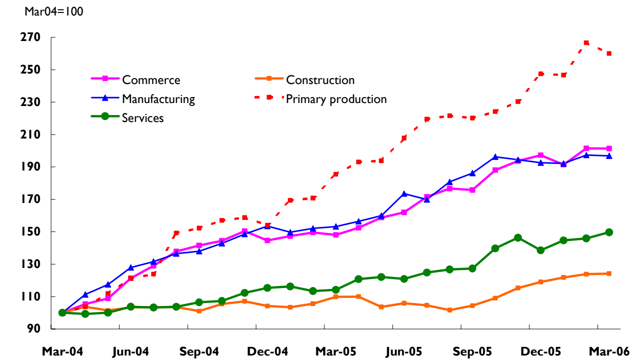
Total deposits in private banks posted growth of 1.6% in March. Nevertheless, performance by the various headings was uneven. In first

[3] Exposure to the public sector includes the position in government securities (taking into account compensation receivable) and loans to the public sector. It does not include LEBAC and NOBAC.

[4] Provisional data subject to revision.

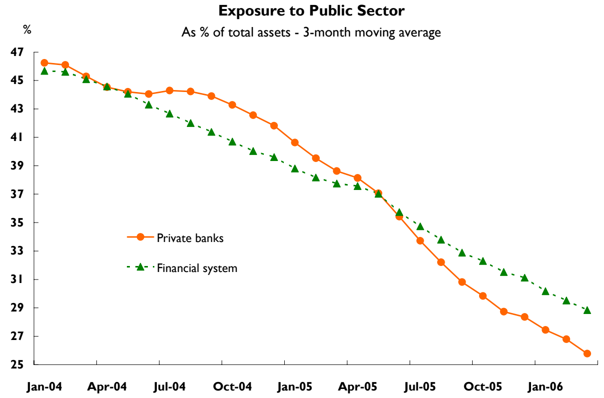
[5] Includes deposits belonging to residents abroad and deposits in government securities, as well as total accrued interest and adjustments. Does not include financial sector deposits.

Chart 13
Lending by Economic Sectors
Financial system



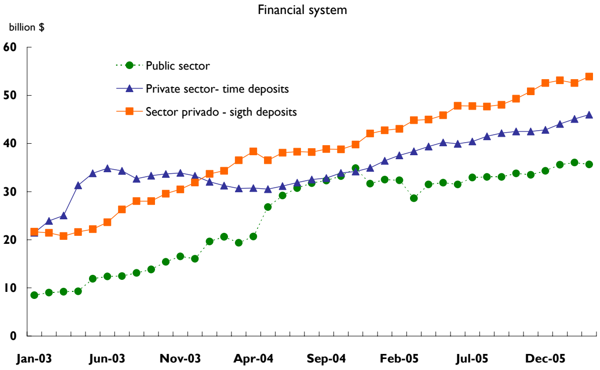
Source: BCRA

Chart 14
Exposure to Public Sector
As % of total assets - 3-month moving average



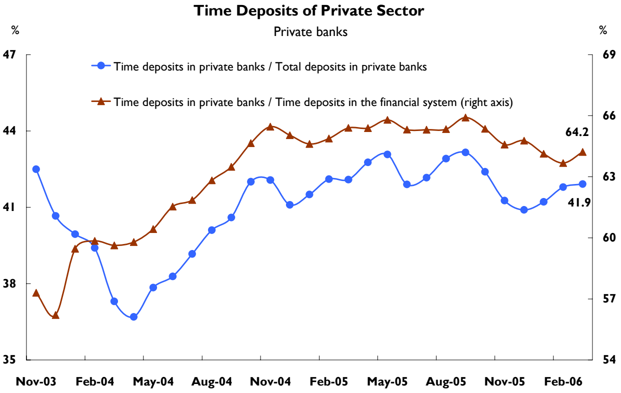
Source: BCRA

Chart 15
Deposits by Type
Financial system



Source: BCRA

Chart 16
Time Deposits of Private Sector
Private banks



Source: BCRA

place, **sight deposits (almost 50% of private sector deposits in private banks) grew 3.6% in the month. Time deposits recorded growth for the month of 2.8%,** maintaining the growth seen in the last four months. Lastly, public sector deposits in private banks (8% of the deposits of this group of banks) exhibited a drop of 7.4%**.** In this context, in March the share accounted for by time deposits totaled almost 42% of total private sector deposits in this group of financial institutions (see Chart 16).

Unlike the situation recorded in the previous month, and more in line with the trend seen in the last four months, **private sector CER-adjusted deposits dropped 1.6% in March**. This result was mainly a reflection of the drop by these deposits in pension fund portfolios (-4%), which hold 41% of all such placements.

In a context of increased levels of financial intermediation, private banks have continued to show signs of gradual normalization of their main asset and liability headings. **Sources of funds for the month were mainly explained by two factors: the $1.72 billion growth in private sector deposits (44% of total sources of funds) and the drop of $960 million in exposure to the public sector** (see Table 4). Private bank capitalization provided additional resources for approximately $500 million. In addition, one large private bank made use of $470 million in assets it had deposited at the Central Bank as collateral for unsettled rediscounts[6]. Net transactions with the financial system ($200 million), together with other less significant movements, completed the sources of funds for private banks during the month.

As a sign of the continued normalization of liabilities, **private banks allocated a significant portion of their funds ($1.48 billion or 38% of total uses) to the settlement of rediscounts under the so-called "matching" mechanism,** a figure that rises to $2.64 billion if the financial system as a whole is considered**.** Furthermore, it should be noted that in April and May financial institutions (both public and private) made payments for $636 million on their rediscounts. The setting up of liquid assets accounted for $1.01 billion, leading to an increase in the private bank liquidity ratio of 1 p.p. (see Chart 17). While **loans to the private sector made use of resources totaling $750 million,** the drop in public sector deposits in private banks accounted for a use of funds in excess of $510 million. The use of funds by private banks in March was completed with the granting of loans through leasing contracts ($100 million) and the repayment of corporate and subordinated bonds and credit lines from abroad.

Private bank foreign currency mismatching rose by US$39 million in March, to US$929 million (15.8% of net worth). This increase was caused by an increase in foreign currency assets that more than offset the increase in liabilities in such currency. In March, private bank assets in foreign currency went up US$143 million, while liabilities in such currency grew US$103 million.

[6] See February issue of this Report.

Table 4
Estimated Sources and Uses of Funds
Private banks - March 2006
million pesos

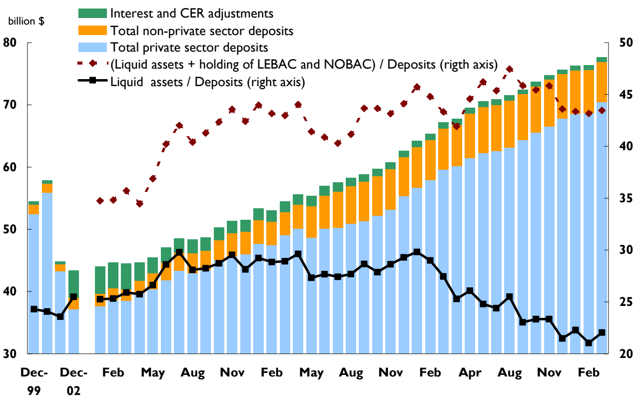
Source		Uses	
Private sector deposits	1,720	BCRA rediscounts	1,480
Loans to the public sector	960	Liquid assets (2)	1,010
Capital contributions	500	Loans to non-financial private sector (1)	750
Rediscounts guarantees	470	Public sector deposits	510
Financial sector (net)	200	Leasing operations	100
Others	50	O.B and S.D and foreign lines of credit	50

(1) Adjusting for credit written off from balance sheet and transfers between loan portfolios and trust funds.

(2) Minimum cash compliance (cash, current account with the BCRA and special collateral accounts), other liquid assets (with foreign branches or head offices) and reverse repos with the Central Bank

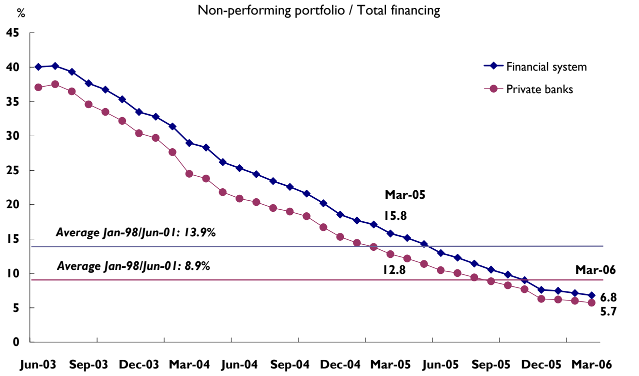
Source: BCRA

Chart 17
Deposits and Liquidity
Private banks



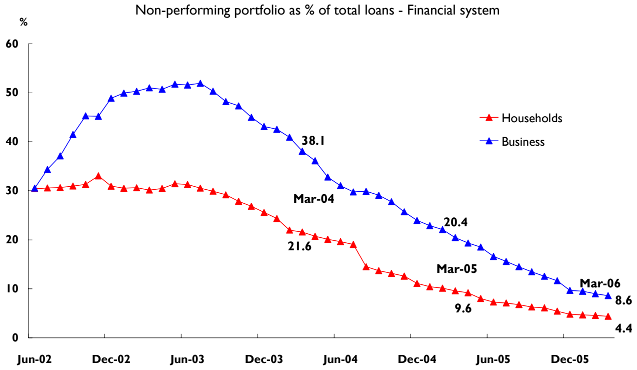
Source: BCRA

Chart 18
Non-Performing Portfolio to the Private Sector
Non-performing portfolio / Total financing



Source: BCRA

Chart 19
Non-performing Loans to Business and Households
Non-performing portfolio as % of total loans - Financial system



Source: BCRA

Portfolio quality:
Public bank delinquency levels reach single digit

At the end of the first quarter of 2006, delinquency levels in the portfolio of financial system loans to the private sector showed a continued decline. Steady growth in economic activity levels that encourages demand for loans by companies and households, together with the prudent lending policies adopted by banks, have been behind this improvement in portfolio quality. **In March non-performing private loans recorded a drop of 0.3 p.p. of total lending to the private sector, to a level of 6.8%, accumulating a reduction of almost 9 p.p. in the last twelve months** (see Chart 18).

Although the same combination of factors was responsible for the improvement in portfolio quality for both private and public banks, (the granting of new loans with lower credit risk and a reduction in non-performing loan totals[7]), it had a greater impact on the latter. **In the third month of 2006 public banks recorded a drop in non-performance ratio of 0.5 p.p., to a historically low 9.7%, accumulating a drop of 13.5 p.p. in the last twelve months. In the case of private banks, the reduction in portfolio non-performance was 0.3 p.p (to 5.7%), for a year-on-year drop of 7.1 p.p..**

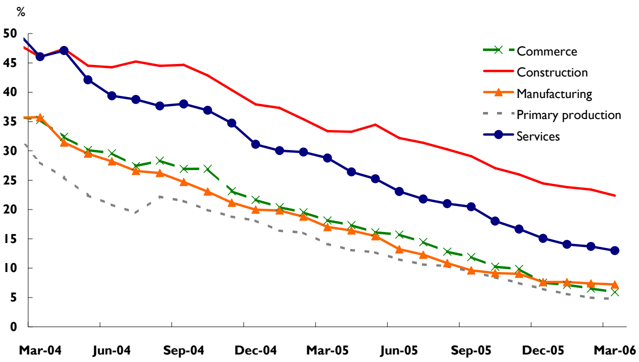
In a context of increased income for both companies and households, exposure to credit risk from these agents continues to decline gradually. **In March non-performance in the companies segment (a group that accounts for almost two-thirds of total loans) reached 8.6%, a drop of 0.4 p.p. compared with the previous month. In the same period, households recorded a decline in their delinquency levels of 0.2 p.p. to 4.2%.** It should be noted that current non-performance levels for companies and households are less than half those recorded twelve months earlier (see Chart 19).

Within a scenario of robust domestic economic growth and a favorable international situation, the financial system continues to allocate most of its resources to the financing of sectors recording the lowest relative non-performance levels: manufacturing industry and primary goods production. In March the delinquency ratios for both these activities dropped 0.2 p.p., to levels of 7.2% and 4.7% respectively (see Chart 20). Over the last twelve months, the drop in non-performance levels was 9.8 p.p. and 9.4 p.p. respectively.

In the first quarter of 2006 there was a significant drop in the non-performance levels of the various sub-groups making up the domestic financial system (see Table 5). This improvement in portfolio quality was led by the two most significant sub-groups of banks in terms of loans. **Public banks (making 27% of all loans) recorded a drop in their non-performance ratio for the quarter of 1.5 p.p.. Private retail banks with a nation-wide coverage (making 51% of all loans) recorded a drop of 0.4 p.p. in their non-performance level, with a**

[7] For a detailed description on the development of bank credit risk, see Chapter IV of the Financial Stability Bulletin, First Half of 2006. 2006.

Chart 20
Non-Perfomance by Ecomic Sector
Non-performing loans as % of total financing - Financial system



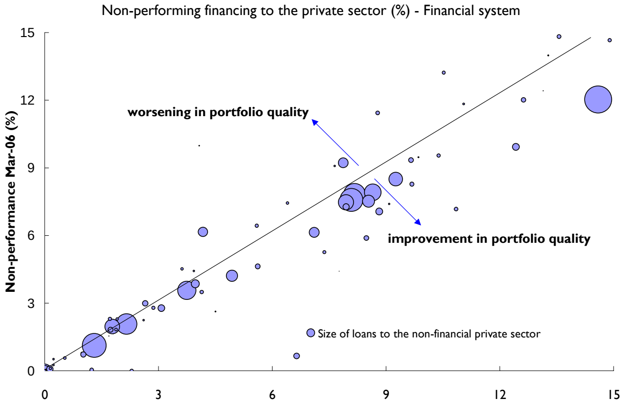
Source: BCRA

Table 5
Non-Performing Portfolio by Group
As % of non-financial private sector financing

	Dec-02	Dec-03	Dec-04	Mar-05	Dec-05	Mar-06	% percentage of private sector financing (*)
Public	44.9	46.8	26.8	23.2	11.2	9.7	26.9
Private	37.5	30.9	15.3	12.8	6.3	5.7	70.6
Retail	37.7	30.9	15.3	12.8	6.2	5.7	67.9
National coverage	38.8	34.0	17.1	14.3	6.3	5.9	51.0
Regional coverage	27.7	16.0	10.5	8.2	5.5	4.6	15.4
Specialized	36.5	32.4	11.5	9.9	7.8	8.9	1.4
Wholesale	33.7	32.0	14.8	14.1	9.1	7.0	2.6
Non-bank institutions	36.6	16.6	7.6	7.5	6.7	6.5	2.6
TOTAL	**39.6**	**35.2**	**18.6**	**15.8**	**7.6**	**6.8**	**100**

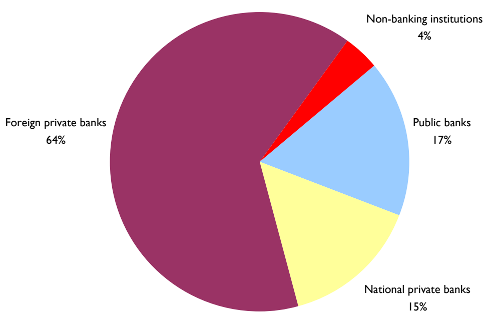
(*) Last month
Source: BCRA

Chart 21
Quaterly change in Portfolio Non-Performance
Non-performing financing to the private sector (%) - Financial system



Source: BCRA

Chart 22
Capital Contributions
January 2002 - March 2006



Source: BCRA

total reduction of 8.4 p.p. in the last 12 months. Private regional banks (the third group in importance in terms of loans) posted a drop for the quarter of 0.9 p.p. in their non-performance level. Lastly, with the exception of specialized banks, the rest of the sub-groups (wholesale banks and non-bank financial institutions) also recorded a fall in non-performance levels in the period.

In the case of individual bank portfolio quality, although almost all banks showed significant gains, **it was the larger banks in terms of loan portfolios that recorded the greatest progress in the first quarter of the year** (see Chart 21).

The sharpest relative decline in non-performing loans in terms of provisions led once again to an increased coverage by provisions in the case of private financial institutions. **In March this indicator went up 0.8 p.p., to a level of almost 118% of non-performing loans.** In the case of public banks, **coverage by provisions went up 1.5 p.p. (to 148%), while for the aggregate financial system this indicator rose 1 p.p. to 128.5%.** As a result, **in March the ratio of non-performing loans covered by provisions as a percentage of net worth remained negative for all groups of financial institutions.**

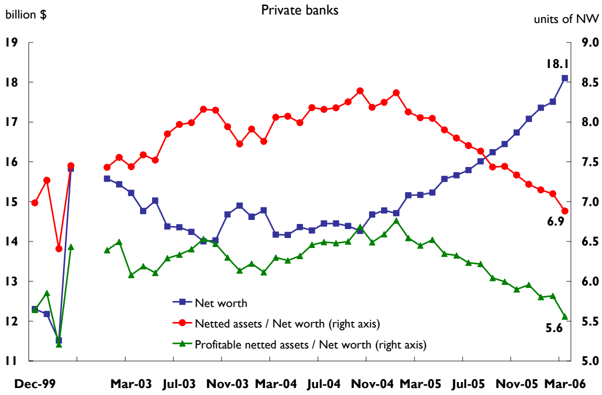
Solvency:
Significant growth in bank net worth

In March three banks carried out capitalization for a total of $530 million. In particular, **one very large private financial institution issued stock for $470 million,** while another smaller private bank increased its capital by means of a debt swap for $30 million. Lastly, one non-bank financial institution performed a capitalization in cash for $30 million (out of a total amount committed of $92 million). Reflecting the notable strengthening of the banking system, it should be noted that since 2002 the financial system has received capitalization for over $13.1 billion, totaling almost $6.1 billion since the end of 2004 (see Chart 22).

In a context of a steady influx of new capital and sustained growth, financial institutions have continued to improve their solvency. **In March financial system net worth rose 2.7%,** one of the largest increases in the last fifteen months. Since the end of 2004, financial system net worth has grown by 21%. **In the case of private banks, the increase in net worth was even more notable: 3.4% for the month, for a change of 22% over 2005 and the first quarter of 2006.** For private banks the greater increase in net worth in relation to netted assets in March (3.4% and 3%, respectively) generated a decline in the level of leverage to 6.9 times (see Chart 23).

In March financial system capital compliance in relation to risk-weighted assets increased 0.3 p.p., to a level of 15.9%. For private banks, this ratio rose 0.5 p.p., to 18.7%. Capital compliance for the financial system increased 5.1 p.p in the month to a level of 134% of total capital requirement, while in the case of private banks, excess compliance recorded a significant growth of 8.6 p.p., to a level of

Chart 23
Netted Assets and Net Worth
Private banks



Source: BCRA

128%. Viewed in perspective, these generous solvency levels offer a significant margin for growth in lending to the private sector.

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" 4509 – 14/March/06
Change in "Minimum cash" requirements. As from April 2006 the reserve requirement on sight deposits has been increased by 2 percentage points (from 15% to 17%). In addition, the Central Bank will no longer remunerate reserve requirements in relation to sight deposits.

Communication "A" 4510 – 15/March/06
Changes have been made to regulations on the participation of investors in the capital or the trading of share packages, portions of capital or quotas of financial and exchange institutions. In the case of information to be provided by financial institutions to be transformed or merged with other institutions specifically concerning capital compliance, it has been established that the analysis to be performed will be intended to confirm that the declared financial situation shows sufficient solvency to meet the capital compliance obligations committed to, as well as to face all other obligations as shareholders in future, and that such capacity should arise from habitual sources (income from personal work or commercial activity, business proceeds, etc.). It may be considered that sufficient own solvency does not exists when it is reasonable to assume that the resources have been provided by third parties or have been generated by other kinds of operations with the aim of simulating solvency. In addition, individuals will be required to provide a certified copy of their tax returns filed with the AFIP for the last three years.

Communication "A" 4518 – 28/March/06
Change in "Minimum cash" requirements. As from April 2006 the limit on the deposit rate as from which remunerated sight deposits become subject to a 100% reserve requirement has been lowered (from 75% to 50% of the BADLAR rate for the previous month).

Methodology

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

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

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

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

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

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

(g) Initially, the breakdown by group of banks was determined on the basis of the majority existing in decision-making – in terms of shareholders' meeting votes – distinguishing between privately-owned institutions and public institutions. With the aim of deepening the analysis, wholesale banks were defined as those specializing in the large corporation and investor segment, which usually do not depend for their funding on deposits from the private non-financial sector. Retail banks were divided into those carrying out business at a national level, those located in specific geographical regions – municipal, provincial or regional institutions – and institutions specializing in a financial sector niche market – generally smaller institutions. Lastly, it should be noted that this grouping has been carried out solely for analytical purposes and does not represent the only methodological criterion for grouping, while, in addition, the detailing of the characteristics of each group of institutions has been established in a general manner. The group of private banks includes 3 institutions currently in the process of restructuring, which are under the management of a national public bank.

Glossary

%a.: annualized percentage.
%i.a.: interannual percentage.
Adjusted profit: Total profit excluding payments made due to court-ordered releases and adjustments to the valuation of public sector assets according to Com. "A" 3911 and modifications.
ASE: Adjusted stockholders' equity, for Responsabilidad Patrimonial Computable (RPC) in Spanish. The measure for compliance with bank capital regulations.
Consolidated (or aggregate) assets and liabilities: Those arising from excluding operations between financial institutions.
Financial margin: Income less outlays of a financial nature. Includes interest income, gains from securities, CER/CVS adjustments, exchange rate differences and other financial results. Does not include the items affected by Com. A 3911 and modifications.
Gains from securities: Includes income from government securities, short-term investments, corporate bonds, subordinated debt, options and from other income from financial intermediation. In the case of government securities, it includes the results accrued from income, quotation differences, exponential increase on the basis of the internal rate of return (IRR), and from sales, as well as the charge for impairment to value.
Income from services: Commissions collected less commissions paid. Includes commissions on liabilities, credits, securities, guarantees granted, rental of safe deposits boxes and foreign trade and exchange transactions, excluding in the case of the latter results from the trading of foreign currency, which are recorded in the "Exchange difference" accounts (here included under the heading "Other financial results"). Outflows include commissions paid, contributions to the Banking Social Services Institute (ISSB), other contributions on service income and charges accrued for gross income tax.
Interest income (interest margin): Interest collected less interest paid on financial intermediation, on an accrual basis – taken from balance sheet – rather than on a cash basis. Includes interest on loans of government securities and premiums on repos and reverse repos.
Liquid assets: Minimum cash compliance – cash, current account at Central Bank and special accounts in guarantee – and other liquid items, including correspondent accounts.
Liquidity ratio: Liquid assets as a percentage of total deposits.
mill.: million
Netted assets (NA) and liabilities: Those net of accounting duplications inherent to the recording of repurchase agreements, term transactions or unsettled spot transactions.
Net worth exposure to counterparty risk: Non-performing portfolio net of allowances in terms of net worth.
Non-performing portfolio: Portfolio in categories 3 to 6, as per the debtor classification system.
Operating costs: Includes remuneration, social security payments, services and fees, sundry expenses, taxes and amortization.
ON: Corporate bonds (Obligaciones Negociables).
OS: Subordinated debt (Obligaciones Subordinadas).
Other financial results: Income from financial leasing, adjustments to valuation of credit to the public sector, contribution to the deposit guarantee fund, interest on liquid funds, difference in market price of gold and foreign exchange, premiums on the sale of foreign currency and other unidentified income (net).
PN: Net worth (Patrimonio Neto).
p.p.a.: annualized percentage points
Private sector credit: Loans to the private sector and private sector securities.
Public sector credit: Loans to the public sector, holdings of government securities and compensation receivable from the Federal Government.
Quotation differences: Income from the monthly updating of foreign currency-denominated assets and liabilities. The heading also includes income arising from the purchase and sale of foreign currency, arising from the difference in the price agreed (net of direct costs generated by the transaction) and the book value.
ROA: Net profits as a percentage of netted assets. When referring to accumulated results the denominator includes the average netted assets for the reference months.
ROE: Net profits as a percentage of net worth. When referring to accumulated results the denominator includes the average net worth for the reference months.
SMEs: Small and Medium Enterprises.
US$: United States dollars

Statistics: Financial System

Balance Sheet

In current pesos (millions)	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Mar 05	Dec 05	Feb 06	Mar 06	Change (%)		
										Month on month	Accum. 2006	Last 12 months
Assets	**163,550**	**123,743**	**187,532**	**186,873**	**212,562**	**212,235**	**222,732**	**229,363**	**227,733**	**-0.7**	**2.2**	**7.3**
Liquid assets[1]	20,278	13,005	17,138	27,575	29,154	26,392	21,166	25,649	27,431	6.9	29.6	3.9
Public bonds	10,474	3,694	31,418	45,062	55,382	55,411	66,733	61,856	58,611	-5.2	-12.2	5.8
Lebac/Nobac	0	0	n/a	n/a	17,755	19,364	28,340	25,408	24,368	-4.1	-14.0	25.8
Portfolio	0	0	n/a	n/a	11,803	13,952	21,067	20,697	20,416	-1.4	-3.1	46.3
Repo	0	0	n/a	n/a	5,953	5,412	7,273	4,711	3,952	-16.1	-45.7	-27.0
Private bonds	633	543	332	198	387	397	387	711	673	-5.3	73.8	69.5
Loans	83,277	77,351	84,792	68,042	73,617	75,384	83,664	86,439	85,637	-0.9	2.4	13.6
Public sector	15,164	22,694	44,337	33,228	30,866	29,951	25,317	25,164	23,535	-6.5	-7.0	-21.4
Private sector	64,464	52,039	38,470	33,398	41,054	43,489	55,898	58,554	59,259	1.2	6.0	36.3
Financial sector	3,649	2,617	1,985	1,417	1,697	1,944	2,450	2,721	2,843	4.5	16.1	46.3
Provisions over loans	-6,907	-6,987	-11,952	-9,374	-7,500	-7,058	-4,953	-4,942	-4,730	-4.3	-4.5	-33.0
Other netted credits due to financial intermediation	42,361	21,485	39,089	27,030	32,554	32,983	26,746	30,684	31,021	1.1	16.0	-5.9
Corporate bonds and subordinated debt	794	751	1,708	1,569	1,018	867	873	928	993	6.9	13.7	14.5
Unquoted trusts	2,053	2,065	6,698	4,133	3,145	2,905	3,888	4,178	4,267	2.1	9.8	46.9
Compensation receivable	0	0	17,111	14,937	15,467	15,209	5,841	5,551	5,573	0.4	-4.6	-63.4
BCRA	141	84	3,360	650	376	366	353	1,130	684	-39.5	93.9	86.9
Other	39,373	18,585	10,212	5,741	12,547	13,636	15,791	18,896	19,503	3.2	23.5	43.0
Assets under financial leases	786	771	567	397	611	707	1,384	1,550	1,651	6.5	19.3	133.4
Shares and participation	2,645	2,688	4,653	4,591	3,871	3,951	4,525	4,693	4,728	0.7	4.5	19.7
Fixed assets and sundry	4,939	4,804	8,636	8,164	7,782	7,710	7,546	7,506	7,489	-0.2	-0.7	-2.9
Foreign branches	1,115	1,057	3,522	3,144	3,524	3,444	3,652	3,735	3,754	0.5	2.8	9.0
Other assets	3,950	5,334	9,338	12,043	13,180	12,912	11,882	11,482	11,467	-0.1	-3.5	-11.2
Liabilities	**146,267**	**107,261**	**161,446**	**164,923**	**188,683**	**187,818**	**195,571**	**201,430**	**199,042**	**-1.2**	**1.8**	**6.0**
Deposits	86,506	66,458	75,001	94,635	116,655	119,728	136,778	141,372	142,744	1.0	4.4	19.2
Public sector[2]	7,204	950	8,381	16,040	31,649	28,619	34,320	36,037	35,652	-1.1	3.9	24.6
Private sector[2]	78,397	43,270	59,698	74,951	83,000	89,091	100,794	103,549	105,363	1.8	4.5	18.3
Current account	6,438	7,158	11,462	15,071	18,219	19,864	23,475	23,031	23,550	2.3	0.3	18.6
Savings account	13,008	14,757	10,523	16,809	23,866	24,976	29,077	29,555	30,333	2.6	4.3	21.4
Time deposit	53,915	18,012	19,080	33,285	34,944	38,373	42,822	45,099	45,988	2.0	7.4	19.8
CEDRO	0	0	12,328	3,217	1,046	745	17	17	17	-1.0	-2.0	-97.7
Other netted liabilities due to financial intermediation	55,297	36,019	75,737	61,690	64,928	61,616	52,071	53,215	49,614	-6.8	-4.7	-19.5
Call money	3,545	2,550	1,649	1,317	1,461	1,722	2,164	2,492	2,627	5.4	21.4	52.5
BCRA lines	102	4,470	27,837	27,491	27,726	25,621	17,005	14,809	12,295	-17.0	-27.7	-52.0
Outstanding bonds	4,954	3,777	9,096	6,675	7,922	6,339	6,548	6,828	6,863	0.5	4.8	8.3
Foreign lines of credit	8,813	7,927	25,199	15,196	8,884	8,036	4,684	4,392	4,441	1.1	-5.2	-44.7
Other	37,883	17,295	11,955	11,012	18,934	19,898	21,670	24,694	23,388	-5.3	7.9	17.5
Subordinated debts	2,255	2,260	3,712	2,028	1,415	1,342	1,381	1,385	1,290	-6.9	-6.6	-3.9
Other liabilities	2,210	2,524	6,997	6,569	5,685	5,131	5,341	5,457	5,393	-1.2	1.0	5.1
Net worth	**17,283**	**16,483**	**26,086**	**21,950**	**23,879**	**24,417**	**27,161**	**27,934**	**28,690**	**2.7**	**5.6**	**17.5**
Memo												
Netted assets	129,815	110,275	185,356	184,371	202,447	201,085	209,044	212,684	212,325	-0.2	1.6	5.6
Consolidated netted assets	125,093	106,576	181,253	181,077	198,462	196,767	204,160	207,421	206,847	-0.3	1.3	5.1

(1) Includes margin accounts with the BCRA

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

n/a: not available

Source: BCRA

Statistics: Financial System

Profitability Structure

In annualized terms

As % of netted assets	Annual					First 3 months		Monthly			Last	
	2001	2002	2003	2004	2005	2005	2006	Jan-06	Feb-06	Mar-06	6 months	12 months
Financial margin	5.7	6.5	1.1	3.1	4.6	3.5	6.0	7.1	5.9	4.9	5.7	5.2
Net interest income	3.8	-1.7	-0.5	0.9	1.5	1.1	1.8	1.8	1.7	2.0	1.8	1.7
Restatement by CER and CVS	0.0	3.9	1.3	1.0	1.5	1.5	1.6	1.7	1.7	1.3	1.5	1.5
Foreign exchange price adjustments	1.2	1.7	1.1	0.4	0.4	-0.1	0.6	1.0	0.5	0.4	0.8	0.5
Gains on securities	0.2	2.8	-0.5	1.0	1.2	0.8	1.8	2.5	1.9	1.0	1.5	1.4
Other financial income	0.5	-0.1	-0.3	-0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Service income margin	3.0	1.9	1.9	2.0	2.3	2.1	2.6	2.5	2.4	2.7	2.5	2.4
Loan loss provisions	-2.6	-4.7	-1.1	-0.8	-0.6	-0.6	-0.5	-0.6	-0.4	-0.4	-0.4	-0.5
Operating costs	-6.1	-4.4	-4.2	-4.1	-4.6	-4.1	-4.9	-4.9	-4.8	-4.9	-5.0	-4.8
Tax charges	-0.5	-0.3	-0.3	-0.3	-0.4	-0.3	-0.4	-0.4	-0.4	-0.5	-0.4	-0.4
Income tax	-0.2	-0.2	-0.2	-0.1	-0.3	-0.1	-0.4	-0.6	-0.4	-0.3	-0.3	-0.3
Adjustments to the valuation of government securities [1]	0.0	0.0	-0.4	-0.2	-0.2	-0.1	-0.3	-0.3	-0.2	-0.3	-0.3	-0.2
Amortization payments for court-ordered releases	0.0	0.0	-0.6	-0.9	-0.9	-0.9	-0.8	-0.8	-0.8	-0.8	-0.8	-0.9
Other	0.6	-1.8	0.9	0.8	0.8	0.5	0.6	0.6	0.5	0.6	0.6	0.8
Monetary results	0.0	-5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA before income tax	0.2	-8.7	-2.7	-0.3	1.1	0.1	2.3	3.3	2.2	1.4	1.8	1.7
ROA before monetary results	0.0	-3.1	-2.9	-0.5	0.9	0.0	1.9	2.6	1.8	1.1	1.5	1.3
ROA	**0.0**	**-8.9**	**-2.9**	**-0.5**	**0.9**	**0.0**	**1.9**	**2.6**	**1.8**	**1.1**	**1.5**	**1.3**
ROA adjusted [2]	0.0	-8.9	-1.9	0.7	2.0	0.9	2.9	3.7	2.8	2.2	2.6	2.5
Indicators (%)												
ROE	**-0.2**	**-59.2**	**-22.7**	**-4.2**	**7.1**	**-0.1**	**14.0**	**20.3**	**13.5**	**8.4**	**11.6**	**10.6**
Financial margin + service income margin / Operating costs	143.3	189.1	69.3	124.8	150.8	135.4	175.6	197.7	173.5	155.7	165.1	160.7
Interest income (with CER and CVS) / loans	15.2	11.8	13.1	10.3	12.8	12.4	13.3	13.5	11.9	14.4	13.2	13.0
Interest payments (with CER and CVS) / deposits	7.3	9.2	5.7	1.8	2.4	2.2	2.8	2.9	2.4	3.1	2.7	2.5

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

(1) Com. "A" 3911. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains from securities" heading.

(2) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and 4084.

Source: BCRA

Portfolio Quality

As percentages	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Mar 05	Dec 05	Jan 06	Feb 06	Mar 06
Non-performing loans (overall)	11.5	12.9	13.1	18.1	17.7	10.7	9.3	5.2	5.1	4.9	4.7
Non-performing loans to the non-financial private sector	14.0	16.0	19.1	38.6	33.5	18.6	15.8	7.6	7.5	7.1	6.8
Commercial portfolio (*)	12.1	14.9	20.7	44.0	38.0	22.8	19.5	11.1	9.3	9.2	8.7
Consumption and housing portfolio	16.6	17.3	17.5	31.4	28.0	11.0	9.5	4.8	4.8	4.6	4.5
Provisions / Total non-performing loans	59.6	61.1	66.4	73.8	79.2	102.9	106.5	124.6	126.3	127.5	128.5
(Total non-performing - Provisions) / Overall financing	4.7	5.0	4.4	4.7	3.7	-0.3	-0.6	-1.3	-1.3	-1.4	-1.3
(Total non-performing - Provisions) / Net worth	24.7	26.2	21.6	17.2	11.9	-1.0	-2.0	-4.2	-4.4	-4.5	-4.3

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

Source: BCRA

Statistics: Private Banks

Balance Sheet

In current pesos (millions)	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Mar 05	Dec 05	Feb 06	Mar 06	Change (%) Month on month	Accum. 2006	Last 12 months
Assets	**119,371**	**82,344**	**118,906**	**116,633**	**128,065**	**129,649**	**129,680**	**134,806**	**132,470**	**-1.7**	**2.2**	**2.2**
Liquid assets[1]	13,920	10,576	11,044	14,500	15,893	16,014	14,074	15,185	16,808	10.7	19.4	5.0
Public bonds	7,583	1,627	19,751	22,260	24,817	24,514	29,966	27,027	26,998	-0.1	-9.9	10.1
Lebac/Nobac	0	0	n/a	n/a	8,359	9,611	15,227	14,037	13,391	-4.6	-12.1	39.3
Portfolio	0	0	n/a	n/a	5,611	7,302	12,899	12,958	12,759	-1.5	-1.1	74.7
Repo	0	0	n/a	n/a	2,749	2,309	2,328	1,079	632	-41.4	-72.8	-72.6
Private bonds	563	451	273	172	333	335	307	631	596	-5.6	94.0	77.9
Loans	56,035	52,319	51,774	47,017	50,741	51,470	56,565	58,147	56,969	-2.0	0.7	10.7
Public sector	8,172	13,803	25,056	23,571	21,420	20,443	15,954	15,614	14,062	-9.9	-11.9	-31.2
Private sector	45,103	36,636	26,074	22,816	28,213	29,738	39,031	40,787	41,257	1.2	5.7	38.7
Financial sector	2,760	1,880	644	630	1,107	1,289	1,580	1,745	1,651	-5.4	4.5	28.0
Provisions over loans	-3,248	-3,957	-7,463	-5,225	-3,717	-3,376	-2,482	-2,528	-2,401	-5.0	-3.2	-28.9
Other netted credits due to financial intermediation	36,600	13,037	27,212	22,148	25,753	26,437	16,873	21,885	18,957	-13.4	12.3	-28.3
Corporate bonds and subordinated debt	724	665	1,514	1,394	829	673	675	728	824	13.2	22.0	22.4
Unquoted trusts	1,609	1,637	6,205	3,571	2,362	2,121	2,444	2,683	2,715	1.2	11.1	28.0
Compensation receivable	0	0	15,971	13,812	14,657	14,401	5,575	5,287	5,308	0.4	-4.8	-63.1
BCRA	35	865	377	415	311	299	279	1,077	610	-43.4	118.5	104.3
Other	34,232	9,870	3,146	2,955	7,594	8,943	7,900	12,111	9,499	-21.6	20.3	6.2
Assets under financial leases	776	752	553	387	592	688	1,356	1,518	1,613	6.2	18.9	134.4
Shares and participation	1,651	1,703	3,123	2,791	1,892	1,992	2,416	2,537	2,583	1.8	6.9	29.7
Fixed assets and sundry	3,225	3,150	5,198	4,902	4,678	4,643	4,575	4,549	4,533	-0.3	-0.9	-2.4
Foreign branches	75	112	-109	-136	-53	-63	-148	-150	-158	5.8	7.2	152.1
Other assets	2,190	2,574	7,549	7,816	7,137	6,995	6,178	6,007	5,973	-0.6	-3.3	-14.6
Liabilities	**107,193**	**70,829**	**103,079**	**101,732**	**113,285**	**114,483**	**112,600**	**117,297**	**114,368**	**-2.5**	**1.6**	**-0.1**
Deposits	57,833	44,863	44,445	52,625	62,685	67,283	75,668	76,495	77,715	1.6	2.7	15.5
Public sector[2]	1,276	950	1,636	3,077	6,039	6,356	6,946	6,811	6,300	-7.5	-9.3	-0.9
Private sector[2]	55,917	43,270	38,289	47,097	55,384	59,686	67,859	68,748	70,477	2.5	3.9	18.1
Current account	4,960	7,158	8,905	11,588	13,966	15,061	17,946	17,333	17,811	2.8	-0.8	18.3
Savings account	9,409	14,757	6,309	10,547	14,842	15,660	18,362	18,526	19,335	4.4	5.3	23.5
Time deposit	39,030	18,012	11,083	18,710	22,729	25,096	27,736	28,716	29,525	2.8	6.4	17.6
CEDRO	0	0	9,016	2,409	798	583	3	3	3	-6.5	-10.5	-99.6
Other netted liabilities due to financial intermediation	46,271	22,629	49,341	42,367	45,083	42,231	32,349	36,198	32,219	-11.0	-0.4	-23.7
Call money	2,293	1,514	836	726	1,070	1,201	1,488	1,740	1,836	5.6	23.4	52.9
BCRA lines	83	1,758	16,624	17,030	17,768	15,894	10,088	9,308	7,905	-15.1	-21.6	-50.3
Outstanding bonds	4,939	3,703	9,073	6,674	7,922	6,339	6,548	6,828	6,863	0.5	4.8	8.3
Foreign lines of credit	5,491	4,644	15,434	9,998	5,444	4,960	2,696	2,379	2,430	2.2	-9.8	-51.0
Other	33,466	11,010	7,374	7,939	12,878	13,837	11,530	15,943	13,185	-17.3	14.4	-4.7
Subordinated debts	1,668	1,700	3,622	1,850	1,304	1,233	1,319	1,325	1,230	-7.2	-6.8	-0.3
Other liabilities	1,420	1,637	5,671	4,890	4,213	3,735	3,264	3,280	3,204	-2.3	-1.8	-14.2
Net worth	**12,178**	**11,515**	**15,827**	**14,900**	**14,780**	**15,167**	**17,080**	**17,509**	**18,102**	**3.4**	**6.0**	**19.4**
Memo												
Netted assets	88,501	73,796	117,928	115,091	121,889	122,160	123,271	124,290	124,611	0.3	1.1	2.0

(1) Includes margin accounts with the BCRA

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

n/a: not available

Source: BCRA

Statistics: Private Banks

Profitability Structure

In annualized terms

As % of netted assets	Annual 2001	2002	2003	2004	2005	First 3 months 2005	2006	Monthly Jan-06	Feb-06	Mar-06	Last 6 months	12 months
Financial margin	6.4	7.6	2.3	2.9	4.3	3.2	5.8	6.9	5.9	4.8	5.2	5.0
Net interest income	4.3	-0.2	0.1	1.0	1.7	1.3	2.1	2.0	2.1	2.3	2.1	1.9
Restatement by CER and CVS	0.0	1.1	0.9	0.8	1.0	1.0	0.9	1.0	0.9	0.8	0.8	1.0
Foreign exchange price adjustments	1.2	2.5	1.7	0.6	0.5	0.1	0.7	0.9	0.5	0.6	0.8	0.6
Gains on securities	0.3	4.4	-0.3	0.8	1.0	0.7	2.0	2.8	2.2	0.9	1.4	1.4
Other financial income	0.7	-0.1	-0.2	-0.3	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Service income margin	3.2	2.0	2.0	2.4	2.7	2.4	3.1	3.1	2.9	3.4	3.1	2.9
Loan loss provisions	-3.0	-5.0	-1.3	-0.9	-0.6	-0.6	-0.5	-0.7	-0.4	-0.4	-0.5	-0.6
Operating costs	-6.4	-4.8	-4.6	-4.6	-5.1	-4.6	-5.5	-5.5	-5.4	-5.6	-5.6	-5.4
Tax charges	-0.5	-0.4	-0.3	-0.3	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Income tax	-0.3	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.3	-0.2	-0.1	-0.2	-0.2
Adjustments to the valuation of government securities [1]	0.0	0.0	-0.6	0.0	-0.2	-0.1	-0.2	-0.1	-0.1	-0.2	-0.3	-0.2
Amortization payments for court-ordered releases	0.0	0.0	-0.7	-1.0	-1.0	-1.0	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Other	0.7	-3.0	1.0	0.7	0.9	0.6	0.5	0.7	0.2	0.7	0.9	0.9
Monetary results	0.0	-7.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA before income tax	0.5	-11.1	-2.2	-0.8	0.7	-0.4	2.0	3.0	1.7	1.3	1.4	1.3
ROA before monetary results	0.2	-3.8	-2.4	-1.0	0.5	-0.6	1.8	2.7	1.5	1.1	1.2	1.1
ROA	**0.2**	**-11.3**	**-2.5**	**-1.0**	**0.5**	**-0.6**	**1.8**	**2.7**	**1.5**	**1.1**	**1.2**	**1.1**
ROA adjusted [2]	0.2	-11.3	-1.2	0.2	1.6	0.4	2.8	3.7	2.5	2.2	2.4	2.3
Indicators (%)												
ROE	**1.4**	**-79.0**	**-19.1**	**-8.1**	**4.1**	**-4.7**	**12.4**	**19.1**	**10.6**	**7.7**	**8.7**	**8.4**
Financial margin + service income margin / Operating costs	150.9	199.3	92.6	115.0	136.5	122.4	163.2	181.7	161.4	146.8	148.3	146.8
Interest income (with CER and CVS) / loans	16.1	24.7	9.0	8.2	11.0	10.7	11.8	12.0	11.4	11.9	11.5	11.3
Interest payments (with CER and CVS) / deposits	7.8	21.9	5.8	2.2	3.0	2.8	3.5	3.7	3.5	3.2	3.4	3.2

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

(1) Com. "A" 3911. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains from securities" heading.

(2) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and 4084.

Source: BCRA

Portfolio Quality

As percentages	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Mar 05	Dec 05	Jan 06	Feb 06	Mar 06
Non-performing loans (overall)	7.6	8.3	9.9	19.8	15.7	8.9	7.6	4.4	4.4	4.3	4.1
Non-performing loans to the non-financial private sector	8.9	9.8	14.0	37.4	30.4	15.3	12.8	6.3	6.2	6.0	5.7
Commercial portfolio (*)	6.8	8.4	15.4	44.7	39.0	18.2	15.2	9.1	7.3	7.3	7.0
Consumption and housing portfolio	12.5	11.9	12.4	26.0	17.2	10.0	8.4	4.2	4.2	4.1	4.0
Provisions / Total non-performing loans	69.4	67.7	75.7	73.4	79.0	95.7	98.9	114.6	116.2	117.1	117.9
(Total non-performing - Provisions) / Overall financing	2.3	2.7	2.4	5.3	3.3	0.4	0.1	-0.6	-0.7	-0.7	-0.7
(Total non-performing - Provisions) / Net worth	11.5	13.4	11.4	18.6	11.2	1.3	0.3	-2.2	-2.4	-2.5	-2.5

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

Source: BCRA