Report on Banks

MAY 2005

Central Bank of Argentina

Year II - No. 9

Contents

Note: This report contains information from May 2005 balance sheets available on 17/06/05. 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.

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Summary

- **May saw confirmation of the pattern of gradual improvement in bank balance sheets, with positive results for the financial system as a whole being recorded for the third time this year**. On the basis of a steady improvement in results and continuous capital contributions, as well as a portfolio of assets that is gradually improving in quality, the recovery in financial system solvency continues its progress. This will form a firm basis for the impulse being recorded by financial intermediation, with a rising level of deposit-taking and a significant increase in lending to the private sector, while exposure to the public sector continues to decline.

- **The financial system recorded gains for approximately $103 million (an annualized 0.6% of assets) in May. Excluding the amortization of court-ordered deposit releases and the adjustment to the valuation of public sector assets, the adjusted profit amounts to $293 million (1.7%a.).** In 2005 to date the financial system has accumulated profits for approximately $240 million (0.3%a. of assets), a significant improvement compared with the losses for $880 million (-1.1%a. of assets) in the same period of 2004.

- **Over half the profits of the financial system were accounted for by private banks ($57 million or 0.6%a. of assets).** Nevertheless, profits by this group of institutions recorded a slight drop in the month, following a slight decline in financial margin, as well as an increase in operating costs. Nevertheless, there has been an increase in traditional sources of income, such as interest and service income.

- **The results for the month, added to capitalization for $300 million, enabled the net worth of private banks to rise by 2.2% in May, with a mild reduction in the leverage ratio.** The capital compliance ratio reached 16% of risk-weighted assets for private banks, while the total capital position increased until reaching 161.5% of the requirement.

- **System assets rose by 0.2% in May, with growth of 1.7% in loans to the private sector, which in 2005 have accumulated an annualized increase of 30%.** The increase for the month was evenly balanced between commercial lending (up 2.8%) and consumer loans (up 4.1%). Pledge-backed loans record a slight positive variation, once an adjustment has been made for the transfer of mortgage loans to trusts.

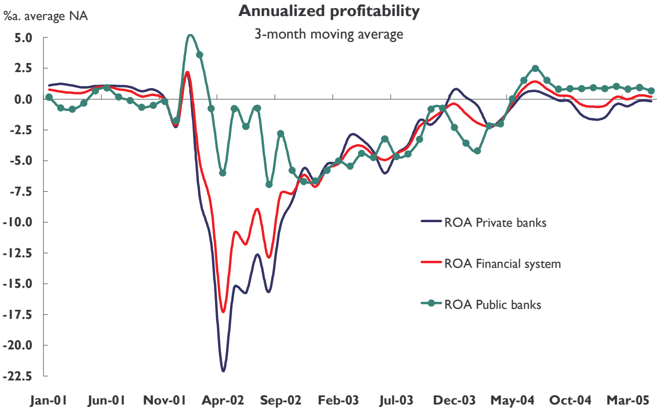
- **The non-performance rate for the portfolio of loans to the private sector has been falling steadily for almost two years, declining 0,8 p.p. in May to 11.4% in the case of private banks (14.3% for the system as a whole)**. In the case of private banks the commercial portfolio improved by 0.7 p.p. (to a non-performing rate of 13.7%). Although it continues to record a greater deterioration than consumer loans (with delinquency of close to 7%).

- With the payment of certain pending amounts of compensation (already booked) by means of the delivery of securities and amounts in cash (for the portion that had already fallen due), **a drop of 2.3 p.p. took place in private bank sector exposure to the public sector (to 35.7% of assets). In the case of the financial system as a whole, this exposure fell from 37.1% to 36.1%.**

- **Financial system deposit balances went up 1.8%, driven by private sector deposits, which went up 2%.** In the case of the private sector, there was a proportional increase by time deposits (2.1%) and sight deposits (2.1%).

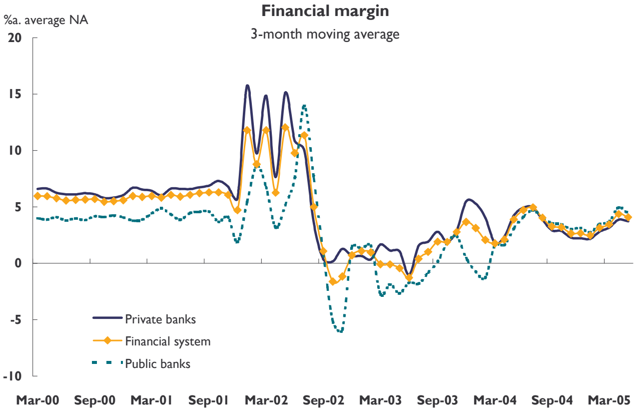
- **Private bank funding in May centered on falling exposure to the public sector (almost $1.4 billion), private sector deposits ($1.37 billion) and public sector deposits ($550 million)**. The resources obtained were mainly applied to increasing the portfolio of Central Bank assets (almost $1.1 billion), liquidity (a further $1.1 billion) and loans to the private sector (close to $760 million). Smaller amounts were allocated to the payment of debt to the Central Bank, the settlement of corporate bond issues and foreign lines of credit, and the repayment of CEDRO deposits.

Chart 1
Annualized profitability
3-month moving average



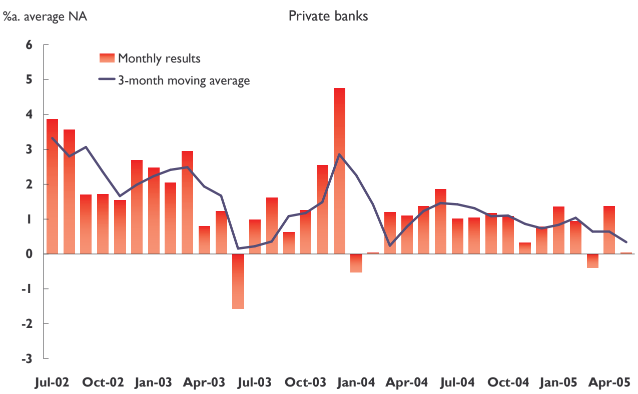
Source: BCRA

Chart 2
Financial margin
3-month moving average



Source: BCRA

Chart 3
Gains on securities
Private banks



Source: BCRA

Profitability:
Widespread profits for the second month in succession

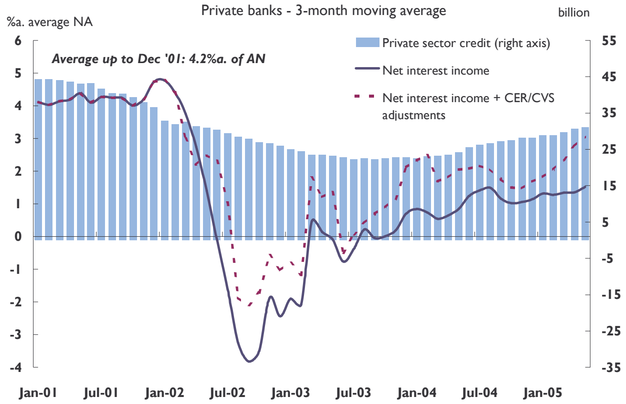
In May the financial system recorded a profit of close to $103 million or an annualized (a.) 0.6% of its assets (see Chart 1), **accumulating in 2005 positive results for almost $240 million (0.3%a. of assets).** These accumulated profits confirm the gradual recovery taking place in the profitability of financial institutions as a whole: in the same period of 2004 they recorded losses of close to $880 million (or –1.1%a. of assets). **Excluding the amortization of court-ordered deposit releases and the adjustment to the valuation of public sector assets** (to obtain an indicator that is more representative of current profitability conditions), **in May an adjusted profit of $293 million (1.7%a. of assets) was recorded, with the accumulation of an adjusted profit of $1.15 billion in 2005 to date** ($260 million in the same period of 2004). As has been pointed out regularly in recent issues of this Report, some volatility should still be expected in the profitability of the financial system in the short and medium term.

Private banks accounted for over half the positive results for May, as in the case of the previous month. The profit for the month totaled $57 million (a ROA of 0.6%a.), slightly below the $79 million recorded in April (0.8%a. of assets). There was no significant change in the number of private banks recording a profit, with a drop from 37 to 36 institutions in May. Although so far in 2005 private banks have built up a loss of $40 million (-0.1%a. of assets), mainly explained by the results for January and March, there has been an improvement on the same period last year, when the loss was almost $610 million (-1.3%a. of assets). This improvement can also be seen in results before the amortization of court-ordered deposit releases and the adjustment to the valuation of public sector assets: adjusted profits for the January-May period total $482 million (0.9%a. of assets), almost three times the amount recorded in the same period of the previous year ($150 million or 0.3%a. of assets). **In May, public bank results amounted to almost $40 million (0.6%a. of assets), with profits for the last five months totaling close to $270 million (0.8%a.).** In 2005 to date, adjusted profitability for this category of bank amounts to almost $650 million (2%a. of assets).

The slight drop in private bank profits in May was mainly explained by the reduction in financial margin. Bond income dropped, as did results from exchange differences. These declines were only partly offset by higher income from traditional intermediation activities (interest income and CER adjustments). In addition, there was an increase in operating costs, offset by higher commissions on services and sundry income.

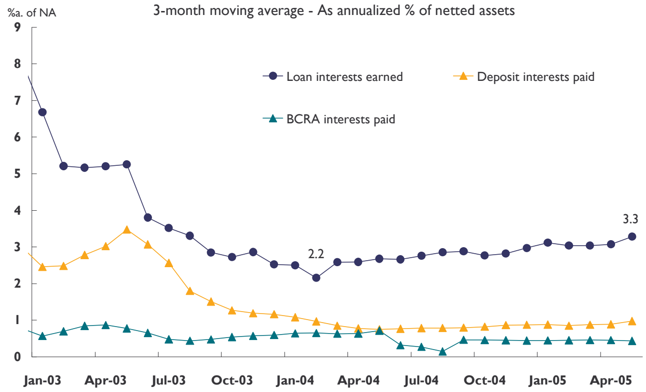
Private bank financial margin reached a level of 3.8%a. of assets in May, almost 0.9 p.p. less than in the previous month (see Chart 2 showing the quarterly moving average). It nevertheless remains 0.2 p.p. and 0.9 p.p. above the level reached in the first four months of the year and in the whole of 2004, respectively. The monthly drop was largely explained by the 1.2 p.p. fall in gains from securities (see Chart 3), reflecting the sales of government securities by a group of banks at

Chart 4
Net interest income and CER/CVS adjustments
Private banks - 3-month moving average



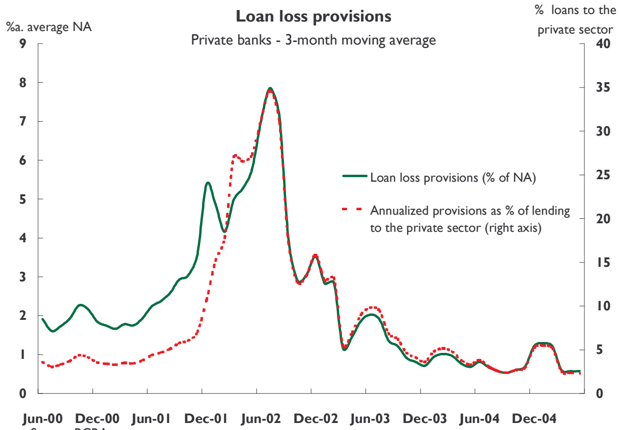
Source: BCRA

Chart 5
Main components of net interest income
3-month moving average - As annualized % of netted assets



Source: BCRA

Chart 6
Loan loss provisions
Private banks - 3-month moving average



Source: BCRA

a market value that was lower than book value[1]. In addition, there has been a drop of 0.2 p.p. in results from exchange differences, as there was a slight nominal appreciation of the peso (the peso/dollar exchange rate fell $0.03 during the month), in view of the overall asset position in bonds denominated in foreign currency.

The core component of financial margin (interest income and CER adjustment) increased 0.6 p.p. in the month in the case of private banks, reaching 3.4%a. of assets, almost 0.9 p.p. above the level in the first four months of the year. **The improvement for May can be explained by the increase of almost 0.4 p.p. in interest income, which totaled 1.8%a. of assets, the highest level recorded in the last 10 months** (see Chart 4). This recovery is in line with the performance by lending and the slight rise in interest rates agreed in May (in particular in the commercial segment), in the context of almost unchanged interest expense (see Chart 5). In May the stability of this latter item has reflected the combined effect of higher interest payments on deposits (in line with the slight rise in deposit rates), which was partially offset by a reduction in interest accrued on Central Bank liabilities, as a result of the bringing forward and early settlement of the so-called matching installments (see Activity section). In the case of the CER adjustments, private banks recorded an increase for the month of 0.1 p.p. to a level of 1.7%a. of assets, although the performance during the month reflects a non-recurring positive adjustment by one specific bank (if the non-recurring adjustment were to be eliminated, this heading would show a reduction of approximately 0.3 p.p., consistent with the decline in CER growth in May).

Loan loss provisions posted by private banks (a heading that to a certain extent adjusts the financial margin on the basis of the expected repayment of the loan portfolio)**, remained at 0.5%a. of assets (2%a. of the loans to the private sector). This heading has been recording a downward trend** (see Chart 6 showing a quarterly moving average) **both compared with 2004 (0.9%a. of assets) and with the first four-month period of 2005** (0.6%a. of assets). This downward trend is linked to various factors: a favorable macroeconomic context that is responsible for a reduction in counterpart risk; a significant corporate debt restructuring process; a notable effort by banks to improve the administration and monitoring of their loan portfolio; and a regulatory adjustment being sponsored by the Central Bank to adapt to the new post-crisis economic scenario.

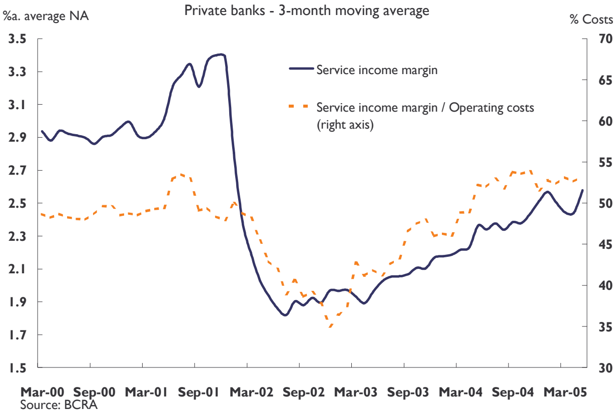
Private bank income from services rose 0.2 p.p. in May, to its highest level for the year (2.7%a.), exceeding the figure recorded for 2004 (2.4%a. of assets). This progress confirms the positive trend the heading is recording (see Chart 7), largely as a result of the efforts being made by banks to increase the range of services being offered. Furthermore, in May this heading reflected an increase in the commissions collected on the basis of the participation by a group of banks in the recent sovereign debt exchange on behalf of their customers. This improvement for the month in net commission

[1] One of these banks has been recording losses under this heading in recent months because of its strategy for lowering its exposure to the public sector, enabling it to improve its financial profile. Furthermore, this institution is in the process of capitalizing debt due to its Head Office, enabling it to offset the negative impact of such sales on its net worth. For further details, see the Activity section of this Report.

income enabled the private bank segment to cover approximately 53% of its operating costs for the month with such income, slightly exceeding the level of cover recorded during 2004 (52%).

Private bank operating costs rose 0.5 p.p. in May, totaling 5.1%a. of assets (see Chart 8). This movement was influenced by both recurring and non-recurring elements (some of which were seasonal). The former included the impact of the wage agreement recently entered into for the sector[2]. Factors with a temporary impact (explaining almost 0.3 p.p. of the mentioned increase) included the fact that some banks began to accrue part of their mid-year statutory bonus payments, a group of banks posted directors' and syndics' fees after due approval by their annual general meetings, and lastly, extraordinary costs were recorded in relation to the departure of senior executives. The combined effect of the reduction in financial margin (only partially offset by an increase in income from services) and this increase in operating costs resulted in a deterioration in the monthly cover of costs by income in the case of private banks, to a level of 128%. Although this indicator reflects the existence of a significant continuing volatility (in particular as regards income structure), it remains at a level above that recorded in 2004 (115%).

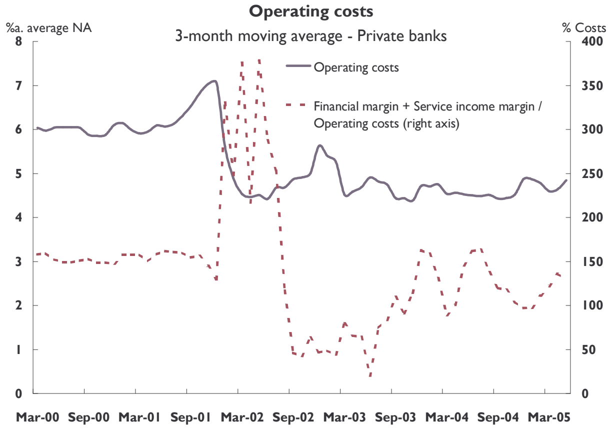
Chart 7
Service income margin
Private banks - 3-month moving average



Source: BCRA

The sundries heading (a component of the profitability structure recording significant volatility) showed a recovery or the month of 0.2%a. to 1.1%a. of assets in the case of private banks. This was mainly explained by the reduction in provisions on items not linked to traditional banking business (sundry credits and other allowances), as well as increased gains on long-term investments. Headings related to the gradual recognition of the cost of the crisis, such as adjustments to the valuation of government sector securities and the amortization of court-ordered payments, jointly remained at a level of close to 1%a. of assets.

Chart 8
Operating costs
3-month moving average - Private banks



Source: BCRA

Outlook for June

The outlook for the development of financial system profitability remains favorable in the short and medium term, in the context of macroeconomic growth with a low level of inflation. Despite certain negative effects of a seasonal nature that are expected to impact on the cost structure (mainly operating costs and loan loss provisions)**, it is expected that in June profitability will be in line with the trend towards improvement observed in recent months**. A further rise can be expected in interest income as a result of the steady growth in lending (driven this month by commercial overdraft facilities and notes discounted), although this effect could be partly offset by a drop in interest rates that has taken place in various segments (see Table 1). As regards financial expense, June has seen a rise in rates paid on time deposits, an effect that could be partially offset by the fall in the overall stock of such deposits. In addition, unless there are extraordinary sales of government securities during the month, it can be expected that there will be a recovery in income on assets. In particular, it should be considered that some banks have already marked their entire government securities portfolio to market, and as market prices are

[2] This agreement was signed at the beginning of June with effect retroactively to May 1. It established a general increase in wages (with a minimum increase of $200 and a cap of $600.)

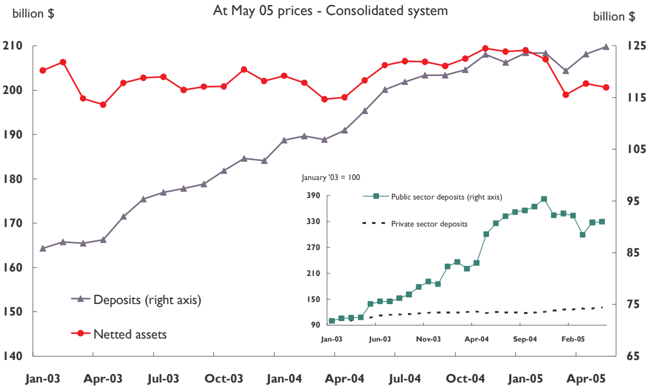
Table 1

Main developments in June

	May	Jun	Chg. %
Prices			
Exchange rate ($/US$)[1]	2.89	2.89	0.1
CPI	159.11	160.57	0.9
CER[1]	1.618	1.627	0.6
	%		Chg. (p.p.)
Average percentage rates			
Lending[2]			
Overdraft	14.4	14.5	0.1
Promissory notes	9.6	9.3	-0.3
Mortgage	11.4	11.1	-0.3
Pledge-backed	9.9	9.8	-0.1
Personal	26.4	26.3	-0.1
30- to 44-day time deposit	4.1	4.4	0.3
1-year LEBAC in pesos, w/o CER	7.3	7.6	0.3
7 day BCRA repos	3.8	4.3	0.5
	million $		Chg. %
Balance[1,2] - Private banks			
Peso deposits - Private sector	55,037	55,068	0.1
Sight deposits	29,638	30,344	2.4
Time deposits	24,714	24,150	-2.3
Peso loans - Private sector	26,102	27,222	4.3
Overdraft	6,045	6,706	10.9
Promissory notes	5,423	5,620	3.6
Mortgage	5,025	5,035	0.2
Pledge-backed	942	1,013	7.6
Personal	2,743	2,786	1.6

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

Chart 9
Netted assets and deposits
At May 05 prices - Consolidated system



Source: BCRA

showing a steady improvement (because of the increased demand for CER-linked investments), this should be reflected in improved results for this line of the profitability structure. In addition, the rise in the CER index for June slowed somewhat compared with May, which could mean a certain reduction in adjustments to be accrued. Nevertheless, unlike May, in June there was a slight increase in the peso/dollar exchange rate that will have a positive effect on the exchange differences posted by banks.

Activity:
Lower exposure to public sector as compensation is paid

Financial intermediation levels continued to improve in May, following a further increase in the volume of private sector deposits and loans (see Chart 9). **Consolidated financial system netted assets rose by 0.2% (2.5%a.) this month**, a year-on-year change of 7.8% in nominal terms (-0.9% in real terms[3]). In the case of private banks, the monthly change in assets was 0.4% (4.9%a.).

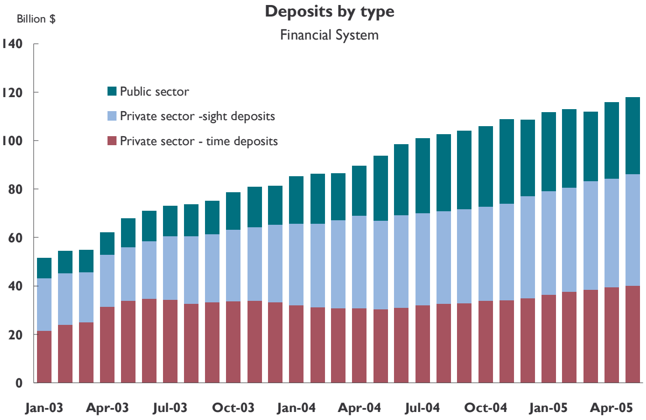
Total deposit balances continued to increase, revealing a gradual recovery by investors of confidence in the financial system, as well as reflecting the increased attractiveness of deposits at a time when interest rates have been rising gradually. **In May an increase of 1.8% (23.2%a.) took place in deposit totals, 21% above the level in the same period of 2004.** Deposit growth was led by private sector deposits (see Chart 10), although public sector deposits also rose, if at a slower rate; **while private sector deposits rose by 2% in the month, those of the public sector increased by 1.1%**. In the case of the private sector, the increase took place evenly between time and sight deposits (led by current accounts), as both segments grew by 2.1% in the month.

Private sector deposits continued to be mainly directed towards private banks, which gained close to 67% of the monthly increase in deposits by this sector (85% of the increase if time deposits alone are considered). As a result, the ratio of private sector time deposits in private banks to total private sector time deposits in the financial system rose slightly to 66%. **Although total public sector deposits grew in May, balances at official banks fell slightly, although such banks continue to control almost 80% of the deposits for the sector** (see Chart 11).

CER-adjusted time deposit balances dropped again in May, with a decline of 2.4% for the financial system as a whole. Nevertheless, in the year to date considerable growth of 24% (67%a.) has been recorded in this segment. As pension funds have a relatively longer investment horizon, the AFJPs are the main source of demand for this type of deposit, having increased the size of their portfolio by 2% in May, reaching a total of $ 3.18 billion (more than 70% of all time deposits made by the AFJPs and 52% of the total of such adjusted

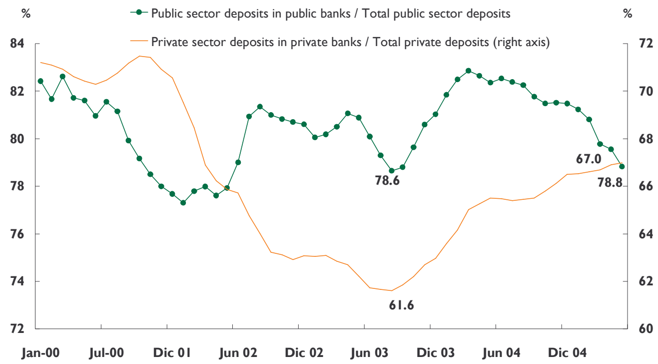
[3] Adjusted according to the changes recorded in CPI.

Chart 10
Deposits by type
Financial System



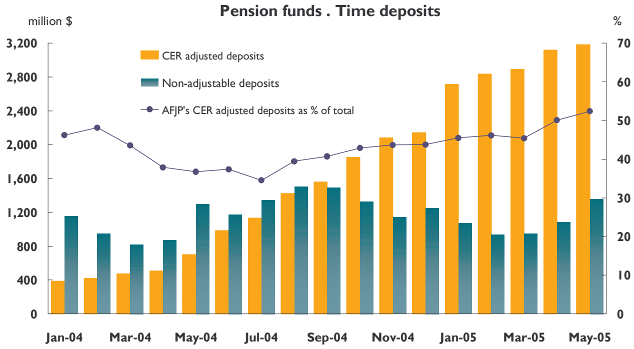
Source: BCRA

Chart 11
Deposits by sector and type of institutions
3-month moving average



Source: BCRA

Chart 12
Pension funds . Time deposits



Note: Non-adjustable deposits include those from Nación AFJP classified as "Investments in regional economies"
Source: BCRA from Superintendencia de Administradoras de Fondos de Jubilaciones y Pensiones data

deposits held by the private sector in the financial system (see Chart 12).

In May, loans to the private sector[4] continued to increase, growing 1.7% (22%a.). **In 2005 to date, the financial system has accumulated an annualized increase of 30% in the balance of its loans to this sector** (see Table 2). Private banks accounted for 74% of the total increase in the balance of loans to the private sector by the financial system as a whole. Nevertheless, public banks were responsible for almost half the increase for the month in specific lines, such as notes discounted and personal loans. If the behavior of the balance of loans to the private sector is viewed in annual terms, it can be seen that the growth pattern for private and public banks is very similar, despite the fact that in the case of the first of these groups, the surge in deposits took place earlier. In particular, the gap between the growth rates of the two groups of banks narrowed considerably in recent months (see Chart 13). Furthermore, participation by private banks in the loan market has not recorded significant change, remaining at around 70%.

Analysis of performance according to the type of loan shows that in absolute terms there was a balanced increase by commercial and consumer lending. Based on a lower initial balance, this resulted in a relatively larger variation for household loans (4.1% against 2.8% in the case of commercial loans). Within this loan segment, personal loans maintained their rate of growth in May, with an increase of 4.5% for the financial system as a whole[5]. The personal loans line is one of the forms of lending that has shown greatest growth during the year, reflecting the combined effect of various factors: the efforts made by banks (both public and private) to take a position in this segment, regulatory changes by the Central Bank to encourage the granting of low-value loans, and the gradual recovery of wage levels. In addition, after recording a weak performance in April, credit card financing recovered again this month. Driven by actions by private banks, the balance of such loans for the financial system as a whole rose 3.5%.

The growth recorded by commercial lending in May was partly due to the greater need for liquidity by the business sector in advance of the tax due dates during that month. The promissory notes segment was particularly active, with a rise of 4% (60%a.) for the financial system as a whole. There was active participation by both private and public banks, so that the balance for the financial system aggregate recorded the largest increase for the year for this line. Overdrafts also maintained their upward trend, although at a more moderate level of 1.6% (21%a.). More than half this increase was explained by foreign currency overdrafts granted by private banks. Lastly, export pre-finance and finance lending showed signs of slowing in May, increasing by 0.5% (6%a.).

Collateralized lending declined slightly in May (with a variation of -0.6% or -7%a.), although when corrected for the transfer of mortgage

[4] Calculations are based on financial statement balances. Loans in foreign currency are stated in pesos (if the balances for several months are considered, an average exchange rate is used). Interest and adjustments are excluded. No adjustment is made for unrecoverable loans written off from the balance sheet.
[5] The monthly variation in this type of loan is even greater (7%) if account is taken of the transfer of loans to trusts.

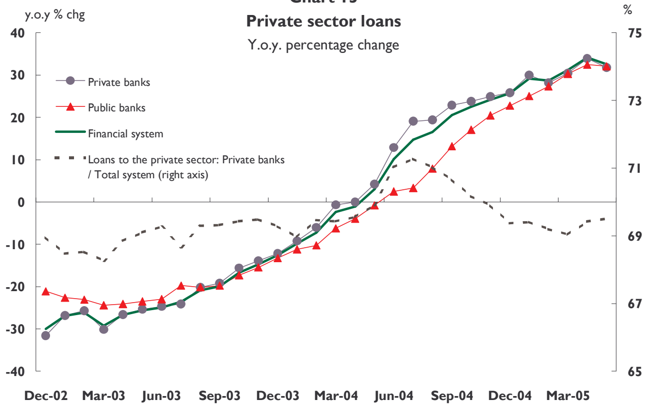
Table 2
Loans to the private sector by group of banks

% change based on balance sheet totals

	H2 04	2005	May-05	Share of total 2005
Public banks				
Total loans	**41**	**28**	**16**	**28**
Commercial	69	55	62	22
Consumer	177	81	56	29
Collateralized	4	0	-13	42
Other	1	-23	-54	22
Private banks				
Total loans	**24**	**31**	**24**	**69**
Commercial	24	42	32	78
Consumer	42	47	53	64
Collateralized	3	3	-5	56
Other	41	19	6	78
Total system				
Total loans	**30**	**30**	**22**	**100**
Commercial	32	45	39	100
Consumer	70	59	62	100
Collateralized	5	4	-7	100
Other	33	2	-20	100

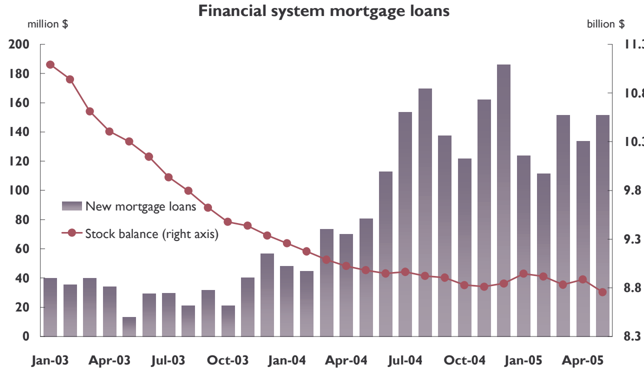
Does not include accrued interest or CER/CVS adjustments.
Balance sheet totals not adjusted by transfers between loan portfolios and trust funds or by loans written off balance sheets.
The private bank group includes financial institutions currently undergoing a restructuring process and under administration of a national public bank.
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.
Consumer loans include credit card and personal loans.
Collateralized loans include pledge-backed loans and mortgages.
Source: BCRA

Chart 13
Private sector loans
Y.o.y. percentage change



Source: BCRA

Chart 14
Financial system mortgage loans



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

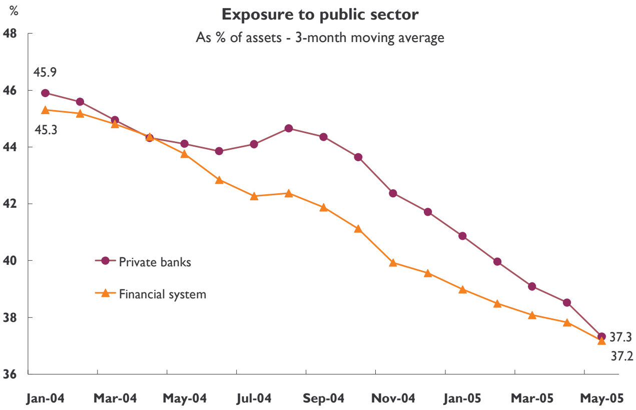
loans to trusts, the variation becomes a positive 0.4% (5%a.). The performance by this segment once again reflects the disparate behavior of pledge-backed loans and mortgage lending. The balance of pledge-backed loans maintained its strong positive trend, in line with the recovery seen in the automobile industry: in May this line increased 3.5% (51%a.). However, this positive effect was offset by the drop for the month in the balance of mortgage loans. With repayments exceeding new loan totals, the overall balance dropped 1.5%, although if corrected for the effect of transfers to trusts, the decline is reduced to -0.3% (-3.1%a.). It should be noted that new mortgage lending by the financial system as a whole has been significant in the last three months (close to $150 million per month, almost twice the amount lent in the same period of 2004) following a seasonal decline in January and February (see Chart 14).

While the balance of lending to the private sector continued to record growth, **in May the exposure of the financial system to the public sector[6] quickened its decline, dropping from 37.2% to 36.1% of total assets**, almost 3.5 p.p. below the level recorded at the end of 2004 (see Chart 15, showing a moving quarterly average). This change was led by the private bank segment, which recorded a 2.3 p.p. reduction for the month in its exposure (to 35.7% of assets, 5 p.p. less than the level at the end of the previous year). This change was largely caused by the definition arrived at on the matter of the compensation to be received by a number of private banks (the balance of such compensation recorded on the books but yet to be received fell by 19% during the month). As the compensation is payable in bonds that have already amortized part of their principal, the completion of the transaction involved a partial payment in cash, which was translated into a lower exposure to the public sector. The action by certain banks that continued to dispose of their public sector assets, in line with policies for lowering exposure to the sector, also contributed, enabling a more comfortable compliance with regulations and better prospects for improving their credit rating.

The decline in exposure to the public sector was also reflected in a fall in foreign currency assets, as much of the compensation receivable corresponded to government securities in dollars. A similar effect took place with the gradual booking of the effects of the sovereign debt exchange. There was also a drop in foreign currency liabilities, however, from the settlement of foreign credit lines and Central Bank debt in that currency[7], an activity centered on private banks and only partially offset by an increase in dollar-denominated deposits. As foreign currency liabilities declined at a greater rate than assets in that currency, there was a slight increase (almost US$ 20 million) in the amount of mismatching for the financial system aggregate. Nevertheless, in the year to date there has been a total reduction of approximately US$ 540 in this mismatching. Furthermore, in view of the increase in net worth, the mismatching ratio in relation to this

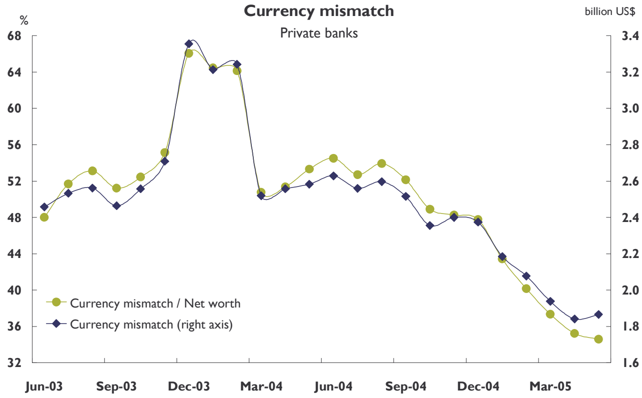
[6] Exposure to the public sector includes balances of government securities, loans to the public sector and compensation to be received from the public sector.
[7] This was a specific instance involving one bank which, as the calculation of the compensation to be received was corrected (changing from compensation in dollars to compensation in pesos), had to return part of the compensation it had already received in Boden 2012, as a result of which it booked a debt in foreign currency with the Central Bank that was settled in May.

Chart 15
Exposure to public sector
As % of assets - 3-month moving average



Source: BCRA

Chart 16
Currency mismatch
Private banks



Source: BCRA

Table 3
Estimated sources and uses of funds
Private banks - May 2005
million pesos

Source		Uses	
Loans to the public sector	1,380	LEBAC and NOBAC stocks[5]	1,135
Private sector deposits[4]	1,370	Liquid assets[2]	1,050
Public sector deposits	550	Loans to non-financial private sector[1]	760
Other	225	BCRA rediscounts	330
		O.B and S.D and foreign lines of credit[6]	140
		CEDRO[3]	110

(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
(3) Includes the difference between the deposit repayments by banks using the market exchange rate and their balance sheet value (converted at a 1.40 $/US$ rate plus CER)
(4) Excluding CEDRO.
(5) Net of repos
(6) Outstanding bonds and Subordinated debt.
Source: BCRA

variable fell slightly in May to 33.3% for the system as a whole and to 34.6% for private banks (see Chart 16).

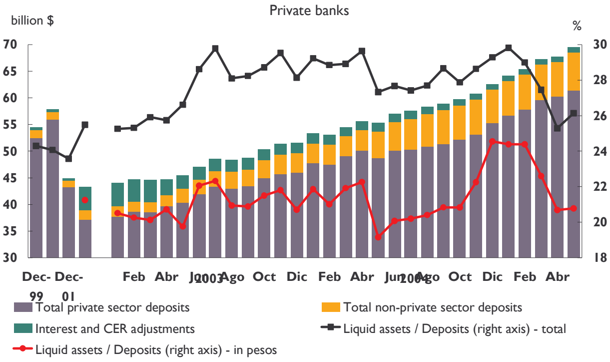
The significance of the reduction in May of private bank exposure to the public sector is evident from analysis of the flow of funds for the month (see Table 3). **The reduction in lending to the public sector** (in terms of the aggregate for loans, government securities and compensation receivable) **has been the main source of funds, for close to $1.4 billion, this being the largest monthly reduction in exposure to the public sector during 2004 and in 2005 to date.** This mainly reflects the indicated progress in settlement of outstanding compensation (already recorded on the books) by several private banks. The delivery of compensation to banks represents a source of funds only if made in the form of cash[8] (given the accumulated amortization of the securities to be received by the banks). The increase in deposits was another significant source of funds for private banks during the month. **This growth in private sector deposits[9] meant fresh funds for almost $1.4 billion. Public sector deposits provided additional resources for close to $550 million** (the largest increase in official sector deposits in private banks recorded in 2005 to date).

One of the main uses of the funds obtained in May was to increase holdings of assets issued by the Central Bank (LEBAC and NOBAC) and the holding of liquid assets. These two headings each accounted for some $1.1 billion. In the case of liquid assets (cash, cash reserve compliance and repos), private banks recorded a change in their behavior compared with previous months, when shrinking liquidity had represented a significant source of resources. **The increased holding of liquid assets this month meant that the liquidity indicator for these banks rose** (see Chart 17). The ratio for liquid assets (including Central Bank repos) to deposits went up from 25.3% to 26.1% in May. For the system as a whole, the liquidity ratio remained at around 27%.

Increased lending to the private sector was another of the principal uses for the funds gained. **In May, $760 million (55% of the private sector deposits obtained) was used by those banks to enter into new credit transactions.** This amount is slightly above the average monthly amount applied to that purpose during the first four months of the year (close to $680 million) and is notably higher than the average in 2004 (just under $540 per month), a sign of a steady recovery in traditional financial intermediation. Another of the uses that has made it possible to reduce the distortion in bank balance sheets resulting from the recent crisis has been the settlement of debt in the form of Central Bank advances and rediscounts (see Chart 18), which this month totaled $330 million for private banks. In this case, in addition to the payment of scheduled installments under the matching mechanism, transactions took place for the bringing forward of installments (with one bank repaying all its installments) and early settlement. As a result, there are only 12 banks with debt due to the

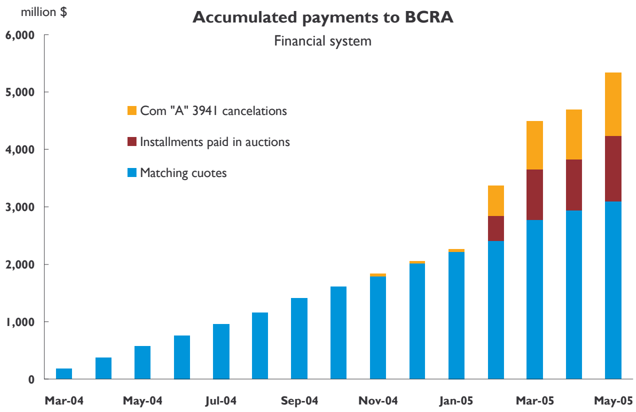
[8] In the context of analysis of the sources and uses of funds, the receipt of government securities represents a mere reclassification of items, and is therefore not reflected as a cash flow. The portion of the compensation received in cash reflects the amortization of public sector assets and is a genuine reduction in the balance of credit granted to that sector.
[9] Excluding CEDRO.

Chart 17
Deposits and liquidity
Private banks



Note: Liquid assets include repo with the BCRA
Source: BCRA

Chart 18
Accumulated payments to BCRA
Financial system



Source: BCRA

Chart 19
Capital contributions
2002-2005

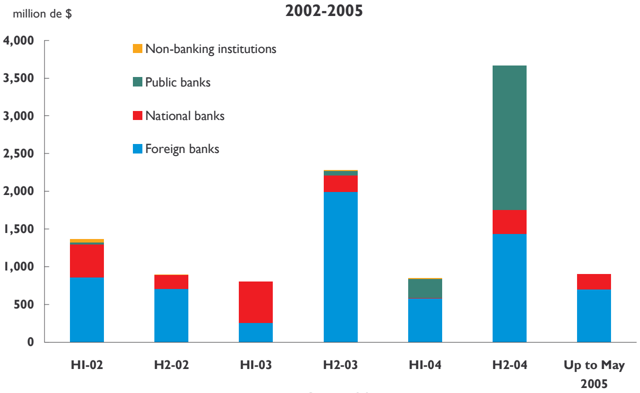
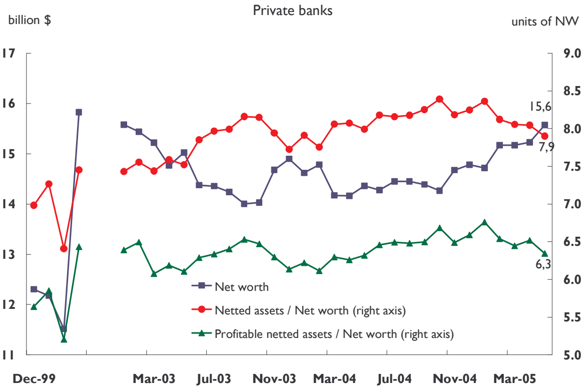


Chart 20
Netted assets and net worth
Private banks



Source: BCRA

Central Bank (excluding the banks that brought forward the full amount of their installments). Lastly, less significant amounts were used to settle bond issues, subordinated debt, and credit lines from abroad ($140 million), while close to $110 million was applied to the settlement of CEDRO.

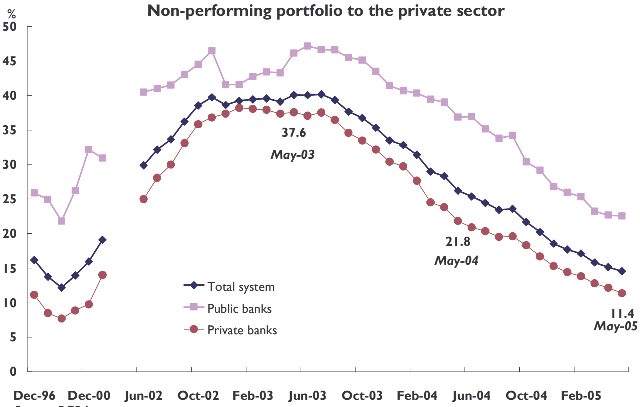
Financial system solvency continued to show signs of recovery in May, with a rise of 2% in net worth. In addition to reflecting the profits for the month, this increase shows the effect of **the capitalization carried out by one private bank, leading to an increase in the overall net worth of private banks of 2.2% in May.** This capital contribution (a capitalization of head office debt for $300 million) **took the total capitalization of the financial system for the year to approximately $900 million** (see Chart 19).

Given the increase in private bank net worth, its leverage ratio (netted assets over net worth) fell slightly in May, although it remained at a level of 8 times net worth (see Chart 20). In addition, **the capital compliance ratio for private banks continued to improve, reaching 16% of risk-weighted assets** (0.8 p.p. above its level at the end of the previous year). **The total capital position of these banks rose slightly in May to 161.5% of the requirement**, reflecting the impact of the increase in adjusted stockholders' equity. A similar movement took place in the case of the financial system as a whole, with compliance amounting to 14.2% of weighted assets, and a position that was almost 8 p.p. higher at 168% of the total capital requirement.

Portfolio quality:
Two years of steady improvement

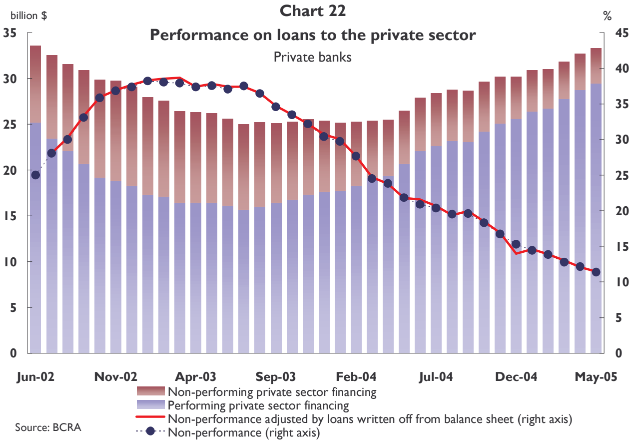
The quality of the private sector loan portfolio continued to evolve favorably in May, in line with the steady improvement that began in mid-2003 (see Chart 21). **The non-performance indicator for the financial system as a whole recorded a drop of 0.9 p.p. for the month, to a level of 14.3% of loans to the private non-financial sector, only slightly above the level at the end of 1999. In the case of private banks alone, the drop in May was 0.8 p.p., with a non-performance level of 11.4%.** As a result, in 2005 to date there has been a reduction of almost 4 p.p. in the private bank non-performance indicator and for the system as a whole, so that it has fallen to almost half the level recorded twelve months earlier. This gradual approach to the minimum levels recorded before the crisis (and to standard levels for emerging economies in this area), is basically an indication of the improved prospects for the recovery of the new loans granted. In addition, it reveals the continued improvement of the quality of the portfolio of loans granted before the recent crisis by means of restructuring, and to a lesser extent, transfers to memorandum accounts of the portion of portfolios considered to be unrecoverable. It also reflects the changes that have been made to regulations on the classification of debtors so that it is consistent with the new macroeconomic environment, so that the evaluation of debtors is made on the basis of future repayment potential.

Chart 21
Non-performing portfolio to the private sector



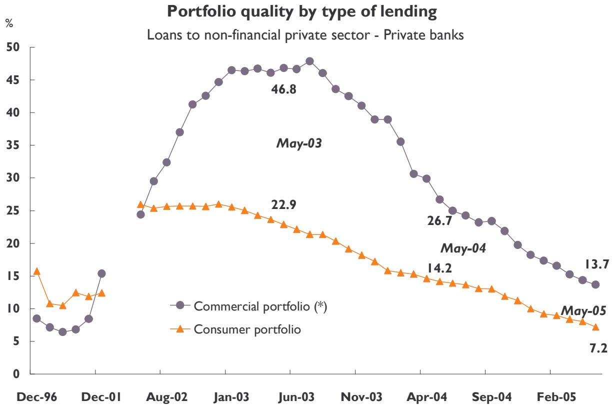
Source: BCRA

Chart 22
Performance on loans to the private sector
Private banks



Source: BCRA

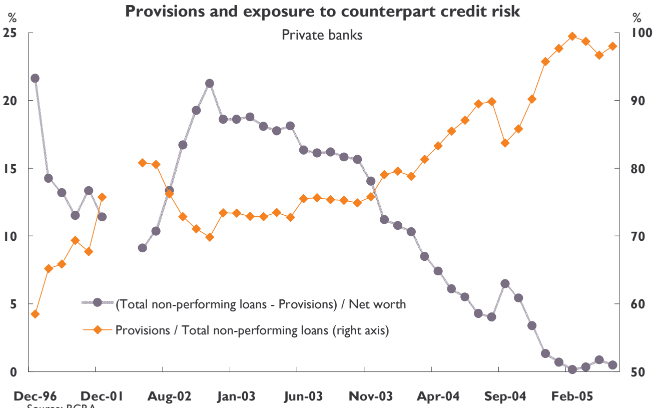
Chart 23
Portfolio quality by type of lending
Loans to non-financial private sector - Private banks



Source: BCRA

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

Chart 24
Provisions and exposure to counterpart credit risk
Private banks



Source: BCRA

The drop in non-performance indicators for private banks was explained this month by the combined effect of two factors. In the first place, **there has been steady growth in the portfolio of loans to the private sector**, so that new loans granted in a more favorable context have acquired a greater weighting, with a lower implicit credit risk. In addition, **there has been a steady drop in the amount of lending classified as non-performing** (see Chart 22), as a result of the intensive reclassification, restructuring or corporate liabilities and transfers to memorandum accounts. The influence of these factors has meant that the drop in non-performing loans was widespread among banks, with most private banks succeeding in reducing their non-performance indicators in May.

The reduction in non-performance by loans granted by private banks this month was evident in both the commercial loan portfolio and consumer loans. **In the case of the commercial portfolio, the drop was 0.7 p.p., to a non-performing level of 13.7% (4.5 p.p. below its level at the end of 2004)**. This level is still above those prevalent prior to the crisis, so that the commercial loan portfolio still has margin for improvement in coming months. In the case of the consumer portfolio, the drop in non-performance for the month was 0.8 p.p. for private banks, ensuring that the indicators were below those recorded in the past decade (see Chart 23). **Current non-performance in the consumer loan segment is around 7% for private banks, almost 3 p.p. below the level at the end of 2004 and the lowest levels reached prior to the crisis**.

The balance of loan loss provisions on private bank balances fell in May, in line with the drop in the amounts in a non-performing condition. Nevertheless, **this drop was proportionately lower than that shown by the overall non-performing portfolio, so that the indicator of coverage by provisions recorded a slight increase in the case of private banks, rising from 97% to 98%** (see Chart 24). This level is notably higher than that which existed prior to the crisis (around 70%). The change recorded in May was reflected in a drop in the exposure of net worth to credit risk. **The total for the non-performing portfolio not covered by provisions is equivalent to only 0.5% of private bank net worth**, which means that any possible losses in excess of those expected would have a limited impact on the net worth of these banks.

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" 4343 – 02 May 05

Bonds issued in accordance with the terms laid down by Decree 1735/04 (formally laying down the debt exchange proposal) received in the context of the restructuring of Argentine debt, in exchange for eligible debt issued prior to March 31, 2003, are subject to the regulations concerning excesses of limits in relation to operations with the public sector, which are not considered to be non-compliance as long as they have originated in transactions that existed at March 31, 2003.

In a similar manner, the amounts applied to the primary subscription of government debt securities with an advance of at least 180 calendar days of the due date for amortization or partial or total payment of public sector liabilities, as well as the subsequent application of those funds derived from amortization servicing or principal payments within 180 calendar days of their maturity, shall be subject to the same treatment and will not be considered to be non compliance, if appropriate considering the effect of the application of CER or the modification of the equivalent in pesos if foreign currency transactions are involved.

Communication "A" 4350 – 12 May 05

Net global position in foreign currency. As from May 1, 2005 the enforcement of the positive limit on the position has been suspended (30% of adjusted stockholders' equity or own liquid resources, whichever is lower) and the additional short-term limit. It is also clarified that assets deductible in determining the adjusted stockholders' equity are excluded from the ratio, and that the charges not paid in due time and manner are subject to the rate laid down for excesses, increased by 50%.

Communication "A" 4351 – 18 May 05

Financial institutions holding National Government securities and other debt instruments that, although eligible, were not submitted for exchange (Decree 1735/04) must set up an impairment allowance for 100% of their book value.

Communication "A" 4352 – 18 May 05

Setting up of premises for the providing of certain services. Activities authorized to be provided on such premises include the opening and operation of savings accounts, and the placing, renewal and settlement of time deposits. Such activities are to be provided exclusively to the beneficiaries of the social security benefits who receive their payments at the premises in question.

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 99	Dec 00	Dec 01	Dec 02	Dec 03	May 04	Dec 04	Apr 05	May 05	Change (%)		
										Month on month	Accum. 2005	Year on year
Assets	**153,140**	**163,550**	**123,743**	**187,532**	**186,873**	**189,839**	**212,562**	**218,080**	**219,692**	**0.7**	**3.4**	**15.7**
Liquid assets[1]	20,423	20,278	13,005	17,138	27,575	31,668	29,154	26,622	27,888	4.8	-4.3	-11.9
Public bonds	8,531	10,474	3,694	31,418	45,062	44,175	55,382	57,694	58,997	2.3	6.5	33.6
Private bonds	477	633	543	332	198	199	387	386	430	11.3	11.0	115.9
Loans	83,850	83,277	77,351	84,792	68,042	71,584	73,617	77,008	77,744	1.0	5.6	8.6
Public sector	12,138	15,164	22,694	44,337	33,228	34,697	30,866	30,235	30,362	0.4	-1.6	-12.5
Private sector	67,934	64,464	52,039	38,470	33,398	35,122	41,054	44,706	45,335	1.4	10.4	29.1
Financial sector	3,778	3,649	2,617	1,985	1,417	1,764	1,697	2,067	2,048	-0.9	20.7	16.1
Provisions over loans	-6,001	-6,907	-6,987	-11,952	-9,374	-8,395	-7,500	-7,003	-6,843	-2.3	-8.8	-18.5
Other netted credits due to financial intermediation	33,679	42,361	21,485	39,089	27,030	23,385	32,554	34,751	33,193	-4.5	2.0	41.9
Corporate bonds and subordinated debt	1,115	794	751	1,708	1,569	1,186	1,018	813	807	-0.8	-20.7	-31.9
Unquoted trusts	1,336	2,053	2,065	6,698	4,133	3,893	3,145	2,973	3,064	3.1	-2.6	-21.3
Compensation receivable	0	0	0	17,111	14,937	14,662	15,467	14,862	12,032	-19.0	-22.2	-17.9
BCRA	81	141	84	3,360	650	761	376	368	379	3.0	0.7	-50.2
Other	31,146	39,373	18,585	10,212	5,741	2,883	12,547	15,735	16,910	7.5	34.8	486.6
Assets under financial leases	814	786	771	567	397	424	611	770	800	3.9	31.0	88.6
Shares and participation	1,838	2,645	2,688	4,653	4,591	3,362	3,871	3,942	3,959	0.4	2.3	17.8
Fixed assets and sundry	4,973	4,939	4,804	8,636	8,164	8,062	7,782	7,693	7,671	-0.3	-1.4	-4.8
Foreign branches	996	1,115	1,057	3,522	3,144	3,231	3,524	3,434	3,421	-0.4	-2.9	5.9
Other assets	3,560	3,950	5,334	9,338	12,043	12,145	13,180	12,783	12,433	-2.7	-5.7	2.4
Liabilities	**136,252**	**146,267**	**107,261**	**161,446**	**164,923**	**168,666**	**188,683**	**193,550**	**194,714**	**0.6**	**3.2**	**15.4**
Deposits	81,572	86,506	66,458	75,001	94,635	105,618	116,655	123,668	125,760	1.7	7.8	19.1
Public sector [2]	7,232	7,204	950	8,381	16,040	26,790	31,649	31,494	31,839	1.1	0.6	18.8
Private sector [2]	73,443	78,397	43,270	59,698	74,951	76,202	83,000	89,968	91,817	2.1	10.6	20.5
Current account	6,478	6,438	7,158	11,462	15,071	16,810	18,219	19,569	20,384	4.2	11.9	21.3
Savings account	13,047	13,008	14,757	10,523	16,809	19,699	23,866	25,357	25,484	0.5	6.8	29.4
Time deposit	48,915	53,915	18,012	19,080	33,285	30,498	34,944	39,385	40,228	2.1	15.1	31.9
CEDRO	0	0	0	12,328	3,217	2,246	1,046	613	505	-17.6	-51.7	-77.5
Other netted liabilities due to financial intermediation	50,361	55,297	36,019	75,737	61,690	59,031	64,928	63,587	62,868	-1.1	-3.2	6.5
Call money	3,793	3,545	2,550	1,649	1,317	1,509	1,461	1,803	1,879	4.2	28.6	24.5
BCRA lines	315	102	4,470	27,837	27,491	26,875	27,726	25,697	23,886	-7.0	-13.8	-11.1
Outstanding bonds	5,087	4,954	3,777	9,096	6,675	8,097	7,922	6,258	6,128	-2.1	-22.6	-24.3
Foreign lines of credit	10,279	8,813	7,927	25,199	15,196	10,807	8,884	7,773	6,723	-13.5	-24.3	-37.8
Other	30,886	37,883	17,295	11,955	11,012	11,742	18,934	22,057	24,251	10.0	28.1	106.5
Subordinated debts	2,206	2,255	2,260	3,712	2,028	2,080	1,415	1,349	1,324	-1.9	-6.4	-36.3
Other liabilities	2,113	2,210	2,524	6,997	6,569	6,413	5,685	4,945	4,761	-3.7	-16.3	-25.8
Net worth	**16,888**	**17,283**	**16,483**	**26,086**	**21,950**	**21,173**	**23,879**	**24,530**	**24,978**	**1.8**	**4.6**	**18.0**
Memo												
Netted assets	126,432	129,815	110,275	185,356	184,371	189,839	202,447	204,668	205,066	0.2	1.3	8.0
Consolidated netted assets	122,270	125,093	106,576	181,253	181,077	186,199	198,462	200,258	200,631	0.2	1.1	7.8

(1) Includes margin accounts with the BCRA

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

Source: BCRA

Statistics: Financial System

Profitability structure

In annualized terms

As % of	Annual						First 5 months		Monthly			Last
netted assets	1999	2000	2001	2002	2003	2004	2004	2005	Mar-05	Apr-05	May-05	6 months
Financial margin	5.6	5.7	5.7	6.5	1.1	3.1	3.0	3.8	3.4	5.2	3.7	3.7
Net interest income	4.3	4.0	3.8	-1.7	-0.5	0.9	0.6	1.2	1.3	1.2	1.6	1.2
Restatement by CER and CVS	0.0	0.0	0.0	3.9	1.3	1.0	0.9	1.7	1.8	2.2	1.7	1.5
Foreign exchange price adjustments	0.9	1.2	1.2	1.7	1.1	0.4	0.6	0.0	0.1	0.2	-0.2	0.0
Gains on securities	0.2	0.1	0.2	2.8	-0.5	0.9	1.1	0.9	0.1	1.4	0.5	1.0
Other financial income	0.2	0.4	0.5	-0.1	-0.3	-0.2	-0.2	0.1	0.1	0.1	0.1	0.0
Service income margin	2.9	2.8	3.0	1.9	1.9	2.0	2.0	2.2	2.2	2.2	2.3	2.2
Loan loss provisions	-2.1	-2.4	-2.6	-4.7	-1.1	-0.7	-0.7	-0.6	-0.4	-0.6	-0.8	-0.9
Operating costs	-5.9	-5.8	-6.1	-4.4	-4.2	-4.2	-4.1	-4.2	-4.4	-4.2	-4.5	-4.3
Tax charges	-0.4	-0.4	-0.5	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Income tax	-0.3	-0.3	-0.2	-0.2	-0.2	-0.1	-0.3	-0.2	-0.3	-0.4	0.0	-0.2
Adjustments to the valuation of government securities (*)	0.0	0.0	0.0	0.0	-0.4	-0.2	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1
Amortization payments for court-ordered releases	0.0	0.0	0.0	0.0	-0.6	-0.9	-0.8	-0.9	-0.9	-1.2	-1.0	-0.9
Other	0.5	0.4	0.6	-1.8	0.9	0.8	0.5	0.7	-0.1	0.4	1.3	0.9
Monetary results	0.0	0.0	0.0	-5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA before income tax	0.6	0.4	0.2	-8.7	-2.7	-0.3	-0.8	0.5	-0.7	1.3	0.6	0.3
ROA before monetary results	0.2	0.0	0.0	-3.1	-2.9	-0.5	-1.1	0.3	-0.9	0.8	0.6	0.1
ROA	**0.2**	**0.0**	**0.0**	**-8.9**	**-2.9**	**-0.5**	**-1.1**	**0.3**	**-0.9**	**0.8**	**0.6**	**0.1**
ROA adjusted (**)	0.2	0.0	0.0	-8.9	-1.9	0.7	0.3	1.4	0.1	2.2	1.7	1.1
Indicators (%)												
ROE	**1.7**	**0.0**	**-0.2**	**-59.2**	**-22.7**	**-4.2**	**-10.0**	**2.4**	**-7.6**	**7.0**	**5.0**	**0.8**
Financial margin + service income margin / Operating costs	142.5	147.4	143.3	189.1	69.3	122.9	119.0	142.7	127.6	176.5	133.0	136.6
Interest income (with CER and CVS) / loans	..	13.0	15.2	11.8	13.1	10.3	10.3	13.1	14.0	14.1	13.9	12.6
Interest payments (with CER and CVS) / deposits	..	5.3	7.3	9.2	5.7	1.8	1.9	2.3	2.4	2.6	2.1	2.2

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

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

(**) 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	May 04	Dec 04	Mar 05	Apr 05	May 05
Non-performing loans (overall)([1])	11.5	12.9	13.1	18.1	17.7	13.7	10.7	9.3	9.1	8.6
Non-performing loans to the non-financial private sector	14.0	16.0	19.1	38.6	33.5	26.2	18.6	15.8	15.2	14.3
Commercial portfolio ([2])	12.1	14.9	20.7	44.0	38.0	30.0	22.8	19.5	18.7	17.8
Consumption and housing portfolio	16.6	17.3	17.5	31.4	28.0	20.9	11.0	9.6	9.1	8.4
Provisions / Total non-performing loans	59.6	61.1	66.4	73.8	79.2	89.2	102.9	105.0	106.2	109.1
(Total non-performing - Provisions) / Overall financing	4.7	5.0	4.4	4.7	3.7	1.5	-0.3	-0.5	-0.6	-0.8
(Total non-performing - Provisions) / Net worth	24.7	26.2	21.6	17.2	11.9	5.2	-1.0	-1.5	-1.8	-2.5

([1]) As a percentage of each lending category.

([2]) Include commercial loans treated as consumer loans for classification purposes.

Source: BCRA

Statistics: Private Banks

Balance Sheet

In current pesos (millions)	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	May 04	Dec 04	Apr 05	May 05	Change (%) Month on month	Change (%) Accum. 2005	Change (%) Year on year
Assets	**108,778**	**119,371**	**82,344**	**118,906**	**116,633**	**114,767**	**128,065**	**130,588**	**132,886**	**1.8**	**3.8**	**15.8**
Liquid assets[1]	13,228	13,920	10,576	11,044	14,500	14,909	15,893	14,969	16,029	7.1	0.9	7.5
Public bonds	6,433	7,583	1,627	19,751	22,260	19,444	24,817	24,979	26,469	6.0	6.7	36.1
Private bonds	410	563	451	273	172	188	333	312	356	13.9	7.0	88.8
Loans	56,916	56,035	52,319	51,774	47,017	50,188	50,741	52,737	53,340	1.1	5.1	6.3
Public sector	6,389	8,172	13,803	25,056	23,571	25,058	21,420	20,667	20,777	0.5	-3.0	-17.1
Private sector	47,705	45,103	36,636	26,074	22,816	24,199	28,213	30,731	31,245	1.7	10.7	29.1
Financial sector	2,823	2,760	1,880	644	630	931	1,107	1,339	1,318	-1.6	19.0	41.5
Provisions over loans	-3,119	-3,248	-3,957	-7,463	-5,225	-4,355	-3,717	-3,346	-3,202	-4.3	-13.9	-26.5
Other netted credits due to financial intermediation	27,330	36,600	13,037	27,212	22,148	23,329	25,753	26,673	25,934	-2.8	0.7	11.2
Corporate bonds and subordinated debt	1,022	724	665	1,514	1,394	987	829	624	616	-1.3	-25.7	-37.6
Unquoted trusts	958	1,609	1,637	6,205	3,571	3,221	2,362	2,147	2,183	1.7	-7.6	-32.2
Compensation receivable	0	0	0	15,971	13,812	13,644	14,657	14,050	11,355	-19.2	-22.5	-16.8
BCRA	12	35	865	377	415	311	311	300	312	3.8	0.2	0.3
Other	25,338	34,232	9,870	3,146	2,955	5,166	7,594	9,552	11,469	20.1	51.0	122.0
Assets under financial leases	796	776	752	553	387	415	592	751	780	3.9	31.8	88.1
Shares and participation	1,371	1,651	1,703	3,123	2,791	1,504	1,892	1,941	1,970	1.5	4.2	31.0
Fixed assets and sundry	3,246	3,225	3,150	5,198	4,902	4,873	4,678	4,633	4,621	-0.3	-1.2	-5.2
Foreign branches	48	75	112	-109	-136	-66	-53	-75	-73	-3.1	38.4	10.5
Other assets	2,120	2,190	2,574	7,549	7,816	7,924	7,137	7,012	6,662	-5.0	-6.7	-15.9
Liabilities	**96,474**	**107,193**	**70,829**	**103,079**	**101,732**	**103,990**	**113,285**	**115,358**	**117,315**	**1.7**	**3.6**	**12.8**
Deposits	54,447	57,833	44,863	44,445	52,625	56,126	62,685	67,763	69,596	2.7	11.0	24.0
Public sector[2]	1,342	1,276	950	1,636	3,077	4,739	6,039	6,285	6,831	8.7	13.1	44.1
Private sector[2]	52,460	55,917	43,270	38,289	47,097	49,503	55,384	60,270	61,496	2.0	11.0	24.2
Current account	5,022	4,960	7,158	8,905	11,588	12,837	13,966	14,777	15,231	3.1	9.1	18.6
Savings account	9,702	9,409	14,757	6,309	10,547	12,553	14,842	16,024	16,010	-0.1	7.9	27.5
Time deposit	35,218	39,030	18,012	11,083	18,710	18,430	22,729	25,754	26,468	2.8	16.5	43.6
CEDRO	0	0	0	9,016	2,409	1,698	798	481	404	-16.1	-49.4	-76.2
Other netted liabilities due to financial intermediation	39,045	46,271	22,629	49,341	42,367	41,559	45,083	42,852	43,109	0.6	-4.4	3.7
Call money	2,146	2,293	1,514	836	726	1,046	1,070	1,269	1,344	5.9	25.6	28.4
BCRA lines	274	83	1,758	16,624	17,030	16,499	17,768	15,927	14,389	-9.7	-19.0	-12.8
Outstanding bonds	4,990	4,939	3,703	9,073	6,674	8,097	7,922	6,258	6,128	-2.1	-22.6	-24.3
Foreign lines of credit	6,680	5,491	4,644	15,434	9,998	6,736	5,444	4,926	4,525	-8.1	-16.9	-32.8
Other	24,954	33,466	11,010	7,374	7,939	9,181	12,878	14,472	16,723	15.6	29.9	82.1
Subordinated debts	1,683	1,668	1,700	3,622	1,850	1,906	1,304	1,240	1,226	-1.1	-6.0	-35.7
Other liabilities	1,299	1,420	1,637	5,671	4,890	4,400	4,213	3,503	3,385	-3.4	-19.7	-23.1
Net worth	**12,304**	**12,178**	**11,515**	**15,827**	**14,900**	**14,361**	**14,780**	**15,229**	**15,571**	**2.2**	**5.3**	**8.4**
Memo												
Netted assets	85,918	88,501	73,796	117,928	115,091	114,767	121,889	122,522	123,013	0.4	0.9	7.2

(1) Includes margin accounts with the BCRA

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

Source: BCRA

Statistics: Private Banks

Profitability structure

In annualized terms

As % of	Annual						First 5 months		Monthly			Last
netted assets	1999	2000	2001	2002	2003	2004	2004	2005	Mar-05	Apr-05	May-05	6 months
Financial margin	6.1	6.2	6.4	7.6	2.3	2.9	3.1	3.6	2.8	4.7	3.8	3.2
Net interest income	4.5	4.1	4.3	-0.2	0.1	1.0	0.7	1.4	1.5	1.3	1.8	1.4
Restatement by CER and CVS	0.0	0.0	0.0	1.1	0.9	0.8	1.1	1.3	1.4	1.5	1.7	1.1
Foreign exchange price adjustments	1.1	1.4	1.2	2.5	1.7	0.6	0.8	0.2	0.3	0.3	0.1	0.0
Gains on securities	0.3	0.2	0.3	4.4	-0.3	0.8	0.6	0.7	-0.4	1.4	0.1	0.6
Other financial income	0.3	0.5	0.7	-0.1	-0.2	-0.3	-0.2	0.1	0.1	0.1	0.1	0.0
Service income margin	3.1	2.9	3.2	2.0	2.0	2.4	2.3	2.5	2.5	2.5	2.7	2.5
Loan loss provisions	-2.2	-2.5	-3.0	-5.0	-1.3	-0.9	-0.8	-0.6	-0.7	-0.5	-0.5	-0.9
Operating costs	-6.3	-6.0	-6.4	-4.8	-4.6	-4.6	-4.5	-4.7	-4.9	-4.6	-5.1	-4.8
Tax charges	-0.4	-0.4	-0.5	-0.4	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.3	-0.4
Income tax	-0.5	-0.4	-0.3	-0.2	-0.3	-0.2	-0.5	-0.1	-0.3	-0.1	-0.1	-0.1
Adjustments to the valuation of government securities (*)	0.0	0.0	0.0	0.0	-0.6	0.0	-0.2	-0.1	-0.1	-0.1	0.0	0.0
Amortization payments for court-ordered releases	0.0	0.0	0.0	0.0	-0.7	-1.0	-0.9	-1.0	-1.0	-1.0	-1.0	-1.0
Other	0.5	0.4	0.7	-3.0	1.0	0.7	0.6	0.6	0.1	0.2	1.1	0.9
Monetary results	0.0	0.0	0.0	-7.5	0.0	0.0	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	-0.8	-0.8	0.0	-1.6	0.9	0.6	-0.4
ROA before monetary results	0.3	0.1	0.2	-3.8	-2.4	-1.0	-1.3	-0.1	-1.8	0.8	0.6	-0.4
ROA	**0.3**	**0.1**	**0.2**	**-11.3**	**-2.5**	**-1.0**	**-1.3**	**-0.1**	**-1.8**	**0.8**	**0.6**	**-0.4**
ROA adjusted (**)	0.3	0.1	0.2	-11.3	-1.2	0.2	0.3	0.9	-0.8	1.8	1.6	0.5
Indicators (%)												
ROE	**2.3**	**0.8**	**1.4**	**-79.0**	**-19.1**	**-8.1**	**-10.1**	**-0.6**	**-14.9**	**6.2**	**4.4**	**-3.6**
Financial margin + service income margin / Operating costs	146.0	151.9	150.9	199.3	92.6	115.0	119.7	130.1	108.5	157.1	127.8	118.7
Interest income (with CER and CVS) / loans	..	13.9	16.1	24.7	9.0	8.2	8.3	11.3	12.4	12.5	12.0	10.9
Interest payments (with CER and CVS) / deposits	..	5.7	7.8	21.9	5.8	2.2	2.2	2.8	2.9	3.2	2.6	2.7

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

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

(**) 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	May 04	Dec 04	Mar 05	Apr 05	May 05
Non-performing loans (overall)([1])	7.6	8.3	9.9	19.8	15.7	11.5	8.9	7.6	7.3	6.9
Non-performing loans to the non-financial private sector	8.9	9.8	14.0	37.4	30.4	21.8	15.3	12.8	12.2	11.4
Commercial portfolio ([2])	6.8	8.4	15.4	44.7	39.0	26.7	18.2	15.2	14.4	13.7
Consumption and housing portfolio	12.5	11.9	12.4	26.0	17.2	14.2	10.0	8.4	8.0	7.2
Provisions / Total non-performing loans	69.4	67.7	75.7	73.4	79.0	85.5	94.2	98.7	96.7	97.9
(Total non-performing - Provisions) / Overall financing	2.3	2.7	2.4	5.3	3.3	1.7	0.5	0.1	0.2	0.1
(Total non-performing - Provisions) / Net worth	11.5	13.4	11.4	18.6	11.2	6.1	1.8	0.3	0.9	0.5

([1]) As a percentage of each lending category.

([2]) Include commercial loans treated as consumer loans for classification purposes.

Source: BCRA