Report on Banks

JULY 2004

Central Bank of Argentina

Year I – No 11

Contents

Profitability 2
A month of adjustments...

Activity 5
Increase in repos with the Central Bank...

Portfolio quality 7
Sustained improvement....

Latest regulations 8

Methodology and glossary 9

Statistics 10

Note: This report contains information from July 2004 balance sheets available on 25/08/04. 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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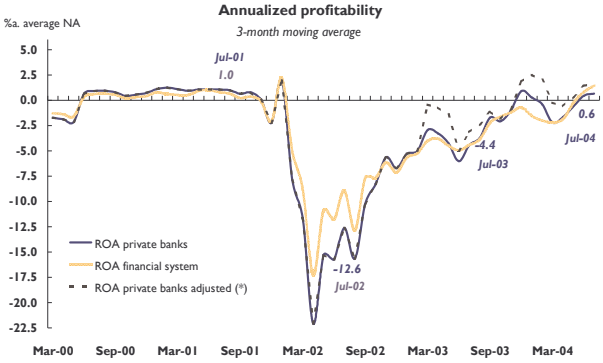
Summary

- The financial system recorded a profit of $5 million, taking total profits for the last three months to an annualized (a.) 1.5% of assets, an improvement of almost 6 percentage points compared to the same period of the previous year.
- Excluding the amortization of payments under court orders and adjustments to the valuation of public sector assets, the financial system recorded gains of approximately $800 million in the first seven months of the year (compared to an accumulated loss of $3.2 billion in the same period of the previous year). Such profitability (0.7%a. of assets) is comfortably in excess of the average recorded during 1996-2001, a clear indication that the financial system is well on the way to recovery.
- Private bank net worth (NW) rose by $170 million in July as a result of capitalization carried out mainly by foreign banks. The NW of such banks went up 0.7% year-on-year.
- Private banks continued to reduce their foreign liabilities. In the last 12 months the total decline has reached 31%. This change in the structure of liabilities contrasts with the significant increase in liabilities subject to CER adjustment (up $1.9 billion since the end of 2003), which has in turn produced a significant reduction in the interest rate mismatching of financial institutions.
- The recovery in portfolio quality continued, with a drop of 0.5 p.p. in non-performance being recorded by private banks, to a level of 20.4% of total lending. Improvement since the end of 2003 totals 10 p.p.. This change in non-performance indicators has followed the pattern of previous months – an increase in total lending and a drop in non-performing loans.
- Provisions now cover over 90% of the non-performing portfolio, and in the case of private banks the share not covered is the equivalent of only 3.6% of net worth, the best value on record for this ratio. This suggests that in the event of additional loan losses from private sector lending, the potential for any reduction in net worth has been significantly restricted.
- The level of activity continued to grow during the month. The increase in netted assets for the system (6.5%a.) has mainly been accounted for by growth in lending to the private sector. Private banks led the way, with lending to the private sector representing 23% of total assets, 3 p.p. more than at the end of 2003. These higher levels of financial intermediation were responsible for the first rise in private bank employment (for the March-June period) since September 2001.
- Private banks allocated half of the deposits taken to lending to the private sector. Collateralized loans have halted their decline (with pledge-backed loans recording 5 consecutive monthly rises), a sign that long-term credit is also beginning to return.
- Deposits were the main source of funds for private banks in July ($650 million), 50% of such funds coming from deposits made by the private non-financial sector. Time deposits adjusted by CER made the largest contribution (increasing 23% in the month and almost 300% in the year to date).
- Private bank liquid asset levels remained stable, so that given the behavior of total deposits there has been a slight decline in the liquidity ratio (to 27.4%). The deepening of the market for repos with LEBAC as the underlying asset has resulted in an increase of almost $2.66 billion in the balance of financial institutions' reverse repos with the Central Bank. Of this total increase, almost $480 million belongs to private banks.

Profitability: *a month of adjustments*

Chart 1
Annualized profitability
3-month moving average



(*) Excluding amortization payments for court-ordered releases and adjustments to the valuation of public sector assets.

Chart 2
Financial margin
3-month moving average

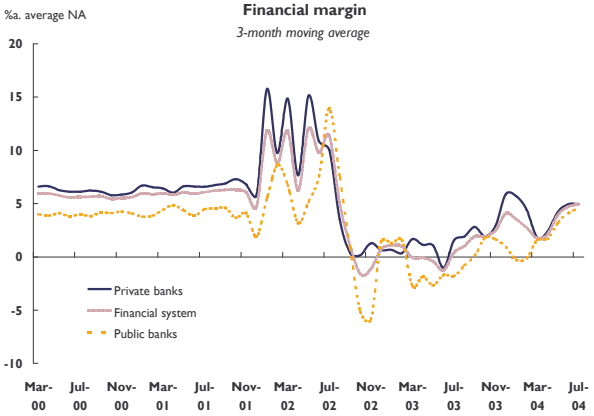
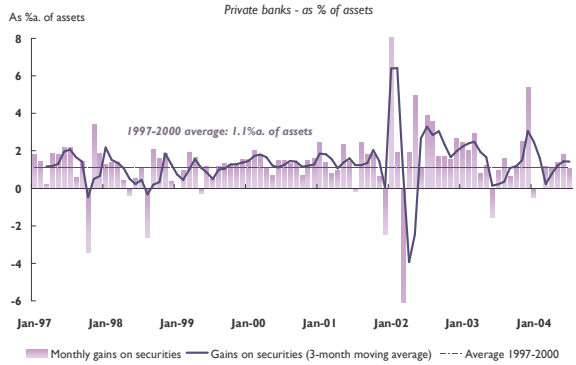


Chart 3
Annualized gains on securities
Private banks - as % of assets



The aggregate financial system recorded a slight profit of $5 million in July, with an almost nil result on an annualized (a.) basis in terms of assets, which compares favorably to the same month of the previous year (-2.3%a. of assets). **In the last three months results have been positive (1.5%a. of assets), running at a level almost 6 percentage points (p.p.) above that for the same period of 2003** (see Chart 1). A loss of $630 million (0.6%a. of assets) was recorded so far this year, although if profitability is recalculated to exclude the effects of the main non-recurring items (amortization of payments under court orders and adjustments to the valuation of public sector assets) the figure obtained is a profit of close to $800 million (0.7%a. of assets).

Private banks recorded a loss of $80 million (–0.8%a. of assets), largely explaining the decline in profitability for the system as a whole compared to the profits from a month earlier. These losses need to be placed in context, however, as they were significantly influenced by one specific institution. If that bank is excluded, **the remaining private banks accumulated a profit of $30 million** (0.3%a. of assets). **The number of private banks recording a profit has remained stable** compared to the previous month**:** out of the total of 61 private banks, 37 posted positive results on their balance sheets for July.

It should be noted that **although financial system profitability has been steadily gaining ground since the extraordinary losses recorded in 2002, this recovery has not been without a high level of volatility.** Bank balance sheets are still in the process of being corrected, as the impact from crisis-related adjustments continues. Every month there is significant activity as items are recalculated and/or reclassified, and valuation adjustments are made. These adjustments have impacted on results in the past and will continue to do so for some time. In general, the timing of such movements depends on the situation of each individual bank, therefore being difficult to forecast in aggregate terms. Given this source of remaining volatility, a clearer notion of the conditions of the banking system, including its performance and prospects, can be obtained from looking at trends (for example, by monitoring the 3-month moving average for each variable) than from the marginal month to month changes.

As mentioned above, private bank losses for July were influenced by the behavior of one large private institution that sold the government's secured loans below their book value, so as to refund compensation it had previously received in excess. Excluding this transaction, **the drop for the month in private bank results was mainly due to lower gains from securities and a fall in sundry income, as well as a decline in earnings from the restatement of items in foreign currency** (exchange rate differences), movements that were partly offset by a significant drop in loan loss provisions.

The financial margin for private banks, although lower than in the previous month, **remained 1 p.p. above the level for the first quarter of 2004, reaching 3%a. of assets** (see Chart 2, showing the quarterly

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

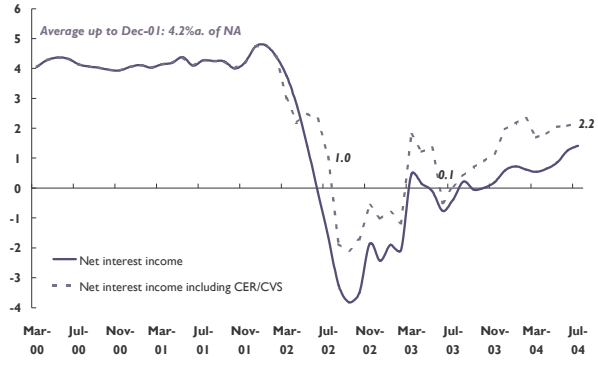


Chart 5
Loans loss provisions
Private banks - 3-month moving average

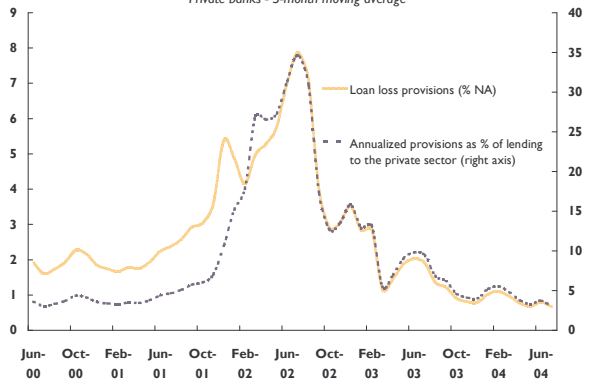
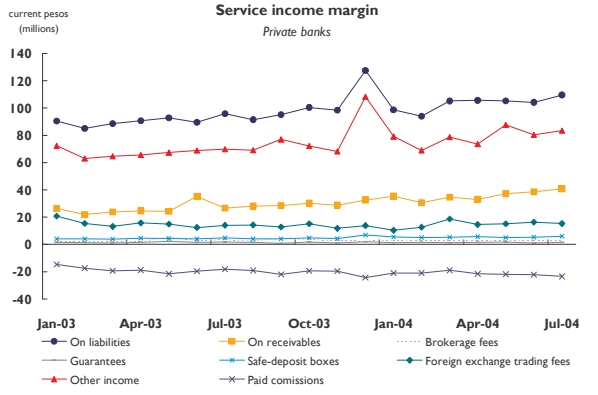


Chart 6
Service income margin
Private banks



moving average). In addition to the impact from a sale of secured loans below book values[1], the monthly decline was caused by two of the traditionally most volatile components of the income statement: exchange rate differences and gains from securities. **A smaller change in the nominal peso/dollar exchange rate over the month generated lower results from the revaluation of items in foreign currency.** Additionally, **lower income from government securities had the effect of shrinking private bank gains from the holding of securities in July**, so that they fell from 1.8%a. to 1.1%a.. This performance, fairly widespread across all private banks, took the heading closer to its historical average. Although the volatility of gains on securities is significant, its average value in terms of assets is close to 1%a. (see Chart 3). Furthermore, **the main determinant of the return on assets – total income from interest and CER adjustment – remained at 2.2%a. of assets**, 0.6 p.p. above the level recorded in the first quarter of the year (see Chart 4). Nevertheless, it should be noted that in line with the recovery in private sector lending, total interest income – led by the amount accrued on overdrafts and promissory notes – has increased by 16% in the last 3 months, leading to a rise of 0.4 p.p. in its ratio to netted assets.

Loan loss provisions, a basic component of the cost structure of private banks with a direct impact on financial margins, **recorded a significant fall in July (0.9 p.p.), to their lowest level in 2004: 0.2%a. of assets**. The quarterly moving average for these provisions is displayed in Chart 5, showing that current levels are similar to those before the crisis and far from the peaks reached in mid-2002.

Income from services, together with the interest rate margin, form the core of banking income. **Net income from this heading – which groups several fees and commissions – again recorded a slight increase in the case of private banks, ending at a level of 2.2%a. of assets**. For private banks, the monthly average for this income heading over the past three months was almost $231 million, whereas in the same quarter of the previous year average income was $194 million, a year-on-year (y.o.y.) increase of close to 20%. **This performance is explained by an increase in commissions on liabilities** (deposit-related transactions, current account movements, collections, etc.), **on loans as well as "others"**, and by less significant growth in income from the rental of safe-deposit boxes (see Chart 6). The trend in net income from services is consistent with the efforts that banks have been making to strengthen their transactional banking and insurance businesses, partially compensating for the deterioration in the profit margin on traditional intermediation activities.

Private bank operating costs, the main component of their cost structure, reversed the seasonal rise that took place in the middle of the year, dropping 0.2 p.p. to a level of 4.5%a. of assets. Viewed over the medium term, there are continued indications of a gradual increase in efficiency. At 4.5%a. as a percentage of assets, the quarterly moving average in July was 0.3 p.p. lower y.o.y. (see Chart 7). Private bank employment has fallen by 17% over the past 24 months, as banks sought to adapt their structures to the new size of the intermediation business. Nevertheless, this adjustment has been

[1] Booked as a charge for the loss of value of loans, a heading that here is included under "other financial results".

Chart 7
Operating costs
P rivate banks - 3-month moving average (annualized)

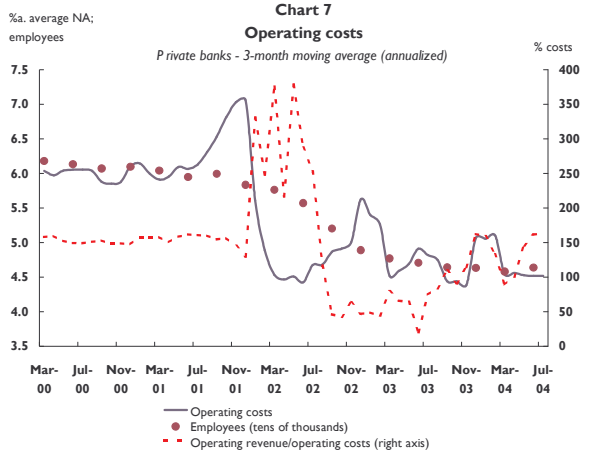


Chart 8
Netted assets and net worth
Private banks

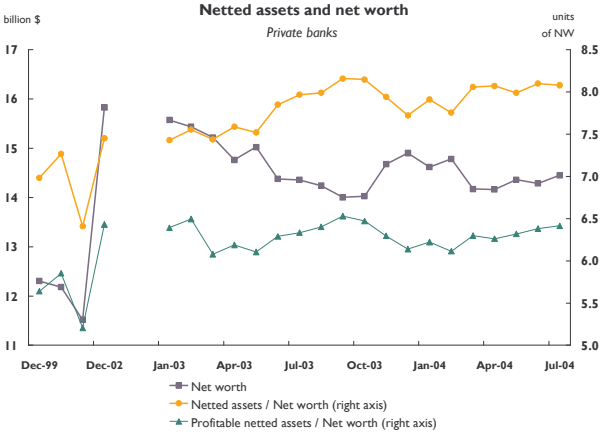


Table 1
Main developments in August

	Jul	Aug	Chg. %
Prices			
Exchange rate ($/US$)[1]	2.98	3.00	0.82
CPI	148.00	148.51	0.34
CER[1]	150.72	151.44	0.48
	%		Chg. (p.p.)
Average percentage rates			
Lending			
Private banks			
Overdraft	10.5	12.5	2.0
Promissory notes	8.9	9.1	0.2
Mortgage	10.1	10.4	0.3
Pledge-backed	12.5	12.4	0.0
Personal	32.5	30.9	-1.5
Public banks			
Overdraft	16.9	16.6	-0.3
Promissory notes	11.4	9.9	-1.5
Mortgage	8.2	8.4	0.2
Pledge-backed	13.6	14.2	0.6
Personal	14.9	13.7	-1.2
30- to 44-day time deposit	3.0	3.7	0.7
6-month LEBAC in pesos, w/o CER	6.9	6.9	0.0
	million $		Chg. %
Balance[1] - Private banks			
Peso deposits - Private sector	45,089	45,621	1.2
Sight deposits	25,274	25,299	0.1
Time deposits	17,699	18,372	3.8
Peso loans - Private sector	21,538	22,032	2.3
Overdraft	5,346	5,736	7.3
Promissory notes	4,000	4,085	2.1
Mortgage	5,302	5,276	-0.5
Pledge-backed	606	656	8.3
Personal	1,777	1,845	3.8

(1) End of month figure.

decelerating: in the last 12 months the adjustment was barely 1%, and in the second quarter of 2004 a sub-group of banks increased its payroll, leading to a slight increase in private bank employment figures between March and June 2004 (for the first time since September 2001). This can be considered to be good news, as it reflects the improved business outlook as evaluated by the banks themselves. Compared to the previous month, the coverage of costs by revenue (interest rate margin and income from services) recorded a drop as a result of the decline in interest rate margins; nevertheless, **in July the coverage of costs (120%) remained above the level recorded in the first quarter of this year (90%) and is now far from the floor reached at the height of the crisis,** when less than half of all operating costs could be met by such income.

Lastly, a series of headings not currently linked to traditional intermediation activity, including adjustments to various compensation totals that had previously been recorded as assets (close to $45 million) and the results of long-term investments ended by lowering the profitability for July by 0.5 p.p. of assets. **In the case of costs associated with the gradual recognition of the impact of the crisis, the joint calculation of adjustments to the valuation of public sector securities and the depreciation of payments under court orders subtracted close to 1 p.p. of assets from private bank profitability.**

Private bank net worth grew by $170 million as a result of the capitalization carried out by the foreign bank segment; this capitalization was not only able to offset the negative impact of the results for the month but also the dividend payments made during the period. As a result of this increase, and given the behavior of netted assets, the leverage ratio remained stable during July (see Chart 8). **Regarding minimum capital regulations in force, the ratio of capital requirement compliance over risk-weighted assets remained at its June level** (15.4%). This stability in capital ratios reflected the impact of increased compliance from higher levels of net worth and the rise in risk-weighted assets as a result of the increase in lending to the private sector.

Outlook for August

The profitability of private banks may remain in line with the pattern of recovery observed in recent months, although significant volatility is still expected (as in previous months, the final result will be determined by the posting of further large adjustments to compensation previously recorded under an asset heading and loan loss provisions). Financial margins could show further gains in August as a result of the behavior of interest income, given the increase in the volume of loans granted. Lending growth in August was led by overdrafts, the credit line with the largest positive interest rate change during the month (see Table 1). Part of this increase in interest income will be offset by the increased cost of funding, due to an increase in the balance of time deposits and a slight rise in the interest rates paid on them. Also, it is probable that CER adjustments will be at a similar level to those of July, with the possibility of a slight drop from a more moderate rise in the index. The performance by the exchange rate means that the gains from the revaluation of assets and

Chart 9
Netted assets and deposits
Private banks - At Jul-04 prices

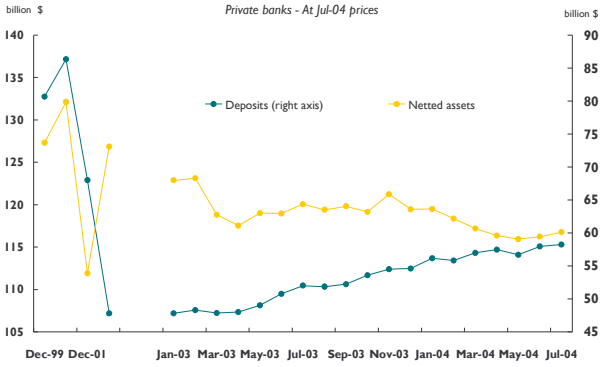
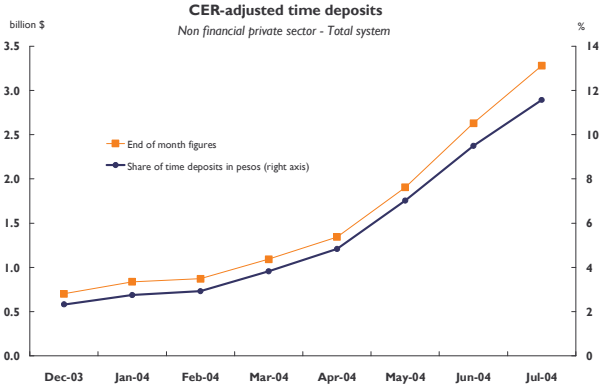


Table 2
Estimated sources and uses of funds
Private banks - July 2004
million pesos

Source		Uses	
Private sector deposits (excluding CEDRO)	335	Loans to non-financial private sector	320
Public sector deposits (excluding CEDRO)	320	Liquid assets [1]	2
Financial sector (net)	355	Reverse repos with the Central Bank	480
Sales of corporate bonds and stakes in trusts	70	CEDRO	225
		LEBAC stock (net of repos)	155
		BCRA rediscounts	100
		Other	280

1 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

Chart 10
CER-adjusted time deposits
Non financial private sector - Total system



liabilities in foreign currency will be maintained, as the peso/dollar rate went up from 2.98 to 3 in August – a similar change to that recorded between June and July.

Activity: *increase in repos with the Central Bank*

Banking sector activity levels continued to grow in July, with increases in financial system netted assets and in total deposits (see Chart 9). The performance by assets is mainly explained by loans to the private sector – up 2% – a trend that continues to be led by private banks. The revival in lending by this latter group of banks in 2004 has led the weighting of loans to the private sector in their total assets to increase by 3 p.p. to a level of 23%.

Total deposits (excluding CEDRO) were once again the main source of funds for private banks, with an increase in excess of $650 million[2] (see Table 2). The steady increase in this source of funding for private banks has meant that its share of total funding has increased by almost 6 p.p. in the year to date. In the case of deposits originating in the private non-financial sector, sight deposits increased by $180 million, while **time deposits – the heading recording the largest growth – rose by $530 million**.

The rise in time deposit totals has taken place almost entirely in CER-adjusted deposits. As a result, this trend observed over recent months for both private and public banks continued, although in the case of this latter group, nominal increases were significantly lower. **In terms of total time deposits in pesos held by the private sector, at the end of July the stock of CER-adjusted deposits in private banks totaled 15%** – a 2.5 p.p. rise over the month – while for the system as a whole, the stock increased 2 p.p. to 12% of total deposits (see Chart 10).

The description of the sources of funds is completed with $355 million provided by the financial sector. Private banks increased their liabilities to institutions in the rest of the system by $220 million, while in the same period assets fell by over $130 million.

On the matter of the use of the funds by private banks, loans to the non-financial private sector once again accounted for a significant proportion of the use during the month, with a flow of $320 million[3]. This amount has been adjusted for the effect of the increase in balances by regional banks which – as in previous months – wound up financial trusts with private sector loan portfolios as underlying assets.

Commercial loan totals have seen a decline in current account overdrafts, as certain specific transactions with large corporations fell

[2] The calculation excludes accrued unpaid interest and CER adjustments, as well as changes in items in dollars as a result of exchange rate variations.
[3] In calculating monthly flows, adjustments to balances from CER and CVS, uncollected accrued interest and the effect of exchange rate variations on items in foreign currency have been excluded. Loans considered to be unrecoverable written off from balance sheets in the month under review have been added back.

Chart 11
Loans to the non-financial private sector
Private banks - year on year change

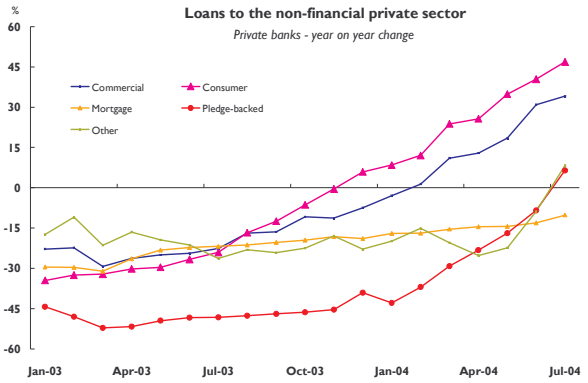


Chart 12
Deposits and liquidity
- Private banks -

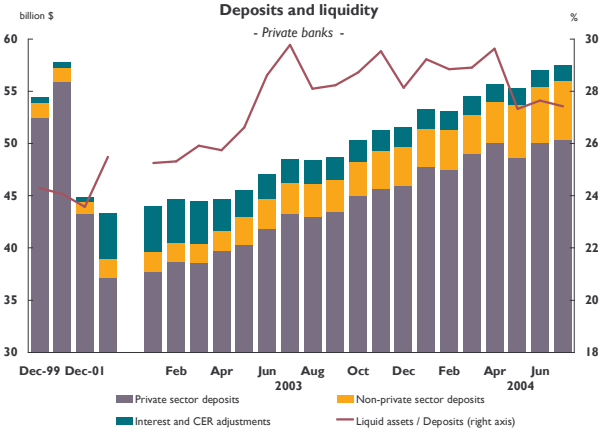
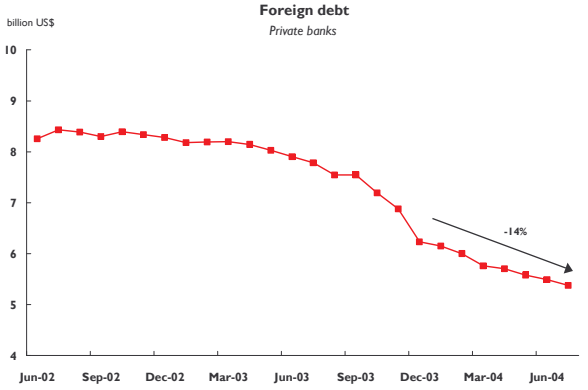


Chart 13
Foreign debt
Private banks



due, whereas there was an increase in promissory note acceptances and export financing which more than offset this drop. In the case of consumer lending, credit card financing recorded lower growth than in previous months, in part due to a promotion offering zero-interest payment plans ending in June. **In the case of collateralized lending, pledge-backed loans increased for the fifth month in succession, recording small but steady monthly increments.** Although mortgage lending did not manage a positive flow during the month, its decline – after adjustment to reflect the unwinding of trusts mentioned above – was less than $10 million, the lowest in the year to date (see Chart 11).

Total holdings of liquid assets by private banks remained stable. There was a drop in compliance with minimum cash requirements and other liquid assets, offset by **an allocation of $480 million to reverse repos with the Central Bank using LEBAC in pesos.** The increased volume of repos traded by public and private banks is an indication of the growing development of this market. At the end of July the system as a whole held a stock of $3.6 billion in reverse repos with the Central Bank, with a monthly increase of $2.66 billion in the stock. Public banks accounted for the largest traded value, while regional banks were the most active among private financial institutions. Interest rates and terms of these operations remained unchanged from June. The bulk centered on 7-day terms, at an interest rate of 2.5%. As a result of the behavior of total deposits and liquid assets, **the liquidity ratio remained steady, with a drop of just 0.2 p.p. to 27.4%.** The ratio remained stable also for the system as a whole, although in this case the level of the indicator is greater (30.4% in July) because of the higher liquidity recorded by public banks (see Chart 12).

Private banks recorded an increase in their holdings of Central Bank securities (including stocks of LEBAC and NOBAC). Net of changes as a result of repo transactions with the Central Bank, the stock increased by **$155 million**. The increase in July has again been due to larger holdings of CER-adjusted securities, with a drop in unindexed bills. The cut-off rate for CER-adjusted securities continued to decline.

Private banks used approximately $215 million to settle CEDRO-related liabilities, meeting certificate maturities and settling the liabilities arising out of legal claims (this calculation includes CER adjustment and the exchange rate difference in the case of court-ordered payments). **The description of the uses of funds is completed by the fifth installment of the framework implemented by the Central Bank for repayment of rediscounts it had granted to meet liquidity shortages** (the so-called matching framework). This payment by private banks amounted to $100 million in July, amounting to over $480 million for principal, interest and CER adjustments in the year to date.

Foreign debt by private banks – which includes corporate and subordinated bonds and direct lines of credit – continued to decline. Nevertheless, this drop of 2% in the balance of such liabilities did not generate any flow of funds, as it took place by means of the capitalization by the head offices of foreign-controlled banks as the subordinated debt fell due. **This debt-to-equity swap, together with the settlement of foreign debt using dollar-denominated bonds, and the debt restructuring processes, caused a fall in foreign liabilities of**

Chart 14
Non-performing financing to the private sector
As % of total private sector lending

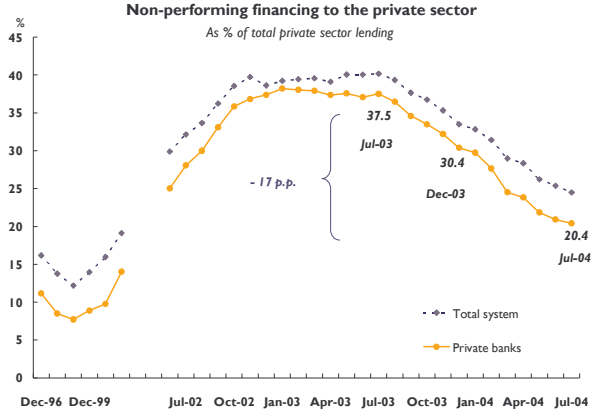
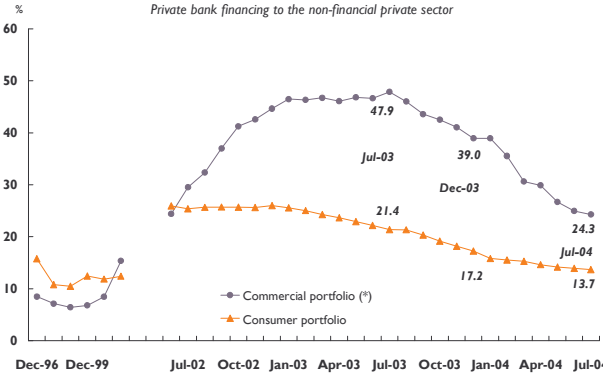
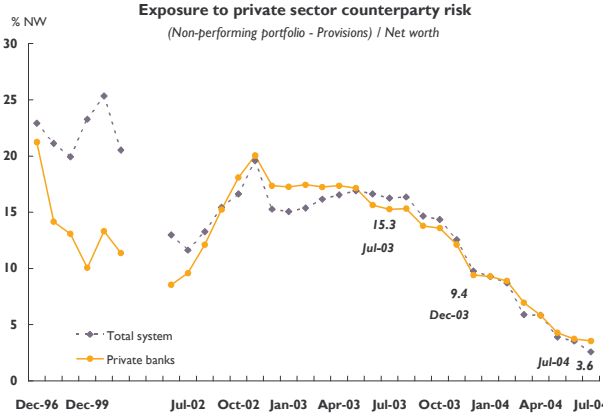


Chart 15
Portfolio quality by type of lending
Private bank financing to the non-financial private sector



(*) Includes commercial portfolio up to $200.000.

Chart 16
Exposure to private sector counterparty risk
(Non-performing portfolio - Provisions) / Net worth



14% in the year to date (measured in dollars). This type of debt accounted for 14% of total funding (liabilities plus net worth) in July, 2 p.p. less than at the beginning of the year and 10 p.p. less than in December 2002 (see Chart 13).

Portfolio quality: *sustained improvement*

Banks again recorded improvement in their portfolio quality indicators: non-performance in the case of loans to the private sector fell almost half a percentage point to a level of 20.4% (see Chart 14). Private banks have thus recorded a drop of 10 p.p. in this ratio so far this year, which is currently one third below its level at the end of the previous year. The trend persists for the financial system as a whole, although at a lower value because non-performance recorded by public banks is higher – non-performance for the system as a whole was 4 p.p. higher than that for the private bank sub-group.

The change in the portfolio quality indicator for private banks has followed the pattern seen in recent months, **with an increase in lending totals and a drop in the total for loans rated as non-performing.** Both these changes have been driven mainly by the commercial portfolio.

The private bank commercial loan portfolio has continued to improve at an above-average rate, showing a drop in non-performance of almost 1 p.p., to a level of 24.3%. As we have reported in previous issues, these loans suffered most from corporate sector default, so that they now have the greatest room for improvement. In addition, short-term commercial loans have been the type of loan showing the fastest recovery – given the improved macroeconomic environment in which such loans are being granted, their marginal effect on the quality of the stock of loans has been positive. As shown on Chart 15, **the improvement was more modest in the case of private bank consumer loan portfolios. This segment is recording a smaller decline in its non-performance precisely because these loans were of a relatively less-deteriorated quality; their non-performance level in July** (13.7%) is already very close to pre-crisis levels (between 10 and 12%). The differences between the commercial portfolio and the consumer loan portfolio persist for values in the year to date: while non-performance by the commercial portfolio fell 15 p.p. (almost 40%) compared to the end of 2003, for consumer lending the drop was 4 p.p. (20%).

In line with the improvement in the quality of the loan portfolio, the amount of lending rated as non-performing not covered by provisions fell slightly to 3.6% of private bank net worth (see Chart 16), almost 4 p.p. and 16 p.p. below its level at the end of 2003 and 2002 respectively. This means that given the current volume of lending, the impact of potential losses of bank net worth from unrecoverable loans to the private sector would be constrained.

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" 4163 – July/2/04
For the purposes of the valuation of public sector assets, changes have been made to the schedule established for the interest rate at which public sector assets held in bank portfolios or which they will acquire in future should be discounted (secured loans, government securities, promissory notes issued by the Trust Fund for Provincial Development), which will now be monthly rather than half-yearly. In addition, in the case of items denominated in pesos which do not include restatement clauses, for the purpose of calculating net present value a multiplying factor should be added in the form of the implicit rate of inflation that is used to adjust flows of CER-adjusted assets and liabilities when calculating the minimum capital requirement for interest rate risk.

Communication "A" 4168 – July/15/04
The allowed applications for deposits taken in foreign currency were increased, as they can now be used for debt certificates or shares in financial trusts issued in foreign currency that have been authorized for public offering by the National Securities Commission, with underlying assets made up of notes purchased by the trustee, guaranteed by mutual guarantee societies, set up with the aim of financing export transactions. In addition, it is established that for purposes of minimum capital regulations, these transactions will have a weighting of 50%.

Communication "A" 4169 – July /15/04
Mutual guarantee societies. The limit on guarantees to be granted to each individual participating partner has been modified: total guarantees cannot exceed 2.5% of the risk fund of the granting company or $500,000, whichever is lower.

Communication "A" 4172 – July /15/04
The application of the Alfa 1 coefficient that temporarily reduces the credit risk capital requirement under minimum capital regulations has been extended to include National Government Bonds in pesos at variable rate, maturing in 2013. In addition, this communication suspends the section relating to tables of risk indicators based on interest rates applicable to loans granted that is included in regulations on minimum capital. The application of these tables had already been suspended by Com. "A" 3959.

Communication "A" 4179 – July/30/04
Additions to the updated text on minimum cash regulations. According to Com. "A" 4147, in August 2004 requirements in foreign currency on sight deposits are to rise to 30%, and those for time deposits will also increase, rising to 35%, 28%, 20%, 10% and 6% for residual terms of up to 29 days, from 30 to 59 days, from 60 to 89 days, from 90 to 179 days, and 180 to 365 days respectively. In addition, the sight deposits that mutual funds must hold as reserves will again be subject to a 100% reserve requirement, and the rest of the deposits belonging to mutual funds will have reserve requirements of 25% and 40% in pesos and dollars respectively.

Communication "A" 4180 – July /30/04
Adjustment to regulations on minimum capital and valuation of public sector assets following the elimination of adjustments to loans using the wage variation coefficient (CVS).

Notes on methodology

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

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

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

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

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

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

(g) Initially, the breakdown by group of banks was determined on the basis of the majority existing in decision-making – in terms of shareholders' meeting votes – distinguishing between privately-owned institutions and public institutions. With the aim of deepening the analysis, private institutions were further broken down according to their geographical and commercial coverage. As a result, wholesale banks were defined as those specializing in the large corporation and investor segment, which usually do not depend for their funding on deposits from the private non-financial sector. Retail banks were divided into those carrying out business at 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.

Glossary

%**a.:** annualized 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 4084.
ASE: Adjusted stockholders' equity, for *Responabilidad Patrimonial Computable* in Spanish. The measure for compliance with bank capital regulations.
Consolidated (or aggregate) assets and liabilities: Those arising from excluding operations between financial system institutions.
Exchange rate adjustment differences: Income arising from the monthly restatement of assets and liabilities in foreign currency. Also includes results from the purchase and sale of foreign currency, which arise from the difference between agreed upon price (net of direct expenses from the transaction) and book value.
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.
Gains from securities: Includes income from government securities, short-term investments, corporate bonds, subordinated debt and options. In the case of government securities, it includes the results accrued from income, quotation differences, exponential increase on the basis of the internal rate of return (IRR), and from sales, as well as the charge for impairment to value.
Income from services: Commissions collected less commissions paid. Includes commissions on liabilities, credits, securities, guarantees granted, rental of safe-deposit boxes and foreign trade and exchange transactions, excluding in the case of the latter results from the trading of foreign currency, which are recorded in the "Exchange difference" accounts (here included under the heading "Other financial results"). Outflows include commissions paid, contributions to the Banking Social Services Institute (ISSB), other contributions on service income and charges accrued for gross income tax.
Interest income (interest margin): Interest collected less interest paid on financial intermediation, on an accrual basis – taken from balance sheet – rather than on a cash basis. Includes interest on loans of government securities and premiums on repos and reverse repos.
Liquid assets: Minimum cash compliance – cash, current account at Central Bank and special accounts in guarantee – and other liquid items, including correspondent accounts.
Liquidity ratio: Liquid assets over total deposits.
MAE: Mercado Abierto Electrónico. Electronic over-the-counter market.
Net worth exposure to counterparty risk: :Non-performing portfolio net of allowances in terms of net worth.
Netted assets and liabilities (NA): Those net of accounting duplications inherent to the recording of swaps, whether term or unsettled spot transactions.
NFPS: Non financial private sector.
Non-performing portfolio: Portfolio in categories 3 to 6, as per the debtor classification system.
Operating costs: Includes remuneration, social security payments, services and fees, sundry expenses, taxes and amortization.
Other financial results: Income from financial leasing, adjustments to valuation of credit to the public sector, contribution to the deposit guarantee fund, interest on liquid funds, difference in market price of gold and foreign exchange, premiums on the sale of foreign currency and other unidentified income (net).
Private sector credit: Loans to the private sector and private sector securities.
Public sector credit: Loans to the public sector, holdings of government securities and compensation receivable from the Federal Government.
ROA: Net profits as a percentage of netted assets. When referring to accumulated results the denominator includes the average netted assets for the reference months.
ROE: Net profits as a percentage of net worth. When referring to accumulated results the denominator includes the average net worth for the reference months.
Other: In the profitability structure, sundry gains – including gains from long-term investments, loan recoveries and release of allowances – and sundry losses – including losses on long-term investments, amortization of differences from court orders, loss on sale or impairment of fixed assets, amortization of goodwill.

Statistics

Balance sheet - Private banks

In current pesos (millions)	Dec 99	Dec 00	Dec 01	Dec 02	Jul 03	Dec 03	May 04	Jun 04	Jul 04	Change (%)		
										Month on month	Accum. 2004	Year on year
Netted assets	**85,918**	**88,501**	**73,796**	**117,928**	**114,409**	**115,091**	**114,767**	**115,701**	**116,765**	**0.9**	**1.5**	**2.1**
Liquid assets	13,228	13,920	10,576	11,044	14,446	14,500	14,909	15,464	15,013	-2.9	3.5	3.9
Public bonds	6,433	7,583	1,627	19,751	19,544	22,260	19,444	19,377	20,355	5.1	-8.6	4.1
Private bonds	410	563	451	273	180	172	188	211	202	-4.7	17.0	12.2
Loans	56,916	56,035	52,319	51,774	49,222	47,017	50,188	51,777	52,122	0.7	10.9	5.9
Public sector	6,389	8,172	13,803	25,056	26,164	23,571	25,058	25,094	24,986	-0.4	6.0	-4.5
Private sector	47,705	45,103	36,636	26,074	22,291	22,816	24,199	25,635	26,231	2.3	15.0	17.7
Financial sector	2,823	2,760	1,880	644	767	630	931	1,048	905	-13.6	43.7	18.0
Provisions over loans	-3,119	-3,248	-3,957	-7,463	-6,301	-5,225	-4,355	-4,487	-4,473	-0.3	-14.4	-29.0
Other netted credits due to financial intermediation	4,470	5,730	4,489	26,235	20,786	20,607	19,744	18,558	18,806	1.3	-8.7	-9.5
Purchases (net)	487	1,103	807	380	342	698	539	481	606	26.1	-13.1	77.0
Corporate bonds and subordinated debt	1,022	724	665	1,514	1,378	1,394	987	1,053	938	-10.9	-32.8	-32.0
Unquoted trusts	958	1,609	1,637	6,205	4,793	3,571	3,221	2,511	2,347	-6.5	-34.3	-51.0
Compensation receivable	0	0	0	15,971	12,809	13,812	13,644	13,174	13,716	4.1	-0.7	7.1
BCRA	12	35	865	377	329	415	311	406	316	-22.2	-23.9	-3.9
Assets under financial leases	796	776	752	553	457	387	415	438	464	5.9	20.1	1.6
Shares and participation	1,371	1,651	1,703	3,123	3,203	2,791	1,504	1,528	1,559	2.0	-44.2	-51.3
Fixed assets and sundry	3,246	3,225	3,150	5,198	5,022	4,902	4,873	4,859	4,826	-0.7	-1.6	-3.9
Foreign branches	48	75	112	-109	-112	-136	-66	-71	-70	-1.5	-48.7	-37.6
Other assets	2,120	2,190	2,574	7,549	7,962	7,816	7,924	8,047	7,961	-1.1	1.9	0.0
Netted liabilities	**73,615**	**76,322**	**62,281**	**102,101**	**100,051**	**100,191**	**100,406**	**101,416**	**102,312**	**0.9**	**2.1**	**2.3**
Deposits	54,447	57,833	44,863	44,445	49,580	52,625	56,126	57,720	58,249	0.9	10.7	17.5
Public sector (1)	1,342	1,276	950	1,636	2,683	3,077	4,739	5,114	5,436	6.3	76.7	102.6
Private sector (1)	52,460	55,917	43,270	38,289	44,388	47,097	49,503	50,821	51,011	0.4	8.3	14.9
Current account	5,022	4,960	7,158	8,905	9,628	11,588	12,837	12,754	12,548	-1.6	8.3	30.3
Savings account	9,702	9,409	14,757	6,309	8,667	10,547	12,553	13,411	13,807	3.0	30.9	59.3
Time deposit	35,218	39,030	18,012	11,083	19,349	18,710	18,430	19,177	19,715	2.8	5.4	1.9
CEDRO	0	0	0	9,016	3,352	2,409	1,698	1,544	1,417	-8.2	-41.2	-57.7
Other netted liabilities due to financial intermediation	16,185	15,401	14,082	48,364	43,674	40,825	37,975	37,797	38,560	2.0	-5.5	-11.7
Call money	2,146	2,293	1,514	836	856	726	1,046	1,155	1,315	13.8	81.1	53.6
BCRA lines	274	83	1,758	16,624	16,822	17,030	16,499	15,940	16,712	4.8	-1.9	-0.7
Outstanding bonds	4,990	4,939	3,703	9,073	7,237	6,674	8,097	8,026	8,053	0.3	20.7	11.3
Foreign lines of credit	6,680	5,491	4,644	15,434	12,710	9,998	6,736	6,853	6,880	0.4	-31.2	-45.9
Sales (net)	492	510	99	349	209	168	179	81	169	109.2	0.3	-19.3
Subordinated debts	1,683	1,668	1,700	3,622	3,132	1,850	1,906	1,669	1,362	-18.4	-26.4	-56.5
Other liabilities	1,299	1,420	1,637	5,671	3,665	4,890	4,400	4,231	4,142	-2.1	-15.3	13.0
Net worth	**12,304**	**12,178**	**11,515**	**15,827**	**14,358**	**14,900**	**14,361**	**14,285**	**14,452**	**1.2**	**-3.0**	**0.7**

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

Profitability structure - Private banks

Private banks - in annualized terms

As % of	Annual					First 7 months								Last
netted assets	1999	2000	2001	2002	2003	2003	2004	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	6 months
Financial margin	6.1	6.2	6.4	7.6	2.3	0.5	3.3	1.7	2.6	2.8	7.3	4.8	3.0	3.4
Net interest income	4.5	4.1	4.3	-0.2	0.1	-0.1	0.9	0.4	0.8	0.7	1.0	2.0	1.2	0.9
Restatement by CER and CVS	0.0	0.0	0.0	1.1	0.9	0.4	1.0	1.2	1.3	1.0	1.3	0.2	0.8	0.9
Gains on securities	1.1	1.4	1.2	2.5	1.7	0.7	0.9	0.0	1.2	1.1	1.4	1.8	1.1	1.0
Foreign exchange price adjustments	0.3	0.2	0.3	4.4	-0.3	-0.5	0.9	0.2	-0.6	0.1	3.8	1.4	1.0	0.9
Other financial income	0.3	0.5	0.7	-0.1	-0.2	-0.1	-0.4	-0.2	-0.1	-0.2	-0.2	-0.7	-1.1	-0.4
Service income margin	3.1	2.9	3.2	2.0	2.0	1.2	2.3	2.0	2.4	2.3	2.4	2.3	2.4	2.1
Loan loss provisions	-2.2	-2.5	-3.0	-5.0	-1.3	-0.9	-0.8	-1.0	-0.7	-0.6	-0.7	-1.1	-0.2	-0.7
Operating costs	-6.3	-6.0	-6.4	-4.8	-4.6	-2.7	-4.5	-4.5	-4.7	-4.5	-4.4	-4.7	-4.5	-4.2
Tax charges	-0.4	-0.4	-0.5	-0.4	-0.3	-0.2	-0.3	-0.4	-0.3	-0.3	-0.4	-0.3	-0.3	-0.3
Income tax	-0.5	-0.4	-0.3	-0.2	-0.3	-0.2	-0.4	0.0	-2.0	-0.2	0.0	-0.2	0.0	-0.4
Adjustments to the valuation of government securities (*)	0.0	0.0	0.0	0.0	-0.6	-0.6	-0.1	-0.1	0.0	0.0	-0.1	0.1	-0.1	0.0
Amortization payments for court-ordered releases	0.0	0.0	0.0	0.0	-0.7	-0.4	-0.9	-0.9	-0.9	-0.9	-1.0	-1.0	-0.9	-0.9
Other	0.5	0.4	0.7	-3.0	1.0	1.0	0.6	1.7	1.7	-0.1	-1.4	1.1	-0.2	0.4
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	0.0	0.0
ROA before income tax	0.8	0.6	0.5	-11.1	-2.2	-2.1	-0.5	-1.4	-0.1	-1.3	1.8	1.2	-0.8	-0.1
ROA before monetary results	0.3	0.1	0.2	-3.8	-2.4	-2.2	-0.9	-1.4	-2.1	-1.5	1.8	1.0	-0.8	-0.5
ROA	0.3	0.1	0.2	-11.3	-2.5	-2.2	-0.9	-1.4	-2.1	-1.5	1.8	1.0	-0.8	-0.5
ROA adjusted (**)	0.3	0.1	0.2	-11.3	-1.2	-1.3	0.5	-0.1	-1.2	-0.5	2.8	1.9	0.2	0.5
Indicators (%)														
ROE	**2.3**	**0.8**	**1.4**	**-79.0**	**-19.1**	**-17.1**	**-7.0**	**-10.9**	**-17.2**	**-11.9**	**14.1**	**8.4**	**-6.7**	**-3.7**
Financial margin + service income margin / Operating costs	146.0	151.9	150.9	199.3	93.8	62.0	124.5	83.1	105.7	112.9	222.1	150.7	120.5	132.1
Interest income (with CER and CVS) / loans	..	13.9	16.1	24.7	9.0	9.1	8.7	8.3	8.2	7.9	9.6	10.0	9.2	8.9
Interest payments (with CER and CVS) / deposits	..	5.7	7.8	21.9	5.8	8.0	2.3	2.1	1.7	2.1	2.5	2.6	2.3	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.

Portfolio quality - Private banks

As percentages	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Jan 04	Feb 04	Mar 04	Apr 04	May 04	Jun 04	Jul 04
Non-performing loans (overall)(1)	7.6	8.3	9.9	19.8	15.7	15.4	14.4	12.5	12.2	11.5	11.2	10.8
Non-performing loans to the non-financial private secto	8.9	9.8	14.0	37.4	30.4	29.7	27.7	24.5	23.8	21.8	20.9	20.4
Commercial portfolio	6.2	7.6	15.2	44.5	39.9	39.9	36.4	31.1	30.4	27.0	25.0	24.3
Commercial portfolio up to $200,000	11.7	14.6	16.4	46.4	26.8	26.5	24.8	24.8	23.4	22.3	24.9	24.8
Consumption and housing portfolio	12.5	11.9	12.4	26.0	17.2	15.8	15.5	15.3	14.6	14.2	13.9	13.7
Provisions / Non-performing loans	72.2	67.7	75.8	74.8	81.8	81.9	81.2	84.2	86.4	89.4	90.9	91.1
(Non-performing - Provisions) / Overall financing	2.5	3.2	3.4	9.4	5.5	5.4	5.2	3.9	3.2	2.3	1.9	1.8
(Non-performing - Provisions) / Net worth	10.1	13.3	11.4	17.4	9.4	9.3	8.9	6.9	5.8	4.3	3.7	3.6

(1) As a percentage of each lending category.