Report on Banks

August 2014

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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Year XI, No. 12

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DE LA REPÚBLICA ARGENTINA

Contents

Note | This Report is focused on the performance of the financial system, including breakdowns by homogeneous sub-sectors. The data reported (particularly, those referring to profitability) are provisional and subject to changes. Except otherwise provided, end-of-month data are included.

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For comments, enquiries or electronic subscriptions: analisis.financiero@bcra.gob.ar

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Summary

- **In August, the stock of total lending** (in domestic and foreign currency) **to the private sector grew 1.8%** (22.9% y.o.y.) **driven mainly by loans in pesos**, which climbed 2% over the period (22% y.o.y.). In monthly and y.o.y. terms, most of the rise in total loans to the private sector was derived from the performance of financing to companies, which increased 2.3% against July and 25.1% in the past 12 months. In turn, the stock of loans to households posted a nominal change of 1.2% in the month and of 20.5% y.o.y.

- **By mid-September, the National Government implemented a Program for Encouraging Consumption and Production "*Ahora 12*", whereby it will be possible to purchase products and services through credit cards in 12 installments with no interest.** In order to favor the implementation of this initiative, **the BCRA set, for transactions as from October, a reduction in the minimum cash requirement** to an amount equivalent to 16% of (i) loans granted by financial institutions through the abovementioned program; and of (ii) bank loans at a 0% interest rate channeled to non-financial institutions that issue credit cards, provided that these institutions have adhered to this program. Likewise, it allowed banks to assign loans specified in (ii) to partially complete the quota corresponding to the fifth stage of the Credit Line for Productive Investment (LCIP) —second half of 2014—.

- The non-performance ratio of loans granted to the private sector by the financial system rose slightly over the month, up to 2.1%, posting a slight y.o.y. hike of only 0.2 p.p. Despite this monthly evolution, **the ensemble of financial institutions continues recording low delinquency levels in its credit portfolio both in historical terms and in relation to other economies**. Coverage of the non-performing portfolio with provisions stood at 137.2% in August.

- **Private sector deposits in pesos increased 1.3% (29.4% y.o.y.) in August.** Concerning this segment, the relative monthly growth of time deposits exceeded that of sight accounts. In turn, private sector deposits in foreign currency rose over the period (4.2% y.o.y. in currency of origin). The balance sheet stock of public sector deposits recovered over the month following the drop registered in July. Thus, **total deposits** (of public and private sectors; in domestic and foreign currency) **expanded 3.3% (26.6% y.o.y.) in August**.

- **In order to promote retail saving in domestic currency, the BCRA set a minimum limit for the interest rate on time deposits in pesos held by natural persons.** Such limit will become effective **as from October 8.** Particularly, the rate may not be lower than that resulting from the product between the latest "benchmark borrowing rate" (simple average of cut-off rates on LEBACs at 90 days) and the relevant coefficient for the original term of the deposit, provided that the amount of time deposits does not exceed the deposit insurance coverage. Simultaneously, **the BCRA decided to raise the coverage amount of the deposit guarantee from $120,000 to $350,000 per holder**. Considering this higher level of coverage, the BCRA increased the financial institutions' monthly contribution to the Deposit Guarantee Fund. Furthermore, the BCRA increased the **interest rates on repos with financial institutions**.

- **In August, the liquidity indicator** (including items in domestic and foreign currency) **of the aggregate financial system rose 2.1 p.p. of deposits, standing at 25.1%**. Similarly, the broad liquidity indicator (including domestic and foreign currency together with LEBAC and NOBAC holdings) climbed 1.2 p.p. in the month, accounting for 43.8% of deposits (going up 6.3 p.p. against the level observed 12 months before).

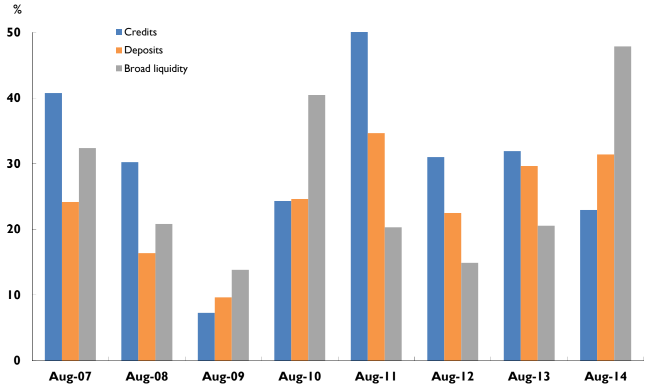
- **Consolidated financial system net worth expanded 3.1% over the month (44.2% y.o.y.) mainly due to profits accrued.** Capital compliance by the ensemble of banks stood at 14.3% of total risk-weighted assets (RWA) over the period, while compliance with Tier 1 capital compliance accounted for 13.3% of RWA. In turn, in August, the surplus of capital compliance against the legal requirement (capital position) reached 84%, going up 13 p.p. y.o.y.

- **Financial system ROA stood at 4.6%a. in August**, up 0.2 p.p. against the previous month mainly due to the expansion of the financial margin. Likewise, the financial system accrued profits equivalent to 4.5%a. of assets in the past 12 months.

Chart 1

Private Sector Financial Intermediation and Broad Liquidity

Y.o.y. % variation - Financial system

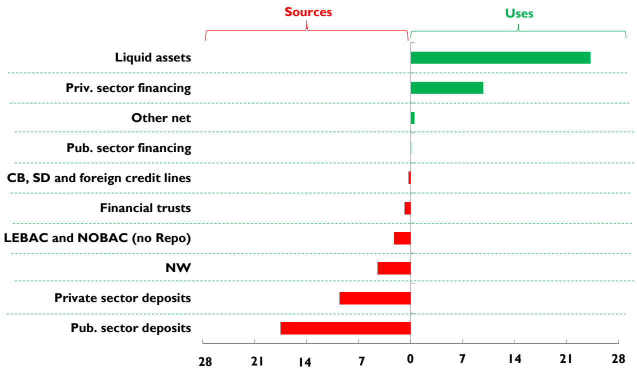


Source: BCRA

Chart 2

Estimation of Sources and Uses of Funds - August 2014

Financial system

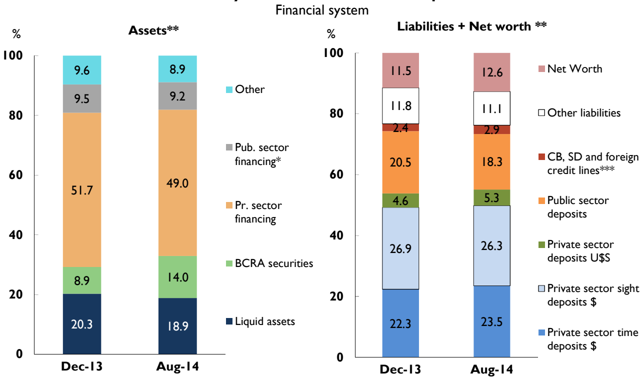


Source: BCRA

Chart 3

Financial System Balance Sheet Composition

Financial system



*Note: Include securities and lending. **Assets and liabilities netted from repo, term and downpayments operations.***Corporate bonds (CB) and Subordinated debt (SD). Source: BCRA

I. Activity

In August, intermediation activity for the ensemble of financial institutions and liquidity levels kept on growing. **Lending to the private sector rose 1.8% in the month (22.9% y.o.y.) and deposits in this sector expanded 1.5% (31.4% y.o.y.)** (see Chart 1). Netted assets of the aggregate financial system climbed 3.3% over the period (30.3% y.o.y.).

The main inflow of funds for the ensemble of banks stemmed from a rise of deposits in August[1] (see Chart 2), both of the public sector ($17.5 billion) and of the private sector ($9.5 billion). Profits resulting from this activity and a decrease in the stock of holdings of monetary regulation instruments were, to a lesser extent, other fund sources for the sector. Financial system's **funds were mainly channeled to increase liquid assets**[2] ($24.3 billion) over the period, **followed by the expansion of financing to the private sector** ($9.8 billion).

Considering the first eight months of 2014, bank funds were mainly used to purchase Central Bank securities. The share of holdings of these bills and notes in financial system's total assets has risen 5.1 p.p. so far this year, accounting for 14% in August (see Chart 3). If liquid assets were computed on a broader basis —which includes the securities abovementioned— their share in total assets would increase 3.7 p.p., amounting to a level close to 33%. In turn, a reduction in the relative significance of lending to the private sector was observed. **In 2014, deposits in pesos from the private sector —especially, time deposits— and profits were the most relevant fund sources for the financial system**. Consequently, considering total bank[3] funding, private sector time deposits in domestic currency accounted for 23.5%, while net worth amounted to 12.6% in August —up 1.2 p.p. and 1.1 p.p., respectively, against the end of last year—. In turn, public sector deposits reduced their relevance in total funding in the first eight months of the year.

The volume of checks cleared continued increasing in the past few months. Instruments cleared in the third quarter of the year reached $512 billion, up 11.4% against the previous quarter and 28.9% y.o.y. In turn, **the number of checks bounced for insufficient funds in terms of the total cleared kept on falling** (see Chart 4). The volume of instruments bounced for insufficient funds stood at 0.57% of the total value cleared in the third quarter (0.92% of the total amount of checks),

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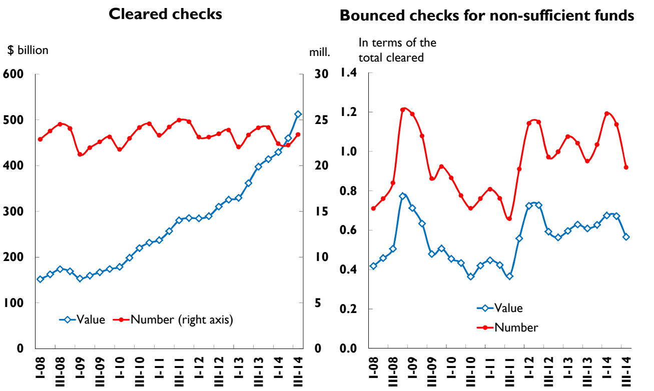
[1] Estimated based on the difference in stocks as per balance sheet information.

[2] Liquid assets (compliance with "minimum cash" requirements in account with the BCRA and special accounts in guarantee and other items, particularly cash in banks and correspondent accounts) plus net credit stock of repo transactions of financial institutions against the BCRA through LEBACs and NOBACs.

[3] Liabilities + net worth.

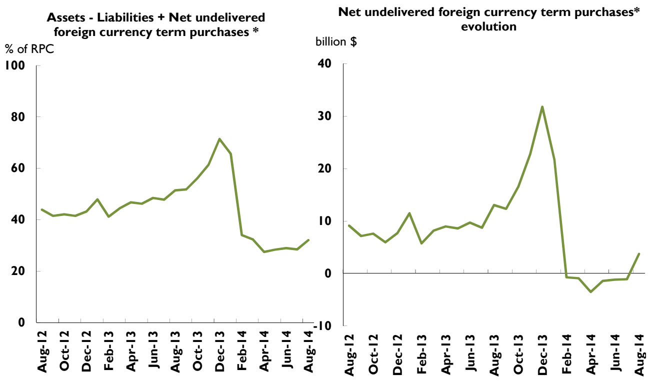
Chart 4



Source: BCRA

Chart 5

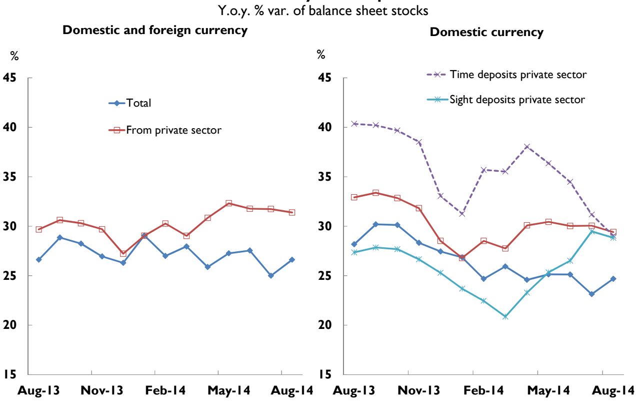
Foreign Currency Mismatching of the Financial System



* Off balance sheet accounts
Source: BCRA

Chart 6

Financial System Deposits
Y.o.y. % var. of balance sheet stocks



Source: BCRA

below the level of the previous quarter and the same period in 2013.

The number and value of instant transfers rose slightly over the month. In y.o.y. terms, the value of monthly instant transfers recorded increased 61.6%; and the number expanded 34.9%. In August, 96.3% of the total number of these transfers consisted of transactions not exceeding $20,000. In terms of value, 64.5% of the total accounted for transactions in excess of $20,000.

In August, financial system[4] foreign currency mismatching rose 3.6 p.p. of adjusted stockholders' equity, up to 32%. This monthly rise was mainly accounted for increased forward net purchases of foreign currency by foreign private banks. **Compared to the level recorded in late 2013, currency mismatching for the aggregate financial system accumulated a fall of almost 40 p.p. of adjusted stockholders' equity** (see Chart 5).

II. Deposits and liquidity

The stock of private sector deposits in pesos increased 1.3% over the month; time deposits posted a relatively greater rise than sight accounts. In addition, private sector deposits in foreign currency climbed 0.8% in August (in currency of origin). In turn, the stock of public sector deposits recovered over the period following the drop registered in last July; thus, **total deposits in the financial system[5] expanded 3.3% over the month**.

In y.o.y. terms, **private sector deposits in pesos rose 29.4% as of August**, being driven by sight accounts and time deposits (see Chart 6). Private sector deposits in foreign currency went up 4.2% y.o.y. over the period. Thus, private sector total deposits (in domestic and foreign currency) has risen 31.4% y.o.y. as of August. In turn, public sector deposits improved 12.7% in the past 12 months. Consequently, **the total stock of deposits[6] in the financial system increased 26.6% in the past 12 months.**

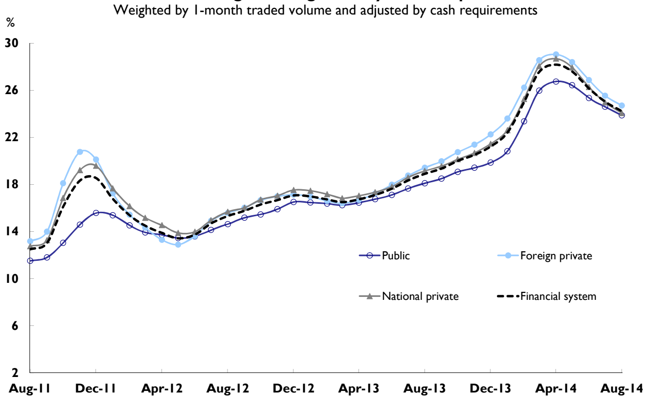
In August, the average cost of private sector time deposits in pesos estimated for banks continued falling for the fourth consecutive month. **All groups of banks registered a reduction in this indicator,** which was sharper in the case of private national and foreign institutions (see Chart 7).

[4] Defined as: Assets in foreign currency – Liabilities in foreign currency + Forward net purchases of foreign currency without delivery of underlying assets.
[5] From the public and private sectors, denominated in domestic and foreign currency.
[6] Ibid previous note.

Chart 7

Estimation of Average Funding Costs by Time Deposits in Pesos

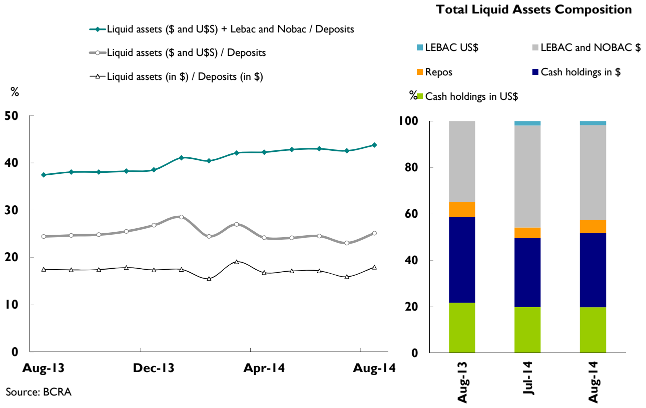
Weighted by 1-month traded volume and adjusted by cash requirements



Source: BCRA

Chart 8

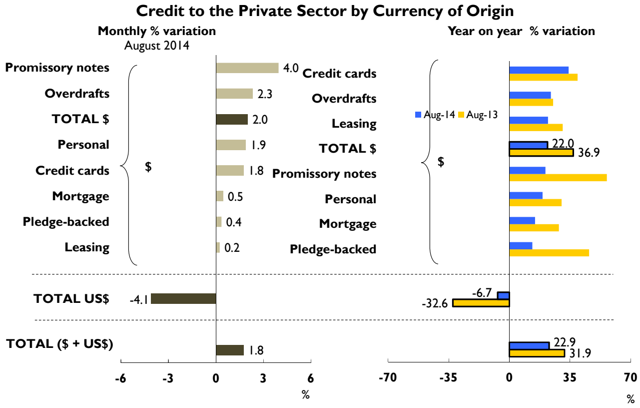
Financial System Liquidity



Source: BCRA

Chart 9

Credit to the Private Sector by Currency of Origin



Note: Total includes balance sheet stock. Variations in currency of origin.
Source: BCRA

It should be noted that, **the BCRA has recently set a minimum limit for the interest rate on time deposits in pesos corresponding to natural persons**[7] **in order to stimulate the use of saving instruments in domestic currency.** This limit became effective on October 8, 2014. Particularly, the rate may not be lower than that resulting from the product between the latest "benchmark borrowing rate" (simple average of cut-off rates on LEBACs at 90 days of the second previous month before the taking of deposits) and the relevant coefficient for the original term of the deposit[8], provided the amount of a time deposit does not exceed the coverage of the deposit guarantee.

Simultaneously, **the BCRA decided to raise the coverage amount of the deposit guarantee, from $120,000 to $350,000 per holder**[9]. Considering this higher level of coverage, the BCRA also decided to increase the monthly contribution made by financial institutions to the Deposit Guarantee Fund. Finally, **and coupled with these measures, the BCRA increased interest rates on repos with financial institutions in early October.** The rate on reverse repos for the BCRA climbed from 9% to 13% for overnight transactions, and from 9.5% to 14% for transactions at 7 days; in turn, the rate on repo loans for the BCRA increased from 11.5% to 17%.

Liquidity (considering items in domestic and foreign currency) **of the aggregate financial system rose in August by an amount equal to 2.1 p.p. of total deposits, accounting for 25.1% of the total.** This rise was explained by greater compliance with the minimum cash requirement and, to a lesser extent, by repos with the BCRA. Similarly, **the broad liquidity indicator** (in domestic and foreign currency together with LEBAC and NOBAC holdings) **expanded over the month, standing at 43.8%**. Thus, the broad liquidity indicator rose 6.3 p.p. of deposits against August 2013 (see Chart 8).

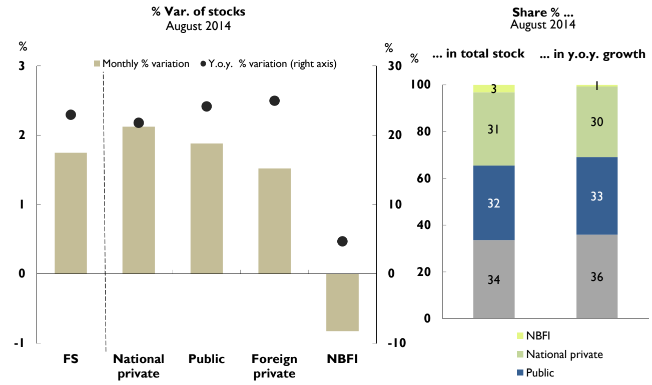
III. Financing

In August, the stock of loans in domestic currency to the private sector increased 2%[10] **against the previous month and was mainly driven by commercial loans**—promissory notes and overdrafts—(see Chart 9). All credit lines in pesos registered rises in the month, while financing in foreign currency

[7] Communication "A" 5640.
[8] The coefficient shall amount to 87% for the shortest term (30 to 44 days); to 89% for the term ranging from 45 and 59 days; and to 93% for a term equal to or exceeding 60 days.
[9] Communication "A" 5641.
[10] Six financial trusts were issued in August for a total of $765 million raised out of loans from financial institutions; all of them corresponded to securitizations of personal loans. If the balance sheet stock is adjusted by such assets securitized over the month, the increase in loans in pesos to the private sector would stand at 2.2% over the period.

Chart 10

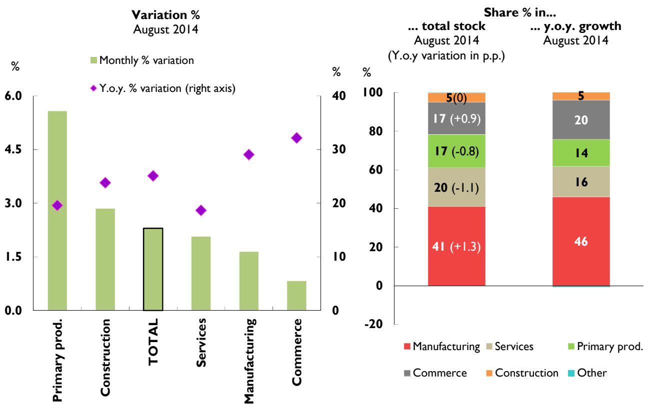
Credit to the Private Sector by Group of Financial Institutions



Source: BCRA

Chart 11

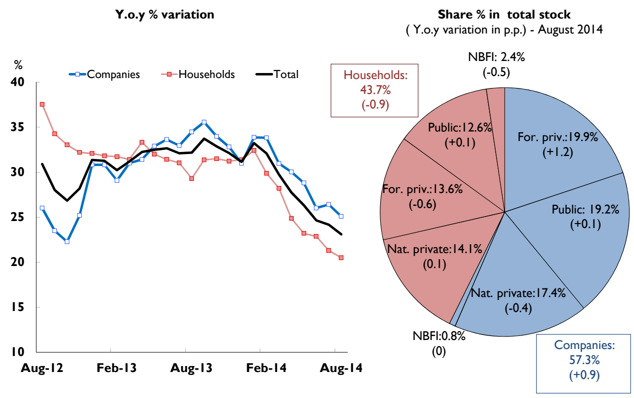
Credit to Companies



Source: BCRA

Chart 12

Credit to Private Sector by Type of Debtor



Source: BCRA

dropped[11]. As a result, **total lending (in domestic and foreign currency) granted to companies and households rose 1.8%[12] in this period**. The monthly change in loans to the private sector was mostly driven by public and national private banks which, as a whole, contributed to over 72% of the rise in loans to companies and households over the period.

In y.o.y. terms, loans in pesos to the private sector posted a 22% nominal rise as of August; cards, overdrafts, and leasing registered the greatest relative y.o.y. increase. In turn, lending in foreign currency to the private sector fell 6.7% in this period[13], moderating its y.o.y. reduction pace. In this context, **total financing to companies and households increased 22.9% y.o.y.**[14], evidencing a performance that was mainly boosted by private foreign and public banks (see Chart 10).

In August, loans to companies[15] went up 2.3%. Lending for primary production and construction recorded the greatest relative monthly hikes, going up 5.6% and 2.8%, respectively (see Chart 11). **In y.o.y. terms, loans to companies expanded 25.1%**. The relative y.o.y. growth exhibited by loans to the sectors of trade and industry in the first eight months of 2014 should be underscored as they raised their share in the stock of total lending, accounting for 16.7% and 41.1%, respectively.

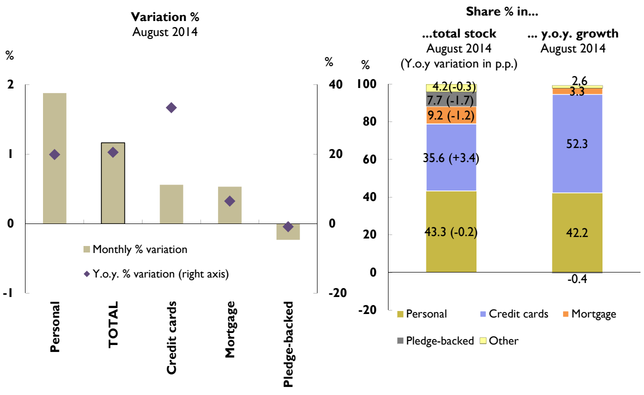
Financing to companies increased at a pace that exceeded loans to households in year-to-date terms (see Chart 12). Thus, loans to the productive sector accounted for over 61% of the y.o.y. nominal expansion of total loans to the private sector. Thus, financing to companies kept on increasing its relative share in the stock of total loans, amounting to 57.3% in August 2014. Foreign private banks' loans channeled to companies posted the greatest relative y.o.y. momentum —31% y.o.y. in this period—.

The fifth stage of the **Credit Line for Productive Investment (LCIP)** continued under way. Around $28 billion would be awarded in loans in this stage in the second half of 2014; such loans would be especially granted to micro, small, and medium-sized enterprises. This amount would be added to the total agreed upon through the first four stages of the LCIP (around $78 billion). In addition, under the **Bicentennial Productive**

[11] Change in currency of origin.
[12] If the balance sheet stock is adjusted by assets securitized over August (through loans granted by banks as underlying assets), the monthly rise in total lending (including domestic and foreign currency) to the private sector would stand at 1.9%.
[13] Change in currency of origin.
[14] Change in domestic currency. In the case of lending in foreign currency, the stock represented in pesos is considered taking into account the exchange rate in place at the end of August.
[15] Information obtained from the Debtors' Database (including domestic and foreign currency). Loans to companies include those granted to legal persons and commercial loans granted to natural persons. In turn, loans to households are those given to natural persons unless they have a commercial purpose.

Chart 13

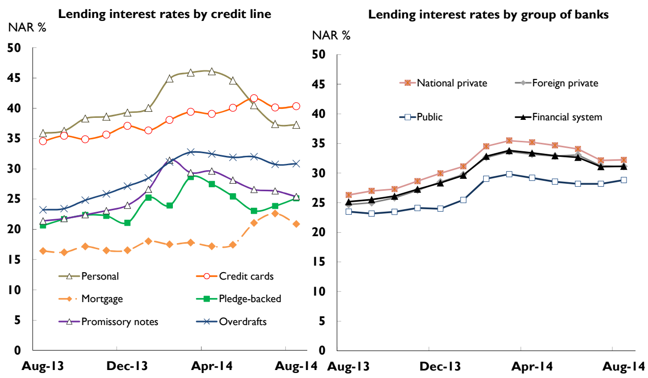
Credit to Households



Source: BCRA

Chart 14

Lending Interest Rates Operated in Pesos*

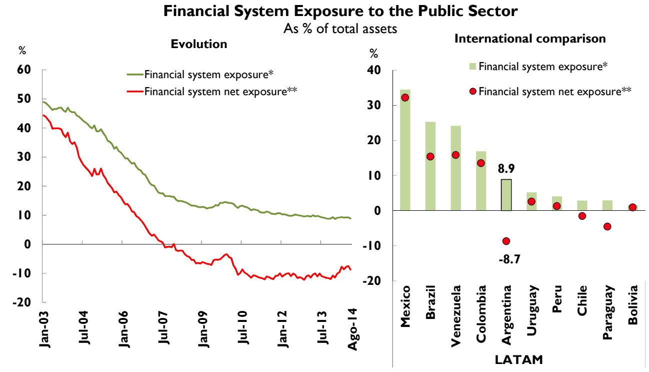


*Lending rates: weighted average by operated value.
Source: BCRA

Chart 15

Financial System Exposure to the Public Sector

As % of total assets



*Exposure: (Position in government securities (not including Lebac or Nobac) + Loans to the public sector) / Total Assets
**Net exposure: (Position in government securities (not including Lebac or Nobac) + Loans to the public sector - Public sector deposits) / Total Assets
Note: Data to 2014, except Mexico and Chile to 2013 and Argentina to August 2014.
Source: BCRA and IMF

Financing Program (PFPB), bank funds are still being granted to several productive projects and the total disbursed to date has amounted to \$6.6 billion. These funds were mainly channeled to the industrial sector (68.3%).

Lending to households expanded 1.2% in August. Personal loans posted the greatest relative monthly momentum (see Chart 13), being partly driven by the so-called PRO.CRE.AUTO program, developed by the Banco de la Nación Argentina. **Financing to households went up 20.5%[16] in the past 12 months**, and was primarily driven by credit cards, which raised their share in the total stock by 3.4 p.p. The y.o.y. momentum exhibited by loans to households was mostly driven by national private banks.

With a view to sustaining local consumption, the National Government implemented the program "Ahora 12"[17] by mid-September. Under this program, financing is granted to consumers, who may purchase specific products in 12 installments with interest-free credit cards. In order to boost the program, the BCRA ordered—effective as from October—a reduction in the minimum cash requirement[18] to an amount equivalent to 16% of (i) loans granted by financial institutions through the "Ahora 12" program; and of (ii) loans at a 0% interest rate that banks channel to such non-financial institutions that issue credit cards, provided that these institutions have adhered to this program. In addition, the BCRA ordered that loans mentioned in (ii) may be assigned to partially complete the quota of the fifth stage of the Credit Line for Productive Investment.

In August, the average interest lending rate traded with the private sector, in pesos, did not exhibit significant changes for the aggregate financial system (see Chart 14), being partly affected by the regulation implemented by this Institution by mid-2014 aimed at regulating interest rates on financing granted to natural persons[19]. Interest rates in domestic currency exhibited a heterogeneous performance amongst credit lines over the month: they fell in the case of mortgage and personal loans and promissory notes, whilst those applied to pledged-backed loans, cards and overdrafts increased slightly.

Exposure of the ensemble of financial institutions to the public sector decreased, accounting for 8.9% of total assets during the month (see Chart 15). This level is lower than the values observed in other Latin American economies. In turn, as a result of the monthly rise in public sector deposits, this sector's net creditor

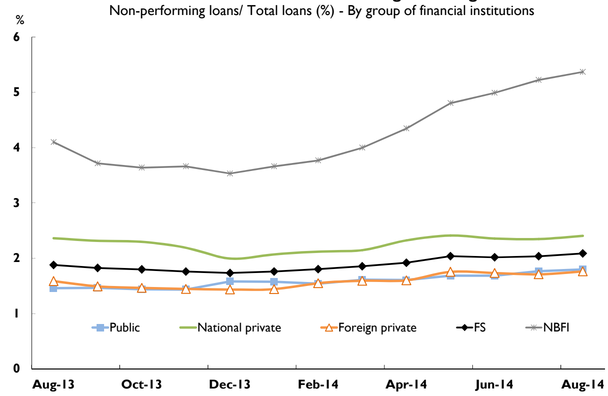
[16] Data are provisional and subject to subsequent corrections.
[17] Joint Resolution N° 671/2014 and 267/2014 issued by the Ministry of Economy and Public Finances and the Ministry of Industry.
[18] Communication "A" 5638.
[19] Communication "A" 5590.

position in relation to the financial system increased, amounting to 8.7% of total assets in August.

Chart 16

Private Sector Non Performing Financing

Non-performing loans/ Total loans (%) - By group of financial institutions

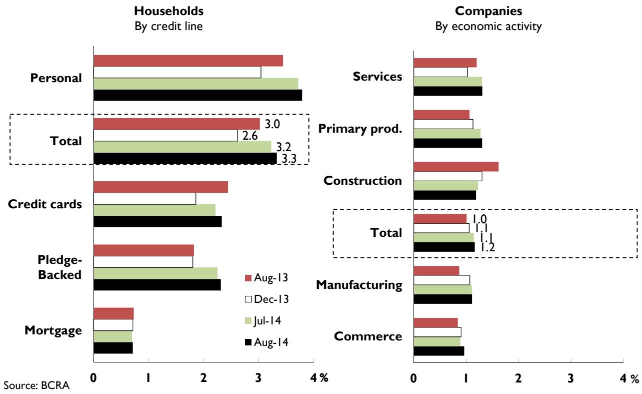


Source: BCRA

Chart 17

Non-performing Financing to Private Sector by Type of Debtor

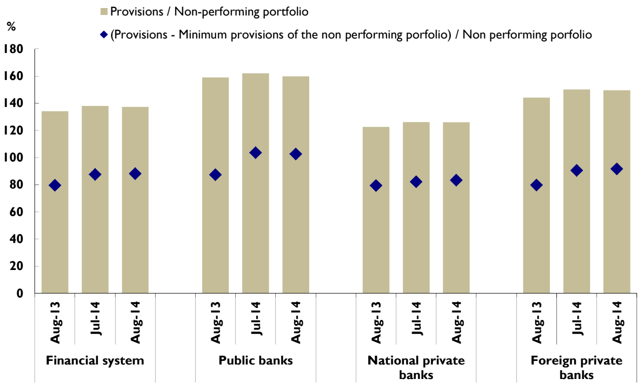
Non-performing loans / Total loans - Financial System



Source: BCRA

Chart 18

Non-performing Portfolio Coverage with Provisions by Group of Banks



Source: BCRA

IV. Portfolio quality

In August, non-performance in lending to the private sector increased slightly, accounting for 2.1% of total financing. This indicator rose 0.4 p.p. in the first eight months of 2014, mainly due to the performance of Non-Banking Financial Institutions (NBFI) and national private banks (see Chart 16). **It should be noted that the financial system continues exhibiting a low delinquency level in its credit portfolio, both in historical terms and in relation to other economies.**

The delinquency ratio of loans granted to households stood at 3.3% in August, slightly above the value recorded in July. This monthly rise was mostly driven by loans for consumption purposes —personal loans and credit cards— (see Chart 17). In year-to-date terms, the non-performance level exhibited by lending channeled to households increased 0.7 p.p. due to the performance of all credit facilities except for mortgage loans.

In August, non-performance of loans to companies increased slightly, to 1.2% of the portfolio, a change driven by loans for commercial purposes and primary production (see Chart 17). Almost all economic activities recorded minor hikes in their credit delinquency ratios in 2014, amounting to a total rise of only 0.1 p.p. in an aggregate fashion.

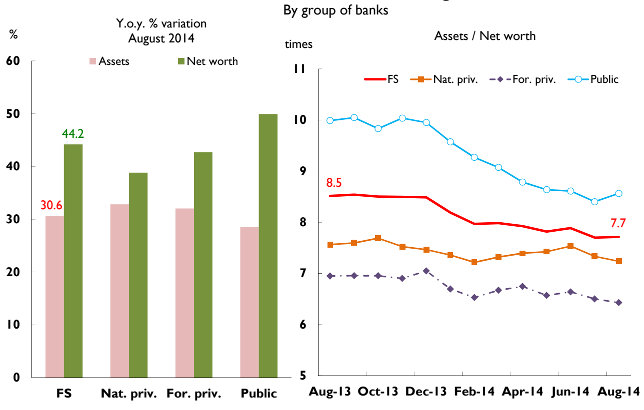
Loans to companies and households covered by preferred guarantees recorded a 15.9% share in total lending to the private sector and **kept their non-performance ratio unchanged (1.7%) against July.** In turn, **unsecured loans raised their delinquency ratio slightly in August, up to 2.2% of the total unsecured portfolio.** Thus, in the year to date the non-performance ratio of loans covered with preferred guarantees and unsecured loans posted slight rises.

Coverage of the non-performing portfolio with provisions amounted to 137.2% in August, exhibiting a minor fall against the month before. This monthly performance was mainly associated with public banks. Despite this evolution, **the financial system is currently evidencing a high provisioning level across all groups of banks** (see Chart 18). Excluding minimum provisions corresponding to the performing portfolio, the coverage ratio would stand at 88.1% at an aggregate level, easily exceeding the level of minimum provisions required for the portfolio under such condition (49.1%).

Chart 19

Assets, Net Worth and Leverage

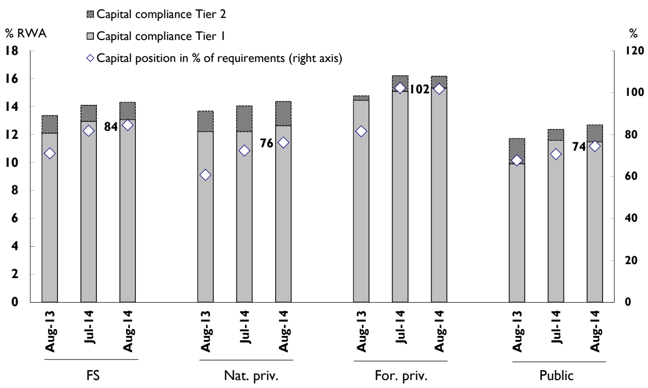
By group of banks



Source:BCRA

Chart 20

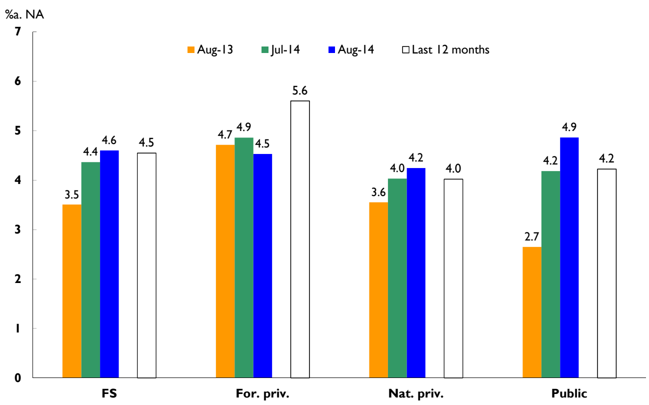
Capital Compliance and Excess of the Requirement (Position)



Source: BCRA

Chart 21

Profitability by Group of Banks



Source: BCRA

V. Solvency

Consolidated financial system net worth increased 3.1% over the month, being primarily driven by book profits. **In August, net worth expanded 44.2% y.o.y.** (see Chart 19), **exceeding assets' relative growth and leading to a fall in the financial system leverage level.** This performance was observed across all groups of banks but was more evident in the case of public banks. Thus, total assets of the aggregate financial system totaled 7.7 times the net worth of banks, down 0.8 against August 2013.

Financial system regulatory capital compliance amounted to 14.3% of risk-weighted assets (RWA) as of August, up 0.2 p.p. against July. It should be noted that Tier 1[20] capital —with a better ability to absorb losses— accounted for 13.3% of RWA. In turn, compliance in excess of the requirement (capital position) stood at 84% in August 2014 for the financial system (see Chart 20), going up 13 p.p. y.o.y. **All groups of banks posted capital surpluses in terms of the regulatory requirement.**

In August, the ensemble of financial institutions accrued book profits equivalent to 4.6%a. of assets (see Chart 21), up 0.2 p.p. against the month before, mainly due to a rise in the financial margin. Public and national private banks led the monthly performance. Thus, **the ROA for the ensemble of banks in the past 12 months stood at 4.5%**, up 1.6 p.p. y.o.y.

The financial margin for the ensemble of banks totaled 12.1%a. of assets in August, up 0.8 p.p. against July. Such rise was mainly driven by profits derived from securities (+0.4 p.p. of assets up to 5%a.) and by profits related to items linked to the exchange rate (+0.6 p.p. of assets up to 1%a.) (see Chart 22). In turn, income derived from interest fell slightly over the period. The financial margin equaled 12.1% of assets in the past 12 months, up 2.6 p.p. y.o.y. All groups of banks raised their financial margin on a y.o.y basis, foreign private banks evidencing a relatively higher hike.

Income from services fell slightly over the month, down to 4.3%a. of assets. This monthly performance was observed in private and public banks. Net income from services recorded over the past 12 months totaled 4.2% of assets, falling slightly in y.o.y. terms.

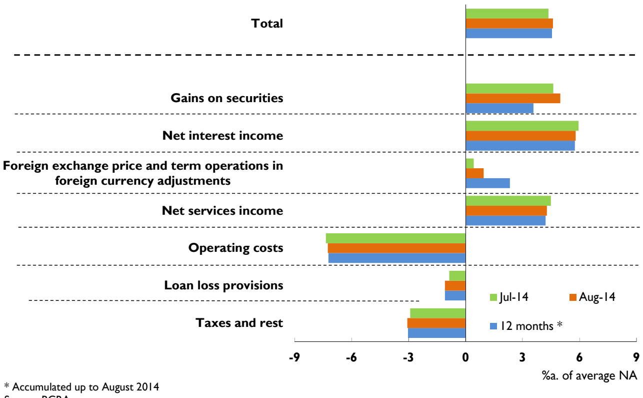
Operating costs charged by banks amounted to 7.3%a. of assets in August, being barely lower than the values recorded in July. Public banks mostly accounted for such monthly change. Considering the 12-month period as of August, such costs stood at 7.2% of

[20] It is defined as basic net worth (common stock and additional capital), net of deductible accounts. For further information, see Communication "A" 5369.

Chart 22

Financial System Profitability

As %a. of netted assets



* Accumulated up to August 2014

Source: BCRA

assets. In turn, **loan loss provisions posted a minor monthly hike, up to 1.1%a. of assets,** a dynamics observed in private financial institutions, both national and foreign. Consequently, the monthly level of these expenses in terms of assets was in line with the level corresponding to the figure recorded in the past 12 months.

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" 5609 – August 04, 2014

The "Credit Line for Productive Investment" is amended as follows: (i) the maximum fixed rate corresponding to the first year of mortgage loans for natural persons aimed at the purchase, construction or remodeling of housing units may reach 19.5% in nominal annual terms; (ii) the portion of the second tranche of the 2014 Quota that an institution may assign to clients other than micro, small, and medium-sized enterprises shall only be funded out of such funds as are actually transferred, assigned, lent or provided as guarantee by a trust; (iii) financing may further be channeled through "bridge loans" granted to trusts through the financing facilities mentioned in the previous item, provided that underlying assets are originated or assigned by a financial institution from Group II.

Communication "A" 5611 – August 04, 2014

The limit of the term positive position in foreign currency is expanded —effective as from March 19, 2014— for up to an amount that results from adding up: (i) financing that persons related to financial institutions obtain to cover the exchange risk they take when receiving foreign exchange from abroad and subsequently settling them in the Free and Single Foreign Exchange Market (MULC); and (ii) financing represented in foreign currency as obtained by such persons as of March 18, 2014, who have executed, as of such date, term coverage contracts with the relevant financial institution, provided that the person related to a financial institution has not obtained such coverage through other method or channel. In addition, concepts associated with repo transactions are excluded to determine the term positive net position in foreign currency.

Communication "A" 5613 – August 07, 2014

The collection of fees by participating financial institutions is permitted for the following items and values computed on Certificates of Deposit for Investment (CEDINs) for an amount equivalent in pesos: (i) subscription and issue, in the name and on behalf of the BCRA: up to 1%; (ii) verification of its application: up to 0.3%; and (iii) payment: up to 0.2%.

Communication "A" 5615 – August 12, 2014

In the case of funds that are transferred, assigned, lent or provided as guarantee by a trust, the Central Bank of Argentina establishes that: (i) institutions must have information on the interest rate provided by the relevant agents for the revision and control of trusts; (ii) the maximum interest rate shall not be verified when financing is granted by other financial institutions at a fixed interest rate. It is also clarified that only financing disbursed as from June 11, 2014 shall be subject to provisions on interest rate regulation. Finally, the application method for raising the minimum cash requirement for non-compliance with the maximum rate level has further been amended.

Communication "A" 5623 – August 29, 2014

Weighting factors applicable to calculate the reduction in the "minimum cash" requirement have been modified based on the location of ATMs (inside or outside the operating branch) and the town where they are placed (categories I through VI). In addition, the average requirement in pesos has been reduced based on deposits made by the Argentine Social Security Administration (ANSES) for the payment of social security benefits.

Methodology

(a) Aggregate balance sheet information is taken from the monthly accounting information system (unconsolidated balance sheets). In order to calculate aggregate data for the financial system, for financial institution that have not provided data for the month reviewed, the most recent information available is repeated in the aggregate balance sheet. On the other hand, for profitability analysis only the banks providing data for that month are considered.

(b) Due to possible lack of data for some banks at the time this Report was drafted, and due to possible corrections to the data provided by financial institutions later, the data included is of a preliminary nature –particularly for the last month included-. Therefore, and due to the fact that the most recent data available always used, data in connection with earlier periods may not match what was mentioned in earlier issues of the Report. In such cases, the latter release should be regarded as being of better quality.

(c) Unless otherwise indicated, data about deposits and loans refer to balance sheet information, and do not necessarily agree with those compiled by the Centralized Information Requirement System (SISCEN). Reasons for discrepancies include the precise date considered in order to calculate monthly changes and the items included in the definition adopted in either case.

(d) Profit ratio calculations are based on monthly results estimated from changes in the aggregate result amounts during the current fiscal year. Profit ratios are annualized with the exception of those ,.

(e) Initially, the breakdown by group of banks was determined by the majority of decision making role -in terms of voting rights at shareholder meetings- distinguishing between private sector financial institutions (national or foreign depending on their residence) and public banks. In order to increase depth of the analysis, private sector institutions were also classed according to the geographic coverage and business scope of their operations. Investment banking is defined as those specializing in large corporations and investor sector, which in general do not rely on deposits from the private sector for their funding. On the other hand, retail banks were divided into those carrying out business nationwide, those located in certain geographic regions -municipalities, provinces, or regions- and institutions specialized in a financial sector niche market -usually smaller institutions-. Finally, it is worth noting that the classifications defined above are solely for analytical purposes and does not mean it is the only methodology criteria by which to group them; while on the other hand, the listing of features for each financial entity group has been established in a general manner.

(f) Indicators exhibited in Tables 1 and 5 of Statistical Appendix: 1.- (Minimum cash compliance at the BCRA in pesos and foreign currency + Other cash holding in pesos and foreign currency + Creditor net balance for BCRA repo transactions with Lebac and Nobac) / Total deposits; 2.- (Position in government securities (without Lebac and Nobac) + Loans to the public sector + Compensations receivable) / Total assets; 3.- (Loans to the non-financial private sector + Leasing) / Total assets; 4.- Non-performing portfolio with the non-financial private sector / Loans to the non-financial private sector; 5.- (Total non-performing portfolio – Loan loss provisions) / Net worth. Non-performing portfolio includes loans classified into situations 3, 4, 5 and 6; 6.- Cumulated annual result / Average monthly netted assets - % annualized; 7.- Cumulated annual result / Average monthly net worth - % annualized; 8.- (Financial margin (Net interest income + CER and CVS adjustments + Gains on securities + Foreign exchange price adjustments + Other financial income) + Service income margin) / Cumulated annual operating costs; 9.- Capital compliance (Responsabilidad Patrimonial Computable) / Risk - adjusted assets according to the regulation of BCRA about Minimum Capital Compliance; 10.- Capital compliance Tier 1 / Risk weighted assets, according to the BCRA rule on minimum capital; 11.- (Capital compliance - Capital requirement) / Capital requirement. Included exemptions.

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 modifications.
ASE: Adjusted stockholders’ equity, for RPC in Spanish. The measure for compliance with bank capital regulations.
CABA: Ciudad Autónoma de Buenos Aires
Consolidated (or aggregate) assets and liabilities: Those arising from excluding operations between financial institutions.
Consolidated result: Excludes results related to shares and participations in other local financial institutions.
CEDRO: Certificado de Depósito Reprogramado. Scheduled Stabilization Coefficient.
Financial margin: Income less outlays of a financial nature. Include 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.
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.
Net 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.
Net 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. Include interest on loans of government securities and premiums on repos and reverse repos.
Lebac and Nobac: Bills and notes of the BCRA.
Liquid assets: Cash disposal (Minimum cash compliance – cash, current account at BCRA and special accounts in guarantee – and other liquid items mainly correspondent accounts) plus Creditor net balance for BCRA repo transactions with Lebac and Nobac.
Liquidity ratio: Liquid assets as a percentage of total deposits.
mill.: million.
NBFI: Non-banking financial institution.
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 counterpart 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, miscellaneous 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.: 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, compensation receivable from the Federal Government and other credits to the public sector.
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.
RPC: Adjusted stockholder’s equity, calculated towards meeting capital regulations. (Responsabilidad Patrimonial Computable)
RWA: Risk weighted assets.
SME: Small and Medium Enterprises.
US$: United States dollars

Statistics annex[1] | Financial system

Chart 1 | Financial Soundness Indicators (see Methodology)

As %	Dec 2005	Dec 2006	Dec 2007	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Aug 2013	Dec 2013	Jul 2014	Aug 2014
1.- Liquidity	20.1	22.5	23.0	27.9	28.6	28.0	24.7	26.8	24.4	26.8	23.0	25.1
2.- Credit to the public sector	31.5	22.5	16.3	12.7	14.4	12.1	10.7	9.7	9.1	9.4	9.2	8.9
3.- Credit to the private sector	25.8	31.0	38.2	39.4	38.3	39.8	47.4	49.5	50.0	50.9	48.0	47.1
4.- Private non-performing loans	7.6	4.5	3.2	3.1	3.5	2.1	1.4	1.7	1.9	1.7	2.0	2.1
5.- Net worth exposure to the private sector	-2.5	-0.8	-1.5	-1.7	-1.3	-3.2	-4.3	-3.1	-2.7	-3.5	-2.9	-2.8
6.- ROA	0.9	1.9	1.5	1.6	2.3	2.8	2.7	2.9	2.9	3.4	4.7	4.7
7.- ROE	7.0	14.3	11.0	13.4	19.2	24.4	25.3	25.7	25.4	29.5	37.6	37.4
8.- Efficiency	151	167	160	167	185	179	179	190	195	206	227	226
9a.- Capital compliance	-	-	-	-	-	-	-	-	13.4	13.6	14.1	14.3
9b.- Capital compliance (credit risk)	15.9	16.9	16.9	16.9	18.8	17.7	15.6	17.1	-	-	-	-
10a.- Capital compliance Tier I	-	-	-	-	-	-	-	-	12.0	12.5	13.1	13.3
10b.- Capital compliance Tier I (credit risk)	14.1	14.1	14.6	14.2	14.5	13.0	11.0	11.9	-	-	-	-
11.- Excess capital compliance	169	134	93	90	100	87	69	59	71	76	82	84

Note: According to Communication "A" 5369, since February 2013 methodological changes in some indicators were carried out. Among others changes, risk weighing coefficients considered to determine capital requirements were redefined, concepts included in the different segments of capital compliance were rearranged and new minimum limits in terms of the Total Risk Weighted Assets (RWA) were added. A wider definition of RWA is considered since Communication "A" 5369, including not only credit risk, but also market and operational risk.

Data subject to changes

Source: BCRA

Chart 2 | Balance Sheet

In million of current pesos	Dec 08	Dec 09	Dec 10	Dec 11	Dec 12	Aug 13	Dec 13	Jul 14	Aug 14	Change (in %) Last month	2014	Last 12 months
Assets	**346,762**	**387,381**	**510,304**	**628,381**	**790,026**	**911,742**	**1,004,892**	**1,145,931**	**1,188,996**	**3.8**	**18.3**	**30.4**
Cash disposal[1]	58,676	71,067	93,085	104,389	148,254	149,406	200,925	175,736	194,909	10.9	-3.0	30.5
Public bonds	65,255	86,318	117,951	112,906	123,491	154,122	141,494	238,767	241,932	1.3	71.0	57.0
Lebac/Nobac	37,093	43,867	76,948	71,050	84,057	107,216	89,641	183,158	186,333	1.7	107.9	73.8
Portfolio	25,652	34,748	61,855	59,664	70,569	88,780	88,091	162,861	160,653	-1.4	82.4	81.0
Repo[2]	11,442	9,119	15,093	11,386	13,488	18,436	1,550	20,297	25,680	26.5	1,556.9	39.3
Private bonds	203	307	209	212	251	432	434	630	879	39.4	102.5	103.4
Loans	154,719	169,868	230,127	332,317	433,925	500,308	563,344	603,147	613,000	1.6	8.8	22.5
Public sector	17,083	20,570	25,907	31,346	39,951	41,576	48,438	51,345	51,436	0.2	6.2	23.7
Private sector	132,844	145,247	199,202	291,708	383,674	447,429	501,857	540,574	550,185	1.8	9.6	23.0
Financial sector	4,793	4,052	5,018	9,263	10,299	11,303	13,049	11,228	11,379	1.3	-12.8	0.7
Provisions over loans	-4,744	-5,824	-6,232	-7,173	-9,596	-11,477	-13,117	-15,451	-16,027	3.7	22.2	39.6
Other netted credits due to financial intermediation	38,152	33,498	39,009	40,805	38,769	57,501	42,435	65,335	72,752	11.4	71.4	26.5
Corporate bonds and subordinated debt	912	1,146	1,433	1,657	2,255	3,505	5,421	5,100	5,199	2.0	-4.1	48.4
Unquoted trusts	5,714	5,942	6,824	7,967	10,822	12,057	12,656	12,715	12,891	1.4	1.9	6.9
Leasing	3,935	2,933	3,936	6,222	7,203	8,207	9,460	9,965	9,988	0.2	5.6	21.7
Shares in other companies	7,236	6,711	7,921	9,123	11,682	13,467	15,117	18,595	19,089	2.7	26.3	41.7
Fixed assets and miscellaneous	7,903	8,239	9,071	10,111	11,251	12,584	14,231	16,300	16,619	2.0	16.8	32.1
Foreign branches	3,153	3,926	3,283	3,525	4,354	4,918	5,627	7,064	7,220	2.2	28.3	46.8
Other assets	12,275	10,337	11,943	15,944	20,441	22,274	24,941	25,843	28,636	10.8	14.8	28.6
Liabilities	**305,382**	**339,047**	**452,752**	**558,264**	**699,205**	**803,644**	**883,091**	**995,581**	**1,034,033**	**3.9**	**17.1**	**28.7**
Deposits	236,217	271,853	376,344	462,517	595,764	680,728	752,422	834,144	861,885	3.3	14.5	26.6
Public sector[3]	67,151	69,143	115,954	129,885	163,691	185,443	202,434	191,534	209,012	9.1	3.2	12.7
Private sector[3]	166,378	199,278	257,595	328,463	427,857	490,174	544,331	634,529	644,046	1.5	18.3	31.4
Current account	39,619	45,752	61,306	76,804	103,192	110,809	125,237	139,036	141,560	1.8	13.0	27.8
Savings account	50,966	62,807	82,575	103,636	125,210	136,872	158,523	184,114	183,678	-0.2	15.9	34.2
Time deposit	69,484	83,967	104,492	135,082	183,736	226,325	241,281	291,360	294,585	1.1	22.1	30.2
Other netted liabilities due to financial intermediation	57,662	52,114	60,029	76,038	75,106	92,329	92,634	118,984	126,497	6.3	36.6	37.0
Interbanking obligations	3,895	3,251	4,201	7,947	8,329	9,105	10,596	8,664	8,905	2.8	-16.0	-2.2
BCRA lines	1,885	270	262	1,920	3,535	4,524	4,693	4,731	4,620	-2.3	-1.6	2.1
Outstanding bonds	5,984	5,033	3,432	6,856	9,101	12,147	14,198	17,111	17,156	0.3	20.8	41.2
Foreign lines of credit	4,541	3,369	3,897	6,467	4,992	5,157	6,328	11,643	11,732	0.8	85.4	127.5
Other	13,974	14,891	17,426	24,137	26,280	26,189	41,345	37,453	38,130	1.8	-7.8	45.6
Subordinated debts	1,763	1,922	2,165	2,065	2,647	2,997	3,425	4,033	4,158	3.1	21.4	38.8
Other liabilities	9,740	13,159	14,213	17,644	25,688	27,590	34,610	38,419	41,492	8.0	19.9	50.4
Net worth	**41,380**	**48,335**	**57,552**	**70,117**	**90,820**	**108,098**	**121,800**	**150,350**	**154,963**	**3.1**	**27.2**	**43.4**
Memo												
Netted assets	321,075	364,726	482,532	601,380	767,744	878,271	989,825	1,107,638	1,143,973	3.3	15.6	30.3
Consolidated netted assets	312,002	357,118	472,934	586,805	750,598	859,395	968,458	1,086,681	1,122,646	3.3	15.9	30.6

([1]) Includes margin accounts with the BCRA. ([2]) Booked value from balance sheet (it includes all the counterparts).

([3]) Does not include accrual on interest or CER.

Source: BCRA

[1] Note | Data available in Excel in http://www.bcra.gob.ar/pdfs/polmon/InfBanc_Anexoi.xls

Statistics annex[1] | Financial system

Chart 3 | Profitability Structure

Amount in million of pesos	Annual						First 8 months		Monthly			Last
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2013**	**2014**	**Jun-14**	**Jul-14**	**Aug-14**	**12 months**
Financial margin	20,462	28,937	35,490	43,670	61,667	88,509	52,492	87,982	8,605	10,333	11,395	123,999
Net interest income	9,573	14,488	17,963	24,903	38,365	50,336	32,081	40,808	5,063	5,445	5,477	59,063
CER and CVS adjustments	2,822	1,196	2,434	1,725	2,080	2,153	1,381	3,299	305	285	285	4,072
Foreign exchange price adjustments	2,307	2,588	2,100	3,025	4,127	11,287	5,446	12,455	415	468	969	18,296
Gains on securities	4,398	11,004	13,449	14,228	17,356	22,280	13,265	27,642	2,887	4,228	4,717	36,656
Other financial income	1,362	-339	-457	-211	-261	2,454	318	3,777	-65	-94	-54	5,913
Service income margin	10,870	13,052	16,089	21,391	28,172	36,503	23,507	30,233	4,134	4,114	4,048	43,229
Loan loss provisions	-2,839	-3,814	-3,267	-3,736	-6,127	-9,349	-5,387	-7,136	-694	-783	-1,030	-11,098
Operating costs	-18,767	-22,710	-28,756	-36,365	-47,318	-60,722	-38,921	-52,228	-6,576	-6,734	-6,863	-74,029
Tax charges	-2,318	-3,272	-4,120	-6,047	-8,981	-13,916	-8,910	-12,628	-1,582	-1,636	-1,663	-17,635
Adjust. to the valuation of gov. Securities[1]	-1,757	-262	-214	-336	-338	-377	-243	-665	-69	-61	-60	-799
Amort. payments for court-ordered releases	-994	-703	-635	-290	-274	-128	-76	-52	-8	-6	-5	-105
Other	1,441	918	2,079	2,963	2,475	2,576	1,779	3,863	706	342	895	4,659
Total results before tax[2]	6,100	12,145	16,665	21,251	29,276	43,094	24,242	49,369	4,515	5,570	6,716	68,222
Income tax	-1,342	-4,226	-4,904	-6,531	-9,861	-13,951	-8,335	-15,945	-1,231	-1,575	-2,365	-21,561
Total result[2]	**4,757**	**7,920**	**11,761**	**14,720**	**19,415**	**29,143**	**15,907**	**33,425**	**3,283**	**3,995**	**4,351**	**46,660**
Adjusted Result[3]	7,508	8,885	12,610	15,345	20,027	29,649	16,226	34,142	3,361	4,062	4,416	47,564
Annualized indicators - As % of netted assets												
Financial margin	6.7	8.6	8.5	8.0	9.2	10.3	9.7	12.3	9.4	11.3	12.1	12.1
Net interest income	3.1	4.3	4.3	4.6	5.7	5.9	5.9	5.7	5.5	5.9	5.8	5.8
CER and CVS adjustments	0.9	0.4	0.6	0.3	0.3	0.3	0.3	0.5	0.3	0.3	0.3	0.4
Foreign exchange price adjustments	0.8	0.8	0.5	0.6	0.6	1.3	1.0	1.7	0.5	0.5	1.0	1.8
Gains on securities	1.4	3.3	3.2	2.6	2.6	2.6	2.4	3.9	3.2	4.6	5.0	3.6
Other financial income	0.4	-0.1	-0.1	0.0	0.0	0.3	0.1	0.5	-0.1	-0.1	-0.1	0.6
Service income margin	3.6	3.9	3.8	3.9	4.2	4.3	4.3	4.2	4.5	4.5	4.3	4.2
Loan loss provisions	-0.9	-1.1	-0.8	-0.7	-0.9	-1.1	-1.0	-1.0	-0.8	-0.9	-1.1	-1.1
Operating costs	-6.1	-6.7	-6.9	-6.7	-7.0	-7.1	-7.2	-7.3	-7.2	-7.4	-7.3	-7.2
Tax charges	-0.8	-1.0	-1.0	-1.1	-1.3	-1.6	-1.6	-1.8	-1.7	-1.8	-1.8	-1.7
Adjust. to the valuation of gov. Securities[1]	-0.6	-0.1	-0.1	-0.1	-0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Amort. payments for court-ordered releases	-0.3	-0.2	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.5	0.3	0.5	0.5	0.4	0.3	0.3	0.5	0.8	0.4	0.9	0.5
Total results before tax[2]	2.0	3.6	4.0	3.9	4.3	5.0	4.5	6.9	4.9	6.1	7.1	6.7
Income tax	-0.4	-1.3	-1.2	-1.2	-1.5	-1.6	-1.5	-2.2	-1.3	-1.7	-2.5	-2.1
ROA[2]	**1.6**	**2.3**	**2.8**	**2.7**	**2.9**	**3.4**	**2.9**	**4.7**	**3.6**	**4.4**	**4.6**	**4.5**
ROA adjusted[3]	2.5	2.6	3.0	2.8	3.0	3.5	3.0	4.8	3.7	4.4	4.7	4.6
ROE before tax	*17.2*	*29.5*	*34.5*	*36.5*	*38.8*	*43.7*	*38.8*	*55.2*	*39.5*	*47.3*	*55.3*	*54.3*
ROE[2]	*13.4*	*19.2*	*24.4*	*25.3*	*25.7*	*29.5*	*25.4*	*37.4*	*28.7*	*34.0*	*35.9*	*37.2*

(1) Com. "A" 3911. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains from securities" heading.
(2) As of January 2008, data to calculate financial system consolidated result is available. This indicator excludes results and asset headings related to shares and participation in other local financial entities.
(3) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and 4084.
Source: BCRA

Chart 4 | Portfolio Quality

As percentage	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Dec 11	Dec 12	Aug 13	Dec 13	Jul 14	Aug 14
Non-performing loans (overall)	**5.2**	**3.4**	**2.7**	**2.7**	**3.0**	**1.8**	**1.2**	**1.5**	**1.7**	**1.5**	**1.8**	**1.9**
Provisions / Non-performing loans	115	108	115	117	115	148	176	144	137	150	140	139
(Total non-perfoming - Provisions) / Overall financing	-0.8	-0.3	-0.4	-0.5	-0.5	-0.9	-0.9	-0.7	-0.6	-0.8	-0.7	-0.7
(Total non-perfoming - Provisions) / Net worth	-2.6	-0.9	-1.6	-1.8	-1.7	-3.6	-4.6	-3.4	-3.0	-3.7	-3.0	-3.0
Non-performing loans to the non-financial private sector	**7.6**	**4.5**	**3.2**	**3.1**	**3.5**	**2.1**	**1.4**	**1.7**	**1.9**	**1.7**	**2.0**	**2.1**
Provisions / Non-performing loans	115	108	114	116	112	143	171	141	134	148	138	137
(Total non-perfoming - Provisions) / Overall financing	-1.1	-0.3	-0.5	-0.5	-0.4	-0.9	-1.0	-0.7	-0.6	-0.8	-0.8	-0.8
(Total non-perfoming - Provisions) / Net worth	-2.5	-0.8	-1.5	-1.7	-1.3	-3.2	-4.3	-3.1	-2.7	-3.5	-2.9	-2.8

Source: BCRA

[1] Note | Data available in Excel in
http://www.bcra.gob.ar/pdfs/polmon/InfBanc_Anexoi.xls