Report on Banks

SEPTEMBER 2004

Central Bank of Argentina

Year II - No. 1

Contents

Profitability 2
Second consecutive quarter of profits...

Activity 4
Towards a normalization of sources and uses of funds...

Medium and long-term lending .7
Conditioned by short-term funding...

Portfolio quality..........................8
Another quarter with widespread gains...

Latest regulations.......................10

Methodology and glossary..........11

Statistics......................................13

Note: This report contains information from September 2004 balance sheets available on 22/10/04. 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 $15 million in September. The third quarter of 2004 concluded with a profit of $136 million, equivalent to 0.3% of assets in annualized terms (a.), almost 2.5 p.p. greater than in the same period of the previous year. This has been the second consecutive quarter in which profits have been recorded. Although in 2004 to date a loss of $500 million has been accumulated, equivalent to 0.3%a., excluding the amortization of court orders and adjustments to the valuation of public sector assets, the adjusted result shows a profit of $1.26 billion (0.9%a.).

- Private banks recorded a loss of $32 million during the month, ending the quarter with a result equivalent to –0.1%a. of assets, an improvement of almost 1.5 percentage points (p.p.) compared to the same period of 2003. In 2004 the accumulated loss totals $540 million (–0.6%), but the result once adjusted becomes a profit of $615 million (0.7%a. of assets).

- The deterioration of private bank results was mainly due to the losses from the appreciation of the peso against the dollar. The financial margin also showed some signs of deterioration, mainly because of lower accruals of CER and individual adjustments to interest income.

- Despite the 0.2 p.p. increase in profits from financial services, the reduction in the financial margin meant that the coverage of operating costs fell during the month below 100%, although for the third quarter this indicator has reached an average level of 120%.

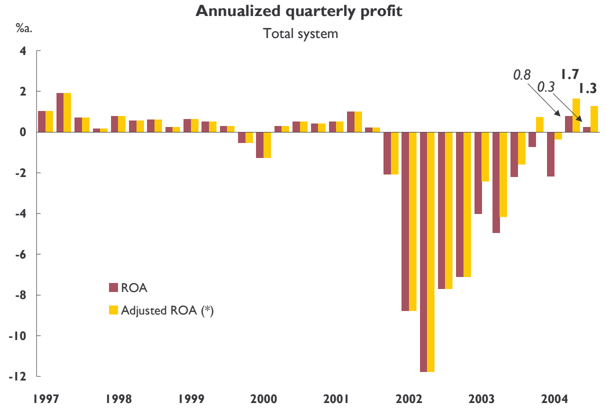
- Financial system deposits continued to rise, with more than half the increase explained by the behavior of private sector deposits. For private banks, the increase in deposits by the non-financial sector represented a flow of funds for $1.1 billion in September. Once again, time deposits recorded the greatest increase ($240 million) within the private bank deposit total. For the second month in succession, new deposits in pesos were higher than those in pesos restated according to CER.

- Lending to the private sector continued along the upward path begun at the end of the previous year. In the case of the financial system as a whole, these loans total an increase of 22%a. in 2004 to date. During September, private banks applied over half the deposits gained to private sector lending ($600 million), both for commercial loans and consumer spending. Lending to the private sector by private banks increased by 28%a. in the third quarter and 25%a. for the year.

- Liquid assets of private banks experienced an increase for the month of $770 million, with a significant increase in the balance of current accounts at the Central Bank. Much of this variation took place in dollar items, as a result of the performance by foreign financing: for the first time since the crisis in 2001-2002 private banks obtained funds under this heading.

- The level of non-performance by private bank loans to the private sector recorded a further decline of one half of one percentage point, to a level of 19%, following a drop in the non-performance of consumer loans of (0.7 p.p.). During the quarter private banks have recorded a 2 p.p. drop in this indicator, led by retail banks with nation-wide coverage. In 2004 to date, non-performance by the private sector has fallen 11.5 p.p., mainly reflecting the reduction in non-performance in the commercial portfolio (–16 p.p.).

Chart 1
Annualized quarterly profit
Total system



(*) Net of the amortization of court-ordered releases and adjustments to the valuation of public sector assets

Chart 2
Financial margin
3-month moving average

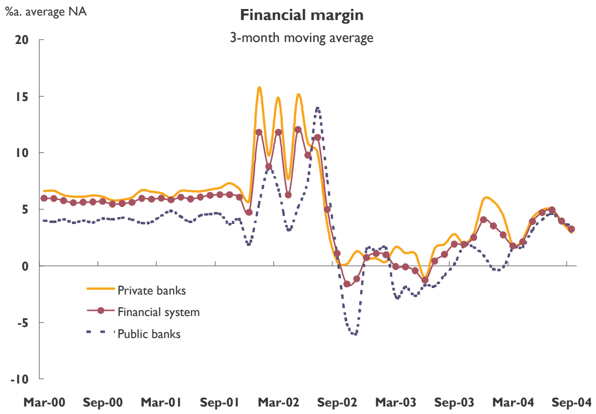
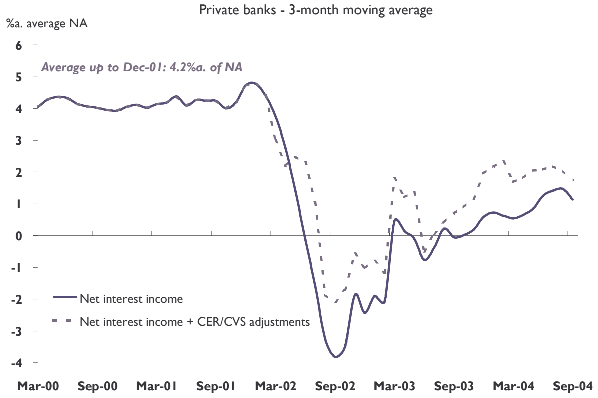


Chart 3
Net interest income and CER/CVS adjustments
Private banks - 3-month moving average



Profitability: *Second consecutive quarter of profits*

The financial system ended the third quarter of the year with a positive result of $136 million, or an annualized 0.3% (a.) of assets. This is the second consecutive quarter in which banks have registered profits (see Chart 1), marking a significant break with the earlier period of losses (ROA for this quarter is almost 2.5 p.p. greater than in the same period of the previous year), in the context of a gradual recovery that is still taking place. **Financial system profits in September totaled $15 million, a return of 0.1%a. of assets.** In 2004 to date there has been a loss of $495 million (0.3%a.) which is transformed into a profit of $1.26 billion (0.9%a. of assets, compared with an adjusted ROA of –2.7%a. in the same period of 2003) when adjusting for the impact of the main factors arising from the gradual recognition of the costs of the crisis (amortization of court orders and adjustments to the valuation of public sector assets).

Private banks posted a loss of $32 million (the lowest of the year), equivalent to a profitability level of –0,3%a. of assets. Out of a total of 61 private institutions, 36 obtained profits in September, 7 fewer than in the previous month. As a result, private banks have concluded the third quarter of the year with a negative profitability of $35 million (–0.1%a. of assets); this compares favorably with the loss levels in the same periods of 2002 and 2003 (–10.2%a. and –1.7%a. respectively) and with the first half of 2004 (–0.9%a.), reflecting the positive trend for which private bank results are noted, despite the fact that their levels are still low. In 2004 to date, private banks have registered a loss of close to $540 million (–0.6%), but excluding the amortization of court orders and adjustments to the valuation of public sector assets, the accumulated profit totals $615 million (0.7%a.).

Private bank results for September were particularly influenced by the performance of the exchange rate, which caused losses because of the revaluation of assets and liabilities in foreign currency. There has also been some deterioration in the yield on interest-bearing assets (especially the component for inflation adjustment), and an increase in loan loss provisions, factors that were partly offset by sundry income (from the release of provisions) and improved income from services.

The principal components of the financial margin deteriorated during the month (see Chart 2), although they reflected adjustments by certain specific institutions. On the one hand, **the variation in the exchange rate between the ends of August and September** (down from 3 to 2.98 $/US$) **resulted in widespread losses for the month from exchange rate differences that totaled 0.5%a. of assets for the private bank aggregate. On the other, the sum of the result from interest and CER adjustments fell 0.7 p.p. in the month for private banks, to a level of 1.3%a.** (see Chart 3). This decline was led by the CER adjustment component, given the lower monthly variation of this item, which dropped 0.4 p.p. to a level of 0.3%a. of assets. In the case of the interest line, a slight decline of 0.3 p.p. was recorded. These movements were only partly offset by a slight increase in results

Chart 4
Loan loss provisions
Private banks - 3-month moving average

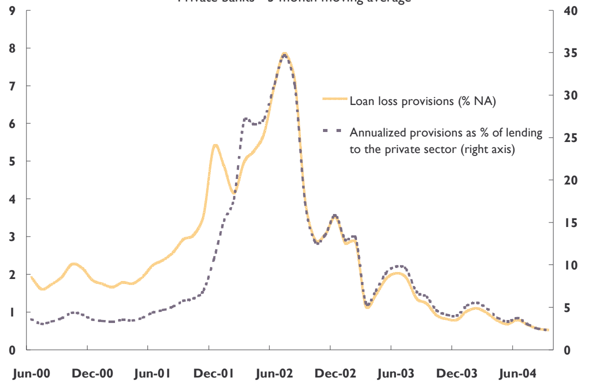


Chart 5
Operating costs
Private banks - 3-month moving average

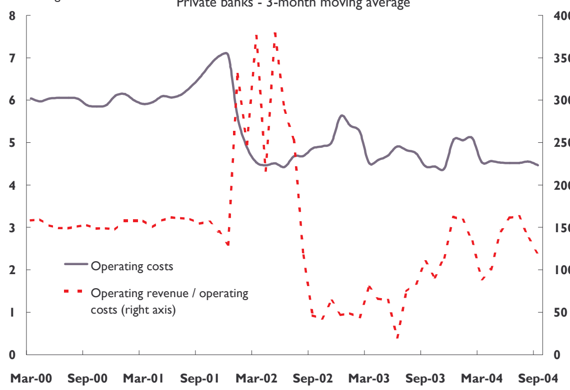


Table 1

Profitability by group

Annualized ROA in % - by type and area coverage

	Q3 2003	Q2 2004	Q3 2004	% share of NA (Q3 '04)*
Public	-3.3	1.3	0.8	*39.3*
Private	-1.7	0.4	-0.1	*60.0*
Retail	-1.6	0.5	0.0	*57.3*
National coverage	-2.3	-0.3	-0.6	*45.4*
Regional coverage	1.9	3.9	2.2	*11.4*
Specialized	1.8	1.5	1.1	*0.5*
Wholesale	-4.8	-1.1	-1.9	*2.6*
Non-bank institutions	7.9	4.0	5.4	*0.8*
TOTAL	-2.2	0.8	0.3	*100*
Adjusted total (**)	-1.6	1.7	1.3	*100*

(*) Percentage share of total NA according to Q3 figures.

(**) Net of the amortization of court-ordered releases and adjustments to the valuation of public sector assets (Com "A" 3911 and 4084).

on assets, which totaled 1.2%a. of assets in September. This latter performance was a result of greater gains from participation in financial trusts.

Private bank loan loss provisions increased by 0.6 p.p., to a level of 1%a. of assets. It should be recalled that these charges (which in part adjust the financial margin total on the basis of the expected uncollectibility) had been recording historically low levels in recent months, with several banks revising their accrued provisions downward. Furthermore, it is normal for larger than usual loan loss provisions to be made at quarterly closings. Analyzing the provisions for the latest quarter, their level (0.5%a.) is 0.3 p.p. lower than in the previous quarter, and 0.7 p.p. below that in the same period of 2003 (see Chart 4). In addition, **this increase in provisions has been offset by the release of provisions made in previous years[1], with a positive impact on sundry income**. Sundry income has thus been strongly positive, rising almost 1.5 p.p. to 2.2%a. of assets.

Private bank income from services rose 0.2 p.p. in September to its highest level of the year: 2.5%a. of assets. The steady positive trend in net commission income has thus been maintained (with a total for the quarter 20% higher than in the same period of the previous year), led by retail banks with a nationwide coverage. Nevertheless, given the decline for the month in financial margin and the stability of operating costs (unchanged for the month), there has been **a temporary deterioration in the ratio of coverage of costs by income, which at the end of September stood at a level slightly below 100%**, almost 20 p.p. higher than its level in the same period of the previous year. In the last three months the average level of cover of costs by income has been close to 120% (see Chart 5), an improvement of 10 p.p. compared to the same quarter of 2003.

Analysis of the profitability of the various uniform sub-groups making up the system shows that in the **third quarter of 2004 there has been a general recovery in results compared to the same period of the previous year, and certain deterioration compared to the second quarter of 2004**. Year-on-year comparison reveals a significant recovery in the case of the two groups of banks with the greatest weighting: private retail banks with a nationwide coverage and public banks (see Table 1). Although the first of these groups continued to record slight losses, it has achieved an improvement of close to 2 p.p. compared with the same quarter of the previous year. In the case of public banks, there has been a notable switch from a loss context to one of profits, largely explained by higher yields on interest-bearing assets (both from interest and CER adjustments). Compared against the immediately preceding quarter, the widespread drop in profitability reflects the impact of an environment of lower inflation and a more stable exchange rate.

In terms of the distribution of all banks according to their adjusted ROA, there has been a steady increase in the number of cases recording positive results. During the third quarter of this year, 57 banks (63%) achieved a positive adjusted ROA, whereas in the same

[1] In accordance with regulatory restrictions, such releases may take place because of the disappearance of the causes giving rise to the setting up in the first place, or if they are excessive in the light of the prevailing conditions.

Chart 6
Quarterly adjusted ROA
Net of amortization for court-ordered releases and adjustments to the valuation of public sector assets

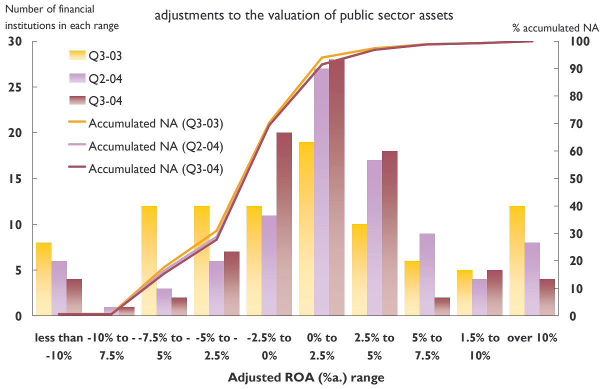


Chart 7
Netted assets and Net worth
Private banks

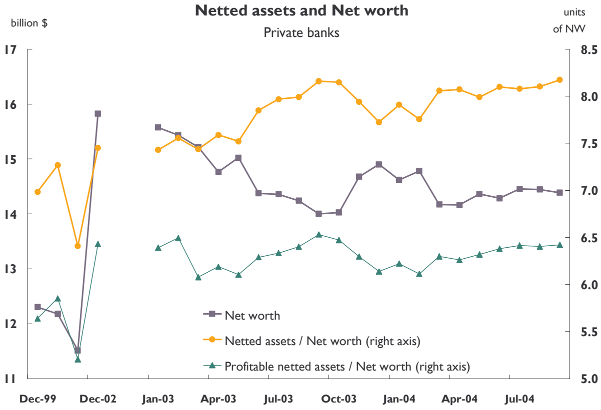


Table 2
Main developments in October

	Sep	Oct	Chg. %
Prices			
Exchange rate ($/US$)[1]	2.98	2.98	-0.14
CPI	149.45	150.04	0.39
CER[1]	152.00	152.88	0.58
	%		Chg. (p.p.)
Average percentage rates			
Lending[2]			
Overdraft	14.7	15.3	0.6
Promissory notes	11.8	11.7	-0.1
Mortgage	11.7	12.2	0.5
Pledge-backed	13.4	11.7	-1.7
Personal	25.5	26.0	0.5
30- to 44-day time deposit	4.0	3.1	-0.8
1-year LEBAC in pesos, w/o CER	6.8	6.1	-0.7
	million $		Chg. %
Balance[1] - Private banks			
Peso deposits - Private sector	46,160	46,641	1.0
Sight deposits	25,343	24,975	-1.5
Time deposits	19,082	20,119	5.4
Peso loans - Private sector	22,474	22,894	1.9
Overdraft	5,533	5,739	3.7
Promissory notes	4,321	4,509	4.3
Mortgage	5,235	5,188	-0.9
Pledge-backed	687	719	4.7
Personal	1,971	2,072	5.1

(1) End of month figure.
(2) Estimation based on SISCEN data (provisional data subject to change).

period of 2003 only 52 financial institutions (54%) obtained profits (see Chart 6). Compared to the previous quarter, however, there has been a drop in the number of banks showing positive results.

Lastly, **as a result of losses for the month and adjustments affecting the results for prior periods, the net worth of private banks declined by 0.4% in September**. As a result of this decline and the increase of 0.5% in netted assets, the leverage ratio (defined as netted assets over net worth) increased slightly, rising from 8.1 to 8.2 times net worth (see Chart 7). Regarding minimum capital requirements, the relative stability of balance sheet totals meant that capital compliance as a percentage of risk-weighted assets has remained constant during the month. The current capital position (compliance in excess of total requirements) as a percentage of total minimum capital requirement increased 7 p.p. to 179%, given the drop in additional requirements from non-compliance with technical ratios.

Outlook for October

Results for October are expected to be in line with the gradual recovery in bank profitability over recent months. Although this process has not been exempt from significant volatility (in part explained by non-recurring adjustments and certain large transactions by a few individual banks, factors that are difficult to forecast), on the basis of available information an improvement is expected in the profitability of the financial system. Factors justifying this positive outlook include the various components of the intermediation margin (see Table 2). On the one hand, given the performance of the rate of exchange between the peso and the US dollar (which remained stable), banks will post lower exchange rate differences, after the losses under this heading in September. In terms of the yield on interest-bearing assets, the interest component could rise, given the steady increase in overdrafts, promissory notes and consumer loans (with slightly higher interest rates in the case of overdrafts and consumer loans); the effect of these increases could however be partly offset by interest paid on time deposits, given the larger balances recorded in October, despite the slight negative variation recorded in the rate of interest paid on such deposits. The CER adjustment component is expected to increase in October, as the corresponding index changed by 0.58%, almost twice the rate of the previous month. Lastly, as the balance sheets for the quarter have been closed, there could be some decline in loan loss provisions.

Activity: *Towards a normalization of sources and uses of funds*

In September there was a slowing in the growth of assets held by the consolidated financial system: the year-on-year (y-o-y) variation was 7.7%, 0.3 p.p. less than in August. Measured in real terms, the slowdown was even greater, given the rise in price levels during that month: financial institution assets at constant prices went up 1.7% y-o-y, 0.9 p.p. less than in the previous month (see Chart 8). **Deposits from the non-financial sector continued to increase,** to a level of

Chart 8
Netted assets and deposits
At September 04 prices - Consolidated system

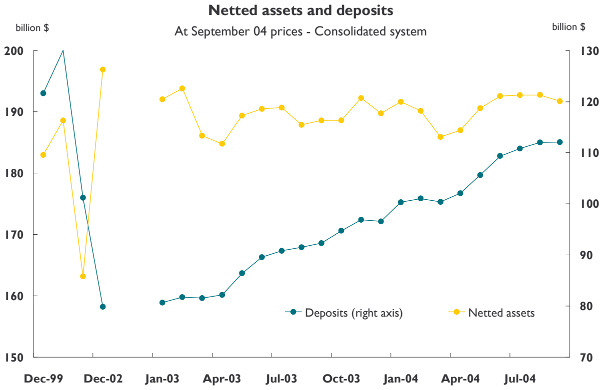
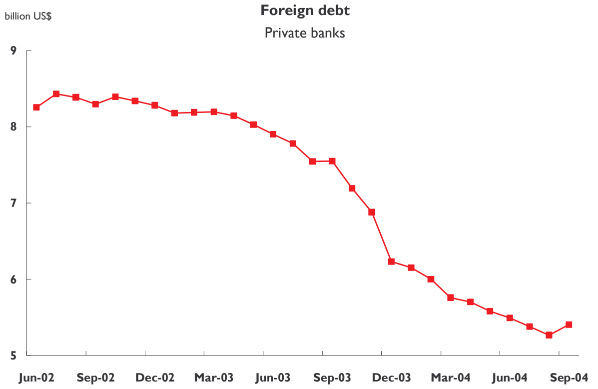


Table 3
Estimated sources and uses of funds
Private banks - September 2004
million pesos

Source		Uses	
Private sector deposits (excluding CEDRO)	665	Liquid assets [1]	770
Public sector deposits (excluding CEDRO)	385	Reverse repos with the Central Bank	-55
Outstanding bonds and foreign lines of credit	245	Loans to non-financial private sector	600
Repos with the non-financial sector	225	CEDRO	275
Other	220	BCRA rediscounts	95

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 9
Foreign debt
Private banks



$112 billion[2] at the end of September, with growth of 1% compared to the previous month and a variation of 29%a. in 2004 to date (16% measured in real terms[3]). Continuing the trend seen in previous months, much of the increase in the system's deposits has been due to the behavior of the public sector (a reflection of the sound performance by fiscal accounts), as it has doubled its deposit totals in the last 9 months, with a notable improvement in the case of state-owned banks. Private sector deposits in the consolidated financial system have grown 6.4% during the year.

Analysis of funds movements by the private bank aggregate during the month shows that **deposits (excluding CEDRO) continued to provide the main source of funds for this group of banks, with a gain of $1.1 billion**[4] (see Table 3). Slightly over 60% of this amount came from private sector deposits. Time deposits in pesos ($420 million) led the increase for the month, in a context of rising interest rates. For the second consecutive month, the increase in time deposits not subject to adjustment was higher than that for deposits adjusted by CER. **In the third quarter of 2004, private banks gained time deposits for an amount of over $1.6 billion,** at twice the rate of growth seen in the previous quarter.

Largely as a result of the better macroeconomic outlook and the improved international context, **for the first time since the crisis in 2001-2002, funding of the domestic financial system from abroad increased again in September,** providing a net flow of $245 million for the month**.** Although the increase was accounted for by a couple of private banks, it is expected that this source of financing will spread to other financial institutions in coming months. This behavior led to an increase in dollar indebtedness of 3% for the month, with a decline in the year to date of 13%. During the course of 2004, this decline has responded to the effects of the debt settlement and restructuring processes carried out by certain private banks (see Chart 9). An additional source of funds gained has been provided by repurchase agreements with the non-financial sector. The net increase for the month under this heading totaled $225 million in the case of the private bank sector.

Private banks applied most of the funds gained to the accumulation of liquid reserves[5]. This balance rose $770 million, with an increase in the balances of the current accounts held by banks at the Central Bank (in both pesos and dollars) and a drop in the net balance of Central Bank repos. Over half the total increase in the portfolio of liquid assets in September has involved assets denominated in US dollars.

Public banks continued to be the most active in the Central Bank repo market. At the end of September these banks held a total of $3.5 billion in repos in LEBAC in pesos falling due in October, while

[2] Including interest and accrued adjustments. Excludes financial sector deposits and rescheduled deposits to be exchanged for government securities.
[3] Adjusted according to the CPI, for which the annual increase has been 4.8%.
[4] Excludes deposits of securities, accrued interest and CER adjustment, as well as the variations in dollar balances as a result of changes in the exchange rate.
[5] The balance of liquid assets includes minimum cash compliance, other liquid funds, and Central Bank repos.

Chart 10
Deposits and liquidity
Private banks

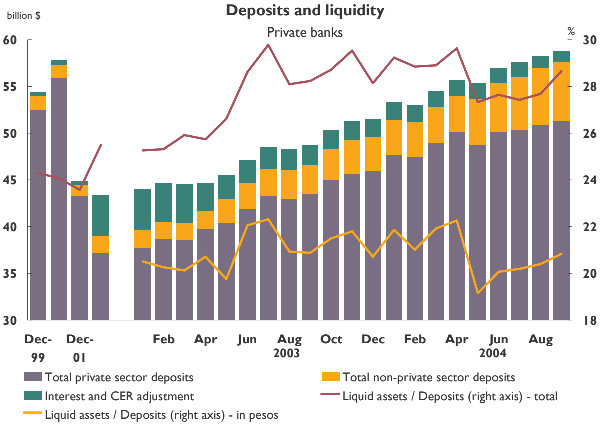
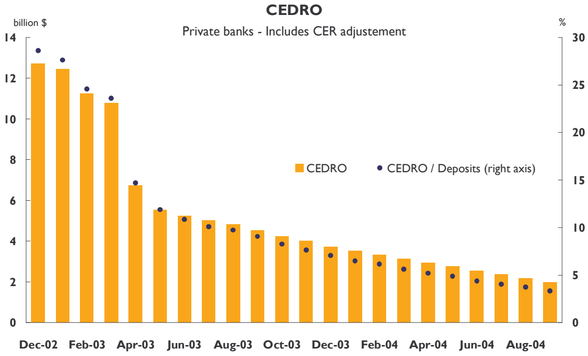


Table 4
Loans to the private sector by group of banks
% change based on balance sheet totals

Public banks	2004	Q3 2004	Sep-04
Total loans	*12*	*23*	*18*
Commercial	20	17	59
Consumer	96	132	150
Other	-5	0	-32
Private banks			
Total loans	*25*	*28*	*45*
Commercial	41	14	22
Consumer	34	33	44
Other	4	31	22
Total system			
Total loans	*22*	*27*	*32*
Commercial	37	14	28
Consumer	48	56	67
Other	1	4	3

Notes:
Does not include accrued interest or CER/CVS adjustments.
Commercial loans include overdraft and acceptance of promissory notes.
Consumer loans include credit card and personal loans.
"Other" includes pledge-backed loans and mortgages.
"Total system" includes data from public banks, private banks and non-banking institutions.
Balance sheet totals adjusted by transfers between loan portfolios and trust funds.
Not adjusted by loans written off the balance sheet.
The private bank group includes three financial institutions currently undergoing a restructuring process and under administration of a national public bank.

Chart 11
CEDRO
Private banks - Includes CER adjustement



private banks recorded $520 million. At the end of September, with the aim of deepening the repo market so that it can be used to set a reference rate for the financial system, the Central Bank included NOBAC with and without CER adjustment within the types of security able to be used in such transactions.

Mainly because of the increase in liquid assets, **the private bank liquidity ratio rose by 1 p.p., to a level of 28.7% in terms of total deposits**. The same ratio for items in pesos only (including categories adjusted by CER) went up 0.4 p.p. to 20.8% of deposits in pesos (see Chart 10).

Strengthening a trend that began at the end of last year, loans to the private sector continue to show signs of sustained growth. Private banks applied funds totaling $600 million[6] to this end during September, an increase over the previous month. Commercial loans rose by $230 million, while consumer loans increased by $165 million. The third quarter of 2004 has thus ended with an estimated use of $370 million for commercial loans and a similar amount for consumer loans. **The total balance for collateralized loans has again failed to record any increase, as a result of the behavior of mortgage loans and despite the rise in pledge-backed loans**. As has been happening in recent months, a rising number of private banks registered increases to mortgage lending totals. It is expected that in coming months the private bank sector as a whole will begin to report a net increase in these long-term lines.

Public banks were once again behind the increase in consumer lending. In the year to date, state banks have achieved strong growth in this market segment, whereas private banks have had more success with their commercial portfolios (see Table 4).

Private banks made use of resources totaling $275 million to pay CEDRO (this calculation includes adjustment for CER and the difference in the rate of exchange in the case of payments made according to court orders). The gradual reduction of the totals for these certificates during the year because of their amortization schedule or because of payments in compliance with court orders has meant that they now account for only 3.3% of private bank deposits, down from a level of 7% in December 2003 (see Chart 11). One transaction carried out by private banks, without an effect on the source and application of funds, was the repayment of rescheduled deposits using government securities in accordance with the Canje (Exchange) II mechanism[7]. This reduced the book balance of rescheduled deposits by $100 million.

Lastly, **private banks used $95 million to pay the seventh installment of the so-called matching** agreement with the Central Bank (a payment that included principal, accrued interest and CER adjustment), which means that since the system began these banks have lowered their debt to the Central Bank by $675 million. The

[6] This figure does not include adjustment for accrued interest or CER/CVS. Changes in balance sheet totals as a result of the setting up or liquidation of financial trusts have also been disregarded, as have changes in dollar balances as a result of variations in the nominal peso/dollar exchange rate.
[7] Established by Decree No. 1.836 dated 2002.

Chart 12
Traded volume with non-financial private sector in pesos

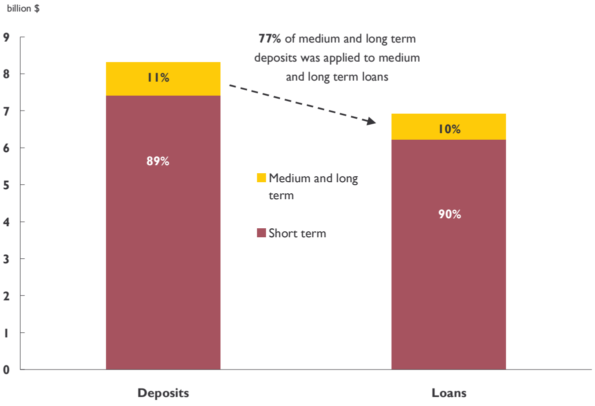


Chart 13
Non-performing portfolio to the private sector

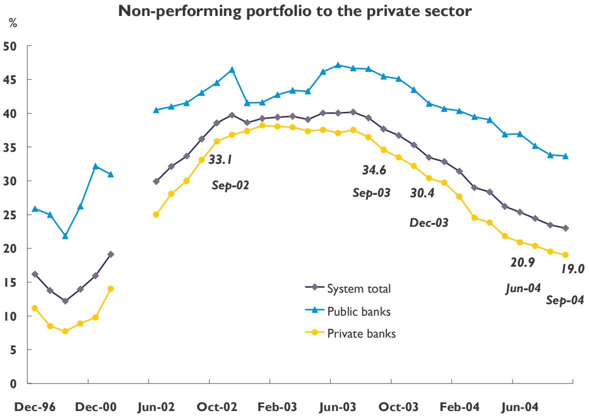


Table 5
Non-performing portfolio by group
As a % of non-financial private sector lending

	Dec-02	Dec-03	Mar-04	Jun-04	Sep-04	Share of lending to private sector(*)
Public	41.6	41.4	39.5	36.9	33.7	*28.2*
Private	37.4	30.4	24.5	20.9	19.0	*70.1*
Retail	37.5	30.3	24.5	20.9	19.2	*67.1*
National coverage	38.7	33.4	27.7	22.9	20.7	*50.1*
Regional coverage	27.6	15.8	12.3	14.5	14.9	*15.7*
Specialized	36.5	31.2	17.4	14.6	13.1	*1.4*
Wholesale	33.7	31.9	25.6	21.1	15.1	*2.9*
Non-bank institutions	36.5	16.3	18.0	11.8	9.9	*1.8*
TOTAL	**38.6**	**33.5**	**29.0**	**25.4**	**23.0**	*100.0*

(*) According to September figures.

book balance of total private bank liabilities to the Central Bank has fallen 2% in the year to date, to $16.7 billion at the end of September 2004.

Medium and long-term lending: *Conditioned by short-term funding*

Towards the end of 2003 a gradual recovery began to be seen in the availability of bank credit for the local economy. As might be expected in a post-crisis context, the first lines to recover, whether commercial or consumer, were for short terms. **One year later, medium and long-term lending by the financial system is showing incipient signs of recovery, although not yet replicating the behavior of short-term credit.** There are various reasons for this contrasting behavior, as there are elements that have conditioned both the demand and supply of financing. **The supply of medium and long-term bank credit is conditioned by the very strong bias in favor of the short term in the structure of bank funding.** Half of all private sector deposits are at sight, while the average contractual due date on time deposits (although rising) is only 44 days.

Encouragement of medium and long-term funding would appear to be the most direct way of ensuring a recovery in medium and long-term lending to the private sector. On the one hand, based on the information available on the traded in September for both private sector loans and deposits, it can be seen that **banks allocated the largest portion (77%) of the amount of the deposits taken for medium and long terms (over 90 days) to loans to the private sector for medium and long terms (over 180 days).** Nevertheless, it should be noted that only 11% of the total amount of deposits by the private sector in September were agreed for medium or long terms (see Chart 12).

In addition, **the comparatively smaller financial institutions are playing a relatively more significant role in the process of financial intermediation.** In September the 10 largest lenders to the private sector (accounting for 74% of the total) used 52% of the medium and long-term funds taken to make loans for similar terms, while the remaining banks granted private sector medium and long-term loans for 252% of their deposits taken for medium and long terms. This may be due to the fact that large banks are still experiencing balance sheet asymmetries inherited from the crisis that hinders the taking on of new risks. The Central Bank is promoting market mechanisms (such as CER and interest rate futures markets) that can be used to moderate the impact of such imbalances.

With the aim of increasing medium and long-term lending, **the Central Bank is also developing new instruments** such as the recently-regulated Variable Yield Deposits and Investments (DIVAS), adjustable corporate bonds, a secondary market for time deposits, the unifying of loan portfolios and long-term funding through pension funds.

Chart 14
Quarterly change in portfolio non-performance
Total system - Q2 and Q3 - 2004

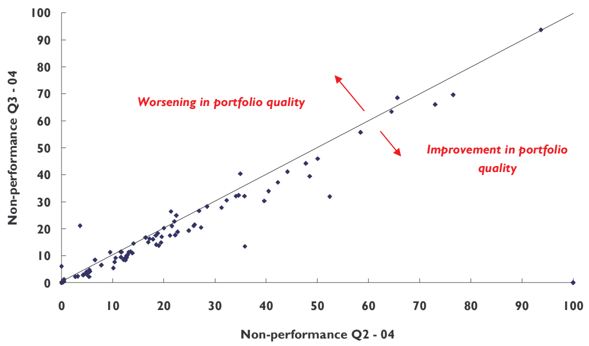
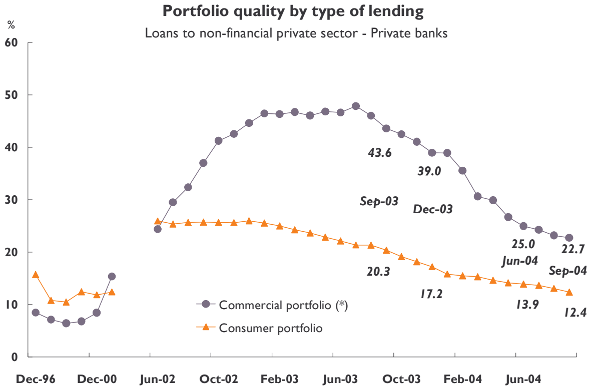
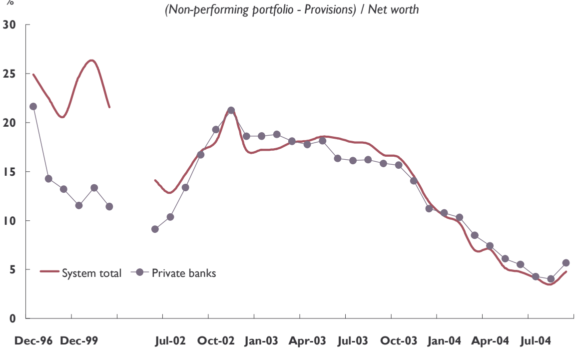


Chart 15
Portfolio quality by type of lending
Loans to non-financial private sector - Private banks



(*) Includes commercial portfolio up to $200,000.

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



Portfolio quality: *Another quarter with widespread gains*

Once again, banks have recorded a drop in portfolio non-performance, in a situation noted for steady recovery in the quality of private sector lending. **Private banks recorded a further drop of one half of one percentage point in the non-performance level of their portfolio of loans to the private sector, which ended the third quarter at a level of 19%** (see Chart 13). In 2004 to date, these banks have accumulated a reduction of close to 11.5 p.p. in their non-performance, with a level at September almost 40% below that for December 2003. Non-performance for the system as a whole also declined by close to 0.5 p.p., to a level of 23%, a drop of 10.5 p.p. over the year to date.

At the end of the third quarter the improvement across the various bank sub-groups was widespread (see Table 5). **There was a notable performance during the quarter by the sub-groups with the greatest weighting, public banks and private retail banks with nationwide coverage.** Although both sub-groups show the most deteriorated portfolio quality indicators in the system, their non-performance declined by 3 p.p. and 2 p.p. respectively, with an improvement for the year of close to 10 p.p.. Wholesale banks posted the best relative improvement in the third quarter, with a reduction of over 6 p.p.. Retail banks with a regional coverage, specialized retail banks and non-bank financial institutions remain the sub-groups with the best portfolio quality, with non-performance indicators of between 10% and 15%. Lastly, regardless of the type of operations and relative sizes, the improvement in portfolio quality in the quarter was widespread across the system as a whole (see Chart 14).

The reduction in non-performance levels for private bank portfolios in September continues to be a reflection of the fact that the volume of loans granted has risen at the same time as the amount rated as non-performing has fallen. **Although the increase in loans in September was more marked in the commercial segment, the drop in the amount rated as non-performing was driven by the consumer segment**. This resulted in a sharper improvement in the quality of the portfolio of this latter segment. **Whereas non-performance in the consumer portfolio dropped 0.7 p.p. for the month, to a level of 12.4%, non-performance in the commercial portfolio fell 0.5 p.p. to a level of 22.7%** (see Chart 15). Despite recording a greater relative deterioration in its delinquency indicators in recent years, the commercial portfolio has shown the greatest improvement in this regards during the year: while this segment has recorded a reduction of 16 p.p. in its non-performance in the year to date, the improvement in the case of the consumer portfolio has been close to 5 p.p.

Lastly, during September there was a slight drop in the ratio for the coverage by provisions of the total non-performing portfolio, as it dropped almost 4 p.p. to a level of 85.5%. This development has mainly reflected the impact of the use of provisions by a small number of banks that made accounting adjustments. As the drop in provisions was greater than the decline in the total amount of loans rated as non-performing, **the ratio for the exposure of net worth to credit risk** [8] **rose 2 p.p. to 5.7% in the case of private banks**. This level remains relatively low in historical terms, as there has been an accumulated drop of approximately 6 p.p. in this indicator during the year. (see Chart 16).

[8] Total non-performing loans less provisions, as a percentage of net worth.

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" 4206 – 09/14/04
Application of the deposit guarantee insurance system. A standard rate of 0.02% has been set, which banks must contribute on a monthly basis to the Deposit Guarantee System. This rate will be effective as from the contribution due in September 2004.

Communication "A" 4222 – 09/28/04
NOBAC in pesos and in pesos adjusted by CER have been included as securities that can be used in repo transactions with the Central Bank through the electronic SIOPEL system on the over-the-counter market (MAE).

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. The private bank group includes three institutions currently being restructured and under management by a national public bank.

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 (NA) and liabilities: 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

Private banks - in annualized terms

In current pesos (millions)	Dec 99	Dec 00	Dec 01	Dec 02	Sep 03	Dec 03	Ago 04	Sep 04	Change (%) Month on month	Change (%) Accum. 2004	Change (%) Year on year
Netted assets	**85,918**	**88,501**	**73,796**	**117,928**	**114,252**	**115,091**	**117,036**	**117,620**	**0.5**	**2.2**	**2.9**
Liquid assets	13,228	13,920	10,576	11,044	13,760	14,500	15,556	16,343	5.1	12.7	18.8
Public bonds	6,433	7,583	1,627	19,751	21,494	22,260	19,727	19,395	-1.7	-12.9	-9.8
Private bonds	410	563	451	273	175	172	223	212	-4.8	23.1	20.9
Loans	56,916	56,035	52,319	51,774	47,755	47,017	52,827	53,037	0.4	12.8	11.1
Public sector	6,389	8,172	13,803	25,056	24,408	23,571	24,882	24,874	0.0	5.5	1.9
Private sector	47,705	45,103	36,636	26,074	22,352	22,816	26,684	27,185	1.9	19.1	21.6
Financial sector	2,823	2,760	1,880	644	996	630	1,261	977	-22.5	55.0	-1.9
Provisions over loans	-3,119	-3,248	-3,957	-7,463	-5,806	-5,225	-4,349	-4,300	-1.1	-17.7	-25.9
Other netted credits due to financial intermediation	4,470	5,730	4,489	26,235	20,152	20,607	18,569	18,667	0.5	-9.4	-7.4
Purchases (net)	487	1,103	807	380	357	698	625	745	19.3	6.8	108.9
Corporate bonds and subordinated debt	1,022	724	665	1,514	1,410	1,394	895	824	-7.9	-40.9	-41.6
Unquoted trusts	958	1,609	1,637	6,205	3,961	3,571	2,139	2,171	1.5	-39.2	-45.2
Compensation receivable	0	0	0	15,971	13,015	13,812	13,812	13,701	-0.8	-0.8	5.3
BCRA	12	35	865	377	328	415	304	311	2.5	-25.0	-5.1
Assets under financial leases	796	776	752	553	407	387	498	545	9.4	41.0	34.0
Shares and participation	1,371	1,651	1,703	3,123	3,195	2,791	1,567	1,550	-1.0	-44.4	-51.5
Fixed assets and sundry	3,246	3,225	3,150	5,198	5,053	4,902	4,806	4,754	-1.1	-3.0	-5.9
Foreign branches	48	75	112	-109	-119	-136	-69	-70	1.1	-48.6	-41.0
Other assets	2,120	2,190	2,574	7,549	8,186	7,816	7,681	7,487	-2.5	-4.2	-8.5
Netted liabilities	**73,615**	**76,322**	**62,281**	**102,101**	**100,249**	**100,191**	**102,584**	**103,232**	**0.6**	**3.0**	**3.0**
Deposits	54,447	57,833	44,863	44,445	49,822	52,625	58,446	58,934	0.8	12.0	18.3
Public sector (1)	1,342	1,276	950	1,636	2,836	3,077	5,744	6,130	6.7	99.2	116.2
Private sector (1)	52,460	55,917	43,270	38,289	44,540	47,097	51,122	51,399	0.5	9.1	15.4
Current account	5,022	4,960	7,158	8,905	9,773	11,588	12,483	12,673	1.5	9.4	29.7
Savings account	9,702	9,409	14,757	6,309	9,252	10,547	13,792	13,845	0.4	31.3	49.6
Time deposit	35,218	39,030	18,012	11,083	18,941	18,710	20,424	20,831	2.0	11.3	10.0
CEDRO	0	0	0	9,016	2,995	2,409	1,296	1,153	-11.0	-52.1	-61.5
Other netted liabilities due to financial intermediation	16,185	15,401	14,082	48,364	43,510	40,825	38,708	38,888	0.5	-4.7	-10.6
Call money	2,146	2,293	1,514	836	1,151	726	1,665	1,458	-12.4	100.8	26.7
BCRA lines	274	83	1,758	16,624	16,842	17,030	16,695	16,764	0.4	-1.6	-0.5
Outstanding bonds	4,990	4,939	3,703	9,073	7,143	6,674	7,991	7,953	-0.5	19.2	11.3
Foreign lines of credit	6,680	5,491	4,644	15,434	11,926	9,998	6,725	6,892	2.5	-31.1	-42.2
Sales (net)	492	510	99	349	227	168	155	94	-39.2	-44.0	-58.6
Subordinated debts	1,683	1,668	1,700	3,622	3,104	1,850	1,381	1,402	1.5	-24.2	-54.8
Other liabilities	1,299	1,420	1,637	5,671	3,813	4,890	4,049	4,008	-1.0	-18.0	5.1
Net worth	**12,304**	**12,178**	**11,515**	**15,827**	**14,003**	**14,900**	**14,452**	**14,388**	**-0.4**	**-3.4**	**2.8**

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

Profitability structure - Private banks

Private banks - in annualized terms

As % of netted assets	Annual 1999	Annual 2000	Annual 2001	Annual 2002	Annual 2003	First 9 months 2003	First 9 months 2004	Monthly Apr-04	Monthly May-04	Monthly Jun-04	Monthly Jul-04	Monthly Aug-04	Monthly Sep-04	Last 6 months
Financial margin	6.1	6.2	6.4	7.6	2.3	1.2	3.2	2.8	7.3	4.8	2.9	4.0	1.9	3.9
Net interest income	4.5	4.1	4.3	-0.2	0.1	-0.1	1.0	0.7	1.0	2.0	1.2	1.3	1.0	1.2
Restatement by CER and CVS	0.0	0.0	0.0	1.1	0.9	0.8	0.9	1.0	1.3	0.2	0.8	0.7	0.3	0.7
Gains on securities	1.1	1.4	1.2	2.5	1.7	1.2	0.9	1.1	1.4	1.8	1.0	1.1	1.2	1.3
Foreign exchange price adjustments	0.3	0.2	0.3	4.4	-0.3	-0.5	0.8	0.1	3.8	1.4	1.0	1.1	-0.5	1.1
Other financial income	0.3	0.5	0.7	-0.1	-0.2	-0.2	-0.3	-0.2	-0.2	-0.7	-1.1	-0.1	-0.1	-0.4
Service income margin	3.1	2.9	3.2	2.0	2.0	2.0	2.3	2.3	2.4	2.3	2.4	2.3	2.5	2.4
Loan loss provisions	-2.2	-2.5	-3.0	-5.0	-1.3	-1.5	-0.8	-0.6	-0.7	-1.1	-0.2	-0.4	-1.0	-0.7
Operating costs	-6.3	-6.0	-6.4	-4.8	-4.6	-4.6	-4.5	-4.5	-4.4	-4.7	-4.5	-4.5	-4.5	-4.5
Tax charges	-0.4	-0.4	-0.5	-0.4	-0.3	-0.3	-0.3	-0.3	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3
Income tax	-0.5	-0.4	-0.3	-0.2	-0.3	-0.3	-0.3	-0.2	0.0	-0.2	0.0	0.0	-0.1	-0.1
Adjustments to the valuation of government securities (	0.0	0.0	0.0	0.0	-0.6	-0.8	-0.1	0.0	-0.1	0.1	-0.1	0.0	-0.1	0.0
Amortization payments for court-ordered releases	0.0	0.0	0.0	0.0	-0.7	-0.6	-0.9	-0.9	-1.0	-1.0	-0.9	-0.1	-1.0	-1.0
Other	0.5	0.4	0.7	-3.0	1.0	1.4	0.8	-0.1	-1.4	1.1	-0.1	0.7	2.2	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	-3.3	-0.3	-1.3	1.8	1.2	-0.7	0.8	-0.2	0.3
ROA before monetary results	0.3	0.1	0.2	-3.8	-2.4	-3.5	-0.6	-1.5	1.8	1.0	-0.8	0.7	-0.3	0.2
ROA	0.3	0.1	0.2	-11.3	-2.5	-3.6	-0.6	-1.5	1.8	1.0	-0.8	0.7	-0.3	0.2
ROA adjusted (**)	0.3	0.1	0.2	-11.3	-1.2	-2.2	0.7	-0.5	2.8	1.9	0.2	1.8	0.7	1.2
Indicators (%)														
ROE	**2.3**	**0.8**	**1.4**	**-79.0**	**-19.1**	**-27.4**	**-5.0**	**-11.9**	**14.1**	**8.4**	**-6.2**	**6.1**	**-2.7**	**1.3**
Financial margin + service income margin / Operati	146.0	151.9	150.9	199.3	93.8	68.5	123.2	112.9	222.1	150.7	119.4	141.6	98.3	140.5
Interest income (with CER and CVS) / loans	..	13.9	16.1	24.7	9.0	8.8	8.2	7.9	9.6	10.0	9.2	8.2	7.7	8.8
Interest payments (with CER and CVS) / deposits	..	5.7	7.8	21.9	5.8	6.8	2.2	2.1	2.5	2.6	2.3	2.2	1.9	2.3

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	Mar 04	Jun 04	Jul 04	Aug04	Sep 04
Non-performing loans (overall)(1)	7.6	8.3	9.9	19.8	15.7	12.5	11.2	10.8	10.4	10.2
Non-performing loans to the non-financial private sector	8.9	9.8	14.0	37.4	30.4	24.5	20.9	20.4	19.5	19.0
Commercial portfolio	6.2	7.6	15.2	44.5	39.9	31.1	25.0	24.2	23.2	22.9
Commercial portfolio up to $200,000	11.7	14.6	16.4	46.4	26.8	24.8	24.9	24.8	22.7	20.9
Consumption and housing portfolio	12.5	11.9	12.4	26.0	17.2	15.3	13.9	13.7	13.1	12.4
Provisions / Total non-performing loans	72.2	67.7	75.8	74.8	81.8	84.2	90.9	91.2	91.4	86.3
(Total non-performing - Provisions) / Overall financing	2.5	3.2	3.4	9.4	5.5	3.9	1.9	1.8	1.7	2.6
(Total non-performing - Provisions) / Net worth	10.1	13.3	11.4	17.4	9.4	6.9	3.7	3.5	3.4	5.3

(1) As a percentage of each lending category.