Central Bank of Argentina

Report on BANKS

DECEMBER 2003

Year 1 - No. 4

CONTENTS

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SUMMARY

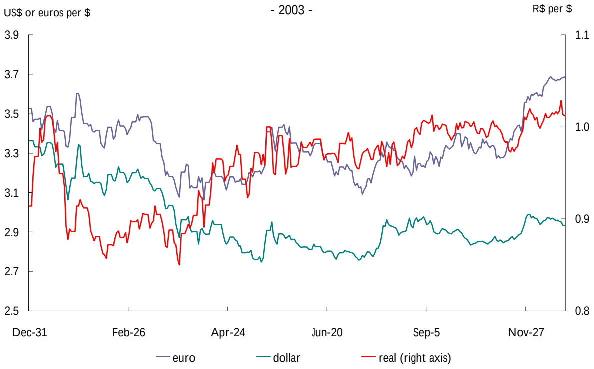
- For the second month in succession the profitability of private banks was positive in December, recording a profit of $240 million, and allowing last quarter profitability to end at 0.6% in terms of netted assets (NA). Profitability improved by 8.8 percentage points (p.p.) of NA compared to the previous year thanks to a change in trend in the second half of the year. The total ROA for 2003 was -2.5%, of which 90% was recorded in the first half of the year.
- Increased accruals for CER and CVS, an improved interest margin (positive for the month) and the restructuring of the debt of a single institution all contributed to explain the positive result for December.
- On the side of outflows, operating costs rose by 18%, as can be expected in the last month of the year. Loan loss provisions did not record significant increases, and stood at an annual 1.2% of NA. Provisions continued to be adjusted downwards at several banks, given the excess provisions set up in previous months.
- Total deposits in the system fell 0.1% in real terms, but ended the year with growth of 19%. Real annual growth was 24% for public banks and 17% for private banks.
- Funds obtained by private banks in December came mainly from the growth in deposits (sight placements that offset the seasonal drop in time deposits) and a drop in liquid assets. The settlement of CEDRO, subordinated debt and corporate bonds, in that order, were the principal uses of funds.
- Private institution funding structure saw a decline in the share accounted for by corporate bonds, subordinated debt and foreign lines of credit (down 2 p.p. for the month and 8 p.p. in the year) as a result of debt capitalization and settlement with government securities. In the fourth quarter, the reduction in these financing lines was US$1.3 billion.
- In December, one month prior to the enforcement of the new Minimum Capital requirements, private sector institutions recorded a ratio of capital compliance to risk weighted assets of 14%.
- Continuing with the improvement in the non-performance indicators and the increase in net worth, the exposure to private sector credit risk fell 2 p.p. in December, to almost half the level recorded at the beginning of 2003.
- In 2004 it is expected that the positive trend in profitability recorded in recent months will continue to gain strength, with greater activity on the side of income than on the side of outflows, contrary to the experience in 2003.

Note: This report contains information from December 2003 balance sheets, available as of 02/02/04. Although information is provided for public banks on some variables, the description centers mainly on the private bank aggregate, including breakdowns by uniform sub-groups.

Context

1- During December financial institutions operated in a context that was similar to that of November, with prices remaining stable and a slightly downward trend in interest rates. The Consumer Price Index (CPI) went up 0.2% in the month, and the Reference Stabilization Coefficient[1] (CER) rose 0.3%. In line with seasonal factors and international conditions, the peso appreciated against the dollar by 1.9%, so that the exchange rate went from 2.99 to 2.93 $ per US$ between the first day of December and the last. The local currency also recorded an appreciation between ends of 0.8% against the real, while against the euro it recorded a depreciation of –3.2% (see Chart 1). On financial markets the downward trend in interest rates continued. The cut-off rate for Central Bank bills (LEBAC) in pesos for 6 months fell from 4.9% to 3.7%, while the one-year rate dropped from 9.8% to 8.5%. Interest rates for time deposits in pesos with 30 to 44 day terms fell from 4.3% to 3.6%. Lastly, interest rates on the call money market remained at around 1.6% for the third month running.

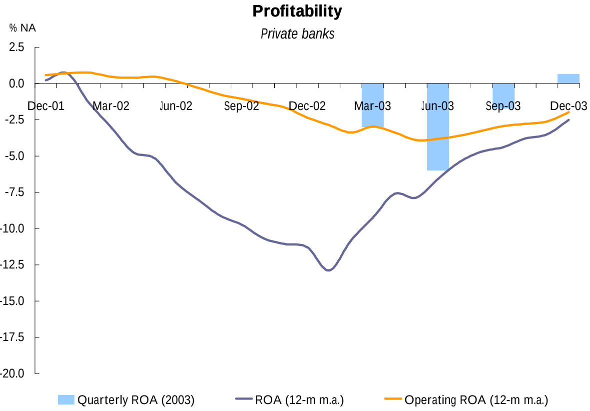
Chart 1
Exchange rates
- 2003 -



Profitability

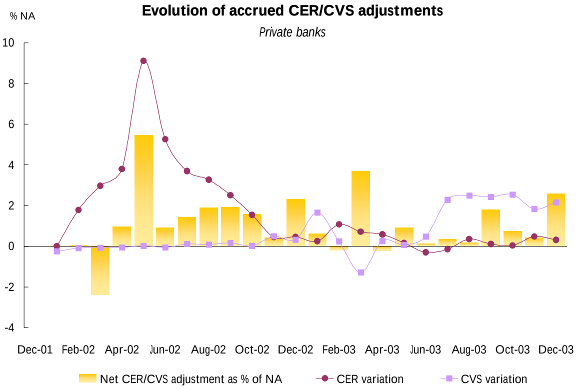
2- **For the second consecutive month, the profitability of private banks was positive in December, although this time influenced by strong adjustments of a non-recurring nature.** Following a monthly profit of close to $240 million, private banks achieved in December a ROA of 2.5% and a ROE of 19% in annualized terms. This has enabled private banks to record a positive result of 0.6% in terms of netted assets for the last quarter of the year, no longer posting large losses and consolidating progress towards a recovery in the profit levels of the sector (see Chart 2).

Chart 2
Profitability
Private banks



3- Unlike the situation during the rest of 2003, **interest income was positive in December, even when removing variations of an extraordinary nature.** The interest margin on a corrected basis rose during December from –0.1% to 0.3% of netted assets (NA)[2], confirming the improved outlook that exists regarding the interest rate margin for coming months, although it is expected that the return to historical levels (approximately 4.5% of NA) will take place gradually on the basis of the progress achieved in the granting of credit to the private sector. Disregarding the corrections, the simple addition of the information submitted by institutions under this heading leads to positive interest income, although slightly below the previous month (0.5% of NA).

Chart 3
Evolution of accrued CER/CVS adjustments
Private banks



4- **Private bank results from restatement according to CER and CVS were also positive,** with growth of almost 0.2 p.p. to a level of 1.3% of NA, if certain institutions that made non-recurring adjustments in the

[1] Complied on the basis of the geometric mean rate calculated on the change in CPI in the previous month

[2] This figure has been corrected for the effects of a debt swap transaction (recalculation of the interest payable accumulated until that moment according to the new rates of interest agreed), reclassification in November of a considerable amount of CER/CVS adjustment to interest income (see the previous number of this Report), and the significant loss from an adjustment in the recording of secured loans.

last two months of the year are excluded. The change is sharper if these banks are included, rising 2.2 p.p. to 2.6% of NA[3] (see Chart 3).

5- If the effects of extraordinary adjustments that do not necessarily reflect events that took place during the month are removed, **private bank gains from securities rise almost 0.5 p.p. to 1.6% of NA** between November and December[4]. On the basis of results on government securities alone (usually accounting for close to 70% of gains from securities) it can be seen that they reached an annualized level of 1.2% of NA, between 0.3 and 0.4 p.p. above the level recorded in the months prior to December 2003 (see Chart 4). The rising trend recorded under this heading in the last quarter of the year is consistent with increased trading activity by banks, reflected in a significant increase in the volumes of BODEN and LEBAC traded on the Buenos Aires Stock Exchange (BCBA) and the electronic over-the-counter market (MAE) (see Chart 5). This trend also incorporates the increases recorded in the prices of the more liquid government securities (such as the BODEN 2012) in the context of a decline in interest rates.

6- **Operating costs also recorded a seasonal increase, with a monthly rise of 18%.** This change, led by personnel costs and depreciation, was in line with expectations for this heading in December of each year. As a result, the level of expenditure reached 5.2% of NA, with month on month growth of almost 0.8 p.p. (see Chart 6). In spite of the increase recorded in spending, and given the rising level of net operating revenue (as a result of increased accrual for CER and CVS and a slight seasonal increase in income from services), during December the ratio for the coverage of costs by net operating revenue was higher than one (103%)[5].

7- Although recording a slight positive variation, **monthly loan loss provisions remained below historical levels.** Annualized provisions by the private bank sector did not rise above 1% of NA, whereas in the first half of the year provisions had been accrued for 1.6% of average NA (see Chart 7). There has therefore been no significant net increase in aggregate provisions for private banks at the end of the year, as was usual in the years prior to the crisis that broke out in December 2001. On the contrary, at several institutions total loan loss provisions continued to decline, given the overshooting in previous months. In line with this, significant amounts continued to be recorded for loan recovery and release of provisions, with a positive impact on sundry income.

8- **Monthly results were particularly influenced by the recognition of a genuine extraordinary gain of almost $800 million by a large institution that successfully completed the restructuring of its liabilities,** although some of these profits were offset by the actions of some retail banks that recorded significant negative adjustments of a non-recurring nature. If institutions recording extraordinary adjustments are excluded from the sample, the profitability of private

Chart 4
Gains from government securities
Private banks

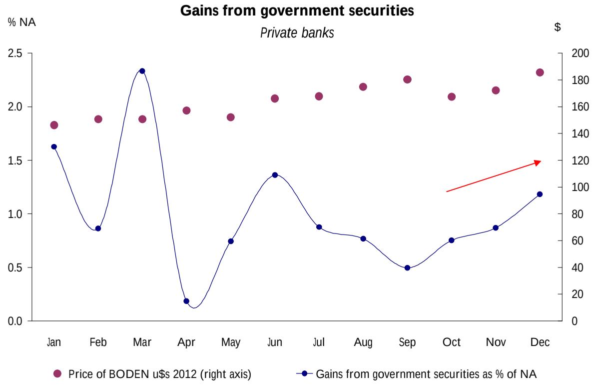


Chart 5
BODEN and LEBAC traded volume

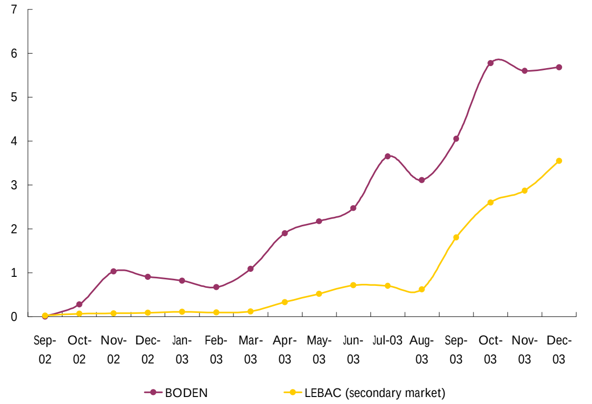
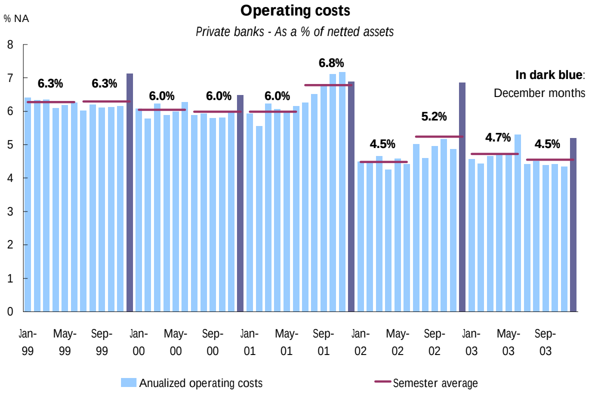


Chart 6
Operating costs
Private banks - As a % of netted assets



[3] They included one institution with a significant negative adjustment in November (see Report on Banks No.3) and one bank that recorded a large amount for CER restatement in December, when correcting the valuation of its secured loans.
[4] The excluded effects include one bank that in November recorded gains from securities of an extraordinary nature in relation to the compensation for asymmetric indexation that it expects to receive (see the last issue of the Report on Banks). Also excluded was a large bank that gave recognition to a large loss on its participation in financial trusts.
[5] This improved level of coverage of expenditure is seen even if the CER and CVS accrual is excluded from operating profits.

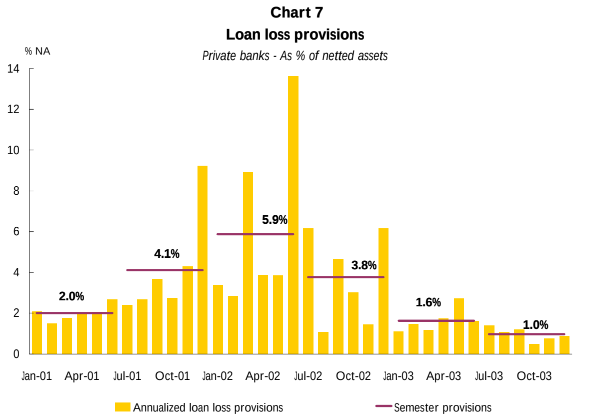


Table 1

Profitability by group (2003)

Annualized ROA as % - by type and area coverage

	2003	H1	H2	Nov	Dec	% share of NA (Dec)*
Public	-2.8	-4.5	-1.1	-2.2	5.2	*28.9*
Private	-2.5	-4.5	-0.5	0.7	2.5	*70.2*
Retail	-2.6	-4.7	-0.4	0.9	2.4	*66.9*
National coverage	-3.2	-5.4	-1.0	0.4	1.6	*54.9*
Regional coverage	0.7	-1.2	2.5	2.4	6.3	*11.6*
Specializes	-0.3	-0.9	0.3	10.2	-13.1	*0.4*
Wholesale	-1.1	0.3	-2.7	-3.4	5.0	*3.3*
Non-bank institutions	-3.9	-11.7	4.0	14.2	0.3	*0.9*
TOTAL	**-2.6**	**-4.5**	**-0.7**	**-0.3**	**3.2**	*100*

(*) Percentage share of total NA for the considered banks

Table 2

Private bank profitability (2003)

As a % of NA - annualized

	2002	2003	Q1-03	Q2-03	Q3-03	Q4-03
Net interest income	-0.2	0.0	0.5	-0.8	0.0	0.4
Restatement by CER and CVS	1.1	0.9	1.3	0.3	0.8	1.2
Other financial income	4.3	-1.0	-4.7	-0.7	1.0	0.5
Service income margin	2.0	2.0	1.9	2.0	2.1	2.2
Gains on securities	2.5	1.3	2.5	0.2	1.1	1.4
Operating costs	-4.8	-4.6	-4.6	-4.9	-4.4	-4.7
Loan-loss provisions	-5.0	-1.3	-1.2	-2.0	-1.2	-0.7
Tax charges	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3
Income tax	-0.2	-0.3	-0.2	-0.6	-0.1	-0.2
Other	-3.0	0.7	1.9	0.8	-0.5	0.8
Monetary results	-7.5	0.0	-0.2	0.0	0.0	0.0
ROA	**-11.3**	**-2.5**	**-3.0**	**-6.0**	**-1.7**	**0.6**
ROE	-79.2	-19.4	-22.2	-46.0	-13.9	5.1
ROA before monetary results	**-3.8**	**-2.5**	**-2.8**	**-6.0**	**-1.7**	**0.6**
ROE before monetary results	-26.4	-19.0	-20.9	-46.0	-13.9	5.1
Operating ROA	-2.4	-2.0	-1.1	-3.7	-2.0	-1.2

banks would decline from 0.4% in November to -0.5% in December, with a slight deterioration in results, as expected at the end of the year.

9- By gaining wide acceptance for the renegotiation of commitments for close to US$1.2 billion (in securities and bank debt), **the above-mentioned institution obtained a significant reduction in its debt, allowing the amount of the "sundries" heading for the private bank aggregate to reach a level of 3.7% of the group's NA**, whereas in November losses for 1.3% of NA were accrued under this heading. Certain adjustments of a non-recurring nature were recorded under this heading, causing a drop in its closing balance.

10- **Between November and December profitability showed a positive performance in the case of almost all the sub-groups making up the private bank segment** (see Table 1). The sub-group with the largest weighting, made up of retail banks with a nationwide coverage, recorded a significant increase (1.2 p.p.) when the bank that completed the restructuring of its liabilities is included. Regional retail banks recorded an increase of almost 4 p.p. in their ROA, ending the year as the leading sub-group in terms of positive profitability for 2003 as a whole. **In comparative terms, public banks achieved a positive ROA of 5.2% in December, with a monthly increase caused by the recognition by one of the largest public sector banks of a CER adjustment over several months**[6].

11- **Private banks ended 2003 with an accumulated negative profitability of almost $2.9 billion, equivalent to an annual ROA of –2.5%,** which as a percentage of net worth (ROE) was –19.4% (see Table 2), a marked improvement compared to the losses in 2002 (when final ROA and ROE were –11.3% and –79% respectively, or –3.8% and –26.3% if monetary results are excluded). Almost 90% of the annual losses by the private bank sector took place during the first half of the year, when annualized ROA reached a level of –4.5% compared to the still negative but far lower ROA (-0.5%) in the second half. For the system as a whole, accumulated losses during the year amounted to close to $4.8 billion (-2.6% in terms of NA and –20.5% in terms of equity)[7].

12- In addition to the absence of losses from exposure to inflation, **the improvement in profitability in 2003 was mainly explained by the drop in loan loss provisions and the recording of sundry gains that were slightly positive.** These favorable effects made it possible to offset the sharp drop in other financial results in 2003, reflecting the impact of a year during which the peso appreciated, in comparison to the depreciation recorded over the length of 2002. **Although of a lesser magnitude, some progress was recorded by operating headings,** such as interest income (which went from a slightly negative result in 2002 to an almost balanced result one year later), and operating costs (which helped to offset the drop recorded in the accrual of CER and CVS adjustments. As a consequence, operating ROA rose 0.4 p.p. between 2002 and 2003, to a level of –2% in the

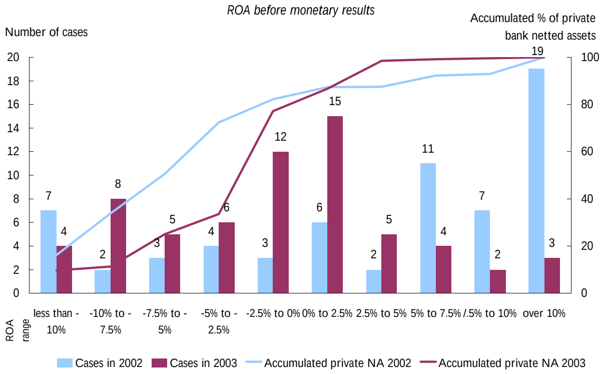
[6] From an adjustment to secured loans constituting the underlying assets for a recently disbanded trust fund.

[7] Figures are provisional, as December figures for one large public bank were not available at the time of writing this Report. In general terms, it should be stressed that the data submitted in this Report is preliminary, as information for December (year-end closing) is traditionally subject to subsequent change.

latter year. The percentage cover of costs provided by operating revenues went up from 58% to 64% in annual terms.

13- Although the annual result for 2003 was negative, its quarterly performance confirms the recovery under way, with a positive result in the last quarter, in marked contrast to the losses recorded during the two first quarters of the year. This recovery over the course of the year has been due to various factors, including the end of negative interest rate margins (driven by the sharp fall in the interest rates paid on deposits), lower losses accrued from exchange rate differences, the adjustment to the valuation of loans to the public sector[8], an upward trend in income from services, a lower accrual of loan loss provisions and a slight drop in operating costs. These positive factors were partially offset by a drop in sundry income, as a result of a lower release of provisions and an increase in the setting up of other provisions.

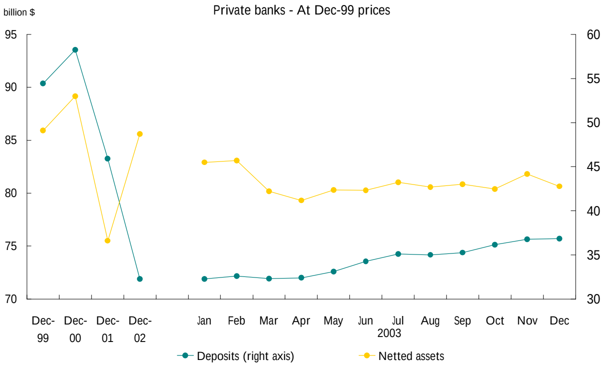
Chart 8
Distribution of bank profitability 2002 vs 2003
ROA before monetary results



14- In terms of the individual banks, although only 29 of the 64 private banks recorded positive profitability before taking into account the monetary result for 2003 as a whole. Of the 35 banks recording losses, 24 show lower losses than in 2002. There has been a notable improvement in the profitability of larger banks, as can be seen from Chart 8, where the function that accumulates the percentage of total private bank NA as a function of ROA calculated before the monetary result is shifted to the right in 2003. While close to three-quarters of the NA of private banks in 2002 corresponded to institutions recording losses of more than 2.5% of assets (before the monetary result), only one third of the NA fell into this category during 2003. The chart also shows that cases showing extreme results (both positive and negative) correspond to small banks with a low weighting in total private bank NA.

Activity level

Chart 9
Netted assets and deposits
Private banks - At Dec-99 prices



15- The level of intermediation by the financial system (defined by the consolidated NA[9]) fell 0.5% in December in real terms (adjusted by the variation in CPI), ending the year at $181 billion – down 3% for 2003 as a whole). The breakdown of the total by group shows that private banks reduced their NA by 6% during 2003, while public banks increased it by 2%. This difference in the annual performance of assets by group led to an increase of 1 p.p. (to 38% in December) in the share of total consolidated assets accounted for by public banks.

16- Total system deposits recorded a small drop (0.1%) in December in real terms, although deposits in dollars defied this trend and posted sharp growth in both the private and public bank segment, with increases of 7% and 1% respectively. On an annual basis and in real terms, deposits in the private non-financial sector went up by 19%, with a marked disparity between public and private banks: while private banks saw a 17% rise in their deposits, in the public bank segment the increase was 24%.

[8] The impact of the adjustment to the valuation of loans to the public sector was concentrated on the first quarter of the year, when they began to be valued on the basis of the discount rate laid down in Com. "A" 3911 (3% for the whole of 2003).
[9] Unless otherwise indicated, in this Report month-end balances are used for the various balance-sheet items.

Table 3
Estimated sources and uses of funds
Private banks- Dec-2003
In million pesos

Source		Use	
Private sector deposits	590	CEDRO	420
Liquid assets [1]	570	Subordinated debt	300
Foreign lines of credit	230	Outstanding bonds	250
		Loans to the private sector	150
		LEBAC	110
		Other	160

[1] Minimum cash compliance (cash, current accounts with the BCRA and special collateral accounts) and other liquid assets (with foreign branches or head offices).

Chart 10
Deposits and liquidity
Private banks

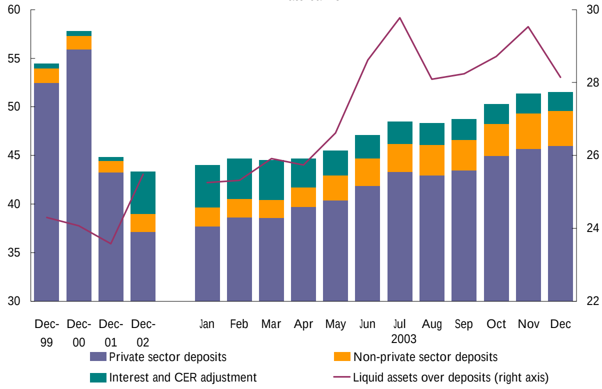


Chart 11
Breakdown of deposits - Private banks

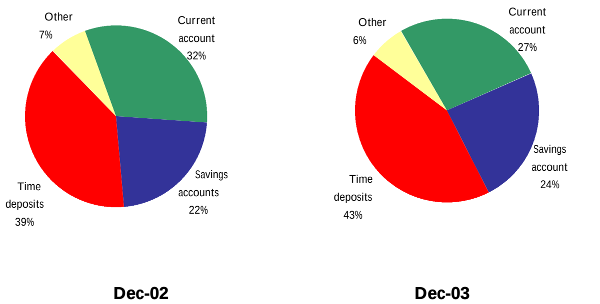
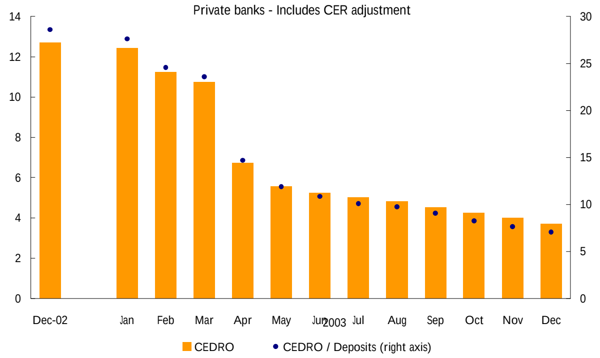


Chart 12
CEDRO and deposits
Private banks - Includes CER adjustment



Flow of funds

17- Table 3 provides a cash flow analysis to help interpret the activity recorded by private banks. Banks in December made use of funds for approximately $1.4 billion for loans to the private sector, settlement of CEDRO certificates, payment of corporate bonds and subordinated debt, and to a lesser extent, for the purchase of LEBAC[10]. These funds were mostly provided by liquid assets and the growth in private sector deposits.

18- Deposits by the private non-financial sector continued to be the main source of funds for private banks: they contributed $590 million in December (excluding CEDRO certificates), with a marked increase in sight deposits (savings accounts and current accounts) that more than offset the drop in time deposits. As has been the case in recent months, sight deposits recorded the greatest growth for most private banks. The drop in time deposits was partly explained by the decline in interest rates, as well as by normal seasonal behavior in the final month of the year, noted for an increase in the demand for liquidity. In view of the changes recorded during the year, the composition of deposits (those not affected by restrictions) has seen an increase in time deposits of 4 p.p. as a proportion of total deposits (excluding CEDRO certificates and their CER adjustment), savings accounts gained 2 p.p. and current accounts lost 5.p.p. (see Chart 11). Time deposit maturity was extended – while 82% of deposits were set up for less than 59 days, and only 12% and 6% were established for 60- to 89-day and over 90-day terms, respectively, in December 2002, a year later 66% were in the less than 59-day segment, while 16% and 18% were for longer terms (60 to 89 days and over 90 days, respectively).

19- Unlike previous months, liquid assets represented an additional source of funds for private banks, as they fell by $570 million. This drop was widespread across the entire system, although it includes an outflow of $240 million from the settlement of corporate bonds abroad (on the uses side, a drop in liabilities to head offices abroad reflects this payment).

20- Private bank debt abroad, in the aggregate (net of debt swaps and capitalization) grew by $230 million, explained by the behavior of one entity that borrowed abroad to settle subordinated debt due in December. On the uses side, there was a drop in subordinated debt from the repayment of this loan.

21- Repayment of the CEDRO certificates constituted the main use of private bank resources (see Table 3). According to a Central Bank estimate, approximately $420 million was used in December to pay back rescheduled deposits (a calculation that includes CER adjustment and the exchange rate difference from the settlement of certificates with court ordered payments). As a result of this fall, CEDRO certificates (with accrued CER restatement) ended the year accounting for 7% of total private sector deposits, 0.6 p.p. less than in

[10] As indicated in the notes on methodology, estimates for sources and uses of funds on the basis of variations in the balances of the various headings exclude, among other factors, the effects of changes in exchange rate, principal adjustments from increases in the CER or CVS indices, increases in accrued interest and unpaid or uncollected interest.

Chart 13
Asset portfolio
Private banks

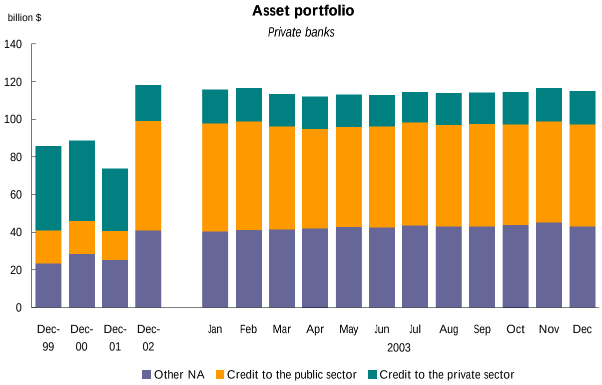
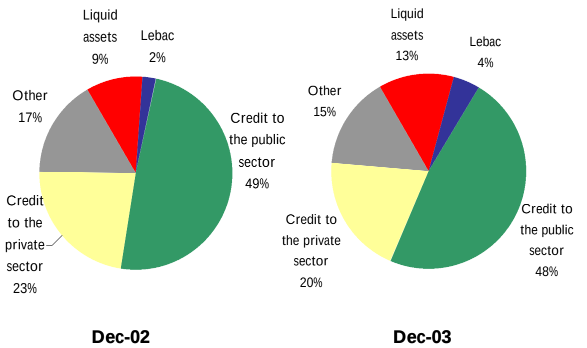


Chart 14
Asset structure - Private banks



Funding structure - Private banks

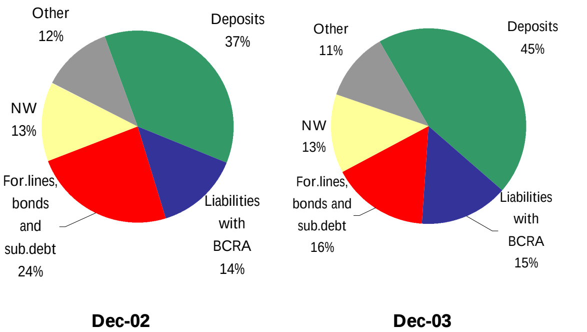
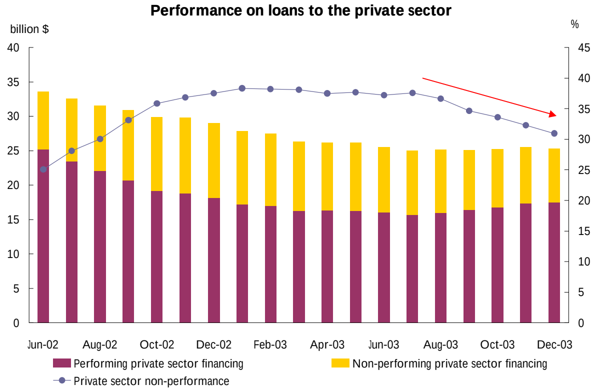


Chart 15
Performance on loans to the private sector



November and 21 p.p. below the balance at the end of 2002 (see Chart 12).

22- Once again, lending to the private sector has been a use of resources for the private bank segment, rising by $150 million[11]. Short-term consumer loans continued to lead growth in financial system lending, with a sharp increase in credit card financing, which was three times higher than in November in nominal terms. Private sector financing by means of credit cards accounted for 11% of total loans[12], compared to 8% one year earlier.

23- Investment in LEBAC was another use of funds, as the balance of this portfolio increased by $110 million, although $70 million were purchased by a single institution.

Balance sheet structure

24- As mentioned in last month's Report, during 2003 private banks embarked on the restructuring and repayment of their foreign debt to restore their economic viability, within the context of the Central Bank's policy for refinancing rediscount facilities. The drop in balance sheet aggregates[13] for foreign credit lines, corporate bonds and subordinated debt was US$600 million which, added to the decline in previous months, took the drop for the fourth quarter to US$1.3 billion.

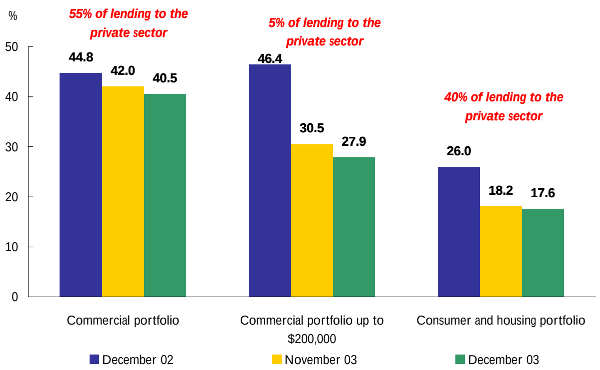
25- In line with the mentioned changes in balance sheet aggregates, private bank funding structure saw an overall fall in the share of corporate bonds, subordinated debt and foreign credit lines of almost 2.p.p. The decline is mainly explained by the behavior of a group of private banks that capitalized foreign currency liabilities. To a lesser extent, there were also cases of payments of foreign credit lines by means of the delivery of public bonds (BODEN 2012 in US$). As indicated in the section on profitability, in the case of one specific bank the reduction in its corporate bond and foreign credit line totals was explained by the debt restructuring process it carried out, in which it obtained a significant haircut. These sources of financing fell 8% in annual terms compared to total financing, as can be seen from Chart 14.

Credit and liquidity risk

26- The quality of the portfolio of loans to the private sector ended 2003 by confirming the moderately positive trend characterizing this variable over the course of the whole year. As in previous months, the level of non-performance in private banks recorded a slight fall (1.5 p.p.) to 30.9%. On an annual basis, this indicator was 6.5 p.p. below the level at the end of the previous year, with a downward trend that accelerated towards the end of 2003; of this 6.5 p.p. drop for the year, 5.4 p.p. corresponded to the last four-month period (see Chart 15). The decline in this indicator was due to lending leveling off (as its

[11] This calculation eliminates the distortion generated by the writing off of unrecoverable loans, now recorded in memorandum accounts.
[12] Not including adjustments for accrued interest, or for CER and CVS.
[13] It should be considered that the drop in balance sheet aggregates for corporate bonds, subordinated debt and foreign credit lines includes the settlement of such items by means of the delivery of government securities and the capitalization of debt that are not taken into account in the calculation of the flow of funds as they do not represent actual flows.

Chart 16
Non-performing portfolios by type of lending
Private bank lending to private sector



decline stopped and began to increase in the last quarter), added to a steady drop in loans classified as non-performing.

27- The improvement recorded in the quality of the portfolio of private banks was led by the behavior of the commercial loan portfolio (which accounted for almost 55% of all lending to the private sector), for which non-performance fell 1.5 p.p., to a level of close to 41%. Nevertheless, such loans were the slowest in recovering their quality level in 2003, with an annual decline in their non-performance of 4 p.p.. A more marked change in annual terms was seen in consumer and housing loans, which accounted for close to 40% of all lending to the private sector, as well as representing the segment with the best relative quality level. Although between November and December the drop in non-performance in this segment was moderate, for the year as a whole the improvement was almost 9 p.p. Lastly, although the level of non-performance in the segment of commercial loans of less than $200,000[14] was almost half the level recorded one year earlier, the effect of this behavior was negligible, in view of its low weighting in total lending (see Chart 16).

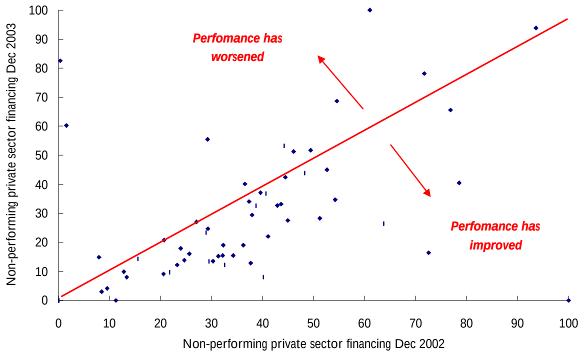
Table 4
Non-performing portfolio by group (2003)
As a % of non-financial private sector lending

	Dec-02	Nov-03	Dec-03	Share of lending to private sector(*)
Public	44.9	47.2	46.8	*29.0*
Private	37.5	32.3	30.9	*69.0*
Retail	37.7	32.2	30.9	*66.2*
National coverage	38.8	35.2	34.0	*53.6*
Regional coverage	27.7	18.2	16.0	*11.2*
Specialized	36.5	33.2	32.4	*1.4*
Wholesale	33.7	33.9	32.0	*2.8*
Non-bank institutions	36.6	17.5	16.6	*2.1*
TOTAL	**39.6**	**36.3**	**35.2**	*100.0*

(*) As of the last month.

28- Analysis of banks by sub-group shows that retail banks with a nationwide coverage, which accounted for over half of all financial system lending to the private sector in December, achieved an improvement of almost 5 p.p. in their non-performance over the course of the year, reaching a level of 34% at the end of 2003. A similar performance was recorded by specialized banks, for which the non-performing indicator ended the year at 32.4%. The regional retail bank sub-group recorded a sharper improvement, reducing its non-performance by almost half (to 16%) between the beginning and the end of the year. Public banks recorded a non-performance level of 46.8% in relation to their lending to the private sector, an increase of almost 2 p.p. compared to December 2002 (see Table 4).

Chart 17
Annual change in portfolio non-performance
Private banks - Non-performing loans to the private sector



29- The improvement in portfolio quality during 2003 was widespread among private institutions (see Chart 17); out of a total of 64 private banks in existence at the end of the year, 43 recorded lower non-performance levels for their portfolio of loans to the private sector than 12 months earlier, while 6 banks recorded no change. All the large-scale retail institutions recorded a lower non-performance level in December compared to the end of 2002, with improvement averaging around 5 p.p.

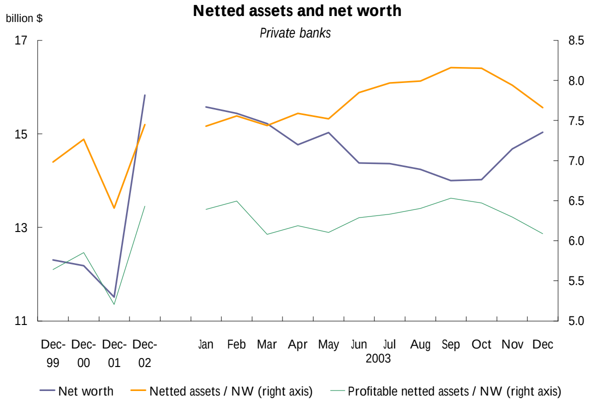
30- As a result of the mentioned reduction in liquid assets in December, private bank liquidity in terms of total deposits fell 1.4 p.p., ending the year at over 28% of that total. In the case of public banks, the indicator remained at its November level (32%). On an annual, consolidated basis, liquidity rose by 7 p.p., led by public banks, which recorded a 12 p.p. rise in this indicator. Breakdown according to currency shows that the liquidity ratio on deposits in dollars fell 10 p.p. during the month in the case of private banks, as a result of the rise in deposits in that currency, while in the case of public banks, the ratio dropped only 1 p.p..

[14] Attributed to consumer and housing loans.

Solvency

31- Accounting net worth for the system as a whole rose by $570 (3%) in December, basically from the capitalization of debt abroad by domestic private banks. As a percentage of total funding (liabilities plus net worth) private bank equity rose 0.5 p.p. in December, while banks with national coverage increasing their equity by 1.4 p.p. This caused the leverage ratio (defined as netted assets / net worth) of private banks to fall to 7.7 (from 7.9 in November). If only profitable netted assets[15] as a percentage of net worth are measured, to take into account only those assets with counterpart risk, the ratio falls from 6.6 in November to 6 in December (see Chart 18).

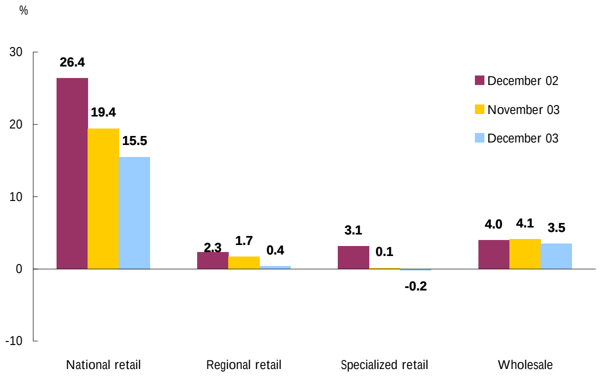
Chart 18
Netted assets and net worth
Private banks



32- In terms of the regulation on minimum capital, both the system as a whole and private institutions ended the year showing favorable capitalization indicators. Capital compliance as a percentage of risk assets remained at 14% for private banks. In January 2004 the regulation on Minimum Capital Requirements, suspended since December 2001, will begin to be enforced. On the basis of information at December 2003, most banks are already in compliance with the regulation, and at the aggregate level the requirement is amply exceeded.

33- Exposure of net worth to private sector credit risk fell again in December, with a decline in the portfolio of non-performing loans not covered by provisions from 12.1% to 9.9% in terms of percentage of net worth. This behavior, conditioned by the performance of retail banks with nationwide coverage, was due both to an increase that took place in the net worth of the private bank aggregate and a drop in total non-performing loans (greater than the fall recorded in the level of provisions). The first of these factors was of great importance, while the net worth of private retail banks with national coverage increased by close to 14% between November and December[16].

Chart 19
Exposure to private sector counterpart risk
Private banks - Portfolio uncovered with provisions as % of net worth



34- In annual terms, the exposure of private bank net worth to private sector credit risk fell to almost half the level recorded in December 2002, dropping almost 8 p.p. (see Chart 19). This behavior was a consequence of the performance by the group with the largest weighting, retail banks with national cover, which succeeded in lowering their exposure by over 10 p.p. Public banks recorded an increase of 1.8 p.p. in the exposure of their net worth to private sector credit risk, ending the year at a level of 14.8%. This increase was due to a drop in public bank net worth. For these, unlike private banks, the erosion caused by negative profitability was not neutralized through an increase in capital.

Special topic:
Deposits and loans, private and public banks

35- For the financial system, 2003 saw the consolidation in the recovery of deposits, a build up in liquidity and a revival of new lending – particularly towards the end of the period. In the case of the financial sector aggregate, the increase in peso deposits for the year

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[15] Eliminating liquid assets, fixed assets and others, foreign branches and capitalized court ordered releases (net of provisions)
[16] See point 31.

was approximately $15.2 billion (including the repayment of CEDRO certificates), while short-term loans in the same currency rose by over $320 million. The breakdown of this result into private and public banks shows an uneven performance. **In the context of a widespread trend in which the application of resources shifted to more liquid assets, private banks have shown a stronger link between increases in deposits and increases in loans than public banks have.** This stronger link in even clearer in lapse over which loans recovered, between the end of July and the end of December.

Table 5
Deposits and loans : Private banks vs public banks
Loans in pesos - millions

December 2002 - December 2003

	Deposits	Short terms loans	Liquid assets	Liquidity position Dec 2002	Loans / Deposits	Liquid assets / Deposits
Public banks	9,900	12	6,120	-1,040	0%	62%
Private banks	5,300	310	1,035	2170	6%	20%
Total	**15,200**	**322**	**7,155**	**1,130**	**2%**	**47%**

July 2002 - December 2003

	Deposits	Short terms loans	Liquid assets	Liquidity position Jul 2003	Loans / Deposits	Liquid assets / Deposits
Public banks	3,075	165	2,760	1,955	5%	90%
Private banks	1,710	990	-315	2,760	58%	-18%
Total	**4,785**	**1,155**	**2,445**	**4,715**	**24%**	**51%**

36- As can be seen from Table 5, private banks increased short-term loans in pesos by $310 million, while deposits rose by $5.3 billion. Public banks increased net lending very slightly, although their deposits grew by $9.9 billion. **In the last 5 months of the year, private banks increased deposits and loans by $1.7 billion and $1 billion respectively, whereas public banks recorded an increase in funding of $3 billion, compared to a net increase in short-term lending of $170 million.**

37- Analysis of the different behavior between public and private banks in traditional financial intermediation must take into account two factors. In the first place, **the public sector accounted for 60% of the annual increase in non-financial sector deposits, compared to 30% by the private sector.** This could help explain part of the difference between these bank sub-groups when it came to lending to the private sector. The second point is that **at the beginning of the year public banks were in a position of having to rebuild their minimum cash reserves,** which recorded a notable shortfall, whereas the private bank aggregate was in a relatively more comfortable position as regards liquidity requirements. Given the relative size of the increases, however, the difference in behavior remains considerable (although less marked) even if these two factors are take into account.

Outlook for January and prospects for 2004

38- Based of the information available as of the statistical closing date of this Report, **the possibility of banks recording profitability improvements in January will be restricted by non-recurring factors.** These include the potentially negative impact of the schedule laid down by Central Bank Com. "A" 3911, under which **as from January there was to be an increase of 0.25 p.p. (to 3.25%) in the discount rate used to value secured loans.**

39- The impact of the recognition of compensation for the asymmetric indexation by the CER and CVS (Law 24.713 regulated by Decree 117 dated January 26, 2004) is less certain. Although the treatment of this income varies according to the institution[17], it is expected that certain banks will record the effect of this compensation in coming months.

40- The terms of Com. "A"4043 give rise to a similar situation in terms of the difference in exposure and the final impact on profits. Although some banks have already recorded on their balance sheets

[17] As has been indicated in the Profitability chapter of this Report, some large banks have already given accounting recognition to the estimated impact of this compensation.

the effects of the refund from the excess pesification of current accounts at the Central Bank and abroad, other institutions have yet to make the record, which is generally favorable.

41- As the value of the peso in terms of the dollar showed no change in January, comparing month-end closing rates (see Table 6) it is expected that the income from exchange rate differences will be slightly positive, exclusively due to profits from spot trading of foreign currency.

42- Certain seasonal effects due to December are reversed in January, such as the increase in operating costs, loan loss provisions and income from services. The expected drop in operating costs (which would return to a level of under 4.5% of NA), and in loan loss provisions, should have a positive impact on profits.

43- Available figures on the behavior of interest rates and the balances of loans and deposits in the first month of 2004 justify a certain degree of optimism in relation to interest income. As in previous months, this is due to the expected drop in interest paid, as the increase in deposits from end to end of January was led by sight deposits (with a lower cost), while the monthly average interest rate on time deposits in pesos for 30- to 44-day terms continued on a downward path, dropping from 3.6% in December to 2.8% in January (see Table 6). As far as lending is concerned, the balance of loans in pesos to the private sector is not expected to have recorded significant change in January, as the increase in consumer loans and overdrafts was offset by a drop in credit card financing, and the amount of net settlement of long-term credit (loans backed by mortgages and other collateral) continues to decline. On the basis of the most frequent types of credit transaction, loan yields on overdrafts and promissory note acceptances recorded a slight fall (to levels of 24% and 11% respectively), while for consumer loans it remained at 37%[18]. In spite of the falls recorded, in all cases the interest rates charged on such financing represented a higher yield for banks than they could obtain from investment in liquid assets. As an example, the cut-off rate at LEBAC auctions in January at no time rose above an annual 10%.

Table 6

Main developments in January

	Dec	Jan	Chg. (%)
Prices			
Exchange Rate ($/US$)[1]	2.93	2.93	-0.01
CPI	142.60	143.20	0.42
CER[1]	145.68	146.00	0.22
	%		Chg. (p.p.)
Average percentage rates			
Lending	23.0	21.8	-1.2
Private banks	22.9	21.7	-1.2
Overdraft	25.1	25.1	0.0
Promissory notes	14.1	10.0	-4.1
Mortgage	10.7	10.5	-0.2
Pledge-backed	16.8	17.0	0.2
Personal	43.4	41.5	-1.9
Public banks	24.8	23.9	-0.8
Overdraft	25.5	25.2	-0.3
Promissory notes	12.1	13.9	1.8
Mortgage	8.1	8.3	0.2
Pledge-backed	18.1	16.9	-1.2
Personal	15.2	14.8	-0.4
30- to 44-day time deposit	3.6	2.8	-0.8
6-month LEBAC in pesos, w/o CER	3.7	3.2	-0.5
	Millions		Chg. (%)
Balance[1] - Private banks			
Peso deposits - Private sector	41,990	42,736	1.8
Sight deposits	22,308	22,882	2.6
Time deposits	17,398	17,705	1.8
Peso loans - Private sector	18,073	17,858	-1.2
Overdraft	3,705	3,768	1.7
Promissory notes	3,297	3,234	-1.9
Mortgage	5,485	5,453	-0.6
Pledge-backed	475	466	-1.8
Personal	1,358	1,516	11.6

([1]) End of month figure.

44- As far as the outlook for 2004 is concerned, in general terms it is expected that the positive trend in profitability will continue to gain strength, with some progress in the recovery of profit margins on financial intermediation, an improvement in the quality of lending and the possibility of growth in income from services.

45- As indicated in the last issue of this Report, steady progress is expected to be made in the rebuilding of profit margins from financial intermediation, following a gradual recovery of the credit market, in line with the trend in recent months. Although this recovery will be driven by short-term lending, as longer-term credit (mortgage lending in particular[19]) picks up, service income will also benefit, as historically a significant portion of such income was based on the commissions associated with such lending. It is possible,

[18] Weighted average of rates during the month on the basis of daily figures provided by SISCEN 18, corresponding to loans granted to the private non-financial sector in the city of Buenos Aires and the surrounding greater Buenos Aires area.
[19] One encouraging aspect in this regard is the number of private banks that have re-launched their mortgage loan lines in recent months.

however, that these potentially positive effects could be partly offset by the impact on operating costs of increased efforts to gain market share, and to reach the sector of the population that is not currently using banking services, especially as wages are gradually recovering.

46- Just as favorable expectations for economic activity and the recovery of household income underpin optimism regarding the growth in lending to the private sector during 2004, this favorable macroeconomic environment will have a positive effect on the setting up of loan loss provisions (expected to be low and declining) and on the quality of institution's loan portfolios, as a logical consequence of the generation of new, better-quality loans.

47- Another of the effects to be taken into account will be the impact of bank liability rescheduling currently underway. A significant effect can be expected from the conclusion in February of the period for acceptance of the debt swap proposals made by one of the largest of the system's private banks. Lastly, the impact of developments in relation to the rescheduling of defaulted sovereign debt on the income statements of the banking system must be taken into account, as well as its impact on the domestic capital market.

Latest regulations

This section contains a summary of the main regulations related to the business of financial intermediation issued during the month (taking as a reference the date on which they came into force).

In view of its impact during December, it should be recalled that on November 27, 2003 the Central Bank issued Communication "A" 4051 lowering cash reserve ratios on sight deposits from 23% to 20% as from December 1, 2003.

Through Communication "A" 4053 dated December 1, 2003 the Central Bank lowered the rates for charges on shortfalls in reserve requirement compliance during the crisis period between July 2001 and January 2003, breaking down this time into two separate sub-periods (July 2001 to August 2002 and September 2002 to January 2003), in view of the depth of the systemic liquidity crisis.

Communication "A" 4055 dated December 2, 2003 approved a series of measures to encourage the transforming of liquidity surpluses into new loans to the private sector. Requirements were relaxed on credit securities to make them allowable as type "A" preferred guarantees, an increase was established in the amount of new lending that banks were able to grant to companies classified in categories 2 to 5 with a level of provisioning equal to that of loans in a normal condition (1%), the term for consideration of mortgages as preferred guarantees was extended by 18 months, given the legal impediments to foreclose guarantees, and a 12-month extension was granted for the increase in the limit (from 12.5% to 20%) in the share of corporations that banks can hold in defense of credit rights, with the aim of facilitating the refinancing of loans received from the financial system.

In addition, through Communication "A" 4060 dated December 22, 2003, it was allowed for credit assistance implying new disbursements of funds granted through to June 30, 2005 to exceed the current limit of 300% of adjusted stockholders' equity (ASE), under certain conditions. This new assistance will have a limit per customer of 2.5% of the institution's ASE, and in the aggregate the loans granted under this rule shall not be able to exceed 15% of the institution's ASE. In addition, the possibility of granting further loans in category 1 (normal) to companies reported in lower categories has been extended, thus widening the scope of this measure that had been adopted previously for the providing of additional assistance. This will be permitted as long as the company's projected cash flows justify that category. In addition, debtors that in the period from June 30, 2002 to December 31, 2004 were to have, or will, enter into payment agreements shall be able to be reclassified as in a normal condition, to which end it will be necessary to take into account their payment capacity as measured by future cash flows on the basis of the terms of the agreement, the outlook for the company and for the sector of economic activity or branch of business to which it belongs, and the remaining conditions foreseen for such a category. Nevertheless, regardless of the classification granted to the rescheduled debtor, in order to release the provisions originally set up financial institutions must take into account the category to which the debtor should have been reclassified if the percentages of principal repayment were to have been observed as laid down in the general rule. On this matter, the mentioned percentages were lowered by between 5 and 10 percentage points. Lastly, the loan loss provisioning required on the basis of the loss recognized by financial institutions as a result of the discount granted has been modified, in view of the improvement in the collectibility of the remaining loan balances as a result of the rescheduling.

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 national level, those located in specific geographical regions – municipal, provincial or regional institutions – and institutions specializing in a financial sector niche market – generally smaller institutions. Lastly, it should be noted that this grouping has been carried out solely for analytical purposes and does not represent the only methodological criterion for grouping, while in addition, the detailing of the characteristics of each group of institutions has been established in a general manner.

Glossary

BCBA: Bolsa de Comercio de Buenos Aires. Buenos Aires bourse.
BCRA: Central Bank of Argentina.
CEDRO: Certificate of rescheduled deposit.
Consolidated (or aggregate) assets and liabilities: Those arising from excluding operations between financial system institutions.
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.
MAE: Mercado Abierto Electrónico. Electronic over-the-counter market.
Net operating revenue: Interest income plus net adjustments according to the CER and CVS indexes in relation to financial intermediation plus service income.
Net worth exposure to counterpart risk: :Non-performing portfolio net of allowances in terms of net worth.
Netted assets and liabilities (NA): Those net of accounting duplications inherent to the recording of swaps, whether term or unsettled spot transactions.
Non-performing portfolio: Portfolio in categories 3 to 6, as per the debtor classification system.
NW: Net worth.
Operating costs: Includes remuneration, social security payments, services and fees, sundry expenses, taxes and amortization.
Operating profits: Result from interest and net adjustments according to the CER and CVS indexes in relation to intermediation plus service income, less tax charges in relation to interest and services and operating costs.
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.

Balance sheet

Private banks

In current pesos (millions)	Dec 99	Dec 00	Dec 01	Dec 02	Nov 03	Dec 03	Change (%) Month-on-month	Up to Dec 03	Year-on-year
Netted assets	**85,918**	**88,501**	**73,796**	**117,928**	**116,576**	**115,158**	**-1.2**	**-2.3**	**-2.3**
Liquid assets	13,228	13,920	10,576	11,044	15,158	14,503	-4.3	31.3	31.3
Public bonds	6,433	7,583	1,627	19,751	21,809	21,779	-0.1	10.3	10.3
Private bonds	410	563	451	273	173	179	3.3	-34.6	-34.6
Loans	56,916	56,035	52,319	51,774	47,409	47,533	0.3	-8.2	-8.2
Public sector	6,389	8,172	13,803	25,056	23,660	24,078	1.8	-3.9	-3.9
Private sector	47,705	45,103	36,636	26,074	22,921	22,819	-0.4	-12.5	-12.5
Financial sector	2,823	2,760	1,880	644	828	637	-23.1	-1.2	-1.2
Provisions over loans	-3,119	-3,248	-3,957	-7,463	-5,496	-5,232	-4.8	-29.9	-29.9
Other netted credits due to financial intermediation	4,470	5,730	4,489	26,235	21,109	20,672	-2.1	-21.2	-21.2
Purchases (net)	487	1,103	807	380	655	697	6.4	83.6	83.6
Corporate bonds and subordinated debt	1,022	724	665	1,514	1,433	1,394	-2.7	-7.9	-7.9
Unquoted trusts	958	1,609	1,637	6,205	3,855	3,567	-7.5	-42.5	-42.5
Compensation receivable	0	0	0	15,971	13,518	13,565	0.3	-15.1	-15.1
BCRA	12	35	865	1,375	1,631	1,759	7.9	27.9	27.9
Assets under financial leases	796	776	752	553	386	387	0.3	-30.1	-30.1
Shares and participation	1,371	1,651	1,703	3,123	3,370	2,786	-17.3	-10.8	-10.8
Fixed assets and sundry	3,246	3,225	3,150	5,198	4,937	4,903	-0.7	-5.7	-5.7
Foreign branches	48	75	112	-109	-134	-136	1.6	25.0	25.0
Other assets	2,120	2,190	2,574	7,549	7,855	7,785	-0.9	3.1	3.1
Netted liabilities	**73,615**	**76,322**	**62,281**	**102,101**	**101,897**	**100,124**	**-1.7**	**-1.9**	**-1.9**
Deposits	54,447	57,833	44,863	44,445	52,411	52,619	0.4	18.4	18.4
Public sector (1)	1,342	1,276	950	1,636	3,109	3,077	-1.0	88.1	88.1
Private sector (1)	52,460	55,917	43,270	38,289	46,782	47,091	0.7	23.0	23.0
Current account	5,022	4,960	7,158	8,905	10,864	11,590	6.7	30.1	30.1
Savings account	9,702	9,409	14,757	6,309	10,162	10,544	3.8	67.1	67.1
Time deposit	35,218	39,030	18,012	11,083	19,419	18,703	-3.7	68.8	68.8
CEDRO	0	0	0	9,016	2,621	2,410	-8.1	-73.3	-73.3
Other netted liabilities due to financial intermediation	16,185	15,401	14,082	48,364	42,457	40,836	-3.8	-15.6	-15.6
Call money	2,146	2,293	1,514	836	986	726	-26.3	-13.1	-13.1
BCRA lines	274	83	1,758	16,624	16,891	17,025	0.8	2.4	2.4
Outstanding bonds	4,990	4,939	3,703	9,073	7,301	6,674	-8.6	-26.4	-26.4
Foreign lines of credit	6,680	5,491	4,644	15,434	10,428	9,998	-4.1	-35.2	-35.2
Sales (net)	492	510	99	349	212	170	-19.9	-51.2	-51.2
Subordinated debts	1,683	1,668	1,700	3,622	3,102	1,850	-40.4	-48.9	-48.9
Other liabilities	1,299	1,420	1,637	5,671	3,927	4,819	22.7	-15.0	-15.0
Net worth	**12,304**	**12,178**	**11,515**	**15,827**	**14,679**	**15,034**	**2.4**	**-5.0**	**-5.0**

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

Profitability structure

Private banks - in annualized terms

As % of	Yearly				Up to December		2003		Monthly	
netted assets	1999	2000	2001	2002	2002	2003	H1	H2	Nov-03	Dec-03
Net interest income	4.5	4.1	4.3	-0.2	-0.2	0.0	-0.1	0.2	0.7	0.5
Restatement by CER and CVS	0.0	0.0	0.0	1.1	1.1	0.9	0.8	1.0	0.4	2.6
Other financial income	0.5	0.7	1.0	4.3	4.3	-1.0	-2.7	0.8	1.8	0.0
Service income margin	3.1	2.9	3.2	2.0	2.0	2.0	2.0	2.1	2.0	2.3
Gains on securities	1.1	1.4	1.2	2.5	2.5	1.3	1.3	1.2	2.5	0.4
Operating costs	-6.3	-6.0	-6.4	-4.8	-4.8	-4.6	-4.7	-4.5	-4.4	-5.2
Loan-loss provisions	-2.2	-2.5	-3.0	-5.0	-5.0	-1.3	-1.6	-1.0	-0.8	-0.9
Tax charges	-0.4	-0.4	-0.5	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.4
Income tax	-0.5	-0.4	-0.3	-0.2	-0.2	-0.3	-0.4	-0.2	0.0	-0.5
Other	0.5	0.4	0.7	-3.0	-3.0	0.7	1.4	0.3	-1.3	3.7
Monetary results	0.0	0.0	0.0	-7.5	-7.5	0.0	-0.1	0.0	0.0	0.0
ROA before income tax	0.8	0.6	0.5	-11.1	-11.1	-2.2	-4.1	-0.4	0.7	3.0
ROA before monetary results	0.3	0.1	0.2	-3.8	-3.8	-2.5	-4.4	-0.5	0.7	2.5
ROA	**0.3**	**0.1**	**0.2**	**-11.3**	**-11.3**	**-2.5**	**-4.5**	**-0.5**	**0.7**	**2.5**
Indicators (%)										
ROE	**2.3**	**0.8**	**1.4**	**-79.0**	**-79.0**	**-19.4**	**-33.9**	**-4.3**	**5.3**	**19.0**
Operating profit / NA	0.9	0.6	0.6	-2.4	-2.4	-2.0	-2.4	-1.6	-1.5	-0.2
Operating revenue / operating costs	120.5	116.9	117.1	58.8	58.8	64.1	56.1	72.4	72.2	103.5
Interest income (with CER and CVS) / loans	..	13.9	16.1	24.7	24.7	8.9	9.8	8.0	8.5	11.7
Interest payments (with CER and CVS) / deposits	..	5.7	7.8	21.9	21.9	5.8	8.6	3.2	3.2	2.7

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

Portfolio quality

Private banks

As percentages	Dec 99	Dec 00	Dec 01	Dec 02	Nov 03	Dec 03
Non-performing loans (overall)	7.6	8.3	9.9	19.9	16.8	16.0
Loans to the non-financial private sector	8.9	9.8	14.0	37.4	32.3	30.9
Commercial portfolio	6.2	7.6	15.2	44.5	42.0	40.5
Commercial portfolio up to $200,000	11.7	14.6	16.4	47.1	30.5	27.9
Consumption and housing portfolio	12.5	11.9	12.4	26.1	18.2	17.6
Provisions / Non-performing loans	69.4	67.7	75.7	73.3	75.8	77.2
(Non-performing - Provisions) / Overall financing	2.3	2.7	2.4	5.3	4.1	3.6
(Non-performing - Provisions) / Net worth	11.5	13.4	11.4	18.7	14.0	11.6