# Report on Banks

January 2020

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

# Executive Summary

- Financial institutions are required to submit their accounting statements in uniform currency with the presentation of accounting information as of January 2020, following International Accounting Standard — IAS— 29 and considering financial assets impairment provisions contained in the International Financial Reporting Standard —IFRS— 9.
- As of January 2020, financial institutions Regulatory Capital (RC) stood at 20,7% of risk-weighted assets (RWA), up 3.3 p.p. against the level recorded with information as of December 2019. In the context of the new effective accounting registration provisions, the financial system's aggregate RC experienced a greater increase in RWA, mainly reflecting the effect of the registration of non-monetary assets in uniform currency. Thus, the financial system's capital position (RC minus regulatory requirement) reached 134% of the minimum capital requirement as of January 2020.
- The liquidity of the entire financial system increased in early 2020. The broad liquidity indicator (liquid assets, regulatory liquidity requirements and BCRA's instruments, both in domestic and foreign currency) stood at 62.2% of total deposits in January (60.5% for items in pesos and 67.4% for the foreign currency segment), up 2.1 p.p. against late 2019 and 5.7 p.p. in year-on-year (y.o.y.) terms.
- In January, private sector deposits in pesos increased 6.8% in real terms (+9.2% in nominal terms), due to growth in both time and sight deposits. Private sector deposits in foreign currency fell 3.8% —in currency of origin— in the month. The share of private sector deposits in the financial system's total funding —liabilities plus net worth— stood at 58.2% in January, up 0.7 p.p. y.o.y.
- The financial system' stock of loans to private sector in pesos decreased by 2.1% in real terms in January 2020 (with no significant changes in nominal terms) and 5% in foreign currency —in currency of origin—. The weighing of loans to private sector in the total assets of the financial system was 37.5%, down 3.1 p.p. against the previous year.
- Private sector non-performing loans reached 6% of the total portfolio in the first month of the year, up 0.4 p.p. against last December and 2.5 p.p. y.o.y. The ratio of non-performing loans to companies increased by 0.7 p.p. in the period (+4.7 p.p. y.o.y.) to 7.8%, while the ratio of non-performing loans to households remained unchanged both in the month and in year-on-year terms, at 4.2%. In particular, non-performing mortgages to households remained at 0.6% for the UVA segment and 0.9% for the rest.
- As part of the changes adopted in terms of financial assets impairment, the stock of total accounting provisions represented 87.7% of non-performing loans to private sector in January. The estimated stock of provisions attributable to the non-performing portfolio (according to the criteria in force in the amended text of the Minimum Loss Loan Provisions) was 70,9% of that portfolio. According to this estimate, non-performing loans not covered by provisions accounted for only 5.4% of the January 2020 RC.

*Published on March 18, 2020.*

The data reported are provisional and subject to changes. The information corresponds to end-of-month data.

**Data of charts** and **Latest Regulations** of this issue. **Statistics Annexes** for the financial system and the ensemble of financial institutions. **Glossary** of abbreviations and acronyms.

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# I. Changes in accounting information

It should be noted that as of January 2020, financial institutions must present financial statements in uniform currency[1] (following International Accounting Standard —IAS— 29) and consider the provisions on financial assets impairment[2] (outlined in International Financial Reporting Standard —IFRS— 9).

Given the specific characteristics of the information submitted by financial institutions from January 2020 (still temporary), certain conceptual points are clarified to read the data. As to the statement of balance sheets in uniform currency, the procedure considers the calculation of a "monetary result" from recorded inflation based on the evolution of the CPI and each institution's balance sheet structure, differentiating therefore between "monetary" and "non-monetary" items. While these latter items are restated, monetary items are not restated and generate the so-called "monetary result".[3] This result is not linked to a flow of funds.

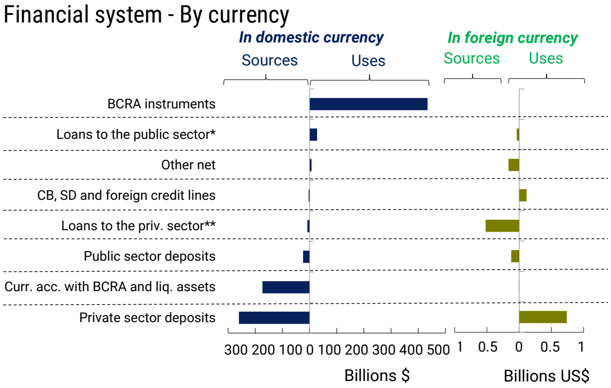
Given the changes and the information available, certain concepts (e.g., total assets) are not directly comparable between January 2020 and the previous months (not stated in uniform currency). Only when financial institutions report quarterly financial statements may such a comparison be made, while "comparative information", also stated in uniform currency, shall be available.

# II. Financial Intermediation Activity

According to the estimated flow of funds for the financial system,[4] the resources in domestic currency resulting from the increase in private sector deposits and, to a lesser extent, the reduction in the current account balance at the BCRA were mainly channeled to increasing the holdings of monetary regulation instruments in January (see Figure 1). The increase in deposits and monetary regulation instruments was observed in all groups of banks. In turn, considering items in foreign currency, the decline in private sector loans and deposits

**Figure 1 | Estimated monthly cash flow (Jan-20)**

Financial system - By currency




*Considering assets admissible for calculation of compliance with minimum cash requirement. **Considering principal of loans (excluding accrued interest and capital adjustments). Source BCRA

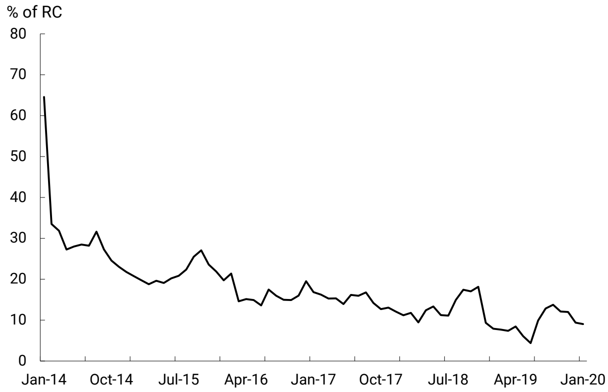
1 Communication "A" 6651.
2 Communication "A" 6430 and "A" 6847. "B" Group institutions may apportion the impact of implementing point 5.5 of IFRS 9 within 5 years. Furthermore, a special measurement criterion has been defined for non-financial public sector debt instruments (involving temporary exclusion of these instruments from the scope of application of IFRS 9).
3 For further details, see Communication "A" 6849..
4 Considering differences in the balance sheet balance of monetary items.

were the main sources and use of banks' funds in the month, respectively. These movements in foreign currency items were observed in all groups of banks.

In this context, the foreign currency segment reduced its weighing in the aggregate balance sheet of banks in the beginning of 2020. Foreign currency assets accounted for 23.6% of total assets and liabilities represented 22.3% of total funding (liabilities plus net worth), falling from the end of 2019 and in year-on-year terms. The difference between foreign currency bank assets and liabilities —considering forward purchase and sale of foreign currency— totaled 9% of regulatory capital in January (see Figure 2).

**Figure 2 | Foreign currency assets - Foreign currency liabilities + Foreign currency forward position**

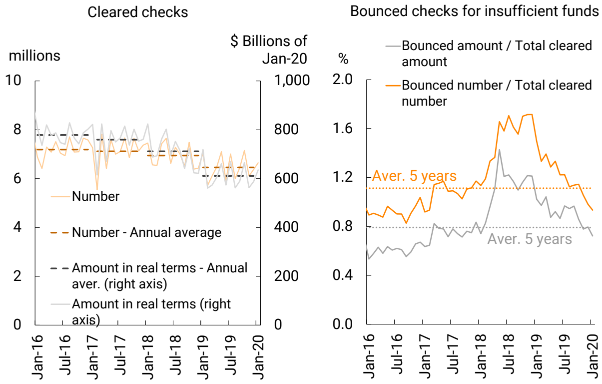
Financial System




Source: BCRA

Considering National Payments System transactions, the daily average of instant transfers decreased in January, partly linked to seasonal factors. Daily average transactions in number and amount in real terms declined 13.7% and 8.7% compared to December 2019, respectively. Instant transfers recorded increases of 26.3% in number and 12.8% in amount in real terms compared to the same month of last year. In turn, cleared checks continued to decline in January, in line with the trend observed in recent years (see Figure 3). In the month, the number and amount of bounced checks for insufficient funds as a share of total cleared checks decreased from the previous month (0.93% in number and 0.72% in amount, -0.05 p.p. and -0.07 p.p. against December) and on year-on-year terms (-0.56 p.p. and -0.30 p.p., respectively). Thus, the ratio of bounced checks for insufficient funds was below the average for the last 5 years.

**Figure 3 | Cleared and bounced checks**

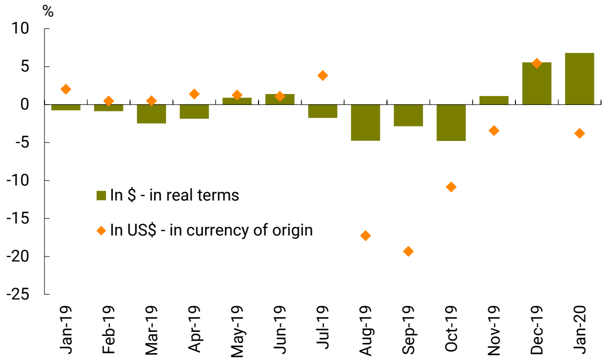



Source: BCRA

## III. Deposits and liquidity

Private sector deposits in pesos climbed 6.8% in real terms in January (+9.2% in nominal terms, see Figure 4), largely due to the increase in time deposits (+11.1% in real terms, +13.6% in nominal terms). Private sector sight deposits surged above usual for this time of the year, 4.1% in real terms (+6.5% in nominal terms) between ends of month.[5] The stock of private sector deposits in foreign currency fell 3.8% —in currency of origin— in January. On the other hand, public sector deposits grew 2% in real terms (+4.3% in nominal terms) in the period. Thus, the stock of total deposits in the financial system increased 3.2% in real terms (+5.5% in nominal terms).

**Figure 4 | Stock of private sector deposits**
**Monthly change***



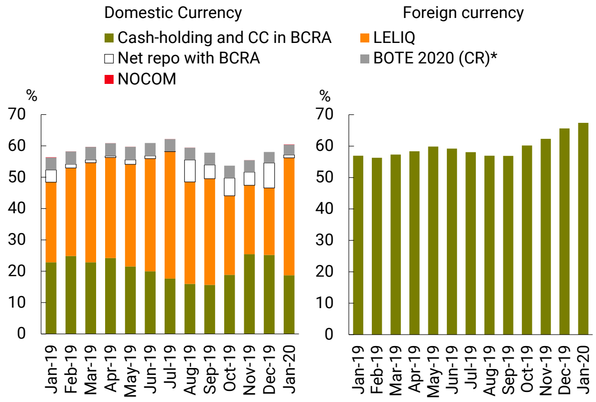

*Non-seasonally adjusted.
Source: BCRA

In year-on-year terms, private sector deposits in pesos decreased 41.1% in real terms (+46.6% y.o.y. in nominal terms), with a 16.3% y.o.y. fall in time deposits (+28% y.o.y. in nominal terms) and a 10.1% y.o.y. rise in sight deposits (+68.2% y.o.y. in nominal terms). On the other hand, private sector deposits in foreign currency fell 36.6%—in currency of origin— in the last 12 months. The stock of total public sector deposits also decreased in real terms in the same period. In this context, the stock of total deposits fell 18.7% y.o.y. in real terms (+24.3% y.o.y. in nominal terms) compared to early 2019.

The share of private sector deposits in the financial system's total funding —liabilities plus net worth— shrank 1.2 p.p. (+0.7 p.p. y.o.y.) in January, standing at 58.2%.

At the beginning of the year, bank liquidity increased again. The broad liquidity ratio[6] was 62.2% of total deposits in January (60.5% for items in pesos and 67.4% for the foreign currency segment), up 2.1 p.p. against December 2019 (see Figure 5). During the month there was also a change in the composition of liquid assets, with a fall in financial institutions' current accounts at the BCRA and an increase in liquidity bills (decreasing repos and increasing LELIQs by holding).[7] In the last 12 months to January, broad liquidity grew by 5.7 p.p. (+4.1 p.p. y.o.y. for the domestic currency segment and +10.5 p.p. y.o.y. for foreign currency items).

**Figure 5 | Financial system liquidity**
In % of deposits



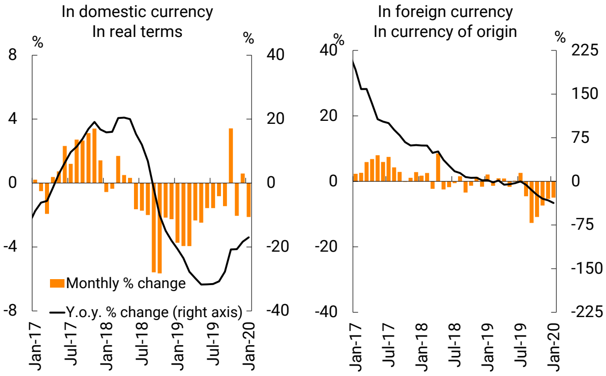

*CR: Cash reserves. Source: BCRA

5 The monthly performance of private sector deposits in pesos occurred in the context of the BCRA's provision to gradually reduce the interest rate on repos with mutual funds (FCI) from January 10 (Communication "A" 6861). This provision resulted in a transfer of FCI's funds from the BCRA to deposits with financial institutions.
6 Liquid assets, compliance with minimum cash requirements and BCRA's instruments, both in domestic and foreign currency.
7 For the purposes of regulatory liquidity requirements in pesos, December 2019 and January 2020 were considered a single period. Since financial institutions ended December with a partial compliance surplus, they were able to offset it with a lower compliance in January.

# IV. Credit and portfolio quality

In January, the stock of bank financing in pesos to the private sector decreased 2.1% in real terms (with no significant changes in nominal terms). Within this segment, commercial lines —advances, promissory notes and leasing— showed greater monthly declines. In turn, the stock of loans to private sector in foreign currency fell by 5% in the month —in currency of origin— (see Figure 6).

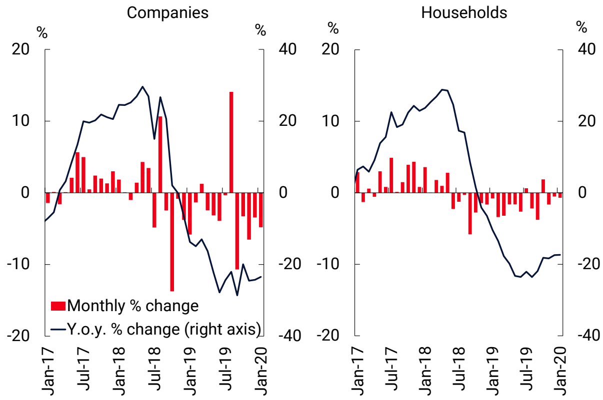
**Figure 6 | Stock of loans to the private sector by currency***




*Non-seasonally adjusted.
Source: BCRA

In year-on-year terms, loans to private sector in domestic currency accumulated a 17% fall in real terms in January, while the stock of loans in foreign currency dropped by 37.2% —in currency of origin—.

**Figure 7 | Stock of loans to the private sector**
Changes in real terms




Source: BCRA

Loans to companies (in domestic and foreign currency) decreased by 4.8% in real terms (-2.7% in nominal terms from December, which was widespread among the various productive activities, except for construction (+0.3% in real terms). In year-on-year terms, total loans to companies fell 23.4% in real terms (see Figure 7).[8] In turn, loans to households (in domestic and foreign currency) dropped by 0.7% in real terms (+1.5% in nominal terms) in the month. Within this segment, pledge-backed and personal loans showed the largest relative falls, which were tempered by mortgages (+0.6% in real terms). In year-on-year terms, loans to households decreased by 17.3% in real terms.

The weighing of loans to private sector in the total assets of the aggregate financial system was 37.5% in January, down 3.3 p.p. against last month and 3.1 p.p. against the previous year.

In January, non-performing loans to the private sector reached 6% of the total portfolio, up 0.4 p.p. against the end of 2019 and 2.5 p.p. y.o.y. (see Figure 8). The ratio of non-performing loans to companies increased by 0.7 p.p. in the period (+4.7 p.p. y.o.y.) to 7.8%,

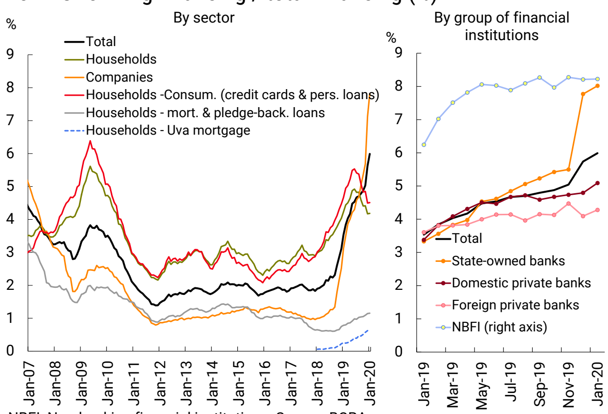
8 Information from the Central Debtors Database (domestic and foreign currency). Loans to non-residents are not included. Capital adjustments and accrued interest are considered. Financing to companies is defined here as loans granted to legal persons and commercial financing channeled to individuals. On the other hand, loans to households are those granted to individuals, unless they have a commercial purpose.

while the ratio of non-performing loans to households remained unchanged both in the month and in year-on-year terms, at 4.2%. The ratio of non-performing mortgages to households remained unchanged in the month: 0.6% in the UVA segment and 0.9% for the rest.[9]

In January, the stock of total accounting provisions (performing and non-performing portfolio) accounted for 87.6% of non-performing loans to private sector in the financial system, down 9.1 p.p. against December (see Figure 9), as part of the changes in financial assets impairment (see Section 1).[10] This fall was mostly reflected in domestic private and public banks, while this ratio increased in foreign private banks. In turn, the estimated stock of provisions for the non-performing portfolio[11] was 70.8% of the said portfolio. On the other hand, it is estimated that non-performing loans not covered by provisions for this portfolio totaled 5,.4% of the RC in January (9.3% of the regulatory capital surplus).[12]

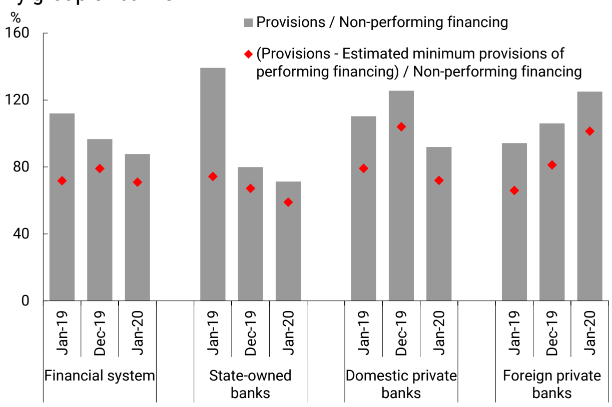
In the period, the financial system's exposure to the public sector represented 9.7% of total assets, down 0.3 p.p. against December and 0.9 p.p. against last year. Both falls respond to public banks. The financial system's exposure to this sector net of the stock of public sector deposits was -1.1% of total asset in the month.

**Figure 8 | Non-Performing loans to the private sector**
Non-Performing financing / total financing (%)




NBFI: Non-banking financial institutions. Source: BCRA

**Figure 9 | Provisioning and non-performing portfolio**
By group of banks



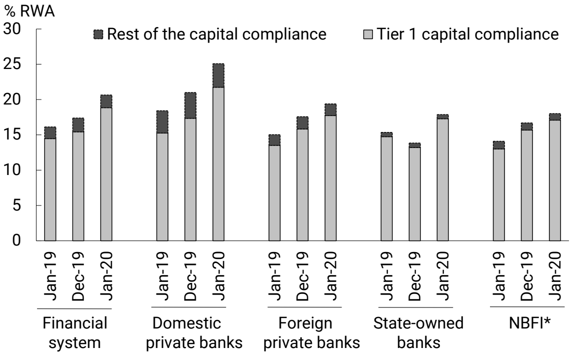

Source: BCRA

9 As of January, out of an —estimated— total of 104,170 UVA mortgages granted to natural persons in the financial system (73% generated by public banks, 16% by domestic private ones and 11% by foreign private ones), 859 were non-performing.
10 In September 2019, in the context of the convergence to IFRS, an amendment was made to the accounting record of the provisions. For the purposes of implementing the changes, institutions shall use their internal models to measure the impairment of financial assets. Group "B" institutions may choose to apportion the impact of these changes within 5 years, while from January 2020 Group "A" institutions shall consider "expected credit losses" under IFRS with counterpart in existing "loss loan provision". As part of these changes, a decrease in the total stock of provisions recorded for the aggregate of the financial system was observed in January.
11 Considering an estimate of the provisions for the non-performing portfolio according to the criteria in force in the amended text of the Minimum Loss Loan Provisions and not the new IFRS criteria.
12 Idem previous note.

# V. Solvency[13]

Regulatory Capital —RC— for the ensemble of banks was 20.7% of risk-weighted assets (RWA) in January, up 3.3 p.p. against the level recorded with information as of December 2019 and 4.5 p.p. against the level with information as of January 2019 (see Figure 10). In the context of the new effective accounting registration provisions, the financial system's aggregate RC experienced a greater increase in RWA, mainly reflecting the effect of the restatement of non-monetary assets in uniform currency.[14] In January, Tier 1 capital,[15] with a greater capacity to cope with unexpected losses, explained 91% of the financial system's RC. Thus, the financial system's capital position (RC minus regulatory requirement) accounted for 134% of the regulatory requirement in the first month of 2020.

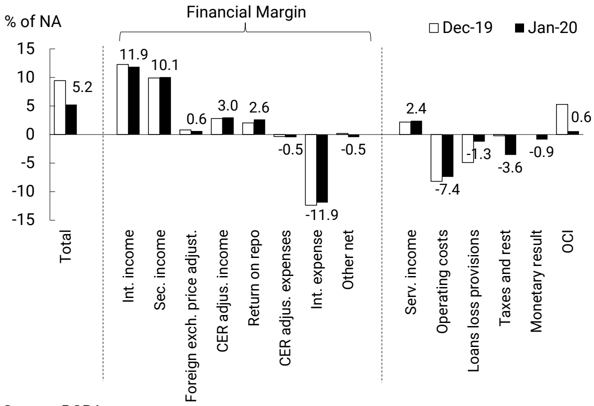
**Figure 10 | Compliance with regulatory capital**




Tier 1 capital compliance: Basic Net Worth.
Rest of the capital compliance: Complementary Net Worth.
*NBFI:Non-Banking Financial Institutions. Source: BCRA

With provisional data, as of January 2020, the ensemble of banks recorded income equivalent to 5.2% a. of assets (ROA) and 35.7% of equity (ROE).[16] It should be noted that, as of 2020, this accounting result reported by institutions includes the "monetary result", derived from considering the effect of the month's inflation on "monetary items". The adjustment of "monetary items" is generally negative for banks in an inflationary context because they register more monetary assets than monetary liabilities. In January, the monetary result for the financial system was negative and equivalent to 0.9% a. of assets (see Figure 11).

**Figure 11 | Financial system profitability**




Source: BCRA

The financial margin of the ensemble of banks reached 15.4% of assets in January, with no significant changes from December (only +0.1 p.p.). Slight monthly increases for repo

13 Particular emphasis is made on the fact that January 2020 information is interim and subject to rectification.
14 See Section I of this Report for further details. In addition to the effect of the restatement in uniform currency, financial institutions shall deduct from their RC the positive difference between the "regulatory" provision calculated pursuant to the rules on "Minimum loss loan provisions" (or the accounting one corresponding to November 2019 —whichever highest—), and the new accounting provision calculated according to point 5.5. of IFRS 9. Communication "A" 6847 and Communication "A" 6851.
15 Consisting mainly of ordinary shares and income.
16 Income (loss) consider other comprehensive income (OCI).

premiums and securities combined with a decrease in expenses for interest (deposits) were virtually offset by lower income for interest (credit), a reduction in profit from price differences and a reversal of other financial income (mostly due to lower profits linked to adjustments for foreign currency forward transactions). Considering the different groups of banks, the financial margin in January increased in public banks and declined in private banks.

Financial system's net income from services accounted for 2.4% a. of assets in January, up 0.2 p.p. against December. This concept of the income statement climbed in both private and public banks.

In the first month of the year financial system's loss loan provisions were 1.3% a. of assets, down 3.7 p.p. against December.[17] In turn, administrative costs of the ensemble of banks fell monthly 0.8 p.p. of assets to 7.4% a.

17 December's performance was associated with a specific transaction in a large public bank.