Report on Banks

February 2020

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Executive Summary

- The aggregate financial system presents high liquidity and solvency margins, with indicators that show values above the minimum required according to international recommended regulatory standards. On the one hand, the Regulatory Capital —RC— of the ensemble of financial institutions represented 21.4% of risk-weighted assets —RWA— in February (latest available information), up 0.4 p.p. against the previous month and 4.8 p.p. in year-on-year terms (y.o.y.). The regulatory capital position (RC minus minimum capital requirement) of the system reached 147% of the requirement.

- In turn, financial system's broad liquidity (liquid assets, liquidity requirements and BCRA's instruments, in domestic and foreign currency), stood at 63.8% of total deposits in February (61.7% for items in pesos and 70.3% for the segment in foreign currency). The broad liquidity ratio increased 1.6 p.p. compared to January and 6.2 p.p. y.o.y..

- The stock of private sector deposits in pesos increased 2.3% in real terms in February (+4.3% in nominal terms), driven both by sight deposits (+2.2% in real terms, +4.3% in nominal terms) and time deposits (+2.1% in real terms, +4.2% in nominal terms). Private sector deposits in foreign currency fell 0.7% —in currency of origin— in the month. In this context, private sector deposits accounted for 58.7% of the financial system's total funding —liabilities plus net worth—, up 0.5 p.p. against the previous month and with no significant changes on year-on-year terms.

- In February, the stock of loans to private sector in pesos decreased by 0.7% in real terms (+1.3% in nominal terms). Loans in foreign currency fell 3.6% in the month —in currency of origin—. Bank financing to the private sector represented 36.7% of total assets, down 0.8 p.p. against the value of the previous month and 3.5 p.p. y.o.y..

- The non-performance ratio of loans to private sector stood at 6.1% of total portfolio in February, increasing slightly from January (+0.1 p.p.) and 2.3 p.p. y.o.y.. The stock of total accounting provisions represented 86.5% of non-performing loans to private sector in the month, without significant changes from January. In turn, the estimated stock of provisions for the non-performing portfolio was 70.2% of said portfolio.

- In February the financial system recorded income equivalent to 1.3% annualized (a.) of assets (ROA) and 8.7% a. of equity (ROE), decreasing against the first month of the year. Considering the aggregate of the first two months of 2020, the ROA of the ensemble of banks reached 3.2% a., while the ROE stood at 21.3% a.

Published on April 15, 2020.

The data reported are provisional and subject to changes. 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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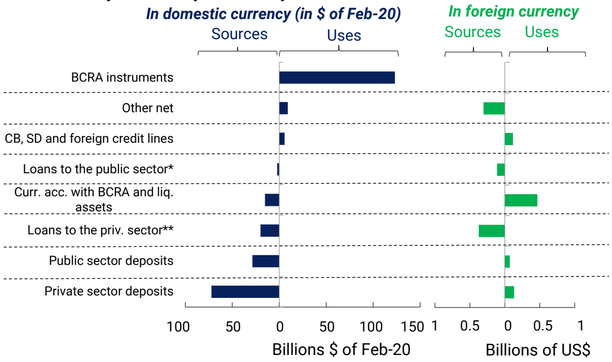
I. Financial Intermediation Activity

In terms of the estimated cash flow for items in pesos in February[1], the increase in the stock of private and public sector deposits was the main source of resources for the financial system in the month. These funds were mainly channeled to increase the holdings of BCRA instruments (see Figure 1). All the groups of banks recorded these sources and the use of funds in pesos in the month. In turn, items in foreign currency from the financial system's balance sheet showed limited changes. Thus, there has been a decrease in private sector credit and deposits in foreign currency, movements that were observed in all groups of banks.

Figure 1 | Estimated monthly cash flow (Feb-20)

Financial system - By currency



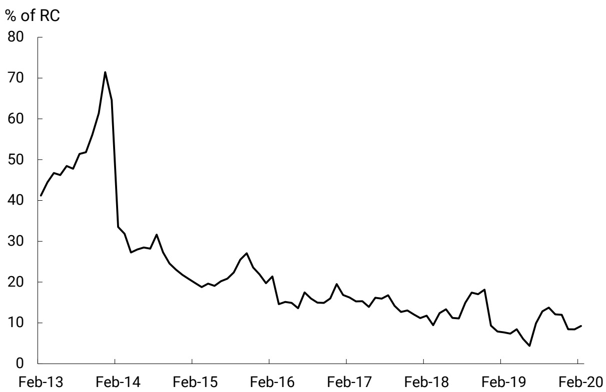
*Considering assets admissible for calculation of compliance with minimum cash requirement. **Considering principal of loans (excluding accrued interest and capital adjustments). Source BCRA

In this context, financial system's total assets increased 0.9% in real terms (+3% in nominal terms) in February.

Considering the aforementioned changes, in February, assets in foreign currency in the aggregate balance sheet of the ensemble of banks reached 23.5% of total assets, and liabilities in the same denomination stood at 22.1% of total funding (liabilities plus net worth) slightly below January 2020 figures. The difference between these bank assets and liabilities in foreign currency —including forward purchase and sale of foreign currency— totaled 9.3% of regulatory capital in the month, slightly higher than in January (see Figure 2).

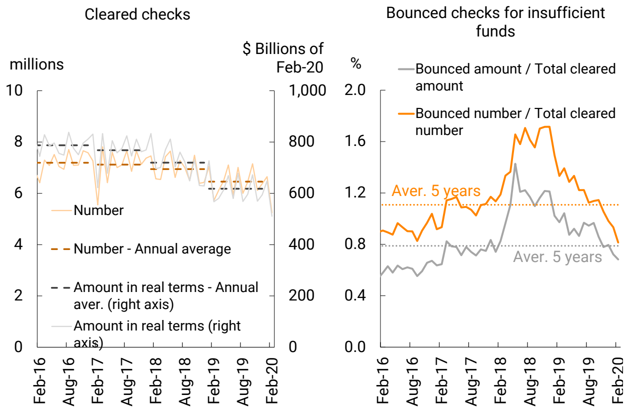
Figure 2 | Foreign currency assets - Foreign currency liabilities + Foreign currency forward position

Financial System



Source: BCRA

Figure 3 | Cleared and bounced checks



Source: BCRA

1 Considering differences in balance sheet balances in uniform currency between February and January.

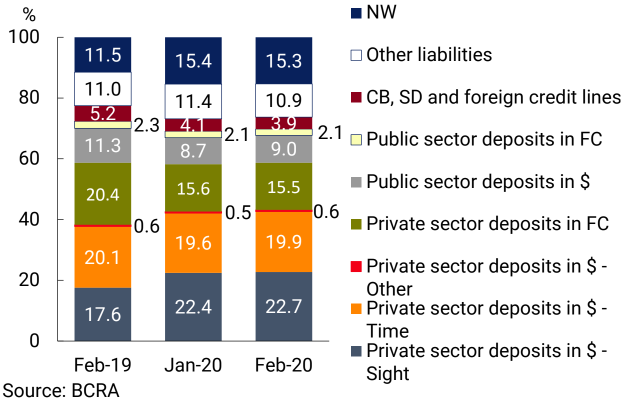
In relation to the transactions through the National Payment System, instant transfers increased in number in February by 7% compared to January, although they went down 2% in amount in real terms (considering transactions' daily average). Instant transfers grew 21% and 7% in number and amount in real terms, respectively against the same month of last year. In turn, cleared checks continued to decline in February, in line with the trend observed in recent years (see Figure 3). In February, the number (and amount) of bounced checks for insufficient funds in terms of total cleared checks reached 0.81% (and 0.68% in amount), down 0.12 p.p. (and -0.04 p.p.) against January. However, in the context of the COVID-19 pandemic, bounced checks for insufficient funds in terms of the total cleared checks during March increased, up to 2.74% in number and 2.19% in amount.

II. Deposits and liquidity

The stock of private sector deposits in pesos increased 2.3% in real terms in February (+4.3% in nominal terms), due to sight deposits (+2.2% in real terms, +4.3% in nominal terms) and time deposits performance (+2.1% in real terms, +4.2% in nominal terms). Private sector deposits in foreign currency fell 0.7% —in currency of origin— between ends of month. On the other hand, public sector deposits grew 3.2% in real terms (+5.3% in nominal terms) in February. In this context, the stock of total deposits in the financial system increased 1.9% in real terms in March (+3.9% in nominal terms).

In the last 12 months to February, private sector deposits in pesos decreased 1.1% in real terms (+48.6% y.o.y. in nominal terms), with a 13.4% y.o.y. fall in time deposits (+30.2 % y.o.y. in nominal terms) and a 13.3% y.o.y. increase in sight deposits (+70.2% y.o.y. in nominal terms). On the other hand, private sector deposits in foreign currency fell 37.3% y.o.y.—in currency of origin—. The stock of public sector total deposits also decreased in real terms in the same period. Thus, the stock of total deposits fell 15.4% y.o.y. in real terms (+27.1% y.o.y. in nominal terms) compared to February 2019.

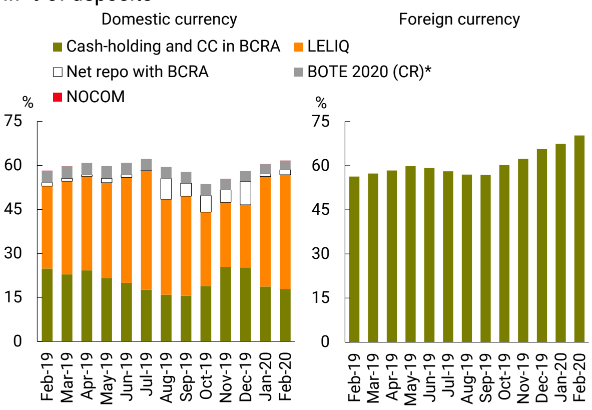
Figure 4 | Total funding - Financial system



Source: BCRA

Figure 5 | Financial system liquidity

In % of deposits



*CR: Cash reserves. Source: BCRA

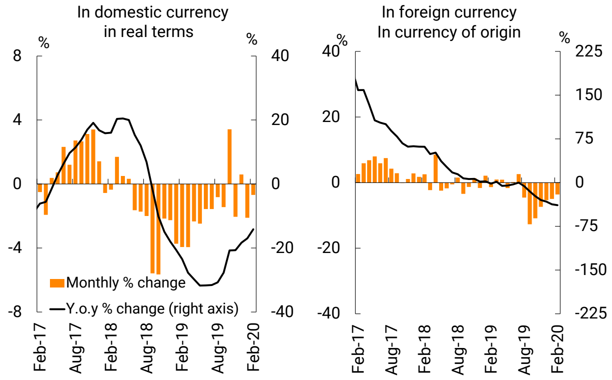
In this context, the weighing of private sector deposits in total funding — total liabilities plus net worth— climbed 0.5 p.p. in February, reaching 58.7% (unchanged in year-on-year terms, see Figure 4).

Financial system's liquid assets continued at high levels and even increased in February. The broad liquidity indicator[2] reached 63.8% of total deposits in the month (61.7% for the segment in pesos and 70.3% for items in foreign currency), up 1.6 p.p. against January (1.2 p.p. more for the indicator in pesos and 2.9 p.p. for the foreign currency indicator, respectively, see Figure 5). There has been a change in the composition of liquid assets in the month, with falling financial institutions' current accounts at the BCRA (after the end of the December-January bimonthly period for minimum cash compliance) and increasing LELIQs. Compared to February 2019, the broad liquidity indicator grew 6.2 p.p. (+3.4 p.p. y.o.y for items in domestic currency and +14 p.p. y.o.y. for the segment in foreign currency).

III. Credit and portfolio quality

The stock of loans to private sector in pesos decreased by 0.7% in real terms from January to February (+1.3% in nominal terms). This monthly drop was mainly driven by credit card financing. On the other hand, the stock of loans in foreign currency fell by 3.6% 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

Loans to private sector in domestic currency accumulated a 14.2% drop in real terms compared to February 2019, mainly explained by personal and pledge backed-loans. Financing in foreign currency went down 38.7% y.o.y. —in currency of origin—.

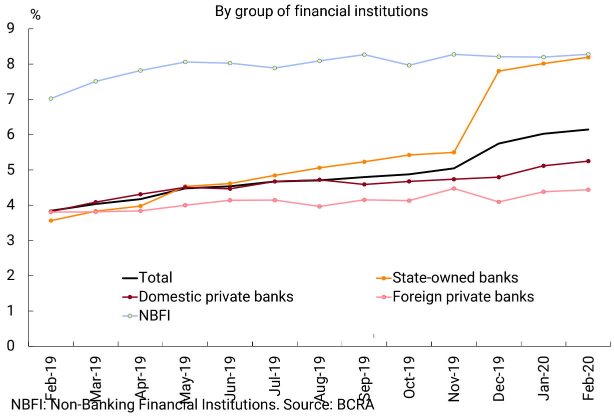
In February, the stock of loans to companies (in domestic and foreign currency) fell 1.7% in real terms (+0.3% in nominal terms).[3] In year-on-year terms, this financing decreased by 23.7% in real terms. On the other hand, bank loans to households fell 1.1% in real terms in the month (+0.9% in nominal terms), a performance mainly explained by credit card financing and personal loans. In year-on-year terms, loans to households contracted 15.4% in real terms.

2 Liquid assets, liquidity requirements and BCRA's instruments, both in domestic and foreign currency.

3 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.

Bank financing to the private sector represented 36.7% of total assets, down 0.8 p.p. against the value of the previous month and 3.5 p.p. against the same month of last year.

Figure 7 | Non-Performing loans to the private sector
Non-Performing financing / total financing (%)

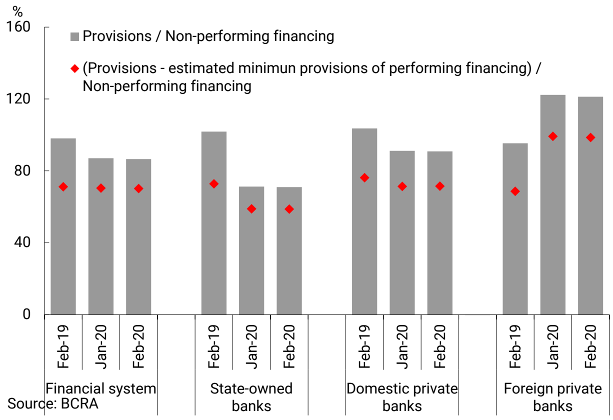


NBFI: Non-Banking Financial Institutions. Source: BCRA

The non-performance ratio of loans to private sector stood at 6.1% of total portfolio in February, increasing slightly (+0,1 p.p.) in the month and 2.3 p.p. y.o.y. The monthly performance of this indicator was similar in the different groups of banks, while the increase registered in public banks stands out in the year-on-year variation (see Figure 7) —mainly driven by the level of non-performing loans to companies—.

The non-performing ratio of loans to companies reached 8.1% in February, climbing 0.3 p.p. in February and 4.6 p.p. y.o.y. In turn, total non-performing loans to households was 4.3% in the month, without significant changes compared to January (+0.1 p.p.) or in year-on-year terms (-0.2 p.p.). Non-performing mortgages to households did not show significant changes in February: 0.68% in the UVA segment and 0.97% for the rest.

Figure 8 | Provisioning and non-performing portfolio
By group of banks



Source: BCRA

In February, the stock of total accounting provisions (performing and non-performing portfolio) represented 86.5% of the financial system's non-performing loans to private sector (see Figure 8), without significant changes compared to January. The estimated stock of non-performing provisions was 70.2% of said portfolio, in line with the previous month.

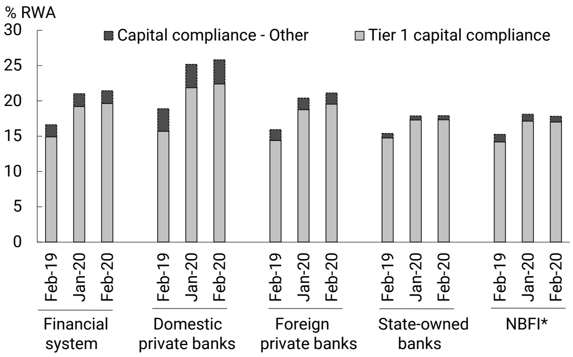
In the period, the financial system's exposure to the public sector represented 9.4% of total assets, down 0.3 p.p. against January and 0.9 p.p. against last year's level. Both the monthly and the year-on-year performance were mainly explained by public banks.

IV. Solvency

The solvency indicators of the financial system increased slightly in February. Regulatory Capital —RC— totaled 21.4% of risk-weighted assets —RWA— in the month, up 0.4 p.p.

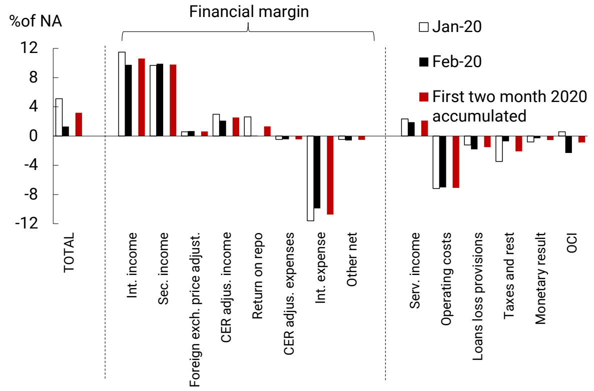
against January and 4.8 p.p. in year-on-year terms (see Figure 9).[4] Tier 1 capital explained more than 90% of total RC.[5] Capital position (RC minus regulatory requirement) of the ensemble of financial institutions represented 147% of the regulatory requirement in the month.

Figure 9 | Compliance with regulatory capital



Tier 1 Capital compliance: Basic Net Worth
Capital Compliance - Other: Supplementary Net Worth.
*NBFI: Non-Banking Financial Institutions. Source: BCRA

Figure 10 | Financial system profitability



Note: All topics are in $ of Feb-2020. Source: BCRA

In February, the financial system recorded income equivalent to 1.3% a. of assets (ROA) and 8.7% a. of equity (ROE),[6] decreasing against the first month of the year (see Figure 10) mainly due to a lower financial margin and a reversal of “other comprehensive income” (OCI). Considering the aggregate of the first two months of 2020, the ROA of the ensemble of banks reached 3.2% a., while the ROE stood at 21.3% a.[7]

It should be noted that, given the changes in accounting criteria introduced at the beginning of 2020, certain concepts, such as the profitability ratios aforementioned, are not directly comparable with those observed in previous periods (not expressed in uniform currency). A comparison may only be made when financial institutions present their quarterly financial statements, as there will be items expressed in uniform currency.

The financial margin totaled 11.5% a. of assets in February, down 3.3 p.p. against January. The monthly reductions in repo premiums, interest income (for loans) and CER adjustments were partially offset by a decrease in interest expenses (for deposits), and slight increases in income for securities and (positive) price differences. The financial margin was reduced monthly in all groups of banks. So far this year, the financial margin represented 13.9% a. of assets.[8]

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4 In this indicator’s year-on-year comparison, the effect of a number of modifications in the accounting criteria effective as of early 2020 should be considered (for further information, see Report on Banks, January 2020).
5 Consisting mainly of ordinary shares and income.
6 These indicators consider the monetary result and other comprehensive income (OCI). All the concepts included in calculating these indicators are considered expressed in uniform currency (pesos of February 2020).
7 In the numerator of the aggregate ROA and ROE of the two months of 2020, aggregate results as of February are considered, expressed at prices for that month. To construct the denominator of both indicators, the average of assets and equity, respectively, is used, both at February prices.
8 In this case and in the remainder of this Section, reference to aggregate indicators in the year shall use a similar detailed methodology to calculate ROA and ROE indicators.

In February, financial system's income from services reached 1.9% a. of assets, down 0.4 p.p. against January. All groups of banks recorded a monthly reduction in net income from services. In the aggregate of the two months of 2020, this concept of the income statement was equivalent to 2.1% a. of assets.

The ensemble of financial institutions' loss loan provisions represented 1.8% a. of assets in the month, up 0.6 p.p. against January, mainly due to public banks' performance. In the aggregate of the two months of 2020, loss loan provisions at the aggregate level totaled 1.5% a. of assets.

In February, financial system administrative expenses reached 7% a. of assets, down 0.2 p.p. against January. The monthly change was mainly explained by private banks. Considering the aggregate of the first two months of the year, these expenses represented 7.1% a. of assets.

The ensemble of banks recorded losses in OCI equivalent to 2.3% a. of assets in February, reversing a slightly positive result recorded in January. Most of the monthly change in this concept was explained by income (loss) derived from financial instruments at market value, mainly in foreign public and private banks. In the first two months of 2020, financial systems' OCI was negative and equivalent to 1% a. of assets.