Report on Banks

MAY 2004

Central Bank of Argentina

Year I - No. 9

Contents

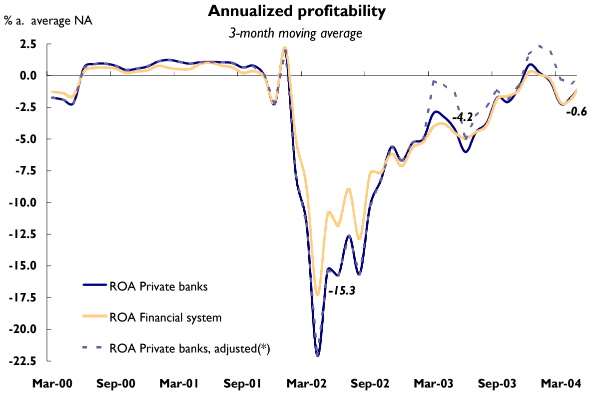
Note: This Report contains information from May 2004 balance sheets available at 08/07/04. Description centers mainly on the behavior of the main financial variables for the private bank aggregate (including breakdowns by uniform sub-groups), except for certain variables that explicitly refer to public banks and the entire financial system. Figures provided (particularly in the case of profitability) are preliminary, and may be subject to change.

Please address comments or queries to:
analisis.financiero@bcra.gov.ar

Summary

- In May the financial system recorded profits for over $400 million, of which $170 million was posted by private banks, allowing them to cut their accumulated losses for the year to 1.3% (a.) of assets. Positive results were widespread: out of 61 private banks, 47 (78%) recorded profits.
- Excluding the effect of the amortization of payments under court orders and adjustments to the valuation of public sector assets, accumulated profitability recorded by private banks is a positive 0.3%a. of assets in 2004 (a sharp improvement compared to the adjusted loss of 2% of assets in the same period of 2003.
- Profits for May reflect the impact of the nominal depreciation of the peso against the dollar and the impact of the debt restructuring by one of the largest private banks. In addition, the widespread improvements in operating income have been maintained as a result of the increase in lending in recent months.
- For the first time this year private banks recorded an operating profit (an annualized 0.6% of assets). In addition to consolidating the improvement made in recent months, there have been better results from interest and assets generated by the restructuring of liabilities. Operating costs fell, so that their coverage by operating income is now in excess of 100%, consolidating a rising trend seen since September 2002.
- The level of financial system activity rose in May. The system recorded higher levels of liquidity and deposits, particularly in the case of public banks, which received deposits for $4.8 billion from the public sector, mainly from income tax revenue.
- Private banks, on the other hand, had to face an outflow of private sector funds due to the same tax deadline, reducing their liquidity to $15 billion, 27% of total deposits.
- The rate of growth in lending to the private sector increased in May. In the first five months of the year, private banks made a net use of resources for this purpose of $1.7 billion, increasing the share of total assets accounted for by private sector lending by 2 p.p. (to a level of 28% in May). The disparity in the rate of growth in lending to the private sector by type of bank has narrowed in recent months.
- Foreign debt of private banks was cut by US$115 million during the month, reflecting the effects of a restructuring of liabilities, the settlement of debt using government securities, and the capitalization of subordinated debt held by foreign institutions.
- The process of recovery in portfolio quality recovered its rate of improvement in May. Non-performance fell more than 1 p.p. to 22.6% for private banks, driven by the improvement in their commercial portfolios. Private bank non-performing portfolios net of provisions dropped to 5.2% of net worth, the lowest level in the last 10 years.
- Private bank capitalization levels continued to rise in May, reaching a level of 16% of risk-weighted assets.

Chart 1
Annualized profitability
3-month moving average



(*) Excluding amortization payments for court-ordered releases and the effects of Com "A" 3911 and 4084.

Chart 2
Operating profits
3-month moving average

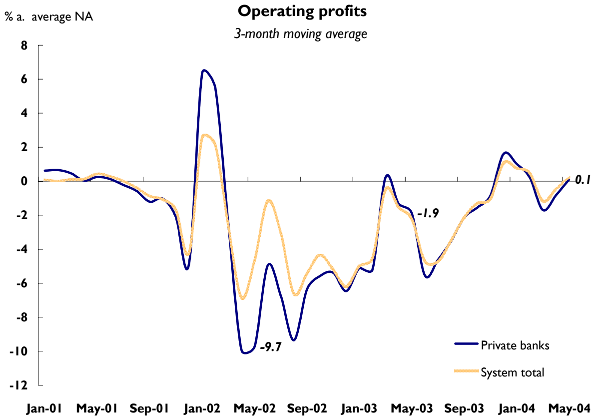
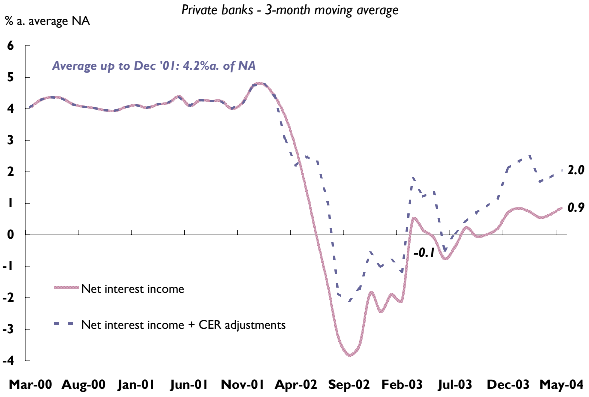


Chart 3
Net interest income
Private banks - 3-month moving average



Profitability: *a profitable month…*

The financial system recorded a profit for the first time this year in May ($420 million), cutting accumulated losses for 2004 to date to $770 million, or an annualized 1% (a.) in terms of netted assets (NA). **Profits for the month by private banks amounted to $170 million**, reinforcing the gradual recovery of profitability levels that had been observed in recent quarters (see Chart 1). **The improvement in May was widespread: out of a total of 61 private banks, 47 recorded positive results**. Although the accumulated total for the year for private banks records a loss of close to $600 million (1.3%a. of assets), this amount is equivalent to only one third of the amount recorded in the same period of 2003. If private bank results are adjusted to exclude the effects of the change in the method for valuation of public sector securities[1] and the amortization of court-ordered deposit payments, the accumulated profit totals $145 million (0.3%a. of assets) in the first five months of the year, a significant advance compared to the adjusted loss in the same period of 2003 (-2% of assets).

The total result recorded by private banks in May has been a reflection not only of consolidation of progress on the matter of operating results, but also the impact of non-recurring factors. Outstanding among the latter were the nominal appreciation by the peso against the dollar and the debt restructuring carried out by a leading private bank.

The twelve-cent increase in the nominal peso/dollar exchange rate between ends of the month gave rise to significant results from the revaluation of foreign currency assets and liabilities. These results were positive (3.8%a. of assets) because private banks as a whole record a net asset position when considering total assets and liabilities expressed in foreign currency. The size of this overall position (close to US$ 2.5 billion for the private bank aggregate) means that exchange rate movements have the effect of increasing the volatility of results. As forward foreign currency markets deepen, it is expected that banks will find themselves in a better position to administer their net positions in foreign currency.

In May the effect was recorded of the debt restructuring carried out by one of the leading private banks in the system. The new terms agreed had a particular impact on income from assets and the interest rate margin for the private bank aggregate, generating a genuine but non-recurring impact that was added to the positive trend seen under both headings in recent months[2]. This restructuring transaction will have further positive results on the ordinary results by reducing the flow of interest paid.

Operating profits, at the core of the banking business, recorded further improvement during May, **rising to 0.6%a. of assets in the case of private banks, the highest level of the year, enabling the posting of moderately positive quarterly results** (see Chart 2). Excluding the

[1] Com "A" 3911 and 4084.

[2] The gains recorded by the institution that completed the restructuring of its liabilities were partially offset by a significant increase in provisions not related to loan losses. This caused private banks to record a significant negative balance under "Sundries" (-1.4%a. in terms of assets), offsetting profits in previous months that were mainly caused by the release of provisions and the recovery of loans.

effects of the mentioned restructuring, operating profits remained at a level of close to 0%. As indicated in previous months, the closing of the gap between expenditure and operating income in 2004 to date has implied a significant change in relation to the large losses that predominated in the last two years. An accumulation of operating profits will be essential if the solvency of the financial system is to be reinforced, given the lack of funds from official sources.

Interest income, the traditional source of operating profit, continued to recover (see Chart 3). **Although still weak in historical terms, in the case of private banks this margin reached its highest point for the year in May: 1%a. of assets**. This improvement was generated by the interest write-offs included in debt restructuring agreements, but even if such transactions are excluded from the calculations, the margin has remained at its April level (over 0.5%a.). This represents a significant achievement, following a lengthy period during which interest earned was insufficient to cover the expense under this heading.

The improvement in interest rate margin took place because of a significant reduction in interest paid on time deposits, while the amount of interest collected on loans fell less sharply because the increase in lending partially offset the drop in the interest rates charged. It is estimated that **recovery in interest rate margins will take place gradually, as banks continue to increase the volume of funds applied to the financing of the private sector.** As shown on Chart 4, the rates of interest received from the lending lines that have increased most during the current year (short-term commercial and consumer credit) in all cases record a margin of more than 10 p.p. in excess of the average interest rate for time deposits and the yield on more liquid investments, such as the LEBAC Central Bank bills[3].

The CER adjustment was another of the factors that contributed to the strengthening of operating profit levels. (see Chart 5). The rise in this benchmark indicator was higher than in previous months (0.8% for the month), and helped to offset the drop in accrued CVS (which rose at half the rate in the previous month[4]). Chart 6, showing a breakdown of accrued adjustments according to CER and CVS, reveals that loans have generated most of the CER income. CER on securities and CVS adjustments account for almost all the remaining income under this heading. CER payable has mainly been concentrated on other liabilities from financial intermediation (rediscounts in particular).

Private bank operating income also benefited from positive (though less significant) changes in items such as income from services, administration costs and loan loss provisions. Income from services continued to show signs of a gradual increase, reaching the highest total for the year in May (equivalent to 2.4%a. of assets). A drop in depreciation charges meant that administration costs, at 4.4%a. of assets, were the lowest for the year, and 0.3 p.p. below their level in the same month in 2003. **In a context of rising operating income, for**

Chart 4
Lending and borrowing rates

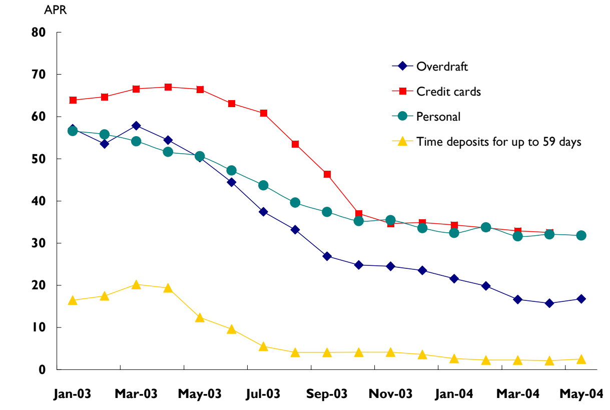


Chart 5
Accrued CER/CVS adjustments
Private banks - 3-month moving average (annualized)

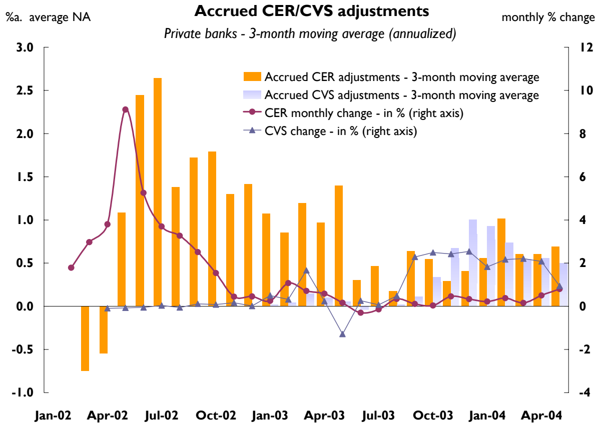
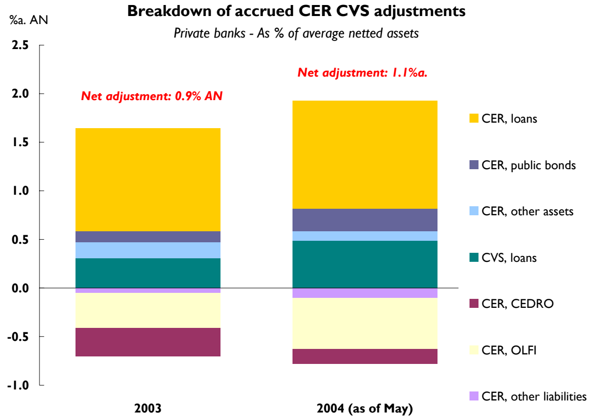
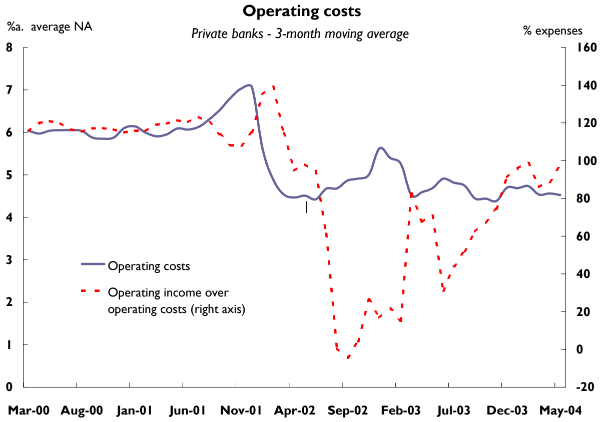


Chart 6
Breakdown of accrued CER CVS adjustments
Private banks - As % of average netted assets



[3] Comparison between interest rates should take into account that credit risk differs for each type of operation, as do the administrative costs implicit in the handling of the various assets and liabilities.
[4] The change in CVS was (0.9%) in March, the last month in which this index is to be calculated (Law 25,796). The index is published with a two-month lag, so that the last adjustment on the basis of change in the CVS for March has taken place in May.

Chart 7
Operating costs
Private banks - 3-month moving average



the first time in the year the cover of operating costs by recurring operating income (interest and service income plus CER/CVS adjustment) rose above 100%** (see Chart 7). Lastly, still benefiting from the improved macroeconomic outlook, loan loss provisions remained at levels barely above 0.5%a. of assets, at amounts similar to those recorded prior to the crisis.

To complete this review of changes in the profitability structure, there has been an increase in net income from the yield, revaluation and trading of securities, which recorded an improvement in May of 0.3 p.p. of netted assets, included under the income from securities heading. This behavior was influenced in part by the restructuring of liabilities by one private institution. Excluding this non-recurring item, the gains on securities recorded by private banks fell slightly compared to the previous month, although remaining at around 1%a. of assets.

The outlook for current income in June is favorable. In particular, interest income will benefit from the sharp increase in lending to the private sector, led by overdrafts, and to a lesser extent, promissory notes and personal loans (see Table 1). Average interest rates on advances and promissory notes recorded slight positive variations in June, reinforcing hopes for increased interest income. As regards the cost of funding, although the time deposit balance recorded a significant increase in June (after several months during which time deposits were switched into sight deposits), rates paid on deposits of between 30 and 44 days fell by 5 basis points on average. The possibility of further progress in June could be restricted by a seasonal increase in administrative costs. Lastly, there should not be any significant results from the revaluation of securities and liabilities in foreign currency, in view of the relative stability of the peso/dollar exchange rate.

Table 1
Main developments in June

	May	Jun	Chg.%
Prices			
Exchange rate ($/US$) 1	2.96	2.96	-0.12
CPI	146.50	147.32	0.56
CER[1]	148.70	149.83	0.76
	%		Chg.(p.p.)
Average percentage rates			
Lending			
Private banks			
Overdraft	12.1	12.2	0.1
Promissory notes	9.7	9.9	0.1
Mortgage	9.7	9.8	0.0
Pledge-backed	12.6	10.2	-2.5
Personal	40.0	31.7	-8.2
Public banks			
Overdraft	20.3	18.4	-1.9
Promissory notes	14.0	11.5	-2.5
Mortgage	8.2	8.3	0.0
Pledge-backed	15.2	14.6	-0.6
Personal	14.8	14.9	0.1
30- to 44-day time deposit	3.1	2.6	-0.5
6-month LEBAC in pesos, w/o CER	6.6	6.2	-0.4
	million $		Chg. %
Balance[1] - Private banks			
Peso deposits - Private sector	44,145	44,783	1.4
Sight deposits	24,807	25,053	1.0
Time deposits	16,830	17,420	3.5
Peso loans - Private sector	20,014	20,978	4.8
Overdraft	4,910	5,556	13.2
Promissory notes	3,521	3,755	6.6
Mortgage	5,237	5,226	-0.2
Pledge-backed	506	540	6.7
Personal	1,613	1,678	4.0

(1) End of month figure.

Activity: *lending gains strength*

The activity level for private banks continued to rise. Netted assets recorded a monthly variation of 3%, reflecting the impact of an increase in the balances of liquid assets (7%) and private sector loans (2.5%). On the side of liabilities, total financial system deposits rose by 5 percent in the month[5] for a total increase in real terms in the year to date of 11%[6] (see Chart 8). Income tax receipts explain the increase in total deposits as well as the significant drop in private sector deposits. A proportion of almost 80% of this exceptional flow of public sector deposits (which went up 30% in May) was channeled to public banks. Nevertheless, private banks maintained the positive trend in private sector lending (which rose by 3% in the month).

Private banks generated funds mainly by using their most liquid assets (see Table 2). **The decline for the month in the balance of these assets totaled $1.8 billion (-11%), reflecting the effect of the reduction of the peso current account balances held by institutions at the Central Bank (-28%).** This behavior, provoked by the outflow of

[5] Excluding CEDRO.
[6] Restated according to the consumer price index (IPC), which went up by 0.7% in May and has accumulated a total increase of 2.7% in the year to date.

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

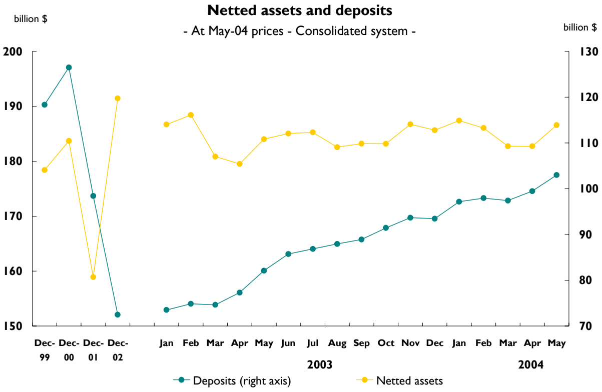
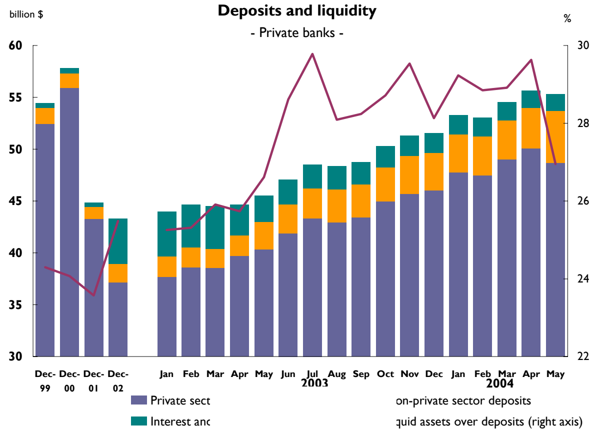


Table 2
Estimated sources and uses of funds
Private banks - May 2004
Million pesos

Sources		Uses	
Liquid assets [1]	1,800	Private sector deposits (excluding CEDRO)	1,455
Public sector deposits (excluding CEDRO)	1,170	Loans to non-financial private sector	630
LEBAC	200	CEDRO	340
		Deposits abroad	165
		BCRA rediscounts	140
		Other	440

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

Chart 9
Deposits and liquidity
- Private banks -



private sector deposits, lowered the private bank liquidity ratio[7] to 27% of total deposits, a drop of 3 p.p. compared to the previous month (see Chart 9). The counterpart to this phenomenon has in part been an increase in the holding of liquid assets by public banks, with a rise of 28% in May, taking the corresponding indictor to 34% (5 p.p. more than in April). Influenced by these movements, the call market recorded increased trading volumes, as well as a temporary increase in the interest rate (from 1.2% to 3.3% on average)[8].

An increase in public sector deposits and a reduction in LEBAC portfolios complete the list of relevant sources of funds for the private sector during the month. In the first place, public sector deposits in pesos rose by 33%, providing almost $1.2 billion. In second place, it has been estimated that private bank holdings of LEBAC dropped by $200 million in May. Unlike previous months, there was a drop in bills in pesos as well as a smaller decline in bills adjusted according to CER, in line with the lower yields paid on all series.

The leading use of funds was the repayment of private sector deposits, which recorded a drop of almost $1.5 billion[9], largely explained by the payment of income tax. This decline in private sector deposits was seen in the behavior of deposits in pesos, mainly savings accounts and current accounts. Private sector deposits in foreign currency grew by US$170 million (approximately $500 million).

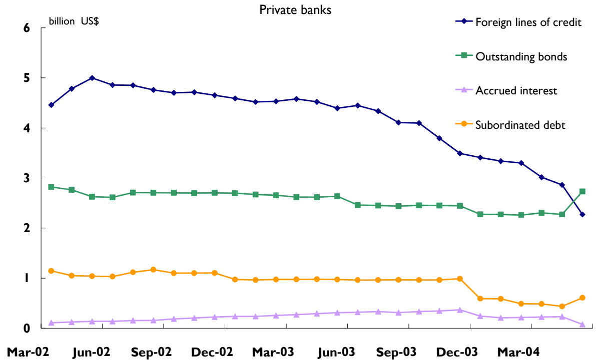
Despite the outflow of deposits, private banks have continued to make a net application of resources in increasing the balance of credit to the private sector. This heading increased by $630 million[10] (3%) in May, accumulating an application of funds for $1.7 billion under this heading in the year to date. **Current account overdrafts in pesos and credit card financing in pesos were the two lines showing the greatest increase in May** ($280 and $170 million respectively). Whereas in the case of overdraft facilities regional banks recorded the most activity, private banks with a nationwide scope led the monthly growth in credit card lending (accounting for 90% of the increase).

Overdrafts and credit card finance, two of the instruments leading the recovery after the crisis in 2001, have been the credit lines with the greatest growth in the last twelve months. The economic recovery and the consequent need for companies to rebuild working capital, as well as the rising income levels of household income (both actual and expected), which have underpinned a rising level of consumption, explain a large part of the increases in the mentioned types of short-term credit.

In the category of loans secured by real guarantees, **loans secured by pledges have increased again, consolidating a trend that began in**

[7] Here measured as the quotient between liquid assets and total deposits (including CEDRO).
[8] For further detail, see the Monthly Monetary Report for May 2004.
[9] The calculation excludes unpaid accrued interest, CER adjustments, and changes in items in dollars as a result of the devaluation of the local currency.
[10] In calculating monthly flows, adjustments to balances from CER and CVS, uncollected accrued interest and the effect of the $/US$ exchange rate on items in foreign currency have been excluded. Loans considered to be unrecoverable written off from balance sheets in the month under review have been added back.

Chart 10
Foreign debt
Private banks



March. Private banks have applied a net $30 million for this purpose, generally in loans to SMEs, in the context of marked growth in vehicle and agricultural machinery sales. In turn, at the same time as there was an increase in volume traded, **mortgage loans granted by private banks slowed their fall compared to April. A larger number of banks recorded increases in these lines.**

Another use of funds by private banks in May was the payment of the third installment of the Central Bank financial assistance repayment scheme for the funds advanced during the crisis in 2001[11]. This repayment totaled $140 million for the private bank aggregate, lowering by 1% the liability to the Central Bank of this group of institutions.

Private bank indebtedness abroad has continued to reflect changes in both volume and composition. On the one hand, private banks have continued with their policy of lowering debt by means of its capitalization by their head offices and settlement by means of the delivery of government securities (especially BODEN 2012 in US dollars). Based on these methods, which will probably continue to be used in coming months, banks lowered their debt by more than US$80 million in May. On the other, as a result of the restructuring of debt by one large private institution, during May the balance of corporate bonds grew by almost US$500 million to the detriment of direct lines of credit, currently accounting for almost half the foreign debt of the private bank sector (see Chart 10).

Table 3
Loans to private sector by bank groups
Percentage change of balance sheet totals

	2004	May04/Aug03	Share of total (May04)
Public banks			
Total loans	***2%***	***3%***	***28%***
Commercial	9%	11%	19%
Consumer	24%	48%	22%
Other	-4%	-6%	39%
Domestic private banks			
Total loans	***10%***	***18%***	***31%***
Commercial	16%	27%	36%
Consumer	14%	32%	36%
Other	2%	3%	25%
Foreign controlled private banks			
Total loans	***3%***	***-1%***	***39%***
Commercial	16%	11%	45%
Consumer	12%	30%	35%
Other	-11%	-17%	34%
Total private banks			
Total loans	***6%***	***7%***	***69%***
Commercial	16%	17%	81%
Consumer	13%	31%	71%
Other	-6%	-9%	60%
Total system			
Total loans	***5%***	***6%***	***100%***
Commercial	15%	16%	100%
Consumption	16%	35%	100%
Other	-5%	-8%	100%

Note:
Accrued interest and CER/CVS adjustments are not included.
Commercial loans include overdrafts and promissory notes.
Consumer loans include credit card financing and personal loans.
"Other" includes pledged backed, mortgages and other loans.
Figures do not include those unrecoverable loans that have been charged-off from assets on balance sheet, sales of loan portfolio or loans tranferred to trust funds.
"Total system" includes public banks, private banks and non-bank institutions data.

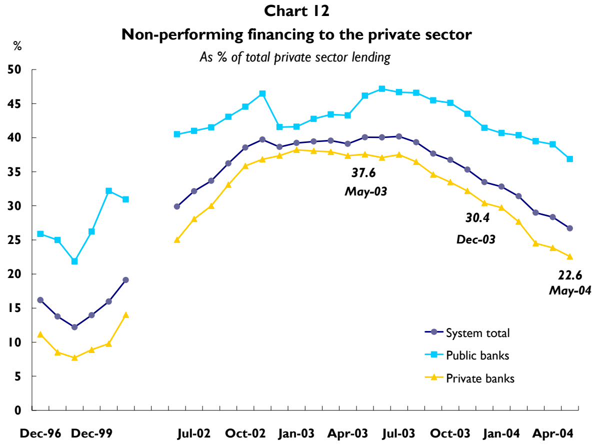
Private banks increased their net worth by $200 million, from their accrued results and the capitalization of debt during the month. This generated small variations in leverage ratios[12] given the increase observed in netted assets (see Chart 11). In regulatory terms, solvency indicators recorded a significant improvement, with the addition of the effect of the restructuring of debt on capital compliance (in calculating the adjusted stockholders' equity, it is allowed to include a portion of the subordinated debt, as long as certain requirements are fulfilled). **As a percentage of risk-weighted assets, compliance increased 1 p.p. in May, to a level of 16%.**

Loans to the private sector: *towards more even growth*

Since the recovery that has been recorded since the third quarter of 2003, lending to the private sector has shown some significant differences between bank segments (see Table 3). If analysis is centered on short-term loans, these differences narrow considerably, particularly if only the first five months of 2004 are considered.

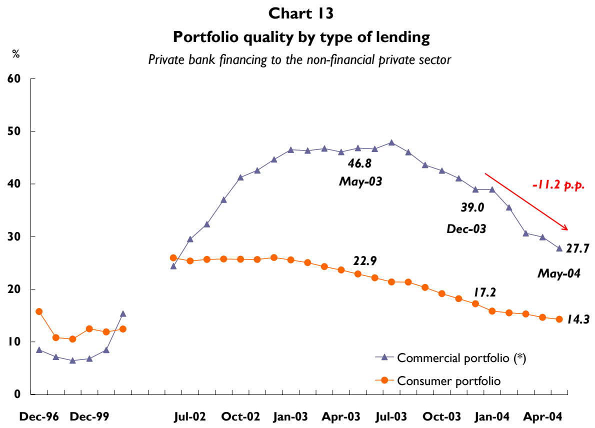
As noted in the previous month's report**, public banks have been recording a slower rate of increase for this asset heading than private banks in the last three quarters.** The relatively less favorable performance by public banks is a reflection of the increased weighting of secured loans, which have recorded the worst performance for the banking system as a whole.

[11] The so-called matching system introduced by Com. "A" 3941.
[12] Measured here by the quotient between netted assets and net worth.



In the case of private banks there has also been little uniformity in the behavior of lending. **A significant disparity exists between private banks of local origin and foreign banks[13], in particular when analyzing performance in the last nine months** (when aggregate bank lending began to recover). The balance sheet total for lending to the private non-financial sector has risen by 18% since August 2003 in the case of domestic banks (generally of smaller size, and including regional or specialized institutions), while it fell 1% in those of foreign capital (see Table 3). In the case of consumer credit, domestic capital banks have recorded a notable increase in the balance of lending to companies and secured lending. These banks have also recorded the largest growth in pledge-backed loans and have seen a surge by mortgage lending in 2004 to date. In the case of foreign banks, on the other hand, the volume of repayments has been higher than that of new loans granted in the case of these long-term lines. Lastly, we would mention that in 2004 to date, performance by group of banks has evened out considerably for both commercial lines and consumer lines.

Portfolio quality: *the improvement continues*



(*) Includes commercial portfolio up to $200.000 .

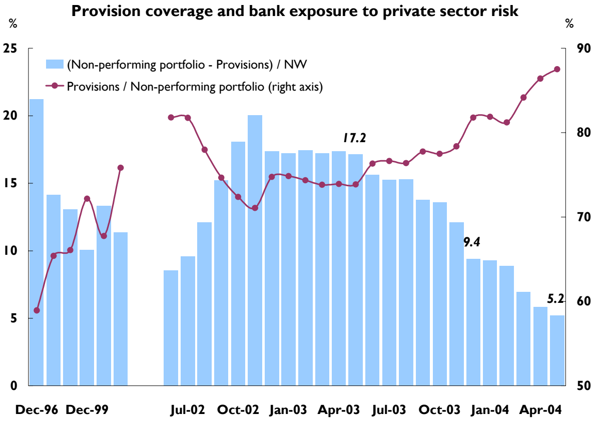
The recovery in the quality of private bank loan portfolios[14] regained its earlier pace in May, after recording a slight slowdown in April. **Non-performance by loans to the private sector fell by more than one percentage point to a level of 22.6% in the case of private banks[15] (see Chart 12).** In 2004 to date, this indicator has already recorded a recovery of almost 8 p.p.. For the system as a whole delinquency stood at 26.7% in May, recording a drop of almost 7 p.p. in the year to date. The increased non-performance for the total banking system, compared to that for private banks alone, is a reflection of the lower relative quality of the public bank portfolio, which has a delinquency rate of close to 37%.

The progress made in private bank portfolio quality is explained by the joint effect of an increase in total loans granted and a drop in the amount rated as non-performing (situation 3 to 6 of the debtor classification[16]). As in previous months, **the improvement was driven by the commercial portfolio, for which the level of non-performance fell almost 2 p.p. in May, to 27.5%** (see Chart 13). As a result, in 2004 to date this type of loan has recorded a decline in non-performance of close to 30%.

Gains were more discrete in the case of consumer lending portfolios, which recorded a drop of almost half a percentage point. As the quality of these loans is higher than that of commercial lending (they record a non-performing level that is almost half that of the latter type of loan), the margin for improvement in the consumer lending

[13] This sub-group includes branches of foreign banks and those local institutions with a majority of foreign capital.
[14] In this case, financing includes loans, other credits from financial intermediation, assets under financial leases and sundry credits (see ordered text on the Central Bank website : www.bcra.gov.ar.).
[15] At the time of writing this report, information was available at May for a group of private banks accounting for 82% of total loans granted by private banks to the private non-financial sector.
[16] According to rules on "Debtor Classification," total lending by debtor is classified into six categories on the basis of the debtor's repayment capacity. Categories a numbered from 1 to 6, with 1 being the best.

Chart 14
Provision coverage and bank exposure to private sector risk



portfolio is more restricted. In this instance, in the year to date there has been an improvement of almost 3 p.p..

In a scenario in which non-performing loans are on the decline, a much smaller drop in the amount of provisions set up by private banks has meant that the cover of such loans by provisions has continued to rise in May, to a level of 87.5%. **Notwithstanding the increase in lending, the decline in non-performance and the rebuilding of private bank net worth** (as a result of the capitalization of banks and the profits for the month) **contributed to a reduction in the exposure of net worth to private sector credit risk.** As shown by Chart 14, the ratio of loans to the private sector not covered by provisions as a percentage of net worth has been declining steadily since the middle of 2003, when there was an acceleration in the recovery of the quality of the commercial portfolio. In May this indicator fell again, losing almost half a percentage point. Having fallen almost 12 p.p. in the last 12 months, this indicator reached its lowest ever level, standing at 5.2% of net worth[17].

[17] Account should be taken of the changes in regulations on debtor classification and setting up of provisions that have taken place in recent years.

Latest regulations

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

Communication "A" 4135 – May 5, 04

As from 1 July 04, financial institutions must observe an additional limit when calculating their net overall position in foreign currency. This limit, at a level still to be set, will apply to the balance of sight accounts plus assets and liabilities that are liquid or which will fall due within the next 180 days. Only those securities recorded on the books at market value will be considered when determining this position, although servicing falling due within 180 days will also be taken into account.
In the case of forward transactions, changes have been made to the "Credit Risk Spreading" and "Credit Grading" regulations, establishing different percentages for calculation depending on the coverage and quotation features of the transaction.

Communication "A" 4136 – May 6, 04

The term for financial institutions to subscribe to the compensation system for CER/CVS established by Chapter II of Law 25,796 and Decree 117 issued in 2004 has been extended until 18 May 04. Changes have been made to some of the criteria included in the regulations, and an additional requirement has been set when applying for the bonds (National Government Bonds in pesos at variable rate due 2013) to be made available. Not only will it be necessary for the repayment obligation to have ceased, it will also be necessary for the compensation mechanism to have been concluded, considering each credit line individually.

Communication "A" 4140 – May 14, 04

As from 15 May 04 it will no longer be possible to set up time deposits in US dollars for settlement in pesos.

Communication "A" 4141 – May 18, 04

Minimum capital regulations have been modified, with changes to certain parameters for transactions contemplated in the weighting tables. These include the international risk rating grading that a member country of the OECD should count on so that, for example, the transactions performed by a financial institution with the guarantee of its head office or parent bank located in such countries can qualify for 0% weighting. In these cases, the minimum international country risk rating has been raised from "A" to "AA" or higher. In addition, the rules have been updated to take into account the various types of Central Bank debt certificates already issued or to be issued in future.

Communication "A" 4146 – May 28, 04

This Communication introduced the *Función Giro* to be performed by the Central Bank in the case of forward foreign currency transactions between financial institutions. This participation by the Central Bank is designed to permit the closing of purchase and sale trades with identical terms that remain open on screen because of the lack of operating margin granted bilaterally between the participating entities, without taking positions or modifying the volumes of supply and demand, nor participating directly in price-forming. This will enable an increase in trading volumes, leading to more representative prices, making it possible to carry out arbitrage operations and the hedging of transactions against other financial markets listing the same or different assets, thus succeeding in harmonizing the interest rates in force in the economy as a whole. This will be a remunerated service for the Central Bank. The charge will be shared in equal proportions by the two parties, and will cover the reimbursement of expenses to be incurred in the daily administration of the transactions entered into, the hedging of potential risks that could rise, and a percentage of profit.

Communication "A" 4147 – May 28, 04

This Communication has made changes to the Minimum Cash regulations. A 2 p.p. reduction has been established since 1 June 04 in the case of requirements on sight deposits in pesos (18%). In addition, deposits in pesos and deposits in dollars have been separated, with the requirement for the latter type of deposit being held at 20%. Furthermore, the guideline for remuneration of reserves has been modified, so that only legal requirements will be remunerated, with no payment being made on reserves in excess of such requirements.

In August 2004 requirements on foreign currency were increased to 30% (sight deposits) and the rates on time deposits were also increased, rising to 35%, 28%, 20%, 10% and 6% for residual terms of up to 29 days, from 30 to 59 days, from 60 to 89 days, from 90 to 179 days and 180 to 365 days, respectively. In addition, the sight deposits required to be held as reserves by Mutual Funds will once again be subject to a 100% reserve, and the remaining deposits in the name of mutual funds will be subject to a requirement of 25% and 40% in pesos and dollars respectively.

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

%a.: annualized percentage.
Adjusted profit: Total profit excluding payments made due to court-ordered releases and adjustments to the valuation of public sector assets according to Com. “A” 3911 and 4084.
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 counterparty 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.
NFPS: Non financial private sector.
Non-performing portfolio: Portfolio in categories 3 to 6, as per the debtor classification system.
Operating costs: Includes remuneration, social security payments, services and fees, sundry expenses, taxes and amortization.
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.
SEFyC: Superintendence of Financial and Exchange Institutions.

Statistical exhibit

Balance sheet - Private sector

In current pesos (millions)	Dec 99	Dec 00	Dec 01	Dec 02	May 03	Dec 03	Apr 04	May 04	Change (%) Month on month	Accum. 2004	Year on year
Netted assets	**85,918**	**88,501**	**73,796**	**117,928**	**112,990**	**115,093**	**114,324**	**114,767**	**0.4**	**-0.3**	**1.6**
Liquid assets	13,228	13,920	10,576	11,044	12,114	14,500	16,488	14,909	-9.6	2.8	23.1
Public bonds	6,433	7,583	1,627	19,751	16,231	22,047	18,935	19,444	2.7	-11.8	19.8
Private bonds	410	563	451	273	176	172	164	188	15.0	9.4	6.9
Loans	56,916	56,035	52,319	51,774	50,223	47,230	49,225	50,188	2.0	6.3	-0.1
Public sector	6,389	8,172	13,803	25,056	25,843	23,784	24,937	25,058	0.5	5.4	-3.0
Private sector	47,705	45,103	36,636	26,074	23,360	22,816	23,498	24,199	3.0	6.1	3.6
Financial sector	2,823	2,760	1,880	644	1,020	630	790	931	18.0	47.8	-8.7
Provisions over loans	-3,119	-3,248	-3,957	-7,463	-6,495	-5,223	-4,456	-4,355	-2.3	-16.6	-32.9
Other netted credits due to financial intermediation	4,470	5,730	4,489	26,235	23,195	20,670	19,296	19,744	2.3	-4.5	-14.9
Purchases (net)	487	1,103	807	380	341	698	673	539	-19.9	-22.8	58.0
Corporate bonds and subordinated debt	1,022	724	665	1,514	1,367	1,394	994	987	-0.6	-29.2	-27.8
Unquoted trusts	958	1,609	1,637	6,205	5,905	3,573	3,612	3,221	-10.8	-9.8	-45.5
Compensation receivable	0	0	0	15,971	13,871	13,812	12,917	13,644	5.6	-1.2	-1.6
BCRA	12	35	865	377	353	415	294	311	5.9	-25.1	-12.0
Assets under financial leases	796	776	752	553	548	387	398	415	4.2	7.2	-24.3
Shares and participation	1,371	1,651	1,703	3,123	3,196	2,791	1,491	1,504	0.8	-46.1	-52.9
Fixed assets and sundry	3,246	3,225	3,150	5,198	5,045	4,902	4,903	4,873	-0.6	-0.6	-3.4
Foreign branches	48	75	112	-109	-95	-136	-68	-66	-2.5	-51.4	-30.3
Other assets	2,120	2,190	2,574	7,549	8,851	7,753	7,949	7,924	-0.3	2.2	-10.5
Netted liabilities	**73,615**	**76,322**	**62,281**	**102,101**	**97,965**	**100,192**	**100,160**	**100,406**	**0.2**	**0.2**	**2.5**
Deposits	54,447	57,833	44,863	44,445	46,577	52,625	56,464	56,126	-0.6	6.7	20.5
Public sector (1)	1,342	1,276	950	1,636	2,344	3,077	3,564	4,739	33.0	54.0	102.2
Private sector (1)	52,460	55,917	43,270	38,289	41,426	47,097	50,907	49,503	-2.8	5.1	19.5
Current account	5,022	4,960	7,158	8,905	8,121	11,588	13,640	12,837	-5.9	10.8	58.1
Savings account	9,702	9,409	14,757	6,309	6,779	10,547	13,320	12,553	-5.8	19.0	85.2
Time deposit	35,218	39,030	18,012	11,083	19,650	18,710	18,379	18,430	0.3	-1.5	-6.2
CEDRO	0	0	0	9,016	3,703	2,409	1,836	1,698	-7.5	-29.5	-54.1
Other netted liabilities due to financial intermediation	16,185	15,401	14,082	48,364	44,434	40,825	37,994	37,975	-0.1	-7.0	-14.5
Call money	2,146	2,293	1,514	836	1,197	726	824	1,046	27.0	44.1	-12.6
BCRA lines	274	83	1,758	16,624	16,935	17,030	16,589	16,499	-0.5	-3.1	-2.6
Outstanding bonds	4,990	4,939	3,703	9,073	7,589	6,674	6,469	8,097	25.2	21.3	6.7
Foreign lines of credit	6,680	5,491	4,644	15,434	12,581	9,998	8,145	6,736	-17.3	-32.6	-46.5
Sales (net)	492	510	99	349	218	168	188	179	-4.7	6.5	-17.7
Subordinated debts	1,683	1,668	1,700	3,622	3,085	1,850	1,344	1,906	41.8	3.0	-38.2
Other liabilities	1,299	1,420	1,637	5,671	3,869	4,891	4,358	4,400	1.0	-10.0	13.7
Net worth	**12,304**	**12,178**	**11,515**	**15,827**	**15,024**	**14,902**	**14,164**	**14,361**	**1.4**	**-3.6**	**-4.4**

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

Profitability structure

Private banks - in annualized terms

As % of	Yearly					First 5 months		Monthly						Last
netted assets	1999	2000	2001	2002	2003	2003	2004	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	May-04	6 months
Net interest income	4.5	4.1	4.3	-0.2	0.1	-0.3	0.7	1.4	0.4	0.4	0.8	0.7	1.0	0.8
Restatement by CER and CVS	0.0	0.0	0.0	1.1	0.9	0.9	1.1	3.1	1.0	1.2	1.3	1.0	1.3	1.5
Service income margin	3.1	2.9	3.2	2.0	2.0	2.0	2.3	2.3	2.2	2.0	2.4	2.3	2.4	2.3
Gains on securities	1.1	1.4	1.2	2.5	1.7	1.9	0.6	5.4	-0.5	0.0	1.2	1.1	1.4	1.4
Foreign exchange price adjustments	0.3	0.2	0.3	4.4	-0.3	-1.7	0.8	0.2	0.6	0.2	-0.6	0.1	3.8	0.7
Adjustments to the valuation of government securities (	0.0	0.0	0.0	0.0	-0.6	-1.3	-0.2	-0.2	-0.7	-0.1	0.0	0.0	-0.1	-0.2
Other financial income	0.3	0.5	0.7	-0.1	-0.2	-0.2	-0.2	-0.2	-0.3	-0.2	-0.1	-0.2	-0.2	-0.2
Operating costs	-6.3	-6.0	-6.4	-4.8	-4.6	-4.6	-4.5	-5.4	-4.4	-4.5	-4.7	-4.5	-4.4	-4.6
Loan loss provisions	-2.2	-2.5	-3.0	-5.0	-1.3	-1.6	-0.8	-0.9	-1.2	-1.0	-0.7	-0.6	-0.7	-0.8
Tax charges	-0.4	-0.4	-0.5	-0.4	-0.3	-0.3	-0.3	-0.4	-0.3	-0.4	-0.3	-0.3	-0.4	-0.3
Income tax	-0.5	-0.4	-0.3	-0.2	-0.3	-0.1	-0.5	-0.4	0.0	0.0	-2.0	-0.2	0.0	-0.5
Amortization payments for court-ordered releases	0.0	0.0	0.0	0.0	-0.7	-0.4	-0.9	-2.1	-0.9	-0.9	-0.9	-1.0	-1.0	-1.1
Other	0.5	0.4	0.7	-3.0	1.0	2.1	0.6	0.0	1.0	1.7	1.6	0.0	-1.4	0.5
Monetary results	0.0	0.0	0.0	-7.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA before income tax	0.8	0.6	0.5	-11.1	-2.2	-3.5	-0.8	3.3	-3.0	-1.4	-0.1	-1.3	1.8	-0.1
ROA before monetary results	0.3	0.1	0.2	-3.8	-2.4	-3.6	-1.3	2.9	-3.1	-1.4	-2.2	-1.4	1.8	-0.6
ROA	0.3	0.1	0.2	-11.3	-2.5	-3.7	-1.3	2.9	-3.1	-1.4	-2.2	-1.4	1.8	-0.6
ROA adjusted (**)	0.3	0.1	0.2	-11.3	-1.2	-2.0	0.3	5.2	0.5	-0.1	-1.3	-0.5	2.8	1.1
Indicators (%)														
ROE	**2.3**	**0.8**	**1.4**	**-79.0**	**-19.1**	**-27.5**	**-10.1**	**22.5**	**-24.5**	**-10.9**	**-17.5**	**-11.6**	**14.1**	**-4.5**
Operating profit / NA	-0.3	-0.5	-1.3	-4.8	-1.4	-2.0	-0.9	5.5	-2.8	-2.2	-0.1	-0.2	0.6	0.1
Operating revenue / operating costs	120.5	116.9	117.1	58.8	66.5	56.6	91.1	126.7	81.4	81.1	95.2	89.5	108.0	98.0
Interest income (with CER and CVS) / loans	..	13.9	16.1	24.7	9.0	10.4	8.3	13.6	7.7	8.3	8.2	7.9	9.6	8.3
Interest payments (with CER and CVS) / deposits	..	5.7	7.8	21.9	5.8	9.4	2.2	2.7	2.4	2.1	1.7	2.1	2.5	2.2

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

(*) Com. "A" 3911. Adjustments to the valuation of government securities according to Com. "A" 4084 are included under the "gains from securities" heading.

(**) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and 4084.

Portfolio quality - Private banks

As percentages	Dec 99	Dec 00	Dec 01	Aug 02	Dec 02	Jul 03	Aug 03	Sep 03	Oct 03	Nov 03	Dec 03	Jan 04	Feb 04
Non-performing loans (overall)(1)	7.6	8.3	9.9	16.8	19.8	18.1	17.9	17.6	17.4	16.8	15.7	15.4	14.4
Non-performing loans to the non-financial private secto	8.9	9.8	14.0	29.8	37.4	37.5	36.4	34.6	33.6	32.3	30.4	29.7	27.7
Commercial portfolio	6.2	7.6	15.2	30.7	44.5	48.4	46.4	44.3	43.4	42.0	39.9	39.9	36.4
Commercial portfolio up to $200,000	11.7	14.6	16.4	49.9	46.4	40.2	38.7	35.2	32.8	30.5	26.8	26.5	24.8
Consumption and housing portfolio	12.5	11.9	12.4	25.7	26.0	21.4	21.3	20.3	19.2	18.2	17.2	15.8	15.5
Provisions / Non-performing loans	72.2	67.7	75.8	78.0	74.8	76.6	76.4	77.8	77.5	78.4	81.8	81.9	81.2
(Non-performing - Provisions) / Overall financing	2.5	3.2	3.4	6.6	9.4	8.8	8.6	7.7	7.5	7.0	5.5	5.4	5.2
(Non-performing - Provisions) / Net worth	10.1	13.3	11.4	12.1	17.4	15.3	15.3	13.8	13.6	12.1	9.4	9.3	8.9

(1) As a percentage of each lending category.