Report on Banks

JUNE 2005

Central Bank of Argentina

Year II - No. 10

Contents

Note: This report contains information from June 2005 balance sheets available on 11/08/05. Description centers mainly on the behavior of the main financial variables for the private bank aggregate (including breakdowns by uniform sub-groups), except for certain variables that explicitly refer to public banks and the entire financial system. Figures provided (particularly in the case of profitability) are preliminary, and may be subject to change.

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Summary

- **A particularly positive half-year has just been concluded: for the first time since 2001 a profit has been recorded for the half-year and portfolio non-performance is already close to pre-crisis levels.** With a rising level of banking intermediation a gradual improvement in profitability is expected, and thus a steady recovery in the solvency of the financial system. Declining exposure to the public sector and a lower currency mismatching have also helped to return bank balance sheets to normal.

- **In June the financial system recorded a profit of $165 million or 1.0%a. of assets.** In the first half of 2005 a profit of $405 million (0.4%a.) has been accumulated, which becomes $1.55 billion (1.5%a.) if the amortization of court-ordered payments and adjustments to the valuation of public sector bonds are excluded from the calculation.

- **Private banks recorded profits for $70 million (0.7%a. of assets) in June, for a total of $30 million (0.1%a.) in the first half of the year**. Adjusted for the amortization of court-ordered payments and changes to the valuation of public sector bonds, the profit for the half-year totals $710 million (1.2%a.). Public banks recorded profits for almost $90 million this month, accumulating a profit of $350 million or 0.9%a. of assets for the six months (2.0%a. adjusted for court-ordered payments and bond valuations).

- **The improved profitability of private banks in June reflects an increased return on long-term investments, offsetting seasonal increases in loan loss provisions and operating costs, and an increase in adjustments to the valuation of public sector assets**. The financial margin remained stable, although there were changes in its composition (increased income from assets and exchange differences).

- **Total profits for private banks in the second quarter, combined with capitalizations received during the period, generated growth of 3.3% of net worth for this group of banks.** In addition, there was a slight quarterly reduction of almost 0.2 p.p. in the leverage ratio (assets/net worth) for this group of banks, to a level of almost 7.9 times. Higher net worth meant that capital compliance in terms of risk-weighted assets increased 0.3 p.p. in the period, to a level of 15.9%.

- **Financial system assets rose 0.1% in June, with an increase of 4.4% (67%a.) in lending to the private sector**. In the second quarter there was significant growth (9.3% or 43%a.) in the total volume of lending to the private sector, driven by commercial lines which rose by 16.9% (87%a.), while consumer loans recorded a quarterly increase of 10.8% (51%a.).

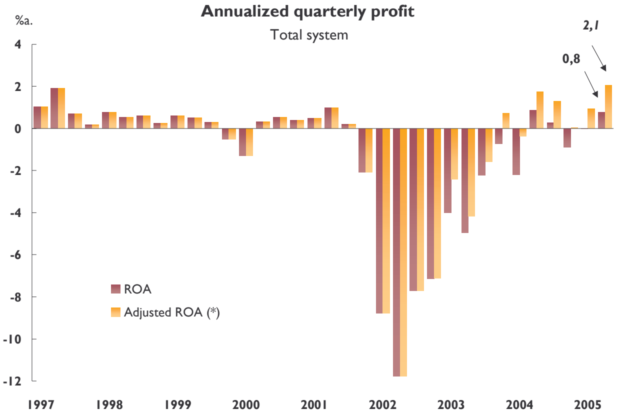
- **The rate of improvement in portfolio quality accelerated in June, with a drop of 1.1 p.p. in non-performance for the financial system as a whole (to 13.2%). In the case of private banks, non-performance totals 10.5% (12.5% for the commercial portfolio and 6.6% for the consumer loan portfolio).** For the system as a whole, non-performance in the small loan segment is close to 5%.

- **Financial system exposure to the public sector fell 0.9 p.p. in June to 35.1% of total assets, with a drop of 3.1 p.p. in the second quarter of the year**. The drop for the month was led by private banks, which recorded a drop of 1.4 p.p. in their exposure to the public sector to 34.3% of their assets, a fall of 4 p.p. in the quarter.

- **The balance sheet total for financial system deposits rose 0.9% in the month, with an increase of 5.9% in the second quarter of the year.** The performance for the quarter was led by private sector deposits, which went up by 4.5% as a result of the dynamism of sight deposits (which rose 6.6% or 29.5%a.).

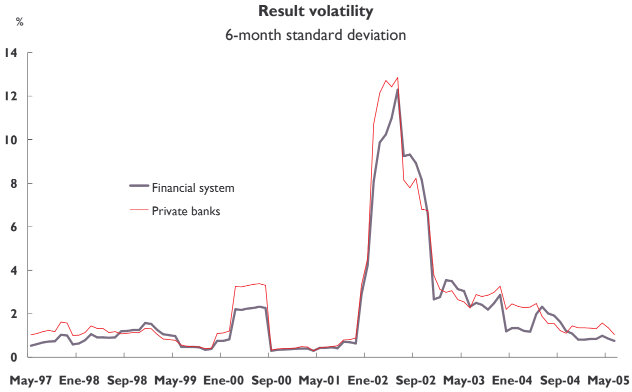
- Private sector funding in June was led by the reduction in exposure to the public sector ($1.675 billion), an increase in private sector deposits ($880 million) and a reduction in liquid assets ($640 million). Funds were used mainly to purchase Central Bank bills and notes and for the making of new loans ($1.84 and $1.45 billion respectively).

Chart 1
Annualized quarterly profit
Total system



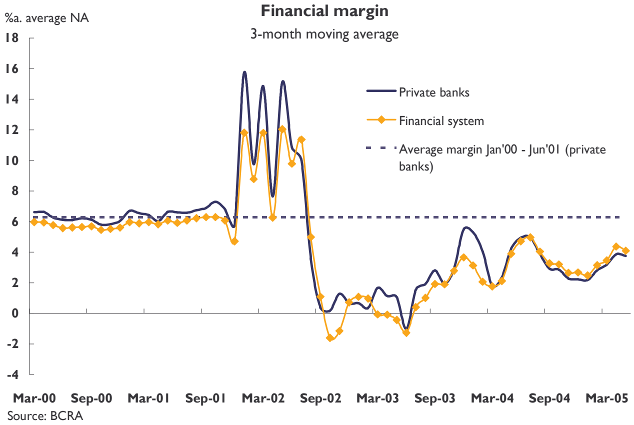
Source: BCRA. (*) Net of amortization of court-ordered releases and adjustments to the valuation of public sector assets.

Chart 2
Result volatility
6-month standard deviation



Source: BCRA

Chart 3
Financial margin
3-month moving average



Source: BCRA

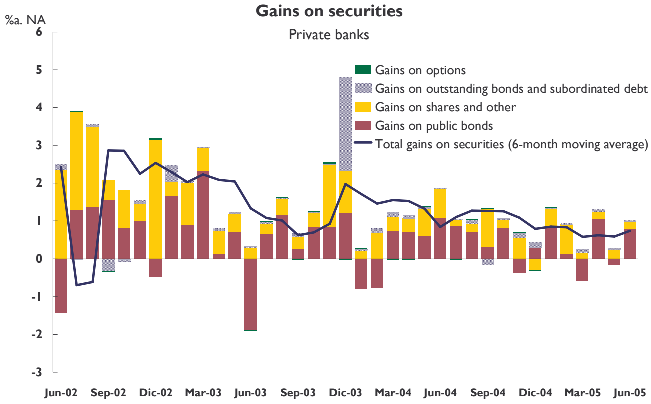
Profitability:
First half profits

In June the financial system continued to provide signs of a gradual recovery in its profitability indicators: results were among the highest for the year (close to $165 million), for an annualized (a.) result of 1.0% as a percentage of assets. Consequently **during the first half of the year total profits amounted to $405 million or 0.4% of assets, mainly arising during the second quarter** (see Chart 1). These figures confirm the marked improvement in the profitability of the financial system, given the losses in the preceding half (-$305 million or -0.3%a.) and the same half of 2004 (almost -$600 million or –0.6%a.). If profitability is calculated excluding the effect of the amortization of payments under court orders and the adjustments to the valuation of public sector assets (with the aim of obtaining a less distorted indicator of current profitability), this pattern of recovery is maintained. After having obtained an adjusted profitability of almost $650 million in the two previous six-month periods (with an adjusted ROA of 0.7%a.), in the first half of 2005 a profit of $1.55 billion was recorded under this heading, equivalent to an adjusted ROA of 1.5%a.. Nevertheless, basically as a consequence of the remaining mis-matchings, the volatility of monthly results continues to be slightly above the minimum levels recorded prior to the crisis (see Chart 2).

Both public and private banks recorded profits during the month. The first group gained almost $90 million (1.3%a.) in June, ending the first half of 2005 with profits of close to $350 million or 0.9%a. of assets (almost $810 million or 2.0%a. excluding court-ordered payments and adjustments). Private banks recorded a positive result for the month of close to $70 million (0.7%a. of assets). The number of private banks recording positive results rose by one to 38, of which 29 show profits even greater than those of the previous month. As a result, **private banks have accumulated profits for $30 million (0.1%a.) in the first half, rising to $710 (1.2%a.) if the effects of recognition of the impact of the crisis are excluded from the calculation.** Compared with the losses in previous halves (almost -$500 million or -0.9%a. in the same half of 2004 and -$670 million or–1.1%a. in the second half of that year) there has been a significant improvement in private bank income statements. **In a context in which the financial margin has remained constant, and although a certain seasonal increase has been detected in non-financial costs, the private bank aggregate recorded an improvement in the monthly result, driven by higher sundry income, mainly gains on long-term investments.**

Although private bank financial margin remained stable during June (3.8%a. of assets), its composition varied compared with the previous month, largely due to the non-recurring developments that took place in May (see Chart 3, showing the moving quarterly average). In June one of the most volatile components of financial margin, income from assets, recovered significantly. This heading rose to 1%a. after having fallen to 0.1%a. of assets in May. Whereas in the previous month securities had been sold for lesser amounts than the book values (see Report for May) temporarily depressing results on assets, in June this

Chart 4
Gains on securities
Private banks

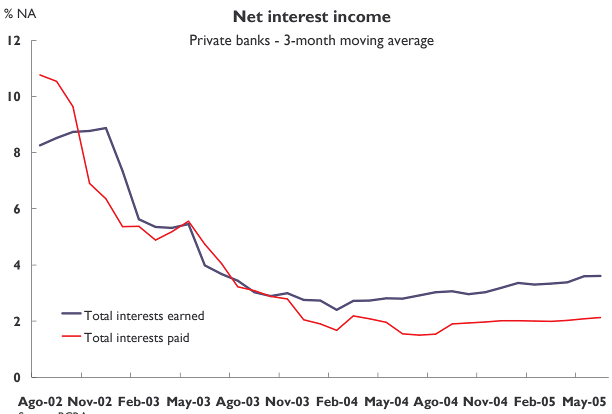


Source: BCRA

Chart 5
Net interest income and CER/CVS adjustment
Private banks

Source: BCRA

Chart 6
Net interest income
Private banks - 3-month moving average



Source: BCRA

heading returned to levels closer to average (see Chart 4). In addition, there was an increase of close to 0.5 percentage points (p.p.) under exchange differences, a heading that includes the revaluation of assets and liabilities in foreign currency and gains on exchange trading. In addition, other financial results rose slightly (to 0.2%a. of assets), reflecting a downward adjustment in loan loss provisioning[1].

The mentioned positive movements enabled the offsetting of declines in certain other basic financial margin components: interest income and adjustments for CER (see Chart 5). The total for these two headings fell 1.5 p.p. this month, to almost 2%a. of assets in June in the case of private banks (a level still 0.2 p.p. above the level achieved in 2004). This change for the month was led by the CER adjustments, which dropped almost 1.1 p.p. to 0.6%a. of assets. Although the performance of this heading was consistent with the behavior of the CER index (which has been recording declining increases after the peak reached in April), consideration should also be given to the existence of positive adjustments of an extraordinary nature in May (see corresponding Report[2]). Interest income also fell in June (to a level of 1.4%a. of assets), after having reached its highest level of the year last month (1.8%a.). Placed in perspective, net private bank interest income continues to evidence recovery, mainly reflecting the positive effects of an increased volume of financial intermediation and a steady recovery in portfolio quality, in a context of certain stability in outflows under the same heading (see Chart 6). Interest income for June remained 0.1 p.p. above the level recorded in the first quarter of 2005 and is 0.4 p.p. above the level recorded in the whole of 2004.

Private bank loan loss provisions rose 0.3 p.p. this month (to 0.8%a. of assets), a performance in line with expectations for quarterly closings[3]. Measured in terms of the balance of loans to the private sector, such charges reached a level of 2.8%a. in June, almost half the level recorded in the same month of the pervious year (5.1%a.). Comparatively speaking, charges remain at a relatively low level (see Chart 7). In the first half of the year they represented 2.4%a. of the balance of loans to the private sector, well below the level in the same period of 2004 (4.3%a.) and even below the levels recorded prior to the crisis in 2001 (between 3%a. and 3.5%a. of the balance of loans to the private sector). This performance is consistent with the improvements recorded in the macroeconomic context, which becomes translated into a lower counterpart risk implicit in lending to the private sector (see section on Portfolio Quality). This encourages banks to continue their efforts to increase their portfolio of loans to the private sector, facilitating the gradual recovery of financial margin.

Private bank income from services remained at a level of 2.7% of assets, the highest since the recent crisis. This level, which in May was partially explained by the collection of commissions related to the recent sovereign debt exchange, was maintained in June, reflecting the positive seasonality for which this heading is noted close to the end of the quarter. Income from services has been recording a steady positive

[1] This reflects the action of one bank in particular that received BOGAR in exchange for a municipal debt, reversing the reserve it had set up for that debt.
[2] Excluding one institution that carried out an extraordinary accrual, the fall in CER adjustments for private banks was 0.6 p.p. in June.
[3] Some banks with annual closings that do not coincide with the calendar year have their annual closing in this month.

Chart 7
Loan loss provisions
Private banks - 3-month moving average

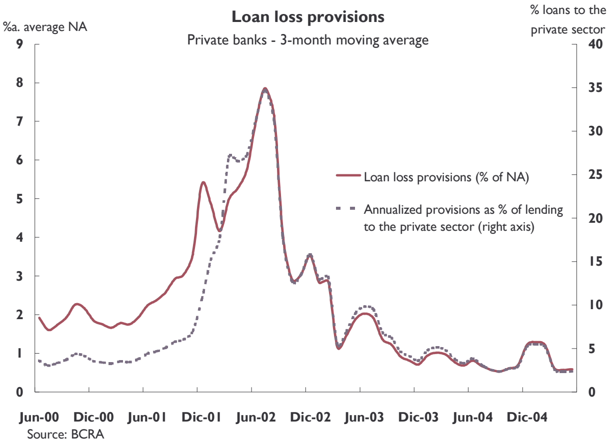


Chart 8
Service income margin
Annualized quarterly profit - Private banks

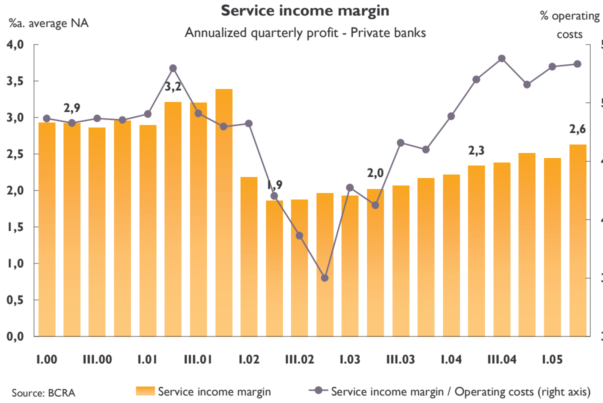
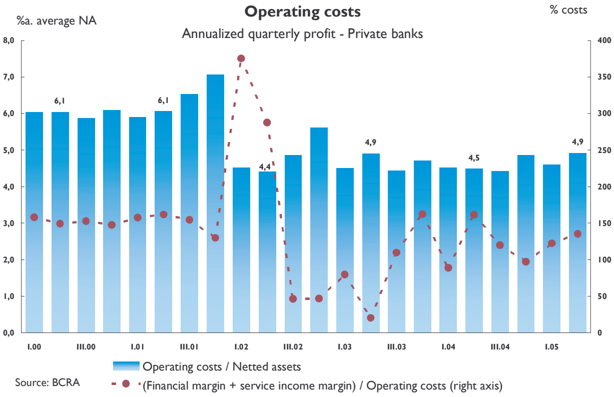


Chart 9
Operating costs
Annualized quarterly profit - Private banks



trend since the previous crisis (see Chart 8). This trend reflects both the efforts made by banks to increase their income base (to mitigate the negative effects of the shrinking that took place in traditional financial intermediation during the crisis) and the recovery of transactional activity for banks as a result of the renewed dynamism in the level of economic activity.

Private bank operating costs rose in June to 5.2%a. of assets, in line with the seasonal features of this heading at this time of the year. Nevertheless, at a time when salary levels are recovering, and on the basis of the behavior of various banks that began to increase their personnel levels in view of the favorable prospects for business, operating costs have been showing an upward tendency in recent months (currently standing 0.5 p.p. above the level in the same month of 2004). This trend has taken place in the context of an increase in the income base for banks, preventing the ratio for the coverage of operating costs by income (financial margin and income from services) from becoming eroded. In the first half of 2005, this ratio reached a level of 129% for private banks, almost 4 p.p. above the level recorded in the same period of the previous year. Two factors stand out, however. On the one hand, the significant variability for which this ratio is noted (on the basis of the still volatile behavior of the income base). In addition, coverage has still not succeeded in reaching the levels recorded prior to the last crisis (around 150%), so it is expected that it will continue to improve gradually (see Chart 9).

The sundries heading (one of the most volatile lines on the income statement) recorded the largest variation during the month, rising 1.2 p.p. to 2,3%a. of assets. This performance was largely explained by the actions of one bank in particular, which recorded non-recurring gains from its long-term investments. An increase in the release of provisions was also noted. These developments more than offset the increase in charges for other provisions.

The increase in sundry profits also helped to offset the increase recorded in the adjustments to the valuation of public sector securities. In the case of private banks, these adjustments represented -0.5%a. of assets, as a result of the actions of one bank in particular[4]. The amortization of court-ordered deposit releases by private banks remained stable at a level of 1%a. of assets (close to $100 million per month).

At the end of the second quarter 2005, there was a widespread quarterly improvement across the various sub-groups making up the financial system, although performance has been uneven. The sub-groups showing the greatest progress in this period were precisely those that had been lagging in the area of profitability in the first quarter of 2005, and at the same stage of the previous year (see Table 1). **Private retail banks with a nation-wide coverage and private wholesale banks were the sub-groups with the most notable improvements in profitability this quarter,** reaching ROAs of 0.1%a. and 0.2%a. respectively. In the case of retail banks with nationwide coverage (those with the greatest weighting in the system), the profit

[4] This bank delivered Secured Loans in settlement of part of an advance received for the purpose of subscribing to the coverage bond. As a result of this transaction, a valuation adjustment was made to the value of these assets.

Table 1

Profitability by groups

Annualized ROA in % - by type and area coverage

	2004	2005 *	Q2 2004	Q1 2005	Q2 2005	Percentage share of NA (Q2-05)**
Public	0,3	0,9	1,5	0,8	1,0	39,1
Private	-1,0	0,1	0,4	-0,6	0,7	60,1
Retail	-1,0	0,1	0,5	-0,5	0,7	57,4
National coverage	-1,5	-0,5	-0,3	-1,1	0,1	44,5
Regional coverage	1,2	2,3	4,0	1,7	2,8	12,4
Specialized	0,5	1,0	0,8	2,3	-0,2	0,6
Wholesale	-1,9	-1,0	-1,2	-2,2	0,2	2,7
Non-bank institutions	2,2	2,3	4,0	2,6	2,1	0,9
TOTAL	-0,5	0,4	0,9	0,0	0,8	100
TOTAL adjusted (***)	0,7	1,5	1,8	1,0	2,1	100

(*) Up to June, annualized

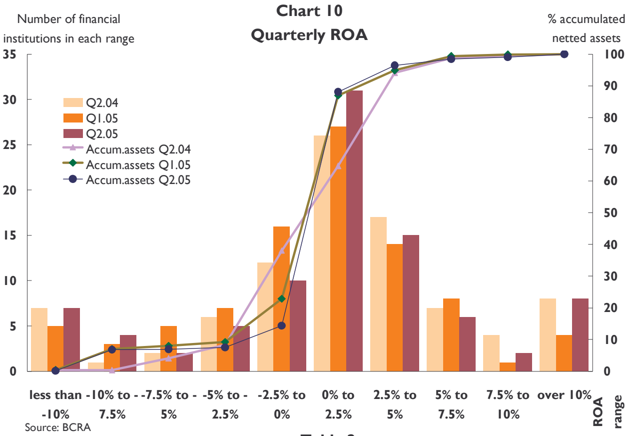
(**) Percentage share of total NA according with data available for the mentioned period.

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

Source: BCRA

Chart 10

Quarterly ROA



Source: BCRA

Table 2

Main developments in July

	Jun	Jul	Ch.%
Prices			
Exchange rate ($/US$)[1]	2,89	2,86	-1,0
CPI	160,57	162,18	1,0
CER[1]	1,627	1,641	0,9
	%		Ch.(p.p.)
Average percentage rates			
Lending[2]			
Overdraft	15,1	15,1	0,1
Promissory notes	10,1	10,3	0,2
Mortgage	11,6	11,6	0,0
Pledge-backed	10,1	10,3	0,2
Personal	26,0	26,5	0,5
30- to 44-day time deposit	4,2	4,6	0,4
1-year LEBAC in pesos, w/o CER	7,6	8,5	0,9
7 day BCRA repos	4,3	4,3	0,0
	million $		Ch.%
Balance[1,2] - Private banks			
Peso deposits - Private sector	55.285	55.269	0,0
Sight deposits	30.525	30.457	-0,2
Time deposits	24.190	24.348	0,7
Peso loans - Private sector	27.128	27.606	1,8
Overdraft	6.522	6.888	5,6
Promissory notes	5.636	5.689	1,0
Mortgage	5.024	4.975	-1,0
Pledge-backed	1.006	1.017	1,0
Personal	2.784	2.929	5,2

(1) End of month figure.

(2) Estimation based on SISCEN data (provisional data subject to change).

In million of pesos

Source: INDEC and BCRA.

gain reflects increased interest income and CER adjustments, results from services and results on assets, in addition to lower sundry losses. Regional banks are still those with the best relative performance, with a quarterly ROA of 2.8%a.. Lastly, public banks continued to show signs of improvement, with gains of 0.2 p.p. in their profitability (up to 1%a. of assets). The quarterly performance by the public bank segment reflected the impact of various factors, including the increase in the volume of intermediation and the improvement in the quality of their portfolios[5].

At individual level there has also been widespread improvement in profitability during the second quarter of the year (see Chart 10). **The number of banks reporting a profit rose from 54 to 62 this quarter, out of a total of 90 banks**[6]. Banks recording losses represent a declining percentage of system assets. **Whereas in the second quarter of 2004 banks with losses held 38% of assets, in the second quarter of 2005 only 14% of assets were held by banks in such a situation.**

Outlook for July

Following a half-year that was particularly encouraging as regards of profitability, it is expected that bank results in coming months will follow this pattern of gradual recovery. The market appears to share this forecast as banks are expanding their structures (an indication of hopes for a more favorable environment) the financial system is recording growing stock market capitalization and risk rating agencies are upgrading their prospects.

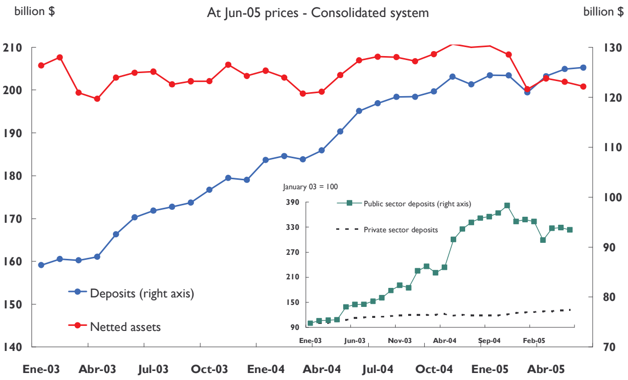
Forecasts for steady growth in traditional intermediation are particularly auspicious, given the more orderly macroeconomic variables (contributing to a decline in credit risk) and a reduction in uncertainty (mainly as a result of the exchange of sovereign debt), added to the downward trend in exposure to the public sector. The continued growth in private sector loan portfolios is an essential component for the consolidation of the process of recovery in financial margin. In turn, the positive effect on income from a greater volume of lending will make it possible to offset any increases in the cost of funding and the cost structure. Certain volatility in monthly profitability cannot be ruled out, because of the remaining mis-matchings (which show a certain downward trend) and the adjustments of a non-current nature that continue to be recorded.

Specifically with regard to July, on the basis of the information available, a favorable forecast can be made in relation to the continuity of the positive results. In first place, following the increase recorded in operating costs and loan loss provisions for the quarterly balance sheet closings, it is expected that current costs will be lower in July. This will enable part of any possible decline in sundry income to be offset, as in June such revenue was high for non-recurring reasons. Financial margin is expected to maintain its improvement in July. In

[5] Only specialized private banks (with quarterly losses for 0.2%a. of their assets) recorded certain deterioration in their profitability, following an increase of an extraordinary nature in the operating costs of one particular entity (which reclassified to an income statement account certain advertising expenses which until that moment had been capitalized).

[6] Only those banks present in all three periods being considered (second quarter of 2004 and first two quarters of 2005) have been taken into account for this calculation.

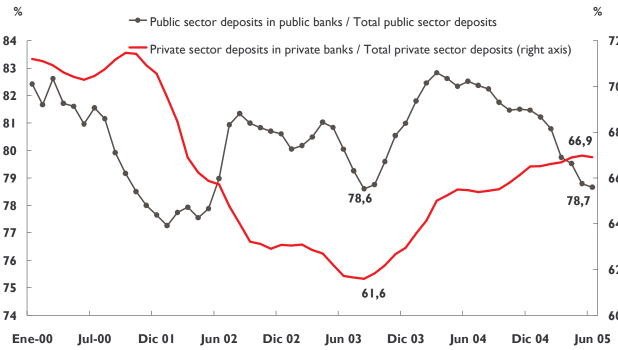
Chart 11
Netted assets and deposits
At Jun-05 prices - Consolidated system



Source: BCRA

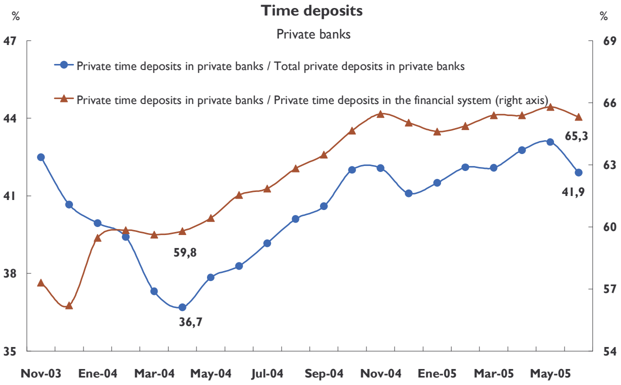
the case of interest income, there was a further increase in the balance of loans to the private sector (in particular overdrafts and personal loans, the highest-yielding segments), in the context of a slight rise in the corresponding interest rate (see Table 2). These developments should dominate the effects derived from the increases recorded in both the balance of time deposits and borrowing rates. The CER adjustment component is also likely to increase this month, given the larger change in the corresponding index (it has gone up 0.3 p.p. more than in June). In addition, the notable improvement seen in the price of domestic public debt during July will have a positive impact on income from assets. Lastly, the joint effect of the improvements mentioned could be partially offset by possible losses from exchange differences (given the foreign currency asset position maintained by banks in a situation in which the exchange rate for the dollar dropped from 2.89 to 2.86 $/US$ between the beginning and the end of the month).

Chart 12
Deposits by sector and type of institution
3-month moving average



Source: BCRA

Chart 13
Time deposits
Private banks



Source: BCRA

Activity:
Lower exposure to public sector and foreign currency mismatching

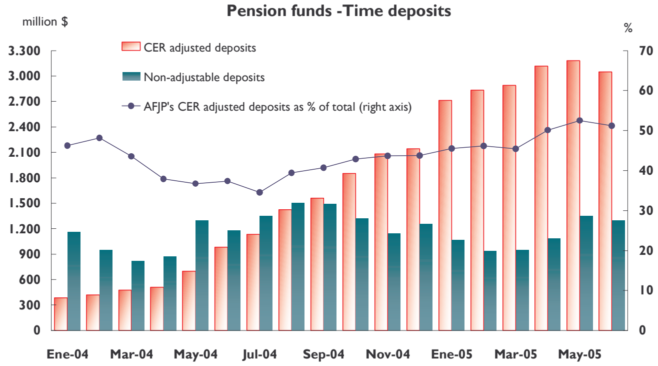
The volume of financial intermediation maintained its rising trend, particularly in terms of private sector deposits and lending to that sector, the performance of which explained the increase in assets recorded by the financial system during the month. **Netted assets for the consolidated financial system recorded slight growth of 0.1% (1.2%a.) during the month, reaching a year-on-year change of 5.5% in June** (see Chart 11). Adjusted for the variations in retail prices, the year-on-year change becomes a drop of 2.9% in real terms. **The year-on-year change in assets for the private bank group also amounted to 5.5%.**

Total deposits as per balance sheets[7] for the financial system as a whole continued to increase in June, led this month by private sector deposits, as public confidence in the local banking system is gradually restored. **In June there was a rise of 0.9% (11.1%a.) in total deposits, reaching a positive year-on-year variation of 16.8%. The monthly increase was led by an increase of 1.5% (19.9%a.) in private sector deposits, which more than offset the decline of 1% (-11.4%a.) in public sector deposits**. The drop in official sector deposits recorded in recent months is mainly linked to the rise in the flow of payments by the government since the sovereign debt was restructured.

The reduction in public deposits in June centered on public banks, which posted a decline of 2.5% (-26%a.), although they still account for over 77% of the total balance (almost $31.51 billion) of such deposits. In addition **private banks continued to record a significant concentration of deposits from the private sector: in June they received 54% of the increase in such deposits,** so that the balance of

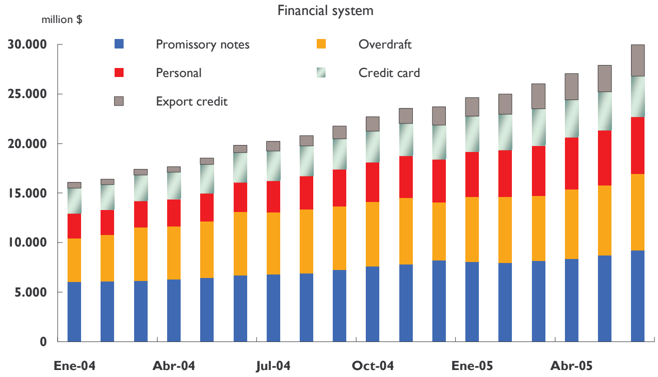
[7] Includes deposits of government securities and deposits by residents abroad, in addition to accrued interest and adjustments. Excludes financial sector deposits and rescheduled deposits to be exchanged for government securities.

Chart 14
Pension funds -Time deposits



Note: Non-adjustable deposits include those from Nación AFJP classified as "Investment in regional economies".
Source: BCRA from Superintendencia de Administradoras de Fondos de Jubilaciones y Pensiones data.

Chart 15
Commercial and consumer loans
Financial system



Source: BCRA

Table 3
Loans to the private sector by group of banks
% change based on balance sheet totals

	2005	Q1 2005	Q2 2005	Jun-05	Share of total 2005
Public banks					
Total loans	**35**	**35**	**35**	**74**	**28**
Commercial	89	60	124	404	22
Consumer	81	100	65	83	29
Collateralized	-1	5	-7	-9	41
Other	-38	-12	-57	-80	22
Private banks					
Total loans	**36**	**27**	**47**	**69**	**69**
Commercial	54	34	77	128	78
Consumer	50	48	51	61	64
Collateralized	5	0	10	15	56
Other	17	23	11	4	78
Total system					
Total loans	**36**	**29**	**43**	**67**	**100**
Commercial	61	39	87	173	100
Consumer	57	63	51	46	100
Collateralized	4	4	4	6	100
Other	-1	6	-8	-15	100

Does not include accrued interest or CER/CVS adjustments.

Balance sheet totals not adjusted by transfers between loan portfolios and trust funds or by loans written off balance sheets.

The private bank group includes financial institutions currently undergoing a restructuring process and under administration of a national public bank.

Loans in foreign currency expressed in pesos considering the average exchange rate for the period .

Commercial loans include overdraft, acceptance of promissory notes and export credit.

Consumer loans include credit card and personal loans.

Collateralized loans include pledge-backed loans and mortgages.

Source: BCRA

these deposits recorded a positive variation of 1.2% (15.8%a.) for this group of banks (see Chart 12).

Private banks recorded an increase of 4% (59.8%a.) in private sector sight deposits in June, while time deposits from the same sector recorded a slight fall of almost 1.5% (-16.1%a.), after 14 months of steady growth. This decline was mainly explained by the increased liquidity requirements of economic agents for seasonal reasons. The ratio for the balance of private sector time deposits in private banks to total private sector time deposits in the financial system dropped 0.2 p.p. to 66.8% (see Chart 13).

For the third consecutive month, **the balance of time deposits adjusted by CER in the private sector fell in June,** dropping 1.7% (-18.6%a.) for the financial system as a whole (see Chart 14). Pension funds (AFJPs), which work with a relatively longer investment horizon (reflecting the terms of their social security liabilities), continue to be the largest players in this market, holding over 51% of the total for such deposits. Nevertheless, adjusted deposit totals fell 4.2% (-40.1%a.) in June, in a context of an overall reduction in the deposits held by these investors in the financial system (-4.1% or -39.4%a.).

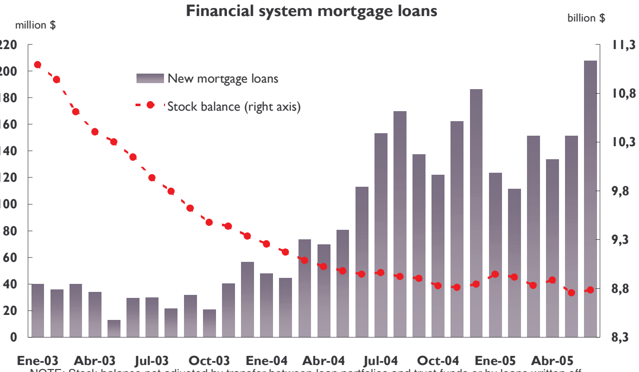
The balance of financial system loans to the private sector[8] **continued to show encouraging signs in June, growing 4.4% (67%a.), accumulating a rise of 9.3% (43%a.) in the second quarter of the year** (see Table 3). **The growth of commercial loans was particularly significant in this latest quarter (rising 16.9% or 87%a.), a clear indication of greater bank participation in the financing of local productive activity.** Although public banks have been more dynamic than private banks in relative terms, the latter have accounted for over 70% of the quarterly increase in commercial credit, and continue to record a share of 78% of these lines. In the case of consumer loans, in the second quarter of the year there has been growth of close to 10.8% (51%a.), some 65% of which originated in resources provided by private banks.

As regards the performance of the main lines of commercial loans in the financial system total, **in June current account overdraft balances increased 7.7% (142%a.) while assistance in the form of notes discounted went up by 6.5% (113%a.)** (see Chart 15). Furthermore, **loans for export pre-finance and finance rose substantially during the month (19% or 708%a.)** to a total of $3.18 billion.

Within the consumer loan segment, personal loans totals rose 0.5% (6%a.) in June for the financial system as a whole[9]. This growth was partly due to a policy for granting loans to holders of salary accounts. Credit card financing recorded a further increase during the month, rising by 7% (125%a.)[10]. In the case of collateralized lending, pledge loans increased 1.1% (14%a.) in June. The positive trend observed over the course of the year, linked to the gradual recovery by the auto

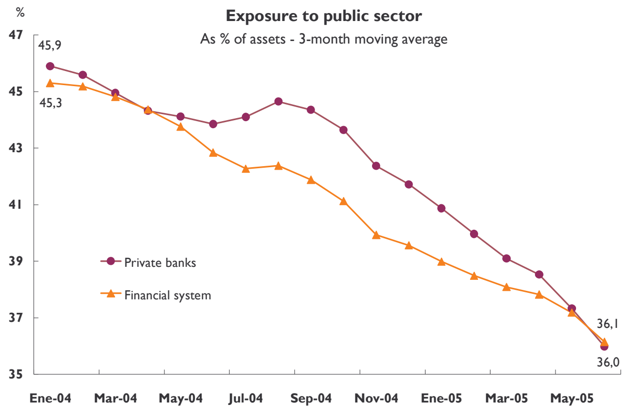
[8] Calculations are based on financial statement balances. Loans in foreign currency are stated in pesos (if the balances for several months are considered, an average exchange rate is used). Interest and adjustments are excluded. No adjustment is made for unrecoverable loans written off from the balance sheet.
[9] If account is taken of the loans used to set up a trust and the reclassification of items, the percentage variation is estimated at 4.6% (71%a.).
[10] This variation drops to 5.4% (87%a.) if consideration is given to the effect of one of the reclassifications mentioned previously.

Chart 16
Financial system mortgage loans



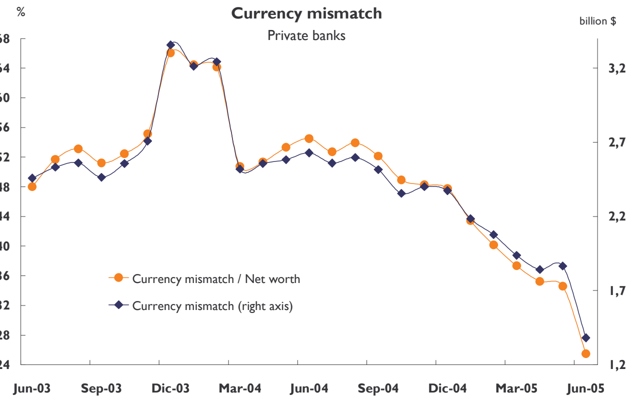
NOTE: Stock balance not adjusted by transfer between loan portfolios and trust funds or by loans written off balance sheet
Source: BCRA

Chart 17
Exposure to public sector
As % of assets - 3-month moving average



Source: BCRA

Chart 18
Currency mismatch
Private banks



Source: BCRA

industry, was therefore consolidated. In addition, mortgage loans recorded growth of 0.3% (4%a.) in June (see Chart 16), driven mainly by public banks. New mortgage lending for June set a new record for the period since the 2001-2002 crisis (almost $210 million). Based on this renewed dynamism, in coming months it is expected that the start of a gradual recovery in the total balance of this credit line will begin to be noted.

Exposure of the financial system to the public sector[11] recorded a reduction of 0.9 p.p. to 35.1% of total financial system assets, accumulating a drop of almost 4.4 p.p. compared with December 2004 (see Chart 17 showing a moving quarterly total). **The monthly decline was particularly influenced by private banks, which recorded a drop of 1.4 p.p. in their exposure** to the public sector (to 34.3% of their assets), for a total reduction of 6.7 p.p. for the half-year. Unlike in May, when most of the reduction in exposure to the public sector was related to the receipt of cash payments for pending compensation, the decline in June was mainly explained by the sale of government securities and secured loans by a group of private institutions[12]. Over the course of the next few months there may be further reductions in the share of public sector assets on the balance sheet for the financial system as a whole, given the payments to be received for amortization of credits held by this sector.

The drop in the exposure to the public sector for the private bank aggregate corresponded to a reduction in the holding of assets denominated in dollars. Given the stability of global funding in foreign currency, that change resulted in **a significant drop in the currency mismatching for the private bank segment (approximately US$480 million).** This drop in absolute terms, added to a slight increase in the net worth of the private banks, generated a **reduction of 9 p.p. in currency mismatching in terms of net worth, to a level of 25.5%** (see Chart 18). In the first half of the year there has been a reduction of almost US$990 million in the mentioned mismatching, or 22 p.p. in terms of the net worth of private institutions.

In terms of the flow of funds estimated for the private banks in June, **the drop in lending to the public sector for $1.675 billion and the increase in private sector deposits for approximately $880 million (excluding CEDRO) were the main sources of funds** (see Table 4). **The drop of almost $640 million in the liquid assets portfolio provided an additional source of funds for private banks.** This movement was associated with the decline of approximately $1.03 billion in the accounts held by banks at the Central Bank for compliance with minimum cash requirements, which was partly compensated for by an increase of close to $410 million in the stock of reverse repos with the Central Bank. The drop in the holding of liquid assets led to a fall of 1.9 p.p. in the private bank liquidity indicator, to a level of 24.2% (see Chart 19). In addition, during the month there was an increase of $290 million in the deposits held by the public sector in private banks.

[11] Exposure to the public sector includes the balances of government securities (excluding LEBAC and NOBAC), loans to the public sector and compensation receivable.
[12] In addition, one large domestic private institution settled liabilities abroad by means of the delivery of government bonds in dollars for approximately US$200 million.

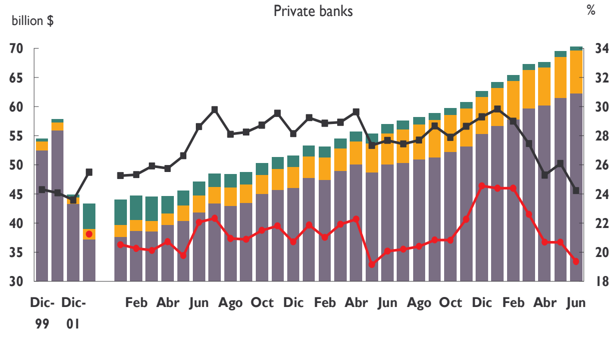
Table 4
Estimated sources and uses of funds
Private banks - June 2005
million pesos

Source		Uses	
Loans to the public sector	1.675	LEBAC and NOBAC stocks(5)	1.840
Private sector deposits(4)	880	Loans to non-financial private sector(1)	1.450
Liquid assets(2)	640	O.B and S.D and foreign lines of credit(6)	330
Public sector deposits	290	CEDRO(3)	100
Trust transfers	40	BCRA rediscounts	70
Other	265		

(1) Adjusting for credit written off from balance sheet and transfers between loan portfolios and trust funds.
(2) Minimum cash compliance (cash, current account with the BCRA and special collateral accounts), other liquid assets (with foreign branches or head offices) and reverse repos with the Central Bank
(3) Includes the difference between the deposit repayments by banks using the market exchange rate and their balance sheet value (converted at a 1.40 $/US$ rate plus CER)
(4) Excluding CEDRO.
(5) Net of repos
(6) Outstanding bonds and Subordinated debt.
Source: BCRA

Private banks allocated most of the resources obtained during the month to the purchase of Central Bank paper ($1.84 billion) and to lending to the private sector ($1.45 billion). In the context of a sustained growth in demand for bank credit to finance private productive activities, the policy for the administration of liquidity surplus by private banks has been directed at investment in Central Bank securities. Uses of resources during the month were completed by the settlement of debt with foreign creditors (corporate bonds, subordinated debt and lines of credit) for approximately $330 million, and by the payment of CEDROs and rediscounts (for almost $100 and $70 million, respectively). In the case of the mentioned payments of liabilities to the Central Bank, private banks made disbursements totaling close to $3.4 billion since the beginning of the so-called matching system in March 2004, while public banks made payments for $2.23 billion.

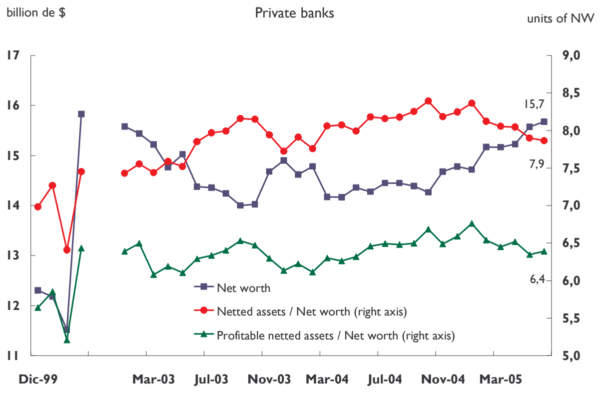
Chart 19
Deposits and liquidity
Private banks



Source: BCRA

There was no material alteration in the level of leverage reported by private banks in June, given the changes seen in assets and net worth, and it remained at approximately 7.9 times (see Chart 20). In particular, the increase for the month in the net worth of private banks (0.7%) was driven by current profits, the capitalization carried out by one bank (for approximately $30 million) and an adjustment to the results for previous years in the case of another. In the second quarter of 2005 the net worth of private banks recorded an increase of 3.3%. **In the framework of prudential regulations on minimum capital, in June capital compliance in terms of risk-weighted assets for private banks as a whole remained relatively stable at 16%.** Lastly, in a context of a greater requirement for credit risk, the capital position recorded a decline of almost 7 p.p. to a level of 156.6%.

Chart 20
Netted assets and net worth
Private banks



Source: BCRA

Portfolio quality:
Lower small loan non-performance

In June the rate of recovery by portfolio quality indicators accelerated. **Non-performance in the case of loans to the private sector (the ratio between non-performing loans and total loans) fell 1.1 p.p. for the financial system as a whole (0.2 p.p. above the average variation in the 5 first months of the year), until reaching a level of 13.2%.** Viewed in perspective, this represents significant progress: the non-performance level is below the average recorded prior to the crisis[13] (see Chart 21), and now stands at less than one third of the maximum level reached in mid-2003. **In the case of private banks, the drop for the month in delinquency was 0.9 p.p., to a level of 10.5%.**

The financial system as a whole has posted a reduction of 2.6 p.p. in its non-performance this quarter (5.4 p.p. in the first half of 2005), reflecting a widespread trend across the various groups of institutions. **This quarterly improvement was led by the groups of banks with the**

[13] When making non-performance comparisons using remote periods, account should be taken of the impact of changes that have taken place in the criteria for debtor classification.

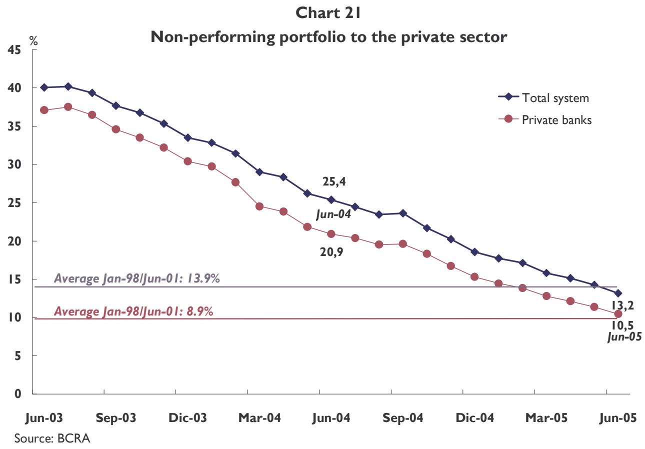


Table 5

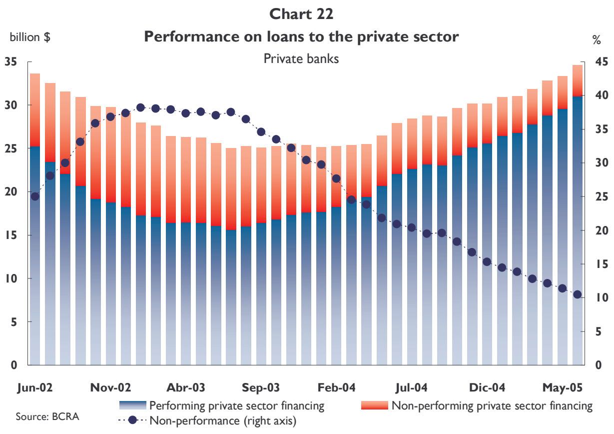
Non-performing portfolio by group

As % of non-financial private sector financing

	Dic-02	Dic-03	Dic-04	Mar-05	Jun-05	% percentage of Priv. Sector financing (*)
Public	44,9	46,8	26,8	23,2	20,3	27,9
Private	37,5	30,9	15,3	12,8	10,5	70,0
Retail	37,7	30,9	15,3	12,8	10,4	67,4
National coverage	38,8	34,0	17,1	14,3	11,4	50,2
Regional coverage	27,7	16,0	10,5	8,2	7,3	15,7
Specialized	36,5	32,4	11,5	9,9	8,9	1,6
Wholesale	33,7	32,0	14,8	14,1	12,9	2,6
Non-financial institutions	36,6	16,6	7,6	7,5	7,7	2,0
TOTAL	**39,6**	**35,2**	**18,6**	**15,8**	**13,2**	*100,0*

(*) Last month.

Source: BCRA



greatest weighting, which are precisely those that show a relatively more pronounced deterioration in their portfolios. These are public banks and retail banks with a nation-wide scope, which in both cases have recorded a quarterly cut of almost 3 p.p. in their delinquency rate (see Table 5). In the case of public banks, the delinquency rate was cut to 20.3%, although it is still almost double the rate recorded by private banks. In the case of public banks, the rate of decline in non-performance this quarter was very similar to that recorded in the previous quarter, which implies a marked dynamism in the rate of recovery in 2005. In the case of retail banks with a nationwide-scope, non-performance was reduced to 11.4%, a level closer to that of the rest of the private banks. The remaining private bank sub-groups (especially regional retail banks and specialized institutions) show declining indicators in single digits.

These successive reductions in delinquency for the financial system reflect both the granting of new loans (in a favorable context in terms of credit risk) and the continuous restructuring of the existing loan portfolio (see Chart 22). Both elements have led to a return to normality for the private sector portfolio, with ratios that are increasingly in line with the current situation. In June the fall in the amount of loans rated as non-performance was particularly notable in the case of public banks, with one bank writing off loans to two large companies that had filed for creditor protection, transferring the balances to memorandum accounts[14]. In addition, this month there was an increase in the balance of loans granted to the private sector, which in the context of limited credit risk had a positive impact on portfolio quality.

In a situation in which the increase in financial system loan balances recorded during the first half of 2005 centered mainly on segments of below $25,000, **at the end of June loans for under $10.000 are those showing the lowest delinquency rate (around 5%,** see Chart 23). In addition, it can be seen that the improvement in non-performance took place in an overall manner in all amount segments, although it was the segment of larger loans (those for more than $100,000, those with the greatest relative deterioration) where there has been a sharper reduction in delinquency.

In the case of private banks, the commercial portfolio continued to provide an impulse to the downward trend in June: their non-performance dropped to 12.5%, a fall of 1.2 p.p. in the last month and 2.8 p.p. in the last quarter (see Chart 24). In the case of the consumer portfolio, for which non-performance has fallen steadily in recent months until reaching levels considerably below those that existed prior to the crisis, there was a drop of 0.6 p.p. in June, to a level almost half that of the commercial portfolio. The commercial portfolio should show significant additional improvement in the medium term, on the basis of the restructuring of financing granted to sectors such as construction and services. Although these sectors are precisely those with the most improvement in their non-performance ratios, they still record a greater relative deterioration in their quality.

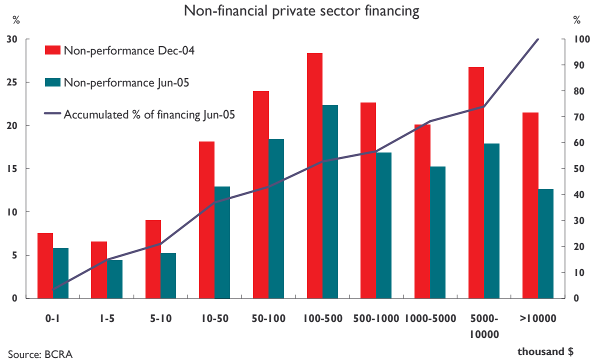
[14] Portfolio non-performance went from 21.8% in May to 20.3% in June in the case of public banks (21% in June taking into account the transfer to memorandum accounts of loans considered to be unrecoverable).

Together with the drop in amounts classified as non-performing, there was a reduction in the balance of provisions on the balance sheets of private banks in June. As the drop in non-performing loans was proportionately greater, the indicator for coverage by means of provisions rose slightly to 98.2% (see Chart 25). As a result the indicator for the non-performing portfolio not covered by provisions in terms of net worth fell marginally until reaching the equivalent of 0.4% of net worth. This indicates that the potential impact of greater than expected losses on the net worth of private banks would be very limited.

Chart 23

Non-performance by amount bracket

Non-financial private sector financing

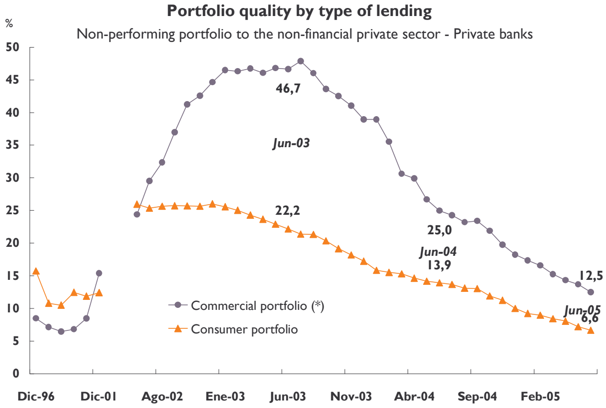


Source: BCRA

Chart 24

Portfolio quality by type of lending

Non-performing portfolio to the non-financial private sector - Private banks



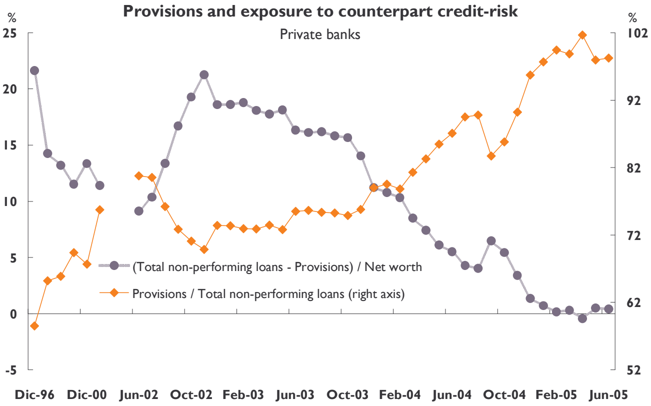
(*) Include commercial loans treated as consumer loans for classification purposes

Source: BCRA

Chart 25

Provisions and exposure to counterpart credit-risk

Private banks



Source: BCRA

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" 4358 – 09/June/05
Individuals between the ages of 18 and 21 may be holders of savings accounts, as long as they are authorized by their father, mother or tutor, who shall be responsible for the actions of the minor account-holder.

Communication "A" 4360 – 10/June/05
Regulations on minimum cash. As from 10 June 2005 special deposits linked to fund inflows from abroad (Decree 616/05) will have a requirement of 100%.

Communication "A" 4368 – 17/June/05
Minimum capital requirements for financial institutions. Basic requirements for minimum capital have been modified, with different levels for banks depending on their location, class and operating volume. The minimum capital to be maintained by a financial institution is either the basic amount or that arising from applying 8% on risk-weighted assets, whichever is greater. When a bank begins to operate, the basic capital will apply, as it will not initially be able to count on risk-weighted assets (namely loans).
Credit cooperatives are excluded, as they maintain their specific regime with lower basic capital requirements. Four categories are established on the basis of the jurisdiction in which the banks are located, with declining rates of basic requirement: $25, $14, $12,5 or $10 million for banks and $10, $8, $6,5 or $5 million for the remaining types of institution (finance companies, etc., except credit cooperatives), depending on whether they are included in Categories I, II, III or IV, respectively. In addition, the fee that must be paid to the Central Bank by financial institutions that are not banks (except credit cooperatives, which are exempt) has been reduced and stands at $400 thousand. The fee for new banks was kept at $900 thousand. These regulations shall be applied to institutions authorized to operate as from July 1, 2005, including transformations, while financial institutions in operation at 30 June 2005 will have to observe the basic requirement foreseen for new banks in their zone, without exceeding $15 million.

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 of the Superintendency 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 institutions aggregate – and the purpose of the table, when preparing it certain changes have been made, mainly on the ground that changes related to the revaluation of items (for exchange rate or inflation adjustments, 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 the 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, wholesale banks were defined as those specializing in the large corporation and investor segment, which usually do not depend for their funding on deposits from the private non-financial sector. Retail banks were divided into those carrying out business at a national level, those located in specific geographical regions – municipal, provincial or regional institutions – and institutions specializing in a financial sector niche market – generally smaller institutions. Lastly, it should be noted that this grouping has been carried out solely for analytical purposes and does not represent the only methodological criterion for grouping, while, in addition, the detailing of the characteristics of each group of institutions has been established in a general manner. The group of private banks includes 3 institutions currently in the process of restructuring, which are under the management of a national public bank.

Glossary

%a.: annualized percentage.
%i.a.: interannual 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 modifications.
ASE: Adjusted stockholders’ equity, for Responsabilidad Patrimonial Computable (RPC) in Spanish. The measure for compliance with bank capital regulations.
Consolidated (or aggregate) assets and liabilities: Those arising from excluding operations between financial institutions.
Financial margin: Income less outlays of a financial nature. Includes interest income, gains from securities, CER/CVS adjustments, exchange rate differences and other financial results. Does not include the items affected by Com. A 3911 and modifications.
Gains from securities: Includes income from government securities, short-term investments, corporate bonds, subordinated debt, options and from other income from financial intermediation. 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 deposits boxes and foreign trade and exchange transactions, excluding in the case of the latter results from the trading of foreign currency, which are recorded in the “Exchange difference” accounts (here included under the heading “Other financial results”). Outflows include commissions paid, contributions to the Banking Social Services Institute (ISSB), other contributions on service income and charges accrued for gross income tax.
Interest income (interest margin): Interest collected less interest paid on financial intermediation, on an accrual basis – taken from balance sheet – rather than on a cash basis. Includes interest on loans of government securities and premiums on repos and reverse repos.
Liquid assets: Minimum cash compliance – cash, current account at Central Bank and special accounts in guarantee – and other liquid items, including correspondent accounts.
Liquidity ratio: Liquid assets as a percentage of total deposits.
mill.: million
Netted assets (NA) and liabilities: Those net of accounting duplications inherent to the recording of repurchase agreements, term transactions or unsettled spot transactions.
Net worth exposure to counterparty risk: Non-performing portfolio net of allowances in terms of net worth.
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.
ON: Corporate bonds (Obligaciones Negociables).
OS: Subordinated debt (Obligaciones Subordinadas).
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).
PN: Net worth (Patrimonio Neto).
p.p.a.: annualized percentage points
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.
Quotation differences: Income from the monthly updating of foreign currency-denominated assets and liabilities. The heading also includes income arising from the purchase and sale of foreign currency, arising from the difference in the price agreed (net of direct costs generated by the transaction) and the book value.
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.
SMEs: Small and Medium Enterprises.
US$: United States dollars

Statistics: Financial System

Balance Sheet

In current pesos (millions)	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Jun 04	Dec 04	May 05	Jun 05	Change (%)		
										Month on month	Accum. 2005	Year on year
Assets	**153.140**	**163.550**	**123.743**	**187.532**	**186.873**	**199.934**	**212.562**	**219.691**	**218.881**	**-0,4**	**3,0**	**9,5**
Liquid assets[1]	20.423	20.278	13.005	17.138	27.575	32.563	29.154	27.888	24.622	-11,7	-15,5	-24,4
Public bonds	8.531	10.474	3.694	31.418	45.062	45.852	55.382	58.996	61.511	4,3	11,1	34,2
Lebac/Nobac	0	0	0	n/a	n/a	n/a	17.755	22.159	26.008	17,4	46,5	n/d
Portfolio	0	0	0	n/a	n/a	n/a	11.803	15.558	18.553	19,2	57,2	n/d
Repo	0	0	0	n/a	n/a	n/a	5.953	6.601	7.456	12,9	25,3	n/d
Private bonds	477	633	543	332	198	237	387	430	445	3,5	14,9	87,7
Loans	83.850	83.277	77.351	84.792	68.042	73.443	73.617	77.747	78.921	1,5	7,2	7,5
Public sector	12.138	15.164	22.694	44.337	33.228	34.847	30.866	30.362	29.657	-2,3	-3,9	-14,9
Private sector	67.934	64.464	52.039	38.470	33.398	36.650	41.054	45.338	47.169	4,0	14,9	28,7
Financial sector	3.778	3.649	2.617	1.985	1.417	1.946	1.697	2.048	2.095	2,3	23,5	7,7
Provisions over loans	-6.001	-6.907	-6.987	-11.952	-9.374	-8.468	-7.500	-6.847	-6.449	-5,8	-14,0	-23,8
Other netted credits due to financial intermediation	33.679	42.361	21.485	39.089	27.030	23.301	32.554	33.237	31.819	-4,3	-2,3	36,6
Corporate bonds and subordinated debt	1.115	794	751	1.708	1.569	1.251	1.018	807	813	0,7	-20,2	-35,0
Unquoted trusts	1.336	2.053	2.065	6.698	4.133	3.176	3.145	3.109	3.104	-0,2	-1,3	-2,3
Compensation receivable	0	0	0	17.111	14.937	15.298	15.467	12.032	11.705	-2,7	-24,3	-23,5
BCRA	81	141	84	3.360	650	857	376	379	350	-7,6	-7,0	-59,2
Other	31.146	39.373	18.585	10.212	5.741	2.719	12.547	16.910	15.848	-6,3	26,3	482,8
Assets under financial leases	814	786	771	567	397	448	611	800	846	5,8	38,5	88,8
Shares and participation	1.838	2.645	2.688	4.653	4.591	3.440	3.871	3.959	4.047	2,2	4,5	17,6
Fixed assets and sundry	4.973	4.939	4.804	8.636	8.164	8.033	7.782	7.626	7.624	0,0	-2,0	-5,1
Foreign branches	996	1.115	1.057	3.522	3.144	3.277	3.524	3.421	3.468	1,4	-1,6	5,8
Other assets	3.560	3.950	5.334	9.338	12.043	12.152	13.180	12.433	12.027	-3,3	-8,7	-1,0
Liabilities	**136.252**	**146.267**	**107.261**	**161.446**	**164.923**	**172.974**	**188.683**	**194.717**	**193.782**	**-0,5**	**2,7**	**12,0**
Deposits	81.572	86.506	66.458	75.001	94.635	109.880	116.655	125.762	126.866	0,9	8,8	15,5
Public sector 2	7.232	7.204	950	8.381	16.040	29.178	31.649	31.839	31.511	-1,0	-0,4	8,0
Private sector 2	73.443	78.397	43.270	59.698	74.951	78.190	83.000	91.819	93.320	1,6	12,4	19,4
Current account	6.478	6.438	7.158	11.462	15.071	16.960	18.219	20.380	20.982	3,0	15,2	23,7
Savings account	13.047	13.008	14.757	10.523	16.809	21.112	23.866	25.488	26.848	5,3	12,5	27,2
Time deposit	48.915	53.915	18.012	19.080	33.285	31.164	34.944	40.228	39.935	-0,7	14,3	28,1
CEDRO	0	0	0	12.328	3.217	2.049	1.046	505	400	-20,7	-61,7	-80,5
Other netted liabilities due to financial intermediation	50.361	55.297	36.019	75.737	61.690	61.047	64.928	62.871	61.446	-2,3	-5,4	0,7
Call money	3.793	3.545	2.550	1.649	1.317	1.611	1.461	1.879	1.894	0,8	29,6	17,6
BCRA lines	315	102	4.470	27.837	27.491	27.350	27.726	23.886	23.760	-0,5	-14,3	-13,1
Outstanding bonds	5.087	4.954	3.777	9.096	6.675	8.026	7.922	6.128	6.112	-0,3	-22,8	-23,8
Foreign lines of credit	10.279	8.813	7.927	25.199	15.196	10.845	8.884	6.723	6.014	-10,5	-32,3	-44,5
Other	30.886	37.883	17.295	11.955	11.012	13.216	18.934	24.254	23.665	-2,4	25,0	79,1
Subordinated debts	2.206	2.255	2.260	3.712	2.028	1.812	1.415	1.324	1.334	0,7	-5,7	-26,4
Other liabilities	2.113	2.210	2.524	6.997	6.569	5.891	5.685	4.760	4.137	-13,1	-27,2	-29,8
Net worth	**16.888**	**17.283**	**16.483**	**26.086**	**21.950**	**21.304**	**23.879**	**24.974**	**25.098**	**0,5**	**5,1**	**17,8**
Memo												
Netted assets	126.432	129.815	110.275	185.356	184.371	194.278	202.447	205.064	205.085	0,0	1,3	5,6
Consolidated netted assets	122.270	125.093	106.576	181.253	181.077	190.411	198.462	200.662	200.862	0,1	1,2	5,5

(1) Includes margin accounts with the BCRA

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

n/a: not available

Source: BCRA

Statistics: Financial System

Profitability structure

In annualized terms

As % of netted assets	Annual						First 6 months		Monthly			Last
	1999	2000	2001	2002	2003	2004	2004	2005	Abr-05	May-05	Jun-05	6 months
Financial margin	5,6	5,7	5,7	6,5	1,1	3,1	3,3	3,9	5,1	3,7	4,1	3,9
Net interest income	4,3	4,0	3,8	-1,7	-0,5	0,9	0,8	1,3	1,2	1,6	1,5	1,3
Restatement by CER and CVS	0,0	0,0	0,0	3,9	1,3	1,0	1,2	1,6	2,2	1,7	1,0	1,6
Foreign exchange price adjustments	0,9	1,2	1,2	1,7	1,1	0,4	0,6	0,0	0,2	-0,2	0,4	0,0
Gains on securities	0,2	0,1	0,2	2,8	-0,5	1,0	0,9	0,9	1,4	0,5	1,0	0,9
Other financial income	0,2	0,4	0,5	-0,1	-0,3	-0,2	-0,2	0,1	0,1	0,1	0,2	0,1
Service income margin	2,9	2,8	3,0	1,9	1,9	2,0	2,0	2,2	2,2	2,3	2,4	2,2
Loan loss provisions	-2,1	-2,4	-2,6	-4,7	-1,1	-0,8	-0,7	-0,6	-0,6	-0,8	-0,5	-0,6
Operating costs	-5,9	-5,8	-6,1	-4,4	-4,2	-4,1	-4,1	-4,3	-4,2	-4,5	-4,7	-4,3
Tax charges	-0,4	-0,4	-0,5	-0,3	-0,3	-0,3	-0,3	-0,3	-0,3	-0,3	-0,4	-0,3
Income tax	-0,3	-0,3	-0,2	-0,2	-0,2	-0,1	-0,3	-0,2	-0,4	0,0	-0,5	-0,2
Adjustments to the valuation of government securities (*)	0,0	0,0	0,0	0,0	-0,4	-0,2	-0,3	-0,2	-0,1	-0,1	-0,4	-0,2
Amortization payments for court-ordered releases	0,0	0,0	0,0	0,0	-0,6	-0,9	-0,9	-0,9	-1,2	-1,0	-1,0	-1,0
Other	0,5	0,4	0,6	-1,8	0,9	0,8	0,6	0,9	0,3	1,3	1,9	0,9
Monetary results	0,0	0,0	0,0	-5,8	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
ROA before income tax	0,6	0,4	0,2	-8,7	-2,7	-0,3	-0,4	0,6	1,3	0,6	1,5	0,6
ROA before monetary results	0,2	0,0	0,0	-3,1	-2,9	-0,5	-0,6	0,4	0,8	0,6	1,0	0,4
ROA	**0,2**	**0,0**	**0,0**	**-8,9**	**-2,9**	**-0,5**	**-0,6**	**0,4**	**0,8**	**0,6**	**1,0**	**0,4**
ROA adjusted (**)	0,2	0,0	0,0	-8,9	-1,9	0,7	0,7	1,5	2,1	1,7	2,3	1,5
Indicators (%)												
ROE	**1,7**	**0,0**	**-0,2**	**-59,2**	**-22,7**	**-4,2**	**-5,6**	**3,3**	**6,8**	**5,0**	**8,0**	**3,3**
Financial margin + service income margin / Operating costs	142,5	147,4	143,3	189,1	69,3	124,8	126,1	141,8	175,5	133,2	138,0	141,8
Interest income (with CER and CVS) / loans	..	13,0	15,2	11,8	13,1	10,3	10,8	12,8	14,1	14,0	11,3	12,8
Interest payments (with CER and CVS) / deposits	..	5,3	7,3	9,2	5,7	1,8	1,9	2,3	2,6	2,2	2,1	2,3

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

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

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

Source: BCRA

Portfolio quality

As percentages	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Jun 04	Dec 04	Abr 05	May 05	Jun 05
Non-performing loans (overall)([1])	11,5	12,9	13,1	18,1	17,7	13,5	10,7	9,1	8,6	8,0
Non-performing loans to the non-financial private sector	14,0	16,0	19,1	38,6	33,5	25,4	18,6	15,2	14,3	13,2
Commercial portfolio ([2])	12,1	14,9	20,7	44,0	38,0	28,8	22,8	18,6	18,0	16,4
Consumption and housing portfolio	16,6	17,3	17,5	31,4	28,0	20,4	11,0	9,1	8,1	7,6
Provisions / Total non-performing loans	59,6	61,1	66,4	73,8	79,2	90,1	102,9	107,8	109,6	110,6
(Total non-performing - Provisions) / Overall financing	4,7	5,0	4,4	4,7	3,7	1,3	-0,3	-0,7	-0,8	-0,8
(Total non-performing - Provisions) / Net worth	24,7	26,2	21,6	17,2	11,9	4,8	-1,0	-2,3	-2,7	-2,8

([1]) As a percentage of each lending category.

([2]) Include commercial loans treated as consumer loans for classification purposes.

Source: BCRA

Statistics: Private Banks

Balance Sheet

In current pesos (millions)	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Jun 04	Dec 04	May 05	Jun 05	Change (%)		
										Month on month	Accum. 2005	Year on year
Assets	**108.778**	**119.371**	**82.344**	**118.906**	**116.633**	**120.978**	**128.065**	**132.886**	**131.925**	**-0,7**	**3,0**	**9,0**
Liquid assets[1]	13.228	13.920	10.576	11.044	14.500	15.476	15.893	16.029	14.987	-6,5	-5,7	-3,2
Public bonds	6.433	7.583	1.627	19.751	22.260	19.376	24.817	26.469	27.443	3,7	10,6	41,6
Lebac/Nobac	0	0	0	n/a	n/a	n/a	8.359	11.197	13.448	20,1	60,9	n/a
Portfolio	0	0	0	n/a	n/a	n/a	5.611	8.640	10.622	22,9	89,3	n/a
Repo	0	0	0	n/a	n/a	n/a	2.749	2.557	2.825	10,5	2,8	n/a
Private bonds	410	563	451	273	172	212	333	356	368	3,3	10,5	73,7
Loans	56.916	56.035	52.319	51.774	47.017	51.778	50.741	53.340	53.872	1,0	6,2	4,0
Public sector	6.389	8.172	13.803	25.056	23.571	25.094	21.420	20.777	20.026	-3,6	-6,5	-20,2
Private sector	47.705	45.103	36.636	26.074	22.816	25.635	28.213	31.245	32.540	4,1	15,3	26,9
Financial sector	2.823	2.760	1.880	644	630	1.048	1.107	1.318	1.306	-0,9	18,0	24,6
Provisions over loans	-3.119	-3.248	-3.957	-7.463	-5.225	-4.487	-3.717	-3.202	-3.053	-4,6	-17,9	-32,0
Other netted credits due to financial intermediation	27.330	36.600	13.037	27.212	22.148	23.810	25.753	25.934	24.381	-6,0	-5,3	2,4
Corporate bonds and subordinated debt	1.022	724	665	1.514	1.394	1.053	829	616	621	0,9	-25,0	-41,0
Unquoted trusts	958	1.609	1.637	6.205	3.571	2.480	2.362	2.183	2.169	-0,6	-8,2	-12,5
Compensation receivable	0	0	0	15.971	13.812	14.279	14.657	11.355	11.257	-0,9	-23,2	-21,2
BCRA	12	35	865	377	415	406	311	312	301	-3,6	-3,3	-25,9
Other	25.338	34.232	9.870	3.146	2.955	5.592	7.594	11.469	10.033	-12,5	32,1	79,4
Assets under financial leases	796	776	752	553	387	438	592	780	827	6,1	39,8	88,8
Shares and participation	1.371	1.651	1.703	3.123	2.791	1.529	1.892	1.970	2.032	3,1	7,4	32,9
Fixed assets and sundry	3.246	3.225	3.150	5.198	4.902	4.859	4.678	4.621	4.606	-0,3	-1,5	-5,2
Foreign branches	48	75	112	-109	-136	-71	-53	-73	-74	1,4	40,3	4,4
Other assets	2.120	2.190	2.574	7.549	7.816	8.058	7.137	6.662	6.537	-1,9	-8,4	-18,9
Liabilities	**96.474**	**107.193**	**70.829**	**103.079**	**101.732**	**106.700**	**113.285**	**117.315**	**116.252**	**-0,9**	**2,6**	**9,0**
Deposits	54.447	57.833	44.863	44.445	52.625	57.720	62.685	69.596	70.652	1,5	12,7	22,4
Public sector 2	1.342	1.276	950	1.636	3.077	5.114	6.039	6.831	7.122	4,3	17,9	39,3
Private sector 2	52.460	55.917	43.270	38.289	47.097	50.821	55.384	61.496	62.306	1,3	12,5	22,6
Current account	5.022	4.960	7.158	8.905	11.588	12.754	13.966	15.231	15.564	2,2	11,4	22,0
Savings account	9.702	9.409	14.757	6.309	10.547	13.411	14.842	16.010	16.921	5,7	14,0	26,2
Time deposit	35.218	39.030	18.012	11.083	18.710	19.177	22.729	26.468	26.084	-1,5	14,8	36,0
CEDRO	0	0	0	9.016	2.409	1.544	798	404	328	-18,7	-58,8	-78,7
Other netted liabilities due to financial intermediation	39.045	46.271	22.629	49.341	42.367	43.081	45.083	43.109	41.590	-3,5	-7,7	-3,5
Call money	2.146	2.293	1.514	836	726	1.155	1.070	1.344	1.386	3,1	29,5	20,0
BCRA lines	274	83	1.758	16.624	17.030	16.954	17.768	14.389	14.360	-0,2	-19,2	-15,3
Outstanding bonds	4.990	4.939	3.703	9.073	6.674	8.026	7.922	6.128	6.112	-0,3	-22,8	-23,8
Foreign lines of credit	6.680	5.491	4.644	15.434	9.998	6.853	5.444	4.525	4.023	-11,1	-26,1	-41,3
Other	24.954	33.466	11.010	7.374	7.939	10.093	12.878	16.723	15.709	-6,1	22,0	55,7
Subordinated debts	1.683	1.668	1.700	3.622	1.850	1.669	1.304	1.226	1.235	0,7	-5,3	-26,0
Other liabilities	1.299	1.420	1.637	5.671	4.890	4.230	4.213	3.385	2.775	-18,0	-34,1	-34,4
Net worth	**12.304**	**12.178**	**11.515**	**15.827**	**14.900**	**14.278**	**14.780**	**15.571**	**15.674**	**0,7**	**6,0**	**9,8**
Memo												
Netted assets	85.918	88.501	73.796	117.928	115.091	116.805	121.889	123.013	123.237	0,2	1,1	5,5

(1) Includes margin accounts with the BCRA

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

n/a: not available

Source: BCRA

Statistics: Private Banks

Profitability structure

In annualized terms

As % of	Annual						First 6 months		Monthly			Last
netted assets	1999	2000	2001	2002	2003	2004	2004	2005	Abr-05	May-05	Jun-05	6 months
Financial margin	6,1	6,2	6,4	7,6	2,3	2,9	3,4	3,6	4,6	3,8	3,8	3,6
Net interest income	4,5	4,1	4,3	-0,2	0,1	1,0	0,9	1,4	1,3	1,8	1,4	1,4
Restatement by CER and CVS	0,0	0,0	0,0	1,1	0,9	0,8	1,0	1,1	1,5	1,7	0,6	1,1
Foreign exchange price adjustments	1,1	1,4	1,2	2,5	1,7	0,6	0,9	0,2	0,3	0,1	0,6	0,2
Gains on securities	0,3	0,2	0,3	4,4	-0,3	0,8	0,8	0,7	1,3	0,1	1,0	0,7
Other financial income	0,3	0,5	0,7	-0,1	-0,2	-0,3	-0,3	0,1	0,1	0,1	0,2	0,1
Service income margin	3,1	2,9	3,2	2,0	2,0	2,4	2,3	2,5	2,5	2,7	2,7	2,5
Loan loss provisions	-2,2	-2,5	-3,0	-5,0	-1,3	-0,9	-0,9	-0,6	-0,5	-0,5	-0,8	-0,6
Operating costs	-6,3	-6,0	-6,4	-4,8	-4,6	-4,6	-4,5	-4,8	-4,6	-5,1	-5,2	-4,8
Tax charges	-0,4	-0,4	-0,5	-0,4	-0,3	-0,3	-0,3	-0,4	-0,4	-0,3	-0,4	-0,4
Income tax	-0,5	-0,4	-0,3	-0,2	-0,3	-0,2	-0,4	-0,1	-0,1	-0,1	-0,2	-0,1
Adjustments to the valuation of government securities (*)	0,0	0,0	0,0	0,0	-0,6	0,0	-0,1	-0,1	-0,1	0,0	-0,5	-0,1
Amortization payments for court-ordered releases	0,0	0,0	0,0	0,0	-0,7	-1,0	-0,9	-1,0	-1,0	-1,0	-1,0	-1,0
Other	0,5	0,4	0,7	-3,0	1,0	0,7	0,7	0,9	0,2	1,1	2,3	0,9
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
ROA before income tax	0,8	0,6	0,5	-11,1	-2,2	-0,8	-0,5	0,2	0,9	0,6	0,9	0,2
ROA before monetary results	0,3	0,1	0,2	-3,8	-2,4	-1,0	-0,9	0,1	0,8	0,6	0,7	0,1
ROA	**0,3**	**0,1**	**0,2**	**-11,3**	**-2,5**	**-1,0**	**-0,9**	**0,1**	**0,8**	**0,6**	**0,7**	**0,1**
ROA adjusted (**)	0,3	0,1	0,2	-11,3	-1,2	0,2	0,6	1,2	1,8	1,6	2,2	1,2
Indicators (%)												
ROE	**2,3**	**0,8**	**1,4**	**-79,0**	**-19,1**	**-8,1**	**-7,1**	**0,4**	**6,1**	**4,5**	**5,5**	**0,4**
Financial margin + service income margin / Operating costs	146,0	151,9	150,9	199,3	92,6	115,0	125,3	129,1	155,9	127,9	124,2	129,1
Interest income (with CER and CVS) / loans	..	13,9	16,1	24,7	9,0	8,2	8,6	10,7	12,5	11,1	8,7	10,7
Interest payments (with CER and CVS) / deposits	..	5,7	7,8	21,9	5,8	2,2	2,2	2,8	3,2	2,7	2,6	2,8

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.

Source: BCRA

Portfolio quality

As percentages	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Jun 04	Dec 04	Apr 05	May 05	Jun 05
Non-performing loans (overall)(1)	7,6	8,3	9,9	19,8	15,7	11,2	8,9	7,3	6,9	6,5
Non-performing loans to the non-financial private sector	8,9	9,8	14,0	37,4	30,4	20,9	15,3	12,2	11,4	10,5
Commercial portfolio (2)	6,8	8,4	15,4	44,7	39,0	25,0	18,2	14,4	13,7	12,5
Consumption and housing portfolio	12,5	11,9	12,4	26,0	17,2	13,9	10,0	8,0	7,2	6,6
Provisions / Total non-performing loans	69,4	67,7	75,7	73,4	79,0	87,1	95,7	101,7	98,0	98,2
(Total non-performing - Provisions) / Overall financing	2,3	2,7	2,4	5,3	3,3	1,4	0,4	-0,1	0,1	0,1
(Total non-performing - Provisions) / Net worth	11,5	13,4	11,4	18,6	11,2	5,5	1,3	-0,4	0,5	0,4

(1) As a percentage of each lending category.

(2) Include commercial loans treated as consumer loans for classification purposes.

Source: BCRA