Report on Banks

JUNE 2006

Central Bank of Argentina

Year III - No. 10

Contents

Note: This report contains information from June 2006 balance sheets available on 25 July 2006. 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

- **At the end of the first half of 2006 the volume of domestic financial intermediation continued to rise, driven in particular by the dynamism of lending to the private sector.** This growth in loans has gained strength as one of the main drivers behind financial system profit margins, helping to reinforce bank solvency levels in a context of competition and prudent risk management.

- **In 2006, the profitability of the financial system has quickened the pace of the recovery taking place since the crisis in 2001-2002. Until 2004 banks recorded losses, while in 2005 they posted annual profits for the first time since the crisis. At present, sources of profitability are becoming consolidated, and the performance seen last year is being comfortable exceeded.** The financial system recorded profits for almost $360 million in June (1.9%a. of assets), accumulating positive results for over $1.8 billion (1.7%a. of assets) during the first part of 2006, an amount that already exceeds the profits recorded for the whole of 2005 ($1.79 billion, 0.9% of assets). Private banks recorded profits for almost $280 million during the months, for a total of over $1.1 billion in the first half, almost doubling the positive results for 2005 ($650 million, 0.5% of assets).

- **The solvency of the financial system has been strengthened by the profits recorded and the capital contributions made during 2006.** In June net worth rose 3.1%, for a total increase of 10.5% in the year to date. In this context, during June one large public institution recorded a capitalization for approximately $760 million. At the end of June financial system capital compliance totaled 16.5% of risk-weighted assets.

- **For the first time since the crisis in 2001-2002, in June lending to the private sector exceeded exposure to the public sector, reinforcing the process of private sector crowding-in.** As a result, the gap between public and private sector lending has been turned around, going from 24.4% to -0.5% in the last two years, a variation of 24.9 p.p. for the period. **This phenomenon has been due mainly to the joint effect of regulatory progress by the Central Bank and the macroeconomic framework.** On the one hand, as from January 2006 a limit was set on positions in public sector assets of 40% of total assets, to be lowered to 35% as from July 2007. On the other, a series of measures were taken to encourage lending to the private sector in general, and certain lines in particular directed at productive investment, microcredit and home-buying.

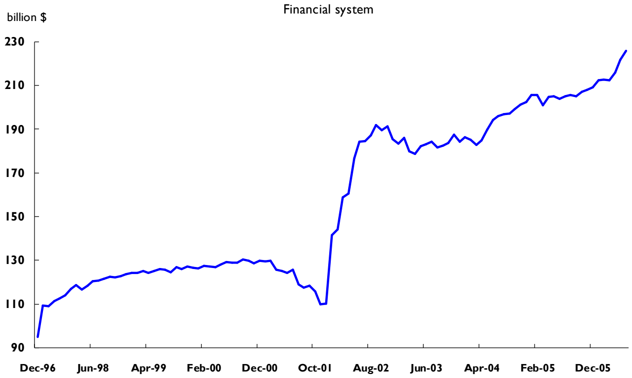
- **Lending to the private sector continued to grow at a rapid rate, increasing 4% in June, for a total increase of 40% in the first half of 2006.** During the month there was a notable rise in lending through the discount of promissory notes (5% or $680 million) and in personal loans (5.9% or $540 million). **Mortgage lending rose 1.5% in the month, recording the highest growth rate since the 2001-2002 crisis. In June financing through leasing transactions totaled $1.86 billion, 4% more than in the previous month.** This lending instrument already accounts for 40% of total mortgage and pledge-backed lending to companies.

- **The main sources of financial system funding during the month came from the increase in private (1.8%, almost $2.0 billion) and public sector deposits (3%, close to $1.2 billion).** In the first half of the year the growth rate recorded by time deposits (12.9%) was higher than that recorded by sight deposits (9.8%). Recent measures by the Central Bank have contributed to a deepening of this trend. The greatest use of funds was for private sector financing (loans, financial trusts and leasing), in an amount of close to $2.8 billion.

Chart 1

Netted Assets

Financial system

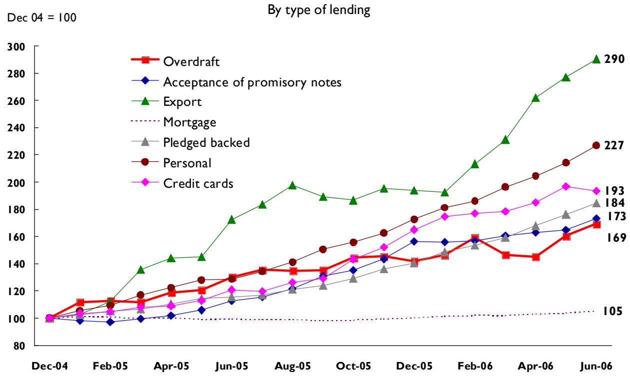


Source: BCRA

Chart 2

Loans to the Private Sector

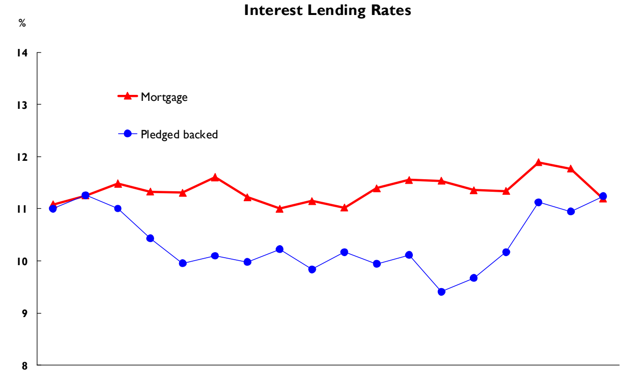
By type of lending



Source: BCRA

Chart 3

Interest Lending Rates



Source: BCRA

Activity:
Lending to the private sector exceeds exposure to public sector

Within the context of a marked increase in economic activity levels, in June the volume of financial intermediation continued to grow significantly. In particular, **financial system netted assets went up 2% in June (1.4% in real terms)** (see Chart 1), totaling an increase of 8.1%, an annualized (a.) 17%, in the first half of 2006 (3% or 6%a. in real terms).

At a time when employment levels are improving and the outlook for companies is favorable, financial institutions continue to allocate most of their new resources to private sector lending. **In June the total for bank loans to the private sector[1] recorded a significant increase of 4% or $2.5 billion**. The rate of growth in lending to the private sector was similar in public and private banks (3.9%). Nevertheless, **growth in lending continues to be led by private financial institutions:** their private sector lending totals rose $1.8 billion, while for public banks this figure was slightly over $600 million[2].

Unlike the situation seen in the last three months, in June loans mainly intended for companies recorded relatively greater growth (5.2%) compared with loans associated with household consumption (2.7%). During the month there were increases in lending by means of discounted promissory notes (5% or $680 million) and current account overdrafts (5.5% or $520 million) (see Chart 2). These increases took place in a context of interest rate stability for the promissory note lines, with a slight drop in rates on overdrafts. In June loans for export financing and pre-financing continued to grow at a robust rate (increasing by 4.8% or $250 million).

Although in June loans mainly associated with household consumption in the aggregate recorded the lowest growth for the last three months, the components of the segment performed unevenly. Credit cards saw a drop of 1.7%[3]. Personal loans continued to demonstrate marked dynamism, rising by $540 million (5.9%) in June, a figure that increases to $620 million if the effect of financial trusts set up during the month with these assets is included.

In a context of orderly monetary and fiscal policies, families and companies alike have greater incentives to increase their demand for medium and long-term credit. At a time of stable lending rates (see Chart 3), **in June mortgage and pledge-backed loans recorded their highest aggregate growth in the year to date (2.2%).** In line with the dynamic recorded in recent months, in June a significant increase was recorded in pledge loans (which went up 4.7% or $140 million).

[1] Calculation made on the basis of balance sheet totals. Loans in foreign currency are stated in pesos (if the balances of various months are considered, an average exchange rate is used). Does not include interest or adjustments. Not adjusted for unrecoverable loans written off from the balance sheet.

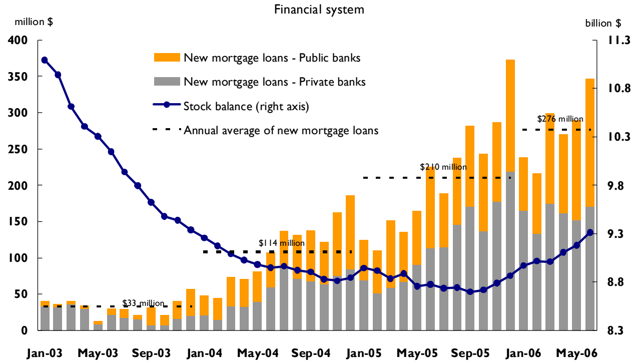
[2] The rest corresponds to non-bank financial institutions (NBFI).

[3] This figure becomes an increase of 0.2% if adjustment is made for a reclassification of accounts performed by a private financial institution.

Chart 4

Mortgage Loans

Financial system

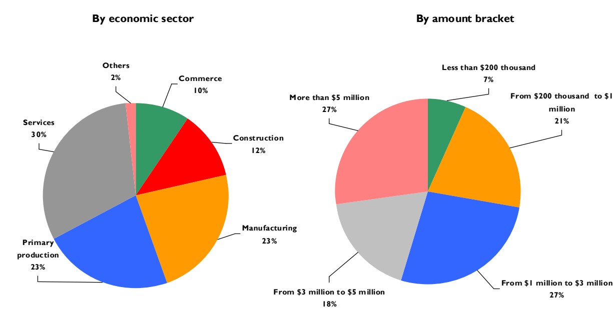


Note: Stock balance not adjusted by transfer between loan portfolios and trust funds or by loans written off balance sheet.
Source: BCRA

Chart 5

Leasing

Business sector - June 2006

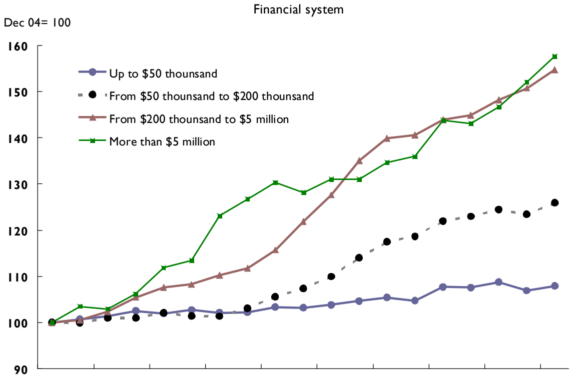


Source: BCRA

Chart 6

Lending to Companies by Amount Bracket

Financial system



Source: BCRA

Mortgage loans totals rose 1.5% during the month, the highest growth rate since the crisis in 2001-2002.

New placements of mortgage loans were at a high level in June ($350 million), in excess of the average for the half year (see Chart 4). Private banks and official banks granted similar amounts of mortgage loans. With the aim of encouraging the granting of long-term loans, the Central Bank has recently adopted a series of measures[4] to facilitate access by households to single family dwelling mortgages for up to $100,000 and to facilitate microcredit operations.

In June the total for loans granted to companies in the form of leasing reached $1.86 billion, with growth of 4% ($73 million) compared with the previous month. In addition, somewhat more than three-quarters of the total stock of such loans have been used in sectors of the economy showing strong growth rates (primary goods production, manufacturing industry and services). Furthermore, 45% of the total amount of these facilities is made up of loans for between $1 million and $5 million, mainly associated with medium-size companies (see Chart 5).

Despite the fact that mortgage and pledge-backed loans have been rising in recent months, alternative instruments such as leasing (with certain tax and financial advantages) have gained share. **Whereas in June 2004 total bank resources channeled through leasing to companies represented only 15% of the total granted to companies by means of mortgages and pledge backed loans, at June this year the proportion had risen to 40%.** Households have been playing a growing role in leasing. Although this sector accounts for 5% of the total at present ($90 million), at June 2004 the total was only $6 million.

Although in June there was an increase in all corporate loan segments, those for over $5 million (associated mainly with large companies) and between $200 thousand and $5 million (mid-size companies) are those that have shown the greatest relative monthly growth (3.7% and 2.6%, respectively) (see Chart 6). Loan segments below $200 thousand also posted growth in June, although at a lower rate.

Notable expansion of private sector lending, together with the steady reduction in exposure to the public sector, meant that in June private sector loans exceeded exposure to the public sector for the first time since the crisis in 2001-02 (see Chart 7). In private banks, this situation has existed since November 2005. This private sector lending crowding-in effect has been due in particular to the policies implemented by the Central Bank, added to an adequate credit management by financial institutions. **In June the weighting of public sector securities[5] in bank portfolios dropped 0.1 p.p. to a level of 27% of total assets** (28.6% of netted assets) (see Chart 8). As a result, in the last twelve months this decline has totaled 7.3 p.p. of assets. **The fall for the month in exposure to the public sector in private banks was 0.2 p.p. to 24.1% of total assets (25.2% of netted assets),**

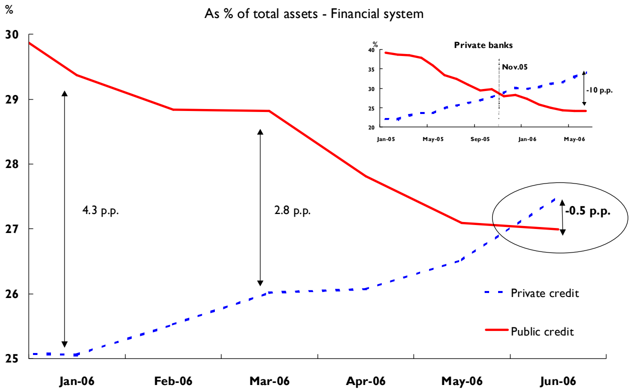
[4] See Communication "P" 48591.

[5] Exposure to the public sector includes the position in government securities (taking into account compensation receivable) and loans to the public sector. It does not include LEBAC and NOBAC.

Chart 7

Public and Private Sector Credit Risk

As % of total assets - Financial system

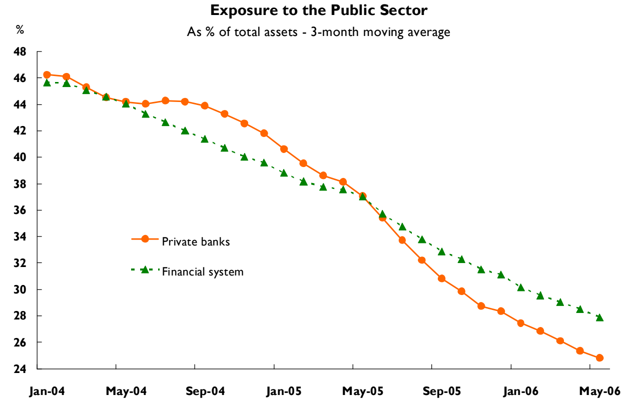


Source: BCRA

Chart 8

Exposure to the Public Sector

As % of total assets - 3-month moving average

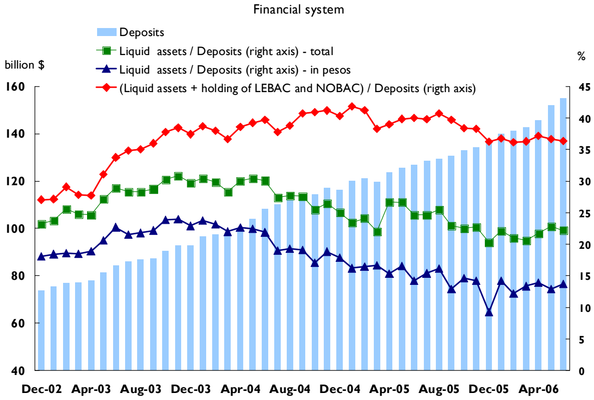


Source: BCRA

Chart 9

Deposits and Liquidity

Financial system



Source: BCRA

with a total drop of over 9 p.p. of assets in the last year. In coming periods it is expected that this trend will deepen, with an increased channeling of lending to the private sector.

In June a decline of $330 million was recorded in liquid assets[6] held by financial institutions. This reduction was related to a drop in reverse repos by banks with the Central Bank, and, to a lesser extent, to a decline in other liquid funds, movements that were partly offset by an increase in liquidity in current accounts at the Central Bank. As a result, **in June the financial system liquidity ratio fell 0.6 p.p. to** 22.2% (see Chart 9). The liquidity ratio including holdings of LEBAC and NOBAC dropped 0.3 p.p. for banks (to 36.4%). In the specific case of the private banks group, the liquidity ratio fell 0.6 p.p. to a level of 21.8%, while if holdings of LEBAC and NOBAC are included, the drop totals 0.8 p.p., taking the ratio to 42.4%.

As in previous months, **during June higher bank deposits provided the main source of financial system resources. Total deposits[7] rose 2.1% in the month ($3.1 billion). Growth in private sector deposits reached $2 billion (1.8%), accounting for slightly over 60% of the increase in total deposits.** In part because June is noted for a high concentration of tax deadlines, **slightly over one third of the growth in total deposits was explained by placements by the public sector (up $1.2 billion, 3% for the month)**. In the case of private sector deposits, in June half of the new deposits were placed in private banks, the group that holds two-thirds of all the deposits made by that sector.

In June sight deposits recorded a relatively greater growth (2.4%) compared with time deposits (0.9%). Partly influenced by payment of the portion of the statutory annual wage bonus due in the period, the former went up $1.38 billion, while time deposits (accounting for 43% of total private sector deposits) increased by $435 million. Despite these variations for the month, and in line with the situation recorded in recent months, **in the first half of the year the time deposit growth rate (12.9%) was greater than that shown by sight deposits (9.8%)** (see Chart 10).

This dynamism in time deposits is linked to the higher interest rates offered on such deposits, and to a greater extent, to the various regulations issued by the Central Bank, which have been intended to increase time deposit volumes and extend their duration. Two recent measures in particular are worthy of mention. The first was the increase as from April of 2 p.p. in reserve requirements on sight deposits and the elimination of their remuneration[8]. Complementing this, at the end of June the Central Bank authorized the implementation of a new type of deposit for terms in excess of 180 days, the main feature of which is the variable interest rate payable, with a lower limit ensured through a fixed interest rate[9]. The effectiveness of the regulations issued by the Central Bank, by

[6] Includes minimum cash reserve requirements (cash, Central Bank current account and special guarantee accounts), other liquid funds (such as correspondent accounts) and net reverse repos with the Central Bank.

[7] Includes deposits of residents abroad and deposits of government securities, as well as total accrued interest and adjustments. Excludes financial system deposits.

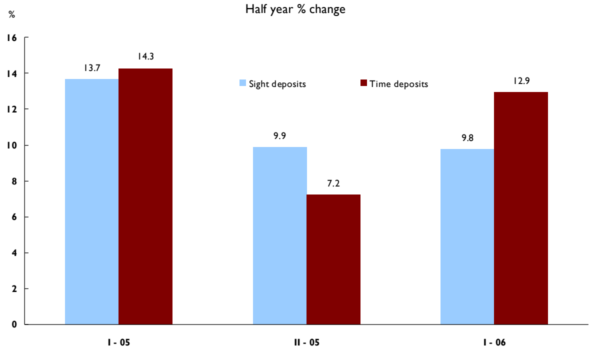
[8] See Communication "A" 4509.

[9] See Communication "A" 4543.

Chart 10

Deposits

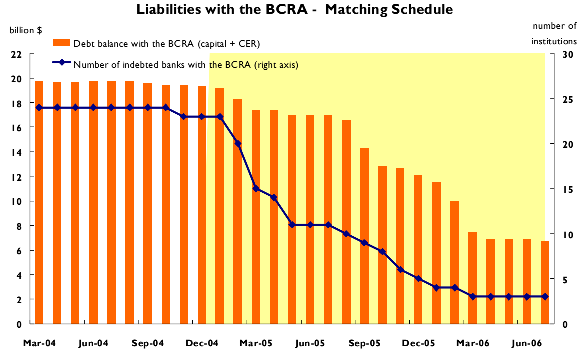
Half year % change



Source: BCRA

Chart 11

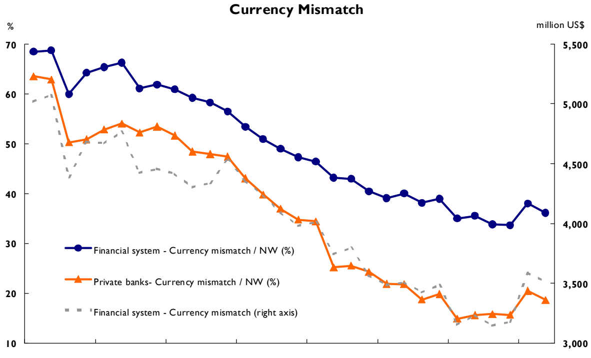
Liabilities with the BCRA - Matching Schedule



Note: Considering that banks which brought forward 100% of the installments will not recall them.
Source: BCRA

Chart 12

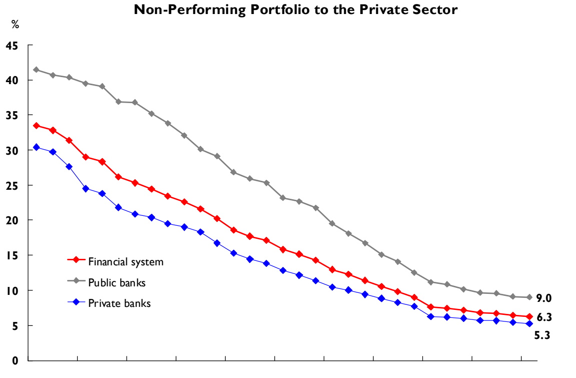
Currency Mismatch



Source: BCRA

Chart 13

Non-Performing Portfolio to the Private Sector



Source: BCRA

encouraging loans for longer terms, helps to establish the basis for reaching an adequate level of investment that will provide an impulse to economic activity.

Deposits by the private non-financial sector in private banks went up almost $1.1 billion in June. This performance mainly reflects the increase in private sector deposits, which account for slightly over 90% of the increase. **In June the rate of time deposit growth (2.6% or $830 million) was far greater than that recorded by sight deposits (0.4% or $150 million).**

In June the financial system made payments to the Central Bank for $123 million in the context of the so-called 'matching' mechanism. In July and August banks made payments for approximately $250 million under the same heading, for a total of $6.1 billion in the first eight months of 2006. By the beginning of August only three banks recorded matching debts with the Central Bank, with a remaining liability of $6.77 billion (including principal and CER adjustment) (see Chart 11).

Financial system foreign currency mismatching recorded a decline of US$75 million in June, to a level of US$3.5 billion, equivalent to 36% of bank net worth, 2 p.p. less than was recorded in the previous month (part of this drop was a result of the increase for the month in bank net worth - see section on Solvency) (see Chart 12). This drop in the foreign currency position was a result of an increase of US$70 million in liabilities (mainly because of an increase in time deposits in foreign currency). Foreign currency asset balances recorded almost no change for the month.

Portfolio quality:
Half yearly profits higher than the whole of 2005

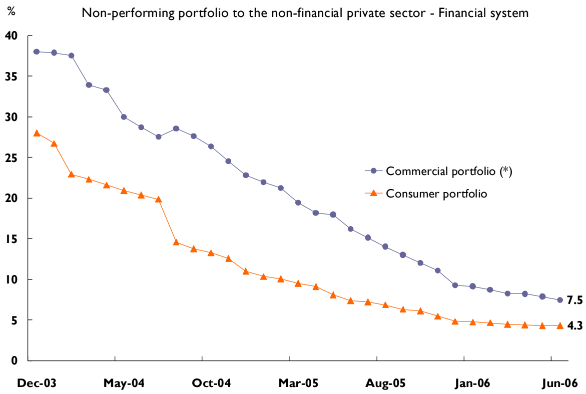
By the end of the first half of 2006, private sector loan portfolio delinquency stood at very low levels. This has been due to a series of factors with a complementary impact, including the steady rise in economic activity, which stimulated demand for credit by households and companies (at a time of lower implicit credit risk), and the prudent behavior of financial institutions. **In June the non-performance ratio dropped by 0.1 p.p. of total private sector lending, to a level of 6.3%, with an overall decline of almost 7 p.p. in the last twelve months** (see Chart 13). Lower delinquency levels are explained by both the increase in new loans and the drop in those classified as non-performing.

The improvement for the month in the portfolio of loans to the private sector was caused by the lower delinquency levels for both public and private banks, the latter leading the decline. **In June, public banks recorded a drop in non-performance of 0.1 p.p., to a historically low level of 9%, with a total drop of 10.5 p.p. in the last twelve months. In the case of private banks, the drop in portfolio non-performance was 0.2 p.p. (to 5.3%), for a year-on-year decline of 5.2 p.p..** Furthermore, although public banks record a relatively

Chart 14

Portfolio Quality by Type of Lending

Non-performing portfolio to the non-financial private sector - Financial system

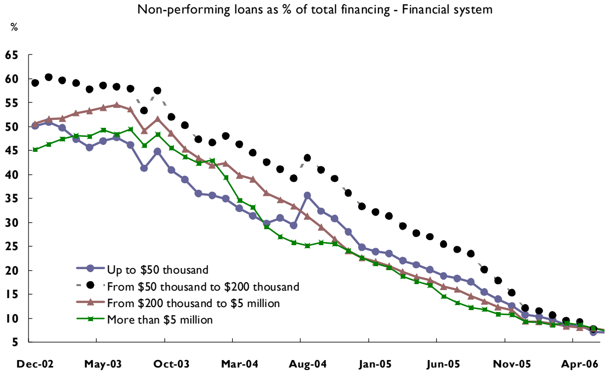


Source: BCRA (*) Includes commercial loans treated as consumer loans for classification purposes.

Chart 15

Non-Performance Portfolio by Amount Bracket

Non-performing loans as % of total financing - Financial system



Source: BCRA

Table 1

Non-Performing Portfolio by Group

As % of non-financial private sector financing

	Dec-02	Dec-03	Dec-04	Jun-05	Dec-05	Jun-06	% percentage of private sector financing (*)
Public	44.9	46.8	26.8	19.5	11.2	9.0	25.6
Private	37.5	30.9	15.3	10.5	6.3	5.3	71.4
Retail	37.7	30.9	15.3	10.4	6.2	5.3	68.7
National coverage	38.8	34.0	17.1	11.0	6.4	5.5	54.8
Regional coverage	27.7	16.0	10.5	7.9	4.9	3.9	12.4
Specialized	36.5	32.4	11.5	8.9	7.8	9.2	1.5
Wholesale	33.7	32.0	14.8	12.8	9.1	5.6	2.8
Non-bank institutions	36.6	16.6	7.6	7.7	6.7	6.1	2.9
TOTAL	**39.6**	**35.2**	**18.6**	**13.0**	**7.6**	**6.3**	**100.0**

(*) Last month

Source: BCRA

greater deterioration in their loans, the non-performance gap in relation to private banks continues to narrow gradually. In June this difference reached 3.7 p.p., 5.3 p.p. less than last year.

Although delinquency levels declined for both commercial loans (granted mainly to companies) and those to households, the former recorded the larger decline. **In June the reduction in commercial loan delinquency was 0.25 p.p. (to 7.5%), while consumer loan non-performance fell 0.1 p.p. (to 4.3%)**. While consumer loan portfolio delinquency remains lower than that recorded for commercial loans (see Chart 14), the gap between the two continues to grow smaller. In June 2005 the difference was 8.8 p.p., while in June this year that figure had dropped to less than half (3.4 p.p.). These achievements in portfolio quality serve to confirm the positive effect of economic growth on the financial position of economic agents.

The financial system records a widespread downward trend in the non-performance of all segments of loans to companies (see Chart 15). Loans of between $200 thousand and $5 million (mainly associated with mid-size companies) and those for over $5 million (associated with large companies) recorded declines in their non-performance levels of 0.4 p.p. and 0.7 p.p., reaching 7.5% and 7.2%, respectively. Loans for between $50 thousand and $200 thousand (mainly directed at small companies), and those for less than $50 thousand (mainly micro-undertakings), showed non-performance levels of 7.4% and 7%, recording a drop for the month in delinquency of 0.4 p.p. and 0.1 p.p., respectively.

In the second quarter of 2006 there was a further decline in non-performance levels for the various sub-groups of banks that make up the local financial system (see Table 1). The largest declines in delinquency during the period took place in private banks with a nationwide scope, and in public banks. The former (the subgroup with the greatest weighting, accounting for 55% of all loans) showed a decline of 0.3 p.p. in its non-performance level, with a cut-back of 5.5 p.p. in the last twelve months. **In public banks (26% of loans) the drop in delinquency was 0.7 p.p.**, for a total decline of 10.5 p.p.. **Private regional banks (the third group in importance in terms of loans) recorded a reduction for the quarter of 0.8 p.p. in their non-performance ratio, to 3.6%.** Lastly, with the exception of specialized banks, the rest of the sub-groups (wholesale banks and non-bank financial institutions) also recorded a decline in their non-performance levels during the period.

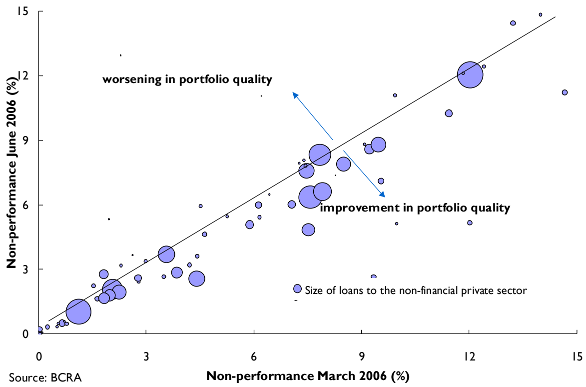
In the case of individual bank portfolio quality, almost all institutions (particularly the larger banks in terms of lending), **recorded greater progress in the second quarter of the year** (see Chart 16). Out of a total of 76 banks[10], 45 (representing 71% of total loans) recorded an improvement in their non-performance levels.

[10] Although the financial system consists of 90 financial institutions, those meeting at least one of the following conditions have been excluded from the comparative study: showing information in arrears at June and/or having a zero non-performance ratio in the two quarters (this group of banks, consisting of nine institutions, accounts for less than 1% of total loans).

Chart 16

Quaterly Change in Portfolio Non-Performance

Non-performing financing to the private sector (%) - Financial system

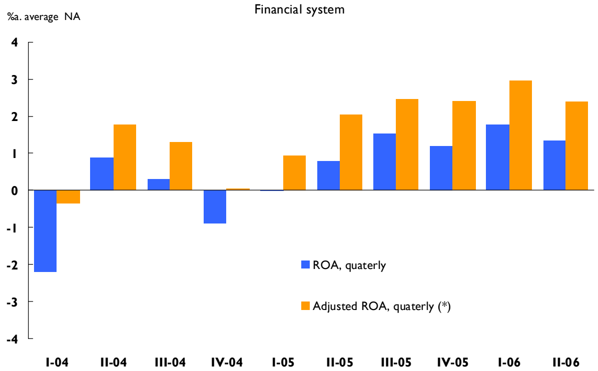


Source: BCRA

Chart 17

Annualized Profitability

Financial system



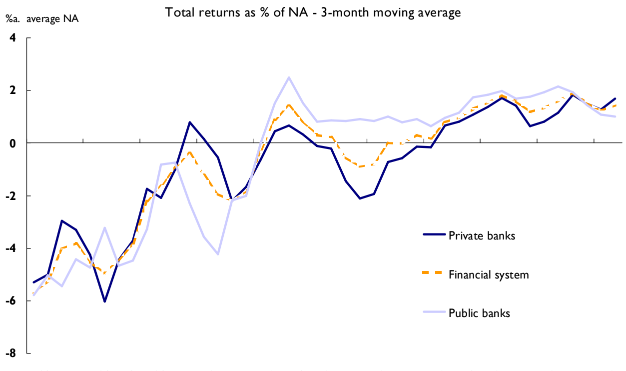
(*)Excluding amortization of payments for court ordered releases and the effects of Com. "A" 3911.

Source: BCRA

Chart 18

Annualized Profitability

Total returns as % of NA - 3-month moving average



Source: BCRA

Profitability:

Six-month profits higher than total for all of 2005

In June the financial system continued to improve its profitability indicators. Profit accruals were close to $360 million, for an annualized ROA of 1.9% of netted assets[11]. As a result, in the second quarter of 2006 accumulated profits total $790 million (1.4%a. of assets) (see Chart 17), a figure that rises to $1.8 billion (1.7%a. of assets) in the first half of the year[12], an amount that already exceeds total profits recorded in the whole of 2005 ($1.79 billion, 0.9% of assets). Local banks have thus recorded positive profitability for the third half-year in succession, partly compensating for the losses generated by the 2001-02 crisis. These profits, combined with the new capital contributions received by banks, helped strengthen their solvency and ensure they are better equipped to face potential adverse shocks.

Both private banks and public institutions recorded positive results on their books in June (see Chart 18). **Private banks posted significant monthly profits of close to $280 million (2.6%a. of assets)**, with positive results for $540 million (1.7%a. of assets) in the second quarter of the year and $1.11 billion (1.8%a. of assets) for 2006 to date. **Official banks showed profits for $72 million in June (0.9%a. of assets)**, a figure that rises to $225 million (1%a. of assets) and $640 million (1.4%a. of assets) during the second quarter and the first 6 months of 2006, respectively. The totals recorded by the two types of financial institution are a significant improvement on the totals recorded during 2005.

Despite some fluctuation in the nominal $/US$ exchange rate and the prices of government securities held by banks that are marked to market, **the volatility of financial system profitability has tended to be below pre-crisis levels** (see Chart 19). Nevertheless, there are still carry-overs from the 2001-2002 crisis responsible for variations (such as changes in asset valuations, active currency mismatchings, etc.), although their effect is slowly being mitigated.

In a situation in which bank financial margin recorded a drop in June (mainly driven by lower gains from exchange rate differences and declining CER accrual adjustments), **ROA recorded a significant monthly increase.** This result was largely explained by extraordinary gains from the release of provisions, as well as by lower operating costs and tax charges during the month, effects that can partly be related to the quarter-end.

Bank financial margin posted a drop of 0.9 p.p. in June to 4.6%a. of assets (see Chart 20), with a change in its composition compared with the previous month. **In June there was a significant reduction in**

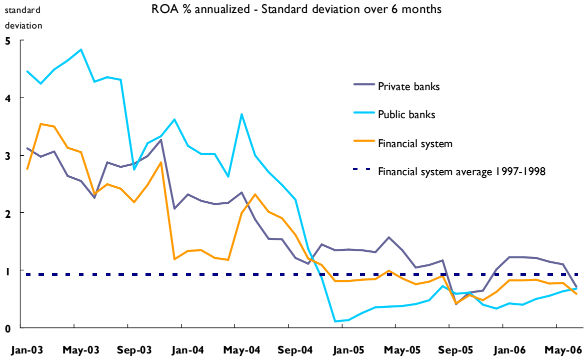
[11] In this section, all references to assets should be considered to refer to netted assets (see Glossary).

[12] If profitability is calculated excluding the amortization of court-ordered payments and adjustments to the valuation of government securities portfolios, with the aim of achieving a better approximation of banking sector results, this positive trend is accentuated: in the first half of 2006 profits were recorded for $2.9 billion, or an adjusted ROA of 2.7%a..

Chart 19

Historical Volatility of Results

ROA % annualized - Standard deviation over 6 months

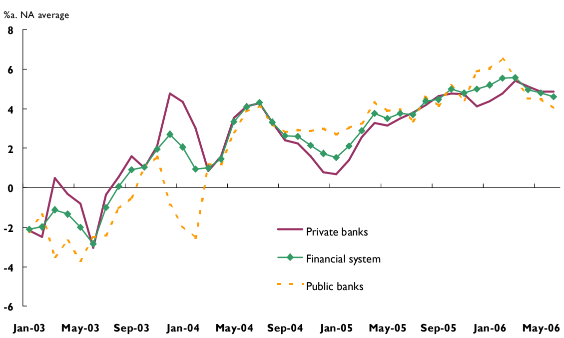


Source: BCRA

Chart 20

Financial Margin

Financial margin adjusted by loan loss provisions- 3-month moving average

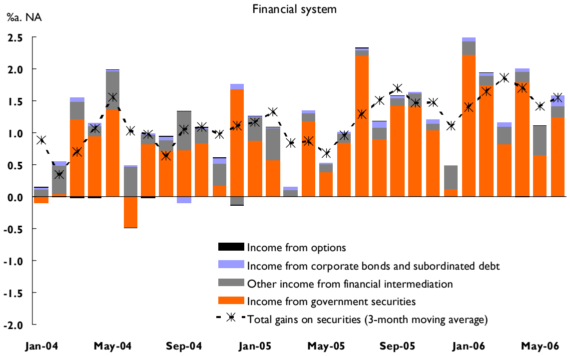


Source: BCRA

Chart 21

Gains on Securities

Financial system

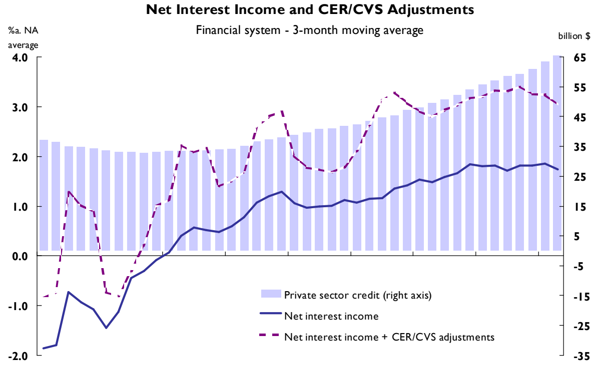


Source: BCRA

Chart 22

Net Interest Income and CER/CVS Adjustments

Financial system - 3-month moving average



Source: BCRA

exchange rate gains, one of the most volatile components of financial margin, **which posted a drop of 0.8 p.p. to a level of 0.2%a. of assets**. This result was explained by the significant increase in such gains in the previous month, given the effect of the increase in the nominal $/US$ exchange rate between ends in May on the active foreign currency position held by banks.

In June a recovery was also seen in another volatile component of bank financial margin: gains on government securities (see Chart 21). This heading rose 0.5 p.p. in the month to a level of 1.6%a. of assets, after having suffered a decline during May. Both the recovery in the listed price of certain government securities held by banks (marked to market), and profits from the regular trading of these securities, have been responsible for this development for the month.

The main components of bank financial margin, interest income and CER adjustments, showed a slight decline in June (see Chart 22). These headings posted a drop for the month of 0.7 p.p. in the aggregate, to 2.7%a. of assets. Nevertheless, this level is only 0.3 p.p. below that recorded in 2005. **The change for the month was particularly driven by the fall in CER adjustments, a line that went down approximately 0.5 p.p. to 1.1%a. of assets**, as a consequence of the lower monthly rise in the coefficient (having risen 1% and 0.6% in May and June respectively).

Financial system interest income also fell moderately in June, totaling 1.7%a. of assets. Despite certain minor fluctuations, this bank income statement heading maintains an upward trend, driven in particular by the growth in local lending activity, and to a lesser extent by the improvement in private sector loan portfolio quality. Interest expense continued to adjust to the steady growth in the total of private sector time deposits, with slightly higher interest rates paid. Therefore, although interest results recorded by the financial system in June fell 0.1 p.p. compared with the previous month, they were 0.2 p.p. higher compared with both the same month of the previous year and the total for 2005.

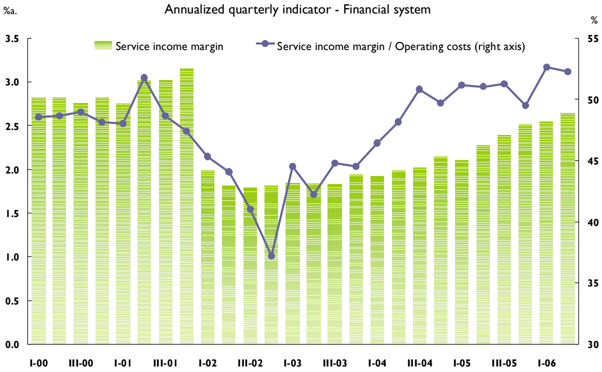
In June bank income from services remained stable at a level of 2.7%a. of assets, although in year-on-year terms growth was 25% (26% if the total for the year to date is compared with the same period of 2005). This income statement heading has thus maintained the upward trend that began following the 2001-2002 crisis (see Chart 23), driven mainly by higher income from bank transactional activity (deposit administration). As a result banks have continued to make efforts to increase their less volatile income base, to offset the negative effects of the credit reduction as a result of the recent crisis. **Currently, over half bank operating costs are covered by service income, exceeding pre-crisis levels.**

Both the adoption of prudent policies by financial institutions when granting new loans to the private sector and the gradual improvement in credit portfolio quality have helped to keep loan loss provisions at historically low levels. **Uncollectibility charges fell slightly in June, to level of 0.5%a. of assets**. In the case of private sector loan balances, loan loss provisions remained at approximately 1.9%a. of assets in June (see Chart 24, showing a moving quarterly average), a low level

Chart 23

Service Income Margin

Annualized quarterly indicator - Financial system

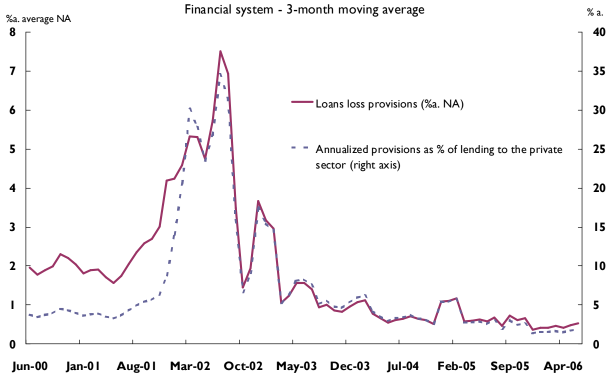


Source: BCRA

Chart 24

Loans Loss Provisions

Financial system - 3-month moving average

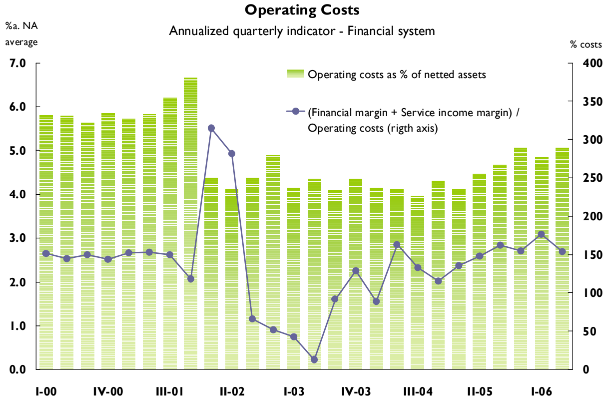


Source: BCRA

Chart 25

Operating Costs

Annualized quarterly indicator - Financial system



Source: BCRA

Table 2

Profitability by Groups

Annualized ROA in % - By type and area coverage

	2004	2005	II-05	I-06	II-06	Percentage share of NA (I-06)*
Public	0.3	1.3	0.9	1.9	1.0	*41*
Private	-1.0	0.5	0.7	1.8	1.7	*58*
Retail	-1.0	0.6	0.7	1.8	1.8	*55*
National coverage	-1.2	0.1	0.4	1.3	1.5	*45*
Regional coverage	0.3	2.6	2.0	3.9	3.0	*10*
Specialized	0.5	3.0	-0.3	2.5	1.6	*1*
Wholesale	-1.9	-0.7	-0.1	2.8	0.8	*3*
Non-bank institutions	2.2	3.0	1.9	4.8	4.3	*1*
TOTAL	**-0.5**	**0.9**	**0.8**	**1.9**	**1.5**	***100***
TOTAL adjusted (**)	0.7	2.0	2.0	3.0	2.4	*100*

(*) 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

for the sector. At the beginning of 2006 such costs were running at a rate of 2.3%a..

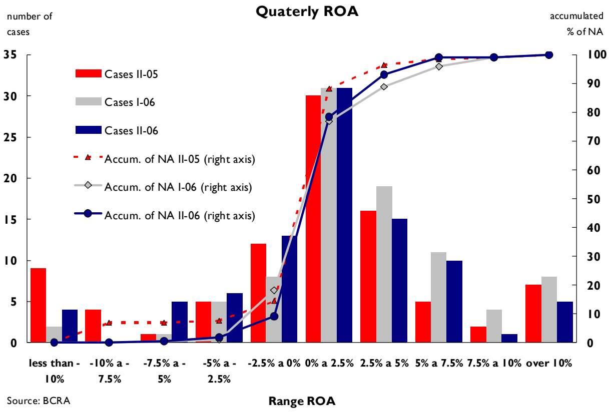
In June there was a slight reduction of 0.2 p.p. in financial system operating costs, to a level of 5%a. of assets. Despite this monthly change, wage improvements and increased employment levels in the financial system (in view of the favorable business outlook) explain the upward trend recorded by operating costs in recent months. The drop for the month in operating costs, added to the contraction in financial margin during June, caused a decline of almost 12 p.p. in the coverage of such costs by income (financial margin and income from services), to a level of 146%. At the end of the second quarter of 2006 this ratio stood at 154%, below the figure seen in the first quarter of the year, but almost 6 p.p. higher than in the same period of the previous year (see Chart 25). Although this efficiency ratio records significant variability (given the persisting volatility in the income base), coverage has succeeded in reaching the levels in force prior to the recent crisis (around 150%), and it is expected that the ratio will continue to improve stealily.

The sundry heading of bank income statements (another very volatile heading) recorded the largest positive variation in June (1.3 p.p. to a level of 1.7%a. of assets), more than offsetting the monthly deterioration in financial margin. This performance by other income was largely explained by the release of provisions by several banks, because of both loan recoveries and a reduction in certain excess provisions. In addition, one large private bank posted extraordinary gains in relation to its branches. **There was no change in June in either adjustments by banks to the valuation of government security portfolios or the amortization of court orders,** which remained at 0.9%a. of assets in the aggregate.

Following a first quarter in which ROAs were significantly higher for most bank subgroups, in the second quarter of 2006 performance was uneven. **Whereas nationwide retail banks (with a market share of approximately 45%) posted profitability growth in the second quarter of the year (0.2 p.p. to a level of 1.5%a. of assets), the remaining retail banks, as well as wholesale banks and public financial institutions, recorded a drop in their profitability** (see Table 2). Specifically, the growth in profits of nationwide retail banks was driven by improved results from services. Regional banks continued to evidence a better relative performance, achieving a quarterly ROA of 3%a.. Lastly, official banks recorded a drop of 0.9 p.p. in their profitability, to a level of 1%a. of their assets, a performance mainly influenced by lower CER adjustment accrual and declining gains on government securities.

At individual level there was also a lower profitability during the second quarter of 2006 (see Chart 26). **The number of banks recording profits dropped from 73 to 62 between quarters,** out of a total of 90 institutions (one more than in the first half of the year). **Despite this performance, banks posting losses went from representing approximately 18% of financial system assets to only 9%,** a clearly positive sign of the progressive normalization of banking balances.

Chart 26



Source: BCRA

Table 3
Main Developments in July 2006

	Jun	Jul	Var %
Prices			
Exchange rate ($/US$)[1]	3.09	3.07	-0.3
CPI	178.3	179.4	0.6
CER I	1.82	1.82	0.5
			Var p.p.
Government securities - annual IRR[1]			
Boden $ 2007	2.2	1.0	-1.2
Boden U$S 2012	8.9	8.1	-0.8
Discount $	7.1	6.6	-0.5
			Var p.p.
Average percentage rates			
Lending [2]			
Overdraft	16.5	16.6	0.1
Promissory notes	13.0	13.1	0.1
Mortgage	11.7	11.7	0.0
Pledge-backed	11.1	10.8	-0.4
Personal	23.9	24.1	0.2
30 to 44 day time deposit	6.6	7.0	0.4
3-month LEBAC in pesos, w/o CER	7.3	7.2	-0.1
7 day BCRA repos	5.7	5.8	0.1
			Var %
Balance[2,3] - Financial system			
Peso deposits - Private sector	95,455	97,142	1.8
Sight deposits	52,882	54,396	2.9
Time deposits	42,573	42,745	0.4
Peso loans - Private sector	52,736	54,253	2.9
Overdraft	9,491	10,192	7.4
Promissory notes	11,466	11,783	2.8
Mortgage	8,980	9,136	1.7
Pledge-backed	2,940	2,967	0.9
Personal	9,390	9,862	5.0

(1) End of month figure.
(2) Estimation based on SISCEN data (provisional data subject to change).
(3) Monthly average
In million of pesos
Source: INDEC and BCRA.

Outlook for July

Although in the second quarter of 2006 financial system profitability recorded a decline compared with the previous period, results continue to be encouraging. Gradual (but sustained) growth is expected for traditional intermediation activity, in a framework of sound monetary and fiscal policies and growth in the main macroeconomic variables. This situation will be further encouraged by new incentives introduced by the Central Bank for a steady reduction in financial system exposure to the public sector (leading to a crowding-in effect for private sector financing), as well as to encourage an increase in time deposits for longer terms. At the same time, the gradual strengthening of income from interest and banking services is contributing to a reduction in the volatility of profits.

With reference to the month of July in particular, and on the basis of available information, it is possible to predict that positive financial system results will be maintained. Financial margin is expected to show a recovery in July. In the case of interest income, **in July further growth has been seen in total lending to the private sector,** particularly in the case of those lines related to lending to business (overdrafts and promissory note discounts) with interest rates that were slightly lower, while personal loans also recorded a significant increase, with a slight reduction in interest rates agreed (see Table 3). **Time deposit placements continued to increase**, in a context of slightly increase in deposit rates, an effect that could possibly offset part of the rise in interest income. **CER adjustments should show a further drop for the month, in view of the declining rate of increase in the coefficient,** as in July it rose by approximately 0.1 p.p. less than in the previous month. Furthermore, **the improvement posted in the prices of the main domestic debt securities held by banks will lead to an increase in the results recorded on such assets.** These expected monthly movements could be moderately offset by the potential reduction in exchange rate differences gains, given the slight decline in the nominal $/US$ exchange rate during July (which went from 3.09 to 3.07$/US$).

Solvency:
Steady bank capitalization

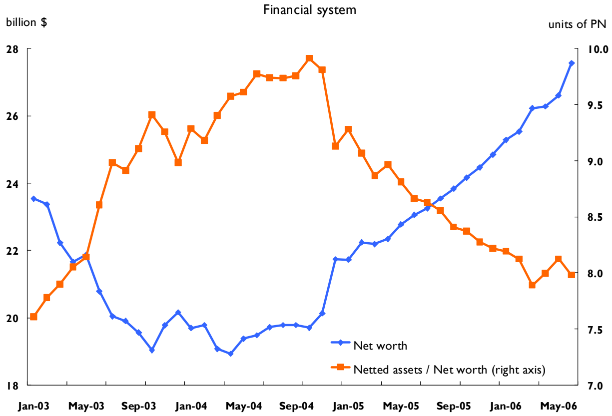
The financial system continued to strengthen its solvency level in June, in the context of a process that has been developing both internally (by means of the posting by banks of book profits) and the capitalization that has taken place. Unlike previous months, in June one large public bank recorded a significant increase in its net worth.

In June banks saw an improvement of 3.1% ($890 million) in their net worth, for an accumulated positive variation of 10.5% (nearly $2.85 billion) in 2006 (see Chart 27). Although the private bank segment accounted for only approximately 5% of the monthly change in financial system net worth, its contribution totaled 45% in the first half of 2006. **As a consequence of the marked growth in net worth,**

Chart 27

Solvency

Financial system

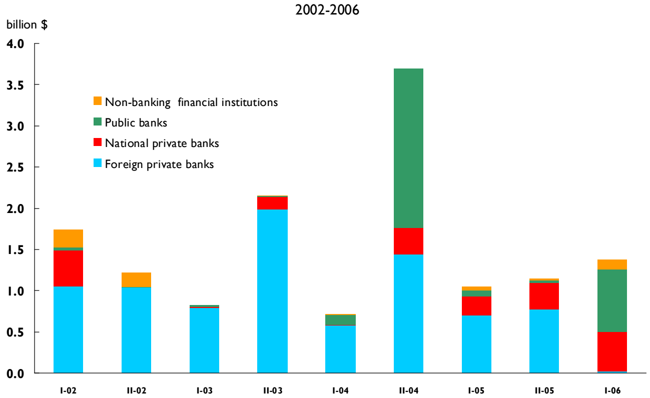


Source: BCRA

Chart 28

Capital Contributions

2002-2006



Source: BCRA

the bank leverage ratio recorded a fall in June, reversing the trend observed in the previous 3 months.

The promising outlook for domestic banking activity has encouraged banks to make further capital contributions, expanding their participation in the credit market (see Chart 28). **In June one large public institution received capitalization totaling approximately $760 million.** As a result, although foreign banks continue to record the larger share of contributions received in the 2002-2006 period (60% or almost $8.4 billion), public banks have also benefited (with 21% or approximately $3 billion).

In June financial system capital compliance increased by 0.1 p.p. of risk-weighted assets, to a level of 16.5%. As a result, it remains well above the minimum recommended level internationally, providing protection against potential adverse shocks. In addition, the financial system records excess capital compliance of approximately 135% of requirements of local regulations.

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" 4543 – 27/06/06
Regulations on "Time deposits and investments." A new variable interest time deposit with a minimum guaranteed fixed rate for a minimum term of 180 days has been created. Such deposits will earn a yield equivalent to the greater of the variable rate plus any additional yield that may be agreed, or the fixed rate to be freely agreed. In addition, the BADLAR rate (applied to time deposits in excess of 1 million pesos has been included as an admissible variable interest rate.

Methodology

(a) Aggregate balance sheet information is taken from the Monthly Accounting Information System (non-consolidated balances). With a view to calculating 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. In turn, for the analysis of profitability, only taken into consideration are 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 drafting 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. Consequently, and given the fact that the latest available data are always used, data in connection with earlier periods may not match what was previously mentioned in prior issues of the Report. In such cases, the latter release should be considered the highest quality available one.

(c) Unless provided to the contrary, data on deposits and loans relate to balance sheet information, and do not necessarily agree with those gathered via the Centralized System of Information Requirements (SISCEN). Reasons for discrepancies include: the exact date taken into account for the calculation of monthly variations 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 banks financial statements, or obtained on the basis of inquiries made to the supervisors with the Superintendence of Financial and Exchange Institutions.

(e) Profitability indicators are calculated based on monthly results estimated on the grounds of the changes in the amount of aggregated results during the current fiscal year. Unless a provision is made to the contrary, profitability ratios are annualized.

(f) Initially, the breakdown by group of banks was determined on the basis of majority involvement in decision taking –in terms of Shareholders meetings votes- differentiating between privately-owned institutions from public banks. Also and with a view to deepening the scope of the analysis, private institutions were identified according to geographic and business scope of their operations. Thus, wholesale banks were defined as those specializing in the large corporations and investors sector, which usually do not depend for their funding on deposits from the private sector. On the other hand, retail banks were divided into those carrying out business at the domestic level, located in certain geographic regions –municipalities, provinces, or regions- and institutions specializing in a financial sector niche market –generally smaller institutions. Lastly, it should be noted that the grouping herein has solely been carried out for analytical purposes and does not imply the only methodological grouping criterion; whereas, on the other hand, the listing of features pertaining to each set of institutions has been established in a general manner.

Glossary

%a.: annualized percentage.
%i.a.: interannual percentage.
Liquid Assets: minimum cash compliance (cash, checking account with the BCRA and special collateral accounts), other liquid assets, including foreign branches or head offices, and active reverse repos balance with the BCRA.
Consolidated (or aggregate) assets and liabilities: Those arising from excluding operations among institutions in the system.
NA: Netted Assets. Both assets and liabilities are meted from accounting duplications resulting from repurchase operations, term transactions and unsettled spot transactions.
Non-performing portfolio: Portfolio in categories 3 to 6, as per the debtors classification system.
Liquidity ratio: Liquid assets as a percentage of total deposits.
Public sector credit: Loans to the public sector, holdings of government securities and compensation receivable from the Federal Government.
Private sector credit: Loans to the private sector and private sector securities.
Listing Differences: (Income from exchange rate differences) Income from the monthly updating of foreign currency-denominated assets and liabilities. The heading also includes income resulting from the purchase and sale of foreign currency, arising from the difference between agreed price (net of direct costs generated by the transaction) and the book value.
Miscellaneous: miscellaneous profits (including, among others, gains on permanent shares, recovered credits and restored provisions) less miscellaneous losses (including, among others, failure for permanent shares, loss for consumer goods sale or depreciation and amortization of business good will).
Net worth exposure to counter party risk: Non-performing portfolio net of allowances in terms of net worth.
Operating costs: Includes compensation, social security payments, services and fees, sundry expenses, taxes and amortization.
Financial margin: Income less outlays of a financial nature. It includes interest income, gains from securities, CER/CVS adjustments, exchange rate differences and other financial results. To the intents and purposes of the analysis herein, it does not include items affected by Comm. "A" 3911 and the amendments thereto.
mill.: million or millions, as applicable.
ON: Corporate Bonds.
OS: Subordinated debt.
Other financial results: Income from financial leasing, contribution to the deposit guarantee fund, interest on liquid funds, adjustments to valuation of credits, premiums on the sale of foreign currency and other unidentified net income.
PN: Patrimonio Neto, Net Worth.
p.p.a.: annualized percentage points.
SMEs: Small and Medium-sized Businesses.
Adjusted profit: Total profit excluding payments made due to court-ordered releases and adjustments to the valuation of public sector assets according to Comm. "A" 3911 and the amendments thereto.
Gains on securities: It includes income from government securities, short-term investments, corporate bonds, subordinated bonds, options and from other income via financial intermediation. In the case of government securities, it includes the results accrued from income, listing 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.
Interest income (Interest margin): Interest collected less interest paid on financial intermediation, on an accrual basis –taken from the balance sheet- rather than on a cash basis. It includes interest on loans of government securities and premiums on repos and reverse repos.
Income from services: Commissions collected less commissions paid. It 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 "Listing Differences" accounts. Outflows include commissions paid, contributions to the Banking Social Services Institute (ISSB), other contributions on service income and charges accrued fro gross income tax.
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.
RPC: Responsabilidad Patrimonial Computable, adjusted stockholders' equity. For more details, see Ordered Text "Minimum Capital for Financial Institutions", available at www.bcra.gov.ar
TNA: Annual nominal rate.
US$: United States Dollars.

Statistics: Financial System

Balance Sheet

In current pesos (millions)	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Jun 05	Dec 05	May 06	Jun 06	Change (%) Month on month	Change (%) Accum. 2006	Change (%) Last 12 months
Assets	**163,550**	**123,743**	**187,532**	**186,873**	**212,562**	**217,694**	**222,732**	**239,241**	**239,434**	**0.1**	**7.5**	**10.0**
Liquid assets[1]	20,278	13,005	17,138	27,575	29,154	24,607	21,166	28,803	29,647	2.9	40.1	20.5
Public bonds	10,474	3,694	31,418	45,062	55,382	61,551	66,733	64,833	66,301	2.3	-0.6	7.7
Lebac/Nobac	0	0	n/a	n/a	17,755	26,043	28,340	29,410	27,791	-5.5	-1.9	6.7
Portfolio	0	0	n/a	n/a	11,803	18,570	21,067	20,953	21,973	4.9	4.3	18.3
Repo	0	0	n/a	n/a	5,953	7,472	7,273	8,457	5,818	-31.2	-20.0	-22.1
Private bonds	633	543	332	198	387	441	387	815	843	3.5	117.6	91.1
Loans	83,277	77,351	84,792	68,042	73,617	77,825	83,664	88,081	90,974	3.3	8.7	16.9
Public sector	15,164	22,694	44,337	33,228	30,866	28,559	25,317	21,899	21,906	0.0	-13.5	-23.3
Private sector	64,464	52,039	38,470	33,398	41,054	47,170	55,898	63,456	65,844	3.8	17.8	39.6
Financial sector	3,649	2,617	1,985	1,417	1,697	2,095	2,450	2,726	3,224	18.3	31.6	53.9
Provisions over loans	-6,907	-6,987	-11,952	-9,374	-7,500	-6,460	-4,953	-4,561	-4,288	-6.0	-13.4	-33.6
Other netted credits due to financial intermediation	42,361	21,485	39,089	27,030	32,554	31,743	26,746	32,431	26,317	-18.9	-1.6	-17.1
Corporate bonds and subordinated debt	794	751	1,708	1,569	1,018	818	873	821	779	-5.1	-10.7	-4.7
Unquoted trusts	2,053	2,065	6,698	4,133	3,145	3,105	3,888	4,444	4,538	2.1	16.7	46.2
Compensation receivable	0	0	17,111	14,937	15,467	11,689	5,841	5,441	5,150	-5.4	-11.8	-55.9
BCRA	141	84	3,360	650	376	350	353	297	301	1.1	-14.9	-14.1
Other	39,373	18,585	10,212	5,741	12,547	15,781	15,791	21,426	15,549	-27.4	-1.5	-1.5
Assets under financial leases	786	771	567	397	611	846	1,384	1,756	1,856	5.7	34.1	119.3
Shares and participation	2,645	2,688	4,653	4,591	3,871	4,037	4,525	4,794	4,720	-1.5	4.3	16.9
Fixed assets and sundry	4,939	4,804	8,636	8,164	7,782	7,614	7,546	7,485	7,490	0.1	-0.7	-1.6
Foreign branches	1,115	1,057	3,522	3,144	3,524	3,468	3,652	3,769	3,832	1.7	4.9	10.5
Other assets	3,950	5,334	9,338	12,043	13,180	12,022	11,882	11,036	11,743	6.4	-1.2	-2.3
Liabilities	**146,267**	**107,261**	**161,446**	**164,923**	**188,683**	**192,614**	**195,571**	**210,116**	**209,419**	**-0.3**	**7.1**	**8.7**
Deposits	86,506	66,458	75,001	94,635	116,655	126,868	136,778	152,011	155,000	2.0	13.3	22.2
Public sector [2]	7,204	950	8,381	16,040	31,649	31,511	34,320	39,282	40,421	2.9	17.8	28.3
Private sector [2]	78,397	43,270	59,698	74,951	83,000	93,323	100,794	109,835	111,799	1.8	10.9	19.8
Current account	6,438	7,158	11,462	15,071	18,219	20,982	23,475	24,881	24,344	-2.2	3.7	16.0
Savings account	13,008	14,757	10,523	16,809	23,866	26,848	29,077	31,430	33,345	6.1	14.7	24.2
Time deposit	53,915	18,012	19,080	33,285	34,944	39,935	42,822	47,924	48,359	0.9	12.9	21.1
CEDRO	0	0	12,328	3,217	1,046	400	17	17	16	-0.6	-6.0	-95.9
Other netted liabilities due to financial intermediation	55,297	36,019	75,737	61,690	64,928	60,279	52,071	51,271	47,603	-7.2	-8.6	-21.0
Call money	3,545	2,550	1,649	1,317	1,461	1,894	2,164	2,496	2,983	19.5	37.8	57.5
BCRA lines	102	4,470	27,837	27,491	27,726	22,655	17,005	11,675	11,434	-2.1	-32.8	-49.5
Outstanding bonds	4,954	3,777	9,096	6,675	7,922	6,112	6,548	6,897	6,762	-2.0	3.3	10.6
Foreign lines of credit	8,813	7,927	25,199	15,196	8,884	6,009	4,684	4,439	4,470	0.7	-4.6	-25.6
Other	37,883	17,295	11,955	11,012	18,934	23,608	21,670	25,764	21,954	-14.8	1.3	-7.0
Subordinated debts	2,255	2,260	3,712	2,028	1,415	1,334	1,381	1,234	1,243	0.8	-10.0	-6.8
Other liabilities	2,210	2,524	6,997	6,569	5,685	4,134	5,341	5,601	5,573	-0.5	4.3	34.8
Net worth	**17,283**	**16,483**	**26,086**	**21,950**	**23,879**	**25,080**	**27,161**	**29,125**	**30,015**	**3.1**	**10.5**	**19.7**
Memo												
Netted assets	129,815	110,275	185,356	184,371	202,447	203,952	209,044	221,576	225,934	2.0	8.1	10.8
Consolidated netted assets	125,093	106,576	181,253	181,077	198,462	199,718	204,160	216,188	220,048	1.8	7.8	10.2

(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	Annual						First 6 months		Monthly			Last	
netted assets	2000	2001	2002	2003	2004	2005	2005	2006	Apr-06	May-06	Jun-06	6 months	12 months
Financial margin	5.7	5.7	6.5	1.1	3.1	4.6	3.9	5.6	5.2	5.6	4.6	5.6	5.4
Net interest income	4.0	3.8	-1.7	-0.5	0.9	1.5	1.3	1.8	1.8	1.8	1.7	1.8	1.7
Restatement by CER and CVS	0.0	0.0	3.9	1.3	1.0	1.5	1.6	1.4	1.3	1.6	1.1	1.4	1.4
Foreign exchange price adjustments	1.2	1.2	1.7	1.1	0.4	0.4	0.0	0.5	0.1	1.0	0.2	0.5	0.6
Gains on securities	0.1	0.2	2.8	-0.5	1.0	1.2	0.9	1.7	2.0	1.1	1.6	1.7	1.6
Other financial income	0.4	0.5	-0.1	-0.3	-0.2	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1
Service income margin	2.8	3.0	1.9	1.9	2.0	2.3	2.2	2.6	2.5	2.7	2.7	2.6	2.5
Loan loss provisions	-2.4	-2.6	-4.7	-1.1	-0.8	-0.6	-0.6	-0.5	-0.5	-0.6	-0.5	-0.5	-0.5
Operating costs	-5.8	-6.1	-4.4	-4.2	-4.1	-4.6	-4.3	-5.0	-5.0	-5.2	-5.0	-5.0	-4.9
Tax charges	-0.4	-0.5	-0.3	-0.3	-0.3	-0.4	-0.3	-0.4	-0.4	-0.5	-0.5	-0.4	-0.4
Income tax	-0.3	-0.2	-0.2	-0.2	-0.1	-0.3	-0.2	-0.4	-0.2	-0.5	-0.2	-0.4	-0.3
Adjustments to the valuation of government securities [1]	0.0	0.0	0.0	-0.4	-0.2	-0.2	-0.2	-0.3	-0.3	-0.2	-0.2	-0.3	-0.2
Amortization payments for court-ordered releases	0.0	0.0	0.0	-0.6	-0.9	-0.9	-1.0	-0.8	-0.7	-0.7	-0.7	-0.8	-0.8
Other	0.4	0.6	-1.8	0.9	0.8	0.8	0.8	0.8	0.8	0.3	1.7	0.8	0.8
Monetary results	0.0	0.0	-5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA before income tax	0.4	0.2	-8.7	-2.7	-0.3	1.1	0.6	2.0	1.7	1.4	2.1	2.0	1.8
ROA before monetary results	0.0	0.0	-3.1	-2.9	-0.5	0.9	0.4	1.7	1.5	0.9	1.9	1.7	1.5
ROA	**0.0**	**0.0**	**-8.9**	**-2.9**	**-0.5**	**0.9**	**0.4**	**1.7**	**1.5**	**0.9**	**1.9**	**1.7**	**1.5**
ROA adjusted [2]	-	-	-	-1.9	0.7	2.0	1.5	2.7	2.5	1.9	2.8	2.7	2.5
Indicators (%)													
ROE	**0.0**	**-0.2**	**-59.2**	**-22.7**	**-4.2**	**7.1**	**3.2**	**12.6**	**11.1**	**6.9**	**14.3**	**12.6**	**11.7**
Financial margin + service income margin / Operating costs	147.4	143.3	189.1	69.3	124.8	150.8	142.0	164.7	155.8	158.7	146.5	164.7	161.7
Interest income (with CER and CVS) / loans	13.0	15.2	11.8	13.1	10.3	12.8	13.0	12.8	12.2	12.6	12.1	13.0	12.9
Interest payments (with CER and CVS) / deposits	5.3	7.3	9.2	5.7	1.8	2.4	2.9	2.3	2.9	3.0	2.9	2.9	2.7

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

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

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

Source: BCRA

Portfolio Quality

As percentages	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Jun 05	Dec 05	Apr 06	May 06	Jun 06
Non-performing loans (overall)	12.9	13.1	18.1	17.7	10.7	7.9	5.2	4.8	4.6	4.5
Non-performing loans to the non-financial private sector	16.0	19.1	38.6	33.5	18.6	13.0	7.6	6.7	6.4	6.3
Commercial portfolio (*)	14.9	20.7	44.0	38.0	22.8	16.2	9.3	8.2	7.7	7.6
Consumption and housing portfolio	17.3	17.5	31.4	28.0	11.0	7.4	4.8	4.3	4.4	4.3
Provisions / Total non-performing loans	61.1	66.4	73.8	79.2	102.9	110.8	125.1	126.7	126.7	125.2
(Total non-performing - Provisions) / Overall financing	5.0	4.4	4.7	3.7	-0.3	-0.9	-1.3	-1.2	-1.2	-1.1
(Total non-performing - Provisions) / Net worth	26.2	21.6	17.2	11.9	-1.0	-2.8	-4.2	-4.0	-3.9	-3.7

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

Source: BCRA

Statistics: Private Banks

Balance Sheet

In current pesos (millions)	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Jun 05	Dec 05	May 06	Jun 06	Change (%)		
										Month on month	Accum. 2006	Last 12 months
Assets	**119,371**	**82,344**	**118,906**	**116,633**	**128,065**	**130,819**	**129,680**	**136,575**	**136,547**	**0.0**	**5.3**	**4.4**
Liquid assets[1]	13,920	10,576	11,044	14,500	15,893	14,987	14,074	16,845	17,555	4.2	24.7	17.1
Public bonds	7,583	1,627	19,751	22,260	24,817	27,442	29,966	29,767	28,728	-3.5	-4.1	4.7
Lebac/Nobac	0	0	n/a	n/a	8,359	13,468	15,227	15,079	14,018	-7.0	-7.9	4.1
Portfolio	0	0	n/a	n/a	5,611	10,626	12,899	12,892	13,021	1.0	0.9	22.5
Repo	0	0	n/a	n/a	2,749	2,842	2,328	2,186	997	-54.4	-57.2	-64.9
Private bonds	563	451	273	172	333	364	307	708	734	3.7	139.2	102.0
Loans	56,035	52,319	51,774	47,017	50,741	52,776	56,565	59,237	61,028	3.0	7.9	15.6
Public sector	8,172	13,803	25,056	23,571	21,420	18,928	15,954	12,392	12,341	-0.4	-22.6	-34.8
Private sector	45,103	36,636	26,074	22,816	28,213	32,542	39,031	44,947	46,587	3.6	19.4	43.2
Financial sector	2,760	1,880	644	630	1,107	1,306	1,580	1,898	2,099	10.6	32.9	60.7
Provisions over loans	-3,248	-3,957	-7,463	-5,225	-3,717	-3,061	-2,482	-2,406	-2,241	-6.9	-9.7	-26.8
Other netted credits due to financial intermediation	36,600	13,037	27,212	22,148	25,753	24,375	16,873	17,992	16,318	-9.3	-3.3	-33.1
Corporate bonds and subordinated debt	724	665	1,514	1,394	829	625	675	650	609	-6.3	-9.9	-2.7
Unquoted trusts	1,609	1,637	6,205	3,571	2,362	2,171	2,444	2,872	2,940	2.4	20.3	35.4
Compensation receivable	0	0	15,971	13,812	14,657	11,257	5,575	5,175	4,883	-5.6	-12.4	-56.6
BCRA	35	865	377	415	311	301	279	216	212	-1.9	-24.2	-29.6
Other	34,232	9,870	3,146	2,955	7,594	10,021	7,900	9,080	7,675	-15.5	-2.8	-23.4
Assets under financial leases	776	752	553	387	592	827	1,356	1,702	1,791	5.2	32.1	116.5
Shares and participation	1,651	1,703	3,123	2,791	1,892	2,030	2,416	2,659	2,578	-3.1	6.7	27.0
Fixed assets and sundry	3,225	3,150	5,198	4,902	4,678	4,597	4,575	4,528	4,535	0.2	-0.9	-1.3
Foreign branches	75	112	-109	-136	-53	-74	-148	-160	-122	-23.9	-17.4	65.2
Other assets	2,190	2,574	7,549	7,816	7,137	6,556	6,178	5,704	5,642	-1.1	-8.7	-13.9
Liabilities	**107,193**	**70,829**	**103,079**	**101,732**	**113,285**	**115,155**	**112,600**	**118,248**	**118,170**	**-0.1**	**4.9**	**2.6**
Deposits	57,833	44,863	44,445	52,625	62,685	70,655	75,668	82,423	83,487	1.3	10.3	18.2
Public sector[2]	1,276	950	1,636	3,077	6,039	7,122	6,946	6,713	6,951	3.6	0.1	-2.4
Private sector[2]	55,917	43,270	38,289	47,097	55,384	62,309	67,859	73,833	74,820	1.3	10.3	20.1
Current account	4,960	7,158	8,905	11,588	13,966	15,564	17,946	18,735	18,236	-2.7	1.6	17.2
Savings account	9,409	14,757	6,309	10,547	14,842	16,921	18,362	19,717	20,366	3.3	10.9	20.4
Time deposit	39,030	18,012	11,083	18,710	22,729	26,084	27,736	31,495	32,327	2.6	16.6	23.9
CEDRO	0	0	9,016	2,409	798	328	3	2	2	0.0	-15.2	-99.3
Other netted liabilities due to financial intermediation	46,271	22,629	49,341	42,367	45,083	40,480	32,349	31,324	30,287	-3.3	-6.4	-25.2
Call money	2,293	1,514	836	726	1,070	1,386	1,488	1,682	2,123	26.3	42.7	53.2
BCRA lines	83	1,758	16,624	17,030	17,768	13,266	10,088	7,277	7,072	-2.8	-29.9	-46.7
Outstanding bonds	4,939	3,703	9,073	6,674	7,922	6,112	6,548	6,897	6,762	-2.0	3.3	10.6
Foreign lines of credit	5,491	4,644	15,434	9,998	5,444	4,016	2,696	2,418	2,488	2.9	-7.7	-38.0
Other	33,466	11,010	7,374	7,939	12,878	15,700	11,530	13,050	11,842	-9.3	2.7	-24.6
Subordinated debts	1,668	1,700	3,622	1,850	1,304	1,235	1,319	1,174	1,183	0.8	-10.3	-4.2
Other liabilities	1,420	1,637	5,671	4,890	4,213	2,786	3,264	3,327	3,214	-3.4	-1.6	15.4
Net worth	**12,178**	**11,515**	**15,827**	**14,900**	**14,780**	**15,664**	**17,080**	**18,327**	**18,377**	**0.3**	**7.6**	**17.3**
Memo												
Netted assets	88,501	73,796	117,928	115,091	121,889	122,149	123,271	128,852	130,286	1.1	5.7	6.7

(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 netted assets	Annual 2000	2001	2002	2003	2004	2005	First 6 months 2005	2006	Monthly Apr-06	May-06	Jun-06	Last 6 months	12 months
Financial margin	6.2	6.4	7.6	2.3	2.9	4.3	3.6	5.6	5.8	5.0	5.1	5.6	5.3
Net interest income	4.1	4.3	-0.2	0.1	1.0	1.7	1.4	2.1	2.0	2.2	2.0	2.1	2.0
Restatement by CER and CVS	0.0	0.0	1.1	0.9	0.8	1.0	1.1	0.8	0.7	0.7	0.7	0.8	0.8
Foreign exchange price adjustments	1.4	1.2	2.5	1.7	0.6	0.5	0.2	0.7	0.4	1.0	0.4	0.7	0.7
Gains on securities	0.2	0.3	4.4	-0.3	0.8	1.0	0.7	1.9	2.5	1.0	1.8	1.9	1.6
Other financial income	0.5	0.7	-0.1	-0.2	-0.3	0.1	0.1	0.1	0.2	0.1	0.2	0.1	0.1
Service income margin	2.9	3.2	2.0	2.0	2.4	2.7	2.5	3.2	3.1	3.3	3.3	3.2	3.1
Loan loss provisions	-2.5	-3.0	-5.0	-1.3	-0.9	-0.6	-0.6	-0.5	-0.5	-0.4	-0.4	-0.5	-0.5
Operating costs	-6.0	-6.4	-4.8	-4.6	-4.6	-5.1	-4.8	-5.6	-5.7	-5.9	-5.8	-5.6	-5.6
Tax charges	-0.4	-0.5	-0.4	-0.3	-0.3	-0.4	-0.4	-0.5	-0.5	-0.6	-0.6	-0.5	-0.5
Income tax	-0.4	-0.3	-0.2	-0.3	-0.2	-0.2	-0.1	-0.2	-0.2	-0.1	-0.1	-0.2	-0.2
Adjustments to the valuation of government securities [1]	0.0	0.0	0.0	-0.6	0.0	-0.2	-0.1	-0.2	-0.3	-0.1	-0.1	-0.2	-0.2
Amortization payments for court-ordered releases	0.0	0.0	0.0	-0.7	-1.0	-1.0	-1.0	-0.9	-0.8	-0.9	-0.8	-0.9	-0.9
Other	0.4	0.7	-3.0	1.0	0.7	0.9	0.8	0.8	0.7	0.4	2.1	0.8	0.9
Monetary results	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	0.6	0.5	-11.1	-2.2	-0.8	0.7	0.2	1.9	1.8	1.0	2.7	1.9	1.6
ROA before monetary results	0.1	0.2	-3.8	-2.4	-1.0	0.5	0.0	1.8	1.6	0.8	2.6	1.8	1.4
ROA	**0.1**	**0.2**	**-11.3**	**-2.5**	**-1.0**	**0.5**	**0.0**	**1.8**	**1.6**	**0.8**	**2.6**	**1.8**	**1.4**
ROA adjusted [2]	-	-	-	-1.2	0.2	1.6	1.1	2.8	2.8	1.8	3.5	2.8	2.5
Indicators (%)													
ROE	**0.8**	**1.4**	**-79.0**	**-19.1**	**-8.1**	**4.1**	**0.4**	**12.4**	**11.5**	**5.9**	**18.2**	**12.4**	**10.1**
Financial margin + service income margin / Operating costs	151.9	150.9	199.3	92.6	115.0	136.5	129.0	156.0	157.3	142.0	144.9	156.0	149.7
Interest income (with CER and CVS) / loans	13.9	16.1	24.7	9.0	8.2	11.0	11.5	11.0	10.8	11.9	11.0	11.5	11.1
Interest payments (with CER and CVS) / deposits	5.7	7.8	21.9	5.8	2.2	3.0	3.5	2.8	3.5	3.7	3.4	3.5	3.3

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

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

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

Source: BCRA

Portfolio Quality

As percentages	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Jun 05	Dec 05	Abr 06	May 06	Jun 06
Non-performing loans (overall)	8.3	9.9	19.8	15.7	8.9	6.5	4.4	4.2	4.1	4.0
Non-performing loans to the non-financial private sector	9.8	14.0	37.4	30.4	15.3	10.5	6.3	5.7	5.5	5.3
Commercial portfolio (*)	8.4	15.4	44.7	39.0	18.2	12.5	7.3	6.6	6.3	6.2
Consumption and housing portfolio	11.9	12.4	26.0	17.2	10.0	6.6	4.2	3.9	3.9	3.8
Provisions / Total non-performing loans	67.7	75.7	73.4	79.0	95.7	98.8	114.6	114.3	114.2	111.6
(Total non-performing - Provisions) / Overall financing	2.7	2.4	5.3	3.3	0.4	0.1	-0.6	-0.6	-0.6	-0.5
(Total non-performing - Provisions) / Net worth	13.4	11.4	18.6	11.2	1.3	0.3	-2.2	-2.0	-2.0	-1.6

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

Source: BCRA