Report on Banks

JUNE 2007

Central Bank of Argentina

Year IV - No. 10

Contents

Note: This report contains information from June 2007 available on 24 July 2007. Description centers mainly on the behavior of the financial system (including breakdowns by uniform sub-groups). Figures provided (particularly in the case of profitability) are preliminary, and may be subject to change.

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Summary

- **Anchored in the financial policy of the Central Bank, the banking system has reinforced the normalization of its balance sheet in a context of considerable dynamism.** While maintaining limited levels of credit risk, lending to the private sector has gained strength as the main application of resources in the financial system. The increase in traditional financial intermediation is making it possible to improve results, which together with capital contributions have been strengthening the solvency of the sector.

- **These events are in line with the steady improvement that the system has been showing in the last 3 years. During this period banks made significant progress, so that comparison on a regional basis indicates they are now on a par with the rest of the financial systems in Latin America.** The return to normal liquidity levels, reduction in holdings of public sector assets, the growth rate for private sector lending, declining private sector non-performance, the recovery of profitability levels and the degree of capitalization have led the financial system to a position similar to that shown by other countries in the region.

- In June lending to the private sector rose 2.6% (38.1% y.o.y.). Growth was widespread, with a notable increase in promissory notes, personal loans and mortgage loans. **In line with the incentives established by the Central Bank, the increase in credit in 2007 was accompanied by an extension in the maturity of transactions, mainly because of accelerated growth in relatively longer-term mortgage loans,** which at June were up 28% y.o.y..

- **In this context of sustained credit growth, the private sector continues to reduce delinquency levels.** The decline in the non-performance of the private sector portfolio in June was 0.1 p.p., to a level of 3.9%, for a total drop of 1.5 p.p. in the last 12 months, with a notable improvement in the quality of lending to companies.

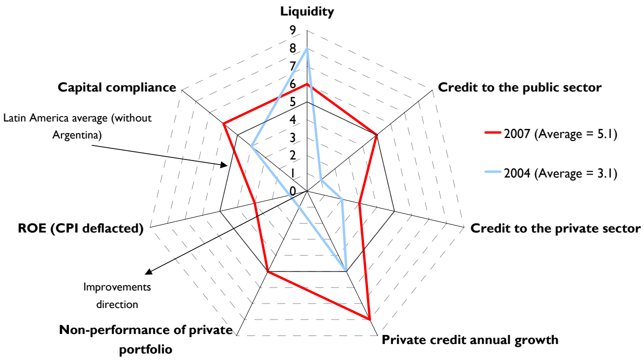
- **As financial system liabilities return to normal, private sector deposits are steadily becoming the main source of funds.** In June deposits rose 1.4% (22.7% y.o.y.), mainly from the contribution by private sector deposits, which rose by 1.3% (25.1% y.o.y.), and to a lesser extent from an increase in public sector deposits. The increase in private sector deposits in June was driven by sight deposits.

- **The financial system continues to take advantage of the benefits of complementation with capital markets**. In June, three private banks issued corporate negotiable bonds (ON) for maturities of between three and five years, in pesos at fixed interest rates for an amount of close to $1 billion. In the first half of 2007 ONs were placed by financial entities for a total of $1.9 billion.

- **Rediscounts granted during the 2001-2002 crisis will soon disappear.** In June the only bank with outstanding rediscounts made a payment in advance, which together with its monthly installment related with the matching scheme led to a repayment of $898 million. In July and August this financial entity made further payments for almost $950 million.

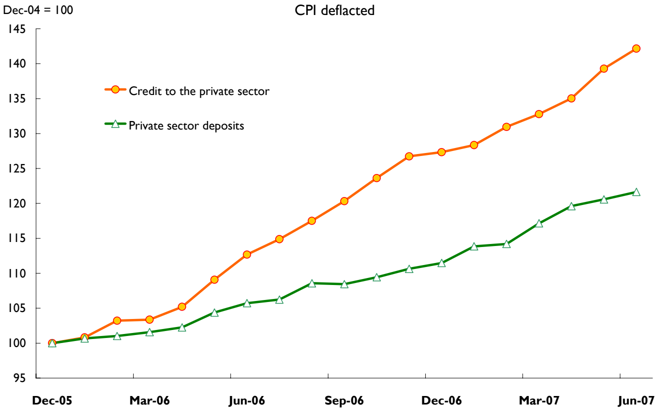
- **The solvency of the financial system continues to gain strength: net worth rose 1.1% during the month (19.5% y.o.y.),** reflecting the impact of June profits and a positive adjustment to the results of previous years made by one public bank. Profits accrued in June by the financial system reached 1.2%a. of assets (9.3%a. of net worth). **In the first half of 2007 bank profitability accrued 1.8%a. of assets, similar to the level recorded in the same period of last year.**

Chart 1
Latin America Financial Soundness Indicators
Argentina financial system versus Latin America



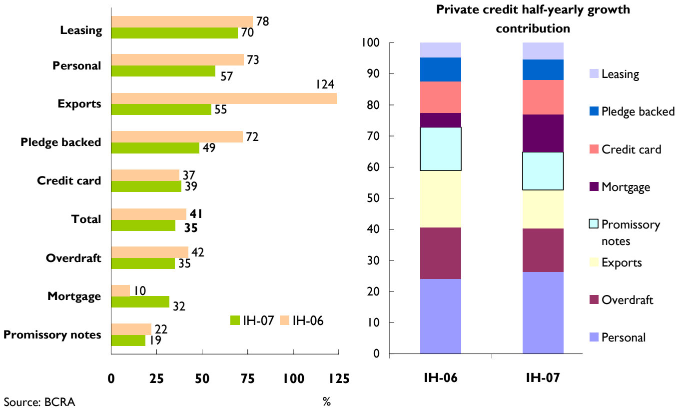
Source: BCRA

Chart 2
Financial Intermediation Deepening
CPI deflacted



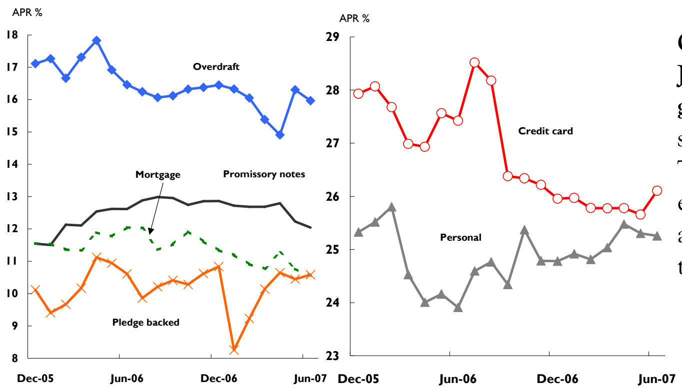
Source: BCRA

Chart 3
Credit to the Private Sector
By type of lines - Annualized % change



Source: BCRA

Chart 4
Lending Rates
Loans to the private sector - Financial system



Source: BCRA

Regional context

Driven by the Central Banks' financial policy, in the last 3 years the financial system achieved extraordinary progress in every dimension, going from the recovery from the effects of the crisis to falling in line with the remaining financial systems in the region by the middle of 2007 (see Chart 1). The reduction in exposure to the public sector is by far among the most notable achievements of the sector in recent years. Despite the high levels recorded by public sector assets in 2004, the banking system has already reached average levels for the main markets in Latin America.

In this period, banks were able to return the high liquidity seen at the end of 2004 characteristic of post-crisis periods to more normal levels. This phenomenon was directly related to **the reappearance of lending to the private sector**, which although still below regional levels, **shows a higher than average growth rate**. This recovery by bank lending to the private sector took place at the same time as a remarkable improvement in the quality of the private portfolio, from very high delinquency levels to historical lows, slightly below the average level for the region.

In addition, the financial system made significant progress on the reconstruction of its sources of income and solvency. In view of the greater size of the local crisis compared with other international experiences, and although local bank ROE is lower than the average for the region, **bank profitability posted a rate of recovery higher than other crisis cases.** This improvement in income and the significant number of capitalizations have explained this recovery in financial system solvency.

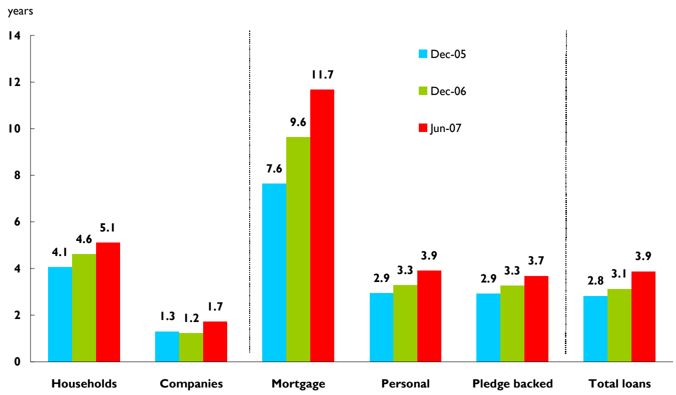
Activity

Liabilities normalization: Further early repayment of rediscounts and ON issues

During the first half of 2007 the financial system continued to strengthen its balance sheets, particularly by means of a greater volume of traditional financial intermediation. Along these lines, there was an increase in both private sector lending and private sector deposits (see Chart 2). In such a growth context, credit for the private sector reached 32% of financial system assets in June, 4 p.p. over the level of mid-2006, while private sector deposits stood at 54% of liabilities, 2 p.p. higher than their level in June 2006.

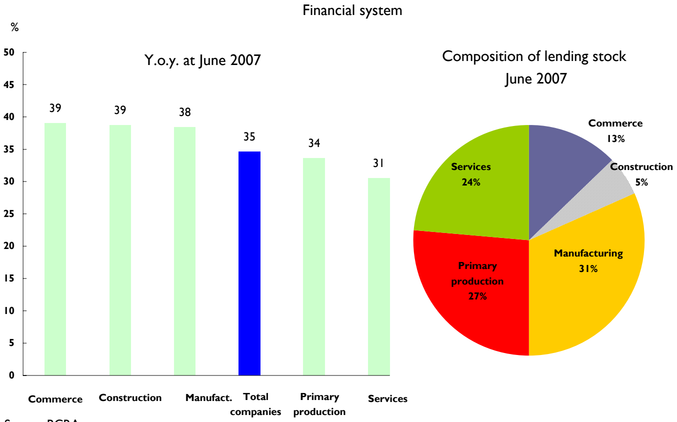
Coinciding with the trend seen in the last two-and-a-half years, in June banking activity was centered on the taking of deposits and the granting of loans to the private sector. Indeed, growth in private sector deposits ($1.8 billion) was the main source of bank funding. The issue of corporate bonds in pesos by three private financial entities ($1 billion), lower holdings of Lebac and Nobac ($850 million) and an increase in public sector deposits ($600 million) were some of the other most important sources of funds during the month.

Chart 5
Lending to the Private Sector
Average maturity weighted by amounts



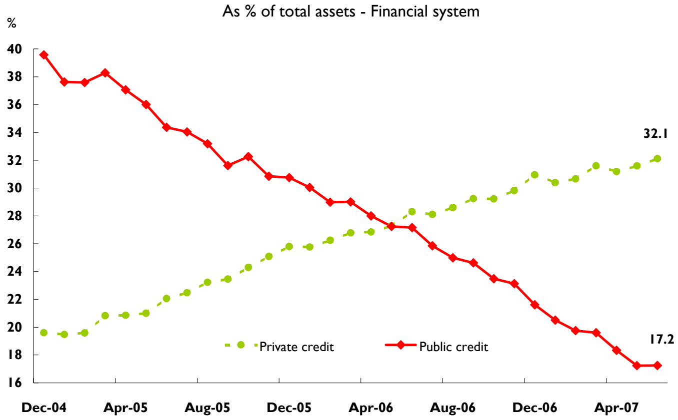
Note: Excludes overdrafts and credit cards
Source: BCRA

Chart 6
Lending to Companies by Economic Sector
Financial system



Source: BCRA

Chart 7
Public and Private Sector Exposure
As % of total assets - Financial system



Source: BCRA

The main use of the newly-acquired bank funding during June was to increase lending to the private sector[1] ($2.35 billion). In addition, the only bank with outstanding rediscounts carried out an early repayment to the Central Bank in June that was added to the regular matching system payment for the month (the two items totaling $898 million). Financial institutions slightly increased their position in Government bonds (mainly as a result of purchases of Bonar V) and their holdings of liquid assets ($400 million for each of these items).

Credit to the private sector rose 2.6% (38.1% y.o.y.) in June. Growth was widespread, with notable increases for promissory notes ($820 million), personal loans ($660 million) and mortgages ($360 million). **In the first half of 2007 private-sector lending grew 35.2%a. in the context of limited credit risk, mainly as a result of increased personal loans and current account advances** (see Chart 3). The slowdown in the rate of increase in private credit that has taken place when comparing the first part of 2007 with that of 2006, was general across the various lines. One case worthy of note, given the significant acceleration in the growth rate, has been that of mortgage loans. **A lower growth rate dispersion for the various credit lines has been observed.**

In the first half of the year, the most dynamic lines have been leasing (69.5%a.), personal loans (57.1%a.) and loans for exports (54.9%a.). Growth in lending to the private sector in the first half of the year took place in the context of stable lending rates, except in the case of personal loans, where they increased slightly (see Chart 4).

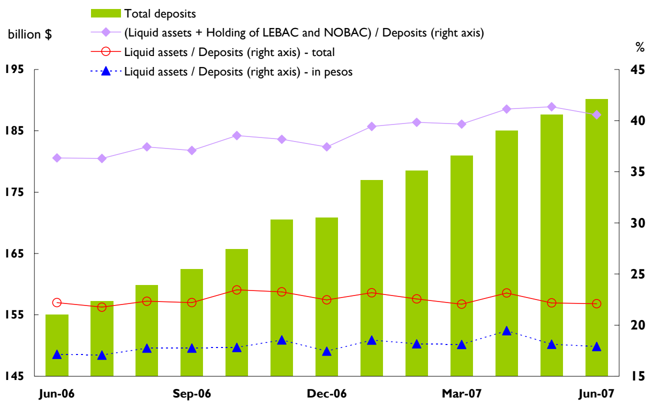
Encouraged by the incentives established by the Central Bank, increased lending to the private sector in 2007 was matched by a lengthening of the terms to maturity of the transactions (see Chart 5). Excluding credit card financing and current account overdrafts, the average term of private sector loans totaled 3.9 years in June, 9 months more than at the end of 2006. This lengthening of maturities was reflected in both lending to families and to companies, which recorded similar increases in their average terms in the first half of the year.

This increase in the average term of private sector credit in the first part of 2007 received a significant contribution from a quickening rate of growth by longer-term mortgage loans. In the first half of 2007, mortgage loans increased at a rate of 32%a. (compared with 10%a. during the first half of 2006), extending their maturity by 2 years to an average of almost 12 years. Three-quarters of the new loans granted in 2007 were for households, the rest being granted to companies. It should be noted that as this market is still at a development stage, it continues to display a certain degree of concentration, with seven financial institutions explaining 85% of the new loans granted in 2007.

In the case of loans to companies, manufacturing and commerce explained almost 70% of the increase in credit in June, with growth of 3.1% and 7.3%, respectively. **Although the increase in lending to the various sectors has been widespread and even, those sectors with a**

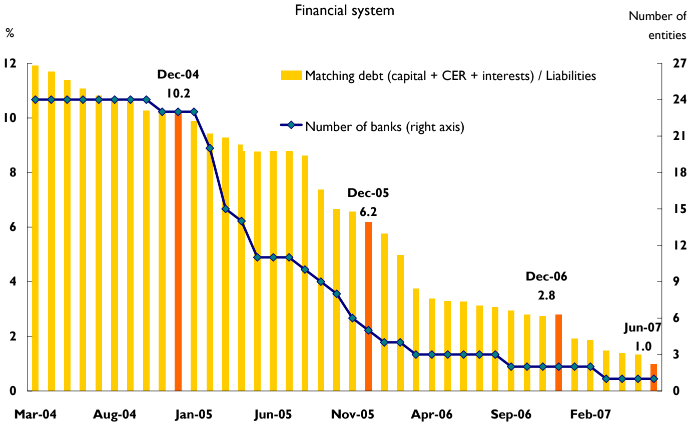
[1] Adjusted for the setting up of financial trusts during the month. Includes lending in the form of leasing.

Chart 8
Deposits and Liquidity
Financial system



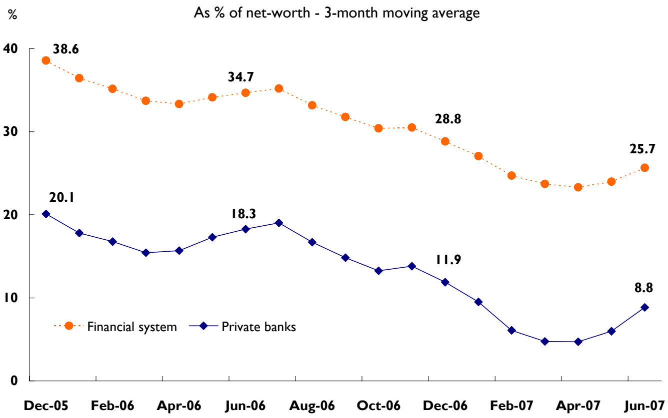
Source: BCRA

Chart 9
Liabilities with the BCRA - Matching Schedule
Financial system



Source: BCRA

Chart 10
Currency Mismatch
As % of net-worth - 3-month moving average



Source: BCRA

lower share of the total stock, commerce and construction, have shown the greatest dynamism in the last 12 months, with increases of 39% y.o.y. in both cases (see Chart 6). Manufacturing, primary production and services contributed approximately 80% of the growth in financing to business in the last year.

Leasing has continued to show significant growth rates as a financing tool, being particularly favored by small and medium-size companies seeking to undertake projects in the services sector and manufacturing industry. In June, bank leasing increased 3.7% (60% y.o.y.). Although starting from a low level, this credit mechanism has been gaining round in the private sector lending segment, accounting for 48% of pledge and mortgage loans to companies in June, 7 p.p. more than at the end of last year.

In addition to the increase in credit, **another sign of the steady return to normal of bank assets has been the 4.4 p.p. decline in exposure to the public sector in the first half of 2007, to a level of 17.2% of total assets in June** (see Chart 7). As a result, **the banking system has consolidated its independence from the financial needs of the public sector**. In the case of June in particular, the financial system slightly increased its holdings of government securities in absolute terms, in part due to the fact that some banks purchased Government Bonar V bonds in pesos. Given the growth of total assets in June, bank exposure to the public sector remained stable.

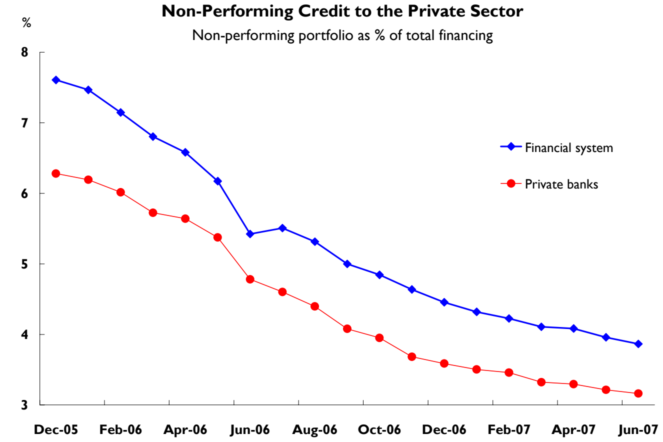
In June the financial system allocated resources to the setting up of liquid assets ($400 million). While cash held by banks and in current accounts in the BCRA went up $2.4 billion, Central Bank repos were down almost $2 billion. As a result of the steady increase in deposits, the liquidity ratio dropped 0.1 p.p. in the month to 22.1% of total deposits (see Chart 8). The liquidity indicator that includes Lebac and Nobac holdings fell 0.8 p.p. in June to 40.6% of total deposits, as a result of the drop of $850 million in the position in Central Bank securities, mainly explained by the actions of a single financial institution.

Daily trading volume on the call market reached $1.35 billion in June, the highest figure for the first half of the year. The one-day call-money rate rose 0.3 p.p. in June to 7.9%, partly reflecting the gradual increase in interest rates on Central Bank swaps, which rose 0.25 p.p. in June.

In the context of sustained normalization of financial system liabilities, private sector deposit continued to rise. In June total deposits grew $2.5 billion (1.4% or 22.7% y.o.y.), driven mainly by the $1.8 billion (1.3% or 25.1% y.o.y.) increase in private sector deposits, and to a lesser extent by an increase of $600 million (1.4% or 18% y.o.y.) in public sector deposits. The increase in private sector deposits in June was driven by sight deposits ($2.1 billion), as time deposits posted a slight decline. The drop in time deposit during the month was partly linked to the due date for payment of the advance on income tax for June, which impacted mainly on deposits for higher amounts (over $1 million), mainly belonging to companies.

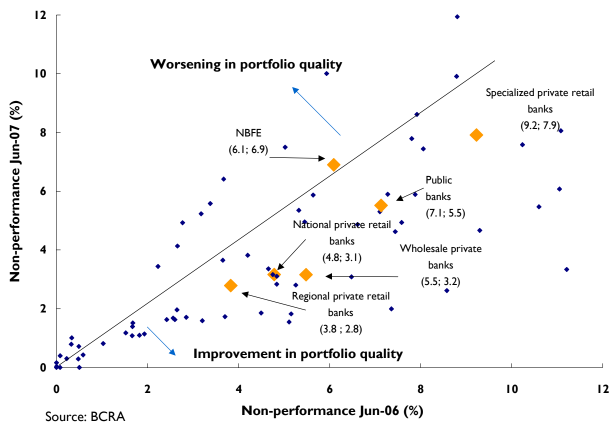
The financial system is gaining benefit from complementation with capital markets, extending the maturity of its liabilities by means of

Chart 11
Non-Performing Credit to the Private Sector
Non-performing portfolio as % of total financing



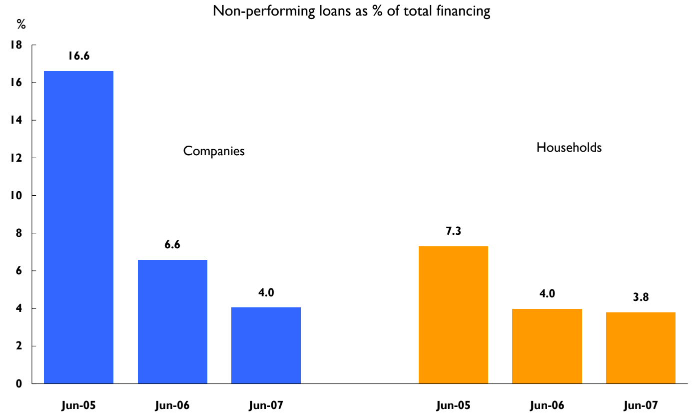
Source: BCRA

Chart 12
Year on year change in Private Sector Portfolio Quality
Non-performing portfolio as % of total financing - Financial system



Source: BCRA

Chart 13
Non-Performing Credit to the Private Sector
Non-performing loans as % of total financing



Source: BCRA

the issue of corporate bonds. Three private banks carried out new issues of ONs in pesos at fixed rates for a total of $1 billion in June. Two of the ONs fall due in 2012, while the remaining one matures in 2010. As a result, in the first half of the year new ON issues (unrelated to debt restructuring) totaled $1.9 billion, mostly denominated in pesos. The taking of funds for longer terms will be fundamental to be able to generate the conditions necessary for an increase in the availability of credit to add dynamism to productive investment.

In addition, **the quality of financial system liabilities is also improving. Liquidity rediscounts granted by the Central Bank to the financial system during the 2001-2002 crisis will soon disappear.** In June the only bank with outstanding rediscounts made an early repayment of $800 million that was added to the installment under the matching scheme of $98 million, reducing its remaining liquidity assistance debt with the Central Bank to an amount equivalent to 1% of financial system liabilities in June, 9 p.p. below the level at the end of 2004 (see Chart 9). This bank also made early settlements in July (with payments totaling $875 million), while in August it paid the corresponding matching system installment ($71 million).

In June, financial system assets in foreign currency rose by US$250 million, largely explained by the increases in liquid assets and loans in dollars, in most cases to private banks. Liabilities in that currency went up by US$50 million, a change mainly explained by the increase in private sector deposits in dollars. As a result of these movements, financial system mismatching in terms of net worth rose 1.8 p.p. in June (see Chart 10) to a level of 27.6%, although over the last 12 months it has recorded a drop of 7.2 p.p..

Portfolio quality

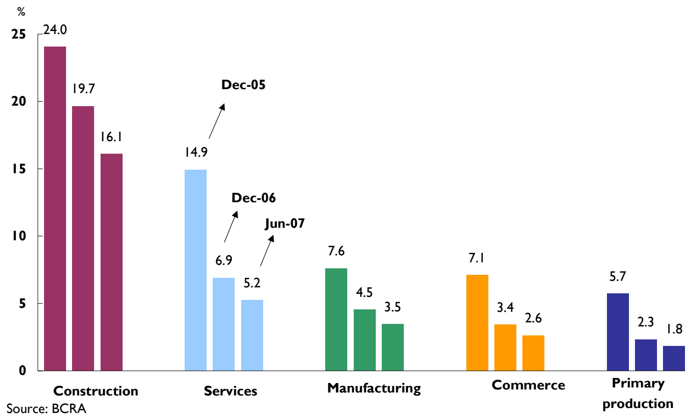
Loans to companies lead improvement in portfolio quality

In a context of steady expansion in lending, the private sector continues to reduce its non-performance levels. The delinquency rate of the private sector portfolio dropped 0.1 p.p. in June to a total of 3.9%, accumulating a fall of 1.5 p.p. in the last 12 months.

Official sector financial institutions were behind the improvement in private sector portfolio quality in June (see Chart 11). Public bank delinquency levels stood at 5.5% of private sector loans, dropping 0.2 p.p. in June, with a total reduction of 1.6 p.p. in the last 12 months. Private bank non-performance rates stood at 3.2% in June, showing no change for the month and a drop compared with the level in June 2006 similar to the decline recorded by public banks.

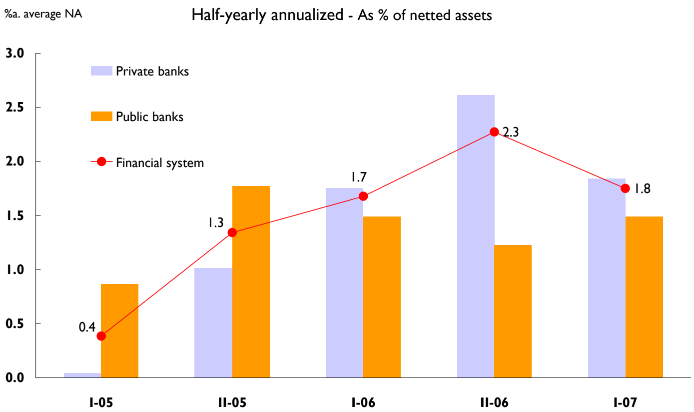
The improvement in the quality of private sector loans was widespread among the various private bank subgroups in the last year. The delinquency level for private banks with a nationwide scope (accounting for over half of private sector loans) fell 1.7 p.p. in the last 12 months, to a level of 3.1% (see Chart 12) in June, while for regional banks the non-performance ratio dropped 1 p.p., to 2.8%. The improvement in the wholesale bank portfolio quality was the

Chart 14
Non-Performing Credit to Economic Sector
Non-performing loans as % of total financing



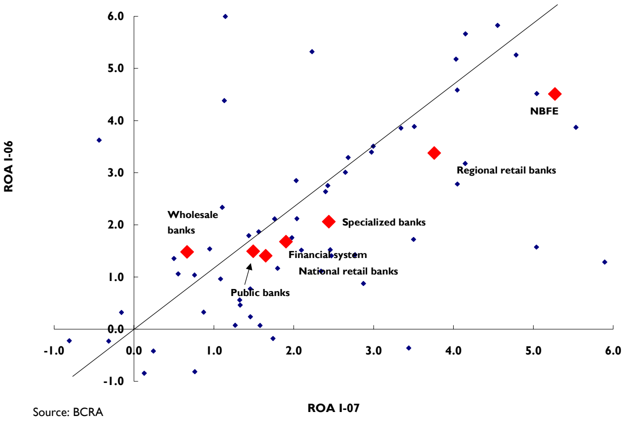
Source: BCRA

Chart 15
Financial System Profitability
Half-yearly annualized - As % of netted assets



Source: BCRA

Chart 16
Financial Entities Profitability
IH-07 vs IH-06



Source: BCRA

highest for the last 12 months decreasing the non-performance ratio 2.3 p.p. to 3.2%. The only group to show a slight deterioration in its portfolio quality in the last 12 months was that of non-bank financial institutions (EFNB), which recorded a non-performance rate of 6.9% at June.

The reduction in private loan delinquency in the last 12 months has mainly been due to the improved quality of lending to companies, at a time of marked growth in production and rising needs for credit. The non-performance ratio for loans to companies, which since the end of the crisis has been higher than that of households, almost matched that level in mid-2007 (see Chart 13). As a result, delinquency in lending lines to companies went down 2.6 p.p. in the last 12 months to 4%. The non-performance level for lending to households stood at 3.8% in June, a drop of 0.2 p.p. compared with June 2006.

The improvement that has been recorded in 2007 in the quality of loans to companies was widespread across the various productive sectors. Primary goods production and commerce were the sectors showing the lowest non-performance levels in June (1.8% and 2.6%, respectively), having recorded declines of 0.5 p.p. and 0.8 p.p. in the first half of 2007, respectively (see Chart 14). The construction sector continues to record relatively high non-performance levels.

By the middle of 2007 the financial system was recording a sound level of provisioning, totaling 137% of loans, 6 p.p. above the level at the end of 2006. As a result, the ratio of loans not covered in terms of net worth remains lower than zero (-3.7%), an indication of the currently robust position of the banking system in the face of private sector credit risk.

Profitability

Strengthening of more stable income sources

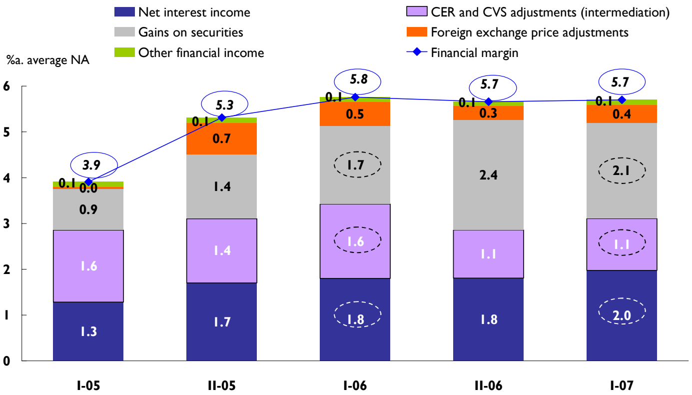
Driven by the steady growth of traditional financial intermediation, bank results have remained stable, with the recording in June of a gain on assets of 1.2% on an annualized (a.) basis and 9.3%a. in terms of net worth[2]. Financial system book profits dropped back 0.3 p.p. of assets compared with May, mainly because of the increased financial volatility, which impacted on the prices of certain financial assets.

Public banks recorded a ROA of 0.6%a. for the month, while private banks achieved a profitability of 1.6%a. of assets. Although both official and private financial institutions recorded lower profitability levels in June, the latter recorded the largest drop (0.4 p.p. of assets), influenced by lower results derived from the holding and trading of financial securities.

On the basis of results for the first half of 2007, financial institutions as a whole posted a ROA of 1.8%a. and a ROE of 12.9%a., values slightly higher than those recorded in the same period of 2006 (see

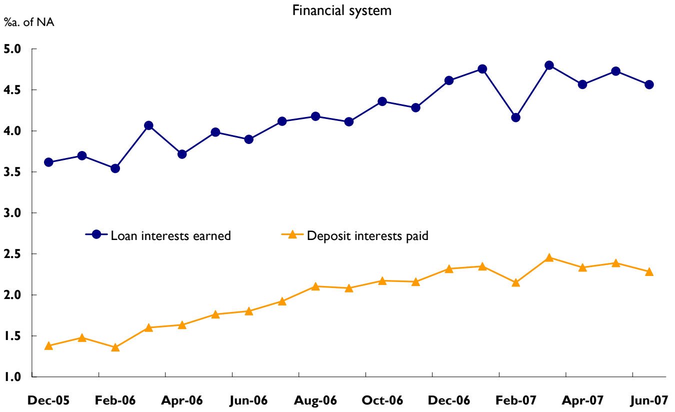
[2] In this section whenever reference is made to ROA and ROE, the denominator should be understood to be netted assets and net worth, respectively (see Glossary).

Chart 17
Financial Margin Composition
Financial system



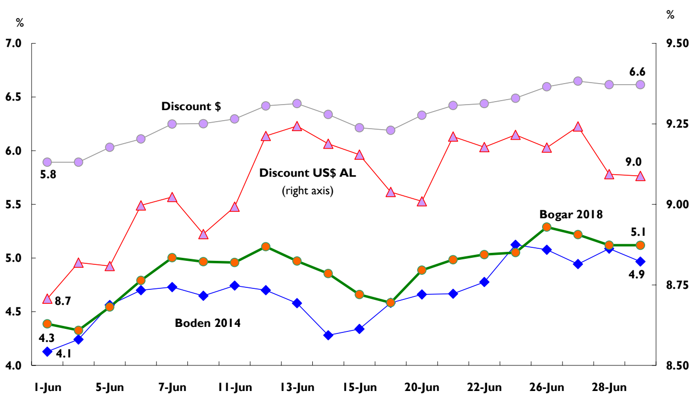
Source: BCRA

Chart 18
Main Components of Net Interest Income
Financial system



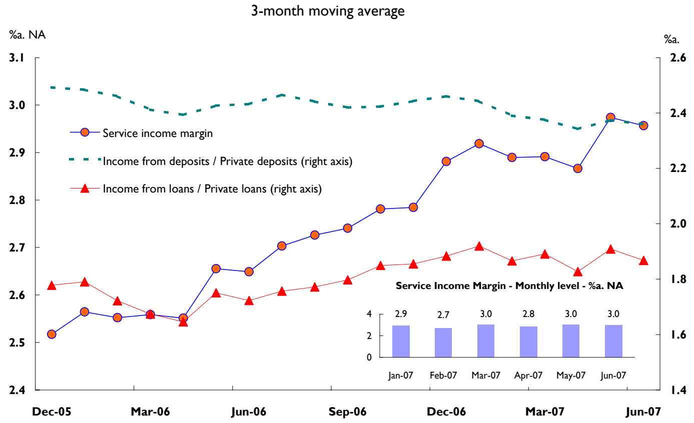
Source: BCRA

Chart 19
Public Bonds
IRR - June 2007



Source: Reuters

Chart 20
Service Income Margin
3-month moving average



Source: BCRA

Chart 15). For 2007 to date, private bank profitability (1.8%a.) has performed better than in the same period of 2006, while in the case of official banks, profit levels have remained steady (1.5%a.).

During the first six months of 2007 the slight improvement in profitability was spread evenly across the various bank sub-groups (see Chart 16). Both private retail banks with a nationwide scope and regional banks posted profitability increases in the first half of 2007 in comparison with the same period of the previous year, amounting to 1.6%a. and 3.8%a. of assets respectively. Specialized private retail banks also recorded an increase in their profits, to 2.4%a. of assets. Private wholesale banks recorded a drop in their results, although they continue to be positive.

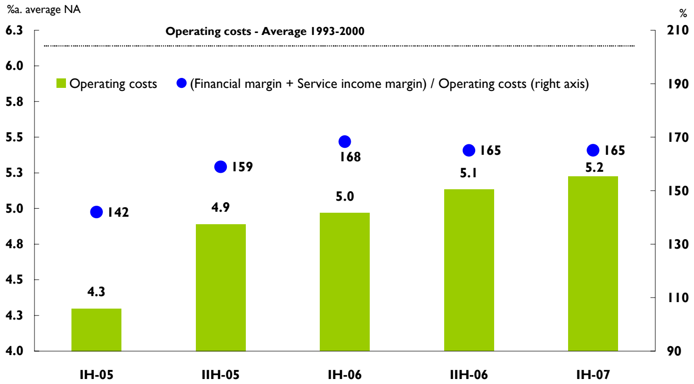
In the case of performance during June 2007, bank financial margin recorded a slight reduction, totaling 4.8%a. of assets, 0.4 p.p. less than in May. **Placed in perspective, although it can be seen that financial margin has stabilized in recent half-years, there has been a strengthening of recurring income sources, reflecting improvement in traditional financial activity.** Specifically in the first part of 2007, bank financial margin benefited from greater contributions from net interest income and gains on security trading compared with the same period of 2006. Furthermore, in the context of steady balance sheet normalization, both CER-linked results and exchange rate differences reduced their participation in financial system profits (see Chart 17).

Net interest income was down 0.1 p.p. of assets in June, to a level of 2%a.. **This drop in results from interest was mainly associated with lower monthly income, in the context of a slight drop in lending rates** (see Chart 18). Interest expense also fell, although to a lesser extent, reflecting the effect of greater participation by sight deposits compared with time deposits, in a situation in which there was a slight rise in deposit interest rates. In the first part of 2007 net interest income reached 2%a., 0.2 p.p. more than in the same period of 2006. In the framework of lower growth in the CER coefficient compared with the previous month, **gains accrued as a result of CER fell in June** to a level of 0.9%a..

Results from the holding and trading of securities by banks dropped by 0.3 p.p. of assets to 1.4%a. in June. This lower result for banks from securities transactions was associated with the drop in the prices of the main government securities held in bank portfolios (see Chart 19). Despite the greater volatility displayed by international markets, in the first half of 2007 income from bank securities holdings totaled 2.1%a., 0.4 p.p. higher than in the same period of 2006.

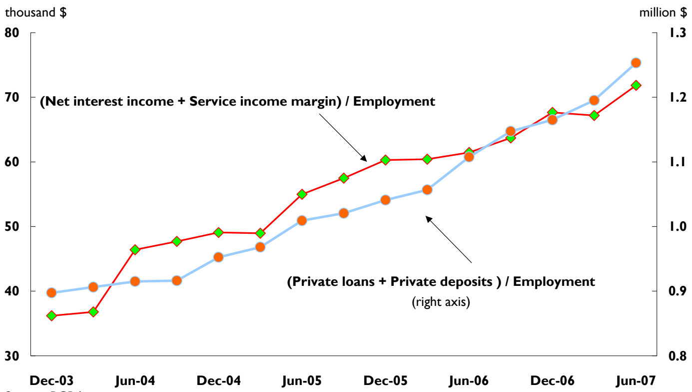
Net income from services remained stable in the month, totaling 3%a. in June, **at among the highest levels registered in recent years.** This performance by bank net services income has been due to both expansion in deposit-related transactions and in those related to loans, the latter having been the most dynamic in recent months (see Chart 20). Furthermore, financial institution income from services covered 57% of operating costs in June. For the first half of 2007, this ratio totaled 56%, 3.6 p.p. above the same period of 2006.

Chart 21
Operating Costs
Half-yearly annualized - Financial system



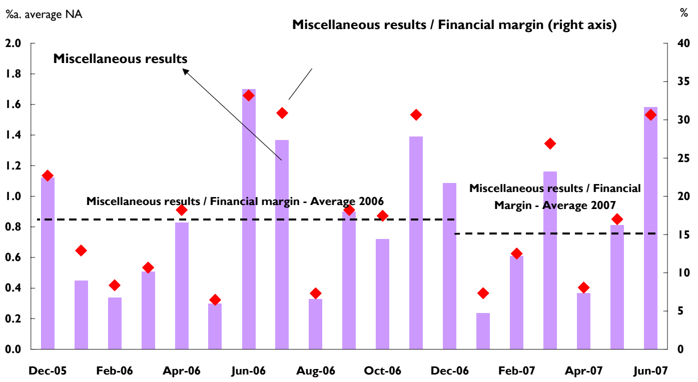
Source: BCRA

Chart 22
Financial System Efficiency
Annualized and deflacted by CPI



Source: BCRA

Chart 23
Miscellaneous Results
Monthly evolution



Source: BCRA

Results from exchange rate differences grew in June by 0.2 p.p. of assets to 0.5%a., in the context of a slight increase in the peso-dollar exchange rate ($0.01 per dollar) between ends of the month, and a slight increase in the active foreign currency position of banks. Nevertheless, in the first part of 2007 exchange rate difference results amounted to 0.4%a. of assets, 0.1 p.p. less than recorded in the same period of the pervious year.

In a situation in which lending to the private sector has been growing and delinquency has declined, financial system loan loss provisions have continued to stand at historically low levels. Loan loss provisions were unchanged in June, reaching 0.6%a. of assets, a figure similar to that recorded in the first half of 2006. Loan loss charges in terms of private sector loans were at a level of 1.8%a. in June, 0.1 p.p. more than in May.

Operating costs recorded a slight decline in June, totaling 5.2%a. of assets in June, 0.2 p.p. less than in May. The drop in financial margin meant that the coverage ratio for operating costs by net income has shown a drop for the month of 5 p.p., to a level of 150%. In addition, in the first six months of 2007 these costs were 5.2%a. of assets (see Chart 21), slightly above the figure registered in the same period of 2006 (5%a.). **In a context of growth in the payroll of the sector, improvements were recorded in the efficiency of the system:** the ratio for private sector loans and deposits in terms of employment grew 13% in the last twelve months (see Chart 22).

Loan recoveries and income from the reversal of provisions significantly boosted bank miscellaneous income in June. These movements were associated in particular with the operations of two private banks**.** This heading of the income statement recorded an increase of 0.6 p.p. of assets to 1.5%a. in the month (see Chart 23). This source of income continues to demonstrate high volatility, and accounts for close to 15% of annual financial margin.

Higher charges for the amortization of court-ordered releases, together with the increase in tax payment accruals in June made a negative contribution to bank profits for the month. Amortization of court-ordered payments rose 0.3 p.p. of assets to 1.1%a., explained by one private bank in particular. In addition, income tax accrual rose by 0.3 p.p. of assets in the month, to 0.5%a.. Adjustments to the valuation of public sector assets went up by 0.1 p.p. of assets during the month.

Outlook for July

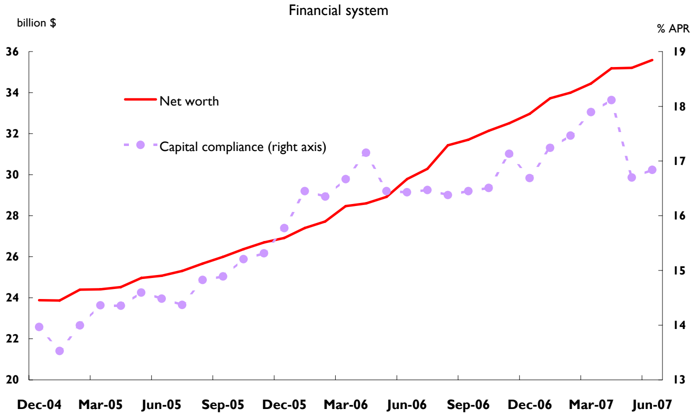
In July it is expected that financial institutions will continue to consolidate their results, mainly because of the steady increase in the volume of domestic financial intermediation. Bank profits will in particular derive from a notable increase in private sector loans. Nevertheless, some reduction can be expected in income from securities as a result of greater capital market volatility, especially towards the end of that month.

Table 1
Main Developments in July

	Jun	Jul	Var. Jun	Var. Jul
Prices				
Exchange rate ($/US$)[1]	3.091	3.120	0.4	0.9
CPI	193.9	194.9	0.4	0.5
CER[1]	1.98	1.98	0.5	0.4
	%	%	Var p.p.	Var p.p.
Securities - annual IRR[1]				
BOGAR $ 2018	5.1	6.7	61	163
BODEN U$S 2012	7.7	8.6	32	96
Discount $	6.5	7.3	64	77
Discount U$S NY	8.6	9.8	56	120
Lebac in $ - 6 months to maturity	9.8	11.8	49	197
Nobac in $ (BADLAR Private banks) - 9 months to maturity	9.7	11.2	69	148
	%	%	Var p.p.	Var p.p.
Average percentage rates				
Lending [2]				
Overdraft	16.2	16.8	25	59
Promissory notes	12.4	12.8	12	47
Mortgage	10.6	10.6	-38	1
Pledge-backed	10.4	10.2	-18	-23
Personal	25.2	25.4	-29	12
30 to 44 day time deposit	7.1	7.3	5	26
BADLAR	7.2	7.7	1	53
7 day BCRA repos	7.4	7.6	15	21
Lebac in $ - 1 year	10.3	10.2	-5	-3
	Mill. $	Mill. $	Var %	Var %
Balance[2,3] - Financial system				
Peso deposits - Private sector	119,201	121,956	1.5	2.3
Sight deposits	66,137	68,491	2.3	3.6
Time deposits	53,064	53,465	0.6	0.8
Peso loans - Private sector	71,982	74,648	2.7	3.7
Overdraft	12,646	13,569	2.7	7.3
Promissory notes	14,788	15,438	0.6	4.4
Mortgage	11,339	11,734	2.6	3.5
Pledge-backed	4,442	4,592	3.4	3.4
Personal	16,070	16,696	4.5	3.9

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

Chart 24
Solvency
Financial system



Source: BCRA

In July a significant increase took place in lending to the private sector, led in particular by current account overdrafts and promissory notes, in a context of higher interest rates for these commercial credit lines (see Table 1). Lines for households (especially personal loans and mortgage loans) also displayed significant growth in a context of rising interest rates. Sight deposits rose at a faster rate than time deposits, in a scenario in which there was a slight increase in the interest paid on the latter. As a result of this dynamic **an increase in interest income can be forecasted**. In a context of reduced levels of private sector delinquency, it is expected that loan loss provisions will continue at low levels.

In addition, growth is also forecasted for **income from services in June, led by higher private sector loan and deposit stocks during the month**. CER adjustments are expected to remain stable during the month.

It is expected that results associated with the holding and trading of financial securities will post a drop in July, in a context of volatile international capital markets. During July there was a drop in the prices of the main securities in bank portfolios. In view of the increased volatility **exchange rate differences could record growth in July,** given the increase in the peso-dollar exchange rate between ends of months.

Solvency

Solvency continues to improve

In a context of sustained growth in the volume of financial intermediation and normalization of financial positions, financial institution profits have continued to drive an improvement in banking sector solvency. In June, financial system net worth rose by $380 million (1.1%), accumulating an increase of $2.6 billion in the first six months of 2007 (19.5% y.o.y.). In addition to the profits accrued during the month, the growth in net worth was also driven by an adjustment to the results of previous years carried out by one large public institution. **The improvement in solvency of the banking sector was led by private banks,** which increased their net worth by $200 in June (0.9% or 23% y.o.y.), while in the case of official banks, the increase totaled $165 million (1.4% or 13.2% y.o.y.).[3]

In this context, **financial system capital compliance totaled 16.8% of risk-weighted assets** at the end of June (see Chart 24), 0.1 p.p. higher than the level seen in the previous month and 0.4 p.p. more than in June 2006. These levels were higher than local requirements and minimum internationally-recommended levels. **Excess financial system capital compliance represented 93.4% of the requirement in June**, 0.6 p.p. more than in the previous month.

[3] Non-bank financial institutions increased their net worth by approximately $ 15 million.

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" 4676 – 05/June/07**

Those banks recording excesses to their non-financial public sector credit risk exposure have been allowed to record a position in national government securities in pesos for terms of five years or more at fixed rates issued as from June 1, 2007 in excess of the margin for the performing of "purchase and sale or intermediation transactions" (15%), as long as this does not give rise to increases in the mentioned excesses allowed in the case of credit risk spread.

- **Communication "A" 4681 – 21/June/07**

Amounts accrued from the application of CER to those deposits taken under systems offering additional incentives to the interest rate agreed have been excluded from the deposit guarantee regime.

- **Communication "A" 4683 – 28/June/07**

As from July 2007 changes have been made to rules on "Debtor classification" and "Minimum provisions for uncollectibility risk," in the specific case of those allocated to the classification of debtors in the consumer and housing loan portfolios. The treatment to be assigned to debtors whose debt has been re-financed has been clarified.

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 entities 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 entities 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.
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.
CEDRO: *Certificado de Depósito Reprogramado*. Rescheduled Stabilization Coefficient.
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, miscellaneous 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.
RPC: Adjusted stockholders´s equity, calculated towards meeting capital regulations. (Responsabilidad Patrimonial Computable)
SMEs: Small and Medium Enterprises.

US$: United States dollars

Statistics Annex: Financial System

Chart 1: Financial Soundness Indicators (see Methodological note in next page)

As %	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Jun 2006	2006	May 2007	Jun 2007
1.- Liquidity	22.3	26.1	23.1	25.0	23.4	19.6	22.8	29.1	29.6	20.1	22.2	22.5	22.2	22.1
2.- Lending to the public sector	16.9	16.2	16.2	18.0	17.3	23.0	48.5	46.5	39.6	30.8	27.2	21.6	17.2	17.2
3.- Lending to the private sector	50.8	47.7	48.4	44.9	39.9	42.7	20.8	18.1	19.6	25.8	28.3	31.0	31.6	32.1
4.- Private non-performing loans	16.2	13.8	12.2	14.0	16.0	19.1	38.6	33.5	18.6	7.6	5.4	4.5	4.0	3.9
5.- Net worth exposure to private sector	24.9	22.5	20.6	24.7	26.2	21.9	17.3	12.4	-1.0	-4.1	-4.1	-3.3	-3.1	-3.1
6.- ROA	0.6	1.0	0.5	0.2	0.0	0.0	-8.9	-2.9	-0.5	0.9	1.7	1.9	1.9	1.8
7.- ROE	4.1	6.3	3.9	1.7	0.0	-0.2	-59.2	-22.7	-4.2	7.0	12.7	14.3	13.7	12.9
8.- Efficiency	142	136	138	142	147	143	189	69	125	151	168	167	168	165
9.- Capital compliance	23.8	20.8	20.3	21.0	20.1	21.4	-	14.5	14.0	15.3	16.4	16.7	16.7	16.8
10.- Excess capital compliance	64	73	49	54	58	54	-	116	185	173	129	132	93	93

Source: BCRA

Chart 2: Balance Sheet

In current pesos (millions)	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Jun 06	Dec 06	May 07	Jun 07	Change (%) Last month	Change (%) Accum. 2007	Change (%) Last 12 months
Assets	**163,550**	**123,743**	**187,532**	**186,873**	**212,562**	**221,962**	**239,165**	**258,742**	**286,815**	**289,262**	**0.9**	**11.8**	**20.9**
Liquid assets[1]	20,278	13,005	17,138	27,575	29,154	20,819	29,670	37,991	35,217	37,565	6.7	-1.1	26.6
Public bonds	10,474	3,694	31,418	45,062	55,382	66,733	66,300	64,395	78,612	77,044	-2.0	19.6	16.2
Lebac/Nobac	0	0	-	-	17,755	28,340	27,792	29,091	47,044	44,431	-5.6	52.7	59.9
Portfolio	0	0	-	-	11,803	21,067	21,949	25,570	36,010	35,165	-2.3	37.5	60.2
Repo	0	0	-	-	5,953	7,273	5,842	3,521	11,034	9,266	-16.0	163.2	58.6
Private bonds	633	543	332	198	387	389	800	813	830	796	-4.1	-2.1	-0.6
Loans	83,277	77,351	84,792	68,042	73,617	84,171	92,102	103,611	109,208	112,066	2.6	8.2	21.7
Public sector	15,164	22,694	44,337	33,228	30,866	25,836	23,033	20,815	16,733	16,734	0.0	-19.6	-27.4
Private sector	64,464	52,039	38,470	33,398	41,054	55,885	65,841	77,834	87,771	89,951	2.5	15.6	36.6
Financial sector	3,649	2,617	1,985	1,417	1,697	2,450	3,228	4,962	4,704	5,382	14.4	8.5	66.7
Provisions over loans	-6,907	-6,987	-11,952	-9,374	-7,500	-4,930	-4,249	-3,999	-4,015	-4,013	-0.1	0.4	-5.6
Other netted credits due to financial intermediat.	42,361	21,485	39,089	27,030	32,554	26,721	26,347	26,030	37,014	35,637	-3.7	36.9	35.3
Corporate bonds and subordinated debt	794	751	1,708	1,569	1,018	873	815	773	635	723	13.8	-6.5	-11.3
Unquoted trusts	2,053	2,065	6,698	4,133	3,145	3,883	4,545	4,881	4,851	4,806	-0.9	-1.5	5.8
Compensation receivable	0	0	17,111	14,937	15,467	5,841	5,150	763	364	367	0.6	-52.0	-92.9
Other	39,514	18,669	13,572	6,392	12,924	16,124	15,838	19,613	31,164	29,741	-4.6	51.6	87.8
Assets under financial leases	786	771	567	397	611	1,384	1,846	2,262	2,840	2,945	3.7	30.2	59.5
Shares and participation	2,645	2,688	4,653	4,591	3,871	4,532	4,728	6,378	6,787	6,836	0.7	7.2	44.6
Fixed assets and miscellaneous	4,939	4,804	8,636	8,164	7,782	7,546	7,491	7,638	7,645	7,626	-0.2	-0.2	1.8
Foreign branches	1,115	1,057	3,522	3,144	3,524	3,647	3,832	2,788	2,863	2,884	0.7	3.4	-24.7
Other assets	3,950	5,334	9,338	12,043	13,180	10,950	10,299	10,835	9,814	9,876	0.6	-8.9	-4.1
Liabilities	**146,267**	**107,261**	**161,446**	**164,923**	**188,683**	**195,044**	**209,373**	**225,773**	**251,605**	**253,671**	**0.8**	**12.4**	**21.2**
Deposits	86,506	66,458	75,001	94,635	116,655	136,492	155,072	170,898	187,698	190,225	1.3	11.3	22.7
Public sector[2]	7,204	950	8,381	16,040	31,649	34,019	40,493	45,410	47,112	47,782	1.4	5.2	18.0
Private sector[2]	78,397	43,270	59,698	74,951	83,000	100,809	111,799	123,431	138,078	139,901	1.3	13.3	25.1
Current account	6,438	7,158	11,462	15,071	18,219	23,487	24,376	26,900	31,818	32,034	0.7	19.1	31.4
Savings account	13,008	14,757	10,523	16,809	23,866	29,078	33,348	36,442	38,700	40,620	5.0	11.5	21.8
Time deposit	53,915	18,012	19,080	33,285	34,944	42,822	48,359	54,338	61,108	60,506	-1.0	11.4	25.1
CEDRO	0	0	12,328	3,217	1,046	17	16	13	13	13	-0.2	-5.8	-23.1
Other netted liabilities due to financial intermediat.	55,297	36,019	75,737	61,690	64,928	52,072	47,606	46,037	55,460	54,843	-1.1	19.1	15.2
Call money	3,545	2,550	1,649	1,317	1,461	2,164	2,983	4,578	4,186	4,864	16.2	6.2	63.1
BCRA lines	102	4,470	27,837	27,491	27,726	17,005	11,434	7,686	4,460	3,612	-19.0	-53.0	-68.4
Outstanding bonds	4,954	3,777	9,096	6,675	7,922	6,548	6,762	6,603	7,032	8,003	13.8	21.2	18.4
Foreign lines of credit	8,813	7,927	25,199	15,196	8,884	4,684	4,461	4,240	3,222	3,255	1.0	-23.2	-27.0
Other	37,883	17,295	11,955	11,012	18,934	21,671	21,966	22,930	36,561	35,110	-4.0	53.1	59.8
Subordinated debts	2,255	2,260	3,712	2,028	1,415	1,381	1,243	1,642	1,662	1,657	-0.3	0.9	33.3
Other liabilities	2,210	2,524	6,997	6,569	5,685	5,099	5,452	7,196	6,784	6,945	2.4	-3.5	27.4
Net worth	**17,283**	**16,483**	**26,086**	**21,950**	**23,879**	**26,918**	**29,792**	**32,969**	**35,211**	**35,591**	**1.1**	**8.0**	**19.5**
Memo													
Netted assets	129,815	110,275	185,356	184,371	202,447	208,275	225,659	245,149	261,582	265,182	1.4	8.2	17.5
Consolidated netted assets	125,093	106,576	181,253	181,077	198,462	203,286	219,649	236,216	252,567	255,434	1.1	8.1	16.3

(1) Includes margin accounts with the BCRA. (2) Does not include accrual on interest or CER.

Source: BCRA

Statistics Annex: Financial System

Chart 3: Profitability Structure

Amounts in million of pesos	Annual							First 6 months		Monthly			Last
	2000	2001	2002[1]	2003	2004	2005	2006	2006	2007	Apr-07	May-07	Jun-07	12 months
Financial margin	7,291	6,943	13,991	1,965	6,075	9,475	12,958	6,232	7,299	1,181	1,141	1,061	14,025
Net interest income	5,106	4,625	-3,624	-943	1,753	3,069	4,095	1,948	2,530	453	452	434	4,678
CER and CVS adjustments	0	0	8,298	2,315	1,944	3,051	3,008	1,758	1,449	164	227	196	2,699
Foreign exchange price adjustments	185	268	5,977	-890	866	751	929	561	501	65	57	105	869
Gains on securities	1,481	1,490	3,639	1,962	1,887	2,371	4,703	1,849	2,676	479	376	300	5,530
Other financial income	519	559	-299	-480	-375	233	223	116	144	21	28	26	250
Service income margin	3,582	3,604	4,011	3,415	3,904	4,781	6,162	2,819	3,746	611	663	656	7,088
Loan loss provisions	-3,056	-3,096	-10,007	-2,089	-1,511	-1,173	-1,174	-595	-720	-96	-120	-132	-1,299
Operating costs	-7,375	-7,362	-9,520	-7,760	-7,998	-9,437	-11,477	-5,377	-6,691	-1,150	-1,181	-1,146	-12,790
Tax charges	-528	-571	-691	-473	-584	-737	-1,078	-479	-680	-110	-119	-122	-1,279
Income tax	-446	-262	-509	-305	-275	-581	-765	-402	-614	-64	-51	-120	-977
Adjustments to the valuation of government securities[2]	0	0	0	-701	-320	-410	-747	-382	-36	16	-10	-25	-401
Amortization payments for court-ordered releases	0	0	0	-1,124	-1,686	-1,867	-1,698	-819	-1,162	-187	-174	-233	-2,041
Other	535	702	-3,880	1,738	1,497	1,729	2,121	819	1,099	87	185	336	2,401
Monetary results	0	0	-12,558	69	0	0	0	0	0	0	0	0	0
Total results	**3**	**-42**	**-19,162**	**-5,265**	**-898**	**1,780**	**4,302**	**1,816**	**2,241**	**288**	**333**	**274**	**4,727**
Adjusted results[3]	-	-	-	-3,440	1,337	4,057	6,746	3,016	3,439	459	517	533	7,170
Annualized indicators - As % of netted assets													
Financial margin	5.7	5.7	6.5	1.1	3.1	4.6	5.7	5.8	5.7	5.5	5.2	4.8	5.7
Net interest income	4.0	3.8	-1.7	-0.5	0.9	1.5	1.8	1.8	2.0	2.1	2.1	2.0	1.9
CER and CVS adjustments	0.0	0.0	3.9	1.3	1.0	1.5	1.3	1.6	1.1	0.8	1.0	0.9	1.1
Foreign exchange price adjustments	0.1	0.2	2.8	-0.5	0.4	0.4	0.4	0.5	0.4	0.3	0.3	0.5	0.4
Gains on securities	1.2	1.2	1.7	1.1	1.0	1.2	2.1	1.7	2.1	2.2	1.7	1.4	2.2
Other financial income	0.4	0.5	-0.1	-0.3	-0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Service income margin	2.8	3.0	1.9	1.9	2.0	2.3	2.7	2.6	2.9	2.8	3.0	3.0	2.9
Loan loss provisions	-2.4	-2.6	-4.7	-1.1	-0.8	-0.6	-0.5	-0.6	-0.6	-0.4	-0.6	-0.6	-0.5
Operating costs	-5.8	-6.1	-4.4	-4.2	-4.1	-4.6	-5.1	-5.0	-5.2	-5.3	-5.4	-5.2	-5.2
Tax charges	-0.4	-0.5	-0.3	-0.3	-0.3	-0.4	-0.5	-0.4	-0.5	-0.5	-0.5	-0.6	-0.5
Income tax	-0.3	-0.2	-0.2	-0.2	-0.1	-0.3	-0.3	-0.4	-0.5	-0.3	-0.2	-0.5	-0.4
Adjustments to the valuation of government securities[2]	0.0	0.0	0.0	-0.4	-0.2	-0.2	-0.3	-0.4	0.0	0.1	0.0	-0.1	-0.2
Amortization payments for court-ordered releases	0.0	0.0	0.0	-0.6	-0.9	-0.9	-0.7	-0.8	-0.9	-0.9	-0.8	-1.1	-0.8
Other	0.4	0.6	-1.8	0.9	0.8	0.8	0.9	0.8	0.9	0.4	0.9	1.5	1.0
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	**0.0**	**0.0**	**-8.9**	**-2.9**	**-0.5**	**0.9**	**1.9**	**1.7**	**1.8**	**1.3**	**1.5**	**1.2**	**1.9**
ROA adjusted[3]	0.0	0.0	-8.9	-1.9	0.7	2.0	3.0	2.8	2.7	2.1	2.4	2.4	2.9
ROE	*0.0*	*-0.2*	*-59.2*	*-22.7*	*-4.2*	*7.0*	*14.3*	*12.7*	*12.9*	*9.8*	*11.4*	*9.3*	*14.2*

(1) Data at December 2002 currency (2) Com. "A" 3911. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains from securities" heading.
(3) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and 4084.
Source: BCRA

Chart 4: Portfolio Quality

As percentages	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Jun 06	Dec 06	Abr 07	May 07	Jun 07
Non-performing loans (overall)	12.9	13.1	18.1	17.7	10.7	5.2	4.0	3.4	3.2	3.2	3.1
Non-performing loans to the non-financial private sector	**16.0**	**19.1**	**38.6**	**33.5**	**18.6**	**7.6**	**5.4**	**4.5**	**4.1**	**4.0**	**3.9**
Commercial portfolio (*)	14.9	20.7	44.0	38.0	22.8	9.3	6.3	5.0	4.3	4.1	3.9
Consumption and housing portfolio	17.3	17.5	31.4	28.0	11.0	4.8	4.1	3.5	3.7	3.7	3.8
Provisions / Total non-performing loans	61.1	66.4	73.8	79.2	102.9	125.1	132.0	130.3	131.0	130.2	136.7
(Total non-performing - Provisions) / Overall financing	5.0	4.4	4.7	3.7	-0.3	-1.3	-1.3	-1.0	-1.0	-1.0	-1.1
(Total non-performing - Provisions) / Net worth	26.2	21.6	17.2	11.9	-1.0	-4.1	-4.0	-3.3	-3.2	-3.1	-3.7

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

Methodological note (chart 1):

1.-(Cash compliance according to BCRA + Other cash holdings + Central Bank repos) / Total deposits; **2.-**(Public bonds position (without LEBAC and NOBAC) + Loans to the public sector + Compensation receivable) / Netted assets; **3.-**Loans to the private sector / Netted assets; **4.-**Non-performing loans to the non-financial private sector / Loans to the non-financial private sector; **5.-**(Total non-performing loans – Provisions) /Net Worth. The non-performing loans includes loans classified in situation 3,4,5, and 6; **6.-**Accumulated annual results /Average monthly netted assets - % Annualized; **7.-** Accumulated annual results / Average monthly net worth - % Annualized; **8.-**(Financial margin (Net interest income + Restatement by CER and CVS + Gain on securities + Foreign exchange price adjustments + Other financial income) + Service income margin) / Operating costs; **9.-**Capital compliance (Responsabilidad Patrimonial Computable) / Risk – adjusted assets according to the norm of BCRA about Minimum Capital Compliance; **10.-**(Capital Compliance minus requirements, included franchises) / Capital requirements.

Statistics Annex: Private Banks

Chart 5: Financial Soundness Indicators (see Methodological note in next page)

As %	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Jun 2006	2006	May 2007	Jun 2007
1.- Liquidity	23.6	26.9	22.8	24.3	24.1	23.6	24.8	27.6	29.2	21.5	21.8	23.7	22.8	23.8
2.- Lending to the public sector	13.5	13.7	13.6	16.1	14.7	20.8	49.4	47.1	41.2	28.0	23.5	15.9	11.1	11.1
3.- Lending to the private sector	51.0	46.7	47.6	44.6	38.4	45.4	22.4	19.9	22.5	31.1	35.4	37.9	39.8	40.3
4.- Private non-performing loans	11.1	8.5	7.7	8.9	9.8	14.0	37.4	30.4	15.3	6.3	4.8	3.6	3.2	3.2
5.- Net worth exposure to private sector	21.6	14.3	13.2	11.5	13.4	11.4	18.6	11.2	1.9	-2.2	-2.1	-3.0	-3.0	-3.9
6.- ROA	0.6	0.7	0.5	0.3	0.1	0.2	-11.3	-2.5	-1.0	0.5	1.8	2.2	1.9	1.8
7.- ROE	4.1	6.3	4.3	2.3	0.8	1.4	-79.0	-19.1	-8.1	4.1	12.3	15.3	12.7	12.4
8.- Efficiency	144	135	139	146	152	151	168	93	115	136	156	159	163	160
9.- Capital compliance	15.9	15.4	14.6	18.9	18.0	17.6	-	14.0	15.1	17.8	18.5	18.6	20.1	20.0
10.- Excess capital compliance	33	47	27	60	49	43	-	88	157	155	118	116	95	94

Source: BCRA

Chart 6: Balance Sheet

In current pesos (millions)	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Jun 06	Dec 06	May 07	Jun 07	Change (%) Last month	Accum. 2007	Last 12 months
Assets	**119,371**	**82,344**	**118,906**	**116,633**	**128,065**	**129,680**	**136,557**	**152,414**	**163,864**	**166,378**	**1.5**	**9.2**	**21.8**
Liquid assets[1]	13,920	10,576	11,044	14,500	15,893	14,074	17,555	22,226	21,519	23,296	8.3	4.8	32.7
Public bonds	7,583	1,627	19,751	22,260	24,817	29,966	28,729	27,663	33,433	32,509	-2.8	17.5	13.2
Lebac/Nobac	0	0	-	-	8,359	15,227	14,019	15,952	23,455	22,229	-5.2	39.4	58.6
Portfolio	0	0	-	-	5,611	12,899	12,998	14,220	19,532	18,674	-4.4	31.3	43.7
Repo	0	0	-	-	2,749	2,328	1,021	1,732	3,923	3,555	-9.4	105.3	248.3
Private bonds	563	451	273	172	333	307	692	683	694	639	-7.9	-6.4	-7.6
Loans	56,035	52,319	51,774	47,017	50,741	56,565	61,028	69,294	72,562	74,876	3.2	8.1	22.7
Public sector	8,172	13,803	25,056	23,571	21,420	15,954	12,341	10,036	6,488	6,461	-0.4	-35.6	-47.7
Private sector	45,103	36,636	26,074	22,816	28,213	39,031	46,584	55,632	62,638	64,311	2.7	15.6	38.1
Financial sector	2,760	1,880	644	630	1,107	1,580	2,103	3,626	3,436	4,104	19.4	13.2	95.2
Provisions over loans	-3,248	-3,957	-7,463	-5,225	-3,717	-2,482	-2,240	-2,227	-2,283	-2,292	0.4	2.9	2.3
Other netted credits due to financial intermediat.	36,600	13,037	27,212	22,148	25,753	16,873	16,374	18,387	20,806	20,091	-3.4	9.3	22.7
Corporate bonds and subordinated debt	724	665	1,514	1,394	829	675	644	618	493	583	18.2	-5.7	-9.5
Unquoted trusts	1,609	1,637	6,205	3,571	2,362	2,444	2,947	2,982	3,459	3,403	-1.6	14.1	15.5
Compensation receivable	0	0	15,971	13,812	14,657	5,575	4,883	760	364	366	0.6	-51.8	-92.5
Other	34,267	10,735	3,523	3,370	7,905	8,179	7,900	14,027	16,490	15,738	-4.6	12.2	99.2
Assets under financial leases	776	752	553	387	592	1,356	1,780	2,126	2,650	2,743	3.5	29.0	54.0
Shares and participation	1,651	1,703	3,123	2,791	1,892	2,416	2,578	4,042	4,409	4,433	0.6	9.7	72.0
Fixed assets and miscellaneous	3,225	3,150	5,198	4,902	4,678	4,575	4,536	4,677	4,687	4,674	-0.3	-0.1	3.1
Foreign branches	75	112	-109	-136	-53	-148	-122	-139	-144	-145	1.0	4.6	18.9
Other assets	2,190	2,574	7,549	7,816	7,137	6,178	5,648	5,682	5,531	5,554	0.4	-2.3	-1.7
Liabilities	**107,193**	**70,829**	**103,079**	**101,732**	**113,285**	**112,600**	**118,194**	**131,476**	**141,467**	**143,784**	**1.6**	**9.4**	**21.7**
Deposits	57,833	44,863	44,445	52,625	62,685	75,668	83,487	94,095	104,552	105,858	1.2	12.5	26.8
Public sector[2]	1,276	950	1,636	3,077	6,039	6,946	6,951	7,029	7,345	7,730	5.2	10.0	11.2
Private sector[2]	55,917	43,270	38,289	47,097	55,384	67,859	74,820	85,714	95,808	96,694	0.9	12.8	29.2
Current account	4,960	7,158	8,905	11,588	13,966	17,946	18,236	20,604	23,957	24,317	1.5	18.0	33.3
Savings account	9,409	14,757	6,309	10,547	14,842	18,362	20,366	23,165	24,555	25,485	3.8	10.0	25.1
Time deposit	39,030	18,012	11,083	18,710	22,729	27,736	32,327	38,043	43,083	42,582	-1.2	11.9	31.7
CEDRO	0	0	9,016	2,409	798	3	2	1	1	1	-2.4	-39.9	-65.2
Other netted liabilities due to financial intermediat.	46,271	22,629	49,341	42,367	45,083	32,349	30,283	31,750	31,507	32,533	3.3	2.5	7.4
Call money	2,293	1,514	836	726	1,070	1,488	2,123	3,383	2,506	3,204	27.9	-5.3	50.9
BCRA lines	83	1,758	16,624	17,030	17,768	10,088	7,072	3,689	735	757	3.0	-79.5	-89.3
Outstanding bonds	4,939	3,703	9,073	6,674	7,922	6,548	6,762	6,413	6,842	7,813	14.2	21.8	15.5
Foreign lines of credit	5,491	4,644	15,434	9,998	5,444	2,696	2,478	2,249	1,237	1,286	4.0	-42.8	-48.1
Other	33,466	11,010	7,374	7,939	12,878	11,530	11,847	16,015	20,187	19,472	-3.5	21.6	64.4
Subordinated debts	1,668	1,700	3,622	1,850	1,304	1,319	1,183	1,642	1,658	1,653	-0.3	0.7	39.8
Other liabilities	1,420	1,637	5,671	4,890	4,213	3,264	3,242	3,989	3,751	3,740	-0.3	-6.2	15.4
Net worth	**12,178**	**11,515**	**15,827**	**14,900**	**14,780**	**17,080**	**18,363**	**20,938**	**22,397**	**22,594**	**0.9**	**7.9**	**23.0**
Memo													
Netted assets	88,501	73,796	117,928	115,091	121,889	123,271	130,290	143,807	151,235	154,194	2.0	7.2	18.3

(1) Includes margin accounts with the BCRA. (2) Does not include accrual on interest or CER.

Source: BCRA

Statistics Annex: Private Banks

Chart 7: Profitability Structure

Amounts in million of pesos	Annual							First 6 months		Monthly			Last
	2000	2001	2002[1]	2003	2004	2005	2006	2006	2007	Apr-07	May-07	Jun-07	12 months
Financial margin	5,441	5,282	10,628	2,575	3,415	5,253	7,672	3,545	4,422	742	742	642	8,549
Net interest income	3,598	3,519	-304	107	1,214	2,069	2,772	1,330	1,731	306	319	320	3,173
CER and CVS adjustments	0	0	1,476	1,082	900	1,215	854	498	401	43	62	50	757
Foreign exchange price adjustments	160	256	6,189	-312	666	576	725	412	390	71	61	76	703
Gains on securities	1,232	962	3,464	1,892	959	1,259	3,132	1,219	1,770	303	273	173	3,682
Other financial income	450	546	-197	-195	-322	134	188	86	131	19	26	24	233
Service income margin	2,554	2,598	2,782	2,341	2,774	3,350	4,379	2,016	2,713	439	482	478	5,076
Loan loss provisions	-2,173	-2,464	-6,923	-1,461	-1,036	-714	-713	-326	-517	-68	-86	-98	-904
Operating costs	-5,263	-5,224	-6,726	-5,310	-5,382	-6,303	-7,598	-3,565	-4,454	-774	-778	-759	-8,488
Tax charges	-379	-418	-512	-366	-393	-509	-760	-343	-486	-78	-87	-88	-903
Income tax	-393	-216	-337	-295	-202	-217	-365	-107	-189	-23	-22	-41	-446
Adjustments to the valuation of government securities[2]	0	0	0	-665	-51	-201	-170	-102	20	11	1	-7	-49
Amortization payments for court-ordered releases	0	0	0	-791	-1,147	-1,168	-1,161	-539	-781	-120	-118	-168	-1,403
Other	307	615	-4,164	1,178	846	1,156	1,626	528	641	-15	114	247	1,739
Monetary results	0	0	-10,531	-20	0	0	0	0	0	0	0	0	0
Total results	**93**	**174**	**-15,784**	**-2,813**	**-1,176**	**648**	**2,910**	**1,109**	**1,369**	**114**	**247**	**206**	**3,170**
Adjusted results[3]	-	-	-	-1,357	252	2,016	4,242	1,749	2,130	223	364	381	4,622
Annualized indicators - As % of netted assets													
Financial margin	6.2	6.4	7.6	2.3	2.9	4.3	5.8	5.6	5.9	6.0	5.9	5.0	6.0
Net interest income	4.1	4.3	-0.2	0.1	1.0	1.7	2.1	2.1	2.3	2.5	2.5	2.5	2.2
CER and CVS adjustments	0.0	0.0	1.1	0.9	0.8	1.0	0.6	0.8	0.5	0.3	0.5	0.4	0.5
Foreign exchange price adjustments	0.2	0.3	4.4	-0.3	0.6	0.5	0.5	0.7	0.5	0.6	0.5	0.6	0.5
Gains on securities	1.4	1.2	2.5	1.7	0.8	1.0	2.4	1.9	2.4	2.4	2.2	1.3	2.6
Other financial income	0.5	0.7	-0.1	-0.2	-0.3	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Service income margin	2.9	3.2	2.0	2.0	2.4	2.7	3.3	3.2	3.6	3.5	3.8	3.7	3.5
Loan loss provisions	-2.5	-3.0	-5.0	-1.3	-0.9	-0.6	-0.5	-0.5	-0.7	-0.5	-0.7	-0.8	-0.6
Operating costs	-6.0	-6.4	-4.8	-4.6	-4.6	-5.1	-5.8	-5.6	-6.0	-6.2	-6.2	-5.9	-5.9
Tax charges	-0.4	-0.5	-0.4	-0.3	-0.3	-0.4	-0.6	-0.5	-0.7	-0.6	-0.7	-0.7	-0.6
Income tax	-0.4	-0.3	-0.2	-0.3	-0.2	-0.2	-0.3	-0.2	-0.3	-0.2	-0.2	-0.3	-0.3
Adjustments to the valuation of government securities[2]	0.0	0.0	0.0	-0.6	0.0	-0.2	-0.1	-0.2	0.0	0.1	0.0	-0.1	0.0
Amortization payments for court-ordered releases	0.0	0.0	0.0	-0.7	-1.0	-1.0	-0.9	-0.9	-1.1	-1.0	-0.9	-1.3	-1.0
Other	0.4	0.7	-3.0	1.0	0.7	0.9	1.2	0.8	0.9	-0.1	0.9	1.9	1.2
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	**0.1**	**0.2**	**-11.3**	**-2.5**	**-1.0**	**0.5**	**2.2**	**1.8**	**1.8**	**0.9**	**2.0**	**1.6**	**2.2**
ROA adjusted[3]	0.1	0.2	-11.3	-1.2	0.2	1.6	3.2	2.8	2.9	1.8	2.9	3.0	3.2
ROE	*0.8*	*1.4*	*-79.0*	*-19.1*	*-8.1*	*4.1*	*15.3*	*12.3*	*12.4*	*6.1*	*13.2*	*11.0*	*15.1*

(1) Data at December 2002 currency (2) Com. "A" 3911. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains from securities" heading.
(3) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and 4084.
Source: BCRA

Chart 8: Portfolio Quality

As percentages	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Jun 06	Dec 06	Abr 07	May 07	Jun 07
Non-performing loans (overall)	8.3	9.9	19.8	15.7	8.9	4.4	3.7	2.9	2.8	2.8	2.7
Non-performing loans to the non-financial private sector	**9.8**	**14.0**	**37.4**	**30.4**	**15.3**	**6.3**	**4.8**	**3.6**	**3.3**	**3.2**	**3.2**
Commercial portfolio (*)	8.4	15.4	44.7	39.0	18.2	7.3	5.3	3.8	3.3	3.1	3.0
Consumption and housing portfolio	11.9	12.4	26.0	17.2	10.0	4.2	3.8	3.2	3.3	3.4	3.5
Provisions / Total non-performing loans	67.7	75.7	73.4	79.0	95.7	114.6	116.3	129.6	132.2	131.8	141.4
(Total non-performing - Provisions) / Overall financing	2.7	2.4	5.3	3.3	0.4	-0.6	-0.6	-0.9	-0.9	-0.9	-1.1
(Total non-performing - Provisions) / Net worth	13.4	11.4	18.6	11.2	1.3	-2.2	-2.1	-3.0	-3.0	-3.0	-3.9

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

Methodological note (chart 5):

1.-(Cash compliance according to BCRA + Other cash holdings + Central Bank repos) / Total deposits; **2.-**(Public bonds position (without LEBAC and NOBAC) + Loans to the public sector + Compensation receivable) / Netted assets; **3.-**Loans to the private sector / Netted assets; **4.-**Non-performing loans to the non-financial private sector / Loans to the non-financial private sector; **5.-**(Total non-performing loans – Provisions) /Net Worth. The non-performing loans includes loans classified in situation 3,4,5, and 6; **6.-**Accumulated annual results /Average monthly netted assets - % Annualized; **7.-** Accumulated annual results / Average monthly net worth - % Annualized; **8.-**(Financial margin (Net interest income + Restatement by CER and CVS + Gain on securities + Foreign exchange price adjustments + Other financial income) + Service income margin) / Operating costs; **9.-**Capital compliance (Responsabilidad Patrimonial Computable) / Risk – adjusted assets according to the norm of BCRA about Minimum Capital Compliance; **10.-**(Capital Compliance minus requirements, included franchises) / Capital requirements.