



Report on BANKS

OCTOBER 2003

Year 1 - No. 2

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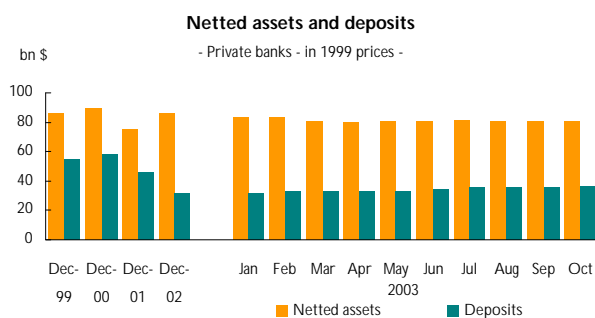
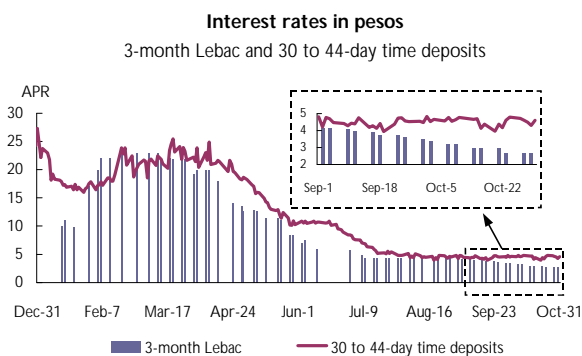
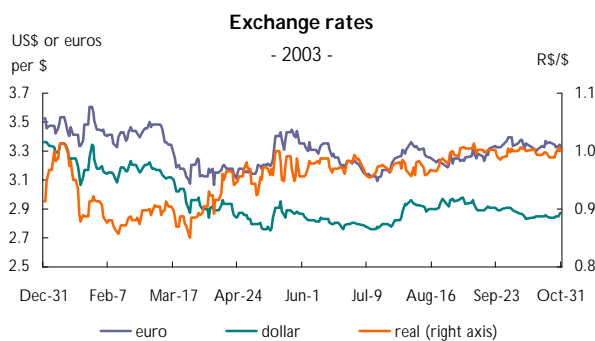
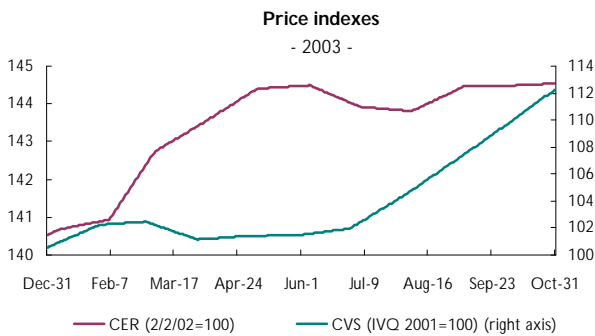
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**Based on information available as
of December 3, 2003.**

SUMMARY

- In a further step on the way to recovering their traditional financial intermediation role, over 50% of private sector institutions increased the balance of their lending to the private sector during October, half the funds obtained during the period being allocated for that purpose.
- The main source of funds for private sector institutions was deposits from the private sector, which increased by \$1.6 billion during the month.
- Most of these deposits were made in sight accounts, encouraging the application of these funds in the building up of liquid assets and LEBAC bills.
- Private sector balance sheets recorded an improvement in terms of their risk to profitability profile. There has been a reduction in their exposure to the public sector of 1 p.p. in terms of netted assets, and increases in the share of liquid assets, LEBAC holdings and loans to the private sector.
- The quality of the loan portfolios of private sector banking institutions has continued to rise. In October, non-performing loans to the private sector accounted for 34% of the total, 4 p.p. less than at the beginning of 2003.
- The level of capitalization of the financial system is in line with the capital requirements that will be in force as from January 2004. Capital compliance in terms of risk assets was in the order of 13%, while capital compliance was more than twice the requirement for the system as a whole.
- In October, around 50% of private sector banks recorded profits. In annualized terms, private bank sector profits in the second half of 2003 to date have shown an improvement of 2.9 p.p. of netted assets compared to those of the first half.
- This improvement was mostly due to stability in the results from financial intermediation and services, as well as in the price level and rate of exchange, added to a significant drop in loan loss provisions.
- Based on the behavior of the main variables impacting on bank profits, it is estimated that the results for November will contribute to increasing the improvement in profitability recorded in the second half, with losses estimated at less than 1.5% of netted assets, compared to a negative ROA of 4.5% in the first half.



The purpose of this report¹ is to provide a monthly update of the information available on the banking sector, highlighting the principal changes in relevant variables defining its situation. The description concentrates on the private bank segment – with a breakdown by homogeneous sub-group – although information is provided on the public bank segment in the case of certain variables .

Context

1. The **environment** in which financial institutions carried out their business during October was similar to that of the previous month, as price stability continued, there were signs of a slight appreciation of the peso and a steady fall in interest rates. The Consumer Price Index (CPI) recorded a rise of 0.6% for the month. Although higher than the virtually non-existent increases in the two previous months, this increase was still low. The Reference Stabilization Coefficient² (CER) rose 0.04% between ends for the month. The local currency continued to appreciate against the US dollar, with a change of 1.2% between the ends – the reference \$/US\$ rate falling from 2.91 to 2.88 \$/US\$. The peso also appreciated against the real and the euro in the same period, by 0.3% and 2.2% respectively. Financial markets continued to reflect a declining trend in interest rates consistent with a scenario of significant liquidity. Cut-off rates for 3-month Central Bank bills (LEBAC) in pesos dropped from 3.5% to 2.7%, while time deposit interest rates for 30-44 day deposits remained almost unchanged at around an annual 4.5%. Call market rates stood at 1.6%, without showing significant change.

Activity level and flow of funds

2. The **level of financial intermediation** for the banking system as a whole, measured in terms of netted assets (NA) and consolidated, grew slightly in October 2003. The figures recorded have meant an increase at current prices of close to 0.6%³, while in real terms⁴ there was no change from the previous month. Although financial institutions did not record a significant nominal variation during October, the effect of the increase on overall price levels led to a fall in real NA of 0.5% in the period analyzed. Lastly, the financial activity of public banks was behind the changes in the indicators for the system as a whole, and went up by a nominal 1.7% and 1.1% in real terms.

3. In terms of the performance of **total deposits** within the financial system, used here to complement the evaluation of the progress of the level and type of local banking intermediation, once again a favorable behavior was recorded. The total for all financial institutions recorded an increase of 3.1%⁵, with both private and public institutions being responsible for the improvement. In addition, in real terms the above figures continue to show

¹ Unless otherwise stated, figures presented in the Report on Banks may differ from those published in the Monthly Monetary Report because of the use of end-to-end and average data respectively.

² Constructed as the two-month geometric mean of the rate of change of the CPI with a one-month lag.

³ Excluding the effect of the appreciation of the peso, netted consolidated assets recorded an increase of 0.9%.

⁴ Deflated by the CPI.

⁵ 3.2% excluding the effects of the monthly variation in the peso-dollar exchange rate.



positive variations of 2.5% for the system as a whole, with the private bank system and public banks both recording similar increases.

Estimated sources and uses of funds

Private banks - October 2003

In millions of pesos

Source		Use	
Private sector deposits	1,570	Liquid assets	740
Current net income	100	LEBAC	450
		Loans to the private sector	240
		Other netted assets	240

4. On the basis of the **sources and uses of funds**, it should be noted that the private bank sector obtained the bulk of its funds from **deposits made by the private non-financial sector**⁶ in an amount of slightly less than \$1.6 billion. Sight deposits – current accounts and savings accounts – were the preferred form of deposit in the private bank sector, rising by almost \$1.3 billion. In addition, time deposits recorded growth of approximately \$400 million. The increase in deposit-taking was widespread across the private bank sector, with almost three-quarters of all institutions recording an increase in their funds under this heading. Private sector deposits in foreign currency continued in an upward path, increasing by 5% in October. Slowly and steadily, this source of banking funds has recorded a dollar-measured increase higher than 150% in 2003 – ending October with a balance of close to US\$1.1 billion. Although still accounting for a relatively low amount of total private sector deposits – 7% – the trend in this variable reinforces the idea of increased confidence in the financial system.

5. The other source of resources administered by private banks during October arose from their business operations. **Net current income**⁷ for private sector banks as a whole represented additional funds for this group of institutions for an amount of close to \$100 million in the month analyzed.

6. The funds obtained in October by the private bank sector as a whole were largely used to form **liquid assets** – cash in banks, Central Bank current account and other liquid funds – making them a significant destination for the resources obtained for the second month in succession. In this case, the increase has been higher than in September, and this application has been estimated at an amount of close to \$740 million. Although a handful of major institutions were responsible for most of the behavior of liquid assets, it should be noted that the phenomenon was widespread. When considering the impact of the behavior of the above variable on the profitability of private banks, it should be taken into account that the increase in the balance of sight deposits – with a low net cost, given the low rate of interest paid and the service income received – accounted for 175% of the rise in liquid assets.

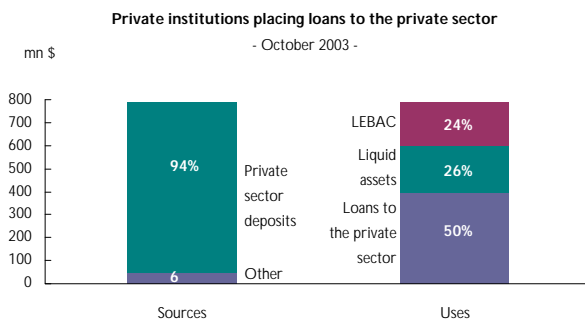
7. In a similar manner to September, investment in **LEBAC** has explained a considerable part of the application of the funds gained in the month under review. The growth of the portfolio of Central Bank bills in the assets of private institutions was close to \$450 million in October 2003. The risk-return trade-off of alternative bank investments, the incipient recovery of lending and the increase in the participation of short-term funding have influenced the investment decisions of institutions in relation to the resources obtained, strengthening their demand for instruments such as the LEBAC⁸.

⁶ Henceforth, when referring to the private non-financial sector the term private sector will be used.

⁷ Estimated on the basis of the methodology described in the attachment to this report. Specifically, items such as loan loss provisions, depreciation and amortization, restatement of items according to the CER and/or CVS and valuation differences from the restatement of items in foreign currency according to changes in the exchange rate, which form part of the final accounting result, have been excluded.

⁸ Over 80% of the LEBAC in circulation mature in less than one year.

8. Although it is premature to consider there has been a reversal in the declining trend in **loans to the private sector** that has been seen in the last three years, in October such lending again became an application of funds for the private bank segment, with a real increase in balances of \$240 million⁹. As a result, the private bank sector granted loans for an amount equivalent to three quarters of the lending capacity derived from the taking of time deposits¹⁰. As to the characteristics of the credit lines that have begun to be traded, first place was taken by short-term loans usually granted to companies in the form of overdraft or secured by promissory notes. Lending to individuals took place at a steady pace in line with the rise in aggregate consumption levels in the local economy. Funds were applied to the granting of personal loans as well as through credit card mechanisms, with an increase in consumer lending for the third month running. Long-term lending is the most difficult to turn around, but nevertheless there has been a slight stop in the decline in pledge loans, while mortgage lending flows once again became a source of funds. In relation to this latter category, it is considered that in addition to considerations as to the average maturity of the balance of deposits – which is affecting the availability of mortgage loans – the behavior of this market is to a large extent reflecting the effect of a low demand for such lines because of the drop in purchasing power of wages in terms of real estate property purchases.



9. Overall, it can be seen that during October **the private banking segment continued to recover its traditional role as an intermediary for financial products**. In the month analyzed more than half – measured both by the number of banks (55%) and by share of total deposits (52%) – of this group of institutions recorded a net placement of loans to the private sector. In addition, this sub-group – institutions making a net granting of loans – took its funding almost entirely from private sector deposits, making net loans for over 50% of that source of funds. Furthermore, the remaining resources were used to comply with mandatory Central Bank reserve requirements – this item representing three-quarters of the increase in liquid assets – and for the purchase of LEBAC in similar proportions.

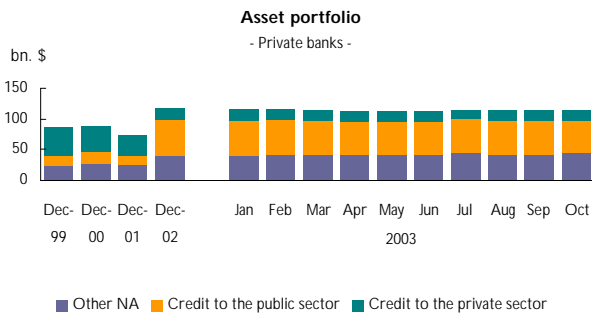
10. Once again there has been an **uneven performance** among private capital banks. In October, although domestic retail banks as a whole dedicated relatively few resources to financing the private sector, this behavior was led by a few institutions, while most of them increased the balance of such lines. In turn, regional banks assigned a lower percentage of their resources taken in to the granting of credit lines to the private sector, at a rate of around 15%. On the other hand, at the other extreme of the distribution pattern were the specialized retail institutions and the wholesale banks, which in net terms lent funds for around twice the amount obtained from the deposits made by the **private sector**.

Balance sheet structure

11. In October 2003, partly as a result of the matters detailed in the previous section, there was a slight favorable variation – as regards risk

⁹ Does not include adjustments for CER and CVS, accrued interest nor the setting up of provisions. See methodology exhibit.

¹⁰ Deposit flow amount after the corresponding liquidity reserves have been made. In general terms, the average reserve requirement for time deposits has been estimated at 14%.



management and generation of profitability – in the **composition of the asset portfolio of private institutions**. In the first place, there has been a reduction in lending to the public sector of almost 1 p.p. of netted assets, ending the month under review at under 47%. In contrast, liquid assets and loans to the **private sector** recorded an increase in their share of assets of 0.6 p.p. and 0.2 p.p. of netted assets respectively. Lastly, there has been a notable increase of 0.3 p.p. of netted assets in private bank holdings of LEBAC, ending the period at 4.3% of netted assets.

12. The reduction in the exposure to credit risk from the public sector for the financial institutions aggregate was particularly influenced by transactions by two large private institutions with their head offices by means of the handing over of BODEN 2012 government securities – received by banks in compensation – as a means for the settlement of foreign credit lines in an amount of close to \$900 million. At the same time as lowering exposure to the public sector, these transactions succeeded in reducing the losses derived from the mismatching of yields arising from the difference between the rates of interest paid on the BODEN 2012 (LIBOR lending rate, currently standing at 1.2%) and the rates those banks had to pay their head offices for the credit lines (1.8%).

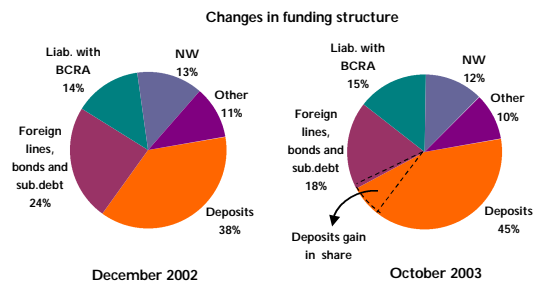
13. In addition, private institutions as a whole recorded loan swap transactions with the public sector for an amount of close to \$600 million. Three leading local private banks exchanged these assets for Secured Bonds under the terms of Decree 1579/02, which allows local banks to gain access to an instrument with an explicit state guarantee¹¹. From an accounting point of view, the reduction in the heading that includes loans to the public sector was offset by a similar increase in the holding of government securities, with no significant variation being noted in the aggregate for total lending to the public sector.

14. As regards the **funding structure** – including netted liabilities and net worth – of private institutions, deposits continued to gain strength as the main source of resources for such business units. There has been a notable annual increase in such items in total funding, having risen from 38% to 45% during 2003 – with a marginal contribution in October of 1.4 p.p. Private sector time deposits led the way, with an annual rise in their share of total funding of almost 8 p.p., while the variation for October was 0.3 p.p.

15. To conclude, there has been a significant reduction in **foreign lines of credit** as a component of funding, down almost 1 p.p. from the effect of the transactions mentioned above. Viewed on an annual basis, there has been a reduction in the proportion of this type of source of funds amounting to 3.5 p.p.¹².

Credit and liquidity risk

16. The **quality of the portfolio of loans to the private sector** continues to show signs of an incipient process of recovery. In October the non-performing ratio for private sector banks amounted to 33.6% – 1 p.p. less than the level recorded in the previous month – reflecting the impact of



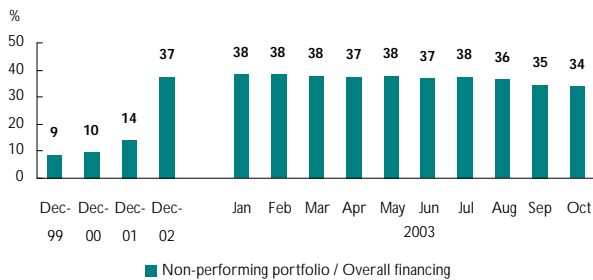
¹¹ Up to a maximum of 15% of Federal Revenue-sharing System funds corresponding to the province that issued the public debt being swapped.

¹² Excluding the contracting effect on this dollar denominated item from the appreciation of the peso against the US currency, the figure indicated falls to 2.5 p.p..



Non-financial private sector portfolio quality

- Private banks -



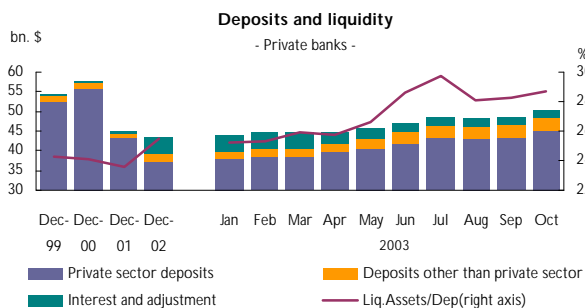
both the increase in total loans to that sector (1.3%) and a drop in the loans considered to be non-performing (-1.7%). Broken down by type of lending, it can be seen that the segment of the private sector loan portfolio recording the highest level of non-performance was that for commercial loans (43.1% in October, an improvement in the month of almost 1.2 p.p.). The portfolio of commercial loans for amounts of up to \$200,000 recorded a non-performance rate of 33% in October, 2.3 p.p. below the level one month earlier. Lastly, the consumer loan portfolio – accounting for almost 40% of total lending by the private bank segment to the private sector – has been the segment with the best comparative quality, with a non-performance ratio of 19.5% – 0.9 p.p. less than recorded in September.

Non-performing portfolio by group (2003)

As a % of non-financial private sector financing

	Dec-02	Sep-03	Oct-03
Public	44.9	49.5	49.3
Private	37.5	34.6	33.6
Retail	37.7	34.4	33.5
National coverage	38.8	37.4	36.6
Regional coverage	27.7	19.5	18.7
Specialized	36.5	38.2	34.9
Wholesale	33.7	39.6	35.3
Non-financial institutions	36.6	20.8	19.2
TOTAL	39.6	38.7	37.9

17. The level of non-performance for the portfolios of loans to the **private sector** is characteristically **uneven** among the various private bank segment sub-groups. On the basis of the figures for the month of October, the portfolio of loans to the private sector held by regional banks continued to record the lowest non-performance level (18.7%). The rest of the sub-groups recorded a greater deterioration in the quality of their portfolios: while retail banks with a national coverage recorded a non-performance level of 36.6% in the case of their loans to the private sector, specialized banks and wholesale banks recorded indicators of 34.9% and 35.3% respectively. The last two sub-groups mentioned were the only ones recording significant change in relation to the previous month, as their non-performance ratios dropped by 3.3 p.p. and 4.1 p.p. respectively. In all cases, the portfolio non-performance measured in this way is lower than that shown by public banks, which recorded a non-performance rate of 49.3% in October.

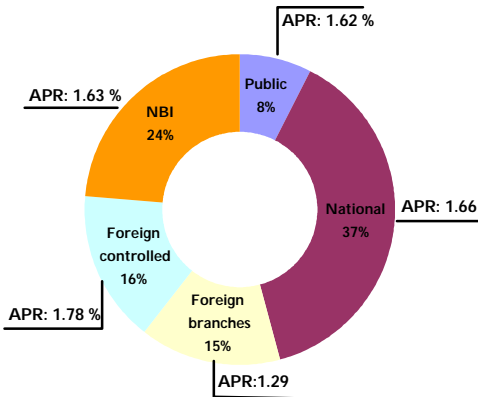


18. Private bank **liquidity** rose again in October 2003. The largest relative increase recorded in the balance of liquid assets in comparison to total deposits led that indicator to reach a level of 29% at the end of the month, almost 0.5 p.p. higher than the month earlier. If liquidity is measured on a more restricted basis – only through the balances of accounts at the Central Bank – it can be seen that these assets represented 17.3% of total deposits in the private bank segment. If the liquidity ratios are calculated according to currency, it can be seen that in the case of private banking institutions, liquidity is higher in foreign currency. Whereas the ratio of liquid assets to total deposits was 21.5% in the case of accounts in pesos, this same indicator calculated on the basis of foreign currency items amounted to 129%. The difference was less marked in the case of the ratio of current accounts of institutions at the Central Bank to deposits – 15% in the case of peso accounts and 48% for foreign currency items.

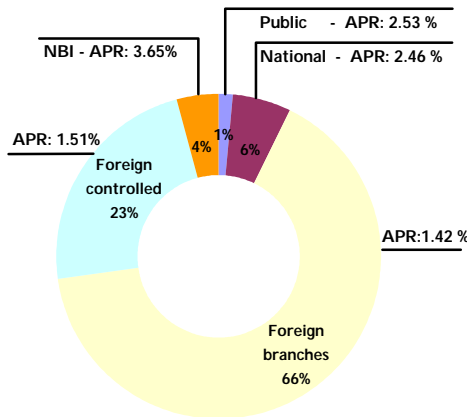
19. Put into perspective, total liquidity for the sector continued the **upward trend** that began in the second half of 2002, showing a recovery of almost 11 p.p. – in terms of the indicator that uses the broader definition of liquidity, considering both accounts in pesos and in foreign currency – since its lowest level recorded in June that year, and almost 3 p.p. since the beginning of the current year. In terms of uniform groups, it can be seen that retail institutions with a national coverage recorded the lowest values in October, averaging 27.5%. At the other end of the scale – with lower deposit-based funding in relative terms – stood wholesale institutions and specialized retail banks, with averages for October of 70% and 31% respectively. These latter institutions, in line with their behavior in the case



Amount granted as a percentage of total and earned interest rate
October 2003 - Amount and average annual percentage rate by group of institutions



Amount received as a percentage of total and paid interest rate
October 2003 - Amount and average annual percentage rate by group of institutions



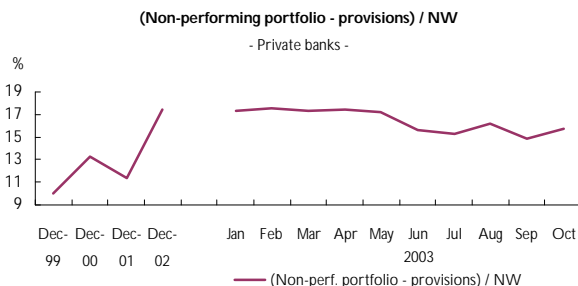
of lending lines – as indicated in point 10 above – have recorded a decline in 2003 to date in their relatively high levels of liquidity.

20. In the case of the **call money market**, during October there was a very slight increase in inter-bank rates. The monthly average of the daily interest rates recorded for transactions in pesos increased from 1.54% in September to 1.61% during October. Average daily volumes traded during the month recorded a slight decline of around \$6 million, taking into account the amount outstanding on each day according to the terms at which the transactions were agreed. On this basis, the average volume traded fell from \$445 million in September to \$439 million in October, taking into account amounts adjusted according to term¹³. The volatility of the average weighted daily interest rate, measured by the coefficient of variation, was low – standing at 0.08, it was almost identical to that for September, which means a standard deviation of 8% of the mean.

21. Analyzing the **call money position of financial institutions according to bank group**, it can be seen that foreign capital banks (foreign branches and local banks under foreign control) were the principal operators. These banks took 89% of the amount traded during October, and provided 31%, reducing their share compared to September – when it was 45% – and maintaining their position as net takers. This reduction was accompanied by an increase in the participation of private domestic capital banks, which granted 37% of the amounts, while in the previous month they granted 27%. Public institutions recorded a low participation of only 8% in the granting segment and 1.2% as takers of resources. If it is considered that only six institutions, all of foreign capital, account for 81% of the amounts received, the concentration of receiving institutions is significant. The share is lower in the case of amounts granted, as the top six institutions only account for 46% of the amounts. In addition, on the basis of a different classification, it can be seen that concentration in the taking section came mainly from wholesale banks and retail banks with a national coverage, with the former group accounting for 50% of the amounts received and the latter 35%, while in September the shares were 30% and 55% respectively.

Solvency

22. Exposure to private sector counterpart risk recorded a slight increase for the private bank segment aggregate in the month under review. In October, the portfolio of non-performing loans to the private sector not covered by provisions in proportion to net worth reached a level of 14.2% in the case of private banks, 0.4 p.p. higher than in the previous month. This increase took place at the same time as a drop in the share of non-performing loans to the private sector covered by provisions, which fell from 77.7% in September to 76.8% one month later as a consequence of the drop in balance sheet provisions by five large retail institutions. As a result, the sub-group of private retail banks with a national coverage has recorded an increase of almost 1 p.p. in its exposure to private sector counterpart risk, which in October reached a level of 23.5%. This exposure is much lower in the case of the rest of the sub-groups: almost 1.5% of net worth for all regional retail institutions and close to 5% for wholesale banks. In these last two cases, the mentioned exposure recorded a slight decline compared to the level recorded one month earlier.



¹³ This is determined by taking the average of the sum of the outstanding call amounts on each day during the month, i.e. transactions for over one day are registered as a succession of one-day transactions. This makes it possible to standardize transactions of varying terms.

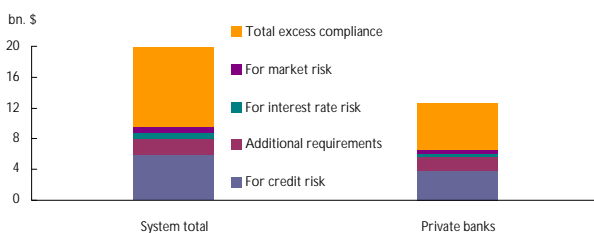
23. In the case of coverage by means of guarantees, approximately 23% of non-performing loans to the private sector were covered by **preferred guarantees** in the case of private banks. This ratio records a wide disparity between sub-groups: whereas retail banks operating national-wide and regional banks held coverage in the form of preferred guarantees for close to 24%, in the case of specialized regional banks and wholesale banks coverage was lower (approximately 9% and 8% respectively). Lastly, in comparative terms, it can be noted that in the case of public institutions, coverage with preferred guarantees (39%) was higher than that recorded by private institutions.

24. In December 2001, as a result of the acute domestic crisis with a particular impact on the financial system, mandatory compliance with **minimum capital** regulations was suspended. At present, in the context of a process of normalization of the domestic banking system and a return to prudential policies, it has been established that as from January 2004 minimum capital requirements should be observed in accordance with the new regulations on the matter. Capital requirements have been adapted to the new post-crisis context. Changes have included modifying the credit risk requirement to 8% of risk assets – without distinction between type of lender or rate of interest charged – while assets restated according to the CER and CVS indexes have been included in the interest rate requirement, and the dollar holdings were included within the market risk requirement. Lastly, the inclusion of temporary convergence coefficients is reinforced, allowing financial institutions to gradually adapt their capital levels, both by means of new equity contributions and by the generation of own resources derived from the financial business itself.

25. In the context described in the previous paragraph, this section presents the information submitted by financial institutions with the aim of making an **initial attempt to determine the level of capitalization of the financial system** under the new regulations. It should be noted that the data disclosed here is derived from the Information Regime corresponding to those regulations, filing of which was requested by the Central Bank as from July 2003, without the obligation to comply with the technical ratios required by the regulations until January 2004.

26. According to the information submitted to October 2003, the local financial system recorded favorable **capitalization requirement indicators**, a sign that if there are no significant unexpected changes, the banking system as a whole should be in compliance with the new requirements established by the Central Bank. Capital compliance by the total banking system amounted to 13% of risk-weighted assets, while the same indicator for the private bank segment was 12.7%. Total excess compliance – minimum capital position with forbearances – at the end of October stood at 116% of the total capital requirement for the financial system as a whole, and at 91% in the case of private bank institutions.

Minimum capital requirement and compliance
- October 2003 - Columns add to total capital compliance



27. At the end of October 2003, the **credit risk capital requirement** for the system as a whole amounted to close to \$5.8 billion, or 29% of total capital compliance including forbearances. The mentioned counterpart risk requirement had the greatest weighting in a total capital compliance requirement of \$9.6 billion – including the capital requirements for interest rate risk, market risk and additional requirements. Total **capital compliance** stood at an amount of close to \$18.5 billion – measured in

current prices without forbearances – that is to say 25% higher than the level recorded at the end of 2001. The performance of the above variable was mainly driven by growth in net worth (70%). Lastly, it should be noted that in general terms, shares and changes in variables mentioned in the case of private banks were similar to those for the system as a whole.

Profitability

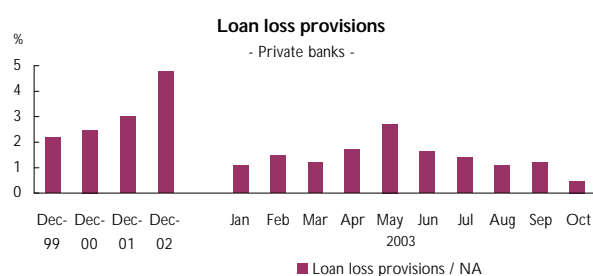
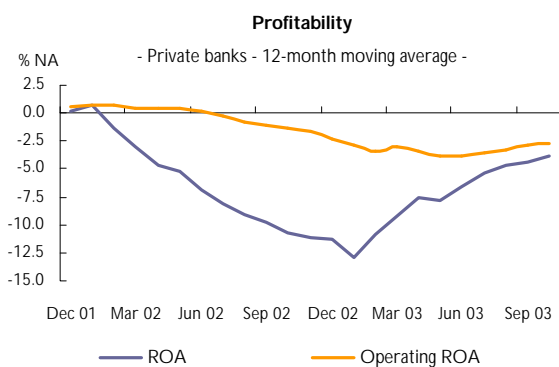
28. In October 2003 bank profitability recorded a significant improvement, rising by 2.4 p.p. of NA compared to the annual total to September¹⁴ and by 1.3 p.p. of NA in relation to the annualized indicators for the immediately preceding month. In the period under review this group of banks recorded negative results equivalent to 1.2% of netted assets.

29. The improvement in the results of the private bank sector during October in comparison to those of the immediately preceding month was due basically to four factors. On the one hand, there was an increase in **income from assets**, which rose 0.7 (p.p.), reaching an annualized level of 1.3% of NA. This recovery was largely explained by non-current adjustments by three banks – in most cases in September – so that if these three institutions were to be excluded from the sample, the income from assets of the private bank segment would remain at a level of 1.4%¹⁵.

30. In second place, there has been a drop of 0.7 p.p. in **loan loss provisions**. It should be recalled that the provisions for September had been particularly influenced by the actions of one large private institution that began an overhaul of its portfolio that month – writing off commercial loans. If this institution is excluded from the sample, the uncollectibility provisions rise from zero in terms of NA to 0.5% between September and October¹⁶.

31. In addition, profitability for the month of October benefited from a reduction in **tax charges** on interest and services, as well as income tax.

32. Lastly, the lower appreciation of the currency between ends in October meant that banks recorded fewer losses from **“exchange rate differences”**. As a result, the “other financial income” line, which is basically explained by these exchange rate difference adjustments, ended with the recording of losses for 0.2% of NA, when in the previous month the losses recorded had been 0.6 p.p. higher.



¹⁴ Given the correction of data by financial institutions – as well as the addition of information for institutions for which information was not available previously – the information provided here may not agree with that analyzed in the previous issue of this same Report. The latter is used as it is considered to be of better quality.

¹⁵ These adjustments mainly reflect the actions of two wholesale banks. The first of these recorded a loss of almost \$30 million by making an extraordinary provision for its LETES in portfolio, with the aim of correcting the forecasts to be submitted to the Central Bank (Com. “A” 4027). The second institution recorded an extraordinary loss for \$22 million as a result of an adjustment to the value of its portfolio of trading securities, as until then the securities had not been valued at market prices as the bank considered that there was no representative quotation for them. Lastly, although its effect is minor in term of amounts, there is the case of one of the larger retail banks which doubled its result from government securities in October because of the reclassification on its books derived from the receipt of BOGAR-secured bonds as a result of the exchange of provincial debt. It can therefore be seen that the “Income from assets” heading reflects a considerable volatility that is not always related to market movements, in many cases reflecting accounting corrections or adjustments of an extraordinary nature carried out by financial institutions.

¹⁶ During September several large institutions – both wholesale and retail – reduced the level of accumulated loan loss provisions, so that the monthly provisioning for the private bank aggregate was “negative” (and almost zero in terms of NA) if the institution with an unusually high provision is excluded.

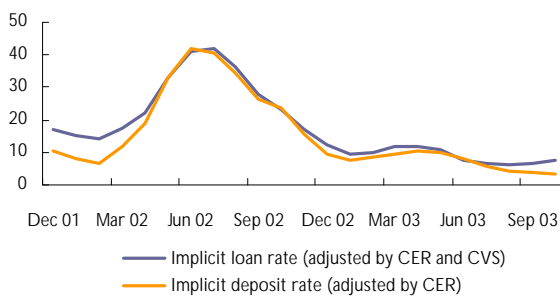
33. The improvements mentioned succeeded in offsetting the negative developments from the point of view of profitability structure of the drop in the CER and CVS adjustment accrued and the decline in sundry results in the month of October. In the case of the first of these items, the **adjustment for CER and CVS** fell close to 1 p.p. in the month, to a level of 0.7% of NA. Although this drop was partly explained by the performance of the CER index¹⁷, it should be recalled that the CER and CVS indexes in the previous months were particularly influenced by corrections of a non-current nature. In the case of the “others” item, the drop of almost 0.5 p.p. – reaching a zero percentage in terms of NA – was due mainly to the lower **release of provisions**¹⁸.

34. Given the stability recorded by interest and service income in the reference month (remaining at a level of zero and 2.2% respectively, with variations of less than 0.1 p.p.), the drop in the CER/CVS adjustments led to an erosion of 0.6 p.p. in **operating profit**, which in October reached a negative level of 1.8%. Nevertheless, this indicator continued to reflect a certain recovery compared to the levels of previous months, as in the first three quarters of the year the level was -2.2%. As a result, in October of the current year net operating revenue covered only 66% of administrative expenses, less than the figure recorded one month earlier (86%) but higher than that of previous months, when it was in the order of 50%¹⁹.

35. As informed in the first issue of the Report on Banks covering the month of September, analysis of the profitability of the various sub-groups of institutions making up the private bank sector shows that a significant **disparity** exists in both the level and the development of the various indicators. Whereas nationwide retail banks continued to record negative profitability, losses were lower in October, having gone from a negative ROA of 3.1% to a negative 1.4%. In this case, the variation has been due almost entirely to lower losses from exchange rate differences and the mentioned decline in loan loss provisioning. Regional retail banks on the other hand continued to register positive profitability, although it recorded a deterioration in the month, as their ROA fell 3.8 p.p to a level of 0.1%. In this case the deterioration was led by the drop in adjustments for CER and CVS and the decline in “Other financial income”²⁰. As in the case of the private bank sector aggregate, private wholesale banks recorded negative profitability, although with clear signs of recovery, with an ROA that has risen by almost 11 p.p. to a level of -3.9%. In the case of this latter aggregate the improvement is explained by the change recorded in income from assets, which as mentioned previously had included significant losses in the previous month of a non-current nature. Lastly, in comparative terms it can be mentioned that **public banks** recorded a deterioration in their profitability in October, with an ROA that has fallen from -0.2 to a negative 3.1% as a result of the drop in the adjustment from application of

Return on loans and cost of deposits

- Non-financial sector - 3 month moving average -



Profitability by group (2003)

Annualized ROA as % - by type and area coverage

	H1	Q3	October
Public	-4.5	-1.9	-3.1
Private	-4.5	-1.7	-1.2
Retail	-4.7	-1.6	-1.1
National coverage	-5.4	-2.3	-1.4
Regional coverage	-1.2	1.9	0.3
Specialized	-0.9	1.8	-4.1
Wholesale	0.3	-4.6	-3.9
Non-bank institutions	-11.7	7.5	-13.7
TOTAL	-4.5	-1.7	-2.0

¹⁷ Whereas between the beginning and the end of September the daily CER index rose from 1.443 to 1.445, towards the end of October the CER index remained at 1.445. The differences are greater if consideration is given to the monthly variations in the CER calculated on the basis of dates prior to the last day of the month, which is how the adjustment is calculated in the case of National Treasury liabilities (Resolutions 55/02 and 50/02 issued by the Ministry of Economy).

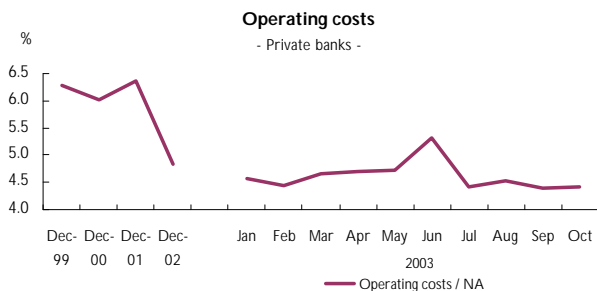
¹⁸ The release of provisions in September was particularly concentrated on a few large retail institutions.

¹⁹ If the CER and CVS accrual were to be excluded from net operating income the cover of expenses in October would have been 49%, almost 4 p.p. above that recorded one month earlier.

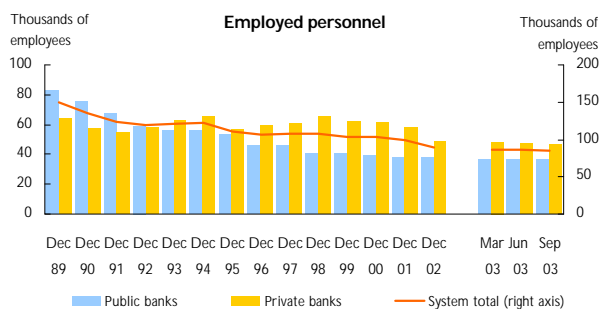
²⁰ “Other financial income” for this bank sub-group had recorded a non-current increase of almost \$30 million in September as a result of the action by one institution that decided to consider as an adjustment to prior years’ results the loss recorded in June this year from the conversion back into dollars of 50% of a loan due to the Bank Capitalization Trust Fund (*Fondo Fiduciario de Capitalización Bancaria*). If this institution were to be excluded from the sample, the ROA for regional banks would fall from 2.4% in September to 0% in October.

the CER and CVS indexes and the losses included in the "Others" line. This latter change has been mostly due to the inclusion of negative results by foreign branches of one major public bank for almost \$100 million.

36. In terms of the **individual profitability of private institutions**, out of a total of 64 private banks, 28 recorded positive profitability for the month. A large majority of private banks not recording profits saw an improvement in their results during October compared to the previous month.



37. Lastly, in view of its connection to the various profitability headings – an in particular operating costs and service income – it is appropriate to comment on certain aspects related to the structure of the system. In October there were 97 authorized institutions: 64 private sector banks, 12 public banks and 21 non-bank financial institutions. The aggregate for the system, with a network of close to 3,880 branches, provides **employment** to a total of approximately 84,500 people, of whom slightly over 47,000 work in the private bank sector.



38. An analysis of recent changes in the various banking structure indicators provides evidence of the fact that **structural adjustments** following the crisis in 2001 were carried out with greatest strength over the course of 2002. Whereas the number of institutions fell from 106 to 99 between December 2001 and December 2002, between this latter month and October of the current year it only dropped by a further two units, following the closing of a municipal bank and the taking over of one private banking institution by another in the same category. In terms of the distribution network, while totals for branches and personnel employed fell by 8% and 11% respectively between the end of 2001 and the end of 2002, in 2003 to date the decline in each case for the system as a whole has been 2% and 4%²¹. In both cases, the changes for the current year were centered on the first half, so that the declines recorded during the third quarter were minimal, an indication that there is a deceleration in the process of structural adjustment.

39. In September 2003 there were 18.95 million **open accounts**²², a figure which rises to 20.5 million if the accounts related to provincial bonds – custody accounts – are included. The latter recorded a significant decline in harmony with the redemption of quasi-monies. In view of the drop in the number of accounts in recent months – down 8% in the year to date²³ – the number of open accounts per employee has fallen from 230 to 220 between December last year and September this year. In a similar manner, the number of accounts open per branch also recorded a drop, falling from almost 5,240 to approximately 4,880 accounts per branch²⁴.

²¹ It can be seen that between the end of December 2002 and September this year the private institution sub-group that made the largest adjustment to its personnel numbers was retail banks with a nationwide reach (4%), while the regional and specialized banks recorded a lower change (2 and 1% respectively). Wholesale banks, for their part, recorded a certain increase (5%) in their personnel in the period contemplated. Lastly, public banks recorded a decline in their employment of close to 6% compared to the previous December, a sign that the search for efficiency is also a variable considered by the public banking sector.

²² According to information from the Monthly Information Regime for Open Accounts (*Régimen Informativo Mensual de Cuentas Habilitadas*), with information on the number of current accounts, savings accounts and special accounts since July 2002.

²³ The decline is 9% if accounts related to quasi-monies are included.

²⁴ Including custody accounts linked to quasi-monies, the number of accounts per employee falls from 250 to 240 while the number of accounts per branch has dropped from 5,690 to 5,280 between December 2002 and September of the current year.



Outlook for November

40. Based on the information available as of the publishing of this issue of the Report on Banks, an **improvement in profitability can be expected for November**. Although the erosion of margin on financial intermediation means that the final aggregate result is very sensitive to the performance of those less stable headings – such as income from assets and loan loss provisions – it is possible that for the first time since the end of 2001, the private bank sector may record positive results in November 2003.

41. In first place, the clearest change for November is the **recording of gains from “exchange rate differences.”** These gains have arisen from the net positive position in assets denominated in foreign currency recorded by the banking institution aggregate, as between the beginning and the end of the month there was a fall in the value of the peso in terms of the US dollar, the reference rate of exchange rising from 2.88 to 2.99\$/US\$.

42. The changes that can be expected in operating profits are mainly determined by the performance of interest income and the adjustment for CER and CVS, given the stability recorded in operating costs and the service income margin. No defined trend in interest income has been observed for November. It is expected that **interest outlays** will show a downward trend, as there was a decline during the month in the stock of time deposits, accompanied by a slight fall in the cost of this type of funding. In a context defined by excess holding of liquid funds by banks and low inflationary expectations, the monthly average interest rate paid on time deposits in pesos for periods of between 30 and 44 days recorded a slight fall from 4.6% in October to 4.3% in November. The effect of the depreciation of the peso on the cost of funding should not be ignored, however, as there are major institutions with a significant proportion of foreign credit lines and corporate bonds in foreign currency in their liabilities.

43. In the case of **interest income**, it should be noted that during November there was a certain amount of stability in the balance of loans, as the increase in some credit lines – mainly consumer lending, as well as overdrafts and promissory notes – was neutralized by the repayment of mortgage and pledge loans. In addition, the borrowing rates continued to fall in the eleventh month of the year, tracing the path of the cut-off rate on LEBAC auctions – one of the main uses of the funds taken in by financial institutions in recent months. While the cut-off interest rate for unadjusted 6-month LEBAC recorded a drop of almost 1 p.p. during November, the overdraft interest rate dropped 1 p.p. to 29%, and rates on consumer lending fell 3 p.p. to a level of 40%. However, since the bulk of interest income is determined by loans that have already been granted – many of which accrue fixed rates at low levels – the effect of new loans will only have a marginal impact on the structure of results, so that it is expected that interest income will continue to record virtually zero levels in terms of NA and that the recovery of this heading, traditionally the main source of banking profitability, will be slow, in line with the rebuilding of financial intermediation levels.

44. In relation to the accrual of **CER and CVS charges**, the daily CER index went up by close to 0.5% between the end of October and the end of November, rising from 1.445 – the level at which it had remained since

Main developments in November

	Oct	Nov	Chg (%)
Prices			
Exchange Rate (\$/US\$)	2.88	2.99	3.83
CPI	141.95	142.30	0.25
CER	144.53	145.17	0.44
	%		Chg (p.p.)
Average Percentage Rates			
Lending	29.8	28.8	-1.0
Private Banks	29.7	28.8	-0.9
Overdraft	29.8	28.9	-0.9
Promissory notes	13.2	13.2	0.0
Mortgage	16.1	12.2	-3.9
Pledge-backed	15.7	15.9	0.2
Personal	43.3	42.8	-0.5
Public Banks	32.4	28.9	-3.5
Overdraft	32.7	29.2	-3.5
Promissory notes	14.8	14.9	0.1
Mortgage	18.3	14.0	-4.3
Pledge-backed	19.7	17.7	-2.0
Personal	18.9	16.0	-2.8
30- to 44-day time deposit	4.6	4.3	-0.2
6-month LEBAC in pesos, w/o CER	5.7	4.9	-0.8
	Millions		Chg (%)
Balance - Private banks			
Peso deposits - Private sector	42,237	43,173	2.2
Sight deposits	20,597	21,166	2.8
Time deposits	18,253	18,247	0.0
Peso loans - Private sector	17,915	17,948	0.2
Overdraft	3,827	3,887	1.6
Promissory notes	3,067	3,111	1.4
Mortgage	5,636	5,581	-1.0
Pledge-backed	499	487	-2.5
Personal	1,300	1,356	4.2



the end of September – to 1.452. As a result of the incorporation of \$24 monthly increments to the salaries of workers in the private sector, the increase in November may be similar to that in the previous month (2.5%), so that it is estimated that – if there are no extraordinary adjustments – the joint accrual for CER and CVS will be the same or slightly higher during November.

45. This leads to the expectation that profitability will improve in the **last quarter of the year** compared to the previous quarter, even when taking into account the seasonal increase in operating costs in December, and always as long as banks do not record large negative adjustments prior to the end of the accounting year. In this regard, it is expected that loan loss provisions, which usually increase in the last month of the year, will record a more moderate rise at the end of 2003, or even a drop, given that loan portfolio quality continues to improve, while the calculation of provisions in 2002 continues to be corrected in the case of certain very large institutions. Consequently, on the basis of preliminary estimates and as long as there are no unexpected adjustments, bank profitability should continue with its upward trend in the final months of the **second half** of 2003. In the second half of the year a negative ROA of 1.5% would be recorded, a significant improvement compared to the losses recorded during the first half of the year, when they totaled 4.5% of NA.



Latest regulations

This new section contains a summary of the main regulations issued in the month under review that refer to the business of financial intermediation.

Com. "A" 4027 (Oct-06-2003), Com. "A" 4033 (Oct-16-2003) and Com. "A" 4035 (Oct-23-2003)

Financial institutions have been requested to provide information on their business plans and forecasts in the context of the regulations on the Normalization of the Financial System and the adaptation of institutions to the requirements of the Minimum Capital regime. They are to detail business strategy and the lines of business on which they will concentrate, risk management, internal controls and technical ratios.

Com. "A" 4032 (Oct-10-2003)

To unify reserve ratios and simplify the regulations on banking operations, Com. "A" 4032 repealed requirements on the minimum application of resources. As a result, as from November 2003 the reserve requirement is made up of a single Minimum Cash system that includes sight and term deposits in both pesos and dollars. The new ratios arise from the consolidation of the two systems, except in the case of the sight deposits segment, for which the requirement has been cut from 25% to 23%.

Time deposits in both local and foreign currency are now subject to reserve requirements of 18%, 14%, 10%, 5%, 3% and 0%, according to their residual maturity – up to 29 days, from 30 to 59 days, from 60 to 89 days, from 90 to 179 days, and 180 to 365 days and over 365 days respectively.

In addition, with the aim of encouraging the lengthening of terms, given the favorable context of stability that the financial system is experiencing, the minimum maturity for the taking of time deposits was increased from 7 to 30 days as from November 1.

Com. "A" 4040 (Oct-30-2003)

Temporary adjustments have been made to certain parameters used to determine the additional contribution that financial institutions must make to the deposit guarantee insurance system, considering that the contribution depends on the ratio of capital compliance to capital requirement, and in view of the fact that only as from January 2004 will it be necessary to comply with minimum capital regulations.

The Deposit Guarantee Insurance System operates in a subsidiary and complementary manner to the system for the protection and privileges for deposits established by the Financial Institutions Law. All banks must contribute to the Deposit Guarantee Fund. The standard contribution is 0.03% of the monthly average balance of daily balances of the deposits included in the system recorded in the second immediately preceding month. The additional contribution includes a risk adjustment, and is subject to the limit that it cannot exceed the standard contribution – that is to say, the standard contribution plus the additional contribution cannot exceed 0.06% of the corresponding deposit total.



Notes on Methodology

- (a) Trial balance information is taken from the Monthly Accounting Information System – non-consolidated balances. To calculate data for the aggregate for the system, in the case of the Trial Balance, for those institutions not providing data for the reference month the latest information available is repeated. When estimating income flows, however, consideration is given exclusively to those institutions providing data on the month in question.

- (b) Data on deposits and loans relate to balance sheet information and do not necessarily agree with those gathered by the Centralized System of Information Requirements (SISCEN). Reasons for discrepancies include the exact date taken into account for the calculation of monthly variances and the items included in the definition adopted in each case – for example, SISCEN figures on deposits and loans do not include information on such transactions in the form of government securities and do not take into account transactions with residents abroad, nor do they include amounts accrued for interest and CER.

- (c) Qualitative information on specific transactions involving specific banks has been taken from the notes to the financial statements of the banks, or obtained on the basis of inquiries made of the supervisors at the Superintendence of Financial and Exchange Institutions.

- (d) Estimates of main sources and uses of funds: This table summarizes aggregate principal movements of funds in the corresponding period, derived mainly from the institutions assets and liabilities management policies. In view of the source of this information – the main variations in the aggregate balance sheet headings for the entity aggregate – and the purpose of the table, when preparing it certain changes have been made, mainly on the grounds that changes related to the revaluation of items (from the exchange rate, inflation adjustment, etc.) should be eliminated, as should those related to the accrual of provisions, depreciation and amortization, changes in the way certain transactions are recorded and the elimination from the balance sheet of assets for which recovery is doubtful (those 100% provided for). In particular, balances of foreign currency items at the end of the period are restated at the exchange rate at the beginning of the period.

- (e) The profitability indicators provided have been calculated on the basis of monthly results estimated on the basis of the changes in the amount of accumulated results during the year in progress. Unless otherwise indicated, profitability ratios have been annualized.

- (f) Initially, the breakdown by group of banks was determined on the basis of the majority existing in decision-making – in terms of shareholders' meeting votes – distinguishing between privately-owned institutions and official institutions. With the aim of deepening the analysis, private institutions were further broken down according to their geographical and commercial reach. As a result, wholesale banks were defined as those specializing in the large corporation and investor segment, which usually do not depend for their funding on deposits from the private non-financial sector. Retail banks were divided into those carrying out business at national level, those located in specific geographical regions – municipal, provincial or regional institutions – and institutions specializing in a financial sector niche market – generally smaller institutions. Lastly, it should be noted that this grouping has been carried out solely for analytical purposes and does not represent the only methodological criterion for grouping, while in addition, the detailing of the characteristics of each group of institutions has been established in a general manner.



Glossary

Income from assets: Includes income from government securities, short-term investments, corporate bonds, subordinated debt and options. In the case of government securities, it includes the results accrued from income, quotation differences, exponential increase on the basis of the internal rate of return (IRR), and from sales, as well as the charge for impairment to value.

Income from services: Commissions collected less commissions paid. Includes commissions on liabilities, credits, securities, guarantees granted, rental of safe deposit boxes and foreign trade and exchange transactions, excluding in the case of the latter results from the trading of foreign currency, which are recorded in the "Exchange difference" accounts (here included under the heading "Other financial results"). Outflows include commissions paid, contributions to the Banking Social Services Institute (ISSB), other contributions on service income and charges accrued for gross income tax.

Interest income (interest margin): Interest collected less interest paid on financial intermediation, on an accrual basis – taken from balance sheet – rather than on a cash basis. Includes interest on loans of government securities and premiums on repos and reverse repos.

Liquid assets: Minimum cash compliance – cash, current account at Central Bank and special accounts in guarantee – and other liquid items, including correspondent accounts.

Net operating revenue: Interest income plus net adjustments according to the CER and CVS indexes in relation to financial intermediation plus service income.

Net worth exposure to counterpart risk: Non-performing portfolio net of allowances in terms of net worth.

Netted assets and liabilities: Those net of accounting duplications inherent to the recording of swaps, whether term or unsettled spot transactions.

Non-performing portfolio: Portfolio in categories 3 to 6, as per the debtor classification system.

Operating costs: Includes remuneration, social security payments, services and fees, sundry expenses, taxes and amortization.

Operating profits: Result from interest and net adjustments according to the CER and CVS indexes in relation to intermediation plus service income, less tax charges in relation to interest and services and operating costs.

Other financial results: Income from financial leasing, adjustments to valuation of credit to the public sector, contribution to the deposit guarantee fund, interest on liquid funds, difference in market price of gold and foreign exchange, premiums on the sale of foreign currency and other unidentified income (net).

Private sector credit: Loans to the private sector and private sector securities.

Public sector credit: Loans to the public sector, holdings of government securities and compensation receivable from the Federal Government.

ROA: Net profits as a percentage of netted assets. When referring to accumulated results the denominator includes the average netted assets for the reference months.

ROE: Net profits as a percentage of net worth. When referring to accumulated results the denominator includes the average net worth for the reference months.

Other: In the profitability structure, sundry gains – including gains from long-term investments, loan recoveries and release of allowances – and sundry losses – including losses on long-term investments, amortization of differences from court orders, loss on sale or impairment of fixed assets, amortization of goodwill.



Balance sheet

Private banks

In current pesos (millions)	Dec 99	Dec 00	Dec 01	Dec 02	Oct 03	Change (%)		
						Month-on-month	Up to Oct 03	Year-on-year
Netted Assets	85,918	88,501	73,796	117,928	114,292	0.0	-3.1	-5.7
Liquid assets	13,228	13,920	10,576	11,044	14,448	5.0	30.8	43.0
Public bonds	6,433	7,583	1,627	19,751	21,816	1.5	10.5	10.4
Private bonds	410	563	451	273	172	-2.0	-37.1	-50.9
Loans	56,916	56,035	52,319	51,774	46,952	-1.7	-9.3	-13.3
Public sector	6,389	8,172	13,803	25,056	23,668	-3.0	-5.5	-10.5
Private sector	47,705	45,103	36,636	26,074	22,564	1.0	-13.5	-16.5
Financial sector	2,823	2,760	1,880	644	719	-27.8	11.6	7.5
Provisions over loans	-3,119	-3,248	-3,957	-7,463	-5,618	-3.2	-24.7	-22.1
Other netted credits due to financial intermediation	4,470	5,730	4,489	26,235	20,121	-0.1	-23.3	-29.2
Purchases (net)	487	1,103	807	380	371	4.1	-2.2	-27.9
Corporate bonds and subordinated debt	1,022	724	665	1,514	1,388	-1.5	-8.3	-9.4
Unquoted trusts	958	1,609	1,637	6,205	3,841	-3.0	-38.1	-37.5
Compensation receivable	0	0	0	15,971	12,901	-0.8	-19.2	-28.2
BCRA	12	35	865	377	1,597	1.6	323.9	23.4
Assets under financial leases	796	776	752	553	392	-3.6	-29.1	-34.8
Shares and participation	1,371	1,651	1,703	3,123	3,384	5.9	8.4	3.9
Fixed assets and sundry	3,246	3,225	3,150	5,198	5,005	-1.0	-3.7	-7.9
Foreign branches	48	75	112	-109	-122	2.8	12.0	1,714.3
Other assets	2,120	2,190	2,574	7,549	7,742	-5.4	2.6	21.5
Netted Liabilities	73,615	76,322	62,281	102,101	100,267	0.0	-1.8	-4.4
Deposits	54,447	57,833	44,863	44,445	51,399	3.2	15.6	14.5
Public sector (1)	1,342	1,276	950	1,636	2,836	4.3	73.4	123.4
Private sector (1)	52,460	55,917	43,270	38,289	42,799	3.4	11.8	17.2
Current account	5,022	4,960	7,158	8,905	10,346	7.1	16.2	41.3
Savings account	9,702	9,409	14,757	6,309	8,722	6.5	38.2	44.0
Time deposit	35,218	39,030	18,012	11,083	17,949	2.1	61.9	165.4
CEDRO	0	0	0	9,016	2,806	-6.3	-68.9	-76.8
Other netted liabilities due to financial intermediation	16,185	15,401	14,082	48,364	42,166	-3.1	-12.8	-16.3
Call money	2,146	2,293	1,514	836	854	-25.7	2.2	-3.3
BCRA lines	274	83	1,758	16,624	16,846	0.0	1.3	4.1
Outstanding bonds	4,990	4,939	3,703	9,073	7,051	-1.3	-22.3	-25.9
Foreign lines of credit	6,680	5,491	4,644	15,434	10,918	-8.5	-29.3	-34.2
Sales (net)	492	510	99	349	239	5.3	-31.4	-46.4
Subordinated debts	1,683	1,668	1,700	3,622	2,927	-5.7	-19.2	-30.5
Other liabilities	1,299	1,420	1,637	5,671	3,776	-1.0	-33.4	-30.1
Net Worth	12,304	12,178	11,515	15,827	14,025	0.2	-11.4	-14.3

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

Profitability structure

Private banks - in annualized terms

As % of	Yearly				Up to October		2003		Monthly	
	1999	2000	2001	2002	2002	2003	H I	H II*	Sep-03	Oct-03
<i>netted assets</i>										
Net interest income	4.5	4.1	4.3	-0.2	-0.6	-0.1	-0.1	0.0	-0.1	0.0
Restatement by CER and CVS	0.0	0.0	0.0	1.1	1.3	0.8	0.8	0.7	1.8	0.7
Other financial income	0.5	0.7	1.0	4.3	4.3	-1.3	-2.7	0.7	-0.8	-0.2
Service income margin	3.1	2.9	3.2	2.0	2.0	2.0	2.0	2.1	2.1	2.2
Gains on securities	1.1	1.4	1.2	2.5	2.2	1.3	1.3	1.1	0.6	1.3
Operating costs	-6.3	-6.0	-6.4	-4.8	-4.7	-4.6	-4.7	-4.4	-4.4	-4.4
Loan-loss provisions	-2.2	-2.5	-3.0	-5.0	-5.2	-1.4	-1.6	-1.0	-1.2	-0.5
Tax charges	-0.4	-0.4	-0.5	-0.4	-0.4	-0.3	-0.3	-0.3	-0.6	-0.3
Income tax	-0.5	-0.4	-0.3	-0.2	-0.1	-0.3	-0.4	-0.1	-0.4	0.0
Other	0.5	0.4	0.7	-3.0	-2.7	0.7	1.4	-0.7	0.5	0.0
Monetary results	0.0	0.0	0.0	-7.5	-8.4	-0.1	-0.1	0.0	0.0	0.0
ROA before income tax	0.8	0.6	0.5	-11.1	-12.2	-3.1	-4.1	-1.5	-2.1	-1.2
ROA before monetary results	0.3	0.1	0.2	-3.8	-3.9	-3.3	-4.4	-1.6	-2.5	-1.2
ROA	0.3	0.1	0.2	-11.3	-12.3	-3.3	-4.5	-1.6	-2.5	-1.2
<i>Indicators (%)</i>										
ROE	2.3	0.8	1.4	-79.2	-85.5	-25.8	-33.9	-12.9	-20.4	-10.0
Operating profit / NA	0.9	0.6	0.6	-2.3	-2.4	-2.2	-2.4	-2.0	-1.2	-1.8
Operating revenue / operating costs	120.5	116.9	117.1	59.0	57.0	58.9	56.1	63.2	85.7	65.7
Interest income (with CER and CVS) / loans	..	13.9	16.1	24.7	27.7	8.4	9.8	6.8	8.5	6.9
Interest payments (with CER and CVS) / deposits	..	5.7	7.8	21.9	24.9	6.4	8.6	3.4	2.9	2.9

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

* Up to October

Portfolio quality

Private banks

As percentages	Dec 99	Dec 00	Dec 01	Dec 02	Sep 03	Oct 03
Non-performing loans (overall)	7.6	8.3	9.9	19.9	17.6	17.5
Loans to the non-financial private sector	8.9	9.8	14.0	37.4	34.6	33.6
Commercial portfolio	6.2	7.6	15.2	44.5	44.3	43.1
Commercial portfolio up to \$200,000	11.7	14.6	16.4	47.1	35.3	33.0
Consumption and housing portfolio	12.5	11.9	12.4	26.1	20.4	19.5
Provisions / Non-performing loans	69.4	67.7	75.7	73.3	76.5	74.9
(Non-performing - Provisions) / Overall financing	2.3	2.7	2.4	5.3	4.1	4.3
(Non-performing - Provisions) / Net worth	11.5	13.4	11.4	18.7	14.9	15.8