Report on Banks

DECEMBER 2004

Central Bank of Argentina

Year II – No. 4

Contents

Note: This report contains information from December 2004 balance sheets available on 24/01/05. Description centers mainly on the behavior of the main financial variables for the private bank aggregates (including breakdowns by uniform subgroups), except for certain variables that explicitly refer to public banks and the entire financial system. Figures provided (particularly in the case of profitability) are preliminary, and may be subject to change.

Published February 17, 2005

For comments, enquiries or electronic subscription:
analisis.financiero@bcra.gov.ar

Summary

- During 2004 the financial system clearly showed a consolidation of the normalization process begun following the 2001-2002 crisis. The growth of private credit, the significant recovery in asset quality, a substantial improvement in profitability and the important capitalizations carried out all serve as factors comprising the solid base on which to further strengthen the system's solvency and stability.

- The financial system once again recorded profits, totaling $170 million in December (1%a. of assets). The close of 2004 thus shows a considerable increase in profitability: without the effects of the amortization of court orders and the valuation adjustments of public sector assets (allowing for a better approximation of current profitability conditions), the adjusted result for the year is a $1.7 billion profit (0.9% of assets). Even without these adjustments, the final result for the 2004 exercise (-$530 million, a -0.3% ROA) is 2.6 p.p. above that of 2003, in terms of assets.

- Private banks earned $90 million in December (0.9%a.), with the number of banks with positive results increasing (8 more than in November). An annual profit of $630 million (0.5% of assets) is seen in 2004's results, excluding the amortization of court orders and valuation adjustments. The final ROA without adjustments showed a marked improvement against that of the previous year, increasing 1.8 p.p. to -0.7%.

- The progress seen in December's results reflect an improved financial margin (quotation differences, and increases in both the adjustment for CER and income from assets), higher income from services, an income tax adjustment and important growth in sundry income. These developments allowed for the offsetting of the seasonal rise in the cost structure (operating costs and loan loss provisions.

- The recovery of financial system profitability achieved in 2004 was led by the recovery of the financial margin, a lower provisioning and growth in income from services. In the second half of the year, the financial margin was driven by higher interest income arising from the expansion of private credit. It is hoped that in 2005 this will continue to be the basis for further progress in the area of expected results.

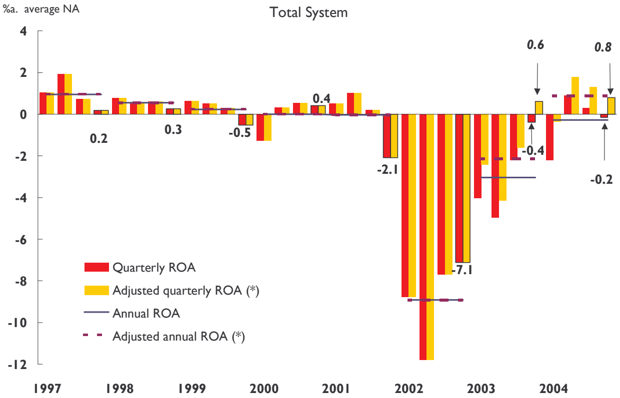
- December saw capitalizations totaling nearly $840 million in the financial system, with the sum for the fourth quarter of 2004 being approximately $1.6 billion (equal to 7% of net worth to the end of September). Private banks accounted for 70% of this total.

- In line with the recovery still underway, financial system assets increased 8.3% in 2004. Credit to the private sector increased 25% for the year (39% excluding mortgage loans), thanks to the efforts of both the private and the public banks. There was significant growth in loans for consumption and those linked to commercial activity. December witnessed an important increase in credits related to the financing of exports, with an rise of almost 22%.

- The quality of the portfolio destined to the private sector continued on an upward path. For the whole of the system, the non-performance rate dropped 1.4 p.p. in December, to approximately 19%, closing out 2004 with a fall of nearly 15 p.p.. Private banks had a 1.3 p.p. decline for the month, down to 15.4%, showing for all of 2004 a fall to half the level observed at the end of 2003. The engine driving this improvement both for December and for the year was the commercial portfolio, which for the month under review attained an 18.4% non-performance rate for private banks. Their consumer portfolio, with its 10% rate, is already showing a level similar to that of mid-1998.

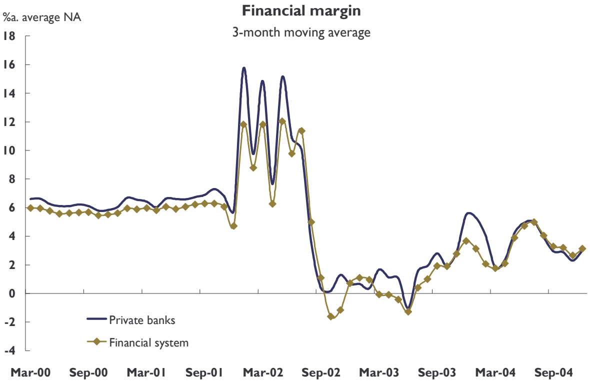
- Private sector deposits rose 3,5% in December, while public sector deposits fell 9% due to the fiscal measures adopted in late 2004. During the year, private deposits rose 13% and public deposits nearly doubled, leading to a 26% variation in total deposits in the financial system. At the end of 2004 CER-indexed time deposits equaled 7 times the amount recorded in December 2003, totaling $4.9 billion.

Chart 1
Profitability
Total System



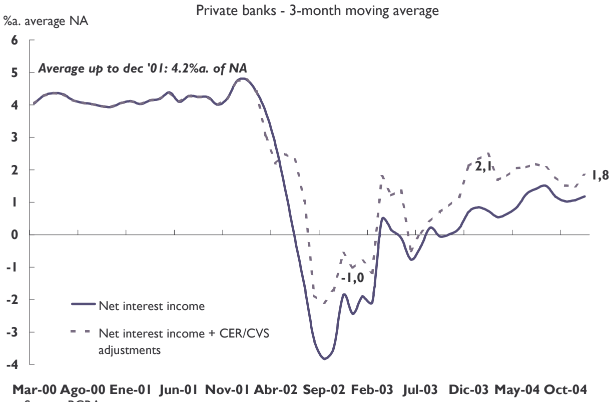
Source: BCRA (*) Net of the amortization of court-ordered releases and adjustments to the valuation of public sector assets

Chart 2
Financial margin
3-month moving average



Source: BCRA

Chart 3
Net interest income and CER/CVS adjustments
Private banks - 3-month moving average



Source: BCRA

Profitability:
Consolidation of the recovery pattern…

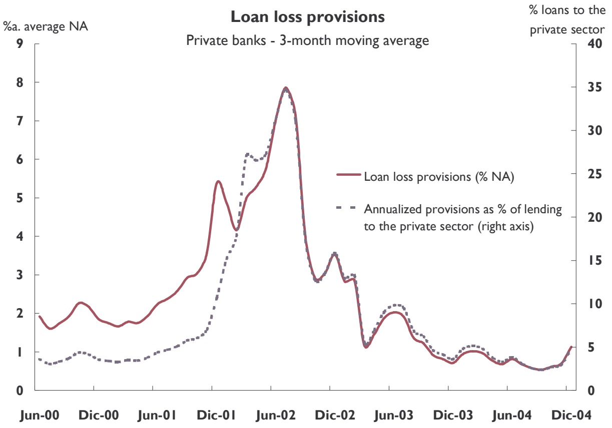
In the last month of 2004, financial system accounting results were positive, with earnings of close to $170 million, representing an annualized profit (a.) of 1%. In view of the two previous months' losses, the last quarter of 2004 finished with a nearly $80 million negative result (-0.2%a. of assets), losses totaling roughly half of those for the same period one year earlier (see Chart 1). **The financial system closed out fiscal year 2004 with a result of approximately -$530 million (-0.3% of assets), a considerable improvement over the previous year (in 2003, losses totaled $5.3 billion, with an ROA of -2.9%) and 2002 (-8.9% of assets).** Within the context of a progressive recovery in monthly profitability – despite the important volatility persisting, in part, due to corrections of a non-recurrent nature related to the effects of the crisis – the financial system was able to show profits for nearly half of the months of 2004. Adjusting the annual result so as to exclude the main components tied to the gradual acknowledgement of the costs of the crisis (the amortization of court orders and valuation adjustments of public sector assets), 2004 shows profits of $1.7 billion. This leads to a 0.9% adjusted ROA, revealing a perceptible recovery with respect to 2003's adjusted result (-1.9% of assets), and permitting the aligning of this indicator with the profitability standards proper to emerging economies[1].

Private banks accounted for close to half of December's total profits ($90 million), obtaining an ROA of 0.9%a.. Likewise, the number of banks with positive results went up in December: of 57 private institutions for which information was available in December, 40 showed profits (8 more than in November). December's results signify a recovery with respect to previous months: private banks closed out the final quarter of the year with a $265 million loss (-0.9%a.). **For all of 2004, this group of institutions accumulated an $805 million negative result (0.7% of assets), revealing a sharp decline with respect to losses observed in 2003 (-$2.8 billion, or -2.5% of assets).** Excluding the effects of court orders and valuation adjustments, the 2004 exercise shows adjusted profits totaling $630 million (0.5% of assets), which is more representative of the current situation and of the outlook on banks.

In December, private banks' improvement in profitability was driven by an important financial margin recovery, which increased thanks to profits from quotation differences, a higher CER accrual and an improvement in income from assets. **There was also a significant increase in sundry income, a heading that had particularly deteriorated during November.** In addition, a seasonal rise was seen in income from services and a correction to the drop in amounts accrued by income taxes. These developments served to counteract the seasonal increase in the cost structure (operating costs and loan loss provisions).

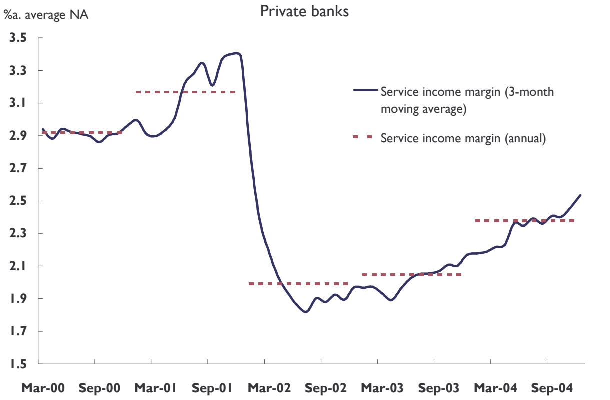
[1] According to the IMF's *Global Finacial Stability Report*, the median ROA of Latin American financial systems in the last few years was close to 1%.

Chart 4
Loan loss provisions
Private banks - 3-month moving average



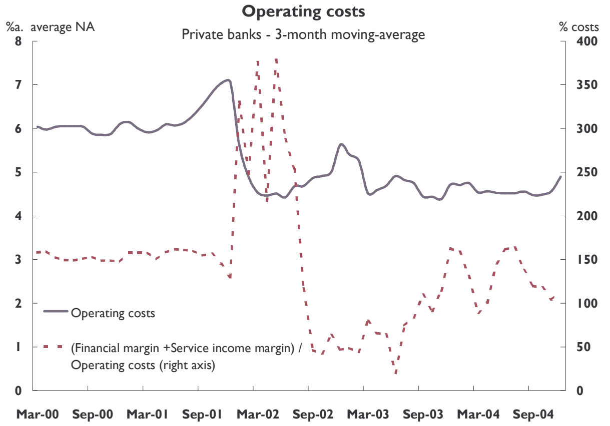
Source: BCRA

Chart 5
Service income margin
Private banks



Source: BCRA

Chart 6
Operating costs
Private banks - 3-month moving-average



Source: BCRA

The financial margin of private banks nearly doubled in December (see Chart 2, with the performance of the quarterly moving average), having gone from 2.2%a. to 4%a.. Three reasons account for this. **Profits from the revaluation of assets and liabilities in foreign currency** (quotation differences) represented nearly 1%a., as there was a certain depreciation of the domestic currency against the US dollar. In addition, an increase in the net CER adjustment was observed, which in a context of stability in interest accrual resulted in that the sum of both components rise from 1.9%a. to 2.4%a. (see Chart 3). Given the lower monthly variation in the respective index, the increase in accrual net of CER adjustments was accounted for by a reclassification of items. Third, **a recovery of gains from securities – to 0.8%a. of assets – was observed,** which had temporarily declined in November due to the effect of an accounting reclassification by one institution (see last month's Report). This progress was only partially offset by certain losses for other financial results (0.3%a.), because of the increase seen in provisions for loan depreciation[2].

The monthly improvement in the private banks' financial margin was partially offset by a seasonal increase in loan loss provisions for loans to the private sector: the higher provisioning resulted in a 2.3%a. loss, more than 1.5 p.p. above the previous month's level (see Chart 4, which shows the quarterly moving average). As seen in November's Report, this type of temporary increase was to be expected during the final month of the year, as per the corrections made at the end of the exercise, fundamentally related to provisions of an overall nature.

The services heading, which gained in importance as a revenue generator during the crisis, has since then been able to continue on a marked upward trend. In this sense, the progress achieved in the area of income generation via greater activity in transactional banking and the sale of different services has been very important, as this deals with relatively low-volatility income. This heading saw one of the greatest improvements for private banks in the area of profitability for 2004 (see Chart 5). **Private banks' income from services continued to improve in December, although the monthly movement is in part attributable to seasonal factors, rising to its highest level for 2004: 2.7%a. of assets.** The absolute total accrued in December for this item was 22% above that for the same month in 2003.

The aforementioned improvements allowed private banks to more than offset the increase seen in operating costs (see Chart 6), **which rose almost 0.7 p.p. to 5.4%a. of assets, which were due in large part to reasons of a seasonal nature. That change was led by higher remuneration payments and, to a lesser degree, by an increase in advertising costs and contracted administrative services.** There was thus **an improvement in the coverage by income of operating costs, an indicator that rose to 123%** (almost 23 p.p. above November's figure) and approaching the average coverage level for the entire year (120%). Bearing in mind that pre-crisis figures for this ratio ranged from 150% to 160%, there is still room for improvement in terms of efficiency.

[2] This deals with actions carried out by one institution which, when it canceled its debts with the BCRA ahead of time, made provisions to approximate to market value the valuation of the assets it had provided as guarantee.

Table 1
Profitability by group
Annualized ROA in % - by type and area coverage

	2003	2004	Q4 2003	Q3 2004	Q4 2004	% share of NA (Q4 2004)*
Public	-3.5	0.3	-2.3	0.8	0.9	*39.3*
Private	-2.5	-0.7	0.8	-0.1	-0.9	*59.8*
Retail	-2.5	-0.7	0.8	0.0	-1.2	*57.2*
National coverage	-3.2	-1.3	0.5	-0.6	-1.6	*45.3*
Regional coverage	0.7	1.9	2.8	2.4	0.5	*11.3*
Specialized	0.2	0.7	-3.2	0.6	0.1	*0.5*
Wholesale	-1.1	-1.2	-0.4	-2.1	5.1	*2.6*
Non-bank institutions	-4.5	2.2	-2.0	6.0	0.6	*0.9*
TOTAL	-2.9	-0.3	-0.4	0.3	-0.2	*100*
TOTAL (**)	-1.9	0.9	0.6	1.3	0.8	*100*

(*) Percentage share of total NA according to December figures.
(**) Net of the amortization of court-ordered releases and adjustments to the valuation of public sector assets (Com "A" 3911 and 4084).
Source: BCRA

Table 2
Profitability structure by group of banks

	Private banks		Public banks	
	2003	2004	2003	2004
Financial margin	2.3	3.2	-0.9	3.1
Net interest income	0.1	1.0	-1.7	0.6
Restatement by CER and CVS	0.9	0.8	1.8	1.4
Gains on securities	1.7	0.9	0.1	1.0
Foreign exchange price adjustments	-0.3	0.7	-0.7	0.2
Other financial income	-0.2	-0.3	-0.4	-0.1
Service income margin	2.0	2.4	1.5	1.5
Loan loss provisions	-1.3	-0.9	-0.9	-0.4
Operating costs	-4.6	-4.6	-3.4	-3.2
Tax charges	-0.3	-0.3	-0.1	-0.2
Income tax	-0.3	-0.2	0.0	0.0
Adjustments to the valuation of government securities (*)	-0.6	-0.1	-0.1	-0.4
Amortization payments for court-ordered releases	-0.7	-0.9	-0.5	-0.7
Other	1.0	0.8	0.7	0.7
Monetary results	0.0	0.0	0.1	0.0
ROA	**-2.5**	**-0.7**	**-3.5**	**0.3**
ROA adjusted (**)	-1.2	0.5	-3.0	1.4

Source: BCRA

Sundry income was the heading showing the greatest correction for the month. After having recorded a significant deterioration of a non-recurrent nature in November as a result of an acquisition of assets and liabilities operation, this item rose nearly 4 p.p. in December to 3.1%a. of assets. The improvement took in the effect of an increase in the recovery of loans considered irrecoverable, a downward correction of loan loss provisions for various types of credit, lower payments for other provisions[3] and improvements in sundry income.

Lastly, **December saw a downward correction in the accrual of income tax for the subgroup of private banks, with this item showing a 0.3%a. positive value.** For their part, headings associated with the progressive acknowledgement of the crisis held steady: the amortization of court orders continued to signify a $95 million monthly loss (1%a. of assets), while valuation adjustments on public sector assets (Com. 3911 and modifications) resulted in an almost nil amount in terms of assets.

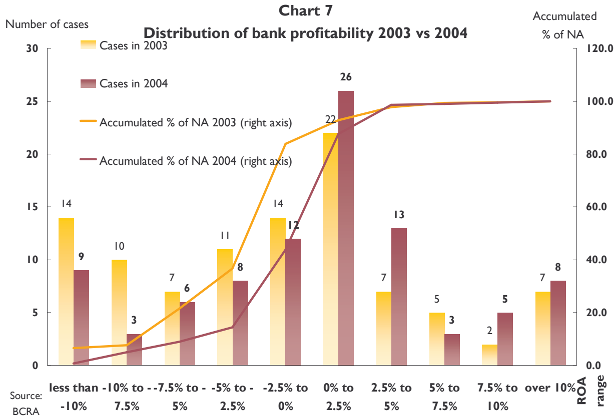
As regards total profitability in 2004, the improvement in comparison to that of the previous year was generalized among the different groups of banks (see Table 1). **Standing out is the performance of public banks – which attained a 0.3%a. positive profitability for the year – and private banks that operate throughout the country, which managed to reduce their losses to a third.** Retail banks operating regionally continued presenting above-average indicators; this group, which had already managed to show profits in 2003, was able to nearly triple them in 2004. In general, the annual improvement in profitability was driven by the financial margin recovery (see Table 2), with greater interest income (thanks to the lower cost of funding, during the first half of 2004, and the effect of the growth in loans to the private sector in the second half) and positive quotation differences. In the case of private banks, these movements were partially made up for by a decline in gains from securities. Lower provisioning needs also contributed to the generalized improvement in profitability. In the specific case of private banks, there was also a noteworthy increase in income from services and a drop in valuation adjustments on public sector assets.

The overall nature of the annual improvement in profitability is also observed on analysis of the individual institutions. In Chart 7, one can observe how the number of banks with positive profitability rose in 2004, going from 42 to 55. Also seen is the importance of institutions of greater weight in the process of fortifying profitability indicators (as shown by the shift to the right of the line joining together institutions' assets in terms of their profitability). While 2003 saw nearly 84% of the system's assets correspond to institutions with a negative ROA, this percentage fell to close to 44% of assets in 2004.

December's positive results helped to improve financial system solvency, this being the reason why the progressive recovery in profitability is particularly relevant in aggregate terms. In addition, there were new cases of institutions capitalizing, in line with the

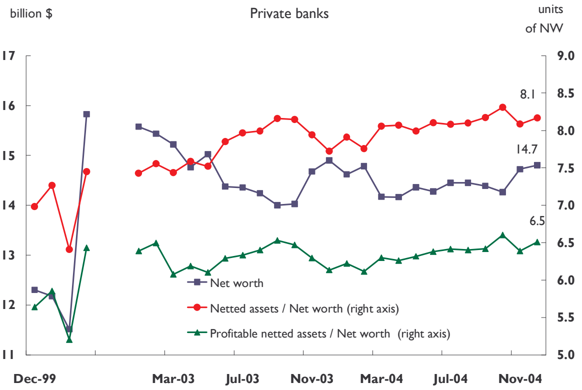
[3] Not related to either irrecoverable loans nor to severance pay for dismissals.

Chart 7
Distribution of bank profitability 2003 vs 2004



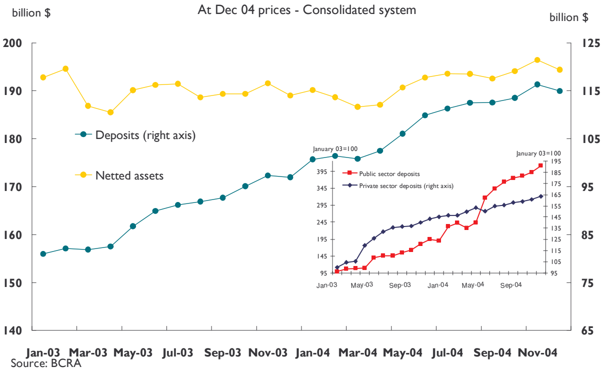
Source: BCRA

Chart 8
Netted assets and net worth
Private banks



Source: BCRA

Chart 9
Netted assets and deposits
At Dec 04 prices - Consolidated system



Source: BCRA

considerable activity seen over the last two years with respect to capitalization. **Capitalizations for the month – which include the important participation of a national public bank – amounted to $1.3 billion[4], close to 6% of the financial system's net worth to November, or 5% in terms of the consolidated financial system. These transactions led to capitalizations in the system totaling nearly $2 billion in the last quarter,** equal to 9.4% of net worth to the end of September (8.8% at a consolidated level). In the case of private banks per se, an aggregate capitalization was recorded between September and December of close to $1.4 billion, or 10% of net worth at the beginning of the period (8% at a consolidated level). It is hoped that upcoming periods will see cash contributions and the capitalization of debts continue to increase, in view of the contribution schemes planned by some institutions and the new capitalizations already announced or under study.

In terms of degree of leverage (assets over net worth), in December private banks saw a 0.1 p.p. rise in this indicator, to a level of 8.2 (see Chart 8), **mainly accounted for by the 1.6% growth in the netted assets of private institutions.** Lastly, and within the context of minimum capital requirements, a moderate reduction was observed in private institutions' required capital compliance, causing the ratio with respect to risk-weighted assets to drop 0.4 p.p. to 15.3%. Notwithstanding this marginal change, an analysis of what occurred in 2004 shows a **1.3 p.p. increase in the required capital compliance of those institutions.** The required capital position (compliance in excess of total requirements) decreased 4.3 p.p. to 179%, due to this change in compliance.

Outlook for January

It is expected that results for the first month of 2005 be in line with the context of gradual recovery of profitability indicators, even though in view of their persistent volatility the possibility of some erosion in final results cannot be ruled out. In terms of financial margin, private banks would be influenced by both positive and negative factors. Among the former stands out the expected performance of asset yield. The interest component could show somewhat of an increase, given the growth recorded in the amount of loans to the private sector – led by overdrafts – and despite the existing downward trend in interest rates (see Table 3). The expected increase in interest income will more than offset the rise in interest paid resulting from the rise seen in deposits, with a variation lower than that recorded for loans and given that time deposit interest rates revealed no significant changes. The behavior of the CER adjustment component will also be favorable, as this index rose 0.7% for the month, well above December's increase. Performing in contrast to this was the exchange rate, which will be reflected in losses secondary to the revaluation of foreign currency-denominated assets and liabilities. Additionally, January's reversal of the seasonal increases in

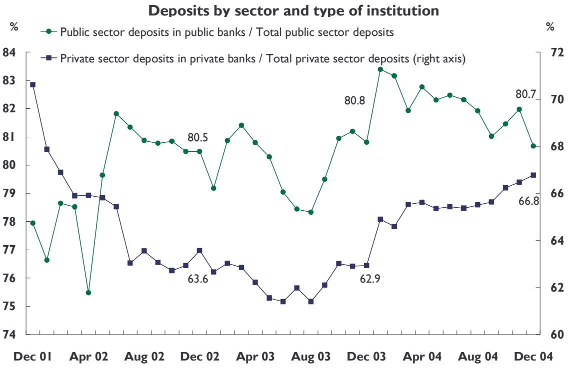
[4] Includes capitalization amounts ($460 million, 80% corresponding to private banks) which were approved and incorporated into corrections of balances presented after the statistical closing corresponding to this Report.

Table 3
Main developments in January

	Dec	Jan	Chg. %
Prices			
Exchange rate ($/US$)1	2.97	2.93	-1.6
CPI	151.30	153.54	1.5
CER1	153.67	154.71	0.7
	%		Chg. (p.p.)
Average percentage rates			
Lending2			
Overdraft	13.9	13.7	-0.2
Promissory notes	10.9	10.3	-0.6
Mortgage	11.2	11.3	0.1
Pledge-backed	10.2	9.6	-0.6
Personal	26.5	26.2	-0.3
30- to 44-day time deposit	2.5	2.6	0.1
1-year LEBAC in pesos, w/o CER	5.9	6.0	0.1
	million $		Chg. %
Balance[1,2] - Private banks			
Peso deposits - Private sector	49,793	50,626	1.7
Sight deposits	27,520	27,594	0.3
Time deposits	21,051	21,901	4.0
Peso loans - Private sector	23,267	24,317	4.5
Overdraft	4,973	5,811	16.9
Promissory notes	5,039	4,910	-2.6
Mortgage	5,101	5,215	2.2
Pledge-backed	791	817	3.4
Personal	2,104	2,281	8.4

(1) End of month figure.
(2) Estimation based on SISCEN data (provisional data subject to change).
Source: BCRA

Chart 10
Deposits by sector and type of institution



Source: BCRA

operating costs and loan loss provisions will help to keep results positive.

The general outlook for 2005 is relatively favorable for the financial system. Firstly, expectations of a sustained increase in loans to the private sector[5] is in line with a progressive recovery of the financial margin. Interest income will also benefit from the continual improvement in loan portfolio quality, which will in addition lighten the load in the area of provisioning. This positive effect could even counteract a possible increase in the cost of funding. It is expected, furthermore, in terms of this cost of funding, that the positive effects of the cancellation of debt with the BCRA[6] will be demonstrated in 2005. The inflation expectations in force vouch for a certain sustainment of the accrual of CER adjustments. Income from services is expected to continue its growth, driven by the steady recovery in economic activity and the ongoing rise in public confidence in the financial system, in addition to the possible positive impact of the close of the debt exchange on bank activity in the money market. On the other hand, there could be something of an increase in operating costs, although this is in contrast to profits expected as a result of the greater consolidation seen. Lastly, it should be borne in mind that 2004's results reflected a series of adjustments of a non-recurrent nature (e.g., those related to the correction downward of compensations to be received) whose influence would tend to be increasingly less. One cannot, however, rule out that a relevant volatility level in the system's results will persist. In this sense, within the framework of the sovereign debt exchange currently under way, adjustments in the valuation of portfolio securities could result (see Com. "A" 4270).

Activity:
An encouraging growth in credit during the year...

In 2004, the consolidated financial system witnessed a significant expansion in its intermediation function, as arises from the behavior of the main activity level indicators. **In terms of netted assets, the sector recorded a positive variation of 8.3% for the year,** even though a slight 2.4%a. drop was observed in the last month (see Chart 9). Adjusting to exclude the effects of retail price variation, there was a 2% annual increase in consolidated financial system netted assets.

The balance sheet total for the 2004 exercise showed a 26% positive variation (19% in real terms) in the consolidated financial system's

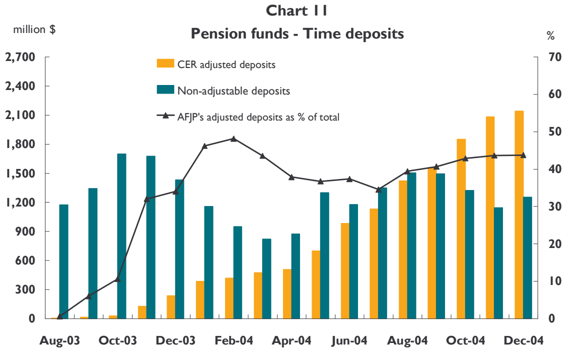
[5] As per the targets established in the 2005 Monetary Program, an increase of more than 20% in credit to the private sector is expected for this year. Market expectations also reveal a similar percentage, according to information acquired by means of the REM.
[6] For further information, see Communication "P" 48.174.

Table 4
Loans to the private sector by group of banks
% change based on balance sheet totals

	2004	HI - 2004	HII - 2004	Dec-04	Share of total Dec-04
Public banks					
Total loans	***23***	***6***	***43***	***42***	***28***
Commercial	54	*35*	76	97	19
Consumer	119	*69*	183	112	24
Collateralized	-3	*-9*	5	14	42
Other	-15	*-24*	-5	-44	27
Private banks					
Total loans	***25***	***28***	***23***	***0***	***70***
Commercial	42	*64*	24	-23	80
Consumer	38	*37*	39	31	69
Collateralized	-1	*-5*	3	0	57
Other	13	*-9*	42	83	72
Total system					
Total loans	***25***	***21***	***30***	***13***	***100***
Commercial	45	*57*	33	-6	100
Consumer	56	*44*	69	51	100
Collateralized	-1	*-7*	5	7	100
Other	7	*-12*	31	53	100

Does not include accrued interest or CER/CVS adjustments.
Balance sheet totals not adjusted by transfers between loan portfolios and trust funds or by loans
"Total system" includes data from public banks, private banks and non-bank institutions.
The private bank group includes three financial institutions currently undergoing
a restructuring process and under administration of a national public bank.
Commercial loans include overdraft, acceptance of promissory notes and export credit.
Consumer loans include credit card and personal loans.
Collateralized loans include pledge-backed loans and mortgages.
Source: BCRA

Chart 11
Pension funds - Time deposits



Note: Non-adjustable deposits include those from Nación AFJP classified as "Investments in regional economies".
Source: BCRA from SAFJP data

total deposits[7]. **This figure was obtained despite the temporary reversal seen in December of the upward trend noted throughout the year, with a 0.4% drop (-4.2%a.),** suffering the effect of the decrease in public sector deposits as a result of a set of measures adopted by the National Executive Power that impacted on the month's fiscal result[8]. December saw a 9% (-67%a.) decline in public sector deposits, down to $31.8 billion, which directly impacted on public banks. Meanwhile, **the balance of private sector deposits in the consolidated financial system recorded a positive variation for the seventh straight month, rising 3.5% (51%a.) in December, with a 13% cumulative increase for 2004 as a whole.** For the month, three-fourths of the increase in private deposits was channeled to private banks, a trend in force since last May. Deposits of a private nature rose 4% (59%a.) in private banks, representing a participation of close to 70% of all private deposits in the local financial system (see Chart 10).

Private sector CER-indexed deposits in the entire financial system increased 2.5% in December, totaling $4.9 billion, or seven times the amount recorded to December 2003. Pension fund managers (AFJPs), taking advantage of the long-term profile of their investments, continued to increase their position in CER-indexed deposits, 3% for the month (see Chart 11).

Within the context of the greater liquidity need typical of the end of the year, a slight drop was recorded in the private time deposit participation in the whole of private deposits (decreasing 1 p.p.) and of the time deposit ratio with respect to sight deposits (-4 p.p.) (see Chart 12). It is expected, however, that once the vacation season ends, the upward trend in the participation of time deposits seen since April 2004 will resume, thus improving the maturity of financial system liabilities.

The balance of financial system loans to the private sector[9] maintained its positive trend in December, rising 1% (13%a.) and closing out the year with a 25% increase (see Table 4). Throughout the year, both the private and the public banking sectors recorded a significant increase in credit, of 25% and 23%, respectively. Financial system private loans evidenced greater expansion in the second half of the year, when an increase in public bank activity is added to the activity of the private banking sector.

Consumer credit lines were those showing a greater reactivation in the financial system during 2004, particularly during the second half, increasing 69%a. In December, both consumer loans and credit card financing presented positive variations, with the latter of these, having increased 5.1% (82%a.), standing out.

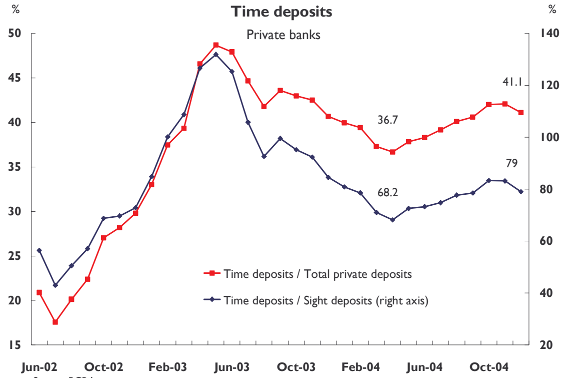
---

[7] Includes deposits of residents held abroad, deposits in government securities and total accrued interest and adjustments. Does not include deposits of the financial sector, or rescheduled deposits to be exchanged for government securities.

[8] In late 2004, the National Executive Power decided to move forward to December the payment of semiannual bonuses, the granting of a plus to pensioners and beneficiaries of "Head of Household" plans, and the deferment of tax revenues (income taxes), measures which produced repercussions in its balance of deposits in the financial system.

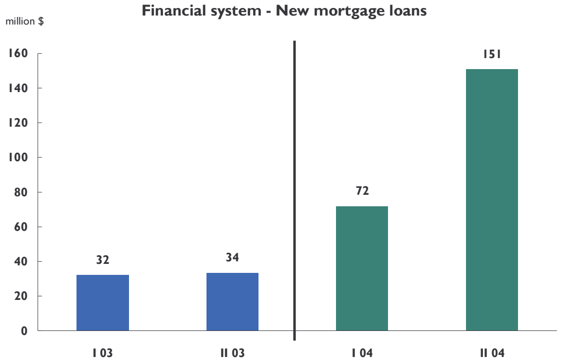
[9] Information corresponding to balance sheet balances. Includes neither interest accrued nor adjustment for CER. Not adjusted for loans considered to be unrecoverable written off from balance sheets.

Chart 12
Time deposits



Source: BCRA

Chart 13
Financial system - New mortgage loans



Source: BCRA

Table 5
Estimated sources and uses of funds
Private banks - December 2004
million pesos

Source		Uses	
Private sector deposits (excluding CEDRO)	2,140	Liquid assets (2)	1,210
Loans to the public sector	270	Reverse repos	1,500
		Outstanding bonds, subordinated debt and foreign lines of credit	290
		Loans to non-financial private sector (1)	278
		LEBAC and NOBAC stocks (net of repos)	240
		BCRA rediscounts	125
		CEDRO (3)	90
		Other	170

(1) Adjusting for credit written off from balance sheet and transfers between loan portfolios and trust funds.

(2) Minimum cash compliance (cash, current account with the BCRA and special collateral accounts), other liquid assets (with foreign branches or head offices) and reverse repos with the Central Bank
(3) Includes the difference between the deposit repayments by banks using the market exchange rate and their balance sheet value (converted at a 1.40 $/US$ rate plus CER)
Source: BCRA

When looking at the performance of commercial loans during December, one should keep in mind the decrease typically seen at this time of year in the private sector's need for labor capital. This decline is associated not only with the seasonal fall in industrial activity but also with the greater availability of resources, in view of the mentioned tax deferment established by the National Executive Power. This month saw a 6%a. reduction in this item, in spite of the increase recorded in the balance of credits related to the operations of financing and pre-financing of exports. In line with the trend evidenced during 2004, this last item showed a 21.8% increase in December.

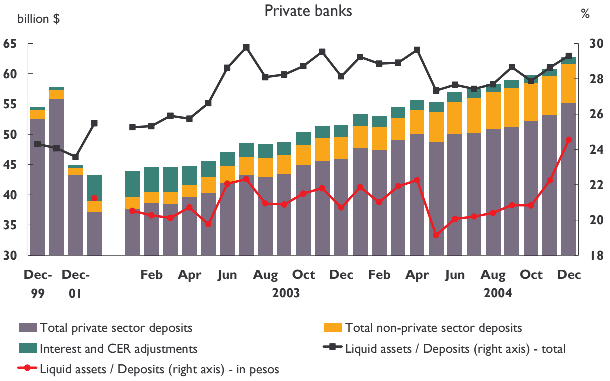
The performance of collateralized lines revealed one of the most encouraging figures seen in 2004, given their potential positive effects in 2005. Despite the 1% decline recorded in 2004, the reactivation of these loans[10] during the second half of the year is remarkable, having increased 2.4% (5%a.), thus reverting large part of the first semester decrease. The balance sheet total of pledge-backed credit lines began showing an upward trend in the first months of 2004, with a 29% cumulative increase for the year, in line with the reactivation of the domestic automobile and farm vehicle market. **December also saw encouraging signs for the mortgage loan market, with a potential carry-over effect for 2005.** Firstly, as is seen in Chart 13, 2004 represented a turning point in the area of new mortgage loans. Following a year with average monthly sums of $34 million, a monthly average of $112 million in new mortgage loans was observed in 2004. Thus, while between the months of January and November 2004 the decrease in the total balance of mortgage loans was tempered (affected both by new loans and by cancellations on the stock of outstanding mortgage loans), in December this trend reversed, with a $34 million growth recorded (0.4% for the month, 5%a.). A consolidation of this behavior is expected in 2005, given the notable increase in the amounts transacted.

To permit a follow-up of the current activity of private banks, there follows an estimate of their flow of funds in December (see Table 5). Firstly, private banks' **source of funds was concentrated in new non-financial private sector deposits [11] (excluding CEDRO), for a total flow of approximately $2.14 billion**. Also seen was a reduction in public sector exposure, signifying an additional $270 million in flow (excluding the performance of LEBAC and NOBAC held by financial institutions).

Private banks showed quite a diversified application of funds in December. A large part of resources obtained accounted for the $1.21 billion increase in liquid asset holdings, mainly due to the rise in repos with the BCRA (for $1.5 billion) and a lesser increase in institutions' minimum cash compliance, factors partially offset by the decrease in other availabilities. This application of funds resulted in a 0.7 p.p. rise in the liquidity indicator of this group of institutions, to

[10] Balance sheet totals are not adjusted for variations due to the setting up or dismantling of trusts.
[11] Excludes deposits of securities, accrued interest and CER adjustment, as well as the variations in dollar balances as a result of changes in the exchange rate.

Chart 14
Deposits and liquidity
Private banks

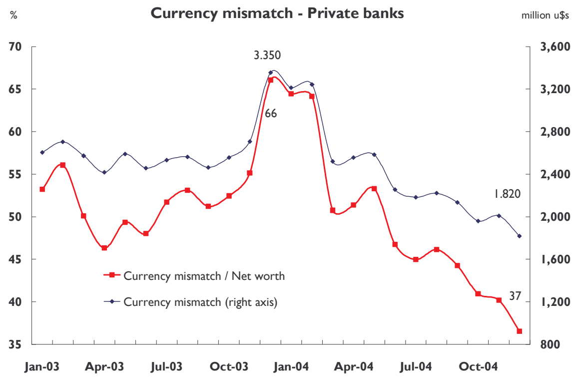


Fuente: BCRA

Chart 15
Foreign debt
Private banks

Source: BCRA

Chart 16
Currency mismatch - Private banks



Source: BCRA

29.3% at the end of 2004, nearly 2 p.p. higher than that seen in December 2003. In the liquidity indicator calculated solely on the basis of items in pesos, a similar change was recorded (see Chart 14).

A $290 million decrease in the aggregate balance of corporate bonds, subordinated debt and credit lines with abroad was recorded in December, continuing with the trend observed during the better part of 2004 and showing a 19% fall in the year (see Chart 15). In addition to the acquisition of BCRA securities due to repo transactions (with a previously agreed sale at term), institutions acquired $240 million in BCRA securities for their own holdings. **Lastly[12], $280 million in funds was applied in December to the assigning of new loans to the private sector,** the lowest value recorded for the second half of 2004, related to the seasonal decline in industrial activity in the summer. As observed in previous months, institutions cancelled CEDROs and the installment corresponding to December's matching scheme.

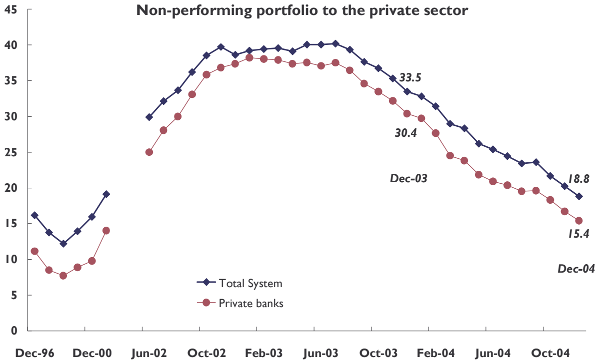
Lastly, there was a new drop in the private banks' foreign currency mismatch for the month. The decline in this item recorded for December totaled 9.4%, down to U$S 1.82 billion (see Chart 16). Accounting for this reduction was the decrease in foreign currency assets, mainly availabilities and government securities, resulting in a 46% total decline in 2004. In a complementary fashion, the currency mismatch in terms of institutions' net worth dropped 3 p.p. in December, for a 31 p.p. cumulative decline for the year. This trend is particularly encouraging, as it reduces the variability in institutions' results in the event of exchange rate modifications.

Portfolio quality:
A much lower non-performance rate in 2004

Closing out the year in a context characterized by a significant improvement in financing quality, non-performance indicators of the portfolio destined to the private sector continued on their downward trend in December. The non-performance rate for the financial system aggregate dropped 1.4 p.p., to 18.8%, this being 14.7 p.p. lower than in December 2003 (see Chart 17). **For private banks, the non-performance rate dropped 1.3 p.p. with respect to November, to 15.4%. In 2004, the delinquency ratio of private banks decreased 15 p.p., to half the level observed one year earlier.** In this sense, the last quarter was particularly favorable for private banks, as they evidenced nearly a third of the decline for the year in their non-performance. **This context allows for optimism as regards new progress to be made in 2005 in terms of the quality of the system's assets.** The steady increase in credit granted in light of healthier macroeconomic bases,

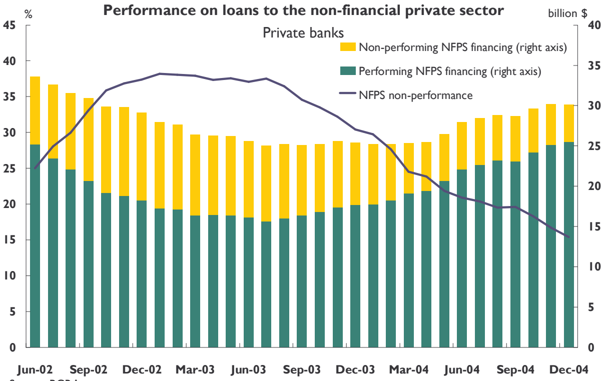
[12] The acquisition on the part of a national private bank of another bank which until then had constituted a trust managed by the BNA (*Banco de la Nación Argentina*) occurred in late 2004. The acquiring institution carried out a capitalization of the one acquired and recorded the transaction as an increase in participations in other financial institutions. With the aim of analyzing the behavior of private banks in a consolidated fashion, that is, leaving aside transactions among them, the aforementioned operation is not recorded in this flow of funds scheme.

Chart 17
Non-performing portfolio to the private sector



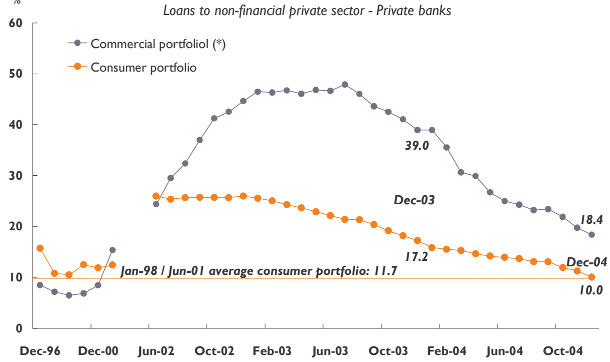
Source: BCRA

Chart 18
Performance on loans to the non-financial private sector
Private banks



Source: BCRA

Chart 19
Portfolio quality by type of lending
Loans to non-financial private sector - Private banks



(*) Includes commercial portfolio up to $200,000.

Source: BCRA

greater progress in the restructuring of corporate liability and banks' continual activity in the area of portfolio cleansing – added to the possible positive effect the close of the sovereign debt exchange would have on the credit market – are in line with non-performance indicators ever closer to standards proper to emerging economies.

In December the continued recovery of the non-performance ratio basically took in the effect of a decline in private sector financing amounts classified as non-performing. This monthly variation contrasts with the pattern noted during much of 2004, since throughout the entire period the increase in the total of financings to the private sector played an important role in the improvement seen (see Chart 18). In effect, the effort made by banks to expand their credit portfolio had favorable repercussions not only on profitability indicators (by way of increased interest income and the need for less effort in provisioning) but also on the level of delinquency. This all serves to reflect the improvement in activity level - and the consequent reduction in credit risk – that characterizes the new economic context.

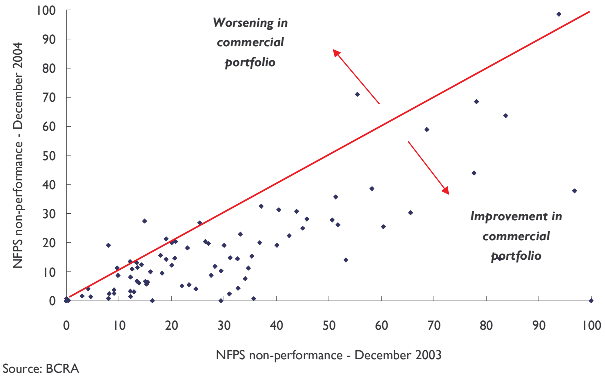
The commercial portfolio, representing 65% of all private sector financings, continued driving the improvement in the quality of financing. Commercial financings[13] are the ones demonstrating the largest decrease in non-performance for the month (1.3 p.p.) and for the year (20.6 p.p.), bringing the level down to 18.4% in December for private banks. This indicator, however, would still have to fall significantly to return to pre-crisis levels. A different situation is seen in the consumer portfolio, whose non-performance revealed, to December, its lowest level since mid-1998[14] (see Chart 19). This portfolio showed a 1.2 p.p. drop for the month, to 10%, with an increase recorded in the total of financings granted and a decrease in the amounts classified as non-performing. The annual decline in this case is on the order of 7 p.p..

The improvement in portfolio quality indicators is a phenomenon seen in the various subgroups of banks comprising the system. For private banks, **annual progress was driven by retail banks of national scope, the group having the heaviest weighting in the system. Although the subgroup of private institutions continues to be the one with the greatest non-performance in its portfolio, these institutions managed to reduce their level by one-half in 2004, closing out the period at 17% (see Table 6).** There was also a marked improvement in the case of specialized banks, whose indicator was scaled back to a third (11.7% non-performance) of its level at the close of 2003. In the case of regional banks, the improvement was steady, but less marked; these banks already showed a relatively low non-performance rate at the end of 2003 and continue to be the ones demonstrating a low portfolio non-performance rate (close to 11%). This group of banks also stands out as the one showing greater increase in its participation in the sum of financings to the private sector, to the detriment of the weighting of retail banks of national

[13] In this section, the commercial portfolio is taken to mean the sum of commercial financings and financings of the same type for amounts of less than $200,000 (assimilable to consumption).

[14] The comparison is made for information purposes, as the differences in level are due to various factors, including changes of a regulatory nature affecting the classification criterion. Regardless of the factors causing the current downward trend in portfolio quality indicators, this implies clearly positive effects in terms of profitability (more interest accrual and less need for making expected loan loss provisions).

Chart 20
Year on year change in commercial portfolio non-performance
Non-performing financing to the private sector (%)



Source: BCRA

scope. Lastly, in the case of public banks, the improvement in portfolio quality for the year was also noteworthy, with a non-performance rate that fell nearly 20 p.p., down to 27%. In addition, at the individual level one can observe the generalized nature of the improvement. Chart 20, which presents the individual variations, shows that **cases of a worsening in the credit portfolio delinquency situation were the exception throughout 2004.**

Coverage by provisions continued on the rise in December, to 94% for private banks, in view of the fact that the decrease in the amount classified as non-performing was greater than the drop in the amount of provisions. In annual terms, coverage by provisions recorded a significant rise: at the end of the previous year, the ratio was lower than 80%. This resulted in a drop in the rate of non-performing financings not covered by provisions as a percentage of net worth, which went from 11.2% at the end of 2003 to almost 2% one year later.

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" 4253 – 12/02/04
Reciprocal Guarantee Associations. There was an adjustment (from $500,000 to $1,250,000) in the amount with which an RGA registered in the record qualified by the BCRA may grant a guarantee to an SME, in order for the latter to obtain a loan from a financial institution without the need for evaluation by said institution.

Communication "A" 4254 – 12/02/04
The date until which banks may grant new loans over and above the limit in force of 300% of the debtor's net worth was extended to 12/31/05. Also extended until said date is the possibility of classifying as being in a normal situation (category 1) those debtors that, even having had to refinance their debts, meet all other conditions to be said to have a normal situation; likewise, there is an extension of the time during which the possibility of considering the improvement in the debtor's repayment capacity in refinancings in which there are capital haircuts, allowing for a reduction in provisions and improvement of the debtor's category in accordance with the haircut resulting from the refinanced debt. Temporary dispositions referring to the Relationship for immobilized assets and other items were also extended. Considering that some institutions received goods in defense of or payment of loans, it was decided that those goods incorporated into the institutions' net worth up until 03/31/03 not be taken into account in the calculation of excesses in the relationship for immobilized assets and other items until 06/30/05.

Communication "A" 4258 – 12/10/04
The restriction due to an increase in financings of institutions continuing to receive financial assistance from the BCRA to attend to situations of illiquidity was revoked.

Communication "A" 4259 – 12/10/04
Cession of loan portfolio. It is permitted that inflows of funds be made in the current account in pesos or sight accounts in foreign currency, as the case may be, opened in the BCRA.

Communication "A" 4264 – 12/17/04
As an exception, time deposits (with maturities of at least 180 days) that grant non-monetary incentives (durable consumer goods), the titleholders of which are only physical persons will be received. These deposits must be made for an amount of at least $50,000 pesos or its equivalent in foreign currency and are not included under the deposit guarantee insurance system.

Communication "A" 4268 – 12/26/04
Financial institutions may make contributions in advance for the future cancellation of capital on rediscounts received, whose payment schedules were foreseen in the "matching" regimen (Chapter II Decree 739/03). The banks wishing to adhere to this regimen must quote the amount they intend to make in this advance and the nominal rate they are willing to pay for that right. For the purpose of making the bid fair, there will be a limit on the maximum amount awarded to each institution, which will equal 30% of the total amount included in the call for bid.

Communication "A" 4270 – 12/29/04
This determines the accounting practice that financial institutions must adjudicate to government securities indexed for GDP – denominated "Negotiable values linked to GDP" – and to "Discount bonds" they receive in virtue of the exchange of debt in default. They can be registered at the accounting value of the instruments given in net exchange of attributable amounts registered in regularizing accounts and the deduction of payments, in this case, received for the cashing in the Brady - Par and Discount – bond guarantees, or to the amount arising from the sum of the nominal flow of funds up to the resulting deadline of the received bonds' terms and conditions, without including estimations of future CER performance (if the bond was issued in pesos) nor yields expected due to GDP growth, the lower of both. When the amount quoted is less than the sum of the accounting values of the exchanged instruments, the difference must be imputed to results. These bonds may be used in repo transactions.

To the aforementioned bonds the alpha1 coefficient will be applied, with the aim of temporarily reducing the minimum cash requirement for credit risk, with respect to holdings in investment accounts and financings to the non-financial public sector until 05/31/03.
It is determined that in the case of government securities that are susceptible to having to observe the minimum cash requirement for market risk to fulfill the demands for this, to those to which specific valuation criteria are applied, the criterion employed must be explained in annotation to quarterly and annual financial statements, and the difference in relation to their valuation at market prices be quantified.

Communication "A" 4271 – 12/30/04

Application of the deposits guarantee insurance system. The normal contribution that financial institutions must destine on a monthly basis to the Deposit Guarantee Fund is set at 0.015%. The putting in force of this rule will be as of the contribution whose deadline is January 2005.

Methodology

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

(b) Due to the possible lack of data for a number of banks at the time of writing this Report, and given the possibility of subsequent corrections to the data provided by financial institutions, the data included – particularly for the last month mentioned – is of a preliminary nature. As the latest available data is always used, data related to earlier periods may not coincide with what had been previously mentioned in earlier issues of the Report. In these cases, the latter version should be considered as that of the best quality.

(c) Data on deposits and loans relate to balance sheet information and do not necessarily agree with those gathered by the centralized System of Information Requirements (SISCEN). Reasons for discrepancies include the exact date taken into account for the calculation of monthly variances and the items included in the definition adopted in each case.

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

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

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

(g) Initially, the breakdown by group of banks was determined on the basis of the majority existing in decision-making – in terms of shareholders' meeting votes – distinguishing between privately-owned institutions and public institutions. With the aim of deepening the analysis, wholesale banks were defined as those specializing in the large corporation and investor segment, which usually do not depend for their funding on deposits from the private non-financial sector. Retail banks were divided into those carrying out business at a national level, those located in specific geographical regions – municipal, provincial or regional institutions – and institutions specializing in a financial sector niche market – generally smaller institutions. Lastly, it should be noted that this grouping has been carried out solely for analytical purposes and does not represent the only methodological criterion for grouping, while, in addition, the detailing of the characteristics of each group of institutions has been established in a general manner. The group of private banks includes 3 institutions currently in the process of restructuring, which are under the management of a national public bank.

Glossary

%a.: annualized percentage.
%i.a.: interannual percentage.
Adjusted profit: Total profit excluding payments made due to court-ordered releases and adjustments to the valuation of public sector assets according to Com. “A” 3911 and 4084.
ASE: Adjusted stockholders’ equity, for *Responsabilidad Patrimonial Computable* in Spanish. The measure for compliance with bank capital regulations.
Consolidated (or aggregate) assets and liabilities: Those arising from excluding operations between financial institutions.
Financial margin: Income less outlays of a financial nature. Includes interest income, gains from securities, CER/CVS adjustments, exchange rate differences and other financial results. Does not include the items affected by Com. A 3911 and modifications.
Gains from securities: Includes income from government securities, short-term investments, corporate bonds, subordinated debt, options and from other income from financial intermediation. In the case of government securities, it includes the results accrued from income, quotation differences, exponential increase on the basis of the internal rate of return (IRR), and from sales, as well as the charge for impairment to value.
Income from services: Commissions collected less commissions paid. Includes commissions on liabilities, credits, securities, guarantees granted, rental of safe deposits boxes and foreign trade and exchange transactions, excluding in the case of the latter results from the trading of foreign currency, which are recorded in the “Exchange difference” accounts (here included under the heading “Other financial results”). Outflows include commissions paid, contributions to the Banking Social Services Institute (ISSB), other contributions on service income and charges accrued for gross income tax.
Interest income (interest margin): Interest collected less interest paid on financial intermediation, on an accrual basis – taken from balance sheet – rather than on a cash basis. Includes interest on loans of government securities and premiums on repos and reverse repos.
Liquid assets: Minimum cash compliance – cash, current account at Central Bank and special accounts in guarantee – and other liquid items, including correspondent accounts.
Liquidity ratio: Liquid assets as a percentage of total deposits.
mill.: million
Netted assets (NA) and liabilities: Those net of accounting duplications inherent to the recording of repurchase agreements, term transactions or unsettled spot transactions.
Net worth exposure to counterparty risk: Non-performing portfolio net of allowances in terms of net worth.
Non-performing portfolio: Portfolio in categories 3 to 6, as per the debtor classification system.
ON: Corporate bonds (*Obligaciones Negociables*).
OS: Subordinated debt (*Obligaciones Subordinadas*).
Operating costs: Includes remuneration, social security payments, services and fees, sundry expenses, taxes and amortization.
Other: sundry gains (including, among others, gains from long-term investments, loan recoveries, and release of allowances), sundry losses (including, among others, losses on long-term investments, amortization of differences from court orders, loss on sale or impairment of fixed assets, amortization of goodwill).
Other financial results: Income from financial leasing, adjustments to valuation of credit to the public sector, contribution to the deposit guarantee fund, interest on liquid funds, difference in market price of gold and foreign exchange, premiums on the sale of foreign currency and other unidentified income (net).
PN: Net worth (*Patrimonio Neto*).
p.p.a.: annualized percentage points.
Private sector credit: Loans to the private sector and private sector securities.
Public sector credit: Loans to the public sector, holdings of government securities and compensation receivable from the Federal Government.
Quotation differences: Income from the monthly updating of foreign currency-denominated assets and liabilities. The heading also includes income arising from the purchase and sale of foreign currency, arising from the difference in the price agreed (net of direct costs generated by the transaction) and the book value.
ROA: Net profits as a percentage of netted assets. When referring to accumulated results the denominator includes the average netted assets for the reference months.
ROE: Net profits as a percentage of net worth. When referring to accumulated results the denominator includes the average net worth for the reference months.
SMEs: Small and Medium Enterprises.

Statistics: Financial System

Balance Sheet

In current pesos (millions)	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Oct 04	Nov 04	Dec 04	Change (%) Month on month	Change (%) Accum. 2004	Change (%) Year on year
Assets	**153,140**	**163,550**	**123,743**	**187,532**	**186,873**	**210,569**	**211,190**	**210,205**	**-0.5**	**12.5**	**12.5**
Liquid assets[1]	20,423	20,278	13,005	17,138	27,575	29,085	31,049	29,181	-6.0	5.8	5.8
Public bonds	8,531	10,474	3,694	31,418	45,062	55,283	54,558	54,940	0.7	21.9	21.9
Private bonds	477	633	543	332	198	363	357	395	10.6	99.6	99.6
Loans	83,850	83,277	77,351	84,792	68,042	72,726	73,638	73,961	0.4	8.7	8.7
Public sector	12,138	15,164	22,694	44,337	33,228	30,966	31,027	31,158	0.4	-6.2	-6.2
Private sector	67,934	64,464	52,039	38,470	33,398	39,769	40,742	41,107	0.9	23.1	23.1
Financial sector	3,778	3,649	2,617	1,985	1,417	1,991	1,868	1,697	-9.1	19.8	19.8
Provisions over loans	-6,001	-6,907	-6,987	-11,952	-9,374	-7,962	-7,748	-7,455	-3.8	-20.5	-20.5
Other netted credits due to financial intermediation	38,156	50,716	21,485	39,089	27,030	34,227	32,447	31,472	-3.0	16.4	16.4
Corporate bonds and subordinated debt	1,115	794	751	1,708	1,569	1,025	1,007	1,013	0.6	-35.4	-35.4
Unquoted trusts	1,336	2,053	2,065	6,698	4,133	2,888	2,965	3,038	2.5	-26.5	-26.5
Compensation receivable	0	0	0	17,111	14,937	14,378	14,231	14,352	0.9	-3.9	-3.9
BCRA	81	141	84	3,360	650	419	493	378	-23.4	-41.9	-41.9
Other	35,623	47,728	18,585	10,212	5,741	15,516	13,751	12,689	-7.7	121.0	121.0
Assets under financial leases	814	786	771	567	397	595	644	625	-2.9	57.4	57.4
Shares and participation	1,838	2,645	2,688	4,653	4,591	3,478	3,552	3,865	8.8	-15.8	-15.8
Fixed assets and sundry	4,973	4,939	4,804	8,636	8,164	7,863	7,822	7,787	-0.4	-4.6	-4.6
Foreign branches	996	1,115	1,057	3,522	3,144	3,441	3,464	3,525	1.8	12.1	12.1
Other assets	3,560	3,950	5,334	9,338	12,043	11,471	11,408	11,908	4.4	-1.1	-1.1
Liabilities	**136,252**	**146,267**	**107,261**	**161,446**	**164,923**	**189,041**	**189,158**	**187,715**	**-0.8**	**13.8**	**13.8**
Deposits	81,572	86,506	66,458	75,001	94,635	114,523	117,321	116,745	-0.5	23.4	23.4
Public sector [2]	7,232	7,204	950	8,381	16,040	33,207	34,880	31,793	-8.9	98.2	98.2
Private sector [2]	73,443	78,397	43,270	59,698	74,951	78,940	80,170	82,947	3.5	10.7	10.7
Current account	6,478	6,438	7,158	11,462	15,071	16,303	17,132	18,193	6.2	20.7	20.7
Savings account	13,047	13,008	14,757	10,523	16,809	22,298	22,656	23,818	5.1	41.7	41.7
Time deposit	48,915	53,915	18,012	19,080	33,285	34,059	34,180	34,947	2.2	5.0	5.0
CEDRO	0	0	0	12,328	3,217	1,346	1,169	1,047	-10.4	-67.5	-67.5
Other netted liabilities due to financial intermediation	50,361	55,297	36,019	75,737	61,690	67,563	64,934	64,307	-1.0	4.2	4.2
Call money	3,793	3,545	2,550	1,649	1,317	1,712	1,634	1,459	-10.7	10.8	10.8
BCRA lines	315	102	4,470	27,837	27,491	26,770	26,557	26,673	0.4	-3.0	-3.0
Outstanding bonds	5,087	4,954	3,777	9,096	6,675	7,934	7,853	7,922	0.9	18.7	18.7
Foreign lines of credit	10,279	8,813	7,927	25,199	15,196	10,464	9,557	9,329	-2.4	-38.6	-38.6
Other	30,886	37,883	17,295	11,955	11,012	20,683	19,333	18,924	-2.1	71.9	71.9
Subordinated debts	2,206	2,255	2,260	3,712	2,028	1,524	1,480	1,415	-4.4	-30.3	-30.3
Other liabilities	2,113	2,210	2,524	6,997	6,569	5,431	5,422	5,249	-3.2	-20.1	-20.1
Net worth	**16,888**	**17,283**	**16,483**	**26,086**	**21,950**	**21,529**	**22,033**	**22,490**	**2.1**	**2.5**	**2.5**
Memo											
Netted assets	126,432	129,815	110,275	185,356	184,371	198,030	200,226	200,005	-0.1	8.5	8.5
Consolidated netted assets	122,270	125,093	106,576	181,253	181,077	194,135	196,423	196,022	-0.2	8.3	8.3

(1) Includes margin accounts with the BCRA

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

Source: BCRA

Statistics: Financial System

Profitability structure

In annualized terms

As % of netted assets	Annual 1999	2000	2001	2002	2003	2004	Monthly Oct-04	Nov-04	Dec-04	Last 6 months
Financial margin	5.6	5.7	5.7	6.5	1.1	3.2	3.0	2.6	3.8	3.2
Net interest income	4.3	4.0	3.8	-1.7	-0.5	0.9	0.8	1.2	1.3	1.1
Restatement by CER and CVS	0.0	0.0	0.0	3.9	1.3	1.0	0.8	0.8	0.7	0.9
Gains on securities	0.9	1.2	1.2	1.7	1.1	0.9	1.1	0.6	1.0	1.0
Foreign exchange price adjustments	0.2	0.1	0.2	2.8	-0.5	0.5	0.3	-0.1	0.9	0.5
Other financial income	0.2	0.4	0.5	-0.1	-0.3	-0.2	0.0	0.0	-0.1	-0.2
Service income margin	2.9	2.8	3.0	1.9	1.9	2.0	2.1	2.1	2.3	2.1
Loan loss provisions	-2.1	-2.4	-2.6	-4.7	-1.1	-0.7	-0.4	-0.5	-1.6	-0.7
Operating costs	-5.9	-5.8	-6.1	-4.4	-4.2	-4.2	-4.0	-4.2	-4.8	-4.2
Tax charges	-0.4	-0.4	-0.5	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.3
Income tax	-0.3	-0.3	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	0.1	0.0
Adjustments to the valuation of government securities (	0.0	0.0	0.0	0.0	-0.4	-0.2	-0.2	0.1	-0.2	-0.1
Amortization payments for court-ordered releases	0.0	0.0	0.0	0.0	-0.6	-0.9	-0.9	-0.9	-0.9	-0.9
Other	0.5	0.4	0.6	-1.8	0.9	0.8	0.5	-0.1	2.6	0.9
Monetary results	0.0	0.0	0.0	-5.8	0.0	0.0	0.0	0.0	0.0	0.0
ROA before income tax	0.6	0.4	0.2	-8.7	-2.7	-0.2	-0.3	-1.1	0.9	0.1
ROA before monetary results	0.2	0.0	0.0	-3.1	-2.9	-0.3	-0.4	-1.2	1.0	0.1
ROA	0.2	0.0	0.0	-8.9	-2.9	-0.3	-0.4	-1.2	1.0	0.1
ROA adjusted (**)	0.2	0.0	0.0	-8.9	-1.9	0.9	0.7	-0.4	2.1	1.1
Indicators (%)										
ROE	**1.7**	**0.0**	**-0.2**	**-59.2**	**-22.7**	**-2.5**	**-3.4**	**-10.5**	**9.3**	**0.6**
Financial margin + service income margin / Operat	142.5	147.4	143.3	189.1	69.3	126.6	124.9	111.9	128.2	127.1
Interest income (with CER and CVS) / loans	..	13.0	15.2	11.8	13.1	8.7	6.0	8.6	8.5	8.3
Interest payments (with CER and CVS) / deposits	..	5.3	7.3	9.2	5.7	1.7	1.5	1.6	1.5	1.6

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

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

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

Source: BCRA

Portfolio quality

As percentages	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Mar 04	Jun 04	Sep 04	Nov 04	Dec 04
Non-performing loans (overall)(1)	11.5	12.9	13.1	18.1	17.7	14.9	13.5	12.8	11.6	10.8
Non-performing loans to the non-financial private sector	14.0	16.0	19.1	38.6	33.5	29.0	25.4	23.6	20.2	18.8
Commercial portfolio	11.7	13.7	21.4	43.8	38.9	34.6	29.1	27.2	23.6	22.1
Commercial portfolio up to $200,000	21.5	22.8	17.3	46.3	28.0	26.4	25.2	39.1	30.3	27.9
Consumption and housing portfolio	16.6	17.3	17.5	31.4	28.0	22.3	20.4	14.7	12.6	11.5
Provisions / Total non-performing loans	59.6	61.1	66.4	73.8	79.2	86.4	90.1	88.2	96.1	100.5
(Total non-performing - Provisions) / Overall financing	4.7	5.0	4.4	4.7	3.7	2.0	1.3	1.5	0.5	-0.1
(Total non-performing - Provisions) / Net worth	24.7	26.2	21.6	17.2	11.9	7.0	4.8	5.5	1.6	-0.2

(1) As a percentage of each lending category.

Statistics: Private Banks

Balance Sheet

In current pesos (millions)	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Oct 04	Nov 04	Dec 04	Change (%)		
									Month on month	Accum. 2004	Year on year
Assets	**108,778**	**119,371**	**82,344**	**118,906**	**116,633**	**124,480**	**124,150**	**127,150**	**2.4**	**9.0**	**9.0**
Liquid assets [1]	13,228	13,920	10,576	11,044	14,500	15,429	16,174	15,930	-1.5	9.9	9.9
Public bonds	6,433	7,583	1,627	19,751	22,260	24,051	23,282	24,835	6.7	11.6	11.6
Private bonds	410	563	451	273	172	313	299	337	12.4	95.3	95.3
Loans	56,916	56,035	52,319	51,774	47,017	50,076	50,658	50,741	0.2	7.9	7.9
Public sector	6,389	8,172	13,803	25,056	23,571	21,387	21,414	21,481	0.3	-8.9	-8.9
Private sector	47,705	45,103	36,636	26,074	22,816	27,594	28,168	28,153	-0.1	23.4	23.4
Financial sector	2,823	2,760	1,880	644	630	1,095	1,076	1,107	2.9	75.7	75.7
Provisions over loans	-3,119	-3,248	-3,957	-7,463	-5,225	-4,163	-3,955	-3,720	-5.9	-28.8	-28.8
Other netted credits due to financial intermediation	30,285	42,696	13,037	27,212	22,148	24,560	23,536	24,704	5.0	11.5	11.5
Corporate bonds and subordinated debt	1,022	724	665	1,514	1,394	839	823	827	0.6	-40.7	-40.7
Unquoted trusts	958	1,609	1,637	6,205	3,571	2,191	2,257	2,305	2.1	-35.5	-35.5
Compensation receivable	0	0	0	15,971	13,812	13,582	13,436	13,543	0.8	-1.9	-1.9
BCRA	12	35	865	377	415	318	334	311	-7.0	-25.1	-25.1
Other	28,293	40,328	9,870	3,146	2,955	7,630	6,687	7,718	15.4	161.2	161.2
Assets under financial leases	796	776	752	553	387	579	627	606	-3.3	56.7	56.7
Shares and participation	1,371	1,651	1,703	3,123	2,791	1,544	1,577	1,895	20.2	-32.1	-32.1
Fixed assets and sundry	3,246	3,225	3,150	5,198	4,902	4,734	4,707	4,679	-0.6	-4.6	-4.6
Foreign branches	48	75	112	-109	-136	-69	-55	-53	-4.2	-61.2	-61.2
Other assets	2,120	2,190	2,574	7,549	7,816	7,426	7,301	7,196	-1.4	-7.9	-7.9
Liabilities	**96,474**	**107,193**	**70,829**	**103,079**	**101,732**	**110,216**	**109,426**	**112,347**	**2.7**	**10.4**	**10.4**
Deposits	54,447	57,833	44,863	44,445	52,625	59,782	60,836	62,767	3.2	19.3	19.3
Public sector [2]	1,342	1,276	950	1,636	3,077	6,157	6,286	6,145	-2.3	99.7	99.7
Private sector [2]	52,460	55,917	43,270	38,289	47,097	52,252	53,261	55,361	3.9	17.5	17.5
Current account	5,022	4,960	7,158	8,905	11,588	12,421	12,971	13,959	7.6	20.5	20.5
Savings account	9,702	9,409	14,757	6,309	10,547	13,870	13,924	14,801	6.3	40.3	40.3
Time deposit	35,218	39,030	18,012	11,083	18,710	21,912	22,376	22,730	1.6	21.5	21.5
CEDRO	0	0	0	9,016	2,409	1,018	888	798	-10.1	-66.9	-66.9
Other netted liabilities due to financial intermediation	39,045	46,271	22,629	49,341	42,367	44,981	43,119	44,392	3.0	4.8	4.8
Call money	2,146	2,293	1,514	836	726	1,346	1,253	1,068	-14.7	47.1	47.1
BCRA lines	274	83	1,758	16,624	17,030	16,776	16,586	16,735	0.9	-1.7	-1.7
Outstanding bonds	4,990	4,939	3,703	9,073	6,674	7,934	7,853	7,922	0.9	18.7	18.7
Foreign lines of credit	6,680	5,491	4,644	15,434	9,998	6,895	6,038	5,890	-2.5	-41.1	-41.1
Other	24,954	33,466	11,010	7,374	7,939	12,029	11,388	12,777	12.2	60.9	60.9
Subordinated debts	1,683	1,668	1,700	3,622	1,850	1,379	1,366	1,304	-4.6	-29.5	-29.5
Other liabilities	1,299	1,420	1,637	5,671	4,890	4,074	4,105	3,884	-5.4	-20.6	-20.6
Net worth	**12,304**	**12,178**	**11,515**	**15,827**	**14,900**	**14,264**	**14,725**	**14,804**	**0.5**	**-0.6**	**-0.6**
Memo											
Netted assets	85,918	88,501	73,796	117,928	115,091	118,552	119,043	120,907	1.6	5.1	5.1

(1) Includes margin accounts with the BCRA

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

Source: BCRA

Statistics: Private Banks

Profitability structure

In annualized terms

As % of netted assets	Annual 1999	2000	2001	2002	2003	2004	Monthly Oct-04	Nov-04	Dec-04	Last 6 months
Financial margin	6.1	6.2	6.4	7.6	2.3	3.2	2.7	2.2	4.0	3.0
Net interest income	4.5	4.1	4.3	-0.2	0.1	1.0	0.8	1.4	1.4	1.2
Restatement by CER and CVS	0.0	0.0	0.0	1.1	0.9	0.8	0.5	0.5	1.0	0.6
Gains on securities	1.1	1.4	1.2	2.5	1.7	0.9	1.1	0.3	0.8	0.9
Foreign exchange price adjustments	0.3	0.2	0.3	4.4	-0.3	0.7	0.4	0.0	1.1	0.5
Other financial income	0.3	0.5	0.7	-0.1	-0.2	-0.3	0.0	0.0	-0.3	-0.3
Service income margin	3.1	2.9	3.2	2.0	2.0	2.4	2.4	2.5	2.7	2.5
Loan loss provisions	-2.2	-2.5	-3.0	-5.0	-1.3	-0.9	-0.4	-0.7	-2.3	-0.8
Operating costs	-6.3	-6.0	-6.4	-4.8	-4.6	-4.6	-4.5	-4.7	-5.4	-4.7
Tax charges	-0.4	-0.4	-0.5	-0.4	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4
Income tax	-0.5	-0.4	-0.3	-0.2	-0.3	-0.2	-0.1	-0.1	0.3	0.1
Adjustments to the valuation of government securities (	0.0	0.0	0.0	0.0	-0.6	-0.1	-0.2	0.3	0.0	0.0
Amortization payments for court-ordered releases	0.0	0.0	0.0	0.0	-0.7	-1.0	-1.0	-1.0	-1.0	-1.0
Other	0.5	0.4	0.7	-3.0	1.0	0.8	0.3	-0.7	3.1	0.8
Monetary results	0.0	0.0	0.0	-7.5	0.0	0.0	0.0	0.0	0.0	0.0
ROA before income tax	0.8	0.6	0.5	-11.1	-2.2	-0.5	-1.0	-2.4	0.6	-0.6
ROA before monetary results	0.3	0.1	0.2	-3.8	-2.4	-0.7	-1.1	-2.6	0.9	-0.5
ROA	0.3	0.1	0.2	-11.3	-2.5	-0.7	-1.1	-2.6	0.9	-0.5
ROA adjusted (**)	0.3	0.1	0.2	-11.3	-1.2	0.5	0.1	-1.9	1.9	0.5
Indicators (%)										
ROE	**2.3**	**0.8**	**1.4**	**-79.0**	**-19.1**	**-5.6**	**-8.8**	**-20.5**	**7.4**	**-4.1**
Financial margin + service income margin / Operat	146.0	151.9	150.9	199.3	92.6	120.1	114.1	100.2	122.7	116.2
Interest income (with CER and CVS) / loans	..	13.9	16.1	24.7	9.0	8.2	4.6	8.3	8.7	7.8
Interest payments (with CER and CVS) / deposits	..	5.7	7.8	21.9	5.8	2.2	2.4	2.1	2.0	2.2

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

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

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

Source: BCRA

Portfolio quality

As percentages	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Mar 04	Jun 04	Sep 04	Oct 04	Nov 04	Dec 04
Non-performing loans (overall)(1)	7.6	8.3	9.9	19.8	15.7	12.5	11.2	10.4	10.5	9.7	8.9
Non-performing loans to the non-financial private sector	8.9	9.8	14.0	37.4	30.4	24.5	20.9	19.6	18.3	16.7	15.4
Commercial portfolio	6.2	7.6	15.2	44.5	39.9	31.1	25.0	23.5	22.1	20.0	18.8
Commercial portfolio up to $200,000	11.7	14.6	16.4	46.4	26.8	24.8	24.9	22.8	19.2	16.8	13.2
Consumption and housing portfolio	12.5	11.9	12.4	26.0	17.2	15.3	13.9	13.0	11.9	11.2	10.0
Provisions / Total non-performing loans	69.4	67.7	75.7	73.4	79.0	81.3	87.1	83.7	85.8	90.2	94.0
(Total non-performing - Provisions) / Overall financing	2.3	2.7	2.4	5.3	3.3	2.3	1.4	1.7	1.5	0.9	0.5
(Total non-performing - Provisions) / Net worth	11.5	13.4	11.4	18.6	11.2	8.5	5.5	6.5	5.4	3.4	1.9

(1) As a percentage of each lending category.