# Report on Banks

December 2019

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

# Executive Summary

- By the end of 2019, the solvency ratios of the financial system continued to stand at high levels. The Adjusted Stockholders' Equity (ASE) of the ensemble of banks stood at 17.5% of the risk-weighted assets (RWA) in December, without any significant changes against November and up 1.5 percentage points (p.p.) against the level of late 2018. As a result, the financial system's ASE doubled the regulatory minimum capital requirement by the end of 2019. Tier 1 capital, the most adequate to cover unexpected losses, accounted for nearly 90% of the Adjusted Stockholders' Equity. This component of the ASE accounted for 9.8% of total exposures taken by banks (considering assets that are not weighted by risk and some off-balance items), up 0.6 p.p. and 1.2 p.p. against September 2019 and late 2018, respectively. Consequently, this ratio sizably exceeded, at aggregate level, the regulatory minimum (3%), in line with the leverage ratio established by international standards (Basel Committee).
- Starting from high levels if compared to data from the last 10 years, there was an increase in the liquidity indicators of the ensemble of banks by the end of 2019. The broad liquidity ratio (liquid assets, compliance with minimum cash requirements and BCRA's instruments, in both domestic and foreign currency) accounted for 60.1% of total deposits in December (58.1% for the segment in pesos and 65.6% for the items in foreign currency), up 2.8 p.p. against the figures of November, and up 3.5 p.p. in year-on-year terms (y.o.y.).
- In December, the stock of private sector deposits in pesos increased 5.6% in real terms (+9.5% in nominal terms), driven by sight accounts due to seasonal factors. In turn, private sector deposits in foreign currency grew 5.4% over the month —in currency of origin—, after dropping for four consecutive months. Throughout 2019, private sector deposits shrank 10.8% in real terms (+37.2% y.o.y. in nominal terms) in the segment in pesos and 32.7% in the segment in foreign currency (in currency of origin). Thus, the relative share of private sector deposits in total funding —liabilities plus net worth— of the ensemble of banks stood at 59.3% by the end of 2019, up 2.1 p.p. against December 2018.
- In December, the stock of loans in pesos to the private sector went up 0.6% in real terms (+4.4% in nominal terms) while loans in foreign currency went down 5.4% (in currency of origin). Bank lending accounted for 40.7% of total banking assets, down 0.5 p.p. against December 2018.
- The non-performance ratio of total financing to the private sector reached 5.6%, up 0.6 p.p. over the month (mainly in state-owned banks due to a change in the credit condition of a large company) and 2.5 p.p. y.o.y. The delinquency ratio of loans to companies reached 7.1%, up 1.4 p.p. over the month (+4.6 p.p. y.o.y.), while the delinquency ratio of loans to households stood at 4.2%, down 0.2 p.p. against November (+0.1 p.p. y.o.y.). The non-performing ratio of mortgage loans to households continued to stand at low levels: 0.6% of the portfolio in the case of UVA loans and 0.9% for the other lines. The stock of total accounting provisions stood at 98% of the non-performing portfolio of loans to the private sector over the period while the stock of provisions attributable to non-performing loans totaled 80% of such portfolio in December.
- Throughout 2019, the aggregate financial system accrued nominal income equivalent to 5.1% of assets (ROA) and 44.4% of equity (ROE).

*Published on February 12, 2020.*

The data reported are provisional and subject to changes. Information corresponds to end-of-month data.

**Data of Charts** and **Latest Regulations** of this issue. **Statistics Annexes** for the financial system and the ensemble of financial institutions. **Glossary** of abbreviations and acronyms.

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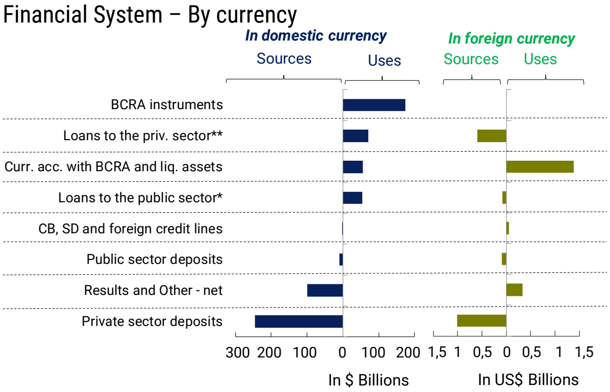
# I. Financial Intermediation Activity

Based on the monthly flow of funds estimated for the items in pesos,[1] the increase of private sector deposits was the main source of funds for the ensemble of banks in December (see Chart 1). These resources were mainly used to increase the net holdings of LELIQs and, to a lesser extent, to increase the stock of loans to the private sector and the stock of current accounts held by banks with the BCRA. Likewise, in terms of the flow of funds estimated for the items in foreign currency, the increase of private sector deposits and the reduction of loans to this sector were the main sources of funding at aggregate level over the month. These resources were mainly used to increase liquidity in foreign currency.

**Chart 1 | Monthly Cash Flow Estimate – December 2019**

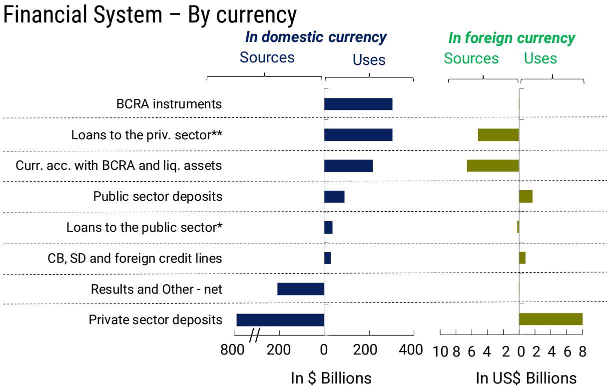
Financial System – By currency




* Considering assets admissible for calculation of compliance with minimum cash requirement. ** Considering principal of loans (excluding accrued interest and capital adjustments). Source: BCRA

**Chart 2 | Annual Cash Flow Estimate - 2019**

Financial System – By currency




* Considering assets admissible for calculation of compliance with minimum cash requirement. ** Considering principal of loans (excluding accrued interest and capital adjustments). Source: BCRA

Regarding the estimated annual flow of funds for the financial system, the increase of private sector deposits was the main source of funds in domestic currency during 2019 (see Chart 2). These resources were largely used to increase LELIQ holdings, the stock of loans to the private sector and the stock of current accounts with the BCRA. In turn, over the year, there was a reduction in the balance sheet in foreign currency of the financial system. The decrease of liquidity and of loans in foreign currency to the private sector were the most relevant sources of funds, while the reduction of private sector deposits in foreign currency was the most relevant use of funds over the period.

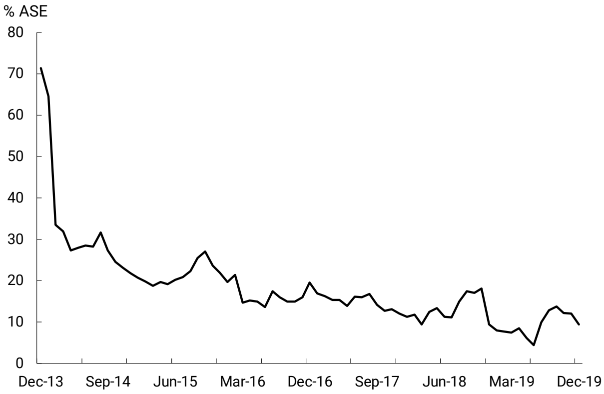
In December, total banking assets grew 2.5% in real terms, mainly due to the performance of private banks. However, total assets of the financial system shrank 20.6% y.o.y. in real terms (-25.3% for state-owned banks and -17.4% for private banks).

Assets in foreign currency accounted for 25.6% of total assets while liabilities accounted for 24.6% of total funding by the end of 2019. These levels were lower than those of November and in year-on-year terms: -1.1 p.p. in monthly terms and -3.1 p.p. year-on-year for assets, while -0.7 p.p. in monthly terms and -2.8 p.p. year-on-year for liabilities. In this context, the difference between assets and liabilities in foreign currency —including forward purchase and sale transactions—

1 Considering differences of the balance sheet stock.

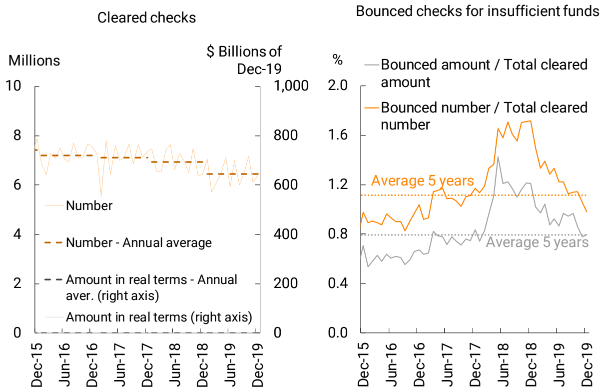
stood at around 9.3% of the regulatory capital over the month, down 2.6 p.p. against November, and remained unchanged against late 2018 (see Chart 3).

**Chart 3 | Foreign Currency Assets – Foreign Currency Liabilities + Foreign Currency Forward Position**
Financial System




Source: BCRA

**Chart 4 | Cleared and Bounced Checks**



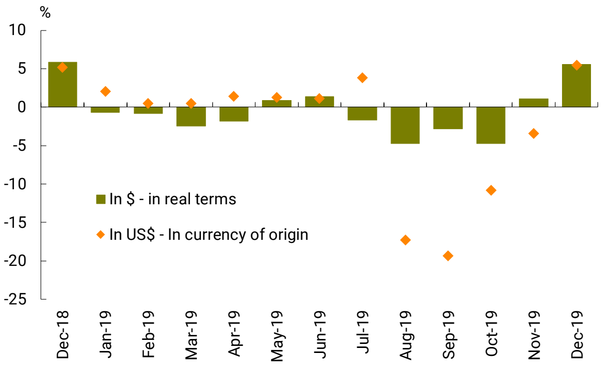

Source: BCRA

As regards the transactions of the National Payment System, there was an increase in the daily average of instant transfers in December, reaching one of the highest levels of the year, in part due to seasonal factors. Regarding the amounts transacted (in real terms) in this type of transfers, they increased 10.3% over the month and 17.2% y.o.y., while the number of transfers stood 12.8% above the number of November and 32.9% in year-on-year terms. Likewise, in line with the trend observed in recent years, the number of cleared checks continued to shrink (see Chart 4). In December, the volume of cleared checks stood below the average for the year, in terms of both amounts and number. During the month, the bouncing of checks for insufficient funds relative to the total checks cleared went down in terms of number and remained virtually unchanged in terms of the amounts transacted. As a result, the ratio of bounced checks dropped in a year-on-year comparison, thus standing at values similar to the average of the last 5 years.

# II. Deposits and Liquidity

In December, the stock of private sector deposits in pesos went up 5.6% in real terms (+9.5% in nominal terms, see Chart 5), mainly due to the increase of sight accounts (+10.5% in real terms, +14.6% in nominal terms), within the context of the payment of the semi-annual complementary wage and other concepts.[2] In turn, private sector time deposits in pesos dropped 0.4% in real terms (+3.3% in nominal terms) between ends of month. Private sector

**Chart 5 | Stock of Private Sector Deposits – Monthly Change***




*Non-seasonally adjusted.
Source: BCRA

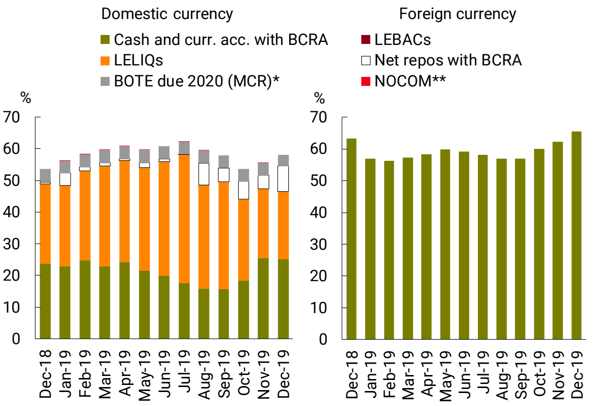
2 In addition, by the end of 2019, a special subsidy was paid to retirees and pensioners collecting the minimum social benefit and also to the beneficiaries of the Universal Child Allowance for Social Protection (AUH), which contributed to increase the seasonal factor. This subsidy was implemented by means of Executive Order 73/2019.

deposits in foreign currency increased 5.4% in December —in currency of origin—, after dropping for four consecutive months. In turn, public sector deposits shrank 1.7% in real terms (+2% in nominal terms) over the month. Consequently, the stock of total deposits of the financial system went up 3.1% in real terms (+6.9% in nominal terms).

Throughout 2019, private sector deposits in pesos shrank 10.8% in real terms (+37.2% y.o.y. in nominal terms). In this respect, time deposits posted an 18.9% y.o.y. drop (+24.8% y.o.y. in nominal terms) while sight deposits fell 3.4% y.o.y. (+48.5% y.o.y. in nominal terms). Likewise, private sector deposits in foreign currency shrank 32.7% —in currency of origin— over the last 12 months. Public sector total deposits also went down in real terms against December 2018. In this context, the stock of total deposits dropped 23% y.o.y. in real terms (+18.4% y.o.y. in nominal terms) in 2019.

In December, the relative share of private sector deposits in total funding —liabilities + net worth— of the ensemble of banks stood at 59.3%, up 1.1 p.p. against November and up 2.1 p.p. against late 2018.

**Chart 6 | Financial System Liquidity**
In % of deposits



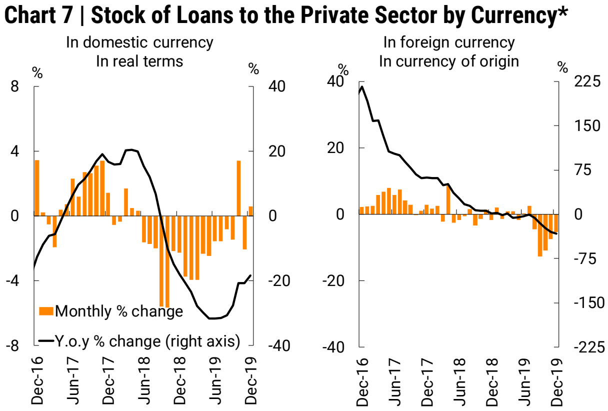

*MCR: Minimum cash requirement. ** NOCOM: BCRA´s Cash Clearing Notes. Source: BCRA

The liquidity of banks closed the year at high levels. The broad liquidity ratio[3] accounted for 60.1% of total deposits in December (58.1% for the segment in pesos and 65.6% for the items in foreign currency), standing 2.8 p.p. above the figures of November (see Chart 6). The monthly increase of liquidity was mainly due to a higher number of repo transactions with the BCRA. In year-on-year terms, the broad liquidity ratio grew 3.5 p.p. (+4.4 p.p. y.o.y. for items in domestic currency and +2.3 y.o.y. for items in foreign currency).

# III. Credit and Portfolio Quality

In December, the stock of loans in pesos to the private sector went up 0.6% in real terms against November (+4.4% in nominal terms).[4] The monthly evolution was mainly explained by credit cards and promissory notes. In turn, the stock of loans in foreign currency went down 5.4% during the last month of 2019 (in currency of origin, see Chart 7).

**Chart 7 | Stock of Loans to the Private Sector by Currency***




*Non-seasonally adjusted.
Source: BCRA

If compared to the figures recorded in December 2018, the stock of loans in pesos to the private

3 Liquid assets, compliance with minimum cash requirements and BCRA's instruments, both in domestic and foreign currency.
4 Including adjustments of principal and interest accrued.

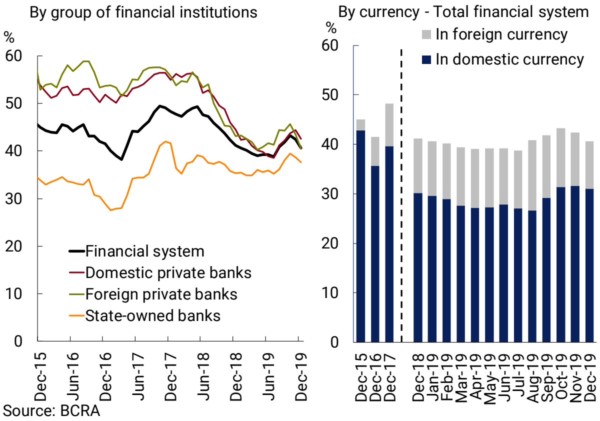
sector dropped 18.3% in real terms, mainly accounted for by the lines with real property collateral and personal loans. Financing in foreign currency shrank 32.6% throughout 2019 (in currency of origin).

In December, the stock of total loans to companies (in both domestic and foreign currency) fell 3.4% in real terms against November (+0.2% in nominal terms) and 24.3% in real terms against December 2018.[5] Loans for industrial and commercial purposes posted the highest relative year-on-year reductions over the period. Financing to households (in both domestic and foreign currency) went down 0.5% in real terms over the month (+3.2% in nominal terms) and 17.4% y.o.y. in real terms, while pledge-backed loans and personal loans were the lines posting a higher relative drop.

By the end of the year, bank loans to the private sector accounted for 40.7% of total banking assets, down 0.5 p.p. against the figures recorded by the end of 2018 (see Chart 8). The drop of this indicator was mainly explained by private banks and by the segment in foreign currency.

In December, the non-performing ratio of financing to the private sector stood at 5.6% of the total portfolio, up 0.6 p.p. over the month (mainly in state-owned banks due to a change in the credit condition of a large company) and 2.5 p.p. y.o.y. (see Chart 9). The delinquency ratio of loans to companies went up 1.4 p.p. over the period (+4.6 p.p. y.o.y.) to 7.1%, while the delinquency ratio of loans to households went down 0.2 p.p. (+0.1 p.p. y.o.y.), standing at 4.2%. The non-performance of mortgage loans to households continued to stand at low levels: 0.6% of the portfolio for UVA loans and 0.9% for the other lines.[6]

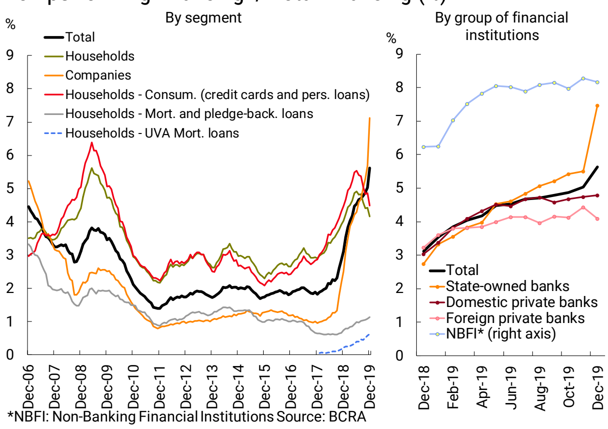
**Chart 8 | Stock of Loans to the Private Sector / Total Assets**




Source: BCRA

**Chart 9 | Non – Performing Loans to the Private Sector**

Non-performing financing / Total financing (%)




*NBFI: Non-Banking Financial Institutions Source: BCRA

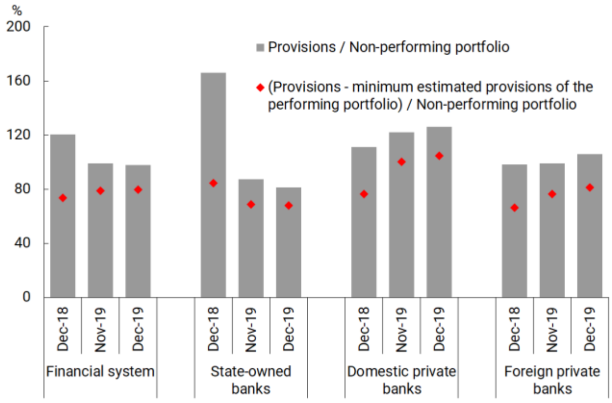
The stock of total accounting provisions (of both the performing and the non-performing portfolio) stood at 98% of the non-performing portfolio of loans to the private sector over the period. It is estimated that the stock of provisions attributable to non-performing loans totaled 80% of such portfolio in December (see Chart 10), thus widely exceeding the required minimum (estimated to

5 Information obtained from the Debtors' Database (domestic currency and foreign currency). Loans to residents abroad are not included. Any adjustments of principal and interest accrued are considered. Financing to companies is herein defined as those loans granted to legal persons and commercial loans granted to natural persons. In contrast, loans to households are those granted to natural persons unless such financing has a commercial purpose.

6 As of December, out of a total of 104,043 UVA mortgage loans granted to natural persons in the financial system (73% generated by state-owned banks, 16% by domestic private banks and 11% by foreign private banks), 833 were non-performing loans.

stand at 52% of the non-performing portfolio). It is also estimated that the non-performing portfolio not covered by provisions was equivalent to 4.3% of the Adjusted Stockholders' Equity (ASE) in December (8.5% of the excess regulatory capital), up 0.3 p.p. against November and up 0.8 p.p. in year-on-year terms.

**Chart 10 | Provisions and Non-Performing Portfolio**
By group of banks



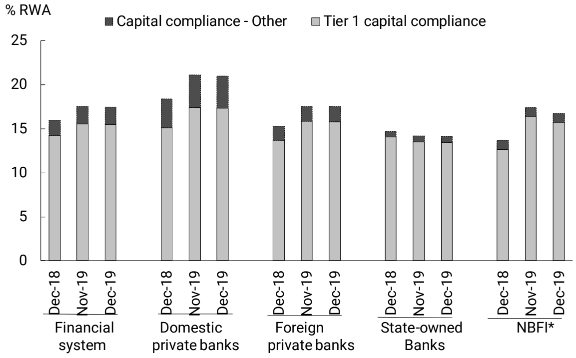

Source: BCRA

In December, financing to the public sector of the ensemble of banks accounted for 9.9% of total assets, down 0.2 p.p. against November and down 0.5 p.p. against December 2018. In turn, the exposure of the financial system net of this sector's stock of deposits continued to show a negative sign over the month (equivalent to 1.3% of total assets).

# IV. Solvency

The aggregate solvency ratios of the financial system have closed the year at high levels. The Adjusted Stockholders' Equity –ASE– accounted for 17.5% of risk-weighted assets –RWA– over the month, posting no significant changes against November and standing 1.5 p.p. above the level of late 2018 (see Chart 11). The Adjusted Stockholders' Equity of the financial system doubled the regulatory minimum capital requirement by the end of 2019, down 1.7 p.p. against November and up 15.5 p.p. against the same period of 2018.

**Chart 11 | Compliance with Regulatory Capital**



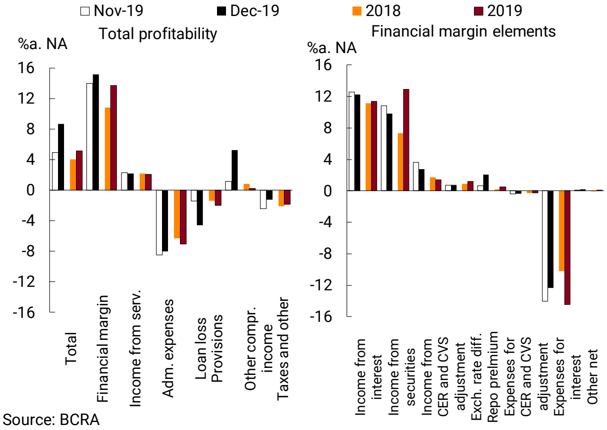

Tier 1 Capital compliance: Basic Net Worth.
Capital Compliance - Other: Supplementary Net Worth.
*NBFI: Non-Banking Financial Institutions. Source: BCRA

In December, Tier 1 capital[7], the most adequate to cover unexpected losses, accounted for nearly 90% of the Adjusted Stockholders' Equity of the financial system. This component of the regulatory capital accounted for 9.8% of total exposures taken by banks (considering the assets that are not weighted by risk and some off-balance items), and increased by 0.6 p.p. and 1.2 p.p. against September 2019 and late 2018, respectively. Consequently, this ratio has exceeded in excess the regulatory minimum (3%), in line with the leverage ratio established by international standards (Basel Committee).

7 It mainly consists of common shares and retained earnings.

In December, the ensemble of banks accrued nominal income equivalent to 8.7% annualized (a.) of assets (ROA) and to 67.4%a. of equity (ROE).[8] The financial system closed 2019 with an accumulated ROA of 5.1% and a ROE of 44.4%, in nominal terms in both cases.

**Chart 12 | Financial System Profitability**




Source: BCRA

In December, the nominal income accrued by the financial system was higher than the income recorded in November, mainly due to the performance of the item "Other Comprehensive Income" (ORI), which increased 4.1 p.p. of assets to 5.2%a. (see Chart 12).[9] Throughout 2019, ORI totaled 0.2% of assets, down 0.6 p.p. against 2018.

On the other hand, the monthly increase of the banks' financial margin (+1.2 p.p. of assets to 15.1%a. in December) also accounted for part of the rise in nominal income (see Chart 12). Lower expenses for interest and higher profits from repo premiums have driven the increase of such margin. In turn, lower income from securities and from CER adjustments has offset in part such evolution. In the aggregate of 2019, the financial margin stood at 13.7% of assets, up 2.9 p.p. against 2018.

In turn, the net income from services of the ensemble of banks totaled 2.2%a. of assets in December, remaining almost unchanged against November. In 2019, this income reached 2.1% of assets, a level similar to that of 2018.

In the last month of the year, loan loss provisions of the financial system increased 3.2 p.p. of assets to 4.6%a.[10] In line with the evolution of the credit portfolio, these expenses went up 0.7 p.p. of assets to 2% in the aggregate of 2019. In turn, administrative expenses of the ensemble of banks went down 0.5 p.p. of assets, on a monthly basis, to 8%a. Thus, these expenses stood at 7.1% of assets in 2019, up 0.8 p.p. against 2018.

8 Income includes the item Other Comprehensive Income (ORI).
9 The monthly increase of ORI was mainly due to profits from financial instruments at fair value and from the revaluation of property, plant and equipment and intangibles. The effect on this last item is usually perceived by the end of each fiscal year.
10 This performance was mainly related to a specific transaction of a large state-owned bank.