# Report on Banks

January 2019

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

# Executive Summary

- In January 2019, the financial system's solvency indicators stood at relatively high levels. Compliance with capital requirements accounted for 15.9% of risk-weighted assets (RWA) in the first month of the year, with a value similar to that recorded in January and in December 2018. The financial system in aggregate maintained this compliance in excess of the requirement for a value equivalent to 85% of the regulatory requirement.

- The liquidity of the ensemble of financial institutions continued to go up in early 2019. The broad liquidity ratio stood at 56.8% of total deposits (56.3% for the ratio in domestic currency), up 0.4 p.p. against the value recorded by late 2018 (+2.7 p.p. for the segment in pesos). In the last 12 months, this liquidity indicator grew 11.3 p.p. of deposits (15.4 p.p. y.o.y. taking into account the ratio in pesos).

- Partly as a consequence of the seasonality of January, the stock of deposits in pesos of the private sector shrank 0.7% in real terms (+2.2% in nominal terms) with a decrease of sight accounts of 8.7% in real terms and an increase of time deposits of 7.7% in real terms as well. Private sector deposits in foreign currency rose 2% over the month. In a year-on-year comparison, the weight of time deposits in pesos in total funding (liabilities and net worth) went up and accounted for 20.1%.

- In January, the stock of loans in pesos to the private sector went down 3.7% in real terms against December 2018 (-0.9% in nominal terms) and 20.6% y.o.y.; the stock of loans in foreign currency rose 2.1% against December 2018 and against January 2018. The share of loans to the private sector in the balance sheet of the ensemble of institutions contracted to 40.6% of total assets.

- In January, the non-performance ratio of loans to the private sector rose 0.4 p.p. and stood at 3.5%. The delinquency ratio of loans to companies was 3.1% (+0.6 p.p. against December 2018), while the delinquency ratio of loans to households stood at 4.2% (+0.2 p.p. against the previous month). The non-performing ratio of mortgage loans to households posted no significant changes (0.25% for the UVA segment). Coverage of the non-performing portfolio with provisions continued to be high.

- In January, the nominal income accrued by the financial system accounted for 3.9% annualized (a.) of assets —ROA. In the aggregate of 12 months to January, nominal income stood for 4.2% of assets and 37.6% of equity —ROE.

*Published on March 14, 2019.*

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 ensembles of financial institutions. **Glossary** of abbreviations and acronyms.

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# I. Financial Intermediation Activity

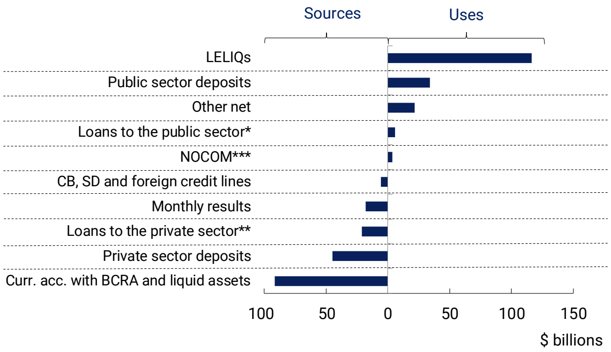
Based on the cash flow estimated for the financial system in aggregate,[1] in January, the funds deriving from reduction of the balance in the current account with the BCRA and from the increase of private sector deposits were mainly applied to increasing holdings of LELIQs (see Chart 1). Other sources of funds were the reduction of loans to the private sector and profits obtained in the period, whereas an additional use of such funds was the net cancellation of public sector deposits.

In January, the total assets of the financial system in aggregate went down 2% in real terms against December 2018, recording a year-on-year increase of 4.1% in real terms. Both stated-own and private banks showed a monthly reduction of total assets, respectively.

The share of foreign currency assets in total assets of the financial system shrank 1.1 p.p. against late 2018, down to 27.5% in January. The weight of foreign currency liabilities posted no significant changes in the period. In turn, the spread between assets and liabilities in foreign currency –including forward net purchases– of the financial system totaled 9.2% of the Adjusted Stockholders' Equity (ASE), thus standing at the lowest level in recent years (see Chart 2). In January, this indicator went down 3.8 p.p. of RPC and 1.9 p.p. y.o.y.

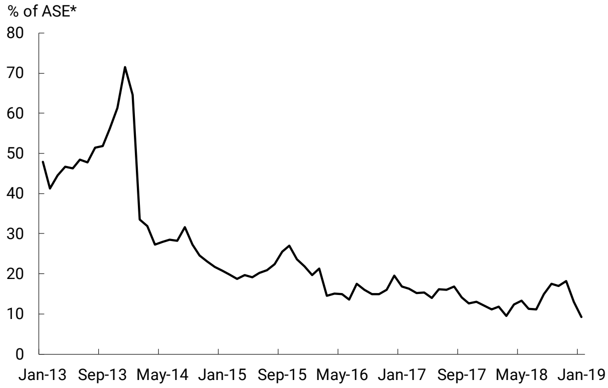
With respect to the transactions of the National Payment System, in particular, instant transfers decreased in number and in real amounts in January if compared to December 2018, which is partly explained by the seasonality of the period. In year-on-year terms, the number of instant transfers increased, even though the amount went down 7.3% in real terms. In

**Chart 1 | Cash Flow Estimate – January 19**
Financial System



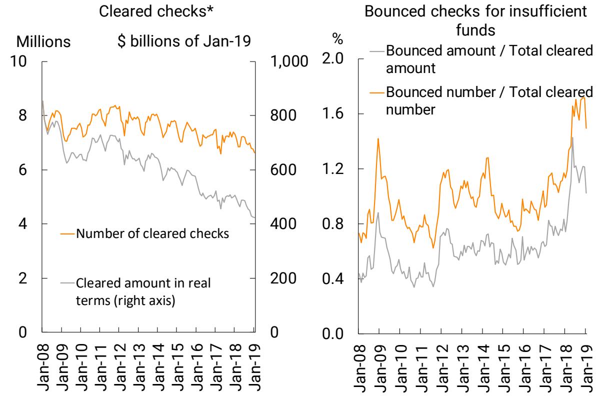

*Including assets admissible for calculation of the compliance with minimum cash requirement. **Including principal of the loans (excluding accrued interest and capital adjustments). *** BCRA´s Cash Clearing Notes. Source: BCRA

**Chart 2 | FC Assets – FC Liabilities + Off-balance Fc Forward Net Purchases**
% of ASE* of the Financial System




*ASE: Adjusted Stockholders´ Equity. Source: BCRA

**Chart 3 | Cleared and Bounced Checks**




*Note: 3-month moving average. Source: BCRA

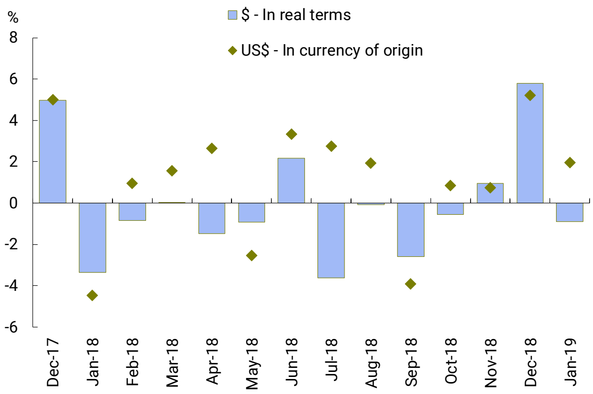
[1] Taking into account differences of the balance sheet stock.

January, cleared checks decreased against the number recorded by the end of 2018, and accumulated a drop of 5.5% y.o.y. in the number of checks and of 12.7% y.o.y. in amounts in real terms. During the first month of 2019, both the number and the amount of bounced checks for insufficient funds decreased relative to the total of cleared checks (see Chart 3).

# II. Deposits and Liquidity

The stock of private sector deposits in pesos decreased 0.7% in real terms against December 2018 —up 2.2% in nominal terms— (see Chart 4), in part due to the seasonality of this month, with an 8.7% decline of sight accounts in real terms, and a 7.7% increase of time deposits in real terms. Private sector deposits in foreign currency grew 2% over the month[2]. Given the monthly reduction of public sector deposits, total deposits shrank 2.4% in real terms in January.

**Chart 4 | Monthly Evolution of Private Sector Deposits**




Source: BCRA

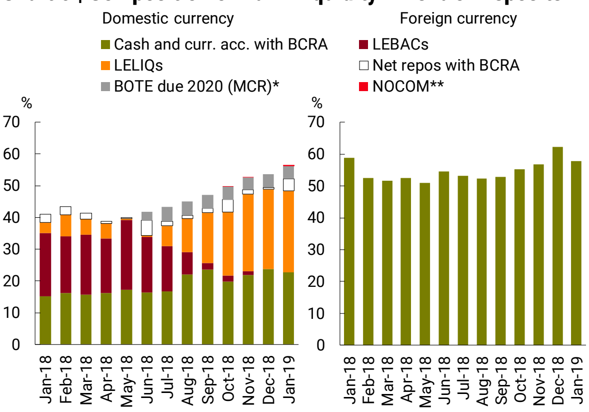
In a year-on-year comparison, private sector deposits in pesos fell 2.1% in real terms: the stock of time deposits grew 16.1% y.o.y. in real terms, whereas sight accounts went down 16.3% y.o.y. in real terms. Private sector deposits in foreign currency rose by 16.3% y.o.y. (in currency of origin). The stock of total deposits grew 6.2% in real terms in the last 12 months.

In January, a slight increase was recorded of the relative share of private sector deposits in total funding –liabilities plus net worth– of the financial system (to 57.7%), whereas the share of public sector deposits went down (to 14.8%). In particular, the share of private sector time deposits in pesos increased 1.8 p.p. in total funding over the month (to 20.1%). As from March 2019, the BCRA decided to increase the limit under the Deposit Insurance Scheme. Such limit was increased from $450,000 to $1 million per depositor in each financial institution[3].

In January, in line with the declining trend of the reference interest rate of LELIQs, the average nominal interest rate for time deposits in pesos of the private sector contracted as well.

In January, there was an expansion in the liquidity levels of the financial system. The broad liquidity indicator[4] stood at 56.8% of total

**Chart 5 | Composition of Bank Liquidity – As % of Deposits**




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

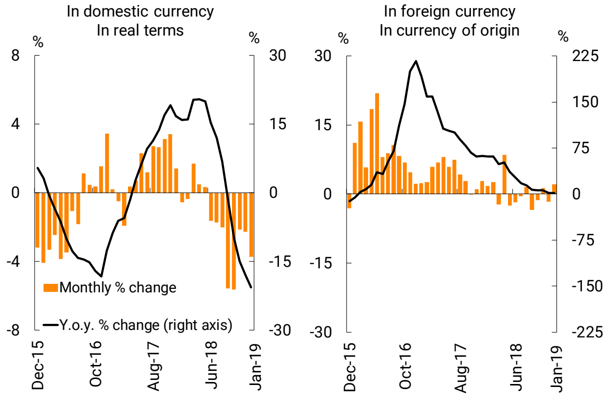
[2] In currency of origin.
[3] See Communication "A" 6654.
[4] Liquid assets, compliance with minimum cash requirements, and BCRA's instruments, in domestic currency and in foreign currency.

deposits (with a similar record for the ratio in domestic currency), up 0.4 p.p. against late 2018 (+2.7 p.p. for the segment in pesos, see Chart 5). The main reason behind the liquidity monthly increase was the use of LELIQs by private banks to apply funds to repo transactions with the BCRA. In year-on-year terms, liquidity grew 11.3 p.p. of deposits (+15.4 p.p. for the ratio in pesos). The liquidity in foreign currency totaled 57.9% of deposits in foreign currency in January, down 4.5 p.p. against December 2018 and down 1 p.p. against early 2018.

# III. Credit and Portfolio Quality

In January, the stock of loans in domestic currency to the private sector fell 3.7% in real terms against the previous month (-0.9% in nominal terms).[5] This drop was widespread among all credit lines. In turn, the stock of loans in foreign currency to the private sector went up 2.1% in January (currency of origin, see Chart 6), mostly driven by credit cards activity.

**Chart 6 | Stock of Loans to the Private Sector by Currency**




Source: BCRA

In a year-on-year comparison, in January, loans in pesos to the private sector shrank 20.6% y.o.y. in real terms (see Chart 6), which is mainly due to the performance of private banks.[6] In turn, loans in foreign currency accumulated an increase of 2.1% y.o.y. (in currency of origin).

Upon a breakdown analysis by segment, in the first month of 2019, lending to companies, in both domestic and foreign currency, fell 5.3% in real terms against December 2018 (-2.5% in nominal terms), accumulating a drop of 13.2% y.o.y. in real terms.[7] Loans to commerce and construction posted the most sizable relative year-on-year drops. In turn, lending to households went down over the month 1% in real terms, and 10.6% y.o.y.[8] Mortgage loans were the only credit line showing an increase in real and year-on-year terms.

In January, the share of loans to the private sector in the financial system's assets shrank and stood at 40.6% (-0.6 p.p. against December 2018 and -7.1 p.p. if compared to the value recorded a year ago).

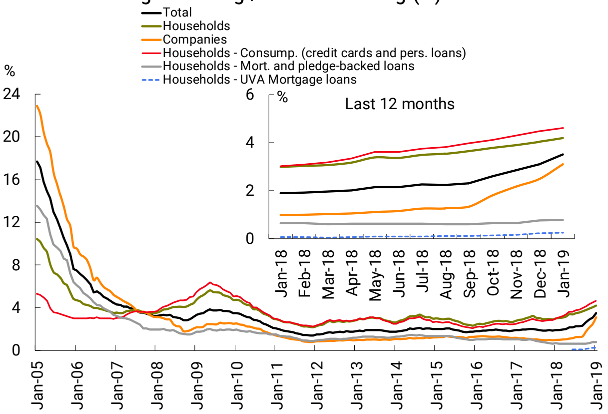
The average interest rates in pesos dropped in January in the case of credit lines with a shorter relative term, such as overdrafts and discounted promissory notes, thus mirroring to a larger extent the changes in the rate of LELIQs. The interest rates of mortgage loans also recorded a slight fall

[5] Including adjustments of principal and interest accrued. Even if we take into account the seasonal factors attributable to summer vacations, the stock of loans in pesos to the private sector dropped in real terms in January.
[6] Including adjustments of principal and interest accrued.
[7] 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 the 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.
[8] Idem (previous note).

over the month. In turn, the interest rate agreed for pledge-backed loans rose slightly against December, whereas rates for credit cards and personal loans posted no significant changes. During this period, the average interest rates on UVA loans went up for pledge-backed loans, personal loans and promissory notes, while they went down for mortgage loans.

In the first month of 2019, the non-performing ratio of loans to the private sector reached 3.5%, up 0.4 p.p. against December 2018 and up 1.6 p.p. y.o.y. (see Chart 7). The delinquency ratio of loans to companies stood at 3.1% in January, up 0.6 p.p. against the value recorded the previous month, mainly due to the performance of loans to trade and industry. The delinquency ratio of loans to households reached 4.2% of the portfolio, up 0.2 p.p. against the value recorded in December. Specifically, the delinquency ratio of mortgage loans to households posted no significant changes (0.25% for the UVA segment and 0.57% for other segments).

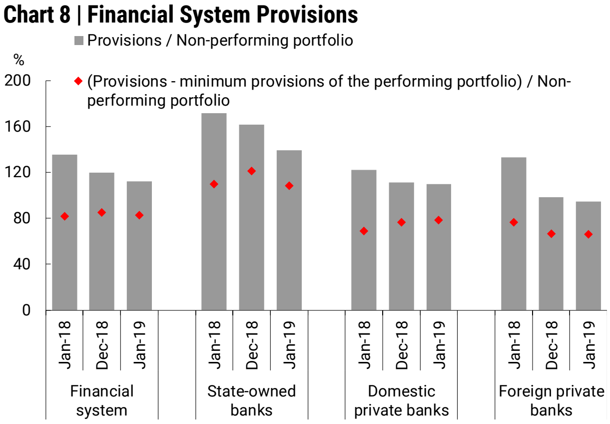
**Chart 7 | Ratio of Non-Performing Loans to the Private Sector**
Non-Performing financing / Total financing (%)




Source: BCRA

The estimated stock of provisions attributable to non-performing loans accounted for 83% of such portfolio in January, posting no significant changes against the level recorded a year ago (see Chart 8). Taking into consideration the total stock of accounting provisions – provisions allocated to both the performing and the non-performing portfolio–, this ratio stood at 112%.

**Chart 8 | Financial System Provisions**




Source: BCRA

# IV. Solvency

At the beginning of the year, the financial system's solvency ratios continued to be at high levels (see Chart 9). Compliance with capital requirements accounted for 15.9% of risk-weighted assets (RWA) in January, a value similar to that recorded in January and December 2018.[9] The compliance in excess of the requirement remained at 85% of the regulatory minimum requirement.

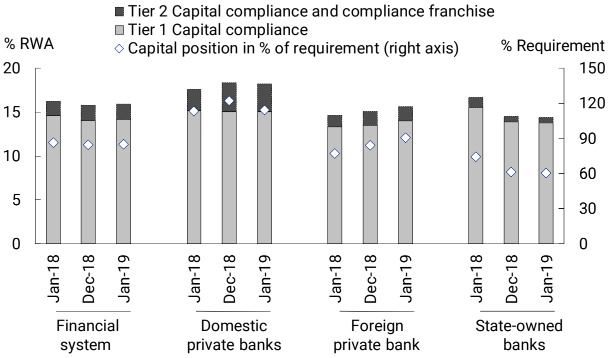
In January, the financial system recorded a nominal monthly income equivalent to 3.9%a. of assets –ROA– (see Chart 10), standing below the income recorded in December. Considering the aggregate of 12 months up to January 2019, banks accrued nominal income for 4.2% of assets and 37.6% of equity (+1.4 p.p. and +13.8 p.p. against the levels recorded 12 months ago).

[9] Eighty-nine percent of the compliance with regulatory capital consists of capital of a higher relative quality (Tier 1).

The financial margin of the ensemble of banks totaled 11.4%a. of assets in January, down 2.1 p.p. against December 2018. The monthly contraction was mainly due to lower income for securities. Taking into consideration the aggregate of 12 months up to January, the financial margin accounted for 10.8% of assets, up 0.6 p.p. against the value recorded 12 months ago.

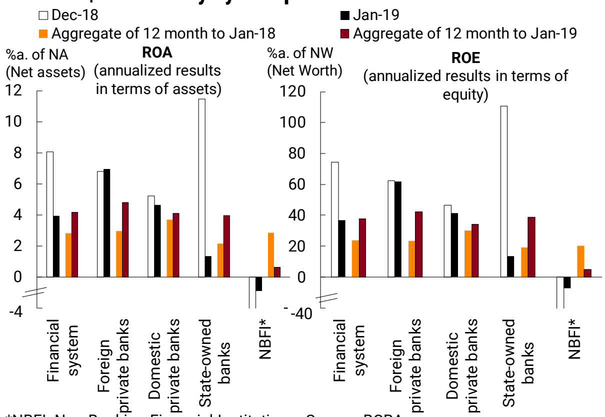
In January, the financial system's net income from services accounted for 2.2%a. of assets, posting no significant changes against December. In the aggregate of 12 months, net income from services accounted for 2.2% of assets, down 0.6 p.p. in year-on-year terms.

**Chart 9 | Compliance and Excess of Regulatory Capital**




Tier 1 Capital compliance: Basic Net Worth
Tier 2 Capital compliance: Supplementary Net Worth
Source: BCRA

**Chart 10 | Profitability by Group of Financial Institutions**




*NBFI: Non-Banking Financial Institutions. Source: BCRA

In January, loan loss provisions increased slightly to 1.7%a. of assets. In the aggregate for the last 12 months, these provisions accounted for 1.4% of assets (+0.3 p.p. against January 2018 in a year-on-year comparison). Administrative expenses totaled 6.2%a. of assets, posting a level similar to the aggregate for the last 12 months (down 0.9 p.p. in year-on-year terms).