Report on Banks

June 2014

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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Year XI, No. 10

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DE LA REPÚBLICA ARGENTINA

Contents

Note | This Report is focused on the performance of the financial system, including breakdowns by homogeneous sub-sectors. The data reported (particularly, those referring to profitability) are provisional and subject to changes. Except otherwise provided, end-of-month data are included.

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For comments, enquiries or electronic subscriptions: analisis.financiero@bcra.gob.ar

Summary

- **The stock of total loans (in domestic and in foreign currency) granted to the private sector grew 1.9% in June (26.4% y.o.y.)**, favored by loans for commercial purposes and financing through cards. **Bank lending is estimated to have accounted for 13.6% of GDP by mid-2014**—slightly below the figure recorded in late 2013—even though it has increased in excess of 4 p.p. since 2009.

- Lending to companies has been partly driven by the **Credit Line for Productive Investment (LCIP)** so far this year. Regarding the fourth stage of the LCIP—corresponding to the first half of 2014—, 91% of the target quota would have been granted by May, out of which 64% was channeled to the segment consisting of micro, small, and medium-sized enterprises. **With a view to maintaining this positive performance, the BCRA renewed this tool for the second half of 2014**; thus, it increased bank funds aimed at financing productive projects by $28 billion.

- **In June, lending interest rates traded in pesos fell in most credit lines and in almost all groups of banks**. Rates arranged for personal and pledge-backed loans posted the greatest relative reductions over the month, a performance observed amidst the measures implemented by the BCRA to regulate interest rates on financing to individuals.

- **The delinquency ratio in loans to the private sector stood at around 2% during the month, recording the same value as in last May.** The non-performance ratio rose 0.3 p.p. in the first half of 2014 because the stock of non-performing loans grew relatively more than the total stock of loans. This indicator recorded a lower change—only 0.1 p.p.—in y.o.y. terms. **The financial system recorded ample provisioning levels**, with a delinquent portfolio coverage amounting to 138%.

- **The stock of total deposits in pesos increased 2.1% (25.1% y.o.y.) in June, while private sector deposits posted a 4.2% hike (30% y.o.y.)**. In turn, public sector deposits in pesos fell 4% over the month (+10.9% y.o.y.). Monthly changes in deposits were influenced by the payment of the semi-annual complementary wage. **The cost of funding estimated for private sector time deposits in pesos fell over the month**. The reduction reached all groups of banks.

- **The financial system broad liquidity indicator (including LEBACs, NOBACs and domestic and foreign currency) reached 43% of total deposits in June**, after having gone up 0.2 p.p. against last May and 6.2 p.p. y.o.y. The liquidity ratio (in domestic and in foreign currency) rose 0.4 p.p. of deposits over the month, amounting to 24.5%. This ratio increased slightly against the level observed twelve months before.

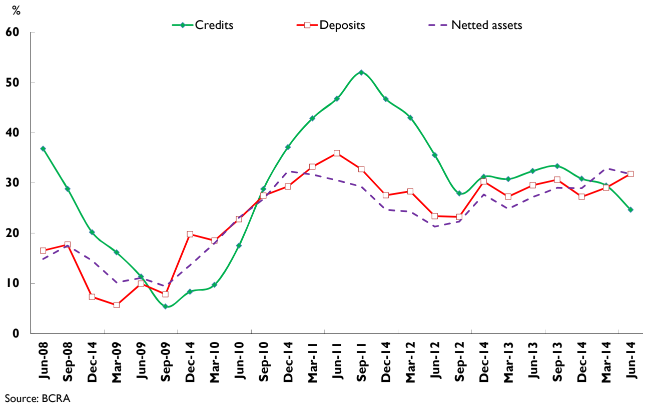
- **In June, consolidated financial system net worth increased 1.3%** mainly due to book profits; while some institutions distributed dividends from previous fiscal years' profits. Financial system regulatory capital compliance in terms of risk weighted assets (RWA) remained at levels similar to those of the month before, around 14%. In turn, **compliance in excess of the requirement (capital position) stood at 82% of the regulatory requirement in June.**

- **Financial system profitability totaled 3.6%a. of assets during the month** standing slightly below May's level. **ROA corresponding to the second quarter of the year amounted to 3.4%a**., up 0.8 p.p. y.o.y. primarily due to a rise in profits derived from securities. All groups of banks raised the quarterly ROA in y.o.y. terms.

I. Activity

Financial intermediation activity with the private sector in the second quarter of 2014 was less dynamic than in previous years. The stock of loans to companies and households increased 1.9% in June (24.6% y.o.y.), while private sector deposits went up 3.8% (31.8% y.o.y.). In turn, netted assets of the group of financial institutions rose 2.1% over the month (31.7% y.o.y.) (see Chart 1).

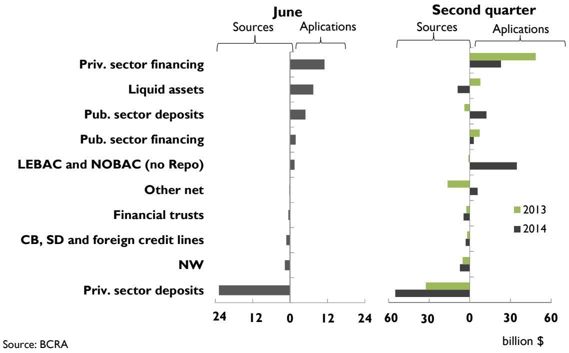
Chart 1
Financial Intermediation
Y.o.y. % variation - Financial system



Source: BCRA

Considering the monthly fund flow estimated for the aggregate financial system[1], **most funds in June were channeled to private sector financing** ($11 billion). Fund flows were further allocated to increase liquid assets ($7.4 billion) and to reimburse public sector deposits ($4.9 billion). **These funds resulted, mainly, from the monthly increase in private sector deposits** ($22.8 billion) (see Chart 2). Additionally, fund sources included profits from banks' transactions.

Chart 2
Estimation of Sources and Uses of Funds - Financial System

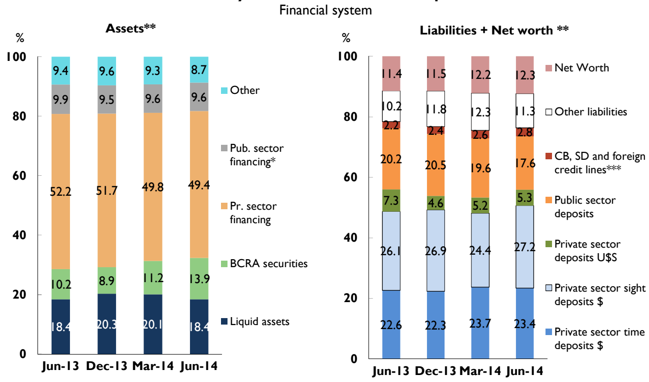


Source: BCRA

Regarding the fund flow in the second quarter of 2014[2], the rise in LEBAC and NOBAC holdings (not related to repos), **was the main use given to funds**. The rise in lending to the private sector was the second most relevant use of funds from April to June. In turn, **the expansion of private sector deposits was the most significant fund source in the second quarter of 2014, just like in the same quarter of 2013**.

As a result of recent banks' performance, **monetary regulation instruments raised their share by 2.7 p.p. in total assets in the second quarter of 2014, totaling 13.9%** (see Chart 3). In contrast, the relative significance of liquid assets and, to a lesser extent, of lending to companies and households in total assets fell. In turn, private sector deposits—especially, those in pesos—raised their share in total funding over this period, while weighing of public sector deposits declined.

Chart 3
Financial System Balance Sheet Composition
Financial system

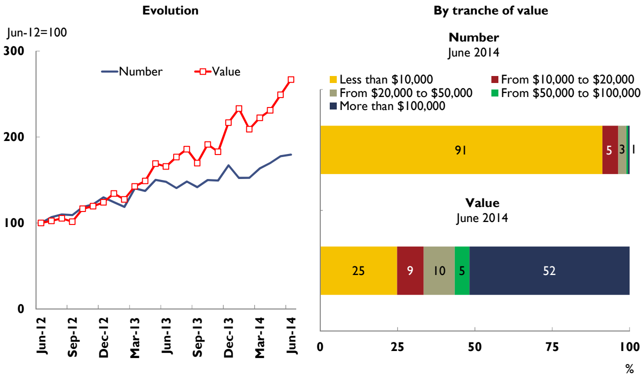


*Note: Include securities and lending. **Assets and liabilities netted from repo, term and downpayments operations.***Corporate bonds (CB) and Subordinated debt (SD). Source: BCRA

The use of certain means of payment other than cash has continued increasing so far this year. In June, the value of checks cleared increased 5.3% against the previous month (42.5% y.o.y.), while the amount cleared rose 2.4% over the period (5.9% y.o.y.). **This performance was observed together with a monthly reduction in the number of checks bounced for insufficient funds in terms of the total number of cleared checks.** It should be noted that, according to the information available **for July, the portion of instruments bounced for insufficient funds** in the total cleared **did not change significantly** against June's levels, remaining in line with the records corresponding to June 2013. In turn, **fund instant transfers increased**

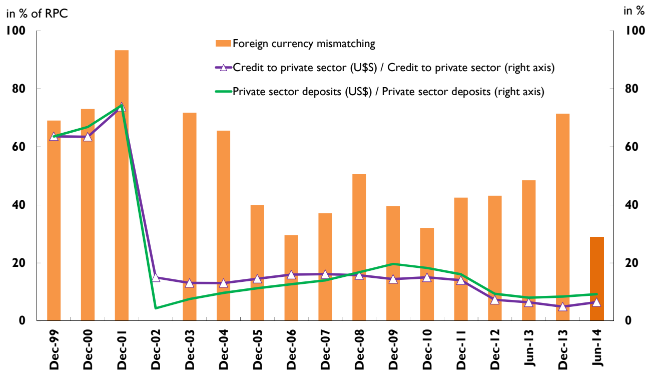
[1] Estimates are based on balance sheet information.
[2] Ibid. note 1.

Chart 4
Instant Transfers



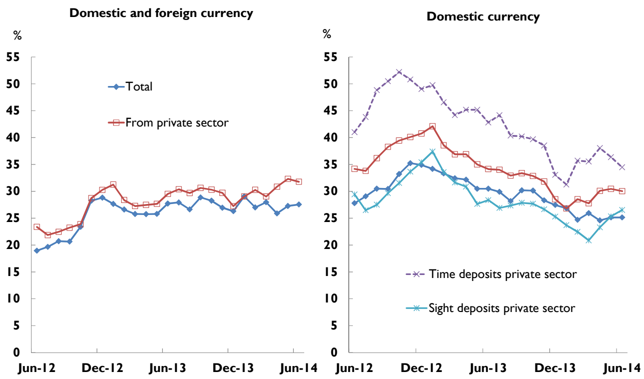
Source: BCRA

Chart 5
Foreign Currency Mismatching* and Financial System Balance Sheet Dollarization



*Note: (Assets - Liabilities + Net undelivered foreign currency term purchases) / RPC
Source: BCRA

Chart 6
Financial System Deposits
Y.o.y. % var. of balance sheet stocks



Source: BCRA

7.2% in terms of values traded over the period (61.1% y.o.y.) and 1% in terms of amount (21.4% y.o.y.). Considering different segments of amount, in June, 96% of fund instant transfers corresponded to the lowest segments (less than $10,000, and between $10,000 and $20,000); such transfers are free of charge for bank clients (see Chart 4). Regarding value, instant transfers exceeding $100,000 accounted for over half of the total.

Broad foreign currency mismatching of the aggregate financial system stood at 29% of adjusted stockholders' equity over the month, slightly above May's value. The monthly evolution was accounted for by: a rise in the difference between assets and liabilities in foreign currency in the balance sheet, especially, in the case of foreign private banks and by fewer forward net sales of foreign currency by national private banks. Nevertheless, **the broad foreign currency mismatching of the ensemble of banks fell significantly when making a 6-month and a y.o.y. comparison** (see Chart 5), driven by changes made by the BCRA to financial institutions' Net Global Position in foreign currency in early 2014. Within this framework, it should be noted that balance sheets of the ensemble of banks continued posting low dollarization levels. In June, the stock of loans in foreign currency to the private sector accounted for only 6.4% of total lending channeled to this sector, whilst deposits in foreign currency represented 9.2% of total loans to companies and households.

II. Deposits and liquidity

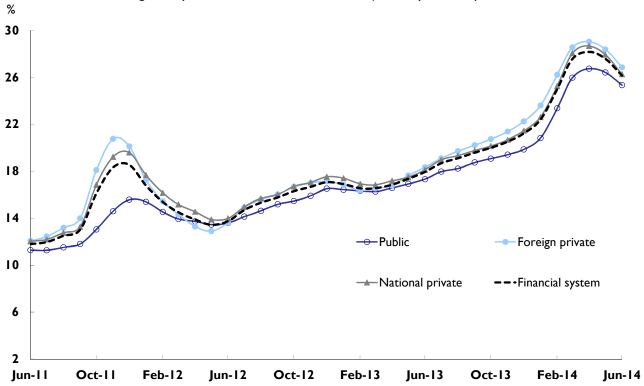
The stock of total deposits in pesos in the financial system increased 2.1% in June, going up 4.2% in private sector deposits, mainly due to sight accounts. In turn, public sector deposits in pesos decreased 4% over the period. This monthly performance delivered by deposits in pesos was partly explained by effect of the semi-annual complementary wage payment. On the other hand, deposits in dollars rose slightly in June. Within this framework, total deposits[3] in the financial system went up 2.2% against May.

The stock of total deposits in pesos increased 25.1% as of June in y.o.y. terms and was driven by private sector deposits which climbed 30% y.o.y. This rise in private sector deposits in pesos was mainly accounted for by **time deposits, which rose 34.5% y.o.y.** (see Chart 6) and, to a lesser extent, by sight accounts, which improved 26.5% y.o.y. In turn, total deposits in foreign currency stood slightly above the level recorded in June

[3] Private and public sectors, considering pesos and dollars.

Chart 7

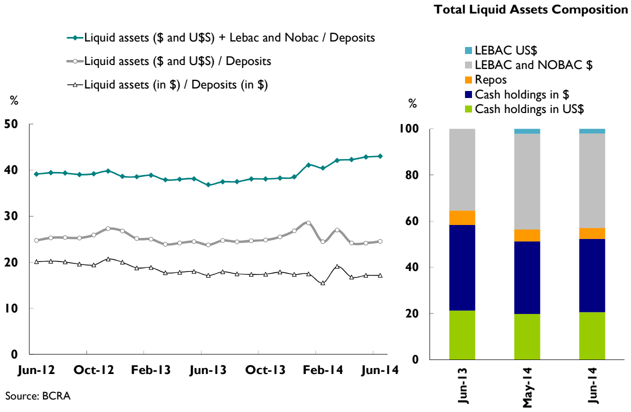
Estimation of Average Funding Costs by Private Sector Time Deposits in Pesos
Weighted by 1-month traded volume and adjusted by cash requirements



Source: BCRA

Chart 8

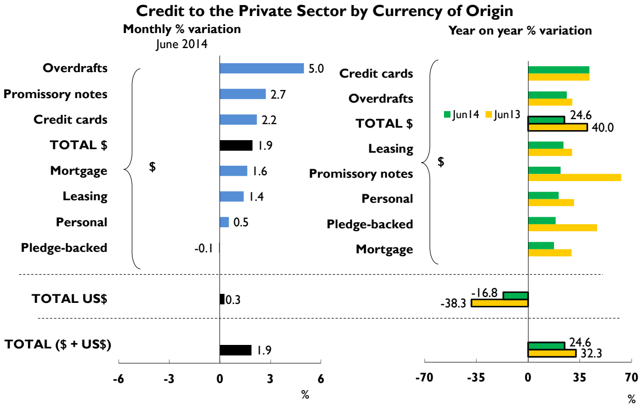
Financial System Liquidity



Source: BCRA

Chart 9

Credit to the Private Sector by Currency of Origin



Note: Total includes balance sheet stock. Variations in currency of origin.
Source: BCRA

2013. Thus, the total balance sheet stock[4] grew 27.5% y.o.y. as of June.

In June, the funding cost estimated for public sector time deposits fell for the second consecutive month. The reduction reached all groups of banks (see Chart 7).

The financial system broad liquidity indicator (including LEBACs and NOBACs in domestic and foreign currency) **increased 0.2 p.p. of deposits in June reaching 43%**. Holdings of monetary regulation instruments as well as financial institutions' compliance with the minimum cash requirement increased over the period; such effects were partially offset by a fall in repos with the BCRA. The broad liquidity indicator increased 6.2 p.p. of deposits in y.o.y. terms mainly as a result of greater LEBAC holdings (see Chart 8). Similarly, the liquidity ratio (domestic and foreign currency) climbed 0.4 p.p. of deposits during the month, standing at 24.5% and increasing slightly against the level observed twelve months before.

III. Financing

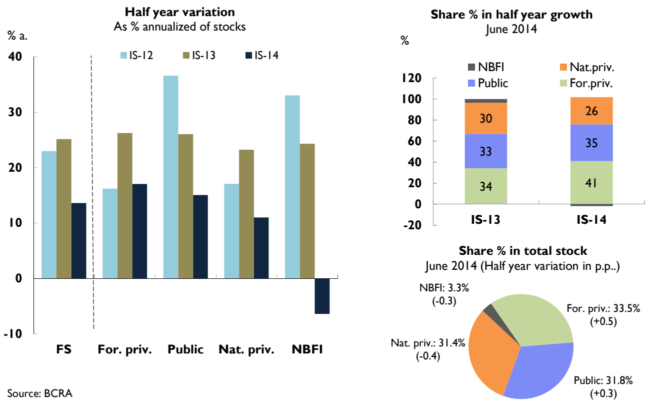
In June, the stock of loans in pesos to the private sector grew 1.9%[5] (24.6% y.o.y.). Almost all lines in pesos expanded over the period, particularly, the segment of overdrafts, promissory notes—which would have been influenced by the effect of the end of the fourth stage of the Credit Line for Productive Investment—and cards (see Chart 9), which recorded higher relative momentum. In turn, financing in foreign currency increased slightly against the month before (-16.8% y.o.y.)[6]. **Total loans (including domestic and foreign currency) granted to companies and households rose 1.9%[7] over this period (24.6% y.o.y.)**, driven mainly by private banks.

Total financing channeled to the private sector expanded at a 13.6% annualized (a.) pace in the first six months of 2014, below the changes registered in previous years (see Chart 10). The moderation observed in the increase in total loans granted to companies and households was homogeneous in all groups of financial institutions. Foreign private banks accounted for 41% of the rise in total lending to companies and households over the period, up 7 p.p. against the value observed in the first half of last year. In addition, public banks contributed to 35% of such expansion, up 2 p.p. against the figure recorded a year before. Thus, both groups of

[4] Ibid.previous note.
[5] Four financial trusts were issued in June for a total of $541 million with loans granted by financial institutions out of which $263 million corresponded to securitizations of personal loans and $278 million to leasing contract securitizations. If the balance sheet stock is adjusted by assets securitized over the period, the increase of financing in pesos to the private sector would stand at 2%.
[6] Change in the currency of origin.
[7] If the balance sheet stock is adjusted by assets securitized over June (using loans granted by banks as underlying assets), the monthly change in total lending (including domestic and foreign currency) to the private sector would amount to 2%.

Chart 10

Credit to the Private Sector by Group of Financial Institutions

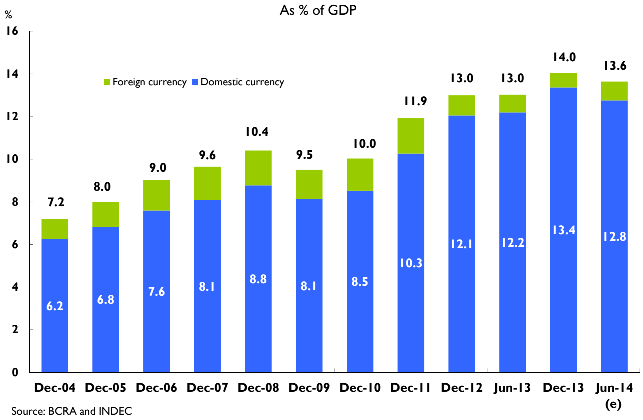


Source: BCRA

Chart 11

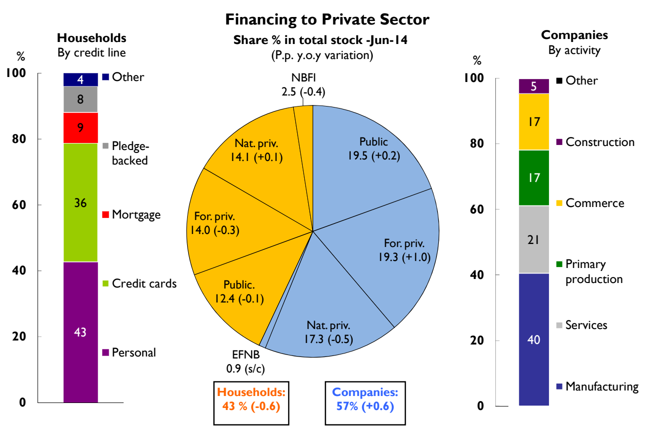
Credit to Private Sector

As % of GDP



Source: BCRA and INDEC

Chart 12



Source: BCRA

banks raised their share in the stock of total loans to the private sector over this period.

Within this framework of less growth in lending to the private sector, the ratio of bank financing to companies and households/GDP would have reduced slightly in the first half of the year. Thus, the ratio of financing to the private sector/GDP is estimated at 13.6% in June (see Chart 11). Nevertheless, it should be noted that this ratio has increased in excess of 4 p.p. of GDP since late 2009.

Total financing to the private sector has been primarily driven by lending to companies[8] so far this year. Loans granted to the productive sector expanded 2.3% in June against May and have risen 26.1% y.o.y. In turn, lending to households[9] increased at a 1% pace monthly and 22.8% y.o.y. As a result of this momentum, **financing to companies accounted for 57% of the stock of loans to the private sector in June, raising their share slightly in y.o.y. terms**, a performance that was primarily explained by foreign private banks and public banks (see Chart 12).

The evolution of lending to companies in the first half of the year was partly driven by the Credit Line for Productive Investment (LCIP). **In the context of the fourth stage of the LCIP—corresponding to the first half of 2014—91% of the target quota would have been granted as of May** (around $20.7 billion out of a total of $22.8 billion), **out of which 64% was channeled to micro, small, and medium-sized enterprises** (see Chart 13). In turn, considering only the first three stages of the LCIP, almost 97% of the total amount has already been granted. In order to continue with this positive performance, the BCRA decided, by the end of June 2014, to renew the LCIP for the second half of the year[10]; therefore, it increased bank funds to finance micro, small, and medium-sized enterprises and specific clients' productive projects that do not fall within this segment but meet other characteristics[11] by over $28 billion. The maximum interest rate anticipated for these loans will be fixed during the first 36 months and may not exceed 19.5% in annual nominal terms[12].

In addition, **within the framework of the Bicentennial Productive Financing Program (PFPB),** the BCRA has allocated $7.9 billion through 27 auctions out of which $6.6 billion (83% of the total) have already been

[8] Information obtained from the Debtors' Database (including domestic and foreign currency). Loans to companies include those granted to legal persons and commercial loans granted to natural persons. In turn, loans to households are those given to natural persons unless they have a commercial purpose.

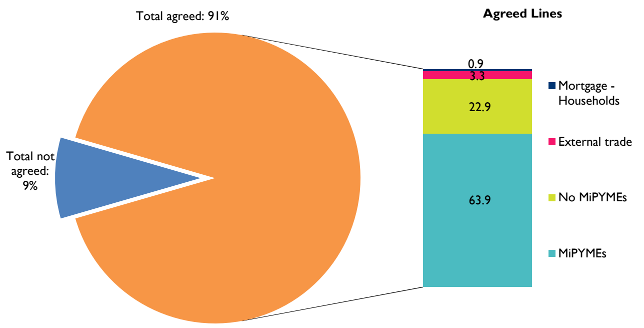
[9] Information obtained from the Debtors' Database (including domestic and foreign currency).

[10] Communication "A" 5600 and Communication "P" 50410.

[11] Mortgage loans for natural persons for the purchase, construction or remodeling of housing units; foreign trade transactions; projects generating productive capacity expansion, a rise in formal and direct job creation, expansion of export capacity, investment in capital goods and infrastructure works; financing in pesos to natural persons, provided that such loans have been originated or assigned by a financial institution not participating in the LCIP.

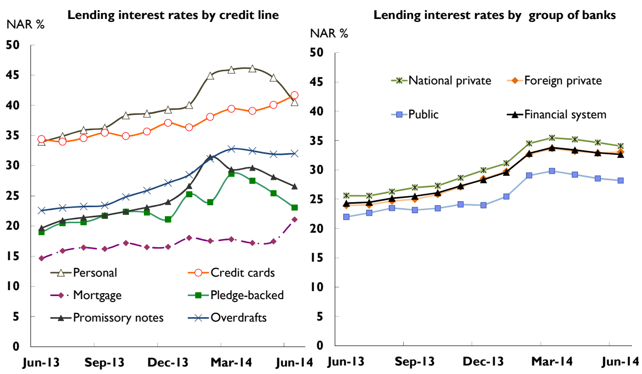
[12] After the third year, if such rate is not applied any longer, a variable rate may be applied which may not exceed the total BADLAR rate in pesos plus 300 p.b.

Chart 13
Credit Line for Productive Investment*
Fourth stage (First half of 2014)



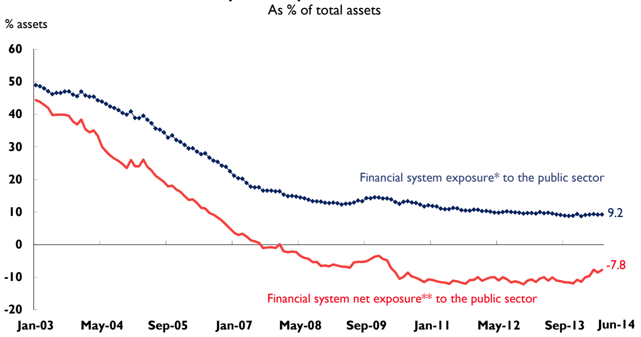
*Note: Last available data may 2014
Source BCRA

Chart 14
Lending Interest Rates Operated in Pesos*



*Note: Lending rates and spreads: weighted average by operated value.
Source: BCRA

Chart 15
Financial System Exposure to the Public Sector
As % of total assets



*Exposure: (Position in government securities (not including Lebac or Nobac) + Loans to the public sector) / Total Assets
**Net exposure: (Position in government securities (not including Lebac or Nobac) + Loans to the public sector - Public sector deposits) / Total Assets
Public sector includes national government and subnational jurisdictions (provinces and municipalities).
Source: BCRA

allocated to fourteen banks. Over 85% of loans channeled through the PFPB were granted by public banks. Financing to the industrial sector and, to a lesser extent, loans to service companies recorded the greatest share in total disbursements.

In June, lending rates in pesos fell generally amongst groups of financial institutions, while a heterogeneous performance was observed per credit line (see Chart 14). Particularly, rates on personal and pledge-backed loans posted the greatest relative reductions. This performance took place within the framework of the measures implemented by the BCRA to regulate interest rates on loans to natural persons[13]. The institution established that interest rates on personal and pledge-backed loans granted to natural persons may not exceed the figure resulting from multiplying the "benchmark interest rate" (simple average of cut-off rates on LEBACs at 90 days) by a coefficient from 1.25 to 2.00 —depending on the type of loan and the ensemble of lending banks—. In turn, interest rates on cards and mortgage loans increased over the month.

In this context, **the ensemble of financial institutions' exposure to the public sector stood at 9.2% of assets in June, a value similar to that of the previous month and below that recorded a year before** (see Chart 15). In turn, due to a decline in public sector deposits, the net creditor position held by this sector in relation to the financial system fell slightly over the month and accounted for 7.8% of the total, which meant a 2.3 p.p. drop of assets in y.o.y. terms.

IV. Portfolio quality

In June, the delinquency ratio of loans granted to the private sector stood at around 2%, the same value as that recorded in May and slightly above the figure registered in June 2013 (+0.1 p.p.). Non-performing loans to households remained at 3.2% of such sector's portfolio during the month, while delinquency of loans to companies fell down to 1.1% of total loans in the segment. **Current non-performance levels are low as against ten years ago and compared to other countries in the region and other emerging and developed economies** (see Chart 16).

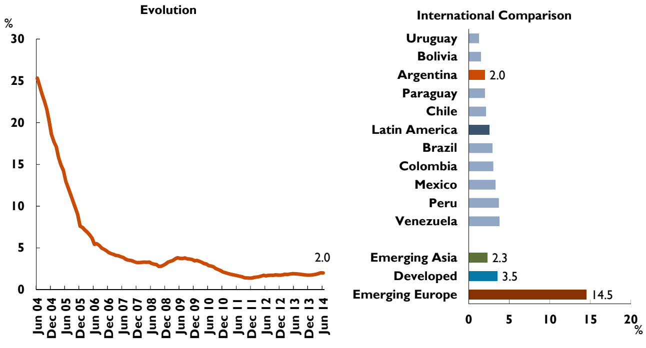
A 0.3 p.p. rise in non-performance levels of financing to the private sector was observed from these levels in **the first half of 2014**. This performance resulted from a lower pace of expansion in the total stock of loans and a certain rise in growth rates in the non-performing stock of loans (see Chart 17). The rise in the delinquency ratio recorded over the 6-month period in the aggregate of

[13] Communication "A" 5590.

Chart 16

Private Sector Non Performing Financing

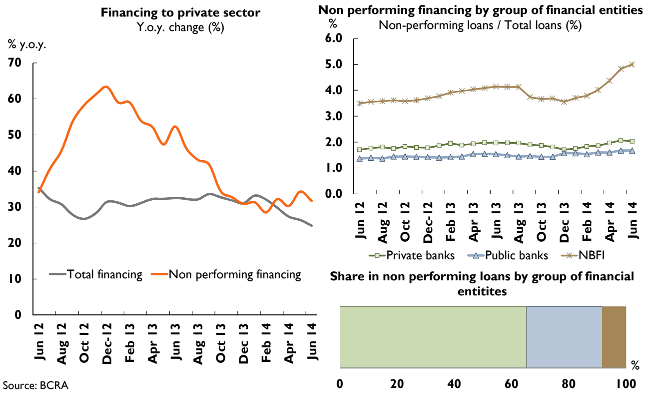
Non-performing loans / Total loans (%) - Financial System



Note: Emerging Europe: Turkey, Russia, Romania, Bulgary y Hungary. Emerging Asia: China, India and Indonesia. Developed: Korea, Spain, USA, UK, France, Japan, Italy, Canada, Australia and Germany. Data to 2014 except Italy, France, Spain, Turkey, China, Uruguay, Paraguay and Bolivia (2013), Bulgary (2012) and Venezuela (2010). Source: BCRA, IMF and Central Banks.

Chart 17

Private Sector Non Performing Financing

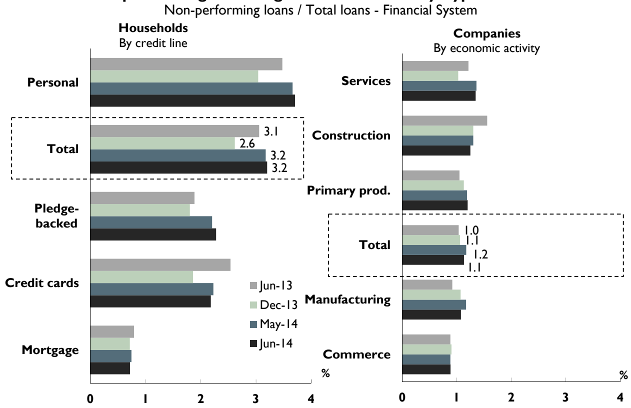


Source: BCRA

Chart 18

Non-performing Financing to Private Sector by Type of Debtor

Non-performing loans / Total loans - Financial System



Source: BCRA

financial institutions was mainly owed to the performance of the indicator for private banks given its relevance in the stock of loans. In the case of Non-Banking Financial Institutions (NBFI), the ratio has climbed 1.4 p.p. so far this year up to 5%, even though they only account for 3% of total loans. In contrast, public banks registered a lower rise in the delinquency ratio in the first half of the year.

The non-performance ratio variation registered over the 6-month period was mainly accounted for by loans granted to households. Particularly, the delinquency indicator for loans to households has increased 0.6 p.p. since the end of 2013, driven by all credit lines with the exception of mortgage loans (see Chart 18). In turn, **relative non-performance levels in loans to companies did not change significantly in the first half of the year.** Analyzed by productive sector, performance was heterogeneous: delinquency ratios of loans to manufacture and trade did not post any changes during the 6-month period; the indicator for construction reduced, while that for services and primary production recorded minor rises.

Lending covered by preferred guarantees and not covered by such guarantees kept their non-performance ratios during the month (1.6% and 2.1%, respectively); in addition, their share in total lending to the private sector also remained stable. When compared to the end of 2013, both types of loans recorded rises in their delinquency ratios, while the share of financing with preferred guarantees in the total was reduced down to 16.1%.

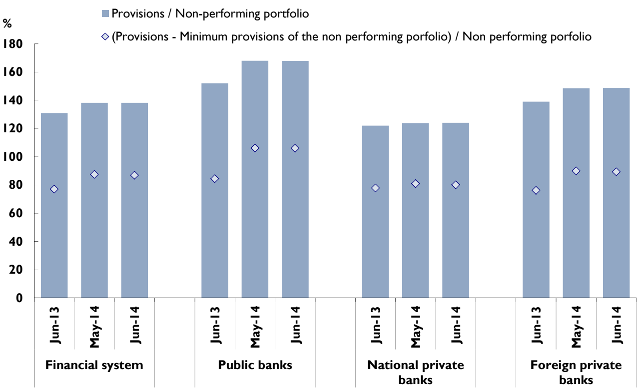
Coverage of the non-performing portfolio with provisions remained at 138% over the month for the entire financial system. **The ensemble of banks has continued evidencing ample provisioning levels, exceeding, in all homogeneous groups, 100% of the coverage of non-performing loans** (see Chart 19). If minimum provisions corresponding to the performing portfolio were excluded, the coverage ratio of non-performing loans would reach 87%, exceeding minimum provisions required for the portfolio in such condition by over 35p.p. (51.3%).

V. Solvency

Consolidated financial system net worth expanded 1.3% in June and was mainly driven by book profits recorded over the period; while some institutions distributed dividends from previous fiscal years' profits. **The ensemble of financial institutions ended the first half of the year evidencing a 42.7% rise in net worth in y.o.y. terms** (see Chart 20); similar growth rates were registered amongst the different groups of banks. In turn, bank assets posted a relatively minor rise than net

Chart 19

Non-performing Portfolio Coverage with Provisions by Group of Banks

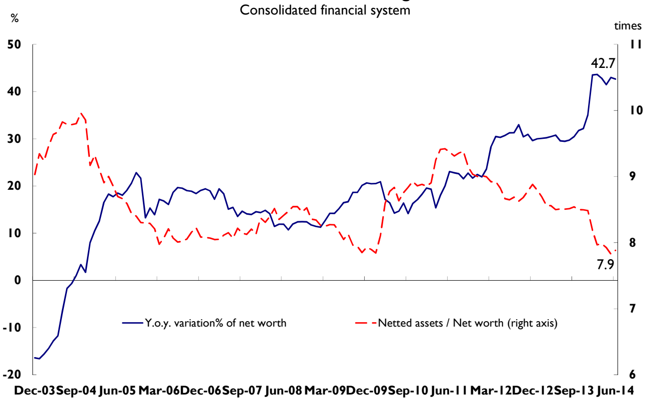


Source: BCRA

Chart 20

Net Worth and Leverage

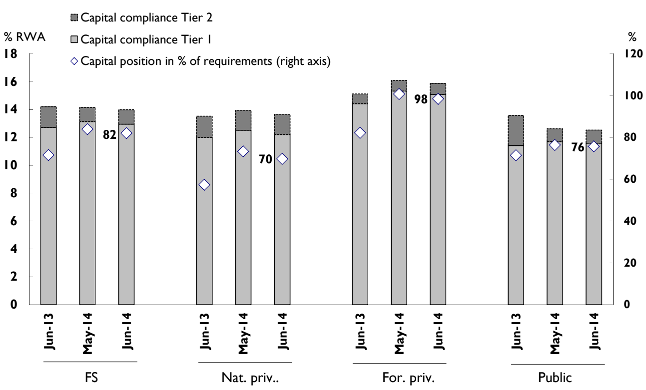
Consolidated financial system



Source: BCRA

Chart 21

Capital Compliance and Excess of the Requirement (Position)



Source: BCRA

worth in the last twelve months, reducing leverage at an aggregate level down to 7.9.

Financial system's compliance with regulatory capital totaled 14% of risk-weighted assets (RWA) by mid-2014, in line with the level of the previous month and that of June 2013 (see Chart 21). Tier 1[14] capital compliance represented 13% of RWA. In turn, **the excess in compliance of the ensemble of financial institutions stood at 82% of the regulatory requirement in June 2014**, falling slightly against May and evidencing a 10.5 p.p. y.o.y. rise.

In June, profits accrued by the financial system totaled 3.6%a. of assets, standing slightly below the level observed in May. The monthly reduction resulted mainly from the performance of private banks, both national and foreign, in a context of decline in the financial margin. **The ROA corresponding to the second quarter of the year reached 3.4%a., up 0.8 p.p. y.o.y.** Over this period, all groups of banks raised their profitability in y.o.y. terms.

Banks' financial margin stood at 9.4%a. of assets in June 2014, down 2.2 p.p. against the month before mainly due to lower profits derived from securities. **The financial margin reached 10.4%a. of assets in the second quarter of 2014, up 1.5 p.p. y.o.y**. This change was primarily the result of higher profits derived from securities which—despite the fall recorded in June—delivered a good performance in April and May. All groups of banks raised their financial margin in y.o.y. terms in the second quarter of 2014.

Net income from services for the ensemble of financial institutions increased slightly over the month, especially in the case of private banks, amounting to 4.5%a. of assets for the aggregate financial system in June. **Such net income accounted for 4.3%a. of assets in the second quarter of 2014, standing barely below the level recorded over the same period last year.**

Operating costs fell 0.3 p.p. of assets over the month, down to 7.2%a. The monthly reduction in expenses was reflected in all groups of banks following months of salary adjustments for the sector. **Such expenses stood at 7.6%a. of assets in the second quarter of the year, up 0.2 p.p. y.o.y**. In turn, after the rise recorded in the previous month, financial system loan loss provisions shrank 0.4 p.p. of assets in June, down 0.8%a. **These expenses registered a minor y.o.y. reduction down to 0.9%a. of assets in the second quarter of the year**; this trend was also recorded by public and foreign private banks.

[14] Defined as basic net worth (common and additional stock), net of accounts that may be deducted. See Communication "A" 5369.

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" 5586 – June 02, 2014

Financial institutions may allocate to the "Credit Line for Productive Investment" Quota 2014 up to 10% in excess of the percentage set forth in Communication "A" 5578 for the discount of deferred payment checks to micro, small, and medium-sized enterprises during June; this shall be applied through disbursements carried out over such month. Participating financial intermediaries shall keep such financing level up to September 2014. Institutions may allocate this type of aid to micro, small, and medium-sized enterprises for up to 40% of such quota.

Communication "A" 5590 – June 10, 2014

A benchmark interest rate scheme is adopted for personal and pledge-backed loans granted to natural persons other than micro, small, and medium-sized enterprises. By means of this scheme, rates on loans may not exceed the figure resulting from multiplying the cut-off rate on LEBACs at 90 days by a coefficient ranging from 1.25 to 2.00, depending on the type of loan and the Ensemble of Banks. To this end, financial institutions shall be classified into Group I and Group II. In cases of non-compliance, the minimum cash requirement shall be raised or else an equivalent amount shall be allocated to finance micro, small, and medium-sized enterprises following the guidelines for the "Credit Line for Productive Investment".

Communication "A" 5591 – June 10, 2014

Financial institutions and non-financial issuers of credit and/or purchase cards shall be previously authorized by the BCRA to raise fees and charges for basic financial services and products and changes to the items making them up. Such authorization shall be requested in writing to the BCRA. Additionally, the regulation defines such financial services deemed basic.

Communication "A" 5592 – June 10, 2014

The Annual Nominal Total Financial Cost (CFT) is implemented to reflect the cost of indebtedness.

Communication "A" 5593 – June 10, 2014

Access to financing by non-financial credit providers is regulated; such providers include legal persons that supply lending to natural persons and are not financial institutions supervised by the BCRA. .

Communication "A" 5599 – June 30, 2014

Regulations on "Guidelines on corporate governance in financial institutions" are modified, including those standards that are in line with Argentina's labor law.

Communication "A" 5600 – June 30, 2014

A second tranche for the "Credit Line for Productive Investment (LCIP)" Quota 2014 is authorized. Participating institutions shall use at least an amount equivalent to 5.5% of deposits in pesos from the non-financial private sector based on the balance at the end of May 2014. Institutions shall at least grant half of the loans corresponding to the new tranche of the LCIP before September 30, 2014, and the entire amount shall be furnished in full by the end of 2014. The maximum fixed rate in annual nominal terms shall amount to 19.50%. A percentage of the quota may be allocated to the discount of deferred payment checks to micro, small, and medium-sized enterprises. In turn, up to 15% of the quota may be used to finance clients other than micro, small and medium-sized enterprises and another 15% may be allocated to finance natural persons as from June 11, 2014, provided that such loans have been originated or assigned by a financial institution not participating in the LCIP (Group II).-

Methodology

(a) Aggregate balance sheet information is taken from the monthly accounting information system (unconsolidated balance sheets). In order to calculate aggregate data for the financial system, for financial institution that have not provided data for the month reviewed, the most recent information available is repeated in the aggregate balance sheet. On the other hand, for profitability analysis only the banks providing data for that month are considered.

(b) Due to possible lack of data for some banks at the time this Report was drafted, and due to possible corrections to the data provided by financial institutions later, the data included is of a preliminary nature –particularly for the last month included-. Therefore, and due to the fact that the most recent data available always used, data in connection with earlier periods may not match what was mentioned in earlier issues of the Report. In such cases, the latter release should be regarded as being of better quality.

(c) Unless otherwise indicated, data about deposits and loans refer to balance sheet information, and do not necessarily agree with those compiled by the Centralized Information Requirement System (SISCEN). Reasons for discrepancies include the precise date considered in order to calculate monthly changes and the items included in the definition adopted in either case.

(d) Profit ratio calculations are based on monthly results estimated from changes in the aggregate result amounts during the current fiscal year. Profit ratios are annualized with the exception of those ,.

(e) Initially, the breakdown by group of banks was determined by the majority of decision making role -in terms of voting rights at shareholder meetings- distinguishing between private sector financial institutions (national or foreign depending on their residence) and public banks. In order to increase depth of the analysis, private sector institutions were also classed according to the geographic coverage and business scope of their operations. Investment banking is defined as those specializing in large corporations and investor sector, which in general do not rely on deposits from the private sector for their funding. On the other hand, retail banks were divided into those carrying out business nationwide, those located in certain geographic regions -municipalities, provinces, or regions- and institutions specialized in a financial sector niche market -usually smaller institutions-. Finally, it is worth noting that the classifications defined above are solely for analytical purposes and does not mean it is the only methodology criteria by which to group them; while on the other hand, the listing of features for each financial entity group has been established in a general manner.

(f) Indicators exhibited in Tables 1 and 5 of Statistical Appendix: 1.- (Minimum cash compliance at the BCRA in pesos and foreign currency + Other cash holding in pesos and foreign currency + Creditor net balance for BCRA repo transactions with Lebac and Nobac) / Total deposits; 2.- (Position in government securities (without Lebac and Nobac) + Loans to the public sector + Compensations receivable) / Total assets; 3.- (Loans to the non-financial private sector + Leasing) / Total assets; 4.- Non-performing portfolio with the non-financial private sector / Loans to the non-financial private sector; 5.- (Total non-performing portfolio – Loan loss provisions) / Net worth. Non-performing portfolio includes loans classified into situations 3, 4, 5 and 6; 6.- Cumulated annual result / Average monthly netted assets - % annualized; 7.- Cumulated annual result / Average monthly net worth - % annualized; 8.- (Financial margin (Net interest income + CER and CVS adjustments + Gains on securities + Foreign exchange price adjustments + Other financial income) + Service income margin) / Cumulated annual operating costs; 9.- Capital compliance (Responsabilidad Patrimonial Computable) / Risk - adjusted assets according to the regulation of BCRA about Minimum Capital Compliance; 10.- Capital compliance Tier 1 / Risk weighted assets, according to the BCRA rule on minimum capital; 11.- (Capital compliance - Capital requirement) / Capital requirement. Included exemptions.

Glossary

%a.: annualized percentage.
Adjusted profit: Total profit excluding payments made due to court-ordered releases and adjustments to the valuation of public sector assets according to Com. “A” 3911 and modifications.
ASE: Adjusted stockholders’ equity, for RPC in Spanish. The measure for compliance with bank capital regulations.
CABA: Ciudad Autónoma de Buenos Aires
Consolidated (or aggregate) assets and liabilities: Those arising from excluding operations between financial institutions.
Consolidated result: Excludes results related to shares and participations in other local financial institutions.
CEDRO: Certificado de Depósito Reprogramado. Scheduled Stabilization Coefficient.
Financial margin: Income less outlays of a financial nature. Include 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.
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.
Net 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.
Net 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. Include interest on loans of government securities and premiums on repos and reverse repos.
Lebac and Nobac: Bills and notes of the BCRA.
Liquid assets: Cash disposal (Minimum cash compliance – cash, current account at BCRA and special accounts in guarantee – and other liquid items mainly correspondent accounts) plus Creditor net balance for BCRA repo transactions with Lebac and Nobac.
Liquidity ratio: Liquid assets as a percentage of total deposits.
mill.: million.
NBFI: Non-banking financial institution.
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 counterpart risk: Non-performing portfolio net of allowances in terms of net worth.
Non-performing portfolio: Portfolio in categories 3 to 6, as per the debtor classification system.
Operating costs: Includes remuneration, social security payments, services and fees, miscellaneous expenses, taxes and amortization.
ON: Corporate bonds (Obligaciones Negociables).
OS: Subordinated debt (Obligaciones Subordinadas).
Other financial results: Income from financial leasing, adjustments to valuation of credit to the public sector, contribution to the deposit guarantee fund, interest on liquid funds, difference in market price of gold and foreign exchange, premiums on the sale of foreign currency and other unidentified income (net).
PN: Net worth (Patrimonio Neto).
p.p.: 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, compensation receivable from the Federal Government and other credits to the public sector.
Quotation differences: Income from the monthly updating of foreign currency-denominated assets and liabilities. The heading also includes income arising from the purchase and sale of foreign currency, arising from the difference in the price agreed (net of direct costs generated by the transaction) and the book value.
ROA: Net profits as a percentage of netted assets. When referring to accumulated results the denominator includes the average netted assets for the reference months.
ROE: Net profits as a percentage of net worth. When referring to accumulated results the denominator includes the average net worth for the reference months.
RPC: Adjusted stockholder’s equity, calculated towards meeting capital regulations. (Responsabilidad Patrimonial Computable)
RWA: Risk weighted assets.
SME: Small and Medium Enterprises.
US$: United States dollars

Statistics annex[1] | Financial system

Chart 1 | Financial Soundness Indicators (see Methodology)

As %	Dec 2005	Dec 2006	Dec 2007	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Jun 2013	Dec 2013	May 2014	Jun 2014
1.- Liquidity	20.1	22.5	23.0	27.9	28.6	28.0	24.7	26.8	23.8	26.8	24.1	24.5
2.- Credit to the public sector	31.5	22.5	16.3	12.7	14.4	12.1	10.7	9.7	9.5	9.4	9.2	9.2
3.- Credit to the private sector	25.8	31.0	38.2	39.4	38.3	39.8	47.4	49.5	50.5	50.9	47.7	47.7
4.- Private non-performing loans	7.6	4.5	3.2	3.1	3.5	2.1	1.4	1.7	1.9	1.7	2.0	2.0
5.- Net worth exposure to the private sector	-2.5	-0.8	-1.5	-1.7	-1.3	-3.2	-4.3	-3.1	-2.5	-3.5	-2.9	-2.9
6.- ROA	0.9	1.9	1.5	1.6	2.3	2.8	2.7	2.9	2.7	3.4	5.0	4.8
7.- ROE	7.0	14.3	11.0	13.4	19.2	24.4	25.3	25.7	23.5	29.5	39.8	38.3
8.- Efficiency	151	167	160	167	185	179	179	190	187	206	236	229
9a.- Capital compliance	-	-	-	-	-	-	-	-	14.2	13.6	14.2	14.0
9b.- Capital compliance (credit risk)	15.9	16.9	16.9	16.9	18.8	17.7	15.6	17.1	-	-	-	-
10a.- Capital compliance Tier I	-	-	-	-	-	-	-	-	12.7	12.5	13.1	13.0
10b.- Capital compliance Tier I (credit risk)	14.1	14.1	14.6	14.2	14.5	13.0	11.0	11.9	-	-	-	-
11.- Excess capital compliance	169	134	93	90	100	87	69	59	72	76	84	82

Note: According to Communication "A" 5369, since February 2013 methodological changes in some indicators were carried out. Among others changes, risk weighing coefficients considered to determine capital requirements were redefined, concepts included in the different segments of capital compliance were rearranged and new minimum limits in terms of the Total Risk Weighted Assets (RWA) were added. A wider definition of RWA is considered since Communication "A" 5369, including not only credit risk, but also market and operational risk.

Data subject to changes

Source: BCRA

Chart 2 | Balance Sheet

In million of current pesos	Dec 08	Dec 09	Dec 10	Dec 11	Dec 12	Jun 13	Dec 13	May 14	Jun 14	Change(in %) Las month	Change(in %) 2014	Change(in %) Last 12 months
Assets	**346,762**	**387,381**	**510,304**	**628,381**	**790,026**	**866,694**	**1,004,892**	**1,121,265**	**1,143,607**	**2.0**	**13.8**	**32.0**
Cash disposal[1]	58,676	71,067	93,085	104,389	148,254	140,046	200,925	178,495	187,059	4.8	-6.9	33.6
Public bonds	65,255	86,318	117,951	112,906	123,491	147,165	141,494	227,557	229,235	0.7	62.0	55.8
Lebac/Nobac	37,093	43,867	76,948	71,050	84,057	102,136	89,641	172,864	173,770	0.5	93.9	70.1
Portfolio	25,652	34,748	61,855	59,664	70,569	85,121	88,091	152,177	153,573	0.9	74.3	80.4
Repo[2]	11,442	9,119	15,093	11,386	13,488	17,014	1,550	20,687	20,197	-2.4	1,203.1	18.7
Private bonds	203	307	209	212	251	426	434	751	593	-21.0	36.7	39.4
Loans	154,719	169,868	230,127	332,317	433,925	483,012	563,344	587,363	598,476	1.9	6.2	23.9
Public sector	17,083	20,570	25,907	31,346	39,951	41,653	48,438	49,604	50,635	2.1	4.5	21.6
Private sector	132,844	145,247	199,202	291,708	383,674	429,220	501,857	525,150	535,043	1.9	6.6	24.7
Financial sector	4,793	4,052	5,018	9,263	10,299	12,139	13,049	12,609	12,798	1.5	-1.9	5.4
Provisions over loans	-4,744	-5,824	-6,232	-7,173	-9,596	-10,957	-13,117	-15,074	-15,203	0.9	15.9	38.7
Other netted credits due to financial interm.	38,152	33,498	39,009	40,805	38,769	47,868	42,435	68,256	67,610	-0.9	59.3	41.2
Corporate bonds and subordinated debt	912	1,146	1,433	1,657	2,255	2,922	5,421	5,128	4,716	-8.0	-13.0	61.4
Unquoted trusts	5,714	5,942	6,824	7,967	10,822	11,563	12,656	13,623	12,888	-5.4	1.8	11.5
Leasing	3,935	2,933	3,936	6,222	7,203	8,059	9,460	9,797	9,933	1.4	5.0	23.3
Shares in other companies	7,236	6,711	7,921	9,123	11,682	12,811	15,117	17,253	18,159	5.3	20.1	41.8
Fixed assets and miscellaneous	7,903	8,239	9,071	10,111	11,251	11,761	14,231	15,622	15,850	1.5	11.4	34.8
Foreign branches	3,153	3,926	3,283	3,525	4,354	4,686	5,627	6,965	6,998	0.5	24.4	49.3
Other assets	12,275	10,337	11,943	15,944	20,441	21,819	24,941	24,280	24,895	2.5	-0.2	14.1
Liabilities	**305,382**	**339,047**	**452,752**	**558,264**	**699,205**	**763,659**	**883,091**	**977,337**	**997,371**	**2.0**	**12.9**	**30.6**
Deposits	236,217	271,853	376,344	462,517	595,764	652,070	752,422	814,020	831,674	2.2	10.5	27.5
Public sector [3]	67,151	69,143	115,954	129,885	163,691	169,507	202,434	199,349	194,441	-2.5	-3.9	14.7
Private sector[3]	166,378	199,278	257,595	328,463	427,857	477,700	544,331	606,608	629,467	3.8	15.6	31.8
Current account	39,619	45,752	61,306	76,804	103,192	110,337	125,237	132,153	138,108	4.5	10.3	25.2
Savings account	50,966	62,807	82,575	103,636	125,210	141,473	158,523	164,653	185,782	12.8	17.2	31.3
Time deposit	69,484	83,967	104,492	135,082	183,736	209,690	241,281	289,554	284,442	-1.8	17.9	35.6
Other netted liabilities due to financial interm.	57,662	52,114	60,029	76,038	75,106	85,318	92,634	119,955	123,389	2.9	33.2	44.6
Interbanking obligations	3,895	3,251	4,201	7,947	8,329	9,821	10,596	9,892	10,196	3.1	-3.8	3.8
BCRA lines	1,885	270	262	1,920	3,535	4,236	4,693	4,719	4,798	1.7	2.2	13.3
Outstanding bonds	5,984	5,033	3,432	6,856	9,101	10,658	14,198	16,002	16,029	0.2	12.9	50.4
Foreign lines of credit	4,541	3,369	3,897	6,467	4,992	5,131	6,328	9,788	10,995	12.3	73.8	114.3
Other	13,974	14,891	17,426	24,137	26,280	25,587	41,345	38,229	39,531	3.4	-4.4	54.5
Subordinated debts	1,763	1,922	2,165	2,065	2,647	2,732	3,425	4,046	4,049	0.1	18.2	48.2
Other liabilities	9,740	13,159	14,213	17,644	25,688	23,539	34,610	39,316	38,259	-2.7	10.5	62.5
Net worth	**41,380**	**48,335**	**57,552**	**70,117**	**90,820**	**103,035**	**121,800**	**143,929**	**146,236**	**1.6**	**20.1**	**41.9**
Memo												
Netted assets	321,075	364,726	482,532	601,380	767,744	837,921	989,825	1,081,561	1,103,867	2.1	11.5	31.7
Consolidated netted assets	312,002	357,118	472,934	586,805	750,598	818,445	968,458	1,059,958	1,081,593	2.0	11.7	32.2

([1]) Includes margin accounts with the BCRA. ([2]) Booked value from balance sheet (it includes all the counterparts).

([3]) Does not include accrual on interest or CER.

Source: BCRA

[1] Note | Data available in Excel in www.bcra.gov.ar

Statistics annex[1] | Financial system (cont)

Chart 3 | Profitability Structure

Amount in million of pesos	Annual						First 6 months		Monthly			Last
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2013**	**2014**	**Apr-14**	**May-14**	**Jun-14**	**12 months**
Financial margin	20,462	28,937	35,490	43,670	61,667	88,509	36,638	66,259	8,935	10,377	8,607	118,129
Net interest income	9,573	14,488	17,963	24,903	38,365	50,336	23,152	29,886	4,645	4,786	5,063	57,070
CER and CVS adjustments	2,822	1,196	2,434	1,725	2,080	2,153	1,068	2,729	594	447	305	3,814
Foreign exchange price adjustments	2,307	2,588	2,100	3,025	4,127	11,287	3,454	11,021	141	505	415	18,854
Gains on securities	4,398	11,004	13,449	14,228	17,356	22,280	9,057	18,696	3,641	4,686	2,887	31,919
Other financial income	1,362	-339	-457	-211	-261	2,454	-91	3,927	-87	-47	-63	6,472
Service income margin	10,870	13,052	16,089	21,391	28,172	36,503	17,133	22,071	3,660	3,833	4,134	41,441
Loan loss provisions	-2,839	-3,814	-3,267	-3,736	-6,127	-9,349	-3,979	-5,318	-662	-1,079	-690	-10,688
Operating costs	-18,767	-22,710	-28,756	-36,365	-47,318	-60,722	-28,703	-38,632	-7,094	-6,712	-6,578	-70,651
Tax charges	-2,318	-3,272	-4,120	-6,047	-8,981	-13,916	-6,140	-9,330	-1,460	-1,540	-1,583	-17,106
Adjust. to the valuation of gov. Securities[1]	-1,757	-262	-214	-336	-338	-377	-182	-544	-120	-94	-69	-740
Amort. payments for court-ordered releases	-994	-703	-635	-290	-274	-128	-60	-41	-10	-7	-8	-109
Other	1,441	918	2,079	2,963	2,475	2,576	1,721	2,647	420	489	729	3,501
Total results before tax[2]	6,100	12,145	16,665	21,251	29,276	43,094	16,428	37,111	3,669	5,266	4,543	63,777
Income tax	-1,342	-4,226	-4,904	-6,531	-9,861	-13,951	-5,637	-12,021	-1,334	-1,870	-1,248	-20,336
Total result[2]	**4,757**	**7,920**	**11,761**	**14,720**	**19,415**	**29,143**	**10,791**	**25,090**	**2,335**	**3,396**	**3,294**	**43,441**
Adjusted Result[3]	7,508	8,885	12,610	15,345	20,027	29,649	11,033	25,675	2,464	3,497	3,372	44,290
Annualized indicators - As % of netted assets												
Financial margin	6.7	8.6	8.5	8.0	9.2	10.3	9.2	12.6	10.2	11.6	9.4	12.0
Net interest income	3.1	4.3	4.3	4.6	5.7	5.9	5.8	5.7	5.3	5.4	5.5	5.8
CER and CVS adjustments	0.9	0.4	0.6	0.3	0.3	0.3	0.3	0.5	0.7	0.5	0.3	0.4
Foreign exchange price adjustments	0.8	0.8	0.5	0.6	0.6	1.3	0.9	2.1	0.2	0.6	0.5	1.9
Gains on securities	1.4	3.3	3.2	2.6	2.6	2.6	2.3	3.5	4.1	5.2	3.2	3.2
Other financial income	0.4	-0.1	-0.1	0.0	0.0	0.3	0.0	0.7	-0.1	-0.1	-0.1	0.7
Service income margin	3.6	3.9	3.8	3.9	4.2	4.3	4.3	4.2	4.2	4.3	4.5	4.2
Loan loss provisions	-0.9	-1.1	-0.8	-0.7	-0.9	-1.1	-1.0	-1.0	-0.8	-1.2	-0.8	-1.1
Operating costs	-6.1	-6.7	-6.9	-6.7	-7.0	-7.1	-7.2	-7.3	-8.1	-7.5	-7.2	-7.2
Tax charges	-0.8	-1.0	-1.0	-1.1	-1.3	-1.6	-1.5	-1.8	-1.7	-1.7	-1.7	-1.7
Adjust. to the valuation of gov. Securities[1]	-0.6	-0.1	-0.1	-0.1	-0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Amort. payments for court-ordered releases	-0.3	-0.2	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.5	0.3	0.5	0.5	0.4	0.3	0.4	0.5	0.5	0.5	0.8	0.4
Total results before tax[2]	2.0	3.6	4.0	3.9	4.3	5.0	4.1	7.0	4.2	5.9	5.0	6.5
Income tax	-0.4	-1.3	-1.2	-1.2	-1.5	-1.6	-1.4	-2.3	-1.5	-2.1	-1.4	-2.1
ROA[2]	**1.6**	**2.3**	**2.8**	**2.7**	**2.9**	**3.4**	**2.7**	**4.8**	**2.7**	**3.8**	**3.6**	**4.4**
ROA adjusted[3]	2.5	2.6	3.0	2.8	3.0	3.5	2.8	4.9	2.8	3.9	3.7	4.5
ROE before tax	*17.2*	*29.5*	*34.5*	*36.5*	*38.8*	*43.7*	*35.8*	*56.7*	*33.5*	*46.6*	*39.7*	*53.9*
ROE [2]	*13.4*	*19.2*	*24.4*	*25.3*	*25.7*	*29.5*	*23.5*	*38.3*	*21.3*	*30.1*	*28.8*	*36.7*

(1) Com. "A" 3911. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains from securities" heading.
(2) As of January 2008, data to calculate financial system consolidated result is available. This indicator excludes results and asset headings related to shares and participation in other local financial entities.
(3) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and 4084.
Source: BCRA

Chart 4 | Portfolio Quality

As percentage	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Dec 11	Dec 12	Jun 13	Dec 13	May 14	Jun 14
Non-performing loans (overall)	**5.2**	**3.4**	**2.7**	**2.7**	**3.0**	**1.8**	**1.2**	**1.5**	**1.7**	**1.5**	**1.8**	**1.8**
Provisions / Non-performing loans	115	108	115	117	115	148	176	144	134	150	140	140
(Total non-perfoming - Provisions) / Overall financing	-0.8	-0.3	-0.4	-0.5	-0.5	-0.9	-0.9	-0.7	-0.6	-0.8	-0.7	-0.7
(Total non-perfoming - Provisions) / Net worth	-2.6	-0.9	-1.6	-1.8	-1.7	-3.6	-4.6	-3.4	-2.8	-3.7	-3.1	-3.1
Non-performing loans to the non-financial private sector	**7.6**	**4.5**	**3.2**	**3.1**	**3.5**	**2.1**	**1.4**	**1.7**	**1.9**	**1.7**	**2.0**	**2.0**
Provisions / Non-performing loans	115	108	114	116	112	143	171	141	131	148	138	138
(Total non-perfoming - Provisions) / Overall financing	-1.1	-0.3	-0.5	-0.5	-0.4	-0.9	-1.0	-0.7	-0.6	-0.8	-0.8	-0.8
(Total non-perfoming - Provisions) / Net worth	-2.5	-0.8	-1.5	-1.7	-1.3	-3.2	-4.3	-3.1	-2.5	-3.5	-2.9	-2.9

Source: BCRA

IMPORTANT: *A greater breakdown of indicators per homogeneous groups of banks is included as from the publication of this Report on Banks; such information is available to the public in Excel format at* http://www.bcra.gob.ar/pdfs/polmon/InfBanc_Anexo.xls