Report on Banks

JULY 2006

Central Bank of Argentina

Year III - N° 11

Contents

Note: includes information for July 2006 available by 23/08/06. This Report focuses on the description of the performance of the financial system, including breakdowns into homogeneous sub groups. The data exhibited (in particular, the ones concerning profitabilty) are provisional, and are subject to revisions later.

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Summary

- **In line with the trend exhibited in recent months, during July the momentum of deposits and loans to the private sector was sustained, which consolidated the profitability of the financial system.** The banks continued to normalize their balance sheets: with a fall in the exposure to the public sector, payments of rediscounts and a contraction of the private credit risk. These processes had a positive influence to deepen the solvency of the financial system.

- **The bank financing of the private sector consolidated its progress compared with the exposure to the public sector. This trend is to a large extent explained by the regulations adopted by the Central Bank in a stimulating macroeconomic context.** In this manner, the private credit reached 27.3% of total assets, and exceeded exposure to the private sector by 1.6 p.p.. During July the exposure of the financial system to the public sector fell 1.3 p.p. achieving a level of 25.7%.

- **Loans to private sector grew 2.5% in July, to attain an expansion of 39% annualized -a.- in 2006.** The growth of the loans through current account overdrafts (6.2%, $600 million) and of personal loans (4.9%, $500 million) led the monthly changes. Meanwhile, the mortgage loans exhibited their highest rate of growth since the 2001 – 2002 crisis: expanded 2.2% in the month (13%a. so far in 2006). Finance through leasing was over $1.9 billion, or 4.1% higher than the stock in June.

- The financial system continued to normalize its debts with the Central Bank at a strong pace. In this manner, **between January and September the banks made payments of $6.4 billion to the Central Bank in the context of the matching schedule**. A private financial institution also precancelled all its debts for matching and at present only two banks are indebted on this account.

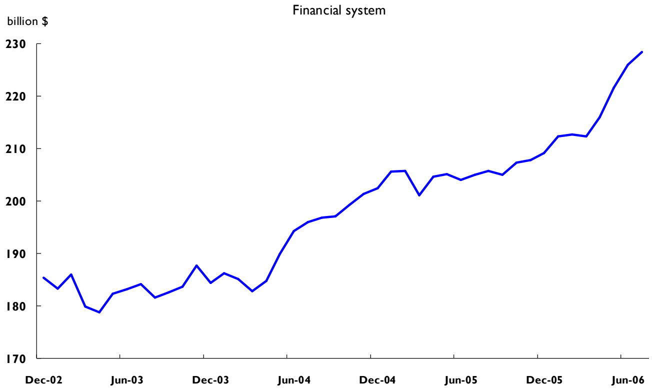
- **In July the banking system obtained its largest monthly accounting profits since the crisis: $490 million (2.6%a. of assets).** This led them to accumulate profits of $2.3 billion (1.8%a. of assets) in the first seven months of 2006. **Private banks led the profits during the month ($410 million, 3.8%a. of their assets),** to accumulate $1.5 billion (2%a. of their assets) for 2006 to date.

- **The positive results and the capitalizations are consolidating the solvency of the banking system. The net worth of the banks expanded 1.6% in the month, to accumulate an increase of 12.2% during 2006.** The capital compliance of the financial system, in terms of the risk weighted assets was 16.5% in July, while the excess of capital compliance stood at approximately 135% of the capital requirement.

- **The volume of intermediation continued on its rising trend. The netted asset of the financial system recorded a growth of 1.1% in July, to accumulate an increase of 9.3% (16%a.) in the first seven months of 2006**, changes that are mainly explained by the generation of new private sector loans.

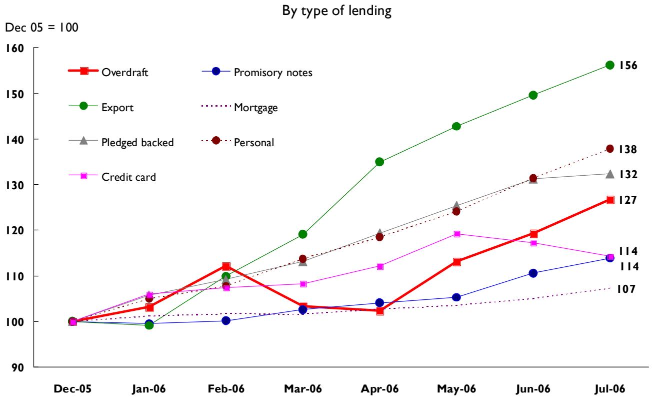
- **During July the principal sources of funds for the banking system were the increase in public sector deposits (3.8%, $1.4 billion) and those by the private sector (1%, approximately $1.2 billion).** During the month, the expansion of time deposits (1.1%) exceeded the growth of sight deposits (0.9%). In addition, the contraction of the exposure to the public sector generated additional funds for the banks ($650 million). **Meanwhile, the increase in loans for the private sector ($1.9 billion, including leasing and financial trusts), the increase in the holdings of Lebac and Nobac and the payment of rediscounts were the main uses of funds by the financial system.**

Chart 1
Netted Assets
Financial system



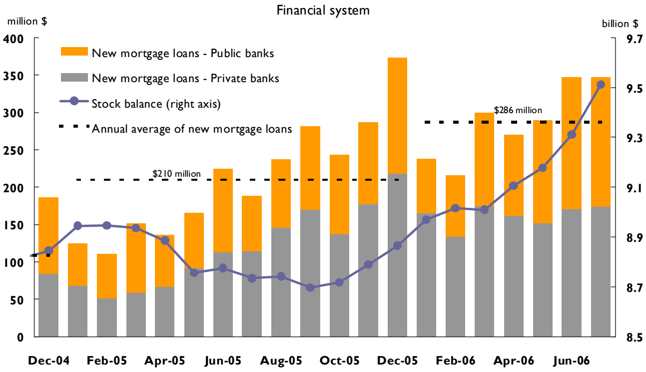
Source: BCRA

Chart 2
Loans to the Private Sector
By type of lending



Source: BCRA

Chart 3
Mortgage Loans
Financial system



NOTE: Stock balance not adjusted by transfer between loan portfolios and trusts funds or by loans written off balance sheet.
Source: BCRA

Activity:
Acceleration of mortgage finance growth

During July the financial system exhibited an expansion of the private sector deposits and loans, to consolidate the increase in its levels of intermediation. In this manner the net assets of the financial system grew 1.1% in the month (see Chart 1), to accumulate an increase of 9.3% (16%a.) in the first seven months of 2006, or 3.5% (6.1%a.) in real terms.

The stock of loans[1] **by the financial system to the private sector exhibited an increase of 2.5% ($1.7 billion) in July,** driven by both the role of private banks and of public financial institutions. While at the private banks the credits aimed at the private sector grew 2.3% ($1.1 billion), at the public banks the increase recorded was 2.8% ($500 million)[2].

In a scenario of growth of economic activity, the loans associated with the productive sectors exhibited a great momentum. The current account overdrafts expanded $600 million, to attain a 6.2% growth in the month (see Chart 2). On the other hand, the loans undertaken through the discount of promissory notes grew 3% ($400 million). Likewise, **the credits for export pre-finance and finance exhibited a steep rise in the month (4.4%, $250 million), and accumulated an increase of $2 billion in the first seven months of 2006.** On the other hand, the interest rates for corporations remained stable during the month. In this framework, the favorable projections for economic growth pose a positive scenario for the sharp increase in this kind of loans to continue for the rest of the year.

The different credit lines mainly associated with family consumption exhibited a markedly heterogeneous character in the month. On one hand **personal loans grew 4.9% ($500 million) in July,** a figure that increases to 5.4% ($500 million) if it is adjusted for financial trusts. However, **credit cards loans fell 2.5% in July** for the second consecutive month (if it is adjusted for the financial trusts that were set up the fall drops to 1.8%).

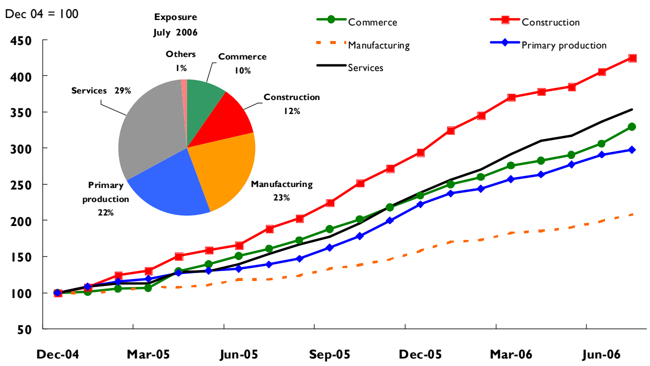
The continued recovery in the level of employment and the real wages of workers expands the capacity to incur medium term debt. In this manner, the pledge backed loans recorded an increase of 0.8% in July, a figure that increases to 3.8% when it is adjusted for the financial trusts that were set up. On the other hand, **mortgage loans exhibited their highest monthly growth since the 2001 – 2002 crisis,** and expanded 2.2% in July to accumulate a 7% growth (13%a.) in 2006 to date. In this context, it should be noted that the new mortgage loans granted totaled $350 million in July, a higher value than the average for 2005 (see Chart 3). In the month, the same shares of loans were granted by the private and the government owned banks.

[1] Calculation based on balance sheet figures. The loans denominated in foreign currency are stated in pesos (if the balances of several months are considered, an average exchange rate is used). Neither interests nor adjustments are included. Figures are not adjusted for bad loans written off the balance sheet.
[2] The remainder is for non banking financial institutions (NBFI).

Chart 4

Leasing Operations

Business sector

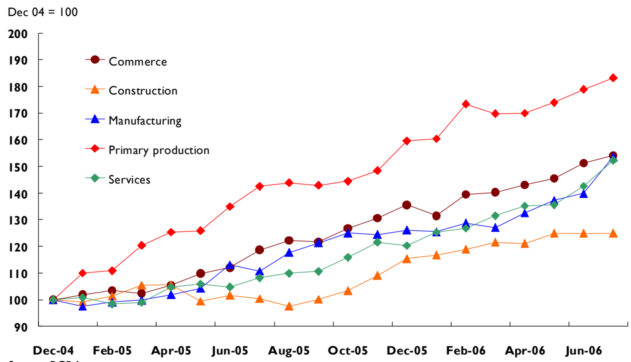


Source: BCRA

Chart 5

Lending by Economic Sectors

Financial system

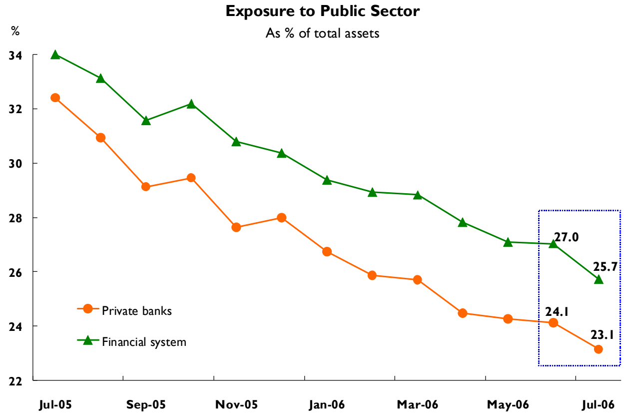


Source: BCRA

Chart 6

Exposure to Public Sector

As % of total assets



Source: BCRA

The recent new regulations adopted by the Central Bank[3] contribute towards mortgage finance for families. In this manner, the capital requirement in order to grant mortgage loans (unique family ownership with permanent occupancy) of up to $200,000 was made more flexible, with incentives for loans of up to 100% of the value, and of 90% when the amount is over $200,000 and up to $300,000. Likewise, the rules adopted by the Central Bank also encourage the financial institutions when they assess the payment capacity of the debtors to include the rental receipts and utility payments, among others, in line with the recommendation to adopt screening systems and credit scoring models in order to assess granting loans.

The growing activity of the productive sector, as well as driving the traditional credit lines, is an incentive for corporations to use alternative sources of medium and long term finance like leasing. **The balance of bank funds channeled to firms by the leasing mechanism was over $1.9 billion in July,** or 4.1% ($70 million) higher than the month before (see Chart 4) and accumulated an increase of 37% in the year ($500 million).

The development of banking finance is consistent with the growth of the more dynamic sectors of the economy. In this manner the expansion of the balance of corporate finance in July was largely explained by the manufacturing industry, followed by primary goods production (see Chart 5). In this context, at present both branches of economic activity concentrate 58% of the total balance of credit for corporations[4]. Meanwhile, the loans granted to the services sector also exhibited a significant momentum, as their share grew by 0.3 p.p. (to 23% of the total), while the commerce and construction sectors slightly reduced their relative shares.

The banking system deepened the process of crowding in credit for the private sector, in a framework of an ongoing contraction of its exposure to the public sector. This momentum is mainly being driven by the regulations adopted by the Central Bank and the solid macroeconomic situation. Among other guidelines, the exposure of each financial institution to the public sector stands out: it cannot be more than 40% of the total assets, while as from July 2007 this limit is reduced to 35% of all assets[5]. In this context, the weighting of the public sector assets[6] in the portfolios of the financial institutions recorded a fall of 1.3 p.p. in July, to reach a level of 25.7% of the total assets (27.9% of the net assets) (see Chart 6). In this manner, this weighting accumulates a year on year fall of 8.3 p.p.. Unlike what had been recorded in recent months, **in July the fall in the exposure to the public sector was led by the public financial institutions,** a group of banks that exhibited a monthly decline of 1.9 p.p. to reach 29.7% of the total assets (32.9% of net assets). For the private banks the monthly contraction in the exposure to the public sector was also

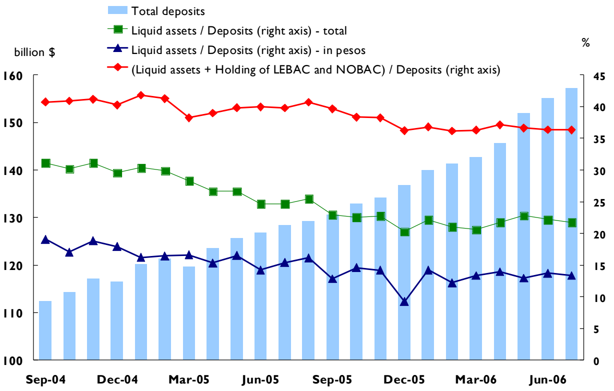
[3] See Communications "A" 4551 and "A" 4559.

[4] For the purpose of this analysis, the loans granted to legal persons and business commercial financing granted to natural person as individuals is considered in this paragraph.

[5] See Communication "A" 4546.

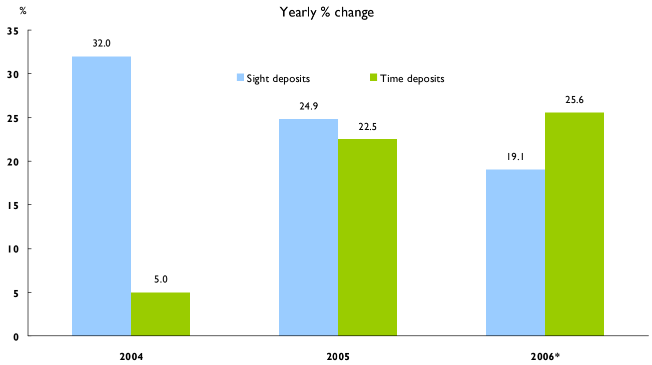
[6] Exposure to public sector involves the position in sovereign bonds (including receivables for compensation) and the loans to the public sector. LEBAC and NOBAC are not included.

Chart 7
Deposits and Liquidity
Financial system



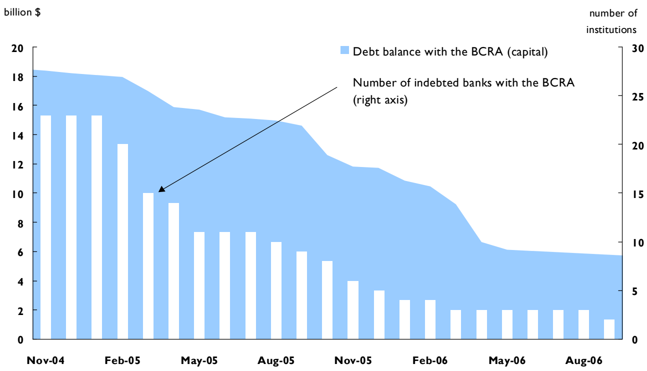
Source: BCRA

Chart 8
Private Deposits
Yearly % change



Note: Does not include CEDROS. * Annualized July growth rate
Source: BCRA

Chart 9
Liabilities with the BCRA - Matching Schedule



Note: Consdering that banks which brought forward 100% of the installments will not recall them.
Source: BCRA

significant (1 p.p.) to account for 23.1% of total assets (24.7% of net assets).

In July a contraction of $190 million was recorded in the liquid assets[7] of the financial institutions, a development that was mainly led by the decline in the cash holdings ($570 million) and in the liquidity in current accounts at the Central Bank ($100 million). Nevertheless, these changes were partly offset by the increase of repos arranged with the Central Bank ($470 million). This performance together with the growth of the deposits meant that in July the liquidity ratio of the financial system dropped 0.4 p.p. to 21.8% (see Chart 7). As regards the group of private banks in particular, during July their liquidity ratio recorded a fall of 1.5 p.p. to stand at a level of 20.3%, a change that was mainly associated with the smaller cash holdings.

In addition, **the financial system increased its holdings of Central Bank securities by approximately $930 million in July**. If these securities are included as part of the liquid assets of the financial system, the liquidity ratio of the financial system remained stable at 36.3%, while for the group of private financial institutions it totaled 41.2% in July, 1.1 p.p. below the level recorded the previous month.

The increase in bank deposits was the principal source of funds for the financial system. In July total deposits[8] grew 1.7% (almost $2.6 billion). In a scenario in which national tax collection led to a transfer of private funds to the public sector, more than half the increase in the total deposits was accounted for by the official deposits (which grew 3.8%, or more than $1.4 billion). Meanwhile, **the private sector deposits increased $1.2 billion during July,** with over 90% of the deposits being at private banks, a group that has somewhat more than two thirds of all the deposits by the private sector.

In particular, **the time deposits expanded 1.1% ($550 million), to exceed the increase of 0.9% (almost $500 million) for the sight deposits. In this manner, the cumulative figure for 2006 the time deposits has exhibited a significant development** (see Chart 8) to account for 43% of the total deposits in the financial system, which is still below the average seen before the crisis (64%). In this manner, and with the purpose of extending the maturity terms of the deposits, the Central Bank increased (for application as from August this year) the minimum reserve requirement on sight deposits by two percentage points (from 17% to 19%) and eliminated the reserve requirement on time deposits in pesos with over 180 days remaining until maturity[9].

With specific reference to the group of private financial institutions, the total deposits grew 0.7% ($550 million) in July. This movement is entirely explained by the private sector deposits, because the deposits by the public sector recorded a slight decline. As regards the private

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[7] Includes compliance with minimum cash requirements (cash, current accounts at the Central Bank and special collateral accounts), other liquid assets (as correspondent accounts) and net reverse repos with the Central Bank in cash terms.

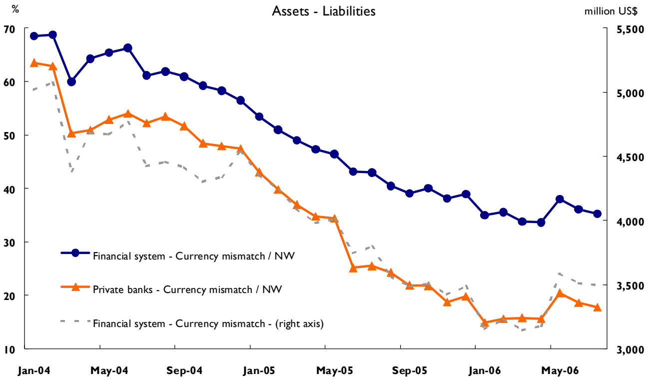
[8] Includes deposits of residents abroad and sovereign bond deposits, as well as the total interests and adjustments accrued. Financial sector deposits are not included.

[9] See Communication "A" 4549. It should be noted that last March (and applicable as from April), the Central Bank adopted the Communication "A" 4509 that increased the minimum reserve requirement on sight deposits and eliminated their remuneration, with the purpose of stimulating time deposits at longer terms.

Chart 10

Currency Mismatch

Assets - Liabilities

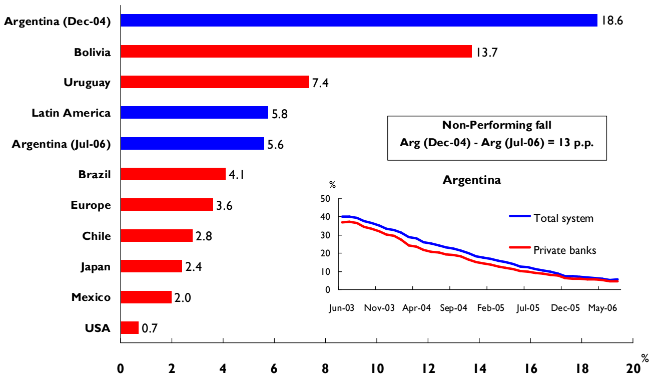


Source: BCRA

Chart 11

Non-Performing Private Portfolio

2005

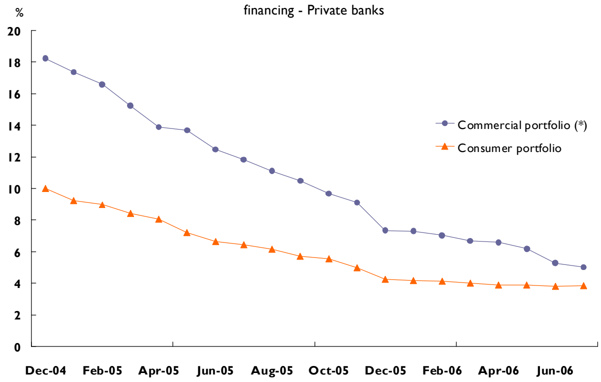


Source: BCRA from central banks data and Global Financial Stability Report, April 2006, FMI.

Chart 12

Portfolio Quality by Type of Lending

Non-Performing portfolio to the non-financial private sector as % of total financing - Private banks



Source: BCRA (*) Includes commercial loans treated as consumer loans for classification purposes.

sector placements, time deposits exhibited an increase of 3.4%, while the deposits at sight declined 0.4 p.p..

During July the financial system made payments of $126 million to the Central Bank in the framework of the schedule usually known as "matching" (approximately two thirds was by public banks). Likewise, in August and September the financial institutions (both private and public) cancelled about $400 million in debt owed to the Central Bank on this account, a figure that totals $6.4 billion between January and September 2006. In this fashion, **one bank cancelled all its debt with the Central Bank in September, so that at the beginning of that month only two banks still had debts outstanding with the Central Bank for "matching" funds**, with an outstanding balance of debt of $5.5 billion (principal) (see Chart 9).

In July the foreign currency mismatch (assets less liabilities) of the financial system exhibited a slight fall, to reach a level of US$3.5 billion (see Chart 10). On the other hand, **in terms of equity this mismatch exhibited a drop of about 1 p.p. to a level of 35%**, led by the increasing solvency of the sector. This fall was due to the increase of liabilities in foreign currency (US$220 million), which to a large extent was explained by the expansion of deposits, although there was a cancellation of the corporate bonds (ON) owed abroad during the month. On the other hand, the growth of the assets denominated in the same currency (US$200 million) partially compensated this effect, a change that was mainly associated with the increases in the liquidity in current accounts at the Central Bank and by the loans in foreign currency.

Portfolio quality:
Gradual convergence to the levels of countries of the region

The non performance of loans at the banking system has been exhibiting a sharply downwards trend since December 2003. However, due to the impact of the reclassification of a sizeable debtor company by a public bank, the non-performing private sector loans showed a rise of 0.2 p.p. in July to a level of 5.6%. Despite this, the quality of the domestic portfolio continues to converge towards the delinquency levels attained by the more robust financial systems in the region[10] (see Chart 11).

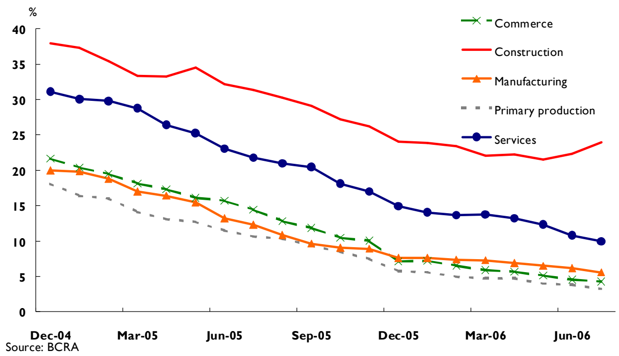
The private financial institutions recorded a further relative improvement in the quality of their portfolios during July. **While the public banks exhibited an increase of 1.1 p.p. in their non performance ratio (to 8.2%), the private financial institutions recorded a decline of 0.2 p.p. (to reach 4.6%) in this indicator.** Despite this particular behaviour in the month, throughout 2006 the public banks have led the improvement in the quality of their portfolio: while the private financial institutions reduced their irregular loans by 1.7 p.p., the public banking system did so by around

[10] For a medium term focus on the development of the quality of the loan portfolio of the domestic financial system in regional terms, see Box I of the Financial Stability Bulletin for the first half of 2006.

Chart 13

Non-Performance by Economic Sector

Non-Performing loans as % of total financing - Financial system

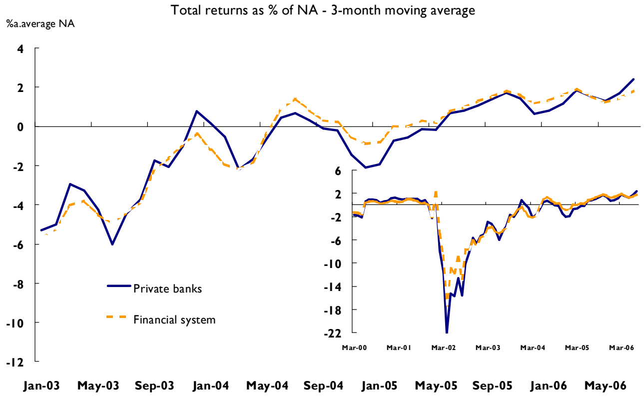


Source: BCRA

Chart 14

Annualized Profitability

Total returns as % of NA - 3-month moving average

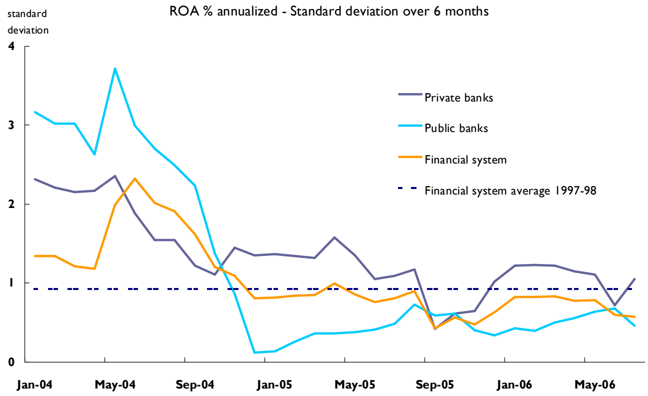


Source: BCRA

Chart 15

Historical Volatility of Results

ROA % annualized - Standard deviation over 6 months



Source: BCRA

3 p.p.. For both groups of financial institutions this encouraging development is mainly induced by granting new loans with a lower credit risk and also by the smaller balance of non performing loans.

In terms of the purpose of this finance, in July a reduction in the non performance levels of the commercial loans from the private banks (0.3 p.p. to 5%) was seen, while the arrears of the finance for consumer purposes remained stable (3.8%) (see Chart 12). It should be taken into account that **the relatively higher non performance level of the commercial portfolio is to a large extent explained by a few large size corporations, which are concentrated at a limited number of banks.** In this manner, if these are excluded from the analysis the non performance ratio of the commercial loans would tend to be close to the consumer loans.

In the framework of the sustained growth of domestic economic activity, the banking system continues to employ a considerable share of its fresh funds to generate loans for manufacturing industry and for the production of primary goods, sectors that at present show lower levels of non performance. In this sense, **the arrears of manufacturing and primary goods production recorded levels of 5.6% and 3.2% respectively, to accumulate falls of 2 p.p. and 2.5 p.p. to date in 2006** (see Chart 13). The worsening of the arrears in the construction sector was specifically explained by the reclassification of a large debtor at a public bank as mentioned above.

At the private banks the indicator for the coverage of provisions grew 3 p.p. up to a level of 120%, while the ratio of non performing loans without coverage for provisions as a percentage of equity continued to remain at slightly negative levels.

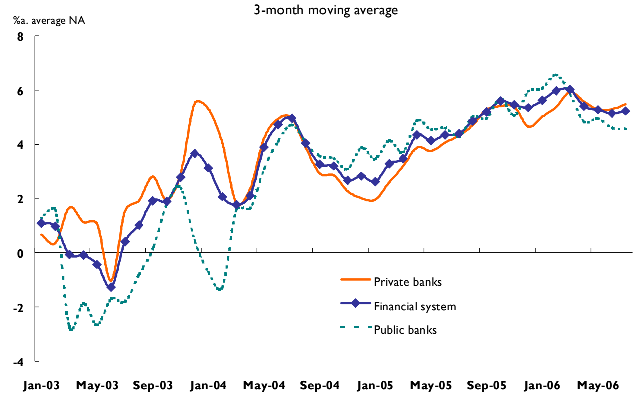
Profitability:

The expansion of interest earnings is reinforced

In July the financial system recorded its largest monthly accounting profits since the 2001 – 2002 crisis. Thus, during the month the financial system accrued accounting profits of approximately $490 million, or 2.6% annualized (a.) on its assets[11], a figure that is 0.7 p.p. more than the profits recorded in the previous month and almost double the ROA in July 2005 (see Chart 14). Therefore, **the banking system has accumulated positive results of $2.3 billion (1.8%a. on assets) in 2006**, almost triple the profits exhibited in the same period last year. If, for the purpose of having a measurement of the current profit rate of the financial system, the effect of those headings associated with the gradual recognition of the effects of the last crisis are excluded (amortization of court orders payments and adjustments to the valuation of public sector assets) the adjusted profit rate stood at 3.6%a. of assets in July, to exceed by 0.8 p.p. that recorded a month before. Thus, the adjusted ROA accumulated during the year totals

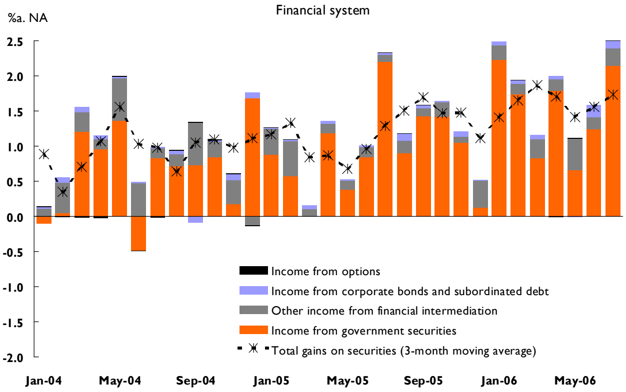
[11] Unless otherwise indicated, whenever a reference is made to assets in this section, it should be taken into account that it is the net value excluding the accounting duplications generated by repo transactions, futures sales and pending cash settlements.

Chart 16
Financial Margin
3-month moving average



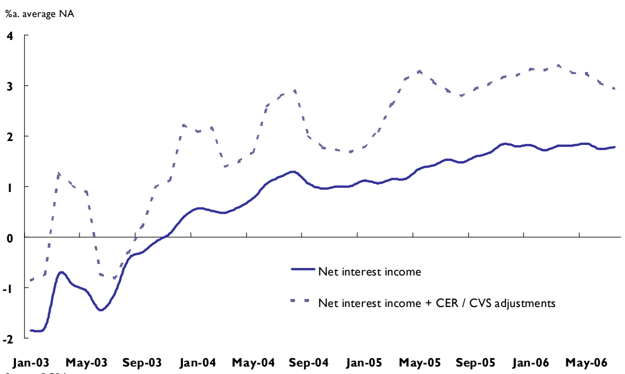
Source: BCRA

Chart 17
Gains on Securities
Financial system



Source: BCRA

Chart 18
Net Interest Income and CER / CVS Adjustments
Financial system - 3-month moving average



Source: BCRA

2.8% of assets, approximately 1.2 p.p. more than in the first seven months of 2005.

Public banks recorded profits of almost $70 million in July (0.9%a. of their assets), to accumulate profits of $710 million during 2006. On the other hand, **private financial institutions exhibited positive results of almost $410 million in July (about 3.8% of their assets)**, to total $1.5 billion (2%a. on assets) in the year. In this manner, both kinds of banks consolidated a positive profits trend, to make their solvency indicators progressively more robust.

In this context, **the volatility of profitability in the different bank groups continued to be a significant characteristic of the domestic financial system** (see Chart 15), and although the influence of the effects of the 2001 – 2002 crisis[12] still pending are worth considering, they are gradually being reduced.

The expansion of the profitability of the banking system during July was mainly explained by the increase in the profits for holding and trading financial securities and, to a lesser extent, by the greater results from interests. The slight monthly contraction observed in both loan loss provision and operating costs contributed to this improvement. These positive changes were partly compensated by the smaller CER accrual adjustments and the slightly higher expenditures in connection with income tax.

In July the financial margin of the banking system exhibited an expansion of 0.8 p.p. to reach a level of 5.5%a. of assets, following the fall it had recorded the month before (see Chart 16 where the quarterly moving average is shown). **This recovery of the financial margin in the month was led by the increase of 0.9 p.p. in gains on securities**, a heading of the profits and losses statement of the banks which reached a level of 2.5%a. of assets (see Chart 17). This progress was driven by both the improvements in the prices of sovereign bonds held in the marked to market portfolio of financial institutions and by the increasing profits on the customary trading in these assets.

The interest income of banks grew 0.2 p.p. in July to a level of 1.9%a. of their assets (see Chart 18 where the quarterly moving average is shown), boosted by both the activity of the private financial institutions (that increased 0.2 p.p. to 2.2%a. of their assets) and the public banks (which grew 0.3 p.p. to 1.1%a. of their assets). In this context, the expansion of the interest revenues of the banking system was mainly boosted by the ongoing flow of revenues associated with the increase of the domestic credit activity (see Chart 19), while the lending rates showed an uneven performance. On the other hand, the larger expenses for interest on deposits partly compensated for this development, driven by the larger balance of private deposits with borrowing rates that exhibited a gradual increase. In a similar fashion to previous periods, the outflows for interest charges associated with the bank debts with the Central Bank continued dropping, led by the active cancellation of these liabilities[13].

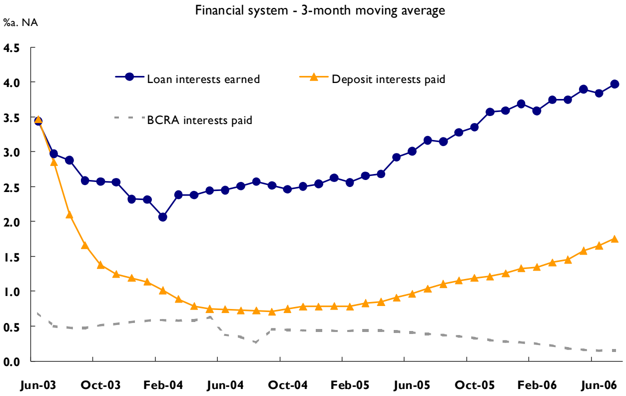
[12] Changes in the valuation of public sector assets, the impact of mismatches of foreign currency assets, among others.

[13] See the Activity Section. It should be noted that in July three financial institutions owed debts to the Central Bank under the matching funds scheme, which were reduced to only two at the beginning of September.

Chart 19

Main Components of Net Interest Income

Financial system - 3-month moving average

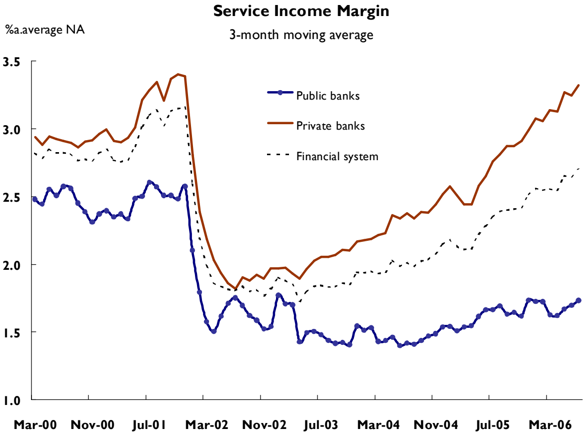


Source: BCRA

Chart 20

Service Income Margin

3-month moving average

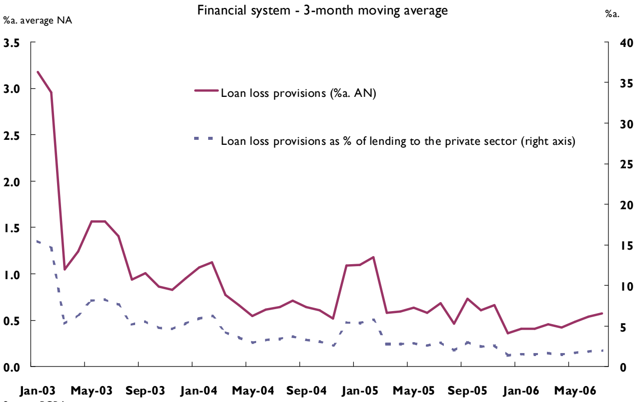


Source: BCRA

Chart 21

Loan Loss Provisions

Financial system - 3-month moving average



Source: BCRA

The net adjustments for the CER by the financial system dropped 0.3 p.p. in July to a level of 0.8%a. of its assets, a shift that was in line with the smaller change of that coefficient. In this manner, the net adjustment for CER accumulated approximately 1.4%a. of the bank assets throughout 2006, which were mainly originated by the public financial institutions.

On the other hand, **the results from exchange rate differences**[14] **remained stable in July (0.2%a. of assets),** in a scenario of a slight fall of the nominal $/US$ exchange rate between the ends of the month. Thus, these results of the financial system have accumulated 0.5%a. of assets during 2006.

The income from services of the banking system did not register changes during July, and remained at 2.7%a. of assets. However, the service results of the financial institutions (one of the least volatile sources of revenues) **recorded an expansion of 0.4 p.p. in the first seven months of 2006** (to 2.6%a. of assets) compared with the same period last year, a development that was mainly led by private banks (see Chart 20). In this manner, the financial system is approaching incomes from services in terms of assets that are similar to those observed prior to the crisis in 2001 – 2002, in line with the increasing use of the financial services offered by the banks. Thus, this heading of results at present is able to cover 54% of operating costs of banks, a higher value than that recorded in the same month of the year before.

Loan loss provisions of the financial system exhibited a slight fall of 0.1 p.p. in July to a total level of 0.6%a. of assets. In recent periods the losses for loan loss provisions have exhibited a slightly rising trend mainly related to the expansion of credit, although they are still at historically low levels (see Chart 21). In terms of the private sector loans, the charges were 2.1%a. in July, a figure that compares favorably with that observed in the same period of the previous year (3.6%a.).

Operating costs recorded a further fall in July to 4.9%a. of assets (see Chart 22), a change observed at both the private and public banks. This monthly contraction in the administrative spending of the banks, combined with the sustained increase in their revenues, was reflected in **a growth of approximately 19 p.p. in the coverage ratio of these expenditures by revenues, to a level of 165%,** which was higher than the value observed in the same month of the year before.

The sundry results of the financial system totalled 1.7%a. of assets in July. This monthly figure is almost double the cumulative value for 2006 (0.9%a.), and in particular can be explained by the profits originated in the portfolio sales transactions (recorded in off balance items) by a private institution. Finally, the headings associated with the gradual acknowledgement of the effect of the crisis (amortization of court orders and adjustments to the valuation of public sector assets) remained stable during July, and on aggregate were approximately 1%a. of the bank assets.

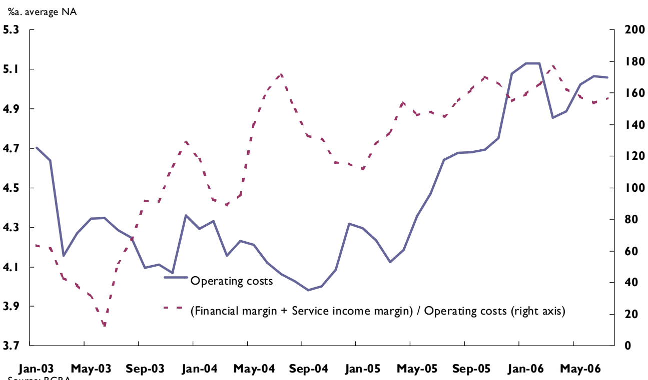
Outlook for August

[14] Includes the profits earned on the purchase and sale of foreign currency by the financial institutions.

Chart 22

Operating Costs

Financial system - 3-month moving average



Source: BCRA

In terms of the information available at the time this Report is published, **for August the profitability of the financial system is forecast to remain at around the level of results observed in recent periods,** in a context of more deepening of the volume of financial intermediation. In this manner, the solvency of the local financial institutions should continue to become more robust.

In August both the deposits and the loans for the private sector continued to expand (see Table 1). During the month the personal loans and those undertaken through the discount of promissory notes grew significantly. Supplementing this, finance with longer maturity terms (mortgage and pledge backed loans) continued to expand. On the other hand, in August the private time deposits in the financial system increased significantly, with borrowing rates that exhibited a slight increase. In this manner, **during August a growing accrual of interest incomes by the banks is expected.**

The increase of the CER could possibly generate an increase in the profits associated with net adjustments with this coefficient. **The increase in the nominal $/US$ exchange rate between the ends of the month will generate larger results for banks from exchange rate differences in August** because of their asset position in items denominated in foreign currency. On the other hand, a contraction is expected in gains on securities, in line with the monthly fall in the prices of the principal sovereign bonds held by the financial system, marked to market prices. In a similar fashion to previous months, the earnings from services are foreseen to become more robust in August, in the framework of the expansion of the transactional activity of the banking system.

Table 1

Main Developments in August 2006

	Jul	Aug	Var %
Prices			
Exchange rate ($/US$)[1]	3,07	3,10	0,7
CPI	179,4	180,4	0,6
CER[1]	1,82	1,83	0,6
			Var p.p.
Government securities - annual IRR[1]			
Boden $ 2007	1,0	3,0	2,0
Boden U$S 2012	8,1	8,5	0,4
Discount $	6,6	6,5	-0,1
			Var p.p.
Average percentage rates			
Lending[2]			
Overdraft	16,2	15,8	-0,4
Promissory notes	12,4	12,6	0,2
Mortgage	12,0	11,9	-0,1
Pledge-backed	10,0	10,1	0,2
Personal	24,5	24,7	0,2
30 to 44 day time deposit	7,0	7,2	0,2
1-year LEBAC in pesos, w/o CER	12,1	11,8	-0,4
7 day BCRA repos	5,8	5,8	0,0
			Var %
Balance[2,3] - Financial system			
Peso deposits - Private sector	97.188	98.534	1,4
Sight deposits	54.429	54.070	-0,7
Time deposits	42.760	44.464	4,0
Peso loans - Private sector	54.258	55.662	2,6
Overdraft	10.185	10.280	0,9
Promissory notes	11.787	12.130	2,9
Mortgage	9.136	9.331	2,1
Pledge-backed	2.967	3.098	4,4
Personal	9.860	10.507	6,6

(1) End of month figure.

(2) Estimation based on SISCEN data (provisional data subject to change).

(3) Monthly average

In million of pesos

Source: INDEC and BCRA.

Solvency:
Growth of net worth and less leverage

The financial system continued to deepen its solvency, a trend that at present is boosted by the accounting profits originated in its financial intermediation activity and by financial services. Supplementing this, the encouraging estimates about the expansion of credit activity aimed at families and corporations in the next few periods favor carrying out new capital contributions.

In July the financial institutions exhibited an increase of 1.6% in their equity value (almost $500 million) to accumulate a growth of 12.2% ($3.3 billion) in the first seven months of 2006 (see Chart 23), values that compare favorably with those observed during 2005 (0.9% and 6%, respectively). In this manner, the increase in the net worth led to a further reduction in the degree of leverage of the domestic banking system.

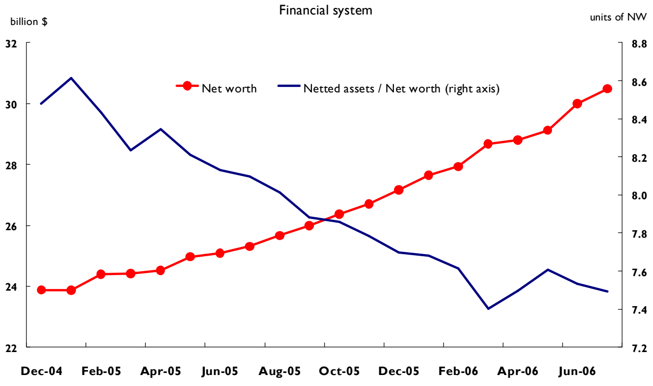
During July a public bank recorded a fresh capitalization of $7 million[15]. The financial system therefore accumulates fresh capital

[15] This will be paid up in monthly installments, and is in the framework of a Regularization and Recovery Plan.

contributions of approximately $1.46 billion in the first seven months of 2006, to total $7.00 billion since the end of 2004 until now (see Chart 24). This development was led by the momentum of the foreign owned financial institutions.

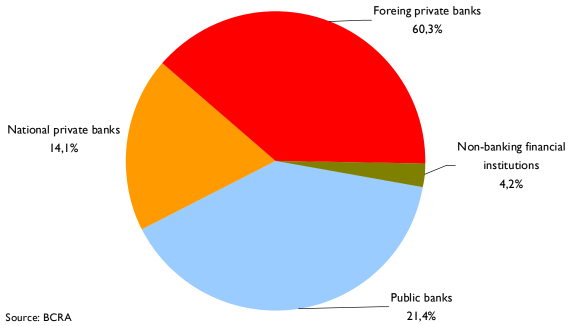
In this context, **the banking system at presents shows solvency indicators that exceed the local requirements and the internationally recommended minimums.** Thus, in July the capital compliance of the banking system remained at 16.5% of the risk weighted assets, in a context of credit expansion (see Chart 25). This reflects the current solidness of the banks to face possible adverse scenarios. On the other hand, at the end of July the excess of capital compliance of the banking system increased slightly and reached a value of 135% of the capital requirement.

Chart 23
Solvency
Financial system



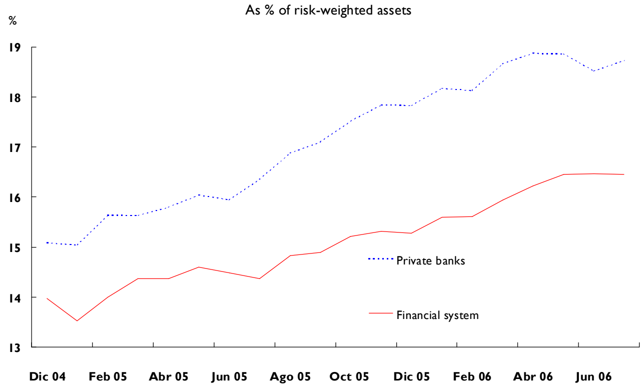
Source: BCRA

Chart 24
Capital Contributions
September 2004 - July 2006: $7.000 million



Source: BCRA

Chart 25
Capital Compliance
As % of risk-weighted assets



Source: BCRA

Latest regulations

This section is a summary of the main regulations related to the financial intermediation business issued during the month. A reference is made to the date that the regulations were applicable.

Communication "A" 4546 – July 9, 2006

The Central Bank decided to reduce to 35% of the total assets the maximum limit for exposure to public sector assets (national, provincial and municipal) that the financial institutions hold on their balance sheets. This measure will become effective as from July 1, 20007.

Communication "A" 4548 – July 9, 2006

Prevention of money laundering and other illicit activities and prevention of the financing for terrorism. Nigeria is eliminated from the list of non cooperative jurisdictions.

Communication "A" 4549 – July 21, 2006

Changes to the minimum cash requirements. As from August 2006, (i) the minimum cash requirements on sight deposits in pesos is increased 2 percentage points (raised to 19%); (ii) the minimum cash requirements on time deposits in pesos with over 180 days remaining duration is eliminated; (iii) the use of cash (at the financial institution, in transit, and at security transport companies) is eliminated to set up minimum cash requirements, freeing up in three monthly stages (beginning in September 2006).

Communication "A"4551 – July 27, 2006

Minimum capitals. Requirements are made easier in order to grant fresh finance for mortgage loans of up to $100,000 for unique family owned housing with permanent occupancy granted as from August 1, 2006. If these loans are not more than 90% of the assessed value of these goods, they will have a risk weighting of 50%, while otherwise the weighting will be 100%.

Methodology

(a) Aggregate balance sheet information is taken from the Monthly Accounting Information System (non-consolidated balances). With a view to calculating data for the system aggregate, for institutions not providing data for the month under review, the latest information available is repeated in the aggregate balance sheet. In turn, for the analysis of profitability, only taken into consideration are those institutions providing data on the month in question.

(b) Due to the possible lack of data for a number of banks at the time of drafting this Report, and given the possibility of subsequent corrections to the data provided by financial institutions, the data included –particularly for the last month mentioned- is of a preliminary nature. Consequently, and given the fact that the latest available data are always used, data in connection with earlier periods may not match what was previously mentioned in prior issues of the Report. In such cases, the latter release should be considered the highest quality available one.

(c) Unless provided to the contrary, data on deposits and loans relate to balance sheet information, and do not necessarily agree with those gathered via the Centralized System of Information Requirements (SISCEN). Reasons for discrepancies include: the exact date taken into account for the calculation of monthly variations and the items included in the definition adopted in each case.

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

(e) Profitability indicators are calculated based on monthly results estimated on the grounds of the changes in the amount of aggregated results during the current fiscal year. Unless a provision is made to the contrary, profitability ratios are annualized.

(f) Initially, the breakdown by group of banks was determined on the basis of majority involvement in decision taking –in terms of Shareholders meetings votes- differentiating between privately-owned institutions from public banks. Also and with a view to deepening the scope of the analysis, private institutions were identified according to geographic and business scope of their operations. Thus, wholesale banks were defined as those specializing in the large corporations and investors sector, which usually do not depend for their funding on deposits from the private sector. On the other hand, retail banks were divided into those carrying out business at the domestic level, located in certain geographic regions –municipalities, provinces, or regions- and institutions specializing in a financial sector niche market –generally smaller institutions. Lastly, it should be noted that the grouping herein has solely been carried out for analytical purposes and does not imply the only methodological grouping criterion; whereas, on the other hand, the listing of features pertaining to each set of institutions has been established in a general manner.

Glossary

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

Statistics: Financial System

Balance Sheet

In current pesos (millions)	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Jul 05	Dec 05	Jun 06	Jul 06	Change (%) Month on month	Change (%) Accum. 2006	Change (%) Last 12 months
Assets	**163,550**	**123,743**	**187,532**	**186,873**	**212,562**	**218,306**	**222,732**	**239,434**	**247,401**	**3.3**	**11.1**	**13.3**
Liquid assets[1]	20,278	13,005	17,138	27,575	29,154	26,327	21,166	29,647	28,992	-2.2	37.0	10.1
Public bonds	10,474	3,694	31,418	45,062	55,382	61,500	66,733	66,301	65,689	-0.9	-1.6	6.8
Lebac/Nobac	0	0	n/a	n/a	17,755	24,810	28,340	27,791	30,651	10.3	8.2	23.5
Portfolio	0	0	n/a	n/a	11,803	18,882	21,067	21,973	22,875	4.1	8.6	21.1
Repo	0	0	n/a	n/a	5,953	5,928	7,273	5,818	7,776	33.7	6.9	31.2
Private bonds	633	543	332	198	387	484	387	843	793	-5.8	104.9	63.9
Loans	83,277	77,351	84,792	68,042	73,617	78,803	83,664	90,974	92,467	1.6	10.5	17.3
Public sector	15,164	22,694	44,337	33,228	30,866	28,550	25,317	21,906	21,402	-2.3	-15.5	-25.0
Private sector	64,464	52,039	38,470	33,398	41,054	48,164	55,898	65,844	67,502	2.5	20.8	40.1
Financial sector	3,649	2,617	1,985	1,417	1,697	2,089	2,450	3,224	3,564	10.5	45.5	70.6
Provisions over loans	-6,907	-6,987	-11,952	-9,374	-7,500	-6,317	-4,953	-4,288	-4,297	0.2	-13.3	-32.0
Other netted credits due to financial intermediation	42,361	21,485	39,089	27,030	32,554	29,425	26,746	26,317	34,031	29.3	27.2	15.7
Corporate bonds and subordinated debt	794	751	1,708	1,569	1,018	804	873	779	764	-2.0	-12.6	-5.1
Unquoted trusts	2,053	2,065	6,698	4,133	3,145	3,233	3,888	4,538	4,446	-2.0	14.4	37.5
Compensation receivable	0	0	17,111	14,937	15,467	9,834	5,841	5,150	5,168	0.4	-11.5	-47.4
BCRA	141	84	3,360	650	376	348	353	301	416	38.5	17.9	19.5
Other	39,373	18,585	10,212	5,741	12,547	15,205	15,791	15,549	23,237	49.4	47.2	52.8
Assets under financial leases	786	771	567	397	611	906	1,384	1,856	1,934	4.2	39.7	113.3
Shares and participation	2,645	2,688	4,653	4,591	3,871	4,090	4,525	4,720	4,783	1.3	5.7	16.9
Fixed assets and sundry	4,939	4,804	8,636	8,164	7,782	7,604	7,546	7,490	7,491	0.0	-0.7	-1.5
Foreign branches	1,115	1,057	3,522	3,144	3,524	3,441	3,652	3,832	3,834	0.0	5.0	11.4
Other assets	3,950	5,334	9,338	12,043	13,180	12,043	11,882	11,743	11,684	-0.5	-1.7	-3.0
Liabilities	**146,267**	**107,261**	**161,446**	**164,923**	**188,683**	**192,995**	**195,571**	**209,419**	**216,917**	**3.6**	**10.9**	**12.4**
Deposits	86,506	66,458	75,001	94,635	116,655	128,589	136,778	155,000	157,203	1.4	14.9	22.3
Public sector[2]	7,204	950	8,381	16,040	31,649	32,930	34,320	40,421	41,890	3.6	22.1	27.2
Private sector[2]	78,397	43,270	59,698	74,951	83,000	93,676	100,794	111,799	113,030	1.1	12.1	20.7
Current account	6,438	7,158	11,462	15,071	18,219	20,465	23,475	24,344	24,420	0.3	4.0	19.3
Savings account	13,008	14,757	10,523	16,809	23,866	27,321	29,077	33,345	33,764	1.3	16.1	23.6
Time deposit	53,915	18,012	19,080	33,285	34,944	40,406	42,822	48,359	48,912	1.1	14.2	21.1
CEDRO	0	0	12,328	3,217	1,046	301	17	16	16	-0.9	-6.8	-94.6
Other netted liabilities due to financial intermediation	55,297	36,019	75,737	61,690	64,928	58,838	52,071	47,603	52,880	11.1	1.6	-10.1
Call money	3,545	2,550	1,649	1,317	1,461	1,852	2,164	2,983	3,359	12.6	55.2	81.4
BCRA lines	102	4,470	27,837	27,491	27,726	22,561	17,005	11,434	11,381	-0.5	-33.1	-49.6
Outstanding bonds	4,954	3,777	9,096	6,675	7,922	6,055	6,548	6,762	6,598	-2.4	0.8	9.0
Foreign lines of credit	8,813	7,927	25,199	15,196	8,884	5,824	4,684	4,470	4,339	-2.9	-7.4	-25.5
Other	37,883	17,295	11,955	11,012	18,934	22,546	21,670	21,954	27,204	23.9	25.5	20.7
Subordinated debts	2,255	2,260	3,712	2,028	1,415	1,310	1,381	1,243	1,269	2.1	-8.1	-3.1
Other liabilities	2,210	2,524	6,997	6,569	5,685	4,258	5,341	5,573	5,565	-0.1	4.2	30.7
Net worth	**17,283**	**16,483**	**26,086**	**21,950**	**23,879**	**25,311**	**27,161**	**30,015**	**30,484**	**1.6**	**12.2**	**20.4**
Memo												
Netted assets	129,815	110,275	185,356	184,371	202,447	204,954	209,044	225,934	228,411	1.1	9.3	11.4
Consolidated netted assets	125,093	106,576	181,253	181,077	198,462	200,705	204,160	220,048	222,206	1.0	8.8	10.7

(1) Includes margin accounts with the BCRA

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

n/a: not available

Source: BCRA

Statistics: Financial System

Profitability Structure

In annualized terms

As % of	Annual						First 7 months		Monthly			Last	
netted assets	2000	2001	2002	2003	2004	2005	2005	2006	May-06	Jun-06	Jul-06	6 months	12 months
Financial margin	5.7	5.7	6.5	1.1	3.1	4.6	4.1	5.6	5.6	4.7	5.5	5.3	5.5
Net interest income	4.0	3.8	-1.7	-0.5	0.9	1.5	1.3	1.8	1.8	1.7	1.9	1.8	1.8
Restatement by CER and CVS	0.0	0.0	3.9	1.3	1.0	1.5	1.5	1.4	1.6	1.1	0.8	1.3	1.4
Foreign exchange price adjustments	1.2	1.2	1.7	1.1	0.4	0.4	0.0	0.5	1.0	0.2	0.2	0.4	0.6
Gains on securities	0.1	0.2	2.8	-0.5	1.0	1.2	1.1	1.8	1.1	1.6	2.5	1.7	1.6
Other financial income	0.4	0.5	-0.1	-0.3	-0.2	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Service income margin	2.8	3.0	1.9	1.9	2.0	2.3	2.2	2.6	2.7	2.7	2.7	2.6	2.6
Loan loss provisions	-2.4	-2.6	-4.7	-1.1	-0.8	-0.6	-0.6	-0.5	-0.6	-0.7	-0.6	-0.5	-0.5
Operating costs	-5.8	-6.1	-4.4	-4.2	-4.1	-4.6	-4.4	-5.0	-5.2	-5.0	-4.9	-5.0	-4.9
Tax charges	-0.4	-0.5	-0.3	-0.3	-0.3	-0.4	-0.3	-0.4	-0.5	-0.5	-0.5	-0.4	-0.4
Income tax	-0.3	-0.2	-0.2	-0.2	-0.1	-0.3	-0.2	-0.4	-0.5	-0.2	-0.3	-0.3	-0.3
Adjustments to the valuation of government securities [1]	0.0	0.0	0.0	-0.4	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Amortization payments for court-ordered releases	0.0	0.0	0.0	-0.6	-0.9	-0.9	-0.9	-0.8	-0.7	-0.7	-0.8	-0.7	-0.8
Other	0.4	0.6	-1.8	0.9	0.8	0.8	0.8	0.9	0.3	1.8	1.7	1.0	0.8
Monetary results	0.0	0.0	-5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA before income tax	0.4	0.2	-8.7	-2.7	-0.3	1.1	0.8	2.2	1.4	2.1	2.9	2.0	1.9
ROA before monetary results	0.0	0.0	-3.1	-2.9	-0.5	0.9	0.5	1.8	0.9	1.9	2.6	1.7	1.6
ROA	**0.0**	**0.0**	**-8.9**	**-2.9**	**-0.5**	**0.9**	**0.5**	**1.8**	**0.9**	**1.9**	**2.6**	**1.7**	**1.6**
ROA adjusted [2]	-	-	-	-1.9	0.7	2.0	1.6	2.8	1.9	2.8	3.6	2.7	2.6
Indicators (%)													
ROE	**0.0**	**-0.2**	**-59.2**	**-22.7**	**-4.2**	**7.1**	**4.4**	**13.6**	**6.9**	**14.1**	**19.4**	**12.5**	**12.3**
Financial margin + service income margin / Operating costs	147.4	143.3	189.1	69.3	124.8	150.8	145.0	164.7	158.7	146.5	165.1	159.5	162.0
Interest income (with CER and CVS) / loans	13.0	15.2	11.8	13.1	10.3	12.8	12.7	12.8	13.6	12.1	11.9	12.7	12.9
Interest payments (with CER and CVS) / deposits	5.3	7.3	9.2	5.7	1.8	2.4	2.3	2.9	3.1	2.9	3.0	2.9	2.8

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

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

Source: BCRA

Portfolio Quality

As percentages	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Jul 05	Dec 05	May 06	Jun 06	Jul 06
Non-performing loans (overall)	12.9	13.1	18.1	17.7	10.7	7.7	5.2	4.6	4.5	4.1
Non-performing loans to the non-financial private sector	16.0	19.1	38.6	33.5	18.6	12.3	7.6	6.4	6.3	5.6
Commercial portfolio (*)	14.9	20.7	44.0	38.0	22.8	15.2	9.3	7.4	6.3	6.5
Consumption and housing portfolio	17.3	17.5	31.4	28.0	11.0	7.2	4.8	4.4	4.3	4.0
Provisions / Total non-performing loans	61.1	66.4	73.8	79.2	102.9	112.8	125.1	126.7	125.2	126.6
(Total non-performing - Provisions) / Overall financing	5.0	4.4	4.7	3.7	-0.3	-1.0	-1.3	-1.2	-1.1	-1.1
(Total non-performing - Provisions) / Net worth	26.2	21.6	17.2	11.9	-1.0	-3.2	-4.2	-3.9	-3.7	-3.5

(*) Include commercial loans treated as consumer loans for classification purposes.

Source: BCRA

Statistics: Private Banks

Balance Sheet

In current pesos (millions)	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Jul 05	Dec 05	Jun 06	Jul 06	Change (%)		
										Month on month	Accum. 2006	Last 12 months
Assets	**119,371**	**82,344**	**118,906**	**116,633**	**128,065**	**130,597**	**129,680**	**136,547**	**139,533**	**2.2**	**7.6**	**6.8**
Liquid assets[1]	13,920	10,576	11,044	14,500	15,893	15,193	14,074	17,555	16,339	-6.9	16.1	7.5
Public bonds	7,583	1,627	19,751	22,260	24,817	27,862	29,966	28,728	29,299	2.0	-2.2	5.2
Lebac/Nobac	0	0	n/a	n/a	8,359	12,919	15,227	14,018	14,994	7.0	-1.5	16.1
Portfolio	0	0	n/a	n/a	5,611	10,781	12,899	12,998	13,746	5.8	6.6	27.5
Repo	0	0	n/a	n/a	2,749	2,138	2,328	1,021	1,248	22.3	-46.4	-41.6
Private bonds	563	451	273	172	333	404	307	734	696	-5.2	126.8	72.4
Loans	56,035	52,319	51,774	47,017	50,741	53,380	56,565	61,028	61,898	1.4	9.4	16.0
Public sector	8,172	13,803	25,056	23,571	21,420	18,866	15,954	12,341	11,974	-3.0	-24.9	-36.5
Private sector	45,103	36,636	26,074	22,816	28,213	33,267	39,031	46,587	47,658	2.3	22.1	43.3
Financial sector	2,760	1,880	644	630	1,107	1,247	1,580	2,099	2,266	7.9	43.4	81.7
Provisions over loans	-3,248	-3,957	-7,463	-5,225	-3,717	-3,032	-2,482	-2,241	-2,283	1.9	-8.0	-24.7
Other netted credits due to financial intermediation	36,600	13,037	27,212	22,148	25,753	22,750	16,873	16,318	19,033	16.6	12.8	-16.3
Corporate bonds and subordinated debt	724	665	1,514	1,394	829	613	675	609	578	-5.0	-14.4	-5.8
Unquoted trusts	1,609	1,637	6,205	3,571	2,362	2,193	2,444	2,940	2,822	-4.0	15.4	28.6
Compensation receivable	0	0	15,971	13,812	14,657	9,403	5,575	4,883	4,877	-0.1	-12.5	-48.1
BCRA	35	865	377	415	311	302	279	212	342	61.6	22.6	13.1
Other	34,232	9,870	3,146	2,955	7,594	10,238	7,900	7,675	10,414	35.7	31.8	1.7
Assets under financial leases	776	752	553	387	592	886	1,356	1,791	1,856	3.6	36.9	109.5
Shares and participation	1,651	1,703	3,123	2,791	1,892	2,066	2,416	2,578	2,620	1.6	8.5	26.9
Fixed assets and sundry	3,225	3,150	5,198	4,902	4,678	4,596	4,575	4,535	4,541	0.1	-0.8	-1.2
Foreign branches	75	112	-109	-136	-53	-70	-148	-122	-122	-0.2	-17.6	74.2
Other assets	2,190	2,574	7,549	7,816	7,137	6,562	6,178	5,642	5,656	0.2	-8.4	-13.8
Liabilities	**107,193**	**70,829**	**103,079**	**101,732**	**113,285**	**114,807**	**112,600**	**118,170**	**120,769**	**2.2**	**7.3**	**5.2**
Deposits	57,833	44,863	44,445	52,625	62,685	70,929	75,668	83,487	84,033	0.7	11.1	18.5
Public sector[2]	1,276	950	1,636	3,077	6,039	7,102	6,946	6,951	6,877	-1.1	-1.0	-3.2
Private sector[2]	55,917	43,270	38,289	47,097	55,384	62,634	67,859	74,820	75,931	1.5	11.9	21.2
Current account	4,960	7,158	8,905	11,588	13,966	15,095	17,946	18,236	18,212	-0.1	1.5	20.6
Savings account	9,409	14,757	6,309	10,547	14,842	17,472	18,362	20,366	20,222	-0.7	10.1	15.7
Time deposit	39,030	18,012	11,083	18,710	22,729	26,390	27,736	32,327	33,426	3.4	20.5	26.7
CEDRO	0	0	9,016	2,409	798	257	3	2	2	0.0	-15.2	-99.1
Other netted liabilities due to financial intermediation	46,271	22,629	49,341	42,367	45,083	39,804	32,349	30,287	32,279	6.6	-0.2	-18.9
Call money	2,293	1,514	836	726	1,070	1,365	1,488	2,123	2,319	9.2	55.9	69.8
BCRA lines	83	1,758	16,624	17,030	17,768	13,185	10,088	7,072	7,069	0.0	-29.9	-46.4
Outstanding bonds	4,939	3,703	9,073	6,674	7,922	6,055	6,548	6,762	6,598	-2.4	0.8	9.0
Foreign lines of credit	5,491	4,644	15,434	9,998	5,444	3,882	2,696	2,488	2,361	-5.1	-12.4	-39.2
Other	33,466	11,010	7,374	7,939	12,878	15,315	11,530	11,842	13,932	17.7	20.8	-9.0
Subordinated debts	1,668	1,700	3,622	1,850	1,304	1,211	1,319	1,183	1,209	2.2	-8.4	-0.2
Other liabilities	1,420	1,637	5,671	4,890	4,213	2,863	3,264	3,214	3,249	1.1	-0.5	13.5
Net worth	**12,178**	**11,515**	**15,827**	**14,900**	**14,780**	**15,790**	**17,080**	**18,377**	**18,763**	**2.1**	**9.9**	**18.8**
Memo												
Netted assets	88,501	73,796	117,928	115,091	121,889	121,628	123,271	130,286	130,960	0.5	6.2	7.7

(1) Includes margin accounts with the BCRA

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

n/a: not available

Source: BCRA

Statistics: Private Banks

Profitability Structure

In annualized terms

As % of	Annual						First 7 months		Monthly			Last	
netted assets	2000	2001	2002	2003	2004	2005	2005	2006	May-06	Jun-06	Jul-06	6 months	12 months
Financial margin	6.2	6.4	7.6	2.3	2.9	4.3	3.9	5.7	5.0	5.1	6.3	5.5	5.4
Net interest income	4.1	4.3	-0.2	0.1	1.0	1.7	1.4	2.1	2.2	2.0	2.2	2.1	2.1
Restatement by CER and CVS	0.0	0.0	1.1	0.9	0.8	1.0	1.1	0.7	0.7	0.7	0.4	0.7	0.8
Foreign exchange price adjustments	1.4	1.2	2.5	1.7	0.6	0.5	0.2	0.6	1.0	0.4	0.4	0.6	0.7
Gains on securities	0.2	0.3	4.4	-0.3	0.8	1.0	1.0	2.1	1.0	1.8	3.1	2.0	1.7
Other financial income	0.5	0.7	-0.1	-0.2	-0.3	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1
Service income margin	2.9	3.2	2.0	2.0	2.4	2.7	2.6	3.2	3.3	3.3	3.3	3.2	3.1
Loan loss provisions	-2.5	-3.0	-5.0	-1.3	-0.9	-0.6	-0.6	-0.5	-0.4	-0.6	-0.7	-0.5	-0.6
Operating costs	-6.0	-6.4	-4.8	-4.6	-4.6	-5.1	-4.9	-5.7	-5.9	-5.8	-5.7	-5.7	-5.6
Tax charges	-0.4	-0.5	-0.4	-0.3	-0.3	-0.4	-0.4	-0.5	-0.6	-0.6	-0.5	-0.5	-0.5
Income tax	-0.4	-0.3	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.3	-0.2	-0.2
Adjustments to the valuation of government securities [1]	0.0	0.0	0.0	-0.6	0.0	-0.2	-0.1	-0.2	-0.1	-0.1	-0.1	-0.2	-0.2
Amortization payments for court-ordered releases	0.0	0.0	0.0	-0.7	-1.0	-1.0	-1.0	-0.8	-0.9	-0.8	-0.8	-0.8	-0.9
Other	0.4	0.7	-3.0	1.0	0.7	0.9	0.8	1.1	0.4	2.2	2.4	1.1	1.1
Monetary results	0.0	0.0	-7.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA before income tax	0.6	0.5	-11.1	-2.2	-0.8	0.7	0.4	2.2	1.0	2.6	4.0	2.1	1.8
ROA before monetary results	0.1	0.2	-3.8	-2.4	-1.0	0.5	0.2	2.0	0.8	2.5	3.8	1.9	1.6
ROA	**0.1**	**0.2**	**-11.3**	**-2.5**	**-1.0**	**0.5**	**0.2**	**2.0**	**0.8**	**2.5**	**3.8**	**1.9**	**1.6**
ROA adjusted [2]	-	-	-	-1.2	0.2	1.6	1.3	3.1	1.8	3.5	4.7	3.0	2.7
Indicators (%)													
ROE	**0.8**	**1.4**	**-79.0**	**-19.1**	**-8.1**	**4.1**	**1.7**	**14.4**	**5.9**	**17.8**	**26.2**	**13.7**	**11.5**
Financial margin + service income margin / Operating costs	151.9	150.9	199.3	92.6	115.0	136.5	132.8	157.8	142.0	145.1	168.2	154.1	151.0
Interest income (with CER and CVS) / loans	13.9	16.1	24.7	9.0	8.2	11.0	10.9	11.4	11.9	11.0	10.8	11.3	11.3
Interest payments (with CER and CVS) / deposits	5.7	7.8	21.9	5.8	2.2	3.0	2.8	3.5	3.7	3.4	3.6	3.5	3.4

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

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

Source: BCRA

Portfolio Quality

As percentages	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Jul 05	Dec 05	May 06	Jun 06	Jul 06
Non-performing loans (overall)	8.3	9.9	19.8	15.7	8.9	6.4	4.4	4.1	3.7	3.6
Non-performing loans to the non-financial private sector	9.8	14.0	37.4	30.4	15.3	10.0	6.3	5.4	4.8	4.6
Commercial portfolio (*)	8.4	15.4	44.7	39.0	18.2	11.9	7.3	6.2	5.3	5.0
Consumption and housing portfolio	11.9	12.4	26.0	17.2	10.0	6.4	4.2	3.9	3.8	3.8
Provisions / Total non-performing loans	67.7	75.7	73.4	79.0	95.7	100.7	114.6	114.6	116.2	119.6
(Total non-performing - Provisions) / Overall financing	2.7	2.4	5.3	3.3	0.4	0.0	-0.6	-0.6	-0.6	-0.7
(Total non-performing - Provisions) / Net worth	13.4	11.4	18.6	11.2	1.3	-0.2	-2.2	-2.0	-2.1	-2.4

(*) Include commercial loans treated as consumer loans for classification purposes.

Source: BCRA