



Financial Stability Report

Second Half 2012



BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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Collaboration | Macroeconomic Analysis Management | Monetary Programming Senior Management | Information Management | Payment Systems Senior Management | Supervision Coordination Management | Central Banking Applications Management | Economic Research Senior Management

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Preface

Pursuant to the latest amendment of its Charter, the Central Bank's mandate and objectives were enlarged. Section 3° provides that the purpose of “the Bank is to promote —within the Framework of its powers and the policies set by the National Government— monetary and financial stability, employment, and economic development with social equality”.

Financial stability, one of the express objectives of the new mandate, is a critical condition to ensure the financial system contribution towards economic and social development. As widely shown throughout history and ratified by the latest international crisis, there are serious negative externalities which result from an ill-functioning process of financial intermediation. Hence, the protection of financial stability by Central Banks has once more come to the fore.

*A transparent communication (public-oriented) strategy has been designed with a view to promoting financial stability and complementing regulatory and supervisory powers. In this sense, the **Financial Stability Report (FSR)** gives a comprehensive assessment of the development of financial system conditions. The **FSR** combines several channels of information on the subject gathered by the Central Bank in a single publication. In addition, the Central Bank discloses —between **BEF** half-yearly publications— a monthly **Report on Banks** so as to keep the public informed of the latest developments of the financial system. The Central Bank mainly resorts to these publications to disclose its outlook for the financial sector.*

Buenos Aires, October 11, 2012

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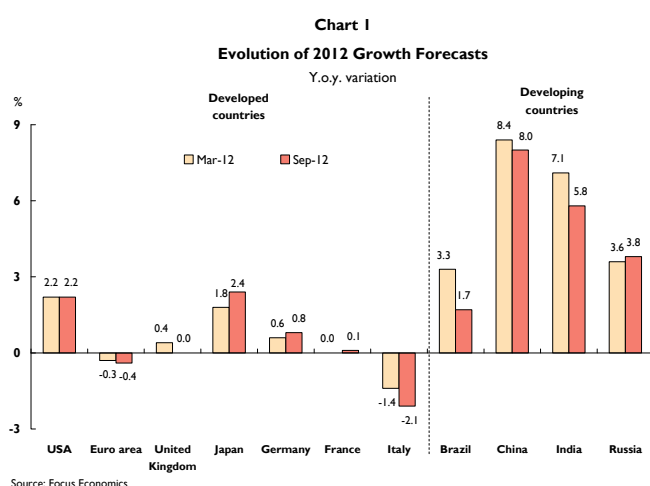
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Central Bank Outlook



The growth of global economy has slowed down over 2012, with several countries in the Euro Zone suffering recession and other developed economies exhibiting a particularly weak pattern of growth. Persistent high levels of unemployment, intensified doubts about public debt sustainability along with a feeble status of financial systems have resulted in a new set of measures (Box 1). In the Euro Zone, the announcement of the ECB intervention program in debt markets (subject to conditions but free of predetermined amounts) and a more flexible activity of regional stabilization funds came to the fore, while in the United States a new round of asset purchase was launched by the Federal Reserve. In the next months the way in which such measures will be implemented and their actual impact on the level of economic activity will be particularly relevant within a context of fiscal austerity.

The slowdown in the economic activity of developed countries has affected the performance of emerging countries. In spite of having a relative higher dynamism, developing countries evidenced lower-than-expected growth rates. In this context, emerging economies keep on implementing fiscal and monetary stimulus measures. Against the backdrop of an increase in commodity prices and renewed capital inflows (in part, due to the policies followed by developed economies), some countries have recently strengthened foreign exchange markets interventions in order to stop the appreciation trend of their currencies.

The international context of growing uncertainty has had a bearing on the Argentine economy through a slowdown in the activity of its main trading partners, which was added to the effect of droughts that reduced the outstanding balance of agricultural commodities expected to be exported over the ongoing year. In spite of a moderated expansion pace of activity over the first half of this year, the Argentine financial system has kept the growth of intermediation, preserving its high liquidity and solvency levels.

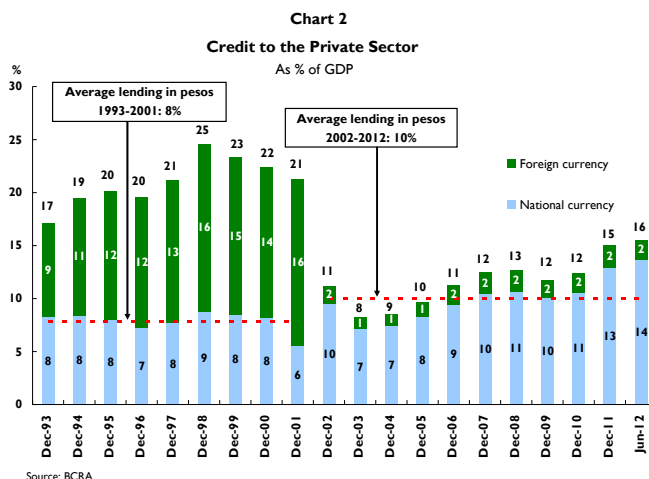
In April 2012, within a general framework aimed at restoring the conditions for implementing economic policies, the new Charter (CO) of the Central Bank of Argentina (BCRA) came into force. The CO reform extended the BCRA's mandate by adding to its existing monetary stability goal, the explicit objectives of financial stability, employment and economic development with social equality. This new legal framework enabled the Argentine monetary authority to

recover the powers it had exercised from 1935 to 1992 when its CO was amended.

To comply with this new broader mandate, the Charter enlarges the room for maneuver of the BCRA by providing the monetary authority with greater powers and concrete tools to operate on the credit channel and regulate its conditions. At the same time, it has also widened its capacity to formulate policies aimed at fostering productive investment, small and medium-sized enterprises, and regional economies; favor global access to financial services; ensure consumer protection; and encourage an adequate level of competition. Simultaneously, and in order to prevent potential gaps and gray areas in regulation from becoming a source of risk for financial stability, the regulatory powers of the Central Bank on other players of the financial system, such as the payment system, the clearing houses, the remittance agencies and the cash in transit companies have also been extended.

Since the enactment of its new CO, the BCRA has been implementing a set of measures in order to comply with its extended mandate. In early July it established that relatively bigger-sized banks should implement a credit line for funding investment projects which may involve capital goods purchase and/or facilities building aimed to produce and trade goods and services. These credits will have a 24-month term on average or higher weighing capital maturities —the whole term would be 36 months as a minimum— at an annual fixed rate of up to 15.01%. By the end of 2012 each financial institution will have to have placed loans under this credit line for an amount equivalent to a 5% of their private deposits. A half of this amount should be channeled to micro, small and medium-sized companies. In August, eligible financing under this credit line was extended, in certain cases, to real estate acquisitions investment projects.

In order to reinforce incentives aimed to broaden the geographical coverage of the financial system, a new mechanism for licensing branches has recently been implemented, changing the framework of territorial zoning with a view to pinpointing differences in economic development amongst localities. In this sense, although the infrastructure availability for rendering financial services at regional level has evidenced a progressive improvement over the last few years, there is still a marked heterogeneity in the geographical coverage of the banking sector across different localities in the country. Since the enforcement of the new rule, and considering the improved zoning framework, institutions planning to open branches in relatively more developed localities will be firstly required to render services in less developed zones. Likewise, the basic



capital requirement has been adjusted in terms of the place where the banking head office is located for the sake of encouraging the geographical extension of banking activity (Box 3).

In parallel, the BCRA has made adjustments to the rule on minimum cash requirements, to which financial institutions will be bound since October 2012 in order to foster an extended rendering of financial services throughout the country. The new rule provides for lower reserve requirements in terms of the degree of development of the locality in which deposits are raised. In addition, institutions that grant a higher proportion of credit to micro, small and medium-sized enterprises will be favored with lower minimum cash requirements.

In line with the new powers aimed at protecting financial services customers, any credit card issuers breaching the Credit Cards Law (banks and non-bank issuers included) shall be bound to summary proceedings. In this context, maximum interest rates on credit card financing have also been established (Box 2).

During the first half of 2012, the financial system lending to the private sector (in domestic and foreign currency) continued showing an upward trend with a 35.5% year-on-year (y.o.y.) increase. Both the measures implemented by the BCRA and the countercyclical role played by public banks have contributed towards this scenario. Thus, lending granted to the private sector by the financial system has increased its depth on the economy, reaching 15.5% in terms of the GDP (0.5 percentage points —p.p.— over the figures at the end of 2011 and almost 3.1 p.p. over those at 2010 closing). Moreover, a relatively bigger share of credit in domestic currency and a decrease in foreign currency loans were observed. It is worth mentioning that credit in pesos rose 41.9% y.o.y. as of past June, while the outstanding balance stock of loans in foreign currency went down by 25.1% annualized (a.) over the first sixth months of 2012 (-9.3% y.o.y.) as a result of a fall in deposits in the same currency which were their source of funds. In spite of the widespread growth of overall financing reaching all groups of financial institutions, the dynamism of public banks should be underscored.

Lending to households grew 28%a. (39% y.o.y) during the first half of the year, whilst lending lines to companies increased by 19%a. (33% y.o.y.). During the first half of the year, the rise in credit to companies was mainly driven by lending to the manufacturing sector; while consumer loans experienced the most dynamic performance within the household lines. Taking into account loans granted to the private sector by residual

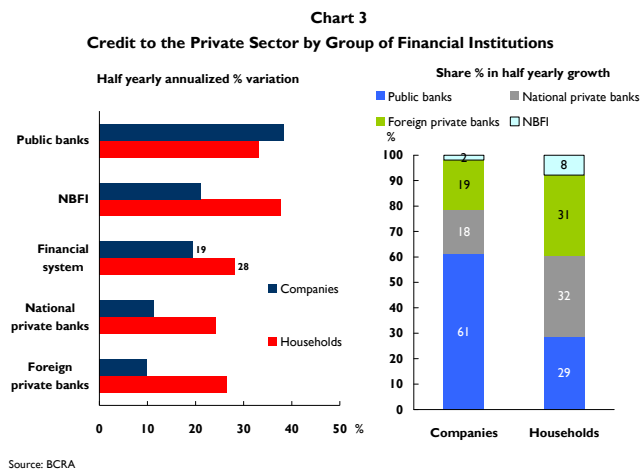
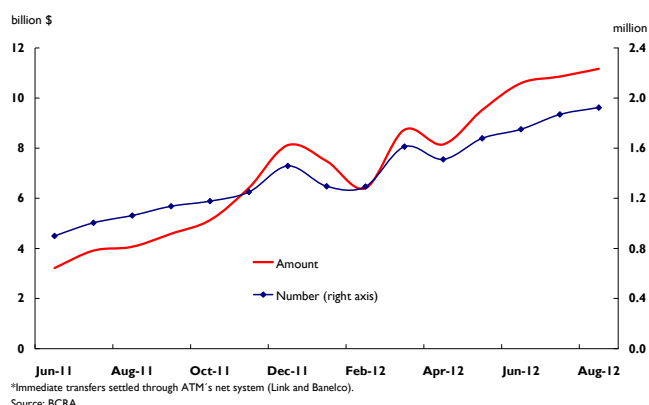


Chart 4
Immediate Transfers*



term, at the beginning of 2012 a larger share was observed in the shorter term segments, except for public banks which showed a relatively higher participation of loans with longer residual terms.

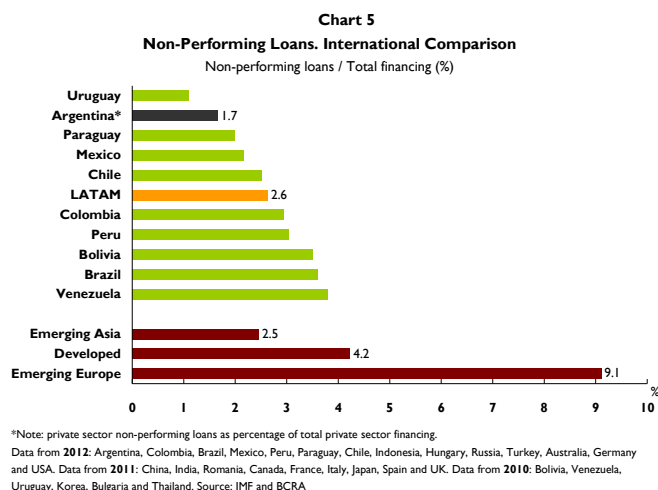
Within the framework of the Bicentenary Productive Financing Program, the BCRA has already auctioned \$5,022 million to 14 financial institutions, standing for 1.5% of private sector credit stock. By the end of September, participating banks allocated a total amount of \$3,513 million, almost 90% being lent to manufacturing and service sectors. Since February 2012, the credit line of this Program may be partially allocated to financing working capital geared to manufacture capital goods for up to 80% of the value of such goods.

Private sector total deposits grew 23.4% y.o.y. as a result of an increase in total deposits in pesos—which amply surpassed expansionary rates shown by the end of 2011—. A raise in these deposits was led by the private sector time deposits in pesos, standing for the largest relative expansion with an increase of 41.4% y.o.y., the maximum growth rate since 2004.

An increase in the use of electronic means of payments was observed over the first few months of the year. So far in 2012, banking transfers has exhibited a favorable evolution with an expansion in the number and amounts of electronic transactions. This was mainly caused by immediate transfers, which became effective since April 2011. The number of immediate electronic transfers showed an increase of 81.1% y.o.y. in August, 2012, mostly channeled through home-banking (for households) and electronic banking services (for companies).

The financial system risk map showed little change in the first semester of the year. The balance of the main exposures and coverage of the sector kept its relative strength and exhibits a positive outlook for the rest of 2012. Financial institutions as a whole reduced their gross liquidity risk exposure, mostly due to a lower share of shorter residual term liabilities and a moderation in the level of concentration of deposits. As regards the coverage of the financial system exposure to liquidity risk over the period under analysis, different indicators measuring the degree of liquid assets availability for the sector (both in local currency and foreign currency) were on the rise. Particularly, the ratio of higher liquidity assets to shorter term liabilities has increased.

The financial system exposure to private sector credit risk is still low. This has been, to a large extent, as a result of a combination of the positive performances of

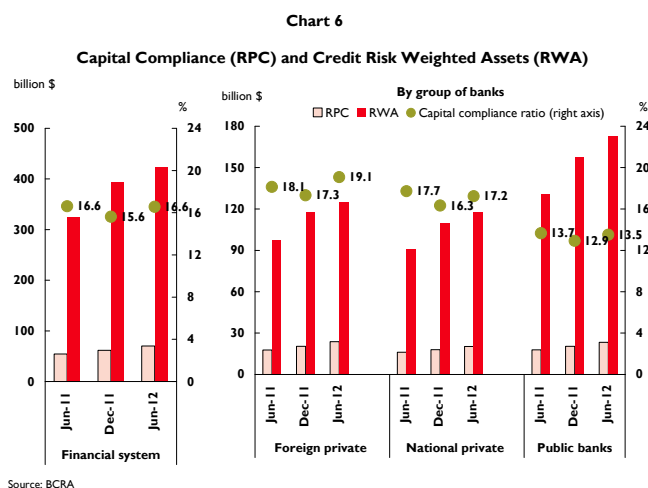


companies and households incomes along with low relative indebtedness levels in both sectors. Bank lending non-performance ratio remains low, even though it presents a marginal increase due to household consumption portfolios. The level of financial system non-performance proves to be under Argentina's historical values, being also lower as compared with other developed and emerging economies.

Financial institutions exposure to foreign currency risk is moderate. However, during the first half of 2012, foreign currency mismatch went up because of the fall of liabilities in foreign currency (mainly a decrease in deposits), which was greater than the cutback in assets (mostly loans), and of net term purchases of foreign currency. As a result of existing prudential regulations aimed at reducing currency mismatch of banks and debtors, at present more than 88% of the balance of financing is in pesos, only standing at 40% on average over the 1991-2000 term. Furthermore, the macro-prudential regulatory framework allowed facing the outflow of foreign currency deposits without causing adverse effects on banks' lending activity or their levels of liquidity and solvency.

During the first half of the year, the financial system exposure to interest rate risk dwindled. The main domestic currency interest rates fell vis-à-vis the end of 2011, with reduced volatility, which contributed towards a decrease in the potential patrimonial effect of their change. The financial intermediation activity in pesos gave rise to a cutback of minimum capital requirements to cover interest rate risk. Meanwhile, the banks' active mismatch of CER-adjusted items decreased anew over the period, contributing to keeping a low and falling banking exposure to real interest rate risk. The market risk weight in the overall balance remained low. Capital requirements aimed at covering this risk remained low and comparable to the requirements for the second half of 2011.

The Central Bank has established a new capital requirement for covering operational risk in line with Basel Committee's recommendations. Such requirement, which amounts to 15% of positive gross income average of the last three years, began to be applied to institutions on a differentiated basis during the first half the year, and is expected to be fully implemented by December, 2013. In addition, at the beginning of the year, the Central Bank extended the capital conservation buffer prior to profit distribution. Financial institutions showing profits will only be authorized to distribute dividends if their regulatory capital, after the distribution, remains, at least, 75% over



such requirement. The ultimate purpose of this measure is to ensure that profits allocation does not threaten financial institutions liquidity and solvency, particularly in the face of the current international context marked by growing uncertainty and bearing in mind the need to solve any problems that may arise from implementing changes in local regulations in line with Basel II and III recommendations.

As a result of the performance of financial institutions and regulatory changes referred to above, the financial system succeeded in consolidating its solvency position over the first half of the year. In this period, the net worth of financial institutions as a whole increased by 29.6%^a. (30.7% y.o.y.) exhibiting the largest expansion since the 2001-2002 crisis was overcome. This rise was mainly fostered by accounting profits from all groups of institutions and, to a lesser degree, from capital contributions. Likewise, the financial system leverage level remained low —below the average for the region and other developed and emerging economies— evidencing high regulatory capital compliance ratios.

I. International Context

Summary

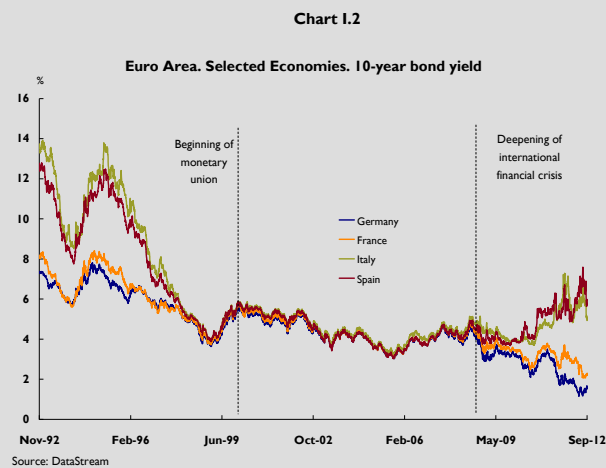
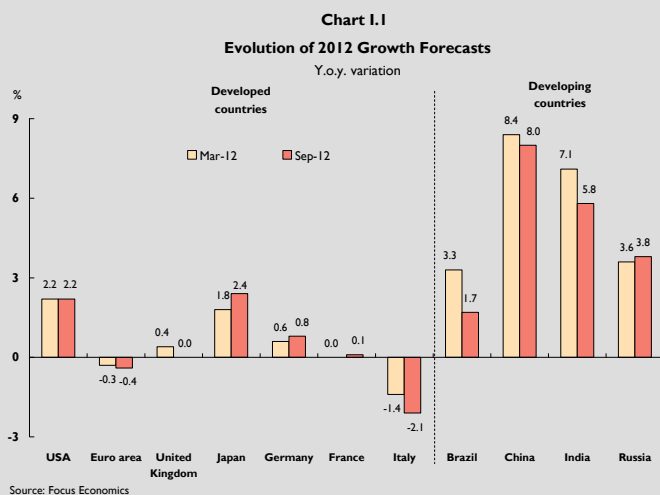
So far this year, the level of global activity, though heterogeneous across groups of countries, continued slowing down: while several countries in the Euro Zone undergo recession and the remaining developed countries evidence a modest growth, emerging nations exhibited a relatively more dynamic performance, in spite of the lower growth rates expected. Within this framework, a low rate of growth in world trade volumes and restrained rise in prices were recorded, while unemployment levels remained unchanged in developed countries. In a scenario of high liquidity, investors' preference for more secure assets caused the yields of these instruments to fall to minimum historic levels, while the price of sovereign bonds and securities related to financial institutions in the most troublesome countries in the Euro Zone continued under pressure.

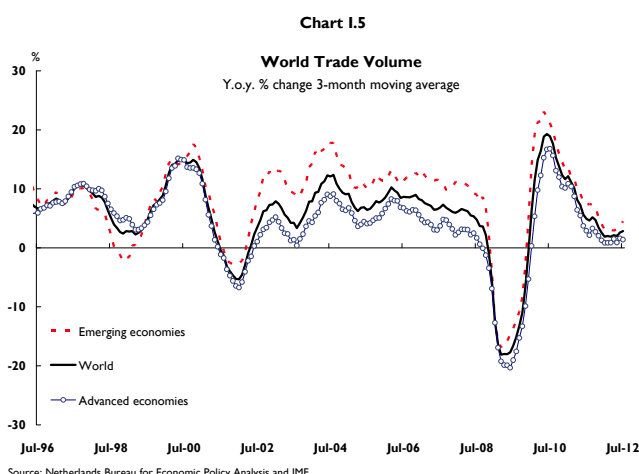
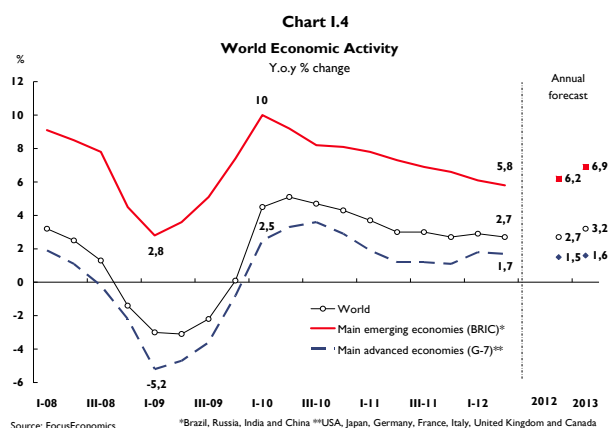
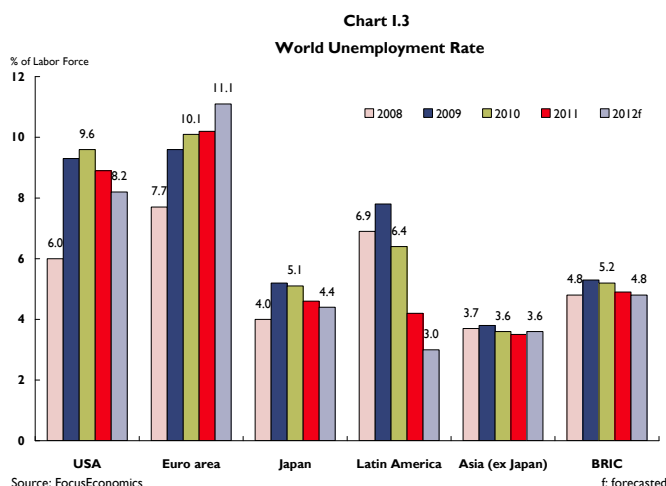
In a context of doubts about the sustainability of the sovereign debt in certain developed countries, the implementation of the fiscal policy as an anticyclical tool was restrained, in spite of a notable weakness in their labor markets, and fragility in their financial systems. New policy measures could not trigger the real economy, though more recent announcements (including a new ECB program to purchase sovereign bonds in secondary markets) along with expectations for new monetary stimulus by leading economies (a new round of asset purchases was finally announced in the United States) propped up a relative improvement in financial markets over the last few months.

Emerging countries continued leading global expansion, in spite of exhibiting a stronger than expected moderation in growth rates. In the last few months, some of these countries continued implementing fiscal and monetary policy stimulus measures. Meanwhile, the price of financial assets in emerging economies showed a changing pattern since the end of March, with high initial pressure exerted in developed economies' markets and its subsequent recomposition. Upon the announcement of monetary stimulus measures in developed economies, portfolio flows lately returned to positive territory, causing some countries to intervene in exchange markets.

Based on the economic performance in the first half of the year, global growth expectations for 2012 were reduced. However, a more dynamic scenario is foreseen for the second half. Moreover, the uncertainty about the development of advanced countries—including doubts about the Euro Zone future and political vagueness as to the fiscal development in the United States—will continue generating volatility in international financial markets, with an impact on the price of commodities. As regards the latter, climate conditions are expected to continue affecting food prices in the next months.

Emerging countries continue exhibiting relevant margins of countercyclical performance, although they have so far been implemented on a partial basis, probably reserving a straightforward attitude for a potential scenario of higher deterioration of global economy.





International Context

In 2012 world economy grew at a pace lower than expected due to the weak performance of developed countries and a slowdown in emerging economies

In the last few months the pattern of performance among regions followed over 2012 remained stable, with global economy expanding at a moderate rate while the Euro Zone undergoes a recession and, the remaining developed economies record a moderate growth. Emerging countries show a relatively lower expansion compared to the first half, but more dynamic than developed economies (see Chart I.1). This performance of developed economies imply, in some cases, a higher deterioration of labor market conditions (see Chart I.3) and an obstacle for the rapid growth in other developed countries in contrast with the situation observed among the main emerging economies.

Within this framework, based on current projections, economic activity would improve in the second half of the year, lead by emerging countries, which would allow the global product to grow 2.7% y.o.y. during 2012 (see Chart I.4).

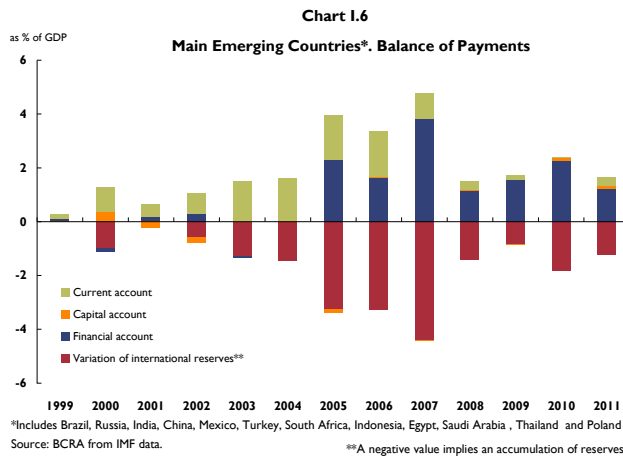
Accompanying a weakening economic activity, the pace of growth in the volumes of world trade stabilized at relatively low levels, both in emerging and advanced economies (see Chart I.5).

In addition to uncertain forecasts in the development of the global economy, renewed tensions were observed in the financial markets of the Euro Zone. In particular, for major economies —such as Spain, and to a lesser extent, Italy— the joint deterioration of the prices of public securities and financial instruments in the banking sector worsened (see Chart I.2), with an impact on the financing cost of sovereign debt placements.

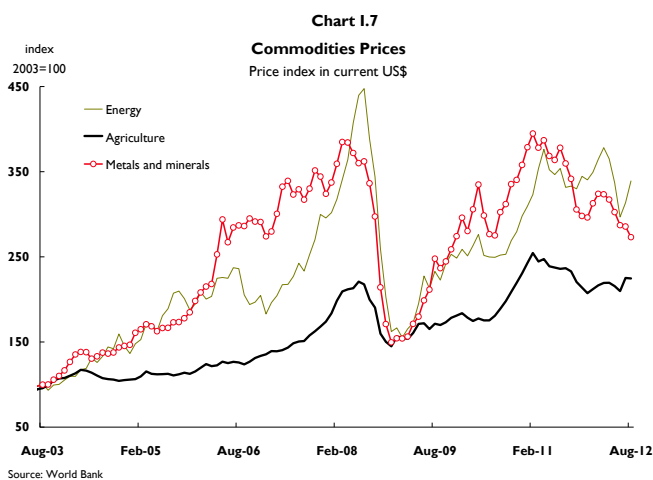
In this context, the authorities in the region, announced new measures aimed at counteracting the crisis in the markets and ensure financial stability, which, *prima facie*, had a positive effect on financial markets. These measures included actions aimed at developing a joint banking supervision scheme in the Euro region, the possibility of direct contribution of stabilization funds (EFSF/ESM)¹ to the capitalization of banking institutions, and the potential participation in sovereign

¹ The German Supreme Court vacated the motion of judicial review of the ESM (European Stability Mechanism), granting the implementation of the mechanism.

debt markets in specific countries—including the ECB—subject to conditionality (see Box 1)².



As regards the United States, the Federal Reserve maintained the main guidelines of its monetary policy. In June it decided to continue with its policy of extending the terms of its public securities portfolio (“Operation Twist”), while in September a new round of asset purchase³ was announced and the expected term for low rates was extended until mid 2015. Uncertainty is now closely linked to the next election results, the new debt ceiling that will be established for 2013 and, accordingly, the expected fiscal adjustment. In the absence of any parliamentary action to the contrary, expenditure cuts and tax rises will be implemented since January 2013 on a joint and simultaneous basis. This could imply a deficit reduction which is expected to reach almost 3.3 of the GDP by end 2013, and a downward trend in debt, at the risk of causing a new recession in the country and further complicating fiscal prospects. If these measures were suspended, debt would continue following, as forecasted, a downward trend while fiscal deficit could stand for 6.5% of the GDP in 2013. However, the US authorities have stressed that the harmful consequences of economic adjustments would be meaningfully higher than those arising from an increase in debt and a deficit reduction.



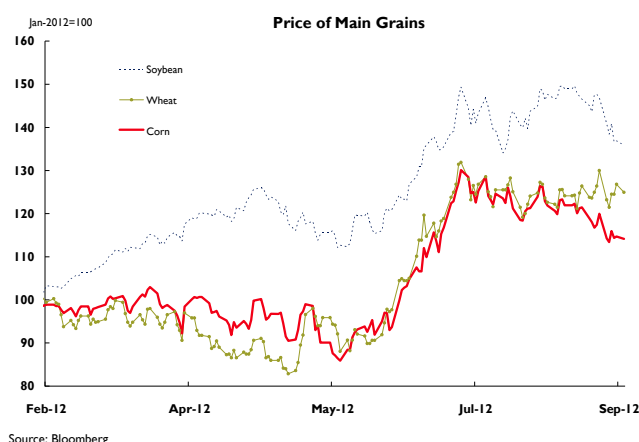
As regard emerging economies, while Asia and Latin America exhibited a better growth in relative terms over the second half of the year, in some cases there were signs of slowdown stronger than expected (China, India, Brazil), reflecting the impact of lower growth in the developed world. In this context some countercyclical measures were adopted in the fiscal, monetary, financial and exchange rate fields. In relation with the latter, it is worth noting that in the last five years, in a context of growing financial globalization, the mobility of capital became the main factor which explains the process of international reserve accumulation in emerging countries, in contrast with the performance previously observed (where the outstanding balance of the current account was the main cause of the process). In this sense, international reserves management has turned into a relevant instrument to these economies with the aim of managing strong financial inflows or outflows of financial capitals⁴ (see Chart I.6).

² In addition, in June the ECB reduced its monetary policy rate to 0.75%, while in September it enlarged the range of eligible collaterals— together with the launching of a new and unlimited scheme for buying sovereign bonds—.

³ This new scheme would involve mortgage-backed asset purchases (agency mortgage-backed securities) for US\$ 40 billion on a monthly basis. The scheme would be effective until the labour market situation is overcome; if necessary, new measures are expected to be implemented. In addition, the monetary authority in Japan has recently expanded its scheme for buying assets.

⁴ Accumulation on precautionary grounds takes place in the absence of lender of last resort in foreign currency.

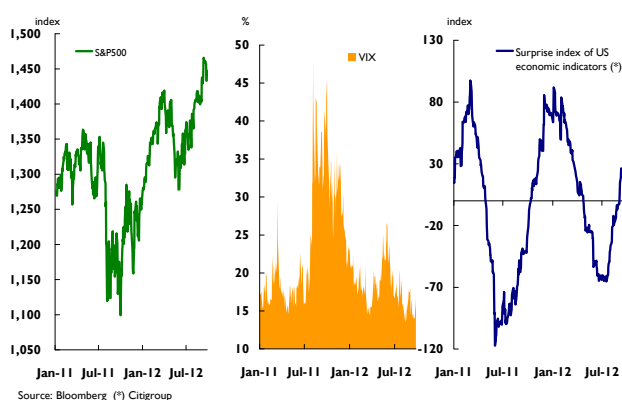
Chart I.8



In India, China and especially Brazil, over the first half of the year, interest rate benchmarks of monetary policy dwarfed, while reserve requirement rates were changed for stimulating lending (China and Brazil). In the fiscal dimension, Brazil intensified the use of some measures focused on tax reduction and subsidies to interest rates, replicating in part the measures adopted in 2008-2009. Considering policy reactions that have already been exhibited in these countries, the economic activity of this group of nations is expected to recover in the second half of the year.

The international price of commodities showed contractions y.o.y. over the first half of the year, mainly in metals and minerals as well as energy, basically affected by global uncertainty and a slowdown in the worldwide growth (see Chart I.7). In turn, the price of agricultural products has recorded a positive boost over the last few months (see Chart I.8), explained to a greater extent by the adverse climate conditions that affected several zones relevant to production. As regards the latter, it is worth bearing in mind the severe drought recorded in large agricultural areas of the US and lack of humidity in wheat producing areas such as Eastern Europe. The recent rise in prices was accentuated by the positioning of non-commercial agents in derivative markets of agricultural commodities, betting on new rises in prices of grains in the future.

Chart I.9
US Stock Markets

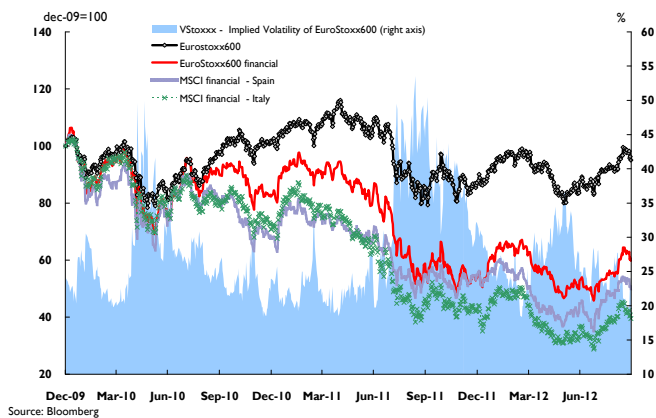


The demand of industrial commodities is expected to remain low; therefore, their prices would continue to be to the tune of current levels but exposed to additional shrinkage. Moreover, the trend exhibited by agricultural prices would be strongly conditioned by the development of climate factors, both in terms of drought in the Northern Hemisphere, and the next harvest season in the Southern Hemisphere.

Financial markets recorded a changing performance, with growing tension over most part of the second quarter and improvements in the last two months

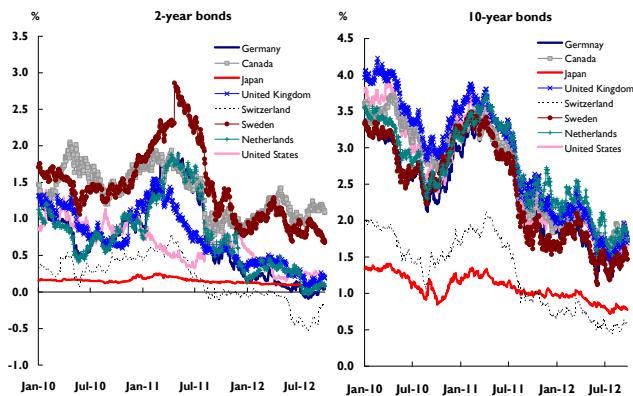
Tensions in Euro Zone markets and increased uncertainty regarding global growth have contributed to a contraction in stock exchange indexes recorded over the months of April and May in the largest financial markets. However, they tended to recover soon, particularly following the positive initial reaction to policy announcements made by American and European authorities. Thus, in the United States and Europe, stock indexes recorded mixed results since the end of March. Between the end of March and late September, the American S&P 500 improved over 2% (see Chart I.9), whereas in Europe, the Euro Stoxx600 fell 1.5%

Chart I.10
European Stocks Markets in Dollars



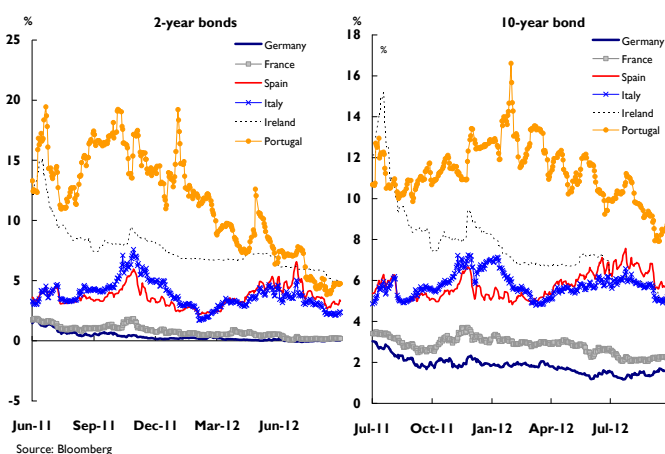
Source: Bloomberg

Chart I.11
Sovereign Debt Yields



Source: Bloomberg

Chart I.12
European Sovereign Debt Yields



Source: Bloomberg

measured in dollars. It should be noted that since the end of March, stocks related to the financial sector have accumulated a reduction of 4.5% in dollars, despite the fact that in the period the fall reached almost 27% (see Chart I.10). In terms of stock index volatility, both in American as well as in European markets, a significant expansion from April to May was observed, although not as drastic as the one recorded over the second half of 2011. Later on, expected volatility tended to decrease, until in August-September the US VIX index reached values not previously recorded since 2007⁵.

In a context of investors looking for safety and expectations upon new monetary expansion measures (that finally came true), yields of sovereign bonds with greater liquidity and higher credit rating tended to exhibit cuts, recording, in some cases, new historical minimums (see Chart I.11). For example, from April to July, yields of US treasuries and 10-year German bonds maintained a falling trend that partially reverted as from the end of July. Thus, between the end of the first quarter and the end of the third quarter of the year, these long-term yields accumulated a contraction of almost 60 b.p. and 35 b.p. in terms of American and German debt, respectively⁶. In the opposite direction, debt yields from countries like Spain and Italy tended to steadily increase throughout the April-July period; and especially in the case of Spain, 10-year yields set new all-times records, with a significant improvement subsequently observed (see Chart I.12).

The growing tensions in European markets were reflected in a generalized depreciation of the euro against the rest of the most relevant currencies (see Chart I.13). The euro-dollar foreign exchange rate reached by the end of July its lower level in the last 2 years (almost US\$/€1.2), although throughout August and during much of September an improvement was observed⁷. Thus, since the end of March, the dollar ended with an appreciation in value of 3.6% against the euro. Other currencies, such as the yen, the Canadian dollar, the pound sterling and the Swedish krona appreciated from 4% to 10% against the euro since the end of the first quarter.

Since late March, stock exchange indexes of emerging economies have been showing a fluctuating performance (recording drops in April-May, followed by partial improvements), eliminating some of the accumulated earnings from the first quarter of 2012. Thus, share prices for the aggregate of emerging countries have accumulated a

⁵ This adjustment took place in a context of economic indicators showing in the margin values somewhat better than expected, a picture which is completed by the rising expectations that the Federal Reserve would provide new monetary incentives.

⁶ Up to almost 1.6% and 1.45%, respectively (even though they went below 1.4% for the United States and almost 1.15% for Germany by the end of June).

⁷ The volatility expected for this parity rebounded between May and June, falling in the last few months below the figures recorded by the end of March.

Chart I.13

Main Currencies and Volatility

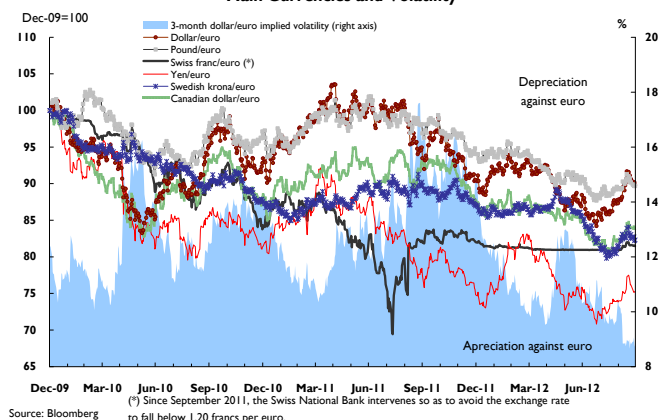


Chart I.14

Emerging Economies Stock Markets

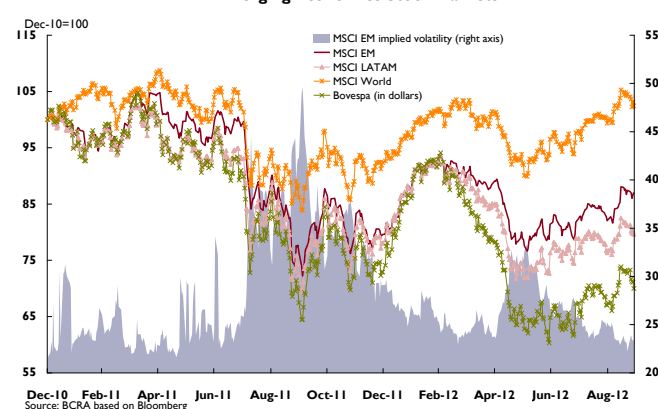
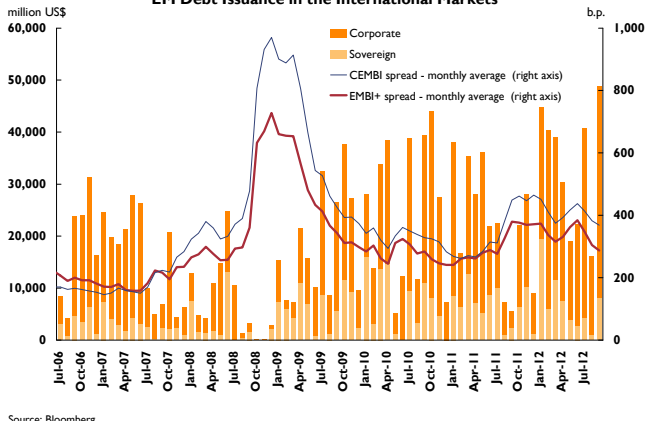


Chart I.15

EM Debt Issuance in the International Markets



drop of almost 4% since the end of March as per the MSCI EM (measured in dollars), while the volatility expected for the main components of this index has shown a changing performance over the period (see Chart I.14). Since March, Latin American stock exchange indexes have recorded a sharper deterioration than the one recorded in emerging countries in general (the regional MSCI index dropped by more than 10%). Particularly, the Brazilian stock exchange —Bovespa— contracted almost 18% (measured in dollars). From April to June, the falling trend recorded by EMEs stock prices was accompanied by outflows of investment funds specialized in these assets. However, the annual balance continues being positive as a result of significant subscriptions during the first months of the year, and to a lesser extent, inflows observed over July-September

Emerging sovereign debt risk spreads (EMBI+ EM) have dropped over 30 b.p. as from late March (because although an increase of more than 100 b.p. was recorded from March to early June, it was soon followed by a drop). In terms of debt issuances in international markets, there were few sovereign operations recorded as from April, due in part to seasonal factors, although September recorded a rise in volume. On the contrary, corporate issuance kept its momentum, recording a high trading volume in July and September (see Chart I.15). Among corporate bond issues in international markets, as far as sectors are concerned, placements made by banks have stood out, whereas at a regional level, emerging Asian companies were the ones to excel. In Latin America, Mexican and Brazilian companies accounted for almost 70% of total issues made by companies at a regional level in international markets between April and September 2012, followed by Chilean companies⁸.

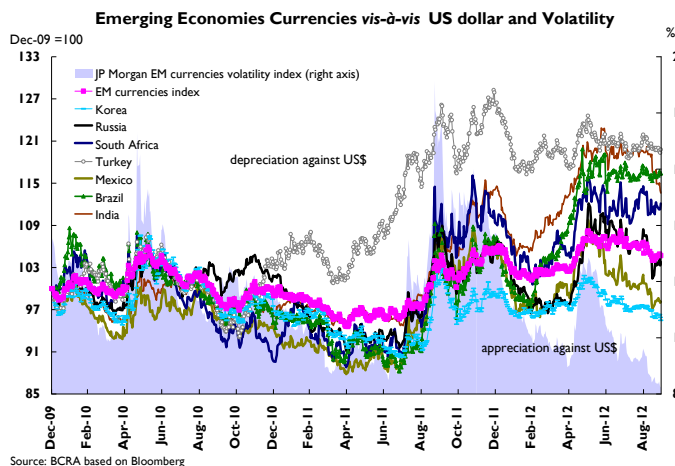
Since late March, currencies from emerging countries tended to depreciate against the U.S. dollar, in line with the downward trend recorded in the prices of equity assets of those economies; however, they evidenced a slight improvement over the last few months⁹ (see Chart I.16). Among Latin American currencies, the performance of the Brazilian real should be highlighted, since its depreciation against the US dollar advanced in April and deepened in May¹⁰. This prompted the intervention of the monetary authority in the market, which through different methods, managed to keep the exchange rate close to R\$/US\$2. In contrast, over the last few weeks, given that an appreciation trend of the real against the US dollar could be observed (following the announcement of monetary stimulus measures in developed economies), authorities pointed out

⁸ Among Mexico's and Brazil's corporate issues, the sectors that obtained financing in the markets were banks, followed by the iron and steel industry, the oil/gas sector and telecommunications. In Chile, corporate issues from mining and banking sectors were central.

⁹ In terms of expected volatility, according to the JP Morgan Index, they tended to contract from the peaks recorded in May and June.

¹⁰ The Central Bank of Brazil continued reducing the monetary policy benchmark interest rate to minimum historic levels in the last few months.

Chart I.16



that, if applicable, they would adopt all necessary measures to avoid excessive revaluation and started to intervene in the markets through reverse exchange rate swaps¹¹.

Even though a relatively more favorable trend could be recently observed in international markets, the situation in the Euro Zone and the global growth pace level observed continue being the focus of attention for investors. In this context, policy responses become of utmost importance. Provided that these tensions are contained, and thus, an increased contagion effect to other regions can be avoided, besides improving expectations on economic evolution at a global level, there would be a favorable impact on the development of financial assets of emerging economies. However, with changing expectations, new episodes of volatility in international markets conditioning the development of EMEs assets in the months to come cannot be ruled out.

¹¹ Transactions equivalent to purchases of foreign currency futures by the Central Bank.

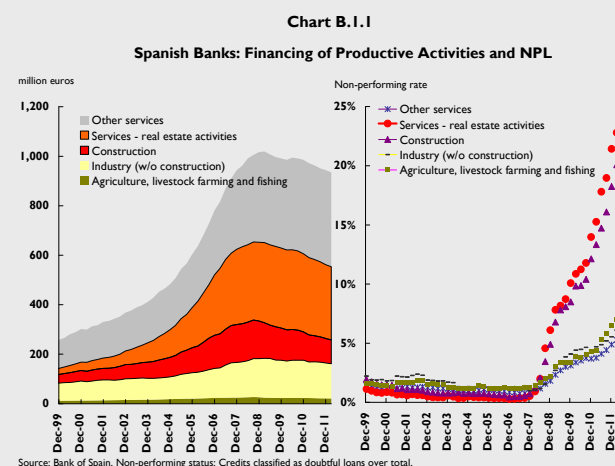
Box 1 / Policy Responses vis-à-vis the Debt Crisis in Europe

In the second half of 2012, the crisis continued deepening in Europe, mostly due to the risk perceived in relation to big economies and the negative expectations about the Euro. In this context, European authorities eased the operation of the European stability funds (EFSF/ESM), while more recently the ECB announced a new means of intervention in debt markets, with no limit in terms of amount. The later measure was a signal of commitment by the ECB and caused an important impact, with tensions in financial markets in the region softening since August. Nevertheless, the situation is far from being regularized and new episodes of volatility in the next months cannot be ruled out

Debt markets in Europe resumed their negative trend over the second quarter of 2012, in spite of Greece's sovereign debt exchange. Since the operation was carried out, the yield of Greece's new public securities issued at longer terms remained high, which reflects the existence of doubts in terms of the country's debt sustainability. In addition, a growing deterioration of the price of the sovereign bonds of Spain—and, to a lesser degree, of Italy—was observed, with an impact on funding costs in the primary market. The weakening of debt markets affected the forecasts about the Euro, given the relevance of the size of the last economies mentioned.

In the case of Spain, the erosion of the price of sovereign instruments is concurrent with a rise in the risk perceived in the banking system, in spite of the measures implemented over the last few years to correct its vulnerabilities. In fact, the growth of lending to the construction sector and for real estate development in Spain before the peak of the 2008-2009 international financial crisis was later translated—within a more serious context—into a quality deterioration of the financial system portfolio (see Chart B.1.1)¹². This phenomenon particularly involved the institutions known as *cajas*, giving rise to uncertainty about the vulnerability of this segment. In the light of this scenario, Spanish authorities have implemented several measures since 2009, focused on requirements of higher provisions and a boost towards a process of consolidation among the *cajas* by fostering their integration and their transformation into banks. More recently, in May of this year Spanish

authorities further increased the provisions required, discussed the need to transfer the real estate assets received in payment of debt by banks to specialized companies, and determined that two external audits would be carried out to assess the situation of bank assets.



In terms of these audits, in June the aggregate capitalization needs of the Spanish banking sector were estimated in a €1,000-62,000 million range for the most adverse scenario, and its government formally applied for financial aid to the European Union for an amount edging up €100 billion in order to support its restructuring and recapitalization process¹³. Financial aid was requested in an scenario of growing public indebtedness in Spain, while its government is bound to face meaningful debt payments over the period 2012-2013, with growing financial costs in the markets. Therefore, in the European summit several measures were announced with the explicit aim of breaking the correlation between perceived banking risk and the situation of sovereign debt (see Chart B.1.2).

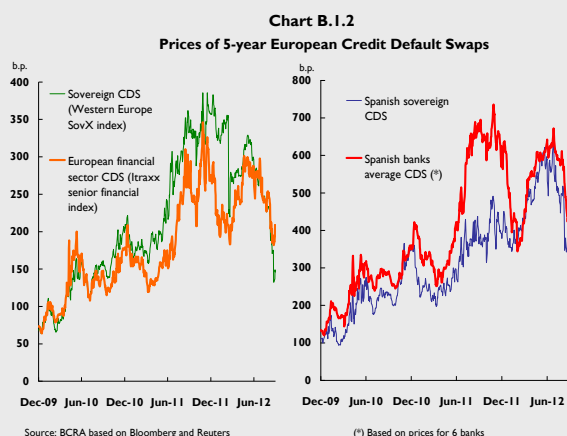
On the summit, an agreement was reached in terms of implementation of a new Single Banking Supervision Mechanism for the Euro Zone¹⁴. Once said mechanism becomes effective, expected to be implemented by year-end this year, the European Stability Mechanism (ESM) will be able to capitalize banks directly (these capital injections will be subject to conditionality) and not, as was previously the case, through financing requests from

¹² In turn, and in line with the scenario in other countries in the region, the weakness of Spanish banks' business is further related to their funding structure, with a high weight of the wholesale component (which has been replaced with a greater access to the ECB's liquidity lines).

¹³ In addition, by the end of June Cyprus applied for foreign official financial aid.

¹⁴ In September, the European Commission submitted proposals to design a Single Banking Supervision Mechanism, according to which the ECB would be vested with powers to supervise all the banks in the eurozone, particularly in connection with financial stability issues.

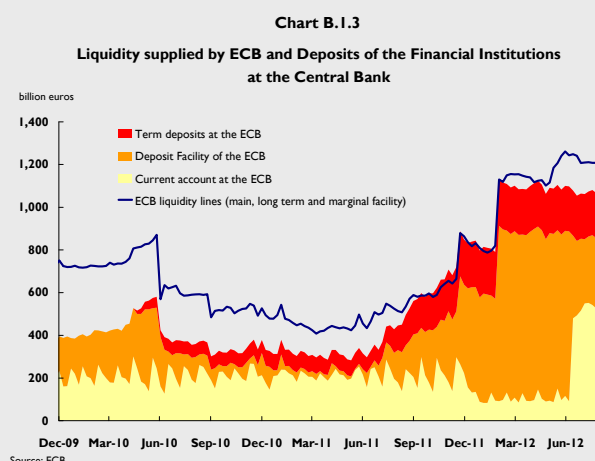
the governments concerned¹⁵. Lastly, it was announced that, if applicable, the European Financial Stability Facility (EFSF) and the ESM would be used on a flexible basis to stabilize debt markets in countries formally requesting it (mechanism also subject to conditionality).



In July, the aid requested by Spain to capitalize its financial sector was approved. The memorandum of understanding set forth that external auditors were to carry out a general review on the quality of the financial sector's assets and that an external consultant was to implement stress tests on a company by company basis¹⁶. As a result of this assessment, recapitalization, recovery and/or resolution measures in relation to the weakest banks, which will have to submit by October plans to solve their capital shortfalls, are to be taken. Meanwhile, banks receiving public aid will have to transfer their low quality assets to an external management institution¹⁷.

Even though there was a positive initial reaction to these measures, towards the end of July, long-term sovereign debt yields of vulnerable economies of a larger size within the Euro Zone continued deteriorating. In this context, the Governor of the European Central Bank (ECB) announced that the institution would do its best efforts to preserve the euro. During ECB's monetary

policy meeting in early August, the concern regarding the existence of excessive risk margins in the prices of debt markets and financing fragmentation that could hinder monetary policy operations in a context of strong liquidity injections made on the system (see Chart B.1.3) was explicitly mentioned. It was further announced that the institution could even intervene debt markets¹⁸.



At the beginning of September, the Outright Monetary Transactions (OMT) program was formally introduced. Through this program, the ECB will be able to make purchases on sovereign debt secondary markets of countries formally requesting it. In order to qualify, countries must previously be participating in a program with EFSF/ESM (whether a complete macroeconomic adjustment program or a preventive one) and comply with the conditions set forth thereto. Said purchases will focus on the segment of the curve ranging from 1 to 3 years, with no previously assigned limits in terms of amounts, and sterilized. It is worth mentioning that sovereign bonds purchased on these terms by the ECB will have no preemption rights compared to the remaining debt holders.

The fact that the ECB may take the necessary steps to limit tensions in debt secondary markets has contributed in August and September to a significant contraction of sovereign bond yields in the economies of the region that have already received external aid. However, relevant issues regarding implementation of announced measures are yet to be determined, whereas a challenging work agenda was established for the rest of the year. Meanwhile a growing concern about regional growth perspectives still prevails; the macroeconomic situation is still compromised by the emphasis on fiscal adjustment and structural reforms.

¹⁵ Within this framework, it was agreed that the financial aid required by Spain to capitalize its banks would be granted by the EFSF, but once the ESM becomes fully effective, such facility would be transferred to the latter having no preferential status over the remaining Spanish debts.

¹⁶ The final results, submitted by the end of September, fell within the range of figures initially estimated. It is worth noting that, according to the trial, the largest Spanish banks evidence capital surplus.

¹⁷ The transfer to the so called asset management company would be made taking into account a long-term real economic value assessed over the process of banks' balance sheet quality revision and the execution of stress tests. In the case of banks which are aided with public funds for recapitalization, it was further agreed that a portion of the cost of restructuring must be borne not only by shareholders but also by holders of hybrid capital instruments and subordinated debt, by means of voluntary or compulsory transactions.

¹⁸ Within the framework of the Securities Market Program, the ECB has purchased no debt since early March this year.

II. Local Context

Summary

In line with global economic performance, Argentine economy reduced its growth pace over the first half of 2012 (see Chart II.1). This behavior was explained basically by the activity slowdown faced by the main trading partners of the country and by the drought affecting the year's export surpluses.

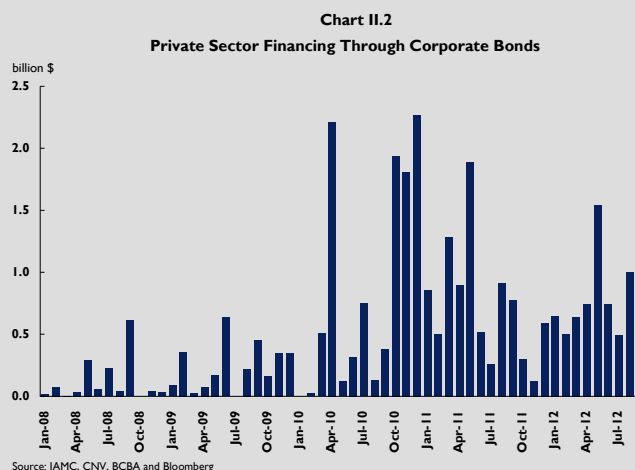
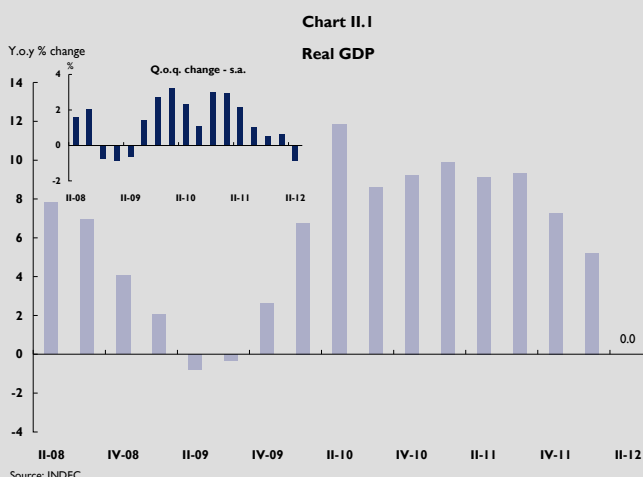
Private consumption continued providing the main support for economic activity, as a result of the wage mass remaining at historically high levels. A similar performance was observed in the higher credit supply and in the increase in government transfers. During the second quarter of the year, investment was affected; however, it stood at levels close to 21% of GDP over the first half of the year.

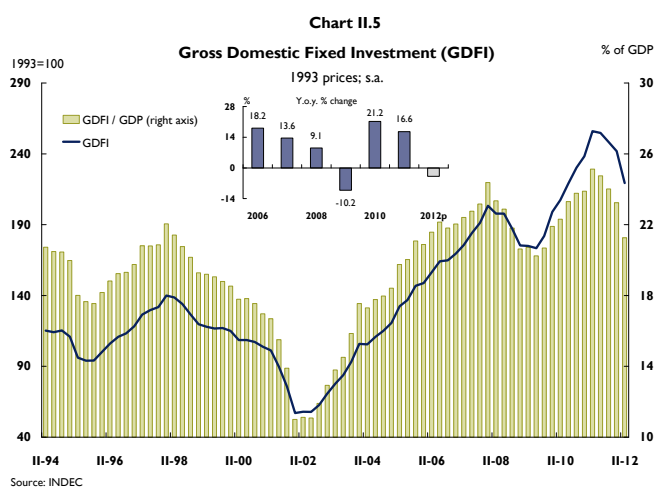
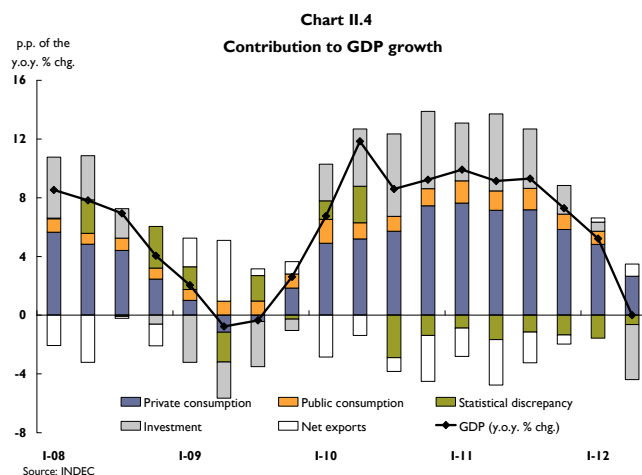
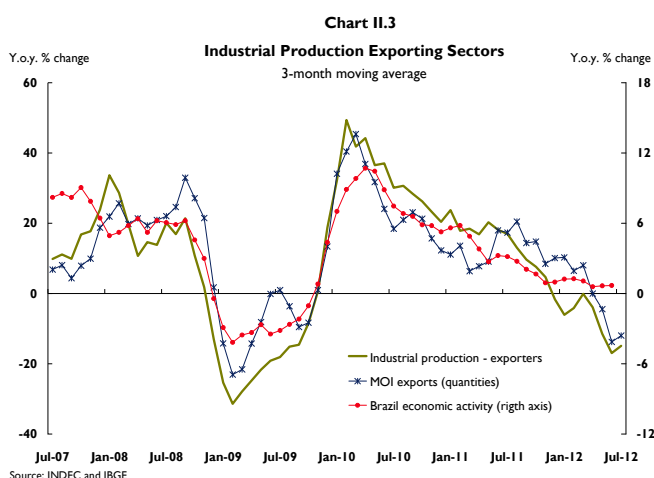
Under BCRA's new extended mandate, a set of measures aimed at improving access to banking services and credit, particularly loans to productive sectors, were implemented. Thus, as from October 2012, a readjustment of minimum cash requirements will be in force. Such readjustment implies a gradual reduction of minimum reserve requirements based on the degree of development of the locality in which deposits are raised, and it also sets forth a reduction in liquidity requirements based on the weighting of credit to micro, small and medium-sized companies over total loans to the private sector in each financial institution.

Moreover, in order to reinforce lending to the productive sector, over the first days of July, the BCRA ordered relatively larger banks to supply a credit line for investment projects, to be instrumented through the purchase of capital goods and/or through the building of facilities as deemed necessary for the production of goods and/or services, and the sale of goods. These loans shall have terms of 24 months or higher on average, considering weighted maturing principal; the total term not being lower than 36 months, at a fixed annual interest rate of up to 15.01%. By the end of 2012 each financial institution must have agreed investment credits through this new line in an amount equal to 5% of its deposits. Half of this amount shall be allocated to micro, small and medium-sized companies. In August, qualifying loans to this line were extended, enabling in some cases, investment projects aimed at purchasing real estate assets. Also, conditions related to the maximum interest rate to be collected by financial institutions were changed.

In terms of private sector financing via capital markets, an improvement against previous months was observed. It was mainly boosted by bond issues from the financial and energy sectors (see Chart II.2).

Looking ahead, the economic growth pace is expected to recover greater momentum as a result of proactive policies undertaken by the government to promote domestic demand, and due to a performance improvement expected from the economies of Brazil and China.





II.1 Macroeconomic context

The moderation of growth experienced by the main trading partners of Argentina impacted on exports and on the level of domestic activity, coupled with a decline in agriculture harvest as a result of the drought at the beginning of 2012

During the first half of 2012, domestic economic activity moderated its expansion pace, in an international context of growing uncertainty, with global economic expansion being lower than expected at the beginning of the year. The adverse international scenario impacted on the commercial balance as a result of the withdrawal from industrial production of several exporting sectors strongly associated to Brazil's activity levels (see Chart II.3). Consequently, according to data collected by INDEC, domestic GDP grew 2.4% y.o.y. during the first six months of 2012.

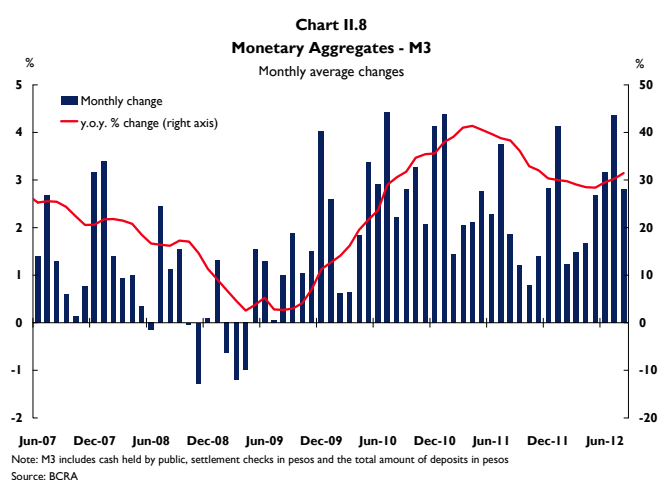
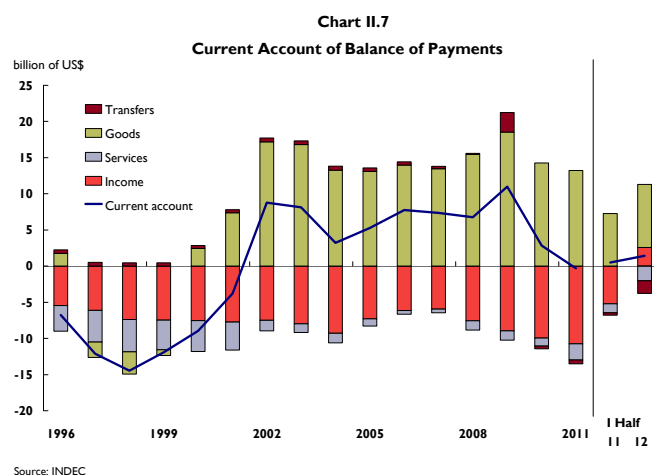
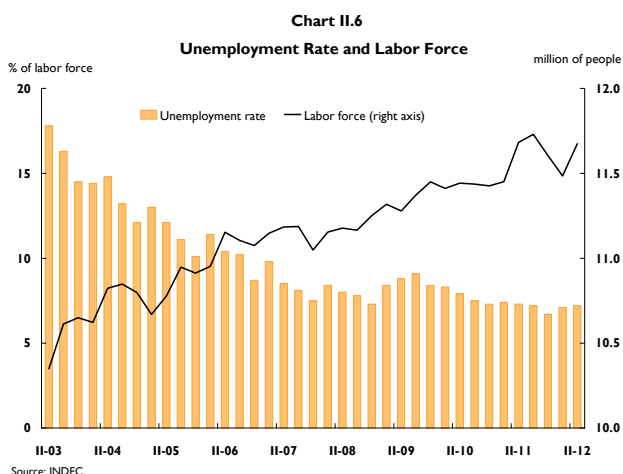
Household consumption continues to be the main support for spending (see Chart II.4), given the persistent increase in employment and raising wages, complemented by larger public transfers and promotions and financing plans implemented jointly by retail chains and financial institutions.

Especially over the second quarter, investment was negatively affected, although it managed to stay above 21% of GDP during the first half of the year, against 23.4% registered during the same period of 2011 (see Chart II.5).

Compared to the same period of 2011, the job market evidenced almost no significant changes during the first half of the year. Over the first 6-month period, the employment rate¹⁹ stood at 42.6%, following the creation of 34 thousand new jobs in the 31 urban agglomerations surveyed by the Permanent Household Survey. Such performance was accompanied by sustained workforce levels, leading to a slight drop in the unemployment rate, which in June 2012, stood at 7.2% of the economically active population, 0.1 p.p. below that recorded by mid-2011 (see Chart II.6).

The volumes exported during the first eight months of the year remained similar to those recorded a year ago. The lower amount of exported manufactures of agricultural origin and those related to transport were partially offset by higher exports of fuel, electric power and primary products. In turn, imports fell 7% y.o.y. between January and August as a result of fewer purchases of capital goods, manufacturing inputs and

¹⁹ Ratio between employed and total population.



consumer goods. Therefore, the accumulated 8-month trade surplus for 2012 reached US\$10.031 billion, US\$2.769 billion more than the same period last year, reasserting itself as the main support of the current account (see Chart II.7). As a result of the performance recorded in the volume of exports and imports, net exports contributed 1 p.p. to the increase recorded in the GDP over the first half of the year (see Chart II.4).

II.2 Monetary context

Growing boost for the granting of long-term loans aimed at the productive sector

During the first half of the year, the Central Bank continued with its policy of fund auctions under the Bicentenary Productive Financing Program. This program is intended to boost investment and productive activity through medium and long term loans granting at a fixed interest rate. In the same line, in early July the launch of a new credit line for productive investment at a fixed interest rate was announced. Financial institutions²⁰ playing a greater role in the system will have to allocate, as a minimum, an amount equal to 5% of their private sector deposits in pesos collected as of June 2012, in order to grant loans intended for the purchase of capital goods, the building of facilities for the production of goods or services and, according to certain conditions, the purchase of real estate assets. Total loan term shall not be less than 36 months and average term shall be 24 months as a minimum. Interest rate shall be of up to 15.01%, at least during the first 36 months, which may thereafter be followed by a variable rate not exceeding by 400 basis points the BADLAR. In addition, it was set forth that at least half that amount be granted to micro, small and medium-sized enterprises (MiPyMEs)²¹.

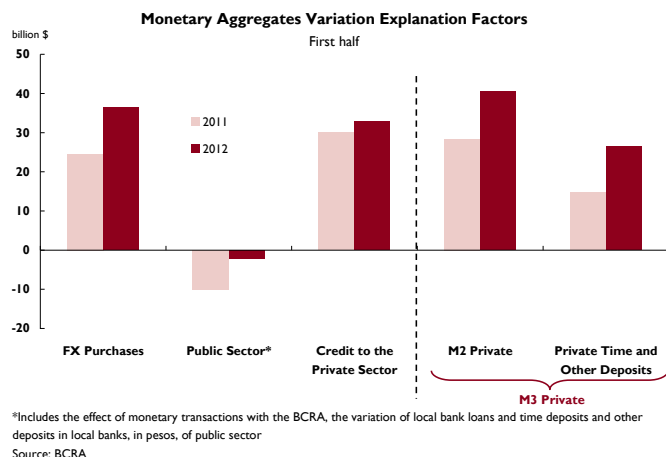
In turn, as from the new amendments to BCRA's Charter, minimum liquidity requirement compliance by financial institutions may only be met through sight deposits within this Institution. As from April and until the regulations were duly adjusted, it was temporarily allowed that institutions deduct from the requirement an amount equal to the cash held by banks computed as compliance in March 2012²² —it was called “eligible cash”—. It is worth mentioning that since these changes have been implemented, a reduction in the cash held by institutions has been noticed, in line with a more efficient use of such resources.

²⁰ Including institutions with 1% or over of total deposits in the system, and those acting as financial agents of governments (whether at a national, provincial, CABA or municipality level).

²¹ See Communication “A” 5319 and “A” 5338.

²² Communication “A” 5299.

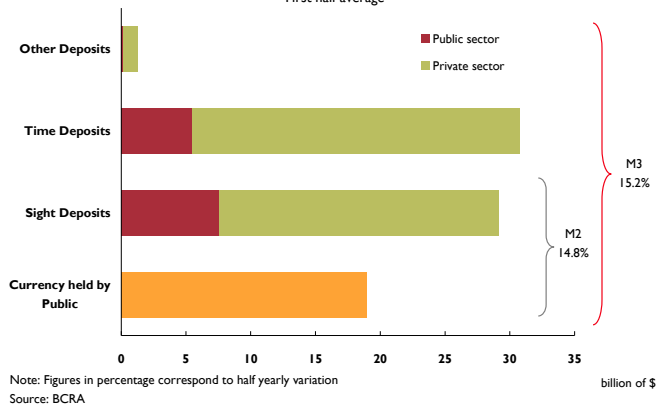
Chart II.9



Finally, in October 2012 Communication “A” 5357 was issued, by means of which the Minimum Cash requirement regulation was adjusted to comply with the Central Bank’s Charter. This regulation addresses three components: (i) a gradual removal of the deduction of “eligible cash” from reserve requirements²³; (ii) a gradual decrease, from October to March, in the Minimum Cash Requirement coefficients for deposits according to the zone where the branch taking deposits is placed²⁴; and (iii) a decrease in the Minimum Cash Requirement in terms of the participation of loans to MiPyMEs in the total amount of loans granted to the private sector²⁵. The new regulation focuses on diverse objectives introduced by the Central Bank’s Charter, such as guide lending through reserve requirements, adopting differential policies aimed at MiPyMEs and regional economies, contributing to the expansion of the geographical coverage of the system, to low-economic potential and most thinly-populated areas, and widen population access to financial services.

In the first half of 2012, the broadest monetary aggregate (M3²⁶) recorded a 15% growth, boosted by the growth observed in time deposits. Thus, the M3 started to accelerate its y.o.y. expansion rate as from June, until reaching 29.5% (see Chart II.8).

Chart II.10
Monetary Aggregates
First half average



Particularly, private M3²⁷ rose 16.5% over the 6-month period, boosted by the increase recorded in loans to the private sector. To a lesser extent, but following the same trend were foreign exchange purchases made by the BCRA. In turn, the public sector showed a contracting performance in net terms (see Chart II.9). In the case of private M3 components, the increase in the aggregate was led by time deposits, and to a lesser extent by sight deposits and cash held by the public (see Chart II.10).

As it has already been mentioned, private sector time deposits in pesos have evidenced a good performance over the 6-month period, recording an increase of 23.6% and a y.o.y. variation rate of 38.8%. As a result, they have reached the highest average monthly growth rate of recent years (see Chart II.11). In line with this momentum, in July and August, they have reached a 2.8% and 5.5% growth rate, respectively; boosted by

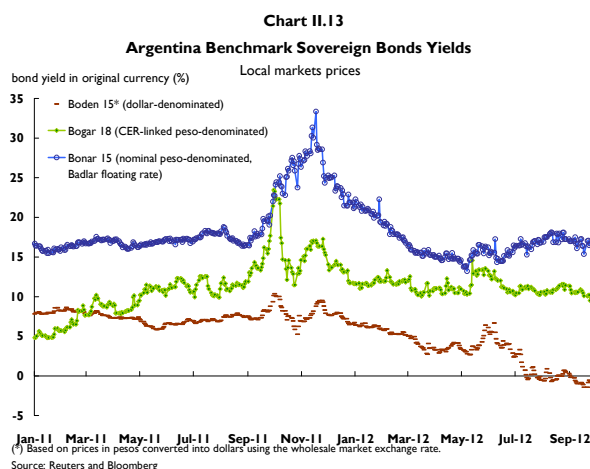
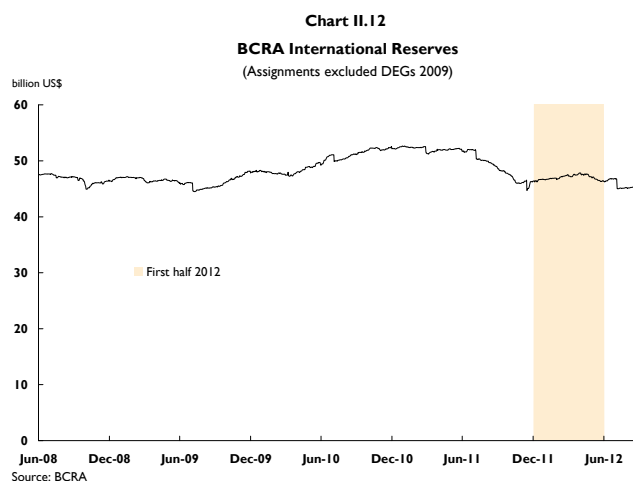
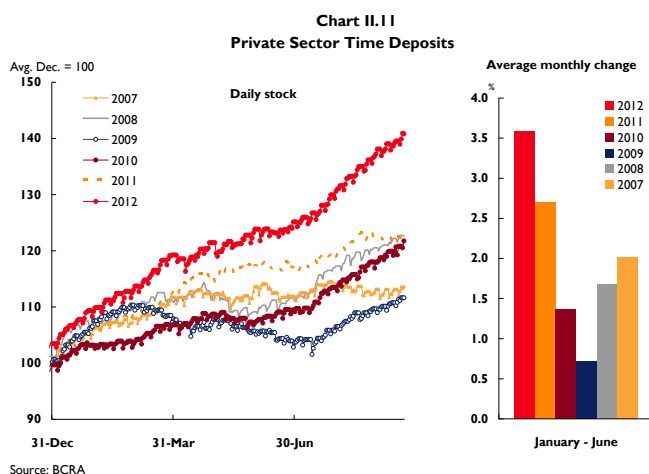
²³ Since October 2012, only a 75% of eligible cash may be deducted; from December 2012 to March 2013, only a 25% of eligible cash; and from March 2013 no amount may be deducted on this ground.

²⁴ In zone 1 (large urban agglomerates and highly-developed locations with greater degree of banking access), reserve requirements for sight deposits will be 2 p.p. lower than the current one (going down from 19% to 17%), while in the remaining zone, it will be 4 p.p. below the current one (going down from 19% to 15%). For time deposits, the ratio will be 1 p.p. below the current ones recorded in zone 1, and 2 p.p. below in the remaining zones. In this regard, the BCRA has also ordered a change in the financial system’s zoning scheme, determining six zones depending on the services infrastructure that they have or, otherwise, require.

²⁵ As per the scale established, institutions offering MiPyMEs more than 30% of their loan portfolios to the private sector may deduct from the minimum cash requirement and amount equal to 3% of their deposits. This measure will come into force next December.

²⁶ Includes cash held by the public, settlement checks in pesos and deposits in pesos.

²⁷ Includes cash held by the public, settlement checks in pesos and non-financial private sector deposits in pesos.



both deposits of over \$1 million as well as those made by the retail segment.

By September 21st, the stock of international reserves reached US\$45.311 billion (see Chart II.12). So far this year, the Central Bank made net purchases of foreign currency for close to US\$ 7.9 billion that were offset by the payment of foreign currency public debt servicing.

Economic activity will recover once again its momentum in the second half of the year, boosted by counter cyclical government policies

For the rest of 2012, the growth rate is expected to increase its pace. Not only the better performance expected from the economies of Brazil and China (that will boost the activity through the commercial channel), but also the strong impact of counter cyclical policies implemented by the government to strengthen household spending and to promote productive investment should be mentioned. In this regard, the implementation of credit programs aimed at the construction sector should be highlighted (Pro.Cre.Ar).

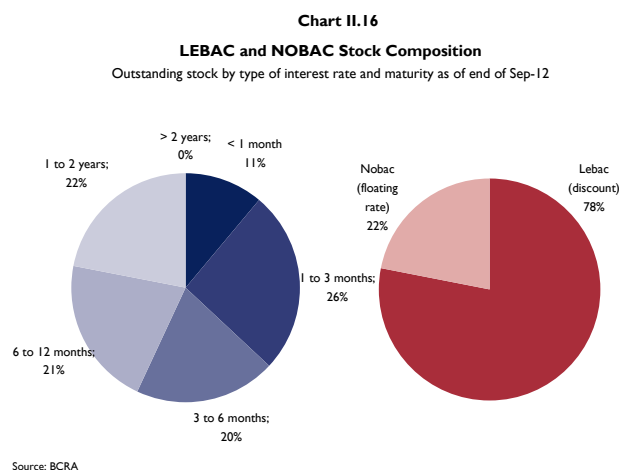
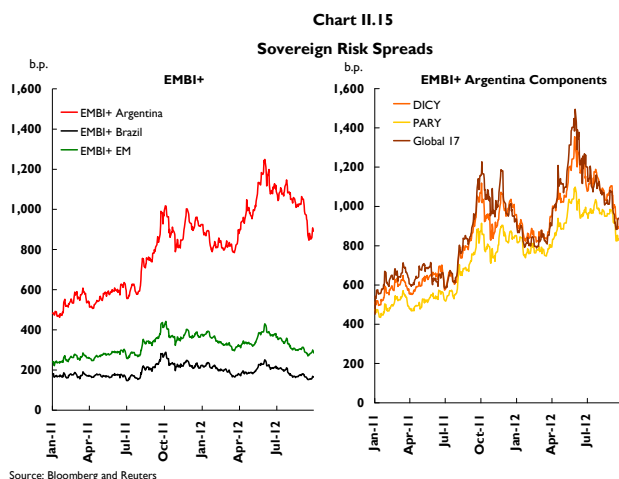
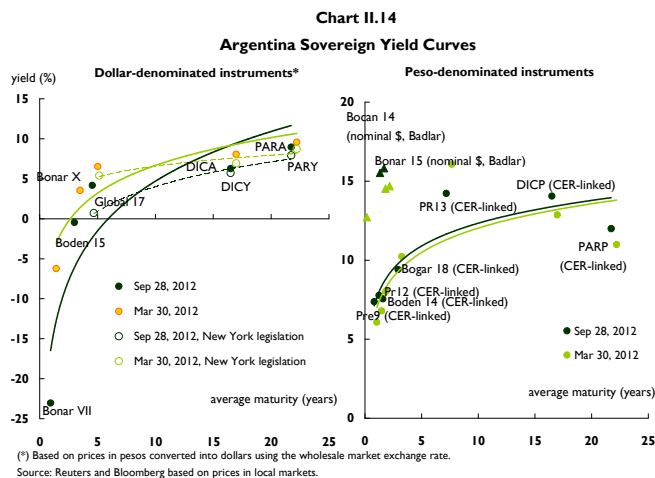
II.3 Capital Markets

As from the end of March, the lower risk appetite at international markets impacted on the demand for instruments of emerging economies, although some degree of recovery was recently observed. In Argentina, fixed income instruments and shares were adversely impacted by this dynamics, ending the period with a mixed balance.

Since the end of the first quarter, sovereign bonds have been recording a mixed performance

From the end of March to the end of September, sovereign bond prices exhibited different performances by domestic market segment (see Chart II.13). Bonds in dollars have drastically reduced their yields, most notably among short and medium term bonds under domestic regulation²⁸ (see Chart II.14). It should be noted that final amortization of Boden 2012, close to US\$2.2 billion, and accounting for one of the main sovereign debt maturities of the year in foreign currency, took place in the first days of August. As from late March, both bonds in pesos with CER adjustment and nominal peso-denominated bonds exhibited yield increases accounting, on average, for almost 20 b.p. and more than 100 b.p. along the length of both curves, respectively. In the case of nominal peso-denominated

²⁸ In the domestic market, the bulk of transactions with securities in dollars is listed and traded in pesos. In order to estimate the yields mentioned in this section, the listed price is converted to dollars at the wholesale exchange rate.



bonds, this performance took place at the time when the Private Bank BADLAR increased²⁹. Lastly, GDP-linked coupons (UVPBI) in dollars exhibited once again an improvement in domestic markets (averaging almost 23% since late March), whereas peso denominated ones improved 12%³⁰.

Sovereign risk spreads for Argentina remained above 1,000 b.p. during much of the last few months. However, the most recent reduction in the yields required by investors seeking positions in Argentine Government securities in dollars under foreign legislation in international markets, contributed to sovereign risk spread for Argentina recovering similar levels to those recorded at the end of the first quarter. Over the last few months, Argentine debt spreads recorded a similar trend to the one observed for average fixed income in Latin America (see Chart II.15). According to the EMBI+ of Argentina, prepared by J.P. Morgan, the average sovereign debt spread has increased less than 20 b.p. since March, until reaching a level close to 900 b.p.³¹. In turn, the price of the 5-year contract for credit default swaps (CDS) on the sovereign debt increased almost 140 b.p., and stood at about 960 b.p. by the end of September.

With a more limited volatility for the Private Bank BADLAR, the demand for Central Bank instruments continued to focus on LEBAC

The Central Bank continued to place bills and notes on the primary market. Thus, by mid-September LEBAC and NOBAC stock composition stood at about \$91 billion, with an increase of almost 13% against the stock recorded at the end of March. Over the period, transactions mostly focused on LEBAC, so that by mid-September they accounted for more than 3/4 of the total stock of BCRA instruments (see Chart II.16). The average duration of the stock of bills and notes stood at about 200 days. In terms of cut-off yields, LEBAC yields increased, on average, 160 b.p. along the length of the curve against the auction held by the end of March³² (see Chart II.17).

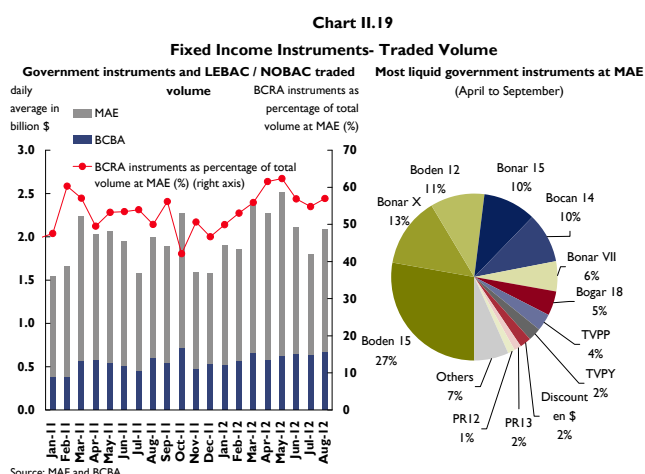
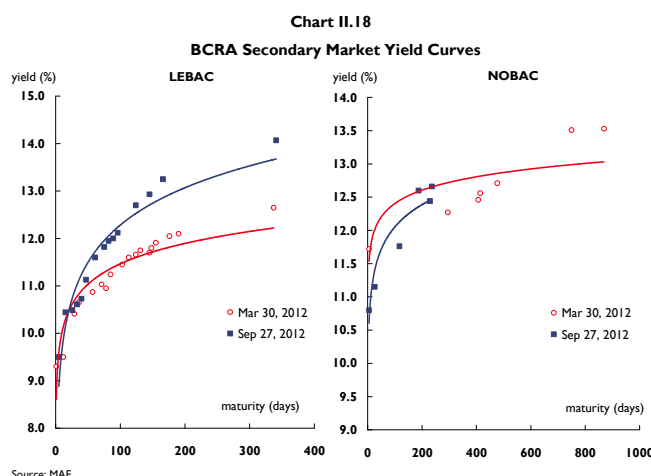
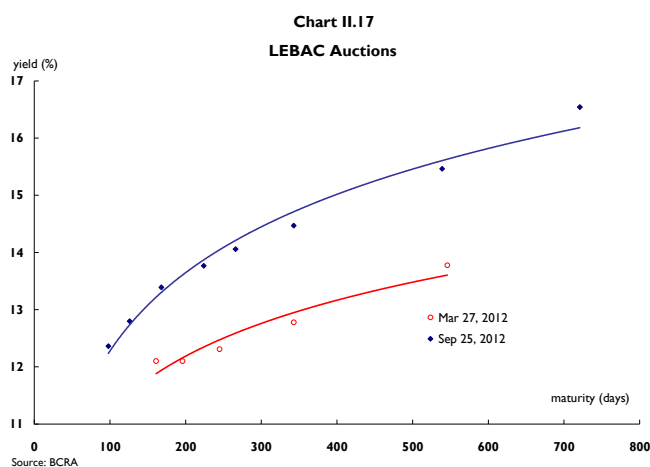
On the secondary market there was also a higher demand for LEBAC. In this case, yields of bills

²⁹ Since late March, it has accumulated an increase of more than 260 b.p., in line with the upward trend recorded in the third quarter.

³⁰ Corresponding, in all cases, to prices in pesos (part of the improvement in dollar coupons is explained by the exchange rate variation).

³¹ The indicator takes into account international market prices of Par and Discount bonds under foreign legislation issued in the 2005 debt swap, and Discount and Global 17 bonds issued in the 2010 debt swap. Yields for these bonds in international markets have recorded mixed changes from late March to late September.

³² In fact, the two shorter-term instruments auctioned over the last transaction in September (98 and 126 days) have been bills with predetermined cut-off yields (12.4% and 12.8%, respectively); whereas in the transaction carried out at the end of March, the shortest-term instrument with a predetermined cut-off rate was 161 days (with a yield of 12.1%). In terms of NOBAC, the last placement was made during the second auction in September, through a 133-day bill, with a yield of 11.8%, equal to a spread with respect to the Private Bank BADLAR of -2.3% (which, according to its remaining maturity, is not comparable to those auctioned at the end of March).



increased about 70 b.p. on average along the length of the curve³³ from the end of March to the end of September (see Chart II.18). However, NOBAC instruments have recorded scarce transactions and an uneven behavior, with rates traded exhibiting a slight average contraction over the period.

Fixed-income instruments trading volumes on the domestic market rebounded

Fixed-income instruments trading volumes (including public securities and BCRA Bills and Notes) on the market improved, recording an increase of 16% vis-à-vis the previous 5 months, and 12% y.o.y. Thus, a daily average of almost \$2.2 billion was traded since the end of March³⁴, to the tune of \$300 million more per day against the previous 5 months. It is worth noting the higher weight exhibited by BCRA's instruments traded over the period under analysis³⁵, while a growing preference for BCRA Bills was noticeable to the detriment of BCRA Notes. As regards public securities, short and medium-term bonds in dollars were the most traded, Boden 15 issues being the most liquid instrument. With respect to instruments in pesos, bonds with Private Bank BADLAR-based coupons (Bonar 15 and Bocan 14, see Chart II.19) prevailed.

Private sector financing rose as a result of a larger amount of bond issues and financial trusts in the domestic market

Financing to the private sector and to infrastructure works by means of market instruments has grown since April, driven by issues of bonds and financial trusts related to financial institutions. Thus, funding went over \$16.3 billion in the period ranging from April to September 2012³⁶, standing for a 58% rise against the previous 6 months. Nevertheless, a 26% y.o.y. contraction was observed, explained by lower issues of trust funds related to infrastructure projects in domestic markets and bonds in international debt markets.

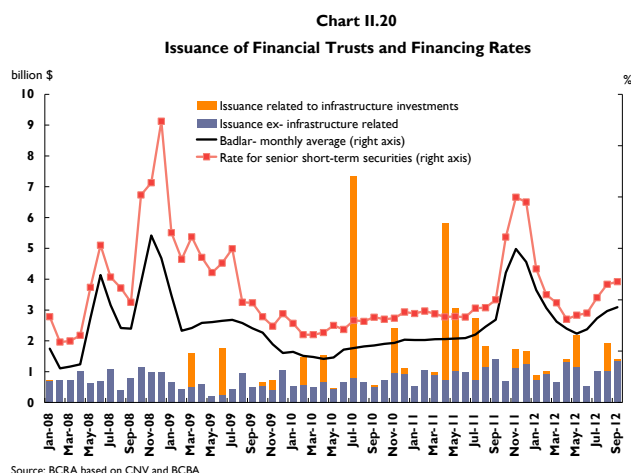
The securitization of loan portfolios (mainly, personal loans and credit card coupons) and of assets related to infrastructure works virtually accumulated \$8.5 billion between April and September 2012. The amounts of trust funds related to the securitization of loan portfolios increased, with high levels over practically all months in the period. Cut-off yields accompanied the Private Bank BADLAR performance, with a higher increase since July

³³ If instruments with a maturity term over 90 days were to be considered, the increase would rise over 110 b.p., on average.

³⁴ Data through August on the basis of the information provided by MAE and BCBA.

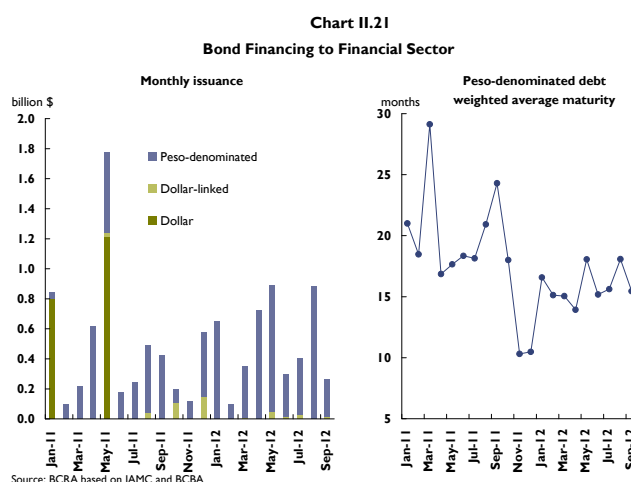
³⁵ On the basis of the volume traded in the MAE, the share of purchase/sale of BCRA's bills and notes in the total volume traded in fixed-income rose around 8 p.p. edging up 59% on average between April and August 2012.

³⁶ Excluding the funding of infrastructure, the amount rises to almost \$14.30 billion in the same period.

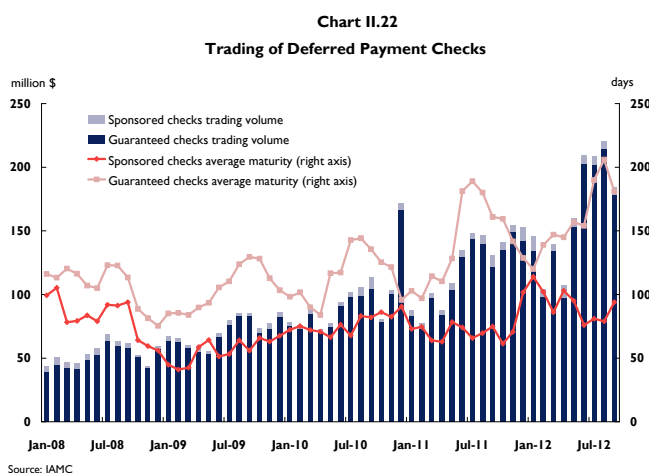


(see Chart II.20). In fact, the average cut-off yield of best-quality instruments edged up 13% in April and remained at a value ranging from 13% and 14% in the next two months, subsequently rising over 16% during August-September.

As regards funding through corporate bonds, issues recorded a marked increase since April, with a high volume in May, August, and September³⁷. Thus, bond issues accumulated more than \$6.8 billion from April to September (see Chart II.2). The average term of issue grew close to 24 months from April to September 2012. In addition, the cost of funding in pesos changed in line with the performance observed for the Private Bank BADLAR, recording a rise since July. Like in previous months, financial sector issues (especially, non-bank institutions) prevailed, which accounted for half of the total amount issued from April to September 2012, with almost 97% of the amount issued in pesos³⁸ and an average term of up to 18 months in August, subsequently falling in September (see Chart II.21). In addition, there were 11 issues of small and medium sized companies' corporate bonds between March and September 2012 for almost \$100 million, surpassing the record levels in the last part of 2011.



The volume of deferred-payment checks issued in the capital market peaked once more in the last few months, with record levels in June and August³⁹ (see Chart II.22). This was accompanied by an extension of guaranteed checks terms, surpassing 200 days in August⁴⁰. As regards discount rates, they showed a slight rise since July, a feature that was accentuated in August, in line with the Private Banks BADLAR performance observed, although they had declined from end March to end June⁴¹.



The price of domestic shares fell in line with the price of companies in the region

After recording good performance in the first months of the year, and in spite of some recomposition lately observed, the Merval index in pesos dropped almost 9% between end-March and end-September 2012 (see Chart II.23). Measured in dollars, it declined almost 15%, in line with the trend observed in the stock exchanges in the region. This drop was observed in a context of lower levels of implied volatility compared to late 2011, even though it increased once again by the end of September.

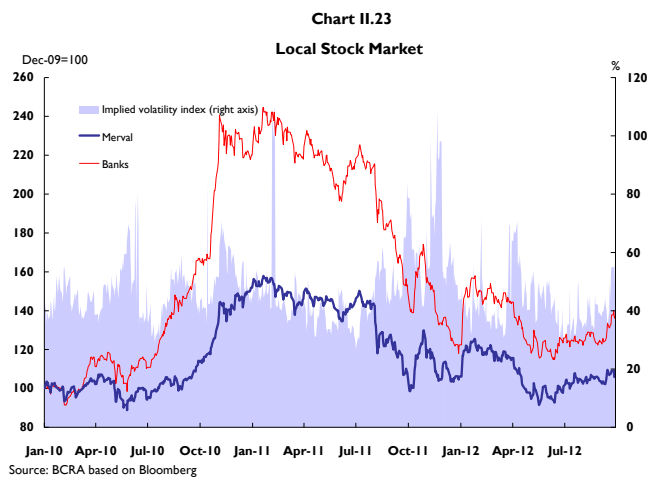
³⁷ In the first weeks of September YPF issues stood up for an amount of \$1.50 billion.

³⁸ The remaining issues were in dollars but payable in pesos.

³⁹ This happened in a context of growth of the funds managed by small- and medium-sized Investment Funds. In fact, funds rose 39% between the end of March and the end of September.

⁴⁰ Weighted average term per amount. In September the average term dropped almost to 180 days.

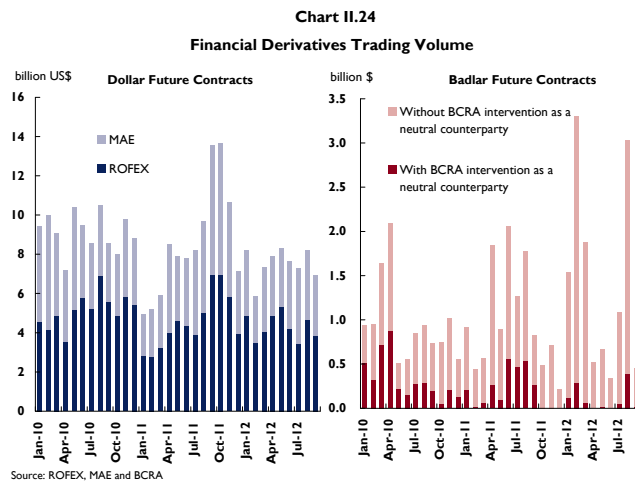
⁴¹ The weighed average rate of guaranteed checks fell to the minimum level of 13% over the period (100 b.p. below the level recorded in March).



At sector level, the price of bank shares experienced a new fall after a widespread recovery early this year, even though some rebound was observed in September. Lastly, the negative balance of the price of shares was shown in a context of contraction of the volume traded in the domestic market: from a daily average amount of \$48 million in the first months of 2012 to around \$39 million in the period ranging from April to September 2012.

Liquidity in term exchange rate and interest rate markets contracted, while the latter continued exhibiting high volatility month on month

Exchange rate derivatives trading fell 12% between April and September 2012, via-à-vis the previous 6 months (see Chart II.24). The rates implied in the most liquid foreign exchange futures contracts rose from the end of April, particularly since July, even though they tended to contract in September. Thus, the spread between the BADLAR and the implicit rates on futures/forwards in dollars with short-term maturity extended, even though in August and September the spread was partially corrected. As regards Private Bank BADLAR swaps and futures, transactions dropped during April and September 2012 against the last 6 months (while in August there was a marked rebound), the maturities of the operations traded being shortened.



III. Debtors Performance

Summary

In a context of slowdown in economic activity at aggregated level, industry and construction have lost ground in the first half of 2012. In the services sector there were signs of lower slowdown than in other segments of the economy, explained by a strong domestic market, the latter spurring wholesale and retail trade growth.

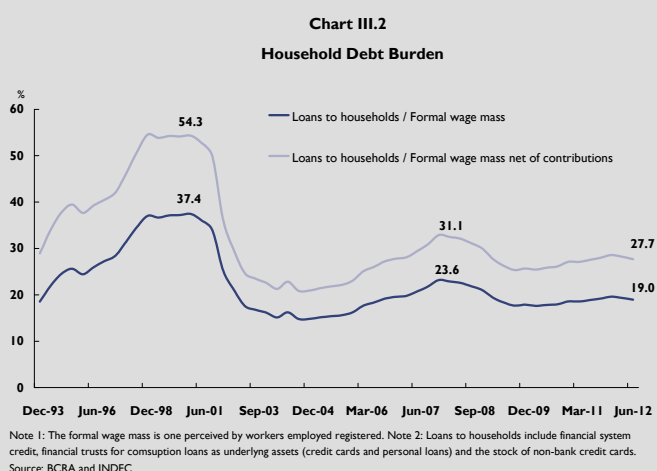
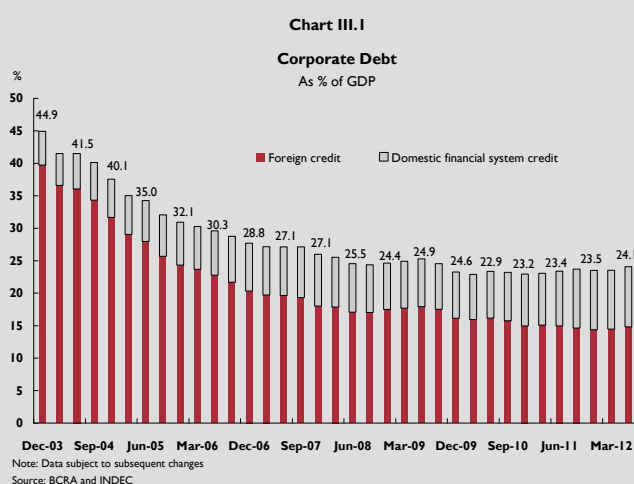
In this framework, the estimated level of indebtedness by Argentine companies went slightly over 24% of the GDP by mid- 2012, somewhat above the previous year, while still below the figures recorded locally in the past decade and in emerging and developed economies.

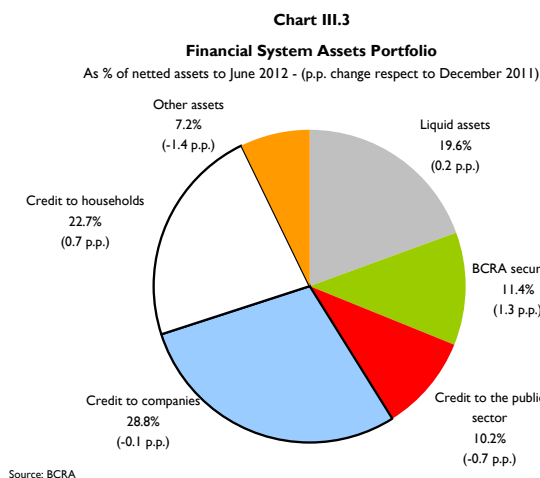
The highest level of use of credit resources is still reached by the industrial sector and the primary production of goods: around 60% and 40%, respectively, measured in terms of their levels of activity. In addition, services, commerce and construction exhibited lower levels of leverage, ranging from 17.5% to 15.9% of their corresponding products. In broad terms, the moderate levels of the leverage of companies from different productive sectors, in addition to the best economic perspective for the next months, contributed to support companies' sound payment capacity.

Moreover, households have once more increased their income in the first half of 2012, as a result of a strong labor market and the public policies implemented. Unlike what happened in previous half-year periods, this evolution occurred jointly with a lower level of indebtedness by households on an aggregate basis, totaling 27.7% of the formal wage mass —net of contributions— by mid-2012 (around 8.5% of the GDP). This situation contributes to support households' payment capacity.

Tax revenue and primary expenditure of the Non-Financial National Public Sector continued growing in the first half of 2012, while the primary result remained balanced in the last 12 months. The Public Sector continued meeting their funding needs out of their own means. A continued implementation of a debt-reduction policy enabled public debt held by the private sector to continue decreasing.

For the rest of the year, the aggregate levels of activity are expected to rise, mainly hand-in-hand with a better performance of Argentina's principal trading partners. In this framework, companies' and households' levels of indebtedness would remain moderate, consolidating their respective financial positions.





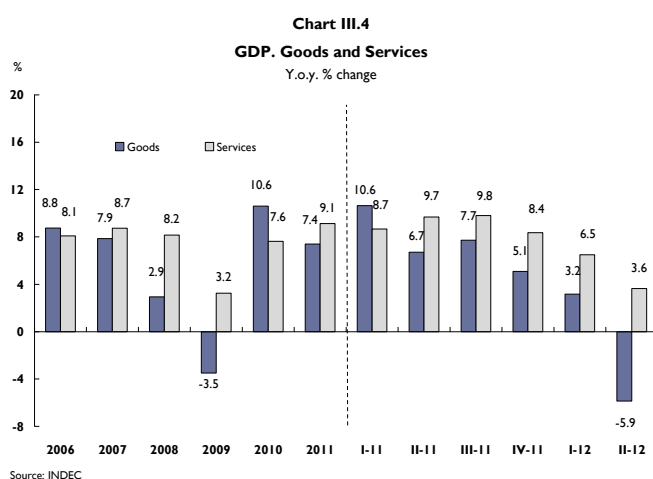
III.1 Financial System Debtors

In the first half of 2012 the share of credit to the private sector in bank assets continued increasing

Lending channeled to corporations and households continued raising its share in the financial system assets over the first half of 2012, although at a more gradual pace compared to the end of 2011 (see Chart III.3). In the second half of 2012 more liquid assets rose, particularly the BCRA securities held in financial institutions portfolio. The financial system exposure to the public sector continued reducing (see Chapter V).

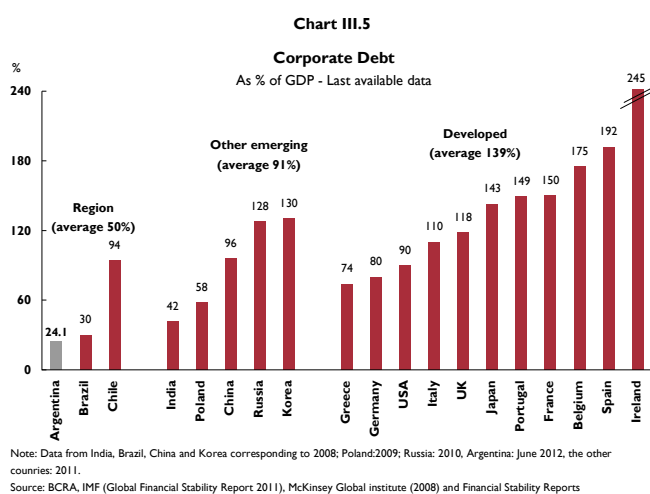
III.2 Corporate Sector

The corporate sector exhibited a sound economic and financial position in the first half of 2012



The product reduced its expansion pace in the first half of 2012, due to a reduced economic growth of the principal trade partners of Argentina and drought that had an adverse effect on the agricultural production of the 2011/12 season (see Chapter II). Industry and construction lost ground, after leading goods production over 2011.

Service production also slowed up its expansion rate (see Chart III.4), but it was less impacted by the global slowdown, because it was sustained by the dynamics of domestic demand. Communications, along with wholesale and retail trade, exhibited once more the highest level of growth and contributed to a higher extent to the growth in economic activity.



The level of leverage⁴² of corporations rose 0.6 p.p. in the first half of 2012, slightly over 24% of the product (see Chart III.1), a value that remained below the records of other emerging and developed economies (see Chart III.5). Domestic financial institutions resources explained almost 40% of total funding to corporations. Industry obtained by mid-2012 around 38% of the domestic financial system resources channeled to corporations, followed by services (22% of the total amount) (see Chart IV.10).

For the rest of 2012 the activity levels are expected to improve due to a gradual reversal of the factors that explained the slowdown trend during the first quarter of the year. The leverage of corporations would remain at moderate levels over the rest of 2012, contributing to preserve their payment capacity.

⁴² Defined as total indebtedness (with the domestic financial system and the foreign one as well) in terms of product.

Productive Sectors

Industry

This sector exhibited certain decline in its economic activity together with a gradually higher indebtedness level

The industry sector exhibited a decline in its activity over the first half of 2012. The drop in external demand had a negative effect on companies' business plans, a situation that could not be offset by the positive effect of the increase in household consumption (see Chart III.6).

Even though most of the manufacturing sectors have experienced a year-on-year increase on their activity over the period, the ones which participated the most in industrial added value have experienced a slowdown or drop in their expansion rate (see Chart III.7). There was a contraction evidenced in the automotive sector due to a significant drop in exports resulting from the lower demand from Brazil. Industries manufacturing inputs associated to this sector have also evidenced a drop in their activities⁴³.

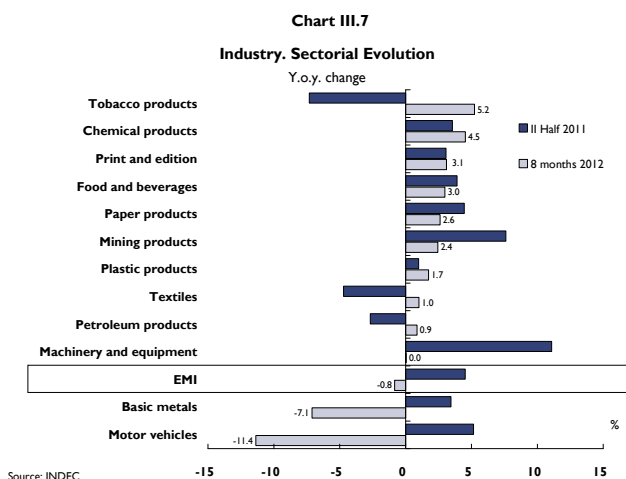
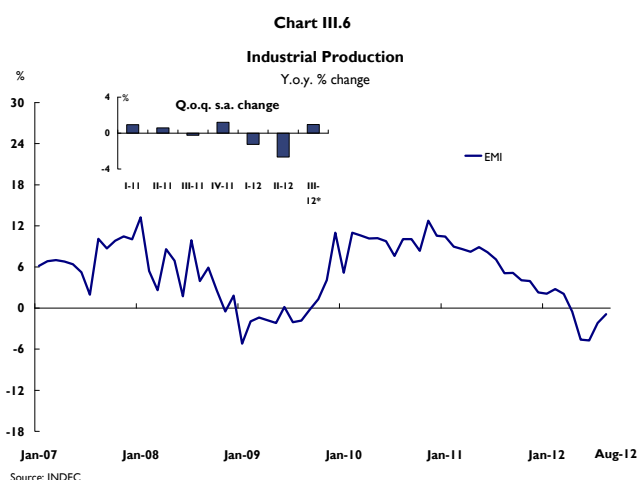
The metal-mechanical industry drastically reduced its expansion pace after being one of the main industry drivers in the second half of 2011, whereas the food sector moderated its growth rate⁴⁴. In turn, chemical products were the main contributors to the manufacturing activity over 2012⁴⁵.

In line with the development of the economy in the second half of 2012, the use of installed capacity (UCI) dropped. Among the sectors exhibiting the largest decreases in the UCI are the motor vehicles, metalworking, and basic metal industries.

The estimated level of indebtedness of industries stood at almost 60% of its product by mid-2012 (see Chart III.8), with a slight increase in the last few months. Around a third of these resources are obtained from domestic banks.

Agricultural Sector

There was a drop recorded in the primary sector activity due to lower levels of agricultural

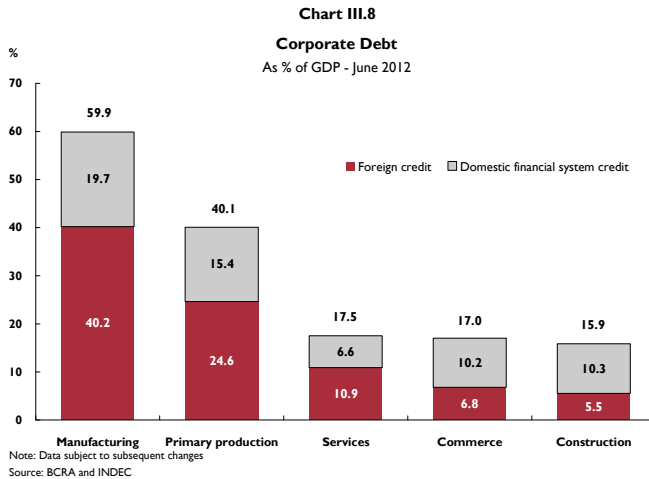


⁴³ Such is the case of basic metal industries (which have exhibited drops in the production of steel and aluminium parts) as well as industries manufacturing plastic and rubber products.

⁴⁴ With rises in the manufacturing of dairy products, as well as red and white meat that was partially offset by a drop in grain and oilseed milling.

⁴⁵ Mainly as from an increase in production of pharmaceutical products, detergents, soap, and personal hygiene products as well as basic chemical products and plastic commodities.

production. However, the moderate indebtedness levels of the companies in this sector, together with relative favorable profitability levels, helped consolidate their financial situation



Agricultural activity contracted throughout 2012, as a consequence of the drought which adversely affected the 2011/2012 agricultural harvest season. The lack of water in the soil due to scarce rains and high temperatures negatively impacted on crop yields; besides, the area planted was slightly larger than the one used in the previous crop cycle. Wheat ended with 13.2 million tons, down 17.1% against the previous harvest season; whereas maize crops ended with 21 million tons (-11.8% y.o.y.) and soybeans reached 40.1 million tons (-18% y.o.y.; see Table III.1).

The livestock sector activity increased during the first part of 2012. Meanwhile, dairy production continued its upward trend, about 9% in y.o.y. terms, the same as poultry slaughtering. In turn, bovine slaughtering improved in the first months of 2012, exhibiting an increase of around 5% in y.o.y. terms, after the falls recorded in the previous two years. The incorporation of female livestock in the slaughtering process remains low, therefore it could be concluded that female conservation practices are still taking place in order to rebuild livestock farms, in a context of increasing prices of livestock.

Table III.1
Grain Production- Major Crops

	2008-09 thousands tns	2009-10 thousands tns	2010-11 thousands tns	2011-12 thousands tns (e)	% Change 2011-12 vs. 2010-11	Diff. in thousands tns 2011-12 vs. 2010-11
Cereals	26,750	38,277	49,682	44,231	-11.0	-5,451
Corn	13,121	22,680	23,800	21,000	-11.8	-2,800
Wheat	8,373	9,000	15,900	13,186	-17.1	-2,714
Sorghum	1,752	3,630	4,440	3,800	-14.4	-640
Others	3,504	2,967	5,542	6,245	12.7	703
Oilseeds	34,222	55,724	53,412	44,300	-17.1	-9,112
Soybean	31,000	52,680	48,900	40,100	-18.0	-8,800
Sunflower	2,450	2,320	3,665	3,340	-8.9	-325
Others	772	724	847	860	1.5	13
Rest	702	1,098	1,490	1,027	-31.1	-463
Others	61,674	95,099	104,584	89,558	-14.4	-15,026

e: Estimated

Source: MAGyP data

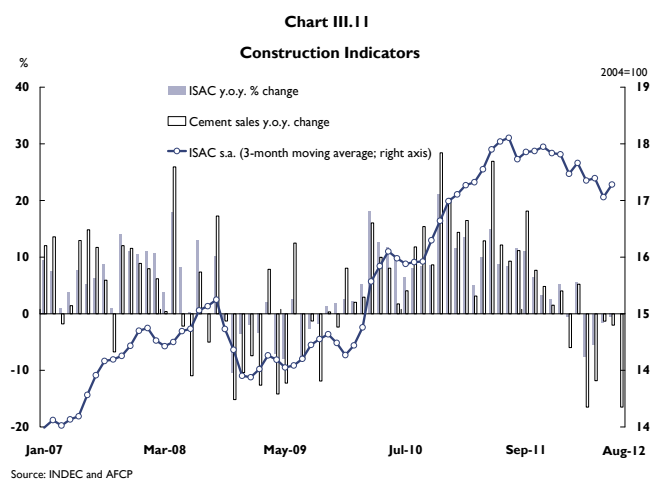
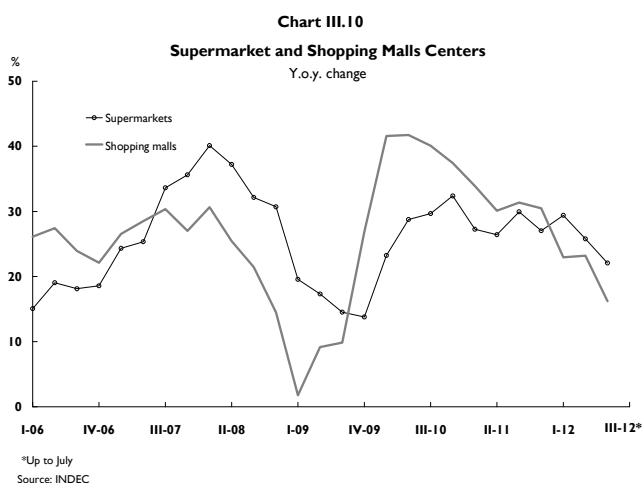
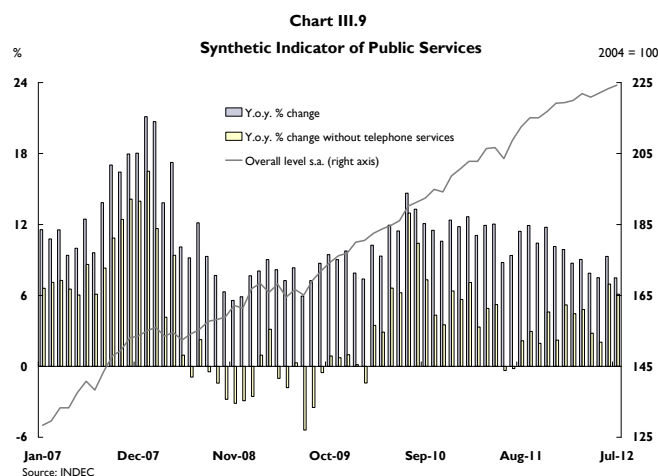
The leverage level of primary sector companies slightly increased in the last few months, reaching slightly over 40% of their GDP (see Chart III.8). The positive performance of prices in the main products of the companies of this sector has helped to consolidate their economic and financial capacity.

Service Sector

Service companies' payment capacity remains stable as a result of a constant increase in activities and low indebtedness levels

Public services consumption continued expanding faster than the rest of the economy, in line with rising domestic demand, although it slowed down in 2012 (see Chart III.9). Telephony was the sector that increased the most, largely contributing to the expansion of services in general.

Except for telephony, the other services increased their expansion pace over the sector during the 6-month period. Passenger transportation gained momentum with a marked increase in the circulation of commercial airline flights (both domestic and international routes).



Power, gas and water supply also went up during this period. Meanwhile, business levels for cargo transportation went down.

Service companies' indebtedness levels gradually increased over the last few months, until reaching 17.5% of their GDP as of June 2012 (see Chart III.8). In y.o.y. terms, indebtedness levels contracted (-0.8 p.p.), services remaining among the productive sectors with lower leverage levels.

Commercial Sector

Commercial companies reduced their growth pace, although low indebtedness levels led to a sound economic and financial position

Commercial activities consolidated their growing trend in the first half of 2012, though at a more moderate pace than that recorded in the second half of 2011. Sales at supermarkets lost momentum, the same as sales at shopping malls (see Chart III.10). The sales of household appliances as well as electronic and home products reduced their expansion levels; meanwhile the sale of vehicles also evidenced a drop.

Commercial companies have slightly reduced their indebtedness levels over the first half of 2012, until reaching almost 17% of their GDP in June this year (down 0.8 p.p. against the previous 6-month period) (see Chart III.8), resources from the local financial system were the most important ones (almost two thirds of total indebtedness).

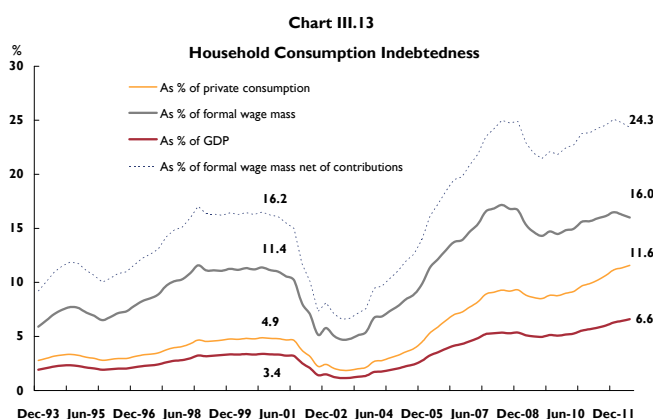
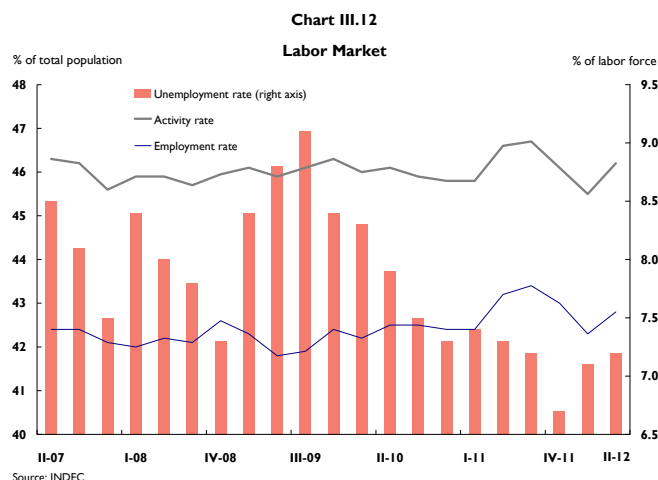
Commercial activities are expected to keep the upward trend in the coming months, in line with the increase in household incomes and household spending.

Construction

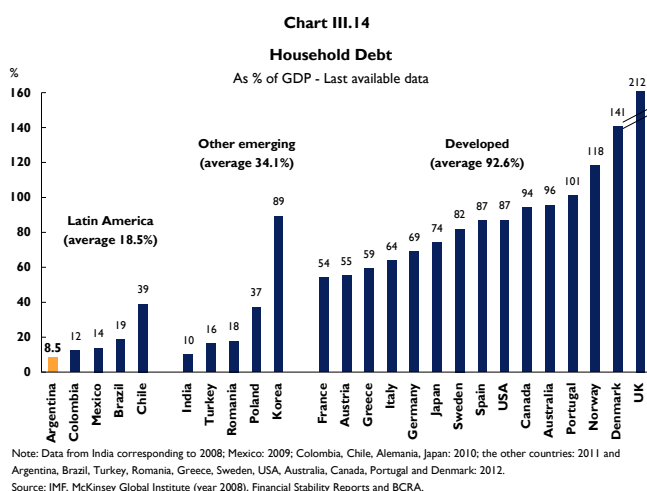
Even though low indebtedness levels have moderated the effect on the financial situation of companies in the sector, the construction activity has evidenced a decrease in 2012

The construction sector contracted over the first half of 2012, after recording high expansion levels the previous year (see Chart III.11). Most construction sectors have experienced drops.

There has been a slight increase in indebtedness levels of companies from this sector, until reaching 15.9% of their GDP in June (up 0.4 p.p. and 0.1 p.p. against the previous 6-month and 12-month periods, respectively); however, it still remains as the productive sector with



Note 1: The formal wage mass is one perceived by workers employed registered. Note 2: Loans to households include financial system financing, financial trusts for consumption loans as underlying assets (credit cards and personal loans) and the stock of non-bank credit cards. Source: BCRA and INDEC



the lowest relative indebtedness level (see Chart III.8). Looking ahead, some recovery is expected as a result of the implementation of Pro.Cre.Ar⁴⁶.

III.3 Households

Households' incomes continued exhibiting increases over 2012, boosted by labor conditions and public policies. This development, coupled with low indebtedness levels, helps maintain the sector's payment capacity

Households evidenced once again an increase in their incomes in the first half of 2012, as a result of labor market conditions and public policies adopted.

In a context of economic activity growth rate slowdown, employment rate levels remained practically stable during the first half of the year (see Chart III.12). Moreover, the sustained employment level, combined with wage improvements, resulted in an increase of the wage mass in GDP terms.

Public policies have once again impacted positively on income increases, especially among the most vulnerable sectors. Throughout the period, and framed under the Law on Social Security Mobility, retirement and pension benefits have recorded increases, whereas new adjustments were made on government transfers for the payment of family allowances, including the Universal Child Allowance for Social Protection (AUH).

In this favorable scenario for households' incomes, bank lending exhibited a lower growth than the one recorded by the wage mass (see Chapter IV). As a result, households' indebtedness levels slightly dropped over the first half of the year, until accounting for 27.7% of the formal wage mass —net of contributions to social security— by mid- 2012 (see Chart III.2). Households' indebtedness levels continued to support the performance of consumer credit lines (personal loans and credit cards) (see Chart III.13). It is worth mentioning that household indebtedness levels stand below the values posted by other countries (see Chart III.14).

The recovery of economic momentum in the months to come leads to forecasts of household income and spending increases over the second half of 2012, in a context where payment capacity is not likely to show significant changes.

⁴⁶ See Macroeconomic and Monetary Policy Report – third quarter 2012.

III.4 Public Sector

Tax revenue and primary spending have kept their rising trend so far in 2012, while primary result remained relatively stable

In the first eight months of the year, tax collection has recorded a 29% y.o.y. nominal increase, mainly driven by the Social Security, the Value Added Tax (VAT), the resources from Social Security and the Income Tax (see Chart III.15). Thus, the tax revenue accumulated in the last 12 months has totaled approximately 31% of GDP.

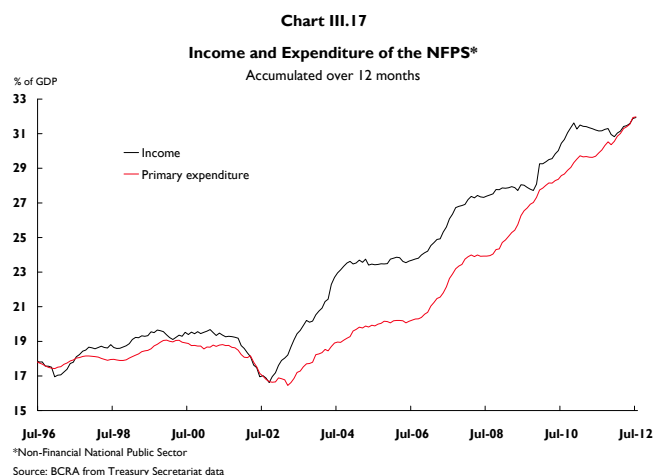
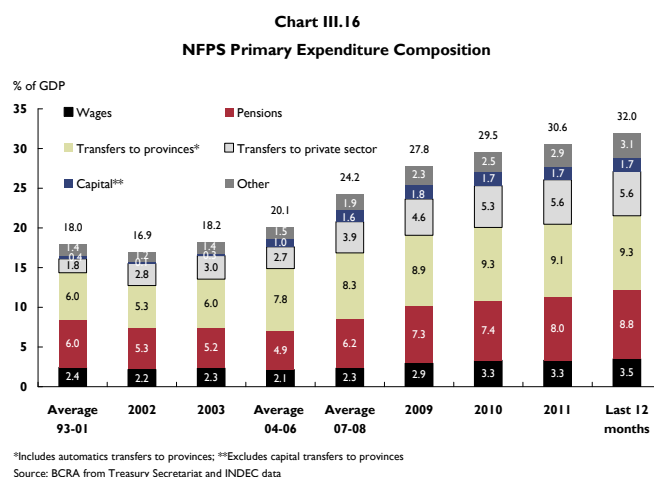
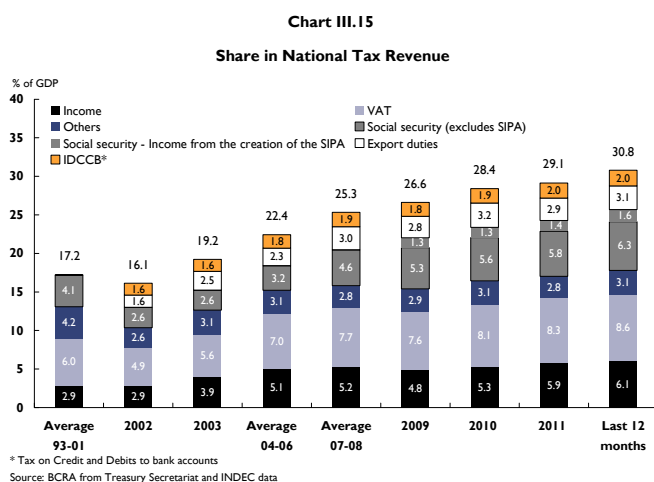
The Non-Financial Public Sector (NFPS) primary spending grew 31% y.o.y. between January and July. This higher spending was mainly driven by Social Security payments, wages of government employees and current transfers to the private sector. Thus, primary expenditures accumulated in the last 12 months have reached a historical maximum of 32% of GDP (see Chart III.16).

The NFPS primary result accumulated in the January-July period amounted to \$5.422 billion, accounting for a well-balanced result in the last 12 months (see Chart III.17). For the rest of 2012, according to the forecasts, similar trends to the ones recorded over the first half of the year are expected, both as far as income and primary spending are concerned.

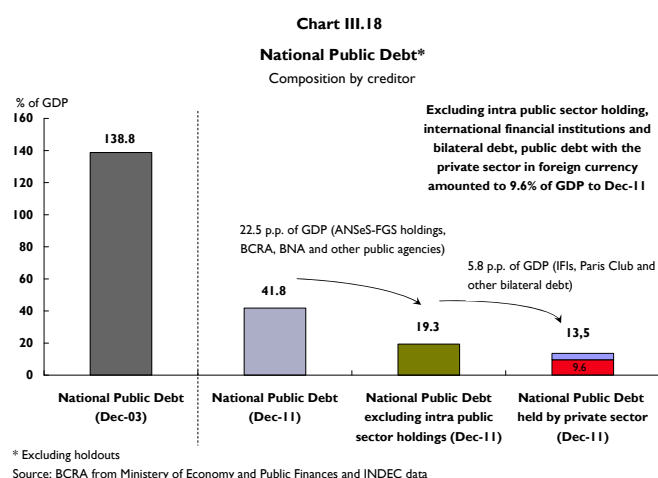
Tax revenue from sub-national sources grew in the cumulative of the first half of the year at a 29% y.o.y. rate. Income from the federal tax-revenue sharing system and NFPS transfers to the provinces exhibited an average expansion rate of around 23% on y.o.y. terms. Out of the total provincial revenue, around 60% corresponded to the federal tax-revenue sharing system, mainly related to VAT and income tax, while the remaining 40% corresponded to the sub-national districts' own resources.

The national government's exposure to the private sector continued to lose ground due to the debt reduction policy

In 2012, the National Treasury met its financing needs mainly through the use of intra-public sector domestic funds. The same as in previous years, the National Government resorted to the Argentine Debt Reduction Fund⁴⁷ to service debt maturities corresponding to the first three quarters of the year with private debt holders and with International Financial Organizations, having transferred up to August, international reserves



⁴⁷ Fund established by Decree 298/2010 and set up by 2012 according to Act 26,728 (Section 43)



amounting to US\$6.345 billion. The remaining financing came mainly from the BCRA Temporary Advances, the National Social Security Administration-Guarantee and Sustainability Fund (ANSeS-FGS) and the Banco de la Nación Argentina (BNA).

The National Public Debt (DPN) totaled US\$178,963 million in December 2011, thus going down in GDP terms and standing at 41.8%, down 3.2 p.p. against the ratio of December 2010. The implementation of the financing policy has allowed, once again, for reducing the debt stock held by private holders, which is in general considered to entail a higher roll-over risk. In fact, the debt held by the private sector went down to 32% of the total stock (-4 p.p. y.o.y. to 13.5% of GDP) (see Chart III.18); whereas 54% of the National Public Debt was mainly related to intra-public sector agencies, the remaining 14% to International Organizations, Paris Club and other bilateral institutions.

Table III.2
Debt Placements of the Subnational Jurisdictions in the Market

Date	Jurisdiction	Amount Million USD	Term years	Annual rate of return	Pay frequency	Dollar linked
Feb-12	Ciudad de Bs As	415	5	9.95%	Half-yearly	No
Mar-12	Salta	185	10	9.50%	Quarterly	No
May-12	Prov. Buenos Aires	50	1	9.25%	Half-yearly	Yes
Jul-12	Córdoba	105.5	1	9.50%	Half-yearly	Yes
Aug-12	Prov. Buenos Aires	192.5	1	9.00%	Half-yearly	Yes

Source: Bloomberg

Provincial governments have continued with credit market financing, so far this year, CABA issued bonds for US\$415 million, Salta for \$185 million, the Province of Buenos Aires issued bonds for US\$243 million, whereas Córdoba for US\$106 million. In these last cases, bonds were issued with one-year terms, and with a yield close to 9% in dollars at an annual six-month rate, with payments expected to be made in pesos at the official foreign exchange rate (linked dolar; see Table III.2).

IV. Financial Sector

Summary

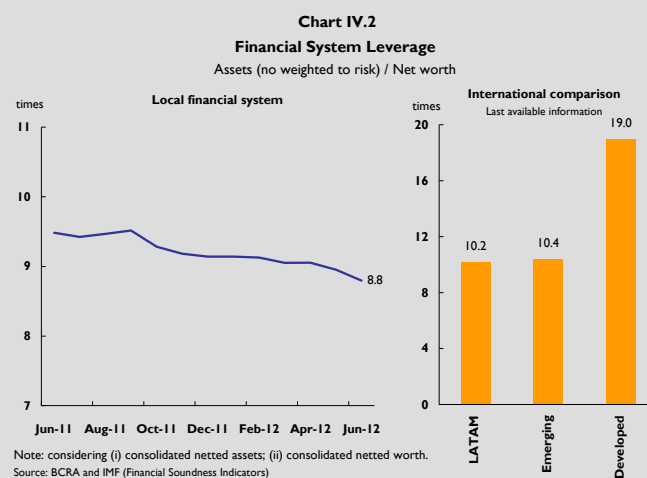
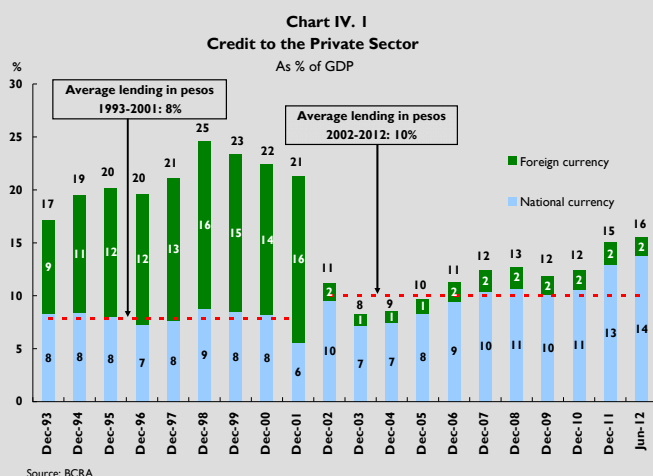
Banks continued increasing their financial intermediation levels (in local and foreign currency) with the private sector; lending and deposits accounting for 35.5% and 23.4% y.o.y. increase respectively, in the second half of 2012. Bank lending to the private sector in terms of GDP had a gradual rise, with a significant share of local currency lending. Even though there was a generalized growth of funding across all groups of financial institutions, the role of public banks should be highlighted.

Lending to households and companies exhibited a growth during the first half of the year. Bank financing to the industrial sector continued evidencing the greatest contribution to the total growth of loans given to the productive sector over said 6-month period, whereas consumer loans showed a significant momentum amongst lines aimed at the household sector.

Total deposits in pesos broadly exceeded the expansion rates observed at the end of 2011. This increase was mainly influenced by private sector deposits, with time deposits in pesos showing the greatest relative expansion rate with a 41.4% y.o.y. rise, recording the highest growth since 2004.

Throughout this year to date, the financial system has exhibited suitable solvency levels. Net worth expanded 29.6%a. (annualized) during the first semester, thus reaching the highest annual growth since the 2001-2002 crisis. In this context, leverage levels for all financial institutions groups dropped, whereas capital compliance in terms of credit risk-weighted assets grew. The financial system's surplus in capital compliance levels reached 62% as to legal requirements, a surplus level consistent across all groups of banks.

The financial system ended the first half of the year with book profits equivalent to 2.8%a., showing a year on year increase in all groups of banks. Results derived from interest showed significant momentum in the 6-month period results, partially offset by an increase in the main non-financial expenditures (operating costs and loan loss provisions). Considering profitability sources of the financial system, less variable items have gradually increased their share—net income derived from interest and services—to the detriment of those which evidence greater volatility—results derived from securities and foreign exchange price adjustments—. In this sense, more stable income (net of loan loss provisions) and operating costs increased in all groups of banks, reaching a systemic level of 126%.



IV.1 Financial institutions⁴⁸

IV.1.1 Activity

The intermediation activity level with the private sector grew at a moderate pace during the first half of the year

Banks' financial intermediation activity with the private sector continued growing over the first half of the year. Financing as well as deposits (taking into account both, local and foreign currency items) from companies and households increased at a more moderate pace than that observed at the end of 2011 (see Chart IV.3).

Consolidated and netted assets of the financial system rose 20.1%a. over the first half of the year (20.9% y.o.y.) boosted mainly, by public banks' performance. Lending to the private sector increased 23%a. in the same period (35.5% y.o.y.), reaching 52% of assets (almost 6 p.p. more than June 2011) (see Table IV.1). Higher-liquidity assets had a comparable performance, with an increase of 22.5%a. (20.3% y.o.y.), totaling 20% of assets in June 2012. In turn, private sector deposits gained share in the financial institutions' total funding, evidencing a 1.4 p.p. growth against December 2011, accounting for 57% of the total.

Lending to the private sector increased its depth levels reaching 15.5% of GDP by mid-2012, up 3.1 p.p. against late 2010 (see Chart IV.1). Even though this ratio is below the performance of other emerging economies and locally recorded levels for the previous decade, a grater current share of lending granted in national currency and a fall of lending granted in foreign currency can be observed. By mid-2012, more than 88% of the financing balance was in pesos, while in the 1990s only about 40% of loans were in local currency⁴⁹. This shows the financial system's balance sheet soundness, and helps preserve assets from changes experienced at a macroeconomic level (such as potentially higher exchange rate volatility).

Public banks exhibited the highest credit growth in the semester, evidencing a countercyclic performance

Private sector credit expansion in the first 6 months of the year was explained by the 30.4%a. (41.9% y.o.y.) increase in lending in pesos (see Chart IV.4). In turn, dollar loans exhibited a reduction of 25.1%a. in the same period (-9.3% y.o.y.). Particularly, overdrafts in

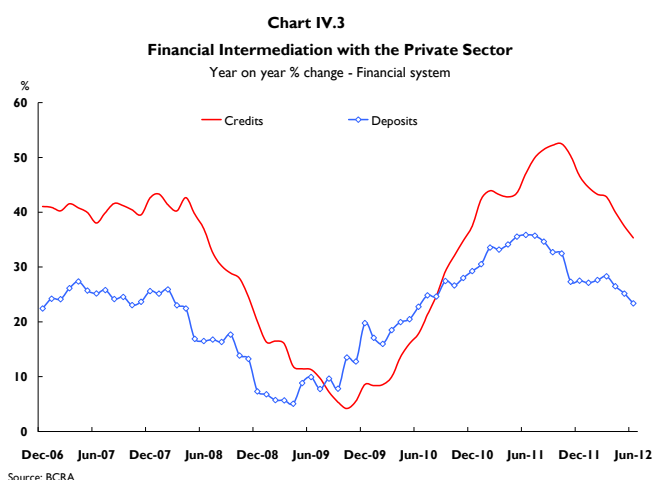
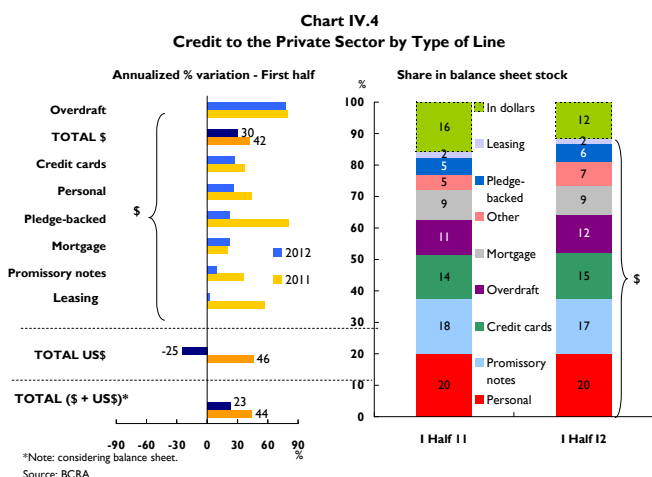


Table IV.1
Balance Sheet

Financial system - As % of netted assets

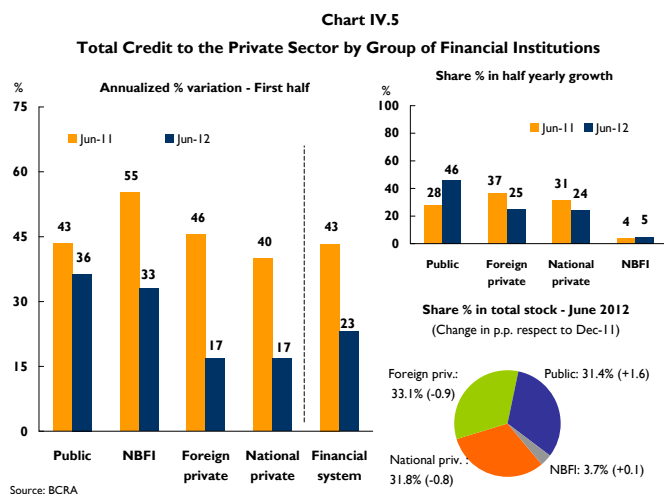
	Jun-11	Dec-11	Jun-12	Change in p.p.		Stock variation	
				I H - 12	Y.o.y.	I H - 12 (%a.)	Last 12 months (%)
Assets	100	100	100				
Liquid assets	20	19	20	0.2	-0.1	23	20
BCRA securities	15	10	11	1.3	-3.3	52	-6
Credit to the public sector	12	11	10	-0.7	-1.3	5	7
Credit to the private sector	46	51	52	0.6	5.6	23	36
Other assets	8	9	7	-1.4	-0.9	-15	8
Liabilities + Net Worth	100	100	100				
Public sector deposits	24	22	21	-0.7	-2.5	12	8
Private sector deposits	56	56	57	1.4	1.2	26	23
Outs. bonds, Sub. debt and foreign lines of credit	2	3	3	0.1	0.3	29	38
Other liabilities	7	8	7	-1.1	0.2	-9	24
Net worth	11	11	12	0.4	0.9	30	31

Source: BCRA



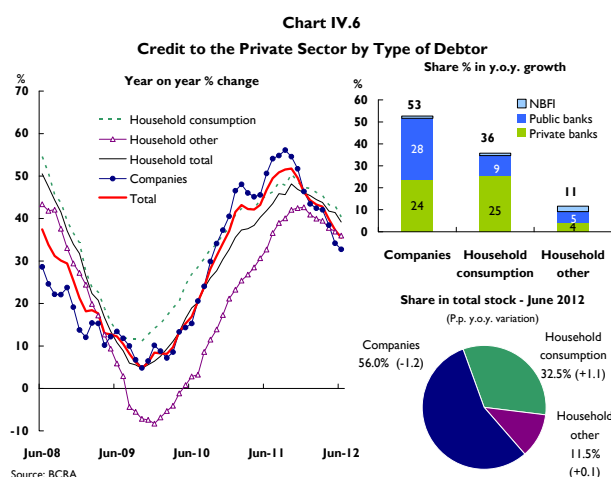
⁴⁸ The analysis of this section includes financial institutions supervised and regulated by the BCRA exclusively (Law N° 21,526).

⁴⁹ On average.



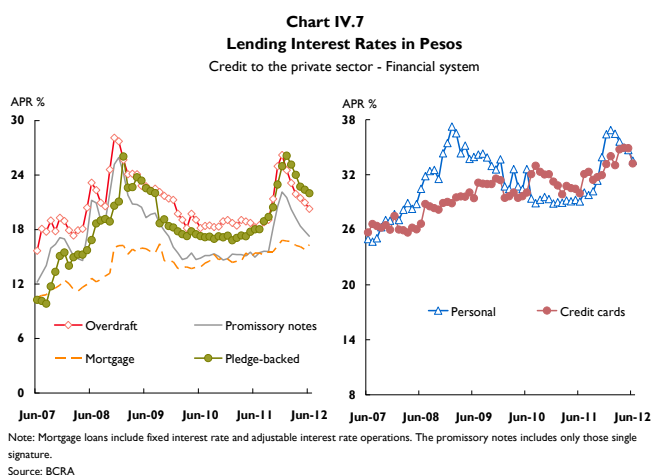
pesos were the credit line showing more dynamism. Personal loans, promissory notes and credit cards had the highest share in total balance (20%, 17% and 15%, respectively), whereas dollar financing reduced its weighting 4 p.p. against the first half of 2011, and accounted for 12% of the total.

During the first half of the year, there was a generalized growth in lending to the private sector across all financial institutions. Particularly to be highlighted is the activity of public banks that expanded loans above 36%a. (54.4% y.o.y.) and greatly contributed to the 6-month period increase recorded in financing to the private sector (accounting for 46%, up 18 p.p. the value of the same period the previous year) (see Chart IV.5). Thus, in the last months, public banks have shown a countercyclic performance. In turn, private banks (national and foreign) have reduced their share in the total balance (-0.8 p.p. and -0.9 p.p. respectively, against December 2011), but continued accounting for almost 65%.



In the last 12-month period the increase of bank financing to the private sector was driven by loans to companies, accounting for 53% of the total balance y.o.y. growth (see Chart IV.6).

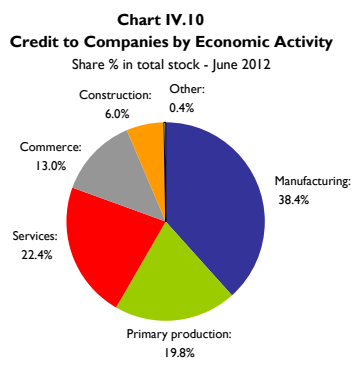
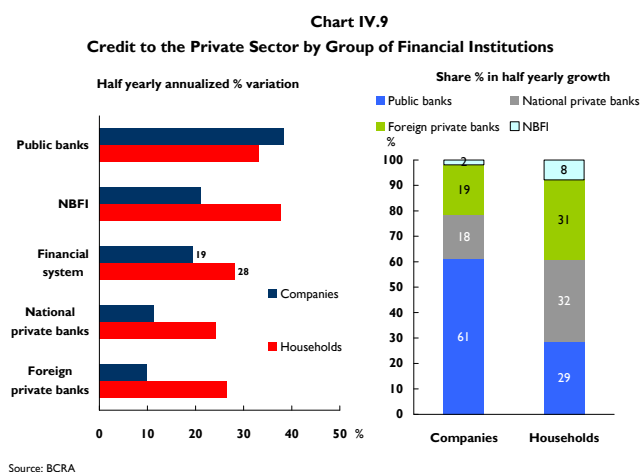
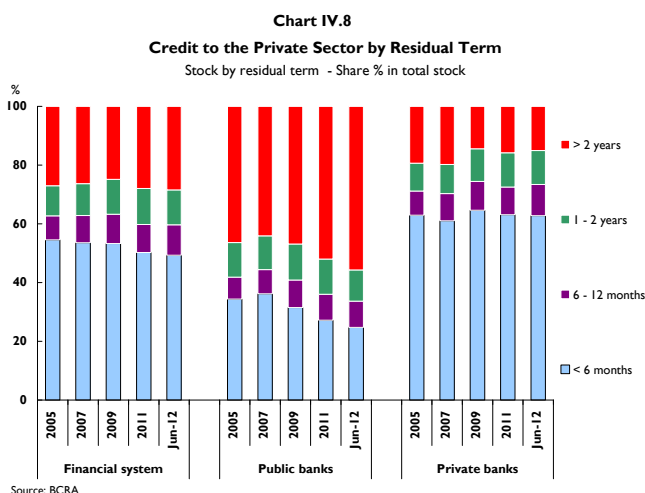
In the first half of the year lending interest rate charged on almost all loan lines granted in pesos across all groups of financial institutions recorded a drop (see Chart IV.7). Among commercial loans, the most significant drop was exhibited in overdrafts, whereas among lending for consumption, personal loans showed a higher reduction, while credit card rates had levels similar to those recorded at the end of 2011.



Taking into account the balance of lending to the private sector by maturity term, the segment with lower relative maturity (up to 6 months) continues to evidence a higher share in the total balance (49.3%) (see Chart IV.8). Public banks showed a relatively higher increase in the segment of loans with longer maturity terms (more than 2 years) against that of private banks.

Lending to companies was mainly driven by public banks

During the first half of the year lending to companies — in pesos and in foreign currency—, accumulated an increase of 19.3%a. (32.8% y.o.y.). Public banks accounted for more than 60% of the total increase (see Chart IV.9). There was a generalized growth in the 6-month period across all production sectors, being loans to construction, services and primary production the



sectors with higher relative increases. The industrial sector was the one that contributed the most to the 6-month period increase in lending to companies, with the higher relative share in the stock —38.4%⁵⁰— (see Chart IV.10). Financing to the manufacturing segment has kept its firm trend across almost all regions of the country —except for the Argentine North West region (NOA)— (see Chart IV.11), and was the one with more activity in the Centro region.

Considering the segments of lending to companies by amount of residual balance, loans with a higher relative amount (higher than \$5 million) were the ones to record more dynamism (32%a. increase), and accounted for 94.5% of the 6-month period increase for such segment. Likewise loans with a lower amount (up to \$50 thousand) evidenced an expansion of 9.5%a.

Within the framework of the Bicentenary Productive Financing Program⁵¹, the BCRA has already auctioned during the 6-month period, \$5.0 billion to 14 financial institutions, standing for 1.5% of private sector outstanding financing. By the end of September, participating banks allocated to companies a total amount of \$3.5 billion (reaching 70% of total auctioned amount). Virtually 90% being lent to industrial (73%) and services (13%) sectors (see Chart IV.12). Considering the latest information available, resources were allocated in 18 provinces. Since February 2012, the credit line of this Program may be partially allocated to financing working capital aimed at manufacturing capital goods for up to 80% of the value of such goods⁵². Additionally and in order to continue encouraging production funding, the BCRA order the implementation of a new credit line for productive investment (see Chapter II).

Likewise, since October 2012, minimum cash requirement⁵³ regulations were readjusted. The aim of the amendment was to cover the different objectives contained in the new Central Bank Charter, such as redirecting credit, setting forth preferential policies for micro, small and medium-sized companies and regional economies, broadening the geographical coverage of the system and promoting global access to financial services (see Central Bank Outlook).

Financing to households was boosted by lines for consumption purposes

⁵⁰ In November 2011, Communication “A” 5251 was published. It changed credit holders’ classification of economic activities as reported by institutions to BCRA Debtors database (according to CLANAE 2010). Said change became into effect for data gathered as from April 2012.

⁵¹ The purpose of this Program is to grant funding of up to 5 years to financial institutions to generate loans for investment.

⁵² Communication “A” 5278

⁵³ Communication “A” 5356

Chart IV.11
Credit to Companies by Region and Economic Activity
AFIP's taxpayer register - June 2012

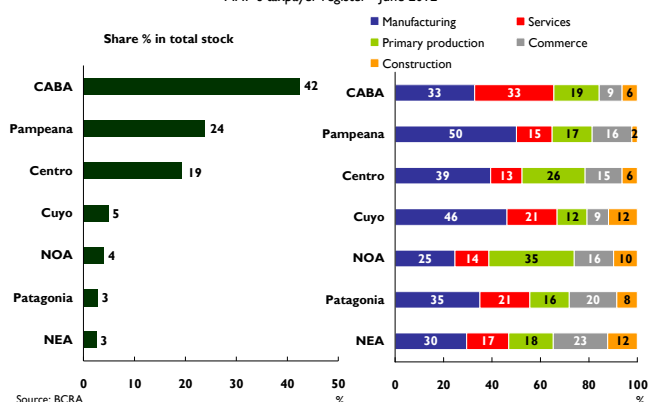


Chart IV.12
Bicentenary Productive Financing Program

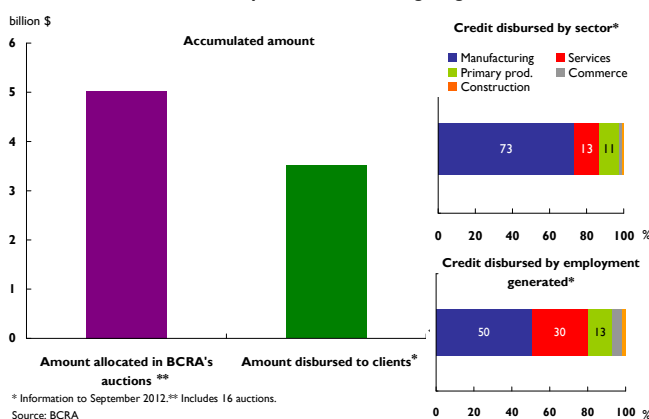
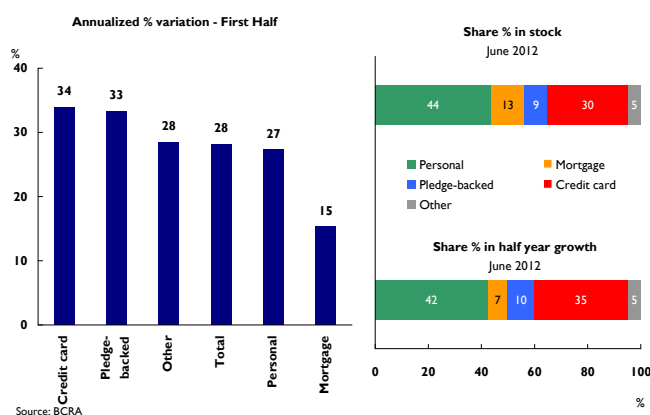


Chart IV.13
Credit to Households by Type of Line



Financing to households increased 28.2%a. (39.2% y.o.y.) in the first half of the year, mainly driven by lines aimed at consumption, that contributed more than three quarters to the 6-month period growth (see Chart IV.13). Private banks (both foreign and national) accounted for almost 64% of the growth of lending granted to households —32.2% and 31.5%, respectively— whereas public banks accounted for 28.5% (see Chart IV.9).

Financial system exposure to the public sector fell during the first half the year

The expansion of loans to the private sector during the first half of 2012 was accompanied by a reduction in the exposure to the public sector, standing at 9.4% of assets, almost 1 p.p. less than that at the end of 2011. Taking into account funding obtained by the group of banks through public sector deposits, the public sector as a whole exhibits a creditor net position against the financial system for an amount slightly higher than 10% of total assets (see Chart V.17).

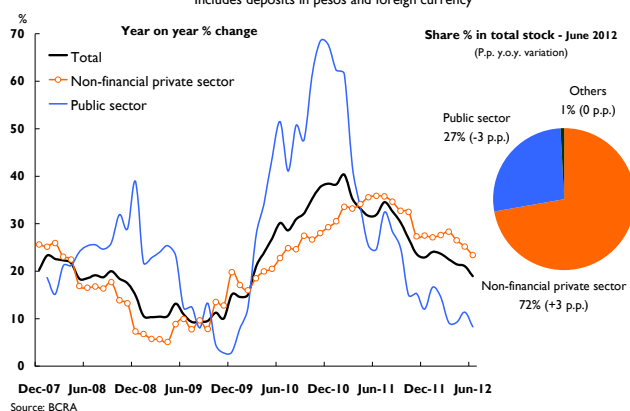
Private sector deposits in pesos showed a great momentum, particularly time deposits

During the first half of 2012 total deposits (in pesos and in foreign currency from the public and private sectors) grew 21.8%a. (18.9% y.o.y.), exhibiting some slowdown in their expansion rate against the end of 2011. A performance mainly accounted for by private sector deposits, exhibiting a 26.1%a. (23.4 y.o.y.) growth, with a share increase of 3 p.p. in total deposits in the last 12 months, reaching 72% (see Chart IV.14). Total deposits in pesos increased considerably during the first half of the year, exceeding by more than 9 p.p. the growth rate against the end of 2011.

However, the increase in private sector deposits in national currency should be highlighted. Over the first half of the year, they recorded an annualized 41.2% (34.2% y.o.y.) growth rate. Particularly, time deposits in pesos grew 46.8%a. (up almost 13 p.p. against the same period in 2011), whereas sight deposits in pesos grew 39.2%a. (see Chart IV.15). Partially offsetting this 6-month period growth rate were deposits in foreign currency that fell to almost 39%a. (-24.7% y.o.y.).

In turn, public sector deposits grew 12.2%a. over the 6-month period, in line with the trend observed at the end of 2011. In the last 12 months these deposits reduced almost 3 p.p. their share in total stock until reaching 26.9%, basically due to the reduction observed in time deposits.

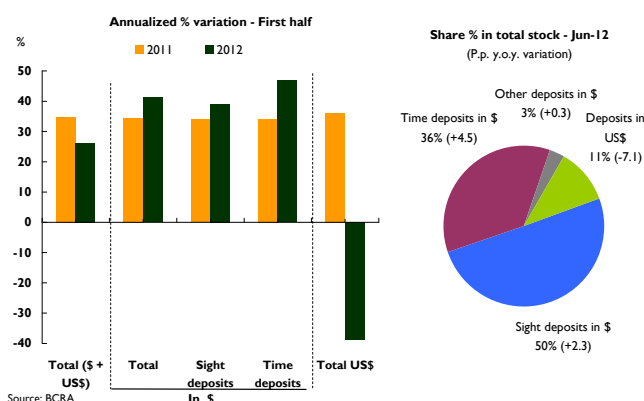
Chart IV.14
Total Deposits of Financial System
Includes deposits in pesos and foreign currency



In mid-2012, in terms of total funding of the financial system —liabilities and net worth— private sector deposits accounted for 57.4%, up 1.4 p.p. against the end of 2011 (see Chart IV.16). Such deposits became the main source of funding for private banks. In turn, public sector deposits accounted for 38.6% of total funding of public institutions. Likewise, time deposits increased 1.3 p.p. their share in the financial system total funding until reaching 24.4%, all groups of banks having analogous performance.

During the first part of 2012, the group of banks continued to gradually increase their resources through corporate bonds. Nineteen (19) financial institutions issued corporate bonds and received funds for almost \$2.5 billion⁵⁴.

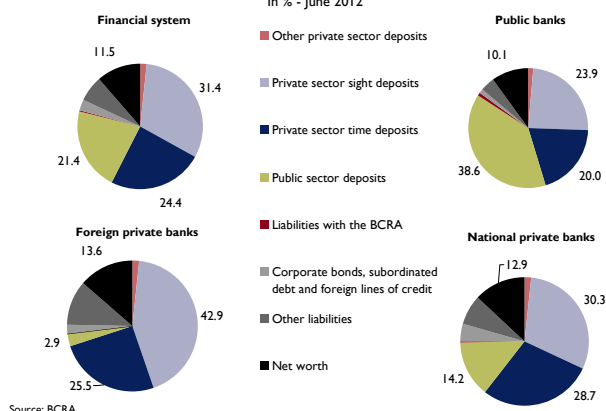
Chart IV.15
Non-Financial Private Sector Deposits



The fall in the cost of funding through deposits in pesos was generalized across all groups of banks (see Chart IV.17). The 6-month period drop was mainly explained by the fall in the interest rate of private sector time deposits. Particularly, foreign private banks and NBFIs exhibited a higher relative reduction. As from the second half of 2012, a slightly upward performance was observed, mainly in private institutions.

Lending interest rate reduction was significantly higher than that of funding costs, leading to a fall in the bank spread during the first part of the year (see Chart IV.18), however higher levels than those recorded the previous year can still be observed. Rate spreads showed a downward development across all groups of banks, particularly public and national private banks.

Chart IV.16
Funding Composition by Group of Financial Institutions
In % - June 2012



Improvement of infrastructure availability for rendering financial services throughout the country

The momentum of financial intermediation took place within a framework of an increase in the number of financial system branches, payroll and ATMs across all country regions. In the last 12 months, the financial system payroll grew 2.1% y.o.y., reaching 103,600 employees. Since early 2010, up to the first half of 2012, employment level grew 6.3%, up almost 3 p.p. as compared to the economy as a whole, with a special emphasis on the performance shown by private financial institutions (see Table IV.2). The number of bank branches grew almost 2% over the first half of the year and the number of ATMs 3.9%. Likewise, the average number of deposit accounts per branch and employee continued to grow (see Chart IV.19), and the growing trend in the deposit account ratio in terms of branches

⁵⁴ 98% of corporate bonds were issued in pesos, and almost two thirds, at a variable rate.

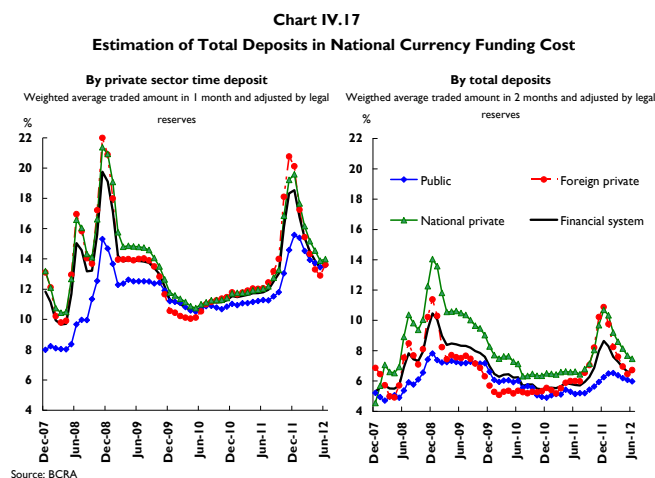


Table IV.2
Evolution of Employment
In thousands

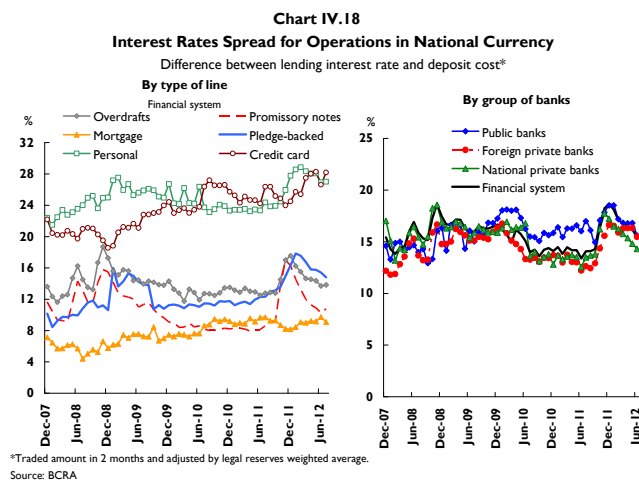
	Financial system				31 aglomer. EPH
	Total	Banks		NBFI	Emplo.- Underemplo.
		Priv.	Pub.		
IQ-10 (Min. FS*)	97.5	56.5	37.8	3.1	10,467
IIQ-11	101.5	60.4	37.9	3.2	10,823
IIT-12 (Max. FS**)	103.6	62.2	38.0	3.4	10,832
Variation - ln %					
IIQ-12 vs IQ-10	6.3	10.1	0.5	7.3	3.5
IIQ-11 vs IIQ-12	2.1	3.0	0.3	4.7	0.1

*Considering the period Q4-07 to Q4-11.

**Considering the post crisis period 2001-2002.

Note: the IIQ-12 growth of the 31 aglomerates corresponds to part-time employment or underemployment (+11.3% y.o.y.) while full employment fell 1% y.o.y.

Source: BCRA and INDEC



should be highlighted, which evidences an increasing degree of operating efficiency in the financial sector.

At a regional level, there was a gradual improvement in infrastructure availability for rendering financial services; however, disparity among different country jurisdictions was still observed (see Chart IV.20). In the second half of the year, CABA and Patagonia regions exhibited the highest relative coverage in terms of branches and ATMs (with the lowest amount of inhabitants per branch and ATM), whereas the Argentine North West (NOA) and North East (NEA) regions exhibited the lowest relative coverage. However, the gap in terms of financial infrastructure availability among regions showed a gradual fall in the last years.

This evolution evidenced a greater boost as from the amendment of the authorization policy for new branches⁵⁵ set forth by the BCRA, and approved by late 2010. According to this new rule, when the Central Bank receives applications for the opening of branches in areas where the country is better supplied by banking services, it considers whether such requests are associated with the simultaneous opening of an equal number of branches in regions where services are less available. Up until now, the Central Bank has authorized the opening of 75 branches in areas of reduced banking services. In order to further encourage extension initiatives for the system's geographical coverage, as from October 2012, the BCRA has implemented a scoring system to authorize the opening of new branches⁵⁶. On a comparative basis, the number of inhabitants per branch was within the average range for the countries of the region; however, there is still room left for improvement if compared with developed countries (see Chart IV. 21).

The concentration level of the financial system had a slight increase against previous periods (see Chart IV.22), however it continues to be below the average of other emerging and developed economies.

IV.1.2 Capital Position

Lower financial system leverage levels, and increase in capital compliance

The consolidated financial system net worth increased 29.6% a. during the first half of 2012 (30.7% y.o.y.), the highest growth since exiting the 2001-2002 crisis. The increase was mainly driven by book profits and, to a

⁵⁵ Communication "A" 5167.

⁵⁶ Communication "A" 5355.

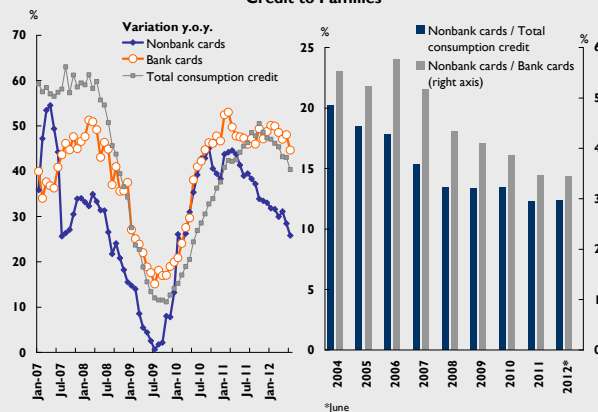
Box 2 / Household Financing Through Non-Bank Credit Cards

Non-financial companies issuers of credit cards play a significant intermediation role in lending to households. There are currently a little over 80 companies in this sector; however, the business is concentrated in five (5) institutions. The use of non-bank cards is widely spread, especially in the provinces

Non-financial companies issuers of credit cards have contributed to the increase of lending for consumption purposes over the last years. These institutions generally offer a package of services and products, including credit cards, cash advances, insurance, and payment systems, targeting, in most cases, population segments which are less likely to have access to bank financing. On a general basis, this can be explained by the fact that granting requirements for non-bank cards are usually more flexible than those requested for bank cards⁵⁷. Non-bank cards are also valued for their offer of purchase benefits, store discounts or redeemable points in exchange of products or discounts. All this makes non-financial companies available to wider range of customers.

Growth slowdown exhibited by lending for consumption purposes by mid-2009 as a result of the local impact of the international crisis, was accompanied by a reduction in financing expansion through non-bank cards. Later on, lending to households recovered its momentum, as did the financing activity through non-financial companies. Since early 2011 non-bank cards began to slow their growth rate again (see Chart B.2.1), gradually losing importance to bank financing. However, non-bank cards continue to be highly used by households, and account for a little more than 12% of total lending for consumption purposes⁵⁸.

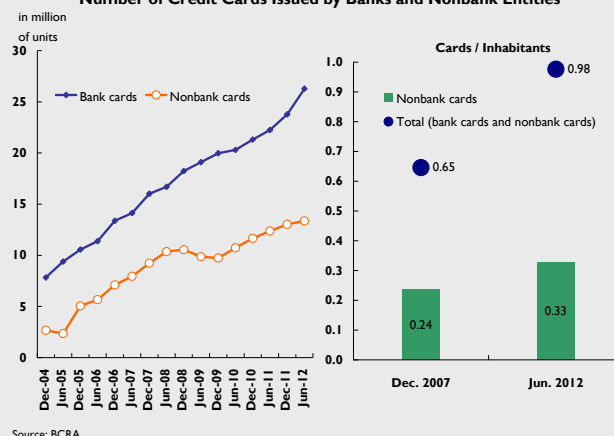
Chart B.2.1
Credit to Families



Source: BCRA

The number of operating non-bank cards (taking into account both principal holders and additional holders) has increased to an amount higher than 10 million in the last seven years, exceeding 13 million by mid-2012 (see Chart B.2.2). This growth implied a greater distribution of plastic cards among the population. It is worth mentioning that average financing balance by card holder is \$1,500 in non-bank sectors, and accounts for two thirds of the average financed amount in terms of bank cards.

Chart B.2.2
Number of Credit Cards Issued by Banks and Nonbank Entities



Source: BCRA

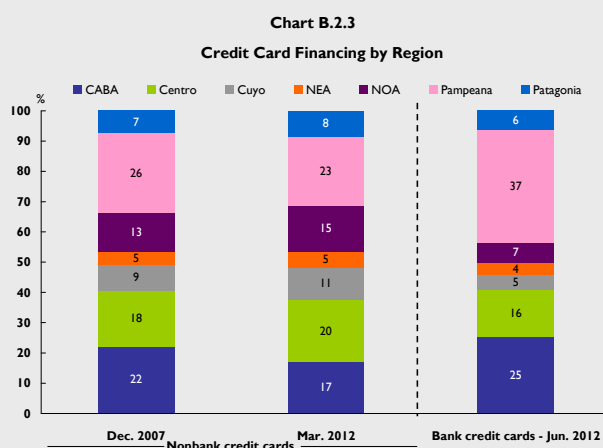
Even though the business of non-bank cards is concentrated in five companies, there are a little over 80 companies currently operating in the market (some of which are controlled by banks). These five companies account for 62.7% of total plastic cards issued and 80% of the financed amounts⁵⁹.

⁵⁷ For example, according to information provided by institutions to BCRA's Transparency Information Regime, minimum monthly income requirement set forth by four of the major non-bank companies amount to \$600 on average, whereas the requirement set forth by major banks is \$1,400 on average.

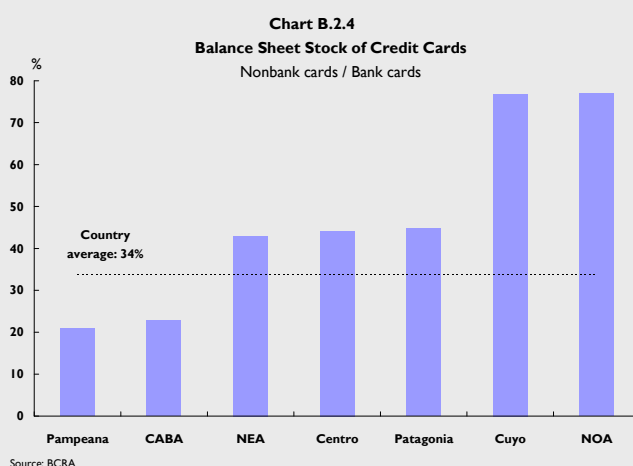
⁵⁸ In both cases, generated securitized assets are not taken into account.

⁵⁹ In the case of bank cards, the 5 major banks in the market concentrate more than 50% of the cards issued and 50% of the financed amounts.

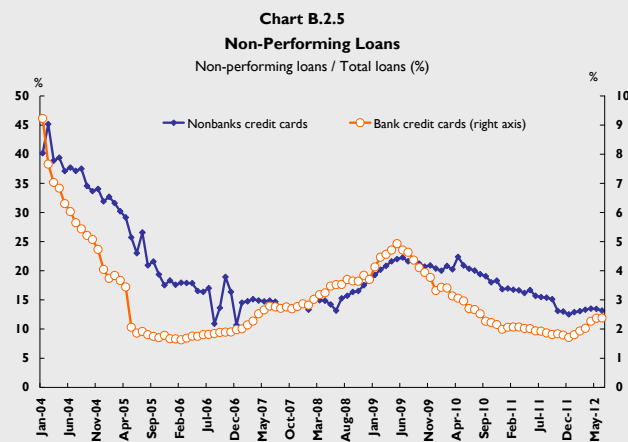
Financing distribution through credit cards has a considerably different performance across the provinces. Non-bank cards tend to focus on the provinces, a tendency consolidated in the last years, which arises from the impact of the first five companies of the sector. Therefore, Cuyo, NOA, NEA, Centro and Patagonia regions account for 60% of non-bank card financing; whereas Pampeana and CABA regions, account for the remaining 40%. However, this ratio is reversed in the case of bank cards (see Chart B.2.3).



The different places where the activity is carried out is translated into a higher relative presence of non-bank cards as opposed to bank cards in the NOA and Cuyo regions, whereas a lower presence in the Pampeana and CABA regions can be observed (see Chart B.2.4).



In an economic activity recovery context, and following the impact of the beginning of the international crisis that took place between 2008/2009, non-performance lending through credit cards showed a downward trend (see Chart B.2.5). Non-performance ratio improvement was of a more gradual nature for non-bank cards than for bank cards, delinquency levels being higher in the first case (13.2% and 2.4%, respectively).



Source: BCRA

It should be noted that monitoring activities related to the performance of companies issuers of non-bank cards is a part of the financial activity follow-up and analysis tasks carried out by the BCRA, with special attention to sectoral and geographical distribution of loans and indebtedness levels.

Finally, it should be mentioned that the new Central Bank Charter (CO) extended the BCRA's mandate and objectives, strengthening its powers in terms of protecting the rights of financial service users. Thus, paragraph h), section 4° of the CO sets forth a mandate "to protect competition and the rights of financial service users, by coordinating the performance of their activities with the relevant public authorities". In order to comply with this objective the Consumer Financial Protection Senior Management Department was recently created. Following the same line, the BCRA has recently set forth the possibility to initiate judicial investigations and impose penalties to issuing financial institutions and non-financial issuers that violate any of the provisions set forth in the Credit Cards Law regarding the financial aspects of the operation⁶⁰

⁶⁰ Com. "A" 5323 In relation to compensatory interest rates applicable to financing activities through credit cards, financial institutions may not apply interest rates higher than 25% of the average interest rates applied by the institution (during the previous month), weighted by the corresponding amount of personal loans (without real collateral) granted in the same period. Non-bank issuer companies may not apply rates higher than 25% of the average applied by the financial system to personal loan operations (without real collateral), as published by the BCRA on a monthly basis.

Chart IV.19

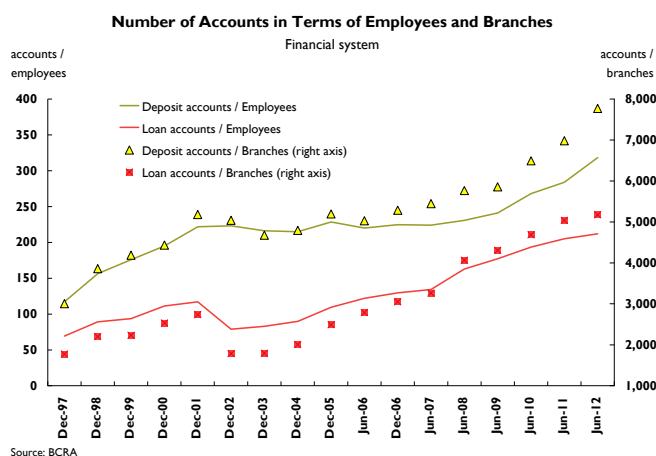


Chart IV.20
Financial System Regional Coverage

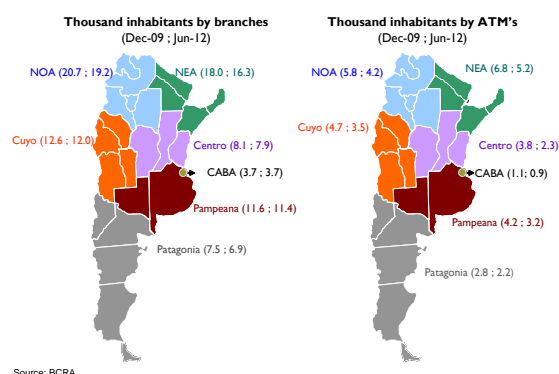
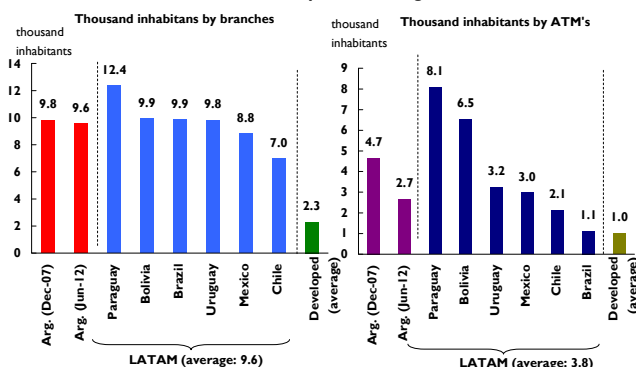


Chart IV.21
Financial System Coverage



Note: Developed: UK, France, Germany, Spain, USA and Portugal. Data 2011. Data 2010: Brazil, UK and Germany. Data 2009: USA.
Source: INDEC, Financial Access Survey (IMF), World Economic Outlook (FMI) and BCRA

lesser extent, by capital contributions. Capital contributions received by the groups of banks accumulated \$770 million in the first half of the year, being channeled with similar levels, to foreign private and public banks (see Chart IV.23).

Financial system leverage levels fell, both with respect to the end of 2011 and in year-on-year terms. Bank assets totaled 8.8 times the financial system net worth (see Chart IV.2), accounting for a lower leverage level than that of the region and other emerging and developed economies⁶¹.

Capital compliance of the financial system in mid-2012 stood at 16.6% of credit risk-weighted assets (RWA), up 1 p.p. against December 2011. This performance is different from that recorded a year earlier, when such indicator fell 1.1 p.p. in the same period within the framework of the allocation of profits made by several financial institutions. All groups of banks exhibited the same trend, more significant, however, in the case of foreign private banks (see Chart IV.24). It is worth mentioning that, in order to strengthen the sector's solvency levels, at the beginning of the year, the Central Bank extended the limit for capital conservation (buffer), prior to the allocation of profits (from 30% to 75%)⁶². In turn, an additional capital requirement was set under the new regulation for the coverage of the operational risk⁶³ that gradually became effective as from February 2012. Moreover, the BCRA has recently modified the basic minimum capital requirements depending on the geographic location of the head office, in order to further encourage extension initiatives for the bank system's geographical coverage⁶⁴. By June 2012, total surplus in regulatory capital compliance of the financial system stood at 62% of the legal requirement, evidencing a surplus across all groups of financial institutions.

All groups of banks ended the first half of the year with profitability levels higher than those recorded the previous year

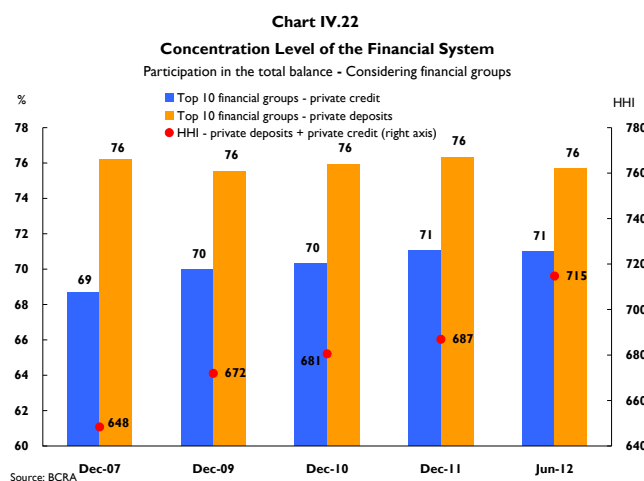
Banks ended the first half of 2012 with profits amounting to \$8.8 billion, up by 37% against the first half of 2011. Profits accounted for 2.8% a. of assets, down 0.1 p.p. against the value recorded in the previous 6-month period, and up 0.3 p.p. against the previous 12-month period (see Table IV.3). In the first half of 2012, ROA levels across all groups of banks increased against the values recorded in the previous 12-month period.

⁶¹ On average.

⁶² Communication "A" 5273

⁶³ Communication "A" 5272

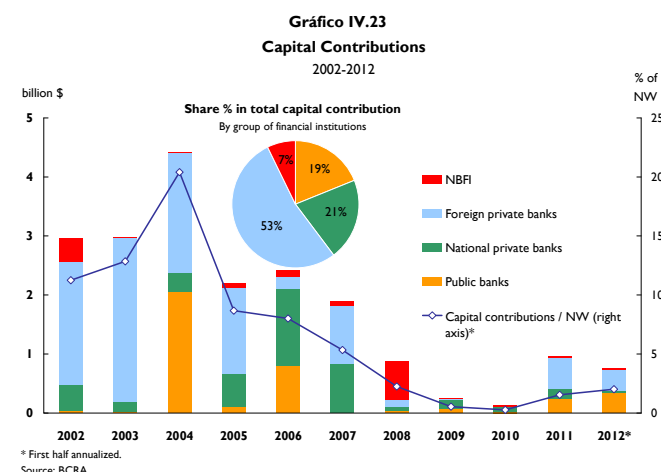
⁶⁴ Communication "A" 5355



Banks' financial spread reached 9%a. of assets in the first half of 2012, up 0.5 p.p. and 1.5 p.p. against the previous 6-month period and in year-on-year terms, respectively (see Chart IV.25). This evolution was mainly influenced by the momentum observed in results derived from interests. All groups of banks increased their financial spread against the first half of 2011, especially foreign private banks.

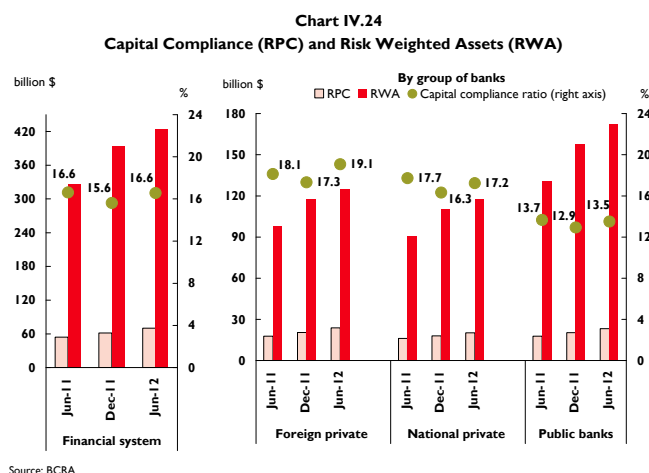
Results derived from interest boosted the 6-month period profitability

Results derived from interest boosted the year-on-year increase of the financial system's accumulated results. In the first half of the year, these results stood at 5.7%a. of assets, up 0.7 p.p. against the previous 6-month period, and 1.5 p.p. against the first half of 2011 (see Chart IV.26). This performance is a consequence of the growth in financial intermediation, particularly public banks, and the bigger spreads observed in year-on-year terms, particularly private banks.



In turn, during the first half of the year income derived from securities stood at 2.5%a. of assets, slightly down against the end of 2011, but exhibiting similar levels to those recorded in the previous 12-month period. The slight increase recorded by public banks in this segment was virtually offset by the decrease observed in private banks.

Results from CER-adjusted items accounted for 0.3%a. of assets during the first half of the year, remaining stable against the previous two 6-month periods. The low weighting evidenced by these incomes is consistent with the gradual reduction in the mismatching of CER-adjusted items in terms of net worth (see Chapter V). After stratifying by groups of banks, public institutions exhibited a higher weighing of these incomes in their income statements (see Table IV.4). In turn, 6-monthly incomes derived from foreign exchange rate differences in terms of total assets had a slight drop against the first half of 2011, until reaching 0.5%a.



Net income from services had a steady growth over the first half of the year, led by private banks

Income from services accumulated over the first half of 2012 amounted to 4.1%a. of bank assets, up 0.3 p.p. against the previous 12-month period. The y.o.y. rise was reflected in (national and foreign) private banks (see Chart IV.27), and it was mainly driven by income from insurance policies and credit card issues.

In terms of the main profitability sources of the financial system income statement, there is a gradual increase of items with lower relative volatility (see Chart IV.28). In

Table IV.3
Profitability Structure: Financial System

Annualized indicators as % average netted assets

	93-00	2009	2010	2011	I-I	II-I	I-12
Financial margin	6.1	8.6	8.5	8.0	7.5	8.5	9.0
Net interest income	4.9	4.3	4.3	4.6	4.2	5.0	5.7
CER and CVS adjustments	0.0	0.4	0.6	0.3	0.3	0.3	0.3
Gains on securities	0.8	3.3	3.2	2.6	2.5	2.7	2.5
Foreign exchange price adjustments	0.0	0.8	0.5	0.6	0.6	0.6	0.5
Other financial income	0.3	-0.1	-0.1	0.0	-0.1	0.0	0.0
Service income margin	3.5	3.9	3.8	3.9	3.8	4.0	4.1
Operating costs	-6.7	-6.7	-6.9	-6.7	-6.6	-6.8	-7.0
Loan loss provision	-2.2	-1.1	-0.8	-0.7	-0.6	-0.7	-0.8
Effects of the 2001-2002 crisis (*)	-	-0.3	-0.2	-0.1	-0.1	-0.1	-0.1
Tax charges	-0.5	-1.0	-1.0	-1.1	-1.0	-1.2	-1.3
Other	0.7	0.3	0.5	0.5	0.6	0.5	0.4
Total results before income taxes	0.8	3.6	4.0	3.9	3.5	4.3	4.2
Income tax	-0.3	-1.3	-1.2	-1.2	-1.0	-1.4	-1.4
ROA	0.5	2.3	2.8	2.7	2.5	2.9	2.8
Adjusted ROA (**)	-	2.6	3.0	2.8	2.6	3.0	2.9
ROE	3.4	19.2	24.4	25.3	23.3	27.1	25.0
ROE (before income tax)	5.2	29.5	34.5	36.5	32.3	40.2	39.3

(*) Includes amortization payments for court-ordered and adjustment of public sector assets.

(**) Excluding the effects of the 2001-2002 crisis.

Source: BCRA

this sense, income from interest and services went from two thirds of total items a year ago, to more than 72% in the first half of 2012.

Operating costs and loan loss provisions grew in terms of assets

Unlike the situation a year ago, financial system operating costs increased in the last two 6-month periods, reaching 7%a. of assets during the first half of 2012. This increase was observed across all groups of banks although to different extents (public banks evidenced fewer expenses). Operating costs dynamism was broken down into virtually equal amounts among staff-related items (remuneration and social security contributions) and the rest of the expenses (real estate rental, payment of services and fees, amongst other of lower amounts).

Starting from historically low levels, in the first half of 2012, a moderate increase in delinquency indicators was observed (see Chapter V). The increase in non-performance lending translates into higher charges on loan loss provisions. These expenses totaled 0.8%a. of assets in the first half of the year, up 0.2 p.p. against the first half of 2011. During the first half of 2012, all groups of banks accrued higher charges on loan loss provisions in terms of assets against the same period in 2011; however, the highest increase was recorded by national private banks.

Based on the situation recorded over the 6-month period, there was an increase in the ratio of relatively more stable net incomes —results derived from interests and services net of charges on loan loss provisions— and operating costs. Such indicator stood at 126%, up 15 p.p. against the previous year. Y.o.y. increase was observed in public as well as in private banks.

Tax-related expenditures (income tax and other tax charges) amounted to 2.7%a. of assets over the first half of the year, up 0.7 p.p. against the previous 12-month period. In turn, on a y.o.y. comparative basis, valuation adjustments for loans to the public sector and the amortization of court ordered releases (consequence of the impact of the 2001-2002 crisis) remain stable and at residual levels, accounting for only 0.1%a. of assets, mainly concentrated in public banks.

IV.2 Institutional investors

Portfolios administered by institutional investors continue to grow

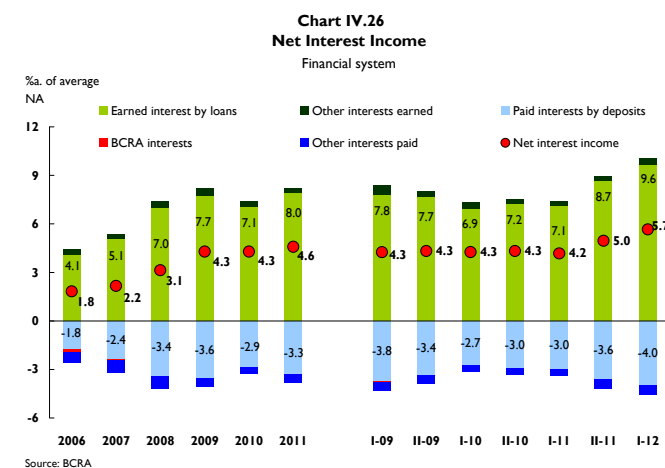
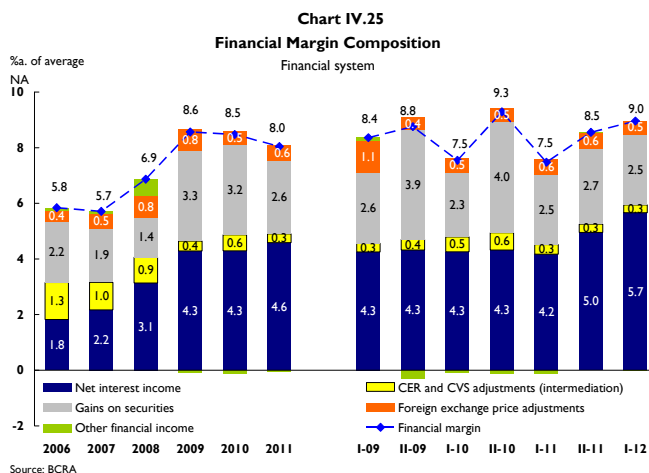


Table IV.4
Profitability Structure by Type of Banks
First half 2012 - Annualized indicators as % average netted assets

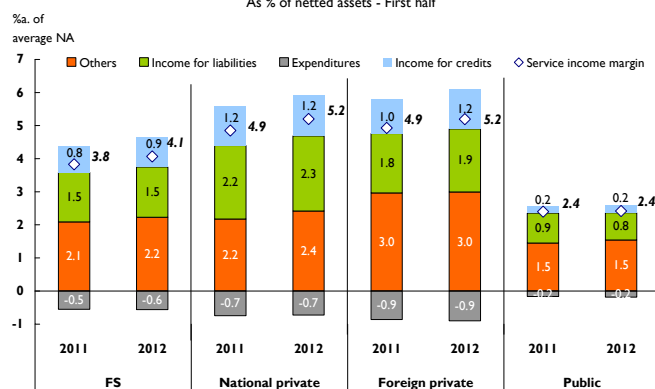
	Private banks			Public banks	NFBFI
	Total	National	Foreign		
Financial margin	9.9	9.4	10.4	7.4	14.0
Net interest income	7.3	6.9	7.6	3.0	13.7
CER and CVS adjustment	0.1	0.0	0.2	0.6	0.0
Gains on securities	2.0	2.2	1.7	3.4	0.3
Foreign exchange price adjustments	0.5	0.3	0.8	0.4	0.2
Other financial income	0.0	-0.1	0.2	-0.1	-0.2
Service income margin	5.2	5.2	5.2	2.4	6.6
Operating costs	-8.2	-8.4	-8.0	-5.4	-9.6
Loan loss provisions	-1.1	-1.2	-0.9	-0.5	-2.7
Effects of the 2001-2002 crisis (*)	0.0	0.0	0.0	-0.2	0.0
Tax charges	-1.6	-1.8	-1.5	-0.8	-1.9
Others	0.5	0.7	0.3	0.3	0.9
Monetary	0.0	0.0	0.0	0.0	0.9
Total result before income tax	4.7	4.0	5.5	3.4	7.3
Income tax	-1.7	-1.2	-2.1	-1.1	-2.7
ROA	3.1	2.8	3.4	2.2	4.7
Adjusted ROA (**)	3.1	2.8	3.5	2.4	4.7
ROE	26.0	25.2	26.7	23.8	21.1
ROE (before income tax)	39.9	36.3	43.0	35.4	33.3

(*) Includes amortization payments for court-ordered and adjustment of public sector assets.

(**) Excluding the effects of the 2001-2002 crisis.

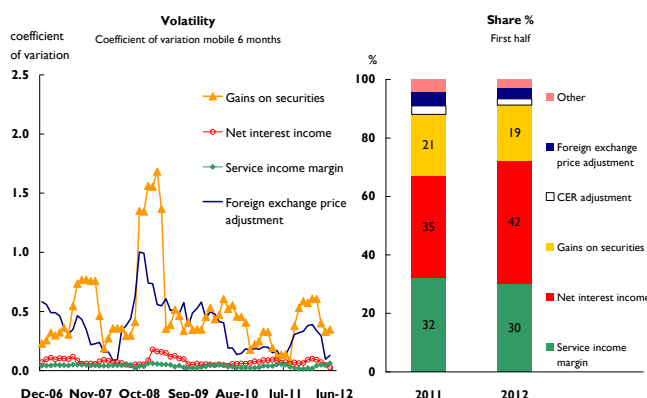
Source: BCRA

Chart IV.27
Service Income Margin by Group of Banks
As % of netted assets - First half



Source: BCRA

Chart IV.28
Major Sources of Financial System Income



Source: BCRA

At a local level, there are three main groups of institutional investors; the Guarantee Sustainability Fund (FGS), insurance companies, and mutual funds (MF) that, by late September 2012⁶⁵, have administered an asset portfolio totaling almost \$317 billion in aggregate terms, equivalent to 15% of GDP. The aggregate portfolio increased in nominal terms 10% so far in 2012 and 16% y.o.y.⁶⁶ Fixed income investments continue to be the most relevant assets of the aggregate portfolio, accounting for more than half the total portfolio, a share that remained stable with no significant changes over the last 12-month period.

FGS is the major domestic institutional investor after the change in the social security scheme effected in October 2008. By the end of March 2012⁶⁷, its total portfolio reached a level of \$209 billion, up 10% in the 6-month period (see Table IV.5). Following the trend observed in 2011, items with greater weight were also the more dynamic ones. In fact, sovereign bonds and investments in productive projects exhibited a year-on-year increase of 21% and 45%, respectively. Third in the list are time deposits that, despite the slowdown observed in the last 6-month period (resulting in an increase in liquid assets), have accumulated, in year-on-year terms, an improvement of 14%⁶⁸. The dynamics observed in sovereign bonds is accounted for by price revaluations, while bonds held as a result of refinancing and new lending to the National Government⁶⁹ increased. In turn, the increase in the stock of productive and infrastructure projects is associated to new disbursements in ongoing projects, and, to a lesser extent, to new projects started (mostly related to programs of housings in the provinces). In this sense, it is worth mentioning that the financing of projects aimed at power generation accounted for 60% of total stock of projects.

Considering information available as of June 2012⁷⁰, insurance companies' investment portfolio amounted to more than \$67.7 billion, with 14% increase over a six-month period and 22% y.o.y. Domestic sovereign bonds concentrated 41% of the portfolio although they reduced their share in the total portfolio over the last 12-month period (see Chart IV.29). In contrast, investments in domestic mutual funds doubled from June 2011 to June 2012, whilst time deposits also had a significant increase during the same period (weighting from 16% to 26%). To a lesser extent, there was also an increase in

⁶⁵ Considering the latest information available for groups of investors with the most outdated information. Analyzed in gross terms without consolidation

⁶⁶ Considering the latest information available for each subgroup against information from the third quarter of 2011

⁶⁷ Latest information available, including investments and liquid assets

⁶⁸ On the other hand, stocks (being the fourth component in terms of relevance) accumulated a 25% reduction in year-on-year terms.

⁶⁹ Consequently, there was a rise in the weight of sovereign bonds in the total portfolio.

⁷⁰ Latest information available.

Tabla IV.5
Evolution of Social Security Fund (FGS) Investment Portfolio
As of Mar 31, 2012, in million \$

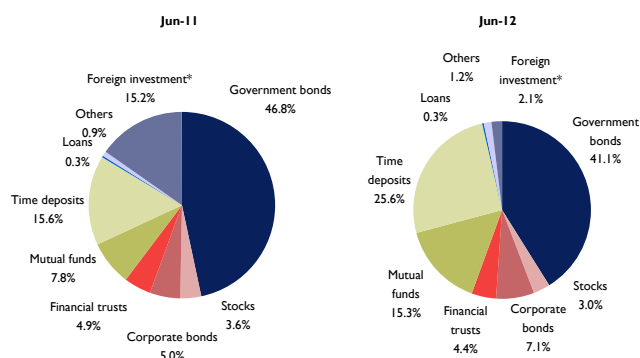
Instrument	Mar-11	Sep-11	Mar-12	Y.o.y (%)	Change in the semester (%)
Total FGS	182,431	190,501	209,042	14.6	9.7
Cash, sight deposits and other*	18,558	9,478	18,179	-2.0	91.8
Time deposits	18,771	26,887	21,409	14.1	-20.4
Sovereign bonds, corporate bonds and other**	102,529	110,751	123,624	20.6	11.6
Stocks	22,587	17,421	16,894	-25.2	-3.0
Productive and Infrastructure projects	19,986	25,964	28,937	44.8	11.4

(*) "Other" includes Mutual Funds, Fondos de Inversión Directa, Foreign Securities, Futures and Options, among others.
(**) Excluding Structured Financial Trusts (Bogar 18 and Bogar 20). Includes bonds issued by subnational governments.
Source: ANSES-FGS

corporate bonds holdings. Finally, between June 2011 and the same month this year, foreign investment weight went from accounting for almost 15% to nearly 2% of the total, based on compliance of the regulations approved on October last year⁷¹.

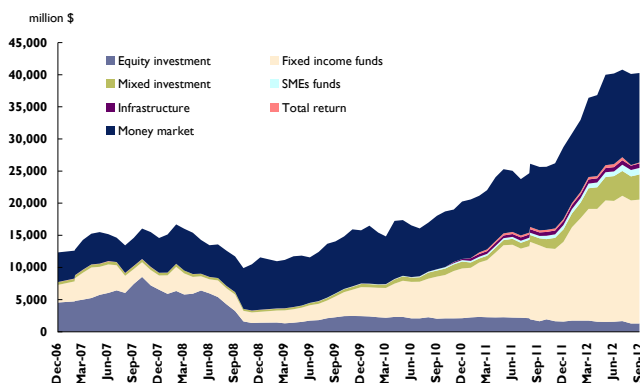
Regarding MF, total equity amounted to about \$40.3 billion by the end of August 2012, up 11% against March 2012, and up 57% against September 2011⁷² (see Chart IV.30). Fixed income funds accounted for almost half of total equity of MF. In turn, funds investing in money market assets (the second most relevant in terms of equity administered) have increased their share against late March. However, variable income funds lost again some share, and accounted for almost 3% of the total portfolio, mainly due to the falls registered in prices. Finally, funds investing in assets issued by domestic small and medium-sized companies continue to show significant growth levels, even though, due to their nature, they only account for 2.5% of the total portfolio (in March they accounted for 2% of the total portfolio).

Chart IV.29
Breakdown of Insurance Companies Portfolio



(*) Foreign investment includes Government and corporate bonds, stocks, mutual funds, time deposits and other equity investments
Source: Superintendencia de Seguros de la Nación

Chart IV.30
Mutual Funds Net Worth Evolution



Source: Cámara Argentina de Fondos Comunes de Inversión

⁷¹ Resolution 36,162/2011 from the Superintendencia de Seguros de la Nación.

⁷² It should be noted that, in August 2012, the National Securities Commission issued Resolution 608 that modified the valuation criteria of external assets in the investment funds portfolio.

Box 3 / Policies Promoting Greater Access and Use of Banking Services based on a New Zoning Scheme for the Financial System

The reform of the Central Bank Charter enacted by Law 26,739 reintroduces in the political agenda, among other topics, the quest for an inclusive and equitable financial system. As far as geographical coverage of financial institutions is concerned, the new CO specially sets forth two sections that must be construed as guidelines for the actions to be carried out. On the one hand, Section 3° extended the BCRA's main mandate by adding up financial stability, employment and economic development with social equality policy objectives to its existing monetary stability target. On the other hand, Section 14° further reinforces the Board of Director's powers to decide on the opening of branches with a view to widening the system's geographical coverage, rendering services to less favored economic sectors and less populated areas, and fostering global access of users to financial services

Effective since October this year a new regulation for the authorization of branches in the country has been drafted⁷³. Upon redefining the Argentine zoning scheme, a new set of criteria was established to promote the opening of new branches and ATMs in less relatively developed areas of the financial system infrastructure.

At the same time and in the same spirit, the BCRA had to redefine the zoning scheme previously used in the regulatory framework of the Argentine financial system (see Map 1), with the purpose of obtaining a better area distribution. The previous zoning scheme was based on information at the level of urban conglomerates, departments and provinces. Thus, it evidenced a deficit in terms of horizontal equity —i.e. equal treatment of equal situations—. For example, different localities received the same regulatory treatment just because they belonged to the same department or province. That is why, the creation of an information system capable of accurately acknowledging existing heterogeneities throughout the Argentine territory⁷⁴ was of the essence.

⁷³ Communication "A" 5355

⁷⁴ It is worth mentioning that, despite the fact that there are various reasons for some characteristics and/or social processes to tend to evidence spatial patterns, the territory's role is scarcely included in the economic analysis, and it is usually subsumed by other not less relevant, but different dimensions. Therefore, faced with issues of design and development of policies and public institutions in general,

With the information collected from each locality — including variables such as availability of financial services and economic activity— the BCRA drafted a geo-referenced map containing a little over 3,400 country localities⁷⁵. The availability of this new analysis resource should facilitate the policy making process since it enables the production of cartographic reports, spatial correlations and econometric model estimates, that, up to now, had only been made, on a partial basis, by the BCRA. This methodology should thus boost decision making processes in terms of regulations and economic policies, especially those aimed at favoring financial inclusion and providing support to a balanced regional productive development throughout Argentina.

The creation of this geo-referenced map of Argentine localities has been the foundation for redefining the zoning scheme of the country's territory (see Map 2). The current scheme allows the identification of the relative performance of Argentine localities in terms of financial economic development, while enabling the segregation of those having a financial system infrastructure (branches or ATMs) from those that do not. Based on this index, localities with financial infrastructure were broken down into four subgroups (areas 1 to 4) depending on their degree of economic-financial development; whereas those lacking said infrastructure were classified into two subgroups (areas 5 and 6)⁷⁶. Using this scheme it is possible to better identify where⁷⁷ relative support through the implementation of public policies is needed the most.

it is common to be less prepared to think and act in the territorial dimension than in the temporal one. In this sense, and to quote Robert C. Merton —in "A Functional Perspective of Financial Intermediation", Financial Management, Vol. 24, No.2, Summer 1995, pages 23-41—: "The primary function of any financial system is to facilitate the allocation and deployment of economic resources, both spatially and temporally, in an uncertain environment". However, in practice, the focus of economy has been on "temporal allocation" rather than "spatial deployment".

⁷⁵ "Economic and financial map of Argentina: a geo-referenced system of financial services' supply and demand indicators per locality", Blanco, Denes and Repetto, 2012, BCRA. Unpublished paper.

⁷⁶ Geo-referenced locality data has made it possible to include within the spatial analysis not only infrastructure for rendering financial services that actually exists in each locality; but also minimum distance to travel in order to access a service center in another locality.

⁷⁷ Localities with relatively lower values for created indexes and higher values for defined areas.

It is still possible to observe in the new geo-referenced map a high number of Argentine localities — approximately two-thirds, identified in green in Map 2— lacking physical service centers from financial entites supervised and regulated by the BCRA. In view of this situation, it is imperative to continue creating preferential incentives to promote a more harmonic territorial development of the financial infrastructure. Likewise, it is necessary for said incentives to cover, not only average business volumes observed —loans and deposits—; but also different costs related to the opening and functioning of branches and ATMs by area.

Within this framework, the new rule aims at facilitating the opening of branches in areas belonging to the average financial development segment of Argentina — area 2— and by means of a rewards system to encourage the opening of branches in less relatively developed areas —3, 4, 5 and 6—, in order to earn points towards the opening of branches in more financially developed areas —area 1—. Moreover, financial institutions setting up ATMs in areas 5 and 6 are awarded points without the need to also open branches in said locations at the same time⁷⁸.

Even though the specific purpose of this redesigned zoning scheme of the Argentine territory is to make progress on the implementation of criteria needed for financial institutions' territorial deployment⁷⁹, it is also possible that it will grow to cover broader political objectives such as minimum reserve requirements set up, productive activities support and credit guidance.

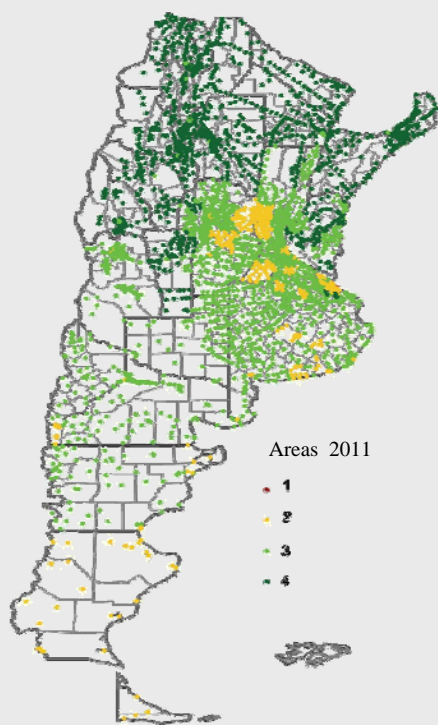
In this sense, the implementation as of October 2012 of a readjustment of Minimum Cash regulations should be highlighted⁸⁰. The aim of this measure was to boost regional economies' and small and medium sized companies' loans; and widen the geographical coverage of the system through the gradual reduction of Minimum Cash requirements ratios; making differences based on the location of the financial institutions' branch where the deposit was made.

⁷⁸ This incentive was established given it was necessary for the opening of sustainable service centers to define a minimum economic, populational, transport and communication infrastructure, and custody and safety services network development scale.

⁷⁹ The above mentioned Communication "A" 5355 also includes, among other modifications, an adjustment of minimum capital requirement for financial institutions based on the new zoning scheme.

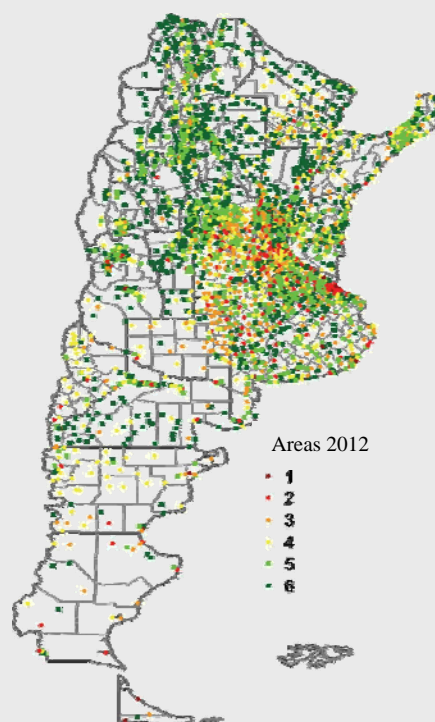
⁸⁰ Communication "A" 5356

Map 1. Zoning according to 2011 methodology



Source: BCRA

Map 2. Zoning according to 2012 methodology



Source: BCRA

V. Financial System Risks

Summary

The structure of the set of financial system risks over the first half of 2012 exhibited minor changes against late 2011.

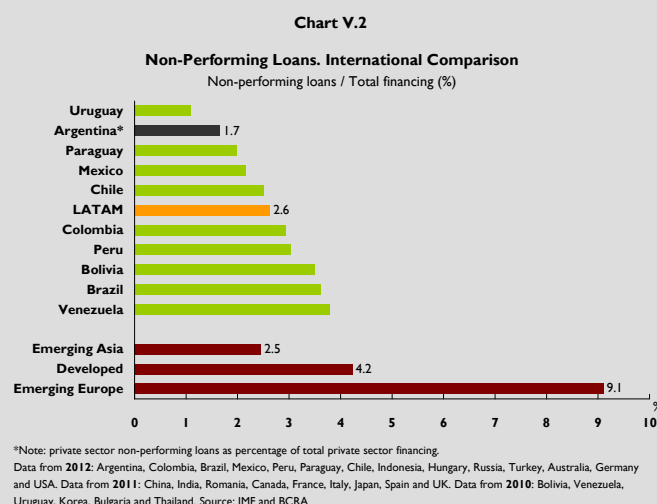
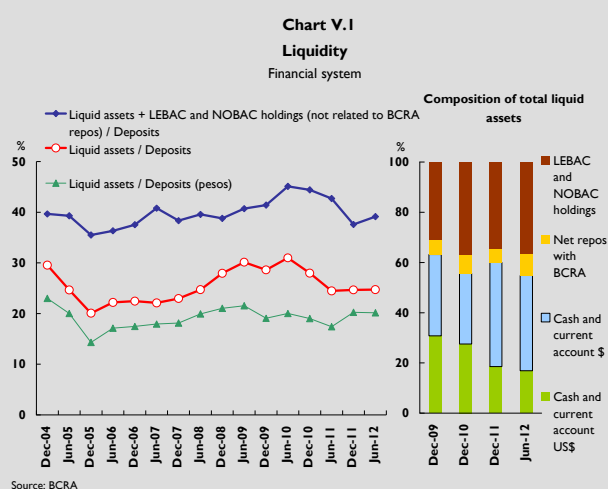
The financial system slightly reduced its liquidity risk exposure, evidencing a share reduction of relatively shorter-term liabilities in total liabilities and a lower concentration of aggregate deposits. During the period under analysis, the coverage of this aggregate risk was extended as a result of the increase of higher-liquidity assets in terms of short-term liabilities, together with increases in other liquidity indicators.

Private sector credit risk remained at reduced levels, in a context where companies and households did not exhibit significant changes in indebtedness levels. Once again, there was an increase in the exposure of the group of banks to the private sector, until reaching more than half of the aggregated assets. The financial system continued to keep a high coverage level of non-performing loans by means of provisions. Non-performance of banking lending to the private sector stood at a historical minimum, evidencing a slight increase.

Financial system exposure to currency risk continues to exhibit moderate levels. However, an increase in currency mismatch was observed over the first half of 2012, due to the fact that the reduction in liabilities in such currency (mainly deposits) exceeded the drop in assets (mainly loans and liquidity) and the reduction of net foreign currency term purchases.

To date in 2012, there has been a gradual drop in the main interest rates. They evidenced low volatility, which helped reduce the potential impact of interest rate risks on the financial system balance sheets. All groups of financial institutions slightly reduced their interest rate risk exposure over the period. In turn, the market risk had a low weighting in the set of risks of the sector. Even though the sector's position of marked-to-market instruments grew over the period—reflected on LEBAC holdings—there was a drop in the volatility of the main securities, which resulted in insignificant changes to risk exposure.

As from 2012 the Central Bank set a new capital requirement for the coverage of operational risks. This requirement has been gradually implemented, and it is expected to be fully implemented by the end of 2013.



V.1 Liquidity risk

There was a slight reduction in the financial system's liquidity risk gross exposure

During the first six months of the year, the resources collected by financial institutions through deposits where mainly allocated to the creation of higher-liquidity assets and the generation of loans to the private sector. Over the period, the main interest rates exhibited a gradual reduction and lower volatility, favoring liquidity risk management by banks.

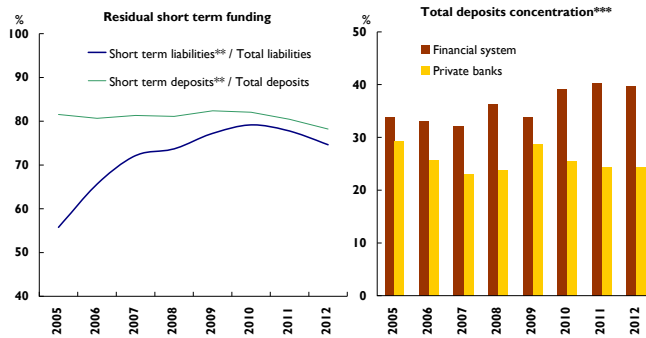
With respect to mid-2011, there was a reduction in the financial system liquidity risk gross exposure indicators. Particularly, there was a drop in the share of shorter-term maturity liabilities in respect to total liabilities, and, at an aggregate level, the deposit concentration slightly moderated (see Chart V.3). The significant growth observed in retail time deposits in pesos partly accounted for these developments.

Over the first half of 2012, the financial institutions' liquidity risk coverage improved

In the context of the growth observed in financial intermediation, there was an increase in the coverage of short-term bank liabilities⁸¹ through higher-liquidity assets⁸² over the first half of the year. This coverage increased slightly until accounting for 47% (see Chart V.4), keeping the indicator at levels comparable to the average of the countries of the region.

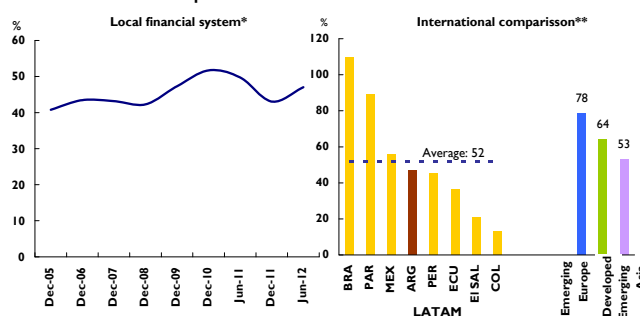
Moreover, at the beginning of the year, financial system liquid assets, in a broad sense (considering domestic and foreign currency) achieved a rate of growth proportionately higher than that of total deposits. Considering a broad definition for liquidity ratio in terms of total deposits, all groups of banks increased said indicator by early 2012 (see Chart V.5). In turn, the liquidity ratio, which does not take into account LEBAC and NOBAC holdings, remained stable over the first half of the year. Over said period, BCRA's bills holdings and repo transactions conducted with this Institution increased their relative importance within the assets of higher-relative liquidity (see Chart V.1). It should be noted that despite the contraction in deposits and loans in foreign currency observed over the last period, the coverage indicator for deposits in dollars through liquid assets in foreign currency stood at high

Chart V.3
Liquidity Risk Exposure
Financial system - First half*



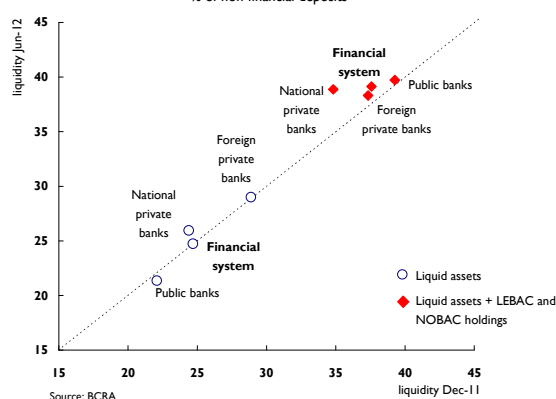
*Average of 2 quarters. **Residual term less than 1 month. ***Balance of the 110 largest customers of each entity as a percentage of total deposits.
Source: BCRA

Chart V.4
Most Liquid Asset in Terms of Short Term Liabilities*



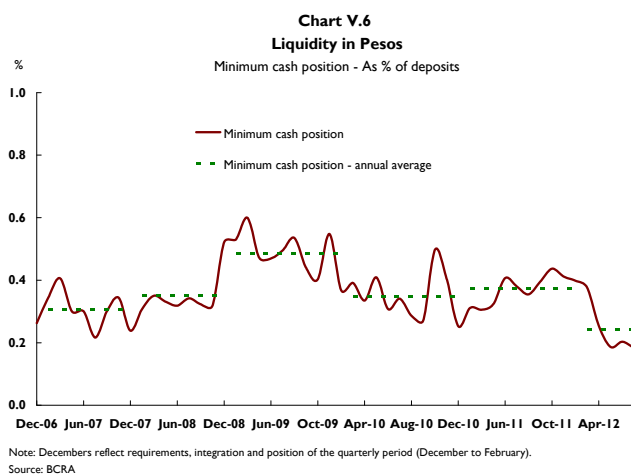
* Broad liquid assets (in national and foreign currency), including cash disposal (minimum cash compliance and other concepts, fundamentally correspondent accounts) plus creditor net balance for repo transaction with the BCRA using monetary policy instruments of this institution and the NOBAC and LEBAC not related to repo transactions. The short-term liabilities are those whose residual term is less than one month.
** Data from 2012: Argentina, Brazil, Paraguay, Peru, Mexico, El Salvador, Colombia, Australia, Germany, Turkey, Russia, Romania, Hungary, China, Indonesia and Canada. Data from 2011: Ecuador, India, Korea, UK and Japan. Data from 2009: Bulgaria.
Source: Financial Soundness Indicators (IMF) and BCRA.

Chart V.5
Liquidity by Group of Banks
% of non-financial deposits



⁸¹ Short term liabilities are herein defined as those with a maturity term under a month.

⁸² Including liquid assets in a broad sense, considering domestic and foreign currency. The definition includes liquid assets (compliance with the "minimum cash" requirement and other concepts, accounts with correspondents mainly) plus the net credit stock of repo transactions of financial institutions against the BCRA using monetary regulation instruments of this Institution plus LEBAC and NOBAC holdings not related to repo transactions.



levels by mid-2012 —around 63% of deposits in foreign currency—.

Liquidity regulatory requirements continued being easily covered over the first half of the year. When taking into account the segment in pesos, the financial system compliance level exhibited a surplus amounting to 0.2% of deposits over the end of the first 6-month period (see Chart V.6), figures slightly lower than those recorded over the previous periods⁸³.

The volume traded within financial markets fell slightly over the beginning of 2012, evidencing a gradual fall in interest rates charged

The amount traded in the call market, as well as the amount of total repo transactions amongst financial institutions fell slightly during the first half of 2012, and the latter continued to account for more than half of financial transactions. NBFi and public banks over said period were, once again, net fund lenders in the call market whilst private banks were fund borrowers. In turn, interest rates charged on the call market and on transactions amongst financial institutions exhibited a gradual drop over the first half of the year.

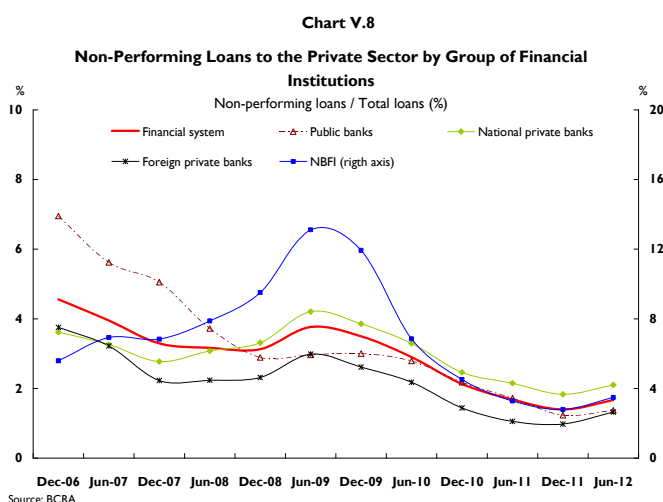
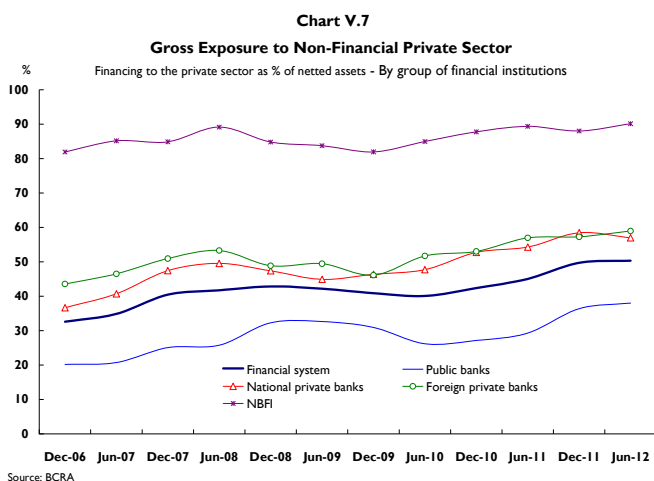
V.2 Credit risk

V.2.1 Private sector

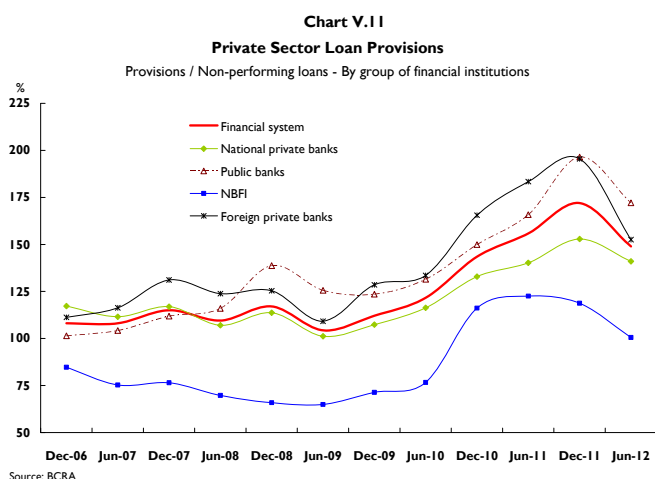
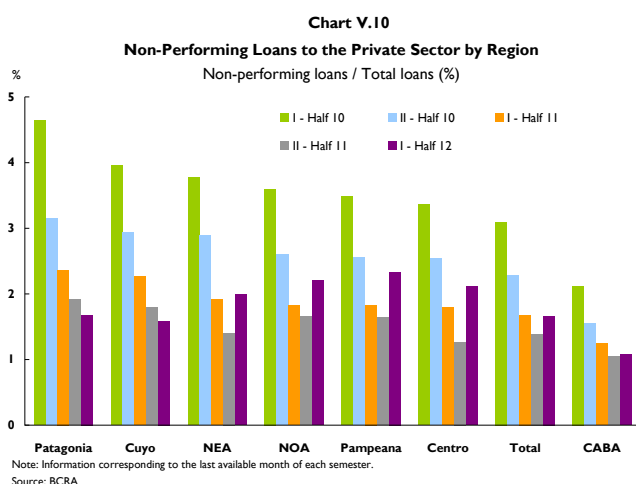
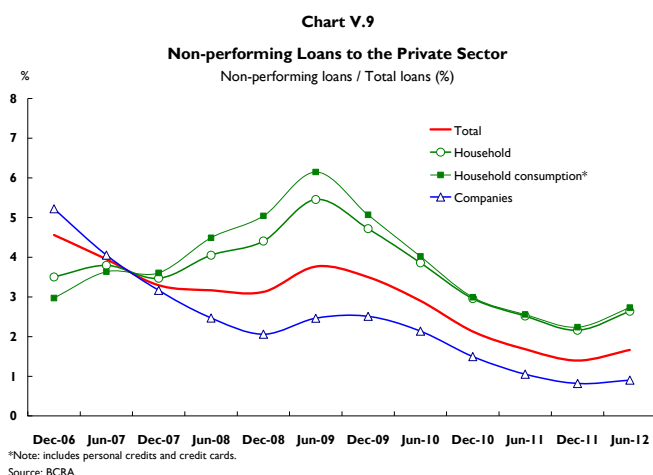
Private sector's credit risk undertaken by the financial system continued being low

Financial system gross exposure to the private sector grew over the first half of 2012, accumulating a y.o.y. increase of about 5 p.p. of netted assets, until exceeding half of it (see Chart V.7). This performance was mainly driven by public banks, the group that recorded the highest relative credit growth over the last months. Counterparty risk faced by the financial system remained at historically low levels; however, some signs of increase in the margin were observed. Taking into account moderate indebtedness levels of both companies and households, together with a positive evolution of their income, delinquency levels of bank lending remained at historically low values, whereas financial institutions kept comfortable coverage level of non-performing loans by provisions.

From reduced levels when making a historical and international comparison, private sector



⁸³ See Chapter II for further details on minimum cash requirements regulatory adjustments recently adopted by the BCRA, effective as from next October (Com. "A" 5357).



lending non-performance recorded a slight rise against figures at the end of 2011

The private sector lending non-performance ratio reached up 1.7%, a level comparable to the value recorded during the first half of 2011, and slightly higher than that recorded at the end of last year⁸⁴. However, private sector lending non-performance stood at low levels, both from a historical point of view, as well as against the values recorded by other economies (see Chart V.2).

Over the first half of the year, the increase in delinquency levels was mainly evidenced by private banks and non-banking financial institutions (see Chart V.8) and was accounted by a certain degree of deterioration in the lending to households segment, mainly for consumption purposes (see Chart V.9). The increase in non-performance ratio over the period was focused on the NOA, NEA, Centro and Pampeana regions (see Chart V.10).

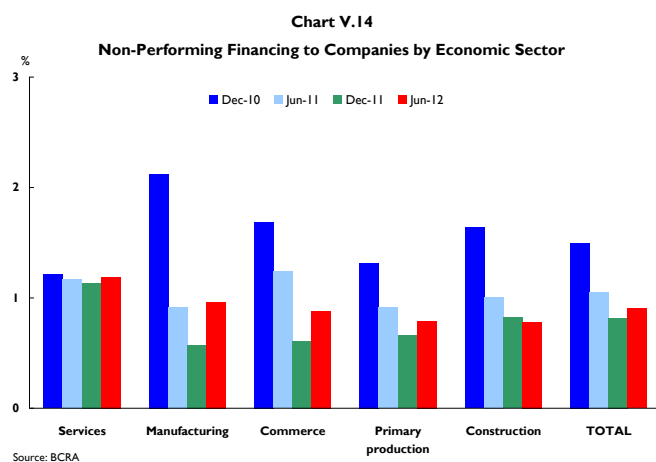
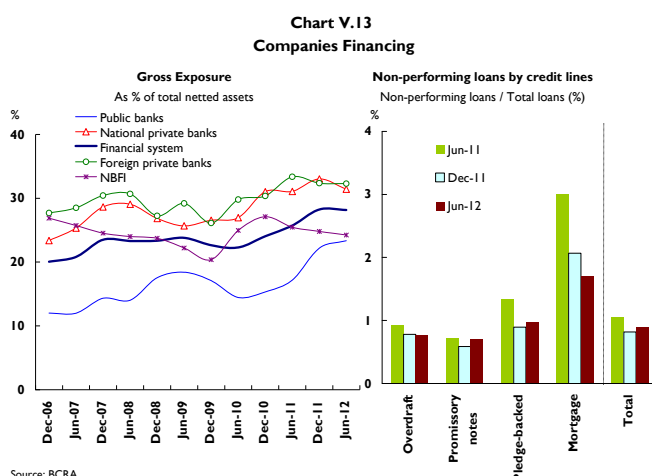
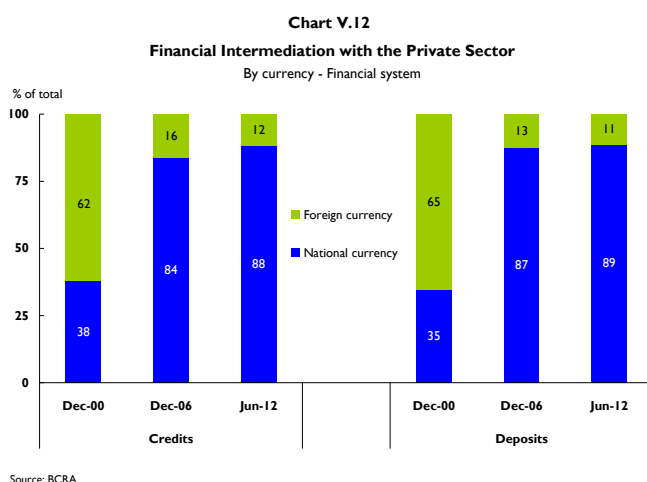
The coverage level of non-performing loans by accounting provisions remained high

The financial system has exhibited a sound coverage level against potential materialization of credit risk. By mid-2012, the coverage level of non-performing loans by accounting provisions reached 149% for the financial system as a whole. In all groups of financial institutions, the coverage ratio stood above a 100% (see Chart V.11).

The domestic financial system exhibited a relative strength in terms of keeping its position against credit risk arising from nominal foreign exchange rate fluctuations. Within the framework of current regulations, and with a macroprudential approach, loans that may be generated from deposits in foreign currency are limited to lines in such same currency offered to agents with income related to the evolution of the foreign exchange rate. Only 12% of the stock of lending to the private sector is currently being granted in foreign currency, a situation that is different from the experience prior to the 2001-2002 crisis (see Chart V.12). Over the last 6-month period, there was a drop in loans to the private sector in foreign currency, mainly export finance and pre-finance; additionally, there was a significant increase in other commercial lines in pesos.

Companies

⁸⁴ The ratio of loans to the private sector with preferred guarantees increased 0.6 p.p. during the first part of 2012, up to 16.6%. Delinquency in lending to the private sector without those guarantees recorded a slight increase during 2012, and stood at 1.8%.



Within a context of limited company repayment risk, public banks increased their gross exposure to the productive sector, whilst private banks reduced it

Over the first half of 2012, weighting of lending to companies in the netted assets of the financial system remained almost invariable, accumulating a 2.4 p.p. y.o.y. hike until reaching slightly over 28% (see Chart V.13). Considering the groups of financial institutions, the performance exhibited over the 6-month period was different. Public banks increased their gross exposure to the productive sector while private institutions recorded a drop. Within a context of low aggregate indebtedness and economic activity growth perspectives (see Chapter III), companies continued to exhibit a positive financial position, together with a limited repayment risk. In the same line, over the last months, a reduction in the rate of bounced checks for non-sufficient funds was evidenced in terms of total volume of cleared documents (see Chapter VI).

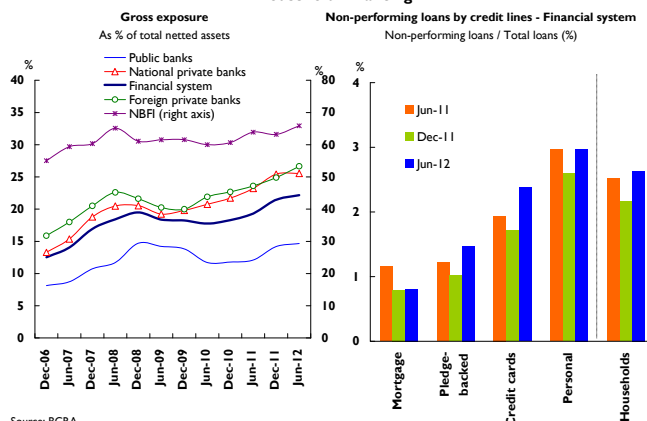
The private sector lending non-performance ratio stood at 0.9% at the end of the first half of 2012, basically invariable in comparison to the previous two half year periods. Promissory notes and overdrafts exhibited lower non-performance ratios, below 1% (those lines account for 55% of lending to companies). When considering financing lines to the different productive sectors, diverse dynamics were observed in 2012. The delinquency ratio had slight changes in credits to the manufacturing sector and to services (those sectors account for more than 60% of credit to companies), whereas there was a slight increase in lending to the remaining productive sectors (see Chart V.14).

Households

Lending to households gained share in bank assets

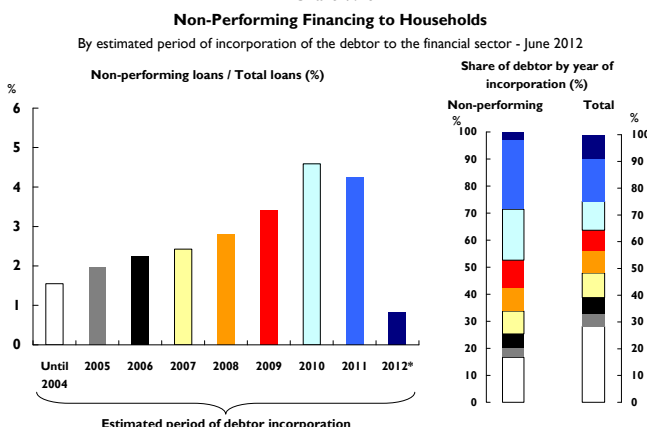
In the first half of the year, the financial system kept increasing its gross exposure to households (see Chart V.15). Foreign private banks and NBFI posted the highest increases in gross exposure to households, mainly through the expansion of financing lines aimed at consumption. At the beginning of 2012, household indebtedness exhibited a gradual drop, within a context where sector income improved as a result of public policies undertaken and favorable labor market conditions (see Chapter III). The financial system evidenced a sound position to face the sector's repayment risk; however, there was a slight increase in delinquency levels.

Chart V.15
Household Financing



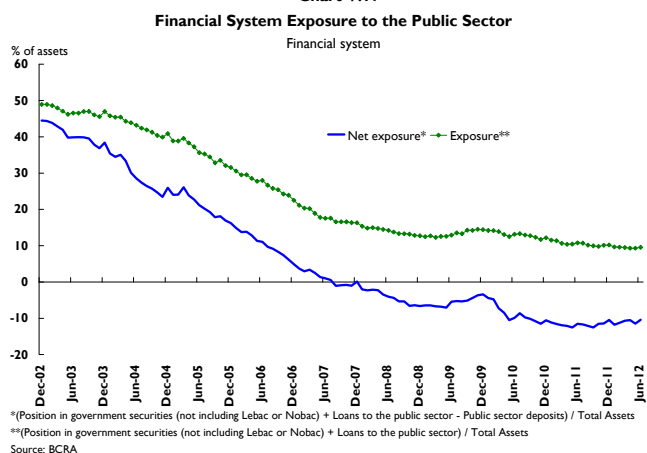
Source: BCRA

Chart V.16



* First half
Source: BCRA

Chart V.17



* (Position in government securities (not including Lebac or Nobac) + Loans to the public sector - Public sector deposits) / Total Assets
** (Position in government securities (not including Lebac or Nobac) + Loans to the public sector) / Total Assets
Source: BCRA

Delinquency in lending to households stood at 2.6% as of June 2012, increasing 0.4 p.p. over the first half of the year, slightly exceeding the level recorded over the same period of 2011.

It has been estimated that debtors included in the financial system since 2008 accounted for more than half of household financing stock as of June 2012. These credit holders evidenced a higher delinquency ratio (see Chart V.16).

V.2.2 Public sector

Financial system gross exposure to the public sector fell over the course of the year

Financial system gross exposure to the public sector slightly fell over the first half of 2012, with a total drop of around 1 p.p. against June 2011. Thus, banks' gross exposure to the public sector stood below 10% of total assets, equivalent to one fifth of the gross exposure to the private sector. Considering all jurisdictions, funding through deposits from the public sector as exhibited by the financial system, continued to exceed funding offered by the group of banks to such sector. As a result, the public sector continued to be a net creditor of the financial system for an amount equal to a little more than 10% of the total assets of aggregate institutions (see Chart V.17).

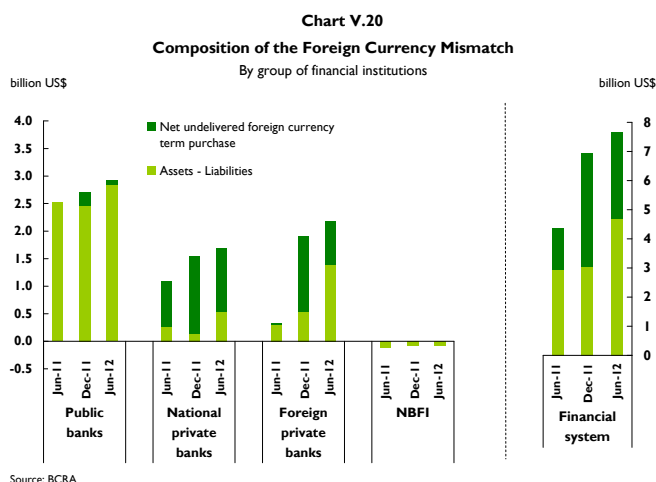
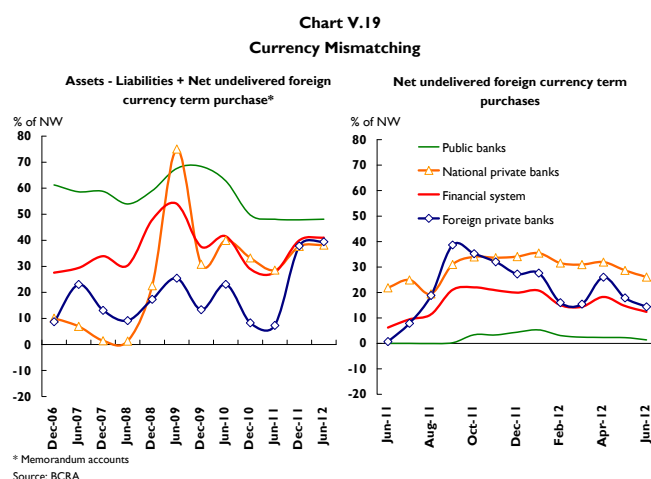
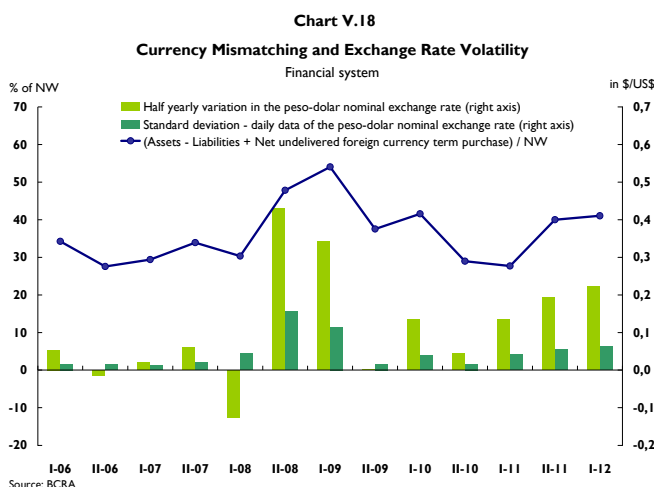
V.3 Currency risk

From moderate levels, the financial system increased its balance sheet exposure to foreign currency risk slightly over the first half of 2012

In the first half of the year, the financial system foreign currency broad mismatching⁸⁵ went up 1 p.p. of net worth, until accounting for 41% (see Chart V.18). Besides, a slight increase of nominal peso-dollar exchange rate volatility was observed over the period. In this context, banks increased their balance sheet exposure to currency risk although it remained below the level observed by late 2008-early 2009.

The rise observed over a 6-month period in the financial system foreign currency broad mismatching was mainly accounted for by a decrease in liabilities in such currency (in particular due to a drop in private sector deposits), that exceeded the reduction of assets (private sector loans and liquidity, primarily) and the reduction of net term purchases of foreign currency without delivery of the underlying asset (foreign currency

⁸⁵ Includes asset and liability items and term foreign currency transactions in memorandum accounts



derivatives). The increase is verified in foreign private banks, while the remaining different groups of banks did not evidence significant changes (see Chart V.19).

The dollarization level of the aggregate balance of the group of financial institutions continued reducing. By mid-2012 foreign currency assets accounted for only 13.1% of total assets, 2.8 p.p. less than at the end of 2011. In turn, the ratio of liabilities in foreign currency contracted by 4.3 p.p. compared with the end of the previous year, until reaching 11.3%.

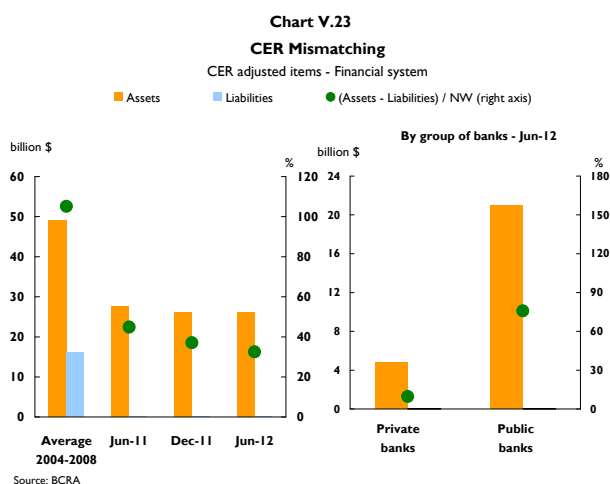
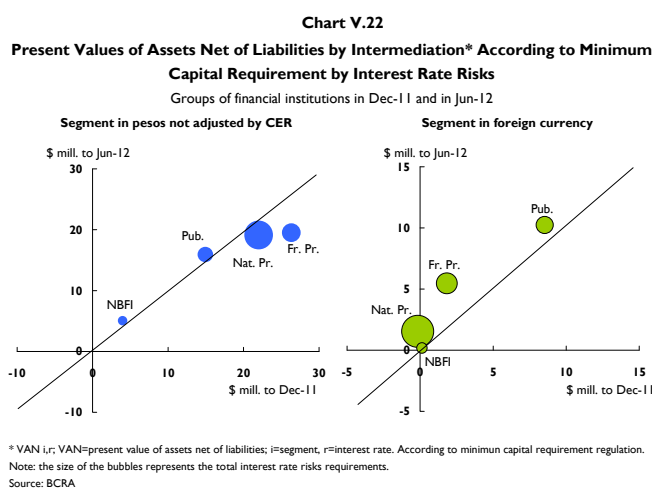
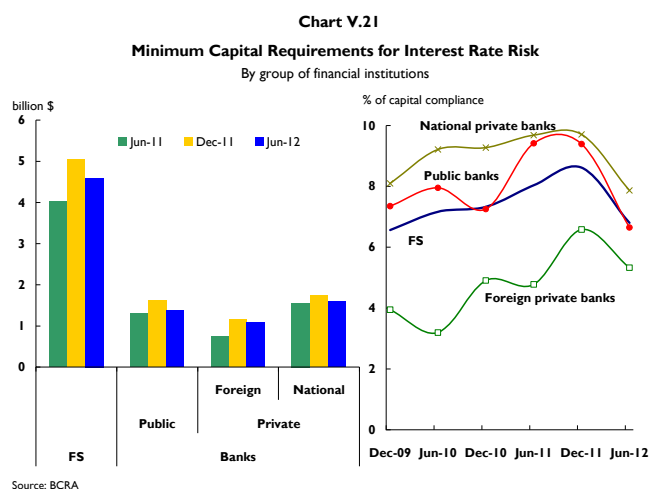
Net term purchases of foreign currency recorded by banks reduced their relative relevance in the broad mismatching at a systemic level. By mid-2012, 70% of the currency mismatching resulted from the difference between asset and liability balance sheet items in dollars, and the remaining 30% corresponded to net term purchases of foreign currency (see Chart V.20). National private banks, accounted for most of the net foreign currency term purchase transactions as of June 2012. In turn, public banks recorded the greatest difference between asset and liability balance sheet items in foreign currency.

V.4 Interest rate risk

In the first half of 2012, the financial system reduced its interest rate risk exposure

Over the first half of 2012, the main interest rates in pesos exhibited a gradual fall which, paired with reduced volatility, helped lessen the potential impact on the financial system balance sheet in terms of interest rate risk. From moderate levels, the minimum capital requirement for this risk got smaller in all groups of banks (see Chart V.21). Particularly, this requirement reached 10.6% of total financial system's capital requirement (6.8% of total capital compliance), evidencing a drop against the end of 2011. Financial intermediation transactions in pesos with no CER-adjustment led the reduction in the minimum capital legal requirement mainly (see Chart V.22). It has been estimated that the drop in the economic value of the banking book portfolio, taking into account an increase of 100 b.p. in interest rates, would amount to about \$700 million for the aggregate system, i.e., less than 1% of total capital compliance (by late 2011, this sensitivity equaled 1.8% of capital compliance).

The mismatching of the financial system's CER-adjusted headings dropped once again over the period



Banks kept a low exposure to real interest rate risk. Upon the reduction in CER-adjusted assets within a context of balance sheet growth, there was a drop in positive mismatching between assets and liabilities adjusted by such coefficient of the financial system. As at June 2012 this mismatching amounted to 32% of the net worth, 5 p.p. less than in 2011 (see Chart V.23). Such mismatching is mainly accounted for by public banks.

V.5 Market risk

In the first half of 2012, market risk exposure stood at low levels

Market risk had a low weighting in the balance of risks of the financial system. In line with this, the minimum capital requirement for this risk closed the first half of the year with low levels, equivalent to 2.3% of total capital requirement or 1.4% of total capital compliance. Within this context, the requirement had, on average, a similar level to that recorded in the second half of 2011 (see Chart V.24).

With respect to the levels verified at the end of 2011, an increase of the requirement related to market risk derived from national bonds⁸⁶ was observed. The higher capital requirement derived from national bonds was in line with the increase in the banks' portfolio of marked-to-market instruments, mainly reflected on LEBAC holdings (see Chart V.25). In the period under analysis, these instruments gained a share of 24 p.p. in the total stock of securities, until reaching 44.5% of the total.

On the other hand, volatilities of the main sovereign bonds and BCRA bills and notes in banks' portfolio exhibited a reduction over the period, moderating the rise in the market risk requirement.

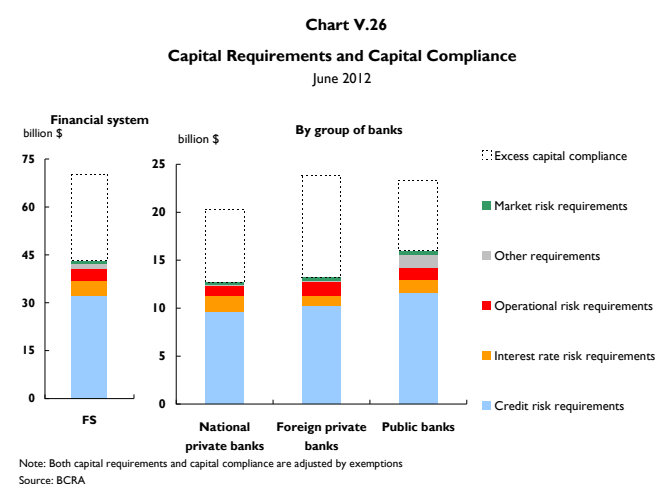
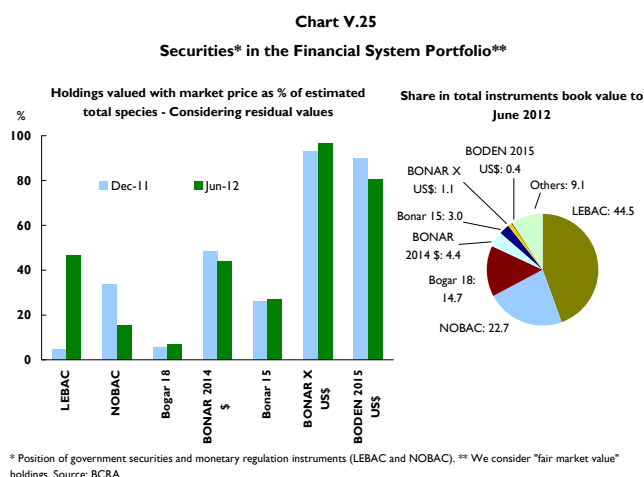
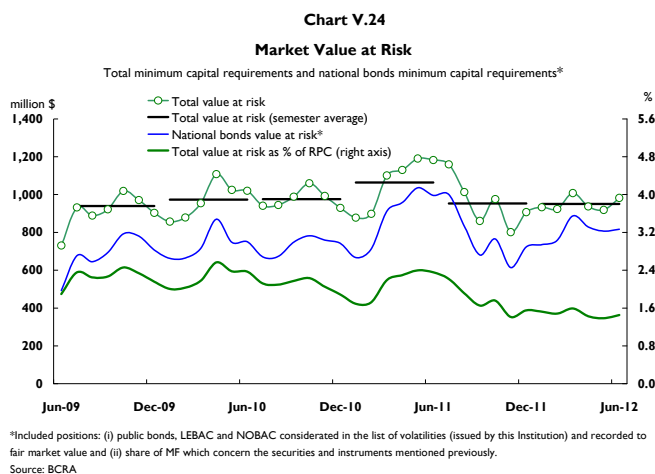
V.6 Operational risk

In 2012, the minimum capital requirement was introduced to cover the operational risk faced by financial institutions

In accordance with Basel recommendations, the BCRA has established a new capital requirement to cover the operational risk faced by financial institutions⁸⁷. This requirement equals 15% of average positive gross income recorded over the last three years. Its application

⁸⁶ Consolidated positions: (i) government securities and instruments issued by the Central Bank included on the volatility listing published by this Institution, recorded at fair value, and (ii) mutual funds quota shares when they are based on securities and instruments mentioned in the previous point.

⁸⁷ Communication "A" 5272



started gradually during the first part of the year, and it is estimated to be fully completed by the end of 2013 (see Chapter IV).

The purpose of this measure is to enable banks to have sufficient reserves to absorb losses originated in process, personnel and system failures, or attributable to external events. Although coverage includes legal risk, strategic or reputational risks are not included.

The financial system increased its exposure to operational risk, from moderate levels recorded previously

In the first half of 2012 there was an increase in the relevance of gross income in terms of aggregate financial system assets. Positive performance of net income derived from bank interests (see Chapter IV), within a context of some expansion of interest rate spreads and a growing credit expansion, boosted a rise in the sector's gross income.

By mid-2012, the capital regulatory requirement related to operational risk accounted for 8.8% of total capital requirement and 5.6% of total capital compliance for the financial system⁸⁸ (see Chart V.26). Compared to public banks, private banks exhibited a higher requirement weighting in relation to operational risk as opposed to total capital requirement.

⁸⁸ If the requirement were to be considered at a 100%, this ratio would amount to 12.3% of capital compliance.

Box 4 / Progress Made in the Identification and Supervision of Systemically Important Banks

The international dimension of the financial crisis undergone by central economies that began in late 2007, and its impact on the different economic agents of the private sector as well as on sovereign public finances, made it clear that there was a need of redesigning the regulatory and supervisory frameworks of financial institutions. Besides the new suggestions issued on regulatory matters (also known as Basel III), the establishment of an additional and specific treatment for significantly large institutions with high interconnectivity levels was internationally agreed upon. These types of institutions have risk taking preferential incentives, since they are generally marked by the so called “too-big-to-fail” phenomenon. Improvements made so far on the subject are related, on the one hand, to systemically important institutions at a global level; and on the other hand, to the size of the institutions in terms of the financial system of each country

One of the lessons learned from the international crisis was that possible financial difficulties faced by systemic institutions may adversely affect the financial stability and economic activity of a large number of countries. With this in mind, after a period of analysis and discussion, in November 2011, the Basel Committee on Banking Supervision (BCBS) published a methodology⁸⁹ aimed at identifying Global Systemically Important Banks —G-SIBs—. In order to determine a bank’s systemic importance, the impact of its bankruptcy can generate on the financial (and payment) level was taken into account, but not the risk or probability of its occurrence.

The methodology used to identify G-SIBs is based on an indicator-based measurement approach. The selected indicators are chosen to reflect the different aspects of what generates negative externalities and makes a bank critical for the stability of the financial system. The dimensions set forth to measure the bank’s impact are: 1) size; 2) existing interconnections with other agents (consisting of: intra-financial system assets, intra-financial system liabilities and wholesale funding ratio); 3) substitutability of the services provided (assets under custody⁹⁰, settled payments and aid in the underwriting

of instruments in debt and equity markets); 4) cross-jurisdictional activity (cross-jurisdictional claims and liabilities); and 5) complexity of their businesses (OTC derivatives notional value, level 3 assets⁹¹ and financial assets held for trading and available for sale).

With these variables, the BCBS carried out in 2011 the first empirical analysis (with data collected in 2009), and produced a score for all banks included in the sample under analysis⁹². Based on the clustering of scores produced by the methodology, banks were allocated into buckets (bucketing approach) according to their scores of systemic importance. Based on these results, each group of banks will have an additional regulatory capital requirement apart from the one set forth within the Basel III framework, falling within 1% and 2.5% of risk-weighted assets⁹³ to be met with common equity, which will increase its loss absorbency capacity⁹⁴.

Based on the results of applying the methodology, banks with a higher global systemic impact —i.e., those with higher trial scores—, will have higher regulatory requirements. The additional capital requirements give banks incentives to reduce their systemic importance (or at least, prevent them from becoming more systemically important) and, thus, to be in line with regulators’ incentives that seek to lessen the “too-big-to-fail” phenomenon.

The additional capital requirement will be phased-in starting in 2016, becoming fully effective in 2019. It is worth mentioning that it will be applied to banks identified as G-SIB in the empirical analysis to be carried out in 2014 (that will have similar characteristics to the preliminary one carried out in 2011) and that will be updated on a regular basis.

⁹¹ Illiquid assets which cannot be assigned a reasonable value and that require the use of estimations.

⁹² For the sake of this exercise, 73 of the world’s largest banks were chosen.

⁹³ The BCBS set a tentative cut-off point, based on the clustering of scores produced by the methodology, below which banks were not required to comply with the additional regulatory requirement. Banks included in the buckets were the ones with scores above the cut-off point, initially 29 banks were included in 2011 —17 European, 8 American and 4 Asian—. After grouping the banks in the different buckets, an empty bucket was added on top with a 3.5% requirement to provide incentives for banks to avoid becoming more systemically important.

⁹⁴ The Basel Committee emphasizes that the additional loss absorbency requirement set out above is the minimum level. If national jurisdictions wish to impose a higher requirement to their banks, they are free to do so.

⁸⁹ “Global systemically important banks: assessment methodology and the additional loss absorbency requirement”, Rules Text, BIS, November 2011.

⁹⁰ Customers’ securities held in custody (e.g. from investment and insurance companies) whose principal and interest are reimbursed through depository banks.

Once the methodology to assess G-SIBs was developed, and the implementation terms for the new requirement were also set forth, by the end of 2011 the G20 prompted the Financial Stability Board (FSB) to define the methods to quickly extend such analysis to the systemically important banks of each country. Hence, during the first part of 2012, the assessment methodology for Domestic Systemically Important Banks (D-SIB)⁹⁵ was studied and disclosed.

D-SIB analysis seeks to lessen any potentially negative impact on the financial stability and the real sector of a specific country, when faced with financial stress scenarios of banks identified as domestic systemically important ones. Given the peculiarities of each financial system, an agreement was reached in order to offer better national discretionary powers in terms of D-SIB. This contrasts with the analysis of G-SIBs that uses an indicator-based approach. A set of general guidelines or principles was disclosed to establish the outlines for D-SIBs that each country would have to adapt to their own context and priorities. It was agreed that the regulatory authorities of each country should establish a methodology to assess domestic financial institutions to determine if they are systemically important, taking into account their potential impact on the economy if such institutions were to fail. The approach used for such analysis will be based on the activity carried out by the banks in each country, although those economies housing head offices of financial groups with an international scope will have to include the whole group in the analysis. In that case, not only domestic activity, but also that of their international branches will have to be included since, if any of such branches were to undergo financial distress, the head office has high probability of being affected as well.

In order to assess D-SIBs, the BCBS suggests monitoring the categories used within the framework of G-SIBs, but leaving aside the indicator-based measurement approach. Particularly, interconnectedness with other domestic operators, substitutability of services provided, complexity of their activity and size of the institution, which are all variables that would help evidence the potential effect of banks within each financial system. In the specific case of substitutability, banking sector's concentration issues are also elements that should be taken into account, since they reflect the infrastructure of each country's sector. Moreover, in the last decades, as a result of several factors, such as financial deregulation, technological innovations, financial services globalization, among others, there is a

worldwide trend towards a higher concentration in financial markets. It is worth mentioning that financial institutions with similar characteristics in terms of size may have different impacts depending on the characteristics of the markets where they operate. They may be considered systemically important in a country with a highly concentrated market, however, in a more diversified financial system, they would not be categorized as such.

Likewise, national authorities will have the power to include other specific variables related to their economies, such as the size of banks in terms of GDP. And this leads us to a similar situation as the one discussed above for concentration, where financial institutions may have similar sizes in terms of assets, however, they may prove to have huge differences in terms of share of GDP among countries. Thus, it would generate a much bigger impact in the case of the fall of an entity that is deeper in the economy. Moreover, the financial systems importance, taken as a whole, tends to have significant differences in the product of emerging and developed economies, having a significantly lower weight in the former.

Potential financial crises may highly affect companies and families in developed countries, whereas the opposite may be observed in economies with mid- or small-sized financial systems.

This assessment on D-SIB will have to be regularly updated in order to reflect the structural evolution of financial systems. Countries are also advised to publish information on the methodology used to assess their banks systemic importance in order give them incentives to reduce—or at least not to increase—the systemic risk they pose on the economy. The BCBS suggests that the criteria used to determine additional loss absorbency requirements on D-SIB—to be met with common equity—be duly documented by each country. There is a reason for this, since if strong discrepancies among countries were to take place when assessing banks with similar characteristics, the BCBS would be able to analyze both methodologies. Also, additional requirements should be in line with the degree of systemic importance of the D-SIB; i.e., the greater the systemic importance of the institution in the country, the higher the requirements should be (similar approach to that of G-SIBs). Lastly, there should be consistency across requirements of additional capital imposed on G-SIBs and D-SIBs, in case one institution meets both criteria.

⁹⁵ Consultative document - "A framework for dealing with domestic systemically important banks", June 2012, BIS

To sum up, the analysis of D-SIBs to be implemented in the next few years⁹⁶ will have to take into account the intrinsic factors of each economy, and supplement the improvements achieved in terms of G-SIBs. In emerging economies, which are usually characterized by low levels of financial intermediation in terms of GDP and limited access to financial services, regulatory treatment of systemic banks will have to be compatible with the objective of achieving a greater financial depth, essential condition to boost economic development over the next few years.

⁹⁶ In theory, starting in 2016, the same as G-SIBs.

VI. Payment System

Summary

The use of electronic means of payment showed a positive performance, thus contributing to deepen and diversify such instruments as enable to conduct more secure and effective transactions in the economy. Nevertheless, money in circulation held by the public remains the predominant means of payment.

In 2012 banking transfers exhibited a favorable development with an increase in the number of transactions and greater predominance in terms of volume. This progress was prompted, in particular, by immediate transfers, an option launched in April 2011 aimed at crediting funds online. The amount of these transactions rose 81.1% y.o.y. in August 2012, mainly channeled through home banking (in the case of households) and business internet banking.

In 2012 the availability of credit and debit cards in terms of population continued exhibiting a growing trend. The rise in cards was spurred by private banks. Moreover, direct debit (mainly related to the payment of services such as energy, gas, social security charges, credit cards, among others) continued expanding.

Since February 2012 Social Security Accounts have started to be regulated in addition to the regulations on Wage Accounts already implemented. By the end of 2010 the Central Bank created the Free Universal Bank Account (CGU) for the population falling outside the

scope of banking services. Currently, wage accounts, retirement accounts, social plans, and CGU, which allow beneficiaries to have access to means of payment and/or transfers of funds free of charge, stand for around 60% of the stock of accounts and have a positive impact on the participation of population in banking services, and the expansion of electronic transfers.

Checks continued to be highly used as a means of payment, although their relative relevance slightly decreased over the period. In the first half of the year, the number of checks cleared through clearing houses decreased in comparison to the levels recorded in the last two 6-month periods. Partly, this reduction could be associated to the growing expansion of electronic payment systems. In turn, the ratio of bounced checks for non-sufficient funds in terms of total cleared amounts has been experiencing a downward trend in the last few months.

In the first half of the year, the number of transactions executed in pesos through the Electronic Means of Payment (MEP)—high-value payment system—showed a slight drop with respect to the previous semester, even though it recorded a y.o.y. increase.

Chart VI.1
Immediate Transfers*

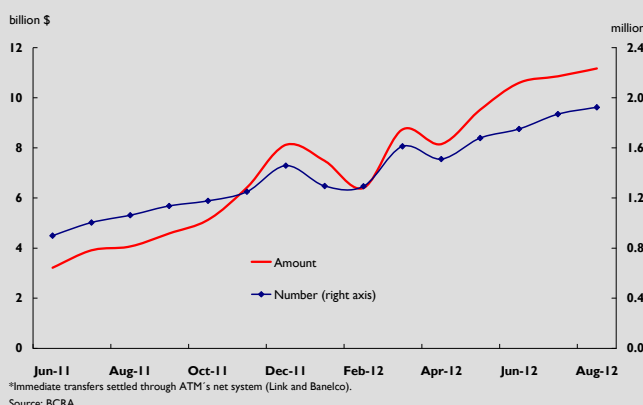
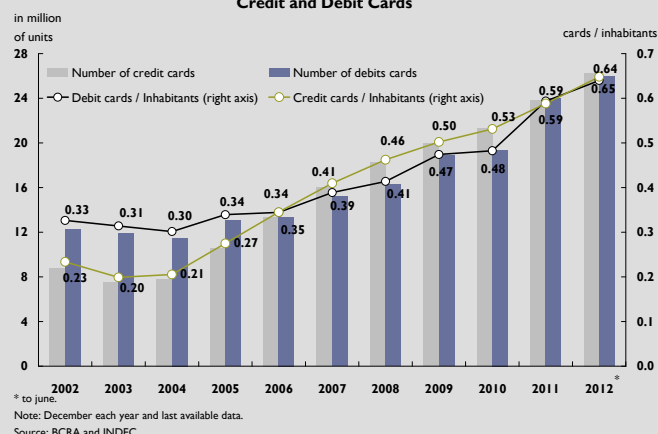


Chart VI.2
Credit and Debit Cards



VI.1 The National Payment System

Electronic means of payment have exhibited a significant growth

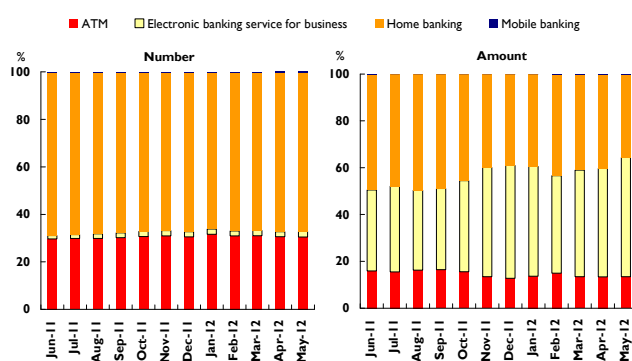
The National Payment System (SNP) has continued consolidating as from the development of the means of payment that ensure more dynamic, secure and efficient transactions. In this framework, electronic means of payment, an alternative to cash and checks, exhibited good performance.

Bank transfers have evidenced positive development over the year⁹⁷. The monthly average number of transfers conducted at the beginning of 2012 increased 1.7% vis-à-vis the second half of last year. In this period, the amount of transfers also exhibited a slight increase in terms of GDP, edging up 21.6% annualized. This improvement results from immediate transfers, an instrument established by the Central Bank in April 2011⁹⁸ aimed at crediting funds online.

The number of immediate transfers recorded a 81.1% y.o.y. rise in August 2012 (latest information available), and a 175% y.o.y. rise in terms of amounts (latest information available) (see Chart VI.1). These transactions gained share in total transfers⁹⁹, virtually reaching 40%. In the first half of 2012, most immediate transfers were carried out through home banking (almost two thirds of the total quantity), while corporate participation in this kind of transactions increased in terms of amounts (see Chart VI.3).

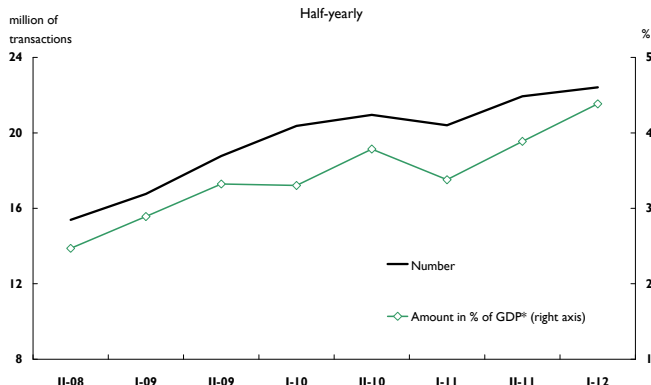
The increasing development of electronic means of payment is further signaled by a rise in the number of credit and debit cards in the domestic market. In the first half of 2012 the number of bank credit cards rose 10.5%, a dynamic mainly explained by private banks that accumulated 79% of total cards in circulation. In addition, debit cards increased 8.1% in the same period, which is further accounted for, to a greater extent, by private financial institutions. The number of bank credit and debit cards in terms of population climbed if compared to last year (see Chart VI.2). This tendency is further strengthened when credit cards issued by non-bank institutions are taken into account (see Box 2).

Chart VI.3
Immediate Transfer by Channel
Share % in total



Source: BCRA

Chart VI.4
Direct Debits
Half-yearly

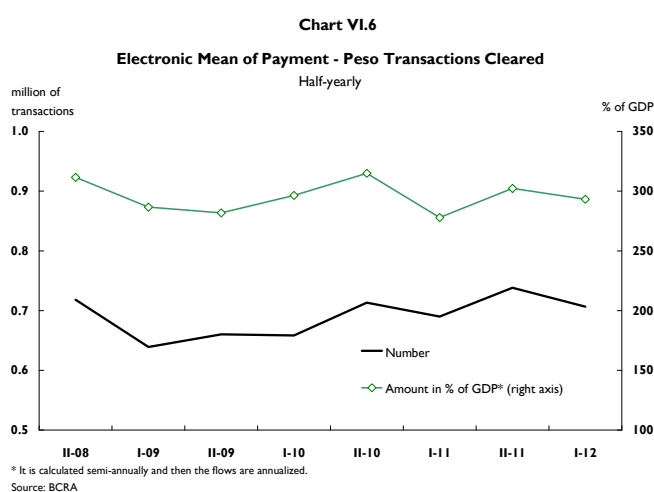
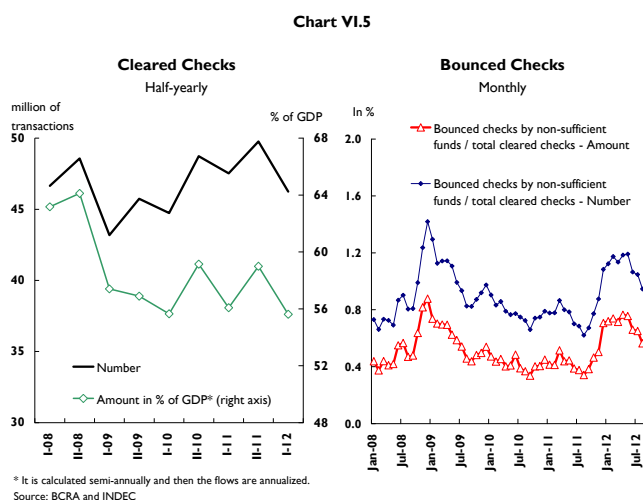


* It is calculated semi-annually and then the flows are annualized.
Source: BCRA and INDEC.

⁹⁷ Transactions conducted through the “High Value Payment System” are excluded.

⁹⁸ Communication “A” 5194 dated 03/18/11. Authorized payment channels are electronic: ATMs, home banking, mobile banking and corporate Electronic Banking (BEE). The limit on ATMs transactions amounts to \$10,000 per day, and to \$50,000 for Internet transactions; however, financial institutions may raise such limits.

⁹⁹ Idem note 1.



Direct debits (mainly related to the payment of services such as energy, gas, social security charges, credit cards, among others) by companies and households continued growing. In the first half of 2012, the number of transactions channeled through direct debit surpassed 22 million, increasing 9.9% y.o.y. The amount of automatic debits accumulated in the period accounted for 4.4% of the GDP in annualized terms and stood over the figures recorded in previous years (see Chart VI.4). Thus, this mechanism, though starting from low levels, continued gaining depth as a means of payment in the economy.

Checks as a means of payment continued playing an important role, even though showing a slight decrease in the margin. In the first half of the year, the number of documents cleared fell vis-à-vis the last two half-yearly periods (see Chart VI.5). In this sense, the amount of cleared checks in terms of the GDP further dropped to a slight extent in the period. This could be partly explained by a wider use of electronic means of payment. In the last few months the ratio of bounced checks for non-sufficient funds in terms of the total cleared—both in terms of number and amounts—experienced a gradual slowdown.

High value transactions slightly decreased in the first half of 2012

In the first half of 2012 the number of transactions carried out through the Electronic Means of Payment (MEP)—a high value payment system—dropped 4.3% if compared to the second half of 2011, even though its accumulated growth reached 2.4% vis-à-vis the same period of 2011 (see Chart VI.6). In terms of the GDP, the total amount of payments channeled through the MEP showed a comparable behavior.

VI.2 Payment System Modernization

The BCRA continues implementing instruments in order to boost households and companies participation in banking services and make payments more dynamic in the economy

A stimulus for enhancing the participation of population in the banking services contributes towards the development of the National Payment System. In particular, since February 2012 Social Security Accounts have been regulated¹⁰⁰. These accounts are free of charge and opened by the ANSES on behalf of each retiree and pensioner in the country for collecting money from the Social Security. This measure was

¹⁰⁰ Communication “A” 5284.

implemented in addition to the regulations on Wage Accounts laid down in 2010.

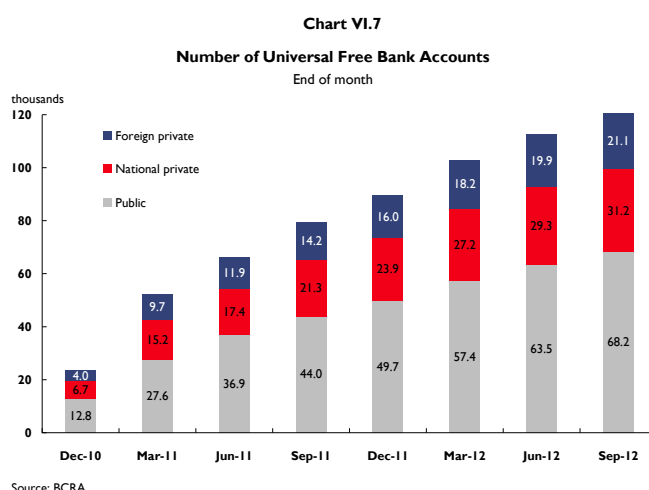
By the end of 2010, the BCRA created the Free Universal Bank Account (CGU) for the purpose of enlarging the access of population to banking services. The performance of this instrument has been improving since its implementation with a meaningful relative participation of public banks (see Chart VI.7), amounting to 120,525¹⁰¹ account holders by the end of September 2012. Currently, wage accounts, retirement accounts, social plans, and CGU, which allow beneficiaries to have access to means of payment and/or transfers of funds free of charge, stand for around 60% of the stock of accounts and have a positive bearing on the participation of population in banking services, and the expansion of electronic transfers.

In the same sense, the Central Bank re-launched in 2010 the settlement check, a useful instrument for conducting high amount transactions with a view to discouraging the use and transportation of cash, and making transactions more secure. From its re-launching to August 2012, the volume of settlement checks in pesos peaked \$184 million, amounting to US\$248 million in foreign currency.

The BCRA enlarged its regulatory and supervisory scope as to the National Payment System

The amendment of section 4° of the Central Bank's Charter broadens its regulatory and supervisory scope in order to preserve the conditions for achieving financial stability. In particular, according to the provisions of paragraph g) of the said section, the Central Bank is in charge of regulating, within its authority, of money remittance institutions and cash-in-transit companies.

Since the amendment of its Charter, the Central Bank has been working on the formulation of an appropriate regulatory framework which may allow to monitor and supervise the functioning of the foregoing companies on the basis of the business they carry out at home and abroad, in line with the rules and regulations issued by other competent authorities.



¹⁰¹ Out of which, approximately 19,366 accounts are undergoing a validation process, until requirement compliance by applicants is totally verified..

Statistics Annex – Financial System

Chart 1 | Financial Soundness Indicators

As %	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Jun 11	Dec 11	Jun 12
1.- Liquidity	20.1	22.5	23.0	27.9	28.6	28.0	24.5	24.7	24.7
2.- Credit to the public sector	31.5	22.5	16.3	12.7	14.4	12.2	10.8	10.2	9.6
3.- Credit to the private sector	25.8	31.0	38.2	39.4	38.3	39.8	42.8	47.4	48.0
4.- Private non-performing loans	7.6	4.5	3.2	3.1	3.5	2.1	1.7	1.4	1.7
5.- Net worth exposure to the private sector	-2.5	-0.8	-1.5	-1.7	-1.3	-3.2	-3.7	-4.3	-3.4
6.- ROA	0.9	1.9	1.5	1.6	2.3	2.8	2.5	2.7	2.8
7.- ROE	7.0	14.3	11.0	13.4	19.2	24.4	23.3	25.3	25.0
8.- Efficiency	151	167	160	167	185	179	171	179	185
9.- Capital compliance	15.3	16.9	16.9	16.9	18.8	17.7	16.6	15.6	16.6
10.- Capital compliance Tier I	14.1	14.1	14.6	14.2	14.5	13.1	12.9	10.9	13.4
11.- Excess capital compliance	173	134	93	90	100	86	73	63	62

Source: BCRA

Chart 2 | Balance Sheet

In million of current pesos	Dec 08	Dec 09	Dec 10	Jun 11	Dec 11	Jun 12	Change (in %)	
							Half-yearly	Annual
Assets	346,762	387,381	510,304	569,837	628,381	688,277	9.5	20.8
Cash disposal ¹	58,676	71,067	93,085	95,782	104,389	108,869	4.3	13.7
Public bonds	65,255	86,318	117,951	128,130	112,906	128,555	13.9	0.3
Lebac/Nobac	37,093	43,867	76,948	89,633	71,050	92,135	29.7	2.8
Portfolio	25,652	34,748	61,855	78,316	59,664	73,463	23.1	-6.2
Repo ²	11,442	9,119	15,093	11,317	11,386	18,673	64.0	65.0
Private bonds	203	307	209	238	212	232	9.5	-2.6
Loans	154,719	169,868	230,127	274,698	332,317	367,977	10.7	34.0
Public sector	17,083	20,570	25,907	29,342	31,346	34,008	8.5	15.9
Private sector	132,844	145,247	199,202	238,910	291,708	324,131	11.1	35.7
Financial sector	4,793	4,052	5,018	6,446	9,263	9,837	6.2	52.6
Provisions over loans	-4,744	-5,824	-6,232	-6,425	-7,173	-8,196	14.3	27.6
Other netted credits due to financial intermediation	38,152	33,498	39,009	38,674	40,805	43,187	5.8	11.7
Corporate bonds and subordinated debt	912	1,146	1,433	1,819	1,657	1,654	-0.1	-9.1
Unquoted trusts	5,714	5,942	6,824	7,088	7,967	8,185	2.7	15.5
Leasing	3,935	2,933	3,936	4,893	6,222	6,282	1.0	28.4
Shares in other companies	7,236	6,711	7,921	8,059	9,123	10,285	12.7	27.6
Fixed assets and miscellaneous	7,903	8,239	9,071	9,478	10,111	10,369	2.6	9.4
Foreign branches	3,153	3,926	3,283	3,481	3,525	3,958	12.3	13.7
Other assets	12,275	10,337	11,943	12,828	15,944	16,759	5.1	30.6
Liabilities	305,382	339,047	452,752	508,780	558,264	608,478	9.0	19.6
Deposits	236,217	271,853	376,344	429,225	462,517	510,545	10.4	18.9
Public sector ³	67,151	69,143	115,954	127,036	129,885	137,590	5.9	8.3
Private sector ³	166,378	199,278	257,595	298,976	328,463	368,852	12.3	23.4
Current account	39,619	45,752	61,306	71,031	76,804	88,568	15.3	24.7
Savings account	50,966	62,807	82,575	97,444	103,636	113,092	9.1	16.1
Time deposits	69,484	83,967	104,492	119,003	135,082	153,444	13.6	28.9
Other netted liabilities due to financial intermediation	57,662	52,114	60,029	64,136	76,038	76,415	0.5	19.1
Interbanking obligations	3,895	3,251	4,201	5,414	7,947	8,362	5.2	54.5
BCRA lines	1,885	270	262	781	1,920	2,987	55.5	282.2
Outstanding bonds	5,984	5,033	3,432	5,897	6,856	8,102	18.2	37.4
Foreign lines of credit	4,541	3,369	3,897	4,966	6,467	6,912	6.9	39.2
Other	13,974	14,891	17,426	19,394	24,137	19,573	-18.9	0.9
Subordinated debts	1,763	1,922	2,165	1,851	2,065	2,484	20.3	34.2
Other liabilities	9,740	13,159	14,213	13,569	17,644	19,034	7.9	40.3
Net worth	41,380	48,335	57,552	61,057	70,117	79,799	13.8	30.7
Memo								
Netted assets	321,075	364,726	482,532	543,244	601,380	658,973	9.6	21.3
Consolidated netted assets	312,002	357,118	472,934	532,167	586,805	643,015	9.6	20.8

(1) Includes margin accounts with the BCRA. (2) Booked value from balance sheet (it includes all the counterparties). (3) Does not include accrual on interest or CER.

Source: BCRA

Methodological note (chart 1)

1.- (Minimum cash compliance at the BCRA + Other cash holding + Financial entities net credit balance by Lebac and Nobac repo operations against the BCRA) / Total deposits; **2.-** (Public bonds position (without LEBAC and NOBAC) + Loans to the public sector + Compensation receivable) / Total assets; **3.-** (Loans to the private sector + Leases) / Total assets; **4.-** Non-performing loans to the non-financial private sector / Loans to the non-financial private sector; **5.-** (Total nonperforming private sector financing – Private sector financing loss provisions) / Net worth. The non-performing loans includes loans classified in situation 3,4,5 and 6; **6.-** Accumulated annual results / Average monthly netted assets - % Annualized; **7.-** Accumulated annual results / 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) / 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 I / Risk weighted assets, according to the BCRA rule on minimum capital; **11.-** (Capital compliance minus requirements, included forbearances) / Capital requirements.

Statistics Annex – Financial System (cont.)

Chart 3 | Profitability Structure

Amount in million of pesos	Annual				Half Year			Change (in %)	
	2008	2009	2010	2011	HI-11	HII-11	HI-12	HI-12 / HII-11	HI-12 / HI-11
Financial margin	20,462	28,937	35,490	43,670	19,202	24,468	28,449	16.3	48.2
Net interest income	9,573	14,488	17,963	24,903	10,720	14,183	17,975	26.7	67.7
CER and CVS adjustments	2,822	1,196	2,434	1,725	881	843	913	8.2	3.6
Foreign exchange price adjustments	2,307	2,588	2,100	3,025	1,430	1,595	1,546	-3.0	8.1
Gains on securities	4,398	11,004	13,449	14,228	6,454	7,774	8,055	3.6	24.8
In national currency	4,543	8,869	12,985	13,427	99	7,401	7,186	-2.9	7,132.8
In foreign currency	-145	2,136	465	801	175	372	869	133.2	396.4
Other financial income	1,362	-339	-457	-211	-284	73	-40	-154.7	-85.9
Service income margin	10,870	13,052	16,089	21,391	9,853	11,538	12,931	12.1	31.2
Loan loss provisions	-2,839	-3,814	-3,267	-3,736	-1,623	-2,113	-2,677	26.7	64.9
Operating costs	-18,767	-22,710	-28,756	-36,365	-16,991	-19,374	-22,388	15.6	31.8
Tax charges	-2,318	-3,272	-4,120	-6,047	-2,649	-3,398	-4,024	18.4	51.9
Adjust. to the valuation of government securities ¹	-1,757	-262	-214	-336	-191	-144	-163	13.1	-14.6
Amort. payments for court-ordered releases	-994	-703	-635	-290	-135	-154	-89	-42.0	-34.0
Other	1,441	918	2,079	2,963	1,466	1,497	1,370	-8.5	-6.5
Total results before tax ²	6,100	12,145	16,665	21,251	8,930	12,321	13,408	8.8	50.1
Income tax	-1,342	-4,226	-4,904	-6,531	-2,509	-4,022	-4,590	14.1	83.0
Total results²	4,757	7,920	11,761	14,720	6,421	8,298	8,818	6.3	37.3
Adjusted results ³	7,508	8,885	12,610	15,345	6,748	8,597	9,071	5.5	34.4
Annualized indicators - As % of netted assets								change in p.p.	
Financial margin	6.7	8.6	8.5	8.0	7.5	8.5	9.0	0.4	1.5
Net interest income	3.1	4.3	4.3	4.6	4.2	5.0	5.7	0.7	1.5
CER and CVS adjustments	0.9	0.4	0.6	0.3	0.3	0.3	0.3	0.0	-0.1
Foreign exchange price adjustments	0.8	0.8	0.5	0.6	0.6	0.6	0.5	-0.1	-0.1
Gains on securities	1.4	3.3	3.2	2.6	2.5	2.7	2.5	-0.2	0.0
Other financial income	0.4	-0.1	-0.1	0.0	-0.1	0.0	0.0	0.0	0.1
Service income margin	3.6	3.9	3.8	3.9	3.8	4.0	4.1	0.0	0.2
Loan loss provisions	-0.9	-1.1	-0.8	-0.7	-0.6	-0.7	-0.8	-0.1	-0.2
Operating costs	-6.1	-6.7	-6.9	-6.7	-6.6	-6.8	-7.0	-0.3	-0.4
Tax charges	-0.8	-1.0	-1.0	-1.1	-1.0	-1.2	-1.3	-0.1	-0.2
Adjust. to the valuation of government securities ¹	-0.6	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0
Amort. payments for court-ordered releases	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1	0.0	0.0	0.0
Other	0.5	0.3	0.5	0.5	0.6	0.5	0.4	-0.1	-0.1
Monetary results	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total results before tax ²	2.0	3.6	4.0	3.9	3.5	4.3	4.2	-0.1	0.7
Income tax	-0.4	-1.3	-1.2	-1.2	-1.0	-1.4	-1.4	0.0	-0.5
ROA²	1.6	2.3	2.8	2.7	2.5	2.9	2.8	-0.1	0.3
ROA adjusted ³	2.5	2.6	3.0	2.8	2.6	3.0	2.9	-0.1	0.2
ROE before tax ²	17.2	29.5	34.5	36.5	32.3	40.2	38.1	-2.1	5.7
ROE ²	13.4	19.2	24.4	25.3	23.3	27.1	25.0	-2.0	1.8

(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	Jun 11	Dec 11	Jun 12
Non-performing loans (overall)	5.2	3.4	2.7	2.7	3.0	1.8	1.5	1.2	1.5
Provisions / Non-performing loans	115	108	115	117	115	148	160	176	150
(Total non-performing - Provisions) / Overall financing	-0.8	-0.3	-0.4	-0.5	-0.5	-0.9	-0.9	-0.9	-0.7
(Total non-performing - Provisions) / Net worth	-2.6	-0.9	-1.6	-1.8	-1.7	-3.6	-4.1	-4.6	-3.5
Non-performing loans to the non-financial private sector	7.6	4.5	3.2	3.1	3.5	2.1	1.7	1.4	1.7
Provisions / Non-performing loans	115	108	114	116	112	143	155	171	148
(Total non-performing - Provisions) / Overall financing	-1.1	-0.3	-0.5	-0.5	-0.4	-0.9	-0.9	-1.0	-0.8
(Total non-performing - Provisions) / Net worth	-2.5	-0.8	-1.5	-1.7	-1.3	-3.2	-3.7	-4.3	-3.4

Source: BCRA

Statistics Annex – Private Banks

Chart 5 | Financial Soundness Indicators

As %	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Jun 11	Dec 11	Jun 12
1.- Liquidity	21.5	23.7	25.7	34.1	29.8	26.0	25.4	26.7	27.5
2.- Credit to the public sector	28.5	16.3	9.5	6.3	6.1	4.4	3.2	2.8	2.5
3.- Credit to the private sector	31.1	37.9	46.6	44.0	43.3	50.3	52.5	54.5	55.0
4.- Private non-performing loans	6.3	3.6	2.5	2.8	3.3	2.0	1.6	1.4	1.7
5.- Net worth exposure to the private sector	-0.4	-1.4	-2.0	-1.8	-1.6	-3.4	-3.9	-4.4	-3.3
6.- ROA	0.5	2.2	1.6	1.9	3.0	3.2	2.6	3.0	3.1
7.- ROE	4.1	15.3	10.9	15.2	22.9	24.5	22.1	25.6	26.0
8.- Efficiency	136	158	152	166	195	176	169	178	185
9.- Capital compliance	17.8	18.6	19.2	18.3	22.6	20.4	17.9	16.8	18.2
10.- Capital compliance Tier I	16.1	15.3	16.7	14.9	17.2	15.2	15.0	12.5	15.0
11.- Excess capital compliance	155	116	87	86	121	100	79	70	70

Source: BCRA

Chart 6 | Balance Sheet

In million of current pesos	Dec 08	Dec 09	Dec 10	Jun 11	Dec 11	Jun 12	Change (in %)	
							Half-yearly	Annual
Assets	208,888	229,549	280,025	320,983	364,122	390,073	7.1	21.5
Cash disposal ¹	37,044	43,562	49,730	54,500	58,877	65,187	10.7	19.6
Public bonds	29,552	47,949	48,903	50,638	50,055	52,805	5.5	4.3
Lebac/Nobac	23,457	31,575	34,422	36,952	34,246	42,880	25.2	16.0
Portfolio	12,858	27,413	31,148	31,438	23,908	30,813	28.9	-2.0
Repo ²	10,598	4,161	3,274	5,514	10,338	12,067	16.7	118.9
Private bonds	127	233	184	172	164	124	-24.3	-28.0
Loans	98,529	101,722	143,202	170,979	202,117	218,794	8.3	28.0
Public sector	6,249	1,694	1,625	1,286	1,215	1,359	11.8	5.7
Private sector	88,426	96,790	137,308	164,270	193,126	209,034	8.2	27.3
Financial sector	3,854	3,238	4,270	5,423	7,777	8,402	8.0	54.9
Provisions over loans	-2,871	-3,653	-3,926	-4,048	-4,574	-5,249	14.7	29.7
Other netted credits due to financial intermediation	25,265	21,258	20,241	25,291	29,338	28,082	-4.3	11.0
Corporate bonds and subordinated debt	699	734	757	965	796	783	-1.6	-18.8
Unquoted trusts	3,869	4,198	4,500	4,411	5,268	5,471	3.8	24.0
Leasing	3,451	2,569	3,519	4,381	5,452	5,420	-0.6	23.7
Shares in other companies	4,538	4,067	4,934	5,021	5,998	6,717	12.0	33.8
Fixed assets and miscellaneous	4,926	5,096	5,808	6,171	6,663	6,820	2.4	10.5
Foreign branches	-178	-202	-215	-225	-240	0	-	-
Other assets	8,505	6,946	7,646	8,102	10,271	11,372	10.7	40.4
Liabilities	182,596	198,438	243,766	283,975	321,123	340,762	6.1	20.0
Deposits	135,711	154,387	198,662	229,581	253,705	276,986	9.2	20.6
Public sector ³	19,600	17,757	23,598	29,124	27,664	31,806	15.0	9.2
Private sector ³	114,176	134,426	173,203	198,471	223,141	242,710	8.8	22.3
Current account	30,188	35,127	46,297	52,519	57,586	66,778	16.0	27.2
Savings account	32,778	40,999	53,085	63,330	66,891	69,177	3.4	9.2
Time deposits	46,990	54,058	67,568	75,307	89,924	97,756	8.7	29.8
Other netted liabilities due to financial intermediation	39,298	34,235	34,427	44,226	53,973	49,893	-7.6	12.8
Interbanking obligations	1,160	1,668	1,903	2,362	3,524	3,989	13.2	68.9
BCRA lines	649	41	57	193	456	602	32.1	212.1
Outstanding bonds	5,672	4,626	2,802	4,779	5,119	5,525	7.9	15.6
Foreign lines of credit	2,261	1,262	1,716	2,794	4,252	4,342	2.1	55.4
Other	11,125	12,015	13,849	15,394	19,059	15,611	-18.1	1.4
Subordinated debts	1,759	1,918	2,148	1,833	1,948	2,069	6.2	12.9
Other liabilities	5,828	7,897	8,528	8,335	11,497	11,813	2.7	41.7
Net worth	26,292	31,111	36,259	37,008	42,999	49,311	14.7	33.2
Memo								
Netted assets	192,074	216,100	267,364	303,658	344,101	371,325	7.9	22.3

(1) Includes margin accounts with the BCRA. (2) Booked value from balance sheet (it includes all the counterparties). (3) Does not include accrual on interest or CER.

Source: BCRA

Methodological note (chart 5)

1.- (Minimum cash compliance at the BCRA + Other cash holding + Financial institutions net credit balance by Lebac and Nobac repo operations against the BCRA) / Total deposits; **2.-** (Public bonds position (without LEBAC and NOBAC) + Loans to the public sector + Compensation receivable) / Total assets; **3.-** (Loans to the private sector + Leases) / Total assets; **4.-** Non-performing loans to the non-financial private sector / Loans to the non-financial private sector; **5.-** (Total nonperforming private sector financing – Private sector financing loss provisions) / Net worth. The non-performing loans includes loans classified in situation 3,4,5 and 6; **6.-** Accumulated annual results / Average monthly netted assets - % Annualized; **7.-** Accumulated annual results / 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) / 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 minus requirements, included forbearances) / Capital requirements.

Statistics Annex – Private Banks (cont.)

Chart 7 | Profitability Structure

Amount in million of pesos	Annual				Half Year			Change (in %)	
	2008	2009	2010	2011	HI-11	HII-11	HI-12	HI-12 / HI-11	HI-12 / HI-11
Financial margin	12,964	19,724	21,837	27,234	11,936	15,297	17,822	16.5	49.3
Net interest income	7,727	10,572	12,842	18,518	8,081	10,437	13,075	25.3	61.8
CER and CVS adjustments	651	185	244	288	144	144	160	11.3	10.9
Foreign exchange price adjustments	1,620	1,646	1,493	2,064	970	1,094	957	-12.5	-1.4
Gains on securities	1,637	7,343	7,464	6,358	2,907	3,450	3,548	2.8	22.0
In national currency	1,553	5,881	7,256	6,005	106	3,311	3,213	-3.0	2,924.5
In foreign currency	84	1,462	208	352	115	139	335	140.9	191.8
Other financial income	1,329	-22	-205	6	-166	172	82	-52.3	-149.5
Service income margin	7,632	9,198	11,345	15,243	6,955	8,288	9,314	12.4	33.9
Loan loss provisions	-1,863	-2,751	-2,253	-2,633	-1,143	-1,490	-1,890	26.9	65.4
Operating costs	-12,401	-14,807	-18,819	-23,821	-11,201	-12,621	-14,666	16.2	30.9
Tax charges	-1,715	-2,380	-2,927	-4,300	-1,897	-2,403	-2,884	20.0	52.0
Adjust. to the valuation of government securities ¹	-267	0	47	-40	-40	0	0	0.0	-100.0
Amort. payments for court-ordered releases	-688	-367	-441	-133	-62	-72	-51	-28.4	-16.8
Other	916	398	1,382	1,723	909	815	864	6.0	-4.9
Total results before tax ²	4,579	9,014	10,171	13,272	5,458	7,815	8,508	8.9	55.9
Income tax	-1,168	-3,001	-2,733	-4,293	-1,757	-2,536	-2,962	16.8	68.6
Total results²	3,412	6,014	7,438	8,980	3,701	5,279	5,546	5.1	49.9
Adjusted results ³	4,367	6,381	7,832	9,153	3,802	5,350	5,597	4.6	47.2
								change in p.p.	
Financial margin	7.3	9.8	9.3	9.0	8.4	9.5	9.9	0.5	1.6
Net interest income	4.4	5.3	5.5	6.1	5.7	6.5	7.3	0.8	1.6
CER and CVS adjustments	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Foreign exchange price adjustments	0.9	0.8	0.6	0.7	0.7	0.7	0.5	-0.1	-0.1
Gains on securities	0.9	3.7	3.2	2.1	2.0	2.1	2.0	-0.2	-0.1
Other financial income	0.8	0.0	-0.1	0.0	-0.1	0.1	0.0	-0.1	0.2
Service income margin	4.3	4.6	4.8	5.0	4.9	5.1	5.2	0.1	0.3
Loan loss provisions	-1.1	-1.4	-1.0	-0.9	-0.8	-0.9	-1.1	-0.1	-0.3
Operating costs	-7.0	-7.4	-8.0	-7.8	-7.9	-7.8	-8.2	-0.4	-0.3
Tax charges	-1.0	-1.2	-1.2	-1.4	-1.3	-1.5	-1.6	-0.1	-0.3
Adjust. to the valuation of government securities ¹	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amort. payments for court-ordered releases	-0.4	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.5	0.2	0.6	0.6	0.6	0.5	0.5	0.0	-0.2
Total results before tax ²	2.6	4.5	4.3	4.4	3.8	4.8	4.7	-0.1	0.9
Income tax	-0.7	-1.5	-1.2	-1.4	-1.2	-1.6	-1.7	-0.1	-0.4
ROA²	1.9	3.0	3.2	3.0	2.6	3.3	3.1	-0.2	0.5
ROA adjusted ³	2.5	3.2	3.3	3.0	2.7	3.3	3.1	-0.2	0.5
ROE before tax ²	20.4	34.4	33.5	37.8	32.6	42.6	39.9	-2.6	7.3
ROE ²	15.2	22.9	24.5	25.6	22.1	28.8	26.0	-2.7	3.9

(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 8 | Portfolio Quality

As percentage	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Jun 11	Dec 11	Jun 12
Non-performing loans (overall)	4.4	2.9	2.2	2.5	3.1	1.9	1.5	1.3	1.6
Provisions / Non-performing loans	103	114	123	119	116	144	155	168	146
(Total non-performing - Provisions) / Overall financing	-0.1	-0.4	-0.5	-0.5	-0.5	-0.8	-0.8	-0.9	-0.8
(Total non-performing - Provisions) / Net worth	-0.4	-1.4	-2.1	-1.9	-1.7	-3.4	-4.0	-4.4	-3.5
Non-performing loans to the non-financial private sector	6.3	3.6	2.5	2.8	3.3	2.0	1.6	1.4	1.7
Provisions / Non-performing loans	102	114	123	118	115	143	154	167	145
(Total non-performing - Provisions) / Overall financing	-0.1	-0.5	-0.6	-0.5	-0.5	-0.9	-0.9	-0.9	-0.8
(Total non-performing - Provisions) / Net worth	-0.4	-1.4	-2.0	-1.8	-1.6	-3.4	-3.9	-4.4	-3.3

Source: BCRA

Abbreviations and Acronyms

AEIRR: Annual Effective Internal Rate of Return

AFJP: *Administradora de Fondos de Jubilaciones y Pensiones.*

ANSES: *Administración Nacional de Seguridad Social.* National Social Security Administration.

APE: *Acuerdos Preventivos Extra-judiciales.* Preliminary out-of-court agreements.

APR: Annual Percentage Rate.

b.p.: basis points.

BADLAR: Interest rate for time deposits over one million pesos between 30 and 35 days for the average of financial institutions.

BCBA: *Bolsa de Comercio de Buenos Aires.* Buenos Aires Stock Exchange.

BCRA: *Banco Central de la República Argentina.* Central Bank of Argentina.

BIS: Bank of International Settlements.

BM: Monetary Base. Defined as money in circulation plus current account deposits in pesos by financial institutions in the BCRA.

Boden: *Bonos del Estado Nacional.* Federal Bonds.

Bogar: *Bonos Garantizados.* Guaranteed Bonds.

BoJ: Bank of Japan.

Bonar: *Bonos de la Nación Argentina.* Argentine National Bonds.

BOVESPA: São Paulo Stock Exchange.

CAMEL: Capital, Assets, Management, Earnings and Liquidity.

Cdad. de Bs. As.: *Ciudad de Buenos Aires.* Buenos Aires City.

CDS: Credit Default Swaps

CEC: *Cámaras Electrónicas de Compensación.* Electronic Clearing Houses.

CEDEM: *Centro de Estudios para el Desarrollo Económico Metropolitano.* Study Center for Metropolitan Economic Development.

CEDRO: *Certificado de Depósito Reprogramado.* Rescheduled Deposit Certificate.

CER: *Coeficiente de Estabilización de Referencia.* Reference Stabilization Coefficient.

CIMPRA: *Comisión Interbancaria para Medios de Pago de la República Argentina.*

CNV: *Comisión Nacional de Valores.* National Securities Commission

CPI: Consumer Price Index.

CPI Others: *CPI excluidos los bienes y servicios con alta estacionalidad, volatilidad o los sujetos a regulación o alto componente impositivo.* CPI excluded goods and services with high seasonal and irregular components, regulated prices or high tax components

Credit to the public sector: includes the position in government securities (excluding LEBAC and NOBAC), loans to the public sector and compensation receivable.

CVS: *Coeficiente de Variación Salarial.* Wage variation coefficient.

DGF: Deposit Guarantee Fund.

Disc: Discount bond.

EB: Executive Branch.

ECB: European Central Bank.

EMBI: Emerging Markets Bond Index.

EMI: *Estimador Mensual Industrial.* Monthly Industrial Indicator

EPH: *Encuesta Permanente de Hogares.* Permanent Household Survey.

Fed: Federal Reserve of US.

FOMC: Federal Open Market Committee (US).

FS: Financial Stability.

FSR: Financial Stability Report.

FT: Financial trust.

FUCO: *Fondo Unificado de Cuentas Corrientes Oficiales.* Unified Official Current Account Fund.

FV: Face value.

GDP: Gross Domestic Product.

HHI: Herfindahl-Hirschman Index.

IADB: Inter-American Development Bank.

IAMC: *Instituto Argentino de Mercado de Capitales.*

ICs: Insurance Companies.

IDCCB: *Impuesto a los Débitos y Créditos en Cuentas Bancarias.* Tax on Current Account Debits and Credits.

IFI: International Financial Institutions: IMF, IADB and WB.

IFS: International Financial Statistics.

IMF: International Monetary Fund.

INDEC: *Instituto Nacional de Estadísticas y Censos.* National Institute of Statistics and Censuses.

IndeR: *Instituto Nacional de Reaseguros.* National Institute of Reinsurance.

IPMP: *Índice de Precios de las Materias Primas.* Central Bank Commodities Price Index.

IPSA: *Índice de Precios Selectivo de Acciones.* Chile Stock Exchange Index.

IRR: Internal Rate of Return.

ISAC: *Índice Sintético de Actividad de la Construcción.* Construction Activity Index.

ISDA: International Swaps and Derivates Association.

ISSP: *Índice Sintético de Servicios Públicos.* Synthetic Indicator of Public Services.

Lebac: *Letras del Banco Central de la República Argentina.* BCRA bills.

LIBOR: London Interbank Offered Rate.

m.a.: Moving average.

M2: Currency held by public + quasi-monies + \$ saving and current accounts.

M3: Currency held by public + quasi-monies + \$ total deposits.

MAE: *Mercado Abierto Electrónico*. Electronic over-the-counter market.

MAS: Mutual Assurance Societies.

MC: Minimum cash.

MEC: Electronic Open Market.

MECON: Ministerio de Economía y Producción. Ministry of Economy and Production.

MEP: *Medio Electrónico de Pagos*. Electronic Means of Payment.

MERCOSUR: *Mercado Común del Sur*. Southern Common Market.

MERVAL: *Mercado de Valores de Buenos Aires*. Executes, settles and guarantees security trades at the BCBA.

MEXBOL: *Índice de la Bolsa Mexicana de Valores*. México Stock Exchange Index.

MF: Mutual Funds.

MIPyME: *Micro, Pequeñas y Medianas Empresas*. Micro, Small and Medium Sized Enterprises.

MOA: *Manufacturas de Origen Agropecuario*. Manufactures of Agricultural Origin.

MOI: *Manufacturas de Origen Industrial*. Manufactures of Industrial Origin.

MP: Monetary Program.

MR: Market rate.

MRO: *Main refinancing operations*.

MSCI: Morgan Stanley Capital International.

NA: Netted assets.

NACHA: National Automated Clearinghouse Association.

NBFI: Non-Bank Financial Institutions (under Central Bank scope)

NBFI : Non-Bank Financial Intermediaries (out of Central Bank scope)

NDP: National public debt.

NFPS: Non-financial national public sector's.

Nobac: *Notas del Banco Central*. BCRA notes.

NPS: National Payments System.

NW: Net worth.

O/N: Overnight rate.

OCT : *Operaciones Compensadas a Término*. Futures Settlement Round.

OECD: Organization for Economic Co-operation and Development.

ON: *Obligaciones Negociables*. Corporate bonds.

ONCCA: *Oficina Nacional de Control Comercial Agropecuario*

OS: *Obligaciones Subordinadas*. Subordinated debt.

P / BV : Price over book value.

p.p.: Percentage point.

Par: Par bond.

PGN: *Préstamos Garantizados Nacionales*. National Guaranteed Loans.

PF: Pension Funds.

PPP: Purchasing power parity.

PPS: Provincial public sector.

PS: Price Stability.

PV: Par Value.

q.o.q: quarter-on-quarter % change.

REM: BCRA Market expectation survey.

ROA: Return on Assets.

ROE: Return on Equity.

Rofex: Rosario Futures Exchange.

RPC: *Responsabilidad Patrimonial Computable*. Adjusted stockholder's equity, calculated towards meeting capital regulations.

RTGS: Real-Time Gross Settlement.

s.a.: Seasonally adjusted.

SAFJP: *Superintendencia de Administradoras de Fondos de Jubilaciones y Pensiones*. Superintendency of Retirement and Pension Funds Administrations.

SAGPyA: *Secretaría de Agricultura, Ganadería, Pesca y Alimentos*. Secretariat for agriculture, livestock, fisheries, and food.

SEDESA: *Seguro de Depósitos Sociedad Anónima*.

SEFyC: Superintendence of Financial and Exchange Institutions.

SIOPEL: *Sistema de Operaciones Electrónicas*. Trading software used on the over-the-counter market.

SME: Small and Medium Enterprises.

SSN: *Superintendencia de Seguros de la Nación*.

TA: *Adelantos transitorios del BCRA al Tesoro*. Temporary advances.

TD: Time Deposits.

TFC: Total financial cost.

TGN: *Tesorería General de la Nación*. National Treasury

UFC: Uniform Federal Clearing.

UIC: Use of Installed Capacity.

UK: United Kingdom.

US\$: United States dollar.

US: United States of America.

UTDT: Universidad Torcuato Di Tella.

VaR: Value at Risk.

VAT: Value added Tax.

WB: World Bank.

WPI: Wholesale Price Index.

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