

# SEDESA

Seguro de Depósitos S.A.

Annual Report and  
Financial Statements  
1997

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Annual Report and  
Financial Statements to 31/12/97



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# SEDESA

## SEGURO DE DEPÓSITOS SOCIEDAD ANÓNIMA

SEDESA is a private corporation whose creation was provided for by Decree N° 540/95 (Official Gazette 18.04.95) of the National Government Executive Branch, further amended by Decree N° 1292/96 (O.G. 18.11.96), having as sole and exclusive object the administration -as trustee- of the Deposit Insurance Fund created by Law N° 24.485 (O.G. 18.04.95).

The face value of SEDESA 's Capital Stock amounts to One million Pesos, each share being of One Peso face value. Its shareholders are the National Government and a trust agreement constituted by financial entities authorised to operate in the Argentine financial system wishing to be a part of said legal instrument. The National Government, through the Banco Central de la República Argentina, holds a Class "A" share. The remaining 999,999 shares are Class "B" and belong to the entities which are part of the trust in the proportion of the deposits that said entities hold annually.

SEDESA 's functions, as Administrator of the Deposit Insurance Fund, are as follows:

1. To make payable the amount of the guarantee coverage to the depositors, whenever it pertains according to the provisions of Decree N° 545/95 and its modifying and /or regulatory provisions;
2. It may also make capital contributions, non-reimbursable contributions or loans to:
  - 2.1 Entities subject to a regularization and restructuring plan.
  - 2.2 Entities which purchase assets and take charge of the payment of the deposits of another entity, when this were convenient to compensate the insufficiency of said assets with regard to the total amount of the deposits transferred.
  - 2.3 Entities which take-over or acquire financial entities, in the framework of a plan of regularization and restructuring.
3. In the case of entities which acquire assets and take charge of the payment of the deposits of another entity, to enter into a sale option contract in favour of the acquiring entity, with regard to the whole or part of the transferred assets.
4. To acquire deposits of suspended banks, surrogating itself in the rights of the depositors.
5. To assume obligations to be charged to the Deposit Insurance Fund.
6. To make, maintain or finance swap programmes with foreign banks with the purpose of contributing to the stability of the Argentine financial system.

The applicability of alternatives 2, 3 and 4 is decided by an "ad hoc" Steering Committee, a body in which the Banco Central de la República Argentina is represented.

The Deposit Insurance Fund belongs to the National Government, as well as the income proceeding from its investment. Said Fund is constituted by the obligatory assessments which all entities authorised to operate in the financial system contribute monthly.



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# COMPOSITION OF THE BOARD OF DIRECTORS AND OF THE SYNDIC'S COMMITTEE

## BOARD OF DIRECTORS

CHAIRMAN

Dr. José Carlos Jaime

VICE CHAIRMAN

Lic. Hernán del Villar

DIRECTOR

Dr. Juan Carlos Fossatti

ALTERNATE DIRECTORS

Dr. Juan Carlos Cassagne

Dr. Eduardo Javier Romero

## SYNDIC'S COMMITTEE

SYNDICS

Dr. Luis García Martínez

Cdor. Enzo Agustín Vivian

Dr. Carlos María Tombeur

ALTERNATE SYNDICS

Dr. Carlos Langbehn

Cdor. Eduardo Gabriel Ferrari

Lic. Daniel Tillard









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# SYSTEMS OF DEPOSIT PROTECTION

## A DOCUMENT OF THE INTERNATIONAL MONETARY FUND

In its publication "Towards a Framework of Financial Stability", the International Monetary Fund (IMF) made, in October 1997, a series of considerations regarding the Deposit Insurance Systems (DIS), the most relevant aspects of which may be thus synthesised:

Deposit insurance arrangements are designed to compensate some classes of depositors in case of individual bank failures. However, for this reason, deposit insurance schemes are prone to originate problems of "moral hazard" and need to be designed to contain such problems. Most effective schemes are therefore limited to protecting small depositors and do not cover large depositors and other creditors, including other banks, so as to create incentives for market discipline to have a positive effect towards the adoption of a prudential framework by the financial entities. The breadth of the insurance coverage, though, may vary depending on country specific circumstances, but it would remain subject to the constraint of containing "moral hazard".

The above mentioned document underlines that a deposit insurance system needs to be well-funded so that it has the resources to pay off insured depositors promptly and at the same time, allow the expeditious closure of insolvent members. As far as possible, the system should be self-financing; for this reason, the assessments to the insurance need to be high enough to cover the insurance cost of individual bank failures. Although it is desirable for assessments to vary according to the estimated risk the insurance fund assumes, in practice it is difficult to arrive at an objective measure of risk that can be used for this purpose, and, therefore, uniform premia remains, until today, the most common form of pricing.

In almost all countries, financial safety nets are considered an integral part of the financial infrastructure, so as to promote the stability of financial systems by enhancing confidence in the banking system. Most financial safety nets have two key elements, namely, a lender of last resort (LOLR), generally in charge of a central bank, and a deposit insurance system (DIS)<sup>1</sup>.

It must also be admitted that, if an excessive financial safety net is provided, there is the risk of undermining market discipline. To counteract this effect it is necessary to allow insolvent banks to fail. Furthermore, the cost of failure should first be borne by the bank's owners/shareholders, at least to the extent of their investment, and then by the bank's larger creditors. Small depositors may be protected under a DIS, when one exists, although in the case of a systemic crisis, broader deposit guarantees may

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1. As neither a lender-of-last resort (LOLR), nor a deposit insurance system (DIS) are under the formal purview of banking supervisors, the Basle Committee's "Core Principles for Effective Banking Supervision" are silent in these areas. Still, deposit insurance interacts with banking supervision.

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be offered. Furthermore, in an effective environment a failed bank's senior officers would be ousted<sup>2</sup>.

In such sense, it is widely agreed that the primary objective of a system of deposit insurance is to provide an insurance to small savers<sup>3</sup>, while avoiding at the same time the "moral hazard", for if this were not penalised, market discipline would be weakened. The protection of small depositors leaves large creditors at risk, a fact which, while increasing household confidence, help protect the payment system, and thus provide a measure of stability to the financial system. These objectives as well as the basic structure of the DIS, are conventionally defined in numerous laws and regulations.

Protecting deposits may also enable smaller and newly established banks to compete with larger, well-established banks that may be the beneficiaries of the guarantee which arises in an implicit way from the idea "too big to fall". Thus, it may help to counteract tendencies toward concentration in the banking industry, which in turn may make the banking system more competitive through the possibility of entry by new banks. While some countries have not yet enacted laws or regulations for resolving insolvent banks, the creation of a DIS makes it essential to have such instruments in place. Furthermore, a formal DIS that offers limited coverage can reduce government outlays when political considerations would otherwise compel the authorities to protect all the depositors of failed banks. In most cases, banks meet the cost of the DIS in normal times.

It is desirable that the DIS be sufficiently funded to deal with incidental bank failures, and that any disbursement of funds to depositors, should be executed without delay. Resources may be obtained "ex ante" by having banks contribute to a fund that accumulates to a target level, or by imposing an "ex post" levy on surviving banks, as the need arises.

It is also often argued that a DIS should charge a "risk-based" premium, that corresponds to the degree of risk taken on by the bank, in order to ameliorate the adverse selection that accompanies a flat rate premium<sup>4</sup>. When a flat rate is charged, lower risk, well-managed banks are likely to subsidise the excesses of the higher risk, poorly managed banks, which are those that are more likely to receive DIS assistance. In the above mentioned document of the International Monetary Fund, there continues to be stated that measuring risk and its price is often difficult. This underlines the thesis that all banks should be members of the DIS, since otherwise only the weak, high-risk banks will have the incentive to join, negating some of the efficiencies that arise from broader risk sharing across the banks.

It is neither possible to ensure that depositors, especially the large ones, retain some incentive to monitor banks, and that the banks in turn have incentives to maintain sound practices, unless reliable information about the extent of coverage, procedures governing the use of DIS funds, and the financial viability of the DIS is regularly and publicly disclosed. Some form of "co-insurance", whereby the DIS pays only a percentage of the deposit insured or, perhaps, covers 100 percent of deposits to a determined limit, is advisable. Above this limit leaving some risk with

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2. If the failure was in part the result of incompetence or inappropriate behaviour on the part of particular directors or managers, they may also be disciplined by being disqualified from operating in senior positions in bank management or on a bank board in the future. In addition, incompetent and dishonest managers could be subject to civil suits by bank depositors, creditors, and owners that have suffered loss, or be subject to criminal proceedings.
  3. Generally, it is not cost-effective to expect the owners of small deposits to monitor the condition of their bank.
  4. There have been very few attempts to introduce risk based premia mainly because such system forces the authorities to be more open in identifying high risk banks. Nonetheless the concept has clear advantages.

the depositor is also helpful. Since the existence of the DIS is often accompanied by some increased incentive to take on riskier activities, it requires strong and professional bank supervision to monitor the activities of banks implying risk-taking.

With regard to this last aspect, it ought to be pointed out that a system of graduated, calibrated early intervention by the supervisory authority will help to restore problem banks to soundness or allow for their closure at a minimal cost to the DIS, and with minimal damage to public confidence. Such a system would enable the DIS to cope with the number of failures that occur in normal times and even with most periods of multiple failures through a combination of an existing fund and “ex post” assessments on all remaining banks<sup>5</sup>. However, a DIS cannot be expected to handle the costs of a systemic crisis involving pervasive failures. Once a widespread crisis is in progress, the government may deem it necessary to institute a full guarantee, either “ex novo” or to override an existing scheme that has limited coverage, despite the “moral hazard” referred to above. However, the government would normally only do so after other options have been rejected, the cost has been fully taken into account, and for a limited period (Table I).

**TABLE I**

TYPICAL PRACTICES FOR A SUCCESSFUL DIS UNDER NORMAL CONDITIONS AND IN SYSTEMIC CRISIS

IN NORMAL TIMES:

System should be explicitly defined in laws and regulations.

It should resolve failed depository institutions promptly.

It should have limitations on coverage.

It should have a wide membership.

Deposits should be paid quickly.

It should have adequate sources of funding to avoid insolvency.

It should have risk-adjusted premiums (when risks can be accurately measured).

Accurate information and disclosure of bank's financial condition.

It should take prompt remedial actions.

It should maintain close relations with LOLR and supervisor.

IN A SYSTEMIC CRISIS:

Extend coverage temporarily.

It should count with Government backing for DIS.

5. The DIS can be made even more resilient, and the costs of the scheme contained further, if the legal system gives the DIS priority over the assets of a failed bank. However, this means placing a greater financial burden on uninsured depositors and other creditors.

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## CONSIDERATIONS FROM THE BANK FOR INTERNATIONAL SETTLEMENTS

Although the role of a lender of last resort or that of a deposit insurance system (DIS) function in spheres of competence different than those of the bank supervision, however, and taking into account that a DIS interacts with bank supervision, in Appendix II to the document “Basic Principles for an Effective Bank Supervision”, issued by the Bank Supervision Committee of the Bank for International Settlements (BIS, Basle, April 1997), concepts on the subject are set out which, in view of their importance, we are summarising here.

Notwithstanding the efforts of superintendency, bank failures may occur. In such circumstances, the possible loss of the whole or part of their funds increases the risk that the depositors lose confidence in other entities. Therefore, many countries have established deposit insurance schemes in order to protect the small depositors. Normally, these schemes are organised by the Government or by the central bank, or by the pertinent bank association and are rather compulsive than voluntary. The deposit insurance provides a safety net for many bank creditors, increasing public confidence and making the financial system more stable. A safety net can also limit the effect that the problems which appear in a bank may have on other banks, healthier, in the same market, thus reducing the possibility of “contagion” or of a chain reaction within the financial system as a whole. A key benefit of the deposit insurance is that, jointly with logical procedures of exit from the market, it provides the supervisors of the banks larger freedom to allow that banks in problems fall.

However, deposit insurance may increase the risk of imprudent behaviour from individual banks. The small depositors will be less inclined to withdraw funds, even if the banking entity practices high-risk strategies, thus weakening an important restraint to imprudent administration. The officers of the Government and the supervisors need to admit this effect proceeding from a safety net and take measures to prevent the excessive risk-taking by the banks. A method designed to limit risk-taking is to use a deposit insurance system consisting in a “co-insurance”. Under such system, the deposit insurance covers a percentage of the individual deposits or provides coverage only up to an absolute amount, in order that depositors have some funds subject to risk. Other methods do not grant participation in the DIS to large institutional depositors.

The effective DIS shape should be adapted to the circumstances of each country, as well as to its historical and cultural characteristics.

In view of what has been stated in this epigraph, it is important to know of those steps which have been taken by the Bank for International Settlements, in the matter of recommendations on supervisory regulations (Table II).

TABLE II

SELECTION OF INITIATIVES ON SUPERVISION REGULATIONS PROPOSED BY THE BANK FOR INTERNATIONAL SETTLEMENTS<sup>6</sup>.

YEAR	AREA	SUMMARY
1975	Cross-Border Banking	<i>Basle "Concordat"</i> . Establishes guidelines for the division of responsibilities for the supervision of branches and subsidiaries of the banks settled in foreign countries; it makes a distinction between headquarters supervisors and foreign branches supervisors.
1983	Cross-Border Banking	<i>Revised Basle "Concordat"</i> . It introduces the principle of consolidated supervision. It strengthens the original Concordat of 1975 so as to avoid supervisory gaps arising because of inadequately supervised financial centres or specific holding companies structures.
1988	Capital Adequacy	<i>Basle Capital Accord</i> . It is an agreement aimed at securing international convergence of minimum capital adequacy measurement and standards. It defines: (a) eligible capital elements; (b) different risk categories applicable to assets and eventual liabilities exposure; and (c) overall minimum capital ratio of 8% of risk-weighted assets, in which core capital (Tier I) -in a fully harmonised definition in terms of components- be not less than 4%.
1990	Relations Between Supervisors	<i>Exchanges of information between banking and securities markets supervisors</i> . Agreement on the need for the progressive removal of barriers to the exchange of information on prudential regulations between the two sets of supervisors. It examines the ways of facilitating information flows.
1992	Cross-Border Banking	<i>Minimum standards for the supervision of international banking groups and their cross-border establishments</i> . It strengthens the Basle Concordat of 1975 reviewed in 1983, by introducing minimum standards for certain societies modalities, notably through conditions designed to prevent the setting-up of cross-border banking establishments not subject to effective consolidated supervision or belonging to groups whose origin is hard to determine.
1994	Derivatives	<i>Risk management guidelines for derivatives</i> (jointly with IOSCO <sup>7</sup> ). It sets out guidelines for supervisory authorities and banking organizations designed to promote sound internal risk management of the banks' activities in the matter of derivatives; it brings together practices used by major international banks. (It was followed up in 1995 by the definition of a framework for supervision about derivative activities for banks and for firms operating in securities markets).
1995	Derivatives Trading	<i>Public disclosure of the trading activities of banks and securities firms</i> (jointly with IOSCO). It provides an overview of disclosure practices and recommendations for their improvement, stressing the need to make public sufficient information to evaluate the adequacy of risk management systems (it continues a report dated 1995 - see previous item -) and draws partly on concepts developed in a 1994 discussion paper on "Public disclosure of market and credit risks by financial intermediaries" (Fisher Report) by the Euro-currency Standing Committee (G-10 central banks).
1995	Relations Between Supervisors	<i>The supervision of financial conglomerates</i> . Report by the (informal) Tripartite Group of banking, securities and insurance supervisors which examines the relevant issues and makes a number of recommendations for the improvement of supervisory practices.
1996	Capital Adequacy	<i>Amendment to the Capital Accord to incorporate market risks</i> . Establishes minimum capital standards for market risks (those arising from changes in interest rates and commodity prices). It envisages two possibilities: (a) a standard method, based in a common framework of risk measurement and (b) an internal approach based on a model, which enables the banks to make use of their internal models for risk measurement, subject to a number of qualitative and quantitative criteria, as well as to a successful "backtesting".

6. The Basle Committee on Banking Supervision, whose members are representatives of the central banks and, where applicable, other banking supervisory authorities of the G-10 countries

7. International Organization of Securities Commission.



TABLE II (cont.)

YEAR	AREA	SUMMARY
1996	Capital Adequacy	<i>Multilateral netting of forward value foreign exchange transactions.</i> An amendment to the Capital Accord in force since end 1995 had extended the recognition of bilateral netting schemes (as mechanisms aimed at reducing credit risk exposures) to all those deemed effective under the relevant laws and in compliance with the minimum standards set forth in the Lamfalussy Report. The new document provides guidelines for the establishment of the capital requirements in the case of multilateral netting schemes.
1996	Cross-Border Banking	<i>The supervision of cross-border banking.</i> A report prepared jointly with the "Offshore Group of Banking Supervisors" containing 29 recommendations aimed at reducing impediments to the effective supervision of cross-border banking.
1997	Interest Rate Risk	<i>Principles for the management of interest rate risk.</i> Consultative paper setting out 12 principles for evaluating the adequacy of banks' management of interest rate risk.
1997	Core Principles	<i>Core principles for effective banking supervision.</i> Consultative document laying down 25 supervisory principles covering preconditions for effective supervision, for licensing and functioning structure of institutions, prudential regulations and requirements, methods of banking supervision of ongoing institutions, information requirements, formal powers of supervisors and cross-border banking. Intended as reference for supervisory and other authorities in all countries and internationally.

The Bank for International Settlements has been making, during this decade, recommendations regarding activities connected with the good functioning of the payments systems, the monetary implications of which and their eventual impact on the DIS, exceed the specific aspects of compensation itself like plain clearing houses (Table III).

TABLE III

SELECTION OF INICIATIVES PROPOSED BY THE BANK FOR INTERNATIONAL SETTLEMENTS, REFERRED TO PAYMENT AND INTERNATIONAL EXCHANGE SYSTEMS

YEAR	AREA	SUMMARY
1990	Interbank Compensations	<i>Report of the Committee on Interbank Compensation Schemes of the central banks of the Group of Ten Countries (Lamfalussy Report).</i> Recommends a set a minimum standards for the operation of cross-border multicurrency compensation schemes and at the same time, sets out the principles of cooperative central bank oversight. Stresses the need for a well-founded legal basis and of adopting well-structured mechanisms for the management of credit and liquidity risks. At a minimum, such systems should ensure timely (daily) settlement in the event of the failure of the participant with the largest debit position in a single compensation. It finally outlines a basic Plan for all the subsequent multilateral netting schemes, including purely domestic systems (it develops a report of 1989, on which it is based).
1992	Securities Settlements	<i>Delivery versus payment in securities settlement systems (G-10).</i> Defines and analyses the type and sources of risk associated with securities settlement between participants in a single settlement system. (Followed up in 1995 by a report on cross-border securities settlement).

TABLE III (cont.)

YEAR	AREA	SUMMARY
1993	Gross Systems of Cross-Border Transfers (LVTS)	<i>Minimum common features for domestic payment systems (EU).</i> It sets out minimum standards for LVTS and recommends the adoption, as soon as possible, of a system of real time for wholesale nettings ("RTGS") into which as many large-value payments as possible should be channelled. In line with this philosophy, in 1994 the European Monetary Institute (EMI) sets out a project to link domestic RTGS systems (TARGET), followed up by a detailed report in 1995.
1994	Electronic Money	<i>Reports on prepaid cards (EU).</i> It analyses this new payments technology and recommends that only credit institutions (banks) should be allowed to issue multipurpose prepaid cards.
1996	Forex Compensation	<i>Settlement risk in foreign exchange transactions.</i> It provides a clear definition of foreign exchange settlement risk, a corresponding method for its measurement and a strategy for reducing it. The strategy involves encouraging action by individual banks, industry groups and central banks.
1996	Derivatives Markets	<i>Proposal for improving global derivative market statistics.</i> It sets out a detailed proposal for the regular (semi-annual) collection and publication of statistics on OTC derivatives (it follows-up a 1995 report).
1996	Electronic Money	<i>Implications for central banks of the development of electronic money (BIS).</i> Analyses the policy issues of particular concern to central banks, including those related to the supervision of payment systems, seigniorage (difference between the cost of issuing money and its nominal value), monetary policy and banking regulation and supervision.
1997	Securities Settlement	<i>Disclosure framework for securities settlements systems (G-10 and IOSCO).</i> Encourages transparency in the operation of securities settlement systems so that participants have a clearer understanding of their rights, obligations and risk exposure.
1997	Gross Systems of Cross-Border Transfers (LVTS)	<i>Real-time gross settlement systems (G-10).</i> It addresses the risks involved in, and deals with the design of, RTGS systems.
1997	Derivatives Settlements	<i>Clearing arrangements for derivatives negotiated at stock exchange markets (G-10).</i> Describes the structure of the existing clearing arrangements and identifies potential weaknesses. These can include the inadequacy of the resources of clearing organisations in the event of a member defaults following large price movements, a lack of intraday controls on members' positions and the use of payment arrangements which do not provide for timely intraday settlements.

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## COMPARED SYSTEM

Three important aspects arise from an international comparison:

1. The main explicit DIS are based on the assessments of the financial entities and, within these systems, the new legislations are inscribed into what the Bank for International Settlements has designed as "depositors protection".
2. In its last guideline on the subject (May 1994), the European Union reaffirms the above stated concept and aims at the unification of assessments with the purpose of not distorting the competition.
3. The Federal Deposit Insurance Corporation (FDIC) of the United States of America has been working on the basis of assessments close to 2 basis points per month and a fund the amount of which represents no more than 1.25% on the total amount of deposits. It must be mentioned that the percentage of deposits covered with the insurance, at the United States of America, represents a 76% of the total. At present, the FDIC's assessments system has been reduced, in view of the amount reached.

It is difficult to find systems of deposit insurance which are identical. The substantial differences start when one tries to classify them between implicit or explicit. A recent research made by the International Monetary Fund showed that, out of 102 systems examined, 55 were implicit and 47 explicit. This last type of scheme shows a net preponderance in countries of Western Europe and of America.

Within the 47 explicit systems, it can be established with certainty that 40 of them, in order to obtain their funding, have recourse to the assessments of the entities which are part of the financial system.

## DIFFERENT ASSESSMENTS SYSTEMS

The assessments, as well as their calculation, are made in diverse ways. The majority takes, as a basis for calculation, the deposits existing in the financial entities, very few are based in the assets, and scarce are those who address themselves to the total liabilities.

With regard to the assessments methods, these vary between cash assessments or promises of payment. This last pattern is scarce and we find it preferably in those countries where there exists a system substantially concentrated in local banks which use the mechanism of depositors' protection as a legal instrument for "cartelization".

It can also be affirmed that the characteristics of the assessments is highly influenced by the functioning of the central banks as lender of last resort and by the degree of concentration of the financial system.

## SUMMARY OF THE CHARACTERISTICS OF THE MAIN DEPOSIT INSURANCE SCHEMES

With the purpose of preparing this comparison, those countries from which details on the monetary and supervisory organisations were obtained, have been selected.

Examining the systems based on cash assessments to an insurance fund, calculated on the basis of deposits, the following percentages of assessments have been identified (Table IV):

**TABLE IV**

ANNUAL BASIS POINTS (HUNDRETH PART OF PER CENT)  
PER COUNTRY

Argentina	between 36 y 72*
Bangladesh	8
Belgium	2
Canada	16
Czech Republic	50
Denmark	20
Finland	between 1 y 50
Germany	3
Hungary	between 20 y 30 (min.)
India	4
Ireland	20
Italy	up to 100
Japan	12
Kenya	up to 40
Luxembourg	up to 500
Netherlands	up to 500
Nigeria	94
Norway	150 (min.)
Peru	up to 75
Philippines	8,3
Spain	20 (min.)
Taiwan	1,5
Trinidad Tobago	20
Turkey	between 6,25 y 6,50*
Uganda	40
United Kingdom	up to 30
United States of America	between 0 y 31*
Venezuela	100

\* According to type of contributory entity.

Sorting out the countries included in the Table above, on the basis of the importance of the pertaining assessment rate, we obtain Table V:

**TABLE V**

COUNTRIES SORTED OUT AS PER BASIS POINTS PER ANNUM

Luxembourg	up to 500
Netherlands	up to 500
Norway	150 (min.)
Venezuela	100
Italy	up to 100
Nigeria	94
Peru	up to 75
Argentina	between 36 y 72*
Czech Republic	50
Finland	between 1 y 50
Uganda	40
Kenya	up to 40
United States of America	between 0 y 31*
Hungary	between 20 y 30 (min.)
United Kingdom	up to 30
Spain	20 (min.)
Denmark	20
Ireland	20
Trinidad Tobago	20
Canada	16
Japan	12
Philippines	8,3
Bangladesh	8
Turkey	up to 6,25 y 6,50*
India	4
Germany	3
Belgium	2
Taiwan	1,5

\* According to type of contributory entity.

A more detailed analysis of the characteristics of the systems which are being examined, enables us to work out the following comparative table (Table VI), where:

- PU Administered by public entities.
- PR Administered by private entities.
- J Jointly administered by the authorities and by the participant banks.

TABLE VI

COUNTRY	TYPE OF SYSTEM	MANAGEMENT	CHARACTER	ASSESSMENT CHARACTERISTIC AND YEAR OF CREATION	PROTECTION LEVEL IN THE CURRENCY OF ORIGIN
<b>ARGENTINA</b>	Deposit Insurance Fund.	Seguro de Depósitos S.A. (SEDESA).	PR	Obligatory 1995	Deposits at sight or for a term minor to 90 days, up to Pesos 10,000 per account. Deposits for terms equal or higher than 90 days, up to pesos 20,000.
<b>AUSTRIA</b>	Deposit Insurance Fund.	Austrian Banking Association.	PR	Obligatory 1987	200,000 Shillings.
<b>BANGLADESH</b>	Deposit Insurance Fund.		PU	Compulsory 1984	60,000 Takas.
<b>BELGIUM</b>	Intervention Fund <sup>9</sup> .	Rediscount and Guarantee. Institute.	J	Voluntary 1985	500,000 Francs.
<b>CANADA</b>	Deposit Insurance Corporation of Canada.	Deposit Insurance Corporation of Canadá.	PU	Compulsory 1967	60,000 Dollars.
<b>CZECH REPUBLIC</b>	Deposit Insurance Fund.		PU	Compulsory 1994	100,000 koruna per individual up to 20% of the deposits which do not surpass this amount.
<b>DENMARK</b>	Deposit Insurance Fund.	Deposit Insurance Fund.	PU	Compulsory 1987	300,000 kroner.
<b>FINLAND</b>	Deposit Guarantee Fund of the Commercial Banks <sup>10</sup> .	Board of Government.	PR	Compulsory 1969	No limit.
<b>FRANCE</b>	Deposit Insurance Fund.	French Banking Association.	PR	Compulsory 1980	400,000 Francs.
<b>GERMANY</b>	Deposit Insurance Fund.	Federal German Banking Association.	PR	Voluntary <sup>11</sup> 1966	Up to 30% of the core capital of the bank per depositor.
<b>HUNGARY</b>	National Deposit Insurance Fund.	Board of Government.	J	Compulsory 1993	1,000,000 Forint per client.

8. Rates of exchange with regard to the Argentine Peso as of October, 1997. On that date, the parity Peso-US Dollars was of 1\$/US\$.

9. The Intervention Fund was created through a protocol signed by the Institute for Rediscount and Guarantee and the Belgian Banking Association. The Institute, intermediary of the National Bank of Belgium, has two functions: grant the rediscount of commercial invoices on short term which may be submitted to it by financial entities, which are forwarded to the National Bank, and manage the Intervention Fund. However, the Institute requires the approval of the Intervention Fund Committee, integrated by representatives of the contributing banks, for important decisions, such as rescue transactions.

PROTECTION LEVEL IN ARGENTINE PESOS <sup>b</sup>	ASSESSMENT SYSTEM	CONTINGENCY ASSESSMENTS
10,000 or 20,000	Between 0.03 and 0.06% monthly on the average of the deposits at each entity, depending on its risk prime.	The Central Bank may require from the entities an advance payment of up to two years of the minimum foreseen for the normal assessments.
16,164	On demand.	Max. a third of the liabilities reserves of the member banks; Government bonds may be issued.
1,344	0.04% semi-annually on deposits in Takas.	
13,792	0.02% per annum of deposits in Francs.	None; the insurance is limited to the assets existing in the fund.
43,268	0.16% per annum on deposits denominated "protected deposits".	It may enter into loans of up to 6 billion Dollars without authorization; and additional loans subject to Parliamentary approval.
3,038	0.5% per annum of the total of deposits.	The Central Bank and the Government may lend to the Fund, in which case the assessment is doubled until the loan is cancelled.
44,843	0.2% per annum of non banking deposits until the Fund reaches a total of DC 3 billion Kroner, aim that has already been attained.	Loan from the banks, with possible guarantee from the Ministry of Industry, prior approval of the Parliament Committee on Finance.
No limit.	Between 0.1% and 0.5% per annum of the total assets.	
67,879	On demand on a regressive scale, "calls" up to 200 million Francs per year (\$ 33,939,723).	Extra "calls" of up to 1,000 million Francs may be made with regard to a five year period.
Up to 30% of the core capital of the bank per depositor	0.03% per annum of the total deposits.	The yearly assessment may be doubled.
5,113	A base of 0.5% of the capital and a quarterly payment of 0.2 to 0.3% per annum on the deposits.	

10. The Deposit Guarantee Fund of the Commercial Banks is an independent institution owned by its members (commercial banks) and has its own governing board. In addition, there are similar guarantee funds owned by saving banks and co-operative banks.

11. Voluntary, but de facto compulsory, since a banking licence will not be issued to a bank that does not participate in a depositor protection scheme.

TABLE VI (cont.)

COUNTRY	TYPE OF SYSTEM	MANAGEMENT	CHARACTER	ASSESSMENT CHARACTERISTIC AND YEAR OF CREATION	PROTECTION LEVEL IN THE CURRENCY OF ORIGIN
INDIA	Society of Deposit Insurance and Credit Guarantee.	Society of Deposit Insurance and Credit Guarantee.	PU	Compulsory 1962	30,000 Rupees.
IRELAND	Deposit Protection Fund.	Central Bank of Ireland.	PU	Compulsory 1989	90% up to 15,000 ECU. As from year 2,000, the maximum protection shall be 20,000 ECU.
ITALY	Interbank Deposit Protection Fund <sup>12</sup> .	Interbank Deposit Protection Fund Council.	PR	Voluntary 1987	100% of the first Lire 200 million; 75% of the following Lire 800 million.
JAPAN	Deposit Insurance Corporation <sup>13</sup> .	Deposit Insurance Corporation.	J	Compulsory 1971	10 million Yens.
KENYA	Deposit Insurance System.		PU	Compulsory 1985	100,000 Shillings.
LUXEMBOURG	Deposit Guarantee <sup>14</sup> .	Association for the Guarantee of Deposits.	PR	Voluntary 1989	500,000 Francs.
NIGERIA	Society of Deposit Insurance.	Society of Deposit Insurance.	PU	Compulsory 1988	50,000 Nairas <sup>15</sup> .
NORWAY	Commercial Banks' Contingency Fund <sup>16</sup> .	Commercial Banks' Contingency Fund Board.	J	Compulsory 1961	2,000,000 Kroner.
PERU	Deposit Insurance Fund.	Central Bank.	PR	Compulsory 1993	4,600 Nuevos Soles <sup>17</sup> .
PHILIPPINES	Permanent Insurance Fund.	Philippines Deposit Insurance Corporation <sup>18</sup> .	PU	Compulsory 1963	40,000 Pesos.
POLAND	Fund for the Protection of Banking Deposits.	Fund for Banking Guarantee.	PU	Obligatory 1995	Up to 1,000 ECU: 100%. Between 1,000 and 3,000 ECU: 90%.

12. The interbank Deposit Protection Fund is organised as a banks' consortium under the aegis of the Italian Banking and the Banca d'Italia.

13. The Governor of the Deposit Insurance Corporation is Vice-Governor of the Bank of Japan. The management also includes representatives of the private financial institutions, who are members of it.

14. It is a mutual, non-profit making association.

15. It only covers deposits on current account and savings deposits in local currency and excludes interbanking deposits.

16. The Contingency Fund is an independent legal entity and its activities are administrated by a board of directors comprising seven members. Five of the

PROTECTION LEVEL IN ARGENTINE PESOS <sup>8</sup>	ASSESSMENT SYSTEM	CONTINGENCY ASSESSMENTS
828	0.04% per annum on total of deposits.	Government support through the Reserve Bank subject to prior parliamentary approval.
15,124	0.2% of the total deposits in Pounds.	The Fund is recalculated every year.
464,792	On demand. Max. of 1% of total deposits; the amount cannot exceed Lire 2 billion (\$ 1,161,980). The aim of the Fund is to reach 4,000 billion Lire (2,324 million of \$).	There is no contingency support if that of the Fund is insufficient. Two options possible: to defer payment or to diminish the compensation to be paid
82,604	0.12% per annum of the deposits in Yens made in Japanese territory.	Loans of up to Yens 500 billion from the Bank of Japan subject to approval by the Ministry of Finance.
1,597	A fix amount of Shillings 100,000 (\$ 1,597) up to a 0.4% per annum on the total deposits.	
13,792	On demand, max. of 5% per annum of own funds.	
2,285	Annual rate of 0.9375 % of the deposits.	
270,000	1.5% of deposits and 0.5% of the assets on which the capital requirements are measured.	Guarantees issued by the member banks in proportion to their non-covered deposits; these guarantees are collateralized with cash or Government bonds deposits with the Bank of Norway.
1,723	Up to 0.75% per annum.	
1,161	0.083 % per annum of the total deposits.	Government backing subject to approval by the Senate.
Up to 1,120: 100% ; between 1,120 and 3,360: 90%.	Up to 0.4% of deposits (up to 0.2% for official banks and for cooperative banks).	Loans granted by the Central Bank and subsidies from the Treasury Board.

members are elected by the member banks, while one member is appointed by the Bank of Norway and the last member is the director of the Banking, Insurance and Securities Commission.

<sup>17</sup> Per depositor and only up to two deposits in two different institutions per year.

<sup>18</sup> The Philippines Deposit Insurance Corporation Board is chaired by the Central Bank Governor, with the PDIC President and the Undersecretary of Finance as members.



TABLE VI (cont.)

COUNTRY	TYPE OF SYSTEM	MANAGEMENT	CHARACTER	ASSESSMENT CHARACTERISTIC AND YEAR OF CREATION	PROTECTION LEVEL IN THE CURRENCY OF ORIGIN
SPAIN	Deposit Insurance Fund <sup>19</sup> .	Bank of Spain.	PU	Voluntary 1977	1,500,000 Pesetas.
SWITZERLAND	Convention XVIII <sup>21</sup> .	Swiss Bankers' Association.	PR	Voluntary 1984	30,000 Francs.
TAIWAN	Central Society of Deposit Insurance.	Board integrated by the Ministry of Finance and the Central Bank.	PU	Voluntary 1985	NT\$ 1,000,000 per individual depositor.
THE NETHERLANDS	Collective Guarantee Scheme <sup>22</sup> .	Bank of The Netherlands.	J	Compulsory 1980	40,000 Guilders.
TRINIDAD TOBAGO	Deposit Insurance Society.		PU	Compulsory 1985	50,000 TT Dollars.
TURKEY	Deposit Insurance Fund.	Central Bank of the Republic of Turkey.	PU	Obligatory 1983	Unlimited.
UGANDA	Deposit Insurance.	Central Bank.	PU	Voluntary 1995	3,000,000 Shillings.
UNITED STATES OF AMERICA	Federal Deposit Insurance Corporation (FDIC).	Federal Deposit Insurance Corporation (FDIC) <sup>23</sup> .	PU	Voluntary <sup>24</sup> 1934	100,000 Dollars.
UNITED KINGDOM	Deposit Protection Fund.	Board of the Deposit Protection Fund <sup>25</sup> .	J	Compulsory 1979	75% of the first 20,000 Pounds per depositor.
VENEZUELA	Deposit Insurance and Banking Protection Fund.		J	Compulsory 1985	1,000,000 Bolívars per deposits in Bolívars.

19. The Deposits Insurance Fund is a branch of the Bank of Spain, and is engaged in preventing bank crisis and in insuring deposits. The first type of intervention includes the surveillance activity on a problem bank from the Fund, take-over operations and finally the possibility of selling troubled banks. In addition, the Banking Corporation was created with the objective to acquire a majority shareholding in troubled banks, to re-establish sound management and a secure base for operations and ultimately to sell back the shareholding to the private sector. If it is clear that a bank cannot be returned to a healthy state, then it is liquidated. However, it was decided to enlarge the Deposit Insurance Fund, which was considered to be a more satisfactory means of dealing with ailing banks.

20. As of 1997, the Bank of Spain has ceased its contribution to the Deposit Insurance Fund.

21. The so-called Convention XVIII is an agreement among the members of the Swiss Bankers' Association under which banks mutually guarantee savings deposits. The convention does not provide the depositor with a legal claim. Although it has therefore no legal status as deposit insurance, we rank the convention under deposit insurance agencies, as its purpose is to provide deposit protection.

PROTECTION LEVEL IN ARGENTINE PESOS <sup>a</sup>	ASSESSMENT SYSTEM	CONTINGENCY ASSESSMENTS
10,118	0.2% per annum of the total deposits, complemented by a contribution from the Bank of Spain <sup>20</sup> .	Government backing through the Bank of Spain, subject to approval by Royal Decree.
20,653	On demand.	Subscribed by the member banks.
38,500	Premium of 0.0150% on deposits.	
20,212	On demand, max. of 5% per annum on own funds.	Government backing subject to parliamentary approval.
7,961	Contribution of 0.2% per annum on total deposits.	
Unlimited	6.25 to 6.50 basis points on risk deposits, according to the capital level of the bank.	It may have recourse to Central Bank credit, upon request of the Minister of State in charge of economic aspects.
2,686	Premium in charge of the Banks, of 0.2% per annum on deposits. Equal amount in charge of the Government.	
100,000	Between 0.23% and 0.31% per annum of the total deposits made in the United States of America, depending on the risk rating assigned (average value on 31.12.94 was of 0.239% per annum).	Loans up to 30 billion granted by the Treasury.
24,468	Initial contribution plus "calls" subject to a max. of 0.3% of deposits in Pounds.	Parliament can raise the maximum payable percentage; facility of advancement of Pounds 125 million by the Bank of England.
2,006	Contribution of 0.5% of deposits of the previous semi-annual period in two semi-annual payments.	

22. The Collective Guarantee Scheme is established in joint co-operation between the banks and the Bank of The Netherlands.

23. The Corporation is run by a three member Board of Directors. Two Directors are appointed by the President for a six-year term and a third is the Comptroller of the Currency, an ex-officio member.

24. Compulsory for FED members and national banks.

25. The Deposit Protection Board consists of the Governor of the Bank of England as Chairman, two other ex-officio members of the Bank of England, three members of contributory entities, together with a number of officers of the Bank of England.

Sources: OECD (1987), *Prudential Supervision in Banking* (Paris); Several Central Banks; O.C.C.; F.D.I.C.; B.I.S.; E.M.F.

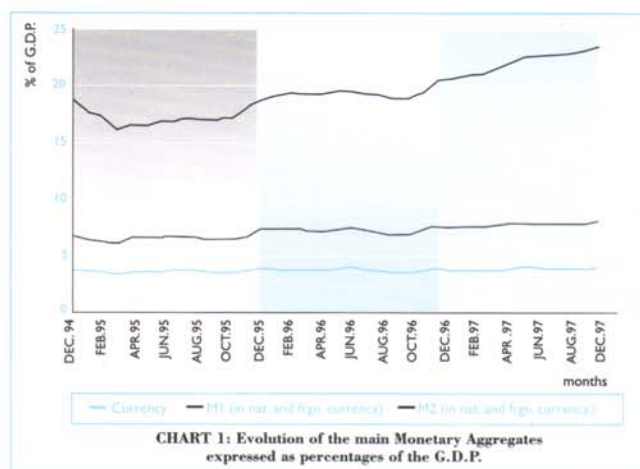
# MONETARY FRAMEWORK AND FINANCIAL SYSTEM

## MONETARY AGGREGATES

During 1997, the monetary aggregate M2 showed a growth of 25%, moving from 63,251 million in December 1996 (equivalent to a 19.70% of the GDP of 1996) to 79,043 million in December 1997 (equivalent to a 24.02% of the GDP estimated for the year 1997).

The composition of the Monetary Aggregates, in per cent, as at December 1997, was as follows (Table VII) :

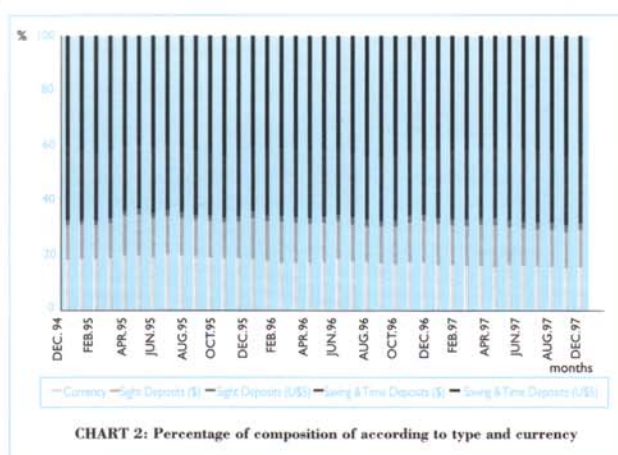
The evolution along the time of the diverse Monetary Aggregates has been represented in Chart 1:



<b>Currency</b>	<b>16.11</b>
<b>Sight Deposits</b>	<b>15.37</b>
Private depositors in nat. currency	9.933
National Government in nat. currency	2.910
Private depositors in foreign currency	2.528
<b>M1</b>	<b>31.48</b>
M1 in national currency	28.956
M1 in foreign currency	2.528
<b>Deposits in Savings Accounts</b>	<b>16.36</b>
In national currency	9.475
In foreign currency	6.884
<b>Time Deposits</b>	<b>52.16</b>
In national currency	15.039
In foreign currency	37.119
<b>M2</b>	<b>100.00</b>
M2 in national currency	53.471
M2 in foreign currency	46.529

Source: Worked out on the basis of data from the Central Bank of the Argentine Republic

The preceding chart shows a progressive increase in bankarization, since the percentage evolution of currency held by the public is declining. The evolution of deposits along the time, per type and currency, has been represented in Chart 2.

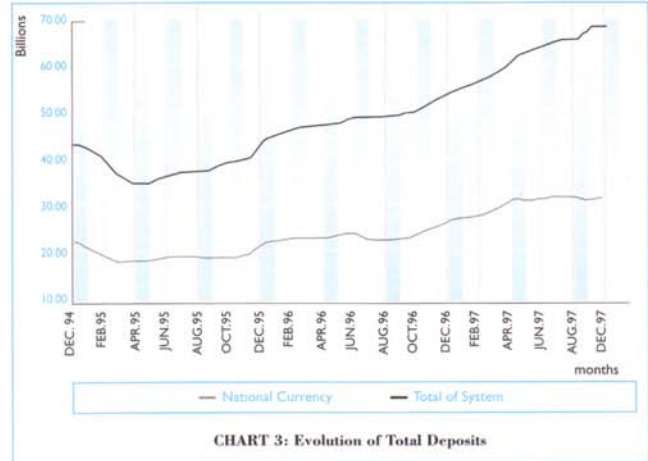


## TOTAL DEPOSITS

At the end of December 1997 the total deposits in the financial system, both in national and foreign currency, surpassed the amount of 67,300 million pesos (Chart 3) exceeding the level of total deposits on December 1996 in 15,000 million, approximately, which represents an annual growth close to 29 per cent.

In said month of December, the percentage of deposits in pesos (Sight Deposits, Savings Deposits and Time Deposits) amounted to 45.29 % with regard to a 45.75 % registered in December 1996. This is the compensation of a light increase of the participation of deposits in foreign currency, which go from a 54.25% observed in December 1996 to a 54.71 % corresponding to the end of 1997.

In the year, the highest percentage of increase belonged to the Time Deposits constituted in Pesos (36.78 %) followed by the Sight Deposits nominated in foreign currency (35.58 %).

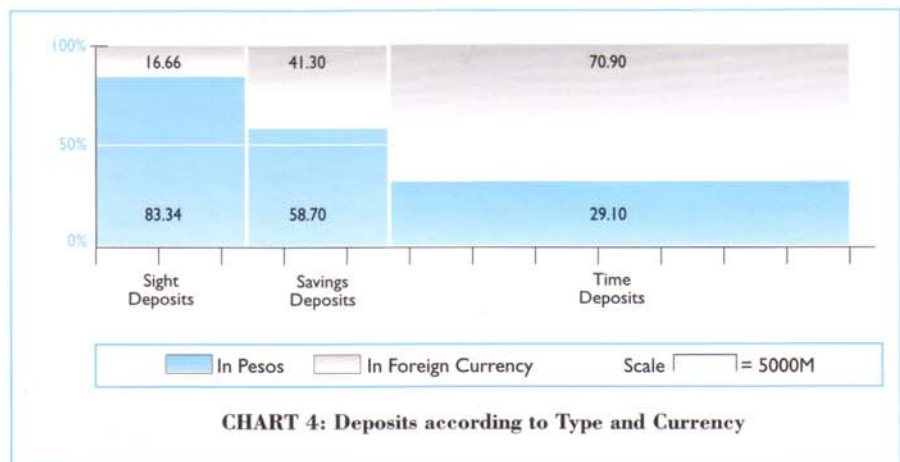


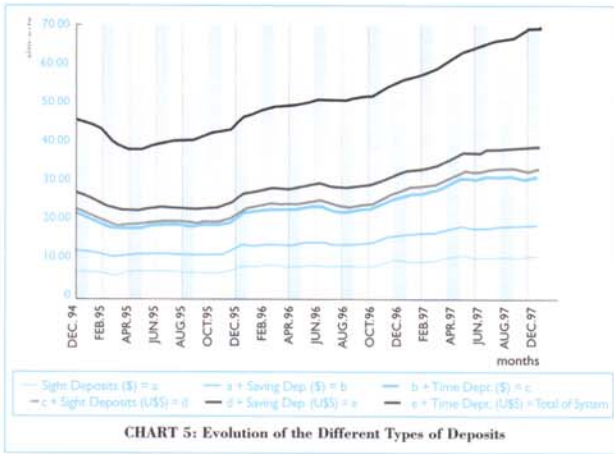
The percentage variations that the growth of the different type of deposits showed during 1997, are the following (Table VIII):

	SIGHT DEPOSITS	SAVINGS DEPOSITS	TIME DEPOSITS
National Currency	17.71	28.32	36.78
Foreign Currency	35.58	18.95	31.49

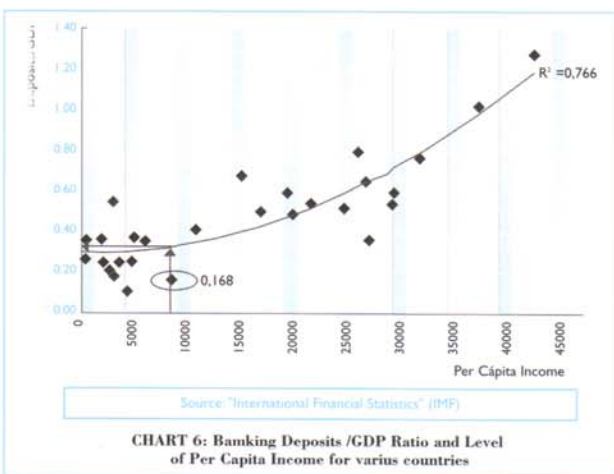
Despite what has been stated above, at the end of the year '97 the type of deposit which gathered the highest amount of deposits were the Time Deposits in foreign currency, with a mass higher than 29,330 million (43.55 % of the total deposits in the month of December).

In the month of December 1997, the mass of deposits in the Argentine financial system was stratified as shown on Chart 4:





The evolution along the time of the various types of deposits has been shown in Chart 5.



The mass of deposits in the Argentine financial system at the end of December was equivalent to approximately 20% of the GDP, which was estimated in 335,000 million pesos. The percentage mentioned would not correspond to the average income level in the Argentine Republic. This can be appreciated in Chart 6, worked out on the basis of data corresponding to year 1996.

## EVOLUTION OF THE MARKET AND REFERENCE RATES OF INTEREST

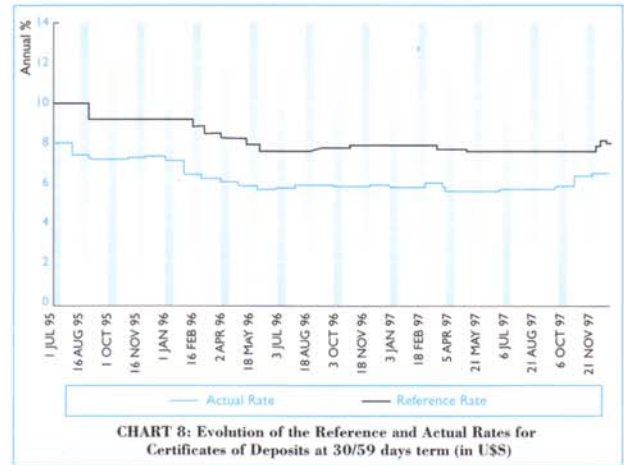
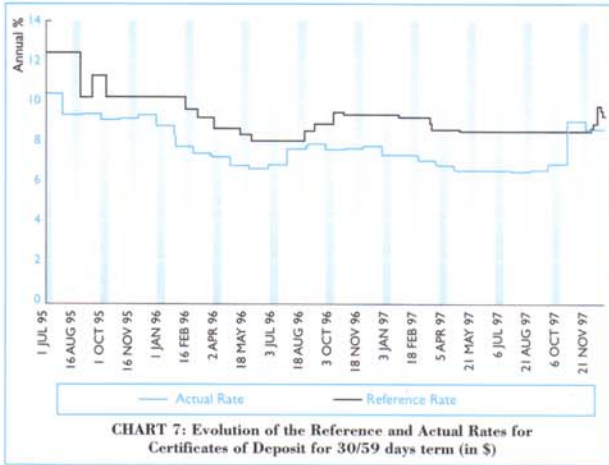
Reference Rates is the denomination given to the maximum rates that the financial entities are allowed to pay the depositors if such deposits are to be covered by the system of Deposit Insurance established by law (Section 12, paragraph d) of Decree N° 540/95 modified by Decree N° 1292/96 and in item 6.3 of Annex I to Communication "A" 2337 of the Banco Central). These Reference Rates are periodically established by the Banco Central de la República Argentina (B.C.R.A.) (Table IX) for the different type of deposits, and they are worked out on the basis of the rates admitted by the Banco de la Nación Argentina.

TABLE IX

REFERENCE RATE FOR CDs AT 30/59 DAYS, IN PESOS (IN %)	ACTUAL RATE FOR CERTIFICATES OF DEPOSIT AT 30/59 DAYS IN PESOS (IN %)	SPREAD (*) REFERENCE RATE/ACTUAL RATE IN PESOS (IN %)	DATE OF MODIFICATION OF THE REFERENCE RATE REFERENCE	REFERENCE RATE FOR CDs AT 30/59 DAYS, IN DOLLARS (IN %)	ACTUAL RATE FOR CERTIFICATES OF DEPOSIT AT 30/59 DAYS IN DOLLARS (IN %)	SPREAD (*) REFERENCE RATE/ACTUAL RATE IN DOLLARS (IN %)
12.19	10.24	19.04	1-JUL-95	10.00	8.05	24.22
10.00	9.17	9.05	28-AUG-95	9.21	7.42	24.12
11.05	9.21	19.98	18-SEP-95	9.21	7.22	27.56
9.98	8.92	11.88	9-OCT-95	9.21	7.21	27.74
9.43	7.62	23.75	16-FEB-96	8.84	6.53	35.38
9.01	7.27	23.93	6-MAR-96	8.48	6.27	35.25
8.46	7.11	18.99	3-APR-96	8.25	6.14	34.36
8.14	6.66	22.22	16-MAY-96	7.90	5.90	33.90
7.86	6.55	20.00	4-JUN-96	7.63	5.74	32.93
8.34	7.45	11.95	27-AUG-96	7.66	5.89	30.05
8.71	7.76	12.24	12-SEP-96	7.79	5.96	30.70
9.21	7.44	23.79	14-OCT-96	7.75	5.92	30.91
9.19	7.44	23.52	30-OCT-96	7.82	5.92	32.09
9.04	7.23	25.03	29-JAN-97	7.82	5.80	34.83
8.38	6.89	21.63	21-MAR-97	7.73	6.08	27.14
8.34	6.45	29.30	9-MAY-97	7.64	5.61	36.19
8.67	8.47	2.36	11-DEC-97	7.81	6.50	20.15
9.60	8.47	13.34	18-DEC-97	8.09	6.50	24.46
9.10	8.47	7.44	26-DEC-97	8.00	6.50	23.08

(\*) Calculated as  $((\text{Reference Rate} / \text{Actual Rate}) - 1) \times 100$

Charts 7 and 8, represent the Reference Rates and the Actual Rates surveyed at the local market by the Banco Central de la República Argentina, in Pesos and in Dollars, for Certificates of Deposit made for a term ranging between 30 and 59 days. A higher variability is observed in the Rate of Reference in Pesos than in the same rate nominated in Dollars. It is also shown that the Actual Rates paid to the depositors have been closer to the Reference Rates for those Rates denominated in Pesos than for those Rates denominated in Dollars. Even so, at certain times in 1997, the Average Market Actual Rate in Pesos was higher than the Reference Rate.

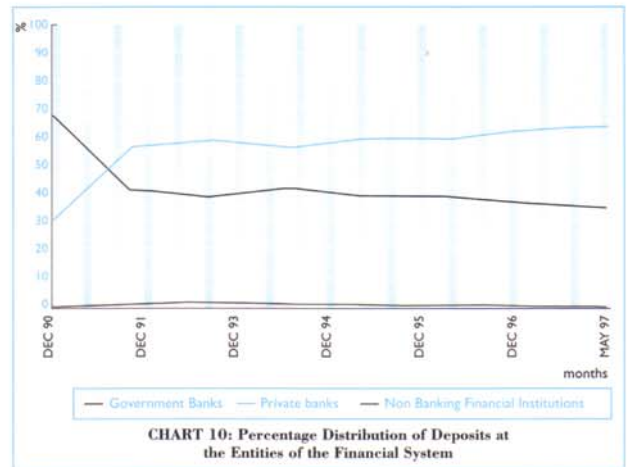
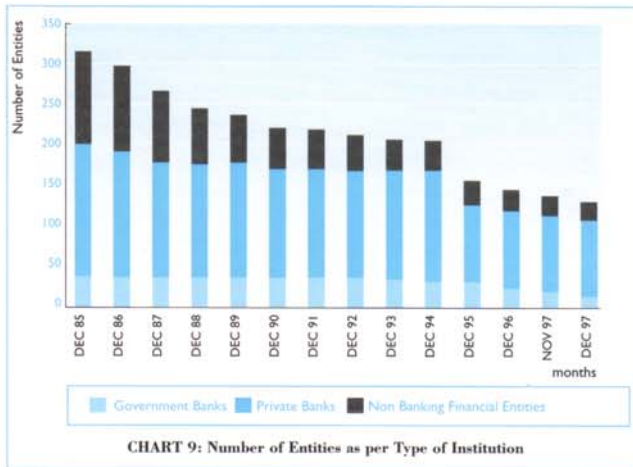


## FINANCIAL SYSTEM

The evolution of the number of institutions along the time has been as follows (Table X):

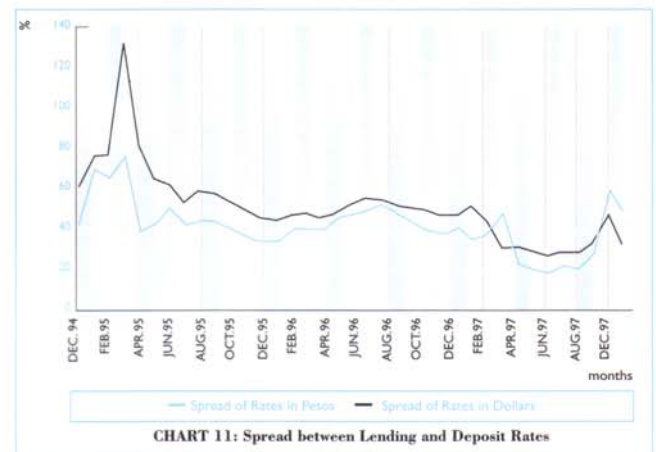
	NUMBER OF ENTITIES PER TYPE OF INSTITUTION		
	GOVERNMENT BANKS	PRIVATE BANKS	NON BANKING FINANCIAL ENTITIES
DEC'85	37	161	117
DEC'86	37	154	105
DEC'87	36	142	89
DEC'88	36	139	69
DEC'89	36	141	59
DEC'90	36	134	51
DEC'91	35	134	50
DEC'92	36	131	44
DEC'93	34	133	39
DEC'94	33	135	37
DEC'95	31	96	30
DEC'96	24	96	26
DEC'97	20	93	25

A noticeable reduction in the number of entities may be observed along the year 1995 (post "Mexican crisis"). During this period, be it through liquidation, failure, merger, taking-over or privatization, 48 financial entities ceased to operate. The evolution along the time of the number of financial entities as per type of institution, is shown in Chart 9.

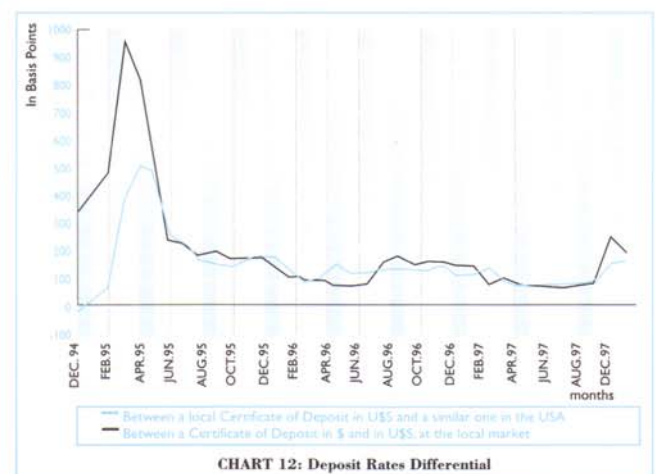


The evolution of the deposits in the financial system, taking into account the ownership of the entities, is shown in Chart 10

The “spread” between lending and actual rates of interest, for deposits in pesos and in dollars, has also been shown. The actual rates correspond to average market values, surveyed by the Banco Central de la República Argentina, for certificates of deposit for terms ranging between 30 and 59 days. Using the same methodological pattern, the lending rates are the rates paid by top-ranking enterprises for 30 days terms (see Chart 11).



Finally, an international comparison of actual rates of interest is shown in Chart 12.





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During the period covered by this Report, the Banco Central de la República Argentina improved and adopted a series of measures with regard to requirements providing for higher liquidity and credit-worthiness of the financial entities. Given their importance, and their interrelation with the Argentine DIS, it has been considered convenient to include in this document a summary of the above mentioned measures.

#### MEASURES ADOPTED REGARDING LIQUIDITY

The measures adopted consist, on the one hand, in the requirement of determined coefficients of liquidity to the financial entities, and on the other hand, in the design of a programme of “stand by” facilities arising from a “Repos” agreement entered into with international banks. These, as a whole, represent a 30% of the total deposits. In its turn, the Banco Central de la República Argentina has a short term rediscount capacity for up to 33% of the international reserves, which represents approximately a 10% of the deposits.

#### THE BASIC SYSTEM OF BANK SUPERVISION

The BASIC System, acronym formed on the basis of the first character of the names of its constitutive instruments (in Spanish), is a complementary approach which combines the market discipline mechanisms with the traditional supervision. It is formed through the following instruments:

##### BONDS

Policy: The banks must issue yearly the equivalent to the 2% of their deposits as Junior Debt.

The objective of this measure is to obtain that the market produces and shows, through the prices, its valuation.

##### AUDITS

Policy: The Banco Central issues basic guidelines to which the external audit firms must abide by.

In the area of Superintendency, an Operative Department ensures the fulfilment of said guidelines.

##### SUPERVISION

Policy: Traditional scheme of regulation and supervision.

The traditional monitoring carried out by the authorities continues being an important element.

##### INFORMATION

Policy: A higher transparency of the market is sought through adequate information.

This is considered vital for the best performance of the market and for the traditional supervision task.

## RISK RATING

Policy: The banks must obtain 2 ratings from reputable risk rating agencies.

This monitoring complements the task performed by the Superintendency.

## IMPROVEMENTS IN THE REGULATION AND SUPERVISION OF THE SYSTEM

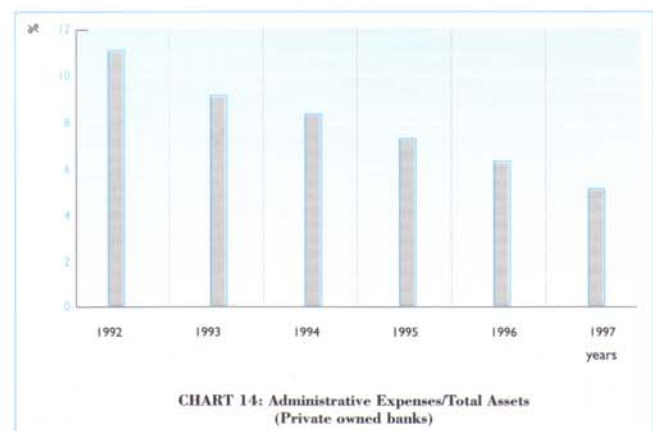
It is convenient to point out that, within the framework described before, the capital requirements to offset risks, are above the international guidelines. (Minimum capital requirement facing weighted risk assets: 11.5%).

Capital requirements to face market risks were initially incorporated in December 1996 and adapted to the volatility typical to emerging markets.

Likewise, strict regulations on loan limits, loan rating and methods of fund provision have been issued.

The evolution along the time of the rating of the loans granted by the financial system is represented in Chart 13.

Finally, the evolution along the time of an indicator of the efficiency of the private financial entities has been represented (Chart 14).



## ASSESSMENTS OF THE ENTITIES TO THE DEPOSIT INSURANCE FUND

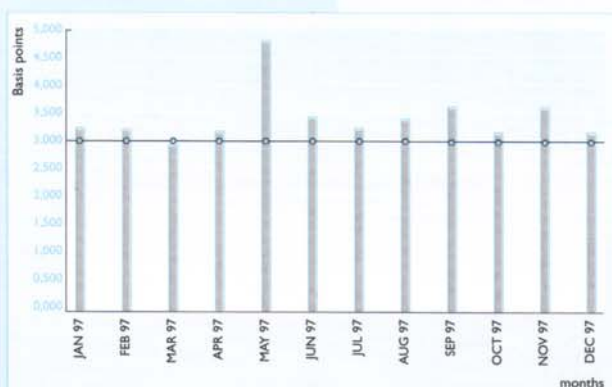
The assessments of the entities to the DIF had the development which is shown on Table XI. From this Table it can be appreciated that the average theoretical percentage of the assessments has been relatively constant.

**TABLE XI**

**ASSESSMENTS PAID BY THE ENTITIES TO THE DEPOSIT INSURANCE FUND**

MONTH	TOTAL DEPOSITS (MONTHLY AVERAGE, MILLIONS)	ASSESSMENT BASIS (MILLIONS)	ASSESSMENT FROM ENTITIES	ASSESSMENT OVER BASIS (IN BASIS POINTS)	MINIMUM EXPECTED MONTHLY ASSESSMENT (IN BASIS POINTS)
NOV'96	50,724.32				
DEC'96	52,378.40				
JAN'97	54,010.50	50,724.32	16,501,008.39	3.253	3.00
FEB'97	55,243.40	52,378.40	16,918,033.18	3.230	3.00
MAR'97	56,053.40	54,010.50	15,980,847.53	2.959	3.00
APR'97	57,309.00	55,243.40	17,701,218.89	3.204	3.00
MAY'97	59,144.90	56,053.40	26,847,400.91	4.790	3.00
JUN'97	61,438.90	57,309.00	19,624,770.97	3.424	3.00
JUL'97	62,596.10	59,144.90	19,113,144.79	3.232	3.00
AUG'97	63,746.00	61,438.90	20,955,598.57	3.411	3.00
SEP'97	64,536.70	62,596.10	22,602,866.36	3.611	3.00
OCT'97	64,943.80	63,746.00	20,217,296.89	3.172	3.00
NOV'97	67,113.70	64,536.70	23,281,891.27	3.608	3.00
DEC'97	67,378.40	64,943.80	20,572,685.51	3.168	3.00

*In the month of May, there was an extraordinary assessment.*



**CHART 15: Evolution of the Banks Assessments to the Deposit Insurance Fund**

The evolution of the assessments from the financial entities to the Deposit Insurance Fund has been shown in Chart 15.

## EVOLUTION OF THE DEPOSIT INSURANCE FUND

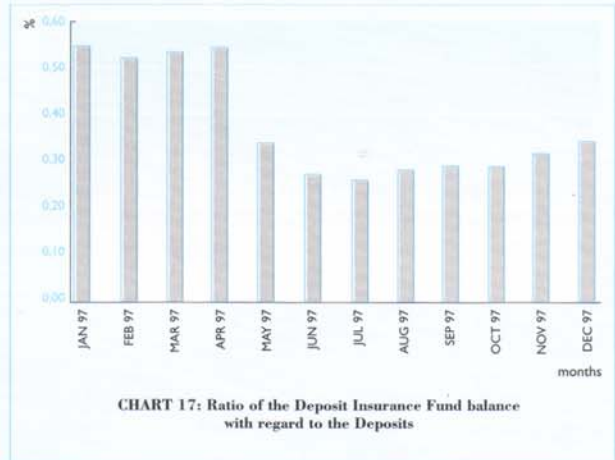
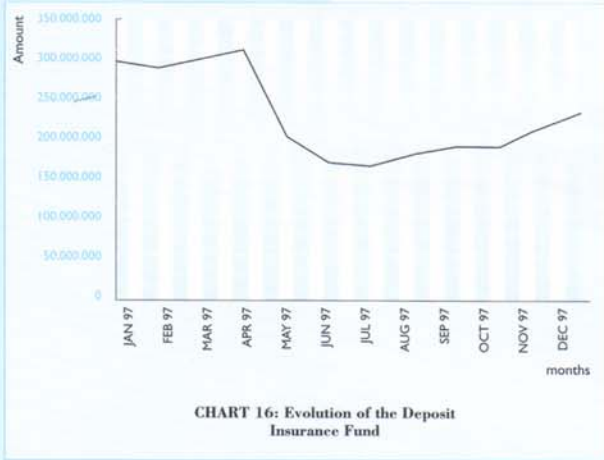
The coverage relation foreseen by the DIF may be observed on next page. It must be taken into account that, during the period, it was not necessary to appeal to extraordinary assessments, and a careful management of the DIF investments, avoided their deterioration in view of the volatility shown by the markets, and at the same time, the funds were available at the times when requirements to the DIF were necessary (Table XII).

TABLE XII

### EVOLUTION OF THE DEPOSIT INSURANCE FUND

MOUNTH	ASSESSMENTS TO THE DIF (AT THE END OF EACH MONTH)		DEPOSIT INSURANCE FUND			DEPOSITS (IN MILLIONS)	COVERAGE DIF/ DEPOS. (%)
	ACCUMULATED	MONTHLY	NET INCORP. INCOME (1)	ASSISTANCE TO ENTITIES + INS. EXP. (2)	BALANCE (INIT. BAL. + 1 - 2)		
JAN'97	298,127,776.99	16,501,008.39	1,241,785.14	4,922,709.74	295,188,776.30	54,010.50	0.54654
FEB'97	315,045,810.17	16,918,033.18	1,063,977.76	25,700,000.00	287,470,787.24	55,243.40	0.52037
MAR'97	331,026,657.70	15,980,847.53	1,165,184.98	5,264,166.67	299,352,653.08	56,053.40	0.53405
APR'97	348,727,876.59	17,701,218.89	1,178,817.00	7,193,779.60	311,038,909.37	57,309.00	0.54274
MAY'97	375,575,277.50	26,847,400.91	938,974.43	136,755,833.44	202,069,451.27	59,144.90	0.34165
JUN'97	395,200,048.47	19,624,770.97	803,101.01	52,864,099.85	169,633,223.40	61,438.90	0.27610
JUL'97	414,313,193.26	19,113,144.79	769,231.11	24,008,435.39	165,507,163.91	62,596.10	0.26440
AUG'97	435,268,791.83	20,955,598.57	781,186.58	6,652,712.81	180,591,236.25	63,746.00	0.28330
SEP'97	457,871,658.19	22,602,866.36	873,516.20	14,316,832.07	189,750,786.74	64,536.70	0.29402
OCT'97	478,088,955.08	20,217,296.89	708,537.76	21,000,000.00	189,676,621.39	64,943.80	0.29206
NOV'97	501,370,846.35	23,281,891.27	770,486.71	0.00	213,728,999.37	67,113.70	0.31846
DEC'97	521,943,531.86	20,572,685.51	1,037,779.01	1,897,945.34	233,441,518.55	67,378.40	0.34646

The balance of the Deposit Insurance Fund has evolved as shown in Chart 16. The evolution of the ratio between the balance of the Deposit Insurance Fund and the deposits existing in the system, is shown in Chart 17.



### TABLE OF ORIGIN AND ALLOCATION OF THE FUNDS FROM THE DIF

At the closing of Fiscal Year 1997, and as from its creation, the DIF had received assessments for more than 536 million dollars. It must be pointed out that, out of the funds received, almost a 40% was allocated to contributions to entities through Trust Agreements, a 7.67% was allocated to Partial Acquisition of Deposits, a 2.42% was allocated to Non Refundable Contributions, a 1.31% to Loans Convertible into Corporate Bonds and a 0.12% to the Payment of Guarantees (to the depositors) (Table XIII).

TABLE XIII

TABLE OF ORIGIN AND ALLOCATION OF FUNDS FROM THE DIF

	Dollars	%
<b>Origin</b>		
Assessments from financial entities, from May'95 to Dec'97	521,943,531.86	
Income	14,064,193.87	
Recovery of Contributions	227,225.10	
	<b>536,234,950.83</b>	
<b>Allocation</b>		
Payment of Insured Deposits	662,334.55	0.12
Contribution to Financial Entities.		
Through Partial Acquisition of Deposits	41,121,162.57	7.67
Through Contributions to Trust Agreements	214,420,631.57	39.99
Through non Refundable Contributions	13,000,000.00	2.42
Through Loans Convertible into C.B.	7,000,000.00	1.31
Payments of the "Repos" System (insurances)	25,219,236.13	4.70
Operating Expenses	1,370,067.46	0.26
Balance of the DIF as at Dec'97	233,441,518.55	43.53
	<b>536,234,950.83</b>	<b>100.00</b>

## CASES ENTRUSTED TO SEDESA DURING FISCAL YEAR 1997

Within the legal framework of Decree N° 540/95 and Decree N° 1292/96, SEDESA -in its capacity of corporation dealing with the management of the Deposit Insurance Fund (D.I.F.)- had to take care of requirements related to the following financial entities:

### BANCO UNIÓN COMERCIAL E INDUSTRIAL S.A. (B.U.C.I.)

On February 1997, and with the purpose of "solving severe and urgent difficulties of various nature" which affected the depositors of the B.U.C.I., a financial entity which had been suspended through the enforcement of section 49 of Law 24.144 (Banco Central de la República Argentina Act), SEDESA -in its capacity of corporation dealing with the management of the D.I.F., and at the request of the Banco Central de la República Argentina (B.C.R.A.)- accepted to perform a transaction of acquisition of Fixed Term Certificates of Deposit and Savings Deposits made by the depositors of the B.U.C.I. up to the amount of 1,000 dollars, in exchange for the cession of the pertaining rights. To the D.I.F., this procedure demanded a disbursement of 23.69 million dollars.

On April 1997, the B.C.R.A. and the B.U.C.I. received a proposal from Corp Banca S.A. which consisted in the acquisition of determined assets and the taking in charge of priority collection liabilities of the B.U.C.I.. The proposal anticipated the issuance, by SEDESA, of an irrevocable purchase option of assets transferred from the B.U.C.I. to Corp Banca for an amount of 117.92 million dollars, with deduction of the funds anticipated by SEDESA to the depositors; said proposal was accepted. This assistance demanded, consequently, an additional disbursement from the D.I.F. of 94.23 million dollars.

Thus, SEDESA's total contribution amounted to 117.92 million dollars.

### BANCO DE CASEROS S.A.

On the month of November 1996, the suspended Banco de Caseros approved the proposal submitted by the Banco de Crédito Argentino S.A. for the acquisition of assets and liabilities of the aforementioned entity. The proposal requested from SEDESA -in its capacity of corporation dealing with the management of the D.I.F.- a contribution consisting in a sale's option on part of the loan portfolio that it would acquire.

Since the Banco de Crédito Argentino acquired assets and took charge of the payment of the insured deposits of the Banco de Caseros, SEDESA -in its capacity of manager of the D.I.F.- accepted to perform the requested contribution, and a Trust Agreement was entered into, to which credits of the Banco de Caseros were incorporated, which would be managed to the exclusive and excluding benefit of SEDESA.

This assistance demanded from the D.I.F. a disbursement of 73.74 million dollars.

## NUEVO BANCO DE AZUL S.A.

On March 1997, La Industrial Compañía Financiera S.A. submitted to the Superintendency of Financial Entities and Foreign Exchange (S.E.F.C.) an irrevocable offer for the acquisition of determined assets and the taking charge of priority collection liabilities to be excluded from the Nuevo Banco de Azul, an entity whose realignment had been authorised by the B.C.R.A. The offer required from SEDESA, in its capacity of manager of the D.I.F.: a) an irrevocable sale's option in favour of La Industrial for an amount of up to 7 million dollars, and b) a loan convertible into Subordinated Corporate Bonds, for an amount of 2 million dollars, such amount being assigned to strengthen the equity capital responsibility computable to the acquiring entity.

The transaction was accepted by SEDESA, in its capacity of manager of the D.I.F., in view that La Industrial, transformed into a commercial retailer bank under the name of Nuevo Banco Industrial de Azul S.A., took charge of the payment of the deposits of the Nuevo Banco de Azul, and this was executed through a Trust Agreement, to which the assets portfolio transferred by Nuevo Banco de Azul to Nuevo Banco Industrial de Azul S.A. was incorporated, and through a mutuum loan agreement, with regard to all that refers to the granting and cancellation of the loan.

SEDESA's total contribution -in its capacity of corporation dealing with the management of the D.I.F.- was, consequently, of 8.65 million dollars.

## BANCO PLATENSE S.A.

On February 1997 the B.C.R.A. authorized the Banco Platense to make a public bidding to receive tenders for the purchase of its block of shares or of assets through the assumption of priority collection liabilities.

On the month of March, the B.C.R.A. communicated to SEDESA the offer of the Banco Municipal de La Plata, referred to the acquisition of the Banco Platense, accompanied by another offer from the Nuevo Banco de La Rioja S.A. The economic offer of the Banco Municipal de La Plata required from SEDESA, as corporation dealing with the management of the D.I.F.: a) a non refundable contribution for an amount of 13 million dollars and b) the underwriting of Corporate Bonds of Subordinated Debt for an amount of 5 million dollars.

On the month of May, and since the Banco Municipal de La Plata had committed itself to assign the amount to be received to cover the insured deposits existing in the Banco Platense in accordance to the legislation on the matter, SEDESA -in its capacity of manager of the D.I.F.- decided favourably the assistance required by the Banco Municipal de La Plata.

The addition of these amounts represented a disbursement of 18 million dollars for the D.I.F.

## BANCO COOPESUR COOPERATIVO LIMITADO

On February 1997, the Banco Credicoop C.L. made an irrevocable offer for the acquisition of certain assets and liabilities to be excluded from the shareholders equity of the Banco Coopesur C.L., an entity whose realignment had been authorized by the B.C.R.A. In its offer, the Banco Credicoop included a sale's option on the assets portfolio of the Banco Coopesur, which would be selected

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by the Banco Credicoop and which should be purchased by SEDESA, in its capacity of corporation dealing with the management of the D.I.F.

Once the offer was accepted, the parties finally agreed in establishing a Trust Agreement for the management and/or disposal of certain assets portfolio transferred to Credicoop by Coopesur, to the exclusive and excluding benefit of SEDESA, in its capacity of corporation dealing with the management of the D.I.F., as compensation for the contribution that the D.I.F. would grant to the Banco Credicoop, for an amount of 39.80 million dollars.

Thus, the contribution of the D.I.F. amounted to 39.80 million.

### **BANCO CRÉDITO PROVINCIAL S.A.**

On August 1997 the S.E.F.C. decided the suspension of the operations of the Banco de Crédito Provincial S. A. (B.C.P.) for the term of 30 calendar days. On September the B.C.R.A. issued its Resolution N° 484, through which it invited the financial entities to make offers for: a) the purchase of shares from the B.C.P. b) the purchase of certain assets and the assumption of all the liabilities of the bank and c) the purchase of certain assets and the assumption of all the priority collection liabilities of the B.C.P.

In a letter addressed to SEDESA, the S.E.F.C. stated that it was convenient that the corporation acquired deposits of the B.C.P. insured by the D.I.F., with the exception of the sight deposits, for an amount of up to 1,000 dollars, pro rata among their owners.

On the month of September, the acquisition of deposits from the B.C.P. in the above mentioned way was favourably decided, with the exception that such acquisition had to be performed through the whole or partial cession, as the case may be, of rights in favour of SEDESA, which -to this purpose- operated through the Banco de la Provincia de Buenos Aires.

This procedure of acquisition of deposits involved a disbursement of 17.43 million dollars from the D.I.F.

### **BANCO ARGENCOOP COOPERATIVO LIMITADO**

On November 1997, the Banco Credicoop Cooperativo Limitado communicated to the B.C.R.A. that it had made an economic offer for the acquisition of certain assets and liabilities belonging to the Banco Argencoop, an entity whose submission of a Regulation and Reorganization Plan had been considered unfulfilled by the S.E.F.C.

In the offer submitted, the Banco Credicoop requested various facilities from SEDESA, as corporation dealing with the management of the D.I.F.

The assistance was approved on December 12 and was limited to the grant of a contribution of up to 63 million dollars in favour of Banco Credicoop, this institution having to constitute a Trust Agreement to which it had to integrate credits from the Banco Argencoop for an amount of 65 million dollars.

The activity developed by SEDESA -as manager of the Deposit Insurance Fund- as from its creation, is summarized in Table XIV



TABLE XIV

## SUMMARY OF THE FINANCIAL ASSISTANCE GIVEN TO ENTITIES (up to 31.12.97)

DISBURSEMENT DATE	DATE OF ASSISTANCE DECISION	AMOUNT (IN MILLION DOLLARS)	ENTITY OR PEOPLE ASSISTED	TYPE OF ASSISTANCE	ADDITIONAL CONSIDERATIONS
01/12/96 to 10/01/97	21/11/1996	0.662	Savers of the Caja de Crédito Pavón Coop. Ltda.	Payment of the Guarantee	
18/02/97	11/02/1997	23.690	Savers of the B.U.C.I.	Partial acquisition of deposits	The Banco Unión Comercial e Industrial S.A. (B.U.C.I.) itself acted as paying agent.
24/04/97 to 22/07/97	22/10/1996	73.741	Banco de Crédito Argentino S.A.	Trust Agreement, on credits of doubtful recovery from the Banco de Caseros S.A.	The Banco de Crédito Argentino acquired assets and took charge of the payment of deposits of Banco de Caseros S.A.
12/05/97	08/05/1997	94.226	Corp Banca	Trust Agreement on BUCI's portfolio	Corp Banca acquired assets and took charge of the payment of deposits of B.U.C.I.
23/05/97	08/05/1997	2.000	Nuevo Banco industrial de Azul S.A.	Loan convertible into Corporate Bonds	Loan granted in order to strengthen its computable shareholders equity, as said bank offered to acquire assets and take charge of the liabilities from Nuevo Banco de Azul.
10/06/97	08/05/1997	13.000	Banco Municipal de La Plata	Non refundable contribution	The Banco Municipal de La Plata acquired assets and took charge of the payment of deposits of Banco Platense.
10/06/97	08/05/1997	5.000	Banco Municipal de La Plata	Loan convertible into Corporate Bonds	The Banco Municipal de La Plata acquired assets and took charge of the payment of deposits of Banco Platense
20/06/97 to 25/09/97	28/02/1997	39.799	Banco Credicoop Cooperativo Ltda.	Trust Agreement, on portfolio of doubtful recovery of the Banco Coopesur C.L.	The Banco Credicoop acquired assets and took charge of the payment of deposits of the Banco Coopesur C.L.
05/08/97 to 29/08/97	08/05/1997	6.652	Nuevo Banco Industrial de Azul S.A.	Trust Agreement, on credits of doubtful recovery of the Nuevo Banco de Azul S.A.	The Nuevo Banco Industrial de Azul S.A. acquired assets and took charge of the payment of deposits of the Nuevo Banco de Azul S.A.
06/10/97 to 28/11/97	18/09/1997	17.431	Savers of the Banco Crédito Provincial S.A.	Partial Acquisition of deposits	The Banco de la Provincia de Buenos Aires acted as payment agent
	12/12/1997		Banco Credicoop Cooperativo Ltda.	Trust Agreement on credits of doubtful recovery of the Banco Banco Argencoop C.L.	The Banco Credicoop acquired assets and took charge of the payment of deposits of Banco Argencoop C.L.

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# FINANCIAL STATEMENTS

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SEGURO DE DEPOSITOS SOCIEDAD ANONIMA

Registration Number in the Supervisory Body of Legal Entities: 8662

**Balance Sheet** as of December 31, 1997 (in Argentine Pesos)

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**ASSETS**

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CURRENT ASSETS

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Cash and Banks	19,481
Investments	6,857,999
Other Receivables	<u>432,000</u>
Total Current Assets	7,309,480

NON-CURRENT ASSETS

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Fixed Assets	<u>10,500</u>
Total Non-Current Assets	10,500

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**Total Assets** **7,319,980**

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**LIABILITIES**

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**CURRENT LIABILITIES**

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Accounts Payable	434,250	
Taxes Payable	<u>38,447</u>	
Total Current Liabilities		472,697

**NON-CURRENT LIABILITIES**

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Other Liabilities	<u>3,000</u>	
Total Non-Current Liabilities		3,000
Sub-total		475,697

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SHAREHOLDERS' EQUITY		6,844,283
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<b>Total Liabilities and Shareholders' Equity</b>		<b>7,319,980</b>
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**OFF-BALANCE SHEET ITEMS**

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Shareholders' Equity of the Deposit Insurance Fund		<b>240,441,519</b>
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SEGURO DE DEPOSITOS SOCIEDAD ANONIMA

Registration Number in the Supervisory Body of Legal Entities: 8662

**Statement of Income** for Fiscal Year Ended December 31, 1997  
(in Argentine Pesos)

Investment Income	416,722
Other Income	36,173
Administrative Expenses	<u>(92,743)</u>
Net Profit (before Income Tax)	360,152
Income Tax	<u>(107,169)</u>
<b>Fiscal Year Profit</b>	<b>252,983</b>

SEGURO DE DEPOSITOS SOCIEDAD ANONIMA

Registration Number in the Supervisory Body of Legal Entities: 8662

**Statement of Changes in Shareholders' Equity** for the Fiscal Year ended December 31, 1997  
(in Argentine Pesos)

	Shareholders' Contributions	Legal Reserve	Optional Reserve	Total Reserve	Retained Earnings	Total Shareholders Equity
	Capital Stock					
<b>Balances as of December 31, 1996</b>	<b>1,000,000</b>	<b>61,637</b>	<b>-</b>	<b>61,637</b>	<b>5,529,663</b>	<b>6,591,300</b>
Distribution approved by the Shareholders' meeting held on April 2, 1997						
- To Legal Reserve	-	138,363	-	138,363	(138,363)	-
- To Optional Reserve	-	-	5,220,191	5,220,191	(5,220,191)	-
Profit of the Period as per Income Statement	-	-	-	-	252,983	252,983
<b>Balances as of December 31, 1997</b>	<b>1,000,000</b>	<b>200,000</b>	<b>5,220,191</b>	<b>5,420,191</b>	<b>424,092</b>	<b>6,844,283</b>

SEGURO DE DEPOSITOS SOCIEDAD ANONIMA

Registration Number in the Supervisory Body of Legal Entities: 8662

**Statement of Conditions** as at December 31, 1997 (in Argentine Pesos)

As of December 31, 1997, the **Shareholders Equity of the Deposit Insurance Fund** amounted to \$240,441,519 and was constituted as follows:

**ASSETS**

Cash	176,976
Investments	238,145,480
Loans to Financial Entities	2,122,575
Contributions to Financial Entities (section 10 bis Dec. 540/95 and modifications). Income from Trust Agreements	254,635,777
Claims Proved Under Receivership	662,335
Allowances for Contributions to Financial Entities and Claims Proved Under Receivership	(255,298,112)
Other Assets	457,789
<b>Total Assests</b>	<b>240,902,820</b>

**LIABILITIES**

Debts	461,301
<b>Total Liabilities</b>	<b>461,301</b>

**Total Shareholders' Equity of the Fund** **240,441,519**





# AUDITOR'S REPORT

## ON THE FINANCIAL STATEMENTS

To the President and Board of Directors  
SEGURO DE DEPOSITOS SOCIEDAD ANONIMA  
651, Leandro N. Alem Ave.  
Buenos Aires

We have examined the balance sheet of SEGURO DE DEPOSITOS SOCIEDAD ANONIMA as of December 31, 1997, and the related statements of income and of changes in stockholders' equity, notes 1 to 12, and the exhibits I to III for the fiscal year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting standards used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of SEGURO DE DEPOSITOS SOCIEDAD ANONIMA as of December 31, 1997, the results of the operations and the changes in stockholders' equity for the fiscal year then ended, in conformity with generally accepted accounting standards.

In accordance with current regulations, we inform that:

- a) the financial statements mentioned above have been prepared on the basis of accounting records kept in conformity with the applicable statutory rules;
- b) liabilities accrued in favour of the National Pension Funds as of December 31, 1997, according to the accounting records amounted to \$ 6,110.90, none of which were past due at that date;
- c) according to General Resolution 8/95 of the Supervisory Body of Legal Entities the company has not applied any restatement for inflation methods, as stated in note 1 to the financial statements.

Buenos Aires, January 16, 1998

FINSTERBUSCH PICKENHAYN SIBILLE  
Reg. de Asoc. Prof. C.P.C.E.C.F. T° 2 F° 6

Ricardo E. De Lellis  
Partner  
Chartered Public Accountant (U.B.A.)  
C.P.C.E.C.F. T° XCIV F° 166

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# REPORT OF THE SYNDIC'S COMMITTEE

Buenos Aires, April 20, 1998

To the Shareholders of  
Seguros de Depósitos S.A.:

In fulfilment of the mission entrusted to this Committee by the Ordinary Assembly and in compliance with the legal and statutory regulations in force, this Committee has developed its specific activity in permanent contact with the management of the Corporation all along the development of the third fiscal year, ended as at December 31, 1997, and has had intervention in those matters on which it has been called in the sphere of the duties and attributions of the function. In one of its aspects, such activity was reflected in the attendance of its members to the meetings of the Board of Directors, as shown on the pertinent minutes.

Also, the accounting and the vouchers of the line of business were checked with the required frequency and periodicity. On the other hand, it was endeavoured to co-ordinate the activities of the Committee with the tasks of the External Audit of the Corporation, which carries out periodically cash audits of the funds and securities, of investments with their supporting documentation and other assets, rights and liabilities connected with the society management, as shown by the pertaining working papers and reports related to the checking carried out.

Finally, the Financial Statements, Inventory and Income Statement were verified, and it was confirmed that they actually show the shareholders' equity and financial situation of the Corporation, and likewise that they have been prepared in accordance with the legal provisions in force and to the accountant norms on the matter.

We must also point out our agreement with the statements set forth by the Board of Directors in the Annual Report, since in our opinion they reveal a fair valuation of the economic, financial and shareholders' equity situation of the Corporation, of the main aspects and facts of the Corporation management and, essentially, of the specific income.

Based on the above, we recommend to the Shareholders the approval of the activities fulfilled by the Board of Directors and of the documents submitted to their consideration.

Dr. Luis García Martínez  
On behalf of the Syndics' Committee







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## LEGAL AND REGULATION FRAMEWORK

Through Section 1 of Law N° 24.485 the Deposit Insurance System was created, with the purpose of covering risks in bank deposits, and the Banco Central de la República Argentina was authorised to conduct its organisation and to put it into operation.

This law of the Congress of the Nation was partially enacted through Decree N° 538/95 and regulated through Decree N° 540/95 of the National Government Executive Branch. Through this last Decree, published in the Official Gazette on April 18, 1995, the Deposit Insurance System was regulated, and the basis of its functioning, as well as of those of Seguro de Depósitos S. A. (SEDESA), the corporation which would be in charge of the administration of the Fund, were established.

On November 15, 1996, Decree N° 1292/96 was enacted, through which significant changes were introduced both in the legal framework of the corporation as well as in the provisions of its by-laws.

Section 1 of Law N° 24.485, the text of Decree N° 540/95 with the modifications introduced to it by Decree N° 1292/96, SEDESA's by-laws presently in force, and Communications of the Banco Central de la República Argentina referred to the activities of the corporation, are hereinafter transcribed.

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## LAW N° 24.485

**C**reation. Modification of the Banco Central de la República Argentina Act and of the Law on Financial Entities.

Passed: April 5, 1995

Partially Enacted: April 12, 1995

The Senate and the Lower House of the Argentine Nation together forming the Congress, etc. pass with legal enforcement:

**SECTION 1°:** The System of Deposit Insurance Guarantee is created, which will be limited, binding and which funding is covered just by the financial entities, with the purpose of covering the risks of the bank deposits, in a subsidiary and complementary manner with regard to the system of privileges and deposit protection established by the Law on Financial Entities, without jeopardising the resources of the Banco Central de la República Argentina nor those of the National Treasury. The Banco Central de la República Argentina is authorised to organise the system created by the present section and to bring it into operation.

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# REGULATORY TEXT ACCORDING TO DECREE Nº 540/95 (O.G. DATED 18.04.95)

AS AMENDED BY DECREE Nº 1292/96 ( O.G.DATED 18.11.96)

**SECTION 1º:** The “DEPOSIT INSURANCE FUND” (DIF) is created with the purpose of covering the banking deposits with the scope foreseen in this Decree.

The constitution of the corporation “SEGURO DE DEPOSITOS SOCIEDAD ANONIMA” (SEDESA) is decided, with the exclusive purpose of holding the functions of trustee of the Trust Agreement to be opportunely entered into between SEDESA and the NATIONAL GOVERNMENT, through the BANCO CENTRAL DE LA REPUBLICA ARGENTINA, for the management of the DIF.

**SECTION 2º:** The approval of the Charter and By-Laws of “SEGURO DE DEPOSITOS SOCIEDAD ANONIMA” (SEDESA), is delegated to the MINISTRY OF ECONOMY AND PUBLIC WORKS AND SERVICES. SEDESA shall have as partners the BANCO CENTRAL DE LA REPUBLICA ARGENTINA, with one share as a minimum, and whoever results to be trustee in the Trust Agreement to be entered into by the financial entities authorised to operate in the ARGENTINE REPUBLIC which may express their will to be part of said Trust Agreement, in the proportion which for each one shall be determined by the BANCO CENTRAL DE LA REPUBLICA ARGENTINA on the basis of their assessments to the DIF. Until SEDESA is constituted, the assessments to the DIF will be deposited to the account and entity that the BANCO CENTRAL DE LA REPUBLICA ARGENTINA may determine.

**SECTION 3º:** SEDESA shall receive no compensation whatsoever with regard to its activities as trustee of the DIF. The operational expenses of the corporation shall be those strictly necessary to operate and must be covered with the income of the DIF. The amendment of its by-laws or of its capital stock shall require at least the favourable vote of the shares belonging to the BANCO CENTRAL DE LA REPUBLICA ARGENTINA.

**SECTION 4º:** The charter and by-laws of SEDESA, as well as any proceedings which must be given the rank of public deed, are ordered to be registered through the OFFICE OF THE GENERAL NOTARY PUBLIC OF THE NATION, without this implying any expense whatsoever.

**SECTION 5º:** The GENERAL INSPECTION OF JUSTICE is instructed to grant the respective agreements or authorisations and to take note of the inscription of SEDESA in the registry it keeps.

**SECTION 6º:** The financial entities authorised to operate in the ARGENTINE REPUBLIC shall deposit with the DIF a normal monthly assessment to be determined by the BANCO CENTRAL DE LA REPUBLICA ARGENTINA between a minimum of ZERO DECIMAL POINT ZERO FIFTEEN PER CENT (0.015%) and a maximum of ZERO DECIMAL POINT ZERO SIX PER CENT (0.06%) of the average of



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the daily balances of deposits in pesos and foreign currency constituted with the financial entities, and with the additional assessments that the BANCO CENTRAL DE LA REPUBLICA ARGENTINA may establish for each entity on the basis of the risk indicators it may deem appropriate. In no case the additional assessment shall exceed the equivalent of a normal assessment.

With regard to the calculation of the average of the daily balances of deposits in pesos and in foreign currency, the deposits corresponding to national official accounts opened with the BANCO DE LA NACION ARGENTINA are excluded.

The BANCO CENTRAL DE LA REPUBLICA ARGENTINA may determine that the payment of the assessment be in cash, or through the assumption of the commitment of making said payment, implemented under the conditions and formalities that the BANCO CENTRAL DE LA REPUBLICA ARGENTINA may determine, and the contributing financial entities, in this last case, shall comply with the rules in force pertaining to minimum capital requirements. Said commitments may not be over the FIFTY PER CENT (50%) of the pertaining assessment to be made.

**SECTION 7°:** The BANCO CENTRAL DE LA REPUBLICA ARGENTINA shall determine the due date of the obligation to deposit the assessments. The financial entities shall punctually deposit their assessments as a condition for operating regularly. All financial entities who start to operate in the ARGENTINE REPUBLIC may join the trust referred to in Section 2 of this Decree and those who cease operating shall lose the condition to integrate it, making cession of their right to the face value of SEDESA 's shares. The Authority of Application shall establish annually the proportion in the trust for each financial entity, and the transfers corresponding to the face value of the shares shall be effected immediately.

**SECTION 8°:** When the DIF reaches the amount of TWO THOUSAND MILLION PESOS ( \$ 2,000,000,000) or FIVE PER CENT (5%) of the total of the deposits to the financial system, should such proportion be higher, the BANCO CENTRAL DE LA REPUBLICA ARGENTINA may suspend or reduce the obligation of making assessments to the DIF, totally or partially restoring said obligation when the DIF diminishes from said amount or proportion. To the purposes of this Section, only the cash assessments made by the financial entities shall be computed. The BANCO CENTRAL DE LA REPUBLICA ARGENTINA may adapt the total amount that the DIF must reach, when it considers that the accumulated amount is prudent in relation to the financial market situation and to the functions of the DIF.

**SECTION 9°:** At any moment the BANCO CENTRAL DE LA REPUBLICA ARGENTINA may require from the financial entities the advance payment of the deposit of up to two years of the minimum foreseen for the normal assessments, whether it be totally in cash or including the assessment commitments up to the maximum authorised by Section 6 of the present Decree. The BANCO CENTRAL DE LA REPUBLICA ARGENTINA may, at SEDESA 's requirement, debit directly to the financial entities their assessments due, either normal or additional, from the funds deposited by them with said Institution. It may proceed likewise in case the assessment commitments foreseen in Section 6 of the present Decree are not complied with.

**SECTION 10:** The resources of the DIF shall be invested in similar conditions to those set for the placement of the international foreign currency reserves of the BANCO CENTRAL DE LA REPUBLICA ARGENTINA. Notwithstanding this, the

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BANCO CENTRAL DE LA REPUBLICA ARGENTINA may authorise that up to FIFTY PER CENT (50%) of the assets composing the DIF is invested in government public bonds. The earnings of the DIF shall be a part of same and shall be reinvested in the same conditions. SEDESA shall inform monthly the public and the SUPERINTENDENCY OF FINANCIAL AND FOREIGN EXCHANGE ENTITIES the balance of the DIF.

**SECTION 10 BIS:** SEDESA may perform, with the resources of the DIF, the following transactions:

- A)** To make effective the coverage of the guarantee to the depositors, with the limits and conditions set forth in these presents and its regulatory, complementary and clarifying provisions.
- B)** To make capital contributions, non reimbursable contributions or loans to:
  - (I)** The financial entities which are subject to a regularization and restructuring plan and to the effect of supporting the fulfilment of same
  - (II)** The financial entities which acquire assets and take in charge the payment of the deposits of another entity subject to the regime of Section 35 bis and concordant of the Law on Financial Entities N° 21.526 and its modifying laws, when it were convenient to compensate the inadequacy of said assets with regard to the whole of the deposits transferred; or
  - (III)** The financial entities which take over or purchase financial entities in the framework of a regularization and restructuring plan.
- C)** Enter into a contract of sale option in favour of the entity acquiring the whole or a part of the assets transferred, in the case of financial entities acquiring assets and taking charge of the payment of the deposits of another entity subject to the regime of Section 35 bis and concordant of Law N° 21.526 and its modifying laws.
- D)** To acquire deposits of banks suspended under Section 49 of Law N° 24.144, up to the amount of the guarantee foreseen by Section 13 of the present Decree, surrogating itself in the rights of the depositors.
- E)** To enter into obligations in charge of the DIF, in its capacity of administrator of same, and with the guarantee of all the contributing financial entities, for up to an amount equivalent to TWO (2) years of total cash-flows of present assessments, including the cash assessments and those which may be made with the guarantees of the financial entities in accordance with the applicable provisions. The guarantee to be granted by the financial entities shall be determined in accordance to the amounts which may individually correspond to it, and shall be effective on first requirement and under the conditions and formalities that the BANCO CENTRAL DE LA REPUBLICA ARGENTINA may set forth in this regard.
- F)** To perform, maintain or finance swap programmes with foreign banks having the purpose of contributing to the stability of the Financial System, with the previous agreement of the BANCO CENTRAL DE LA REPUBLICA ARGENTINA, and with charge to the DIF.

The application of the alternatives foreseen in the preceding paragraphs b), c) and d) shall be exclusively decided by a Steering Committee, the decisions of which shall be binding to SEDESA. Such Committee shall be composed by a representative of the BANCO CENTRAL DE LA REPUBLICA ARGENTINA and a number of members to be determined in the Trust Agreement between a minimum of four and a maximum of seven representatives of the financial entities which contribute to the DIF.

The representative of the BANCO CENTRAL DE LA REPUBLICA ARGENTINA shall be the President and will have a right of veto, but no right to vote.

The members shall have a right of vote in proportion to the assessments made to

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the DIF by the entities they represent and in accordance to the provisions of the Trust Agreement.

The Steering Committee shall decide on the application of some of the alternatives foreseen in the preceding paragraphs b), c) and d) when, on the basis of estimates which may be made at the time when the decision must be made, their adoption implies a direct cost on the DIF lower than that which would result in charge of the DIF in case the authorisation to operate of the affected entity were revoked and the payment to the depositors foreseen in the preceding paragraph a) were to be effected, for which purpose the equity capital situation of the affected entity shall have to be taken into account and the possible recovery of SEDESA 's disbursements by way of subrogation.

Any aspect referring to the Steering Committee shall be foreseen in the Trust Agreement to be entered into by the BANCO CENTRAL DE LA REPUBLICA ARGENTINA and SEDESA.

**SECTION 11:** The deposits in PESOS and in foreign currency constituted with the participating entities under the form of checking accounts, savings accounts, certificates of deposit or other forms that the BANCO CENTRAL DE LA REPUBLICA ARGENTINA determines and which meet the requirements set forth herein and the other requirements to be decided by the Authority of Application, shall benefit from the coverage offered by the system.

**SECTION 12:** The following do not benefit from the coverage of the guarantee system:

**A)** deposits of financial entities with other intermediaries, including the certificates of deposit acquired by secondary negotiation

**B)** deposits made by persons connected, directly or indirectly, with the entity, according to the established guidelines or to those guidelines to be established in future by the BANCO CENTRAL DE LA REPUBLICA ARGENTINA.

**C)** certificates of deposit of securities, acceptances or guarantees.

**D)** deposits constituted after July 1 of this year, on which there had been agreed a rate of interest higher by two yearly percentage points to the deposit interest rate for equivalent terms of the BANCO DE LA NACION ARGENTINA corresponding to the day prior to that of the deposit. The BANCO CENTRAL DE LA REPUBLICA ARGENTINA may modify the reference rate set forth in this clause, communicating it with an advance of FIVE (5) banking working days.

**E)** all other deposits which the Authority of Application may exclude in future.

**SECTION 13:** The guarantee will cover the reimbursement of the sight deposits or of the certificates of deposit constituted for less than NINETY (90) days up to the amount of TEN THOUSAND PESOS (\$ 10,000) or of the certificates of deposit constituted for NINETY (90) days or more, up to the amount of TWENTY THOUSAND PESOS (\$ 20,000). The deposits for amounts higher than the above mentioned are also included in the guarantee regime up to the maximum limit resulting from applying the aforementioned stipulations, according to the term which may correspond.

**SECTION 14:** The reception by the depositors of the amounts disbursed by SEDESA with the funds available in the DIF, implies the legal subrogation in favour of SEDESA in the rights to collect from the liquidation or bankruptcy of the entity, with the privileges corresponding to the depositors and with collection priority over

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them up to reaching the amounts paid by SEDESA in accordance with the provisions of Section 13 of the present Decree.

**SECTION 15:** The guarantee is in force on equal conditions both for natural and juridical persons. In order to determine the amount benefiting from the guarantee and its reimbursement to the depositor, the total amount of the deposits that each person has with the entity on the date of revocation of the authorisation to operate shall be computed. In the accounts and certificates of deposit in the name of TWO (2) or more persons, it is understood that only one of them benefits from the guarantee, and the same shall be distributed on a pro-rata basis among the participants.

**SECTION 16:** When there concurrently exists certificates of deposits for terms of NINETY (90) days or more, and sight deposits or certificates of deposit for shorter terms, the guarantee shall be paid in first place with regard to the latter up to the maximum amount that may correspond to them. If the addition of said deposits were inferior to TEN THOUSAND PESOS (\$10,000), the remaining deposits shall be guaranteed by the difference of non-used coverage up to the maximum foreseen in Section 13.

**SECTION 17:** The guarantee shall be paid in a subsidiary and complementary manner to the reimbursement of deposits by application of the privilege set forth in the law on financial entities, within the term of THIRTY (30) working days counted as of the day following that of the revocation of the authorisation to operate of the entity, provided the depositors meet the established requirements and the DIF has funds available. On the request of SEDESA, the BANCO CENTRAL DE LA REPUBLICA ARGENTINA may authorise the extension of said term when the number of beneficiaries in process of settlement so justifies it. When the resources of the DIF were insufficient to cover the payment of the amounts guaranteed, the reimbursement shall be made through the distribution of the available funds on a pro-rata basis. The balance shall be paid within a term of THIRTY (30) days counted as of the date when the DIF reports the existence of financial availability. In these cases and when there were more than one entity whose authorisation had been revoked, the payment priority shall be governed by the chronological order resulting from the beginning of the counting of the term of payment of the guarantee. In no case shall the DIF cover or acknowledge interests for the period going from the original due date of the deposits and the date of payment of the guarantee.

**SECTION 18:** Payment of the amounts guaranteed shall be made in pesos or in foreign currency, according to the proportion of each type of currency resulting from the total of capital deposited. With this last purpose and in order to equalise the balances of the total deposited when dealing with deposits in foreign currency, its equivalent in pesos shall be taken according to the seller rate of exchange for bills of the BANCO DE LA NACION ARGENTINA, corresponding to the day prior to that of the revocation of the authorisation to operate of the entity concerned.

**SECTION 19:** SEDESA may reject or postpone until its judicial recognition the request for coverage of the guarantee when the respective deposits do not meet the formal or substantial requirements set forth in the present regulations or other provisions that the BANCO CENTRAL DE LA REPUBLICA ARGENTINA may issue.

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**SECTION 20:** SEDESA may exercise the pertaining legal actions when in its judgement there were real possibilities of recovering the amounts disbursed.

**SECTION 21:** The regime established herein will be in force with regard to certificates of deposit constituted or renewed as from April 18, 1995, and with regard to the sight deposits existing in the balances corresponding to the closing of that day, constituted in financial entities which were not suspended by the BANCO CENTRAL DE LA REPUBLICA ARGENTINA or whose authorisation to operate had not been revoked.

**SECTION 22:** The BANCO CENTRAL DE LA REPUBLICA ARGENTINA shall be the Authority of Application of the system created by Law 24.485 and regulated herein, it being authorised to issue the necessary rules of interpretation and application.

**SECTION 23:** The Board of Directors of SEDESA shall inform the SUPERINTENDENCY OF FINANCIAL AND FOREIGN EXCHANGE ENTITIES depending from the BANCO CENTRAL DE LA REPUBLICA ARGENTINA its opinion regarding the financial entities which, in its judgement, had credit or commercial policies considered of a risk higher than normal. It shall equally be possible to request its opinion with regard to the applications for authorisation to operate or of transformation under consideration by the BANCO CENTRAL DE LA REPUBLICA ARGENTINA.

**SECTION 24:** The present Decree shall be in force as of the date of its publication in the Official Gazette.

**SECTION 25:** To be communicated, published, given to the National Direction of Official Registry and filed.

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# BY-LAWS OF SEDESA

As per Charter of August 18, 1995, and modifications approved by the Special General Meeting held on January 20, 1997.

**SECTION 1:** Denomination and address: The corporation is denominated SEGURO DE DEPOSITOS SOCIEDAD ANONIMA, hereinafter the "Corporation", with legal address in the jurisdiction of the Federal Capital. The Corporation is constituted in accordance with the regulations established by Law N° 19.550 and its modifications, Section Third, and with the provisions of its Chapter III, Title V, Sections 163 to 307.

**SECTION 2:** Term of duration: Its term of duration is of THIRTY FIVE (35) years, as of the date of its constitution. By unanimous resolution adopted by the Special Meeting this term may be extended or reduced.

**SECTION 3:** Purpose: The Corporation has as exclusive purpose the administration, as trustee, of the DEPOSIT INSURANCE GUARANTEE FUND created by Law 24.485 and in accordance to Decree N° 1292/96 of the NATIONAL GOVERNMENT EXECUTIVE BRANCH and modifying and/or regulatory provisions, and the Trust Agreement which for such purpose it shall enter into with the BANCO CENTRAL DE LA REPUBLICA ARGENTINA.

To such purpose, the Corporation has full juridical capacity to acquire rights, to enter into obligations and to execute the actions which are not forbidden by the laws or by these By-Laws.

**SECTION 4:** Capital: The capital stock is of ONE MILLION PESOS (\$1,000,000) in ordinary shares of ONE PESO (\$1) par value each share. The capital stock may not be modified without the affirmative vote of Class A share. One share shall be Class A and shall correspond, with its differential rights, exclusively to the BANCO CENTRAL DE LA REPUBLICA ARGENTINA; all other shall be Class B shares.

**SECTION 5:** Shares: The shares shall not be represented by stock certificates, but shall be registered in accounts carried in the name of their owners at the Corporation. The limitations as to property and transferability of the shares derive from Decree N° 1292/96 and its modifying or regulating provisions and shall be stated on the certificates issued by the Corporation.

**SECTION 6:** Right to Vote: Each underwritten ordinary share entitles to ONE (1) vote.

**SECTION 7:** Preferential Right: The shareholders shall have preferential right proportionally to their holdings, for the underwriting of new shares which may be issued. This right shall have to be exercised within the term of THIRTY (30) days, as of the last publication provided for by section 194 of Law N° 19.550 and its modifications.

**SECTION 8:** Registration: The Board of Directors shall keep the registry foreseen by section 208 of Law N° 19.550 and its modifications. The vouchers which are granted in account of the book-entry shares in favour of their owners, shall be signed by a Director and a Syndic. Should any one of the aforementioned be absent, he will be replaced by the person whom the Board of Directors shall appoint to this effect.

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**SECTION 9:** Capital Integration: In case of delay in the integration of the capital, the Board of Directors is authorised to proceed according to any of the proceedings stipulated by section 193 of Law N° 19.550 and its modifications.

**SECTION 10:** Management. Compensation. Requirements: The management of the Corporation shall be entrusted to a Board of Directors composed of three members, with a one year commission and who are re-eligible. The Assembly may appoint substitutes in a number equal or minor to that of the permanent members and for the same term in order to fill the vacancies that may occur, in the order of their election. In their first session, the Directors shall have to appoint a Chairman and a Vice-Chairman. The Board of Directors functions with the presence of the majority of its members and adopts decisions through majority of the votes present at the meeting, except in those cases for which the legal provisions require a larger number. The permanent and alternate Directors whose commission will have ended shall remain in office until their replacements are appointed. The Assembly shall establish their compensation taking into account the functions fulfilled, and these shall be charged to general expenses, unless there were profits, in which case the procedure established in Section Twenty of these By-Laws shall be applied. In case of death, resignation, hindrance or disability of one or more permanent or alternate Directors, the Syndics will have to appoint one or more permanent and/or alternate Directors in their replacement. The Syndics shall make this appointment within the term of thirty calendar days after receiving notice of the vacancy, whichever the cause of it may be. The Director so appointed shall last in office until the date of the first General Ordinary Assembly which may be held.

**SECTION 11:** Meetings of the Board of Directors: The Board of Directors shall meet at least once every THREE (3) months. The Chairman or his statutory replacement may convene meetings whenever he may deem it convenient or whenever any Director in functions or the Syndics may so request. All Directors must be convened through an authoritative means with indication of the agenda to be dealt with, the day, time and place of the meeting, to the address that each member indicates when taking office or accepting the position, at least THREE (3) days in advance. Subjects not included in the agenda may be dealt with if the presence of all the permanent Directors and their unanimous vote takes place. The Directors shall be able to vote through letter of attorney in representation of another Director and the constituent shall be responsible, in this case, as if he had voted personally. The constituent, however, shall not be counted to the effects of quorum.

**SECTION 12:** Director's Guarantee: The Directors must provide a ONE THOUSAND PESOS (\$1,000) cash guarantee.

**SECTION 13:** Obligations and Abilities of the Board of Directors: a) to manage the properties which constitute the DEPOSIT INSURANCE FUND and to authorise any act or contract that may have as subject matter the management of same; b) to inform every month to the public and to the SUPERINTENDENCY OF FINANCIAL AND FOREIGN EXCHANGE ENTITIES the balance of the DEPOSIT INSURANCE FUND; c) to request the BANCO CENTRAL DE LA REPUBLICA ARGENTINA to debit directly, from the funds deposited with it by the financial entities, the normal or additional assessments that said entities would not have paid; d) to make investments according to the provisions of Decree N° 1292/96 and its modifying and /or regulating provisions; e) to analyse and resolve on applications for coverage by applying the regulations in force; f) to request the BANCO CENTRAL DE LA REPUBLICA ARGENTINA to authorise the extension of the THIRTY (30) days term to make payment of the guarantee in a manner subsidiary and

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complementary to the refund of deposits through the adjudication of the privileges and payment priorities established in the Law on Financial Entities, when this might be justified by the number of beneficiaries in process of settlement; g) to make, whenever this were pertaining according to the provisions of Decree N° 1292/96 and its modifying and/or regulating provisions, payment to the depositors of the sums guaranteed by the DEPOSIT INSURANCE FUND in pesos or in foreign currency; h) to reject the application for coverage of the guarantee when the respective depositors do not meet the requirements established by Decree N° 1292/96 and its modifying and/or regulating rules; i) to perform, on behalf of the DEPOSIT INSURANCE FUND the operations foreseen by Decree N° 1292/96 and its modifying and/or regulating rules and in the Trust Agreement which to this effect it shall enter into with the BANCO CENTRAL DE LA REPUBLICA ARGENTINA, including those decided for by the Steering Committee in the cases foreseen in the Trust Agreement; j) to surrogate the Corporation in the rights and privileges established in the Law on Financial Entities in favour of the depositors for payments cashed owing to the guarantee granted; k) to exercise any pertaining legal action when in its opinion there are real possibilities of recovering the amounts disbursed; l) to communicate to the SUPERINTENDENCY OF FINANCIAL AND FOREIGN EXCHANGE ENTITIES, depending from the BANCO CENTRAL DE LA REPUBLICA ARGENTINA, its opinion with regard to the financial entities which, according to its opinion, have credit or trade policies involving a risk higher than the normal risk; ll) to communicate to the SUPERINTENDENCY OF FINANCIAL AND FOREIGN EXCHANGE ENTITIES, depending from the BANCO CENTRAL DE LA REPUBLICA ARGENTINA, whenever required, its opinion regarding the applications for authorisation to operate or for transformation which are under consideration of the BANCO CENTRAL DE LA REPUBLICA ARGENTINA; m) to decide, if it considered it convenient and necessary, the creation of the Executive Committee and of other Committees of the Board of Directors, to establish the functions and limits to their activity within the faculties granted by the present By-Laws and to issue their internal rules of procedure; n) to appoint one or more Managers who will be in charge of management executive functions; ñ) to engage the auditing, legal and technical services which were necessary or convenient for the better fulfilment of the corporation purpose; o) to keep the Corporation shareholders register; p) to send to the shareholders, to their last address registered with the Corporation, copy of the summons to Assembly, of the pertaining agenda and, if applicable, of the recommendations of the Board of Directors in this regard, immediately after having decided of such summons, or, as the case may be, of having known of such summons; q) in case of termination of the DEPOSIT INSURANCE FUND regime, to make delivery of moneys and the assets which compose it to the ARGENTINE NATIONAL GOVERNMENT in order to constitute the substituting guarantee regime or, failing such regime, to be distributed among the financial entities included in the last annual communication issued by the BANCO CENTRAL DE LA REPUBLICA ARGENTINA, indicating the participation of the financial entities in the DEPOSIT INSURANCE FUND and, r) to resolve on any matter which, within its legal, regulatory or statutory sphere of competence, is related to the interests of the Corporation. The foregoing enumeration is not restrictive and the Board of Directors has all the faculties to manage and dispose of the properties of the corporation according to the legal, regulatory and statutory rules in force, including those for which the law requires special powers in accordance to section 1882 of the Civil Code and section 9th of Decree-Law N° 5965/63. Consequently, it may, on behalf of the corporation, enter into any type of legal act aiming at the fulfilment of the corporation purpose, among which, to operate with the banks BANCO DE LA NACION ARGENTINA, DE LA PROVINCIA DE BUENOS AIRES, DE LA CIUDAD DE BUENOS AIRES and other official or private credit entities, inside and/or outside the

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country; to establish agencies, branches or any other type of representation, inside or outside the country; to grant to one or more persons legal or extra-legal powers -including the power to charge criminal complaints- with the purpose and the scope it may deem convenient.

**SECTION 14:** Representation. Functions of the Chairman. Replacement: The legal representation of the corporation corresponds to the Chairman of the Board of Directors or to the Vice-Chairman, in case of absence or of vacancy of the Chairmanship. The Chairman or whoever replaces him shall in addition have the following functions:

- (i) to preside over the sessions of the Assembly and the Board of Directors;
- (ii) to look after the faithful fulfilment of the By-Laws and of the resolutions made by the Board of Directors;
- (iii) in cases of urgency, to take the steps he may deem necessary, submitting these to the approval of the Board of Directors in the ordinary meeting immediately following or in the special meeting he shall have to convene should the seriousness of the case so require;
- (iv) to sign the inventories and balance sheets of the Corporation once approved by the Board of Directors;
- (v) to delegate the legal representation, including that of replying to interrogatories or cross-examinations by parties or principal in a suit; and
- (vi) to exercise all the other faculties conferred on him by the By-Laws and the legal rules.

**SECTION 15:** Summons to Assemblies: The Assemblies shall be summoned through publications during a period of FIVE (5) days, with THIRTY (30) days of advance at least, in the Official Gazette. There shall be made mention of the nature of the Assembly, its date, time, place of meeting and agenda. The Assembly in second summons, should the first have failed, shall be convened within the subsequent period of THIRTY (30) days, and the publications shall be made during a period of THREE (3) days with at least FIFTEEN (15) days of advance and no more than THIRTY (30) days of advance. The Assembly may be held without publication of summons when shareholders, representing the total capital stock, meet and decisions are taken by unanimity of the shares entitled to right of vote.

**SECTION 16:** Representation in Assemblies: In accordance with Section 6, each share grants the right to ONE (1) vote. The shareholders may have themselves represented in the Assemblies, in accordance to the legal provisions in force.

**SECTION 17:** Presidency of Assemblies: The Assemblies shall be presided over by the Chairman or the Vice-Chairman of the Board of Directors and, in case of their absence, by the Director whom the Assembly may appoint or by ONE (1) of the Syndics.

**SECTION 18:** Quorum and Majorities: Sections 243 and 244 of Law N° 19.550 and its modifications govern with regard to quorum and majorities in ordinary and special assemblies, it being established, however, that these By-Laws or the capital stock of the Corporation shall not be modified without the affirmative vote of the Class A share.

**SECTION 19:** Control: The control of the corporation shall be entrusted to a Syndic's Committee integrated by THREE (3) syndics and THREE (3) alternate syndics, elected ONE (1) permanent syndic and ONE (1) alternate syndic on behalf of Class A, and TWO (2) permanent syndics and TWO (2) alternate syndics on behalf of

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Class B, who shall be in office for the term of ONE (1) year and will be re-eligible. Their resolutions shall be adopted by majority and their abilities and duties are those established by the legal provisions in force. For the fulfilment of these abilities and duties they shall meet at least once every THREE (3) months or whenever it may be requested by any syndic leaving record on a minutes book of the meetings held and the decisions agreed upon. All the meetings shall be notified in writing to the address that each syndic indicates when taking office. In case of absence, disability or death of a syndic, such syndic shall be replaced by his respective alternate, who shall remain in office until the permanent syndic reincorporates or until the due date of the term for which the alternate was elected. The compensation of the syndics shall be determined by the Assembly which appoints them, said compensation to be charged to general expenses, unless there were profits, in which case the procedure established by Section 20 of these By-Laws shall apply.

**SECTION 20:** Fiscal Year. Use of Profits: The fiscal year shall end on December 31 of each year. To that date, the financial statements are to be prepared according to the provisions in force and the technical rules on the subject. The Assembly may modify the date of ending of the fiscal year, registering the pertaining resolution in the Public Registry of Commerce.

The earned and net profits shall be used:

- A) FIVE PER CENT (5%) up to TWENTY PER CENT (20%) of the underwritten capital, shall be destined to the legal reserve fund;
- B) to compensation of the members of the Board of Directors and Syndics;
- C) the balance, as a whole or in part, shall be destined to dividend of the ordinary shares, or to optional reserve fund or provision fund or to new account or to the use the Assembly may determine.

**SECTION 21:** Authority of Enforcement: The Corporation shall be subject to the control of the BANCO CENTRAL DE LA REPUBLICA ARGENTINA, which shall be entitled to issue regulatory rules with regard to the procedure of the Corporation.

**SECTION 22:** Dividends: The dividends shall be paid to the shareholders, proportionally to their respective integrations, exclusively in cash, within THREE (3) months of their approval. The dividends in cash approved by the Assembly and not collected prescribe in favour of the Corporation after the expiration of a THREE (3) years term as from the putting of the dividends at disposal. In such case they will integrate a special reserve, the use of which shall be decided by the Board of Directors.

**SECTION 23:** Winding-up of the Corporation. The winding-up of the Corporation may be performed by the Board of Directors or by the liquidator or liquidators appointed by the Assembly, under the monitoring of the Syndics. Once the liabilities are cancelled and the capital is reimbursed, the amount outstanding shall be distributed among the shareholders, with the priorities indicated in the preceding section.

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# COMMUNICATIONS OF THE BANCO CENTRAL DE LA REPÚBLICA ARGENTINA

## **COMMUNICATION "A" 2337 (MAY 19, 1995)**

The Banco Central de la República Argentina decides to approve the rules of application of the Deposit Insurance System, in the terms contained in the annexes which are part of the communication, and which are a complement of the provisions of Decree N° 540/95, regulatory of section 1 of Law 24.485.

## **COMMUNICATION "B" 5806 (JUNE 9, 1995)**

Issues clarifications to the rules contained in Communication "A" 2337.

## **COMMUNICATION "B" 5847 (AUGUST 8, 1995)**

It reports the assessments of the entities to the Deposit Insurance Fund corresponding to the month of May 1995, which must be taken into account with the purpose of determining the initial participation of said entities in the Trust Agreement which shall act as SEDESA 's shareholder.

## **COMMUNICATION "A" 2399 (DECEMBER 15, 1995)**

The Banco Central de la República Argentina decides to substitute paragraphs 6.4 and 7 of the "Rules of application and complementary rules" of the "Deposit Insurance Fund" (Annex I to Communication "A" 2337), with the following paragraphs:

"6.4. Shall be excluded from the guarantee:

- 6.4.1. The transferable certificates of deposit whose ownership had been acquired by way of endorsement. Even should the last endorsee be the original depositor.
- 6.4.2. The deposits which had been attracted through systems offering incentives or stimulations in addition to the interest rate agreed upon, whatever be the denomination or the form they may adopt (insurances, drawing lots, tourism, lending of services, etc.)".

## **COMMUNICATION "A" 2449 (JUNE 28, 1996)**

Informs on the number and denomination of the account and the entity, to which the assessments to the Deposit Insurance Fund are to be made, as from July 1, 1996.

## **COMMUNICATION "B" 6080 (NOVEMBER 5, 1996)**

In compliance to Section 7 of Decree N° 540/95, the Banco Central de la República Argentina informs the proportion with which each entity participates, to the month of December 1995, in the Trust Agreement which controls SEDESA.

## **COMMUNICATION "A" 2561 (JULY 11, 1997)**

The Banco Central de la República Argentina decides that the rating that the Superintendency of Financial Entities and Foreign Exchange assigns to a financial entity, shall be considered to the purposes of the calculation ("Camel" Indicator) of the assessments to the Deposit Insurance Fund which may be obligatorily required

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as from the third month following that in which the pertaining notification is made.

**COMMUNICATION "B" 6177 (JULY 14, 1997)**

Informs the list of financial entities which to 30.06.97, are included in Law N° 21.526 of Financial Entities.

**COMMUNICATION "A" 2580 (AUGUST 26, 1997)**

With regard to the debtors rating, the Board of Directors of the Banco Central de la República Argentina decides to include in the category "irrecoverable by technical provision" the Trust Agreements in which SEDESA be the beneficiary.

**COMMUNICATION "B" 6215 (SEPTEMBER 17, 1997)**

In compliance to the provisions of section 7 of Decree N° 540/95, modified by Decree N° 1292/96, it informs the proportion with which each financial entity participates, to December 1996, in the Trust Agreement which controls SEDESA.

**COMMUNICATION "A" 2595 (SEPTEMBER 30, 1997)**

The Banco Central de la República Argentina decides that, as from 01.01.98, the attraction of funds belonging to third parties, performed by the financial entities, for amounts over \$500,000- or its equivalent in foreign currency- or the 0.5% of the total deposits (of the entity), whichever is higher, shall only be made against the issuance, in private way, of bonds representative of debt non-issued in series, under the denomination of "Rated Special CDs" ("Certificados de Inversión Calificada"). These deposits, are excluded from the coverage of the deposit insurance system.

**COMMUNICATION "A" 2642 (DECEMBER 24, 1997)**

The Banco Central de la República Argentina decides to postpone, up to 01.04.98, the effective date of the requirement of publication of the ratings of the financial entities.

**COMMUNICATION "A" 2647 (DECEMBER 30, 1997)**

The Banco Central de la República Argentina decides to postpone, up to 02.02.98, the effective date of the provisions regarding "Rated Special CDs" ("Certificados de Inversión Calificada"), which establish that the financial entities (with the exception of those whose rating be equal or higher than "A") shall not be allowed to attract funds from third parties by way of deposits for amounts higher than \$ 500,000.

**COMMUNICATION "A" 2664 (JANUARY 30, 1998)**

The Banco Central de la República Argentina stipulates that the financial trust agreements entered into in accordance to the provisions of Title I of Law 24.441, in whose assets there were credits originated by financial entities, are reached by the Law on Financial Entities, subject to the norms that the Banco Central de la República Argentina may establish, and to the prior authorisation of the Superintendency of Financial and Foreign Exchange Entities of the Banco Central de la República Argentina.

**SEDESA**  
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