SEDESA

Seguro de Depósitos S.A.

Annual Report and
Financial Statements
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I. What is SEDESA – Seguro de Depósitos S.A.?

SEDESA is a private corporation established according to the regime of the Law N° 19.550 and its modifications, 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) and N° 1127/ 98 (O.G. 28.09.98), whose object is the administration –as trustee– of the Deposit Guarantee Fund, also created by said decree in fulfilment of the provisions of 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. The Trustee of the Trust of the financial entities which are Class B shareholders of SEDESA, is the Caja de Valores S.A.

SEDESA's functions, as Administrator of the Deposit Guarantee 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° 540/95 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 regularisation and rehabilitation 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 regularisation and rehabilitation.

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 Guarantee Fund.

6. To make, maintain or finance swap programs 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 Guarantee 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.

II. Composition of the Board of Directors and of the Syndics' Committee

Board of Directors

Chairman
Dr. José Carlos Jaime

Vice Chairman
Lic. Hernán del Villar

Director
Dr. Juan Carlos Fossatti

Alternate Directors
Dr. Hugo Nicolás Bruzone
Dr. Juan Carlos Cassagne
Dr. Eduardo Javier Romero

Syndics' Committee

Syndics
Dr. Carlos María Tombeur
Dr. Jorge Enrique Rivarola
Cdor. Enzo Agustín Vivian

Alternate Syndics
Lic. Daniel Tillard
Cdor. Eduardo Gabriel Ferrari
Dr. Carlos Langbehn

III. Depositor Protection Systems

1. Foreword

It is difficult today to find countries where there does not exist some way of protection to the depositor at financial entities. These protection systems may be explicit or implicit. The dominant international trend is that they be explicit, most of them having the character of limited systems. In this way the depositor enjoys protection up to a certain percentage or to an absolute amount on the deposits he may have performed.

In case it became necessary to meet this type of guarantee explicit and limited, the most usual way is by the use of a fund which, generally, is constituted with assessments from the entities of the financial system in relation to their deposits. Within said assessment, it may be observed, in the new legislations, a trend towards the existence of a basic common assessment and an additional assessment based on certain risk indicators (generally based on capitalisation indexes and on the so-called "CAMEL") presented by each of the entities which contribute with assessments. The contribution to these funds is in most cases compulsive, for which reason they fall within the category of a governmental asset, though their management may be made, within a certain legal framework, by the assessment contributors entities themselves.

Another aspect refers to the autonomy of the agencies, which administer the deposit guarantee systems (DGS). The trend is to separate them from those organizations which may be involved in supervision tasks, so as to avoid what could be called "the supervisors' *moral hazard*".

In short, the trend observed is that of a larger acceptance of those general principles which have originated the creation of a Deposit Guarantee Fund in the Argentine Republic, and of Seguro de Depósitos S.A. as a managing enterprise.

2. Financial Crises: Characteristics and Indicators of Vulnerability

Although financial crises are not a recent phenomenon, the financial innovations and the slow but inexorable integration of the financial markets along the past two decades, seem to have introduced some new elements and concerns. Thus, despite some similarities, the crises occurred in recent years differ from those occurred in a more distant past. Particularly, the effects of their contagious spread seem to have had greater significance.

In the economies of the so-called emerging markets, i.e., in economies that have been significant receivers of private capital inflows and are therefore potentially subject to shifts in market sentiment, different type of economic or financial crises may be observed.

It may be said that a *currency crisis* takes place when speculation on the exchange value of a currency occurs and results in a devaluation (or sharp depreciation) of the currency, or forces the authorities to defend the exchange rate of the currency by expending large volumes of international reserves or by sharply raising interest rates.

A *banking crisis* refers to a situation in which actual or potential bank runs or failures induce banks to suspend the internal convertibility of their liabilities or which compels the government to intervene, to prevent this situation, by extending assistance to the system on a large scale.

When a banking crisis assumes a large magnitude, we are facing the so-called *systemic crisis* or *financial systemic crisis*. The systemic financial crises are, in fact, severe disorganizations of the financial markets which, by impairing the market's ability to function, can have large adverse effects on the real economy. A systemic financial crisis may imply a currency crisis, but a currency crisis does not necessarily imply a severe disruption of the domestic payments system and, therefore, may not result in a systemic financial crisis.

Finally, a *foreign debt crisis* is a situation in which a country cannot service its foreign debt, whether sovereign or private.

A great number of crises have often had common origins: among these, we may point out the concentration of unsustainable economic imbalances and misalignments in asset prices with regard to exchange rates, distortion which is exaggerated within a context of deformations and structural inflexibilities of the financial sector. A crisis may be triggered as well by a sudden loss of confidence in the par value of the currency, as by a loss of confidence in the soundness of the financial system, and may be prompted by such developments as a sudden correction in asset prices, or by the disruption of credit or external financing flows.

The crisis may involve sharp declines in asset prices, and failure of financial institutions and nonfinancial corporations.(1) Of course, not all corrections of imbalances involve a crisis. Whether they do or not depends, apart from the magnitude of the imbalances themselves, on the credibility of policies to correct the imbalances and achieve a "soft landing", and on the robustness of the country's financial system.

All these factors, together, determine the vulnerability of the economy with regard to the crises. Therefore, the crises may be considered consequences of financial or economic disturbances when economies suffer from a high degree of vulnerability.

Sometimes, elements of currency, banking and debt crisis may be present simultaneously, as in the recent East Asian crisis, and in the 1994-95 Mexican crisis. The 1992-93 crises in the countries of the east of Europe were

(1) Not all financial disturbances that produce falling asset prices and wealth losses to particular economic sectors or agents – such as those associated with a collapse of land prices following a boom, or the bursting of bubbles in various asset markets – are to be viewed as true financial crises. Financial disturbances that do not impinge on the payments mechanism and do not have potentially damaging consequences for economic activity have been characterized as "Pseudo-Financial Crises".

essentially currency crises, although the Nordic countries –Finland, Norway and Sweden– that experienced currency crises in 1990-91 also had to face domestic banking crises at the same time. Furthermore, what may start as a determined type of crisis may equally lead to another type of crisis. Frequently, banking crises have preceded currency crises, especially in the developing countries, for instance, in Turkey and Venezuela by mid 1990s. Banking problems have also preceded debt crises, as in Argentina and Chile in 1981/2. The opposite has also happened, for example, in Colombia, Mexico, Peru and Uruguay, where the withdrawal of external financing in 1982 prompted banking crises. More recently, what began as currency crises in some East Asian countries metastasised into banking and debt crises, as illustrated more clearly by the case of Indonesia. However that one type of crisis precedes another does not necessarily imply causality. Banking sector difficulties may not always be apparent, especially in poorly supervised and inadequately regulated systems, or in circumstances where lending booms and asset price inflation may mask banking problems until a correction in asset prices exposes its fragility. The same is true for problems linked to corporate sector indebtedness. In these situations, the fragility of the banking system or the financial soundness of the users of credit may be fully revealed only after a run on the currency has undermined confidence more generally and has precipitated speculative shifts that expose and exacerbate banking and debt problems. This has clearly been a feature of the recent Asian crisis.

The banking crises are difficult to identify empirically, partly because of the nature of the problem and partly owing to the lack of relevant data. Although the data on banking deposits are readily available for most countries, and thus could be used to identify banking crises associated to runs on the banks, most major banking problems in recent years have not originated on the liabilities side of the banks' balance sheets. Thus, among the industrial countries, neither the banking crises in the Nordic countries in the late 1980s and early 1990s, nor the earlier banking problems in several other countries, such as in Spain at the end of the 1970s and in the early 1980s, nor the more recent banking problems in Japan, were associated with runs on deposits. On the other hand, among the developing countries, large withdrawals of deposits and runs on banks have been more frequent; for instance, the banking crises in the 1980s and 1990s in Argentina, the Philippines, Thailand, Turkey, Uruguay, and Venezuela were associated with bank runs. A failure to roll over interbank deposits, as in Korea recently, can have results similar to those of a run on banks. Instances of large deposit withdrawals, however, as in the recent financial crisis in Indonesia, have tended to follow disclosure of difficulties on the assets side or widespread uncertainty about whether the currency would maintain its value. In general, runs on banks are the result rather than the cause of banking problems.

In general, the banking crises originate as a consequence of a prolonged deterioration in the assets quality. This suggests that variables such as the share of nonperforming loans in the banks' portfolios, large fluctuations in real estate or in shares prices, and indicators of business failures could be used to identify crisis episodes. The difficulty remains since the data on such variables, are not readily available in many developing countries, or are incomplete (as it happens for instance with the data on nonperforming loans in many countries). In the cases where central banks have detailed information on nonperforming loans, it is usually laxity in the analysis of the data, and in the follow-up actions in response to said data, what allows the situation to deteriorate to the point of a crisis.

When comparing countries with industrialised markets with those of emerging markets, it would seem that the industrial countries had less currency crises and banking crises than the emerging market countries, during the period being analysed. The incidence of currency crises in emerging market countries was double as compared with those occurred in the industrial countries, while the incidence of banking crises in emerging market countries was more than double than those occurred in industrial countries. It would also seem that most of the industrial country currency crises occurred in the first half of the period being analysed, while most of the industrial country banking crises occurred in the second half. For emerging market countries, the frequency of currency crises shows no marked trend, while banking crises are clustered in the early 1980s and 1990s.

Given the fact that the two types of crises may have common origins, or that one type of crisis may induce the other, it is not surprising that countries appear to have banking and currency crises at around the same time. In these instances, banking crises preceded currency crises more often than the other way round. Taking the dates of the identified crises on an annual basis, banking crises preceded currency crises by one year on 13 occasions, and by two years on 10 other occasions. The crises were contemporaneous in 12 instances.(2) Currency crises preceded banking crises by one year only seven times, and by two years another four times.

This evidence, while suggestive, should be interpreted with caution in view of the difficulties in dating the beginning of banking crises.

Financial crises can be very costly, both in the fiscal and quasi-fiscal costs of restructuring the financial sector and, more broadly, in the effect on economic activity of the inability of financial markets to function effectively. In general, the resolution costs of banking crises have been higher in emerging market countries than in industrial countries; with the exception of Spain, the resolution costs in industrial countries have been held to under 10 per cent of Gross Domestic Product (GDP) whereas in several emerging market countries, resolution costs have been much larger. (3)

In addition to their fiscal and quasi-fiscal costs, banking and currency

(2) Currency and banking crises seem to have become more contemporaneous in the late 1980s, according to the IMF: 10 of the 12 instances in which banking and currency crises occurred in the same year have taken place since 1989.

(3) However, since any resolution of a banking crisis generally involves some elements of net resource transfers among different groups in an economy, the fiscal costs associated with restructuring operations are likely to overstate the true welfare cost.

crises may also lead to misallocation and underutilization of resources, and thus, to losses of real GDP. In some instances, however, crises may not lead to GDP losses, such as when the crisis simply brings about a needed correction of a misaligned exchange rate. To obtain a rough assessment of the costs in terms of lost GDP, the growth of the GDP after a crisis was compared with trend of GDP growth. The cost in terms of lost GDP was later estimated by adding up the differences between the trend of growth and the real growth in the years following the crisis up to the time when annual GDP growth returned to its trend. For the currency crises, on average, GDP growth returned to trend in a little over than one and one-half years, and the cumulative loss of GDP growth per crisis was of 4 1/4 percentage points (with reference to the trend). For "severe" currency crises, the recovery time and the cumulative loss of GDP growth per currency crisis grew to two and a quarter years and to 8 1/4 percentage points, respectively.

What is not surprising, is that the banking crises were more prolonged and more costly than the currency crises: on average, it took three years for GDP growth to return to its trend, and the average cumulative loss in GDP growth was of 11 1/2 percentage points.(4)

It was also observed that, when banking crises occurred within a year of currency crises, the losses were substantially larger, amounting to 14 1/2 percent, on average. It is interesting to note that, for both currency and banking crises the average recovery time was shorter in emerging market countries than in industrial countries, but the cumulative GDP loss was on average larger. The differences in recovery time and cumulative GDP losses may result, in part, from the higher mean and variance of GDP growth in emerging market countries compared with industrial countries.(5) These results are applicable to the group of countries and to the time period used in this analysis; results will obviously differ from case to case.

The factors that underlie the imbalances and that render an economy vulnerable to financial disturbances may be grouped under the following (not mutually exclusive) headings: unsustainable macroeconomic policies, weaknesses in financial structure, global financial conditions, exchange rate misalignment, and political instability.

In addition, there is a natural tendency for economic activity to fluctuate, giving rise to shifts in market behaviour that can contribute to generate stresses in the financial system. These factors made up the conditions under which crises occur and should be distinguished from the proximate causes (or triggers) of crises, which are usually events or

(4) This should be viewed only as an indicative of the macroeconomic costs associated with the banking crises and not as suggesting that the banking crises caused such GDP losses. Recessions may give origin to banking crises, which then amplify the recessions. Furthermore, the magnitude of the GDP losses for different countries may depend on their specific cyclical positions before the crisis. It is, in principle, possible to derive GDP losses correcting for each country's cyclical positions, but, since the cyclical positions of the 50 countries in the sample have not been closely synchronized, the effect of the corrections on the average losses would be limited.

(5) The mean and standard deviation of output growth were 4.5 per cent and 3.7 per cent, respectively, for emerging market countries; they were 2.7 per cent and 2.3 per cent, respectively, for industrial countries.

piece of news that lead economic agents to reassess their positions.

Macroeconomic instability has been an important underlying factor in many financial crises. In many cases, overly expansionary monetary and fiscal policies have spurred lending booms, which have conducted to an excessive debt accumulation, and to overinvestment in real assets, which have driven up equity and real estate prices to unsustainable levels. The eventual tightening of policies to contain inflation and promote the adjustment of external positions, and the inevitable correction of asset prices, have then led to a slowdown in economic activity, to difficulties in debt-servicing, to declining collateral values and in net worth, and to rising levels of nonperforming loans that threaten the solvency of the financial entities. Macroeconomic factors, especially lending booms, have been found to play an important role in creating financial sector vulnerability in many Latin American countries, as well as in other emerging market economies. Macroeconomic instability has been an important underlying factor also in most of the banking crises experienced by industrial countries in the post-war period.

In addition to domestic macroeconomic conditions, external conditions have also played a role in financial crises, especially in emerging market economies. Most notables have been sudden, large shifts in the terms of trade and in world interest rates.

An unanticipated drop in export prices, for instance, can impair the capacity of domestic firms to service their debts and can result in a deterioration in the quality of banks' loan portfolios. Movements in interest rates in the major industrial countries have become increasingly important to emerging market economies, reflecting the increasing integration of world capital markets and the globalisation of investment. Sustained declines in world interest rates have induced surges in capital flows to emerging market countries, as international investors have sought higher yields and as the creditworthiness of externally indebted countries has benefited from lower rates.

An abrupt rise in industrial country interest rates, however, can curb the flow of foreign financing to emerging markets, raising the cost to domestic banks (and firms) of funding themselves offshore and increasing adverse selection and *moral hazard* problems and the fragility of the financial system.

Some recent empirical research has found that the incidence of banking crises in emerging market economies is systemically related to changes in global financial conditions.

Changes occurred in recent decades in the maturity structure and composition of portfolio investment flows, and in interest rate arrangements, have altered the vulnerability of countries to shocks. In the high-inflation environment of the 1970s, international transactions shifted toward shorter maturities and variable interest rates. Thus, the debt crisis of 1982 was worsened because much of the external debt of Latin American countries affected by the crisis was tied to short-term rates. More recently, the syndicated bank loans of the 1980s were replaced by equity and bond investments as the preferred vehicles of international lending. This has been viewed by some as having made sudden withdrawals of capital more difficult, since during crises foreign investors may not only incur foreign exchange losses but also face falling domestic asset prices. The crises in Mexico and East Asia, however, have clearly demonstrated the dangers of high levels of short-term, foreign-currency-denominated debt, whether sovereign or private.

Thus preventive action appears as an important element, together with all those measures leading to the solution of the problems described above. In such sense, and strictly related with our enterprise task, the sequence of resolutions which, as a consequence of the crises of the second half of the past decade, are being adopted by the financial authorities of the United States and particularly of the Federal Deposit Insurance Corporation (FDIC) is of great interest, as may be seen on pages16 and 17.

The Bank for International Settlements through its Committee of Banking Supervision, better known as the Basle Committee, has continued its efforts in the development of new supervision policies. In its last Report it refers to two aspects. The first one deals with all those situations which, in the field of informatics, are brought about by the advent of year 2000, while the second has to do with the adoption of basic principles for the supervision task in countries other than those of the G10.

As we had mentioned in page 14 of our Annual Report corresponding to Fiscal Year closed on December 1997, we consider of utmost importance to summarise them.

3.The Core Principles

The Basle Committee on Banking Supervision has formulated 25 basic principles (The Basle Core Principles) with which, according to its view, it must be counted upon if a supervision system is to be effective. Such principles may be summarised in the following way:

1. A system of banking supervision should have clear responsibilities and objectives for each agency involved in the supervision of financial institutions. Each such agency should possess operational independence and count on adequate resources. With the purpose that its legal framework be suitable, it should include provisions relating to authorisation of financial institutions and their ongoing supervision, and grant powers to address compliance with laws, as well as safety and soundness concerns, and of legal protection for the supervisors. It should also count on arrangements for sharing information among supervisors and protect its confidentiality.
2. The permissible activities of institutions that are licensed and subject to supervision should be clearly defined, and the use of the word "bank" in names must be controlled as far as possible.

Summary of Prompt Corrective Action Provisions

Degree of Capitalisation of the Financial Entity	Mandatory Provisions
1. Well capitalised	
2. Adequately capitalised	2.1 Limitation to the acceptance of brokerage deposits, except with the approval of the FDIC
3. Undercapitalised	3.1 Suspend dividends and management fees 3.2 Require capital restoration plan 3.3 Restrict asset growth 3.4 Approval required for acquisitions, branching, and new activities 3.5 Does not take into account the deposit balances
4. Significantly undercapitalised	4.1 Same as for Item 3 4.2 Order recapitalization (6) 4.3 Restrict inter-affiliate transactions (6) 4.4 Restrict deposit interest rates (6) 4.5 Pay of officers restricted (6)
5. Critically undercapitalised	5.1 Same as for Item 4 5.2 Receiver/conservator within 90 days (6) 5.3 Receiver if still in Item 5, four quarters after becoming critically undercapitalised 5.4 Suspend payments on subordinated debt (6) 5.5 Restrict certain other activities

(*) In accordance with the definitions of International Convergence of Capital Measurement and Capital Standards (Basle Committee on Banking Supervision, July 1988)
(6) Not required if primary supervisor determines action would not serve purpose of prompt corrective action or if certain other conditions are met.
(7) Tangible equity only.

	Capital Ratios (%)		
		Risk-based on the Assets	With regard to Liabilities
Additional Provisions of the FDIC	**Total Tier 1 + Tier 2**	**Tier 1**	**Tier 1 (*)**
	More than 10	More than 6	More than 5
	Between 8 and 10	Between 4 and 6	Between 4 and 5
Order recapitalization Restrict inter-affiliate transactions Restrict rates of interest on deposits Restrict certain other activities Any other action that would better carry out prompt corrective action	Between 6 and 8	Between 3 and 4	Between 3 and 4
Any discretionary actions mentioned in Item 3 Conservatorship or receivership if fails to submit or implement plan or recapitalize pursuant to order Any other provision mentioned in Item 5, if such action is necessary to carry out prompt corrective action	Less than 6	Less than 3	Between 2 and 3
			Less than 2 (7)

3. The licensing authority must have the right to set criteria of authorisation and to reject applications that do not meet the standards set. The licensing process, at a minimum, should consist of an assessment of the banking organization's ownership structure, of its directors, and managers; of its operational plan and internal controls; and of its projected financial conditions, including its capital base. Where the proposed owner or parent organisation is a foreign bank, the prior consent of its home country supervisor should be obtained.
4. The banking supervisors must have the authority to review and reject any proposals to transfer significant ownership or controlling interests in existing banks to other entities.
5. The banking supervisors must have authority to establish criteria to accept or reject major acquisitions or investments by a bank and to ensure that corporate affiliations do not expose the bank to undue risks or hinder effective supervision.
6. In a general and uniform way, banking supervisors must set prudent and appropriate minimum capital adequacy requirements. These requirements should reflect the risks that the bank undertake and must define the components of capital, bearing in mind their ability to absorb losses. At least for internationally active banks, these requirements should not be less than those established in the Basle Capital Accord regarding minimum capital ratio and its amendments.
7. An essential part of any supervisors system is the evaluation of a bank's policies, practices and procedures related to the granting of loans and making of investments, and the ongoing management of the loan and investment portfolios.
8. The banking supervisors must assure themselves that the banks establish and adhere to adequate policies and procedures for evaluating the quality of assets and the adequacy of loan-loss provisions and reserves.
9. The banking supervisors must be satisfied that banks have management information systems that enable management to identify concentrations within the portfolio. Supervisors must set prudential limits to restrict bank exposures to single borrowers or groups of related borrowers.
10. To prevent abuses arising from connected lending, banking supervisors must have in place requirements through which the bank loan to connected companies and individuals are made on the basis of equal commercial conditions, that such granting of loans be effective and continually evaluated, and that other appropriate steps are taken to control or mitigate the risks.
11. Banking supervisors must be satisfied that banks have adequate policies and procedures for identifying, monitoring, and controlling country risk and transfer risk in their international lending and investment activities, and for maintaining appropriate reserves to face such risks.

12. Banking supervisors must be satisfied that banks have in place systems that accurately measure, monitor and adequately control market risks; supervisors should have authority to impose specific limits and additional capital requirements (or both) on market risk exposures, if warranted.
13. Bank supervisors must be satisfied that banks have in place a comprehensive risk management process (including appropriate board and senior management oversight) which enables to identify, measure, monitor and control all other material risks and, where appropriate, to hold capital in reserve to face such risks.
14. Banking supervisors must determine that banks have in place internal controls that are adequate for the nature and scale of their business. Such controls should include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, movements of funds, and a correct accounting for its assets and liabilities; reconciliation of these processes, safeguarding its assets and liabilities, and an appropriate and independent internal or external audit, as well as verification systems to test adherence to these controls as well as applicable laws and regulations.
15. Banking supervisors must determine that banks have adequate policies, practices and procedures in place, including strict "know-your-customer" rules, that promote high ethical and professional standards in the financial sector so as to prevent the bank being used, intentionally or not, by criminal elements.
16. An effective banking supervisory system should provide some form of both on-site and external supervision.
17. Banking supervisors must have regular contact with bank management and thorough understanding of the institution's operations.
18. Banking supervisors must count on means that enable them to collect, review and analyse prudential reports and statistical returns from banks on a solo or consolidated basis.
19. Banking supervisors must have a means of independent validation of supervisory information, either through on-site examinations or use of external auditors.
20. An essential element of banking supervision rests on the ability of its officers to supervise the banking group on a consolidated basis.
21. Banking supervisors must be satisfied that each bank maintains adequate records drawn up in accordance with consistent accounting policies and practices that enable the supervisor to obtain a true and fair view of the financial condition of the bank and the profitability of its business, and that the bank publishes on a regular basis financial statements that fairly reflect its condition.
22. Banking supervisors must have at their disposal adequate supervisory measures to bring about timely corrective action when banks fail to meet prudential requirements (such as minimum capital adequacy

ratios), or when there are regulatory violations, or when depositors are threatened in any other way. In extreme circumstances, this should include the ability to revoke the banking license or recommend its revocation.

23. Banking supervisors must practise global consolidated supervision over internationally active financial entities, adequately monitoring and applying appropriate prudential norms to all aspects of the business conducted by these banking organizations world-wide, primarily at their foreign branches, joint ventures and subsidiaries.
24. A key component of consolidated supervision is establishing contact and information exchange with the various other supervisors involved, primarily the supervisory authorities of those countries where the supervised bank has affiliates or banking investments.
25. Banking supervisors must require the local operations of foreign banks to be conducted to the same high standards as are required of domestic institutions, and must have authority to share information needed by the home-country supervisors of those banks for the purpose of carrying out consolidated supervision.

The Asian Crisis and the DGS

The crises in the Southeast of Asia, interpreting as such those that have taken place in Korea, Malaysia, Philippines and Thailand, have given origin to a great number of measures, both to counteract their effects and to avoid their renewal in the future.

In this sense, it was interpreted that the financial sector restructuring needs are an integral part of the adjustment and economic recovery processes, since they are necessary to re-establish the intermediation process and to make credit flow towards viable enterprises.

One of the most important aspects is that the early diagnosis of the causes of crises in financial entities and their prompt resolution, is an essential element to achieve a complete restructuring of the system. In its practical aspects, this includes the recapitalization or the closure of insolvent banks, the taking charge, by the shareholders, of the losses of the institutions and that the small depositors be protected through formal deposit guarantee schemes. In this sense, it must be pointed out that, before the crisis occurred by mid-1997, a formal system of deposit protection existed only in Korea and Philippines, while nowadays, either they have been adopted, they are planned or they are under legal consideration, in all the aforementioned countries.

4. Compared Systems

Even if there is not a set of universally accepted rules, nor a general framework within which they act individually, as it happens with the capital guidelines suggested by the Basle Committee of Banking Supervision of the Bank for International Settlements, it may be observed, in the field of the DGS, that there are trends which are acquiring worldwide spread.

One of them is that which refers to the adoption of explicit systems with a limited guarantee which are generally the result of previous crisis situations or are also the consequence of a process of financial liberalisation and high competitivity among the institutions, as has happened in countries such as Korea, Sweden, Norway, Denmark and Finland, where the previous implicit systems of full guarantee have become explicit and restricted systems. It is also worthwhile mentioning that Japan, which has resorted to a system of almost full coverage, during the crisis which broke out with strength as of 1995-97, removes the full guarantee as of March 2001.

It is a present concern of the guarantee funds to try to act –in common agreement with the supervisory entities– in preventive actions, which have significantly increased the recovery rate of the funds advanced for the transactions in charge of the DGS, as it may be observed in cases taken care of by the Hungarian National Fund of Deposit Guarantee, where at the time of its creation, 1993, the recovery rate was nil, while cases may now be observed where the rate of recovery reaches 80 or 90 %.

Thus, the need arises for a close cooperation between the DGS and the supervisory agencies. In this aspect, it is important to point out the case of Canada, where, although the Canadian deposit guarantee has no supervisory functions, it suggests the adoption of regulations leading to sounder practices and is part of the Committee of Supervision of Financial Entities, in a joint way with the Bank of Canada, the Department of Finances and the Superintendency of Financial Entities.

It is difficult to find identical deposit guarantee systems; the substantial differences appear when we try to classify them between *implicit* or *explicit*. A research carried out in 1999 by the International Monetary Fund gave as a result that, over 72 systems analysed, 68 were explicit and that this type of system was predominant in countries of Europe and America.

Within the explicit systems, it may be established with certainty that 58 of them are funded from a fund constituted by the assessments of the entities belonging to the financial system. Such assessments vary in their way of calculation as well as in their mode of fulfilment. Most of them take as a basis of calculation the deposits existing in the financial entities, very few are based on the assets, and scarce are those which refer to the total liabilities.

As for the mode of assessment, they vary between cash assessments or payment promises. This last mode is scarce and is preferently found among those countries where there exists a system substantially concentrated in local banks which use the depositor protection mechanism as a legal "cartelization" instrument.

It may also be stated that the characteristic of the assessments is highly influenced by the way central banks work as *lenders of last resort* and by the degree of concentration of the financial system.

From the international comparison three important aspects arise:

1. The main explicit DGS rest on the assessments of the financial entities and, within them, the new legislations are inscribed in what the Bank for International Settlements has denominated as "depositor protection".
2. In its last guideline on the subject (May 1994), the European Union reaffirms the aforementioned concept and aims at unifying the assessments so as not to distort 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 guarantee, at the United States of America, represents a 76% of the total. At present, the FDIC's assessments, taking into account that the amount of 1.25% on the total amount of deposits has been reached, have been significantly reduced, it being nil for those banks which present an optimum capitalisation and management.

5. Summary of the Characteristics of the Main DGS Organizations

Examining the systems which are based on cash assessments to a Deposit Guarantee Fund, the following percentages of assessments have been identified (Table I and II):

Table I. Yearly assessments of the entities to explicit systems, in different countries (in Basis Points)		Table II. Countries listed by level of assessment of the entities to explicit systems (in Basis Points)	
Argentina (*)	36 to 72	Austria	At request
Austria	At request	Luxembourg	At request
Bahrain	In charge of the Gov.	The Netherlands	At request
Bangladesh	8	Switzerland	At request
Belgium	2 to 6	Venezuela	200
Brazil	30	Lithuania	150
Bulgaria	50	Peru	65 to 145
Canada	33	Greece	2.5 to 125
Chile	Implicit	Mexico	120
Colombia	30	Turkey	100
Croatia	80	Nigeria	93.75
Czech Republic	50	Croatia	80
Denmark	20	Italy	40 to 80
Dominican Rep.	19	**Argentina (*)**	36 to 72
El Salvador	In charge of the Gov.	Romania	30 to 60
Finland	5 to 30	Bulgaria	50

Table I. Yearly assessments of the entities to explicit systems, in different countries (in Basis Points) *(continued)*

France	30
Germany	0.4 to 10
Greece	2.5 to 125
Hungary	20 to 30
Iceland	15
India	5
Ireland	20
Italy	40 to 80
Jamaica	10
Japan	8.4
Kenya	15
Korea	5 to 15
Latvia	30
Lebanon	10
Lithuania	150
Luxembourg	At request
Mexico	120
Morocco	15
Netherlands	At request
Nigeria	93.75
Norway	10
Oman	2
Peru	65 to 145
Philippines	20
Poland	40
Portugal	8 to 12
Romania	30 to 60
Slovak Republic	10 to 30
Spain	10
Sweden	50
Switzerland	At request
Taiwan	1.5
Tanzania	10
Trinidad & Tobago	20
Turkey	100
Uganda	40
United Kingdom	30
United States	27
Venezuela	200

Table II. Countries listed by level of assessment of the entities to explicit systems (in Basis Points) *(continued)*

Czech Republic	50
Sweden	50
Poland	40
Uganda	40
Canada	33
Brazil	30
Colombia	30
France	30
Latvia	30
United Kingdom	30
Hungary	20 to 30
Slovak Republic	10 to 30
Finland	5 to 30
United States	27
Denmark	20
Ireland	20
Philippines	20
Trinidad & Tobago	20
Dominican Rep.	19
Iceland	15
Kenya	15
Morocco	15
Korea	5 to 15
Portugal	8 to 12
Jamaica	10
Lebanon	10
Norway	10
Spain	10
Tanzania	10
Germany	0.4 to10
Japan	8.4
Bangladesh	8
Belgium	2 to 6
India	5
Oman	2
Taiwan	1.5
Chile	Implicit
Bahrain	In charge of the Gov.
El Salvador	In charge of the Gov.

(*) Cash assessment calculated on a yearly basis: 43.18 B.P.

On the basis of information received from the deposit guarantee organizations themselves, of information proceeding from the different organizations which manage deposit guarantee systems, from Central Banks, from the International Monetary Fund, from the Office of the Comptroller of Currency, from the Federal Deposit Insurance Corporation, from the Bank for International Settlements, it has been possible to draft Table III, in which the following abbreviations have been used:

PU: System managed by a Government agency
PR: System managed by a private entity
JOINT: System jointly managed by Government authorities and by banks which are a part of the system

Table III. Characteristics of Some explicit DGS

Country	Type of System	Management	Administration Characteristics	Assessment Characteristics and Year of Creation	Protection Level in the Currency of Origin	Protection Level in Argentine Pesos (8)	Assessment System (in Basis Points)	Contingency Assessments
Argentina	Deposit Guarantee Fund	Seguro de Depósitos S.A. (SEDESA)	PR	Compulsory 1995	Deposits at sight or term deposits, up to pesos 30,000 per account	30,000	Between 36 and 72 yearly BP of the average deposits in each entity, depending on its risk prime	The Central Bank can demand from the entities the advance in the integration of up to two years of the minimum foreseen for the normal assessments
Austria	Deposit Guarantee Fund	Austrian Banking Association	PR	Compulsory 1979	275,000 Shillings	23,335	On demand. Prorrata ex post	Max. a third of the liabilities reserves of the member banks. Government bonds may be issued
Bahrain			JOINT	Compulsory 1993	100% up to 2,000 Dinar. Over this amount, 75% up to a max. of 3,5 million 60,000 Taka	100% up to $ 5,320. Over this amount, 75% up to a max. of 9,3 million 1,237	In charge of the Government	

8. *The rate of exchange prevailing in the diverse countries with regard to the Argentine Peso, as of December 1998, was applied. To that date, the par value Argentine Peso/USA Dollars was of 1$/U$S.*

Table III. Characteristics of Some explicit DGS *(continued)*								
Country	Type of System	Management	Administration Characteristics	Assessment Characteristics and Year of Creation	Protection Level in the Currency of Origin	Protection Level in Argentine Pesos (8)	Assessment System (in Basis Points)	Contingency Assessments
Bangladesh	Deposit Insurance Fund		PU	Compulsory 1984			8 yearly BP (0.04% semi-annually) on deposits in Taka	
Belgium	Intervention Fund (9)	Rediscount and Guarantee Institute	JOINT	Compulsory 1974	600,000 Francs	17,501	Between 2 and 6 yearly BP on deposits in Francs, depending on the level of the Fund	None; the insurance is limited to the assets existing in the fund
Brazil			PR	Compulsory 1995	20,000 Reales	16,543	30 yearly BP	
Bulgaria			JOINT	Compulsory 1995	3,000,000 Levas	1,791	50 yearly BP	The Fund has the right to request advances (up to 150 BP) and loans and to receive grants and external assistance
Canada	Deposit Insurance Corporation of Canada	Deposit Insurance Corporation of Canada	PU	Compulsory 1967	60,000 Canadian Dollars	39,203	Up to 33 yearly BP depending on the risk	It may enter into loans of up to 6 billion Dollars without authorization; additional loans subject to Parliamentary approval
Chile	In charge of the Central Bank of Chile		PU	Compulsory 1986	90% up to 120 financial units (U$S 3,600)	90% up to 3,600	Implicit, in charge of the financial entities	
Colombia	Deposit Insurance	Financial Institutions Guarantee Fund (FOGAFIM)	PU	Compulsory 1985		5,500	30 yearly BP	

9. *The Intervention Fund was created through a protocol signed by the Institute for Rediscount and Guarantee and the Belgium Banking Association. It 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.*

Table III. Characteristics of Some explicit DGS *(continued)*

Country	Type of System	Management	Administration Characteristics	Assessment Characteristics and Year of Creation	Protection Level in the Currency of Origin	Protection Level in Argentine Pesos (8)	Assessment System (in Basis Points)	Contingency Assessments
Croatia			PR	Compulsory 1997	100,000 Kunas	16,005	80 yearly BP.	The Fund can request loans from the Central Bank
Czech Republic	Deposit Insurance Fund		PU	Compulsory 1994	Partial coverage, up to 360,000 Koruny	Partial coverage, up to 12,000	50 yearly BP on the total deposits. 10 BP in the case of the so-called "savings" banks	The Central Bank and the Government can make loans to the Fund, with the purpose of covering lack of resources
Denmark	Deposit Insurance Fund	Deposit Insurance Fund	JOINT	Compulsory 1988	297,560 Kroner	46,588	Max: 20 yearly BP	Loans with possible guarantee from the Ministry of Industry, prior approval of the Parliamentary Committee on Finance
Dominican Republic			JOINT	Voluntary 1962	Partial coverage up to 205,244 Pesos	Partial coverage,up to 13,000	19 yearly BP	
El Salvador			PU	1991	55,000 Colones	6,282	Made by the Government	
Finland	Deposit Guarantee Fund of the Commercial Banks (10)	Board of Government	PR	Compulsory 1969	178,500 Markaa	35,002	Between 5 and 30 yearly BP on the insured deposits, depending on the risk	The Government and the Central Bank have absorbed losses
France	Deposit Guarantee Fund	French Banking Association	PR	Compulsory 1980	400,136 Francs	71,173	On demand on a regressive scale, "calls" of up to 200 million Francs per year ($ 36,4). Max: 30 yearly BP	Extra "calls" of up to 1,000 million Francs may be made with regard to a five year period

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 savings banks and co-operative banks.*

Table III. Characteristics of Some explicit DGS *(continued)*

Country	Type of System	Management	Administration Characteristics	Assessment Characteristics and Year of Creation	Protection Level in the Currency of Origin	Protection Level in Argentine Pesos (8)	Assessment System (in Basis Points)	Contingency Assessments
Germany	Deposit Insurance Fund	Federal German Banking Association	PR	Compulsory 1966 (11)	Up to 30% of the core capital of the bank per depositor	Up to 30% of the core capital of the bank per depositor	Private: from 0.4 to 10 yearly BP. Government: 3 yearly BP	The yearly Government assessment may be doubled
Greece			JOINT	Compulsory 1993	6,600,000 Drachmas	23,357	From 2.5 to 125 yearly BP	
Hungary	National Deposit Insurance Fund	Government Board	JOINT	Compulsory 1993	Up to 1,000,000 Forint	Up to 4,566	From 20 to 30 yearly BP, depending on the risk premium of the entity	The Government collateralizes the loans that the Fund may request from the Central Bank or credit institutions
Iceland	It has two systems of protection: for commercial banks and for savings banks. Both are monitored by the Supervision Agency		PU (commercial) and PR (savings)	Compulsory 1985	100% up to 20,000 ECU. Above this amount, the percentage depends on the resources of the Fund	100% up to 23,882. Above this amount, the percentage depends on the resources of the Fund	15 yearly BP	
India	Deposit Insurance and Credit Guarantee Corporation	Deposit Insurance and Credit Guarantee Corporation	PU	Compulsory 1961	100,000 Rupees	2,354	5 yearly BP on the total deposits	Government support through the Reserve Bank subject to prior parliamentary approval
Ireland	Deposit Protection Fund	Central Bank of Ireland	PU	Compulsory 1980	90% up to 11,768 Pounds (12)	90% up to 17,570	20 yearly BP on the total deposits in Pounds	The Fund is recalculated every year

11. *Voluntary, but de facto compulsory, since a banking license will not be issued to a bank that does not participate in a depositor protection scheme. There are different private schemes for commercial banks, savings banks and credit co-operatives. As of August 1998 there is also a government scheme which is compulsory for commercial banks.*

12. *In Ireland, as from year 2000, the maximum protection will be of 20,000 ECU.*

Table III. Characteristics of Some explicit DGS *(continued)*

Country	Type of System	Management	Administration Characteristics	Assessment Characteristics and Year of Creation	Protection Level in the Currency of Origin	Protection Level in Argentine Pesos (8)	Assessment System (in Basis Points)	Contingency Assessments
Italy	Interbank Deposit Protection Fund (13)	Council of the Interbank Deposit Protection Fund	PR	Compulsory 1987	193,630,000 Lire	117,132	On demand. Between 40 and 80 yearly BP, depending on risk and amount	Should the Fund be insufficient, there is no contingency support. In such case, two options are possible: to defer payment or to diminish the compensation to be paid
Jamaica			PU	Compulsory 1998	200,000 Jamaica Dollars	5,397	10 yearly BP	The Fund may request loans of money to the market or to the Government
Japan	Deposit Insurance Corporation (14)	Deposit Insurance Corporation	JOINT	Compulsory 1971	Without limits up to March 2001	Without limits up to March 2001	8,4 yearly BP on the deposits in Yens registered on Japanese territory	Loans of up to 500 billion Yens from the Bank of Japan, subject to the approval of the Ministry of Finance
Kenya	Deposit Guarantee System		PU	Compulsory 1985	100,000 Shillings	1,615	15 yearly BP	The Central Bank can make loans to the Deposit Guarantee System
Korea	Deposit Insurance System	Deposit Insurance Corporation of Korea	PR	Compulsory 1996	Without limits up to year 2000	Without limits up to year 2000	5 yearly BP for commercial banks and 15 yearly BP for other financial non-banking intermediaries	The Fund can request the loan of resources from the Government or the Central Bank, prior approval of the Ministry of Finance
Latvia			PU	Compulsory 1998		830 up to year 2000 (15)	30 yearly BP	
Lebanon			PR	Compulsory 1967	5,000,000 Lebanese Pounds	3,300	5 yearly BP in charge of the entities + 5 BP in charge of the Government	The Central Bank can make loans without charging interests

13. *The Interbank Deposit Protection Fund is organised as a banks' consortium under the aegis of the Italian Banking Association and the Banca d'Italia. Being a member of this Fund is a pre-requisite for performing banking activity. Though the guarantee scheme has private characteristics, many decisions must be approved by the Central Bank.*

14. *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.*

15. *In Latvia, the coverage will be increased gradually so as to reach 20,000 ECU in the year 2000.*

Table III. Characteristics of Some explicit DGS *(continued)*

Country	Type of System	Management	Administration Characteristics	Assessment Characteristics and Year of Creation	Protection Level in the Currency of Origin	Protection Level in Argentine Pesos (8)	Assessment System (in Basis Points)	Contingency Assessments
Lithuania			PU	Compulsory 1996	100% up to 25,000 Lats; above this, partial coverage	100% up to 6,250; over this, partial coverage	150 yearly BP	The Government can contribute additional resources
Luxembourg	Deposit Guarantee	Association for the Deposit Guarantee (16)	PR	Voluntary 1989	605,100 Francs	17,500	On demand, and it may not exceed, each year, 5% of the capital of the contributing entities	
Mexico		Banking Fund for Savings Protection (FOBAPROA)	PU	Compulsory 1986	Without limits	Without limits	50 yearly BP + extra 70 BP	The Fund has requested loans to the Central Bank and to the Ministry of Finance
Morocco	Collective Deposit Guarantee Fund	Central Bank	PU	Compulsory 1993	50,000 Dirhams	5,402	15 yearly BP on deposits	
Netherlands	Collective Guarantee System (17)	The Netherlands Bank	PU	Compulsory 1979	44,074 Guilders	23,334	On demand, ex post	The Central Bank can grant loans without interest
Nigeria	Deposit Insurance Corporation	Deposit Insurance Corporation of Nigeria	PU	Compulsory 1988	50,000 Naira (18)	2,285	93,75 yearly BP	The Government can make loans
Norway	Commercial Banks' Contingency Fund (19)	Commercial Banks' Contingency Fund Board	PR	Compulsory	2,000,000 Kroner		10 yearly BP plus an adjustment	Guarantees issued by the member banks in proportion to their non-covered deposits; these guarantees are collaterized with cash or with Government bonds deposited with the Bank of Norway

16. *It is a mutual, non-profit making association.*

17. *The Collective Guarantee System is established in joint co-operation between the banks and the Bank of the Netherlands.*

18. *It only covers deposits on current accounts and savings deposits in local currency and excludes interbank deposits.*

19. *The Contingency Fund is an independent legal entity and its activities are administered by a board of directors comprising seven members. Five of the 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. A similar regime to that of the commercial banks exists for the savings banks, and this last scheme is obligatory since 1924.*

Table III. Characteristics of Some explicit DGS *(continued)*

Country	Type of System	Management	Administration Characteristics	Assessment Characteristics and Year of Creation	Protection Level in the Currency of Origin	Protection Level in Argentine Pesos (8)	Assessment System (in Basis Points)	Contingency Assessments
Oman			JOINT	1988 Compulsory 1995	20,000 Rials Omani	263,158 52,015	for risk level 2 yearly BP of the deposits	The Fund may request the loan of funds to the Government, the Central Bank and the banks which are part of the system
Peru	Deposit Guarantee Fund	Superintendence of Bank and Insurance	PR	Compulsory 1992	63,702 Nuevos Soles (20)	20,160	From 45 to 145 BP, depending on the risk	The Fund may request funds from the Treasury
Philippines	Philippines Deposit Insurance Corporation	Philippines Deposit Insurance Corporation (21)	PU	Compulsory 1963	100,000 Pesos Filipinos	2,560	20 yearly BP on the total deposits	The Government has made a contribution of 3,000 million Pesos Filipinos. Any additional contribution requires legislative sanction. In cases of urgency it is authorized to take credits from the Central Bank or from other banks that have been appointed fiscal agents or government depositories
Poland	Fund for the Protection of Banking Deposits	Fund for Banking Guarantee	PU	Compulsory 1995	100% up to 1,000 ECU + 90% for the amounts between 1,000 and 4,000 ECU	100% for the amounts up to 1,194.1 + 90% for the amounts between 1,194.1 and 4,776.4	Up to 40 yearly BP (22)	
Portugal			PU	Compulsory 1992	Total up to 3,018,300 Escudos. Partial above this amount and up to 9,054,900 Up to	Total up to 17,566. Partial above this amount and up to 52,698	Between 8 and 12 yearly BP, depending on risk	In special cases, it may request additional assessments

20. *Adjustable according to inflation. Per depositor and only up to two deposits in two different institutions per year.*
21. *The Philippines Deposit Insurance Corporation Board is chaired by the Secretary of Finance, with the President of the Corporation acting as Alternate. The Central Bank Governor and two representatives of the private banks integrate this five-member board.*
22. *The banks with government guarantee contribute up to 20 BP.*

Table III. Characteristics of Some explicit DGS *(continued)*

Country	Type of System	Management	Administration Characteristics	Assessment Characteristics and Year of Creation	Protection Level in the Currency of Origin	Protection Level in Argentine Pesos (8)	Assessment System (in Basis Points)	Contingency Assessments
Romania		Romanian Banks Deposit Guarantee Fund	JOINT	Compulsory 1996	39,423,600 Lei, adjustable every six months according to inflation	Up to 3,600 adjustable every six months according to inflation	Between 30 and 60 yearly BP, depending on the level of risk	The Fund can take credits with Government authorization and can also request from the banks a special contribution, which cannot be higher than the double of the yearly assessment (23)
Slovak Republic	Deposit Protection Fund	Fund Committee	JOINT	Compulsory 1996	7,100 ECU	8,500	From 10 to 30 yearly BP, according to the type of entity	The Central Bank can make loans
Spain	Fondo de Garantía de Depósitos en Estableci-mientos Bancarios (24)	Banco de España	PU	Compulsory 1977	2,500,000 Pesetas	17,500	10 yearly BP (25)	Government backing through the Bank of Spain, subject to approval by Royal Decree
Sweden			PU	Compulsory 1996 (26)	250,000 Kronor	31,014	Depending on the risk level (Average = 50 yearly BP)	
Switzerland	Convention XVIII (27)	Swiss Bankers' Association	PR	Voluntary 1984	30,000 Francs	21,794	On demand	Subscribed by the member banks

23. *In case of need, the Deposit Guarantee Fund of the Romanian Banks could obtain additional funds from the Government, the Central Bank and from other financial institutions.*

24. *The Fondo de Garantía de Depósitos is a branch of the Bank of Spain, and is engaged in preventing banking crises and in insuring deposits. The first type of intervention includes the surveillance activity, from the Fund, on a problem bank, take-over operations and finally the possibility of selling troubled banks.*
The Banking Corporation was created with the aim of acquiring 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 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.

25. *As of 1997, the Bank of Spain has ceased its contribution to the Deposit Guarantee Fund.*

26. *Prior to 1992, Sweden had not implemented a depositor protection scheme. It introduced a provisional scheme of full guarantee on total banking deposits during the crisis and then replaced it with a formal scheme, in accordance to the guidelines of the European Union, in January 1996.*

27. *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 guarantee, we rank the Convention under deposit guarantee agencies, as its purpose is to provide deposit protection.*

Table III. Characteristics of Some explicit DGS *(continued)*

Country	Type of System	Management	Administration Characteristics	Assessment Characteristics and Year of Creation	Protection Level in the Currency of Origin	Protection Level in Argentine Pesos (8)	Assessment System (in Basis Points)	Contingency Assessments
Taiwan	Central Corporation of Deposit Insurance	Board integrated by the Ministry of Finance and the Central Bank	PU	Voluntary 1985	NT$ 1,000,000 per individual depositor	38,500	1,5 yearly BP on deposits	The Central Bank may grant loans
Tanzania			PU	Compulsory 1995	250,000 Shillings	367	10 yearly BP	The Government may grant loans
Trinidad & Tobago	Deposit Insurance Corporation		PU	Compulsory 1986	50,000 TT Dollars	7,580	Contribution of 20 yearly BP on total deposits	The Central Bank may lend resources
Turkey	Deposit Insurance Fund	Central Bank of the Republic of Turkey	PU	Compulsory 1983	Without limits	Without limits	100 yearly BP	It may apply to the credit of the Central Bank, prior application from the Minister of State in charge of economic aspects
Uganda	Deposit Insurance	Central Bank	PU	Compulsory 1994	3,000,000 Shillings	2,180	20 yearly BP on deposits in charge of the banks. Same amount in charge of the Government	
United Kingdom	Deposit Protection Fund	Board of the Deposit Protection Fund (28)	JOINT	Compulsory 1979	90% up to the first 20,000 Pounds (or 22,222 ECU, should this amount be higher), per depositor	90% up to the first 33,270 (or 22,222 ECU, should this amount be higher) per depositor	Initial contribution plus "calls" subject to a max. of 30 BP of the deposits in Pounds	Parliament can raise the maximum payable percentage

28. *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 the contributory entities, together with a number of officers of the Bank of England.*

Table III. Characteristics of Some explicit DGS *(continued)*

Country	Type of System	Management	Administration Characteristics	Assessment Characteristics and Year of Creation	Protection Level in the Currency of Origin	Protection Level in Argentine Pesos (8)	Assessment System (in Basis Points)	Contingency Assessments
United States	Federal Deposit Insurance Corporation	Federal Deposit Insurance Corporation (29)	PU	Voluntary 1934 (30)	100,000 Dollars	100,000	Between 0 and 27 yearly BP on the total deposits, depending on the risk ratio assigned	Loans of up to 30 billion granted by the Treasury
Venezuela	Fund of Deposit Guarantee and Banking Protection (FOGADE)		PU	Compulsory 1985	1,000,000 Bolívares, for deposits in Bolívares	1,771	200 yearly BP	The Government and the Central Bank have absorbed losses from the Fund

29. *The Corporation is managed by a three member Board of Directors. Two Directors are appointed by the President for a six-year term and the third is the Comptroller of the Currency, an ex-officio member.*
30. *Compulsory for FED members and national banks.*

IV. The Argentine Financial System

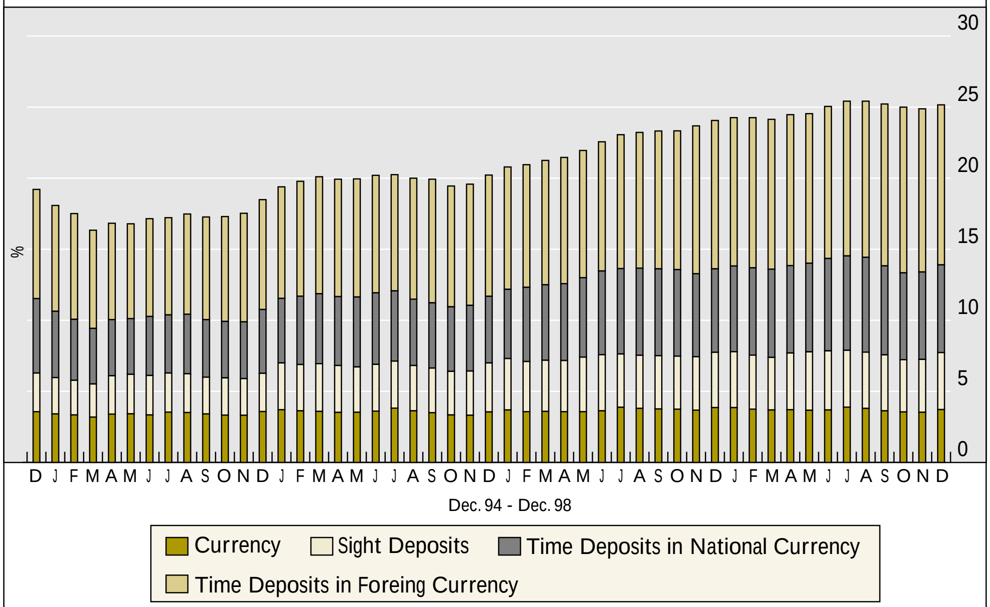
1. Monetary Aggregates

It may be appreciated in Table IV that the values of the monetary aggregates in December 1998, expressed as a percentage of the GDP, are lower than what could be expected on the basis of the Per Capita Income existing in the Argentine Republic (approx. 9,430 Dollars) and that, compared internationally, the monetary aggregate M2 should represent no less than a 45% of the GDP, an amount which, on the other hand, was in force in our milieu in the decade of 1940.

Table IV. Monetary Aggregates (at December '98)

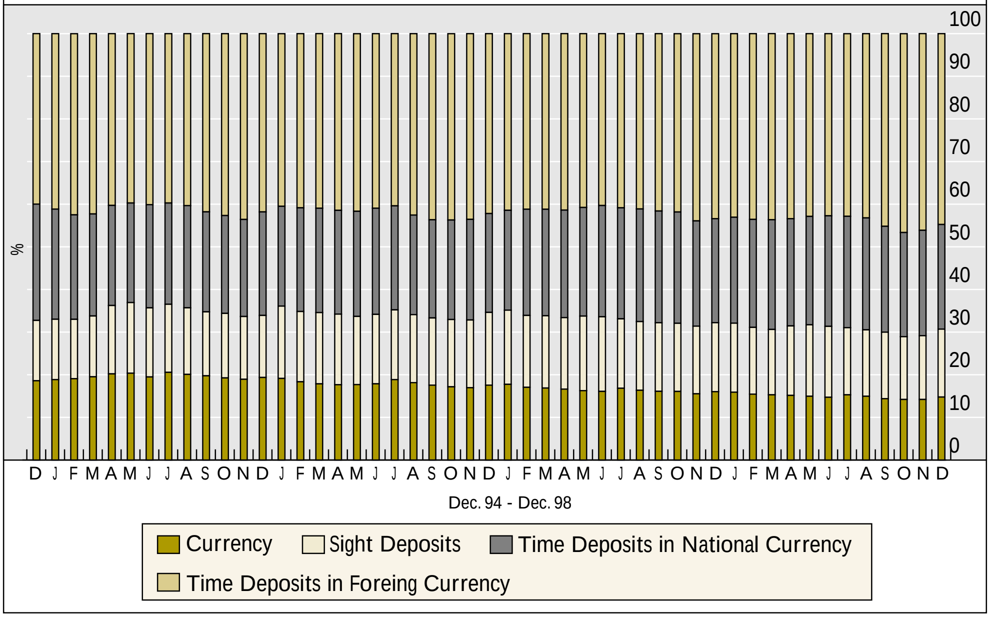
Monetary Aggregates	Million $	As % of the GDP
Currency	13,115	3.54
Sight Deposits, in Pesos	11,350	2.98
Sight Deposits, in Dollars	2,796	0.72
M1	27,261	7.23
Time Deposits, in National Currency	21,786	6.13
Time Deposits, in Foreign Currency	39,745	11.93
M2	88,792	25.29

Chart 1 Evolution of the Monetary Aggregates
As % of the GDP



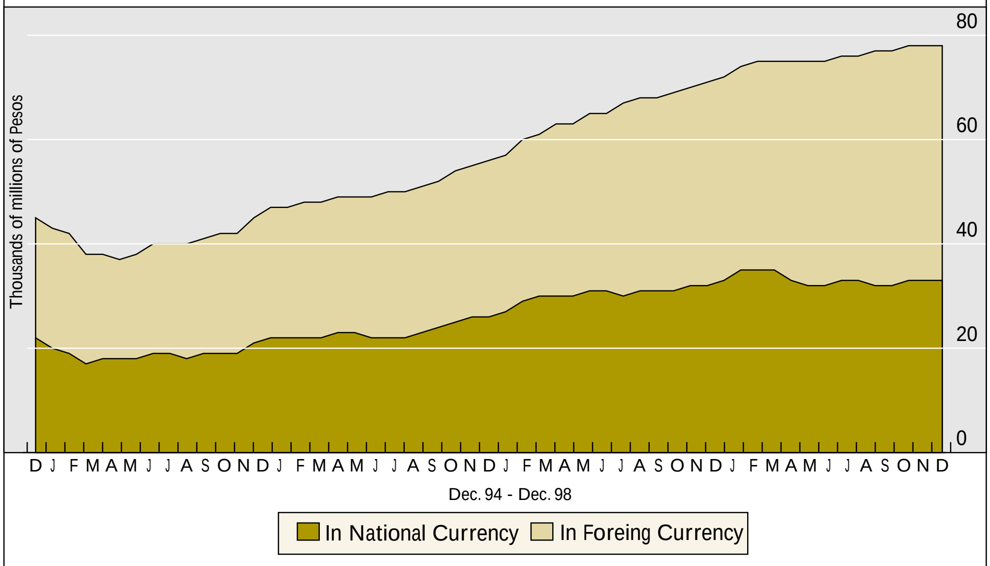
Nevertheless, in the last years, a gradual increase has been observed which, during the period covered by this Report, has presented no significant ups or downs, unlike what happened during 1995 as a consequence of the so-called Efecto Tequila (see Chart 1).

Chart 2 Percentage Composition of The Monetary Aggregates



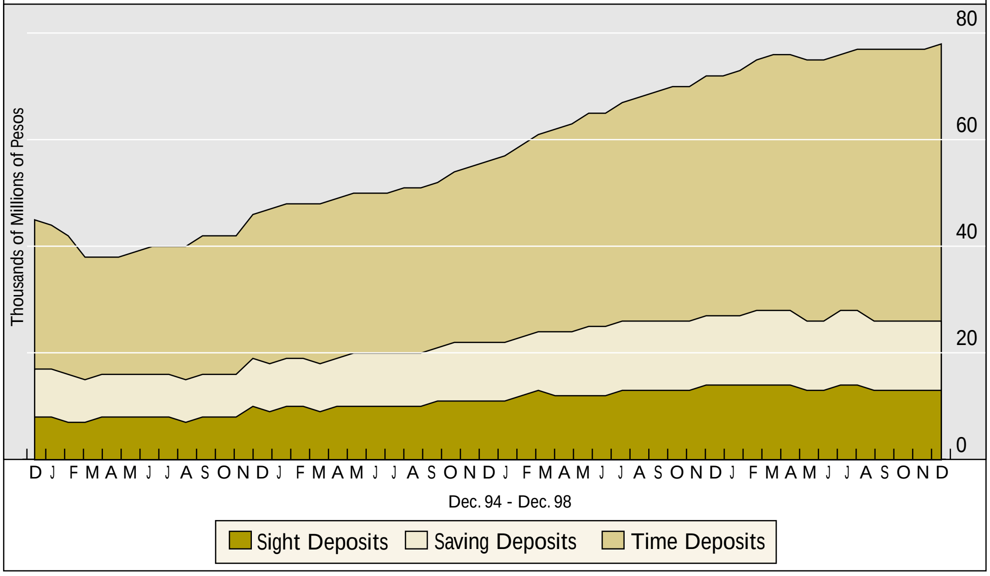
On the other hand, a process of higher growth speed has been noticed in the so-called *degree of bankarization*, since the percentual structure of these monetary aggregates, gradually growing, shows a considerable decrease of the percentage of currency held by the public, as it may be appreciated in Chart 2.

Chart 3 Evolution of Deposits of the Argentine Financial System



The above described phenomenon is also reflected in the increase registered, during 1988, in the banking deposits, preferably noticeable in the deposits in foreign currency (Chart 3) and in the term deposits (Chart 4).

Chart 4 Evolution of Deposits According to Type of Placement (*)



(*) Deposits in foreing currency are converted at a rate of exchange of 1 US$ = 1 Peso

2. Reference Rates

In accordance to the provisions of Decree N° 540/95, in addition to other requirements, in order to be included within the guarantee regime, the deposits must be made at rates lower than those denominated "Reference Rates" which the Central Bank of the Argentine Republic may opportunely establish.

Their monthly averages have been adjusted to the market averages, as it is built according to the Central Bank of the Argentine Republic, with the exception of those observed for the month of September where, owing to the registered volatility, the Central Bank of the Argentine Republic had to adjust 7 times the Reference Rates. It must be pointed out that the differences are small and that they were only observed in the rates of interest yielded by the time deposits for 30/59 days, made in Pesos (Table V).

Table V. Rates of Interest for Time Deposits, in Pesos (as yearly %, year 1998)

	Rates of Reference	Actual Rates		Rates of Reference	Actual Rates
January	9.1	7.71	July	8.8	6.71
February	9.1	6.81	August	8.7	7.23
March	9.1	6.76	September	10.2	10.34
April	9.1	6.69	October	12.8	9.16
May	9.1	6.08	November	10.0	7.97
June	9.1	6.03	December	10.0	8.05

Chart 5 Rates of Reference and Actual Rates
Time Deposits, in Pesos

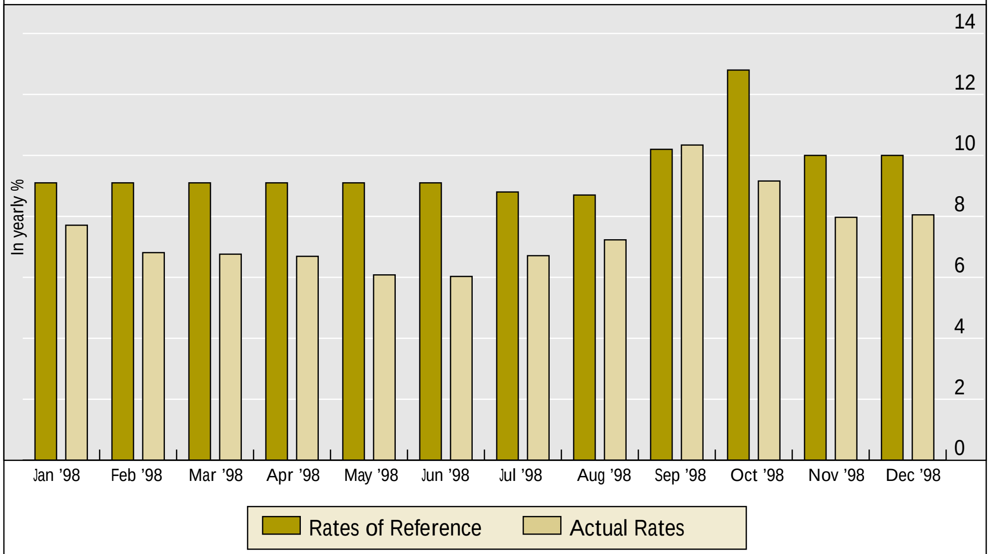
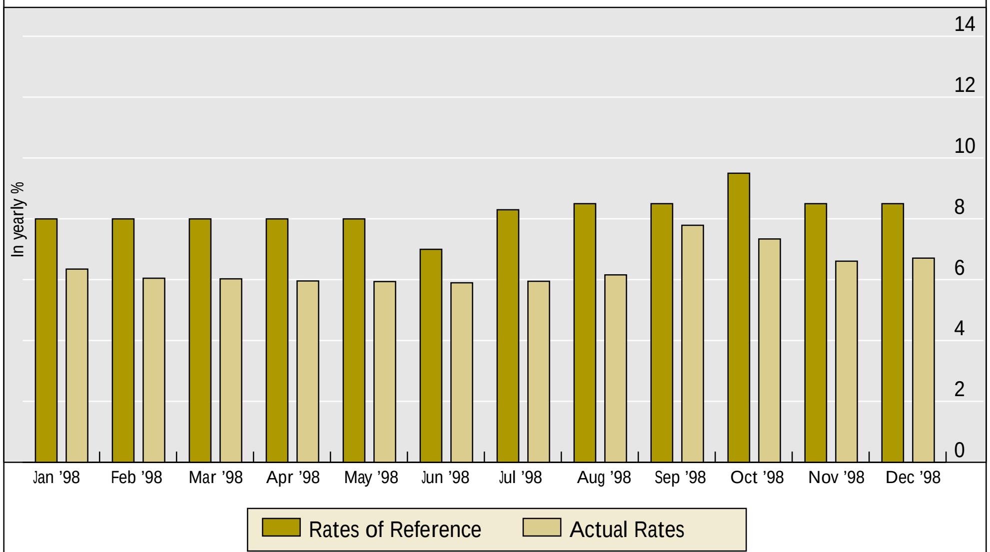


Table VI. Rates of Interest for Time Deposits, in Dollars
(in yearly %, year 1998)

	Rates of Reference	Actual Rates		Rates of Reference	Actual Rates
January	8.0	6.35	July	8.3	5.95
February	8.0	6.05	August	8.5	6.16
March	8.0	6.03	September	8.5	7.79
April	8.0	5.96	October	9.5	7.34
May	8.0	5.94	November	8.5	6.61
June	7.0	5.90	December	8.5	6.71

Chart 6 Rates of Reference and Actual Rates
Time Deposits, in Dollars



With relation to the rates of reference and the actual rates for Savings Deposits, the values are as follows:

Table VII. Rates of Interest for Savings Deposits, in Pesos (in yearly %, year 1998)

	Rates of Reference	Actual Rates		Rates of Reference	Actual Rates
January	5.5	3.17	July	5.5	2.97
February	5.5	3.10	August	5.5	2.97
March	5.5	3.07	September	5.4	2.98
April	5.5	3.05	October	5.0	2.98
May	5.5	3.03	November	5.0	2.94
June	5.5	2.97	December	5.0	2.93

Chart 7 Rates of Reference and Actual Rates
Saving Deposits, in Pesos

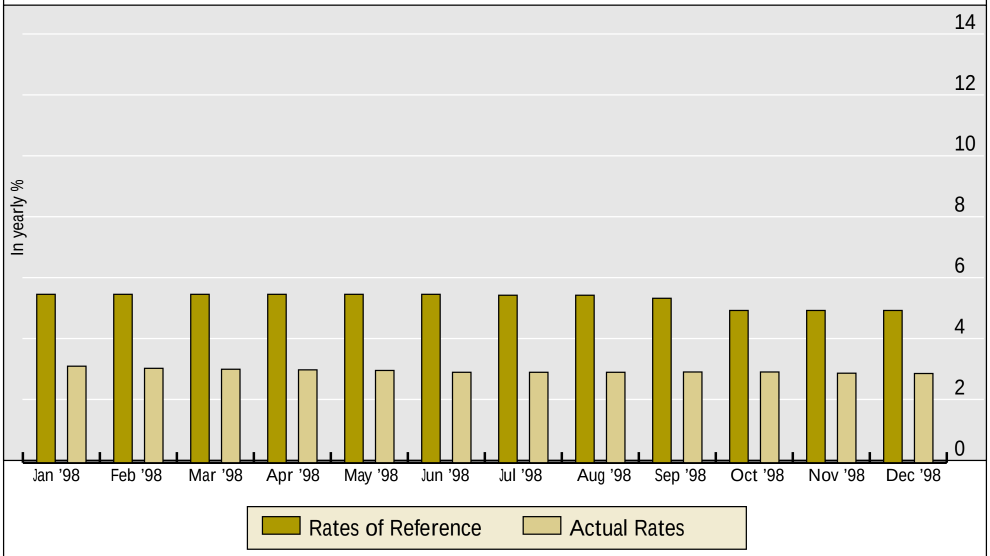
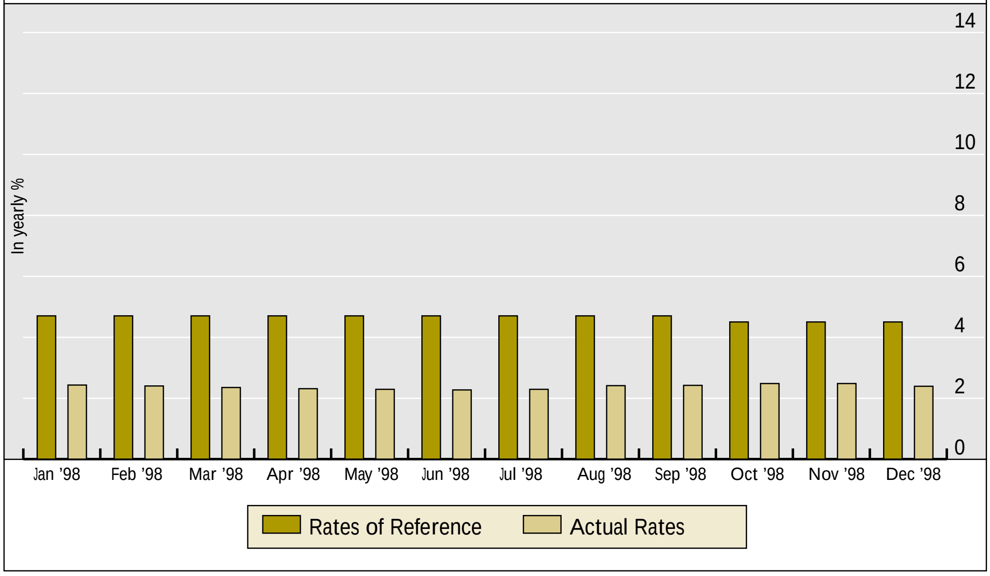


Table VIII. Rates of Interest for Savings Deposits, in Dollars (in yearly %, year 1998)

	Rates of Reference	Actual Rates		Rates of Reference	Actual Rates
January	4,7	2,43	July	4,7	2,29
February	4,7	2,40	August	4,7	2,41
March	4,7	2,35	September	4,7	2,42
April	4,7	2,31	October	4,5	2,48
May	4,7	2,29	November	4,5	2,48
June	4,7	2,27	December	4,5	2,39

Chart 8 Rates of Reference and Actual Rates
Saving Deposits, in Dollars



3. Financial Entities

With reference to the number of entities contributing to the Deposit Guarantee Fund, the amounts as of December 1998 show a reduction of 11 entities with regard to the ones observed in equal period of the previous year (Chart 9 and Table IX).

The participation of the deposits in the system, assembled by type of institution, continues showing a major pre-eminence of the banking entities, and, within those, of the entities whose owners are private, as it may be observed in Chart 10.

Chart 9 Number of Entities
by Type of Institution

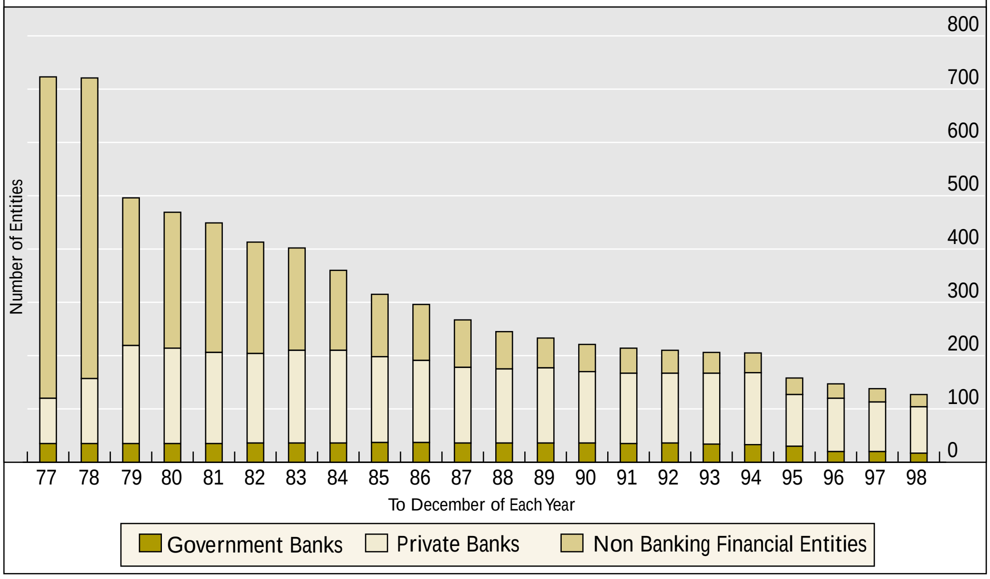
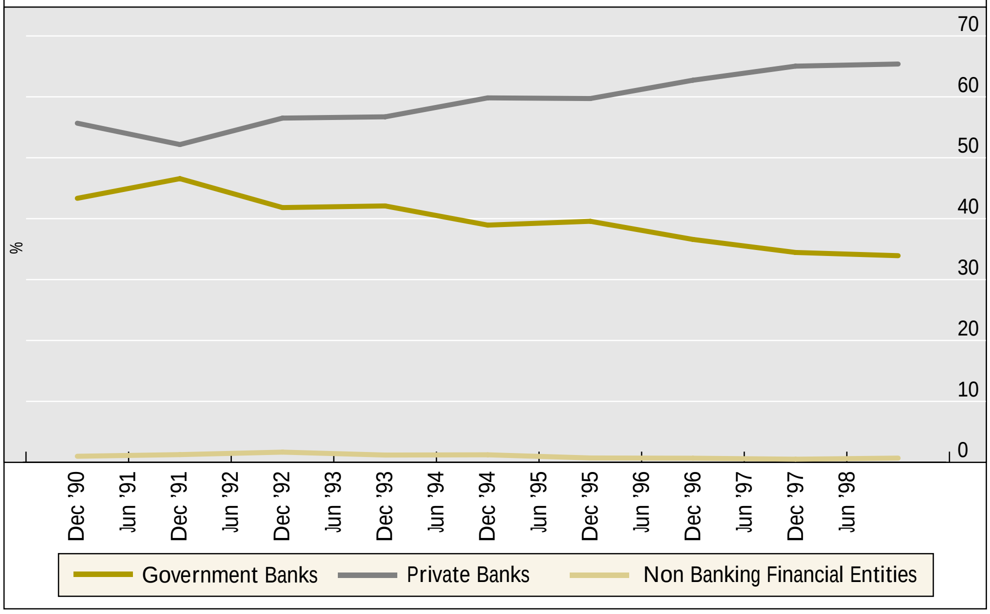


Table IX. Number of Entities by Type of Institution

	Government Banks	Banks Private	Non Banking Financial Entities	TOTAL
Dec-77	35	85	603	723
Dec-78	35	122	564	721
Dec-79	35	184	277	496
Dec-80	35	179	255	469
Dec-81	35	171	243	449
Dec-82	36	168	209	413
Dec-83	36	174	192	402
Dec-84	36	174	150	360
Dec-85	37	161	117	315
Dec-86	37	154	105	296
Dec-87	36	142	89	267
Dec-88	36	139	70	245
Dec-89	36	141	59	236
Dec-90	36	134	51	221
Dec-91	35	132	47	214
Dec-92	36	131	43	210
Dec-93	34	133	39	206
Dec-94	33	135	37	205
Dec-95	30	97	31	158
Dec-96	20	100	27	147
Dec-97	20	93	25	138
Dec-98	17	87	23	127

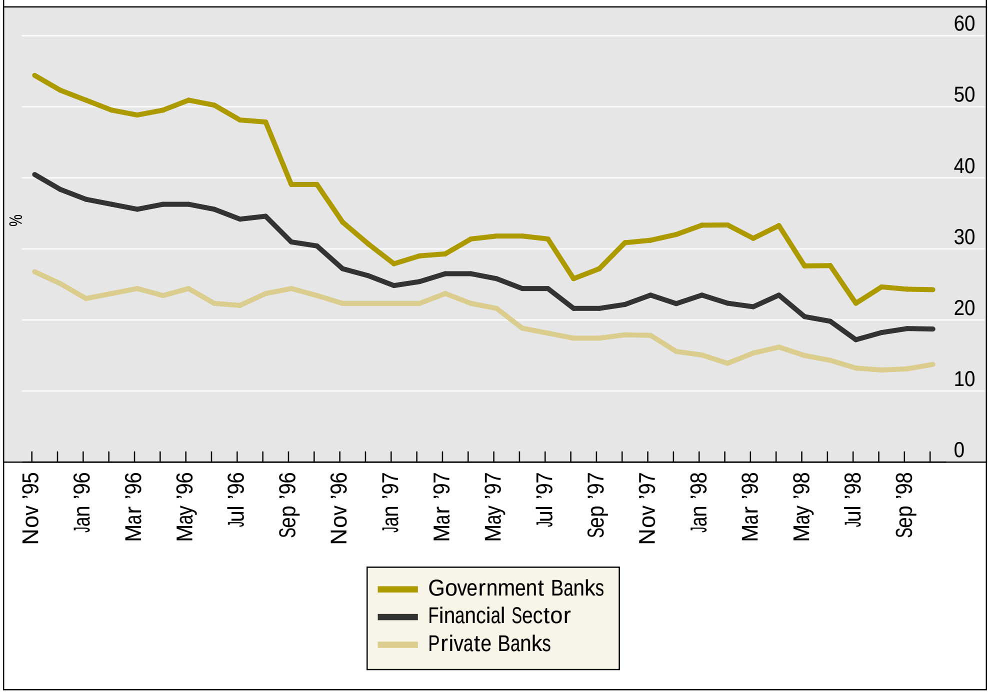
Sources: *Made up on the basis of data provided by the Central Bank of the Argentine Republic.*

Chart 10 Percentage Distribution of Deposits in the Financial System Entities



It may also be observed that, during 1998, there has been a decrease in delinquency/equity ratio (see Chart 11).

Chart 11 Delinquency (*) / Equity Ratio



(*) Payments delayed more than 30 days.

All the above mentioned aspects, together with the program of stand by facilities arising from a "Repo" agreement entered into with international banks, and provisions aiming at the strengthening of liquidity and financial standing within the financial system, have led to the fact that, notwithstanding that the year covered by this Report has been almost permanently under the influence of severe and concatenated external crises (Southeast of Asia, Russia and Brazil), the appreciation of the sovereign risk, exchange risk and systemic risk by holders of Argentine External Bonds and local investors has not increased significantly (see Chart 12).

The presence of a depositor protection system through a deposit guarantee fund and of SEDESA managing it in fullness, has not been a foreign element to the previously described circumstance, as it may be observed in the above mentioned chart, where the zone where the Deposit Guarantee Fund was in force can be clearly seen.

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 those paid by top-ranking enterprises for 30 days term (see Chart 13).

Chart 12 Rate Differential

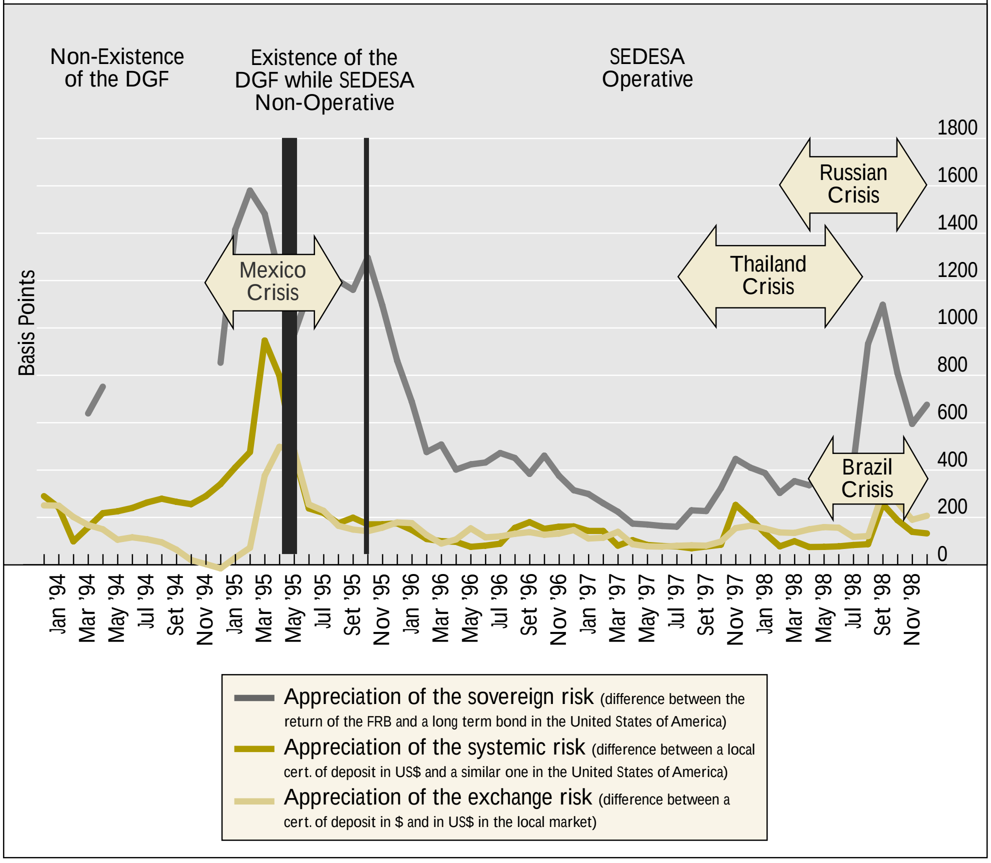
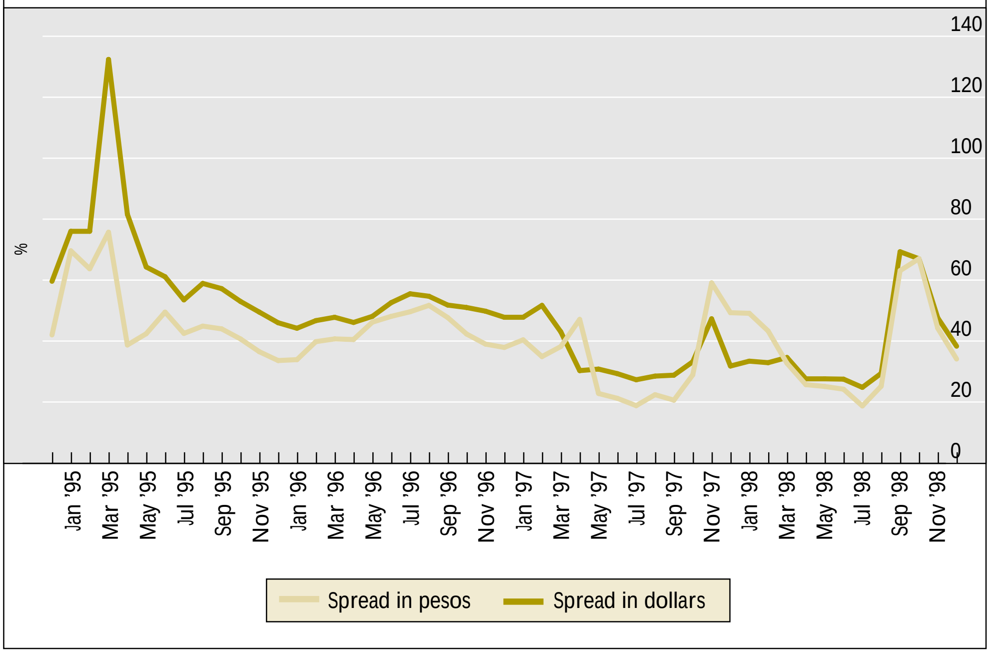
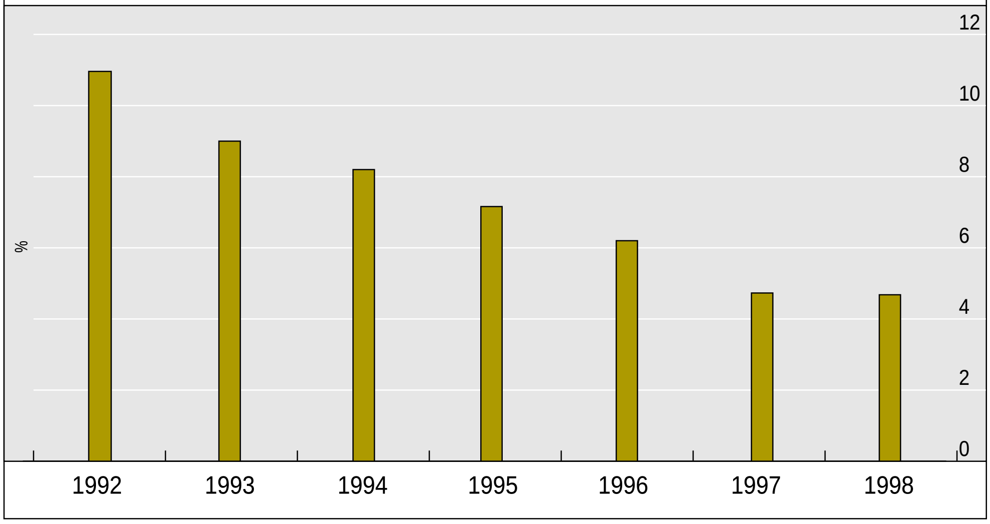


Chart 13 Spread between Lending and Actual Rates



The degree of efficiency of the financial system measured by the ratio Administrative Expenses over Total Assets has continued to improve, as it may be observed in Chart 14:

Chart 14 Administrative Expenses of the Private Banks/Total Assets



V. Cases Entrusted to SEDESA during Fiscal Year 1988

Within the legal framework of Decrees N° 540/95, 1292/96 and 1127/98, SEDESA –in its capacity of corporation dealing with the management of the Deposit Guarantee Fund (D.G.F.)– had to take care of the requirements related to the following financial entities:

1. Banco Crédito Provincial S.A.

Through Resolution N° 742/97 the Board of the Banco Central de la República Argentina (B.C.R.A.) dated 12.18.97, provided for the exclusion of determined assets and priority collection liabilities of the former Banco Crédito Provincial (BCP), authorising the transfer of same to a banking entity (Mercobank S.A.) which was constituted by the main depositors of the BCP and which would assume those certain assets and priority payment liabilities from the BCP.

Giving a favourable answer to the request made by Mercobank in its bid, the Steering Committee[31] notified SEDESA that it should contribute, with funds proceeding from the D.G.F., the amount of $ 94.8 million: $ 7.8 million for the subscription to a Participation Certificate "BB" to be issued by the Trust to be constituted with the excluded assets of the BCP and $ 87.0 million, through a Non Reimbursable Contribution.

The transfer of $ 77,374,530.08 from the D.G.F. to the Banco Central de la República Argentina took place on May 11, so that this last institution would credit such amount to Mercobank S.A. This amount, added to the $ 17,425,469.92 disbursed by SEDESA during year 1997 as Partial Acquisition of Deposits from the depositors of the BCP, totaled $ 94.8 million.

Prior favourable resolution from the Steering Committee notified to SEDESA on 07.01.98, the latter proceeded –with funds from the D.I.F.– to grant to Mercobank an additional Non Reimbursable Contribution in the amount of $ 998,686.87, as a compensation for the delay occurred between 01.23.98 (date of subscription of the first contract between the parties) and 05.11.98 (date of transfer of the funds to Mercobank). This delay was originated by the postponement of the opening of Mercobank S.A., owing to diverse judicial provisions.

(31) As per Decree Nº 1292/96 (O.G. 11.18.96) of the National Government Executive Branch, a "Steering Committee" was created, regarding SEDESA's activities. The Decree stipulates that: "The application of the alternatives , b) To make capital contributions, non reimbursable contributions or loans to: (I) The financial institutions which are subject to a regularization plan; (II) The financial institutions which acquire assets and take in charge the payment of the deposits of another institution whose activities are suspended by the B.C.R.A.; (III) The financial institutions which absorb or purchase financial institutions in the framework of a regularization and restructuring plan; c) Enter into a contract of sale option in favour of the institution acquiring the whole or a part of the assets transferred; d)To acquire deposits of banks suspended… shall be exclusively decided by a Steering Committee, the decisions of which shall be binding for SEDESA. Such Committee shall be composed by a representative of the BANCO CENTRAL DE LA REPÚBLICA ARGENTINA and by 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 institutions which contribute to the DGF.

The addition of all the contributions made with regard to the Banco de Crédito Provincial S.A. represented for the D.G.F. a disbursement of $ 95.80 million.

2. Banco Patricios S.A.

On 03.18.98, the Superintendence of Financial and Foreign Exchange Institutions (S.E.F.C.) from the B.C.R.A. decided the suspension of the Banco Patricios S.A.

On March 20, the Steering Committee notified SEDESA that it had decided to approve the acquisition of guaranteed deposits from the Banco Patricios, up to the amount of $ 1,000 per account, with subrogation in the rights of the depositors.

Taking into consideration that various government and private institutions deposited the salaries of their personnel at the Banco Patricios S.A. and that the rights of the holders of said accounts were only enforceable through automatic teller machines (ATM), a contract was signed by SEDESA, Banco Patricios S.A. and Banelco S.A., through which, through a Public Offer of Credit Acquisition, the employees who so accepted it could, through the ATM network belonging to the latter, withdraw funds corresponding to payment of their salaries, making at the same time assignment of their rights to SEDESA. Through this procedure, it was possible, in a very short time, to alleviate the situation of thousands of employees, after the suspension of the Banco Patricios.

On 03.26.98, the B.C.R.A. issued its Resolution N° 161 through which, among other provisions, it decided: 1) To stipulate the restructuring of the Banco Patricios, fitting it into the terms of Section 35 Bis of the Law on Financial Entities and 2) To authorise the entity to make a public call to receive different types of bids for its assets.

In the complete bid submitted by Banco Mayo C.L., this entity required from the D.G.F. the contribution of $ 125 million in exchange of the participation of SEDESA in two trust agreements and an additional loan in the amount of $ 15 million.

The Steering Committee met several times to the effect of evaluating the bid made by Banco Mayo C.L. Finally, it notified SEDESA the decision to grant only part of the assistance required, furthermore deleting from the amount requested the amount of the Partial Acquisition of Deposits already made.

Between July 6 and July 20, SEDESA made the disbursement of $ 95,199 million to Banco Mayo C.L. This amount, added up to the disbursement already made for the Partial Acquisition of Deposits, totalled a disbursement of $ 121,321 million to Banco Mayo C.L., and SEDESA acquired in exchange Participation Certificates "B" in two Trust Agreements.

3. Banco Mayo C.L.

On 10.09.98 the S.F.E.C. issued its Resolution N° 359, providing for the total suspension of the operations of Banco Mayo C.L. and requesting from it the submission of diverse documentation.

On 10.12.98 Banco Mayo C.L. submitted an offer to diverse banking institutions, in which it proposed the assumption of its priority payment liabilities, with the exception of the labour credits, in the amount of $ 1,065 million; in compensation, the entities would receive participation certificates on assets of the Banco Mayo to be excluded according to the provisions of Section 35 Bis of the Law on Financial Entities and transferred in a trustee way.

The Steering Committee notified SEDESA of the resolutions taken in its meeting of October 23, in the sense of authorising it to enter into a transaction in the terms of paragraph c) of Section 10 Bis of Decree N° 540/95 (text amended as per Decree N° 1292/96) for the amount of up to $ 350 million with the entity or group of entities which would assume the payment of the guarantee to the depositors of Banco Mayo C.L. As compensation, SEDESA was to be creditor of a Participation Certificate in a trust agreement to be constituted with assets from the Banco Mayo C.L.

On 10.28.98, Banco Mayo had not been able to close its accounting, nor to reconcile the Deposits Account, nor to work out the pertaining inventory of depositors to the above mentioned date, and thereby the requirement contained in Resolution N° 359 of the B.C.R.A. remained unfulfilled.

The lack of a reconciled depositor basis made it furthermore impossible to start the procedure established by the Steering Committee with the purpose of acquiring guaranteed deposits for up to $ 1,000 from the depositors of Banco Mayo C.L., with funds proceeding from the D.G.F.

On that same date October 28, the Citibank N.A., Argentina Branch, submitted a new improved complete bid.

On October 30, the Board of the B.C.R.A. issued its Resolution N° 629, through which it provided for the exclusion of certain assets and liabilities and authorised the transfer of said assets to the Banco Comafi S.A., in its capacity of trustee in the Trust Agreement to be entered into among said institution, the Banco Mayo C.L. and the Citibank. It also authorised the transfer of liabilities to this last entity.

The signature of the contract of assistance between SEDESA and Citibank N.A. took place on November 18; through this contract SEDESA acquired a General Participation Certificate Class "C", through the payment of the amount of $ 350 million, payable $ 200 million cash and the balance in twelve monthly instalments, equal and consecutive, of 12.5 million. The Contract of Constitution of a Trust Agreement with the excluded assets and the Contract of Transfer of the priority payment liabilities were also signed.

On November 26 Citibank N.A. signed the Assignment and Participation contracts between said institution and eight banks (Banco de la Nación Argentina, Banco de la Ciudad de Buenos Aires, Banco de Río

Negro S.A., Banco del Tucumán S.A., Banco Macro Misiones S.A., Banca Nazionale del Lavoro S.A., Banco Quilmes S.A. and Mercobank S.A.). The same type of agreements were signed on 12.01.98 with two other institutions (the Banco de Galicia y Buenos Aires S.A. and the Banco Credicoop C.L.).

By virtue of these contractual instruments signed, said entities assumed certain priority payment liabilities from the Banco Mayo C.L. and committed themselves to hire personnel from said institution, acquiring as compensation a right to the General Participation Certificate Class "A" of the constituted Trust Agreement and a right on funds to be received from Citibank N.A. under the contract signed between that entity and SEDESA.

Thus, SEDESA will disburse, to Citibank N.A., Argentina Branch, a total amount of $ 350 million.

4. Banco Almafuerte C.L.

Through Resolution N° 651 of 11.25.98, the Board of Directors of the B.C.R.A. provided for the restructuring of the Banco Almafuerte C.L., fitting it into the terms of Section 35 Bis, Paragraph II, of the Law on Financial Entities.

Likewise, the Banks Bisel S.A., Credicoop C.L., BBV Banco Francés S.A., de Galicia y Buenos Aires S.A., Macro Misiones S.A., de Río Negro S.A., San Juan S.A. and Suquía S.A., submitted to the B.C.R.A. and to Banco Almafuerte C.L. a bid for the acquisition of certain assets and liabilities of this last entity. Within the terms of the bid, it was requested that SEDESA, as manager of the D.G.F., committed itself to purchase the General Participation Certificate Class "C" in the amount of $ 60 million, from a Trust Agreement to be constituted with assets from the Banco Almafuerte C.L.

On 11.26.98, the Steering Committee notified SEDESA that it had been decided to grant the assistance required in the bid submitted by those banks.

On November 27, the Board of Directors of the B.C.R.A. issued its Resolution N° 659, through which, among other measures, it provided for the exclusion of certain assets and liabilities, authorised the transfer of the excluded assets to a Trust Agreement in which the Banco Finansur S.A. would act as trustee, and of the liabilities to the bidding banks.

On the same date November 27, SEDESA signed with the bidding banks the contract of acquisition of the Participation Certificate Class "C", committing itself to pay the amount of $ 60 million payable, $ 5 million against delivery of the Certificate and the balance, in eleven monthly instalments, equal and consecutive of $ 5 million each.

Thus SEDESA, in its capacity of manager of the D.G.F., and for the acquisition of a Participation Certificate Class "C", shall disburse to the bidding banks the amount of $ 60 million.

The activity developed by SEDESA -as manager of the Deposit Guarantee Fund- since its creation, is summarised in Table X.

Table X. Summary of the Financial Assistance Granted to Entities (up to 12.31.98)

Date of the Assistance Decision	Date of Disbursement	Amount (in Million Dollars)	Entity or Persons Comprised in the Assistance	Type of Transaction	Additional Considerations
10/22/1996	04/24/97 to 07/22/97	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 the deposits of Banco de Caseros S.A.
11/21/1996	12/01/96 to 01/10/97	0.662	Depositors of Caja de Crédito Pavón Coop. Ltda.	Payment of the guarantee	
02/11/1997	02/18/97	23.690	Depositors of the BUCI	Partial acquisition of deposits	The Banco Unión Comercial e Industrial S.A. (BUCI) itself acted as paying agent
02/28/1997	06/20/97 to 09/25/97	39.799	Banco Credicoop Cooperativo Ltdo.	Trust Agreement on portfolio of doubtful recovery from Banco Coopesur C.L.	The Banco Credicoop acquired assets and took charge of the payment of the deposits of Banco Coopesur C.L.
05/08/1997	05/12/97	94.226	Corp. Banca	Trust Agreement on BUCI's portfolio	Corp. Banca acquired assets and took charge of the payment of the deposits of the BUCI
05/08/1997	05/23/97	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 liabilities from the Nuevo Banco de Azul

Table X. Summary of the Financial Assistance Granted to Entities (up to 12.31.98) *(continued)*

Date of the Assistance Decision	Date of Disbursement	Amount (in Million Dollars)	Entity or Persons Comprised in the Assistance	Type of Transaction	Additional Considerations
05/08/1997	06/10/97	13.000	Banco Municipal de La Plata	Non Reimbursable contribution	The Banco Municipal de La Plata acquired assets and took charge of the payment of the deposits of the Banco Platense
05/08/1997	06/10/97	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 the deposits of the Banco Platense
05/08/1997	08/05/97 to 08/29/97	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.
09/18/1997	10/06/97 to 11/28/97	17.431	Depositors of the Banco Crédito Provincial S.A.	Partial acquisition of deposits	The Banco de la Provincia de Buenos Aires acted as paying agent
12/12/1997	01/02/98	60.000	Banco Credicoop Cooperativo Ltdo.	Trust Agreement on credits of doubtful recovery of the Banco Argencoop C.L.	The Banco Credicoop acquired assets and took charge of the payment of deposits of the Banco Argencoop C.L.
12/23/1997 and 06/02/1998	05/11/98 and 07/02/98	78.374	Mercobank S.A.	Non Reimbursable contributions and Trust Agreement on Real Estate	Mercobank S.A. acquired assets and took charge of the payment of the deposits of Banco de Crédito Provincial S.A.

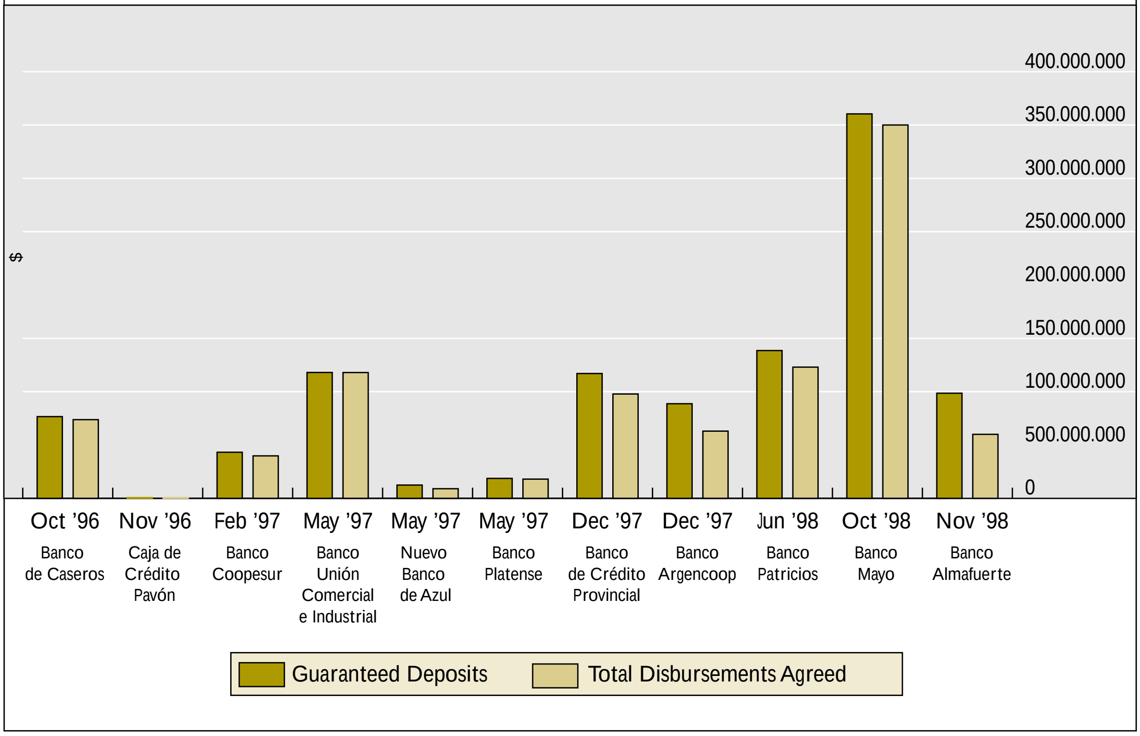
Table X. Summary of the Financial Assistance Granted to Entities (up to 12.31.98) *(continued)*

Date of the Assistance Decision	Date of Disbursement	Amount (in Million Dollars)	Entity or Persons Comprised in the Assistance	Type of Transaction	Additional Considerations
03/20/1998	04/01/98 to 06/22/98	26.121	Depositors of the Banco Patricios S.A.	Partial acquisition of deposits	Also paid are, balances of up to $ 1,000 of Special Accounts for the Payment of Salaries, through automatic teller machines (ATM)
06/19/1998	07/06/98 to 07/20/98	95.199	Banco Mayo C.L.	Trust Agreements on credits and on non credit assets	Banco Mayo C.L. acquired assets and took charge of the payment of the deposits of Banco Patricios S.A.
10/23/1998	12/02/98	200.000 **(32)**	Citibank N.A., Argentina Branch	Trust Agreement on assets	Citibank subscribed Participation Certificates in a Trust Agreement and took charge of the payment of deposits of Banco Patricios S.A.
11/26/1998	12/01/98	5.000 **(33)**	Group of banks	Trust Agreement on assets	The banks BBV Francés, Bisel, Credicoop, Galicia, Macro Misiones, de Río Negro, de San Juan and Suquía, subscribed participation certificates in a Trust Agreement and took charge of the payment of the deposits of Banco Almafuerte

(32) *Plus 12 monthly instalments, equal and consecutive, to be paid for a value of $ 12.50 million each.*
(33) *Plus 12 monthly instalments, equal and consecutive, to be paid for a value of $ 5.0 million each.*

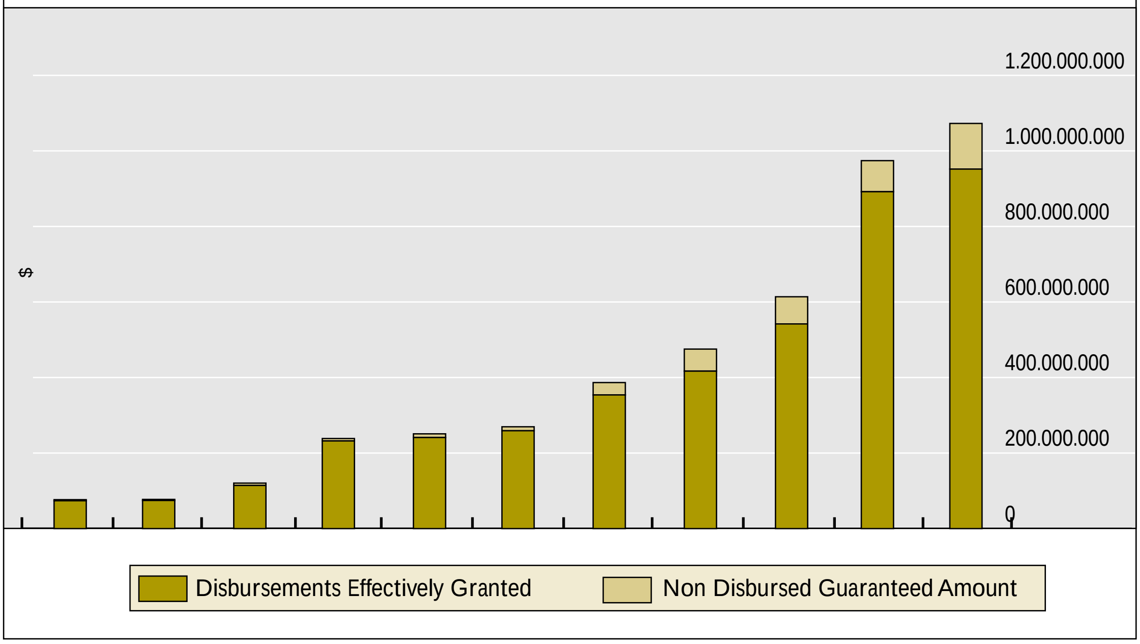
In the following chart it can be appreciated that the enforcement of the provisions of Section 10 Bis of Decree N° 540/95, modified by Decree N° 1292/96, has allowed for the disbursements made in assistance to acquirers of financial entities which were comprised within what is foreseen in Section 10 Bis of the Law of Financial Entities, to be lower than those which would have to have been made in case of winding up of the entity.

Chart 15 Guaranteed Amounts vs. Disbursements Granted



The accumulated effects of the enforcement of the aforementioned method can be appreciated in the following chart:

Chart 16 Eventual Disbursements and Enforcement of Least Cost Resolution (Accumulated Values)



VI. The Deposit Guarantee Fund

1. Evolution of the DGF

During the period under analysis no extraordinary assessments were requested even though, during the same period and by decision from the Banco Central de la República Argentina, the amount of the guarantee was substantially increased, so as to reduce by 50% approximately the number of depositors who, according to the previous regime, would not have seen covered, with such guarantee, the total amount of their deposits.

A careful handling of the investments avoided that these became deteriorated given the volatility shown by the markets, and allowed for the funds to be available when they were required.

In the following table it may be appreciated in detail the constitution and evolution of the Available Balance:

Table XI. Evolution of the Deposit Guarantee Fund
(To the end of each month, million)

Month	Assessments to the DGF (at the end of each month)		Deposit Guarantee Fund			Deposits	Coverage
	Accumulated	Monthly	Net Income Incorp. (1)	Contr. to Entities+ Expenses Stand By Repo's Facilities Program (2)	Balance (Initial Bce.+1-2)	(In million)	DGF/Dep. (%)
JAN.	544.77	22.83	0.86	60.00	197.13	68,739.00	0.28678
FEB.	567.03	22.27	0.72	0.00	220.11	69,485.00	0.31678
MAR.	593.78	26.75	0.93	35.01	212.78	70,166.00	0.30326
APR.	620.65	26.87	1.21	0.16	240.70	71,017.00	0.33894
MAY.	652.93	32.28	1.17	79.88	194.27	71,872.00	0.27030
JUN.	677.80	24.87	0.90	3.39	216.65	73,924.00	0.29308
JUL.	702.33	24.53	0.70	98.13	143.76	74,762.00	0.19228
AUG.	726.17	23.84	0.99	0.00	168.59	75,299.00	0.22389
SEP.	751.16	24.99	1.04	4.80	189.81	75,462.00	0.25154
OCT.	777.54	26.39	1.14	0.00	217.34	75,221.00	0.28893
NOV.	803.96	26.42	1.12	-3.68	248.55	75,112.00	0.33091
DEC.	831.25	27.29	0.20	210.88	65.16	75,677.00	0.08611

The evolution of the Available Balance of the DGF has been represented in Chart 17.

The evolution of the coverage ratio, i.e. the evolution between the Available Balance of the DGF and the deposits existing in the system, has been represented in Chart 18.

Chart 17 Evolution of the Available Balance of the DGF

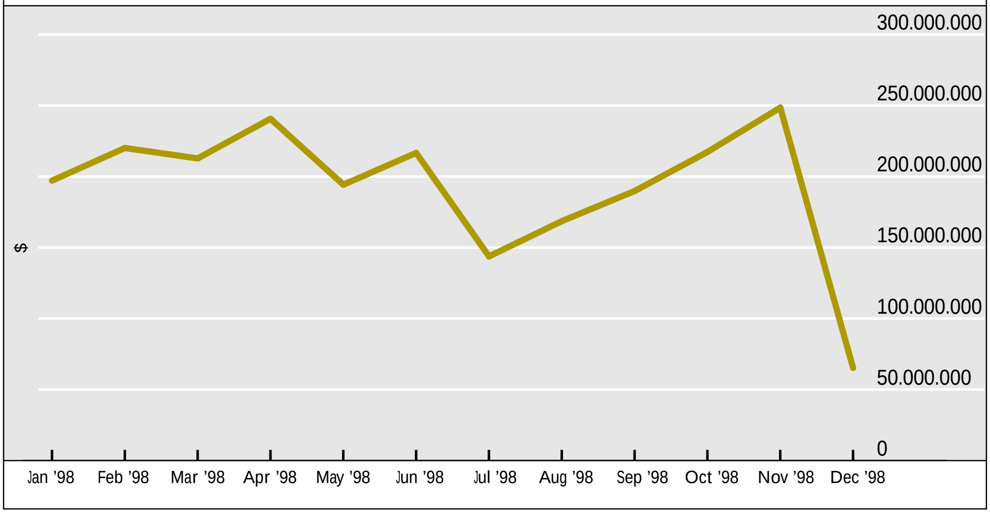
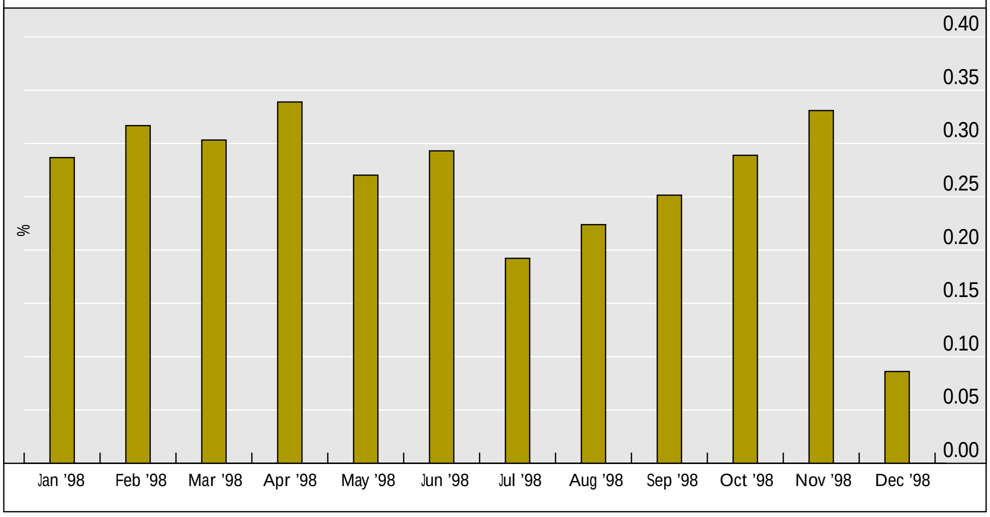


Chart 18 Ratio of the Available Balance of the DGF with Regard to the Total Deposits in the Financial System



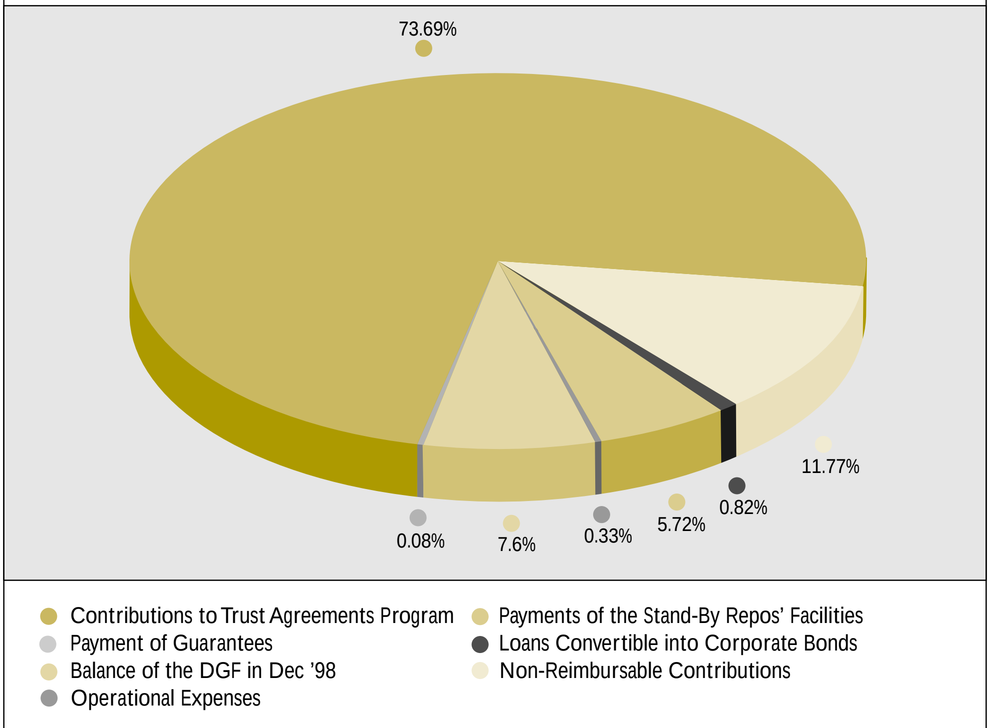
2. Origin and Allocation of the Funds

On the closing of Fiscal Year 1998, and as from its creation, the DGF has received income for an amount of 858 million dollars (Table XII). It must be pointed out that, from the amounts received, almost a 74% was assigned to contributions to entities through Trust Agreements, an 11.77% to Non-Reimbursable Contributions, a 0.82% to Loans Convertible into Corporate Bonds and a 0.08% to the Payment of Guarantees (to the depositors) (Chart 19).

Table XII. Origin and Allocation of the Funds
(from the beginning up to December 31, 1998, in million)

Origin	
Assessments from Entities (05/95 to12/98)	831.3
Financial Income	25.0
Recovery of Contributions made to Entities	1.7
	858.0
Allocation	
Payment of Guarantees	0.7
Contributions to Entities	
Through Contributions to Trust Agreements	632.2
Through Non-Reimbursable Contributions	101.0
Through Loans Convertible into Corporate Bonds	7.0
Payments Stand-By Repo's Facilities Program (B.C.R.A.)	49.1
Operational Expenses	2.8
Balance of the DGF on DEC.98	65.2
	858.0

Chart 19 Assignment of Funds



The accumulated Operational Expenses represented only a 0.3% of the income.

VII. Financial Statements

Seguro de Depósitos Sociedad Anónima

Registration Number in the Supervisory Body of Legal Entities: 8662

1. Balance Sheet as of December 31, 1998 and 1997 (in Argentine Pesos)

Assets	1998	1997
Current assets		
Cash and banks	64,135	19,481
Investments	7,058,509	6,857,999
Other receivables	506,591	432,000
Total Current Assets	7,629,235	7,309,480
Non-Current Assets		
Fixed Assets	5,377	10,500
Total Non-Current Assets	5,377	10,500
Total Assets	7,634,612	7,319,980
Liabilities		
Current Liabilities		
Accounts Payable	520,963	434,250
Social Security Charges Payable	7,762	-
Taxes Payable	38,254	38,447
Total Current Liabilities	566,979	472,697
Non-current Liabilities		
Other Liabilities	3,000	3,000
Total Non-Current Liabilities	3,000	3,000
Total Liabilities – Sub-Total	569,979	475,697
Shareholders' Equity	7,064,633	6,844,283
Total	7,634,612	7,319,980
Off-Balance Sheet Items		
Shareholders' Equity of the Deposit Guarantee Fund	72,163,409	240,441,519

Seguro de Depósitos Sociedad Anónima

Registration Number in the Supervisory Body of Legal Entities: 8662

2. Statement of Income for Fiscal Year ended December 31, 1998 in comparison with the previous Fiscal Year (in Argentine Pesos)

	1998	1997
Investment Income	442,052	416,722
Other Income	-	36,173
Administrative Expenses	(538,222)	(524,743)
Plus:		
Expenses Recovery	428,100	432,000
Net Profit (before Income Tax)	331,930	360,152
Income Tax	(111,580)	(107,169)
Fiscal Year Profit	220,350	252,983

Seguro de Depósitos Sociedad Anónima

Registration Number in the Supervisory Body of Legal Entities: 8662

3. Statement of Changes in Shareholders' Equity for the Fiscal Years ended December 31, 1998 and 1997 (in Argentine Pesos)

	Shareholders' Contributions						
	Capital Stock	Legal Reserve	Optional Reserve	Total Reserve	Retained Earnings	Total on 12-31-98	Total on 12-31-97
Balances at the Beginning of the Fiscal Year	1,000,000	200,000	5,220,191	5,420,191	424,092	6,844,283	6,591,300
Profit of the Fiscal Year as per Income Statement	-	-	-	-	220,350	220,350	252,983
Balances on the Closing of the Fiscal Year	1,000,000	200,000	5,220,191	5,420,191	644,442	7,064,633	6,844,283

Seguro de Depósitos Sociedad Anónima

Registration Number in the Supervisory Body of Legal Entities: 8662

4. Statement of Conditions as at December 31, 1998 and 1997 (in Argentine Pesos)

Deposit Guarantee Fund – Statement of Shareholders' Equity
Details of Financial Income and Administration Expenses

	1998	1997
Assets		
Cash	135,904	176,976
Investments	69,809,377 [1]	238,145,480 [1]
Loans to Financial Entities	2,159,122	2,122,575
Contributions to Financial Entities (Sect. 10 bis Decree 540/95 and modif.) Income from Trust Agreements	646,573,938	254,635,777
Claims Proved under Receivership	662,335	662,335
Allowances for Contributions to Financial Entities and Claims Proved under Receivership	(647,236,273)	(255,298,112)
Other Assets	59,006	457,789
Total Assets	72,163,409	240,902,820
Liabilities		
Debts	-	461,301
Total Liabilities	-	461,301
Total Shareholders' Equity of DGF	72,163,409	240,441,519

[1] Detail of investments to 12/31/1998 and 12/31/1997

	1998	1997
Term Deposits	19,535,646	166,395,253
Other Investments	50,273,731	66,709,337
Corporate Bonds	-	5,040,890

5. Independent Auditor’s Report

(Free translation from the original prepared in Spanish.
The accounting principles referred to, are those generally accepted in Argentina).

To the President and Board of Directors
Seguro de Depósitos Sociedad Anónima
651, Leandro N. Alem Ave., 7th Floor
Buenos Aires

We have examined the balance sheet of SEGURO DE DEPÓSITOS SOCIEDAD ANÓNIMA as of December 31, 1998, and the related statements of income and of changes in stockholders’ equity, notes 1 to 12, and the Exhibits I to IV for the fiscal year then ended, submitted in comparison to the previous fiscal year. These financial statements are the responsibility of the Board of Directors of the corporation. 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 misstatements. 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 statements presentation. We believe that our audit provide a reasonable basis for our professional opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of SEGURO DE DEPÓSITOS SOCIEDAD ANÓNIMA as of December 31, 1998 and 1997, as well as the results of the operations and the changes in stockholders’ equity for the fiscal years ended on those dates, 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, and that their entries agree with those of the ledgers;

b) liabilities accrued in favour of the Social Security National Administration, as of December 31, 1998 and 1997, in charge of the Deposit Guarantee Fund, according to the accounting records, amounted to $ 7,092.62, 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, February 8, 1999

KPMG FINSTERBUSCH PICKENHAYN SIBILLE

Ricardo E. De Lellis
Partner

6. Report of the Syndics' Committee

Buenos Aires, April 21, 1999

To the Shareholders of
Seguro 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 Fourth Fiscal Year, ended as at December 31, 1998, 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, as well as all the administrative management in its capacity of trustee of the Deposit Guarantee Fund (DGF), 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, in a correct and adequate way, 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. In like manner, we performed the same functions with regard to the Statement of Condition of the Shareholders' Equity of the Deposit Guarantee Fund, for the period ended as of December 31, 1998.

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 and of the Deposit Guarantee Fund, 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. On behalf of the Syndics' Committee

Carlos M. Tombeur
Syndic

Enzo A. Vivian
Syndic

VIII. Legal and Regulatory Framework

1. Decree N° 1127/98

Decree 1127/98 (O.G. 09.28.98) introduced two relevant modifications to the legislation in force up to its enactment. These are:

1st It unified the two maximum amounts for coverage existing, established for sight deposits or certificates of deposit constituted for less than 90 days ($ 10,000) and for certificates of deposits constituted for 90 days or more than 90 days ($ 20,000). As of the enactment of Decree N° 1127/98, all deposits, either at sight or certificates of deposit were guaranteed, in a 100% of their amount, up to the limit amount of $ 30,000.

2nd The Banco Central was granted the power of modifying the limit of the coverage according to the prevailing financial market conditions, a power which previously belonged to the government legislative branch.

The full text of said Decree is as follows:

Buenos Aires, 09/24/98

IN VIEW OF Law N° 24,485 and of Decree N° 540 of April 12. 1995, modified by Decree N° 1,292 of November 15, 1996, and

WHEREAS:

During the last years a process of constant consolidation of the Argentine financial system is being observed, due –mainly– to the acquisition of important share portfolios by sound foreign banks, to the numerous merger processes and to the capitalisation of the financial entities operating in our country.

That in order to complement such policy of reaffirmation of the consolidation process it is convenient to take measures that contribute to increase the confidence of the depositors in the Argentine financial system, establishing a level of coverage of the banking deposits in accordance to the international levels and adapted to the circumstances, needs and conveniences in force at each moment.

That, to this purpose, the experience gathered till now in the matter of the coverage of the banking deposits makes it advisable to raise the maximum coverage limit of the guarantee system foreseen at Section 13 of Decree N° 540 of April 12, 1995, to a level which, without bringing about the increase in the cost of the system, allows to reduce in a FIFTY PER CENT (50%) approximately the number of depositors which, according to the regime presently in force, would not be covered by said guarantee for the total amount of their deposits.

That the GENERAL DIRECTION OF LEGAL AFFAIRS of the MINISTRY OF ECONOMY AND PUBLIC WORKS AND SERVICES has taken intervention.

That the present Decree is issued in use of the faculties granted by Section 99, Paragraph 2, of the NATIONAL CONSTITUTION.

In view of the foregoing,

THE PRESIDENT OF THE ARGENTINE NATION DECREES:

Section 1. Section 13 of Decree N° 540 of April 12,1995 is substituted, and shall be drafted as follows:

"Section 13: The guarantee shall cover the reimbursement of the sight deposits and of the certificates of deposit up to an amount of PESOS THIRTY THOUSAND ($ 30,000).

The BANCO CENTRAL DE LA REPÚBLICA ARGENTINA is enabled to decide, at any moment and with a general character, the modification of this amount of coverage of the guarantee system, on the basis of the evolution of the process of consolidation of the Argentine financial system and other indicators which it may esteem appropriate.

The deposits for amounts higher than the amount of the coverage will also be included in the insurance system up to that maximum limit".

Section 2: Section 16 of Decree N° 540 of April 12, 1995 is repealed.

Section 3: The present Decree shall be in force as of the date of its publication in the Official Gazette.

Section 4: To be communicated, published, given to the National Direction of Official Register and filed.

2. Communications of the Banco Central de la República Argentina

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.

Communication "A" 2688 (April 21, 1998)

It establishes a new regime for the evaluation of the financial entities. It stipulates that the publicity of the evaluations will be in force when the Banco Central de la República Argentina decides so. It stipulates, likewise, that the first evaluation in accordance to the new regime shall be made with regard to the quarterly Financial Statements or those of the closing of the fiscal year to 12.31.97, and it shall be submitted no later than 06.29.98 or 07.20.98, as it pertains.

It delays, without date limit, the coming in force of the provisions contained in Communications "A" 2595 ("Certificates of Qualified Investment") and "B" 6246.

Communication "A" 2703 (May 13, 1998)

It modifies the provisions contained in Communication "A" 2664, on Financial Trust Agreements, in what refers to the provision of information to the Banco Central de la República Argentina.

Communication "A" 2713 (June 1, 1998)

It modifies item 2.3 (Paragraph 2, Other rating agencies admitted) of Communication "A" 2688.The local branches of foreign financial entities, and the financial entities having guarantees issued by foreign banks which expressly guarantee the refund, within the delay and the modality contracted, of the deposits and other liabilities through financial intermediation, may choose an alternative rating regime. Now, these entities, when making the option, shall have to submit to the Superintendency of Financial and Foreign Exchange Institutions at least two rating reports of international level, –i.e., which necessarily consider the pertaining sovereign risk– issued by some of the risk rating agencies listed, with regard to the parent bank of the branch operating in the country or to the foreign bank which has issued the guarantee.

Communication "A" 2718 (June 16, 1998)

It informs that, as of July 1998, the determination of the assessments to be made by the entities to the Deposit Guarantee Fund shall be made "ex oficio" by the Banco Central de la República Argentina, in accordance with the calculation methodology included as annex to this Communication, and the Banco Central shall debit said amount from the current account that the entities maintain with the institution.

Communication "B" 6346 (June 19, 1998)

It informs the proportion with which each financial institution participates, as at December 1997, in the Trust Agreement that controls SEDESA.

Communication "A" 2735 (July 13, 1998)

It modifies the method of diffusion of the rating of the financial entities (Communication "A" 2713). The financial entities must, without prejudice towards other means of diffusion that they decide to adopt, make the rating available to the public that may request it.

It is no longer mandatory to publish it on boards and to include it in Certificates of Deposit, account summaries and on the publicity aiming at obtaining deposits.

Communication "A" 2777 (September 17, 1998)

It informs the modification of the method of calculation of the Reference Rate used to determine which deposits are under the coverage offered by the Deposit Guarantee System. In this regard, it states that item 6.3 to Annex I to the Communication "A" 2337 has now been drafted as follows:

"6.3 The Banco Central shall make public, periodically, through the "STAF", the Reference Rates for the Certificates of Deposit and the balances of the Sight Accounts (Current Account and Savings Account), so as to determine the eventual exclusion from the guarantee of the transactions in which rates higher than the Reference Rate have been agreed.

The Rates of Reference shall be established by adding two yearly percentage points to the mobile average of the last five bank working days of the actual rates that may arise from the survey which the Banco Central carries out".

Communication "A" 2791 (October 23, 1998)

It informs the financial entities that they shall be able to make active swaps for the Banco Central against debt instruments which SEDESA may issue on the Deposit Guarantee Fund.

SEDESA
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