



SEDESA

Seguro de Depósitos S.A.

ARGENTINA

General Review 2006

2006



**S E D E S A**

**GENERAL REVIEW**

2006

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# MESSAGE FROM THE CHAIRMAN

*We are pleased to present the Annual Report and Financial Statements of Seguro de Depósitos S.A. (SEDESA), where we summarize the progress made and the achievements attained by our institution during 2006.*

*Our 2006 performance is a confirmation that the strategy adopted in 2005 was correct, since we enhanced the changes introduced earlier and fulfilled the objectives that we had laid out.*

*Nowadays, the Fund has improved liquidity and solvency levels, its management is more productive and more efficient in the use of its resources.*

*SEDESA will continue with its commitment to contribute to the development of deposit insurance by participating actively in training and in international cooperation efforts.*

*We have been appointed members of the Executive Council of the International Association of Deposit Insurers (IADI), a position that places our entity as a reference at the global level.*

*In this process of streamlining our structure, we will update the IT platform and implement best practices to raise our performance and quality standards.*

*As in past years, we wish to express our gratitude to the Central Bank of the Argentine Republic, Caja de Valores S.A., the Argentine financial entities, our external advisors and, particularly, our officials and staff members for their dedication and commitment.*



**Irene Ulnik**  
Chairman  
SEDESA  
April 2007



## ABOUT SEDESA

*SEGURO DE DEPÓSITOS SOCIEDAD ANÓNIMA (SEDESA) is a private corporation organised under the Argentine Companies Law (N° 19,550), as amended.*

*In fulfilment of the provisions of Law N° 24,485 (published in the Official Gazette on 18/04/95), it was created by Presidential Decree N° 540/95, for the purpose of managing (as trustee) the Deposit Guarantee Fund (DGF), also created by such Presidential Decree.*

*The capital stock of SEDESA amounts to one million Argentine pesos (ARS), each share having a par value of one peso. Its stockholders are the National Government and Caja de Valores S.A.*

*The National Government, through the BCRA, is the holder of one Class A share. The remaining 999,999 shares are Class B shares and are held by Caja de Valores S.A. in its capacity as trustee, as laid down in the Trust Agreement entered into on August 15, 1995 between the financial entities that desired to take part in the subscription and Caja de Valores S.A.*

**The duties of SEDESA as manager of the DGF, which are set out in the framework regulations for the DGF, are as follows:**

1. Pay the insured deposit to depositors, as appropriate, in accordance with the provisions of Presidential Decree 540/95, as amended, and its implementing regulations.

2. Make capital contributions, non-reimbursable contributions or loans to financial institutions:

- 2.1. That are carrying out a regularisation and rehabilitation plan, in order to assist them with the implementation of such plan;
- 2.2. That have acquired the assets and taken charge of the payment of the deposits of another entity that is subject to the scheme established in section 35 bis of the Financial Entities Law, when this were needed to compensate for the insufficiency of such assets in respect of the deposits transferred;
- 2.3. That have taken over or acquired other financial entities within the framework of a regularisation and rehabilitation plan.

3. Enter into put option agreements with financial entities acquiring the assets or taking charge of the payments of the deposits of another financial entity that is subject to the scheme established in section 35 bis of the Financial Entities Law, in favour of the acquiring entity, over all or a part of the transferred assets; this arrangement may consist in the creation of a trust fund.

4. Acquire the deposits of suspended banks up to the amount of the guarantee, subrogating itself to the rights of the depositors (including the reimbursement of the sums deposited in wages and salaries crediting accounts to their holders).

5. Assume obligations chargeable to the

DGF, within the limits stipulated therefore.

6. Carry out, maintain or finance swap programs with foreign banks in order to contribute to the stability of the Argentine financial system, with the prior consent of the BCRA and chargeable to the DGF.

The applicability of the duties specified in 2, 3, 4 and 5 must be previously discussed and approved by a Managing Committee (a standing collegiate body) chaired by a BCRA representative, who has no voting right but has veto power, and five regular members, as provided for in the trust agreement dated 07/03/97. The decisions adopted by the Managing Committee are binding upon SEDESA.

The DGF is made up of the obligatory assessments paid monthly by the financial institutions authorised to operate in Argentina, in respect of the peso and foreign currency deposits held in them.

### **Deposits guaranteed by the DGF:**

The deposits in PESOS and in foreign currency constituted with the participating entities under the form of checking accounts, saving accounts, time deposit, special deposits, time investment, immobilised balances or other forms that the BANCO CENTRAL DE LA REPÚBLICA ARGENTINA may determine in line with the preceding concepts shall benefit from the insurance coverage offered by the system.

### **The following items do not benefit from the coverage of the guarantee system:**

- a) Transferable fixed term deposits whose property has been acquired via an endorsement, even if the latest endorser is the original depositor.
- b) All deposits taken which offer incentives additional to the agreed interest rate, whatever denomination or form they may adopt (insurance premiums, raffles, tourism, services rendered, etc.).

c) Deposits on which a rate of interest higher than the reference rate is agreed.

d) Deposits of financial entities with other intermediaries, including certificates of deposit acquired by secondary negotiation.

e) Deposits made by persons connected, directly or indirectly, with the entity.

f) Certificates of deposit of securities, acceptances or guarantees.

g) Immobilised balances from deposits and other excluded operations.

h) All other deposits which the Authority of Application may exclude in future.

The guarantee shall cover the reimbursement of the sight deposits or of the certificates of deposit constituted for up to the amount of THIRTY THOUSAND PESOS (\$ 30,000).

The BANCO CENTRAL DE LA REPÚBLICA ARGENTINA may decide, at any time and with a general character, the modification of said coverage amount of the guarantee system, on the basis of the evolution that the process of consolidation of the financial system shows and of other relevant economic indicators it may care to consult.

Deposits for amounts higher than the amount of the coverage are also included in the guarantee regime up to the maximum limit mentioned above.

## COMPOSITION OF THE BOARD OF DIRECTORS AND THE STATUTORY AUDIT COMMITTEE



### BOARD OF DIRECTORS

- *Chairman*  
**Lic. Irene L. Ulnik**
  
- *Vice-Chairman*  
**Lic. Martín Lagos**
  
- *Director*  
**Dr. Norberto C. Peruzzotti**
  
- *Alternate Directors*  
**Cr. Horacio Jorge Mencías**  
**Dr. Santiago M. J. A. Nicholson**  
**Cr. Marcelo Sánchez**

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### STATUTORY AUDIT COMMITTEE

- *Auditors*  
**Dr. Eugenio Carlos Gallegos del Santo**  
**Cr. Oscar Juan Camacho**  
**Cra. Alicia Laura Bianchi de Nozieres**
  
- *Alternate Auditors*  
**Dr. Eduardo Jorge Fasulino**  
**Cr. Alejandro Almarza**  
**Dr. Enrique Bruchou**

■ **Statement** of Changes in the Deposit Guarantee Fund

■ **Cash Inflow** in the DGF's Available Balance

■ **Cash Outflow** from the DGF's Available Balance

■ **Statement** of Profit and Loss for Fiscal Year 2006

■ **Exchange** with Other Countries and Organisations

■ **Actions Undertaken**

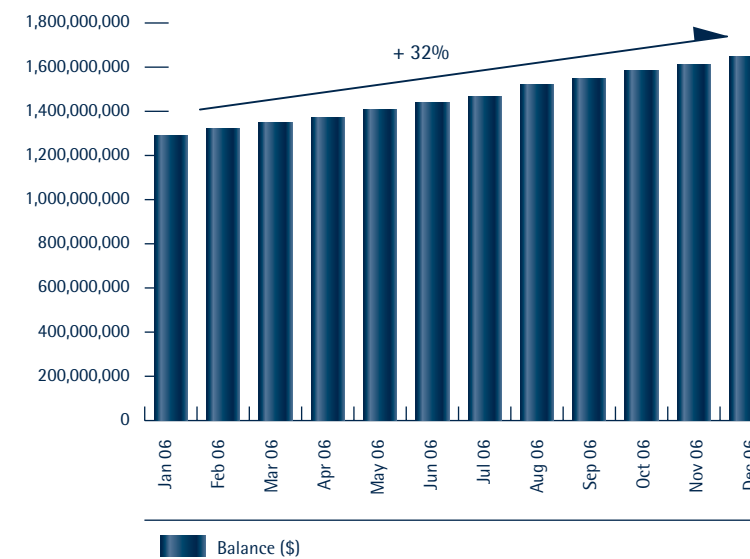
## STATEMENT OF CHANGES IN THE DEPOSIT GUARANTEE FUND

The Deposit Guarantee Fund's (DGF) equity grew substantially during fiscal year 2006. At the end of the fiscal year the total amount rose to ARS 2,112,936,960\* the annual growth rate was 25%.

The available balance rose by 32% to a total amount of ARS 1,649,966,768 as of December 31.

The DGF's growth is the consequence of a favourable evolution of the economy, a stronger financial system that did not request any assistance throughout fiscal year 2006, and an adequate management of the different SEDESA areas, among which we can particularly mention our successful performance in financial investments, in asset and trust recovery and sales of assets, as well as an efficient administration of expenses.

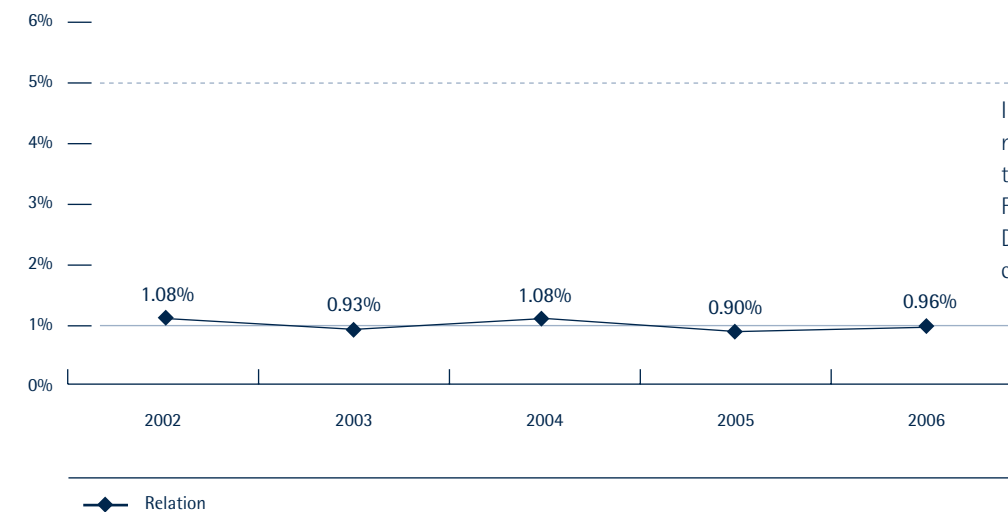
MONTHLY CHANGES IN THE AMOUNT AVAILABLE IN 2006



Amount available as at December 2005:  
ARS 1,250,486,816

Year 2006	Balance (\$)
January	1,289,311,786
February	1,322,921,331
March	1,350,629,842
April	1,370,567,686
May	1,406,206,774
June	1,440,266,669
July	1,467,683,672
August	1,520,759,766
September	1,549,029,314
October	1,583,378,425
November	1,613,304,752
December	1,649,966,768

AVAILABLE BALANCE OF DGF / TOTAL DEPOSITS IN THE FINANCIAL SYSTEM RATIO. (FIGURES AS AT DECEMBER 31 EACH YEAR)

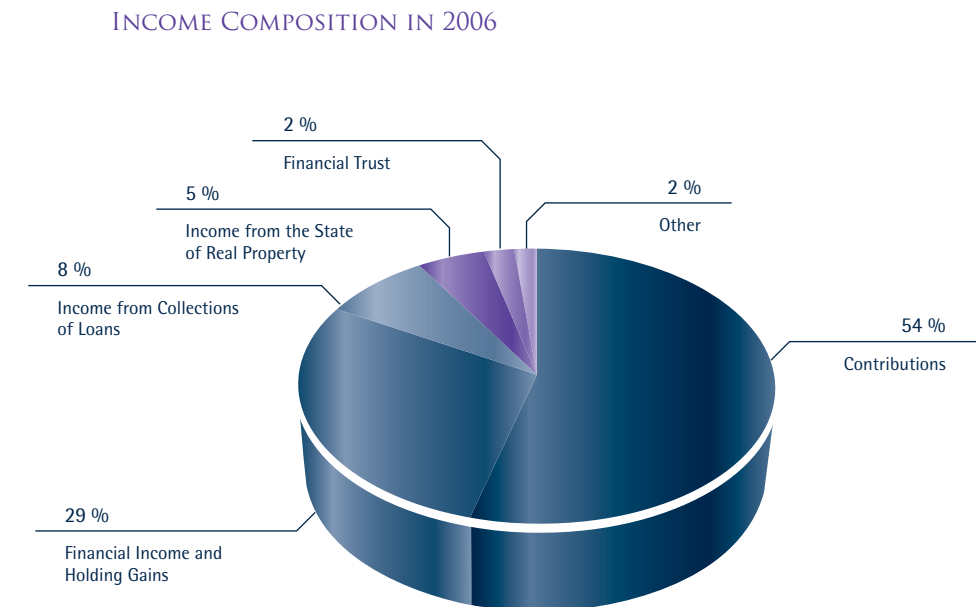


In spite of the above mentioned growth, the ratio of Available Funds / Total Deposits remained close to 1%.

(\* The exchange rate of the Argentine peso (ARS) relative to the USD showed low volatility during 2006 (fluctuating between 3.02 and 3.11 ARS/USD).

## CASH INFLOW IN THE DGF'S AVAILABLE BALANCE

The total amount of cash income amounted to ARS 422,109,208, representing a 15% increase vis-à-vis the contributions received during the previous year. Contributions continued to be, as in past years, the DGF's main income.



### CONTRIBUTIONS FROM FINANCIAL INSTITUTIONS

Due to the increase in bank deposits, contributions in fiscal year 2006 amounted to ARS 229,514,585, representing a 5.94% increase vis-à-vis the contributions received in 2005.

The contribution rate did not undergo any modification throughout the year. Contributions are made on a monthly basis for an amount equivalent to a 0.015% of the monthly average of the total deposits in each financial institution plus a varying additional contribution that may reach a maximum of 0.015%, depending on regulations set forth by the Central Bank of the Argentine Republic (BCRA).

### INVESTMENTS

Investments of the DGF's available balance at fiscal year end reached an amount of ARS 1,642,796,710. Investments of DGF's available balance yielded an annual profit of ARS 108,801,989, i.e. a 38% higher than in 2005, owing to an increase in interest

rates, available funds, securities valuation as well as owing to the investment patterns adopted.

The cash inflow resulting from financial investments amounted to ARS 122,099,720, representing a 29% of the total income. In line with Article 10 of Decree 540/95 and its amendments, by fiscal year end it was possible to increase investments held abroad.

Therefore, the investment portfolio at the closing of the fiscal year showed an increase in the share of funds invested abroad under similar conditions as those established for BCRA's Currency International Reserves.

#### Investments in Argentine Pesos:

As in past fiscal years, and due to the restrictions imposed on the Foreign Exchange market, the greatest share of DGF's income was invested in BCRA's securities by subscribing LEBACs (BCRA bills) and NOBACs (BCRA notes) in a primary bidding process.

The subscription for LEBACs was made for a nominal value of ARS 1,140,500,000, while the subscription for NOBACs was made for a nominal value of ARS 92,800,000. Out of the total amount subscribed for the fiscal year, 92% accounted for LEBACs in Argentine pesos at a fixed rate and the remaining 8% accounted for NOBACs at a variable rate, yielding a return of ARS 44,648,321. These local investments were made due to limitations imposed in foreign exchange regulations issued by BCRA at the beginning of 2002.

Investments in BCRA bills as at December 31 reached a book value of ARS 361,674,115.

#### Investments in Foreign Currency:

Investments held abroad as at fiscal year end amounted to ARS 1,158,720,926, i.e. a 48% increase vis-à-vis the initial balance. This substantial growth took place particularly in November and December. The return on investments in 2006 was ARS 36,122,371.



**Government Securities:**

The portfolio in Government Securities in foreign currency amounted to ARS 119,742,192 at fiscal year end, while those denominated in Argentine pesos amounted to ARS 1,997,077.

■ **OTHER INCOME**

In addition to the income sources already described, the DGF has other sources that represent 17% of the total income, namely collections of receivables assigned in favour of SEDESA as trustee of DGF, services and

amortizations from granted loans, sales and leases of real property, and collection of trust certificates with SEDESA as beneficiary.

With regard to income from the collection of loans, it should be noted that the portfolios, though long-delinquent and with implementation deficiencies, have grown from ARS 25,269,423 in 2005 to ARS 33,082,574 in 2006 –accounting for a 31% increase.

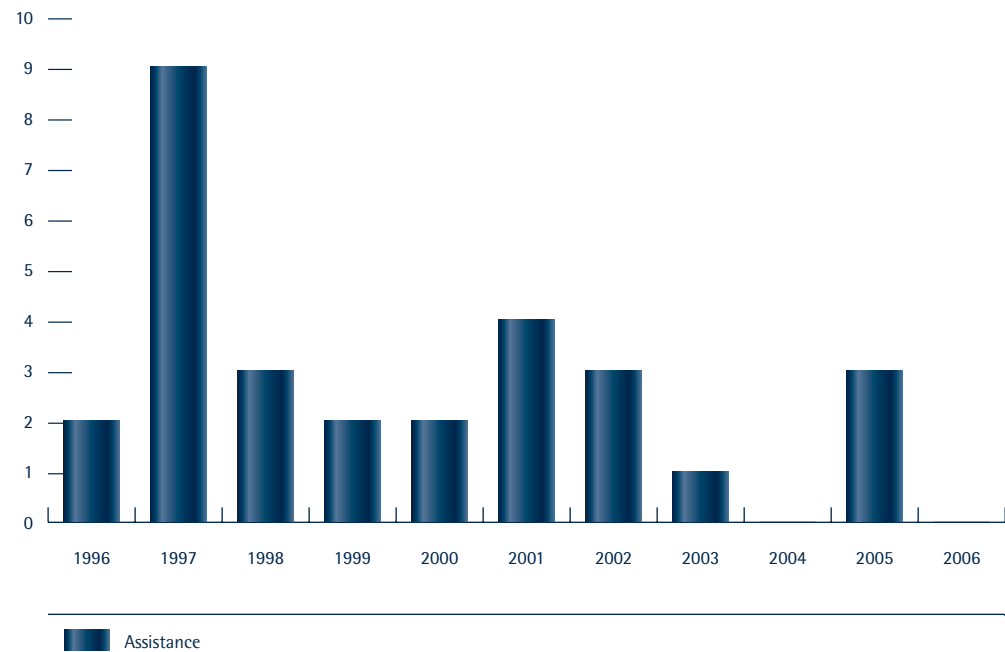
Furthermore, great efforts were made in the sale of real property, as a result of which operations were negotiated for an amount

of ARS 22,003,239, of which ARS 21,700,461 were collected at the closing of this fiscal year. Such amounts should be compared against ARS 3,420,412 in 2005.

## CASH OUTFLOW FROM THE DGF'S AVAILABLE BALANCE

*During the fiscal year, no assistance was requested from any financial institution.*

NUMBER OF INSTITUTIONS ASSISTED



Cash used in operating activities in 2006 amounted to ARS 21,964,840 –i.e. 27% lower than the amount applied to such expenses in 2005, without considering the assistance granted. Funds were mainly used to cover expenses related to the administration, management of collections, recoveries of fiduciary administered

property, fees, and maintenance of real estate.

During this fiscal year, expenses –namely, **insurance expenses, structure and third party fees**– underwent a significant optimisation process.

## STATEMENT OF PROFIT AND LOSS FOR FISCAL YEAR 2006

■ **SEGURO DE DEPÓSITOS S.A. (SEDESA)**

The Statement of Profit and Loss of SEDESA for the fiscal year ended 31 December 2006 yielded a profit (after income tax) of ARS 380,580. This amount was allocated to "Retained Earnings" of the Stockholders' Equity account, subject to approval by resolution adopted by the Meeting of Stockholders (See Statement of Changes in Stockholders' Equity in the Financial Statements of SEDESA).

It should be noted that such net earnings are basically attributable to the "Financial Income and Holding Gains" for ARS 702,346.

■ **COMPOSITION OF STOCKHOLDERS' EQUITY**

The net worth as at 31 December 2006 amounted to ARS 12,358,160 and is made up of the following items:

Capital:	\$ 1,000,000
Capital Adjustment:	\$ 1,197,266
Legal Reserve:	\$ 439,454
Optional Reserve:	\$ 9,340,860
Results of fiscal year:	\$ 380,580
<b>Total:</b>	<b>\$ 12,358,160</b>

The Board of Directors recommends using the results of the fiscal year (ARS 380,580) to creating and increasing the optional reserve in order to reinforce the working capital.

■ **DEPOSIT GUARANTEE FUND (DGF)**

The DGF's Statement of Profit and Loss for fiscal year 2006 yielded a profit of ARS 196,359,279, basically attributable to the "Retained Earnings" of the Stockholders' Equity account (See Statement of Changes in Stockholders' Equity in the Financial Statements of SEDESA).

**Such net earnings are mainly attributable to:**

- Results from financial investments for ARS 108,801,989. It is worth noting the extraordinary performance of government securities due to a foreign exchange rate difference, which amounted to ARS 24,165,224.
- Interests from granted loans, amounting to ARS 21,705,890.
- Reduced provision on loans with an option of cancellation with government securities under guarantee, amounting to ARS 39,506,543.
- Results from the management of assets, i.e. ARS 36,903,741.

## EXCHANGE WITH OTHER COUNTRIES AND ORGANISATIONS



SEDESA continued its exchange activities with different worldwide organisations. During 2006, our institution was visited by delegations from deposit insurance agencies from Brazil (Fundo Garantidor de Creditos – FGC) and from Russia (Deposit Insurance Agency – DIA), with whom we shared our experiences on the way deposit insurers operate in each country.

In October, Mr. Martin Lagos, SEDESA's Vice-Chairman, attended the Conference International Financial Instability: Cross-Border Banking and National Regulation, organised by both the Federal Reserve Bank in Chicago and IADI (International Association of Deposit Insurers).

SEDESA is a founding member of IADI, whose mission is "to contribute to the enhancement of deposit insurance effectiveness by promoting guidance and international cooperation."

In November, this Association held the "Annual General Meeting and Fifth Annual IADI Conference: Raising the Bar," in Brazil, where Ms. Irene Ulnik in her capacity of President of SEDESA delivered a lecture entitled "To Guarantee Beyond Deposits: the Argentine Experience".



In the framework of this conference, we exchanged our publications and research works with other countries.

During the event, IADI held its Annual Meeting, where SEDESA, represented by its President, was elected as a member of its Executive Council for a three-year term, positioning SEDESA as a reference in international discussions on financial system security networks.



Deposit Insurance Agency (Russia) Delegation with SEDESA's Board of Directors

## ACTIONS UNDERTAKEN

### HIRING PROCEDURE FOR INVESTMENT PORTFOLIO MANAGEMENT

Initiated in 2005, the careful procedure to hire a professional manager of the DGF funds abroad, was concluded in August.

To ensure selection transparency and quality standards SEDESA organised a competitive examination and price bidding process that attracted the interest of leading investment banks in the world. Twelve international institutions submitted seventeen proposals.

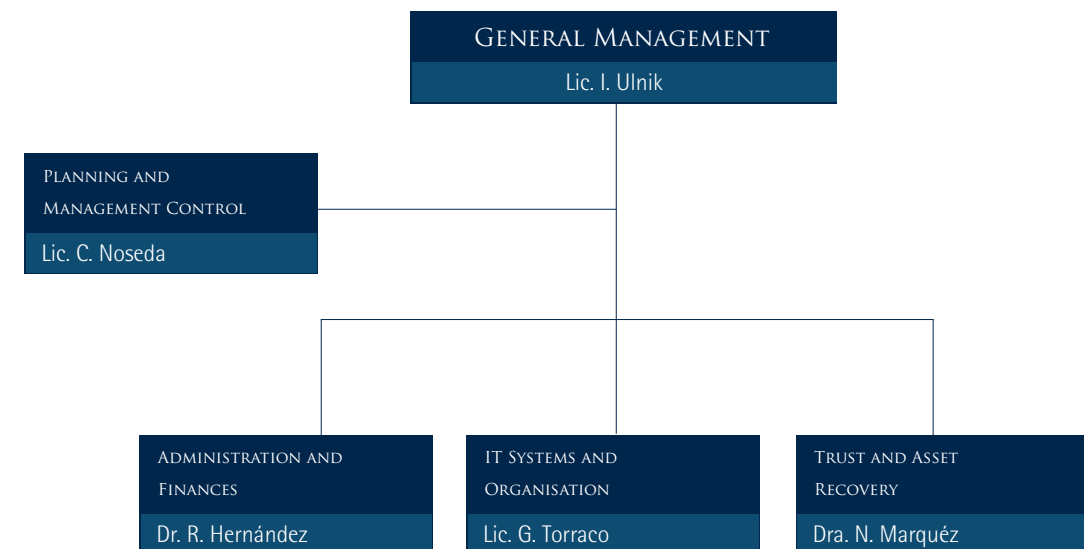
The contract was awarded to Goldman Sachs Asset Management (GSAM), which started to manage the portfolio concerned in September 2006.

### ANALYSIS OF THE ORGANISATIONAL STRUCTURE

An analysis was conducted of the functionality of the organisational structure, including the Company's Policies, Standards and Procedures.

This was aimed at selecting the best practices and incorporating the internal control mechanisms that should ensure management efficiency and transparency.

This reengineering process gave rise to the need to redefine the organisational positions and functions and to devise a more dynamic and functional structure. The result of this process is the organisational chart presented below:



Within this framework of organisation streamlining, special emphasis was placed on human resources management as it is understood to be crucial to the success of the company.

#### ■ IT PLATFORM UPDATE AND UPGRADE

The implementation of regulatory changes and tighter management controls should be supported on an updated IT platform, adjusted to the IT needs of the various managements and sectors.

Among other actions, a loan management system was incorporated, which gave rise to the need of standardising data and creating a unified client database, a highly complex task due to existing differences in the IT systems of the banks assisted.

In addition, the available information from liquidated banks received by SEDESA for its administration was classified and enhanced for portfolio and other asset management purposes, incorporating security and audit standards, as prescribed by the Central Bank.

Furthermore, part of the equipment was updated and the concept of contingency was incorporated, as a result of servers for ongoing operation were set up. Security standards were improved by creating back-up routines for all critical data.

In 2007, this upgrading of our equipment will continue and a data centre will be set up to further optimise information security standards.

#### ■ RECOVERY MANAGEMENT

The transfer of residual assets from the trusts has continued. The taking over of such assets, which commences upon the expiration of the pertinent trust agreements in which SEDESA is a beneficiary, calls for the fulfilment of many cumbersome tasks of legal, economic and procedural nature. These tasks could be conducted with the support and cooperation of trustees. In 2006, the assets transferred in consideration for the assistance granted were carefully analysed. Consequently, efficiency in collection management and sale of movable property and real state property was substantially improved.

Despite the progress made, there is yet much to do in this regard. It is necessary to analyse even further the status of court proceedings, the economic likelihood of loans being actually recovered and estimate the costs incurred in the pursuance and termination of court proceedings.

All this process will take place during 2007 with the support of the IT system recently acquired.

■ **Main Events** in Argentina's Financial System - 2006

## MAIN EVENTS IN ARGENTINA'S FINANCIAL SYSTEM - 2006

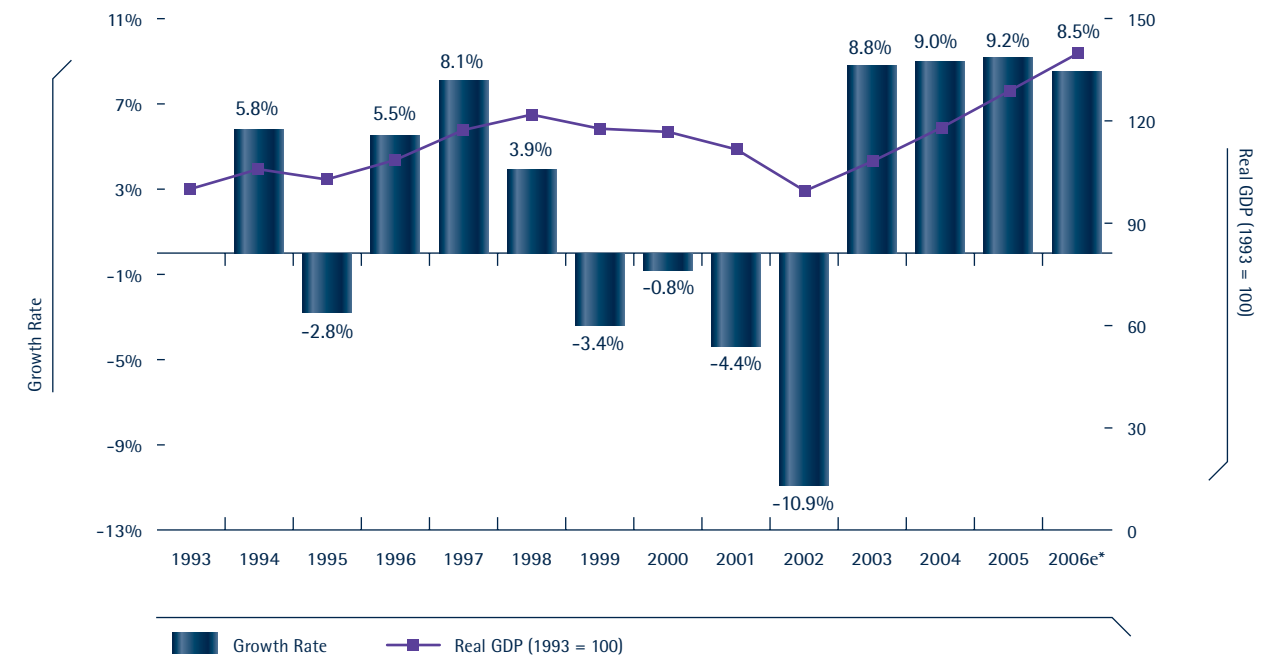
■ **MACROECONOMIC CONTEXT**

During 2006, economic activity expanded at a rate of 8.5%, as indicated by real GDP<sup>1</sup>. This is the fourth consecutive year of economic expansion, with GDP levels surpassing pre-crisis peaks. Consumer price inflation in 2006 reached a

level of 9.8%. This increase in prices, driven by growth in demand and bottlenecks on the supply-side, was partly contained by a policy in which the government and retailers and industry leaders reached 'agreements' on prices for certain goods.

The utilization of installed capacity is at its highest level since a previous peak in 1998, with certain industries well-above the national average.

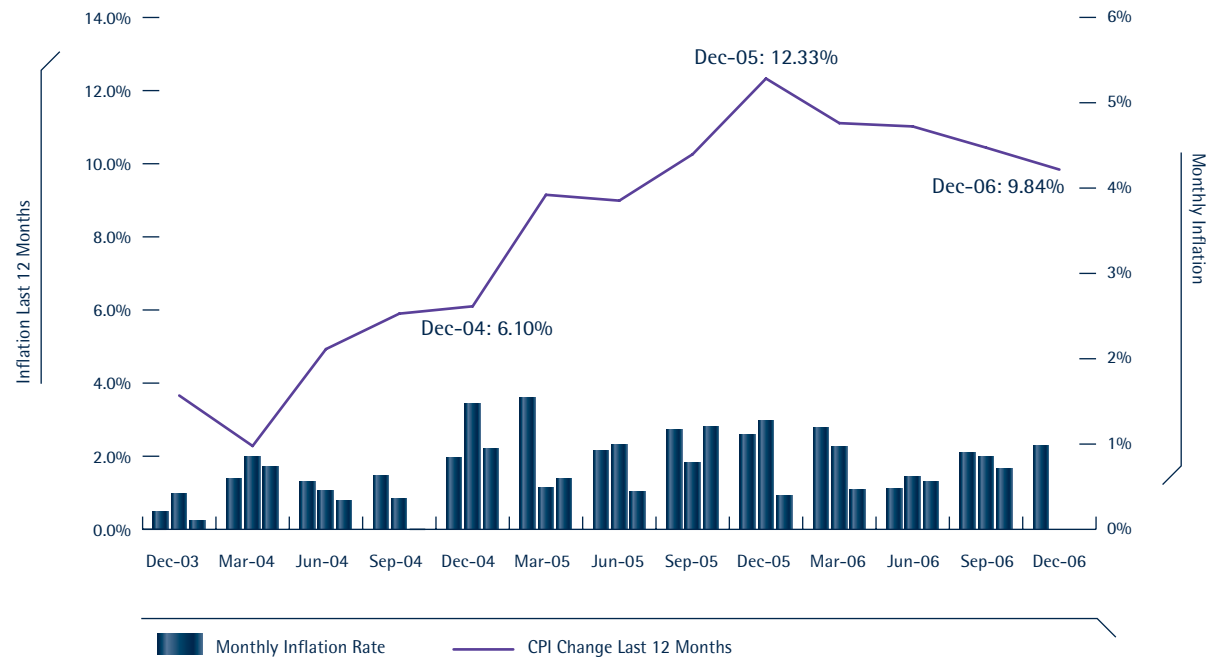
**CHART 1.1**  
REAL GDP EVOLUTION



Source: INDEC (National Institute of Statistics)

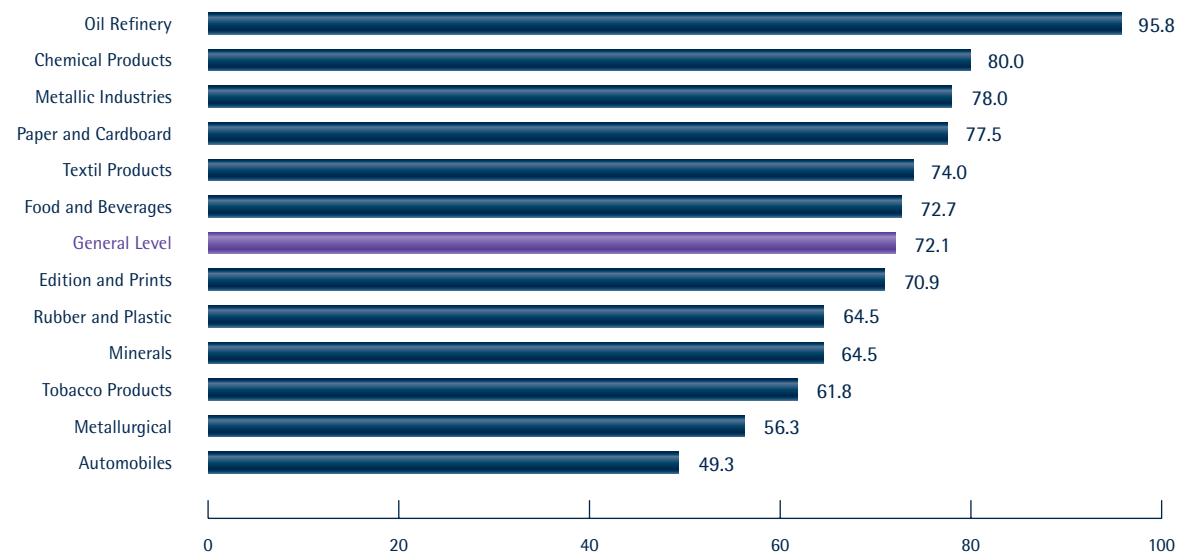
<sup>1</sup> Note: Preliminary information based on the Monthly Economic Activity Estimate published by INDEC  
(\* ) Estimated.

CHART 1.2  
CPI EVOLUTION



Source: INDEC

CHART 1.3 - A  
UTILIZATION OF INSTALLED CAPACITY  
BY TYPE OF INDUSTRY AS OF DEC-2006



Source: INDEC

The public sector figures continue to exhibit strength. Primary surplus reached 3.5% of GDP in 2006, a historically high level. In the same line, fiscal result (after taking into account debt services) had a considerable improvement when compared with previous periods.

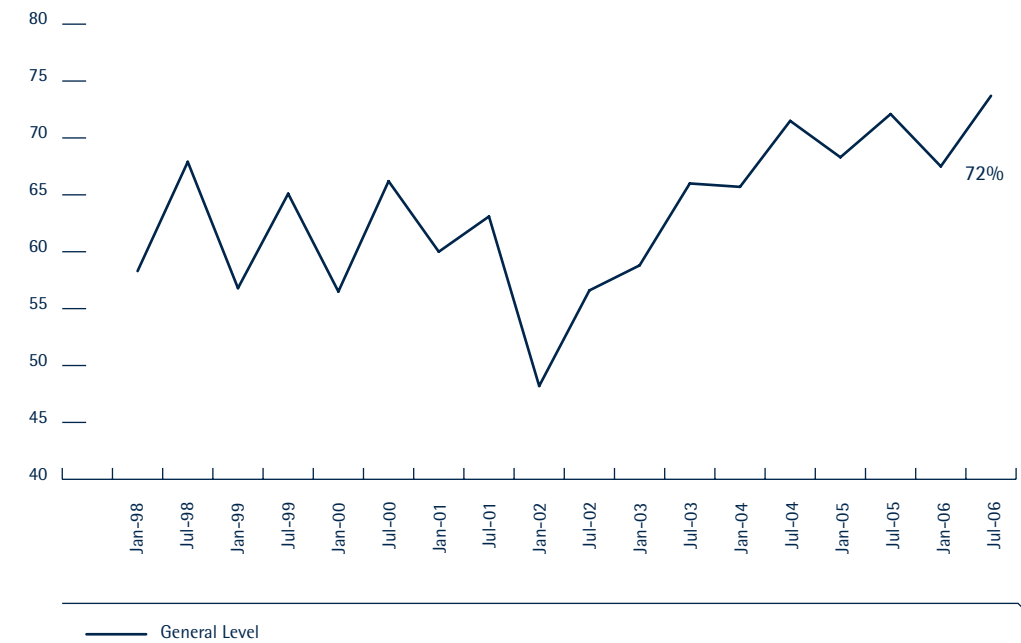
Argentina continued registering positive external sector figures. In 2006, the external trade ended with a surplus over US\$ 12 billion, representing 5.63% of nominal GDP

(0.87% lower than 2005). This was achieved with the combination of \$46 billion of exports and \$34 billion of imports.

In line with the positive economic indicators mentioned above, 2006 also showed a decrease in the unemployment rate to 8.7% in Q4 2006. The lowering of the unemployment rate was compounded with improved figures in the formal labor market. These two factors, in turn, have increased the number of people in the economy available for banking services.

The bilateral real exchange rate of the Argentine peso (ARS) relative to the USD continued to trade at competitive levels, with low volatility in the nominal rate, (fluctuating between 3.02 and 3.11 ARS/USD). International reserve accumulation policy followed by Argentina's Central Bank contributed to this outcome

CHART 1.3 - B  
UTILIZATION OF INSTALLED CAPACITY  
HISTORIC EVOLUTION



Source: INDEC

INTERNATIONAL CONTEXT

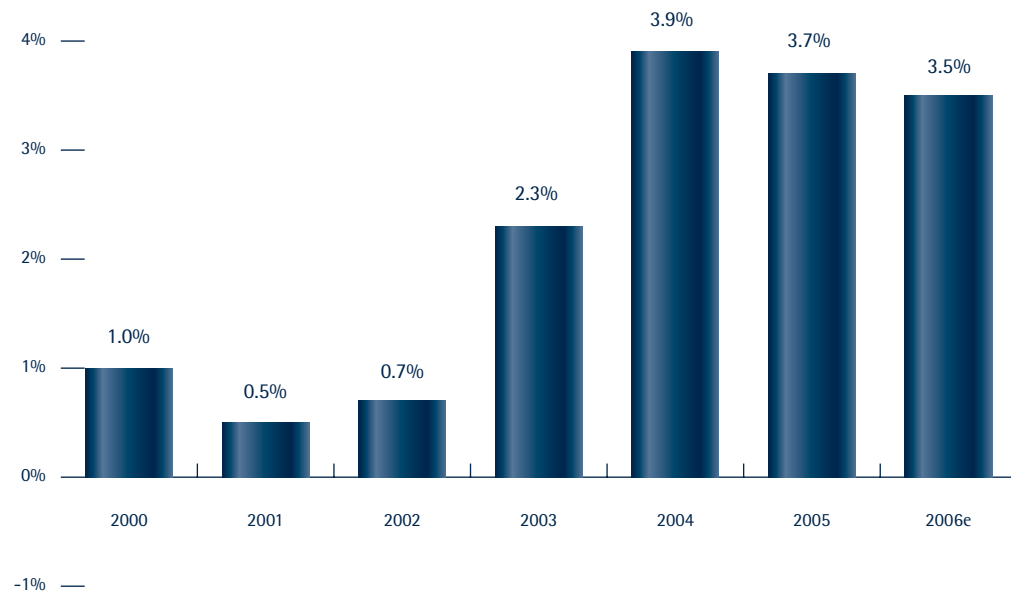
The benign international environment to emerging markets continued during 2006. Across the board, emerging markets show strong fiscal figures, reductions in the debt-to-GDP ratios and decreased external debt in relation to domestic debt.

The Fed's monetary policy tightening cycle seems to be coming to an end. Coupled with the high level of international liquidity, this has translated in capital inflows to emerging markets. As a result, spread over risk free rates are trading at record-lows levels.



CHART 1.4

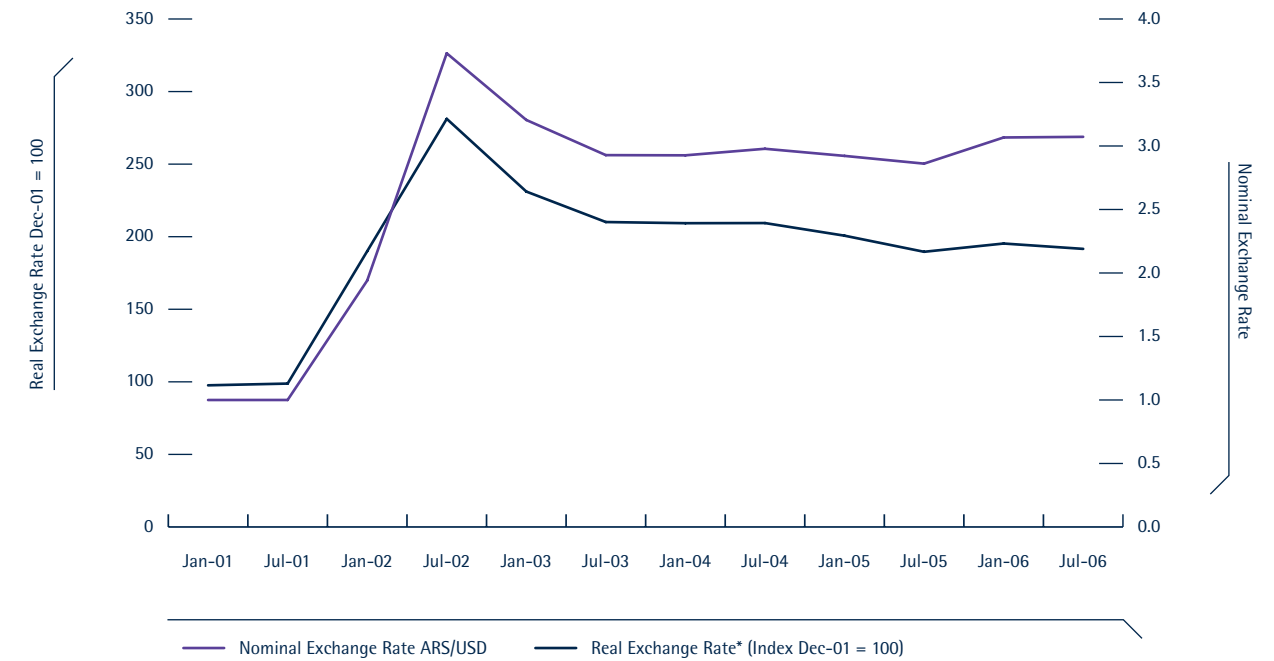
PRIMARY SURPLUS AS % OF NOMINAL GDP



Source: INDEC and Ministry of Economy

CHART 1.6

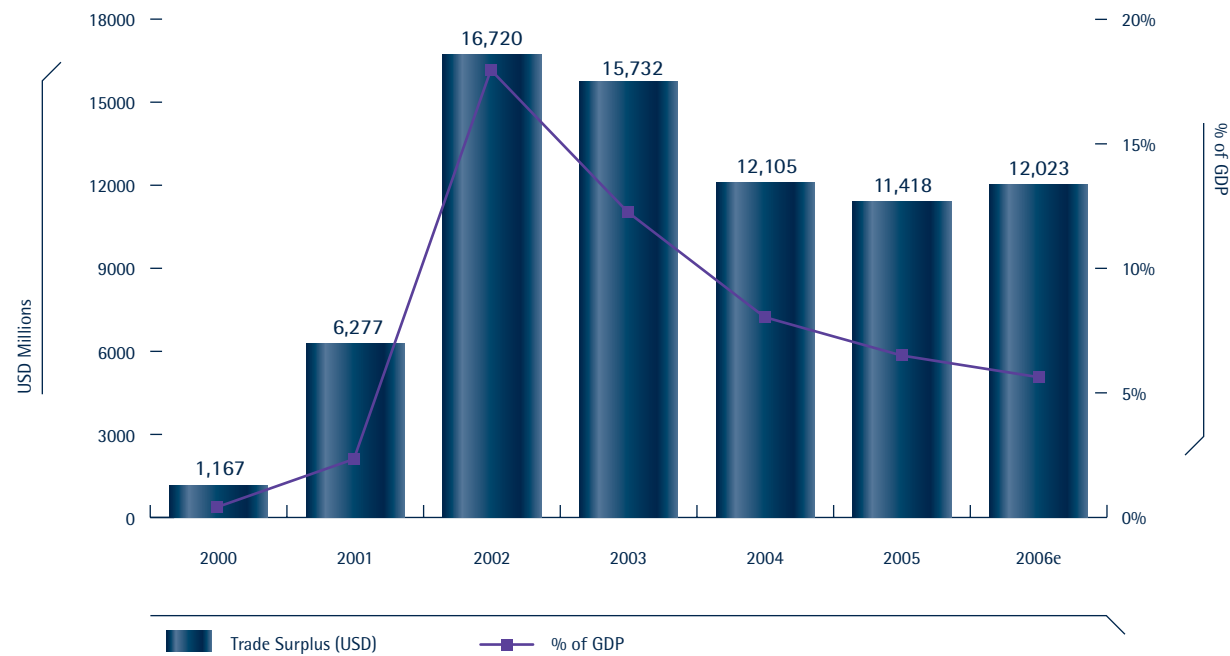
EVOLUTION OF REAL AND NOMINAL EXCHANGE RATES



(\* Real Exchange Rate = ARS / USD \* Price Change US / Price Change Arg.  
Source: INDEC and Bloomberg

CHART 1.5

TRADE SURPLUS



Source: INDEC

MONETARY POLICY

In early 2006 Argentina's government cancelled, in advance, its debt with the International Monetary Fund with international reserves, effectively reducing them by US\$9.5 billion. After this decision, one the Central Bank's (BCRA) main objectives for 2006 was to recompose the stock of international reserves. During 2006, the bank accumulated US\$13.5 billion.

To counteract the Central Bank's intervention in the foreign exchange market, the monetary authority implemented various sterilization policies in an attempt to limit growth in monetary aggregates and thus contain inflationary pressures.

In 2006, the increase in the Central Bank's debt stock (Lebac and Nobacs) and the cancellation of financial assistance granted to the banks by the Central Bank generated an absorption of the Monetary Base of nearly ARS 20.4 billion (US\$6.6 billion). On the other hand, the reduction of holdings of repos (repurchase agreements) and the accumulation of ARS 47.2 billion (US\$15.3 billion) in foreign reserves, resulted in the expansion of the Monetary Base of ARS 25.3 billion (US\$8.2 billion) between December 2005 and December 2006.

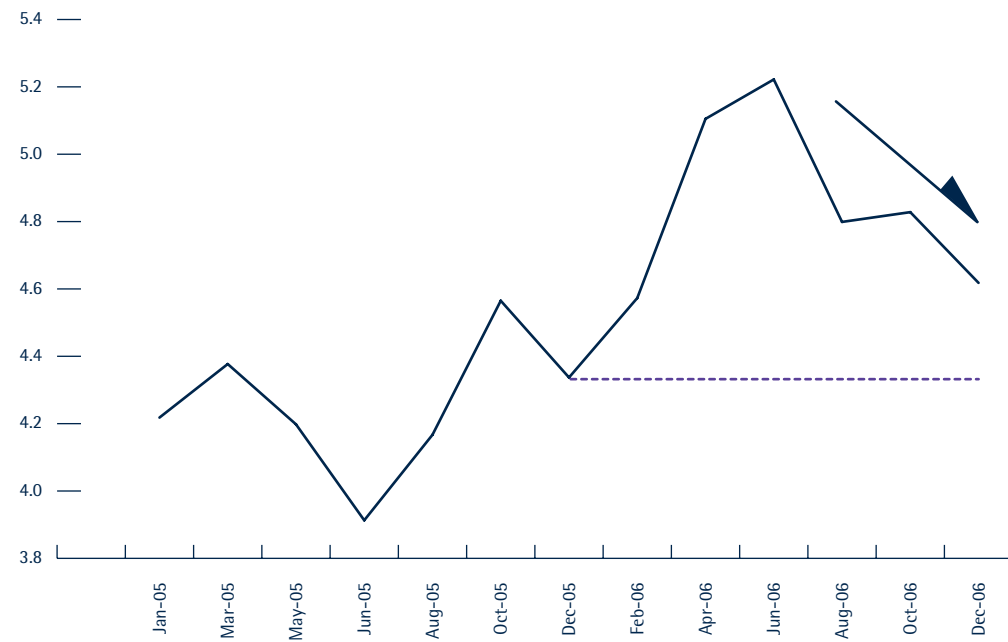
On top of that, the Central Bank implemented a number of measures in 2006<sup>2</sup> related to the integration of

minimum cash requirements. Those include raising the sight deposits reserve requirement from 15% to 17% in March 2006, and again to 19% in July 2006; the reduction from 100% to 67% of cash in banks that counts for reserve requirements calculation. Even though these measures do not derive directly in a reduction of the monetary base, they indirectly impacted its demand by increasing financing to the Central Bank without direct costs and affects money supply. The former policy measure generated an increase in the integration minimum cash requirements of ARS 3.1 billion (US\$1 billion) and the latter one caused an increase of ARS 1.7 billion (US\$550 million). As a result, they

<sup>2</sup> Communications "A" March 14th, 2006, "A" 4549 July 21st, 2006 and "A" 4580 September 29th, 2006.

CHART 2.1

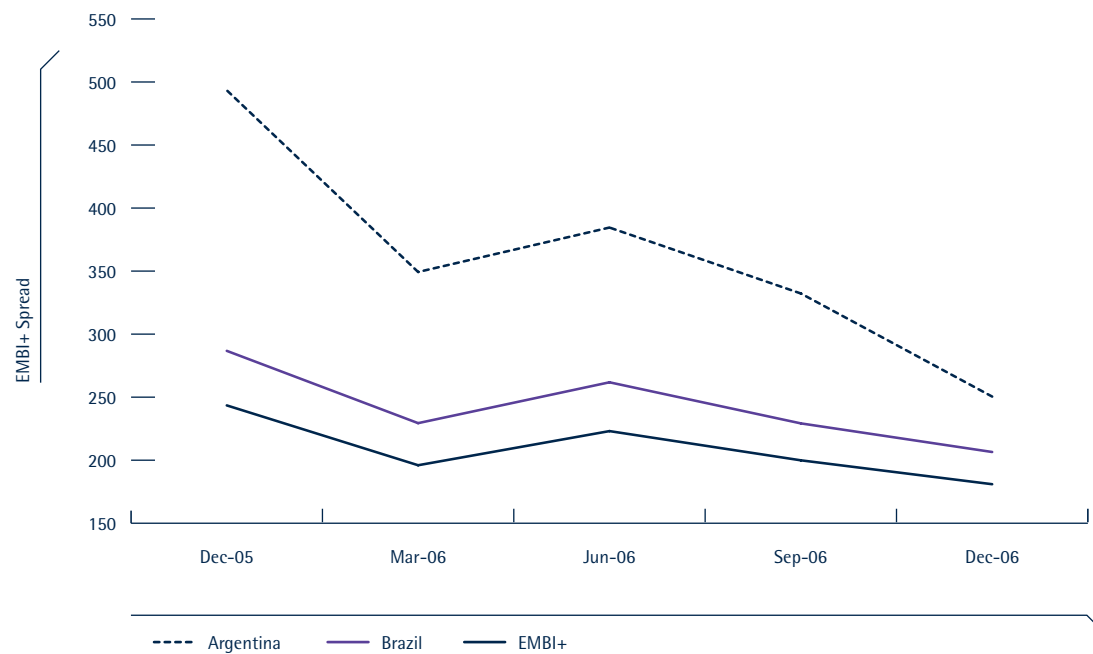
EVOLUTION OF THE 10-YEAR TREASURY BILL YIELD



Source: Bloomberg

CHART 2.2

SOVEREIGN SPREAD OVER USTs<sup>(1)</sup>



<sup>(1)</sup> EMBI+ (Emerging Market Bond Index Plus). The index measures the difference (in basis points) between emerging markets external debt yield with respect to the risk free rate in the United States.  
Source: JPMorgan

meant to lower the increase in base money supply to ARS 20.5 billion (US\$6.6 billion) as opposed to ARS 25.2 billion. That would have occurred otherwise.

Throughout 2006 the BCRA continued the process of normalizing its liabilities, led by the early cancellation of financial assistance granted after the 2001 crisis in

the 'matching' program. Between December 2005 and December 2006, the stock of financial assistance was reduced by over 50%, leaving only banks to cancel their debts.

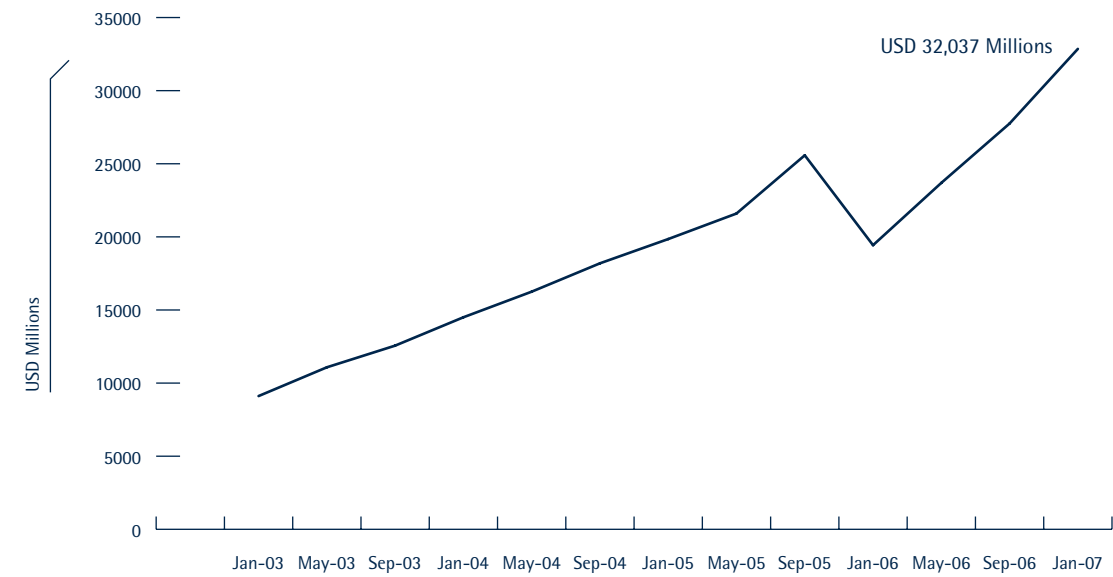
In December 2006 a new pre-payment was announced by a bank effective in January 2007 for ARS 1.8 billion (US\$585 million), after which the amount of financial

assistance was reduced to less than ARS 5 billion (US\$1.6 billion).

In 2006 the Central Bank accepted to pay higher interest rates in Lebac and Nobacs auctions with the intention to extend the average term of its debt and increase the portion of fixed rate debt.

CHART 3.1

EVOLUTION OF INTERNATIONAL RESERVES



Source: BCRA (Central Bank of Argentina)

TABLE 3.1

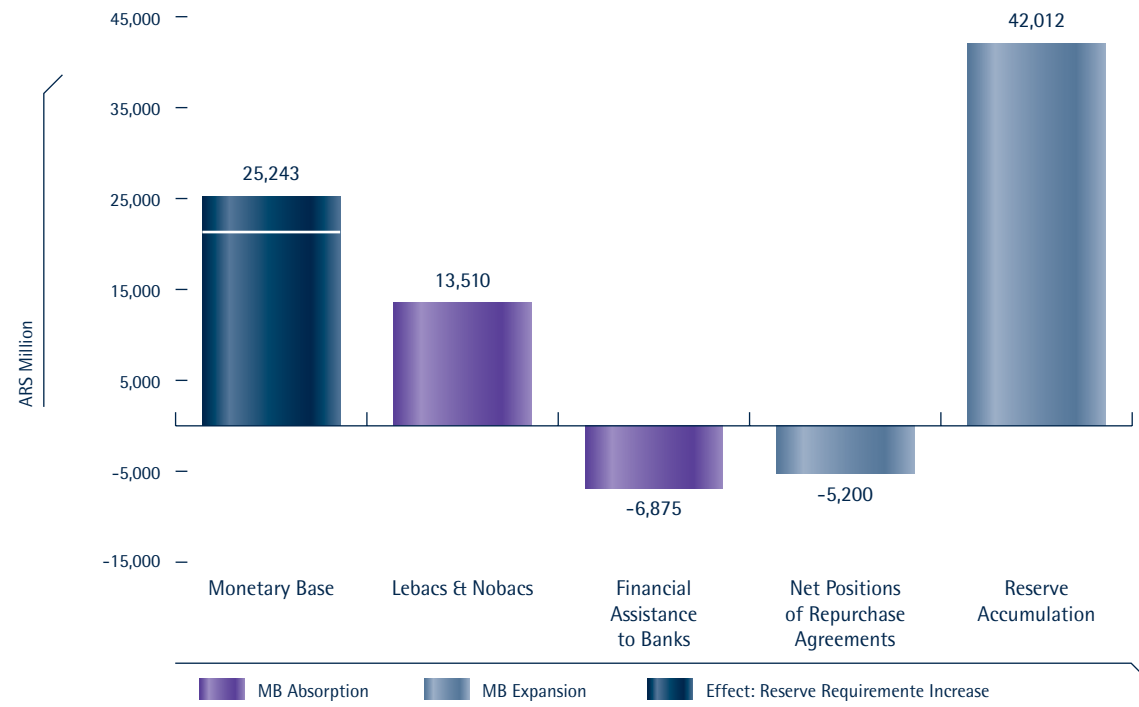
International Reserves as a % of GDP

Year	2003	2004	2005	2006
Value	3,76%	4,39%	5,28%	4,9%

Source: BCRA (Central Bank of Argentina)

CHART 3.2

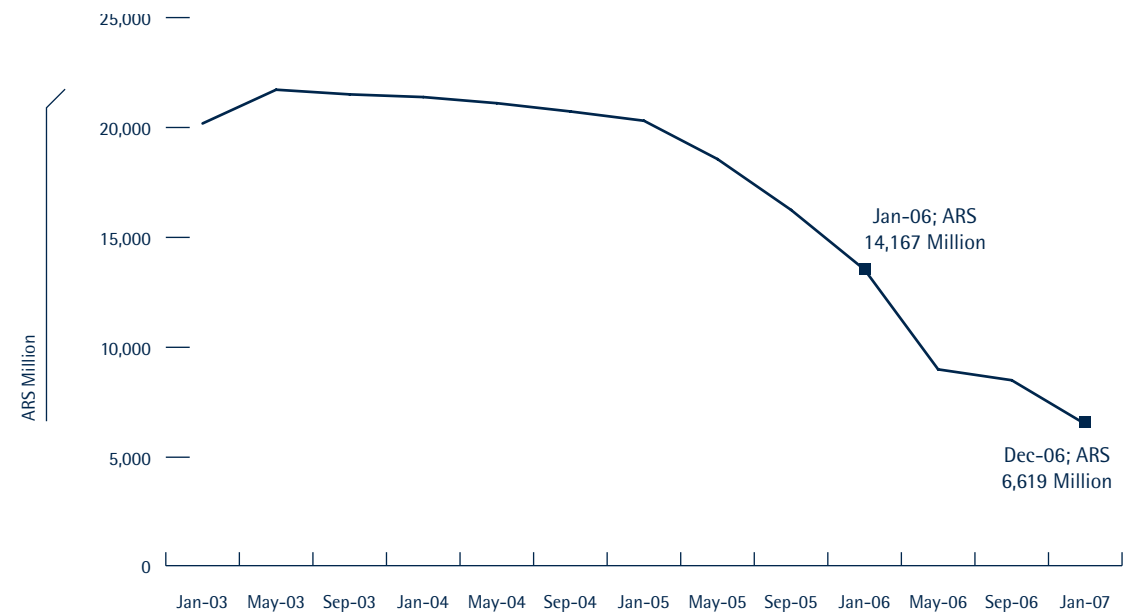
MONETARY BASE: EXPANSION AND CONTRACTION FACTORS (MB) / (ANNUAL CHANGE IN ARS MILLION)



Source: BCRA

CHART 3.3

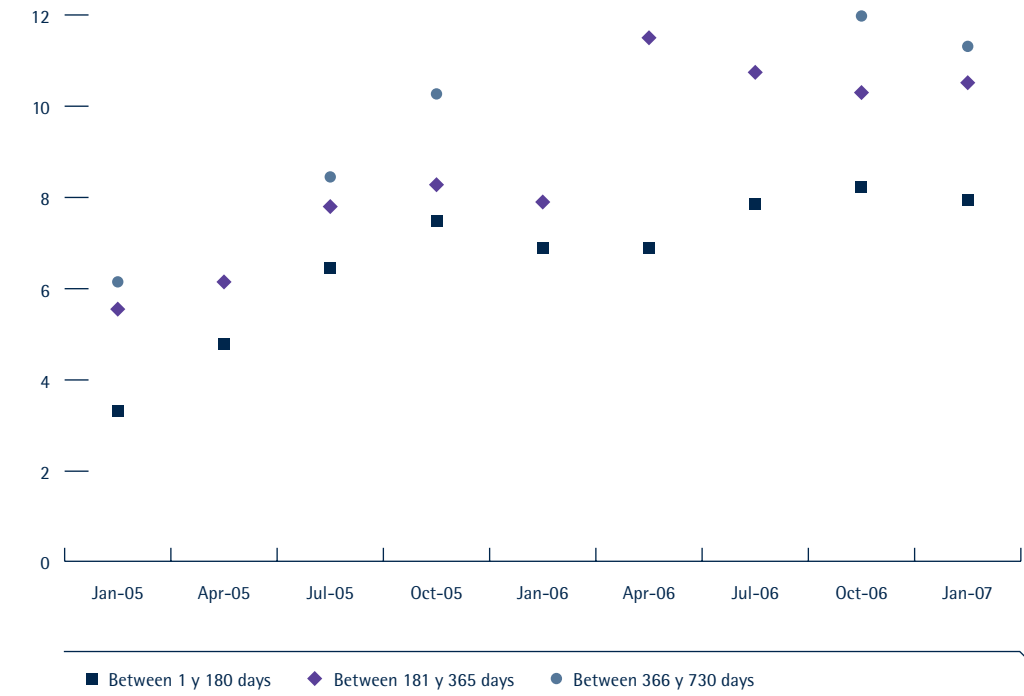
FINANCIAL ASSISTANCE AND OVERDRAFTS GRANTED TO THE FINANCIAL SYSTEM BY THE CENTRAL BANK (STOCKS OVER TIME)



Source: BCRA

CHART 3.4

LEBACS: INTEREST RATES IN THE PRIMARY MARKET



Source: BCRA

CHART 3.5

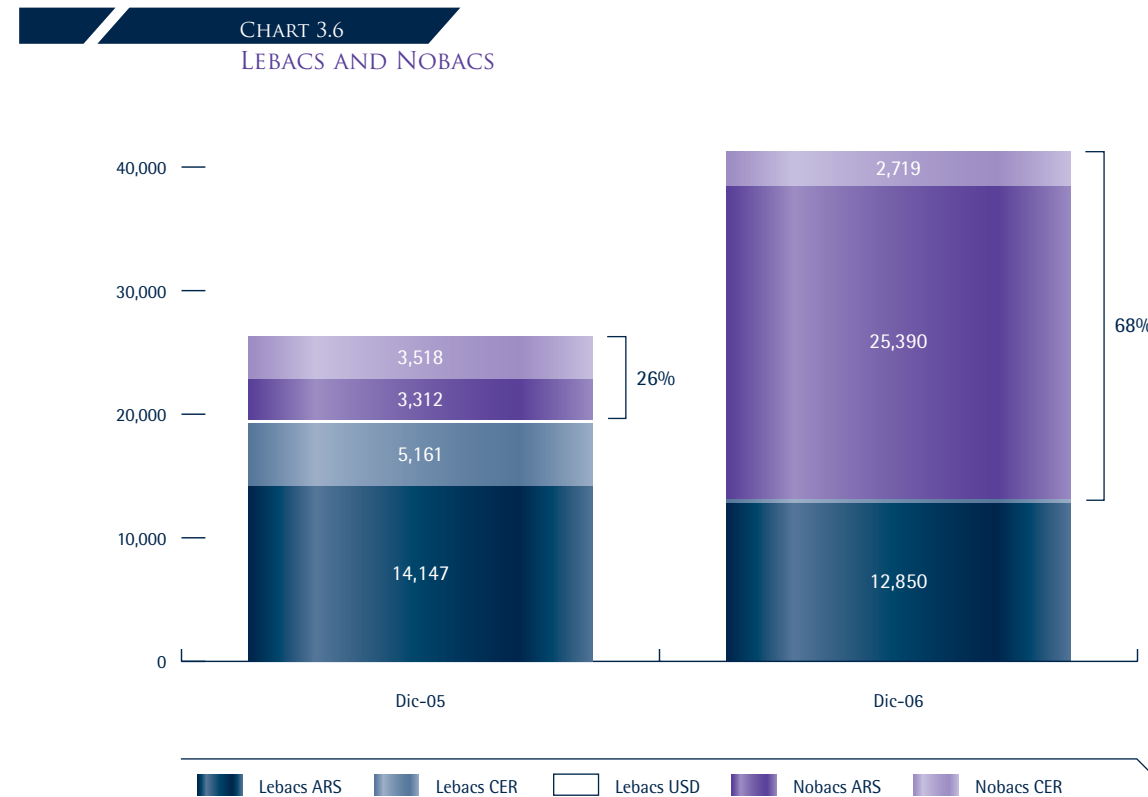
NOBACS: SPREAD OVER THE BADLAR (PRIVATE BANKS) RATE IN THE PRIMARY MARKET



Source: BCRA

The following chart shows an increase of the amount Nobacs debt, which contemplates longer-maturities than Lebac. The participation of Nobacs in total debt went from 26% in December 2005 to 68% in December 2006.

The policy of international reserve accumulation continued throughout 2006 without incurring in quasi-fiscal costs<sup>3</sup>.



#### MONETARY AGGREGATES

Although the economy's monetization level is relatively low. The monetary base/GDP ratio is well above historic averages. In 2006, the monetary base grew by 24%, on average, in line with nominal GDP growth. Monetary base stock, on average, was roughly 9.9% of nominal GDP throughout the year, yielding a marginal growth from 2005 levels.

As part of its monetary policy framework for 2006, the Central Bank started to set

bands for M2 growth levels<sup>4</sup>. During the year, M2 remained near the bands' lower limit, though seasonal factors influenced the shift toward the upper limit by the end of the year. As can be seen on the following chart, the last quarter shows an acceleration that can be attributed to growth in money demand and surge in capital inflows.

By the end of 2006, M2 was 19% higher than in 2005, indicating a growth rate lower than that of nominal GDP of 24%

(according to estimations published in REM<sup>5</sup>). In December 2006, M2 represented 20% of GDP. Throughout the year, average M3<sup>6</sup> was 24% higher than the average in 2005, while in the previous year the growth rate was 20.8%.

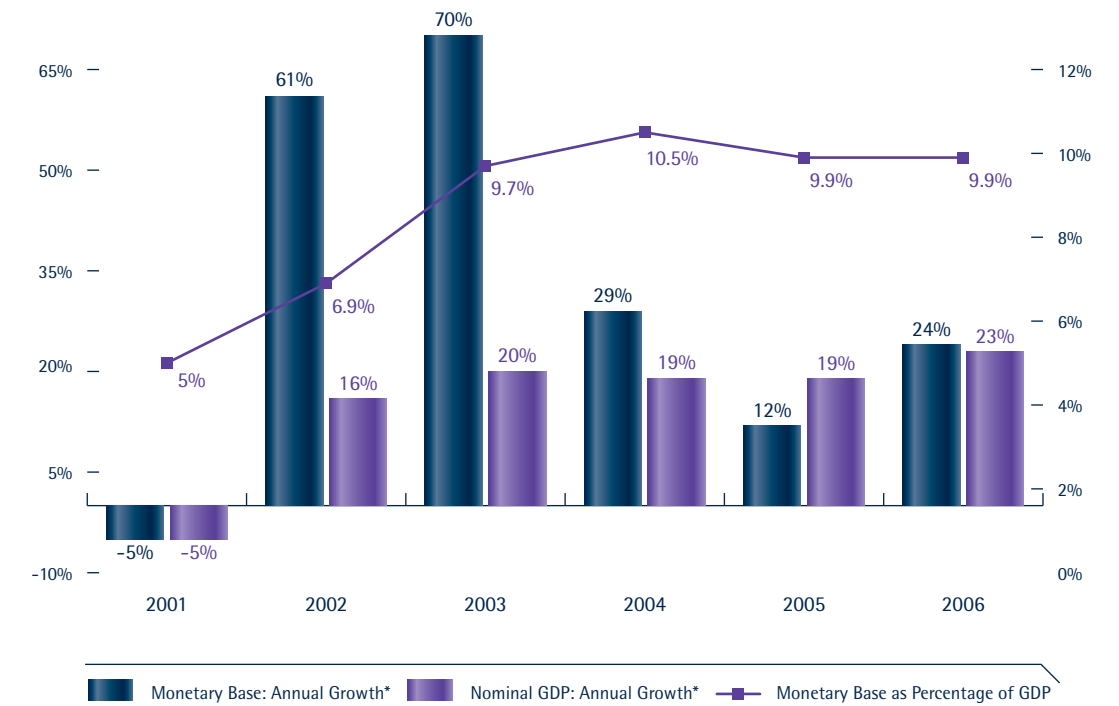
<sup>3</sup> At the time of this report the Central Bank had not yet published its 2006 balance.

<sup>4</sup> M2 = Monetary Circulation + Checking Accounts in ARS and USD + Savings Accounts in ARS and USD. The Central Bank of Argentina monitors 30 days moving average.

<sup>5</sup> REM: Market Expectations surveyed by the Central Bank.

<sup>6</sup> M3 = M2 + Time Deposits in ARS and USD.

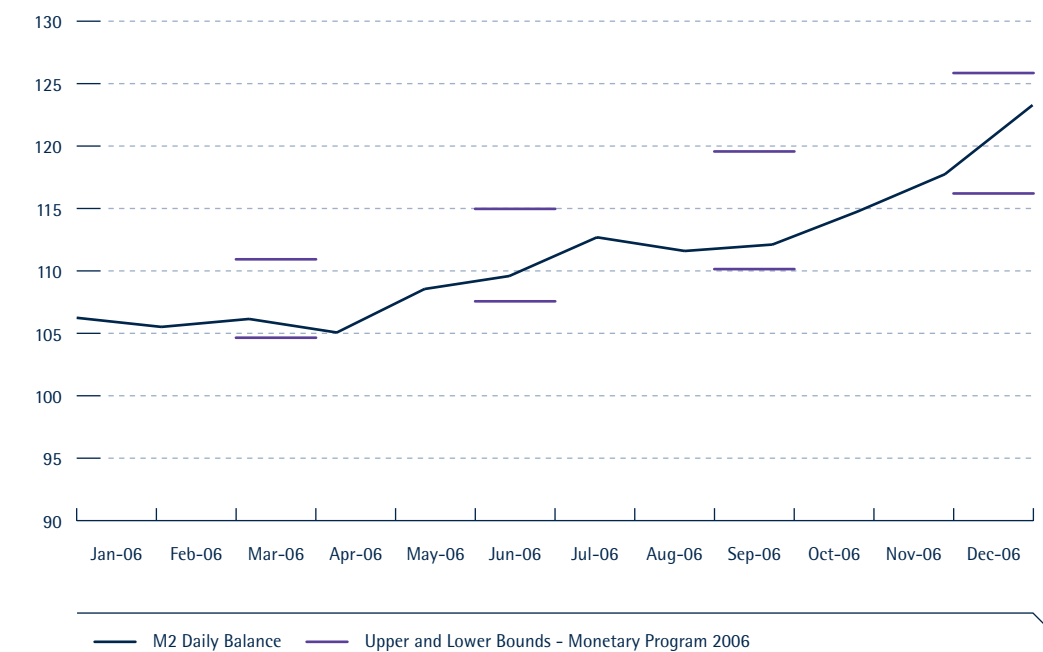
**CHART 4.1**  
MONETARY BASE EVOLUTION



(\* Estimated with annual averages)

Source: BCRA and INDEC

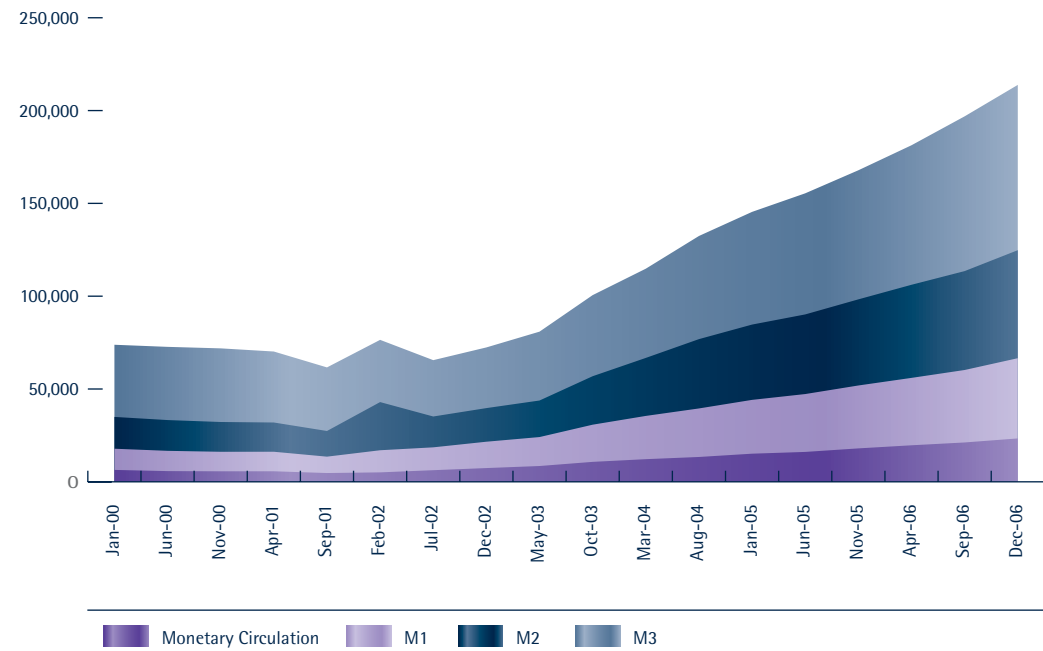
**CHART 4.2**  
M2 AND CENTRAL BANK'S TARGET RANGE



Source: BCRA

CHART 4.3

MONETARY AGGREGATES  
JANUARY 00 - DECEMBER 06



Source: BCRA

ASSET AND LIABILITY MANAGEMENT

Throughout 2006 banks indicators displayed a progressive normalization of the sector's activity, as well as a consolidation in the volume of traditional financial intermediation and improvements in the asset and liability management process.

By analyzing the main sources and uses of funds of the financial sector (Table 5.1), it can be observed that the main sources of funding were the increase in deposits and the reduction of exposure to the public sector<sup>7</sup>. Thanks to the positive performance of fiscal accounts, the public sector has been able to reduce its financing needs.

Among fund applications, it is worth mentioning the rise of loans to the private

sector associated with economic growth. Moreover, the increase in liquid assets can be explained by a drop in repos (repurchase agreements) and the reserve requirements regulations established by the monetary authority (for a more detailed explanation, see Section 3: Monetary Policy).

Finally, banks cancelled the financial assistance granted by the Central Bank within the "matching" scheme during the 2001-02 crisis (see Chart 3.3 in Section 3).

It is important to point out that the impressive recovery of deposits is reflected in the high level of liquidity of the financial sector that is higher than the level reached a year ago. The financial sector liquidity ratio

(Liquid Assets / Deposits) rose from 25.19% in December 2005 to 34.3% in December 2006 (Chart 5.1).

Chart 5.2 shows the financial sector exposure to foreign exchange rate risk. There has been a reduction in the mismatch between assets and liabilities denominated in foreign currency measured as a percentage of net worth. This reduction was coupled with the drop in nominal exchange rate volatility.

While during 2004, foreign currency mismatches reached peaks of 70% of the financial system net worth at the end of 2004, this ratio fell to one third (25%) in December 2006. This reduction can be attributed to the

regulations established by the Central Bank and the Ministry of Economy.

Among these matching rules it is worth mentioning those that do not allow to grant loans denominated in

foreign currency if they are not matched with deposits in the same currency and those that prohibit banks to grant loans denominated in dollars to debtors whose incomes are not correlated with the peso-dollar exchange rate risk.

The ratio (Assets - Liabilities in foreign currency) / Net Worth also falls as a result of faster growth in Net Worth.

TABLE 5.1

Fund Origins and Applications

Financial System - Year 2006 | in millions of pesos

Origin	36,332	Applications	36,332
Deposits <sup>1</sup>	21,101	Cash (includes repos)	7,615
Public Risk (Guaranteed loans + Bonds) <sup>2</sup>	14,731	LEBAC and NOBAC	2,548
Aportes de Capital	500	Loans to private sector	19,246
		Commercial paper and credit lines from abroad	166
		Financial Assistance	3,578
		Other net assets and liabilities	3,179

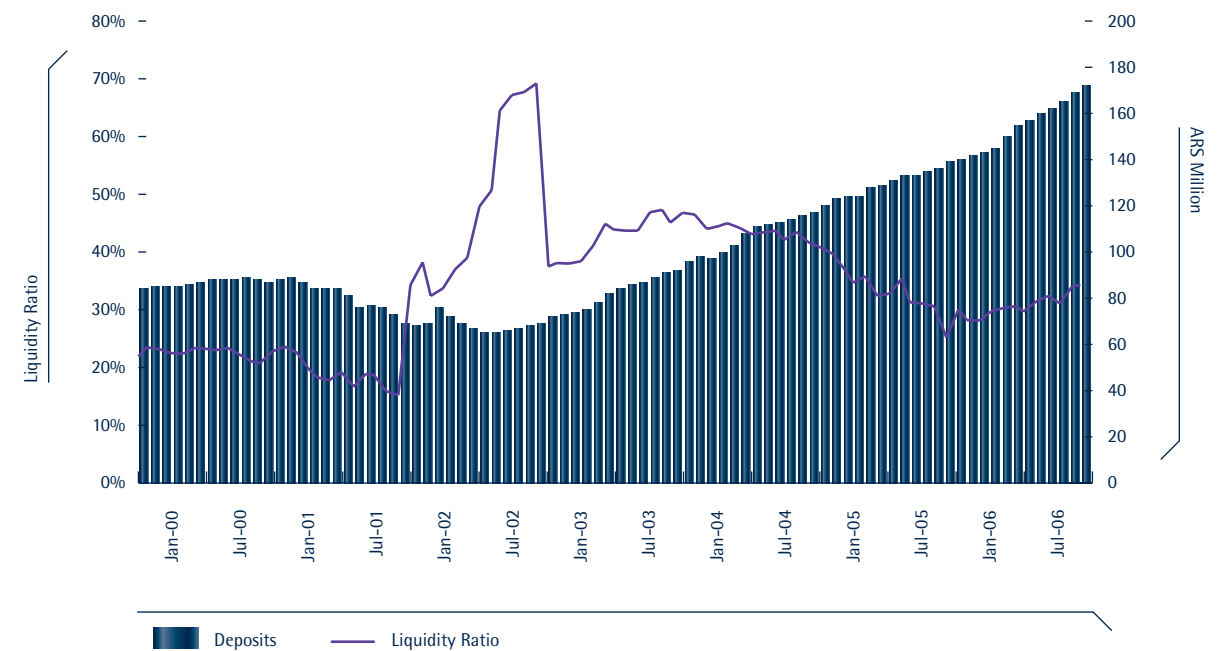
(1) Included deposits of public and private sectors

(2) Included loans to the public sector

Source: BCRA database.

CHART 5.1

DEPOSITS AND LIQUIDITY

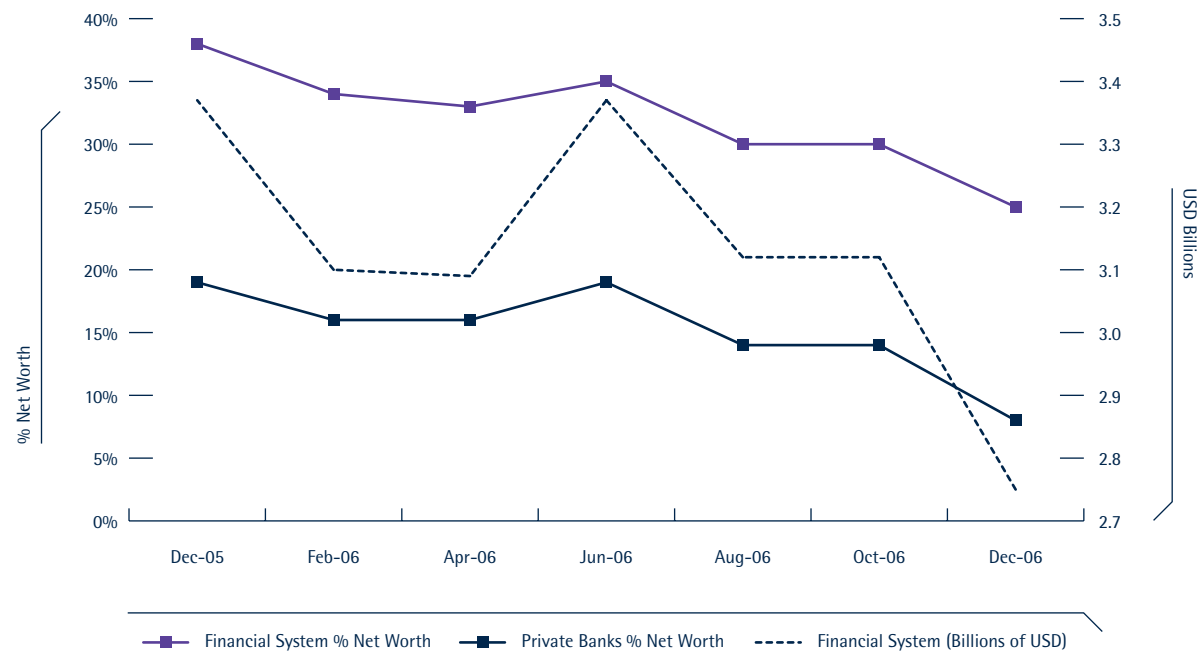


Source: BCRA

<sup>7</sup> Exposure to the public sector includes banks' position in public debt (including compensation to be granted and excluding LEBACS and NOBACS) and loans to the public sector.



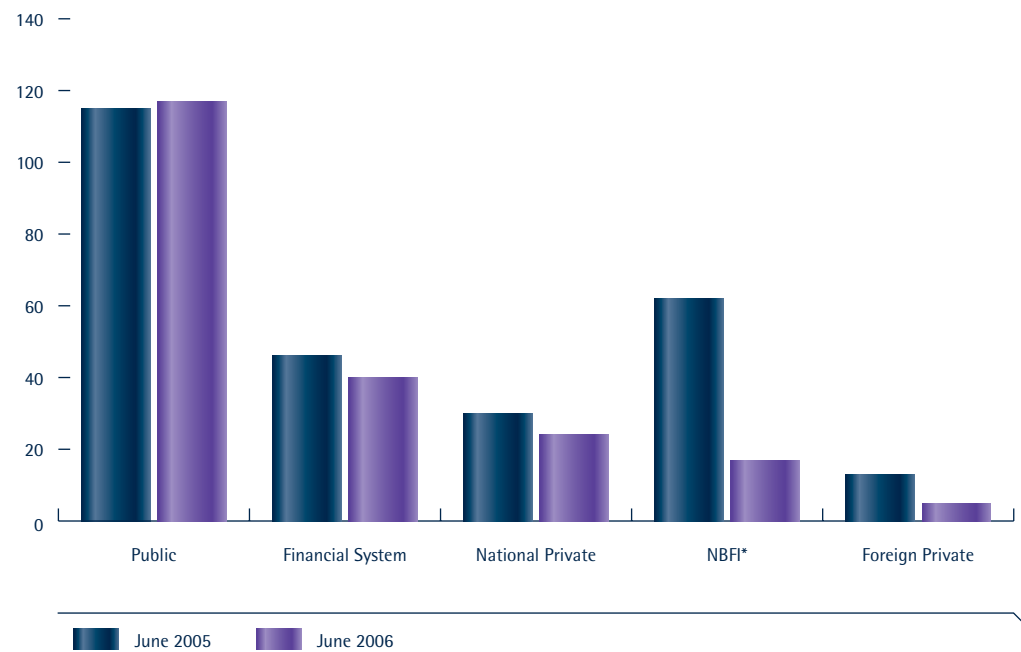
CHART 5.2  
FOREIGN CURRENCY MISMATCH



Source: BCRA

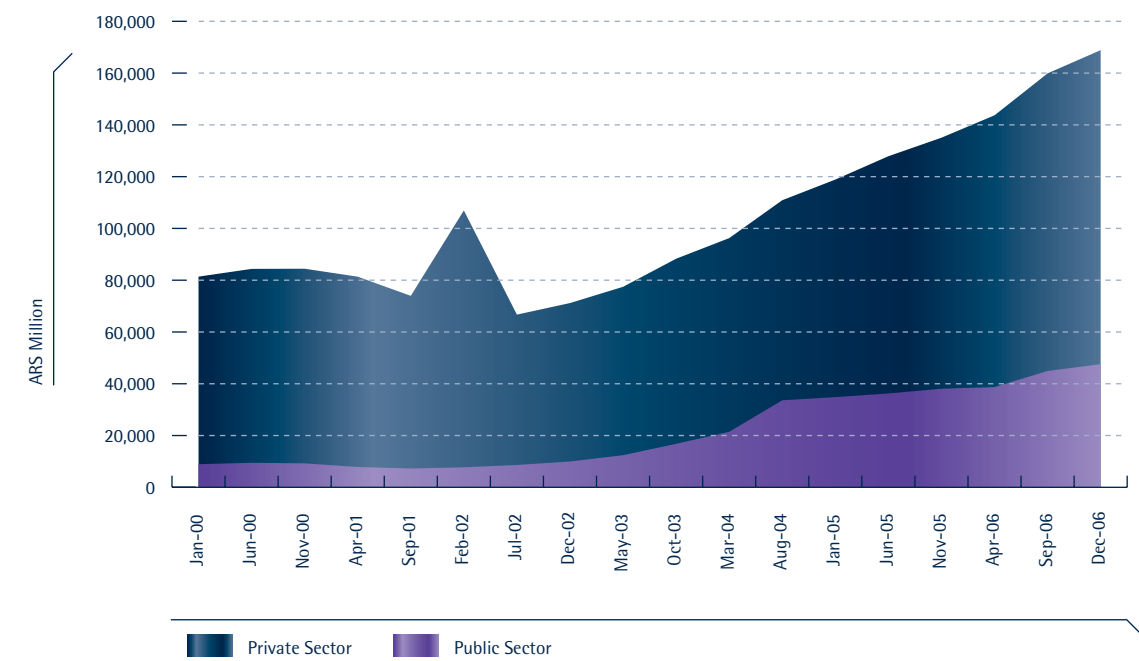
Finally, it is worth noting that there is an important heterogeneity in exposure to foreign currency risk in the financial sector, with public banks showing the highest levels.

CHART 5.3  
FOREIGN CURRENCY EXPOSURE BY TYPES OF INSTITUTION (ASSETS - LIABILITIES) / NET WORTH



(\* Non-Banking Financial Institutions  
Source: BCRA, "Report on Financial Stability" 2006

CHART 6.1  
TOTAL DEPOSITS BY SECTOR



Source: BCRA

## DEPOSITS

Deposits continued to grow at a steady pace during 2006, with signs of acceleration towards the end of the year.

Recovery of the financial system has consolidated further in the last years. Private sector deposits grew at a rate of 22.2% above levels achieved in December 2005, whereas public sector allocations showed an increase of 24.7%.

As of December 2006, deposits in the financial system reached ARS 171.6 billion (US\$55.7 billion), a year-on-year increase of 23.7%. The private sector deposits growth rate remained steady, reaching a level of ARS 121.3 billion (US\$ 39.4 billion) by the end of the year. Meanwhile, non-financial public sector deposits registered a gradual acceleration, reaching a level of ARS 47.6 billion (US\$15.5 billion).

In 2006 the level of financial deepening of the economy, as measured by the level of deposits in relation to the size of the economy (GDP), has remained at similar levels than in previous years. This indicator is used to evaluate the level of confidence in financial institutions and to indicate the intensity of the use of the financial sector.

After the crisis in 2001, Argentina showed an increase these indicators. By the end of 2006, the financial deepening level reached 28.8%. As reflected on the following Chart, the current level is 7 percentage points below the maximum reached in 2000, and only 2 percentage points above the minimum reached after the latest crisis (Chart 6.3).

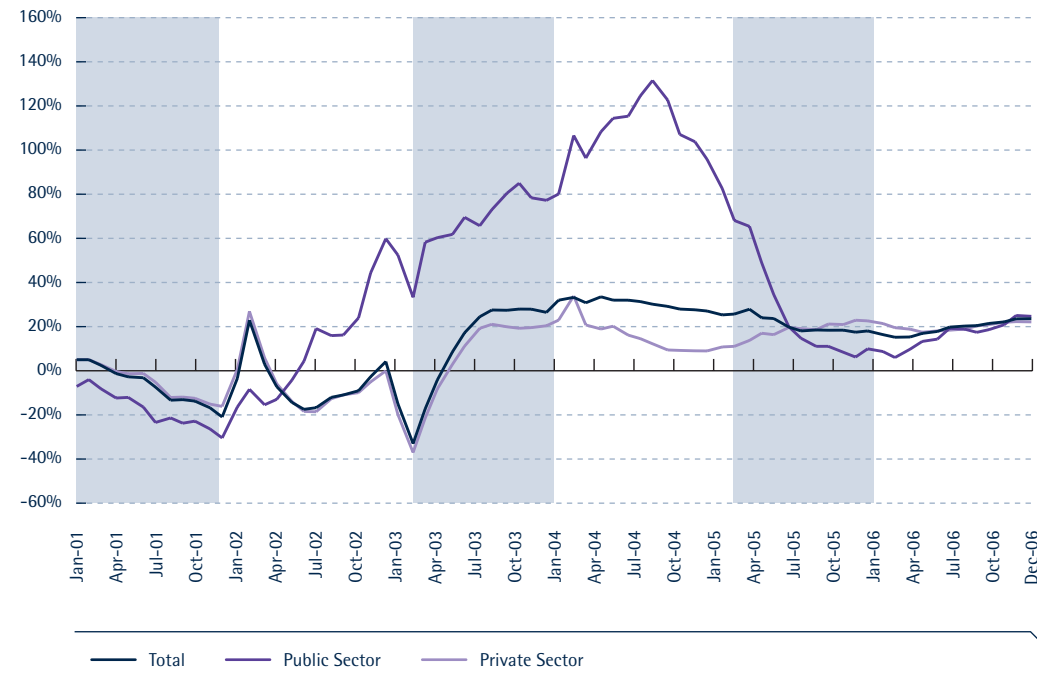
Despite the post-crisis recovery, the financial deepening remains at levels

below those reached in the past and below international standards. It is behind those of Brazil and Chile, and is similar to the ones of Ecuador and Peru. It has proved to be a challenge to increase the level of financial deepening of the economy.

In December 2006, the non-financial public sector accounted for 28% of total deposits, an increase from the 27% registered a year earlier.

CHART 6.2

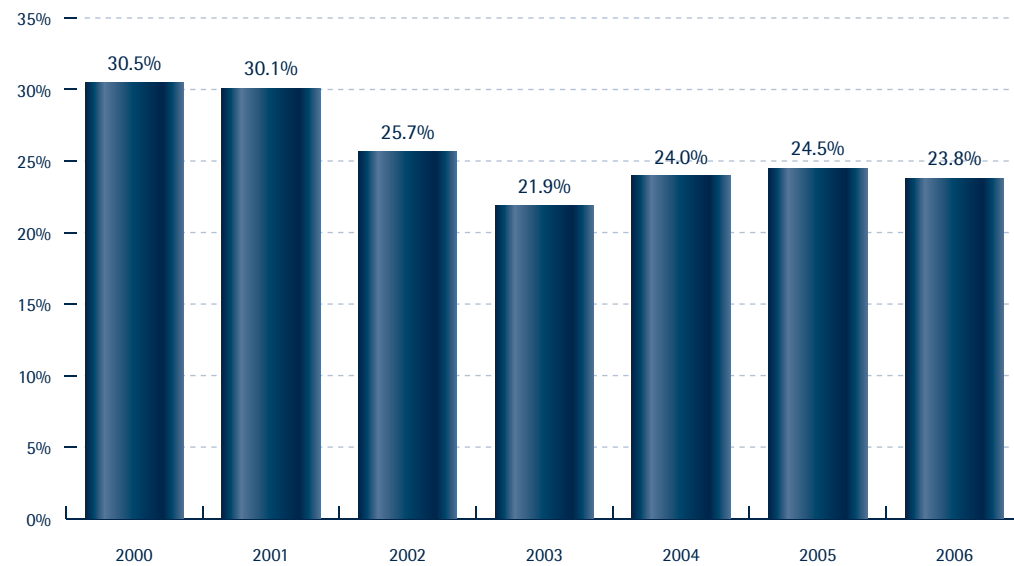
DEPOSITS BY SECTOR: ANNUAL GROWTH RATES  
JANUARY 01 - DECEMBER 06



Source: BCRA

CHART 6.3

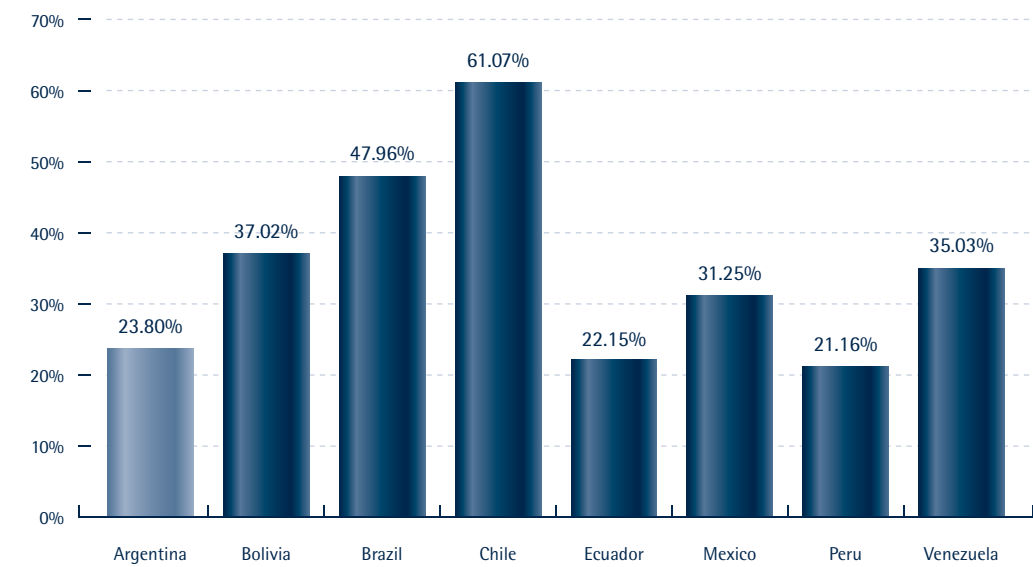
FINANCIAL DEEPENING IN ARGENTINA  
(TOTAL DEPOSITS IN THE FINANCIAL SECTOR AS % OF GDP)



Source: BCRA

CHART 6.4

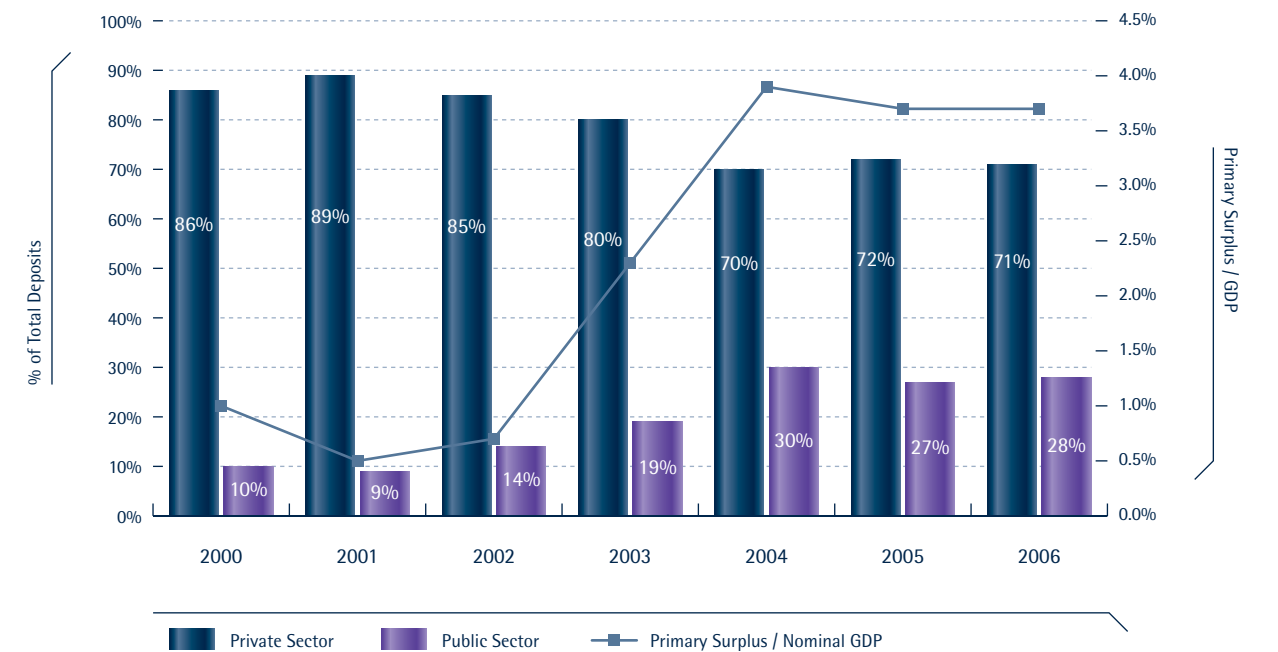
FINANCIAL DEEPENING IN LATIN AMERICA  
(TOTAL DEPOSITS AS % OF GDP)



Source: Federación Latinoamericana de Bancos (FELABAN), BCRA and IMF

CHART 6.5

DISTRIBUTION OF DEPOSITS BETWEEN THE PUBLIC AND THE PRIVATE SECTORS  
(FIGURES ARE IN PERCENT AND CORRESPOND TO THE END-OF-YEAR VALUES.)



Source: BCRA and Ministry of Economy

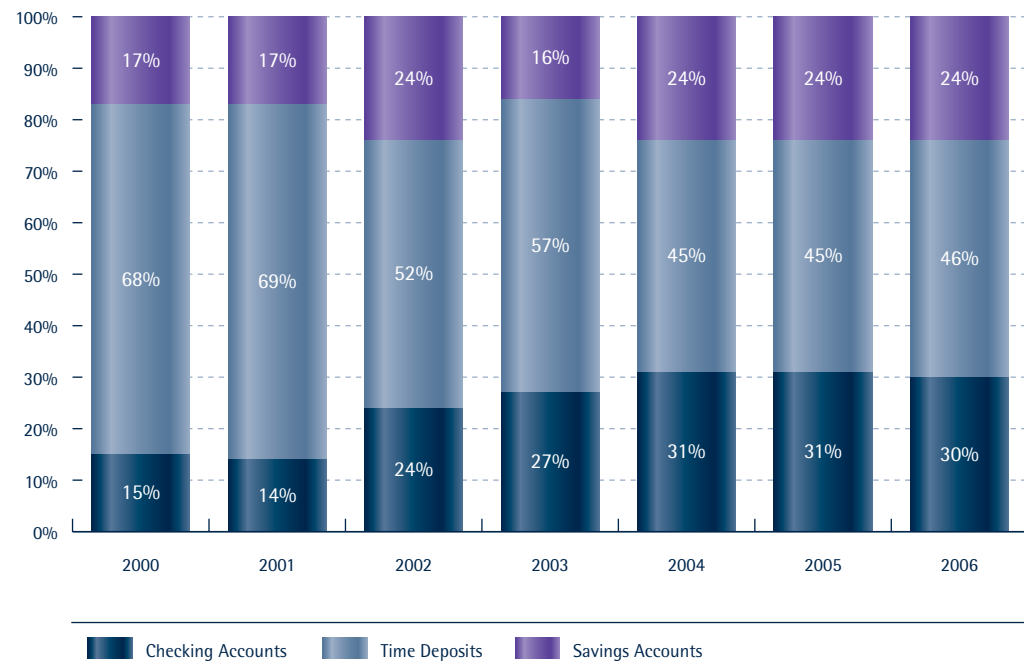
When analyzing the breakdown of 2006 average deposits, 30% correspond to Checking Accounts, 24% to Savings Accounts, and 46% to term deposit. Within term deposits, 90.2% were fixed-rate deposits and the remaining 9.8% correspond to one-year allocations in pesos adjusted by CER (Consumer Price

Index). Placements with a maturity lower than 60 days represent half of fixed-term deposits. Throughout the year, one can observe differences in growth corresponding to different maturities. Deposits placed between 30 and 59 days showed a higher relative increase (33%) than placements for periods longer than two months (19%).

The lower growth rate for longer-term adjustable deposits is due to an expected increase of real interest rates for non-indexed allocations at the beginning of the year.

CHART 6.6

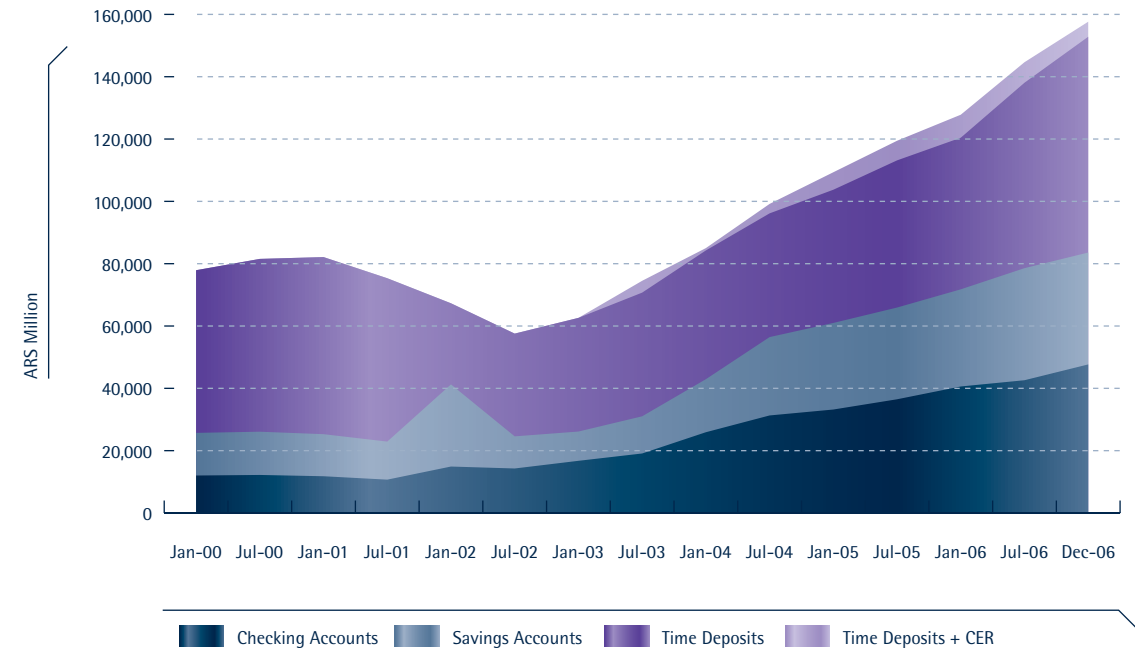
COMPOSITION OF TOTAL DEPOSITS (FIGURES ARE IN PERCENT AND CORRESPOND TO ANNUAL AVERAGES)



Source: BCRA

CHART 6.7

EVOLUTION OF DEPOSITS BY TYPE OF DEPOSIT (JANUARY 00 - DECEMBER 06)



Source: BCRA

TABLE 6.1

Annual Average Change

	2002	2003	2004	2005	2006
Checking Accounts	39%	29%	53%	22%	18%
Savings Accounts	18%	-20%	96%	24%	19%
Term Deposits	-36%	21%	3%	14%	27%

Source: BCRA

For the first time since 2001, the growth rate of term allocations (27%) was higher than that of checking accounts (18%).

The higher growth rate and the migration towards term deposits can be explained by higher interest rates offered by this type of deposits and to the measures taken by the monetary authorities in order to foster term deposits. Among these measures were adjustments on reserve requirements and

minimum cash amounts required and the approval of new tenor options for time deposits<sup>8</sup>.

Deposits denominated in Argentine pesos, including those with adjustable capital (given by CER), represent 90% of total deposits (Chart 6.8). CER-adjustable peso deposits fell in December 2006 representing 2.8% of total deposits. This had an effect on the average deposit duration. It is

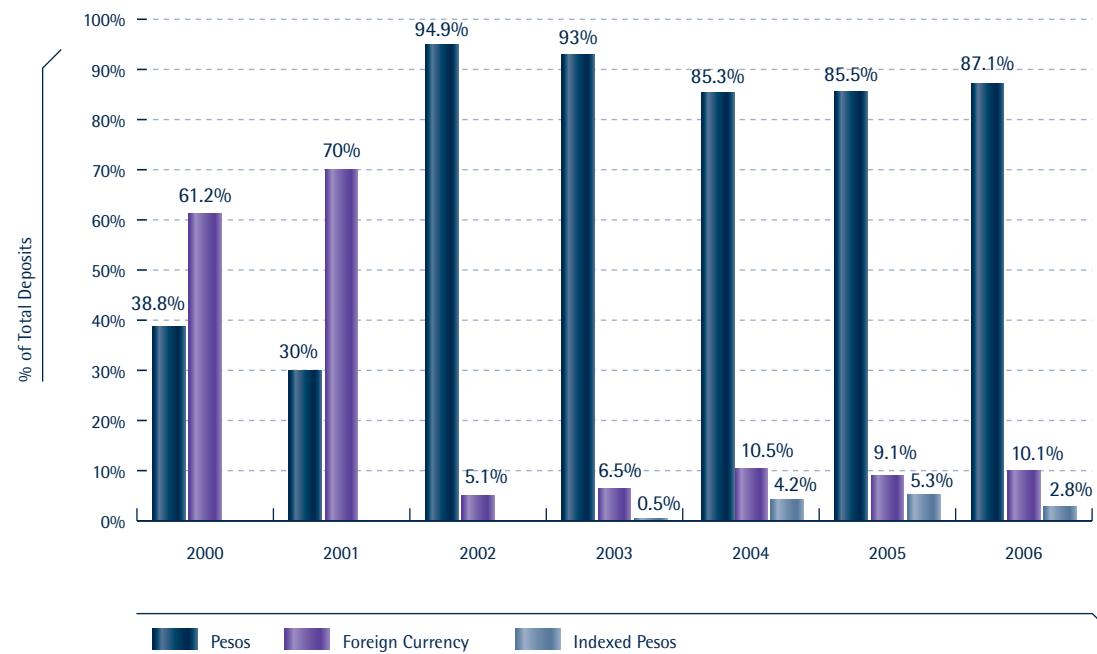
important to highlight that under the current amended rules<sup>9</sup>, banks can only offer deposits with adjustable capital for a minimum maturity of one year.

Towards the end of 2006, one can notice a drop in deposits in indexed pesos, as a result of an expected increase in the real interest rate on term deposits, due to expectations of lower growth of CER and the rise of the nominal interest rate.

The AFJPs (pension and retirement funds) reduced their holdings in indexed pesos term deposits from 4.64% of their portfolios in Dec-2005 to 1.63% in Dec-2006. Distribution of deposits among financial institutions was similar to that of previous years. Private banks still capture around 55% of deposits.

CHART 6.8

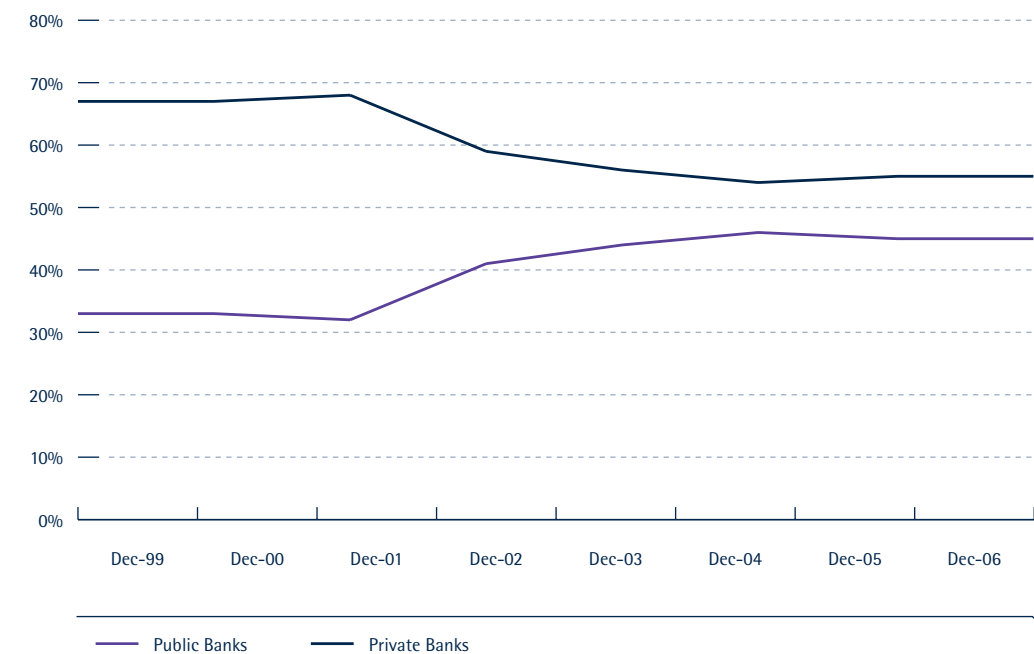
CURRENCY BREAKDOWN OF DEPOSITS  
(AS OF DECEMBER OF EACH YEAR)



Source: BCRA

CHART 6.9

DISTRIBUTION OF DEPOSITS BY TYPE OF BANKS



Source: BCRA

<sup>8</sup> Communication "A" 4509: Since April 2006, reserve requirements on savings deposits were raised 2 percentage points and eliminated its remuneration.  
Communication "A" 4543: The central bank authorized new tenor options of time deposits with a maturity beyond 180 days, a variable interest rate and a lower bound with a fixed interest rate.  
Communication "A" 4549 and "A" 4580: Since September 2006, a maximum of two-thirds of the cash would count for reserve requirement calculations.  
<sup>9</sup> Communication "A" 4331 - 04/04/05: The minimum duration of deposits contemplating inflation adjustment was modified from 270 to 365 days.  
Communication "A" 4298 - 11/02/05: The minimum duration of deposits structured with an inflation adjustment clause (CER) was modified from 90 to 270 days.

## LOAN PORTFOLIOS

A sustained reduction of exposure to public sector meant that the banks accelerated the crowding-in process of granting credit to the private sector. This was fostered by macroeconomic stability and by the norms introduced by the Central Bank<sup>10</sup>.

Total credit from the financial sector to the non-financial public sector was 22% in December 2006, down from 33% observed in December 2005. Loans from private banks to the public sector continued to drop as well, falling from 29% in 2005 to 20% in 2006 (see Chart 7.1).

Extension of credit during 2006, increased by 41% in bank loans to the private sector

when compared to levels observed a year earlier. However, total loans to the private sector reached 10.63% of GDP in 2006, still below the pre-crisis levels in 2001.

Expansion of loans to the private sector is reflected in all lines of credit. Within consumer credits showed an increase of 65%, personal loans registered the highest growth rate (82%). Credit cards annual growth rate was 42%, showing a light deceleration from 2005.

Around 46% of credit granted to the private sector corresponded to commercial loans (discounts and overdrafts). Consumer credit (personal loans and credit cards) reached levels of 26% of total credit during 2006,

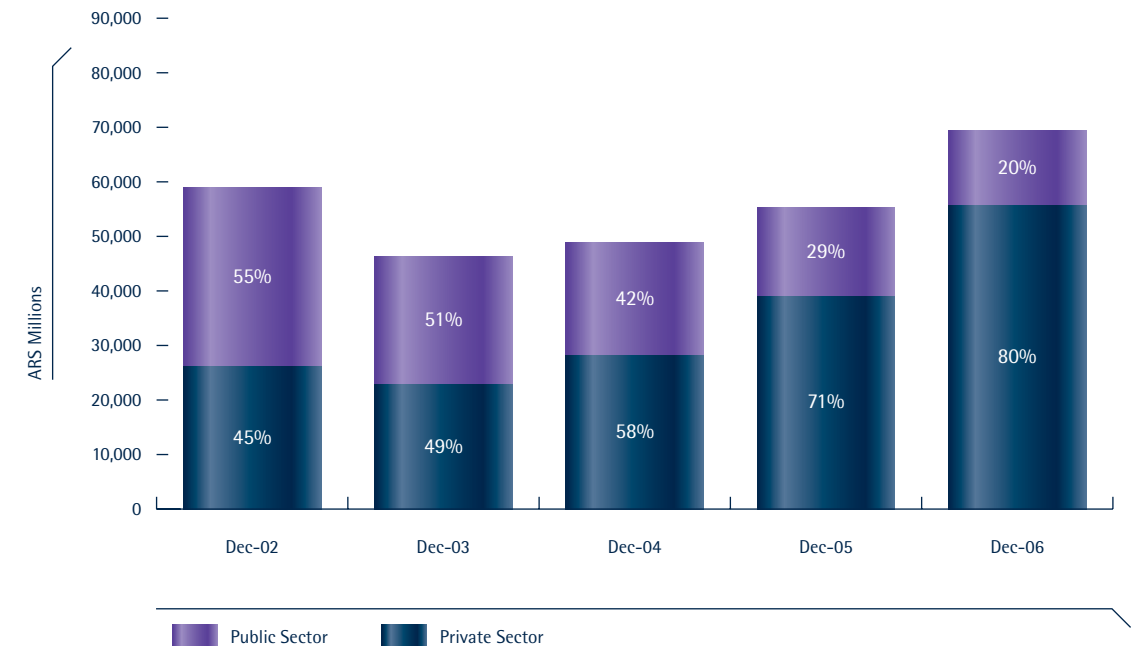
while collateralized loans (mortgages and other) represented 20% of total loans to the private sector.

It is important to note the acceleration of mortgage and other collateralized loans, which in 2006 grew at a rate of 15% and 61%, respectively, up from 0.2% and 40% in 2005.

Loans denominated in Argentine pesos are still at historically high levels. The average share of loans denominated in local currency dropped from 86.7% in 2005 to 85.1% in 2006 of total loans.

CHART 7.1 - B

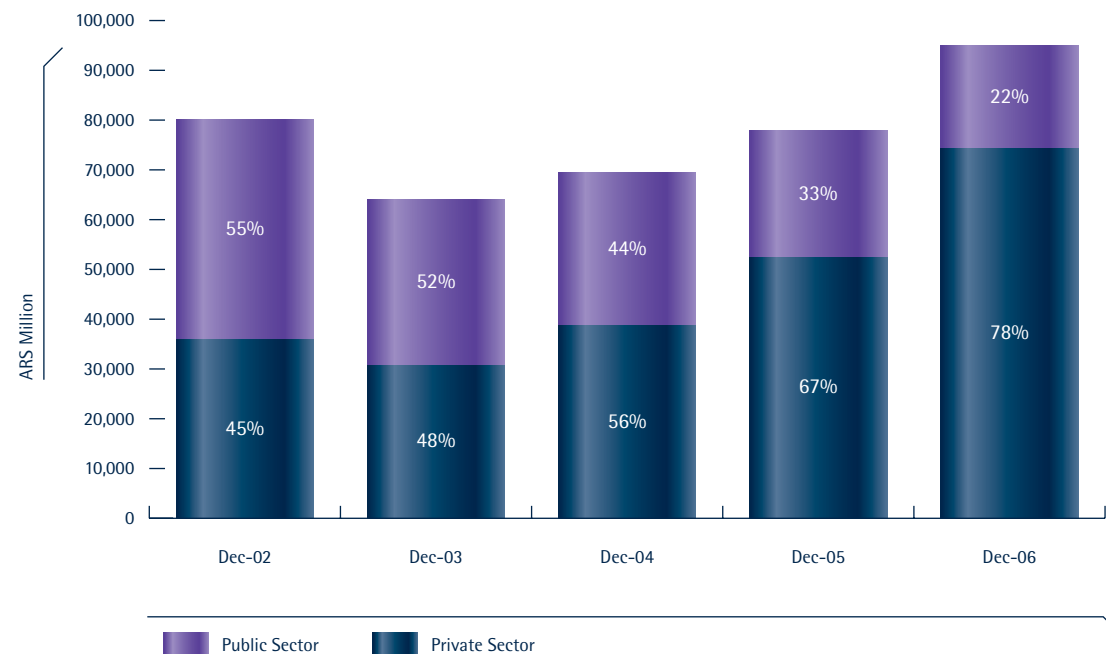
CREDIT EVOLUTION FROM PRIVATE BANKS



Source: BCRA

CHART 7.1 - A

CREDIT EVOLUTION FROM THE FINANCIAL SECTOR



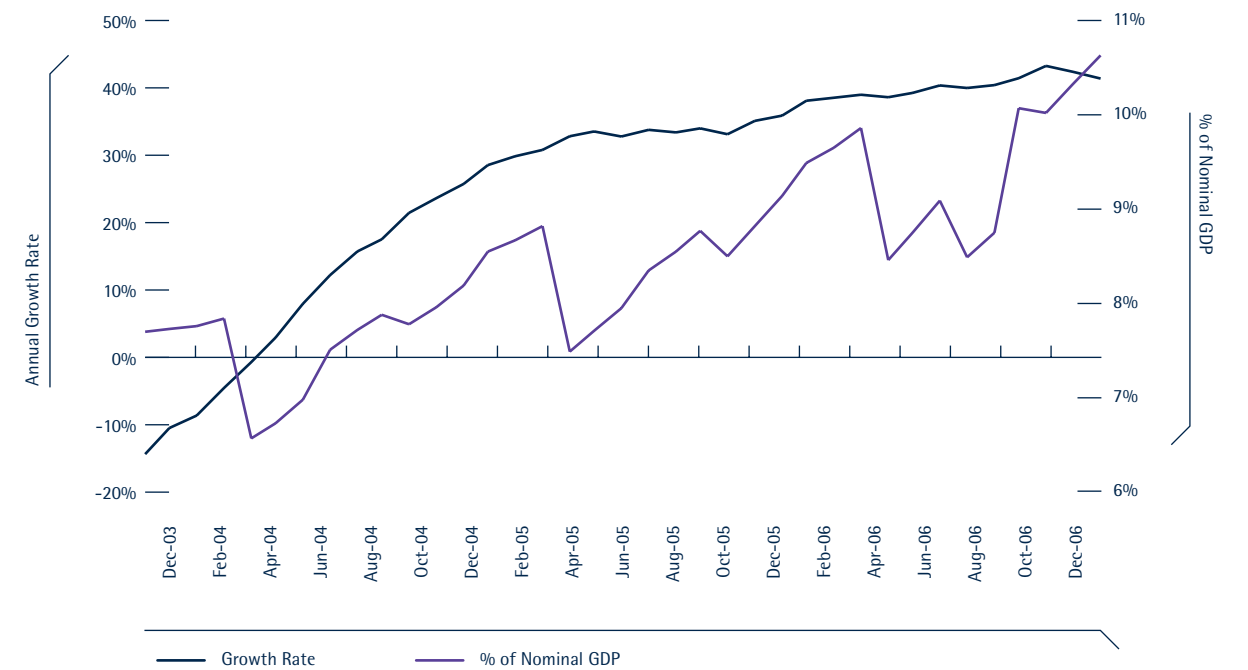
Source: BCRA (Central Bank of Argentina)

<sup>10</sup> Communication "A" 4546.

Currently bank exposure to public sector must be less than 40% of its total assets. This limit will be reduced to 35% since July 2007.

CHART 7.2

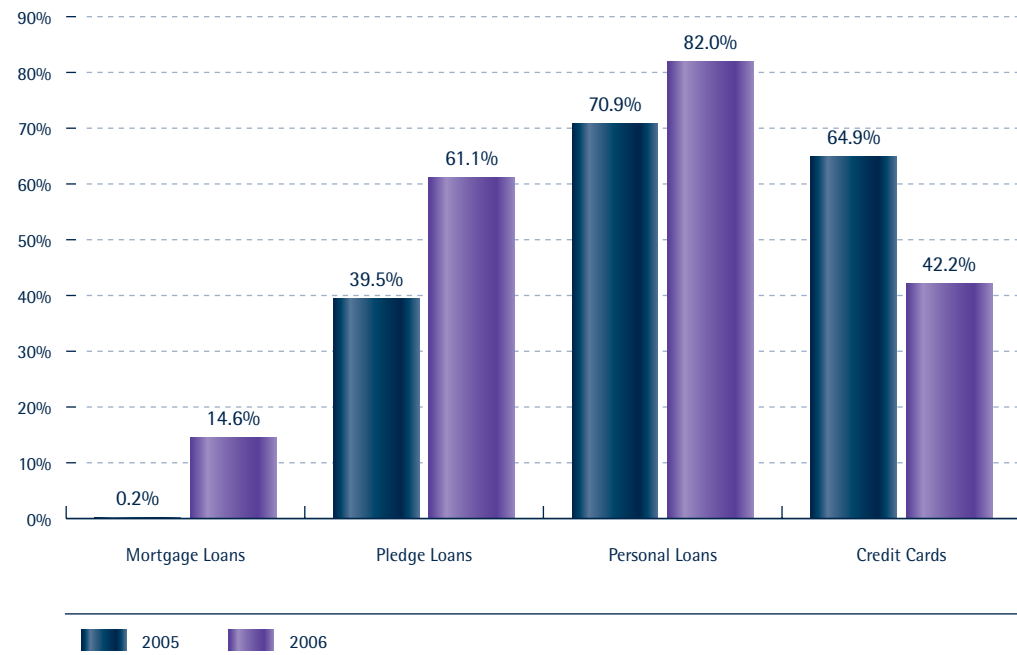
EVOLUTION OF PRIVATE CREDIT



Source: BCRA and INDEC

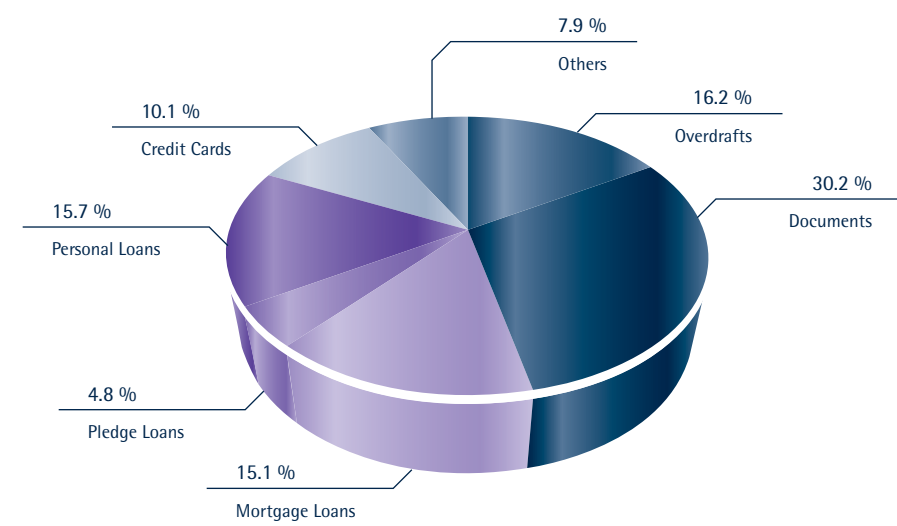


CHART 7.3  
MAIN CHANGES IN CREDIT LINES (DEC 05 - DEC 06)



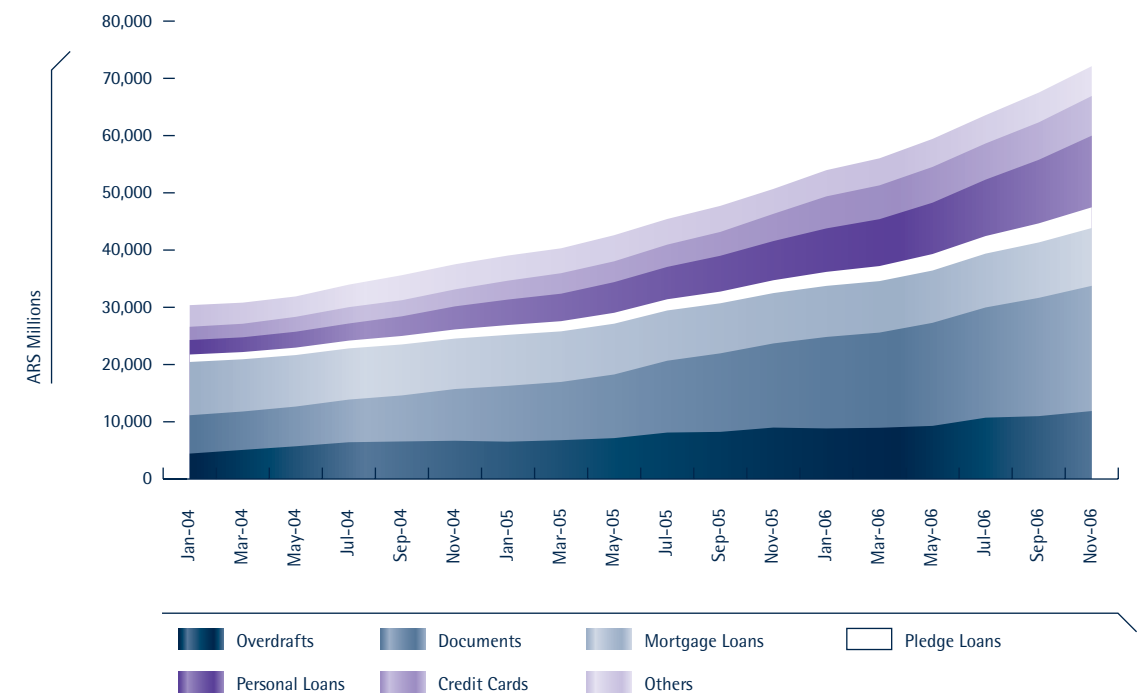
Note: Cash advances, note receivables, and others not included  
Source: BCRA

CHART 7.4  
CREDIT LINES BREAKDOWN (AVERAGE 2006)

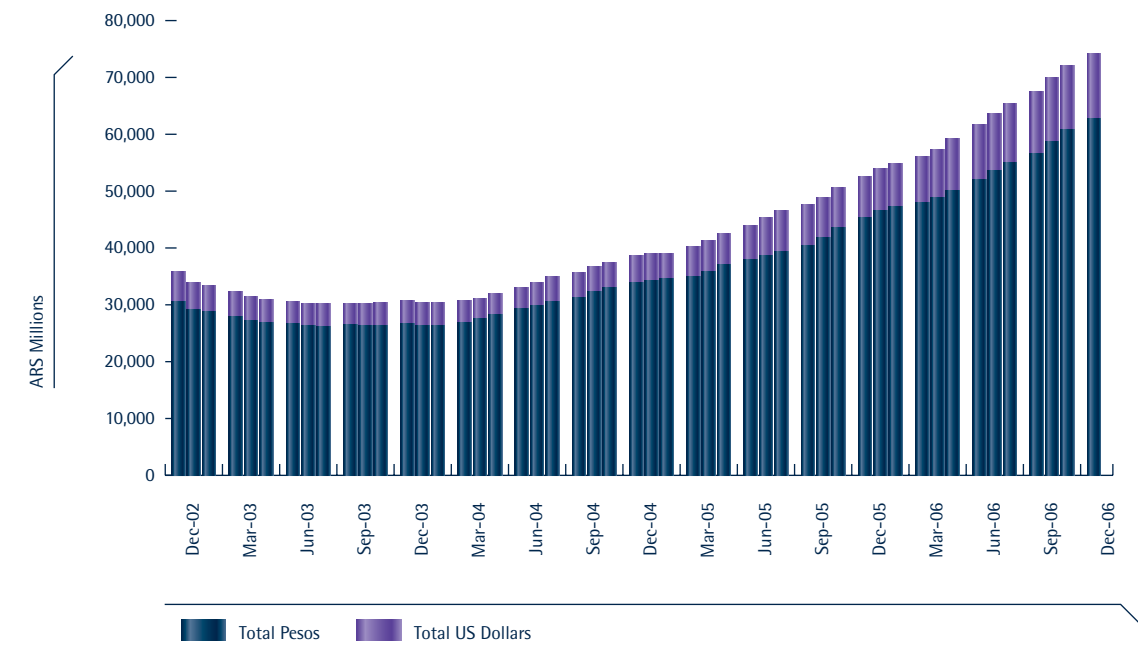


Source: BCRA

CHART 7.5  
EVOLUTION OF CREDIT TO THE PRIVATE SECTOR



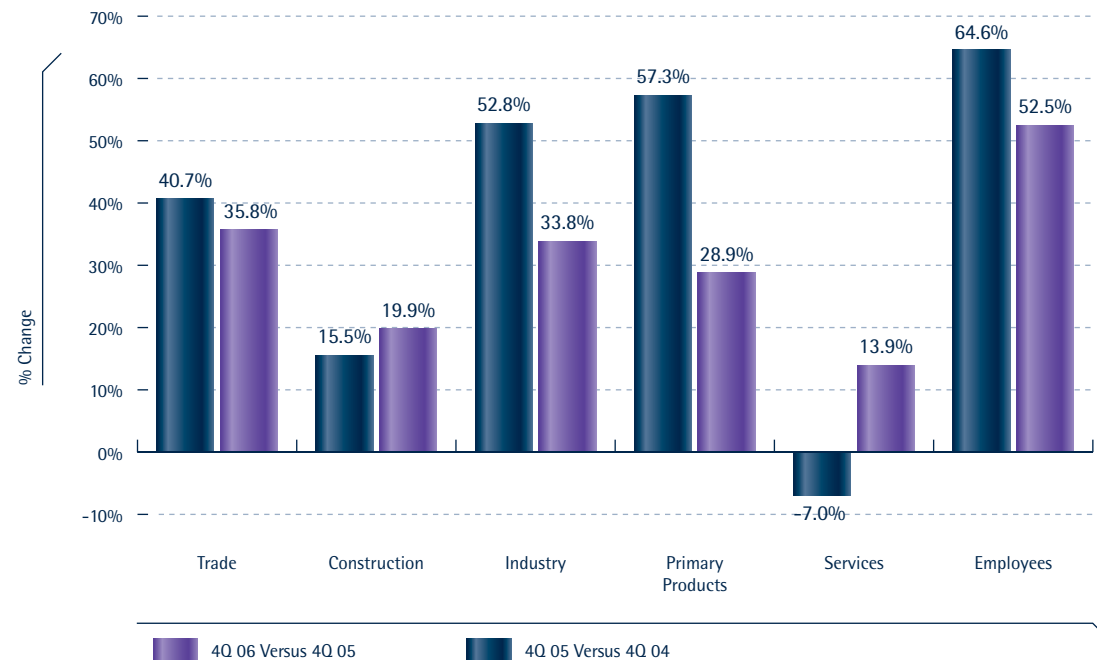
Source: BCRA



Source: BCRA

Loans to employees reached the highest annual growth rate (52.5%). Commerce and industry were the productive sectors that drove the expansion of financing to businesses.

**CHART 7.6**  
LOANS BY SECTOR OF ACTIVITY  
(CHANGES IN THE LAST QUARTERS OF 2005 AND 2006)



Source: BCRA

#### ■ QUALITY OF CREDIT PORTFOLIO

According to information provided by the Central Bank of Argentina, during 2006 credit portfolios quality improved. The share of delinquent loans<sup>11</sup> fell continuing the downtrend registered since its peak in 2002. The share of irregular loans was 4.5%, recording a 3.1 percentage points drop over the last 12 months. This improvement can be traced to policies intended to grant new credits through banks, healthy macroeconomic performance that improved

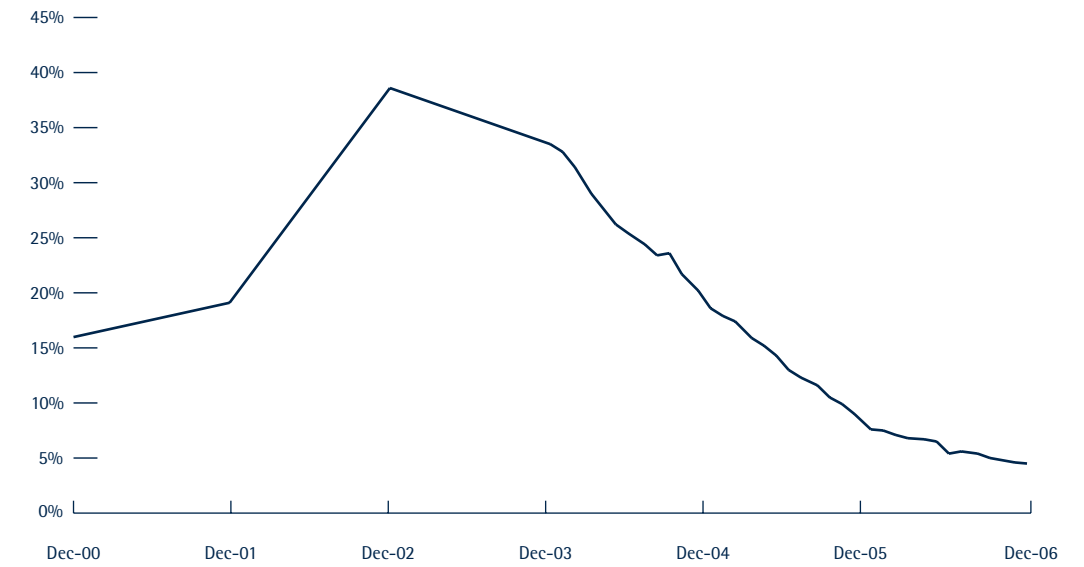
the capacity to pay back debts and the incentives that were implemented by the Central Bank to deepen the level of private credit.

The improvement in the quality of credit to the non-financial private sector was reflected in the drop of the ratio of the portfolio classified as irregular, which in December 2006 was 4.6% compared to 7.6% registered a year earlier (Chart 7.7).

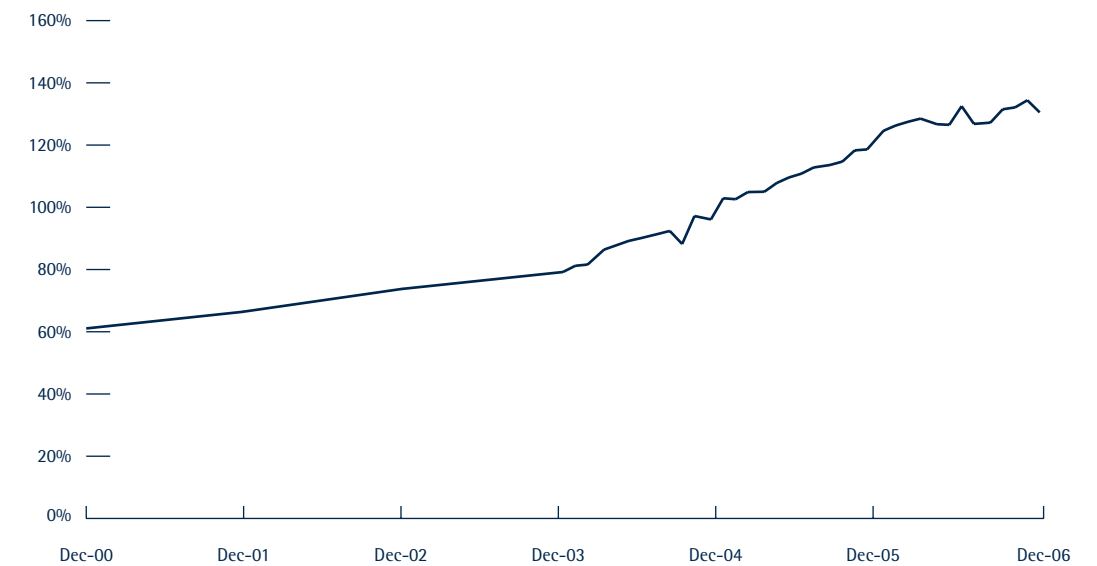
Moreover, by the end of 2006, the ratio of "Provisions/Total Irregular Holdings" for the whole financial sector was 130.5%.

<sup>11</sup> Delinquent (Non-performing) loans are defined as the sum of loans with problems, loans with high risk, and non-recoverable loans. These are loans in situation 3 to 6, depending on the debtor's classification.

**CHART 7.7**  
NON-PERFORMING LOANS TO THE NON-FINANCIAL SECTOR  
(% OF TOTAL)



**PROVISIONS / NON-PERFORMING LOANS**



Source: BCRA

## PROFITABILITY

Throughout 2006, the expansion of financial activity allowed for registered net income levels to double from 2005 levels (Chart 8.1), reaching in 2006 a 14.8% return on net worth and 2% return on assets.

The increase in profitability in 2006 included public and private sector banks. Private sector banks reached a 2.2% return on assets, surpassing the 2005 level of 0.5%. Public sector banks registered a 1.6% return on assets, a 0.3% rise from 2005 levels.

Both groups showed increased their volume of business and obtained higher profits. Seventy-seven of ninety financial

institutions reported profits. They represent, approximately, 89% of total assets.

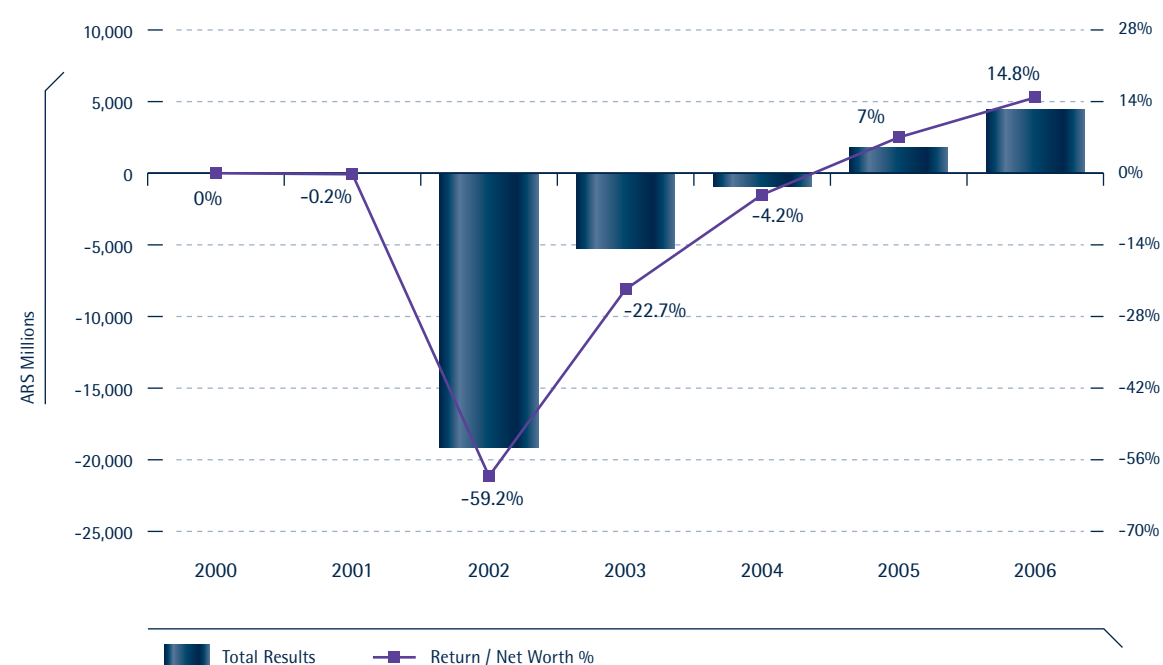
Profit growth was accelerated by the increase of the financial margin of private banks, which in 2006 was 5.7% of assets, a 1.1% increase from 2005.

It is important to point out that in 2006 there was an increase in interest income and services revenues. Interest income registered a 0.3 percentage points increase, representing a 1.8% return on assets in 2006. Service revenues showed an outstanding expansion, reaching a 2.7% return of assets. The increased profits

from holding and trading financial assets mirrored the growth of the local capital market.

Administrative costs grew in line with the gradual increase of physical structure of the banking sector, the number of employees and the adjustments of salaries. In the first half of 2006, employment increased by 1.1%, while the number of branches grew by 0.2%.

CHART 8.1  
PROFITABILITY OF THE FINANCIAL SECTOR



Source: BCRA

TABLE 8.1

### Profitability by Group

	Return on Net Worth %		Return on Assets %	
	2005	2006	2005	2006
Public	11,7	13,0	1,3	1,6
Private	4,1	15,1	0,5	2,2
<b>TOTAL</b>	<b>7,0</b>	<b>14,8</b>	<b>0,9</b>	<b>2,0</b>

Source: BCRA, Report on Banks published December 2006

### PROFITABILITY STRUCTURE BY BANK GROUP

As % of Net Assets <sup>1</sup>	PRIVATE BANKS			FINANCIAL SYSTEM		
	2004	2005	2006	2004	2005	2006
<b>Financial Margin</b>	<b>2.9</b>	<b>4.3</b>	<b>5.7</b>	<b>3.1</b>	<b>4.6</b>	<b>5.7</b>
• Interest Profits	1.0	1.7	2.1	0.9	1.5	1.8
• CER and CVS adjustments	0.8	1.0	0.6	1.0	1.5	1.3
• Profitability by Assets Holdings	0.8	1.0	2.3	1.0	1.2	2.0
• Price Differences	0.6	0.5	0.5	0.4	0.4	0.4
• Other financial results	-0.3	0.1	0.1	-0.2	0.1	0.1
Profits from services	2.4	2.7	3.3	2.0	2.3	2.7
Delinquency charges	-0.9	-0.6	-0.5	-0.8	-0.6	-0.5
Administrative expenses	-4.5	-5.1	-5.7	-4.1	-4.6	-5.0
Taxes	-0.3	-0.4	-0.6	-0.4	-0.4	-0.5
Income Taxes	-0.2	-0.2	-0.3	-0.1	-0.3	-0.3
Adjustment of the value of public sect.	0.0	-0.2	-0.1	-0.2	-0.2	-0.3
Amortization of injunctions	-1.0	-1.0	-0.9	-0.9	-0.9	-0.7
Others	0.7	0.9	1,2	0.8	0.8	1.0
Monetary	0.0	0.0	0.0	0.0	0.0	0.0
<b>ROA</b>	<b>-1.0</b>	<b>0.5</b>	<b>2.2</b>	<b>-0.5</b>	<b>0.9</b>	<b>2.0</b>

<sup>(1)</sup> Assets are free of double accounting derived from repurchase operations, futures contracts and cash operations to be settled.

Source: BCRA

■ INTEREST RATES

During 2006 market interest rates<sup>12</sup> on term deposits in domestic and foreign currency augmented. Reference interest rates<sup>13</sup> in pesos also rose, while those denominated in dollars remained stable, showing a slight increase in the last quarter.

The reference interest rate on term deposits denominated in pesos between 30 and 59 days showed increases throughout 2006, reaching an annualized rate of 8.25% in December. Simultaneously, the market interest rate showed an upward trend, even though it fell in October and December. The

spread between market and reference rates widened towards the end of the year from 95 basis points in December 2005 to 117 basis points in December 2006.

Moreover, the BADLAR<sup>14</sup> moved in tandem with the deposit rate of allocations up to one million pesos (this rate is considered the market rate). The BADLAR Private Banks rate accelerated throughout the year, reaching a peak of 9.59% in November 2006, but showing a slight easing in December to 8.89%. The BADLAR Public Banks rate, was lower than the one of

private banks, closing the year at 6.12% (Chart 9.1).

As previously mentioned, the share of peso term deposits adjusted by CER diminished. This fall can be explained by higher real interest rates expectations due to the increase in nominal interest rates, reduced inflation expectations in 2007, a lower growth rate for time deposits with a maturity beyond one year, and reduced holdings of pension and retirement funds. The real interest rate of these deposits showed an upward trend throughout 2006,

after a slight fall in the last quarter of 2005. In December 2006, this rate was 1.62%, surpassing the highest level reached in September 2005 of 0.91% (Chart 9.2).

Meanwhile, the dollar-denominated 30 and 59 days time deposits reference interest rate remained steady at an annual rate of 2.5% until October 2006, when it rose to 2.84% and closed the year off at an annual rate of 3.0%. The private banks' BADLAR USD interest rate closed the year at levels 3.23%, showing an increase from 0.98% registered in December 2005. The public

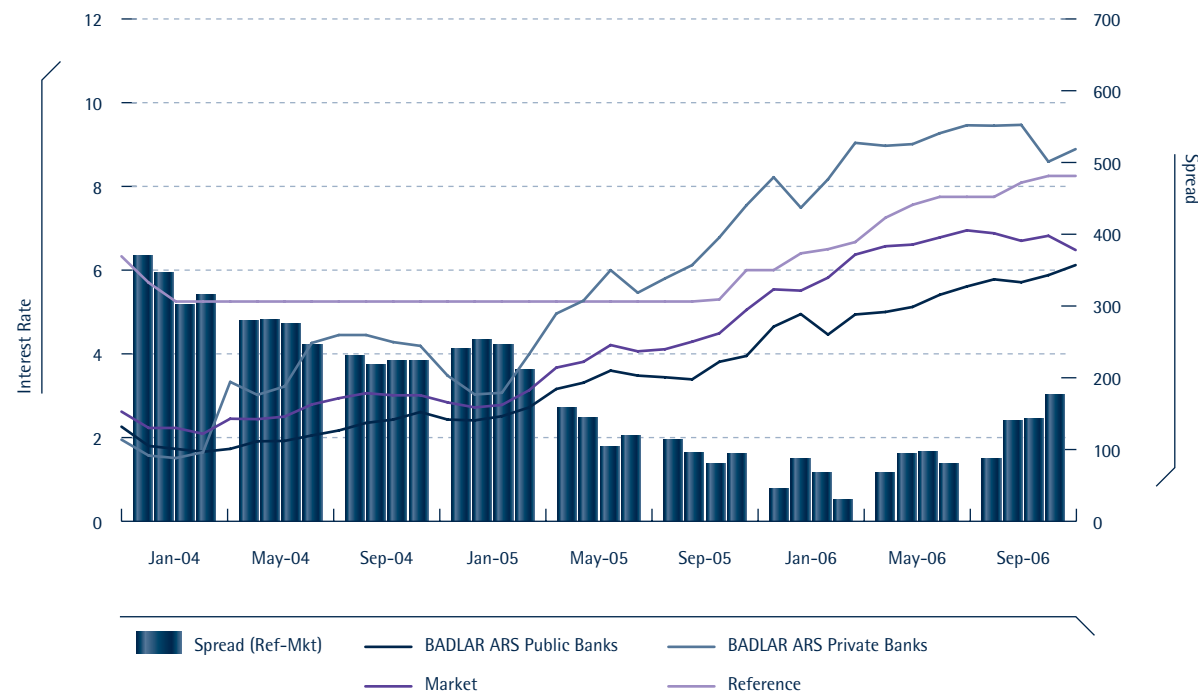
banks' BADLAR interest rate grew at a slower rate, reaching an annual rate of 0.54% in December 2006 (up from 0.45% in December 2005). On a global level, there has been a bull market in "risk-free" interest rates. The three-month USD LIBO rate in USD closed the year at an annual rate of 5.36%, showing an increase of 80 basis points since December 2005.

Reference interest rates on savings accounts remained stable, whether denominated in pesos or in foreign currency. Annual market interest rates in pesos fluctuated between

0.7% and 0.9%, while annual dollar rates moved between 0.12% and 0.14%.

CHART 9.1

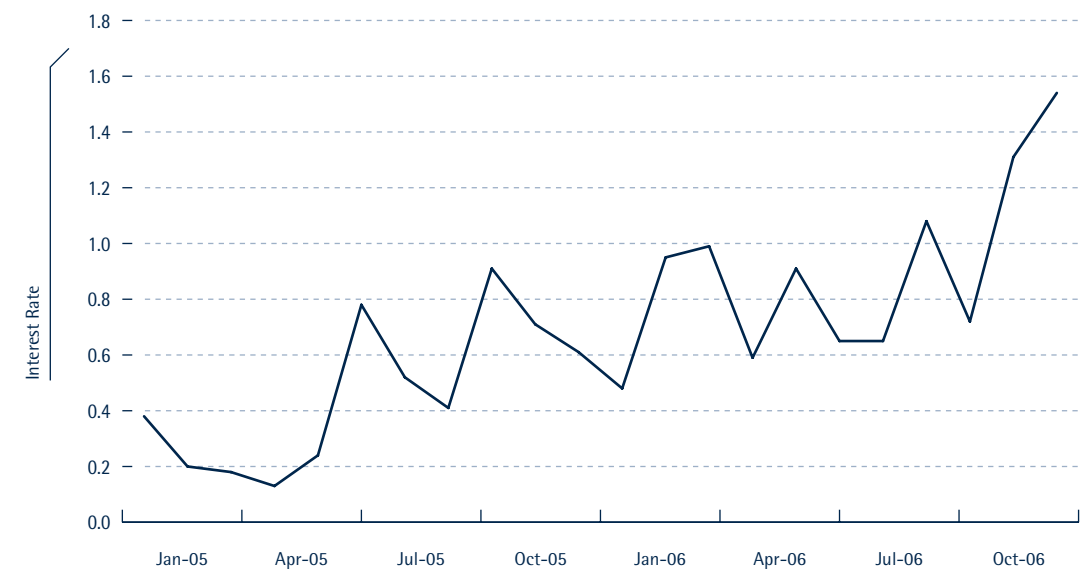
INTEREST RATE OF TERM DEPOSITS OF 20-59 DAYS IN ARS



Source: BCRA

CHART 9.2

MARKET INTEREST RATE OF TIME DEPOSITS IN ARS ADJUSTED BY CER



Source: BCRA

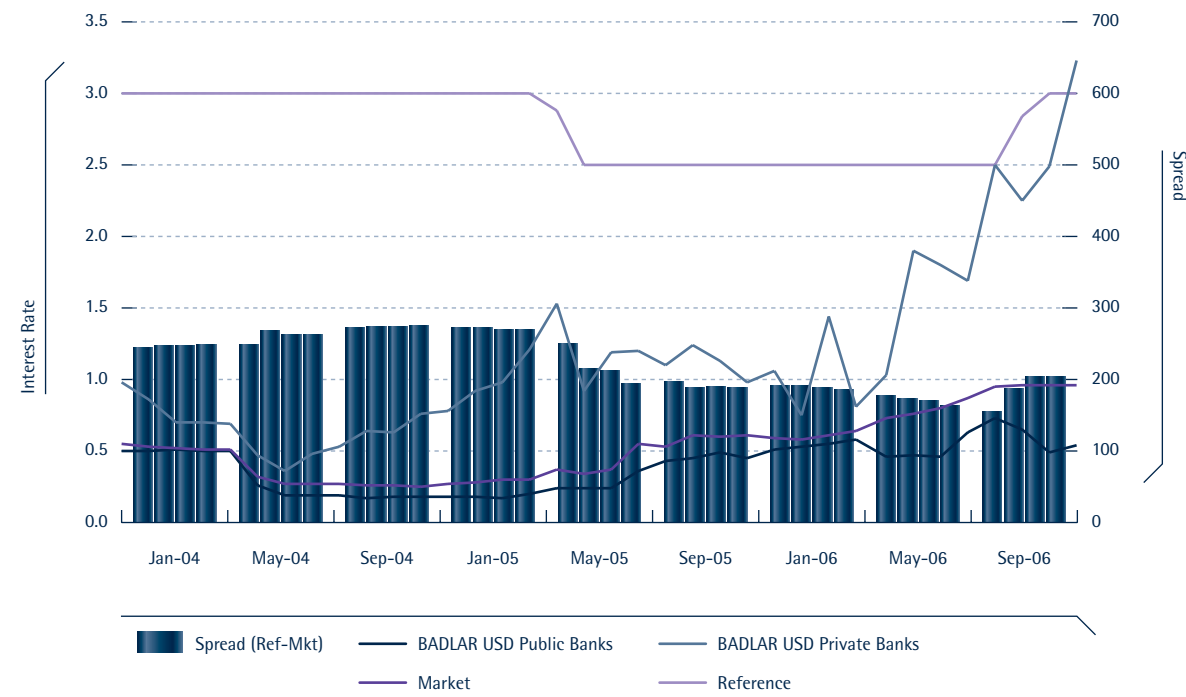
<sup>12</sup> Market interest rate here is defined as the weighted average interest rate published by the Central Bank is considered the market interest rate. This corresponds to a sample taken from the all the Capital Federal and Greater Buenos Aires entities. Interest rates on time deposits that offer additional monetary or non/monetary incentives are not considered.

<sup>13</sup> Reference interest rates which are used to determine the amounts excluded from the Deposit Guarantee System's coverage (reference rule: Communication "A" 2337).

<sup>14</sup> BADLAR: weighted average interest rate adjusted by amount of 30-35 days time deposits of more than one million pesos or dollars, held in banks in a sample taken from Gran Buenos Aires (until August 2000) and in all banks in Gran Buenos Aires (after September 2000).

CHART 9.3

INTEREST RATE OF 30-59 DAYS USD TIME DEPOSITS



Source: BCRA

CHART 9.4 - A

INTEREST RATE OF SAVINGS ACCOUNTS IN PESOS (YEAR 2006)

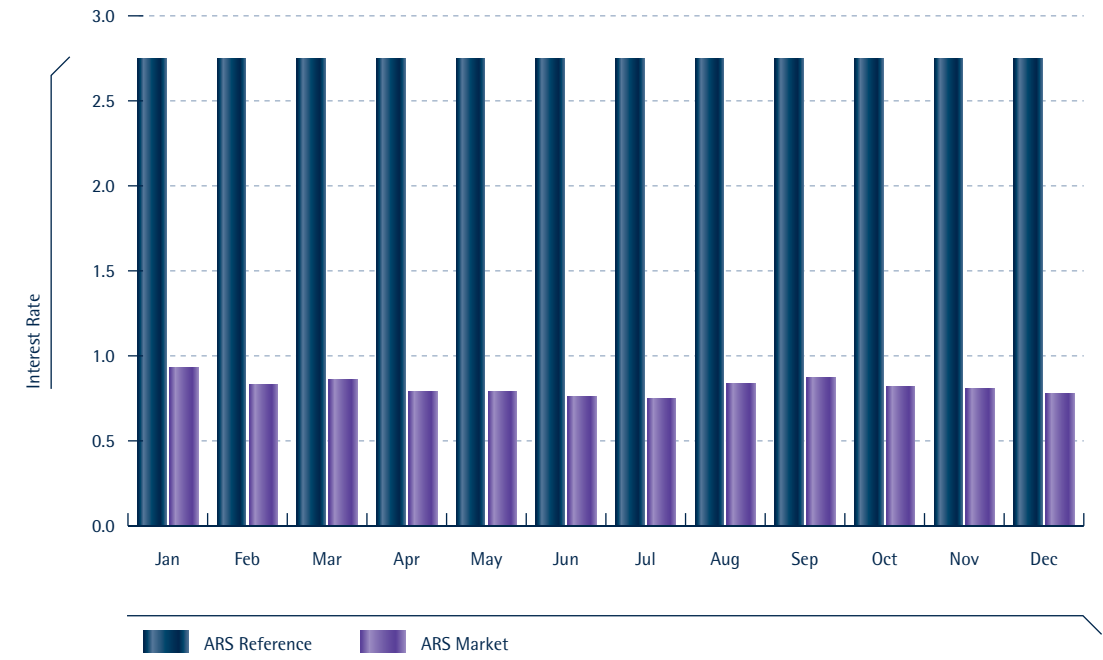
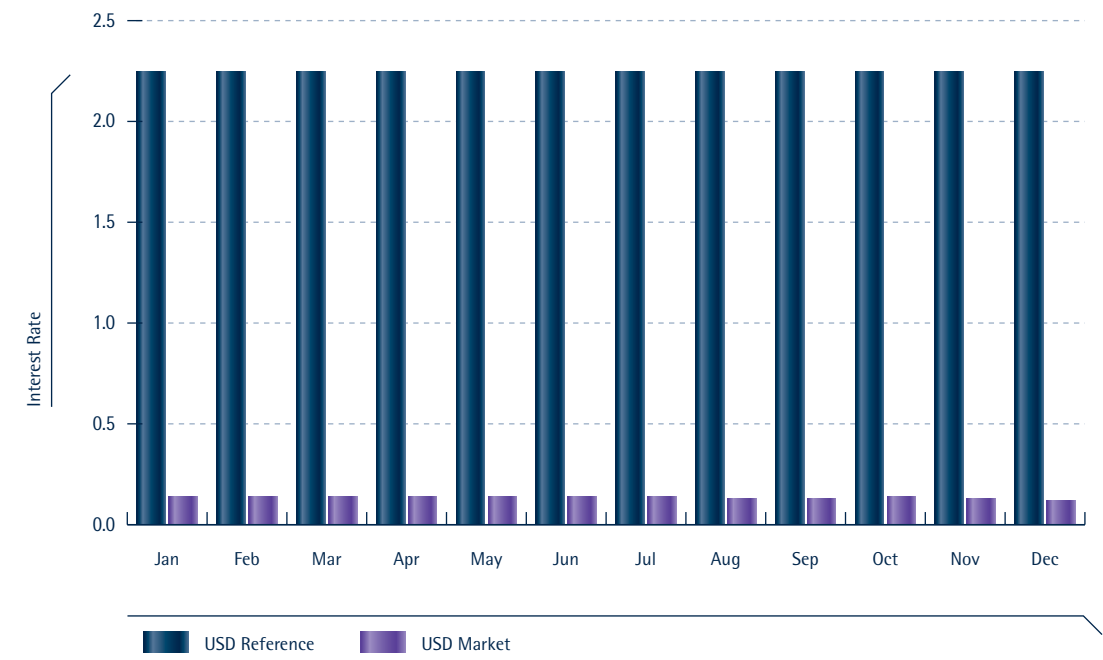


CHART 9.4 - B

INTEREST RATE OF SAVINGS ACCOUNTS IN FOREIGN CURRENCY (YEAR 2006)



Source: BCRA

■ EXHIBIT

At the end of 2006, 72 banks in operation in Argentina, an increase of one from the previous year. This change can be explained by the entry of two additional private sector banks and the reduction of one public sector bank. There were 12 public banks and 60 private banks.

It is important to emphasize that, since 2001 crises, this was the first foreign bank entry in the local market<sup>15</sup>.

Number of Banks			
MONTH	Public Banks	Private Banks	TOTAL
Dec-77	35	85	120
Dec-78	35	122	157
Dec-79	35	184	219
Dec-80	35	179	214
Dec-81	35	171	206
Dec-82	36	168	204
Dec-83	36	174	210
Dec-84	36	174	210
Dec-85	37	161	198
Dec-86	37	154	191
Dec-87	36	142	178
Dec-88	36	139	175
Dec-89	36	141	177
Dec-90	36	134	170
Dec-91	35	132	167
Dec-92	36	131	167
Dec-93	34	133	167
Dec-94	33	135	168
Dec-95	30	97	127
Dec-96	20	100	120
Dec-97	20	95	115
Dec-98	16	86	102
Dec-99	16	76	92
Dec-00	14	75	89
Dec-01	13	73	86
Dec-02	16	63	79
Dec-03	15	60	75
Dec-04	15	58	73
Dec-05	13	58	71
Dec-06	12	60	72

Source: BCRA

<sup>15</sup> Communication "B" 8712 April 27th 2006.



■ **Stand-alone** *financial statements*

■ **Auditors'** *report on the financial statements*

## SEGURO DE DEPOSITOS SOCIEDAD ANONIMA

*Financial statements for the fiscal year ended 31 December  
2006 presented comparatively*

### **Stand-alone financial statements**

Balance sheet  
Statement of profit and loss  
Statement of changes in stockholders' equity  
Statement of cash flows

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### **Auditors' report on the financial statements**



SEDESA  
GENERAL REVIEW  
2006

## BALANCE SHEET

as at 31 December 2006 and 31 December 2005 (in Argentine pesos)

ASSETS	12/31/2006	12/31/2005
<b>CURRENT ASSETS</b>		
Cash and Bank Accounts	631,890	586,351
Investments	10,809,995	10,105,622
Other receivables	108,862	545,376
<b>Total current assets</b>	<b>11,550,747</b>	<b>11,237,349</b>
<b>NON-CURRENT ASSETS</b>		
Other receivables	21,754	-
Fixed assets	1,446,821	1,570,905
<b>Total non-current assets</b>	<b>1,468,575</b>	<b>1,570,905</b>
<b>Total assets</b>	<b>13,019,322</b>	<b>12,808,254</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	162,387	125
Taxes payable	208,603	276,559
Social security charges payable	112,746	134,554
Other receivables	-	342,725
<b>Total current liabilities</b>	<b>483,736</b>	<b>753,963</b>
<b>NON-CURRENT LIABILITIES</b>		
Taxes payable	177,426	76,711
<b>Total non-current liabilities</b>	<b>177,426</b>	<b>76,711</b>
<b>Total liabilities - Subtotal</b>	<b>661,162</b>	<b>830,674</b>
<b>STOCKHOLDERS' EQUITY</b>	<b>12,358,160</b>	<b>11,977,580</b>
<b>Total liabilities plus stockholders' equity</b>	<b>13,019,322</b>	<b>12,808,254</b>

## STATEMENT OF PROFIT AND LOSS

for the fiscal years ended 31 December 2006 and 2005 (in Argentine pesos)

	12/31/2006	12/31/2005
Administrative expenses	( 1,154,816)	( 875,942)
<b>Plus:</b>		
Expenses recovery	1,039,011	693,090
<b>Financial income (expense) and holding gains (losses):</b>		
Financial income	633,500	563,110
Financial expense	-	( 373)
Foreign exchange difference	68,846	171,639
<b>Total financial income (expense) and holding gains (losses)</b>	<b>702,346</b>	<b>734,376</b>
Profit, net (before income tax)	586,541	551,524
Income tax	(205,961)	(226,691)
<b>Profit for the year</b>	<b>380,580</b>	<b>324,833</b>

## STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

for the fiscal years ended 31 December 2006 and 2005 (in Argentine pesos).

	STOCKHOLDERS' CONTRIBUTION		RETAINED EARNINGS				TOTAL STOCKHOLDERS' EQUITY AS AT	
	SUBSCRIBED CAPITAL	ADJUSTMENT TO CAPITAL STOCK	APPROPRIATED RETAINED EARNINGS			TOTAL	12/31/2006	12/31/2005
			LEGAL RESERVE	OPTIONAL RESERVE	UNAPPROPRIATED RETAINED EARNINGS			
Balances at beginning of year	1,000,000	1,197,266	439,454	11,470,147	( 2,129,287)	9,780,314	11,977,580	11,739,318
Adjustment to prior-year profit (loss)	-	-	-	-	-	-	-	( 86,571)
Adjusted balances at beginning of year	1,000,000	1,197,266	439,454	11,470,147	( 2,129,287)	9,780,314	11,977,580	11,652,747
Profit not allocated yet	-	-	-	( 2,129,287)	2,129,287	-	-	-
Profit for the year as per statement of profit and loss	-	-	-	-	380,580	380,580	380,580	324,833
Balances at end of year	1,000,000	1,197,266	439,454	9,340,860	380,580	10,160,894	12,358,160	11,977,580

## STATEMENT OF CASH FLOWS

for the fiscal years ended 31 December 2006 and 2005 (in Argentine pesos)

CHANGES IN CASH	12/31/2006	12/31/2005
Cash at beginning of year (1)	9,896,559	10,533,520
(Decrease) increase in cash	1,545,326	( 636,961)
<b>Cash at end of year (1)</b>	<b>11,441,885</b>	<b>9,896,559</b>
<b>CAUSES OF CHANGES IN CASH</b>		
Provided by operating activities		
Collection of BODEN 2012	575,328	-
Investment holding gains (losses)	125,313	693,102
Increase in investments	795,414	-
Medium-term CDs	-	( 757,048)
(Decrease) increase in short-term payables	( 342,725)	342,725
Transfers received from DGF and BLF	25,834,059	24,463,849
Payments made by SEDESA and on account of DGF and BLF	( 25,234,072)	( 24,668,344)
Income tax payment 2005 and 2004	(74,908)	(711,245)
Payment to vendors of goods and service	(133,083)	-
Net cash flows provided by operating activities	1,545,326	( 636,961)
<b>Increase (decrease) in cash</b>	<b>1,545,326</b>	<b>( 636,961)</b>

(1) The cash amount includes cash on hand and in banks, certificates of deposit maturing over a maximum term of three months and investments in government securities and mutual funds.

## AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

*To the Chairperson and Directors of SEGURO DE DEPOSITOS SOCIEDAD ANONIMA  
Av. Corrientes 311, Piso 10° Autonomous City of Buenos Aires*

1. We have examined the balance sheet of SEGURO DE DEPÓSITOS S.A. enclosed as at 31 December 2006, the related statements of profit and loss, changes in net worth, and cash flows, for the fiscal year then ended. The preparation of the financial statements is the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on such financial statements, based on our audit task.

2. We conducted our audit in accordance with auditing standards effective in Argentina. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting standards used and significant estimates made by the Board of Directors, as well as evaluating the overall financial statements presentation. We believe that our examination provides a reasonable basis for our professional opinion.

3. In our opinion, the financial statements specified in the first paragraph present fairly, in all material aspects, the financial position of SEGURO DE DEPÓSITOS S.A. as at 31 December 2006, the results of its operations, and cash flows for the fiscal year then ended, in conformity with professional accounting standards effective in the Autonomous City of Buenos Aires, Argentina.

4. In relation to the net worth of SEGURO DE DEPÓSITOS S.A. for the fiscal year ended on 31 December 2005 and the statement of profit and loss, changes in stockholders' equity and cash flows for the year then ended, presented with comparative purposes, we hereby inform that other auditors issued an unqualified audit report on 12 April 2006.

5. In accordance with current regulations, we inform that:

- a) The financial statements mentioned in the first paragraph are recorded in the Inventories and Financial Statements Book and arise from accounting records kept, in their material aspects, in conformity with legal regulations in force
- b) as at 31 December 2005, the liabilities accrued in favour of ANSES (the Argentine Social Security Administration), as evidenced by the Company's accounting books, amount to ARS 58,006, not payable on that date

*Autonomous City of Buenos Aires, 17 April 2007*

*PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.  
C.P.C.E.C.A.B.A. T° 1 - F° 13*

*CLAUDIO N. NOGUEIRAS  
Partner  
Chartered Accountant U.B.A.  
C.P.C.E.C.A.B.A. T° 197 - F° 64*

- **Stand-alone** financial statements
- **Auditors' report** on the financial statements

## DEPOSIT GUARANTEE FUND

*Trust under the Trust Agreement executed on 7 March 1997 by the BCRA (Central Bank of Argentina), as trustor, and Seguro de Depósitos S.A. (SEDESA), as trustee.*

*Trust financial statements as at 31 December 2005 presented comparatively with the previous fiscal year.*

### Stand-alone financial statements

Balance sheet  
Statement of profit and loss  
Statement of changes in net worth  
Statement of cash flows

### Auditors' report on the financial statements



## TRUST BALANCE SHEET

as at 31 December 2006 and 2005 (in Argentine pesos)

ASSETS	12/31/2006	12/31/2005
<b>CURRENT ASSETS</b>		
Cash and Banks	7,873,341	37,216,111
Investments	1,642,796,710	1,213,323,398
Receivables	203,447,667	7,885,727
Assets given for financial lease	167,871	-
Other receivables	576,424	407,630
Other assets	5,612,550	20,178,759
<b>Total current assets</b>	<b>1,860,474,563</b>	<b>1,279,011,625</b>
<b>NON-CURRENT ASSETS</b>		
Investments	167,441,898	162,603,836
Receivables	81,419,377	245,608,758
Assets given for financial lease	1,054,521	-
Other receivables	153,900	-
Other assets	4,193,413	4,473,430
Total non-current assets	254,263,109	412,686,024
<b>Total assets</b>	<b>2,114,737,672</b>	<b>1,691,697,649</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Payables	640,841	2,326,640
Other payables	1,159,871	2,307,913
Total current liabilities	1,800,712	4,634,553
Total liabilities - Subtotal	1,800,712	4,634,553
<b>NET WORTH</b>	<b>2,112,936,960</b>	<b>1,687,063,096</b>
<b>TOTAL LIABILITIES PLUS NET WORTH</b>	<b>2,114,737,672</b>	<b>1,691,697,649</b>

## STATEMENT OF PROFIT AND LOSS

for the fiscal year ended 31 December 2006 and 2005 (in Argentine pesos)

ASSETS	12/31/2006	12/31/2005
<b>FINANCIAL INCOME ON INVESTMENTS:</b>		
Financial income on investments	81,433,093	60,789,633
Exchange rate difference	4,567,721	20,848,807
(Losses) gains from secured loans and securities holdings	24,165,224	(1,592,470)
Financial income - Subtotal	110,166,038	80,045,970
Minus Investment management fees	(1,364,049)	(1,097,238)
<b>Total financial income</b>	<b>108,801,989</b>	<b>78,948,732</b>
<b>ASSISTANCE TO FINANCIAL ENTITIES:</b>		
Assistance to financial entities written down by 100%	-	(217,740,000)
Interests on loans granted	21,705,890	14,579,207
Provision on loans with option of cancellation with public bonds in trust agreement and/or under guarantee	39,506,543	(3,042,893)
<b>Total assistance to financial entities</b>	<b>61,212,433</b>	<b>(206,203,686)</b>
<b>ASSET MANAGEMENT:</b>		
Income from collections of receivables assigned to SEDESA as trustee of the DGF net of related expenses	17,650,527	15,316,080
Increase (Decrease) in loan loss provision	4,260,410	(187,533,943)
Income from recovery of financial trust and collections management net of related expenses	7,190,165	209,713,219
Asset Management	7,802,639	6,167,438
Asset Management Total	36,903,741	43,662,794
<b>ADMINISTRATIVE EXPENSES</b>	<b>(10,089,884)</b>	<b>(8,980,367)</b>
<b>OTHER INCOME AND EXPENSES</b>	<b>( 469,000)</b>	<b>(613,865)</b>
(Loss) profit for the year	196,359,279	(93,186,392)

DEPOSIT GUARANTEE FUND

## STATEMENT OF CHANGES IN NET WORTH

for the fiscal year ended 31 December 2006 and 2005 (in Argentine pesos)

	CONTRIBUTIONS FROM FINANCIAL INSTITUTIONS	ADJUSTMENT TO CONTRIBUTIONS	ACCUMULATED LOSSES	FISCAL YEAR ENDED	
				12/31/2006	12/31/2005
				TOTAL NET WORTH	TOTAL NET WORTH
Balances at beginning of year	2,693,644,799	1,865,510,565	( 2,872,092,268)	1,687,063,096	1,565,496,392
Adjustment to prior-year profit (loss)	-	-	-	-	( 1,902,787)
Adjusted balances at beginning of year	2,693,644,799	1,865,510,565	( 2,872,092,268)	1,687,063,096	1,563,593,605
Contributions from financial institutions	229,514,585	-	-	229,514,585	216,655,883
Profit (loss) for the year as per profit and loss statement	-	-	196,359,279	196,359,279	( 93,186,392)
Balances at end of year	2,923,159,384	1,865,510,565	( 2,675,732,989)	2,112,936,960	1,687,063,096

## DEPOSIT GUARANTEE FUND

## INFORMATION REQUIRED

BY ARTICLE 64, PARAGRAPH 1, SUBP. B) IN LAW 19,550  
for the fiscal year ended 31 December 2006 and 2005 (in Argentine pesos)

	12/31/2006	12/31/2005
<b>CHANGES IN CASH</b>		
Cash at beginning of year (1)	1,250,486,816	1,294,014,565
(Decrease) increase in cash	400,144,368	(43,527,749)
<b>Cash at end of year (1)</b>	<b>1,650,631,184</b>	<b>1,250,486,816</b>
<b>CAUSES OF CHANGES IN CASH</b>		
<b>OPERATING ACTIVITIES</b>		
Contributions received from institutions	229,514,585	216,655,883
Financial income and holding gains	122,099,720	83,169,502
Exchange rate difference on cash in foreign currency	5,435,454	17,406,786
Income from collections of loans assigned to SEDESA	33,082,574	25,269,423
Collection from real property sale	21,700,461	3,420,412
Collections from amortisation of financial entities loans	1,979,132	2,615,029
Collection from recovery of financial trusts	6,398,559	13,644,884
Collection from real property leases	538,687	504,312
Collections from amortisation of secured loans	786,699	819,619
Collections from amortisation of corporate bonds	-	1,497,015
Collections from other income	573,337	528,632
Cash flows provided by operating activities	422,109,208	365,531,497
Transfers to SEDESA	(15,622,451)	(24,014,861)
Disbursement from acquisition of real property at auction	-	( 2,605,129)
Bank expenses and commissions	(1,130,063)	( 858,079)
Payment of life insurance on debit balances of loans assigned	(116,304)	( 1,462,840)
Administrative expenses directly disbursed by DGF	(4,919,522)	( 718,136)
Payments for other cash outflows	(160,667)	( 420,201)
Tax on checking account debits and credits	(15,833)	-
Disbursements for assistance provided	-	( 378,980,000)
Cash flows used in operating activities	( 21,964,840)	( 409,059,246)
<b>(Decrease) increase in cash</b>	<b>400,144,368</b>	<b>( 43,527,749)</b>

(1) The cash balance includes: Cash on hand (except for foreign exchange fixed fund) and in banks (except secured deposits), investments abroad and government securities BODEN 2005, 2013 2015, par bonds in Argentine pesos, Consolidation Bonds from Corrientes Province in Argentine pesos 1st series, bonds with discount in US dollars, Argentine pesos and euros, and securities related to GDP, LEBAC (Central Bank bills) and NOBAC (Central Bank notes) in Argentine pesos and dividends receivable.

## AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

*To the Chairperson and Directors of SEGURO DE DEPOSITOS SOCIEDAD ANONIMA  
Av. Corrientes 311, Piso 10° Autonomous City of Buenos Aires*

1. We have examined the trust balance sheet of DEPOSIT GUARANTEE FUND enclosed as at 31 December 2006, the related statements of trust profit and loss, changes in net worth, and cash flows, for the fiscal year then ended. The preparation of the financial statements is the responsibility of the Sociedad Seguro de Depósitos S.A.'s Board of Directors in their capacity of Trustee of the Fund. Our responsibility is to express an opinion on such trust financial statements, based on our audit task.

2. We conducted our audit in accordance with auditing standards effective in Argentina. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting standards used and significant estimates made by the Trust Board of Directors, as well as evaluating the overall financial statements presentation. We believe that our examination provides a reasonable basis for our professional opinion.

3. In our opinion, the trust financial statements specified in the first paragraph present fairly, in all material aspects, the financial position of the DEPOSIT GUARANTEE FUND as at 31 December 2006, the results of its operations, and cash flows for the fiscal year then ended, in conformity with professional accounting standards effective in the Autonomous City of Buenos Aires, Argentina.

4. In relation to the trust net worth of DEPOSIT GUARANTEE FUND for the fiscal year ended on 31 December 2005 and the statement of profit and loss, changes in stockholders' equity and cash flows for the year then ended, presented with comparative purposes, we hereby inform that other auditors issued an unqualified audit report on 12 April 2006.

5. In accordance with current regulations, we inform that:

a) The trust financial statements mentioned in the first paragraph are recorded in the Inventories and Financial Statements Book and arise from accounting records kept, in their material aspects, in conformity with legal regulations in force.

b) as at 31 December 2005, there are no liabilities accrued in favour of the ANSES (Argentine Social Security Administration), as evidenced by the Company's accounting books as at such date.

*Autonomous City of Buenos Aires, 17 April 2007*

*PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.  
C.P.C.E.C.A.B.A. T° 1 - F° 13*

*CLAUDIO N. NOGUEIRAS  
Partner  
Chartered Accountant U.B.A.  
C.P.C.E.C.A.B.A. T° 197 - F° 64*

- **Legal precedents** of deposit guarantee in the Argentine Republic
- **Regular an Legal** framework for the Deposit Guarantee System

## EXHIBITS

### LEGAL PRECEDENTS OF DEPOSIT GUARANTEE IN THE ARGENTINE REPUBLIC

Systems concerning the guarantee of bank deposits in the Argentine Republic have been many and varied. Commencing with the foundation of the Central Bank in 1935, it may be stated that as from that moment together with the establishment of overall rulings governing the creation and administration of banks, there was also established a system of bank deposits' guarantee. This latter aspect may be divided, chronologically, in the following manner:

**Between 1935 and 1946.** The original Banking Law (sanctioned on 28 March 1935) laid down in its Section 9 a general privilege, after those established by the Civil and Commercial Codes and Bankruptcy Law, for savings deposits up to the sum of Pesos Moneda Nacional 5,000, which could be raised to Pesos Moneda nacional 10,000 in the case of the depositor being a mutual savings fund or a cooperative.

**Between 1946 and 1957.** The so-called "nationalization of deposits" included, de jure and de facto, an absolute and unlimited guarantee for all banking deposits on the part of the Nation, at the same time establishing that said deposits had been received and registered on behalf of the Banco Central de la República Argentina (which had become part of the State).

**Between 1957 and 1969.** Law 14,467, which ratified Decree/Law 13,127/57, denominated "Banking Law", laid down in its Section 11: "In the case of the liquidation of a private or mixed bank, the Central Bank shall advance the necessary funds to guarantee the reimbursement of the deposits concerned to their owners, or their transfer to another Bank. These advances shall be underwritten by the assignation of assets of the bank in liquidation and other guarantees, to the satisfaction of the Central Bank". Official banks were excluded from this stipulation.

**Between 1969 and 1971.** Law 18,061, called "Law of Financial Entities" laid down in its Section 49: "When a national commercial bank – private or mixed – enters into liquidation, the Central Bank shall advance the necessary funds for the reimbursement to their owners or the transfer to another bank of the deposits in national currency". From the entities covered by the Law were excluded the official banks, other banking intermediaries and the non-banking entities.

**Between 1971 and 1973.** The establishment of a guarantee fund appears for the first time in the Argentine legislation with Law 18,939, of 16/02/1971. The "Deposit Guarantee Fund" was created to take care, in case of winding up of a financial entity (banking and non-banking) of the reimbursement of the deposits and other liabilities in pesos. It was constituted with assessments from the entities incorporated, according to the regulatory rules issued by the Central Bank; once these were implemented, Section 49 of Law 18,061 would be repealed.

Without having been definitely started, this régime was repealed by Law 20,040 of 23/12/1972. Through this Law the "Deposit Guarantee Fund" was created to reimburse deposits in pesos in financial national private entities that were not commercial banks, whose winding up were decided. The coverage was of up to Pesos 20,000 per owner of deposit account in an entity. The régime was in force on 01/01/1973; for the commercial banks, the guarantee of Section 49 of Law 18,061 continued to exist.

**Between 1973 and 1977.** When the regime of "nationalization" of deposits was reinstated by Law 20,520 – enacted on 16/08/1973 – the guarantee of the Nation on deposits in pesos was reestablished, with no limit whatsoever by reason of amount or ownership, as well as their reception and registry on behalf of the Central Bank. For commercial banks and saving accounts the system was in force as from September 1973 and for the remaining intermediaries, as from 01/02/74, repealing, as from said dates, the provisions of Section 49 of Law 18,061 and of Law 20,040, respectively.

**Between 1977 and 1979.** Law 21,495 of 17/01/1977, established the "decentralization of deposits", which became implemented together with the Law of Financial Entities N° 21,526 of 1st June of that year. This latter law laid down, via Section 56, that, if a financial entity authorized by said law went into liquidation, the Central Bank could opt between letting other entities take charge of its deposits, either partially or totally, or grant an advance of funds so that the owners of the deposits in question could recover the sums involved. In all cases, these decisions referred to deposits expressed in local currency.

**Between 1979 and 1982.** A variant to the guarantee system was introduced in 1979, with the sanction of Law 22,051 of 14/01/1979, which modified the text of Law 21,526, insofar as the guarantee covering deposits was concerned. The new régime became voluntary, it bore a cost and had only a partial coverage, including as it did only deposits expressed in local currency. Subsequent rulings laid down the details of this guarantee: 100% coverage for those deposits made by people of up to Pesos One million – minimum value subject to adjustments -, and up to 90% for values in excess of this sum. Subsequently, the minimum value was raised to Pesos 100 million, without adjustment (1980), and the 90% rate of coverage was reduced (1982). The entities in question were obliged to make a monthly contribution of 0.03% of the average value of their deposits. Over time, there was a gradual yet steady exodus on the part of the entities, in the light of the fact that the subscription was a voluntary one, so gradually this guarantee system lost significance.

**Between 1982 and 1992.** Modifications which were made to the financial system towards the middle of 1982 also affected the guarantee of deposits régime, which per force had to adapt itself to the prevailing circumstances. Subsequently, the rules were up-dated in 1985, 1987 and 1988, savers with deposits receiving better treatment than other types of depositors. Distinctions were also made concerning the class and scale of deposits. In 1991 a "Special Limited Fund" was constituted so as to underwrite the deposits guarantee, which was based on external bonds of the Argentine Republic, 1989 series with a nominal value of USD 50 million, plus the assessments made by entities which subscribed to the régime. In this way, the guarantee made by the Central Bank was limited by the resources constituted by said Fund; should this Fund become exhausted, the depositors, up to the value of the guaranteed sums, enjoyed the privilege of being covered by the Law of Financial Entities, insofar as expenditures and advances made by the BCRA were concerned. Between 1992 and 1995. Modifications introduced to the Law of Financial Entities when the Charter of the Central Bank of the Argentine Republic was reformed, in October 1992, eliminated "de jure" the guarantee on deposits. Law 24,144, apart from eliminating tacitly Section 56 of said Law (insofar as the deposits guarantee was concerned) also included the reform of Section 49 of this Law, establishing for depositors in local currency a special, exclusive and discriminating privilege on the funds included in the legal encashment (minimum cash reserves) of the entities which were liquidated, in line with a certain pre-determined order. A further privilege was also laid down covering all deposits, once the credit position of the Central Bank had been satisfied.

**Position as from 1995.** Law 24,485 enacted on 12/04/1995, created a "System of Guarantee Insurance for all deposits", which is: limited, bears a cost, obligatory, subsidiary and complementary to the régime of privileges and protection for depositors as laid down by the Law of Financial Entities. Through Decree 540/95 the Deposit Guarantee Fund (DGF) is created, with the assessments of the financial entities as from May 1995 and SEDESA – Seguro de Depósitos Sociedad Anónima- was also created, with the object of administering this fund. The guarantee covers all deposits in pesos and foreign currency, with a few exclusions, up to a sum including capital and interest, of Pesos 30,000, computing to this effect all deposits that any one person could hold in any entity and pro-rating the values, should there be more than one owner of the accounts in question. The Law in question was modified by Law N° 25,089 which obliged the insurance system to reimburse the owners of sums deposited in special accounts aimed at the paying of wages and salaries, in the case of the suspension of operations or annulment of the authorization to operate, of any given financial entity. Law 24,485 has been subject to rulings by Decree N° 540 of 12/04/1995 and all this has been further modified by Decrees N° 177/96, 1292/96, 1127/98, 1292/99, 32/01 and 214/02.

At the same time, the régime of privileges in favour of certain depositors, as laid down by the Financial Entities Law, was subject to subsequent modifications, a general privilege having been fixed on top of all other credits, with the exception of those covered by a pledge or mortgage and labour creditors (wages and salaries). A first order of preference is granted to those deposits, up to the sum of Pesos 50,000.

## REGULATORY AND LEGAL FRAMEWORK

For information on the following issues, please visit our website ([www.sedesa.com.ar](http://www.sedesa.com.ar)):

1. Deposit Insurance System
  - 1.1. Law 24,485
  - 1.2. Presidential Decree N° 540/95 as amended.
  - 1.3. Presidential Decree N° 905/2002 (Relevant sections)
  - 1.4. BCRA Rules on the implementation of the Deposit Insurance System (Communication "A" 2337 as complemented)
2. Banking Liquidity Fund
  - 2.1. Presidential Decree N° 32/2001
3. BCRA Communications related to SEDESA.



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