

ANNUAL REPORT

2017



**SEDESA**  
SEGURO DE DEPÓSITOS S.A.

ARGENTINA

**ANNUAL REPORT AND BALANCE SHEET OF SEGURO DE DEPÓSITOS S.A.  
AS OF DECEMBER 31, 2017**



**SEDESA**  
SEGURO DE DEPÓSITOS S.A.

## **TABLE OF CONTENTS**

**Members of the Board of Directors and Statutory Audit Commission**

**Message from the Chairman of SEDESA's Board of Directors**

**Macroeconomic Context**

**Annual Report**

**Financial Statements of Seguro de Depósitos S.A. for the fiscal years ended as of December 31, 2017 and 2016 together with the Independent Auditors' Report**

**Report of the Audit Commission - SEDESA**

**Financial Statements of the Deposit Guarantee Funds for the fiscal years ended as of December 31, 2017 and 2016 together with the Independent Auditors' Report**

**Report of the Statutory Audit Commission - DGF**

## **MEMBERS OF THE BOARD OF DIRECTORS AND STATUTORY AUDIT COMMISSION**

### **BOARD OF DIRECTORS**

#### ***Chairman***

Hugo L. Secondini

#### ***Vice-Chairman***

Claudio A. Cesario

#### ***Director***

Norberto C. Peruzzotti

#### ***Alternate Directors***

María C. Ehbrecht

María E. Deligiannis

Daniel Tillard

### **AUDIT COMMISSION**

#### ***Statutory Auditors***

Alejandro Almarza

Walter Miner

Luis E. Piantanida

#### ***Alternate Statutory Auditors***

Hugo N. Bruzone

Juana G. Fernández

Augusto Ardiles

## MESSAGE FROM THE CHAIRMAN

It is my pleasure, as Chairman of the Board of Directors, to submit the Annual Report and Financial Statements of Seguro de Depósitos S.A. (SEDESA) and the Deposit Guarantee Fund (DGF) that describe a summary of the activities developed, the improvements obtained and the aims reached by the Company during the fiscal year ended as of December 31, 2017.

On the basis of the results obtained during the year, we can state that all the proposed aims had been achieved.

There had been an increase on the net worth of the Deposit Guarantee Fund and on the Available Balance providing a solid and stable position in furtherance of our role as part of the financial safety net of our country.

Pursuant to the implementation of the improvement policy adopted by SEDESA in 2011, we continued with the optimization of the Company's internal organization processes. The actions to maintain the certification of the Quality Management System under the new ISO 9001:2015 standards for the "Administration of the Available Balance of the Deposit Guarantee Fund" and the recertification under the same version of the standard of the QUALITY MANAGEMENT SYSTEM (QMS) for the "Realization and sale of real estate to integrate the available balance of the Deposit Guarantee Fund" were conducted.

We have successfully complied with the proposed tasks, keeping the management standards that guarantee the capital preservation together with an adequate profitability of the investments that had enhanced the net worth of the DEPOSIT GUARANTEE FUND.

SEDESA continued being recognized as a distinguished organization and with an active participation in the activities conducted by the International Association of Deposit Insurance (IADI), undertaking to adopt the best practices for the activities of a deposit insurer.

Within the scope of the objectives for the following years and according to the continuous improvement process, a new management system would be implemented.

Moreover, on behalf of the Board of Directors, I would like to thank the Central Bank of Argentina, Caja de Valores S.A. and the Financial Institutions of our banking system for all the support provided; and finally I am especially grateful to all of our collaborators, engaged in every activity of this Company, for their commitments and professionalism that had helped us in achieving the goals established for the ended fiscal year.

HUGO L. SECONDINI  
Chairman  
SEDESA

## **1. International Context. General Provisions**

The year 2017 was mainly characterized by the recovery of the global economy, exceeding the expectations observed at the beginning of the year.

The International Monetary Fund (IMF) has planned a 3.4%- increase of the global product for 2017; and after the year-end it was expected to be of about 3.7%. Such increase mainly occurred since the development of the advanced economies was higher than the one initially expected; even though a higher increase in the emerging and developing markets was observed.

In particular, the acceleration in the growth of the turnover of the international trade of goods and services was important. The IMF estimated an annual change of about 3.8%. Pursuant to the estimations updated as of the drafting date hereof, such increase was about 4.7% and it occurred in developed economies as well as in emerging and developing economies.

The key factors of 2017 were the evolution of the commodities and the electoral result in the U.S. major economy with different impacts on the countries depending on the idiosyncrasy of each economy.

### **1.1. Advanced Economies.**

The United States was still waiting for a change in the monetary policies upon the positive evolution of the main economic variables through the continuity of the economy's growth and its consequent approach to the policy targets set forth by the Federal Reserve System (FRS). Such targets were determinants of the evolution of the interest reference rate.

The evolution of the North-American labor market as well as the recorded level of inflation showed an evolution better than the one expected. In such regard, the evolution of the commodities' prices, mainly the ones of the petroleum, and the increase of the American employment as of the year-end led to an increase in the uncertainty on the speed of the adjustment of the reference interest rate established by the FRS. In turn, as regards the change of the President of such entity, it was expected that the new leader would not make significant changes to the former policies. Punctually, and according to what was expected at the beginning of the year, during 2017 there were three increases of 25 basic points in the reference rate reaching 1.50% in the last meeting of the year.

Furthermore, the market was expecting three additional increases of 25 basic points for 2018. One significant factor for the economic evolution and the financial markets was the result of the President Donald Trump's tax reform project that entailed some uncertainty. The perspectives, as from what occurred during the year and finally approved by the American Congress, were of a possible growth's increase in a short term and may accelerate the increase in the American interest rate and add volatility to the worldwide major economy.

Despite the fact that the expectations and the final definition of the American tax policy had contributed to an increase of the US Dollar and the interest rates of the Treasury bonds, that in turn led to an increase of the interest rate in other countries, in general the economies were optimistic and there was an increase in the share market. The strengthening of the activity and expectations of a higher global demand, in addition to the restriction agreements to the petroleum offer, had collaborated with an increase in the prices of the raw material in relation to the ones applicable at the beginning of 2016.

Another significant event of the year was the continuing flexibility in the monetary conditions within the European Union encouraged by the European Central Bank (ECB) through the program of purchase of assets that, in a decelerated manner, continued with what it was expected. It was expected that the program would be developed in accordance with the provisions stated by the authorities of the ECB until the inflation levels of such zone reached the set goals. Such program and the resulting flexibility allowed observing an increase of the product higher than the one expected at the beginning of 2017 in the Eurozone.

In other advanced economies (Canada, Japan and others) there were also increases in the prices higher than the ones initially expected.

## **1.2. Emerging and Developing Economies**

As in previous years, one of the main concerns for the evolution of the global product, in general and for the emerging and developing economies in particular, was the evolution of the Chinese economy. Even though, it was initially expected a moderation in such economy's growth rhythm with a focus towards the internal market; finally and due to an export level higher than the one foreseen, a higher increase was registered.

The disparity in the general behavior of other Asian economies continued.



While the Indian economy helped with the growth of the global product in an extent lower than the one expected, contributions to an increase higher than the one initially projected for other minor Asian economies were considered.

As regards the Commonwealth of Independent States (CIS)<sup>1</sup> and its area of influence, it was expected that its contribution to the growth of the global product as from maintenance of the Russian economy continued with an evolution more favorable than the one estimated at the beginning of 2017.

In turn, Latin America also contributed with the global acceleration as from results better than the ones expected. Such results were obtained due to the evolution of the prices of certain raw material and especially as from the Brazilian economy's recovery and better perspectives for Mexico, in accordance with the strengthening of the US economy.

### **1.3. Argentina in the World.**

The Trade Balance is one of the risks generated by the local economy's recovery that is mainly sustained by the increase in investments. This situation entailed an increase in the imports (19.7% on a year-to-year basis) and a marginal increase in exports (0.9% on a year-to-year basis), and therefore generating a negative balance in the Trade Balance of about 1.4% of the Gross Domestic Product (GDP).

In such regard, it is worth mentioning the recovery of the Brazilian economy, our largest commercial partner that may be consolidated in 2018 when the presidential elections would be conducted.

As stated hereinabove, even though the other commercial partners (China, U.S.A. and the EU) showed increases higher than the ones initially expected, in all the cases, the balances of the Trade Balance were negative.

Therefore, the trade deficit was an increasing challenge for the Argentine economy.

On the other hand, we found the Financial Account of Balance of Payments. A world with low growth allowed maintaining a reasonable financing where the relaxed monetary conditions that prevailed in the main economies of the world remained being favorable but would be gradually normalized.

---

<sup>1</sup> Commonwealth of Independent States (CSI): Azerbaijan, Russia, Armenia, Belorussia, Kazakhstan, Kirghizstan, Tajikistan, Moldavia and Ukraine. <http://iacis.ru/eng/parliaments/>

The current level of opening to the world and market's debt ratios that were below the national average, allowed the Treasury the possibility of being financed with debt, provided the sustainability risks would not increase as from the tax situation.

## **2. The Argentine Economy.**

### **2.1. Introduction**

The year 2017 started with the division of the Ministry of Treasury. As long as no significant changes occurred in the financial portfolio, the new Treasury Minister established a program of goals for the primary tax deficit with the purpose of providing predictability on its reduction process. At the closing of the term, the goals established for the first year were fulfilled and the following three-month and annual objectives were ratified.

In view of the tax situation, very dependant from the external financing, and pursuant to the favorable results of the elections, the Government sent to the Congress a set of amendments with the purpose of reducing the tax deficit and improving the economy's competitiveness.

The provisions sent to the Congress has four amendments: i) a Tax Agreement that changed how the recourses would be divided among the Nation and the Provinces; and a Provincial Tax Liability Law stating the limits to the increase of the public expenditure and the undertaking of a tax reduction; ii) an almost neutral tax amendment for 2018 with an increasing tax cost for future years; iii) a retirement amendment focused on changing the retirement adjustments to reduce the primary tax deficit in 2018 and avoid the break of the system on a medium term; and iv) a labor amendment to normalize all labor informality and reduce any labor dispute. The group Tax Agreement – Tax Amendment – Retirement Amendment was approved by the Congress and the labor amendment would be discussed in 2018.

Another change during 2017 was the implementation by the authorities of the Central Bank of Argentina (BCRA) of the Inflation Targeting system with the intention of coordinating and conducting the inflation expectations, giving predictability to the economic agents. Consequently, during the year the monetary policy to comply with the established objectives and the schedule of increases in the regulated prices were planned. The variation of the prices was of 38.7% against the general inflation of 24.8% as of the annual closing. Even though the decrease in the inflation was significant, its level was higher than the one initially set forth. Therefore, towards the end of the year the Treasury Ministry formally increased the inflation goal for 2018 from an average of 10% +/- 2 points to 15%, and also adjusted the objectives set for 2019 and 2020 at 10% and 5% respectively.

## **2.2. The Economic Situation and its Perspectives.**

In economic and political terms, the year 2017 was positive. In general, the level of activity was recovered from the recession of 2016. The inflation rate decreased after the price-increase of the previous year and the tax goals were achieved. At a political level, the governability was consolidated after the triumph of the pro-government political forces in the legislative election.

At the end of 2017, an increase of 2.8% was expected for the Gross Domestic Product (GDP), recovering the decrease of 2.2 % of 2016.

As regards components, the major impulse was caused by investments; mainly through public investments in infrastructure while investments in machines and equipments accompanied the tendency. Moreover, the increase in consumption and industrial production was of about 3% and 2% respectively. Construction and the Field were the most dynamic sectors.

The markets moved in line with the political optimism, the economic recovery and the good international financial context. The rate of Merval, represented in US Dollars, increased 51% during the year and the surcharge of sovereign financial risk of Argentina, pursuant to the EMBI+ index, improved 105 basic points modifying the level of 455 points in December 2016 to 350 points in December 2017.

This occurred in a context of a relatively stable exchange rate but within a monetary policy framework with a high contractive bias. The exchange rate increased 18% annually, from ARS/USD 16.1 to ARS/USD 19 with significant increases basically in July (before the elections) and in December.

The BCRA accumulated international reserves reaching USD 55 thousand million as from USD 39 thousand million as of the closing of 2016.

Private deposits in the financial system increased 29% on a year-to-year basis as of the closing of December.

In relation to the dynamic of the financial intermediation in Pesos, it finished the year with a significant increase on real terms. Loans to the private sector in local currency had increased by 45.4% interannually on nominal terms. It is worth mentioning in this sector, the increase of mortgage loans, mainly UVA-adjusted loans and the loans for the families'

consumption through personal or pledge lines. In turn, deposits in pesos of the private sector increased 25.8% on a year-to-year basis.

Regarding the intermediation in Dollars, it showed a strong increase as from a growth of 17.7% in private deposits and 62.6% in loans.

In turn, the annual tax collection showed an increase of 3.9 points of GDP versus 4.3% in 2016 achieving the goal of 4.2% set at the beginning of the year. This improvement was the result of an evolution in the income for collection (+22.6%) higher than the one of expenditures (+21.8%). Within expenditures, the social security benefits (item that reflects the 45% of the expenditure) increased 38% over the average expense. This was compensated by an 8%-decrease in the transfers to the private sector, allowances to energy and gas, basically, that represented 16% of the expenditure. Remunerations, the third relevant item (15% of the expenditure), increased in line with inflation.

However, the financial deficit was higher than 6%, similar level to the one of 2016, due to the 70%-increase in the payment of the debt's interest, from ARS 131 thousand million in 2016 to ARS 224 thousand million.

On the other hand, the unemployment rate was 8.3% in the third trimester of the year (last information available when drafting this report).

In 2018 there would be external and internal challenges. From the world, a global financial context was more volatile in the markets and with higher interest rates. Even though no restriction was expected from the credit sector for Argentina, this is an aspect that may have a significant influence for the economic development. On the other hand, the perspectives of global growth are encouraging. A growth higher than the Brazilian growth was expected, causing a better development of the sectors that export to such country.

At a domestic level, the perspectives for 2018 are positive. A second year of growth and a decrease in inflation as to last year are expected. The estimated ranges of increase are from 2% to 3.5%.

### 3. Seguro de Depósitos S.A. (SEDESA)

Seguro de Depósitos S.A. (SEDESA) is a corporation (*Sociedad Anónima*) organized in 1995 with the purpose of acting as trustee of the Deposit Guarantee Fund (DGF).

The Executive Order 540/95 created the Deposit Guarantee Fund to guarantee bank deposits with the scope of action set forth in such order and its subsequent amendments.

According to the regulations in force, SEDESA's obligations as trustee of the DGF are:

1. To pay the guaranteed amount to depositors, where applicable.
2. To make capital contributions and non-reimbursable contributions or grant loans to financial institutions that:
  - are under a regularization and reorganization plan to support the compliance thereof;
  - have acquired assets and undertaken to pay the deposits of another institution that is subject to the system set forth in section 35 bis of the Argentine Financial Institutions Law (*Ley de Entidades Financieras*) where applicable to compensate insufficiency of such assets regarding the transferred deposits;
  - have taken over or acquired financial institutions under a regularization and reorganization plan.
3. To execute a put option agreement with financial institutions that acquire assets and undertake to pay the deposits of an institution subject to the provisions set forth in section 35 bis of the Argentine Financial Institutions Law for the benefit of the acquiring institution over all or part of the transferred assets. This arrangement may consist in the creation of a trust.
4. To acquire deposits from suspended banks up to the amount of the guarantee, subrogating to the rights of the depositors (including the reimbursement to the holders of the amounts deposited in wages and salaries crediting accounts).
5. To undertake obligations chargeable to the DGF within the limitations timely established.
6. To carry out, maintain or finance REPO programs with foreign banks for the stability of the Argentine financial system, with the prior consent of the Central Bank of Argentina and chargeable to the DGF.

## 4. Actions undertaken

### 4.1. Deposit Guarantee Fund (DGF)

Pursuant to section 1, Executive Order 540/95, the purpose of the Deposit Guarantee Fund (DGF) is to cover bank deposits within the scope set forth thereon. Notwithstanding the foregoing, the DGF may provide the financial assistance listed in section 10 bis of Executive Order 540/95 and its amendments.

To accomplish its purpose, the DGF obtained its recourses from the monthly contributions made in cash by the financial institutions under the terms, limits and conditions set forth in Executive Order 540/95 and its amendments and in accordance with the supplementary regulations issued by the BCRA.

The applicable Communication "A" 5943 issued by the BCRA provided that the institutions included in the Argentine Financial Institutions Law shall make common contributions to the Deposit Guarantee Fund (DGF) of 0.015% of the monthly average of the daily balances of the items listed in point 5.1, recorded in the second preceding month.

Moreover, pursuant to the provisions of the current limit of the deposits' guarantee amounted to ARS 450,000.

Regarding the administration of Deposit Guarantee Fund's investments made in 2017, it was positively affected by the removal of the fear on the evolution of the US economy under D. Trump's presidency and the recovery of the local economy after the 2016 recession.

The available balance as of December 31, 2017 amounted to ARS 56,160,937,293.

At the year-end the proportion of the securities invested in US Dollars was 61.32% of the portfolio of the DGF, while at the end of 2016 it had been of 54,69%.

On the other hand, as of December 31, 2017 the 38.65% of all of the DGF portfolio was invested in BILLS of the CENTRAL BANK (LEBAC), totalizing in 38.68% the investments made in Pesos.

Therefore, the result of the investments made during the fiscal year 2017 amounted to ARS 9,608,793,432, of which 45.37% (ARS 4,359,282,601) represented investments in Pesos and 54.63% (ARS 5,249,510,831) showed investments made in US Dollars.

## 4.2. International Representation

During 2017, SEDESA as full member of the International Association of Deposit Insurers (IADI) had maintained its active participation in the Association and several forums and activities organized by it.

Therefore, members of SEDESA participated in the “2<sup>nd</sup> Americas’ Deposit Insurance Forum” held in the city of San Pablo, Brazil and members of the regional committees of North America, Latin America and the Caribbean (RCNA, CRAL and CRC) of IADI and representatives of the Central Bank of Brazil, Toronto Centre and the International Monetary Fund had also participated therein.

Finally, it is worth mentioning that Dr. Alejandro López, SEDESA’s Chief Executive Officer, had been appointed as member of the Executive Council (EXCO) of IADI and continued holding the office of Chairman of the Latin-American Regional Committee (LARC).

## 4.3. Certification of the Quality Management System (QMS) and Regulatory Framework

The Board of Directors established as a goal for 2017 to continue consolidating the current processes developed in the framework of the QUALITY MANAGEMENT SYSTEM (QMS) under the ISO 9001:2015 standards.

Consequently, in December, IRAM conducted a follow-up audit of the certification of the QUALITY MANAGEMENT SYSTEM (QMS) under the ISO 9001:2015 standards which scope was the “Administration of the Available Balance of the Deposit Guarantee Fund” and the recertification audit, under the same standards, of the QUALITY MANAGEMENT SYSTEM (QMS) which scope was the “Realization and sale of real state to integrate the available balance of the Deposit Guarantee Fund”.

The audit finished successfully and the auditors recommended the General Committee of Certifications of IRAM to grant the recertification of the Quality Management System which scope was the “Realization and sale of real state to integrate the available balance of the Deposit Guarantee Fund” and the



maintenance of the certification of the “Administration of the Available Balance of the Deposit Guarantee Fund”.

During this fiscal year, SEDESA continued with the management reordering process going in depth with the activities and design, development, approval and implementation of the Company’s Regulatory Framework to increase its efficiency.

Therefore, there were updates of documents on policies, procedures and regulations of the Regulatory Framework of the Company. The documentation’s renewal and modernization included: the Organizational Structure Policy, the Quality Manual for the Process of Real Estate Sale, the Rules on Real Estate Sale, the Process of Real Estate Sale, the Purchases and Hiring Policy, the Purchases and Hiring Process, the Process of Payment to Suppliers and Tax Liquidation, the Current Opposing Parties Management Process, the Replacement Chart Regulation, and the Regulation of Operative Positions’ Profile.

#### **4.4. Asset Management**

Regarding the credit management and pursuant to the seniority of the portfolio at issue, during the current year, there was a priority in the recovery actions over credits with higher possibilities of being collected. Moreover, it was approved the setting as finished management of those trials lower than ARS 2000 with few possibilities of being collected. In relation to the Real Estate Management, there continued being actions for the encouragement and materialization of the recovery and transfer of certain residual assets for the benefit of SEDESA.

Moreover, there were tender processes to transfer the real property recovered by the DGF, according to the current regulations and policy included in the QUALITY MANAGEMENT SYSTEM (QMS) under the ISO 9001:2015 standards which scope is the “Realization and sale of real state to integrate the available balance of the Deposit Guarantee Fund”.

#### **4.5. Information Management**

In line with the continual improvement process, in 2016 SEDESA’s Board of Directors approved the acquisition of *SAP Business One*, a new business management system that would replace the current accounting system TANGO GESTION, considering not only the current needs of SEDESA but also the

potentiality of these tools that may be essential for the efficient management of future situations arising from a deposit insurer's activities.

The survey process for this situation had been developed during 2017 and the implementation thereof would begin on the first semester of 2018 with the idea of being applied as from the second semester of the fiscal year.

The new documents approved during the year were the Purchases and Hiring Process and the Process of Payment to Suppliers and Tax Liquidation.

Furthermore, the process of renewal and updating of the computing system infrastructure continued.

## 5. Financial Statements

### 5.1 Financial Statement of SEDESA

According to section 1, subsection 3 of Resolution N° 6/2006 of the Argentine Companies' Registration and Control Office (IGJ) and its amendments, it is hereinafter stated a summary of the financial position, income statements and the sources and application of SEDESA's funds:

<b>BALANCE SHEET</b>	<u>12/31/2017</u>	<u>12/31/2016</u>
	\$	\$
CURRENT ASSET	24,466,160	16,338,268
NON-CURRENT ASSET	41,866,039	41,517,936
TOTAL ASSETS	<u>66,332,199</u>	<u>57,856,204</u>
CURRENT LIABILITIES	19,029,463	11,010,770
TOTAL LIABILITIES	19,029,463	11,010,770
NET WORTH	<u>47,302,736</u>	<u>46,845,434</u>
TOTAL LIABILITIES PLUS NET WORTH	<u>66,332,199</u>	<u>57,856,204</u>
 <b>INCOME STATEMENT</b>		
ORDINARY OPERATING INCOME	(7,802)	(1,853,799)
FINANCING AND HOLDING INCOME	851,807	9,978,714
OTHER INCOME AND EXPENSES	-	-
ORDINARY NET INCOME	<u>844,005</u>	<u>8,124,915</u>
EXTRAORDINARY INCOME	-	-
SUBTOTAL	844,005	8,124,915
INCOME TAX	<u>(386,703)</u>	<u>(3,026,555)</u>
NET INCOME	<u>457,302</u>	<u>5,098,360</u>

<b>STATEMENT OF CASH FLOW</b>	<u>12/31/2017</u>	<u>12/31/2016</u>
	\$	\$
Funds arising from (applicable to) operating activities	6,840,687	(4,112,026)
Funds arising from (applicable to) investment activities	(1,373,328)	(41,342,441)
Funds arising from financing activities	848,915	9,986,059
Total funds generated (applied) during the fiscal year	<u>6,316,274</u>	<u>(35,468,408)</u>

Moreover, pursuant to Section 1, subsection 4 of the abovementioned resolution, the following indexes were evidenced:

	Year 2017	Year 2016
Current Liquidity (Current Assets/Current Liabilities)	1.3	1.5
Solvency (Net Worth/Total Liabilities)	2.5	4.3
Fixed Capital Stock (Total Assets/Non-Current Assets)	63.12%	71.76%
Profitability (Income For The Fiscal Year/Net Worth)	0.97%	10.88%

Regarding the analysis of the main items of the Financial Statements of SEDESA, there had been an increase in the assets, mainly in the current assets, due to an increase in the item "Cash and Banks" to support the current expenses of the Company and in "Other Receivables" caused by the registration of tax advances higher than the determined liabilities.

The increase in the non-current assets was mainly due to the activation of licenses and development costs of new software performed by third parties.

In relation to the current liabilities, the increase was caused by the growth in "Accounts Payable" due to the debt that SEDESA maintained with the DGF for the transfer of funds to bear the necessary expenses for the Company's operation.

The income of SEDESA in the year ended as of December 31, 2017, showed a decrease in relation to 2016, due to the financial results and holdings, as a consequence of receiving the income from sovereign bonds that were granted as payment for the acquisition of the premises located in San Martin 344, 12<sup>th</sup> floor and its parking lots.

Regarding the operative results, improvement as to the previous year derived from the profits obtained for the rent to the DGF of the premises located in San Martin 344, 12<sup>th</sup> floor and its parking lots.

Therefore, SEDESA's Net Worth as of December 31, 2017 amounted to ARS 47,302,736 and included the following items:

Capital	1,000,000
Capital Adjustment	1,197,266
Legal Reserve	439,454
Optional Reserve	44,208,714
Income for the fiscal year	<u>457,302</u>
Total	<u><u>47,302,736</u></u>

## 5.2 Financial Statements of the DGF

The following information on the Financial Statements was drafted in order to provide a framework for the understanding thereof in view of the local and foreign economic and financial situation.

The local and international context in 2017 remained going through paths of high uncertainty since the global economy and mainly the Argentine economy showed unexpected situations in the markets, increasing the volatility in certain moments with their consequent effects in the real economic activity.

Furthermore, the administration of the Deposit Guarantee Fund (DGF) remained being oriented to an improvement of its balance's structure, reducing the illiquid assets (mainly the credit portfolio) and performing financial operations that would reconcile positive yields with low risk profile, to comply with the original purpose of the DGF.

### 5.2.1 Assets

In 2017 the total assets of the DGF increased ARS 16,186 million as to the end of the previous fiscal year (an increase of 25%) evidenced by growths of ARS 16,182 millions in the current assets (a growth of 25%) and an increase of ARS 4 million in non-current assets (an increase of 2% in the year). It is worth mentioning that the growth mainly belonged to the yield generated by financial investments in Argentine Pesos and US Dollars.

The main increases registered in the current assets were under the item Investments, an increase of ARS 11,705 million (a growth of 27% on a year-to-year basis) and in the item Cash and Banks there was an increase of ARS 4,469 million (a growth of 22% on a year-to-year basis).

In Cash and Bank, most of the variations as to the prior year-end was concentrated in the item foreign currency affected by the REPO

transactions (ARS 3,462 million more), related to the operating procedures that the DGF usually conducts with the BCRA. It is important to mention that pursuant to the agreement of those transactions, the results generated therein and recorded in the Financial Statements of the Fund, belonged to the assets submitted by the DGF as underlying assets in the transactions. Moreover, the assets in kind involved therein shall be returned to their original holders, in this case the DGF, upon expiration.

In the item Investments it is relevant to mention the growth in the holding of national public securities in foreign currency, ARS 6,173 million in the year, as well as securities in foreign currency allotted to REPO transactions, that entailed an increase of ARS 3,488 million.

Furthermore, from the analysis of cash-generation of the DGF's operating activities, it was observed a decrease of ARS 1,612 million as to 2016, where the main variation was in the financial income that decreased in 1,027 million. Additionally there was an increase in the contributions of the institutions of ARS 576 million.

### **5.2.2 Liabilities**

In 2017 there was an increase of ARS 3,467 in the Liabilities of the DGF (17%-increase), basically evidenced by the REPO transactions for the Fund through securities in foreign currency.

### **5.2.3 Balance Sheet**

As of the December 31, 2017, the Net Worth of the DGF amounted to ARS 56,452 million, representing an increase of ARS 12,720 million. This increase in the Net Worth was composed of ARS 9,508 million (income generated by the DGF during the fiscal year) and ARS 3,211 million (contributions made by the financial institutions). It is worth mentioning that, for the sixth consecutive year, the increase in the Net Worth was mainly caused by the income generated by the Fund, over the contributions of the institutions.

In this sense, the Net Worth managed by the DGF increased 29%.

### **5.2.4 Income**

The national and international financial context allowed that the fiscal year's income amounted to ARS 9,508 million, with an increase of ARS 182 million as to the income of the previous year; showing an income 2% higher than the one of the previous year. This result was reached by the financial investments that generated profits of ARS 9,609 million, entailing an increase of ARS 212 million as to the former period (an increase of 2.3% on a year-to-year basis).

The continuity in the policy to improve the management of the DGF was showed in the income statement of 2017. During the year, this item positively contributed to the income the amount of ARS 10.5 million from collections and recovery of credits as well as income from the recovery of financial trusts.

On the other hand, administrative expenses amounted to ARS 117.5 million. The annual increase was mainly based in Remunerations, Social Security Contributions and Expenses incurred in Employees, Fees of Directors and Statutory Auditors as well as Professional Fees.

#### **5.2.5 Future Events**

On March 8, 2018 the Board of Directors of the BCRA through Resolution No. 84 stated the restructuring of Banco Finansur S.A. Therefore, the proposal made by Banco Galicia y Buenos Aires S.A. was accepted and the privileged assets and liabilities of Banco Finansur S.A. were transferred thereto. Furthermore, such offer considered a contribution of ARS 150 million by SEDESA.

Pursuant to what had occurred on March 9, 2018, the DGF's Executive Committee met and decided to authorize and request SEDESA, in its capacity as Trustee of the DGF, in accordance with section 10, subsection c) of Executive Order No. 540/95 and its amendments, to make the mentioned contribution for the acquisition of the Participation Certificate excluded according to Resolution No. 84, point 3, of the BCRA.

In view of the above, and pursuant to the applicable regulations, SEDESA had started the pertinent actions to comply with the provisions stated by the Executive Committee of the DGF.

ANNUAL REPORT

2017

**SEGURO DE DEPOSITOS SOCIEDAD ANONIMA**

**Financial statements for the fiscal years ended as of December 31, 2017 and 2016 together with the Independent Auditors' Report.**



**SEDESA**  
SEGURO DE DEPÓSITOS S.A.

ARGENTINA



## SEGURO DE DEPOSITOS SOCIEDAD ANONIMA

**BALANCE SHEET**  
as of December 31, 2017 and 2016  
(in Argentine Pesos)

<b>ASSETS</b>	<u>31/12/2017</u>	<u>31/12/2016</u>
<b>CURRENT ASSETS</b>		
Cash and banks	15,432,577	9,799,036
Investments	4,349,623	3,666,890
Other receivables	<u>4,683,960</u>	<u>2,872,342</u>
<b>Total current assets</b>	<b><u>24,466,160</u></b>	<b><u>16,338,268</u></b>
<b>NON-CURRENT ASSETS</b>		
Other receivables	218,089	147,318
Fixed assets	40,686,432	41,370,618
Intangible assets	<u>961,518</u>	<u>-</u>
<b>Total non-current assets</b>	<b><u>41,866,039</u></b>	<b><u>41,517,936</u></b>
<b>Total assets</b>	<b><u>66,332,199</u></b>	<b><u>57,856,204</u></b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	15,294,578	7,862,585
Taxes payable	1,436,892	1,318,358
Corporate debts	<u>2,297,993</u>	<u>1,829,827</u>
<b>Total current liabilities</b>	<b><u>19,029,463</u></b>	<b><u>11,010,770</u></b>
<b>Total liabilities</b>	<b><u>19,029,463</u></b>	<b><u>11,010,770</u></b>
<b>NET WORTH (according to related statements)</b>	<b><u>47,302,736</u></b>	<b><u>46,845,434</u></b>
<b>Total Liabilities and Net Worth</b>	<b><u>66,332,199</u></b>	<b><u>57,856,204</u></b>

## SEGURO DE DEPOSITOS SOCIEDAD ANONIMA

### INCOME STATEMENT for the fiscal years ended as of December 31, 2017 and 2016 (in Argentine Pesos)

	<u>31/12/2017</u>	<u>31/12/2016</u>
Income from leases	3,470,668	421,942
Income Annual Conference IADI 2016	-	383,721
Administrative expenses	(3,630,849)	(2,776,985)
Plus:		
Recovery of expenses	152,379	117,523
Financial and holding income from assets	<u>851,807</u>	<u>9,978,714</u>
Net profit	844,005	8,124,915
Charge from income tax	(386,703)	(3,026,555)
<b>Net Income for each Fiscal Year</b>	<b><u><u>457,302</u></u></b>	<b><u><u>5,098,360</u></u></b>

## **INDEPENDENT AUDITORS' REPORT**

To the Directors of  
**SEGURO DE DEPÓSITOS S.A.**  
Legal domicile: San Martín 344, 12<sup>th</sup> floor  
Autonomous City of Buenos Aires

### **I. Report on the Financial Statements**

#### **Introduction**

1. We have audited the attached financial statements of SEGURO DE DEPÓSITOS S.A. ("the Company") that includes: (a) the Balance Sheet as of December 31, 2017, (b) the Income Statement, the Statement of Changes in Net Worth and the Statement of Cash Flow for the fiscal year then ended, and (c) a summary of the significant accounting policies and other explanatory information.

#### **Duties of the Company's Board of Directors in relation to the Financial Statements**

2. The Board of Directors of Seguro de Depósitos S.A. is responsible for the reasonable drafting and filing of the attached financial statements pursuant to the information framework established by the Companies' Control and Registration Office (IGJ) that, as stated in note 1 of the attached financial statements, requires the application of the Argentine professional accounting regulations in force in the Autonomous City of Buenos Aires, provided it is not expressly established otherwise in the law, regulatory provisions or resolutions of such controlling body. Moreover, the Board of Directors is liable for the internal control that it deems necessary for the drafting of financial statements free of significant misrepresentations based on mistakes or irregularities.

#### **Duties of the Auditor**

3. We are liable for the rendering of a report on the attached financial statements based on our audit conducted. We have performed our work pursuant to the auditing regulations set forth in the Technical Resolution No. 37 of the Argentine Association of Professional Councils of Economic Sciences. Such regulations establish that the auditors must comply with ethical requirements and that we have to plan and perform our obligations with the purpose of obtaining a reasonable degree of certainty about the lack of significant misrepresentations in the financial statements.

An audit implies the application of procedures to obtain items of evidence that support the information and figures described in the financial statements. The selected procedures depend on the professional opinion of the auditor, who evaluates the possibility of relevant misrepresentations in the financial statements caused by mistakes or irregularities. To conduct this risk examination, the auditor considers the internal control of the Company regarding the relevant aspects for the reasonable drafting and submittal of the financial statements, in order to select the auditing procedures that are suitable according to the circumstances but not with the purpose of rendering an opinion on the effectiveness of the current internal control system of the Company. An audit further includes an evaluation of the suitability of the used accounting policies and of the reasonability of the accounting estimations made by the Company's Board of Directors, as well as an evaluation of the submittal of the financial statements as a whole.

We consider that the conducted examination is a sufficient and reasonable ground to support this auditor's report.

### **Opinion**

4. In our opinion, the financial statements attached hereto reasonably reflect, in all significant aspects, the financial position of SEGURO DE DEPÓSITOS S.A. as of December 31, 2017, as well as the Income Statements and Cash Flow for the fiscal year then ended in accordance with the accounting information framework stated above in paragraph 2.

### **II. Report on other Legal and Regulatory Requirements**

In compliance with the current provisions, we hereby state that:

- a) As of December 31, 2017, the accrued debt of social security contributions for the benefit of the Argentine Integrated Retirement System, as evidenced in the Company's accounting records, amounted to ARS 1,822,873 and was not due and payable as of such date.

- b) We have applied the procedures to prevent asset laundering and terrorism financing as set forth in the current professional regulations.

Autonomous City of Buenos Aires,  
March 20, 2018

PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.  
C.P.C.E.C.A.B.A. [Professional Board of Economic Sciences of the  
City of Buenos Aires] Volume 1 – Folio 13

NORBERTO M. NACUZZI  
Partner  
Public Accountant U.B.A.  
C.P.C.E.C.A.B.A. Volume 196 – Folio 142

## **DEPOSIT GUARANTEE FUND**

Trust arising from the Trust Agreement entered into on March 7, 1997, between the Central Bank of Argentina (BCRA), as trustor, and Seguro de Depósitos S.A., as trustee.

**Trust financial statements for the fiscal years ended as of December 31, 2017 and 2016 together with the Independent Auditors' Report**



**SEDESA**  
SEGURO DE DEPÓSITOS S.A.

# DEPOSIT GUARANTEE FUND

## TRUST BALANCE SHEET as of 31 December, 2017 and 2016 (in Argentine pesos)

	<u>31/12/2017</u>	<u>31/12/2016</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Banks	24,708,188,002	20,239,145,054
Investments	55,114,115,544	43,409,547,872
Receivables	4,877,960	3,958,573
Other Receivables	15,441,494	7,953,152
Other Assets	1,160,301	1,312,357
<b>Total Current Assets</b>	<u>79,843,783,301</u>	<u>63,661,917,008</u>
<b>NON-CURRENT ASSETS</b>		
Investments	164,431,313	160,631,313
Receivables	113,313,530	113,232,654
Other Receivables	-	206,060
Other Assets	3,040,656	2,150,649
<b>Total Non-Current Assets</b>	<u>280,785,499</u>	<u>276,220,676</u>
<b>Total Assets</b>	80,124,568,800	63,938,137,684
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	15,916,060	11,666,771
Liabilities from REPOs	23,654,914,232	20,192,857,475
Other Liabilities	2,107,671	1,722,634
<b>Total Current Liabilities</b>	<u>23,672,937,963</u>	<u>20,206,246,880</u>
<b>Total Liabilities</b>	<u>23,672,937,963</u>	<u>20,206,246,880</u>
<b>NET WORTH (according to related statement)</b>	<u>56,451,630,837</u>	<u>43,731,890,804</u>
<b>TOTAL LIABILITIES AND NET WORTH</b>	<u>80,124,568,800</u>	<u>63,938,137,684</u>

# DEPOSIT GUARANTEE FUND

## TRUST INCOME STATEMENT

for the fiscal years ended as of December 31, 2017 and 2016  
(in Argentine Pesos)

	<u>31/12/2017</u>	<u>31/12/2016</u>
<b>INCOME FROM FINANCIAL INVESTMENT</b>		
Financial income from placements	4,660,847,918	5,708,278,327
Exchange rate difference	<u>4,948,045,537</u>	<u>3,688,784,697</u>
Subtotal Income from Financial Investments	9,608,893,455	9,397,063,024
Less:		
Interests from REPOs	(2,134,379)	(1,437,974)
Commission from Management and Investments Custody	<u>(133,776)</u>	<u>(85,803)</u>
Total Income from Financial Statements	<u>9,606,625,300</u>	<u>9,395,539,247</u>
<b>INCOME FROM ASSISTANCE TO FINANCIAL INSTITUTIONS</b>		
Interests from granted loans	3,984,768	3,841,600
Dividends	950,000	950,000
Income from sale of preferred stock	<u>3,800,000</u>	<u>3,810,411</u>
Total income from assistance to financial institutions	<u>8,734,768</u>	<u>8,602,011</u>
<b>INCOME FROM ASSET MANAGEMENT</b>		
Income from collection-recovery of assigned receivables, net of related expenses	3,437,951	11,147,926
Increase of provisions on loan portfolio, assets under financial leasing and other receivables	(442,239)	(1,426,807)
Income from recoveries of financial trusts and portfolio acquisition, net of related expenses	5,605,497	6,209,573
Receivables exchange rate difference and other receivables	154,394	128,934
Net Income from fixed assets	734,187	1,341,592
Net Income from other assets	<u>961,611</u>	<u>269,331</u>
Total Income from asset management	<u>10,451,401</u>	<u>17,670,549</u>
<b>ADMINISTRATIVE EXPENSES</b>	(117,524,816)	(95,729,089)
<b>OTHER INCOME</b>	-	2,781
Profits for the fiscal year	<u><u>9,508,286,653</u></u>	<u><u>9,326,085,499</u></u>



# **INDEPENDENT AUDITORS' REPORT**

To the Directors of  
**SEGURO DE DEPÓSITOS S.A.**  
**TRUSTEE OF THE DEPOSIT GUARANTEE FUND**  
Legal domicile: San Martín 344, 12<sup>th</sup> floor  
Autonomous City of Buenos Aires

## **I. Report on the Trust Financial Statements**

### **Introduction**

1. We have audited the attached trust financial statements of the DEPOSIT GUARANTEE FUND ("the Fund") that includes: (a) the Trust Balance Sheet as of December 31, 2017, (b) the Trust Income Statement, the Statement of Changes in Net Worth and the Statement of Cash Flow for the fiscal year then ended, and (c) a summary of the significant accounting policies and other explanatory information.

### **Duties of the Board Directors of the Trustee of the Fund in relation to the Trust Financial Statements**

2. The Board of Directors of Seguro de Depósitos S.A., in its capacity as Trustee of the Fund, is responsible for the reasonable drafting and filing of the attached trust financial statements pursuant to the Argentine professional accounting regulations in force in the Autonomous City of Buenos Aires. It is further liable for the internal control that it deems necessary for the drafting of financial statements free of significant misrepresentations based on mistakes or irregularities.

### **Duties of the Auditor**

3. We are liable for the rendering of a report on the attached trust financial statements based on our audit conducted. We have performed our work pursuant to the auditing regulations set forth in the Technical Resolution No. 37 of the Argentine Association of Professional Councils of Economic Sciences. Such regulations establish that the auditors must comply with ethical requirements and that we have to plan and perform our obligations with the purpose of obtaining a reasonable degree of certainty about the lack of significant misrepresentations in the financial statements.

An audit implies the application of procedures to obtain items of evidence that support the information and figures described in the financial statements. The selected procedures

depend on the professional opinion of the auditor, who evaluates the possibility of relevant misrepresentations in the financial statements caused by mistakes or irregularities. To conduct this risk examination, the auditor considers the internal control of the Trust Company regarding the relevant aspects for the reasonable drafting and submittal of the Fund's Financial Statements, in order to select the auditing procedures that are suitable according to the circumstances but not with the purpose of rendering an opinion on the effectiveness of the current internal control system of the Trust Company. An audit further includes an evaluation of the suitability of the used accounting policies and of the reasonability of the accounting estimations made by the Company's Board of Directors, as well as an evaluation of the submittal of the financial statements as a whole.

We consider that the conducted examination is a sufficient and reasonable ground to support this auditor's report.

## **Opinion**

4. In our opinion, the trust financial statements attached hereto reasonably reflect, in all significant aspects, the financial position of the DEPOSIT GUARANTEE FUND as of December 31, 2017, as well as the Income Statement and Cash Flow for the fiscal year then ended in accordance with the Argentine professional accounting regulations in force in the Autonomous City of Buenos Aires.

## **II. Report on other Legal and Regulatory Requirements**

In compliance with the current provisions, we hereby state that:

- a) The trust financial statements mentioned on paragraph 1 are kept on the Inventory and Balance Sheet book and are based on the accounting records kept in all formal aspects pursuant to the current legal regulations.
- b) As of December 31, 2017, there was no accrued debt as social security contributions for the benefit of the Argentine Integrated Retirement System, as evidenced on the accounting records of the Fund.
- c) We have applied the procedures to prevent asset laundering and terrorism financing as set forth in the current professional regulations.

Autonomous City of Buenos Aires,  
March 20, 2018

PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.  
C.P.C.E.C.A.B.A. [Professional Board of Economic Sciences of the  
City of Buenos Aires] Volume 1 – Folio 13

NORBERTO M. NACUZZI  
Partner  
Public Accountant U.B.A.  
C.P.C.E.C.A.B.A. Volume 196 – Folio 142