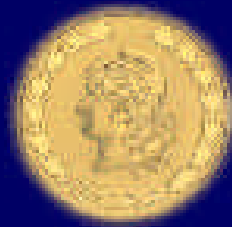


April 2006



Banco Central de la República Argentina

Prudential Regulations 2006

This text describes the main features of the legal and regulatory framework of the Argentine financial system. Some items have been simplified in order to facilitate understanding and interpretation. It should not be used as a substitute for the regulations issued by Banco Central de la República Argentina.

This paper includes relevant regulations up to Com. "A" 4529 (April 26, 2006)

I. Prudential Regulation and Supervision

MINIMUM CAPITAL REQUIREMENTS (BCRA WEB SITE – REGULATIONS – COMPILED TEXTS – FINANCIAL ENTITIES MINIMUM CAPITAL REQUIREMENTS)

Minimum capital requirements are defined as a function of the risk of a financial entity's assets. Three types of risks are considered: counterparty risk, interest rate risk and market risk. However, there is a minimum level of capital requirement established by the BCRA that financial entities have to comply with.

The minimum level of capital requirement financial entities have to comply with, is the minimum between the core capital (see II. Licensing of new financial entities) and the sum of the requirements for counterparty risk and for interest rate risk. In addition, financial entities must comply with a market risk requirement that is calculated daily.

A. Counterparty Risk

The capital requirement for credit risk will be defined as:

$$C_{er} = k * [a * A_{is} + c * (C_i + F_{spn}) + r * (V_{rf} + V_{rani})] + INC$$

a) The required capital to assets at risk ratio is 10% ("a") for fixed assets (A_{is}) and 8% ("r") for loans (V_{rf}), other claims from financial intermediation and other financing (V_{rani}). The same ratio ("c") is applied to claims on the public sector -securities held in investment accounts (C_i) and loans (F_{spn}). The "INC" variable refers to incremental minimum capital requirements originated in excesses in other regulations (fixed assets, credit risk diversification and rating, limits on the operations with related clients).

b) Each type of asset is weighted according to the level of risk assumed to be associated with it. Broadly speaking, the weights assigned to the different types of assets are:

Cash and cash equivalents		0%
Government Bonds		
	With market risk capital requirements	0%
	Other domestic bonds (without Central Government collateral)	100%
	OECD Central Government bonds - rated AA or investment grade	20%
Loans		
	To the non-financial private sector	
	With preferred collateral under the form of:	
	Cash, term deposit certificates issued by the creditor entity and given as security	0%
	A guarantee by Reciprocal Guarantee Companies authorized by the BCRA (*), export credit insurance, documentary credits	50%
	Mortgages/Pledges	50-100% (**)
	To the non-financial public sector	100%
	To the financial sector	
	Public financial entities with the collection of federal taxes as a collateral	50%
	To foreign financial entities or to financial entities backed by them (rated AA or investment grade)	0-20%
	Other credits from financial intermediation	0-100%
	Guarantees and contingent liabilities	0-100%

(*) Law 24467: associations of companies authorized by the BCRA to guarantee a loan. In case one of the companies fails to pay, the other ones will take responsibility.

(**) Both kind of loans carry different weights according to the loan amount / guaranteed asset value ratio involved.

c) Minimum capital requirements also depend on the CAMELS rating (1 strongest, 5 weakest) assigned by the Superintendence (SEFyC) , and which determines the k value. This rating abides by the international criteria and provides a broad concept of the performance, risks and perspectives of financial entities. Financial entities have to adjust their capital requirement according to the following “k” factors:

CAMELS Rating	K Factor
1	0,97
2	1,00
3	1,05
4	1,10
5	1,15

Ratings were temporarily suspended till June 2004. Up to such date, the k factor was equaled to 1 for all financial entities. As of June 2004, the complete range of values will be applied to those ratings assigned after June 2003.

d) Those loans granted by a domestic branch or subsidiary of a foreign financial entity, on behalf of, and on orders from the head office, are not subject to minimum capital requirements provided (i) the relevant foreign financial entity is rated 'A' or higher, (ii) it is subject to supervisory rules at a consolidated level and (iii) the loans are explicitly endorsed by the head office.

B. Interest Rate Risk

a) Financial entities must comply with minimum capital requirements regarding interest rate risk. These requirements are additional to counterpart and market risk.

b) These minimum capital requirements capture the risk arising from the different sensitivity of assets and liabilities when interest rate changes occur (“duration” approach).

c) Regulation covers all the assets and liabilities not subject to minimum capital requirements covering market risk (including securities entered in investment accounts).

d) Minimum capital requirements measure the value at risk (VaR) or maximum potential loss in the net economic value of the portfolio of assets and liabilities due to interest rate risk increases, considering a 3-month horizon and with a confidence level of 99%. It is defined as:

$$VaR_R = \left\{ \text{Max} \left[(VAN_{rp}^p - VAN_{rp'}^p) * \sigma^p + (VAN_{rme}^{me} - VAN_{rme}^{me}) * \sigma^{me}; 0 \right] * 100 + |VAN_{rp}^{aj}| * \sigma^{aj} \right\} * \frac{C}{(VAN_{rp}^p + VAN_{rme}^{me}) + \sum (\bar{A} - \bar{P})}$$

where VAN represents the present value of assets net of liabilities, the supraindices indicate whether the asset or liability is in domestic currency (p), foreign currency (me) or adjusted by consumer price index “CER” (aj), and the subindices stand for the discounting interest rate, r or r’ (= r+100 b.p.); σ is a parameter that measures the biggest change in term deposit interest rates in a 3-month horizon at the stated confidence level. The last multiplicative factor in the equation is the quotient between net worth and an approximation to its economic value. The function Max(.,0) is used because only risk arising from increases in interest rates command a capital requirement. The last term between keys (referring to assets net of liabilities adjusted by CER) was included as from May 2003 to capture the real interest rate risk, that is the risk arising from the mismatch produced as a consequence of an imperfect correlation between inflation rate movements and financing interest rate variations.

The value of σ is 0.10 for peso operations, 0.03 for foreign currency operations and 0.03 for index-adjusted operations.

When computing the requirements, the cash flows of the financial entity’s transactions are assigned to different time bands taking into account their maturity. Financial entities with 1-3 CAMELS ratings may treat 50% of sight deposits as long term maturities (in the case of financial entities with a 3 rating, the assigned maturity cannot exceed 3 years). CAMELS ratings were temporarily suspended till May 2004 (as regards the enforcement of special criteria for the attribution of fund flows).

Contracts with variable interest rates based on a foreign indicator are treated as if they had fixed interest rates. The risk arising from liability contracts with variable rates based on a domestic indicator are considered up to

the first rate adjustment date. Forty percent of these assets (except National Government financing) are treated as if they had fixed interest rate due to the fact that large shocks of the funding cost are not totally transferred to the clients, and therefore part of the interest rate risk remains.

C. Market Risk

- a) Minimum capital requirements for market risks are added to previously measured requirements.
- b) Minimum capital requirements are computed as a function of the market risk of financial entities' portfolios, measured as their value at risk (VaR). The regulation covers only those assets traded usually in open markets and excludes those assets in investment accounts (the latter must meet counterpart and interest rate risk minimum capital requirements).
- c) Five categories of assets are defined. Domestic assets are divided into equity and public bonds, the latter being classified into two areas according to whether their modified duration is less than or more than 2.5. Foreign equity and foreign bonds make up another two other categories, the latter also comprises two areas, defined as for domestic assets. The fifth category is that of foreign exchange positions, differentiated according to currency involved.
- d) Overall capital requirement in relation to market risk is, then, the sum of the five amounts of capital necessary to cover the risks arising from each category.

$$\text{VaR}_P = \text{VaR}_{AN-B} + \text{VaR}_{AN-A} + \text{VaR}_{AE-B} + \text{VaR}_{AE-A} + \text{VaR}_{ME}$$

- VaR_P : value at risk, total portfolio
 VaR_{AN-B} : value at risk, domestic assets portfolio - bonds
 VaR_{AN-A} : value at risk, domestic assets portfolio - shares
 VaR_{AE-B} : value at risk, foreign assets portfolio - bonds
 VaR_{AE-A} : value at risk, foreign assets portfolio - shares
 VaR_{ME} : value at risk, foreign exchange positions

The regulation allows for the offsetting of positions of opposite sign in the same instrument (holdings, purchases and sales pending settlement, fixed term operations, loans, deposits and options -their notional value weighted by their 'delta'-). Given the net position in an asset 'i', its inherent risk is assessed by calculating the Value at Risk (VaR) as follows:

$$\text{VaR}_i = V_i * k * \sigma_i * T^{1/2}$$

where V is the value of the net position, k is a constant depending on the level of confidence, σ is the daily volatility and T is the number of days in the holding period. The confidence level adopted is 99%, therefore k is set at 2.32, and a minimum 5-day holding (T) period is established.

The value at risk of a portfolio within a category of assets is calculated as:

$$\text{VaR}_{\text{category}} = \text{abs}(\text{VaR}_C - \text{VaR}_V) + \alpha * \min(\text{VaR}_C; \text{VaR}_V) + \text{VaR}_0$$

where VaR_C y VaR_V are respectively the total value at risk of the long and short positions in the different instruments. The first term of the expression considers the netting out of positions with opposite signs (taking into account that correlations are usually high within a category of assets). The second term is a 'disallowance' or additional charge in recognition that the full offsetting of positions is not feasible due to the fact that correlations, although high, are not perfect. The coefficient α was set at 1.

The above formula applies to public bonds belonging to the same modified duration area; no offsetting being permitted between areas.

The procedure adopted for equities is similar to that of bonds. Full offsetting of long and short positions in the same asset is allowed, while partial offsetting (i.e., subject to a disallowance charge) is applied to positions with opposite signs, in different stocks.

The treatment of options that has been adopted is in line with the so called 'delta plus' method proposed by the Basle Committee. The first step in calculating the risk stemming from options positions is to compute the notional values of the options, weighed by their 'delta' (the 'delta' of an option is the amount by which the value

of the option changes given a one unit change in the price of the underlying asset). An option position is thus converted into a position in the underlying asset, and then incorporated into the calculation of the net positions in each of the assets. Additionally, the net 'gamma' and 'vega' risks should be added and an incremental capital charge be levied. Gamma risks originate in the non-linear relationship between the value of an option and the change in the price of the underlying asset, while vega risk is a measure of the sensitivity of the value of an option to changes in the volatility of the price of the underlying asset. No offsetting is allowed between these additional option charges for different assets.

- e) Market risk minimum capital requirements must be met daily. Information must be reported to the BCRA on a monthly basis.
- f) As from May 2003, the US dollar has been included as a risk factor for the calculation of market risk requirement, considering all assets and liabilities in that currency.
- g) Past due bonds which at present do not quote regularly are not subject to this requirement. The BCRA does not publish the corresponding volatility and therefore, they must be treated as assets without quotation.

D. Temporary Regulations

Minimum capital requirements have been temporarily reduced (via “Alpha coefficients”) for non-financial public sector financing granted before May 31, 2003. Minimum capital requirements for interest rate risk have also been temporarily diminished. The reduction coefficients to be applied converge to the unit according to an established schedule. These allowances have been introduced in order to reduce the impact on minimum capital requirements of those components that: (i) showed the biggest growth as a consequence of the 2002 crisis and (ii) are not present in international standards.

Period	Alpha ₁ (applied to public sector financing)	Alpha ₂ (applied to interest rate risk)
January/December 2004	0.05	0.20
January/December 2005	0.15	0.40
January/December 2006	0.30	0.70
January/December 2007	0.50	1.00
January/December 2008	0.75	-
As from January 2009	1.00	-

E. Regulatory Capital (RC)¹

- a) Computable capital to comply with minimum capital requirements is divided into core and supplementary. The core capital includes permanent capital, non-equity contributions, net worth adjustments, surplus reserves and retained earnings. The supplementary capital, which may not exceed the core capital, consists of retained earnings without audit opinion (those corresponding to the last fiscal year can be included only when they have been audited), 50% of the provisions on the loan portfolio classified as ‘normal’ (= general provisions) and subordinated debt with a maturity of at least 5 years. Subordinated debt may not exceed 50% of the core capital.
- b) The following items must be deducted from the calculated capital defined above: (i) demand deposits with foreign financial entities abroad which are not rated as investment grade, (ii) securities that are not deposited with custodians authorized by BCRA, (iii) sovereign bonds issued by a foreign government with a rating lower than that assigned to Argentine sovereign bonds, (iv) share holdings in other financial entities, (v) unregistered real estate, (vi) goodwill, (vii) expenses in research and development, (viii) provisioning deficiency as determined by the Superintendence.
- c) Requirements must be complied with both on an individual and a consolidated basis.
- d) To comply with market risk minimum capital requirements, RC includes the daily change in the value of

¹ Locally referred to as “Responsabilidad Patrimonial Computable (RPC)”

assets included in the regulation as a consequence of changes in their market prices.

CREDIT RISK DIVERSIFICATION AND RATING (CREDIT RISK) (COMPILED TEXTS - CREDIT RATING)

Regulations attempt to limit economic risk safeguarding a minimum level of diversification by considering both the capital of the credit borrower and the net worth of the financial entity.

A) Borrower's capital requirements:

As a general rule, financing cannot exceed 100% of the clients' capital.

This limit may be raised up to 300% with the approval of the entity's board or equivalent authority and if the additional credit does not exceed 2.5% of the RC of the bank.

For forward transactions, different percentages are considered, depending on the margins and guarantees of the transaction.

Until June 2006 new loans can be granted by entities (up to a global limit of 15% of the entity's RC) exceeding the current 300% limit of the client's capital. The additional credit granted under these conditions, to each client, cannot exceed 2.5% of the entity's RC.

B) Entities' RC regulations:

- Limits on loans

Limits are determined as follows (as a percentage of the financial entity's capital):

LOANS	WITHOUT COLLATERAL	WITH COLLATERAL
Non-related Clients	15%	25%
Domestic Financial Entities (*)	25%	25%
Foreign Financial Entities (Investment grade)	25%	25%
Foreign Financial Entities (Others)	5%	5%
Reciprocal Guarantee Companies authorized by BCRA (**)		25%
Public sector (***):		
i) National	50%	50%
ii) City of Buenos Aires and Provinces (each)	10%	10%
iii) Municipalities (each)	3%	3%
Total credit to the public sector cannot exceed 75% of the financial entity's RC. As from January 2006 credits to the public sector may not exceed 40% of total assets of an entity for the next previous month.		

(*) In the case of second-tier financial entities, credit cannot exceed 100%.

(**) Law 24467: associations of companies authorized by the BCRA to guarantee a loan. In case one of the companies fails to pay, the others will take responsibility.

(***) The excesses over the new limits will not be computed as such if they arise from loans granted before March 31st, 2003 or if they were directly received as a result of the compensation for 2002 asymmetrical pesoization (pursuant to sections 28 and 29 of Decree 905/02) or if they are new transactions with the public sector involving funds from amortizations or payment of capital debt. Same treatment is given to the bonds issued under Decree 1735/04 conditions – which instituted the defaulted debt exchange proposal – that are received in the process of restructuring of the Argentine debt, in exchange for bonds held by the banks as of March 31st, 2003. For entities exceeding these limits (for the preexistent operations), a margin for purchase and sale or intermediation transactions, subject to the condition that do not exceed 15% of the RC, is admitted.

Amounts coming from public sector liabilities amortization that are applied to National Government bonds primary suscription within a time range of 180 days previous and after that amortization, will receive the same treatment, and therefore will not be considered a breach to technical ratios.

In order to apply the limits to national public bonds, these will be considered in terms of net position. New transactions with these bonds may be done, whenever they do not exceed the specific limits on credits and do not increase the admitted excesses, when computing the daily net position.

For forward transactions, different percentages are considered, depending on the margins and guarantees of the transaction.

- Limits on the holding of shares in other commercial companies

HOLDINGS IN COMMERCIAL COMPANIES	LIMIT ON ENTITY'S RC	LIMIT ON COMPANY'S NET WORTH
Non-supplementary companies	(*)	12.5% (***)
Supplementary companies	(*)	100%
Total shares and stocks	50%	
Unlisted (**)	15%	

(*) See previous table.

(**) Includes shares that do not quote frequently and hence are not subject to market risk minimum capital requirements.

Financial entities are only allowed to own companies which have a supplementary activity to the financial intermediation, for example: mutual funds, pension funds, stock brokers, ATM business revenue, issuance of credit/debit cards, closed savings and loan associations, leasing, public utilities collection, payment of salaries, etc. The BCRA can give further general authorizations to allow entities to own other commercial, industrial, agricultural, or other type of businesses provided that such authorizations are of a general nature and do not impair their solvency.

Regulations include the concept of **risk concentration**, defined as the sum of loans that individually exceed 10% of the financial entity's RC; risk concentration may not exceed:

- three times the RC of the financial entity (without considering the loans to domestic financial entities).
- five times the RC of the financial entity (considering the loans to domestic financial entities).
- ten times the RC of a "second tier financial entity" (considering the loans to other domestic financial entities).

Those loans (except for inter-bank operations) that exceed 2.5% of the financial entity's RC must be approved by the entity's Board or similar authority.

Until June 30, 2006, Compensation Bonds or Notes received by the entities (sections 28 and 29 Decree 905/02) may be excluded from the ratio.

Loans granted by a domestic branch or subsidiary of a foreign financial entity, on account of the head office, are not subject to the rules of credit risk diversification and rating provided (i) the relevant foreign financial entity is rated 'A' or higher, (ii) it is subject to supervisory rules at a consolidated level and (iii) the loans are explicitly endorsed by the head office.

DEBTOR CLASSIFICATION, PROVISIONING AND COLLATERAL GUARANTEES

A) Debtor classification

Classification rules aim at establishing clear-cut standards to identify and classify loan quality and assess potential or actual risk of capital loss and/or interest payment loss, in order to evaluate the adequacy of provisions when such contingencies may occur.

- 1) The loan portfolio is broken down as follows: i) commercial loans: their classification is based on the clients' payoff capacity and projected cash flows, and ii) housing and consumption loans: evaluated according to the fulfillment of payments. Some of the different indicators for commercial loans are: liquidity, structure of financing, funds repayment, governance and management standards, technological information systems, client's economic activity outlook, relative situation within the respective sector of activity, legal status of the firm (bankruptcy), refinancing of the loan, discounts applied, etc.
- 2) Each debtor and his/her financing are included in one of six categories according to its credit quality, as explained in the provisioning table below.
- 3) Commercial loans of up to \$500,000 may be considered as consumption loans at the entity's discretion.
- 4) Repayment capacity will not be assessed with respect to the debtor's incomes, if "credit scoring" is used for

loan origination. This, on condition that the capital of the loan does not exceed \$15.000 and total loans under these conditions do not exceed a global limit (15% RC or \$30 millions, whichever is higher).

- 5) In the case of debtors with loans fully collateralized by 'preferred A collateral', the repayment capacity may not be evaluated.
- 6) Financial entities must develop a Classification and Provisioning Manual describing the procedures for the analysis of loan portfolios. These procedures must ensure: i) an appropriate analysis of the financial and economic situation of the debtor, and ii) regular reviews of his/her situation.
- 7) The classification of debtors whose debts exceed 2.5% of a financial entity's capital or of related clients must be approved by such financial entity's highest authority.
- 8) For the classification of debtors undergoing refinancing processes the following items have to be considered:
 - a) Payment agreements with a group of creditors (court or court accepted out of court agreements or private agreements with creditor financial entities) or with a financial entity. In the latter case, a positive opinion on the possibilities of recovery must be provided by:
 - i. the external auditor and a rating agency, when the debt exceeds \$1.000.000;
 - ii. the external auditor, if the debt does not exceed \$1.000.000.
 - b) The percentage of the debt already paid. To be classified as 'requiring special follow-up – under observation', the debtor must have paid, at least, 20% of the debt.

Temporarily, debtors that during the period June 30, 2002 - June 30, 2006, may have entered into payment agreements with a group of creditors resulting from a court or court accepted out of court agreement or private arrangements mutually decided with creditor financial entities or private arrangements reached with a financial entity, may be classified as category 1 "normal", (provided this rating is approved by the financial entity's board or administrative council). In order to re-categorize the debtor as 'normal', the debtor has to be able to fulfill the agreement with future cash flows thereof. The company's outlook, economic activity and business line to which it belongs as well as any further conditions established for such category, should also be considered. In subsequent evaluations, the debtor will be rated in accordance with effective general rules of classification.

Information about re-categorized debtors, whose debts are larger than \$5.000.000, should be provided to the Superintendence stating the parameters considered for the classification (cash flow forecasting, company outlook, etc.).

Provisions for irrecoverable risk may be reversed by financial entities as regards financing granted to debtors re-categorized as "normal", considering for such a re-categorization the category the debtor would have been assigned if the required percentages of principal payment under the general regulation had been observed.

- 9) A limit on financing was set for new clients (with no previous lending from the financial entity) with a bad rating in the financial system. In these cases, the new lender will classify the debtor considering only his/her projected fund flows. The total amount that can be lent under these circumstances depends on the debtor's total amount of debt in the financial system and the worst rating assigned to him by other financial entities, as it is shown on the "*Credit Information Data Base*" (credit bureau of the BCRA).
- 10) Minimum frequency for classification review:

As a rule, classification is performed at least once a year. Nevertheless:

- A quarterly frequency is required for credits that amount to 5% or more of the financial entity's RC and a half a year frequency for credits that amount to \$1.000.000 or range between 1% and 5% of the financial entity's RC, whichever is lower.
 - In addition to the minimum frequency of classification, a financial entity has to review the rating assigned to a debtor when another financial institution reduces the debtor classification in the '*Credit Information Data Base*' and grants 10% or more of the debtor's total financing in the financial system. The review has also to be done if the classification criteria are modified, or if there is a discrepancy of more than one degree between the classification by the financial entity and by at least two other entities, if these are worse, and their lending accounts for 40% of the debtor's financing in the financial system.
- 11) A financial entity must downgrade a debtor whenever the discrepancy between its classification and lower classifications in the '*Credit Information Data Base*' (granted by at least two other entities and accounting

for 40% of total debtor's debt in the financial system, is wider than one degree.

B) Provisioning

- 1) Provisioning must be done when loans are granted and must be adjusted regularly. Public sector loans are excluded.
- 2) Minimum provisioning levels:

DEBTOR CATEGORY	WITH COLLATERAL	WITHOUT COLLATERAL
1. Normal (*)	1%	1%
2. a) under observation / inadequate compliance	3%	5%
b) under negotiation or with refinancing agreements	6%	12%
3. Substandard	12%	25%
4. Doubtful	25%	50%
5. Loss	50%	100%
6. Loss by Technical Decision (**)	100%	100%

(*) Includes loans with preferred "A" collateral.

(**) In June 1996 a new type of debtor was defined: "Loss by technical decision". It includes loans to substandard debtors (180-day past due) of liquidated or revoked financial entities or of residual financial entities after privatizations, or of trusts where SEDESA (deposit insurance company) is the beneficiary.

- 3) The Superintendence may require additional provisioning if it determines that the current level is inadequate.
- 4) When a loan with preferred collateral is classified as 'doubtful' or 'loss' for 24 months, it must be treated as without collateral and the provisions must be adjusted to the new classification (Mortgages may be inferior to 100% provided that, among other requirements, a lawyer's report has been filed). This period is extended by 18 months, when there are legal impediments for the collateral's foreclosure.
- 5) Full provisioning must be assigned for interest accrued on 'Substandard', 'Doubtful' or 'Loss' loans. Financial entities can choose to interrupt the interest accrual on these credits. Interests on debts classified as "under negotiation or with refinancing agreements" receive the same treatment when non-performances of more than 90 days are registered.
- 6) Loans classified as 'loss' and with full provisioning must be written off and transferred to off-balance sheet accounts after seven months.
- 7) Those loans granted by a domestic branch or subsidiary of a foreign financial entity, on behalf of, and on orders from, the head office, are not subject to the rules of debtor classification and minimum credit provisions provided that (i) the relevant foreign financial entity is rated 'A' or higher, (ii) it is subject to supervisory rules at a consolidated level, (iii) the loans are explicitly endorsed by the head office and (iv) funds are provided from an external source.
- 8) Financing fully covered by a "preferred A collateral" is subject to the provision rules established for normal debtors.
- 9) New financing, not exceeding the percentages shown in the following table, may carry the same provision as normal (1%).

Debtor category:	Additional Assistance
5	10%
4	20%
3	30%
2	40%

C) Collateral Guarantee

Types of collateral:

- i) **Preferred “A”:** bonds or papers which are assigned or pledged in such a way that a financial entity may be assured of the full repayment of the financing due to the existence of a solvent third party or secondary markets available for the sale of the bonds. The residual time to maturity of the credit transaction must be less than 6 months, unless operations are backed by either cash collaterals, term deposits with the same financial entity, the assignment of tolls collection as collateral, or by guarantees and letters of credit issued by an “AA” rated foreign financial entity, in which cases the residual time to maturity is one year.

It includes guarantees in cash, gold, CD’s, automatic export reimbursements, domestic government bonds (at market price), pledge of national or foreign private bonds, guarantees and letters of credit issued by an “A” rated foreign financial bank, the assignment of the collection of public utilities rates and public work concession rates, warrants, direct guarantees issued by OECD governments enjoying an “A” rating for the collateral guarantee, guarantees granted by reciprocal guarantee companies, export credit insurance (transactions without liability for the assignor) in so far as the eventual loss is collected within 180 days running after maturity and the assignment of rescheduled deposits (CEDROS) of the entity itself.

Negotiable instruments with liability for the assignor will be considered as preferred “A” collateral, when:

- (1) the obligor is a ‘significant’ debtor, that is:
 - (a) the obligor has a debt of at least \$2 million pesos reported by two financial entities or more (with a debt of no less than \$1 million in each financial entity) to the “*Credit Information Data Base*”, or has outstanding bonds for at least \$6 million.
 - (b) the global limit for all the assignors with respect to one obligor is 5% of the capital of the financial entity or 10% of the total debt of the obligor in the financial system.
- (2) the portfolio of documents is well diversified. In this case, the conditions are:
 - (a) global limit of this type of credits: 100% of the financial entity’s capital;
 - (b) individual limit for each debtor: 5% of this type of credits;
 - (c) 85% of these credits must be rated as ‘normal’ and the remaining 15% has to be either ‘potential risk’ or persons not included in the “*Credit Information Data Base*”;
 - (d) the haircut of the receivables is determined considering the classification of the obligor.

Financial entities may not observe the maximum exposition limit for each issuer, if face value of documents in the portfolio does not exceed 15% of the RC.

- ii) **Preferred “B”:** Guarantees constituted by property rights that assure the financial entity the repayment of the debt following the procedures for the execution of those rights.

It includes first mortgages and pledges, export credit insurance as long as compensations are paid in no more than 270 days, guarantees granted by Reciprocal Guarantee Companies and those guarantees that could qualify as preferred “A” except for the fact that they do not have a residual term of 6 months or less.

- iii) **Others**

For guaranteed transactions, debt principal and interests will be considered, taking into account the foreseen coverage margin for each type of collateral.

The regulation imposes limits to credits granted to persons or companies related to a financial institution.

1. The concept of 'relationship' is based on the control of the company, as measured by stock ownership, number of board members in common or actual or potential participation in the board of directors.
2. Control over a company is achieved when:
 - a. a person or company, directly or indirectly, owns 25% or more of the total votes or any instrument that gives this right;
 - b. a person or company, directly or indirectly, owns 50% or more of the voting stock in shareholders meetings where directors are elected;
 - c. a person or company that controls other institutions that can influence the decisions of the controlled company;
 - d. BCRA, through the Superintendence, so determines.
3. Financing includes holdings, credits and warranties granted by a domestic financial entity, its foreign branches and other institutions controlled by the domestic financial entity as an economic group.
4. Lending limits for related clients are determined in terms of the RC of the financial entity and its CAMELS rating as follows:
 - a. Financial entities with a CAMELS rating between 1 and 3:
 - i. To each related client:
 - (1) General:
 - (a) Loans with collateral: 10%.
 - (b) Loans without collateral: 5%.
 - (2) Domestic financial entities or companies with supplementary activities, subject to consolidation:
 - (a) Institutions that received the funds, with a CAMELS 1 rating: 100%
 - (b) Institutions that received the funds, with a CAMELS 2 rating: 10% plus an additional margin equal to 90% of the capital as long as loan maturity does not exceed 180 days.
 - (3) Other domestic financial entities: 10%.
 - (4) Companies with supplementary activities to those of the financial institution: 10%. This limit can reach 100% when the company's activity comprises the issue of credit cards, factoring, leasing, stock exchange broker, dealers operating outside the stock exchange, provided that the controlling company has a CAMELS 1 rating. When the controlling company has a CAMELS 2 rating, the limits stated in (2) (b) are applicable.
 - (5) Foreign bank with an "investment grade" rating: 10%
 - ii. For all related clients: 20%.
 - iii. For total financing to related clients plus 'fixed assets': 100%
 - b. Financial entities with a CAMELS rating standing between 4 and 5:
 - i. Financing to related clients is prohibited.
 - ii. Exceptions:
 - (1) foreign entities subject to supervision on a consolidated basis.
 - (2) foreign banks controlling domestic entities, or
 - (3) companies dedicated to complementary activities to banking when subject to consolidated supervision.
5. The purchase of bonds traded in open markets are not included in these client-related regulations, as long as holdings do not exceed 10% of the outstanding amount of the bonds involved and provided they are rated as "BB" or higher. Underwriting operations of less than 180 days are also excluded from the above mentioned regulation.
6. Financial entities cannot refinance credit to related companies or individuals rated less than 'BB' by a rating agency, or classified as other than 'normal' by another financial entity.
7. A written statement concerning their relationship (related or controlling) with the financial institution must be submitted by:

- a. clients whose debt exceeds 2.5% of the financial institution's RC or \$1 million, whichever amount is lower;
- b. persons, directly or indirectly related to the financial entity, holding 5% or more of the institution's voting instruments.

"FIXED ASSETS" AND OTHER ITEMS (COMPILED TEXTS – RATIO BETWEEN FIXED ASSETS AND OTHER ITEMS)

"Fixed assets" should not exceed 100% of an entity's RC.

The following items are included:

- i. shares in domestic companies
- ii. receivables (advances, tax refunds)
- iii. property and equipment
- iv. sundry goods
- v. expenses in organization and research
- vi. good will
- vii. financing to related clients

The computation of fixed assets is based on monthly balances. Depreciation, accumulated amortization and provisions for irrecoverable credits are deducted.

Non-compliance with the ratio produces an increase in the minimum capital requirements equal to 100% of the excess on the ratio.

Differences arising from the fulfillment of court injunctions - "amparos" (ordering the repayment of deposits in their original foreign currency) - as a consequence of deposits' restitution on its original currency and which are entered in the books as asset, will not be computed for this ratio up to December 31st, 2008.

FOREIGN CURRENCY NET GLOBAL POSITION

As from May 2003, the absolute value of the foreign currency net global position cannot exceed 30% of RC. If there is a positive position, the amount cannot exceed this ratio or "own liquid funds", whichever is lower. Own liquid funds refer to RC minus "fixed assets" and financing to related clients.

Assets and liabilities from financial intermediation and bonds in foreign currencies are included in the net global position. Forward transactions under master agreements entered into the domestic self-regulated markets are also included even if settled by payment in pesos of the net amount without involving the underlying asset. Deductible assets for determining RC are excluded from the ratio.

The excesses to these ratios are subject to a charge of twice the nominal interest rate of US dollar denominated LEBAC (BCRA bill) and twice the 30-day US dollar LIBO rate for the last business day of the month, whichever is higher. Charges not entered in due time, are subject to the charge established for excesses, increased by 50%.

As from July 2004, an additional limit was set on the short term global net position, considering only sight deposits plus other assets and liabilities maturing within the next 180 days.

As from May 1st, 2005, the positive limit of the position (30% of the RC or "own liquid funds", the lesser) and the short term additional limit have been suspended.

FOREIGN CURRENCY LENDING CAPACITY

Regulations on the allocation of funds in foreign currencies establish that lending capacity from foreign currency deposits, including dollar term deposits to be settled in pesos, must be applied to either one of the following:

- a) Pre-financing and financing of exports to be made directly or through principals, trustees or other brokers.
- b) Financing of investment projects, working capital or purchase of any kind of goods that increase or are related to the production of goods to be exported.
- c) Financing to manufacturers of goods to be exported, as final products or as part of other goods, by third party-purchasers, provided that such transactions are secured or collateralized in foreign currency by third party purchasers.
- d) Financing to commercial clients or those considered as consumption, with the purpose of importing capital goods, whenever they help to increase goods production for the domestic market. Clients must have enough

payoff capacity, even when considering at least two scenarios with considerable variations on the foreign exchange rate.

- e) Debt securities or financial trust participation certificates whose underlying assets are loans made by the above-mentioned financial entities.
- f) Loans made from one financial entity to another.
- g) Foreign currency debt securities or financial trust participation certificates, publicly listed under an authorization by the National Securities Commission, whose underlying assets are securities bought by the fiduciary and guaranteed by reciprocal guarantee companies, in order to finance export transactions.

Lending capacity surpluses (exceeding the above mentioned destinations) produce an additional cash requirement in that currency to be held in cash or as deposits with the BCRA.

VALUATION OF PUBLIC SECTOR ASSETS

A) Guaranteed Loans, unlisted government bonds, promissory notes issued by the Trust Fund for Provincial Development and other loans to the non-financial public sector:

These instruments must be valued according to their technical value or their present value (whichever is lower). The present value is measured on the basis of a schedule for monthly discount rates that provides for the convergence with market rates (MR) to be applied as from July 2008.

Period	Nominal Annual Rate	Period	Nominal Annual Rate	Period	Nominal Annual Rate
March – Dec./03	3,00 %	October/05	3,91 %	March/07	5% + 0,13 * (MR – 5%)
Jan – June/04	3,25 %	November/05	3,96 %	April/07	5% + 0,17 * (MR – 5%)
July/04	3,29 %	December/05	4,00 %	May/07	5% + 0,21 * (MR – 5%)
August/04	3,33 %	January/06	4,08 %	June/07	5% + 0,25 * (MR – 5%)
September/04	3,37 %	February/06	4,15 %	July/07	5% + 0,29 * (MR – 5%)
October/04	3,41 %	March/06	4,23 %	August/07	5% + 0,33 * (MR – 5%)
November/04	3,46 %	April/06	4,31 %	September/07	5% + 0,38 * (MR – 5%)
December/04	3,50 %	May/06	4,39 %	October/07	5% + 0,42 * (MR – 5%)
January/05	3,54 %	June/06	4,47 %	November/07	5% + 0,46 * (MR – 5%)
February/05	3,58 %	July/06	4,56 %	December/07	5% + 0,50 * (MR – 5%)
March/05	3,62 %	August/06	4,64 %	January/08	5% + 0,58 * (MR – 5%)
April/05	3,66 %	September/06	4,73 %	February/08	5% + 0,66 * (MR – 5%)
May/05	3,71 %	October/06	4,82 %	March/08	5% + 0,75 * (MR – 5%)
June/05	3,75 %	November/06	4,91 %	April/08	5% + 0,83 * (MR – 5%)
July/05	3,79 %	December/06	5,00 %	May/08	5% + 0,92 * (MR – 5%)
August/05	3,83 %	January/07	5% + 0,04 * (MR – 5%)	As from June/08	MR
September/05	3,87 %	February/07	5% + 0,08 * (TM – 5%)		

National Government bonds received by financial entities as compensation for the asymmetric pesoization, according to Chapter VI, section 28 and 29, Decree 905/02 – “National Government Bonds in pesos 2% 2007” and/or “National Government Bonds in dollars Libor 2012”- may be registered at their technical value.

“Patriotic Bonds” (US dollar denominated external bills of the Argentine Republic) and other unpaid past-due bonds must be registered at the lower value between their book values as of 31 December, 2003 and the amount resulting from their face value times the lowest parity as determined by the net present value of the other bonds included in this methodology. The aim of this measure is to avoid that the public sector debt yet to be restructured has a book value higher than a public sector performing asset.

They may be registered at the minimum value comparing: (i) the book value of the instruments they hand over, net of amounts provisioned and deducted, if appropriate, payments received as a consequence of collaterals of “Brady – Par and Discount” bonds and ii) the sum of nominal cash flows up to maturity, according to the terms and conditions of the bonds received, excluding the expected evolution of CER – if the bond is in pesos - and the return from the GDP growth. When the amount does not add up to the total book

value of the swapped instruments, the difference must be considered as loss. These bonds may be used in repo operations.

As regards capital requirements for credit risks, these bonds will receive the same beneficial treatment as the holdings in investment accounts and loans to the public sector incorporated to entities' balance sheets until May 31st, 2003 (a temporary reduction via an "alpha1" coefficient).

"Cuasipar bonds - maturity December 2045" and "Public bonds indexed to GDP" - "Valores negociables vinculados al PBI" - received in exchange for eligible bonds, must be registered at their present value considering the contractual cash flows and a rate equivalent to the YTM average of "Títulos par" and "Discount Bonds" in pesos, until a market quotation is available. This sum must be compared to the book value of instruments given in exchange, registering the difference as an earning/loss. Once "Cuasipar bonds" are negotiated independently from "Public bonds indexed to GDP", the latter must be registered according to its market quotation.

As from May 31st, 2005, financial entities holding bonds and other government defaulted debt instruments which were eligible but not exchanged (Decree 1735/04), must be 100% provisioned.

As from August 2005 public and private debt holdings without quotation will be valued by increasing them according to its yield to maturity.

B) Book losses due to court injunctions - "amparos"

Losses arising from court injunctions - "amparos" (ordering the repayment of deposits in their original foreign currency) may be entered in to the asset side of the balance sheets and they must be amortized in 60 monthly installments.

As from December 2005 financial entities are allowed to maintain "amparos" as an asset, provided that entities grant new long term commercial loans, with no less than 2 years average life. The maximum amount that can be deferred is up to 10% of the entity's regulatory capital.

LIQUIDITY REQUIREMENTS (COMPILED TEXTS - MINIMUM CASH REQUIREMENTS)

Liquidity requirements refer to the minimum cash requested on demand and term deposits.

Main features:

Such requirements involve the monthly average of daily balances of demand and term deposits and other liabilities arising from financial intermediation, in pesos and foreign currency (including government and private bonds), and standby overdrafts facilities.

- a) Loans from the BCRA, domestic entities and foreign financial entities (including head offices) forward purchases and sales and spot transactions to be settled as well as demand obligations for drafts and transfers from abroad are excluded from the requirement.
- b) Liquidity requirements for deposits in pesos are different from those in a foreign currency. Such requirements are applied according to the residual time to maturity on a growing scale as the date of maturity gets nearer.

Concept	Rate (%)	Rate (%)
	In pesos	In foreign currency
Current account deposits and standby overdraft facilities	17	- -
Saving account deposits, other deposits and demand liabilities	17	30
Mutual Investment funds' demand deposits	100	100
Financial entities' current accounts (used to comply with liquidity requirements)	100	100
Time deposits, "acceptance" liabilities, constant term investments and others, according to their residual time to maturity:		
i) Up to 29 days	14	35

ii) From 30 to 59 days	11	28
iii) From 60 to 89 days	7	20
iv) From 90 to 179 days	2	10
v) From 180 to 365 days	1	6
vi) More than 365 days	0	0
Outstanding commercial papers (including corporate bonds):		
a) Debt issued since 1.1.02, (including rescheduled obligations) according to their residual time to maturity:		
i) Up to 29 days	14	35
ii) From 30 to 59 days	11	28
iii) From 60 to 89 days	7	20
iv) From 90 to 179 days	2	10
v) From 180 to 365 days	1	6
vi) More than 365 days	0	0
b) Other	0	0
Foreign financial lines and corporate bonds	0	0
Demand and term deposits made on court order	8	15
US dollar special accounts as deposits for futures and options	100	100
Loans from the Assistance Fund for Financial and Insurance Entities	0	0
Special demand accounts in foreign currencies	100	100
Deposits on the part of mutual investment funds	18	40
Deposits related to incomes from abroad (Decree 616/05)	100	100
Deposits and other demand obligations in pesos, whose return exceeds 50% BADLAR rate of private financial institutions' average.	100	- -

- c) The non-compliance with rules about allocation of lending capacity from foreign currency deposits produces an additional requirement in that currency for an equal amount, which is to be held in cash, in US dollars or deposited with BCRA.
- d) The total requirement is measured on a monthly average basis of the daily balances of the liabilities involved as at the end of each day during a month. There is a daily minimum requirement equal to 50% of the prior month requirement (70% is required when there was a deficit in the previous month) comply in the BCRA.
- e) A quarterly position is considered for the period December of a year and January and February of the next year. In 2006, and during that period, the daily minimum requirement cannot be less than 35% of the liquidity requirements of November 2005.

Compliance must be met in the same currency of the requirement including:

- ◆ cash;
- ◆ interest earning current accounts in pesos with the BCRA;
- ◆ interest earning deposits with the BCRA in dollars or other foreign currencies;
- ◆ special collateralized accounts with the BCRA for electronic clearing houses, credit cards and ATMs;
- ◆ current accounts of non banking financial entities;
- ◆ special current accounts with the BCRA opened by the ANSES (Argentine Social Security Administration).

BCRA will only make payments on term operation reserves up to the legal cash requirement level.

When an excessive concentration of liabilities is verified which may imply a substantial risk regarding a financial entity's liquidity or a systemic risk, the BCRA may order additional requirements on such entities' liabilities or take supplementary measures as it may deem fit.

Failure to meet a minimum cash requirements and the daily minimum peso cash requirement will be charged with twice the nominal interest rate for peso denominated LEBAC bills. Failure to meet the foreign currency requirement will be charged with twice the annual nominal interest rate for US dollars denominated LEBAC bills, or twice the LIBO rate for transactions in dollars with a 30-day term, whichever is higher.

Deficiencies to comply with liquidity requirements and with the daily minimum requirement in pesos are subject to a charge set as twice the last interest rate for repo operations in pesos with the BCRA, published during the period of non-compliance and for the longest term transaction (not exceeding 30-days). The lack of compliance in foreign currency is subject to a charge of twice the nominal interest rate of US dollar denominated LEBAC (BCRA bill) or twice the 30-day US dollar LIBO rate for the last business day of the month, whichever is higher.

BCRA'S FINANCIAL ASSISTANCE IN CASE OF LACK OF LIQUIDITY (LENDER OF LAST RESORT) (COMPILED TEXTS – FINANCIAL ASSISTANCE DUE TO TEMPORARY LACK OF LIQUIDITY)

The entities which comply with the criteria will directly receive assistance, otherwise BCRA's Board of Directors will assess the application. The entity must present a liquidity ratio lower than 25%. The amount to grant will be the lowest of: the one requested by the entity; the amount of assistance that raises the liquidity ratio up to 35%; the decrease in deposits during the last month; 20% of the total assistance to the financial system projected by the Monetary Program and; the difference between the entity's capital and its outstanding debt to the BCRA under this assistance regime. Assistance will last for 90-days that can be extended for equal periods. Besides, entities shall have to pay debt in advance for amounts determined in relation with their liquidity ratio.

Financial entities may advance contributions for future capital settlements of BCRA's financial assistance, whose payment schedules were established in the "matching" regime (Chapter II - Decree N° 739/03). Entities must quote the amount to give in advance and the nominal rate they offer to pay for this right. The maximum amount for each financial entity is 30% of the total amount put up for auction.

CREDIT UNIONS (COMPILED TEXTS – CREDIT UNIONS)

On August 6th, 2004, the BCRA regulated the Act N° 25.782, which modified the Financial Entities' Act on subjects related to Credit Unions, in order to promote the development of financial entities for people unable to access to institutional credit. Credit unions must operate with only one branch and exclusively with its members, who must underwrite a minimum capital of \$200 and must be domiciled in the entity's district. Credit unions may grant loans and other short and mid-term financing to individuals, small and medium-sized companies (urban or rural), including professionals, craftsmen, employees and charitable organizations. ATMs are allowed.

Licensing: Considering the low level of transactions credit unions perform and their structure, procedures for their licensing were simplified. Minimum capital requirements were reduced, ranging from \$ 100.000 to \$1.000.000, depending on the district population size. Members may own a maximum participation on the capital of:

Category (inhabitants of the jurisdiction)	Utility cooperatives established where the credit union is located. (electricity, drain, water, telephone)	Other cooperatives with less than 5 years operating	Rest
I (More than 1.000.000)	10%	5%	1%
II (More than 500.000 and up to 1.000.000)	10%	5%	1%
III (More than 300.000 and up to 500.000)	20%	10%	3%
IV (More than 40.000 and up to 300.000)	40%	20%	5%
V (Up to 40.000)	50%	25%	5%

The capital requirement will be determined as a variable percentage of total assets according to the volume of

them, after weighing the different types of assets depending on their risk.

Total Assets (in pesos)	Requirement
Less than 3.500.000	6 %
3.500.000 up to 20.000.000	8 %
20.000.000 or more	10 %

Lending: Considering the characteristics of the economic sector to be financially served by these institutions, the requirements for new loans and amounts and term limits were softened. Loan maximum amount is \$50.000 per debtor, and the maximum terms are: 1 year for non-coupon loans or loans to be paid in non-periodical installments; 48 months for loans to be paid in monthly installments and 30 days for loans credited in demand accounts. Global limits are established for financing total payment or non-periodical installments, fixing an increasing limit schedule according to the time the credit union is under this activity and reaching a maximum of 100% for the total portfolio of this kind of loans during the fourth year. A similar increasing schedule is applied to loans credited in demand accounts, 200% of the entity's capital in the fourth year.

Borrower classification: Debtors must be classified according to the compliance with commitments. In the case of debtors with loans fully collateralized by preferred "A" collateral, the repayment capacity is not evaluated. Levels of classification:

- Normal: Payment normally or with arrears of no more than 31 days.
- Inadequate: with arrears from 31 to 90 days.
- Deficient: with arrears from 90 to 180 days.
- Difficult to recover: with arrears from 180 days to a year.
- Irrecoverable: with arrears of more than a year.

Minimum provisioning levels are similar to those effective for other financial entities.

Credit risk diversification: Transactions can not exceed the following percentages (of the credit union's net worth)

Total transactions as per person or commercial company, without collateral	5%
Total transactions as per person or commercial company, with or without collateral	10%
Total national public bonds in pesos, with known quotations, and a residual time to maturity of up to 180 days	10%

Bills of exchange: Credit unions may offer this service where bills of exchange can be drawn against demand accounts. The BCRA created a register of unpaid bills (owing to lack of funds), whose main purpose is to encourage the proper use of these instruments of payment and credit.

Funding: Credit unions' funding will be based on a well diversified structure of deposits. However, in order to help them obtain enough funds for their development, the BCRA used the faculty established in the Act, increasing the legal limit for time deposits from \$10.000 to \$12.000 per account and per person. The BCRA also authorized the sale of portfolios, repurchase transactions and loans among these financial entities. Deposits in credit unions are guaranteed by the deposits insurance system, with the same constraints and scope as for other financial entities.

Fixed assets: They include: 1) Credits granted to facilitate the sale of financial entities' fixed assets, 2) other receivables, 3) shares in utilities companies, 4) property and equipment, 5) sundry goods and 6) expenses in organization and research. Fixed assets cannot exceed the following percentages applied to the RC of the credit unions:

RC (in pesos)	%
Up to 200.000	20
More than 200.000 up to 399.999	30
From 400.000 up to 599.999	40
From 600.000 up to 999.999	50
1.000.000 and more	60

Liquidity requirements: General regulations for demand and term deposits are applied, with the following particularities: term deposits from 30 to 59 days 18%, from 60 to 180 days 14%, more than 180 days 5%; demand

deposits 18%. Reserves must be kept in cash, in current accounts in pesos with the BCRA or in current accounts with commercial financial entities.

Prudential ratios and database reports: The measurement of prudential legal ratios was simplified and the size and complexity of the accounting and reporting systems was reduced. The intention is to reduce costs and facilitate the role of second-tier associations, in those cases where their help is sought for organizational matters.

Other regulations: The following transactions are not allowed: 1) transactions in foreign currencies, 2) repurchase agreements and forwards, except repurchase transactions with the BCRA or reverse repurchase transactions without haircuts with other financial entities, 3) shares in other companies, 4) intermediation guarantees in third parties' transactions.

II. Licensing of financial and exchange entities

A) Financial entities

Legislation does not impose restrictions based on the investors' nationality neither to the entrance to the system nor the type of businesses. National and foreign capital are treated equally.

Licensing of new financial entities

The establishment of new financial entities requires licensing from the BCRA, according to section 7 of the *Financial Entities Act*.

Entities can include: commercial banks, investment banks, mortgage banks, finance companies, building and loan associations or credit unions. Commercial entities are classified, according to the transactions they perform into: *first and second-tier entities*.

The minimum capital requirement is determined on the basis of the jurisdiction where the financial entity's main activity is located, with decreasing levels of basic requirement for those areas with less relative offer of banking services.

Category (Com. "A" 4368)	Banks	Other entities (except Credit Unions)
	-In millions of pesos-	
I	25	10
II	14	8
III	12.5	6.5
IV	10	5

When filing an application, non-banks financial entities (except for credit unions that are exempted) must pay a \$400.000 fee. The fee for new banks is \$900.000.

These regulations are bound to financial entities authorized as from July 1st, 2005; including cases of transformations. Financial entities already operating by June 30th, 2005, must observe the basic requirement for new entities in the corresponding area, with a maximum at \$15 millions.

For credit unions, which must be incorporated as cooperatives, with only one office and that operates exclusively with its affiliates (who must reside in the area of operation), the minimum capital requirement is between \$100.000 and \$1.000.000, according to the quantity of inhabitants of the area.

Merger, consolidation and transfer of goodwill

Merger, consolidation and transfer of goodwill may be arranged between entities of the same or different type. The new entity must submit a financial-economic structure profile founding the project in order to obtain authorization from the BCRA.

Financial Entities changes

Financial entities can change their business activity provided BCRA authorizes them. To obtain such authorization, entities must comply with minimum capital requirements as well as other prudential regulations, and they must not have liquidity, solvency, risk or profitability problems.

Modification of financial entities' shares structure

According to section 15 of the *Financial Entities Act*, entities have to report any negotiation on share packages producing changes in the classification of the institution or altering the structure of its shareholding groups. BCRA must consider the convenience and timeliness of these changes, and can deny approval or revoke the authorization granted when the basic conditions taken into account in due time, have been significantly modified. BCRA regulations establish that members of the Board of Directors of the surveillance committee and trustees of financial entities must report to the SEFyC any negotiation on shares likely to introduce changes on the entity's evaluation, or modify the structure of its shareholding groups.

Incomes supplied as an irrevocable contribution for future increases to net worth which, on a separate or joint basis, and during a six-month period stands for 5% or more of its capital and/or votes must be reported even if, according to the entity's opinion, the income does not cause a change in its classification nor does it alter the structure of its shareholding group.

Financial entities must report in advance to the SEFyC, the characteristics of any public offering of capital for underwriting which may be made in stock exchanges of the country or abroad, subsequently advising the names of underwriters or purchasers involved and also certain data on such underwriters or purchasers whenever their individual holdings may be larger than 2% of corporate capital.

Entities must report to the SEFyC substantial changes introduced in the shareholding structure of entities domiciled abroad which, directly or indirectly, control financial entities in the country.

Finally, all rules on stock negotiations are applicable to cases (call options, underwriting, hereditary transfers, donations) in which changes in the rating of entities occur, or the structure of shareholders is altered.

Managers and Directors

According to section 8 of the *Financial Entities Act*, BCRA must consider the background and responsibility of the applicant and his/her experience at the financial activity. Section 10 of the Act establishes that those who fall within the scope of incompetence shall not perform functions as promoters, founders, directors, administrators, members of the Surveillance Committee, trustees or managers of the financial entity. Under this legal framework and regulatory powers vested upon BCRA by law, requirements for the establishment of a financial entity must be observed permanently.

Thus, financial entities shall submit for BCRA consideration the background of the new members of the board of directors, except for cases of renewal of tenures of office.

Background evaluation is requested for:

- *Promoters and founders*: they must hold no less than 25% of the net worth and votes of the financial entity; must prove their competence and experience in the financial business.
- *Directors or councilors*: qualified persons for the job to be performed, based on i) background performance in the financial business and/or ii) his/her professional profile and experience in the private or public sectors in areas related to the entity's commercial activity. At least, two thirds of managers or counselors must prove to be experienced in the financial field.
- *General managers, managers in charge of subsidiaries and other managers with decision-making power in matters directly related to financial activity*: should prove to be competent and have previous experience in those activities.

If the designation of public banks' directors depends on an Executive act and the BCRA authorization, directors will assume the position meanwhile the authorization is under negotiation at the BCRA. Its designation will be considered "ad referendum" of the order, in spite of the validity of their acts during that period.

According to section 10 of the *Financial Entities Act*, the fit and proper standards are also applied to managers of financial entities.

The BCRA, as supervisor of the financial system, requires regular information about the financial statement structure, the compliance with technical and operational regulations and other institutional requirements. Given the importance of the duly and timely submission of information reports, it is requested that financial entities designate two officers holding the position of managers as responsible for the preparation and submission of these reports.

Establishment of affiliates in the country

According to section 16 of the *Financial Entities Act*, the establishment of affiliates in the country requires the approval of BCRA, which is empowered to deny authorization in view of the timeliness and convenience of the project.

Provincial and municipal financial entities may establish branches in their jurisdictions provided they inform the BCRA. If regulation requirements for establishment are not met, BCRA can deny authorization.

Within this legal framework, regulations establish that for the creation of new affiliate entities, financial entities

must comply with rules referred to minimum capital requirements, liquidity, solvency, risk and profitability. Additionally, when affiliates are authorized, they must fulfill all safety requirements. The installation of ATMs, only requires previous notification to the BCRA and the fulfillment of the respective safety measures.

Financial entities are authorized, provided they previously inform BCRA and comply with safety measures, to establish offices to provide certain services, such as the payment of pensions, collection of public utilities rates, taxes and fares, loan installments, credit card payments and private services, the reception of loan applications, granting of loans up to \$2,000, the issue of credit/debit cards, and the purchase-sale of foreign currency. These offices are not allowed to carry out any kind of deposit account transactions.

Except for the installation of ATMs, credit unions are not allowed to establish affiliates or other establishments.

Establishment of affiliates and representative offices abroad

According to section 17 of the *Financial Entities Act*, the establishment of affiliates and representative offices abroad is subject to the BCRA approval. Similar requirements to those for the establishment of affiliates in the country are required and, additionally, the foreign country must give its consent. The representation offices may only perform non-operative activities.

Participation in financial entities abroad

Participation of domestic financial entities in foreign financial entities, whenever it involves an amount which is higher than 5% of the capital or votes, is subject to previous approval by the Superintendence (SEFyC). To obtain authorization, entities must fulfill the minimum capital requirements and other prudential rules referred to liquidity, solvency, risk and profitability.

The responsibility of the domestic institution is limited to the capital contribution. The institution may not take on additional commitments for operations or activities performed by the foreign entity.

Participation in foreign financial entities, whose financial statements must be consolidated with those of the domestic institution, may not be held if the Superintendence does not receive all the necessary information to analyze such consolidated status.

Representations of foreign financial entities

Section 13 of the *Financial Entities Act*, establishes that foreign financial entities may open a representative office in the country, subject to authorization from BCRA. The SEFyC will analyze and weight the records of the entity and of its representative. Moreover, the supervisory regime of the home country must be on a consolidated basis, except in the case of bordering countries. Its business activity may be performed by natural or legal entities, admitting the existence of an associated representative.

B) Exchange institutions

According to *Act N° 18.924* and its *Regulatory Decree N° 62/71* (amended by the *Decree N° 427/79*) the establishment of money exchange offices must be authorized by BCRA. It also sets the conditions as regards the authorization to operate, the establishment of branches and the timeliness and convenience of share transfers. Additionally, it regulates the activities of the institutions and establishes the minimum capital requirements, collaterals and other conditions to be met. The SEFyC supervises their performance through the reports institutions submit and through the inspections carried out regularly.

Exchange Brokers must also request authorization from BCRA to operate. On behalf of third parties and with the intervention of an authorized financial or exchange entity, exchange brokers perform regular intermediation activities between foreign currency supply and demand and other related services. Exchange brokers may act individually or through partnerships of two or more of them.