Prudential Regulations

June 2017

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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Content

This text describes the main features of the regulatory framework of the Argentine financial system. Some items have been simplified to facilitate understanding and interpretation. It should therefore not be used as a substitute for the regulations issued by the Central Bank of Argentina.
This paper includes relevant regulations through to Communication "A" 6265 dated 06.30.17.

For questions or comments please contact: aplicaciones.normativas@bcra.gob.ar

I. Prudential Regulations

Minimum capital requirements for financial institutions[1]

Capital requirement

Minimum capital requirements are determined as a function of the implicit risks of a bank's various activities (credit risk, market risk and operational risk). The minimum capital to be complied with will be the higher of the minimum capital fixed by the Central Bank of Argentina (BCRA) (see II. Creation and expansion of financial and exchange institutions – Setting up of new financial institutions) and a risk assessment based on credit risk, in addition to market risk —requirement for daily positions in eligible instruments— and operational risk[2].

These requirements must be complied with on both an individual and a consolidated basis.

A. Credit Risk

The capital requirement for credit risk is calculated as follows:

$$C_{RC} = (k * 0.08 * APRc) + INC$$

Where:

k: Factor linked to the rating assigned to the institution according to an evaluation performed by the Superintendence of Financial and Exchange Institutions (SEFyC), according to the following scale (if not communicated to the institution, 'k' factor shall equal 1.03):

CAMELBIG Rating	K factor
1	1
2	1.03
3	1.08
4	1.13
5	1.19

APRc: credit risk weighted assets, calculated as the sum of the values obtained after applying the following expression:

$$A * p + PFB * CCF * p + Non\text{-}DvP + (DvP + RCD + INC\ (_{diversification}) \times 12.5$$

where:

A: eligible assets/exposures.

PFB: "off-balance sheet items" – eligible items not recorded on balance sheet, whether recorded in memorandum accounts or not.

CCF: credit conversion factor for off-balance sheet transactions.

p: risk weight, stated as a decimal.

[1] www.bcra.gob.ar "Financial System - Legal and Regulatory Framework – Legislation and Summaries - Compiled texts on General Regulations"; Financial Institution Minimum Capital Requirements.

[2] Other risks: Financial institutions must manage interest rate risk for transactions recorded in their "banking book", as well as other risks not included in the capital requirement (concentration risk, reputational risk and strategic risk, etc.) This management shall be reviewed by the SEFyC which will have the authority to determine whether or not there is any need to comply with capital requirement in terms of these items.

Non-DvP: non-delivery-versus-payment transactions. Amount calculated by means of the sum of the values obtained after applying the corresponding risk weight (p) to the transactions.

DvP: failed delivery versus payment transactions (for the purposes of these standards, -failed payment-versus- payment (PvP) transactions are included). Amount calculated as the sum of the values obtained after multiplying the positive current exposure by the applicable capital charge.

RCD: counterparty credit risk capital requirement for OTC derivative transactions.

INC $_{(diversification)}$: incremental requirement for exceeding the following limits:

- equity holding: 15%;

- total equity holdings: 60%

Maximum limits in force shall apply to the institutions' regulatory capital at the last day prior to the day established according to the regulations on "Credit Risk Diversification".

INC: incremental requirement for the following excesses: in the ratio of fixed assets and other items, credit risk diversification, lending to related parties, credit limits, and financial assistance to the public non-financial sector, excluding those used to calculate the INC ($_{diversification}$).

The weights assigned (p) to the main types of assets are as follows:

Heading	Rate
Cash and cash equivalents.	
Cash held in treasury, in transit (when the financial institution assumes responsibility and risk for transportation), in ATMs, in current accounts and in special accounts with the BCRA, gold coins or "good delivery" bars.	0%
Cash items in the process of collection, in cash-in-transit companies and in custody at financial institutions.	20%
Exposure to governments and central banks.	
To the BCRA denominated and funded in pesos.	0%
To the national, provincial and municipal governments as well as the government of the autonomous city of Buenos Aires denominated and funded in pesos.	0%
To the public non-financial sector arising from financing granted to social security beneficiaries or public employees (with discount code).	0%
To the public non-financial sector and the BCRA. Other. To other sovereign states (or their central banks).	
- AAA to AA-	0%
- A+ to A-	20%
- BBB+ to BBB-	50%
- BB+ to B-	100%
- Below B-	150%
- Unrated	100%
Entities of the non-financial public sector from other sovereigns, pursuant to the credit rating assigned to the respective sovereign.	
- AAA to AA-	20%
- A+ to A-	50%
- BBB+ to BBB-	100%
- BB+ to B-	100%
- Below B-	150%
- Unrated	100%
To the Bank for International Settlements, the IMF, the European Central Bank and the European Community.	0%
Exposure to Multilateral Development Banks (MDB).	
The International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the Inter-American Development Bank (IADB), the European Investment Bank (EIB), among others.	0%
Other.	100%
Exposure to local financial institutions.	
Denominated and funded in pesos arising from transactions with an initial contractual term of up to 3 months	20%
Other.	150%
Exposure to foreign financial institutions, pursuant to the credit rating assigned to the sovereign of their jurisdiction of incorporation.	
- AAA to AA-	20%
- A+ to A-	50%
- BBB+ to BBB-	100%
- BB+ to B-	100%
- Below B-	150%
- Unrated	100%
Exposure to companies and other legal entities in the country and abroad, including exchange institutions, insurance companies and stock exchange entities.	100%

Heading	Rate
Exposures included in the retail portfolio.	
Loans to individuals (provided that the total amount of installments do not exceed, at the time of agreement, 30% of the debtor's income and/or, if applicable, that of the co-debtors) and to Micro, Small and Medium-Sized Companies (MiPyMEs).	75%
Other.	100%
Exposures guaranteed by reciprocal guarantee companies or public guaranty funds duly registered with the BCRA.	50%
First mortgage loans on residential property or mortgage loans with any order of preference provided that the institution remains the creditor, irrespective of the order of preference, to the extent that the debt balance under no circumstances exceeds the valuation price of the mortgaged property.	
If Credit facility not exceeding 75% of the appraised value of such real property.	
Sole, permanently-occupied family home.	35%
Other.	50%
On the amount exceeding 75% of the appraised value of such real property.	100%
First mortgage loans on other than residential property or mortgage loans with any order of preference provided that the institution is also the creditor of senior loans.	
Up to 50% of the real property market value or 60% of the mortgage loan, whichever is lower.	50%
On the remaining portion of the loan.	100%
Past due loans for more than 90 days.	50% - 150% *
Equity holdings.	150%
Securitization exposures, failed DvP transactions, non-DvP transactions, exposures to central counterparty institutions (CCP) and derivative transactions not included in said exposures.	**

* Weighting varies according to the loan, specific provisions created and hedging by collaterals, guarantees and credit derivatives.

** They receive a special treatment.

For the purposes of calculating capital requirements, there is recognition of certain risk mitigation techniques such as collateralization, personal guarantees and credit derivatives, provided that certain criteria are met. Financial institutions may opt for either the simple approach (or risk weighting substitution) or for the comprehensive approach, which allows reducing the exposure amount up to the value ascribed to the collateral.

Risk-weighted assets include transferred credits if the financial institution retains some exposure. Exposures to a securitization (or re-securitization), whether traditional or synthetic, or to a structure with similar characteristics are referred to as "securitization exposures". Exposure to securitization risks may be due to, among others, the following reasons: holding of securities issued under the securitization—*i.e.* debt securities and/or participation certificates, such as asset-backed securities (ABSs) and mortgage-backed securities (MBSs), credit enhancements, liquidity facilities, interest rate or currency swaps and credit derivatives.

Off-balance sheet transactions (including commitments and lines to correspondent foreign banks, guarantees, endorsement of deferred payment checks, documentary credits and acceptances, rediscounted securities and other credit arrangements) must be converted into credit exposure equivalents through the use of credit conversion factors (CCF). The higher the chance of financing an off-balance sheet transaction, the higher the conversion factor will be. Then, the credit exposure equivalent is weighted based on counterparty risk.

B. Counterparty Credit Risk

B.1. Capital charge for hedging any counterparty credit risk that may arise from unfulfilled obligations under failed Delivery-versus-Payment (DvP) and non-DvP systems.

In failed DvP and non-DvP transactions, financial institutions are exposed to counterparty credit risk from trade date, irrespective of the booking or the accounting of the transaction. Financial Institutions shall develop, implement and improve systems for tracking and monitoring the counterparty credit risk exposure arising from such transactions as appropriate for producing information that facilitates action on a timely basis.

B.1.1. Failed DvP transactions

If securities have not been submitted within five business days after the settlement date, a capital charge shall be calculated by multiplying the positive current exposure as of the end of the month of the transaction by the appropriate factor, as shown in the table below:

Business days after the agreed settlement date	Applicable capital charge
From 5 to 15	8%
From 16 to 30	50%
From 31 to 45	75%
46 or more	100%

B.1.2. Non-DvP transactions.

The financial institution that has made the payment/delivery will treat as a loan any risk exposure arising from the counterparty's failure to comply with its obligations by the end of the day, applying the relevant weights.

If a counterparty credit risk occurs within five business days, the financial institution that has made the payment/delivery will risk weight at 1250% the full amount of the value transferred plus replacement cost, if any. This treatment will apply as long as there is credit exposure for this reason.

B.2. Capital charge for counterparty credit risk in derivatives and deferred settlement transactions.

The counterparty to a deferred settlement transaction agrees to deliver a security, commodity or foreign currency in exchange for cash, other financial asset or commodity, or vice versa, on a contractual settlement or delivery date that exceeds the usual market maturity term for that type of instrument, and 5 business days from the date of the transaction, whichever is shorter.

The exposure to counterparty credit risk (EAD) will be calculated separately for each netting set (NS) and will be determined as follows:

$$EAD = \alpha \times (RC + FPE)$$

Where:

$\alpha = 1.40$.

RC: replacement cost calculated pursuant to paragraph 4.2.1.1.

FPE: future potential exposure calculated pursuant to paragraph 4.2.1.2.

RC and FPE calculations will differ according to whether or not the netting sets are subject to the exchange of variation margin:

- Unmargined transactions: the RC represents the loss that would occur in the event of counterparty default and the immediate liquidation of its transactions, the FPE adding the exposure's likely increase,

conservatively calculated, over a one year time horizon as from the date of calculation.

- Margined transactions: the RC represents the loss that would occur in the event of counterparty default — whether in the present time or in the future — if transactions were instantaneously liquidated and replaced. Given that there may be a gap — the margin period of risk (MPOR) — between the last exchange of collaterals before default and replacement, the additional amount expressed by reason of FPE representing the potential change in value of transactions during that period.

In both cases, for the purposes of determining the replacement cost, the haircut of the assets received as collateral (other than cash) will represent the potential change in the value of the collateral during the relevant period — one year, for unmargined transactions; and the margin period of risk, for margined transactions.

B.3. Capital charge for counterparty credit risk in transactions conducted through central counterparties.

It includes exposures of financial institutions that conduct transactions through central counterparties (CCPs) as long as they originate from OTC derivatives or those traded in securities markets and securities financing transactions (SFT), and deferred settlement transactions. This category excludes exposures arising from cash transactions and those involving securities, gold or foreign currency, and their capital charge shall be calculated pursuant to paragraph B.1.

C. Market Risk

Market risk is defined as the possibility of incurring in losses with respect to on- and off-balance sheet positions due to adverse fluctuations in market prices. The minimum capital requirement applies to such risks to which either instruments—securities and derivatives—recorded on the trading portfolio or foreign currency positions recorded on investment or trading portfolios are exposed.

Minimum capital requirement is determined by the arithmetic sum of four requirements:

$$RM = RT + RA + RTC + ROP$$

where:

RT: interest rate risk

RA: equity risk

RTC: exchange rate risk

ROP: option risk

For determination purposes, the Standard Measurement Approach, consisting of the sum of components that separately capture the specific risk and the general market risk of securities positions, should be used. In the case of a capital charge to cover option price risks, the simplified method or the delta-plus method can be used.

Compliance must be daily, while information is sent to the BCRA monthly.

D. Operational Risk

Operational risk is defined as the risk of incurring losses due to lack of adjustment, or flaws in, internal processes or systems, inappropriate conduct of members of the staff, or as a result of external events. Requirements are determined according to the following formula:

$$C_{RO} = \frac{\sum_{t=1}^{n} \alpha * IB_t}{n}$$

where:

C_{RO}: capital requirement for operational risk

α: 15%

n: number of 12-month successive terms with IB positive, based on the last 36 months preceding the month of calculation. The maximum value of n is 3.

IBt: gross income from 12-month successive terms -provided that it is a positive figure-, corresponding to the last 36 months preceding the month of calculation. IB is defined as the sum of:

(a) Financial and service income less financial and service expenses; and

(b) Sundry income les sundry losses.

The following headings are excluded from the foregoing accounting entries: charges for accounting provisions; profit and loss from interests in financial institutions and companies; extraordinary or irregular events such as insurance collection and disaster recovery; and gain or loss on sale of securities recorded at cost value plus yield.

The capital requirement for operational risk has been in place since February 2012. It is admitted that entities whose deposits-considering the average of the last three months prior to 1.2.12- represent less than 1% of the total deposits in the financial system, meet only 50% of the requirement until May 2013 and 75% from June to November 2013. In December 2013, all financial institutions are required to comply with the full requirement.

Regulatory Capital (RC)[3]

Regulatory capital is calculated as follows:

$$RPC = PNb + PNc$$

where

RPC: regulatory capital (total regulatory capital)

PNb: core capital – Tier 1 capital

$$PNb = CO_{n1} - CD_{COn1} + CA_{n1} - CD_{CAn1}$$

where

CO_{n1} = common equity Tier 1

CD_{COn1} = items to be deducted from common equity Tier 1

CA_{n1} = additional Tier 1 capital

CD_{CAn1} = items to be deducted from additional Tier 1 capital

PNc: supplementary capital (Tier 2 capital)

Common equity Tier 1 comprises equity (excluding preferred shares), non-capitalized contributions (excluding share premiums) and net worth adjustments, surplus reserves (excluding special reserves for debt instruments), retained earnings, other profits and losses (100% of booked profits/losses through the latest quarterly financial statement with an auditor's report; 50% of profits or 100% of losses from the latest quarterly or yearly financial statement; 100% of losses informed by the auditor but not recorded), share premiums resulting from instruments in the CO_{n1} and, in the event of consolidation, ordinary shares issued by subsidiaries and held by third parties.

Additional Tier 1 capital comprises instruments issued by the financial institution which are not included in common equity Tier 1 and meet certain requirements (for instance, they shall be subscribed and paid in full, subordinated to depositors, unsecured creditors, and financial institution's subordinated debt; they shall not be secured or covered by a guarantee of the issuer or related entity; the financial institution may redeem them after at least five years as from their

[3] Locally referred to as "Responsabilidad Patrimonial Computable" (RPC)

issue under certain conditions, among others), share premiums resulting from instruments included in additional Tier 1 capital and, in the event of consolidation, equivalent instruments issued by subsidiaries and held by third parties.

Supplementary capital (Tier 2 capital) includes subordinated instruments issued by the financial institution at no less than 5 years and not included in the core capital, share premiums resulting from those instruments and provisioning on the loan portfolio classified as "normal" and financings covered by preferred "A" collateral, without exceeding 1.25% of credit-risk weighted assets. In the event of consolidation, it also includes equivalent instruments issued by subsidiaries and held by third parties.

Items to be deducted from common equity Tier 1 are, among others, credit balances resulting from the minimum presumed income tax in excess of 10% of the previous month's PNb, balances in certain correspondent accounts, credit instruments which are not physically deposited at the institution, except when their registration or custody is under the responsibility of custodians authorized by the BCRA, certain instruments issued by foreign countries, debt instruments which are subordinated to any other liabilities issued by other financial institutions, shareholders' debt, unregistered real estate, goodwill, organization and development expenses, gain on sale related to securitization transactions and, on a solo basis, investments in the capital of institutions subject to consolidated supervision, interests in companies whose corporate purpose is to provide financial aid through finance leases of capital goods, durables and real estate acquired by means of leasing or factoring, the temporary acquisition of shares in companies to facilitate their development in order to subsequently sell such holdings, and the issuance of credit cards, debit cards and the like.

Investments in instruments eligible as regulatory capital of financial institutions and companies rendering services supplementary to financial activities which are outside the scope of regulatory consolidation, as well as those of insurance companies are deducted from the level of capital they belong to, when:

- the institution owns up to 10% of issuers' common share capital, and these holdings in aggregate exceed 10% of the financial institution's CO_{n1}. In that case, the amount in excess of the latter limit is deducted.
- the institution owns more than 10% of the issuer's common share capital or when the issuer is a subsidiary of the financial institution.

Moreover, the following floors must be met:

CO_{n1}: 4.5% of RWAs.

PNb: 6% of RWAs.

RPC: 8% of RWAs.

RWAs are calculated as follows:

$$APR = APR_c + [(RM+RO) \times 12.5]$$

where:

APR: risk weighted assets (RWAs).

APR_c: credit risk weighted assets, calculated pursuant to paragraph 3.1.

RM: market risk charge, calculated pursuant to Section 6.

RO: operational risk charge, calculated pursuant to Section 7.

Credit management[4]

Financial institutions must carry a file on all debtors in their portfolios that in addition to identification data should contain all necessary elements to be able to properly evaluate their net worth, flows of income and expenditure, and the profitability of the business or the project to be financed.

[4] www.bcra.gob.ar "Financial System - Legal and Regulatory Framework – Legislation and Summaries - Compiled texts on General Regulations"; Credit Management.

In the cases in which it is not mandatory to assess a debtor's repayment capacity as his debt is covered by preferred "A" collateral, it will not be required to include in file, cash flows, financial statements or any other information needed to analyze his financial condition.

Nevertheless, in the following cases, it is only mandatory for the file to contain sufficient data to be able to identify the customer:

i) low amount loans granted to individuals not related to the financial institution for up to an amount equal to 8 times the minimum wage (*) per customer;

ii) loans to unrelated individuals whose estimated instalment-to-income ratio is not over 50%, and loans to micro, small and medium-sized enterprises (MiPyMEs), which together do not exceed 15% the maximum value of total annual sales for the "micro" category belonging to the "commercial" sector, pursuant to the regulations on Determination of the condition of MiPyMEs (**) as calculated based on specific evaluation methods such as screening or credit scoring.

Special conditions also exist for the granting and monitoring of:

i) loans to micro-businesses (low-income individuals to meet productive activity or commercial and service needs, and loans intended to improve family dwellings) for up to an amount equal to 50 times the minimum wage (*);

ii) loans to duly-approved microfinance institutions that prepare financial statements in accordance with applicable professional accounting standards.

(*) Established by the Argentine Council for Employment, Productivity and Minimum Wage (Consejo Nacional del Empleo, la Productividad y el Salario Mínimo, Vital y Móvil) for monthly paid employees under statutory full working day ($ 8060);
(**) $ 12,500,000.

BCRA advances to financial institutions intended for loans to the productive sector[5]

Advances are granted, pursuant to section 17 (f) of the Charter of the BCRA, through auctions with qualifying financial institutions meeting certain formal, liquidity and solvency requirements. Funds are intended for investment and/or working capital projects previously selected by the Project Assessment Unit. This Unit, created within the scope of the Ministries of Economy and Public Finances, Industry, and of Agriculture, Livestock and Fisheries is in charge of receiving and assessing projects based on the requirements in force. Financing must include new disbursements, and therefore, cannot be used to refinance facilities previously granted by the institution.

Before the crediting of funds, financial institutions must assign as guarantee, at least, an amount equal to 125% of the advanced capital. To this end, they may assign to the BCRA:

i) Argentine government securities; and/or
ii) secured loans issued by the national government; and/or
iii) up to an amount equal to twenty five percent (25%) of the required guarantees:
   - BCRA monetary regulation instruments; and/or
   - Provincial or City of Buenos Aires (CABA) public bonds included in the volatility list published by the BCRA.

Advances are granted at a fixed rate and for a maximum term of 5 years. Total advances to be granted to every institution may not exceed 100% of their regulatory capital, on an individual basis. This restriction does not apply to public banks whose transactions are guaranteed by national, provincial, municipal or CABA governments.

Facilities granted by financial institutions must be expressed in pesos at a term, on average, equal to, or higher than, two and a half years; however, early, total or partial settlements are accepted. Institutions may request their customers all guarantees they may deem fit. The total financial cost to be paid to institutions — which is established by the BCRA on each auction —– remains unchanged throughout the term of the loan.

[5] www.bcra.gob.ar "Financial System - Legal and Regulatory Framework – Legislation and Summaries - Compiled texts on General Regulations"; BCRA advances to financial institutions intended for loans to the productive sector.

Moreover, participating institutions must request their debtors to provide all documents supporting their compliance with the requirements in force and verify that the borrower falls within the framework of current regulations. In addition, they must take full responsibility for processing and executing transactions accurately as well as for all credit risks arising from the loans approved and granted. Interest rates on loans granted to supplement this facility must be in line with the average rate charged to customers for similar uses.

Credit risk diversification and rating

Regulations are intended to limit credit risk, whether measured in terms of financial institution regulatory capital (RC) or in terms of the capital of the borrower.

A. Regulations on borrower capital requirements – Credit rating[6]

The basic limit is 100% of the customer's capital. There is a complementary limit of 200% and 300% in the case of Reciprocal Guarantee Companies and Public Guarantee Funds duly registered with the BCRA, as long as it does not exceed 2.5% and 5%, respectively, of the financial institution's RC, and the loan is approved by the board or comparable authority.

Shareholdings in companies not providing services that are complementary to financial activities cannot exceed 12.5% of their capital stock, or 12.5% of voting rights. There are no limits on the participation in companies that provide complementary services (administration of mutual investment funds, stockbrokers, exploitation and administration of ATMs, credit, debit and similar card issuance, management of closed savings groups, financial leasing of assets, public utility collection management, payroll payments, and all other activities expressly allowed by the BCRA).

B. Bank RC regulations[7]

B.1. Limits on credit assistance

Maximum individual limits for non-related customers, as a percentage of the financial institution's RC, are as follows:

Transactions with the non-financial public sector

Financings	Maximum limit (*)
a) Transactions with the national public sector	50 %
b) Transactions with each provincial jurisdiction or the City of Buenos Aires	10%
c) Transactions with each municipal jurisdiction	3%

(*) Individual limits will be increased by 15 percentage points, when the increase is applied to the financial assistance granted to trusts or fiduciary funds subject to certain conditions and related to the financing of public sector or the inclusion of debt instruments issued by them.

Globally, lending to the public sector cannot exceed 75% of the institution's RC. As from July 2007, monthly credit assistance to the public sector cannot exceed 35% of a financial institution's assets.

Transactions with the non-financial private sector of the country and non-financial sector abroad

Financings	Maximum limit

[6] www.bcra.gob.ar "Financial System - Legal and Regulatory Framework – Legislation and Summaries - Compiled texts on General Regulations"; Credit ratings.

[7] www.bcra.gob.ar "Financial System - Legal and Regulatory Framework – Legislation and Summaries - Compiled texts on General Regulations"; Credit Risk Diversification.

i) For each borrower a) Unsecured financings b) Total financings (secured or not) and/or collaterals included in financings guaranteed by other persons	15% 25%
ii) For each Reciprocal Guarantee Company (RGC) (even related) or public guarantee fund	25%
iii) For each export credit insurance company	15%

Transactions with the financial sector of the country

Transactions	Lender	Taker	
		Rated 1, 2 or 3	Rated 4 or 5
Financing by a financial institution that is not a second tier commercial bank to a local financial institution	Rated 1, 2 or 3	25% *	25%
	Rated 4 or 5	25%	0%
Financing by a financial institution that is a second tier commercial bank	Rated 1, 2 or 3	100%	
	Rated 4 or 5	100%	0%

* This limit can be extended in two segments, with and without collateral, in both cases by 25% subject to compliance with certain requirements.

Transactions with the financial sector abroad

Transactions	Maximum limit
i) Investment grade banks	25%
ii) Non-investment grade banks	5%

The allocation of margins for exposure to counterpart credit risk in derivative contracts is done on the basis of risk-sensitive measures and the features of each particular type of transaction (type of contract, frequency of marking to market, volatility of the asset). Transactions to be included are forwards, futures and options on shares and public bonds, and BCRA debt instruments for which volatility is published, purchase and sale options on such assets, and swaps.

B.2. Risk concentration

Regulations include the concept of risk concentration, defined as the sum of loans that individually exceed 10% of the institution's RC. Risk concentration cannot be greater than:

- 3 times the RC without considering loans to local financial institutions,

- 5 times the RC on total financings,
- 10 times the RC of second-tier commercial banks when taking into account transactions with other financial institutions.

The 3-time and 5-time limits rise to 4 and 6 times, respectively, whenever increases are allocated to provide assistance to trusts or fiduciary funds from the non-financial public sector.

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

For limit purposes, groups or connected entities in the private non-financial sector are considered to be a single customer. Determination of the existence of an economic group shall be based on the relationship guidelines detailed below.

Operations with related customers

The regulation imposes limits on the risk arising from lending 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 on governing bodies.
2. Control over a company is considered to exist when:

   a. a person or company, directly or indirectly, owns 25% or more of the total votes;

   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, even if holding less than 25% of votes, controls other institutions that can in turn influence the decisions of the controlled company;

   d. the BCRA, through the SEFyC, so determines it.

3. Lending limits for related customers are determined in terms of the RC of the financial institution and its CAMELBIG rating, as follows:

   a. Financial institutions with a CAMELBIG rating between 1 and 3:

      1) To each related customer from non-financial private sector:

         a) Loans with and without collaterals: 10% of RC.

         b) Loans without collaterals: 5% of RC.

         For limit purposes, groups or economic entities are considered as a single customer.

      2) In the case of financial institutions or service companies with complementary activities, there are various limits that depend on the rating of the granting institution and the taker, and whether the companies are subject to consolidation.

      3) Foreign investment grade bank: 10% of RC

   b. Institutions with CAMELBIG ratings 4 or 5:

      Lending to related customers is forbidden, except for subsidiaries and companies that provide complementary services subject to consolidation with limits of 5% and 10% of RC, and loans of up to 30 times the minimum wage (*) to their directors and managers to meet personal and family needs.

4. All related customers, except for such financial institutions or companies performing complementary activities subject to consolidation: 20% of RC.
5. The maximum risk limit for all borrowers having a personal relationship with lender public-sector financial institutions rated from 1 to 3 by SEFyC shall amount to the daily balance of debt recorded in the 12 months prior to the date when such borrowers became related customers or 50 times the minimum wage (*), whichever is higher.

(*) Established by the Argentine Council for Employment, Productivity and Minimum Wage (Consejo Nacional del Empleo, la Productividad y el Salario Mínimo, Vital y Móvil) for monthly paid employees under statutory full working day ($ 8060);
(**) $12.500.000

Debtor classification, provisioning and collateral guarantees[8]

A. Debtor classification

Regulations establish guidelines for classifying debtors from the point of view of their credit quality and compliance with their commitments, according to the evaluation performed for that purpose by the financial institution.

1. The guidelines vary depending on whether commercial consumer or housing loans are involved. Commercial loans of up to 40% of the determined amount (*) may be considered, for classification purposes, as consumption loans and treated as such at the bank's discretion.

2. Debtors and all their loans are included in one of six categories or situations of decreasing credit quality:

Commercial Loans	**Consumer or Housing Loans**	**Arrears**
1. Normal (*)		up to 31 days
2. Special follow-up (**)	2. Low risk	up to 90 days
3. Substandard	3. Middle risk	up to 180 days
4. High Insolvency Risk (***)	4. High risk	up to 1 year
5. Unrecoverable		more than a year
6. Unrecoverable based on technical criteria (****)		

(*) In the case of consumer or housing loans, current account overdrafts are considered to be performing until 61 days have elapsed from the date granted.

(**) Commercial loans in situation 2 are divided into: a) under observation, include those debtors up to 90 days past due in situations that if not controlled or corrected in a timely manner, could compromise their repayment capacity, and b) those under negotiation or with refinancing agreements, which include debtors that although unable to pay their obligations under the agreed conditions, have declared their intention of refinancing their debts no later than 60 days after becoming past due.

(***) This category includes debtors that have filed for creditor protection or an out-of-court preventive measure, or for which payment has been demanded in court. In the case of the consumer portfolio, debtors that have filed for creditor protection or are covered by out-of-court measures can record arrears of up to 540 days.

(****) This category includes debtors with arrears in excess of 180 days that are customers of banks that have been wound up or had their license revoked by the BCRA, residual entities of privatized banks, or trusts of which SEDESA is a beneficiary.

3. The basic criterion for evaluation is the repayment capacity in relation to the debt or the commitments that are the object of the financial institution guarantee. For the commercial portfolio, evaluation is made on the basis of repayment capacity and debtor cash flows, and in the case of consumer and housing loans it is based on debt payment compliance and the legal status of the debtor. Indicators used in the case of commercial loans include liquidity, financing structure, compliance with payment of obligations, quality of management and administration, IT systems, prospects for the customer's business sector, its position within the sector, its legal standing and the existence of refinancing or debt discounts. The evaluation criteria for the consumer and housing portfolios is exclusively objective – the degree of compliance with obligations and the legal situation of the debtor.

4. When loans are fully collateralized by preferred class A collateral, evaluation of repayment capacity is not required.

5. Minimum classification frequency: As a general rule, this should be annual. Nevertheless, classification should take place:

   - during the course of each quarter for customers whose debts are equivalent to 5% or more of the financial institution's RC;

[8] www.bcra.gob.ar "Financial System - Legal and Regulatory Framework – Legislation and Summaries - Compiled texts on General Regulations"; Debtor classification / Minimum provisions for uncollectability risk / Collateral.

- during the course of each half-year term in the case of customers whose debts range from 1% (or the equivalent to the determined amount (*), whichever is lower) to less than 5% of the financial institution's RC.

In addition, the bank should review a debtor's situation when any of the following circumstances take place:

a) when a debtor has debts equivalent to at least 10% of the total notified to the Credit Information Debtor Base in another financial institution, and that institution lowers the customer's rating on the mentioned database;

b) when there are changes to any of the objective classification criteria (arrears or legal situation);

c) when there is more than a one-level discrepancy between the classification assigned by the financial institution and at least two other institutions, and certain requirements have been met.

(*) The maximum value of total annual sales for the "micro" category belonging to the "commercial" sector pursuant to the regulations on "Determination of the condition of MiPyMEs" amounts to$ 12,500,000.

Re-appraisal must be carried out promptly in the case of customers with debts totaling 1% or more of the financial institution's RPC or the equivalent to the determined amount, whichever is lower.

Only a one-level discrepancy is allowed in relation to the information submitted by financial institutions to the Credit Information Data Base. If there is a greater discrepancy between the rating of the bank and the lower classification awarded by at least two other banks, and total loans from such banks account for 40% or more of the total informed, the bank will be required to reclassify the debtor to at least the level immediately above that registering the highest level of indebtedness with the comparison institutions.

B. Provisioning

1. Loan provisioning must be performed on the basis of the classification assigned to the debtor. No provision is required for loans for up to 30 days granted to other financial institutions (if not past due), for loans granted to the public non-financial sector, or unused balances of current account overdraft agreements.

2. The following minimum provisioning levels are to be applied on total debt:

Debtor Category	With preferred collateral	Without preferred collateral
1. Normal (*)	1%	1%
2. a) Under observation and low risk	3%	5%
b) under negotiation or with refinancing agreements	6%	12%
3. Substandard and medium risk	12%	25%
4. Doubtful and high risk	25%	50%
5. Unrecoverable	50%	100%
6. Unrecoverable based on technical criteria	100%	100%

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

3. The SEFyC may require additional provisioning if it determines that the current level is inadequate.

4. Accrual of interest on customer debts classified as "under negotiation or with refinancing agreements" when arrears of more than 90 days in the payment of obligations are recorded, and those in the "substandard" or "medium risk", "high risk", and "unrecoverable" categories must be provided for at 100% as from the moment they are classified in any of those categories. The financial institution may opt to interrupt interest accrual.

5. Customer debt classified as "unrecoverable" and fully provided for must be written off as from the seventh month subsequent to that in which such actions were taken. These loans should be booked in memorandum accounts.

6. Inclusion of debtors in the "unrecoverable based on technical criteria" category results in the obligation to provision loans at 100%, including renewals, stays, forbearance –express or tacit – granted after such classification, once 90 or 180 days have elapsed as from the date on which the first of such financing measures were taken.

7. Provision for the normal portfolio is of a global nature, while in the case of the other categories the allocation of provisions for each debtor is made on an individual basis.

8. New loans in pesos hedged against commodity price risk to which the debtor may be exposed are subject to the minimum provisioning established for the category immediately preceding that of the debtor.

C. Collateral Guarantee

Collateral received by financial institutions to guarantee the loans they grant are classified as follows:

i) **Preferred "A":** Bonds or papers which are assigned or pledged in such a way that a financial institution 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. This category includes guarantees in cash, gold, the bank's own CD's, automatic export reimbursements, the pledging of certain securities (domestic government bonds, BCRA monetary control instruments and securities issued by companies rated "A" or higher that are routinely listed), guarantees and letters of credit issued by foreign banks rated "A" or higher, certain warrants, the assignment of certain collection rights such as those derived from public utility bills to consumers (electricity, gas, telephone, water, etc.) credit card coupons, tariffs and rates for public works concessions, discounted credit titles (deferred payment checks, promissory notes, bills of exchange and credit invoices) for which payment responsibility lies with the assignor, as long as certain conditions regarding risk diversification and credit quality of the issuer are met, guarantees granted by reciprocal guarantee companies on the BCRA register, provided that credits are effectively paid within 30 calendar days of their having fallen due certain types of export credit insurance when the policy contemplates effective payment of the credits within 180 calendar days of their having fallen due, and the guarantees offered by the National, provincial and/or municipal government or the government of the City of Buenos Aires to producers falling under the provisions of the Agricultural Emergency Law until December 31, 2017, provided that they are channeled through the assignment by way of security of their resources arising from federal and/or provincial co-participation in terms of taxes, royalties and/or similar funds and/or the collection of their own taxes.

ii) **Preferred "B"**: They consist of real rights on third parties' assets and liabilities such as senior mortgages on real estate; fixed pledge—whether first registered or non-possessory security interest;— registered floating pledge on motor vehicles and agricultural, road building and industrial machinery, and cattle; export credit insurance; guarantees granted by reciprocal guarantee companies registered with the BCRA; financial leasing for real estate, motor vehicles and agricultural, road building and industrial machinery; certain guarantee trusts set up to secure the payment of loans granted for the construction of real estate; and the assignment as collateral of bills of sale of certain real estate and of rights on real estate developments.

Minimum cash requirements[9]

Requirements are determined on the basis of the monthly average of daily balances of demand and time deposits and other liabilities arising from financial intermediation, in pesos and foreign currency and in government securities and BCRA monetary regulation instruments recorded at the end of each day during the calendar month. In the case of local currency, from December of one year through February of the next year a quarterly position is established for seasonal reasons. Exclusions include liabilities to the BCRA and local financial institutions, liabilities to banks abroad for foreign trade credit lines, forward and unsettled spot purchases and sales, and sight liabilities from transfers abroad and correspondent arrangements abroad.

[9] www.bcra.gob.ar "Financial System - Legal and Regulatory Framework – Legislation and Summaries - Compiled texts on General Regulations"; Minimum cash requirements.

The requirement for time deposits in government securities or BCRA monetary regulation instruments must be calculated in the type of deposit taken, at market value.

The following rates must be applied for calculating minimum cash compliance. In the case of transactions in Argentine pesos, these will depend on the category of the location of the branch in which deposits are made.

Requirement ratios vary on the basis of the residual term of the obligations (the time left until the transaction falls due):

Transactions	Pesos		Foreign currency
	Category I	Categories II to VI	
Current account deposits and credit union sight accounts	20%	18%	- -
Saving account deposits, salary and special account deposits, other deposits and eligible demand liabilities	20%	18%	25%
Non-bank financial institution current accounts	100%	100%	- -
Time deposits, "acceptance" liabilities, repos, sureties and stock exchange repos, constant term deposits and others, according to residual term			
i) Up to 29 days	14%	13%	23%
ii) From 30 to 59 days	10%	9%	17%
iii) From 60 to 89 days	5%	4%	11%
iv) From 90 to 179 days	1%	0%	5%
v) More than 180 days More than 365 days (*SIC*) vi)	0%	0%	2%(*)
	--	--	0%
Outstanding commercial papers (including corporate bonds):			
i) Up to 29 days	14%	14%	23%
ii) From 30 to 59 days	10%	10%	17%
iii) From 60 to 89 days	5%	5%	11%
iv) From 90 to 179 days	1%	1%	5%
v) More than 180 days	0%	0%	2%(*)
vi) More than 365 days (*SIC*)	--	--	0%
Foreign financial lines	0%	0%	0%
Demand and time deposits made on court order and their blocked balances	13%	13%	15%
Loans from the Assistance Fund for Financial and Insurance Institutions	0%	0%	0%
Time deposits and investments placed on behalf of minors for funds gratuitously received.	20%	20%	0%
Deposits related to inflow of funds from abroad (Decree 616/05)	100%	100%	100%
Time deposits in the form of non-transferrable nominative certificates in pesos belonging to public sector holders, with the right to opt for early withdrawal in less than 30 days from their setting up	16%	15%	- -
Term deposits and investments of units of purchasing power (Unidades de Valor Adquisitivo, UVAs) and housing units (Unidades de Vivienda, UVIs), including savings accounts and debt securities (including corporate bonds) expressed in UVAs and			

Transactions	Pesos		Foreign currency
	Category I	Categories II to VI	
UVIs.			
i) Up to 29 days	7 %	6 %	
ii) 30 to 59 days	5 %	4 %	- - -
iii) 60 to 89 days	3 %	2 %	
iv) 90 days or more	0 %	0 %	

(*) Residual term: from 180 to 365 days.

In addition, banks must maintain daily minimum requirement equal to 50% of the prior month requirement (70% is required when there was a shortfall in the previous month).

Reduction of the average minimum cash requirement in pesos:

1. The requirement is reduced considering the ratio between loans to SMEs in pesos and total loans to the non-financial private sector in the same currency, according to the following table:

Ratio between loans to SMEs and total loans to the non-financial private sector (%).	Deduction (on the total of the items in pesos). In %	Ratio between loans to SMEs and total loans to the non-financial private sector (%).	Deduction (on the total of the items in pesos). In %
Less than 4	0	Between 18 and less than 20	2.00
Between 4 and less than 6	0.25	Between 20 and less than 22	2.25
Between 6 and less than 8	0.50	Between 22 and less than 24	2.50
Between 8 and less than 10	0.75	Between 24 and less than 26	2.65
Between 10 and less than 12	1.00	Between 26 and less than 28	2.80
Between 12 and less than 14	1.25	Between 28 and less than 30	2.90
Between 14 and less than 16	1.50	30 or more	3.00
Between 16 and less than 18	1.75		

2. The minimum cash requirement in pesos is also reduced based on withdrawals through financial institutions' ATMs, only when available, at least 10 hours a day, for users of any financial institution and ATM network. This reduction varies depending on ATMs jurisdictions, their location — whether inside or outside a branch — and the amount of money supplied.

3. In turn, the minimum cash requirement is decreased in terms of the loans that have been granted to MiPyMEs as from January 2014. The lending so channeled will be reduced by 16%, provided that the financing term at the time of granting exceeds 5 years and the average term is equal to or above 30 months.

4. Likewise, the minimum cash requirement is reduced based on deposits made by the Argentine Social Security Administration (ANSES) for the payment of social security benefits depending on the geographical location of the branch where payments are made.

5. Finally, the requirement is reduced by 16% of the amount of loans in pesos granted by financial institutions as under the Program "Ahora 12"(*), whether directly or indirectly (to credit card issuing non-financial institutions at a maximum interest rate of 17%).

(*)Program "Ahora 12"; Resolution No. 82/2014 issued by the Ministry of Economy and Public Finance of the Nation.

Supplementary requirement: Non-compliance with rules on allocation of lending capacity from foreign currency deposits produces an additional requirement in that currency for an equal amount.

Increase in the minimum cash requirement:

The requirement for non-compliance with the rules on "Credit Line for Productive Investment" (LCIP) has been increased. Hence, the failure to follow such rules will trigger a rise in the average minimum cash requirement in pesos for an amount equivalent to the breach, and will be implemented from the day following its identification throughout 24 months.

Minimum cash compliance requirements:

Compliance must take place in the same currency of the requirement, making use of one of the following:

- financial institution current accounts in pesos opened at the BCRA;
- financial institution minimum cash requirement accounts opened at the BCRA in dollars or other foreign currencies, subject to remuneration;
- special accounts for guarantees in favor of the electronic clearing houses, credit cards and ATM settlement systems, and for instant funds transfers;
- current accounts of non-banking financial institutions;
- special current accounts with the BCRA opened by the ANSES (Argentine Social Security Administration) to meet social security benefit payments; and
- sub-account 60 for minimum cash opened in the "Centre for Recording and Settlement of Public Sector Liabilities and Financial Trusts - CRYL" in government securities and BCRA monetary regulation instruments that have been marked to market.

The requirement not paid in for each period may be carried forward to the next position for up to a maximum of six periods.

Failure to meet a minimum cash requirement and the daily minimum peso cash requirement will be subject to a charge equivalent to twice the private bank BADLAR rate for deposits in pesos, as published on the last business day of the period. Lack of compliance in foreign currency is subject to a charge of twice the private bank BADLAR rate for deposits in US dollars or twice the 30-day US dollar LIBO rate for the last business day of the month, whichever is higher. If there are repeated shortfalls in liquidity compliance, the institution shall be prevented from opening new branches locally and abroad, and will not be allowed to increase its deposit levels.

BCRA liquidity assistance[10]

Financial institutions meeting the following requirements will be granted direct access to assistance. Applications from institutions not meeting all regulatory requirements will need to be evaluated by the BCRA Board before deciding whether or not to approve the request.

The requirements to be met to gain direct access to assistance – in addition to the assigning in guarantee of the instruments that will act as security for this credit assistance, plus the corresponding margin– establish that the applicant bank must present a liquidity ratio lower than 20%, and the amount of the liquidity assistance to be granted should be the lower of: the amount requested by the institution; the amount of assistance that raises the liquidity ratio up to 30%; the decrease in sources of financing calculated in aggregate manner (deposits, term investments, net borrower positions for interbank loans, foreign lines of credit and corporate bonds); 20% of the total assistance to the financial system projected by the Monetary Program, and the difference between the institution's net worth and its outstanding debt to the BCRA under this assistance regime. Assistance will last for 180 days, renewable for similar periods, with interest payments due every 30 days at the current rate. Banks will be required to make repayment in advance on the basis of the evolution of their liquidity ratio.

[10] www.bcra.gov.ar "Financial System - Legal and Regulatory Framework – Legislation and Summaries - Compiled texts on General Regulations"; Financial assistance due to temporary lack of liquidity.

Fixed assets and other items[11]

Fixed assets should not exceed 100% of a bank's RC. This limit may be increased by 50 percentage points if the immobilization of assets arises from the holding of national government securities included on the list of volatilities for the minimum capital regime and/or BCRA monetary regulation instruments assigned in guarantee by the financial institution in favor of the BCRA as required by regulations.

The following items are included:

a) shares in domestic companies,
b) sundry credits (including assets assigned to guarantees)
c) assets for own use,
d) sundry assets,
e) shares in mutual funds or securitizations whose assets fall under the above categories, and
f) loans to related customers.

Assets assigned in guarantee of security and foreign currency repos, futures, options and other derivative products are not included in the calculation.

Foreign currency net global position[12]

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 on domestic self-regulated markets are also included, with settlement of the net amount without delivery of the underlying asset. For the purpose of determining RC, the following is excluded from the ratio: deductible assets, and the items recorded by financial institutions in their branches abroad as under applicable regulation.

The limit for the net negative global position in foreign currency is 30% of the RC. In turn, the limit for the positive net global position in foreign currency of a financial institution is 30% of its RC or its own liquid funds, whichever is lower. The excesses of these ratios are subject to a charge of 1.5 times the nominal interest rate on pesos denominated Lebac (BCRA bills). Charges not paid in when due, are subject to the charge established for excesses, increased by 50%.

Use of foreign currency funds[13]

Lending capacity from foreign currency deposits and funds in foreign currency arising from liabilities in such currency, including dollar term deposits to be settled in pesos, must be applied in the same currency as that of the deposit, to any of the following:

a) Pre-financing and financing of exports to be made directly or through principals, trustees or other brokers acting on behalf of the owner of the merchandise, as well as transactions intended to finance providers of services that will be exported directly.

b) Financing to exporters with future income flow in foreign currency showing during the year prior to the granting of the financing that their billing in foreign currency is in keeping with the loan granted.

c) Financing to manufacturers, processors or stockpilers of goods, provided that they have executed final sale agreements with fixed prices or prices to be fixed in foreign currency, and as long as they deal with consumables quoted in foreign currency, according to customary practices in local or foreign markets, or their main activity is the manufacturing, processing and/or stockpiling of consumables quoted in foreign currency, according to customary practices in foreign markets. In addition, they shall show during the year prior to the granting of the financing that their total billing for such consumables is in keeping with their activity and the loan granted.

[11] www.bcra.gob.ar "Financial System - Legal and Regulatory Framework – Legislation and Summaries - Compiled texts on General Regulations"; Ratio for fixed assets and other items.
[12] www.bcra.gob.ar "Financial System - Legal and Regulatory Framework – Legislation and Summaries - Compiled texts on General Regulations"; Foreign currency net global position.
[13] www.bcra.gob.ar "Financial System - Legal and Regulatory Framework – Legislation and Summaries - Compiled texts on General Regulations"; Credit policy, paragraph 1.4 and Section 2. Application of foreign currency deposit lending capacity.

d) 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.

e) Financing for manufacturers of goods for export, as final products or as part of other goods, by third party purchasers, provided that they have executed final sale agreements and/or have obtained a guarantee or collateral in foreign currency from third party purchasers and/or final sale agreements in foreign currency and/or for exportable goods.

f) Financings to suppliers of goods and/or services that participate in the productive process of fungible goods quoted in foreign currency, according to customary practices in local or foreign markets, widely known and easily available to the public, provided that they have final sale agreements of such goods and/or services in foreign currency and/or for such goods.

g) Financing for commercial customers or commercial loans considered as consumer loans, with the purpose of importing capital goods, whenever they help to increase goods production for the domestic market.

h) Debt securities or financial trust participation certificates in foreign currency whose underlying assets are the above-mentioned loans or instruments in foreign currency bought by the fiduciary to complete any of the above mentioned financings.

i) Financing for purposes other than those set forth in 2.1.1. to 2.1.4. and the first paragraph of 2.1.6. included in the credit program mentioned in "IDB Loan No. 1192/OC-AR", but not exceeding 10% of the lending capacity.

j) Loans made from one financial institution to another.

k) LEBACs and NOBACs in US dollars.

l) Foreign direct investments by Argentine resident companies aimed at developing productive activities of non-financial goods and/or services, either through capital contributions to and/or purchases of shares in companies, as long as they are incorporated in countries or territories considered cooperators for the purposes of fiscal transparency in accordance with the provisions set forth in Section 1 of Decree No. 589/13, as supplemented. Financing of investment projects, including their working capital, that allow for the increase of production in the energy sector and have been granted as under final sale agreements and/or secured by a guarantee or collateral in foreign currency.

m) Primary subscription of debt instruments in foreign currency from the National Treasury, for up to an amount equal to one third of all allocations made according to their intended use.

n) Financing of investment projects aimed at cattle production/breeding, including their working capital, without exceeding 5% of the institution's foreign currency deposits.

o) Financing to foreign importers for the acquisition of goods and/or hiring of services produced in Argentina, either directly or through credit lines to foreign banks.

p) Financing to Argentine residents guaranteed by stand-by letters of credit issued by foreign banks that comply with the provisions of paragraph 3.1. of the Regulations on "Credit assessments", requiring to this effect an international investment grade risk rating, insofar as such letters of credit are unrestricted and funds are immediately credited upon request of the beneficiary institution.

Financial institutions must confirm that borrowers have sufficient repayment capacity, determined when considering at least two scenarios over up to one year with considerable variations in the foreign exchange rate.

Lending capacity surpluses in excess of the above-mentioned uses generate an additional foreign currency minimum cash requirement, so that they must be held in US dollars in cash, or deposited with the BCRA.

Valuation of public sector debt instruments and instruments issued by the BCRA for monetary regulation[14]

In accordance with International Financial Reporting Standards (IFRS), accounting valuation of these instruments can be made following two criteria: fair value or amortized cost.

The fair market value category includes public bonds and monetary regulation instruments included on the list of volatilities or present values published by the BCRA. These instruments, valued at listed price or present value as the case may be, are for trading or intermediation, and provide financial institutions with liquidity coverage.

The cost plus yield category mainly includes those instruments not included on the mentioned listings, Secured Loans, and loans to the public non-financial sector. Transactions are recorded at the value of their incorporation and increased monthly according to their internal rate of return, as the purpose of the investment is to receive the contractual cash flows.

Financial institutions may reclassify government securities included under the first of these criteria to the cost plus yield segment as long as they maintain a certain level of liquid assets in relation to their deposits.

Dividend distribution[15]

Financial institutions may distribute dividends on condition that i) they are not covered by the terms of sections 34 "Regularization and recovery" and 35 bis "Institution restructuring to safeguard lending and bank deposits" of the Law on Financial Institutions (Law 21,526); ii) they do not record financial assistance from the BCRA, (iii) they do not evidence arrears or noncompliance with the information regime established by the BCRA, (iv) they do not record shortfalls in minimum capital requirements or cash requirements; or (v) they have not been imposed any significant sanction — fine (exceeding by 25% the amount of the latest reported regulatory capital), disqualification, suspension, prohibition or license revocation — in the last five (5) years by the BCRA, the Financial Information Unit (UIF), the National Securities Commission (CNV) and/or the National Bureau of Insurance (SSN), except where any such sanctions exist but corrective actions have been taken at the SEFyC satisfaction, and — if appropriate — after consulting the institution that has imposed the relevant sanction.

Financial institutions not included in the above paragraph may distribute earnings up to the positive amount after deduction from retained earnings of legal reserves and the following items:

1. differences capitalized as a consequence of compliance with court injunctions on deposits converted into pesos,

2. net positive difference between book and market value if the financial institution holds government bonds / BCRA's debt instruments not marked to market, with volatility published by the BCRA,

3. adjustments to assets valuation notified by the SEFyC,

4. individual preferential assets valuation allowances granted by the SEFyC,

Notwithstanding the adjustments mentioned before, dividends distribution will not be admitted if:

- average of liquidity compliance – in pesos, foreign currency or national government bonds is less than the last requirement or the one projected, considering the effect of dividends distribution; and/or
- the financial institution has not complied with any applicable additional capital buffer.

[14] www.bcra.gob.ar "Financial System - Legal and Regulatory Framework – Legislation and Summaries - Compiled texts on General Regulations"; Valuation of public sector debt instruments and instruments issued by the BCRA for monetary regulation.
[15] www.bcra.gob.ar "Financial System - Legal and Regulatory Framework – Legislation and Summaries - Compiled texts on General Regulations"; Dividend distribution.

Guidelines for corporate governance[16]

As from January 2012 financial institutions must have effectively implemented a corporate governance code that considers the guidelines established in relation to the responsibilities of the Board, Senior Management, audits –both internal and external- and the standards applicable on matters regarding independence, committees, setting of strategic objectives, values of the organization and lines of responsibility, as well as aspects in relation to internal control, "economic incentives to personnel" policies, risk management, transparency and "know your organizational structure". Guidelines and recommendations should be evaluated in relation to risk profile, the importance and complexity of each institution, contemplating current legislation where applicable and the specific nature of each financial institution.

The corporate governance code deals with the way that the Board and Senior Management direct the activities and business of their financial institutions, influencing among other matters the way in which corporate objectives are set, the way daily operations are performed, risks are defined, responsibilities to shareholders are assumed, and how the interests of other relevant third parties are considered, with the aim of protecting the interests of depositors and ensuring that the activities of the institution meet appropriate safety and solvency standards, complying with current laws and regulations.

On this point, it is considered sound practice that most of the Board members making up the Audit Committee should be independent, and that at least one of those members should have extensive experience in accounting and financial matters.

Rules on the matter of personnel "economic incentive" policies are intended to align such practices with the creation of long-term value, avoiding excessive risk-taking by financial institutions. The Board is to be responsible for approving, overseeing and reviewing the operation of the "economic incentives" mechanism for all personnel in accordance with current legislation. It is also considered to be sound practice for the incentive payment schedule to be sensitive to the time horizon of the risks. Any economic incentive falling beyond the legal provisions and/or conventions and/or contracts governing the relationships between financial institutions and their personnel must conform to certain guidelines (i.e., a substantial amount must be variable depending on performance and risk, and paid on a deferred basis). The amount deferred increases considerably based on the responsibility and hierarchy of the member of the staff concerned. In case of termination of a labor relation, financial institutions are only required to pay the legal indemnities set forth by law. Should a financial institution decide to pay higher amounts, such payment shall not be committed in advance, and shall be subject to the creation of long-term value and the prudent risk-taking practices adopted.

Furthermore, with the aim of ensuring that financial institutions are directed in a transparent manner, appropriate communication with the general public is recommended, using public sites such as Internet. The purpose of the transparency policy for corporate governance is to provide the necessary information so that interested third parties can evaluate the effectiveness of Board and Senior Management administration. It is understood that the publicizing of corporate governance aspects can assist market participants and other interested parties in monitoring the strength and solvency of financial institutions. The "know your organizational structure" policy establishes that the Board and Senior Management must be familiar with the operating structure of the institution and ensure that policies and procedures are applied so that among other matters, the performance of activities through corporate structures or jurisdictions that hinder transparency can be avoided.

Lastly, it is established that banks must adopt strategies, policies, practices and risk management procedures that are in accordance with the "Guidelines for financial institution risk management."

Guidelines for risk management[17]

Financial institutions must be equipped with a comprehensive risk management process that is proportional to their size and economic significance, as well as to the nature and complexity of their operations, based on the guidelines established by the BCRA.

[16] www.bcra.gob.ar "Financial System - Legal and Regulatory Framework – Legislation and Summaries - Compiled texts on General Regulations"; Guidelines for corporate governance in financial institutions.
[17] www.bcra.gob.ar "Financial System - Legal and Regulatory Framework – Legislation and Summaries - Compiled texts on General Regulations"; Guidelines for risk management in financial institutions.

The management process shall be adequate, sufficiently proven, duly documented and regularly reviewed subject to changes that may arise in an institution's risk profile and the market. Institutions shall have an internal, integrated and global process to assess the adequacy of their economic capital based on their risk profile ("Internal Capital Adequacy Assessment Process" - "ICAAP") as well as a strategy to keep their capital levels throughout time. Economic capital is defined as the capital required to cover not only unexpected losses stemming from any exposure to credit, market and operational risks, but also those arising from other risks to which institutions may be exposed. Within the review framework of compliance with BCRA regulations, the SEFyC shall examine the economic capital adequacy internal assessment process. If the SEFyC considers, upon the conclusion of such examination, that the results of the ICAAP are not satisfactory or that the conditions and requirements set by the relevant rules are not complied with, it may take a wide range of potential measures, such as requiring capital levels exceeding the minimum amount.

Guidelines include aspects related to the management of a variety of risks: credit (and specific aspects relative to counterparty credit risk, residual risk, and country risk), liquidity, market, interest rates, operational, from securitizations, concentration, reputation and strategy.

The Board shall ensure that institutions have a suitable framework for risk management and that the Senior Management implements such framework properly as well as the strategy for the management of significant risks.

Financial institutions shall regularly disclose information that will allow market participants to assess the soundness of the management framework, including qualitative data whereby they may know the way different risks are managed.

Furthermore, the relevance of stress tests is emphasized; they complement the scope of all other management tools and are aimed at providing a prospective risk assessment while allowing to overcome limitations arising from models and historical data; improving internal and external communication; promoting planning procedures concerning capital and liquidity and the setting of risk tolerance levels; and facilitating the development of risk mitigation and contingency plans within a range of potential stress situations. Tests shall be applied following a criterion of proportionality, considering the size of financial institutions, the nature and complexity of their operations, their risk exposure, and systemic importance.

Credit Unions[18]

Law 26,173 modified the Financial Institutions Law to promote the development of Credit Union (Cajas de Crédito Cooperativas - CCC). In September 2007 the BCRA regulated the terms of the law on the basis of the characteristics of these institutions that mainly target the population segment making limited use of banking services and having low access to institutional credit.

Licensing and minimum capital requirement

Credit unions have to be organized as cooperatives. Their establishment requires licensing from the BCRA. Credit unions may operate with up to five branches, including temporary offices. Members must develop their activity or be domiciled in the institution's district. When considering the viability of the project, initial minimum capital requirements range from $1,000,000 to $6,000,000, according to the credit union's region of operations. If a credit union asks for the establishment of all its branches in localities, municipalities or towns where up to two branches of financial entities have already been set up, the applicable minimum capital requirement will be that of the next lower category.

Lending

Considering the characteristics of the economic sectors to be financially assisted by these institutions, lending requirements have been significantly eased. At the end of each calendar month, the total amount of lending to members must be at least 75% of the total portfolio. For debtors not domiciled in the institution's district or that carry out business outside the area of the CCC, loans must not exceed 15% of the total portfolio. The maximum term for loans with a bullet repayment on maturity is one year, while temporary loans credited in demand accounts for bills of exchange settlement will have a maximum term of 30 days. The average duration for other loans has been set as follows: i) residential mortgages: 96 months; ii) commercial: 60 months; iii) others: 36 months.

[18] www.bcra.gob.ar "Financial System - Legal and Regulatory Framework – Legislation and Summaries - Compiled texts on General Regulations"; Credit unions.

In the case of limits for loans credited in demand accounts, the first year the limit will be 200% of the institutions RC, and 300% as from the second year. "Screening" and "credit scoring" methods may be used for evaluating loans.

Borrower classification

Debtors with loans full covered by preferred category "A" collateral do not require classification. The remaining borrowers must be rated from the standpoint of their credit quality and their compliance with their commitment into the following levels:

- Normal: Payment made normally or with arrears of no more than 31 days.
- Low risk: occasional non-compliance with arrears from 31 to 90 days.
- Middle risk: borrower has difficulty settling obligations, with arrears from 90 to 180 days.
- High risk: with arrears from 180 days to a year, or in litigation.
- Unrecoverable: borrowers insolvent, in litigation or bankrupt, with little or no possibility of recovery, or with arrears of more than a year.
- Unrecoverable on the basis of technical criteria.

Minimum provisioning levels for credit risk are similar to those in effect for other financial institutions.

Credit risk diversification

Total transactions in the name of a single physical or legal person shall not exceed the following percentages, determined on the basis of the credit union's RC.

Coverage	Unrelated customers	Related customers
With preferred collateral	25%	10%
Without preferred collateral	15%	5%

Funding

Credit union funding is based on a well-diversified structure of deposits. Deposits can be taken exclusively in pesos from physical and legal persons, whether or not they are members of the association. Total transactions with members cannot be less than 51% of deposits and other liabilities from financial intermediation. Deposits in credit unions are guaranteed by the deposits insurance system, with the same general constraints and scope as for other financial institutions. Credit unions may offer bill of exchange services payable at sight or on a fixed date (not exceeding 360 days) for the withdrawal of funds or payments to third parties, to members showing that they are located in the area or carry out some economic activity within it.

Liquidity requirements

The general rules apply. Reserve compliance can be made in deposits in pesos in current accounts at the BCRA or in commercial banks, or in special guarantee accounts for transactions with electronic clearing houses.

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 margins with other financial institutions; 3) shares in other companies, 4) guarantees in third parties' transactions.

Deposit insurance scheme[19]

Law 24,485 set up the Deposit Guarantee Insurance System, a limited, mandatory and onerous scheme intended to provide cover in a subsidiary and complementary manner to the system of deposit privileges and protection established by the Financial Institutions Law without committing BCRA resources or those of the Treasury. A private company,

[19] www.bcra.gob.ar "Financial System - Legal and Regulatory Framework – Legislation and Summaries - Compiled texts on General Regulations"; Deposit guarantee insurance.

SEDESA, manages the Deposit Guarantee Fund (FGD) that all financial institutions must contribute to. The FGD is built up by means of monthly contributions calculated on the basis of a fixed percentage—0.015%—of deposits, and another variable percentage based on the risk represented by each institution.

The system incorporates mechanisms to mitigate moral hazard in the case of both depositors (coverage is limited) and institutions (through the risk-based premium). The guarantee covers principal deposited and accrued interest, up to a maximum of $450,000 per person. In the case of accounts and deposits in the names of two or more persons, the limit is maintained, so that this sum must be distributed proportionately among all holders. Among other items, coverage does not include deposits for which title has been acquired by endorsement, those that offer incentives other than the interest rate, and deposits made by persons with links to the financial institution. To determine the variable contribution, bank risk is measured on the basis of portfolio quality, type of assets, ratio between the excess RC compliance and minimum capital requirements and the CAMELBIG rating.

Financial services consumer protection[20]

The term financial services consumers includes natural and legal persons that, as final consumers and to their own benefit or that of their family or social group, use services rendered by bound parties (financial institutions, foreign exchange houses, agencies and offices, credit and store card issuers and trustors that are creditors of loans granted by financial institutions). Consumers have a right to:

- get their economic interest and security protected;
- receive suitable and true information regarding conditions and costs of services hired as well as copies of instruments signed;
- enjoy freedom of choice; and
- have equitable and fair treatment conditions.

Bound persons shall adopt any necessary measures to ensure these rights and shall justifiably solve any claims filed by consumers. The BCRA supervises the actions of bound persons and may impose sanctions for non-compliance with the regulations on consumer protection.

Pursuant to consumer protection regulations, people with reduced mobility are to receive priority attention and visually impaired consumers must be offered Braille documentation. There are several other measures that institutions are required to adopt in order to increase protection for differently abled consumers.

Financial agreements must be plainly written in a minimum font size, so as to facilitate reading. They must also contain a "revocation clause" allowing consumers to undo the acceptance of a product or service within ten business days after the later of receipt of the agreement or availability of a product or service.

All fees and charges—excluding interest rates—must derive from a real, direct and verifiable cost, and may only be applied to the actual provision of the service requested or authorized by a consumer. Charges for services rendered by third parties (mailing, insurance, notary public and ownership registry fees) may only be transferred to the consumer without exceeding the amount charged by the relevant third party to their own customers. Fees stand for the services rendered by bound parties and may include compensations in excess of their cost. In the case of credit transactions, these parties may collect fees on unused amounts of fund allocation agreements and for early repayment, except when loans are reimbursed in full, and a quarter of the original term or 180 days have elapsed, whichever the longer. No charges or fees may be imposed on transactions made by natural persons through bank cashiers—even in branches other than the one where the account has been opened,—for hiring and/or managing insurance, issuing or e-mailing account statements, or for assessing, granting, or managing loans. Neither may they be imposed on expenses arising from the appraisal of contingencies or notarial services and fees incurred upon the granting or settlement of a loan — such as mortgages or pledges. Moreover, no charges may be applied in terms of life insurance on debit balances when such insurance is contracted along with financial products, such as credit cards and loans.

Bound parties (only financial institutions and credit card issuers) must post on their website home page all fees and charges, interest rates and total financial cost of all the products and services they offer to consumers as well as the highest interest rates applicable as provided for by the relevant legal and/or regulatory provisions in force. In the case of products or services whose conditions vary depending on certain parameters (such as age, term, amount,

[20] www.bcra.gob.ar "Financial System - Legal and Regulatory Framework – Legislation and Summaries - Compiled texts on General Regulations"; Financial services consumer protection.

employee/retired status, collecting or not payment of wages/pensions through the bound party, etc.), the postings must be segmented into categories standing for each parameter.

Bound parties shall provide customer service to manage and solve enquiries and claims, complying with effective legal regulations and provisions regarding the protection of financial services consumers. They must also appoint an officer in charge of the overall operation of customer service. The officers responsible for the customer service shall make the following information available to the BCRA at the place where they perform their duties: the record containing all enquiries and claims as well as all supporting documentation of proceedings, the procedure handbook, annual reports of the internal audit, reports prepared by the responsible for customer service—at least on a quarterly basis—and the corresponding assessment by the Board or equivalent authority.

Certificates of Deposit for Investment (CEDIN)[21]

Pursuant to Law 26,860 on "Voluntary Disclosure of Foreign Currency Holdings in Argentina and Abroad," the BCRA is authorized to issue "Certificates of Deposit for Investment (CEDIN)," —which shall be in dollars, nominative and endorsable—regulating aspects related to their design and security measures, as well as procedures for subscription, registration, endorsement, and use within purposes allowed.

CEDINs shall be used subject to the following conditions, among others:

- Applicants for the subscription of CEDINs may do so at any financial institution even if they do not have an account open, by providing US dollars in cash or through transfers from abroad. Applicants who subscribe for CEDINs to disclose funds shall submit an affidavit declaring they are bound by the provisions of Law 26,860.
- Financial institutions shall ensure the availability of certificates in all of their branches.
- CEDINs may be submitted to any financial institution for their endorsement, verification of their use and/or their collection.
- CEDINs shall neither accrue any interest nor have a maturity date, without prejudice to the provisions related to statutes of limitations.
- Allowed purposes: purchase of land, plots or parcels —whether urban or rural— storehouses, premises, offices, parking lots and already built dwellings (including such transactions as are channeled through real estate trust funds or building companies), and/or construction of new dwellings and/or remodeling, expansion and refurbishment of real estate and/or purchase of construction materials in the case of remodeling, expansion or refurbishment.
- A CEDIN holder may exchange them for other CEDINs which, as a whole, amount to the same value of the certificate submitted. The exchange may be carried out at any financial institution.
- Financial institutions shall not impose any charges, fees, recovery of expenses or any other consideration in exchange for any of the services rendered in connection with CEDINs.

Financial institutions participating in the transaction shall comply with provisions on "Prevention of money laundering, financing of terrorism and other illicit activities".

[21] www.bcra.gob.ar "Financial System - Legal and Regulatory Framework – Legislation and Summaries - Compiled texts on General Regulations"; Certificates of Deposit for Investment.

II. Licensing of financial and exchange institutions

A. Financial institutions

There is total freedom for the entry and exit of financial institutions from the market, as well as for their merger or absorption. Legislation does not impose restrictions based on the investors' nationality nor the type of businesses in which they may participate. National and foreign capitals are treated equally.

Licensing of new financial institutions

The establishment of new financial institutions requires licensing from the BCRA, according to section 7 of the Law on Financial Institutions.

Institutions can be set up as commercial banks, investment banks, mortgage banks, finance companies, building and loan associations or credit unions. Commercial banks are classified according to the transactions they perform into ***first and second-tier institutions***.

The minimum capital requirement is determined on the basis of the jurisdiction where the financial institution's main activity is located, with decreasing levels of basic requirement for those areas with less relative offer of banking services and depending on the type of financial institution involved. The minimum capital requirement set for banks is between $ 26,000,000 and $ 15,000,000; for credit unions, between $ 6,000,000 and $ 1,000,000, and for the remaining institutions, between $ 12,000,000 and $ 8,000,000.

The requirements and conditions laid down for the setting up of new banks shall apply to the setting up of branches of foreign financial institutions, and in addition the country of origin must be subject to a supervision system on a consolidated basis. Applications from so-called "shell banks" shall not be considered.

Merger, consolidation and transfer of goodwill

Merger, consolidation and transfer of goodwill may be arranged between institutions of the same or different type, and will also require prior approval from the BCRA.

The institution arising from the merger or that absorbing another institution or incorporating its underlying business must submit a financial and economic structure profile justifying the authorization of the project by the BCRA.

Transformation of Financial Institutions

Financial institutions may be transformed into institutions in a different category, subject to the approval of the BCRA.

To obtain such authorization, institutions must comply with minimum capital requirements as well as other prudential regulations, and they must not have liquidity, solvency, risk or profitability problems.

Credit unions shall not be able to transfer their underlying business to institutions of a different legal nature, or become transformed into commercial institutions.

Changes to shareholding structure

According to section 15 of the Financial Institutions Law, institutions have to report every negotiation on share packages producing changes in the classification of the institution or alteration to the structure of shareholding groups. The BCRA must consider the convenience and timeliness of these changes, and can deny approval or revoke the authorization granted when the basic conditions originally taken into account have been significantly modified.

Conversion of irrevocable contributions into ordinary shares that are not proportional to the capital held by each shareholder are also covered by this regulation, as are any other actions leading to changes in the category of the institutions or altering the shareholding structure, such as the exercise of a purchase option, the subscription of new share issues, their transfer through inheritance or donation, or the syndication of shares, among others.

Foreign financial institutions shall not be permitted to become shareholders if they are considered to be so-called "shell banks."

Institutions must also report to the SEFyC any substantial changes introduced in the shareholding structure of legal persons domiciled abroad that, directly or indirectly, control financial institutions in Argentina.

Managers and Directors

Financial institutions are required to submit to the consideration of the BCRA the credentials of persons appointed for positions of the Board or Administrative Council, Comptrollership or Surveillance Committee — unless those appointments are renewals of previous mandates — as well as the credential of those persons appointed as new general managers or deputy general managers empowered to replace them as the highest management authorities of the financial institution's branch abroad.

Background evaluation is required for:

- *Promoters and founders:* suitability and experience in the financial sector should be demonstrated, according the requirement for directors or councilors.
- *Directors or councilors:* These must be qualified persons for the role to be performed, based on i) background of performance in the financial business and/or ii) professional profiles and experience in the private or public sectors in areas related to the institution's commercial activity. At least two thirds of directors must demonstrate experience in positions as directors, managers or similar positions in the financial field, public or private sector, in the country or abroad. In the case of credit unions, their councilors should demonstrate suitability for their role, while the majority of the members of the Executive Committee or its Chairman (depending on the minimum capital requirement applicable), should demonstrate experience in financial matters.

  When a financial institution's rating according to an evaluation performed by the SEFyC is not 1, 2 or 3, at least 25% of the directors or members of the Administrative Council must demonstrate experience in positions as directors, managers or other distinguished positions 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:* These should demonstrate suitability and, preferably, previous experience in those activities.

Public banks' directors, whose designation is pending an Executive act, and general managers — or persons acting as such — may take office while authorization is being considered by the BCRA. Their appointment will be considered "ad referendum" of the authorization and will not affect the validity of their acts during that period.

Setting up of service units

In terms of the expansion of financial institutions, regulations in force aim at extending the geographical reach of the system and promoting a widespread access to financial services by users, in accordance with the provisions of Section 16 of the Law on Financial Institutions, and Section 14 (g) of the BCRA Charter. To this end, lenient requirements were established for the set up of branches and other agencies, and certain procedures were automated, thus shortening administrative terms for said formalities.

Within this legal framework for the creation of new branches, financial institutions shall comply with prudential rules referring to minimum capital requirements, liquidity, solvency and profitability, as well as ratings — not only for the institution, but also for the work carried out by their internal and external auditors, and for their systems and IT performance — evidencing proper risk management in terms of their activity. Thus, considering sound corporate governance practices, expansion must be consistent with each financial intermediary' Business Plan, Projection and Capital Self-Assessment.

In addition to the requirements mentioned in the preceding paragraph, applications for the set up of branches abroad are subject to the consent of the foreign country and the authorization of the Board of Directors of the BCRA, which will take into account the characteristics of each project and analyze the authorization requests on the grounds of suitability and convenience.

Once branches and other operating agencies are licensed in Argentina, the provisions on "Minimum Safety and Security Measures in Financial Institutions" and other legal regulations in force must be observed.

Both applications for and notifications of acceptance/validation of procedure compliance will be sent through electronic means, being as fully automated as possible, and using any technological resources currently available. Likewise, and in order to provide greater transparency to transactions, financial institutions must have at all times on-line information on the stock of service units and their ongoing procedures.

Financial services can also provide service to the public through the following facilities:

- Temporary customer service offices (operating on reduced opening hours and days, or in tourist season) that perform the same transactions as branches, except offering current account services.

- Special customer service offices, set up in areas with less bank coverage (II to VI) defined pursuant to the categories established for the determination of the minimum capital requirement:

- Agencies that carry out procedures in relation to i) applications for loans and other facilities; ii) credit and/or debit cards; iii) opening of deposit accounts; iv) financing to individuals, micro entrepreneurs and microcredit institutions; v) deposits and withdrawals (up to a certain limit when made in cash); vi) payments of social security assistance and benefits; vii) collection of utility payments, taxes and others; and viii) transfers between sight accounts, etc.

- Offices that receive applications for loans and credit and debit cards, and for the opening and closing of savings accounts, payroll accounts, basic accounts, and other accounts with no cash movements.

- Itinerant agencies that provide services in a given place for no longer than ten days per month or, if given during touristic season, not exceeding 120 calendar days.

- Bureaus that provide certain services: i) payment of pensions and social assistance plans and programs; ii) collection of public utilities rates, taxes and customs duties, as well as social security contributions from large taxpayers within AFIP premises; iii) collection of loan installments, credit card payments and others; iv) processing of loan applications and of credit/debit card requests; and v) purchase and sale of foreign currency). These bureaus are only entitled to receive deposits in sight and time accounts from such beneficiaries of social security assistance and social assistance plans or programs as get paid their salaries or social benefits in their premises.

- Bureaus in companies or groups of companies sharing a physical location and in headquarters of cooperatives and/or federations representing them with no less than 100 employees, for the exclusive use by the company and its personnel to perform transactions involving deposit accounts; to collect utility bills, loan installments and credit card payments; to pay checks issued by the company to its suppliers; and to purchase and sell foreign currency.

Automated bureaus that carry out all operations through ATMs (except for the front-loading of ATMs), self-service terminals, if necessary with the assistance of the entity's personnel (cash withdrawals and cash deposits, check deposits, transfers, balance and transaction inquiries, payment of services — either in cash or debited to the account, — and prequalified loans credited to the account). These bureaus may also offer advice, and send and receive requests for the different services and transactions provided (loans, current accounts, savings accounts, debit and/or credit cards, self-service terminals, telephone banking, etc.).

- Fixed promotion points to provide advice and deliver and receive requests for the various services they offer (loans, current accounts, savings accounts, debit and/or credit cards, self-service terminals, telephone banking, etc.).

- ATMs and self-service terminals: They may be located in or outside branches to conduct all such operations or financial transactions as are permitted depending on the characteristics of the corresponding unit, without the participation of human personnel. In addition, financial institutions must be equipped with a certain number of ATMs for the visually impaired.

Financial entities of provinces, municipalities and of the Autonomous City of Buenos Aires may open branches in their jurisdictions, prior notification (through the proper application), whereas in other jurisdictions, general rules shall apply.

In addition to their head office, credit unions may establish up to five branches within their district. These branches may be deemed as temporary offices or special customer service offices such as agencies or bureaus.

Establishment of representative offices abroad

According to Section 17 of the Law on Financial Institutions, the establishment of representative offices abroad is subject to BCRA approval.

Similar requirements to those for the establishment of affiliates in Argentina are required and, additionally, the foreign country must give its consent. Representation offices may only perform non-operative activities.

Participation in financial institutions abroad

Participation by domestic financial institutions in foreign financial institutions, whenever it involves an amount which is higher than 5% of the capital or votes, is subject to previous approval by the SEFyC.

To obtain authorization, institutions 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 fixed in the authorizing resolution. The institution may not take on additional commitments for operations or activities performed by the foreign institution.

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

Representations of foreign financial institutions not authorized to operate in Argentina

Section 13 of the Financial Institutions Law establishes that foreign financial institutions may open a representative office in Argentina, subject to BCRA authorization.

Authorization will be subject to the analysis and consideration of the project by the SEFyC. The authorization will be for those financial institutions established abroad that are authorized by the competent authority of that country to take deposits there, but not those established in countries defined as being of low or no taxation.

Among other requirements, the financial institution must comply with internationally accepted principles, standards or regulation on Prevention of money-laundering and the financing of terrorism; should be subject to supervisory rules on a consolidated basis, and the supervisory authority of the home country has to adhere to the "Core Principles for Effective Banking Supervision" issued by the Basel Committee on Banking Supervision.

The role of representative can only be performed by an individual, and, at least, one alternate representative must be appointed to assume responsibility for the representation for the duration of any replacement period.

B. Exchange institutions

Setting up of new exchange institutions

The BCRA is responsible for granting authorizations for the operation of exchange institutions in accordance with the terms of Exchange Houses and Agencies Law (Law 18,924) and its Regulatory Decree 62/71 (modified by Decree 427/79). These may be set up as Exchange Houses, Exchange Agencies or Exchange Offices.

The minimum capital required by regulations for foreign exchange houses is determined between $ 2,500,000 and $ 12,000,000, according to the jurisdiction in which they will be established. In the case of exchange agencies, the minimum amount has been set at $ 500,000.

In case of authorization granting, an operating bond must be provided. Such bond amounts to $ 500,000 and $ 100,000 for foreign exchange houses, and exchange agencies, respectively.

Changes in shareholding

Exchange institutions have to report every negotiation on share packages or other acts that change their corporate ownership structure. The BCRA will consider the merits and timeliness of these changes and may deny approval or revoke the authorization granted when the basic conditions originally taken into account have been significantly modified.

Capitalization of irrevocable contributions or any other acts, such as the exercise of call options, the subscription of new issues, inheritance or donation and syndication, must be reported to the BCRA.

Setting up of branches in Argentina

For exchange institutions to open branches in Argentina, they (i) are required to notify the SEFyC, at least 10 business days before the effective date of opening; and (ii) should not have been punished as under Section 1 of Law 19,359 on Foreign Exchange Criminal Regime, or Section 5 of Law 18,924 on Foreign Exchange Houses, Agencies and Offices in the course of the last 12 months, except for warnings, official reprimands and fines not exceeding 20% of the maximum amount of the punishment set forth in the relevant legislation.

III. Prevention of money-laundering, the financing of terrorism and other illicit activities[22]

The International Financial Action Task Force (FATF) is an intergovernmental organization whose objective is to establish standards and promote the effective implementation of legal, regulatory and operational measures to combat money laundering, terrorist financing and other threats to the integrity of the international financial system. Argentina is a full member of the group along with 33 other jurisdictions.

FATF has developed a set of recommendations, acknowledged to be an international standard, to combat money laundering and terrorist financing, as well as the financing of proliferation of weapons of mass destruction.

In order to guarantee maintenance of relevant and up-to-date standards, FATF released the results of the revision of the International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation - the FATF 40 Recommendations in February 2012.

Mainly, recommendations aim at guiding the financial system and other interested parties through the undertaking of a risk-based approach to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified. This approach should be an essential foundation for an efficient allocation of resources. However, recommendations allow the implementation of simplified measures to lower risks under certain conditions.

These recommendations preserve the basic principle known internationally as "know your customer", as an essential requirement for beginning or continuing any commercial or contractual relationship, and introduce specific procedures on the matter of customer due diligence (CDD) for financial and exchange institutions.

Law 26,683 (Official Gazette dated June 21, 2011), of June 2011, introduced important changes to Law 25,246:

- *New protected legal right:* "Crimes against economic and financial order" were included in Title XIII of the Criminal Code.
- *Money laundering is regarded as an autonomous crime:* "Proceeds of crime" the autonomous crime independent from the previous crime, is included.
- *Penal responsibility of legal persons:* Legal persons making profits from money-laundering may be criminally punished, independently from the responsibility of the decision-taking and control officers.
- *Seizure in advance:* Once the illicit origin of goods from money-laundering or the material fact to which they are associated is confirmed, then such goods may be definitely confiscated without need of previous criminal sentence.
- *Removal of tax secrecy:* When assessing a suspicious transactions report, those obliged under Section 20, cannot deny information to the UIF on the ground of tax, bank, stock-market or professional secrecy, or any other legal or contractual confidentiality commitment.
- *Statute of limitations:* Introduces a prescription period for the imposition of penalties and the execution of fines, in both cases equal to 5 (five) years;
- *New UIF powers:*
    - Blackmail, tax and social security crimes and human trafficking were incorporated as crimes in Law 25,246.
    - The UIF's authority to establish supervisory, monitoring and in situ inspection proceedings to control compliance with the obligations set forth in Section 21 of the law and its resolutions—which was approved by Decree N° 1936, dated December 2010—was endorsed.
    - The UIF will continue issuing guidelines for those obliged to comply with the provisions of the law, previously requiring the opinion of the specific authority of control, who may issue supplementary regulations; however, no amendments or additions are allowed.

[22] www.bcra.gob.ar "Financial System - Legal and Regulatory Framework – Legislation and Summaries - Compiled texts on General Regulations"; Prevention of money-laundering, financing of terrorism and other illicit activities.

Decree 360/2016 (Official Gazette dated February 17, 2016) modifies section 3 of Decree 1936/10, creating the "National Coordination Program for Combating Money Laundering and Terrorist Financing" within the scope of the Ministry of Justice and Human Rights.

It also establishes that such Ministry is the central authority of the National State in charge of performing inter-institutional coordination functions among all organizations and institutions from the public and private sector, with competence in Money Laundering and Terrorism Financing, the UIF being entitled to carry out operational coordination activities at the national, provincial and municipal levels within its competence as a financial information unit.

Lastly, by virtue of Law 26,739 (Official Gazette dated March 28, 2012), amending the Charter, the BCRA was vested with the power to regulate, within its authority, money remittance entities and cash in value carriers, among other duties. These activities are included in Section 20 of Law 25,246 as amended and must be reported to the UIF.

Prevention of money-laundering

Before initiating a commercial or contractual relationship with a customer, and for the duration of such a relationship, information must be obtained on the products to be used and the reasons for their selection. In addition, the customer's profile must be defined (covering economic, financial and tax aspects) in accordance with control and prevention procedures currently in force.

Financial and exchange institutions must rely on their knowledge of their customers when opening and maintaining accounts, focusing on their operations to prevent them from being used for money-laundering purposes. Moreover, these institutions shall have mechanisms in place to evaluate such facts or operations that may entail conflicts between the account holder profile and the amount and method used to carry out transactions.

UIF Resolution N° 121/11, as amended by UIF Resolution N° 196/15, aimed at financial and exchange institutions, defines as customers all natural or legal persons with whom these institutions establish, on an occasional or permanent basis, a contractual relationship, whether of a financial, economic or commercial nature. Within this concept, simple associations (sections 187 through 192 of the Civil and Commercial Code of the Nation) and other entities which, according to special laws, are granted said treatment (section 148 (e) of the Civil and Commercial Code of the Nation).

Customers are classified, according to the frequency and amount of their operations, into: (i) regular customers those with whom a relationship of a permanent nature is established or those with transactions over $-260,000 per year; or (ii) occasional customers (those who perform transactions on a once-only or sporadic basis and do not exceed $-260,000 per year).

Moreover, UIF Resolution No. 94/2016 that amended Resolution No. 121/2011, incorporated simplified measures of due diligence for the identification of customers at the time of opening savings accounts, i.e., submission of ID, sworn statement about the condition of Politically Exposed Person and verification that the holder of the account does not appear in the list of terrorists and/or terrorist organizations; provided that such holder has a single account, he/she is not a politically exposed person, the total balance of his/her account does not exceed twenty-five times the minimum wage, and his/her monthly cash transactions do not exceed the equivalent of four minimum wages.

In turn, UIF Resolution No. 141/16 modified the provisions set forth in UIF Resolution No. 121/11, changing relevant aspects such as the requirements that should be considered in order to define the customer's profile; the definitions of unusual and suspicious activities; as well as the design of risk analysis policies according to the characteristics of the product and the levels of customer risks that arise from the analysis policies implemented. These policies should be gradually implemented for those customers classified under the higher risk category.

In addition to the information requirements, consideration has also been given to certain specific situations for which particular attention must be placed on the identification of customers, such as (i) remote transactions; (ii) action on behalf of others (trusts, front companies); (iii) persons with political exposure that comprises government officials (whether at national, provincial or municipal and City of Buenos Aires level) who either hold or have held office during the last two years and foreign public officials, as well as the spouses and partners of such persons; (iv) electronic transfers—accurate information about the sender and receiver should be obtained; (v) reinforced follow-up of cash deposits for amounts equal to or exceeding $200,000, or its equivalent in other currency—the depositor

must be identified by showing their identity documents, and the record of the deposit must be completed with their name, and type and number of document.

Financial and exchange institutions must:

1. Have mechanisms and procedures in writing for the prevention of money-laundering and the financing of terrorism;
2. Appoint a "Compliance Officer" who must be a member of the governing body with powers to set up a "Committee for the Control and Prevention of Money-Laundering" to plan, coordinate and ensure compliance with the policies laid down by the institution's highest authorities;
3. Perform regular, independent audits of the global anti-laundering program;
4. Adopt within the Human Resources area a formal, permanent employee training program, with training and updating on the matter, and adequate pre-election systems that ensure compliance with strict employee hiring standards;
5. Operate control and prevention procedures for the products it offers on the basis of the risk analysis policies implemented;
6. Maintain a database of transactions equal to or greater than $240,000 (or its equivalent in other currencies) performed by their customers. Irrespective of individual amounts, aggregate transactions which are equal to or greater than $30,000 (or its equivalent in other currencies) shall accumulate on a daily basis;
7. Report to the UIF such suspicious events or unusual or suspicious accounts detected, in the terms established in the Law 25,246 (modified by Law 26,683) and the mode established by the UIF;
8. Preserve the supporting documentation for transactions for a term of 10 years so that they can be reconstructed, keeping it at the disposal of the authorities.
9. In the case of outsourced custody of total or partial information and/or documentation collected for identifying and knowing the customer, or that required for transactions or operations performed, a report should be made containing the address where they are kept. A digitalized copy of the information and/or documentation should be made before submission —UIF Resolution No. 196/15.

Prevention of the financing of terrorism

In its fight against the financing of terrorism, the BCRA acts in coordination with national and international organizations.

By Law 26.734, December 2011, a new definition of terrorism was incorporated in the Criminal Code, increasing sanctions when there is the intent of intimidating the population or obliging the national public authorities, foreign governments or international organizations to perform or not to perform an action. This is not applicable if the act in question implies the exercise of a constitutional right.

In addition, Title XIII "Crimes against the economic and financial order" of the Criminal Code was modified to include sanctions for the financing of terrorism, which is understood as the action by which someone directly or indirectly collects or provides goods or money, knowingly that they will be used to finance a crime to be committed with the aim of intimidating the population or obliging national public authorities, foreign governments or international organizations to perform or not to perform an action.

Changes include the UIF competence and powers to decide and direct conduct the analysis of actions, activities and operations that, according to the law, may be considered as the financing of terrorism activities.

Decree N° 918/2012 issued by the National Executive Power sets out the administrative procedure for blocking the assets linked to terrorist activities or financing. It also provides for the procedure for including and excluding persons identified in lists prepared according to United Nations Security Council Resolutions. Procedures are applicable to both the BCRA and those under its regulation.

The BCRA has issued regulations requiring financial and exchange institutions to:

1. Carefully verify prior to the start to any trade or contractual relationship that potential customers are not included on the lists of terrorists and/or terrorist organizations issued by the U.N. Security Council Resolutions. If the potential customer is included, they should observe the terms of the relevant Resolutions

issued by the Ministry of Foreign Relations and International Trade according to the guidelines established by the UIF through Resolution 29/13 (Official Gazette dated February 15, 2013)—repealing UIF Resolutions 125/9 and 28/12. Similar measures must be adopted throughout a commercial or contractual relationship, retaining documentation of those controls;

2. Communication "A" 6121 (consolidated text of the regulations on "Prevention of Money Laundering, Financing of Terrorism and Other Illicit Activities") requires financial and exchange institutions, exchange brokers and representations of foreign financial institutions not authorized to operate in Argentina, to comply with current legislation, when applicable according to their activities. This includes the decrees by the National Executive Power related to decisions adopted by the U.N. Security Council to fight terrorism, resolutions issued by the Ministry of Foreign Affairs and UIF regulations;
3. take special care when including the information of the person that orders the funds transfer, making sure that the information is complete and precise, according to the regulations in force;
4. preserve supporting documentation related to this subject, which must be kept during the terms and conditions established in the rules on "Documents preservation and reproduction". Records must make it possible to trace transactions completely and must be available if required by the authorities;
5. have written policies on transactions related to the financing of terrorism that include, at least, the set up of procedures and internal controls, as well as permanent training plans and an audit function that verifies compliance, commensurate with the size and volume of transactions, and in line with the guidelines established by the BCRA.
6. UIF Resolution No. 4 issued on 01/11/2017 highlights the need to require financial institutions to adopt due diligence measures with a view to identifying the customer or final beneficiary of transactions, using a risk-based approach. To this end, bound parties must be extremely cautious upon opening special accounts of foreign investors. It is also deemed appropriate to regulate a special scenario of due diligence for legal persons to ensure proper compliance with the requirements of special investment accounts for foreign investors in Argentina, to streamline the said opening process, and to promote the investment of foreign capital.
   The BCRA has drafted Communication "A" 6165 issued on 01/20/2017—re. Circular OPASI 2-514 "Savings deposits, salary and special account". Addition of the special investment account—in order to harmonize its internal regulations with the provisions set forth by the UIF in Resolution No. 4.

Other related regulations – Updated text

The provisions contained in these regulations are applicable to the operations in which financial institutions, exchange houses, agencies, bureaus, exchange brokers, and representatives from foreign financial institutions not licensed to operate in the country participate.

In the absence of documentation or in case of doubts and/or irregularities as to the truthfulness, accuracy, consistency or completeness of the documentation submitted, or when, according to current regulations, the customer's behavior deviates from its profile. In any such cases, the bound party must request further information and/or documentation, and inform the customer about the obligation to complete it.

The Manual of Procedures in relation to Anti-Money Laundering and Terrorist Financing must include detailed procedures for starting and ending relations with customers as established by current regulations.

Institutions shall under no circumstances engage in relations with new customers, unless current legislation provisions in terms of identification, KYC and risk management have been duly complied with.

Where identification and KYC procedures involving existing customers cannot be complied with in accordance with current regulations, a risk-based analysis should be carried out in order to assess the continuity or otherwise of the relationship with such customers. Thus, financial institutions should describe the AML/TF criteria and procedures to be applied in these cases in their internal risk management manuals.

When an institution ends a relation with a customer, the procedures and time limits set forth by the provisions of the BCRA applicable to the product(s) acquired by the customer should also be observed.

Whenever by order of a competent authority, or when legal or operational impediments exist, the end of the contractual relationship cannot take place, measures mandated by the competent authority and/or tight controls should be implemented together with restrictions on the operation of the relevant accounts that must continue operating.

The written records of the procedure used each time operational discontinuity of a customer takes place must be kept for a period of 10 years. Such records must include a copy of the notification(s) sent to the customer requesting further information and/or documentation, the relevant notice(s) of receipt, and the registry(ies) identifying the officials involved in the decision making process, pursuant to the relevant manual of procedure. In the case of operational discontinuity of financial services users, the officer in charge of financial consumer services shall be informed of such decision and the reasons supporting it.

Cooperatives credit unions which choose to render sight account opening services must also explain in their manual of procedure the conditions to be met for the opening, operation and closure of sight accounts with nettable bills of exchange.

Institutions are required to submit to the SEFyC a certified copy of the appointment of the full and the alternate Compliance Officer, if any, abiding by the conditions and terms established in the rules issued by the UIF.

On the matter of the databases, institutions must maintain information on customers performing transactions -considered individually- for amounts of $40,000 or more (or its equivalent in other currencies) for the following reasons, among others: deposits in cash or securities, placements of corporate bonds and other debt certificates issued by the entity itself, repos and reverse repos, purchase or sale of securities -public or private- or placement of mutual investment fund units, purchase and sale of precious metals, cash purchase and sale of foreign currency, drafts or transfers, regardless of the method used to carry out the transaction and its destination, purchase and sale of checks drawn against foreign accounts and of traveler's checks, payments of imports and collection of exports proceeds, sale of the financial institution's portfolio to third parties, loan payback services, early repayment of loans, setup of trusts and all other types of fiduciary requests, purchase and sale of financial payment checks and transactions related to tourism.

The need to record and store information shall also apply to those cases where the participating financial institution establishes that customers perform related transactions which while not individually reaching the $240,000 minimum, in total reach or exceed this amount. It will be necessary for details of such transactions to be accumulated daily, recording the details of all persons performing transactions -whatever their individual amount- that in total reach an amount equal to or higher than $30,000 (or its equivalent in other currencies) without in any case considering amounts of less than that figure.

Ordinary or deferred payment checks for amounts in excess of $50,000 may not be paid in cash, nor may bills of exchange at sight or term drawn against accounts opened in credit cooperatives for amounts in excess of $25,000, with certain specific exceptions.

Furthermore, loan disbursements by banks for amounts in excess of $50,000 must be made by means of credit to the borrower’s current or savings account.

The BCRA will assess — within the scope of its authority — the final resolutions informed by the UIF concerning penalties imposed on those parties under its regulation. It shall also take into account penalties informed by foreign oversight bodies with comparable powers on anti-money laundering and counter-terrorism financing.

The facts giving rise to the penalty shall be analyzed taking into account the type, reason and amount of the penalty imposed, the degree of participation, the possible alteration of the economic order and/or damages caused to third parties, the profit gained by the sanctioned party together with its operating volume and financial responsibility, and job title or position of individuals involved.

In addition, repeated offences — according to UIF regulations — and reiterated sanctions — when different sanctions apply — shall be considered. In the case of the latter, sanctions do not count for the purposes of a repeated offence.

Lastly, it is worth mentioning that the BCRA has adopted measures to achieve a greater degree of financial inclusion, encourage an increased use of the banking system as well as social inclusion, while meeting simplified requirements of due diligence in terms of identification—merely producing the National ID card—and other specific requirements for each product.

Regarding cooperation between the Argentine Republic and other countries on tax issues, financial institutions shall adopt any necessary measure so as to identify such account holders as fall within the scope of the new standard on exchange of information about financial accounts issued by the Organization for Economic Cooperation and Development (OECD) as well as the provisions of the Foreign Account Tax Compliance Act (FATCA).