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**Financial Institutions
Guarantee Fund**

Management report 1999



Santafé de Bogotá, March 2000

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1. The Colombian economy in 1999

The Colombian economy began 1999 in the midst of a deep recession: production had contracted -3.14% in the fourth quarter of 1998, unemployment amounted to

15.6% and interest rates exceeded 35%, while external and internal credit was restricted and speculative pressures on the exchange rate made it difficult to manage exchange rate policy.

- 1999 was the hardest year in terms of economic and financial closed since 1996.

The reduced ability to pay of the agents of the economy, at that time highly indebted, accentuated the recession at the beginning of the year. Its symptom in the financial sector was the accelerated increase in the overdue portfolio and the assets received in payment, conditions that pushed some entities into insolvency and forced a negative change in the expectations of national investors. and international throughout the year.

- The level of economic activity was the lowest since 1923. The production contracted 5%

Consequently, 1999 was the hardest year since the start of the economic slowdown in 1996.

1.1. The production

The level of economic activity in 1999 was the lowest since this variable was measured in Colombia, that is, since 1923.

The preliminary figure shows that GDP fell -5% last year. During the first three quarters, this indicator presented variations of -5.7%, -7.2% and -4.6%, respectively. The average decrease in this period was -5.9%.

- The services of intermediation financial fell to a quarterly rate average of -19.9%.

- The rate of unemployment went from 15.6% in 1998 to 18.1% in 1999.

- Inflation is dropped to single digits: 9.2%.

All branches of economic activity, with the exception of mining and social and personal services, posted negative growth during the first nine months of the year.

Construction, for example, contracted quarterly at an average rate of -22.2%, while financial intermediation services did so at a rate of -19.9%.

1.2. Unemployment and inflation

The unemployment rate continued its ascending scale during 1999: it went from 15.6% at the end of 1998 to 18.1% in December 1999. Only in the first semester of 1999, about 280 thousand people were laid off, 53.6% of which corresponded to industrial workers and 19.8% to construction employees.

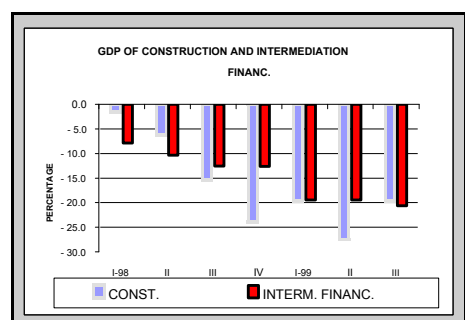
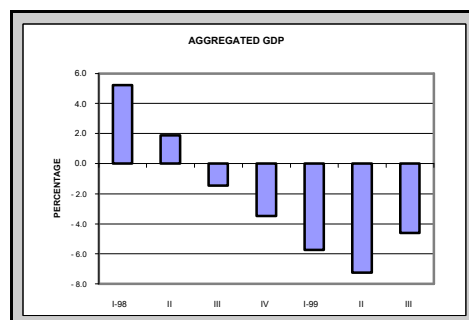
Inflation, for its part, reached a single digit (9.2%) in December 1999, thus being 7.5 points below that registered a year earlier (16.7%).

1.3. Exchange policy

In September 1999, the Board of Directors of Banco de la República made the decision to abandon control of the exchange rate, which it exercised through the exchange band, to implement the floating regime.

The board took into account for its decision the reduction in inflation and the current account deficit in the balance of payments, as well as the revaluation of the last two years and

Graphs 1. and 2. Aggregate GDP and GDP of construction and financial intermediation



SOURCE: UMACRO - DNP. Economic Situation Indicators

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- L The release of the exchange rate did not produce trauma. we. The cost of the currency rose to levels below those observed in other countries.

the agreement with the International Monetary Fund (IMF), which granted the Nation resources for US \$ 2,700 million. However, the release of the exchange rate did not produce obvious traumas. Once released, the cost of the currency rose in percentage terms lower than those observed in other economies when the same measure was adopted (with the exception of Chile). The devaluation was

24.2% during 1999. In other words, the exchange rate went from \$ 1,542, at the end of 1998, at \$ 1,877, last December.

On the other hand, the balance of payments showed a deficit in the current account of US \$ 1,019.6 million, a figure that is equivalent to 1.2% of GDP and which means an improvement, since it is lower than that of 5.9% of GDP that represented the deficit in 1998.

- Devaluation during 1999 it was 24.2%. The exchange rate went from \$ 1,542, in December 1998, at \$ 1,877 in December 1999.

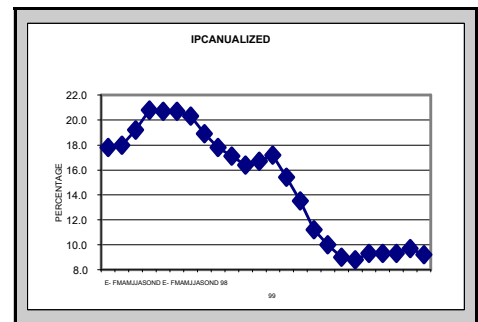
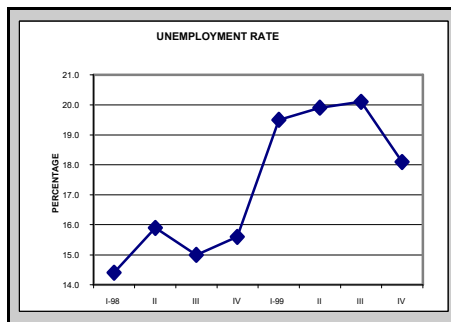
- Reservations net internationals US \$ 445 fell millions; the gross reserves they closed the year at US \$ 8,313 million.

While exports grew 8.5%, imports fell -28.5%. Net international reserves were reduced by US \$ 445 million, bringing gross reserves to US \$ 8,313 million.

In the first 10 months of 1999, Colombia registered US \$ 3,308 millions in investment foreign, a figure 4.2% lower than that of the same period in 1998. Only in the financial sector, the reduction was 65.2%; this line reduced its participation in total foreign investment by 20 points. Finally, in 1999 the external debt decreased -0.4% compared to

1998, totaling US \$ 33,745 million, that is, 39.8% of GDP. Of the total value, 55.4% (US \$ 18,690 million) was in charge of the public sector and 44.6% corresponded to private agents (US \$ 15,055 million).

Graphs 3. and 4. Unemployment and inflation



SOURCE: UMACRO - DNP. Economic Situation Indicators

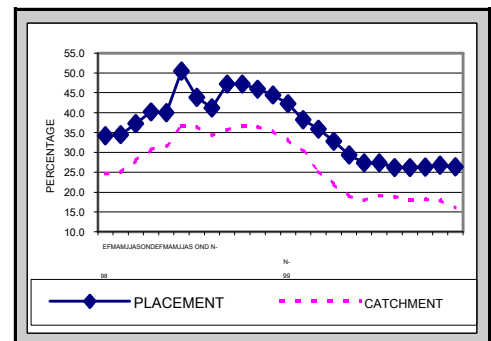
- The balance of the Colombian external debt decreased - 0.4% in 1999 compared to 1998 and added US \$ 33,745 million.

Monetary policy and interest rates

In 1999 the monetary base and the main monetary aggregates tended to grow. The balance of means of payment (M1) registered an annual growth of 15%, while one of its components, cash, showed an annual increase of 23.2%, a situation that reflected the public's preference for assets Short-term. The aggregate M3 + bonds (groups all deposits in the financial sector) grew 5.7% last year and showed a recovery in its growth rate as of September.

- Between January and June 1999, the DTF fell from 35.3% to 17.9%. In December it came to 16.1%.

Deposit and placement rates fell considerably, reaching, at the end of the year, levels of 16.1% and 26.4%, respectively, as shown in the following graph:



On the other hand, the economic authorities continuously lowered interest rates during 1999. Between January and June, the DTF fell from 35.3% to 17.9%, and by December it had already reached 16.1% . .

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2. The financial sector in 1999

Last year the financial system suffered a severe setback due to the recession. The slowdown in economic activity, the high level of unemployment and the loss of the ability to pay contributed to the poor performance of the sector. The financial and operational structure of most financial institutions was hit by three factors:

- The overdue portfolio of the sector closed the year at \$ 6.9 trillions. His increase was 22.2% in 1999.

- => The deterioration of the portfolio
- => The increase in dations in payment
- => The progressive insufficiency of the net financial margin to meet administrative expenses and establish provisions.

2.1. The deterioration of the portfolio

At the end of 1999, the financial sector added assets of \$ 80.3 billion, a figure 1.2% higher than in 1998. Of these, 49.9% corresponded to banks not specialized in mortgage credit; 33.8% to CAVs and banks specialized in mortgage credit; 11.5% to financial corporations, and the

- The sector's past due portfolio index banking came to 11.5% last June.

4.8% to commercial finance companies. The share of the assets of public financial entities in the total assets of the system was 19.4% at the same cutoff. The loan portfolio was \$ 48.8 trillion, that is, \$ 2.2 trillion less than the previous year (-4.4% in the year). The past-due portfolio amounted to \$ 6.96 trillion in December 1999, which showed a growth of 22.6% in the year.

- Replacing unproductive assets you for others of greater security allowed to reduce the portfolio ratio a 7.8% at the end of the year.

The increase generated a significant deterioration in the quality of the portfolio, as the index 10.7% to 13.7%, between December 1998 and December 1999.

For its part, the past-due portfolio index for the banking sector increased steadily until reaching 11.5% in June 1999. However, the substitution of non-performing assets for others of greater security, such as the bonds issued by the Financial Institutions Guarantee Fund (Fogafin) for the capitalization of banks, allowed to reduce this level by 3.7 points: the year at 7.8%. Another factor that reduced this banking index was the offer to entities to restructure credits that meet special conditions, as established in external circulars 039 and 044 of 1999 of the Banking Superintendency.

2.2. The increase in dations in payment

The goods received in dation in payment totaled \$ 1.7 billion in December 1999 (the 2.1% of assets), which meant an increase of 12.1% in the year. In terms of assets, most of the contributions were received by entities with mortgage credit, since the Government allowed (Decree 2331 of

1998) to the debtors of housing return the properties whose commercial value was less than the balance of the debt, as payment of the total amount owed.

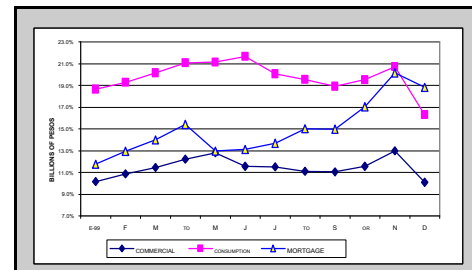
- Goods received in payment in payment reached \$ 1.7 billion in December last year.

Mortgage credit and portfolio

The deterioration of the mortgage portfolio was especially serious last year: its indicator went from 10.3%, in December 1998, to 19.6%, in December 1999, while that of the commercial portfolio increased from 8.8% to 10.1% and that of the consumption of 17.0% to 16.3%. The rulings of the Constitutional Court (on the monetary correction, the UPAC system and the capitalization of interests) generated a sensation of instability that was added to the unusual increase in loan balances and the fall in the real prices of loans. The House. Consequently, the entities received an avalanche of demands from the debtors, who demanded the repayment of their loans, arguing that the monetary correction should not include an interest rate component.

- The biggest deterioration of the quality of the portfolio suffered the mortgage.

At the end of 1999, the CAV's non-performing portfolio was 22.2%. For public entities, two of which specialize in mortgage credit, the behavior was similar. Its past-due portfolio index increased 9.5 points and closed the year at 29.2%. The following graph shows the overdue portfolio / gross portfolio ratio, by type of portfolio:



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- The deterioration in the quality of the portfolio and the high volume of assets

unproductive reduced the gap operational of 100.2% in 1998 98.9% in December 1999.

- The Heritage aggregate of Finance system amounted to \$ 9.3 trillion at the end of December 1999, figure 10.5% higher than a year ago.

- The policy of capitalization of entities financial, realized through Fogafin, aimed

strengthen margin solvency of financial sector so that this irrigate credit to real sector and thus reactivate the economy.

Table 1 shows the reduction by half of the share of goods received in dation in total assets during the second semester of 1999, especially in public and private banks. This as a consequence of the consolidation and capitalization program advanced by Fogafin last year, in which non-productive assets (including goods received in payment) are removed from the balance sheets and replaced by productive assets.

On the other hand, the deterioration in the quality of the portfolio and the high volume of non-performing assets reduced the ratio of earning assets to liabilities with cost (operating gap) from 100.2% in 1998 to 98, 9% in December 1999.

In turn, the high percentage recorded in the equity exposure ratio represented an important financial asset that decreased the entities' ability to generate operating income, as can be seen in Table 2.

With loans to private banks and capitalizations to public banks, Fogafin contributed to the improvement of this indicator at the end of the year.

The aggregate equity of the financial system amounted to \$ 9.3 trillion at the end of December 1999, 10.5% higher than the figure for the previous year. It is important to note that the financial sector asset consolidation and strengthening mechanism, developed by Fogafin, made it possible to increase the solvency margin of 15 entities and counteract the effect of losses. This capitalization mechanism sought to strengthen the solvency of the financial sector so that it could again irrigate credit to the real sector and reactivate the economy. In detail, through Fogafin, eight private entities were capitalized for \$ 597,000 million and six public entities for \$ 2.7 trillion (the public ones followed the guidelines established for the capitalization of the private ones). Similarly,

Table 1. Portfolio quality

ENTITY TYPE	PORTFOLIO QUALITY 1 /			BRDP / TOTAL ASSETS		
	Dec 98	Jun. 99	Dec 99	Dec 98	Jun. 99	Dec 99
Banks	9.2%	11.5%	7.8%	2.1%	2.3%	1.2%
Financial Corp.	5.4%	7.1%	5.9%	2.5%	3.5%	3.6%
CAV 2 /	13.3%	17.5%	22.2%	1.4%	2.0%	2.9%
Co. Finan. Commercial	14.9%	18.3%	15.8%	2.5%	3.8%	3.0%
Co. Esp. In Leasing	19.1%	25.0%	16.2%	0.9%	1.3%	1.4%
TOTAL						
ESTABLISHMENTS	10.7%	13.7%	13.7%	1.9%	2.4%	2.1%
PUBLIC ENTITIES	19.7%	27.1%	29.2%	2.1%	2.9%	2.6%

1 / Overdue portfolio 2 / Includes total entities specialized in mortgage credit

Table 2. Operational gap and equity exposure

ENTITY TYPE	OPERATIONAL GAP			HERITAGE EXHIBITION		
	Dec 98	Jun. 99	Dec 99	Dec 98	Jun. 99	Dec 99
Banks	108.7%	101.3%	108.0%	49.3%	55.6%	34.4%
Financial Corp.	100.9%	93.6%	95.4%	20.8%	35.2%	34.9%
CAV 1 /	90.8%	83.1%	86.9%	160.3%	444.7%	223.1%
Co. Finan. Commercial	109.3%	105.4%	105.4%	37.1%	61.5%	58.9%
Co. Esp. In Leasing	135.0%	129.4%	115.4%	10.1%	14.4%	39.0%
TOTAL						
ESTABLISHMENTS	100.2%	93.6%	98.9%	74.4%	96.5%	78.8%
PUBLIC ENTITIES	91.8%	82.2%	87.9%	401.4%	246.5%	172.9%

1 / Includes entities specialized in mortgage credit

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- Through Fogafin the financial system in \$ 4 billion during 1999, what allowed the aggregate equity of the sector will increase.

- Capitalizations, in particular those of the financial sector public, allowed reset level of adequate capital. In december 1999 reached the 12.2% (in 1998 it had been 8.6%).

- In 1999 credit institutions recorded losses net for \$ 2.4 billion. The cause was the reduction of financial margin in \$ 920,000 million and loss of margin operational by \$ 2.1 trillion.

In summary, through Fogafin the financial system was capitalized in \$ 4 billion during 1999, which allowed the aggregate equity of the sector to increase by the indicated figure, despite the meager results for the year throughout the year. These capitalizations, and in particular those of the public financial sector, made it possible to re-establish the adequate level of capital in December 1999, when it reached 12.2% (in 1998 it had been 8.6%). On the other hand, with the exception of financial corporations, the following table shows a breakdown in the second half of 1999, which strengthened the solvency margin.

2.3. The insufficiency of the financial margin

In 1999, credit institutions posted net losses of \$ 2.4 trillion. The causes were the reduction of the financial margin by \$ 920,000 million and the loss of the operating margin by \$ 2.1 trillion.

The net losses indicated were 24.3% higher than those registered during 1998, when they amounted to \$ 1.9 trillion (see Annex 1).

The fall in the net financial margin was caused by the deterioration of the loan portfolio and the increase in the average cost of deposits, since a good part of these was oriented towards financing non-performing assets.

Table 3. Solvency margin

KIND OF ENTITY	SOLVENCY MARGIN		
	Dec 98	Jun. 99	Dec 99
Banks	11.1%	9.5%	11.3%
C. Financial	12.8%	14.6%	13.9%
CAV 1 /	7.6%	8.5%	10.3%
CFCs	18.3%	15.7%	17.9%
Co. Leasing	19.0%	18.4%	39.8%
TOTAL ESTABLISHMENT.	11.1%	10.2%	11.9%
PUBLIC ENTITIES	8.6%	7.1%	12.2%

Table 4. Financial and operational margin

ENTITY TYPE	FINANCIAL MARGIN			OPERATIONAL MARGIN		
	Dec 98	Jun. 99	Dec 99	Dec 98	Jun. 99	Dec 99
Banks	37.22%	33.7%	35.4%	- 3.0%	- 7.8%	- 9.9%
Financial Corp.	14.7%	10.9%	9.2%	- 4.2%	- 6.6%	- 14.2%
CAV 1 /	26.6%	24.5%	28.4%	- 7.6%	- 10.4%	- 14.0%
Co. Finan. Commercial	29.8%	24.6%	29.1%	9.0%	- 5.2%	- 7.1%
Co. Esp. In Leasing	40.8%	29.5%	33.4%	- 0.4%	- 0.7%	1.5%
TOTAL ESTABLISHMENTS	32.1%	28.2%	30.6%	- 3.7%	- 8.2%	- 10.5%

1 / Includes entities specialized in mortgage credit

Table 5. Net margin and profit

ENTITY TYPE	NET MARGIN			PROFIT (LOSS) \$ 3 / Dec. 98		
	Dec 98	Jun. 99	Dec 99	Jun. 99	Dec 99	
Banks 1 /	- 7.3%	- 8.4%	- 11.5%	- 716	- 529	- 1,054
Financial Corp.	- 7.8%	- 10.8%	- 17.3%	- 175	- 121	- 337
CAV 2 /	- 13.8%	- 11.4%	- 14.4%	- 964	- 407	- 945
Co. Finan. Commercial	- 3.8%	- 10.0%	- 10.0%	- 66	- 36	- 61
Co. Esp. In Leasing	- 1.9%	- 3.2%	- 1.5%	- fifteen	- eleven	- 8
TOTAL ESTABLISHMENTS	- 8.7%	- 9.6%	- 11.8%	- 1,934	- 1,104	- 2,404
PUBLIC ENTITIES	- 34.3%	- 33.3%	- 54.8%	- 1,486	- 695	- 1,986

1 / Does not include mortgage banks

2 / Includes entities specialized in mortgage credit

3 / Billions of pesos

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- The fall of the Financial income and the increase in the participation of expenses administrative and labor caused a margin net operational negative.

Last December, said margin for credit institutions was 30.6%, while that reported in 1998 had been 32.1%. Despite the fact that during 1999 administrative and labor expenses fell in absolute terms, their weight in financial income increased from 24.9% to 26.1%. For each peso (\$ 1) of income, about twenty-five cents (\$ 0.25) were absorbed by administrative and labor expenses. For its part, the level of net provisions in 1999 was 26.3% higher than in 1998.

In summary, the fall in financial income and the increase in the share of administrative and labor expenses caused a negative net operating margin.

3. Operations to support the financial sector

3.1. The general strategy

The recessionary situation in the economy deteriorated the financial sector indicators.

The rapid growth of non-performing assets compromised the equity of financial institutions and reduced the profitability of the banking operation. In response, intermediaries reduced the rate of expansion of their portfolio and widened the margins of intermediation to try to restore equity. If this trend continued, it would lead to a credit crunch that would aggravate the current economic situation.

For this reason, it was concluded that it was essential to remove non-performing assets from the balance sheet of financial institutions and promote their capitalization that would allow them to fulfill their function of supplying credit to the productive sector. It was also necessary to strengthen the entities so that they could offer adequate support to public deposits.

Consequently, the Government designed financing lines for the consolidation and capitalization of public and private credit institutions.

The objectives and criteria under which these lines operate are:

- ⇒ Protect public deposits, replacing non-performing assets with others that offer greater security and preserve the confidence of savers in the system.
- ⇒ Reactivate credit to the real sector of the economy, restoring the financial sector's equity margin so that it can irrigate credit and help to reactivate the economy.
- ⇒ Promote the reduction of active credit rates, freeing entities from non-performing assets that affect their margins and that do not allow them to transfer the drop in borrowing rates to new loans.

3.2. Support to the private sector

The capitalization line for private banks sought to solve the financial situation of the entities that were considered viable and that required state support for their strengthening. Its guidelines were embodied in Resolution 006 of 1999 of Fogafin. The maximum term for access to credit was initially December 31, 1999, but, through Resolution 011 of 1999, shareholders who participated in the first support were allowed to access a second loan until June 30, 1999. 2000.

The guidelines for the private banking capitalization line were as follows:

- ⇒ Speed and sufficiency. The direct and indirect costs of a financial crisis grow in proportion to the duration of the crisis. The State must, therefore, act with speed and forcefulness and encourage complementary actions on the part of the agents affected by the crisis.
- ⇒ Avoid moral hazard and not favor the owners of financial institutions. Proposed solutions should allocate the cost of remediation to the owners responsible for the decisions that brought the entities to their current state. In addition, they should not benefit the shareholders of establishments that observe riskier behaviors.
- ⇒ Minimize the intervention or officialization of financial entities. The State is not the most efficient administrator of commercial activities in general and, in particular, of credit institutions. In times of crisis, these disadvantages vis-à-vis the private sector are accentuated, as the probability of ineffective management of managed assets grows. Experience shows that the entities intervened tend to perpetuate their condition, acquiring the weaknesses of the public sector. It must be aimed at keeping responsibility in the hands of the private sector. However, the State must intervene the establishments that are not viable.

- Was indispensable withdraw assets unproductive of balance of entities and facilitate a capitalization to allow them irrigate credit to productive sector.

- The government created mechanisms of financing for the sanitation and capitalization of establishments of public credit and private.

- The line of capitalization of private banking se designed for solve the situation of the entities that are they considered viable. His lines- mentions are reflected- They were included in Resolution 006 of 1999 of Fogafin.

3.2.1. What was the line for the private sector?

- Fogafin lent to the shareholders of the establishments of credit for what they capitalize them-ran.

The line allowed Fogafin to grant loans to the shareholders of the credit institutions to strengthen their equity (prior to the reorganization of the entity) and subject to the fulfillment of a performance agreement.

- The line of credit required three steps: sanitation, forta-heritage heritage nial and performance agreement.

The line included three steps, contemplated in Resolution 006:

- ⇒ **Sanitation:** To access the line, the credit institution had to clean up its balance sheet by writing off non-performing assets that distorted the operation and jeopardized its future viability. This reorganization implied reducing the value of the entity to its real economic proportions.

- Sanitation con- It was in the punishment of the assets unproductive.

In this phase, the entities had to write off the portfolio rated C (except that with real estate guarantee), D (except the normalized one with mortgage relief) and E; credits badly qualified in A or B (according to reviews by specialized auditors), goods received in payment and repayment, goodwill, 50% of some deferred charges and 20% of accounts receivable.

- The strengthening patrimonial required a capitalization of the entity for reset a solvency margin all 10%. For this, Fogafin financed long term up to 90% of the amount necessary.

If, after the write-offs, the entity's technical equity was negative, the shareholders had to restore its economic viability, which required replenishing the technical equity until it became positive out of their own resources. This obliged the shareholder to make an effort proportional to the amount of the entity's unproductive assets, establishing principles of equity and efficiency.

- Finally, the entity had to sign a performance agreement.

However, in the situation of deflation and low liquidity of assets, which occurred in 1999, it was not very feasible for shareholders to capitalize immediately.

To facilitate the disbursement of resources corresponding to shareholders, Fogafin granted a six-month bridge loan that allowed financing 50% of this capitalization, and the Banking Superintendency extended the term to 12 months for the remaining 50%.

In any case, the entire shareholder's participation had to be guaranteed with solid and sufficient sources of payment (letters of credit from a first-line international bank or irrevocable mercantile trust for the sale of liquid assets other than those written off, for commercial value greater than 133% of its obligation).

- ⇒ **Patrimonial strengthening:** once the reorganization had been completed, it was necessary to capitalize the entity to restore a solvency margin of 10%. For this, Fogafin financed in the long term up to 90% of the necessary amount, but the long-term loan could not exceed 80% of the total capitalization.

To ensure long-term credit, the shareholder had to grant shares of the healthy entity as collateral at a minimum ratio of 133% of the credit, according to the valuation of the same carried out by the international financial advisers.

On the other hand, in order to guarantee that Fogafin acquired control of the entities in the event of default in payment, the shareholders had to ensure that at least 78% of the political rights of the total outstanding shares of the respective establishment would be transferred in favor of the Fund. And so that the guarantee does not depend on the debtor's ability to pay, the shareholders had to acquire the portfolio with related parties, which could be done in term, after the constitution of admissible guarantees according to the criteria of the law.

- ⇒ **Performance Agreement:** Finally, the entity had to sign a performance agreement that included the goals that they had to meet to guarantee their solvency and the payment of the long-term loan.

These goals were defined by Fogafin, the financial institution and the Banking Superintendency, with the support of international consultants.

Additionally, in each capitalized establishment, an internal control office would be installed that would ensure compliance with the signed agreements, without actually co-managing the entity.

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3.2.2 Financing the line

The program was financed with the issuance of bonds that had to be subscribed by the entities object of the capitalization. The debt service of the bonds was covered with the proceeds of the loan to the shareholders, so that a fiscal cost was not generated for the Government. The financing contemplated that to defray the cost of possible defaults on loans, Fogafin would charge an intermediation margin of 2.0% in the first three years and 3.0% in the last four. In this regard, see Table 6.

- The line was financed with the issuance of bonds that owed be subscribed by the entities object of capitalization.

it corresponded to them and the liquidation was therefore ordered.

It should be noted that in As mentioned above, Fogafin authorized (Resolution 011 of 1999) an additional credit for the entities that accessed the line in order to increase their solvency margin by up to 10 additional points to that recorded after the balance sheet has been cleaned up.

Risks of the strategy for private banking

3.2.3. The utilization

Until December 31, 1999, 14 entities accessed the credit line. Of these, eight were capitalized for \$ 0.6 trillion, of which Fogafin contributed \$ 0.4 trillion in credits (\$ 57,000 million in six-month credits and \$ 445,000 million in seven-year credits). As of December 31, there were three commercial finance companies and a finance corporation under study. Table 7 shows the amounts of capitalizations made to date. In the cases of Banco Selfin and Finde- developmentlo, which requested access to the line, the shareholders did not capitalize the portion that corresponded to them and therefore the liquidation was ordered.

- Until 31 of December 1999 they had accessed 14 entities to the credit line.

- Eight entities were capitalized for a total of \$ 0.6 trillion. Of this I ride, Bonfire contributed \$ 0.4 billion in credits (\$ 57,000 million to six months and \$ 445,000 million to seven years).

The risk for Fogafin is that the shareholders will not be able to pay the loan and stop their payments. In this case, the Fund would enforce the guarantee in the form of the entity's shares and would not receive payments from the debtor, despite the fact that it would be obliged to continue paying the interest on the bonds issued. This generated a negative cash flow until the sale of the entity. It is estimated that it would take two years to privatize the entities received, making the conservative assumption of receiving only their equity value. Under an assumption of default of 20%, the line would continue to be profitable for the Fund, since the tax income in present value is of the order of \$ 80,000 million.

- The risk for Fogafin is that shareholders cannot pay off the credit.

Table 6. Financial conditions of the credit

	CREDIT TO SHAREHOLDERS	FOGAFÍN BONUS
Term	Up to 7 years	Equal to credit
Grace period	1 year to interest 3 years to capital	None to interest
Interest rate	DTF + 2% (during the first 3 years the 2 points can be capitalized)	DTF
Amortization	Biannual	One-time at maturity
Interest payment	Quarterly	Quarterly

Table 7. Use of the line (millions of pesos)

	CAPITALIZATION	FOGAFÍN CREDIT		
		Short term	Long term	TOTAL
CAPITALIZED ENTITIES	597,069	57,015	388,806	445,821
Colpatria Bank	269,565	38,110	174,001	212,111
Superior Bank	69,045	7,023	45,168	52,191
Interbank Bank	58,638	1,016	42,181	43,197
Coltefinanciera	39,706	9,104	19,348	28,452
Colombian Union Bank	32,658	1,762	25,525	27,287
Multifinancial	4,802	-	2,863	2,863
Credit Bank	74,961	-	59,969	59,969
Cofinorte	47,694	-	19,752	19,752

- Under an assumption of non-compliance with the 20%, the line would still be profitable for the Fund.

- The strategy for public banking is applies in the present to the five establishments of credit: BCH, Grana save, Bancafé, Banco del Estado-Uconal and FES.
- The plan includes five steps: sanitation, patrimonial layout of unproductive assets, restructuring administrative and sale.
- The cost of the sector strategy audience amounts to \$ 4.7 trillion.
- To cover the total amount of the capitalization, it has the issuance of bonds by Fogafin and the resources of the Tax on Transactions. Financial.

3.3. Support for the public sector

The Government and Fogafin designed a strategy to clean up and strengthen the assets of public banks, which follows the same guidelines as the private capitalization line. Currently, this strategy is applied to the five public credit institutions (BCH, Granahorrar, Bancafé, Banco del Estado-Uconal and FES) and will be carried out with entities of similar characteristics that become official in the future.

The objectives are:

- ⇒ Eliminate systemic risk generated by public banks
- ⇒ Stop the fiscal cost of public banking
- ⇒ Clean up and restructure the entities to regain their viability
- ⇒ Privatize entities, with the exception of the Agrarian Bank.

3.3.1. What did the strategy consist of?

Five fundamental steps were designed for public banking:

- ⇒ **Sanitation:** To strengthen the balance sheets, non-performing assets are written off in accordance with the criteria of Resolution 006. The contracted international auditing firms establish the provisions to be made.
- ⇒ **Patrimonial strengthening:** ends- After the reorganization, Fogafin issues bonds or invests the proceeds from the Financial Transaction Tax to capitalize the entity until reaching a solvency margin of 9%. The Government assumes the cost of the operation through a commitment of future validity that covers the service of the bonds issued.
- ⇒ **Disposal of non-performing assets:** To recover the highest possible value of non-performing assets, collectors are created to sell them. It is estimated that the Central de Inversiones (a subsidiary of the Banco Central Hipotecario) will receive the non-performing assets of the BCH and Granahorrar. The Government is completing the design of the legal and operational framework for these mechanisms.

⇒ Administrative restructuring of

entities: In preparation for their sale, and as long as it does not interfere with the privatization process and schedule, the entities that have been financially sound will undergo a process of administrative restructuring, the main objectives of which will be: to seek a reduction of administrative and personnel costs; avoid the deterioration of their assets by means of limits to their growth, and strive to reduce the upward pressure exerted by public entities on the market deposit rates. Said restructuring will be carried out with the assistance of specialized external consultants.

- ⇒ **Sale of entities:** Fogafin will hire investment banking firms to privatize the healthy banks. The first sale (BCH and Granahorrar) is expected to be completed in the second half of 2000 and the sale of Bancafé is prepared for the first quarter of 2001. In the case of Banestado, it is expected to reduce its operation to the maximum in the first half of the year. 2000. If the sale or dismantling of the existing banks is not feasible, the alternative is to proceed with their dismantling.

3.3.2. Costs and financing

The cost of the sanitation and asset strengthening program of the public sector amounted to \$ 4.7 billion until December 31, 1999, as shown in Table 8.

To cover this total amount, the issuance of Fogafin bonds and resources from the Financial Transaction Tax are available.

Table 8. Cost of the strategy for public banking

	REQUIRED CAPITALIZATION DECEMBER 1999 (in billions)
BCH	1,300
Grana save	550
Bancafe	1,350
State and Uconal	1,300
FES	70
agrarian Bank	150
TOTAL PUBLIC BANKING	4,720

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- Because the estimated level of sanitation
The growth of these entities was expanded by almost \$ 1.2 trillion, it was necessary to start the processing of a second issuance of bonds through commitment to life future agencies.

- To the capitalization resources that contribute Fogafin and the Government must add the cost of the liquidation of the Caja de Crédito Agrario, which amounts to \$ 2.7 trillions.

- Capitalization made to public banks in 1999 amounted to \$ 2.7 billion.

- To prevent the conditions that they took the Agrarian Fund to liquidation, the government established several restrictions.

Initially, the issuance of bonds for \$ 3.0 trillion and the debt service were established by the Ministry of Finance, through the authorization given to commit future validity. Since the estimated level of reorganization of these entities was increased by almost \$ 1.2 trillion, it was necessary to initiate the process of a second bond issuance through the commitment of future terms. Currently circulating bonds have an interest rate of the DTF and terms of two, four, six, eight and 10 years. On the other hand, an approximate amount of \$ 0.6 trillion, which complements the financing program for public banking sanitation, comes mostly from the resources of the Financial Transaction Tax (the Government increased the allocation of the resources of this tax to public banks,

The fiscal cost of this operation, in present value, is estimated at \$ 3.3 trillion pesos, the detail of which is presented in Annex 2. This cost was determined on two assumptions: that public financial institutions are sold to a value equivalent to once the projected equity value, and that 10% of the amount of the assets managed by the collectors is recovered in four years.

To the capitalization resources provided by Fogafin and the Government, the cost of the liquidation of the Caja de Crédito Agrario must be added, which amounts to \$ 2.7 trillion and corresponds to the actuarial calculation of the pensions for \$ 1.3 trillion. and the difference between assets and liabilities, contingencies and payment of labor compensation for \$ 1.4 trillion. Capitalization made to public banks in 1999 amounted to \$ 2.7 trillion, as summarized in Table 9.

Table 9. Capitalization of the public banking

	CAPITALIZATION VALUE (in millions)
BCH	550,000
Grana save	82,000
Bancafe	600,000
Banestado	1,240,000
FES	45,000
agrarian Bank	150,000
TOTAL	2,667,000

3.3.3. Individual strategies

3.3.3.1. The Agrarian Fund

At the end of the last decade, Caja Agraria was already facing solvency and liquidity problems, which forced it to request multiple capitalizations from the Government and guarantee capital from Fogafin. Despite these efforts, structural problems (high operating costs and wrong credit policies) forced the Nation to opt for its liquidation, a decision that was ratified by the Banking Superintendency.

The Government, however, considered it necessary to continue granting loans to small farmers that the private financial system did not adequately serve, as well as to operate the payment system in remote areas of the country. To do this, he created a new institution, the Banco Agrario de Colombia, which received the productive assets of the Agrarian Fund (\$ 2.2 trillion) and the liabilities with the public. Fogafin capitalized the new entity at \$ 0.15 billion on June 30, 1999.

Both the non-productive assets and the labor liabilities were left in the Caja Agraria in liquidation, the cost of which is estimated at \$ 2.7 billion. This figure results from the pension liability assumed by the Government (\$ 1.3 trillion), the difference between assets and liabilities (\$ 1.2 trillion) and expenses for the liquidation of personnel and administrative contingencies (\$ 0.2 trillion).

In order to prevent the conditions that led to the liquidation of the Agrarian Fund, the Government (in Decree-Law 1065 of June 26, 1999) established the following restrictions:

- => Active credit operations with a territorial entity will not exceed at any time the equivalent in pesos of 1,000 salaries
 minima legal monthly
 (approximately US \$ 120,000).
- => Active credit operations with a person, other than the operations mentioned above, will not exceed at any time the equivalent in pesos of
 500 wages minima legal
 (approximately US \$ 60,000).
- => The bank may exceed the above limits in cases in which the operation is structured as a syndicated loan, in which case the entity may only assume up to 33% of the risk of the operation.

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- It has been established as a general criterion that the Agrarian Bank be administered according to the healthy principles of financial management, that is, do not carry out operations below the cost of your resources financial
 - The Board of Directors of Fogafin, in its session of September 13, approved the transfer of the productive portfolio and its corresponding liabilities of the BCH to Granahorrar.
 - Until December 31, the BCH had received \$ 550,000 million capitalization. For his part, Granaave had received \$ 82,000 million.
 - The Government decided integrate the Banco del Estado and Banco Uconal through a fusion by absorption from the first to the second, a process that It was completed on August 31st.
- => Credit operations that have the guarantee of the Agricultural Guarantee Fund must have it for 80%, so that the risk assumed by the bank corresponds to 20% of the operation. For this, it must have the admissible guarantees.
- The principles outlined above have They have been included in the statutes of the entity, prepared after the declaration of unenforceability of the aforementioned decree (as it was issued in the exercise of extraordinary powers granted to the executive by Law 489 of 1998).
- Regarding the bank's financial operation, it has been established as a general criterion that it is administered in accordance with sound principles of financial management, that is, that it does not carry out operations below the cost of its financial resources. In the event that operations are carried out with some type of subsidy, the Government must first transfer the resources.
- 3.3.3.2. The BCH and Granahorrar**
- Fogafin's Board of Directors, in its session on September 13, approved the transfer of the productive portfolio and most of the liabilities with the public of the BCH to Granahorrar. Likewise, it agreed to complete the reorganization and capitalize the bank to bring it to adequate solvency.
- On the other hand, a capitalization of Granahorrar was contemplated to adapt it to its new level of assets and a subsequent one that would raise its solvency to 10%.
- The strategy to carry out what was approved implied the following actions:
- => The transfer of assets for \$ 1.6 trillion and the required liabilities, which corresponded to 103 offices. To manage it, Granahorrar had to open only 22 offices, a measure that implied a substantial decrease in the aggregate operating costs of the two institutions.
 - => The hiring of some people from the BCH. Those that were not required would be subject to the personnel liquidation process envisaged to eliminate labor costs.
- => The transfer of all the bank's processes to a single technological platform. This centralization of information was necessary because the bank had scattered platforms that made it difficult to manage. In this regard, priority activities would be rescheduled and information on the Cobis platform that the BCH already owned would be consolidated. With the new platform, a simultaneous accounting could be carried out in line with the transactions. So far, most of the portfolio databases and the passive products of the current platforms (there are four of them) have been migrated to Cobis. This migration has made it possible for the information to be used by the Granahorrar technological platform.
- => The reorientation of the commercial network towards the collection of the productive portfolio and the credit area towards the recovery of unproductive assets, so that added value could be generated to the branch network, regardless of the final fate of the BCH, be it liquidation or sale.
- The capitalization made to the BCH, until December 31, 1999, was \$ 550,000 million. With this sum the cause for dissolution was enervated and solvency and liquidity problems were greatly alleviated. The total cost to clean up the BCH amounted to \$ 1.2 trillion on December 31. For its part, Granahorrar was capitalized by \$ 82,000 million for a total capitalization of \$ 329,000 million. Of this last figure, \$ 22,000 million corresponded to the additional \$ 550,000 million that the entity requires in preparation for its sale process.
- 3.3.3.3. The State Bank and the Uconal Bank**
- The losses of Banco Uconal in 1998 led to the cause of dissolution, to become enervated before June 30, 1999. For its part, the Banco del Estado faced solvency problems that pushed it to the same cause in December of
1998. Banco Uconal was made official in August 1998 and until June of last year had received liquidity support for \$ 0.5 trillion. The need to protect public savings and the importance of achieving synergies in the operation led the Government to decide to integrate them with a merger by absorption from Banco del Estado to Banco Uconal, a process that was completed on August 31.
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<ul style="list-style-type: none"> • The merger of Banco del Estado and Uconal was ordered again. mind for the Superintendence Banking after having been declared unenforceable the decree that validated it. • The merger process has involved the adoption of a organizational structure tional flatter, by decreasing tion of administrative areas. • Additionally, it has been necessary to unify car the structures technological am- bas entities. • The Fund hired McKinsey & Co. to restructure administratively Bancafé. The proposal was to create a bad bank and a good bank. Until the date, the consulting firm has advanced in the definition of the structure organizational that it should have the entity. 	<p>This merger, established in decree 1167 of 1999, it was ordered again by the Banking Superintendence after the decree was declared unenforceable for reasons of unconstitutionality of article 120 of Law 489 of 1998, by virtue of which it was issued.</p> <p>To enervate the cause for dissolution, it was necessary to inject \$ 0.82 trillion into the merged entity between August and September 1999. In December, the equity strengthening was carried out, through the provision or amortization and write-off of \$ 0, 37 billion of sanitation assets established by Fogafin's Board of Directors. Additionally, in the last quarter of the year, \$ 0.41 billion from the Financial Transaction Tax were disbursed to complete the process of strengthening equity.</p> <p>With these resources, the bank paid most of the debt it had acquired with Fogafin. In December 1999 the balance was \$ 0.2 trillion.</p> <p>Banestado's strategy has involved the following actions:</p> <p>⇒ The adoption, through a reduction of administrative areas, of a flatter organizational structure. To fulfill this task, studies of the potential of all the offices from the two banks were developed. Of 127 offices and 12 service centers, 75 were considered essential to make up the network of the new entity and this was the total number of offices the entity had in December 1999. For the year 2000, it has been planned to continue - Continue with the reduction of branches until reaching 30 at the end of June. In terms of personnel, the two merging banks reduced their staff from 2,954 employees in May 1999 to 1,800 at the end of December of the same year.</p> <p>⇒ The unification of the technological structures of both entities. This aspect was necessary because the legal obligation to carry out the merger in August 1999 forced the new entity to maintain two technological platforms in parallel operation. The two structures are expected to be fully integrated in June 2000.</p>	<p>3.3.3.4. Bancafe</p> <p>The bank's equity situation and its competitive position deteriorated substantially during 1999, as it registered solvency ratios below what was required and making it necessary to clean up and strengthen equity.</p> <p>After evaluating alternatives, the majority shareholders of Bancafé, represented mainly by the National Coffee Fund (FNC), stated that they were not in a position to capitalize the entity. Consequently, Fogafin's Board of Directors approved a capitalization of \$ 0.88 billion to comply with the order issued by the Banking Superintendence.</p> <p>However, the National Committee of Coffee Growers approved the subscription of Bonds Optionally Convertible into Shares (Boceas) of Bancafé for \$ 0.1 trillion with a term of 7 years and conversion at maturity or early at the time of deciding the privatization of the entity. With this measure, the FNC would maintain a position on the bank's board of directors. For this purpose, it was decided that the holder and the alternate should be officials of the National Federation of Coffee Growers.</p> <p>Simultaneously, the Fund hired McKinsey & Co. to administratively restructure the bank. The proposal was to create a bad bank and a good bank. The bad bank would manage the unproductive assets subject to reorganization (the mortgage business would be dismantled through collectors or autonomous patrimonies), while the good bank would cut its network of offices and the central administration to reduce operating expenses and give it financial viability. - ra.</p> <p>To date, the consulting firm has made progress in defining the organizational structure that the bank should have and in the potential reductions in dependencies and personnel.</p> <p>Once these stages are completed, an investment bank will be hired for privatization, a stage scheduled for the first quarter of 2001.</p> <p>The strategy considers carrying out a reorganization process that follows the guidelines of Resolution 006. This alternative has a cost of \$ 1.35 trillion and does not include the additional cost of reorganizing the pension asset (approximately \$ 268,000 million).</p>
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- Fogafin had capitalized Bancafé in \$ 600,000 million amount that results insufficient for perform the sanitation total profit and leave the entity with a solvency margin 10%.
- Restructuring administrative of the Bancafé contemplates the reduction of 38% of its offices in the 2000.
- Part of the restructuring of Bancafé is the development of the first phase of the new platform Bank technology-vision.
- After the capital injection, the shareholding of Fogafin in the Financiera FES al-reached 92.57%; the remaining percentage it remained in the hands of the FES Foundation.

Until October 1999, Fogafin had capitalized the entity in \$ 600,000 million, an amount that was insufficient to carry out the total reorganization and leave the entity with a solvency margin of 10%. In March 2000, the scheduled date to carry out the cleanup, and taking the estimated amount of \$ 0.9 trillion (with the figures as of December 1999), an additional capitalization of \$ 0.75 trillion would be required.

Bancafé's strategy has involved the following actions:

- ⇒ The administrative restructuring of the entity, part of which is the reduction of 38% of its offices in 2000 (to remain with 270 offices). In the central administration, the size of the operating areas will be optimized and in the regional ones the bank will reach the number necessary for its optimal management, within the standards of banks of its type. During 1999 Bancafé reduced

1,165 people at your plant (went from 8,210 in December 1998 to 7,045 in the same month of 1999). This reduction was in accordance with the adjustment plan signed by the bank with the Banking Superintendency, which proposed reaching a payroll of 7,200 workers in September 1999.

- ⇒ The concentration of efforts to meet all the requirements of the change of the millennium and develop and implement the first phase of the new Bankvision technological platform. At the end of 1999, all its applications, as well as the contingency plans, were adequate and tested for 2000. However, in the implementation of Bankvision there were delays because in the module budgeted to go into production, tests were carried out and its Start-up was left for the first quarter of 2000.

3.3.3.5 Financial FES

The situation of patrimonial deterioration of the FES CFC Foundation made it necessary to assign all the assets, liabilities, contracts, business establishments and debtor and creditor contingencies, to a financial corporation. The foregoing, in order to comply with the capitalization order (for \$ 45,000 million) of the Banking Superintendency, which had been breached by the Foundation.

After the capital injection, Fogafin's participation in Financiera FES reached 92.57%; the remaining percentage remained in the hands of the FES Foundation.

The effect of the transfer was the registration in the balance sheet of Financiera FES (as of June cut-off, 1999) of an accounting difference between assets and liabilities of \$ 33,000 million, a figure that was recorded in an account payable to the FES Foundation until the Banking Superintendency established the real value of the assignment.

Once the figures corresponding to Financiera FES's balance sheet are clarified, Fogafin will advance the consolidation and capitalization process according to the guidelines defined for private banking, the cost of which is estimated at \$ 70,000 million. At the same time, the FES administration is expected to rationalize its expenses and improve the commercial strategy, with a view to placing the establishment in a condition for sale. In this case, it is planned to contract an investment bank or promote a merger with another financial institution.

Risks of the strategy for public banking

The main financial risk of the public bank capitalization program is the possible further deterioration of the assets of official entities after the reorganization and strengthening of assets. A second risk is the difficulty of selling bank assets under current international market conditions. The delay in the sale increases the fiscal cost of the strategy. Additionally, there are risks derived from the low demand for assets managed through collectors, which will translate into a decrease in recoveries.

To mitigate the risks, Fogafin has proposed that the entities comply with the prudential regulation criteria in force in Colombia, as well as that there is an increase in assets and management of the cost of the deposits in accordance with criteria that do not put jeopardizing its financial viability. Fogafin will seek that, once the reduction in expenditures that is considered balanced for public banks is obtained, the annual increase in expenditures does not exceed the inflation index until the moment of its privatization or until when they cease to operate.

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3.4. Support to the financial cooperative sector

- The strategy for Banco Coopdesarro- It took three steps.

Banco Coopdesarrollo led a process of economic integration of Banco Cooperativo Bancoop and the cooperatives Cupocrédito and Coopsibaté, which sought to protect the savings of 1,700,000 savers and the money of 819,000 contributors. In order to prevent systematic risks that could affect other registered institutions, Fogafin had granted it, between 1998 and 1999, \$ 0.36 billion in support through portfolio purchase operations with a repurchase agreement.

This figure represents the equity difference delivered by Bancoop at the time of joining Banco Coopdesarrollo.

- The first was the value assessment real of the integration of the bank.

The strategy followed to regain its viability can be summarized as follows:

In order for the entity to reach the 10% solvency margin and regain its financial viability, Fogafin disbursed \$ 0.29 billion of credit to the bank's shareholders at the end of last December, under conditions similar to those established in Resolution 006. To achieve said solvency margin, the Fund additionally granted \$ 0.18 billion in guaranteed capital with a maximum term of one year, removable within the capitalization plan that, for the same amount, must shareholders contribute with their own resources in the same period.

- The second was the approval of the sanitation grass-capitalization and capitalization of the entity.

=> Evaluation of the real value of the integration of Banco Coopdesarrollo. The Banking Superintendency and the Peat Marwick firm carried out a diagnosis of Banco Coopdesarrollo to define the real value of the original shareholders' stakes in the integrated Banco Coopdesarrollo. In this evaluation, the real loss originated by the Bank in the process was established at \$ 191,000 million.

The fiscal cost of the Banco Coopdesarrollo sanitation operation has been estimated at \$ 0.2 trillion, corresponding to the disbursement of resources from the aforementioned Financial Transaction Tax.

- The third was the creation of a bank with the character of an anonymous company.

=> Approval of the reorganization and capitalization program of Banco Coopdevelopment. On November 8, 1999, the Board of Directors of the Fund approved the bank's general consolidation and capitalization program, following the guidelines of Resolution No. 006.

- The fourth was the disbursement of the equity difference generated by the absorption of Bancoop, charged to Two per Thousand.

=> Creation of a bank with the character of a public limited company. Given the difficulties introduced by the cooperative nature in its management, Banco Coopdesarrollo ceded its assets and liabilities to Banco Megabanco SA on December 1, 1999, and the majority ownership of the latter remained in the head of a parent cooperative entity. rativa whose name is Central Cooperati- va.

- Finally, the bank received from Fogafin a credit for \$ 0.29 trillions.

=> Disbursement of the equity difference generated by Bancoop. In order to achieve the viability of the reorganization and capitalization operation approved by the Board of Directors, Fogafin granted on November 30, 1999 a loan under concessional conditions (charged to the Bank Transaction Tax) to the parent cooperative entity. for \$ 0.19 billion.

4. Operations of Economic Emergency

4.1. Home debtor relief

Decree 2331 of November 16, 1998, or of Economic Emergency, issued by the Ministry of Finance, ordered the adoption of measures to restore economic balance and mitigate delinquency in the portfolio of home mortgage debtors. The regulation sought, in turn, to prevent the deterioration of the past-due portfolio indicators of the credit institutions that financed these activities. Fogafin was assigned the task of implementing a debtor relief plan, for which two phases were contemplated: Phase 1 or Economic Emergency Relief and Phase 2 or Additional Relief.

4.1.1. Phase 1 or Economic Emergency Relief

Its objective was to grant loans to individual debtors of mortgage loans with interest rates more favorable than those existing in the market. For day-to-day debtors, the relief consisted of a reduction in the monthly installment, while the delinquent debtors were offered to solve the delinquency of the portfolio and prevent the loss of the home. The credits were granted under the following modalities shown in Table 10.

During the first phase of relief, completed between November 1998 and March 1999, loans for \$ 224,000 million were granted, which benefited approximately 65,000 families and normalized 10% of the past due portfolio, as described in Annex No. 3. The procedure for the delivery and management of relief credits, by credit establishments, was established by the Fund in External Circular No. 001 (March 31, 1999).

Subsequently, Fogafin controlled the process of the administration of this portfolio in the entities, a task of competence of the latter according to the administration contract that the Fund signed with each of them. Said contract included the accounting, collection control and management of the management and past-due portfolio indices on the operations disbursed through each of the entities.

The Fund hired the auditing services of the company Arthur Andersen & Cia. (Contract signed on June 22, 1999) to verify the compliance of the establishments with the obligations of the mandate contract concluded for the administration of the relief credits. The activities of the auditing firm focused on evaluating 100% of the database made up of the loans granted and auditing the physical documents filled out by the debtors and the establishments. Eleven (11) entities were audited; the Fund informed them of the results in written communication. Each one analyzed the report sent and, in a subsequent session with the Fund, presented the adjustments to the inconsistencies generated in the loan delivery process.

Fogafin had an immediate action plan to control the portfolio managed by the credit institutions. In 1999, the focus was on the design of the processes and the granting of loans. In 2000, the action plan will control the management carried out by the establishments, especially the management and maintenance of said portfolio.

4.1.2. Phase 2 Reliefs or Additional Reliefs

Decree 688 of April 20, 1999 empowered the Fund to grant a second phase of relief to debtors who were current and in default. The decision to expand the scope of the program was due to the fact that the facilities established in Decree 2331 had ended.

The objective of this second phase was to expand the scope of the first phase reliefs. They were designed to reach a greater number of debtors and, particularly, to stimulate the timely payment of debts. For them, an automatic interest rate reduction program was developed for debtors who were up to date.

- Decree 2331 of November 16, 1998 ordered the adoption of measures days to mitigate the delinquency of the portfolio of credit debtors mortgage.
- In Phase 1, the objective was to grant loans to debtors individual vi- sell with interest rates more favorable to existing in the market.
- With Phase 2 it was intended to reduce auto- ta- sas of interest to debtors who were up to date. For their part, delinquent debtors received loans with favorable interest rates to catch.

Table 10. Types of relief credit

KIND OF CREDIT	CUP OF INTEREST	TERM MAXIMUM
Credit up to date VIS Credit up to date No VIS Credit in arrears VIS	CM -5	10 years
Credit in arrears No VIS	CM	10 years
	Inflation	10 years
	Inflation + 5	10 years

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- In Phase 2, the debtors' credits that were

As of May 31, 1999, they could be subject to a reduction in the effective interest rate for

during the months between ma-
me and december
1999.

- For their part, credit debtors individual that as of March 15, 1999 were in motion

ra obtained as relief measure the provision of a loan to become up to date.

- This second stage of relief benefited 354,000 families and normalized 70% of the past due portfolio.

- Added the two phases, disbursement was \$ 479,000 million until last December 31 and its benefit reached 400,000 families.

For their part, delinquent debtors would receive loans with interest rates more favorable than those of the market to catch up and access the benefit of the interest rate reduction. The processes that credit institutions had to follow to grant these second reliefs were established by the Fund, on May 31, in External Circular No. 012.

In summary, for current mortgage debtors, loans as of May 31, 1999 could be subject to a reduction in the effective interest rate between May and December of 1999.

1999, as Table 11 explains. For mortgage debtors in default, loans that were in default as of March 15, 1999 could access a loan from the credit establishment of up to six installments with less delay at the time of application.

In the second phase of relief, carried out between May and December 1999, \$ 145,000 million were disbursed for debtors per day and \$ 108,000 million for those who were in default. These reliefs benefited approximately 354,000 families and

families and normalized 70% of the past due portfolio (see Annexes No. 4 and 5).

For relief, up to December 31, 1999, \$ 479,000 million were disbursed, as shown in Table 12. This amount came from the Financial Transaction Tax (40% of the collection in 1999), which amounted to \$ 1.3 billion. The Fund allocated 40% of the tax to relief for debtors (this percentage is compatible with the amounts provided by Decree 2514 of December 16, 1999, which allocated 27% to the creation of a fund to attend the debt service of the bonds issued, estimated in present value, after discounting the proceeds of the loans granted).

It should be added that in the first phase of relief, Fogafin assumed the total risk derived from the loans, while in the second phase the credit risk of the refinancing of the delinquent obligations fell on the credit institutions. In the second phase, in addition, the benefit for debtors per day was shared between Fogafin and the establishments.

Table 11. Interest rate reduction scheme for debtors up to date

CURRENT INTEREST RATE RANGE	Reduction on interest rate current	Reduction assumed by Bonfire	Reduction assumed by the financial entity
Greater than CM + 10 and equal to or less than CM + 13 or its equivalent.	3 points	3 points	0 points
Greater than CM + 13 and equal to or less than CM + 16 or its equivalent.	4 points	3 points	1 point
Greater than CM + 16 or its equivalent.	5 points	3 points	2 points

Table 12. Results of the relief scheme

DEBTORS TO THE DAY			
PHASE	DISBURSEMENT (millions of pesos)	% PURSE BENEFITED	NUMBER OF Families
EMERGENCY RELIEF	210,000	8%	53,000
ADDITIONAL RELIEFS	145,000	62%	354,000
DEBTORS IN DELAY			
PHASE	DISBURSEMENT (millions of pesos)	% PAST DUE PORTFOLIO STANDARDIZED	NUMBER OF Families
EMERGENCY RELIEF	14,000	10%	12,000
ADDITIONAL RELIEFS	108,000	70%	58,000
TOTAL RELIEF	479,000	70%	354,000

4.2. The credit for dations in payment

A second tool designed as support for debtors was the one contained in article 14 of Decree 2331 of 1998, according to which credit institutions had to accept obligatorily the offers presented by debtors so that their property intended for housing was received at dation in payment title

In this way, the total amount owed to the financial institution for the mortgage loan will be canceled, as long as the value of the debt exceeds the commercial value of the property.

By means of External Circular 012 (July 21, 1999) the Fund implemented the operative process to grant and manage the loans that the latter would deliver to credit institutions due to the losses recorded when receiving the property. The circular was based on Decree 2331 of 1998; 813 and 908 of 1999; Resolutions 003 of November 25, 1998 and 005 of June 9, 1999 (issued by the Board of Directors of Fogafin) and Sentence C-136 of 1999 of the Constitutional Court. The Fund also established the procedure for accepting the donations in payment, and that for managing and selling the assets.

To date, the amount of loans requested by four (4) credit institutions, according to the loss recorded when receiving the grant between August and December 1999, amounts to \$ 4,578 million (268 approved grants). There are still 213 applications pending legalization by credit institutions, totaling \$ 2,853 million. It should be added that the deadline established by Decree 2331 of 1998 for debtors to request dation in payment from credit institutions (November 16, 1999) was extended until January 31, 2000 by Law 546 of the December 23, 1999. In the case of daciones, the task of the Fund has been to verify the credit applications of the entities and control that the supporting documentation (appraisals) comply with the legal norms.

4.3 Unemployment Insurance

Decree 2331 of 1998 established that Fogafin would take out insurance for debtors of social interest mortgage loans that would protect them from paying one or more installments if they lost their jobs.

Subsequently, in Decree 213 of 1999, the Government formulated the conditions for said contract, in the sense that Fogafin would sign with an insurance company a collective unemployment policy for debtors of social interest mortgage loans that had been or were granted by credit institutions. This insurance would only cover one mortgage obligation per debtor. The conditions that were established there to be a beneficiary of unemployment insurance were the following:

- ⇒ Dismissal without just cause.
- ⇒ Final liquidation or closure of the company or entity in which the insured debtor works.
- ⇒ Termination of the employment contract due to suspension of activities by the employer of the insured debtor for more than 120 days.
- ⇒ Suppression of the position due to administrative restructuring in the public or private entity.

The exclusions were:

- ⇒ That the mortgage loan for financing low-income housing is in arrears for more than 30 business days.
- ⇒ That the debtor of the mortgage loan for low-income housing maintains another employment relationship.
- ⇒ That the unemployment situation has been caused by internal war, foreign war, revolution, rebellion, sedition or riot.

The Fund ordered (Resolution No. 017 issued by the Director of the Fund) the opening of public tender No. 001 of 1999 to contract the Unemployment Insurance. The tender was closed on August 5, 1999 and the temporary union of the insurance companies La Previsora SA, Compañía Central de Seguros SA and Aseguradora Colseguros SA was chosen. The policy was signed on September 21. Subsequently, Fogafin and the temporary union established the parameters for the presentation of claims by the debtors before the credit establishments. The joint venture requested the Fund to pay the premiums paid for unemployment insurance for the periods of October, November and December 1999, which amounted to \$ 2,279 million. The resources granted from the National Budget for this purpose amount to \$ 10,000 million.

280,000 debtors.

- Other tool designed as support for the debtors was the order to the establishments of accept returns of real estate (whose debt will exceed their commercial value) as such payment of the balance.

- In 1999 the amount of credits requested by four establishments amounted to \$ 4,578 million.

- The Fund ordered the opening of a public tender for take out Unemployment Insurance. For provide the service the union was chosen temporary insurers The Previsora SA, Central Company of Seguros SA and Insurance carrier Colseguros SA.

- The temporary union requested the Fund to pay the premiums in October, November and December 1999, for \$ 2,279 million.

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4.4. The Coffee Axis

In 1999, a quota was established in Fogafin for the delivery of benefits and tax subsidies to the owners or possessors of affected properties in the municipalities in which the Economic Emergency was declared due to the earthquake of January 25, 1999.

The Fund defined in External Circular No. 009 (May 27, 1999) the operating processes for the delivery of said benefits and interest rate subsidies to the victims. For this it was based on decrees 195, 196, 197, 198, 223,

258, 350 of 1999 and in resolutions 003 and 010, issued by the Board of Directors of the Fund in 1999.

Fogafin was in charge of verifying the requests of the establishments for interest rate subsidies, according to the amount of the loan and its destination, to settle the amount that corresponds to assume. Additionally, it was reviewed that the supporting documentation presented by the entities (appraisals) complied with the legal provisions.

The Fund received three credit reports approved for interest rate subsidies and will begin to pay them in 2000.

The amount of credits approved and reported to the Fund totals \$ 4,291 million and is presented in Table 13.

Table 13. Coffee Axis Credits

ENTITY	N ° CREDITS APPROVED	VALUE CREDIT
Conavi	131	3,856
Davivienda	3	388
Bancafe	two	47
TOTAL	136	4,291

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5. Portfolio

5.1. The portfolio managed by Granahorrar

In accordance with the provisions of the portfolio management contract signed between Fogafin and the Granahorrar Corporation on January 8, 1999, this entity manages the portfolio that remained in the possession of the Fund after the non-fulfillment of the repurchase obligation by the corporation on October 2, 1998, the date on which its default was configured. The value of the portfolio is \$ 499,820 million, an amount that corresponds to 134% of the total portfolio purchase credit with a repurchase agreement (\$ 373,000 million). To more efficiently control the management that Granahorrar gave to the portfolio, the Fund designed new formats to report the following movements:

- The value of the portfolio managed by Granahorrar is from \$ 499,820 million.
- To control of more efficient way the handling that the corporation gave to the portfolio, the Fund designed new formats to report all the movements.
- Fogafin verified that the reports of Granahorrar fulfilled with the requirements of the Single Account Plan applied. What's more, found that the subscriptions made weekly through the SEBRA system, correspond with the royal collections-mind received by the entity.

- ⇒ Weekly collections
- ⇒ Total monthly collections
- ⇒ Capital movements (balances)
- ⇒ Interest movements (balances of current interest and arrears).
- ⇒ Rating of the portfolio according to its maturity and category (commercial, consumer and mortgage).

The Fund has been in charge of verifying that the reports presented by Granahorrar, as well as the accounting dynamics, comply with the requirements of the single chart of accounts applied. In addition, that the payments made weekly through the SEBRA system correspond to the collections actually received by the entity.

For this, a database was created that allows checking that the applications to the PUC accounts are duly registered. On the other hand, Fogafin verified that the commission charged by Granahorrar on the collections made and on the portfolio balances had been settled in accordance with the provisions of the administration contract. Likewise, it controlled the behavior of the portfolio managed by means of indices that show the management of the corporation in its collection. The results obtained by Granahorrar are summarized in Table 14.

5.2. Support operations for CAVs and loans to builders

As part of the quota approved by the Board of Directors for establishments that finance construction, the Fund committed resources (during the term of the portfolio purchase operation with a resale agreement to credit establishments) for free loans. investment and construction, whose expiration date was October 29, 1999. Fogafin controlled that the guarantees provided by the entities that finance the construction maintained sufficient coverage for the transfer of the requested resources. Likewise, it monitored the quotas of the contracts and the certifications of the credit institutions on the credits disbursed to builders. The credits granted by the Fund on October 29, 1999 totaled \$ 173,829 million, paid in full on the aforementioned date (see Annex No.

6).

Table 14. Results of the portfolio managed by Granahorrar in 1999

MONTH	PORTFOLIO BALANCE MONTHLY YEAR 1999	(Millions of pesos)	
		TOTAL COLLECTION OF PORTFOLIO YEAR 1999	TOTAL COMMISSION PAID TO THE CORPORATION YEAR 1999 (+ VAT)
January	524,607	9,242	1,956
February	528,333	10,113	2,069
March	531,772	11,647	2,076
April	525,167	9,607	2,004
May	523,372	9,405	1,975
June	523,963	9,212	1,792
July	524,652	8,939	1,923
August	525,586	9,590	1,870
September	526,607	7,493	1,841
October	527,931	7,304	1,776
November	530,151	6,799	1,659
December	527,968	11,931	2,282
TOTAL		111,285	23,224

6. Deposit Insurance and Guarantee

6.1. Registered entities

At the end of December 31, 1998, there were 125 entities duly registered in the Fund and paying Deposit Insurance or Guarantee cost. However, during 1999 there were mergers and interventions that reduced the number to 120. The tables

15, 16 and 17 illustrate the number and type of financial institutions registered.

Last year the Fund was empowered (Decree 1515 of 1998) to grant the Guarantee to life insurance companies and therefore regulate their registration. In compliance with the foregoing, the Board of Directors issued Resolution 008 (September 21, 1999) and the Operations Sub-Directorate prepared External Circular No. 013 (October 1, 1999).

1999) to establish the operating procedure.

Of the 17 insurance companies registered, \$ 127.5 million was received for registration. The cost of the Guarantee is collected from

January 2000. Until 31 of

In December, of the 120 registered entities, 87 contributed to the Deposit Insurance and 33 to the Guarantee.

6.2. The collection

The collection of the Premium for Deposit Insurance increased 86.82% between 1998 and 1999, variation due to the increase in the rate applicable to the settlement base. This rate went from 0.15% to 0.30% per annum, in accordance with the provisions of Resolution 001 (August 6, 1998). From the collection of

In 1999, most of it corresponds to banks (69%), followed by CAVs (18%). The remaining percentage (13%) was contributed by the other financial entities.

- In 1999 there were mergers and interventions that they reduced the number of registered entities Tas in the Fund: went from 125 to 120.

- Last year the Fund was empowered (Decree 1515 of 1998) to grant the Guarantee to companies life insurances.

- The 17 insurers who signed up paid \$ 127.5 million for concept of record.

- The collection of the Deposit Insurance premium is increased the 86.82% between 1998 and 1999, variation product of increase in the rate applicable to the settlement base.

Table 15. Number of registered entities

ENTITY TYPE	No. ENROLLED (Dec 98)	REDUCTION BY INCREASE BY		No. ENROLLED (Dec 99)
		FUSION OR SETTLEMENT	REGISTRATION OR TRANSFORMATION	
Banks	33	7	two	28
Financial corporations	16	5	0	eleven
Co. financing	48	eleven	0	37
CAV	6	1	0	5
Capitalizing	6	0	0	6
Pension funds	8	0	0	8
Severance funds	8	0	0	8
Life insurers	0	0	17	17
TOTAL	125	24	19	120

Table 16. Registered by Insurance Deposits

KIND OF ENTITY	No. ENROLLED
Banks	28
Corpor. Financial	eleven
CAV	5
Co. Financing	
commercial	37
Capitalization company	6
TOTAL	87

Table 17. Registered by Guarantee

KIND OF ENTITY	No. ENROLLED
Pension fund	8
Severance funds	8
Co. life insurance	17
TOTAL	33

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Table 18. Deposit Insurance Premium Collection 1993-1999

YEARS	TOTAL COLLECTION (millions of pesos)	VARIATION
1993	14,937	
1994	21,897	31.78%
nineteen ninety five	31,197	42.47%
nineteen ninety six	38,199	22.44%
1997	45,714	19.67%
1998	75,205	64.51%
1999	140,504	86.82%

- Between 1998 and 1999, a variation in cost collection Guarantee of the 38.57%, as result of increase in settlement basis.

Table 19. Warranty cost collection 1993-1999

YEARS	TOTAL COLLECTION (millions of pesos)	VARIATION
nineteen ninety five	1,760	
nineteen ninety six	3,326	88.97%
1997	4,725	42.06%
1998	7,035	48.88%
1999	9,749	38.57

- 98% of the registered entities complied with your obligation opportunely.

Between 1998 and 1999 there was a variation in the collection of the Guarantee cost of the 38.57%, as a result of the increase in the settlement base. Regarding payment compliance, 98% of the registered entities fulfilled their obligation in a timely manner. The remaining 2% involved the Fund to carry out the pertinent management to guarantee the collection.

The results show an important scope and diffusion in the payment of the insurance. It must be taken into account that in all liquidation processes there are creditors who do not come to make the respective collection, regardless of the information and disclosure measures implemented, or who send inconsistent or erroneous information.

- Fogafin organized and carried out in 1999 Deposit Insurance payments for \$ 54,496 million, whose receivers were 33,583 creditors.

It should be noted that last year 100% of the Deposit Insurance premiums and Guarantee cost were collected.

However, creditors' inquiries were answered and the information on each payment was validated and verified. This sought to guarantee the payment of between 90% and 95% of the creditors covered by the insurance in the first two months of 2000.

6.3. Payment of Deposit Insurance

As a result of the administrative forced liquidation processes ordered by the Banking Superintendency, Fogafin organized and carried out in 1999 payments of the Deposit Insurance for \$ 54,496 million, whose receivers were 33,583 recognized creditors of eight entities in liquidation, as summarized in Table 20.

In the cases of Leasing Selfin and Banco Selfin, the Fund implements at the moment the procedures for the prompt disbursement of the insurance.

- The results they show a important scope and diffusion in the insurance payment in 1999.

The coverage of the payments benefited 80% of the savers and depositors of the aforementioned intervened entities, a proportion that is higher than the canceled value, which represented 82% of the total value calculated and authorized for the insurance payment.

In summary, the payment of the Deposit Insurance was carried out in an agile, fast and secure manner in 1999. This was the result of the adoption of a new payment system (payment to the creditor's account through the electronic transfer network of ACH funds) that has facilitated the disbursement. Creditors were able to dispose of the money in their own bank account.

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This payment system also generated advantages for the Fund, since it significantly reduced both the costs associated with the payment process and its time, as well as the risk of inconsistencies in payments. In addition, it allowed the immediate recording of the figures and the timely verification of compliance with all the supports.

On the other hand, the Fund advanced in 1999 the payment of subrogated credits (as the pertinent resources were received from the liquidations), thus facilitating the objectives of a progressive and efficient liquidation process, as can be seen in Table 21.

- During 1999 authorized payments of subrogated claims loans for \$ 14,784 million, of which \$ 13,725 million were delivered to 7,804 creditors who attended make the payment respective.

During 1999, payments for this concept were authorized for \$ 14,784 million, of which \$ 13,725 million were delivered to 7,804 creditors who concurred to make the respective collection. In this regard, it should be noted that although this number of creditors only represents 58.6% of those authorized to receive insurance, they accounted for 92.84% of the total values. This is due to the fact that those who did not make the respective collection (despite having been informed through newspapers with national circulation), did not do so because they were small sums. This fact is evident in the case of La Fortaleza, in which only the

55.28% of the creditors collected the authorized partial payments.

Table 20. Payment of Deposit Insurance in 1999

ENTITY ON SALE	No. CREDITORS SECURE OBJECT	No. CREDITORS BENEFITED	VALUE AUTHORIZED PAID	VALUE	%VALUE PAID
(millions of pesos)					
Capitalizing					
Grancolombiana	23,309	18,359	7,873	7,074	89.85
Heritage Leasing	326	309	1,536	1,468	95.57
Andean Bank	5,817	5,104	12,789	11,533	90.18
Bank of Pacific	3,890	3,567	10,635	9,885	92.95
Corfipacific	2,209	2,133	9,271	8,931	96.33
Bermúdez and Valenzuela	5,000	3,466	17,591	12,498	71.05
End development	588	298	3,782	1,840	48.65
Pacific CFC	706	347	3,087	1,267	41.04
TOTAL	41,845	33,583	66,564	54,496	81.87

Table 21. Payment of receivables subrogated in 1999

ENTITY ON SALE	No. CREDITORS SECURE OBJECT	No. CREDITORS BENEFITED	VALUE AUTHORIZED PAID	VALUE	%VALUE PAID
(millions of pesos)					
Strength	12,251	6,772	5,393	4,349	80.64
Financial Arfin	350	350	5,725	5,725	100
Financauca	716	682	3,666	3,651	99.59
TOTAL	13,317	7,804	14,784	13,725	92.84

7. Liquidations

During 1999, Fogafin complied with the monitoring of 49 entities intervened by the Banking Superintendency, for which it developed management commitments that evaluate the agility in the recovery of portfolio, sale of assets, reduction of costs and payment of debts. The current total of intervened is summarized in table 22. In the changes in total assets, a decrease is observed caused by the portfolio provisions, the accounting adjustments for appraisals of movable and immovable assets and the accounting reconciliations .

Likewise, the variations in total liabilities showed a negative behavior, mainly due to the payment of debts.

The entities intervened before 1998 are: Banco Nacional, Banco Comercial de Barranquilla, Seguros Colombia, Seguros de Vida Colombia, Internacional de Seguros, Seguros Universal, Seguros de Vida Universal, La Fortaleza, Unión Financiera, Financiera Colombia , Financiera Industrial, Financiera Furatena, Central Financiera, Corporación Financiera Integral, Promorando, Financiera Arfin, Fidu-

- Fogafin met in 1999 with the track 49 entities intervened for settlement by the Superintendencia Banking.
- Fifteen of the 49 entities in settlement were intervened during year. Of these, 12 are in liquidation and three in possession.

Table 22. Entities in liquidation intervened in 1999 and 1998

ENTITIES INTERVENED IN 1999		DATE INTERVENTION	No. CREDITORS	ACTIVE Dec 99	PASSIVE Dec 99
(millions of pesos)					
Fiduciaries	Cáceres and Ferro	May 13	1,642	2,680	1,133
Banks	Andean Bank	May 20	7,972	246,256	347,051
	Banco del Pacifico SA Banco	May 20	6,483	172,048	240,060
	Selfin	July 16	5,404	34,145	56,082
	Agrarian Box	November 19	(**)	(**)	(**)
Corporations	Fin. del Pacifico SA	May 25	4,061	46,233	130,125
Financial	Corfioccidente (*)	October 12	950	60,107	78,738
Cooperatives	Coofindes SA	June 23	20,498	8,288	8,543
	Arkas Ltda.	July 1	18,515	9,718	20,140
Companies	CFC Pacific	June 30	487	22,261	39,536
of	Bermúdez and Valenzuela	June 30	5,274	48,025	56,396
Financing	End development	July 22	616	18,445	16,056
Companies	Leasing Selfin	July 21	841	28,268	30,395
of Leasing					
Companies	Seguros Atlas SA (*)	October 26	ND	20,715	26,805
insurance	Seguros de Vida Atlas SA (*)		30,000	31,617	37,386
ENTITIES INTERVENED IN 1998		DATE INTERVENTION	No. CREDITORS	ACTIVE Dec. 99 Dec. 98	PASSIVE Dec. 99 Dec. 98
Companies of insurance	Insurance carrier Grancolombiana	February 27	6,971	23,855 35,468	37,737 47,226
	Insurance carrier Grancolom. of life	February 27	25,737	15,039 24,459	20,654 29,138
Capitalizing	Capitalizing Grancolombiana (**)	February 27	7,230	26,633 20,462	33,863 27,349
Cooperatives	Cfiandina	July 15	24,097	18,346 20,208	22,708 23,293
	Credisocial	July 29	12,394	34,351 71,317	68,563 77,506
	Financoop	Sept. eleven	12,625	2,900 11,103	9,600 10,103
	Coopiantioquia	October 6	25,566	7,364 19,348	10,712 18,232
	Coemsaval	October 6	34,380	24,498 42,591	50,820 56,807
	Cooperativa Solidarios	October 6	48,905	31,328 36,470	41,509 44,139
	Cooperativa Cooperias	October 6	2,965	3,141 8,975	6,095 7,028
	Construyecoop	December 11	43,804	35,912 95,776	61,948 88,910
Companies Leasing	Leasing Patrimonio SA	December 7	399	15,515 30,267	23,759 28,999

(*) Entities intervened to take possession (**) The variation from 1998 to 1999 of assets and liabilities was due to the recording of interest and monetary correction according to the ruling by the executive process between the Municipality of Arauca and the Capital City. zadora.

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Arfin, Fiduciaria Colombia, Scala Sociedad Fiduciaria, Corfiantioquia, Cofinatura, Corporación Financiera de la Sabana and Leasing Financiera Cauca.

In 2000, the Fund will monitor 35 entities, whose assets they ascend to \$ 928,165 million and whose liabilities are \$ 1,429,665 million (this figure does not include the assets and liabilities of the Caja Agraria or the entities in possession).

7.1. Results in 1999

Of the 22 entities intervened before In 1998, eight issued a Resolution of Termination of Legal Existence and six carried out a definitive accounting closure (see Table 23). The payment of debts, as well as the reduction of administrative expenses, the collection of portfolio, the closing of offices, the reduction of administrative expenses and the reduction of employees are summarized in tables 24, 25, 26, 27 and 28.

28.

Table 23. Entities with termination of legal existence and final accounting closure

WITH ENTITY TERMINATION RESOLUTION	
	RESOLUTION DATE
Commercial bank From Barranquilla	October 28/99
International Insurance	November 2/99
Life insurances Universal	December 13/99
Life insurances Colombia	August 31/99
Financial Furatena	February 26/99 May 10/99
Financial Central Finance Corporation	February 16/99 July 31/99
Integral	
Trust Colombia	
WITH FINAL ACCOUNTING CLOSURE	
Insurance Colombia SA	Financiera Colombia SA
Financiera Industrial SA	Corfisabana
Unión Financiera SA	Corfiantioquia SA

- In 2000, the Fund will monitor 35 entities, whose assets amount to \$ 928,165 million and whose liabilities are \$ 1,429,665 million.

Table 25. Portfolio collection

ENTITY	TOTAL PURSE (in millions)	COLLECTION YEAR 1999
Intervened Before 1998	11,183	11,643
Intervened in 1998	149,174	85,684
Intervened in 1999	553,661	69,656
TOTAL	714,018	166,983

Table 26. Office closings

ENTITY	TOTAL OFFICES Dec 98	OFFICES CLOSED IN 1999
Intervened Before 1998	7	0
Intervened in 1998	213	129
Intervened in 1999	110	76
TOTAL	330	205

Table 27. Cost reduction administrative

ENTITIES	TOTAL EXPENSES Dec 98 (in millions)	TOTAL EXPENSES Dec 99
Intervened before 1998	11,245	4,562
Intervened in 1998	130,842	44,526
Intervened in 1999	NA	NA

Table 28. Reduction of employees

ENTITIES	TOTAL RETIRED EMPLOYEES	EMPLOYEES IN 1999
Intervened before 1998	136	31
Intervened in 1998	1,610	962
Intervened in 1999	1,414	1,902

Table 24. Payment of receivables

ENTITIES	TOTAL PASSIVE	PAYMENTS IN 1999 (in millions)						TOTAL PAID	
		FOSADEC INSURANCE DEPOSITS				ENTITY		Value	%
		Value	%	Value	%	Value	%		
Intervened before 1998	120,636	-	0%	13,740	eleven%	39,178	32%	52,918	44%
Intervened in 1998	229,466	37,435	16%	8,542	4%	70,482	31%	116,459	51%
Intervened in 1999	330,144	-	0%	45,954	14%	14,321	4%	60,275	18%
TOTAL	680,246	37,435	6%	68,236	10%	123,981	18%	229,652	34%

7.2. The new monitoring mechanisms

A new follow-up methodology was designed for liquidators, which includes:

- ⇒ The permanent supply of information on the progress of each liquidation process, so that the Fund can ensure the optimal execution of aspects such as the duration of the process, the realization of assets, the collection and recovery of the portfolio, the payment of debts and reduction of expenses. Likewise, it is intended that each operation carried out by the liquidation is carried out under the most convenient economic terms.
 - ⇒ The unification of the reported information, which must contain the annual budgets and the monthly executions of each of the commitments acquired with the Fund in relation to the administrative, financial and management areas to speed up the liquidation process and other projects.
 - ⇒ The bimonthly visit at liquidations (with the presence of the comptrollers) to monitor the commitments acquired by the liquidators.
 - ⇒ Holding regular meetings with the liquidators.
 - ⇒ The evaluation and follow-up of the reports sent by the comptrollers
- The Fund designed a new methodology tracking the liquidators.
 - In 1999 they resigned in charge of five liquidators, three sources were transferred from entity and one was removed.

By resignation:

Change of liquidators and special agents

- ⇒ Fernando Scarpetta, from Cooperativa Cofiandina SA -in liquidation-.
- ⇒ Alexandra Zarama de la Espriella, from Pacífico CFC -in liquidation-.
- ⇒ Mauricio Restrepo, from Cooperativa Arkaz Ltda. -In liquidation-.
- ⇒ Mario Eduardo Forero, of Seguros Generales y de Vida Atlas SA - taking office.
- ⇒ Alvaro Motta Cano, of Banco Selfin SA in liquidation.

To comply with the above, a work plan was designed and the liquidators were committed to the goals previously studied between them and the Fund. The monthly results must be certified by the controllers of the entity in liquidation and subsequently evaluated by Fogafin.

7.3. Support tools for liquidators and comptrollers

In 1999 the following support tools were developed for liquidators and controllers:

- ⇒ Circular 010 on the "Exercise of the comptroller's office by the main comptroller or the alternate comptroller in entities in compulsory administrative liquidation".
- ⇒ The draft circular "Basic information to monitor settlement processes".
- ⇒ The draft circular "Entities management premiums in liquidation"
- ⇒ The document for setting the fees for liquidators and comptrollers.
- ⇒ The registration forms for aspiring liquidators and comptrollers.
- ⇒ The initial project on the regulation of article 24 of Law 510 on the principles that govern the taking of possession.
- ⇒ The instructions for the study, qualification and recognition of debts of Bermúdez and Valenzuela, the banks Andino and Del Pacífico, Corfipacífico and CFC Pacífico, among others.
- ⇒ The collection and dissemination of the liquidators' experiences for their application in other processes by way of example.

By removal:

- ⇒ Luis Carlos Rodríguez Herrera, of Leasing Patrimonio SA -in liquidation-.

By transfer:

- ⇒ Luis Felipe Londoño, from Credisocial to Construyecoop.
- ⇒ Sonia Margarita Urueña, from Cooperativa Cofiandina to CFC Pacífico.
- ⇒ María Mercedes Perry, from Cooperativa Solidarios a Seguros Generales y de Vida Atlas.

8. Fund Administration

8.1. Human Resources

8.1.1. The restructuring of the personnel plant

The new functions and operations assigned to the Fund forced it to redefine its organizational structure. After studying the necessary reforms, the Board of Directors adopted the following decisions:

- The new functions and operations allocated to the Fund forced him to redefine its structure organizational. The new plant staff was set at 105 officials.
 - The participation of officials in training courses, res-
putting their ac-
tualization.
- ⇒ Create a Financial Sub-Directorate, to which the Accounting, Treasury, Paying and Financial Planning Department will report.
 - ⇒ Modify the structure of the Operations Sub-Directorate, to which the Department of Settlements, Portfolio and Insurance and Guarantees will report.
 - ⇒ Create a Technology Area, to which the Systems Department and the communications consultancy will report.
 - ⇒ Create an Investigation Area
 - ⇒ Create an Asset Recovery Branch.
 - ⇒ Change the name of the Technical Sub-directorate to the Rescue and Follow-up Sub-directorate.

8.1.2. The payroll

- ⇒ Technological aspects: in relation to the training process in the management of payroll software, Human Resources managed to acquire in 1999 a total knowledge and skills in the operation of the software. Additionally, the accumulator parameterization, formulation and review processes were updated and adequate, according to the legal requirements and needs of the Fund.
- ⇒ Administrative aspects: in 1999 the entity's obligations with the management of human resources were fulfilled. In addition, procedure manuals were designed so that those responsible for the processes work in coordination.

Finally, the working methods and techniques to be followed by the area to ensure quality in service provision were formalized.

8.1.3. Training and staff development

Last year, the participation of officials in training courses was facilitated, responding to their learning and training needs. Employee participation in seminars and refresher courses is summarized in Table 29.

8.1.4. Well-being and quality of working life

Seeking to strengthen the sense of belonging to the entity, the motivation towards work and the spirit of service, Human Resources developed several activities in 1999:

- Maintained the Complementary Medicine Plan for officials and their family nucleus.
- He held a bimonthly integration meeting.
- It celebrated Secretary's Day, Mother's Day, Children's Day and the end of the year farewell.
- It organized integration events, an example of which was the II Fogafin 99 Internal Bowling Tournament, which had the participation of 70% of the employees. Conformed and supported the soccer team
- Provided support and care to officials in situations of domestic calamity and other special events.

Table 29. Training of employees

AREA	SEMINAR / COURSE
Accounting Liquidations Dep.	Tax Update 1999 Recovery of the Company: Management of Concordats and Restructuring ANIF
Subd. Technique Legal Department	Seminar - Fedesarrollo XVIII Latin American Congress of Banking Law
Audit	V National Meeting of Internal Control
C. Documentation	Disaster Prevention and Preservation of Archives
Subd. Financial	Organization and Asset Management Capital Flow Volatility Contagion and Crisis Management

8.1.5. Occupational health

Human Resources developed activities in 1999 around the Comprehensive Diagnosis of Work and Health Conditions, which is supported by systematically organized data acquired from its identification, evaluation and comprehensive analysis. The diagnosis represents the epidemiological profile of the Fund and guides the activities of the Occupational Health Program. To carry out the diagnosis it was necessary:

- With the result of the diagnosis of the healthy conditions, Human Resources organized a series of conferences to all workers- rivers over ergonom- mine, stress management and video termination them.

=> Prepare an evaluation of the working conditions, by collecting and analyzing the sociodemographic profiles of the working population, the direct opinion of the workers about their health conditions (signs and symptoms) and the habits that influence their - for your well-being and safety. This was done using self-reports and surveys, among others.

- A vaccination campaign was carried out against Hepatitis B and against flu caused by the Type A Influenza virus.

=> Inspect each of the work sites to identify the risk factors that trigger workplace accidents and / or occupational diseases.

- The Department of Systems developed a plan that confronted the mission and institutional objectives end of the Fund with the current state of informatics in the entity and information requirements tion.

=> Review the health conditions of the Fund's employees who participated in the advanced examinations in May 1999. This type of medical examinations are part of the occupational medicine subprogram that every company must consider in its Occupational Health program and whose periodicity must not be less than one year.

With the recommendations derived from the diagnosis of health conditions, a series of conferences was organized for all Fund officials on:

- => Ergonomics
- => Stress management
- => Video terminals

In addition, a vaccination campaign against Hepatitis B and the flu caused by the Influenza Type A virus was carried out, aimed at all employees and their family nucleus. Diagnostic examinations, visiometries and a physical medical examination were performed on all officials to open their occupational medical records.

On the other hand, the Joint Occupational Health Committee was trained and formed the following emergency brigades:

- => Against fire
- => Evacuation
- => Wounded transport
- => First aid

8.2. Technology

8.2.1. Planning

=> Systems Plan: the Systems Department developed a plan that it presented to the Fund's Management for approval. In it, he confronted the mission and the institutional objectives of each area with the current state of information technology in the entity and the information requirements of the officials. Part of the plan was the organization by priority of the target information systems, in addition to the selection of a strategy and the preparation of an implementation schedule.

=> Year 2000: since 1998, work has been done on the action plan for the turn of the millennium, which included the taking of inventories of hardware, software, telecommunications and electromechanical devices. As part of the plan, the components most sensitive to the change of the millennium were determined, the information systems were tested and the necessary contingency plans were established to guarantee the correct functioning of the critical processes of the Fund (before, during and after the date change). Likewise, the critical processes of the entities in liquidation were monitored and the situation in 2000 of the entities that had acquired portfolio commitments with the Fund was observed. The entire process was monitored and certified by the Banking Superintendency and the Ministry of Finance,

=> Procedures manuals: manuals were prepared for the procedures of the Systems Department, such as the development and acquisition of software, its modification, taking backup copies and user support.

8.2.2. Information systems

- The Department of Systems developed a system for controlling Deposit Insurance payments.

=> Deposit Insurance: the department developed a process of analysis and programming of a system for the control of Deposit Insurance payments, which includes the registration of the possible beneficiaries of the insurance, the registration of the Resolution of Recognition of Receivables from the liquidator and control of the initial payment (and subsequent payments).

- Internal mail service installed through the use of Micro-soft, like Exchange and Outlook.

=> Information system for the analysis of financial entities: an information system was developed for the analysis of the financial statements of the entities registered in the Fund. The system takes the information from the Banking Superintendency and generates the different indicators and reports of gaps, comparatives and summary balances, which are used by the Technical Sub-Directorate for information analysis.

- Two were installed servers: for co-Internet access and access and for database services for accounting and payroll applications.

=> Administrative information systems: in 1999, permanent support was given to the applications of payroll, accounting and control of access of officials to the Fund. In addition, a response was made to user requirements for the generation of information and the applications were reinstalled in a new production environment that streamlines their performance.

=> Acquisition of technological goods and services: two servers were purchased and installed, one for mail and Internet access and the other for database services for accounting and payroll applications. Desktop computers were purchased and installed for new jobs and to replace some outdated ones. Also, all machines were upgraded to the same office software version (Office 97). To exchange information with other entities, a communication scheme was installed through ISDN (Integrated Services Digital Network) to obtain and send information to and from the Banking Superintendency; The necessary equipment was installed to transfer information to the ACH for the payment of the Deposit Insurance. Finally,

8.3. General services

=> Adaptation of areas: in 1999 an area on the first floor of the building was set up for the operation of offices (floor adjustments, structured data and voice network, open office system, office remodeling and general painting). The Operations Sub-Directorate moved to this floor, in addition to the Deposit Insurance, Portfolio, Paying and Internal Audit areas. Additionally, the cafeteria area was remodeled.

8.2.3. Infrastructure technological

- In 1999 the Department of Services Generals enabled a area of the first floor of the building for the operation of Offices.

=> E-mail and Internet access: the internal mail service was installed using Microsoft tools, such as Exchange and Outlook. Cablenet's fiber optic Internet access service was also installed, which has allowed users to "surf" the Internet and to send and receive both internal and external mail messages. In the second semester of the year, training seminars on these tools were given to officials who so requested.

=> Maintenance and repairs: routine maintenance was carried out on plumbing, repairs, electricity, telephones, glass and carpets, among others. Likewise, furniture and fixtures, typewriters, calculators, telephones, hot drink dispensers, fire extinguishers, computers and printers, elevators, windows, vehicles, photocopier and fax were repaired.

=> Insurance: the insurance program for the 1999-2000 period was renewed, with the pertinent inclusions, clarifications and monitoring of the Fund's assets for updating the corresponding policies.

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- ⇒ Acquisitions of goods and services: the furniture, fixtures and office equipment required to complement the endowment were purchased. In addition, an open office system with 18 workstations was adapted, which required the purchase of desk and computer surfaces, filing cabinets, chairs, trash cans, wastebaskets, file cabinets and other elements necessary for normal worker performance. Seeking to couple the security of this area to that of the building, two access control reading ports and a security door were installed. On the other hand, the communication equipment of the Fund was improved through the acquisition of 21 telephone sets, 40 digital lines, a fax, a video projector and an adapter terminal; The electrical network and structured cabling were expanded for the internal and external connection of computers. Likewise, two vehicles were purchased for the attention of the entity's executives.
 - ⇒ Other activities: during 1999 the supplier registry and the general inventory of each official were updated until December 31, 1999; an inventory of fixed assets was prepared and it was confronted with Accounting; The assets that should be written off due to their deterioration or obsolescence were selected, monitoring and expiration control of the equipment maintenance, cleaning, surveillance and work contracts (as well as the renovations of subscriptions and publications) and a manual of functions and procedures of the department was prepared.
 - In 1999 Services General acquired furniture, fixtures and office equipment required for complement the endowment.
 - The Documentation Center organized the management file and opened drives archival for various dependencies.
- Contracts for the provision of services in force up to December 1999 are summarized in Table 30.
- 8.4. The Documentation Center**
- In 1999 the Documentation Center fulfilled the following tasks:
- ⇒ Organization of the management archive and opening of archive units of the General Services, Human Resources, Purchasing, Accounting, Deposit Insurance, Technical Sub-directorate, Audit, Portfolio, Legal Department, Settlement Department, Insurance of Deposits - Collection and Documentation Center.
 - ⇒ Organization of archive inactive (administrative) of 1988, 1989 and 1990, including documents of the Board of Directors.
 - ⇒ Organization of the inactive archive (1986-1996) of the Andino, Anglo, Bank of America, Bogotá, Boston, Cafetero and Caja Agraria banks and the CAVs, financial corporations, commercial finance companies, companies specialized in leasing, guarantees and insurance companies.
 - ⇒ Organization of the inactive file and inventory of the intervened entities: Cofinatura, Compañía Internacional de Seguros, Corfiantioquia, Corfisabana, Corfiestado, Corfintegral, Corpafe, Fiduciaria Colombia, Financiera Colombia, Financiera e Inversiones, Financiera Furatena, Financiera Industrial, Financiera Santa Fe, Financiera Tequendama, La Fortaleza, Mercantil Hipotecaria, Prisa, Promecol and Promorando.

Table 30. Contracts for the provision of services in force in December 1999

CONTRACTOR NAME	OBJECT	VALUE (thousands of pesos)
Casalimpia SA	Cleaning services	9,283
Asic Ltda.	Maintenance of computer equipment	13,161
Internacional de Seguridad Ltda. Lexco Tda.	Surveillance service	69,242
	Fax maintenance	650
Datacol SA	Copier maintenance	2,405
Latinonet	Internet commercial guideline	3,000
Cable TV	Internet access	4,345
Melco de Colombia Ltda.	Elevator maintenance	3,685
A. Gil Dispensadores & Cia. Ltda.	Drink dispenser maintenance	1,370

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- The Center organized also the file inactive of the entities intervened and declarations of payment of the Strength, Capitalizing Grancolombiana, Financauca and Arfin.
 - => Organization of the payment declarations of La Fortaleza, Capitalizadora Grancolombiana, Financauca and Arfin.
 - => Organization of the file and diskettes of the Financial Transaction Tax.
 - => Preparation of a procedures manual for filing, correspondence, messaging, faxing and photocopying.
 - => Attention to users for the supply of archival documents, books and magazines and their respective control of loans.
 - => Information gathering for the preparation of the document retention table.
 - => Filing of letters, memos, received correspondence, fax transmission and photocopying of documents, activities that were carried out daily at the Documentation Center.

9. Financial results

9.1. The change in financial management

The Financial Reform (Law 510 of August 3, 1999) introduced important modifications to the management of Fogafin's resources.

- At the end of 1999 it was necessary to build reserves totally separated with income generated for the activities of the Insurance Deposits and the cost of guaranteeing pension funds and severance pay, according to it was ordered by the Financial Reform.
- It established patrimonies autonomous with resources that administers the Fund and what came both of the Tax to Transactions Financial as of The transfers of the government.

In accordance with the provisions of its article 31, it was necessary to constitute totally separate reserves with the income generated by the activities of the Deposit Insurance and the cost of the Guarantee of pension funds, severance funds, professional risk managers and insurance companies. In addition, and due to its relationship with Deposit Insurance, the fund was set up to administer the resources invested in public banking, charged to the future validity approved by the Ministry of Finance in

1999. On the other hand, autonomous patrimony was established with the resources that the Fund manages and that came from both the Financial Transaction Tax and the transfers from the National Government for the Unemployment Insurance programs. use and reconstruction of the Eje Cafetero. Fogafin and the Banking Superintendency, once the scheme and criteria set forth in the law had been studied, determined the following aspects as components of the accounting model that Fogafin must apply from now on:

- Reserves or funds: resources were grouped into reserves (funds), following the methodology established by law. Each reserve has its own net worth and together they form an integral part of Fogafin's financial statements, as presented in Table 31.

Fogafin's balance sheet is made up of the sum of all the assets, liabilities and equity of said reserves. Annex No. 7 describes the result obtained from the separation and the sources and uses of resources for each fund.

Although the operations related to the recovery of public banks were not provided for in the law, it has been considered convenient to present them as a separate fund, by virtue of the provisions of the inter-administrative contract between the Ministry of Finance and the Fund, and signed on June 26, 1999. This fund was constituted to control the investment of resources destined to capitalize public banks and the issuance of the respective bonds for \$ 3 billion. The debt service of these bonds is backed by resources from future periods of the General Budget of the Nation. In accordance with this contract, the surpluses resulting from said fund will be used as determined by the Government.

- Autonomous patrimonies: they were formed to manage the resources of the other legally established activities, in which Fogafin has an administrator function, since the resources have a specific objective that is not part of the main function of the Fund. These funds are explained in Table 32. This means that each of these activities has its own resources and that under no circumstances should they be assigned to other activities. Each fund has separate accounts; the resulting balances cannot be aggregated in any sense. Annex No. 8 describes the result obtained from the separation, the sources and uses of resources that apply to each of the established trust funds.

Table 31. Money

FUNDS — FOGAFIN	
Deposit Insurance	Assets = liabilities + Fund balance
Public banking	Assets = liabilities + Fund balance
Unemployment Guarantee Cost	Assets = liabilities + Fund balance
Pension guarantee cost	Assets = liabilities + Fund balance
Insurance Guarantee Cost and Law 100 of 1993	Assets = liabilities + Fund balance
Fogafin Administration	Assets = liabilities + Fund balance
TOTAL FOGAFIN	Sum of funds

Table 32. Autonomous estates

TRUST FUNDS	
Economic Emergency	Assets = liabilities + Fund balance
Forec	Assets = liabilities + Fund balance
Unemployment insurance	Assets = liabilities + Fund balance
TOTAL TRUST ACCOUNTS	

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9.2. The financial structure

The situation and composition of the resources available to Fogafin as of December 31, 1999 is shown in Table 33.

9.2.1. The active

- The assets of the Fund amounted to \$ 5.2 trillion in 1999, higher figure to the total assets of 1998 in \$ 3,467 billion.

The Fund's assets during 1999 amounted to \$ 5.2 trillion, higher than the total assets of 1998 by \$ 3.4 trillion. This means a percentage increase of 195.73%.

The asset structure during 1999 was substantially altered by the volume of support operations carried out, both for private bank shareholders and public banks. The balance for support operations was \$ 2.3 trillion, an amount higher than that recorded at the end of 1998 (\$ 922,000 million).

- The liability during 1999 increased 498%, going from \$ 641,000 million in 1998 to \$ 3.8 billion, as a result of number of issues of Fogafin securities to finance operations support.

Likewise, the volume of resources in investments and active repos rose considerably, going from \$ 322,315 million in 1998 to \$ 1 trillion at the end of 1999. This increase was presented as a result of the recovery of resources owed by the Banco del State (\$ 417,000 million) and to the transfer made by the General Treasury for US \$ 97.5 million.

9.2.2. The passive

- In december 1999 heritage of the Fund registered a balance of \$ 1.4 billions, what a front to the equity of December 31, 1998, from \$ 1.1 billions, reflected a increase of 21.6%. This increase was originated by utilities of \$ 327,000 million that were recorded in the exercise and at revaluation of heritage.

Liabilities during 1999 increased by 498%, going from \$ 641,000 million in 1998 to \$ 3.8 trillion, as a result of Fogafin's issuance of securities to finance support operations. Indeed, at the end of 1999, issues represented 88% of total liabilities.

9.2.3. The Heritage

At the end of 1999, the Fund's equity registered a balance of \$ 1.4 trillion, which compared to the equity of December 31, 1998, of \$ 1.1 trillion, reflected an increase of 21.6%. This increase was the result of profits of \$ 327,000 million that left the year and the revaluation of equity for \$ 109,000 million.

Operating income in 1999 amounted to \$ 937,000 million, a figure that is \$ 287,000 million higher than the 1998 record. This means that they grew by 44%. The increase was due to the increase in interest charged in support operations and the transfer of the Nation. The amount of these two items was \$ 273,000 million. Operating expenses increased by \$ 341,000 million, from \$ 25,000 million in 1998 to \$ 366,000 million in 1999. This was due to the cost of financing support operations, through the issuance of securities, and the cost of the exchange difference and interest on external credit.

With regard to provisions, there was a decrease of \$ 15,000 million due to the change in accounting dynamics. The excess provisions that were previously made on the collection of Deposit Insurance premiums were eliminated, since in the previous scheme provisions were made for risks in progress for 100% of the collections and additionally provisions were made for 40.69% for return of premiums. The equity reserve (funds) scheme rendered the constitution of provisions for ongoing risks invalid, since the total equity of each fund backs the risk.

Table 33. Fund Balance 1999

BALANCE SHEET AS OF DECEMBER 31, 1999			
(in billions)			
ASSETS		LIABILITIES AND EQUITY	
Support operations	2,380	Issued titles	3,370
Investments and repos	1,008	CAF credit	187
Account receivable (Nation) Portfolio	1,161	Other passives	274
Granahorrar	524		
Others	165	PASSIVES	3,831
		HERITAGE	1,407
TOTAL ASSETS	5,238	LIABILITIES AND EQUITY	5,238

For its part, net operating profit in 1999 amounted to \$ 435,000 million, an amount \$ 43,000 million less than in 1998, when it totaled \$ 478,000 million. This was the product of the need to assume a higher financial cost to leverage the support operations.

The inflation adjustments applied in accordance with the regulations in force presented a negative effect on the financial statements for a value of \$ 109,000 million.

The profit obtained of \$ 328,000 million belongs to the respective funds and, therefore, the equity reserve of each of them increases as follows (figures in billions):

Reserve Deposit Insurance Reserve	\$ 308
Pension Fund Reserve Severance	\$ 8
Fund Reserve Administration	\$ fifteen
	\$ (3)
Total profit Fogafin	\$ 328

- The operating profit Net nal in 1999 amounted to \$ 435,000 million, lower amount \$ 43 billion higher than in 1998, when it totaled \$ 478,000 million.

9.3. The evolution of the investment portfolio

The portfolios managed by the Fund are made up of fixed rate TES with a maturity of no more than one year, in accordance with the policy set by the Board of Directors. Therefore, the behavior of the primary and secondary market for these securities during 1999 is summarized below.

9.3.1. The primary market

During 1999 the Ministry of Finance raised \$ 11.6 billion through TES issues, while in 1998 it had raised \$ 7.2 billion. The difference was due to the decrease in tax collections and the difficulty of the Government to place the TES during 1998.

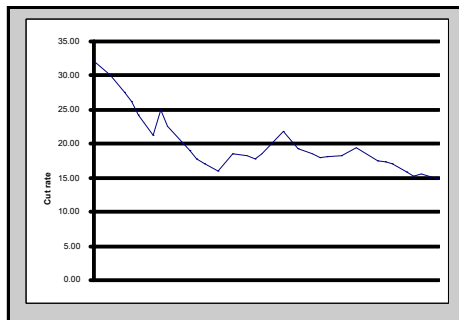
On the other hand, circumstances such as the elimination of the exchange rate band and the increase in internal debt through the TES, generated an illiquid market, with unattractive investments and present risk. This made this public debt instrument an alternative to the surplus liquidity present in the system. Interest rates for TES maturing in one year went in 1999 from 32% effective per year (at the beginning of the year) to 14.86% effective per year (at the end of the year). Compared with the rates observed at the end of 1998, the drop was 17.14%, as shown in Graph 5. As a result of the behavior of the rate and the reduction in inflation, the real return of the fixed rate TES for maturities of one year they were in

4.89% at the cut-off of 1999, one of the lowest historical levels.

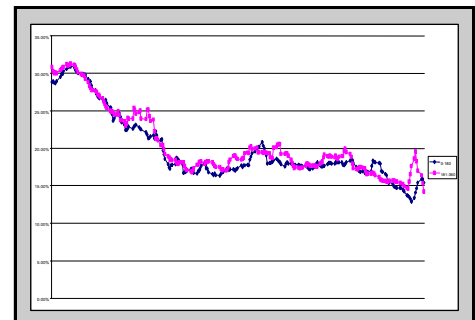
9.3.2. The secondary market

According to data from the Banco de la República, on December 10, 1999, the balance of TES in circulation was \$ 16.5 billion. The secondary market for these securities was characterized last year by the fall in rates, due to some government measures such as the signing of the agreement with the IMF and the increase in liquidity supplied by Banco República. .

Graphs 5 and 6. TES interest rates



SOURCE: Ministry of Finance - Directorate of Public Credit



SOURCE: Moving average (5) calculated from the rate published in the Boletín Bolsa de Bogotá.

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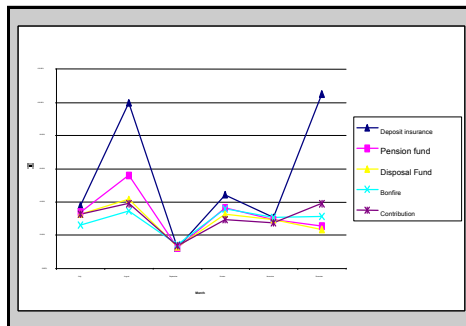
These measures contributed to the SEN showing trading records: in one day it traded \$ 175,000 million. Graph 6 illustrates the behavior of mobile number 5 of the IR-TES for terms of 0-180 days and 181/360 in 1999. The drastic drop in the rate is evident.

- The decrease in the rate in the secondary market, the purchase of high-value securities and purchase at rates agreed with the direction of the National Treasury, constituted they were an advantage in front of the market secondary, which is it moved below the auction and agreed rates.

9.4. The investment portfolio

The decrease in the rate in the secondary market, the purchase of auction securities and the purchase at rates agreed with the National Treasury management, constituted an advantage over the secondary market, which generally moved below rates. auction and agreed.

Graph 7. Profitability of Fund portfolios



- During 1999 made broadcasts for capitalization of entities of the financial sector public and private, as well as for the relief of entities with mortgage loans-

Graph 7 summarizes the month-by-month profitability of the portfolios managed by the Fund in the second half of the year. For its part, the Deposit Insurance portfolio shows atypical returns in August and December 1999, caused by:

- ⇒ Purchases during August and December for \$ 91,515 million and \$ 568,808 million respectively, at rates higher than the basic rate.
- ⇒ Sales that generated a profit for the portfolio.
- ⇒ The decline in the basic valuation rate

9.5. Bond issues

During 1999, issues were made for the capitalization of entities of the public and private financial sector, as well as for the relief of entities with mortgage loans. Table 34 shows the amounts placed and to be placed at the 1999 cutoff for each class of title. The total of the authorized bonds totaled \$ 7.7 trillion. Until December, \$ 3.7 trillion had been placed at an initial nominal value.

The types of bonds issued were as follows:

- Fogafin Class B: they were created to finance the support operations inherent to Fogafin's corporate purpose and to cancel the loan that the Treasury had granted as a bridge to pay the entire issuance of joint papers.

Table 34. Bond Issues in 1999

Bonuses	PLACED	TO BE PLACED
	(millions of pesos)	
General Financing Bonds		500,000
First Tranche Bonds — Class A Fogafin Bonds Second Tranche Bonds — Class B Fogafin Bonds	500,000	
Subtotal	500,000	500,000
Bonds Private Sector Capitalization Line		
Bonds Fogafin Capitalization Line	488,547	1,511,453
Relief Bonds II Stage		
Bonds Bonds Line Debtors Mortgages Defaults Bonds Bonds Line for Debtors Rate Reduction	108,224 33,946	41,776 86,054
Subtotal	142,170	127,830
Relief Bonds I Stage		
A series	209,693	15,307
B series	3,060	940
C series	10,579	1,421
Loss Relief Bonds BRDP Fogafin		220,000
Subtotal	223,332	237,668
Capitalization Bonds Public Banking	2,217,455	782,545
Commercial papers — Fogafin Titles	57,000	943,000
TOTAL TITLES FOGAFÍN	3,649,855	4,081,145

- The total of the authorized bonds totaled \$ 7.7 billion. Until December they had placed \$ 3.7 billion at initial nominal value.

commercial, which existed until March 30, 1999.

- Class A Fogafin Bonds: for \$ 500,000 million, they were designed to be placed through a public offering if necessary. Due to the support mechanisms for strengthening private and public banks, it was not necessary to resort to this source of financing.

- Fogafin Mortgage Debtors Relief Bonds - Stage I: created according to the powers granted by Decree 2331. Their objective was to finance the loans granted by Fogafin to mortgage debtors benefiting from the relief program. The total issued in 1999 was \$ 223,000 million, of which \$ 210,000 million was delivered to debtors per day.

- Loss Relief Bonds BRDP: they were designed to finance the losses that credit institutions generated from receiving donations in payment. As the original term established by law was November 16 and extended until January 31, 2000 (Law 546 of 1999), these bonds were not issued.

- Line Bonds for Mortgage Debtors in Default and Automatic Interest Rate Reduction Bonds: the former were established to finance the line of credit with which the entities granted loans to mortgage debtors who were in default on May 31 of 1999. The second ones were delivered to the entities for the reduction of the interest rate for the debtors to the day, in the second phase of reliefs.

- Capitalization Line Bonds: their objective was to finance the capitalization line created by Resolution 006. In accordance with the procedure established therein, the credit establishments that obtain resources for their capitalization through the credits granted by the Fund, they had to subscribe bonds of this kind for the same amount of credit granted to their shareholders. Out of a total quota of \$ 2 trillion, \$ 488,000 million were disbursed in 1999.

- Public Bank Capitalization Bonds: they were created with the Ministry of Finance to finance the strengthening of that bank. Out of a total of \$ 3 trillion, as of December \$ 2.2 trillion had been disbursed.

9.6. Fogafin's flow of funds

Annex No. 9 shows the flows of funds for 1999 that correspond to the Deposit Insurance resources and the distribution of the resources of the Economic Emergency. The main income and expense results of the aforementioned flows for 1999 are summarized as follows:

9.6.1. The flow of funds from Deposit Insurance

9.6.1.1. Income

The structure of the Fund's income changed radically during 1999, as a result of the operations to support public and private banks, the increase in indebtedness to finance the aforementioned operations (including the issuance of bonds), and the resources from the credit of the Andean Development Corporation (CAF) and the transfer of resources from the Treasury to strengthen the financial position of the Fund. This implied that the collection of Deposit Insurance, the main income in past years, lost share.

Cash receipts during 1999 totaled \$ 2.6 billion. Of this amount, \$ 883,000 million (33.3%) corresponded to the recovery of the support granted to the financial sector, in particular to the Coopdesarrollo and Uconal banks. The capitalizations made to Megabanco and Banestado allowed the recovery of the aforementioned support.

For its part, the Fund received a loan from the General Treasury for \$ 550,000 million (20.8% of income), of which \$ 500,000 million were substituted through the subscription of Fogafin bonds.

Additionally, last year the Fund received an equivalent in pesos of US \$ 197.5 million for external loans, US \$ 100 million of which corresponded to a loan from CAF. The remaining US \$ 97.5 million were transferred to the Fund by the Nation, as support for Deposit Insurance resources, and came from loans from multilateral banks to strengthen the financial system. These dollars, at the exchange rate of the respective dates of entry, were equivalent to \$ 336,000 million (12.7% of income).

Finally, current income from Deposit Insurance premiums amounted to \$ 141,000 million.

- The structure of the Fund's income radically changed during 1999, as consequence of: support operations I to the public and private banks, the increase in indebtedness to finance those operations, the resources provided nientes of credit CAF and the transfer of resources from the Treasury to strengthen Read the financial position of the Fund.

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9.6.1.2. The expenses

In 1999, cash outflows totaled \$ 1.8 billion. The majority corresponded to the debt service of short-term securities, which totaled \$ 720,000 million (39.9% of expenditures), and which were issued to carry out operations to support the financial system.

- In 1999, cash outflows totaled \$ 1.8 trillion. The majority corresponded to debt service on short-term securities, which totaled \$ 720,000 million (39.9% of expenditures), and which were issued for perform operations to support the financial system.

The support granted followed in importance to institutions financial (Granahorrar, Uconal and FES), which in 1999 totaled \$ 390,000 million (21.6% of expenditures); the payment of the Deposit Insurance of the entities in liquidation, which was \$ 54,000 million (3.7%), and the debt service of the General Treasury loan, for \$ 66,000 million. This last expenditure included the payment of partial interest for the substitution of the debt with the General Treasury with the general financing bonds, an operation that amounted to \$ 500,000 million (27.7%) and whose bonds were recorded in the flow as a egress.

The Fund issued bonds for \$ 546,000 million for the capitalization of private banks (includes the Megabank) and for \$ 2.2 trillion for the capitalization of public banks. Additionally, it delivered commercial papers for \$ 122,000 million in support of Uconal and Coopdesarrollo. These papers were subject to repo operations with the Banco de la República and will be canceled with the credit granted by the Treasury for \$ 500,000 million.

- In 1999 the Fund issued bonds for \$ 546,000 million for capitalization from private banking and for \$ 2.2 trillion for capitalization of the public bank. Additionally, in-handled out papers with-commercial by \$ 122 billion in support of Uconal and Coopdesarrollo.

The Fund's portfolio at the end of 1999 was \$ 0.9 billion.

9.6.2. The flow of Economic Emergency

The cash income of the fund set up to manage the resources of the Financial Transaction Tax was \$ 1 trillion in 1999. The collection advanced by the Fund between January and March reached \$ 239,000 million (28.44% of the cash income). By decision of the Constitutional Court, since mid-March the collection passed into the hands of the General Treasury, which subsequently transferred \$ 481,000 million (47.3%) to the Fund to be used in the public banking and cooperative sector, from in accordance with decrees 2331 of 1998 and 2514 of 1999.

On the other hand, the Fund raised \$ 240,000 million (23.6%). Of these, \$ 215,000 million came from support to financial institutions with mortgage credit and \$ 25,000 million from relief to debtors.

9.6.2.1. The expenses

In the Economic Emergency flow, cash outflows totaled \$ 883,000 million last year. Of this amount, \$ 778,000 million (88.2%) were used to support financial entities as follows: for capitalization of public banks (Banestado) \$ 417,000 million, for the cooperative sector (Megabanco) \$ 192,000 million and to support specialized entities in mortgage credit \$ 169,000 million. For the automatic reduction of interest rates, the Fund disbursed \$ 68,000 million (7.7%) in the year and for the debt service of the issues to finance the additional operations to support the mortgage debtors, \$ 19,000 million (2.2%). At the end of 1999, the economic emergency portfolio totaled \$ 0.8 trillion.

9.7. The commitments related to Fogafin in the Government's agreement with the IMF and IDB

Within the framework of the agreement signed by the Government with the IMF and the IDB, the following commitments related to Fogafin were established:

- ⇒ Develop an institutional plan aimed at improving their technical capacity, which allows diagnosing, analyzing and undertaking support for financial institutions in difficulties. The foregoing would ensure that the Fund's ability to maneuver is not compromised as a result of the operations to support the Economic Emergency and those corresponding to the Deposit Insurance.
- ⇒ Approve a strategic plan aimed at public banks to restructure, privatize, recapitalize and, if necessary, liquidate the state credit institutions, in order to achieve a final financial solution for them.
- ⇒ Approve a formal plan for the establishment of a comprehensive cooperative bank, which allows the financial solution of the cooperative sector and its assistance from Fogafin.
- ⇒ Separate the management of resources for each of the Fund's activities, according to the powers assigned by law to the entity.
- ⇒ Develop a plan to increase Deposit Insurance resources in the amount of US \$ 200 million.

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9.8. Compliance with the agreement with the IMF

At the end of 1999, established in Table 35 shows the goal of the balance sheet target for the end of 1999, established in the signature of the agreement extended with the IMF, was fulfilled as a result of the capitalization of Banestado allowed to recover support for \$ 417,000 million delivered to the bank Uconal. Table 35 shows the goal of the balance sheet target for the end of 1999, established in the signature of the agreement extended with the IMF, and the final figures. As evidenced, the fulfillment of the goal exceeded \$ 348,000 million in terms of the Fund's balance. The goal was met as the capitalization of Banestado allowed the recovery of support for \$ 417,000 million given to Banco Uconal, which generated interest for \$ 120,000 million. It should be noted that in the initial projection, support to Banco Uconal was classified as a provision expense. Additionally, the easing in the automatic reduction of rates for mortgage debtors turned out to be \$ 58,000 million less than projected. In relation to GDP, the Fund's balance represented 0.5% at the end of 1999, that is, two points more than the goal agreed with the IMF.

- The balance sheet target for the end of 1999, established for the signature of the agreement extended with the IMF, was fulfilled as a result of the capitalization of Banestado allowed to recover support for \$ 417,000 million delivered to the bank Uconal.

Table 35. Balance sheet target for agreement with IMF

BALANCE	Limit to deficit 1999 Target		
		Royal 1 /	DIF.
FOGAFIN	434	818	384
(As% of GDP)	0.3%	0.5%	0.2%

1 / Includes \$ 208,000 million that must be transferred by the Treasury in 2000, as agreed.