

**NOTES TO THE FINANCIAL STATEMENTS
FOR DE YEAR ENDED
DECEMBER 31, 1998**

Note 1- Nature and purpose of Banco Central de la República Argentina (the BCRA).

The B.C.R.A. is an independent entity of the State governed by the terms of its Charter (Sect. 1 of Law No. 24,144).

The primary function of the Institution is to preserve the value of the currency. In addition, it is to implement monetary and financial policies aimed at safeguarding the role of the currency as a repository of value, the unit of account and an instrument of payment for the settlement of monetary obligations.

The Bank is the Financial Agent of the State, the country's depository and agent before international monetary, banking and financial institutions with which the Nation does business.

Note 2 - Basis for presentation of the Financial Statements

The Institution has prepared its Financial Statements in accordance with professional accounting standards and general valuation criteria established for entities in the Argentine financial system, observing the terms of Law 23,928 on Convertibility, in particular sections 4, 5, and 6.

The financial statements are prepared in comparative form with those for fiscal 1997.

Note 3 - Main valuation criteria and composition of Financial Statement headings

3.1. General comments

3.1.1. Consideration of the effects of inflation

In accordance with the guidelines established by National Executive Decree N° 316/95 and by Communication "A" 2365 issued to Financial Entities by this Institution, the application of inflation adjustment has been discontinued as from September 1, 1995.

3.1.2. Assets and liabilities in Foreign Currency

Valued at the Banco de la Nación Argentina selling rate in force at the close of business on the last working day of the year.

3.2. Comments on specific aspects

3.2.1. Gold

Holdings in gold coinage were valued at the end of the year in United States dollars at US\$ 287.1 per troy ounce (US\$ 287,00 at December 31, 1997) -these being the Banco de la Nación Argentina, London Branch prices at those dates- converted into pesos according to the criterion detailed in the previous point. The balances of option contracts taken out to hedge these holdings have been included under this heading, as a result of which the average price has reached US\$ 347.91 per troy ounce (US\$ 334.08 at December 31, 1997). An allowance of 1 % for gold purity has been set up.

3.2.2. Currency

The currency account reflects holdings of foreign currency in the B.C.R.A. treasury for the equivalent of US\$ 75,651 thousand (US\$ 49,940 thousand at December 31, 1997), and the balances in correspondent bank current accounts and "overnight" accounts for US\$ 630,769 miles (US\$ 161,210 thousand at December 31, 1997).

3.2.3. Deposits to be realized in currency

This account includes the following investments made abroad:

	31.12.98	31.12.97
	- in thousands of \$ -	
- Short-term government securities.....	939.678	1.497.424
- Time deposits in gold and currency.....	9.762.396	12.006.330
- Sight deposits.....	264.336	166.739
- Custody agreements.....	4.644.946	3.820.000
- Securities in substitution agreements... ..	320.365	73.473
- Certificates of deposits.....	1.999.993	-
- Repurchase agreements	611.382	-
	<u>18.543.096</u>	<u>17.563.966</u>

Time deposits in gold and currency, and certificate of deposits include interest accrued at the end of the year. The rest of the assets included under this heading have been recorded at market value.

3.2.4. Government Securities included in Freely available reserves:

Includes securities detailed in Exhibit I, valued at their market price at the year-end closing date.

3.2.5. Government Securities

3.2.5.1. 1990 National Treasury Consolidated Bond:

This Bond was issued on January 2, 1990 to consolidate obligations assumed by the National Government for advances of funds from the B.C.R.A. in accordance with National Executive Decree No 335/91. This is a 99-year zero-coupon bond in pesos, the principal of which is restated according to changes in the quotation of the United States dollar on the basis of the Banco de la Nación Argentina buying rate of exchange. Repayments of restated principal will be made as from year ten. Re-statement has been accrued until 31.03.91 in accordance with section 8 of the Convertibility Act.

Because of the financial features of this Bond, basically its term, grace periods and the fact that it does not accrue interest, the asset balance is adjusted by an amount equivalent to the accrual of the principal adjustment so as to maintain the valuation at its original issue value.

3.2.5.2. Bills issued in relation to I.M.F. loans:

Includes the debt entered into by the Treasury Secretariat with the B.C.R.A corresponding to the transfer of the funds received by this Institution from the I.M.F. until 30.09.92, documented at that date by means of the issue of National Treasury Bills. This asset stated in Special Drawing Rights (SDRs) has exactly the same financial features as the liability abroad. As a result, its servicing has been collected in synchronization with the payments of principal and interest on the foreign liability.

3.2.6. Loans to the Argentine Financial System.

This heading includes rediscounts and advances to attend to needs arising out of temporary liquidity shortages recorded by financial entities and other lines made available prior to the introduction of the new Charter for the Institution in force since 1992, and the corresponding provisions established on the basis of estimates of default risk on those loans.

In addition, advances for the return of deposits and to meet the cost of the liquidation process for financial entities being wound up and equity released in liquidation processes are included in the amount of \$ 20,953,607 thousand (\$ 20,928,551 thousand at 31.12.97) net of provisions for risk of default to cover 100% of involved amounts, without prejudice to such actions as may be necessary to pursue their collection.

3.2.7. Funds transferred to the National Government for placements with the I.M.F.

This account reflects the transfer to the Treasury Secretariat of funds received from the International Monetary Fund as from 30.9.92. This account receives the same financial treatment as that detailed in Note 3.2.5.2.

3.2.8. International Monetary Fund

The balance includes an offsetting item for the funds transferred to the Treasury Secretariat (Notes 3.2.5.2. and 3.2.7. above), which in Special Drawing Rights (SDRs) total 4,249,381,759 (SDRs 4,733,568,223 at 31.12.97) corresponding to currency received under the following:

- the 1996 Stand By.
- the 1992 Extended Facilities Agreement.

3.2.9. Provisions

The criterion used by the entity to determine the balance of \$ 1,262,444 thousand in the "Provision for Matters in Litigation" account (at 31.12.97, \$1,251,961 thousand) has been as follows:

A provision has been set up for 100% of the amounts set in lawsuits for which there is a firm award, plus 25% as an estimate of legal costs and restatement through 31.3.91.

Lawsuits for which there is still no firm ruling have been classified according to their nature (lawsuits for the return of depositors, labor lawsuits, etc.) establishing a percentage of probable rulings unfavorable to the B.C.R.A. on the basis of past experience and setting up a provision accordingly, calculated as indicated in the previous paragraph.

In the case of lawsuits prior to 1.04.91, which will be settled by means of the delivery of Debt Consolidation Bonds, the amount estimated has been restated to 31.12.98 on the basis of the interest paid on such bonds. Lawsuits subsequent to 1.04.91 which will be settled in pesos have been restated to 31.12.98 on the basis of the average deposit rate published by the B.C.R.A. as established by Communication 14,290 dated 5.08.91, as this is the rate usually applied in these instances by the courts.

In addition, there are lawsuits brought against the B.C.R.A. for loss and damages for undetermined amounts which at the date of issue of these financial statements are considered only remotely likely to have an outcome adverse to the B.C.R.A., for which no provision has been set up.

3.2.10. Other asset and liability accounts:

There headings include rights and obligations for \$ 8,300,371.3 thousand (at 31.12.97, \$ 6,426,205 thousand) linked to repurchase transactions -with public bonds or other financial instruments- with Argentine financial entities. The criterion for disclosure has been based on their specific nature.

Note 4 - Restrictions established by Sect. 6 of Law 23,928

As established by Sect. 6 of the Convertibility Act, reserves included under the heading Freely Available Reserves constitute a common pledge on the balances disclosed under the Monetary Base heading, cannot be attached and may be applied only as established in that law. These two accounts are those referred to in Sect. 5 of Law 23,928.