

**NOTES TO THE FINANCIAL STATEMENTS FOR THE  
FISCAL YEAR ENDED  
DECEMBER 31, 2002 COMPARATIVE WITH THE PREVIOUS  
YEAR  
-in thousands of pesos-**

**NOTE 1 - CHANGES TO THE LEGAL AND FINANCIAL FRAMEWORK  
DURING FISCAL 2002**

These financial statements reflect the financial position of the Banco Central de la República Argentina (B.C.R.A.) at the end of fiscal 2002. During the course of the previous year, the existing situation caused an institutional crisis at the end of December 2001 and continued with the introduction of changes to legislation that have had a significant impact on the B.C.R.A.. This process was highly complex in both its monetary and fiscal aspects. Although it began during 2001, it has grown more acute since early 2002 with the introduction of fundamental changes to the monetary system, when it was resolved to abandon the currency convertibility scheme that had been introduced by Law 23928 in 1991.

In order to facilitate the reading of these financial statements and enable a full understanding of the process of transformation that has taken place and its impact on the B.C.R.A. financial position, the following paragraphs describe the most significant economic measures taken during 2002.

**1.1 Public Emergency and Exchange System Reform Law and changes to Decrees 214/02, 410/02 and 905/02**

January 6, 2002 saw the enactment of Law No. 25561 “Public Emergency and Exchange System Reform”, partly amended by Decrees 214/02 and 410/02 published on February 4 and March 8, 2002, respectively. In addition, Ministry of Economy Resolution 47/02 established the definitive mechanism for the rescheduling of financial institution deposits, and Decree 905/02 determined the compensation to be paid to financial institutions for the asymmetric conversion of loans and deposits into pesos.

These regulations have included the following measures with an impact on the B.C.R.A. net equity and financial position:

- a) Changes to the Convertibility Law, which had set the exchange rate for the US dollar at one Argentine peso. It should be noted that as from the introduction of Law 25561, the B.C.R.A. is no longer required to maintain a ratio of international reserves equivalent to the Monetary Base, although B.C.R.A. reserves will be destined to support the Monetary Base.
- b) Creation of an official exchange market. Decree 71/02 dated January 9, 2002 set the exchange rate at 1.40 pesos per US dollar effective January 11, 2002 (for those transactions authorised by the B.C.R.A.). This market operated on the

basis of that value for the settlement of certain import and export transactions through February 1, 2002.

- c) Creation of a free exchange market, which opened on January 11, 2002, for all those transactions not requiring or not having been granted authorisation from the B.C.R.A. to be traded on the official exchange market. This market began trading with buying and selling rates of 1.60 pesos and 1.70 pesos, respectively, per US dollar.
- d) Introduction by Decree 260/02 dated February 8, 2002 of a single, free exchange market for all exchange transactions as from February 11, 2002.
- e) Private sector non-financial debts outstanding with the financial system as at February 3, 2002, in US dollars and other foreign currencies, whatever their amount or nature, were converted into pesos at the rate of exchange of \$1 = US\$1 or its equivalent in any other foreign currency.
- f) The balances of accounts in US dollars or other foreign currencies deposited by financial institutions with the B.C.R.A. at February 1, 2002, were converted into pesos at the rate of \$1.40 per US dollar. A similar treatment was granted to the sums contributed by financial institutions and deposited in the B.C.R.A. in order to build up the Banking Liquidity Fund established by Decree 32/01.
- g) Balances of foreign currency deposits in the financial system were converted into pesos at the rate of \$1,40 per US\$ 1 or its equivalent in other currencies.
- h) Swap transactions in US dollars or other foreign currencies entered into up to the close of trading on February 1, 2002 between financial institutions and the B.C.R.A. were converted into pesos at the same rate indicated in clause g).
- i) Depositors were granted the option of exchanging their deposits originally set up in foreign currency for various classes of National Government Bonds, while deposits originally set up in pesos could be exchanged for National Government Bonds in pesos. In order to implement the exchange, the B.C.R.A. granted the financial institutions advances in pesos against the assignment of guarantees by them for the amounts necessary to purchase the referred bonds in order to comply with the requests for exchange received from their depositors.

## **1.2 Exchange and conversion into pesos of public debt - Decree 471/02 and Ministry of Economy Resolution 55/02**

Decree 471/02, published on March 13, 2002, laid down that the obligations of the national, provincial and municipal sectors outstanding at February 3, 2002 denominated in US dollars or other foreign currencies, subject only to Argentine law, were to be converted at the rate of \$ 1.40 per US\$ 1 or its equivalent in any other foreign currency, and were to be restated according to the CER (indexation rate). In addition, it was ruled that the liabilities of the national public sector converted into pesos and documented as secured loans, as approved by Decree 1646/01, and Ministry of Economy Resolution 851/01, as from February 3, 2002, would accrue interest at rates ranging from 3% to 5%

p.a. for those loans with an average life, calculated as from November 6, 2001, of five years and over ten years, respectively, and 5.50% to be capitalised annually for those loans with a term of at least five years.

Furthermore, an annual interest rate of 4% as from February 3, 2002 was established for the obligations of the provincial and municipal public sectors.

In the case of the government securities portfolios not presented for exchange, a category which includes the B.C.R.A. portfolio, negotiations will continue to be carried out with the Department of the Treasury within the framework of the so-called Phase II (Ministry of Economy Resolution 767/01) with the aim of restructuring the portfolio on the basis of the new instruments that the National Government will issue to replace them.

The implementation of the rescheduling foreseen in Phase II will allow to determine the degree of recoverability of these assets, as they are no longer listed on a representative market.

### **1.3 Conversion of provincial public debt – Decree 1579/02 and complementary regulations**

The agreement between the Government and the Provinces on their financial relationship and the basis for a federal tax-sharing regime that was signed by the National Government, the Provincial Governments and the City of Buenos Aires on February 27, 2002, ratified by Law 25570, includes among its purposes that the basic guidelines to refinance the provincial debt be set forth.

Section 8 of the Agreement establishes that the jurisdictions will be able to charge the National Government with the renegotiation of the provincial public debt that the latter accepts, thus converting it into national government securities, as long as those jurisdictions guarantee the full amount of the issues by means of an increase in the appropriation of resources from the federal tax-sharing regime, using the mechanisms laid down for eligible provincial debt.

In addition, the Trust Fund for Provincial Development has been instructed to assume all provincial debts as Government Securities, Bonds, Treasury Bills or Loans that comply with the terms established in Decree 1579/02.

Bonds will be issued in pesos as at February 4, 2002 for a term of 16 years, adjusted according to the CER (indexation rate) and bearing an annual interest rate of 2% payable monthly, and principal repayment will be made in adjusted monthly instalments as from March 4, 2005. These Secured Bonds will be primarily secured with the assignment of 15% of the resources from the federal tax-sharing regime at a maximum, corresponding to the province, the holder of the converted public debt, and with a secondary guarantee from the National Government.

## **1.4 Changes to the Charter**

As Law 25561 repealed or amended the sections of the Convertibility Law establishing monetary regulations that governed the actions of the B.C.R.A. as the monopoly currency issuer, this new change to the Charter has introduced a tool to regulate such issue, establishing that the primary and fundamental mission of the B.C.R.A., which is to preserve the value of the currency, is to be complied with in the context of a monetary program to be published prior to the beginning of each fiscal year, including information on inflation targets and variations in total money supply forecasted, with revisions to be prepared and made public quarterly or whenever deviations are foreseen, informing both the reasons for the deviations and the new monetary program resulting therefrom.

On the matter of international reserves, the new Charter established that the B.C.R.A. shall only be able to maintain part of its foreign assets in deposits or other interest earning placements in banks abroad or in securities of recognised solvency and liquidity payable in gold or foreign currency. In practice, this implies the exclusion of government securities from international reserves, aligning the components of Reserves with the international standards.

In the case of mechanisms for financing the National Government, a system has been introduced for the granting of temporary advances as long as they do not exceed 10% of the cash resources obtained by the Government in the last 12 months, and as long as they are repaid within 12 months of having been granted.

On the matter of B.C.R.A. liabilities, the current Charter authorises it to issue securities or bonds, as well as certificates representing shares in the securities it holds. This possibility will allow the B.C.R.A. to make use of a tool for monetary absorption for inclusion in the Monetary Program, such as the Central Bank Bills (Lebac) issued during 2002.

### **NOTE 2 - NATURE AND PURPOSE OF THE B.C.R.A.**

The B.C.R.A. is a decentralized entity of the National Government ruled by the terms of its Charter (Section 1 of Law 24144). The primary function of the B.C.R.A. 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 National Government, the country's depository and its agent before international monetary, banking and financial institutions with which the National Government does business.

## **NOTE 3 – ACCOUNTING STANDARDS APPLIED**

### **3.1 - Basis for presentation of the financial statements**

The B.C.R.A. has prepared its financial statements in accordance with professional accounting standards and general valuation criteria established for entities in the Argentina financial system.

As from the passing of Law 25561 on “Public Emergency and Exchange Rate System Reform”, the B.C.R.A. is no longer required to maintain a ratio of international reserves equivalent to the Monetary Base, although B.C.R.A. reserves will be destined to support the Monetary Base. Therefore, the Exhibit “International Reserves of the financial system and monetary liabilities of the B.C.R.A. ” is no longer presented.

The specific features of the B.C.R.A. and the mission and functions assigned to it by its Charter, in particular its power to issue notes and coins, added to the very specific nature of the transactions it performs, do not allow for the preparation of a Statement of Cash Flows, as prepared by other financial institutions. A Statement of Cash Flows is submitted as Exhibit IV, comparatively presenting the changes in fiscal 2002 and 2001 of the indicators defined as funds, which include: International Reserves, Central Bank Monetary Liabilities and Deposits of the National Government - Other Deposits.

The financial statements are comparatively presented with the previous fiscal year. The financial statements are shown in Argentine pesos. Figures in the Notes and Exhibits to the financial statements are disclosed in thousands of pesos.

### **3.2 General valuation and recognition criteria**

#### **3.2.1 Consideration of the effects of inflation**

The financial statements have been prepared in constant units of currency, recognising the effects of inflation as from January 1, 2002. The B.C.R.A. has adopted the adjustment method established for financial institutions by regulation CONAU 1 - 484, which in general terms agrees with the requirements laid down by the Argentine Federation of Professional Councils of Economic Sciences (Technical Resolution No. 6 modified by Technical Resolution No. 19 issued by the F.A.C.P.C.E.).

Professional accounting standards consider that there has been monetary stability in the period between August 31, 1995 and December 31, 2001, and therefore the transactions performed in that period are considered to have been stated in the currency of that date. Consequently, the financial statements include the effects of changes in the currency purchasing power through August 31, 1995 and those that took place between December 31, 2001 and December 31, 2002.

For restatement purposes, use has been made of indexes derived from the Internal Wholesale Price Index (IPIM) published by the National Institute of Statistics and Census (Indec). The change in IPIM in fiscal 2002 was 118.20%.

Balances at December 31, 2001 disclosed in these financial statements arise from restating the amounts from the financial statements at that date in constant currency at December 31, 2002.

### **3.2.2 Assets and liabilities in local currency**

Assets and liabilities are recorded at nominal value according to current accounting standards applicable to the financial sector as a whole.

### **3.2.3 Assets and liabilities in foreign currency**

In view of the change to the exchange rate regime established by Law 25561 and the measures that were introduced as a consequence by the Executive Branch, and the terms of Section 34 of Law 24144 indicating that the financial statements of the B.C.R.A. should be prepared according to the same general principles established by the Superintendency of Financial and Exchange Entities for the financial system as a whole, the criterion for the valuation of assets and liabilities in foreign currency has been adjusted, taking as the reference rate of exchange for the US dollar the rate informed by the B.C.R.A. in effect at the close of business on December 31, 2002, in place of the rate of exchange corresponding to the closing selling exchange rate of Banco de la Nación Argentina. The reference exchange rate at year-end amounted to 3.363 pesos per US dollar. The rate of exchange used at December 31, 2001 was 1 peso per US dollar.

Solely for information purposes, we indicate that if the last closing selling exchange rate published by Banco de la Nación Argentina, which at December 31, 2002 was 3.38 pesos per US dollar, were to have been applied to the balances of accounts in foreign currency, the assets of the B.C.R.A. would have amounted to \$ 119.014.905, liabilities to \$ 100.079.122 and net equity to \$ 18.935.783.

### **3.2.4 Criteria for the recognition of income and expenses**

Income and expenses are recognised on an accrual basis and are calculated according to the Argentine law or agreements between the parties involved, as the case may be.

**NOTE 4 - BREAKDOWN AND MAIN VALUATION CRITERIA FOR THE  
PRINCIPAL FINANCIAL STATEMENT HEADINGS**

**4.1 Gold**

	<u>12/31/2002</u>	<u>12/31/2001</u>
Gold	10.742	5.754
1% gold purity allowance (Exhibit I)	<u>(107)</u>	<u>(56)</u>
	<u><u>10.635</u></u>	<u><u>5.698</u></u>

Gold coin stocks were valued at year-end in United States dollars at US\$ 343.75 (US\$ 277.9 at December 31, 2001) per troy ounce- stated in United States dollars and converted into pesos according to the criterion disclosed in Note 3.2.3.

**4.2 Foreign currency**

	<u>12/31/2002</u>	<u>12/31/2001</u>
Current accounts with foreign correspondent banks and "overnight" accounts	1.600.777	1.816.781
Holdings in Treasury	869.460	2.503.366
	<u><u>2.470.237</u></u>	<u><u>4.320.147</u></u>

Current accounts with correspondent banks and “overnight” accounts have been valued following the criterion established in Note 3.2.3. The total for current accounts with correspondent banks abroad includes \$ 1.410.425 (equivalent to US\$ 419.395 thousand) deposited in foreign branches of Banco de la Nación Argentina (\$ 769.187 and US\$ 352.499 at December 31, 2001).

Treasury holdings have been valued as mentioned in the previous paragraph.

### 4.3 Deposits to be realised in foreign currency

This account includes the following investments made abroad:

	<u>12/31/2002</u>	<u>12/31/2001</u>
Time deposits in foreign currency	20.054.062	15.732.229
Short-term government securities	9.354.004	7.999.484
Repurchase Agreements	3.030.063	2.313.462
Demand Deposits	316.748	23.259
Custody Agreements	0	1.786.118
Certificates of Deposit	0	365.742
Other	0	76.893
	<u>32.754.877</u>	<u>28.297.187</u>

Demand deposits and time deposits have been recorded at face value plus interest accrued until year-end. Short-term government securities and repurchase agreements have been marked to market at the closing date of the corresponding year.

Time Deposits in Foreign Currency include a deposit made with a branch abroad of Banco de la Nación Argentina for \$ 518.832 (equivalent to thousands of US\$ 154.275). At December 31, 2001, such deposits amounted to \$ 328.559 (equivalent to thousands of US\$ 150.570).

### 4.4 Government Securities

Following the enactment of Law 25562 and on the basis of its section 12, holdings of government securities issued in US dollars by the Argentine Government have ceased to be included as International Reserves of the Central Bank, and are now included under the heading of Government Securities.

This includes the portfolio of government securities for \$ 1.112.132 and \$ 870.364, at December 31, 2002 and December 31, 2001 respectively detailed in Exhibit III, which were marked to market at the closing dates of the respective years.

In order to reflect the market values of the holdings of government securities recorded at December 31, 2002, an impairment allowance of \$ 1.158.054 has been booked (Exhibit I). This criterion has been adopted mainly because the National Government has not yet embarked on the so-called Phase II for the restructuring of Public Debt not presented for exchange (Ministry of Economy Resolution 767/01 and complementary resolutions) and because the servicing of public debt, originally suspended until December 31, 2002 by Ministry of Economy Resolutions 73/02 and 158/03, has not yet been resumed.

#### **4.4.1 Bills issued in relation to I.M.F. loans**

The balance at the end of fiscal 2002 and 2001 of \$ 1.483.825 and \$ 1.019.197, respectively, represents the debt entered into by the Treasury Secretariat with the B.C.R.A. corresponding to the transfer of the funds received by the B.C.R.A. from the I.M.F. until September 30, 1992. This asset stated in Special Drawing Rights (SDRs) has exactly the same financial features as the liability abroad (Note 4.14). As a result, its servicing has been collected in synchronisation with the payments of principal and interest on the foreign liability.

#### **4.4.2 Other securities in foreign currency**

This line includes securities received in relation to reverse repos for \$ 133.633 at December 31, 2002 and \$ 1.700.584 at December 31, 2001 (Exhibit III).

#### **4.4.3 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 Executive Power 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 exchange rate. Repayments of restated principal will be made as from year ten. Re-statement has been accrued until March 31, 1991 in accordance with section 8 of the Law on Convertibility.

The original amount of the issue totals \$ 881.464 and the adjusted amount according to the issue conditions is \$ 4.734.790. As section 6 of Law 25565 authorises the Ministry of Economy to undertake the restructuring of public debt, by means of Resolution 334/02, this Ministry has determined that the bond will be amortised in 80 equal annual instalments, the first falling due on January 2, 2010. In view of the special financial conditions of this Bond, basically its term, grace periods and lack of interest accrual, the balance adjusted according to the issue terms net of its contraaccount has been fully provided for by means of calculation of its present value, applying a rate that reflects the evaluation of the time value of money and the specific risks of the asset.

#### **4.4.4 Other Securities in Local Currency**

At December 31, 2002 the balance of this account totalled \$ 575.886 (\$ 9.044.719 at December 31, 2001) - (Exhibit III).

This account is used to record national and provincial government securities in pesos handed over by financial institutions in reverse repos for \$ 162.473 (\$ 8.633.088 thousand at December 31, 2001) valued at the market rate at closing date. Provincial government securities were received under the conversion of provincial public debt, which at the present date is pending completion.

#### 4.5 Temporary Advances to the National Government

These advances are granted under section 20 of the Charter, as modified by Law 25562, which authorises the B.C.R.A. to make advances to the National Government in amounts not exceeding 10% of the cash resources obtained by the latter in the previous twelve months, which should be repaid within twelve months of having been granted.

At December 31, 2002, the balance of the Temporary Advances to the National Government account was \$ 700.000. This balance is made up of \$ 500.000 to be repaid by December 27, 2003 and \$ 200.000 due March 26, 2003, and both items had been repaid by the date of issuance of these financial statements.

#### 4.6 Loans to the Argentine Financial System

Detailed below are the balances of the accounts corresponding to loans to the Argentine financial system:

	<u>12/31/2002</u>	<u>12/31/2001</u>
Liquidity advances guaranteed by secured loans	15.716.142	0
Liquidity advances with other guarantees	3.987.804	7.585.822
Advances for the subscription of National Bonds	2.038.611	0
Financial entities with licenses revoked	962.321	1.097.273
Refinanced credit lines	817.945	1.761.495
Trust Participation Certificates	671.398	1.077.920
Liquidity rediscounts	425.266	1.414.448
Assets received for rediscount	161.742	327.197
Assets and rights received (Section 35 bis Financial Entities Act)	34.436	75.450
Other	17.232	9.735
Contraaccount - Assets received for rediscounts	<u>(133.602)</u>	<u>(257.841)</u>
<b>Sub-total</b>	24.699.295	13.091.499
<b>Less</b>		
Allowances on loans to the financial system	<u>(7.096.973)</u>	<u>(2.252.653)</u>
	<u><u>17.602.322</u></u>	<u><u>10.838.846</u></u>

Rediscounts and liquidity advances to financial institutions represent funds granted to attend to needs arising out of temporary liquidity shortages recorded by financial institutions and other lines made available prior to the introduction of the new Charter for the B.C.R.A. in force since 1992. These rediscounts and advances to financial institutions are valued at their face value plus interest accrued and are offset by a provision calculated on the basis of the estimated uncollectibility risk of the mentioned loans and evaluation of the guarantees received.

The balance of the guarantees for liquidity advances and rediscounts covering the balance of the advance is made up as follows:

	<u>12/31/2002</u>	<u>12/31/2001</u>
National Government Secured Loans	8,449,668	5,798,000
Provincial Loans in process of exchange	7,430,245	0
Other assets	2,608,678	1,198,473
Government Securities	1,275,809	0
Unsecured Loans to the private sector	332,192	585,930
Mortgages on own property and Secured Loans	32,620	0
	<u>20,129,212</u>	<u>7,582,403</u>

These guarantees are recorded in memorandum accounts, including the margin where appropriate.

It should be noted that 85% of the securities received in guarantee at December 31, 2002 correspond to National Government debt instruments (at December 31, 2001 this percentage was 92%).

The increase in the balances of advances and rediscounts recorded between the end of fiscal 2002 and 2001 basically reflects the actions of the B.C.R.A. as a lender of last resort during the liquidity crisis that took place in 2001 and which continued during the first six months of fiscal 2002, with the granting of advances and rediscounts. Reverse repo transactions were replaced during 2002 by liquidity advances secured by instruments created by Decree 1387/01.

As a result of the crisis, financial institutions have experienced difficulties in returning the amounts due in the terms agreed without affecting their normal banking activities. In order to preserve the liquidity of the financial system, the B.C.R.A. has authorised the optional capitalization of 100% of the amount due on the transactions covered by section 17 of the Charter (Communication "A" 3607), while at the same time limiting the growth of lending by the financial institutions. The first of these measures is subject to review quarterly by the B.C.R.A. on the basis of the development of conditions in the financial system.

The changes to the Charter made by Decrees 1523/01 and 1526/01 authorised the B.C.R.A. to grant liquidity rediscounts and advances secured by the public debt instruments created in accordance with Decree 1387/01. The assistance secured by such instruments has not been taken into account when calculating allowances, as the

guarantees received are not included within the suspension of payment on public debt servicing established by means of Ministry of Economy Resolution 73/02 and 158/03 and are being serviced regularly by the National Government.

Section 14 of Decree 905/02 established that the B.C.R.A. could grant secured advances in pesos to financial institutions for the amounts needed for the purchase of National Government Bonds in Dollars due 2012, National Government Bonds in Pesos due 2007 at 2% and National Government Bonds in Dollars due 2005.

It should be noted that liquidity rediscounts and advances for the subscription of BODEN granted to financial institutions in the public sector at December 31, 2002 amounted to \$ 10.049.975 and \$ 6.009.641 at the end of the previous year.

Refinanced Credit Lines includes the debt of the former BANADE amounting to \$ 26.680 (\$ 67.202 at December 31, 2001), which has been fully provided for. This is because no progress has been made in the proceedings that would allow the B.C.R.A. to collect the receivables. In addition, the debt for \$ 623.956 at the end of 2002 (\$ 1.352.153 at December 31, 2001) due from the Trust Fund for Regional Infrastructure (formerly Banco Hipotecario Nacional) has been provided for in the amount of \$ 338.831 (\$ 67.645 at December 31, 2001) as a result of the significant reduction in the net equity of the Trust because of the decline in value of the shares of Banco Hipotecario Sociedad Anónima.

Advances in relation to entities in liquidation represent advances made to return deposits and to meet the cost of the liquidation process for financial institutions being wound up and equity released in liquidation processes for \$ 20.921.240 (\$ 45.672.889 at December 31, 2001) which have been fully provided for since 1990, without prejudice to such action as may be necessary to pursue their collection (Exhibit I).

#### **4.7 Contributions to international agencies on behalf of the National Government**

Below are detailed the balances of the accounts corresponding to the contributions made by the B.C.R.A. on behalf of the National Government:

	<u>12/31/2002</u>	<u>12/31/2001</u>
Contributions to the IDB, IBRD, IDA and other	2.966.064	1.886.620
Contributions to the I.M.F.	<u>2.708.621</u>	<u>1.623.185</u>
	<u><u>5.674.685</u></u>	<u><u>3.509.805</u></u>

The I.M.F. sets the so-called “Quota” that the Republic of Argentina should pay as a member, and this has been established at SDR 2.117.100 at December 31, 2001 (the same amount as was recorded at December 31, 2001). This quota has been recorded as follows:

	Amount in SDRs	Amount in pesos at 12/31/2002	Amount in pesos at 12/31/2001
Treasury Bills	1.524.672	6.970.908	4.209.169
Contributions to I.M.F. in Foreign Currency	529.275	2.419.883	1.450.153
Contributions to I.M.F. in Local Currency	63.153	288.738	173.032
	<u>2.117.100</u>	<u>9.679.529</u>	<u>5.832.354</u>

Treasury Bills are issued by the B.C.R.A. on behalf of the Government of the Republic of Argentina in its capacity as the Government's Financial Agent with a commitment to repay their amounts to the I.M.F. on demand.

#### **4.8 Funds transferred to the National Government for placements of the I.M.F.**

This account (with a balance of \$ 49.159.931 at December 31, 2002 and \$ 30.901.580 at December 31, 2001) reflects the transfer to the Department of the Treasury of funds received from the International Monetary Fund as from September 30, 1992. This account receives the same financial treatment as that given to the liability abroad (Note 4.14).

#### **4.9 Other assets**

The main items included under this heading are as follows:

	<u>12/31/2002</u>	<u>12/31/2001</u>
Transfer to Department of the Treasury on account of profits as per Section 38 of the Charter	5.229.867	722.930
Secured Loans - Decree 1387/01	595.831	1.166.620
Rights under liquidity rediscounts	415.246	1.331.958
Debtors from reverse repo transactions	274.679	11.240.208
Fixed assets (net of accumulated depreciation)	119.713	122.261
Intangible assets (net of accumulated amortization)	3.877	3.819
Debtors from contingent repo transactions	0	4.243.819
Rights to use funds from IDB/IBRD loan for contingent repo program	0	277.805
National Government 9% Bonds	110.138	0
Province of Entre Rios Secured Bond	14.332	
Sundry	621.463	1.279.983
Less:		
Allowance for impairment of other assets	(124.470)	
	<u>7.260.676</u>	<u>20.389.403</u>

In accordance with the terms of section 38 of its Charter, the B.C.R.A. remitted advances on profits to the National Treasury for \$ 5.229.867 (\$ 722.930 at December 31, 2001). Of this amount, \$ 4.898.567 corresponds to profit advances granted during fiscal 2002 and \$ 331.300 to advances granted during fiscal 2001, which will be charged to income in 2002, as determined by Board Resolution No. 531/02, approving the financial statements at December 31, 2001.

National public sector obligations documented by means of secured loans (Decree 1387/01) in the B.C.R.A. portfolio at December 31, 2002 amounted to \$ 595.831 (\$ 1.166.620 at December 31, 2001). These instruments had been accepted in settlement of liquidity assistance to entities that had their operating licences cancelled. The portfolio is stated at acquisition value (book value recorded by the financial institution calculated according to regulations in force at the time). The gain between the technical value of the secured loans and the book value at the date of acquisition is reflected in a contraaccount and is accrued on a linear basis over the term of the loans, with a balancing entry under Financial Income.

The secured loan balance has not been provided for because the payment of debt servicing has not been affected by the suspension set forth by the Ministry of Economy by means of Resolution 73/2 mentioned above or Resolution 158/03.

The balance of rights from liquidity rediscounts at December 31, 2002 for \$ 415.246 (\$ 1.331.958 at December 31, 2001) represents the funds received by the B.C.R.A.

The reverse repo activity that increased in 2001 in order to assist financial institutions in liquidity difficulty was gradually replaced during 2002 by advances and rediscounts. As a result, the balance of debtors from reverse repos amounts to \$ 274.679 at December 31, 2002 (\$ 11.240.208 at the end of the previous year).

Fixed assets have been valued at acquisition cost net of the corresponding accumulated depreciation. Depreciation is calculated by the straight-line method taking into account the estimated useful lives of the fixed assets. The residual book value of the assets as a whole does not exceed the value of their economic utilization on the basis of the information currently available.

The settlement of the balance of debtors from contingent repo transactions took place in January 2002 with the conclusion of the Contingent Repo Program agreed with foreign banks as one of the elements of the liquidity policy adopted by the B.C.R.A. during fiscal 2001.

The stock of National Government 9% Bonds and Province of Entre Ríos Secured Bonds unlisted at year-end has been provided for in full, as interest servicing was past due and unpaid at the end of fiscal 2002.

## 4.10 Monetary Base

### 4.10.1 Money in Circulation

	<u>12/31/2002</u>	<u>12/31/2001</u>
Bank notes	18.221.086	22.720.196
Coins	580.649	1.195.070
	<u>18.801.735</u>	<u>23.915.266</u>

The balance of the Money in Circulation account at the end of each year corresponds to notes and coins held by the public and by banks.

The evolution of the bank notes in circulation account has been as follows:

	<u>12/31/2002</u>	<u>12/31/2001</u>
Balance at the beginning of the year	22.720.196	31.594.617
New bank notes and bank notes in good condition in Financial System	14.082.027	11.042.763
Bank notes withdrawn from circulation and destroyed in the process of destruction	(6.273.022)	(19.917.184)
Adjustment for restatement of opening balance	(12.308.115)	0
Balance at year-end	<u>18.221.086</u>	<u>22.720.196</u>

### 4.10.2 Bank Liquidity Fund

Through the issuance of Executive Branch Decree 32/01, the Government set up a Bank Liquidity Fund to be administered by Seguros de Depósitos S.A. (SEDESA), which acted as trustee, with the aim of facilitating the redistribution of the remaining liquidity among entities. This fund was to be formed by financial institutions for an amount equivalent to 6% of average daily balances of private sector deposits in pesos and in foreign currency for November 2001. However, in view of the fact that the change to the Charter has increased the powers of the Central Bank to act as a lender of last resort for the financial system, this Fund has ceased to fulfil the role for which it was created, so that by means of Communication "A" 3582 dated April 26, 2002 the contribution by financial institutions was set to 0% and the total amount that had been paid in to set up the Trust was returned to the banks that had made the deposits.

## 4.11 Current accounts in other currencies

By means of Communication "A" 3498 dated March 1, 2002, the Bank unified the minimum cash and minimum liquidity requirements, enabling financial institutions to include for compliance purposes the balances held by financial institutions in the Minimum Cash Reserve Accounts opened at the Central Bank in US dollars or other foreign currencies. The balance recorded in these accounts at the end of each business day accrues interest for the period through to the next working day, at a rate that is fixed daily. At December 31, 2002, the balance amounted to \$ 1.014.073 (\$ 12.822.005 at December 31, 2001), and has been valued as indicated in Note 3.2.3.

#### 4.12 Deposits by the National Government and other

At the request of the Ministry of Economy, during 2001 a special account was opened at the B.C.R.A. in the name of the National Treasury headed "National Government Deposits in Foreign Currency- Strengthening of the International Reserves of the B.C.R.A." This account was used to hold the funds representing the counterpart to the disbursements made by the I.M.F. under the "Supplemental Reserve Facility" and "Stand By" for the equivalent to US dollars four thousand million (US\$ 4.000.000.000).

The balance of the Fund for the Strengthening of the International Reserves of the B.C.R.A. account was released on the basis of the requests made on various occasions by the Department of the Treasury, and credited in the Deposits by the National Government account.

	<u>12/31/2002</u>	<u>12/31/2001</u>
Deposits by the National Government	33.298	745.824
Provincial Funds	28.319	18.375
National Government Deposits - BODEN	3.883	0
Funds for Strengthening of Reserves of B.C.R.A.	0	8.728.398
Yield transferred on deposits for the Strengthening of Reserves of B.C.R.A.	30	32.790
Others	1.290	2.650
	<u>66.820</u>	<u>9.528.037</u>

#### 4.13 Other deposits

	<u>12/31/2002</u>	<u>12/31/2001</u>
In special accounts	558.660	44.467
Sundry	103.500	16.488
Special "Micro Pyme" program	168	2.824
	<u>662.328</u>	<u>63.779</u>

Deposits in Special Accounts include \$ 267.260 corresponding to deposits of the Trust Fund for Assistance to Entities set up with the aim of administering and transferring

assets and liabilities belonging to financial institutions. In addition, an amount of \$ 270.725 is disclosed that corresponds to deposits set up by the National Government in the terms established by Section 1 of Decree 1836/02, which qualify as not subject to garnishment and are not able to be disposed of, being used exclusively as a guarantee for the various series of National Government Bonds for use in the exchange of certificates of deposit held by depositors in the financial system.

#### 4.14 Due to International Agencies - International Monetary Fund

Includes accounts from the heading “Due to International Agencies” corresponding to operations with the International Monetary Fund:

	<u>12/31/2002</u>	<u>12/31/2001</u>
Offsetting entry of the funds transferred to the department of the Treasury and bills drawn against obligations	50.643.756	31.920.778
SDRs assigned	1.455.610	872.296
Other deposit accounts	288.612	173.067
	<u>52.387.978</u>	<u>32.966.141</u>

The offsetting entry of the funds transferred to the Department of the Treasury corresponds to the foreign currency received in the form of financial aid to the national public sector granted by the I.M.F. through the B.C.R.A.:

	<u>12/31/2002</u>	<u>12/31/2001</u>
2000 Stand By and Supplementary Reserve Facility	44.606.533	26.731.193
1992 Extended Facilities Fund	3.617.268	3.519.554
Utilisation of Reserve Tranche	2.419.955	1.450.156
1996 Stand By	0	219.875
	<u>50.643.756</u>	<u>31.920.778</u>

#### 4.15 Securities issued by the B.C.R.A.

One of the changes made to the Charter by Law 25562 empowers the Central Bank to issue securities or bonds, as well as share certificates in the securities it holds. This provides the Central Bank with a monetary absorption tool, and during 2002 it issued Bills (Lebac) in pesos and dollars.

These bills are traded at a discount and are valued at their par value net of unearned interest at year-end. Bills in foreign currency are valued at par restated as mentioned in Note 3.2.3.

	<u>12/31/2002</u>	<u>12/31/2001</u>
Bills issued in local currency	2.712.132	0
Bills issued in foreign currency	<u>621.578</u>	<u>0</u>
	<u><u>3.333.710</u></u>	<u><u>0</u></u>

Exhibit V shows the stock of Lebac at year-end broken down by currency and maturity.

#### **4.16 Other liabilities**

This heading includes as follows:

	<u>12/31/2002</u>	<u>12/31/2001</u>
Other liabilities due to International Agencies	2.505.385	2.171.189
Offsetting entry for National Government contributions to international agencies	1.756.665	1.110.189
Obligations in relation to subscription of BODEN	1.519.609	0
Obligation in relation to servicing of Secured Loans	419.019	0
Obligations from guarantees on liquidity rediscounts	415.246	1.331.957
Due to National Government	379.823	324.249
Obligations in relation to reverse repos	296.104	11.500.292
Interest accrual on IDB/IBRD loan	61.490	25.177
Creditors from contingent repos	0	2.955.833
Sundry	932.638	937.394
	<u><u>8.285.979</u></u>	<u><u>20.356.280</u></u>

“Other liabilities due to International Agencies” includes the balances of loans granted by the Inter-American Development Bank and the Inter-American Bank for Reconstruction and Development as a support facility for the Contingent Repo facility. The balance at December 31, 2002 amounted to \$ 2.505.385 for principal (equivalent to US\$ 744.985) and at December 31, 2001 it totalled \$ 2.171.189 (equivalent to US\$ 995.000). Interest accrued at year-end amounted to \$ 61.490 (equivalent to US\$ 18.284), while at December 31, 2001 it totalled \$ 25.177 (equivalent to US\$ 11.538). At year-end, one principal and interest instalment on the IDB loan for \$ 453.711 was pending settlement, as well as one principal and interest instalment on the IBRD loan for \$ 424.629. Both balances had been settled by the date of issuance of these financial statements.

The Offsetting entry for National Government contributions to International Agencies accounts includes the contributions made on behalf of the National Government as from September 30, 1992, the date on which the B.C.R.A.'s Charter was amended.

The Obligations for Subscription to BODEN are amounts due to the National Government to be settled once the acceptance of the security received for the advances for the subscription of BODEN bonds granted to financial institutions has taken place.

Obligations in relation to Servicing of Secured Loans includes the funds deposited from the collection of the tax on bank transfers for use in the servicing of the mentioned loans.

The balance of Obligations from guarantees on liquidity rediscounts of \$ 415.246 represents the B.C.R.A.'s obligation to return to the entities benefiting from liquidity rediscounts the assets received in consideration for the funds granted to them.

The settlement of the balance of Creditors for contingent repo transactions took place in January 2002 upon completion of the Contingent Repo Program (See Note 4.9).

#### 4.17 Provisions

	<u>12/31/2002</u>	<u>12/31/2001</u>
Provision for implementation of Monetary Unification Program (Exhibit I)	3.500.000	0
Provision for lawsuits (Exhibit I)	1.151.094	2.496.393
Provision for guarantee fund under Law 22510 (Exhibit I)	3.778	3.862
Other provisions (Exhibit I)	26.999	11.851
	<u>4.681.871</u>	<u>2.512.106</u>

In order to achieve monetary reunification and ensure the circulation of a single unit of legal tender nation-wide, the Executive Branch created a Monetary Unification Program with the aim of redeeming provincial and national scrip issued during the economic crisis in 2001 and the beginning of 2002.

In view of the fact that proposed changes to the referred Program contained in a Bill dated April 7, 2003 contemplate the delivery to the B.C.R.A. of government securities at par equivalent to the funds to be transferred to the provinces and the National Government, and as these provincial and national bonds had already been issued prior to the end of fiscal 2002, and at that date the intention already existed for the B.C.R.A. to participate in their redemption, it was decided to set up in this present year a provision for \$ 3.500.000 to reflect the estimated loss from the difference between the par value of the securities to be received compared to the estimated market values prevailing for similar securities at the date of issuance of these present financial statements (see Note 5.2).

The criterion used by the B.C.R.A. to determine the “Provision for Lawsuits” has been as follows:

Lawsuits for which final ruling is pending have been classified according to their nature (lawsuits for the return of deposits, labour lawsuits, etc.) establishing a percentage of probable rulings unfavourable to the B.C.R.A. in each category on the basis of past experience and setting up a provision accordingly.

In the case of lawsuits prior to April 1, 1991, which will be settled by means of the delivery of Debt Consolidation Bonds, the amount estimated has been restated to December 31, 2002 on the basis of the interest paid on such bonds. In view of the requirements of the Economic and Financial Emergency Law (Law No.25344), lawsuits subsequent to April 1, 1991 will also be settled in Debt Consolidation Bonds and have been restated using the rate of interest on ordinary savings accounts published by the B.C.R.A., as established by Communication “A” 1828.

In addition, there are lawsuits brought against the B.C.R.A. for damages for undetermined amounts. The probability of an adverse outcome, at the date of issuance of these financial statements, is remote; accordingly, no provision has been set up.

The increase in Other Provisions has been due to the recording of claims for the collection of pesos recognised at an administrative stage and which have been submitted by the B.C.R.A. to the Department of the Treasury for settlement under the terms of the Debt Consolidation Law by means of the delivery of Consolidation Bonds.

#### 4.18. Income Statement – Main Headings

Below is a detail of the significant items making up this heading:

	<u>12/31/2002</u>	<u>12/31/2001</u>
<b>FINANCIAL INCOME</b>		
<b>Placements to be realized in foreign currency</b>		
Time deposits	387.443	562.078
Foreign securities	322.901	525.613
Certificates of deposit	1.032	409.183
Net premiums for transactions with Financial System	<u>585.073</u>	<u>(324.561)</u>
Sub-total	1.296.449	1.172.313
Agreements with Manager Banks	(12.163)	625.900
Sundry	<u>(102.206)</u>	<u>(31.076)</u>
	<u><u>1.182.080</u></u>	<u><u>1.767.137</u></u>
<b>INCOME FROM OTHER ASSETS</b>		
<b>INTEREST</b>		
<b>Loans to financial entities</b>		
Debts of Financial Entities	5.361.203	323.095
Trust Participation Certificates	209.207	119.012
<b>Less:</b>		
Provisions	<u>(4.413.439)</u>	<u>(235.962)</u>
	<u><u>1.156.971</u></u>	<u><u>206.145</u></u>
<b>DIFFERENCE IN MARKET PRICE OF GOLD, CURRENCY AND GOVT. SECURITIES GAIN/(LOSS)</b>		
On Gold, Currency and Placements Abroad	42.996.800	25.094
On Foreign Securities	14.314.600	181.769
Exchange differences from sale of foreign currency and placement of Lebac	4.360.977	0
On Argentine Government Securities	3.478.900	(2.304.437)
Adjustment to value of other assets and liabilities in foreign currency	(9.624.395)	(270.946)
On current account deposits by entities and National Government deposits	<u>(20.017.300)</u>	<u>0</u>
	<u><u>35.509.582</u></u>	<u><u>(2.368.520)</u></u>

## **NOTE 5 – SUBSEQUENT EVENTS**

A summary is provided below of measures taken by the National Government and events that have taken place subsequent to year-end, which because of their significance require to be mentioned in these financial statements.

### **5.1 Decree 739/03- Restructuring of the Financial System**

The Executive Branch issued Decree 739/03 on March 28, 2003 concerning the repayment of liquidity assistance provided to financial institutions at the height of the crisis that was unleashed in 2001.

So that the payment of such loans can be made without disturbing the normal operation of the financial institutions and the fulfilment of their role as generators of credit, this regulation establishes that banks so requesting it may settle the balances of their advances and rediscounts as at the date of the Decree in the manner laid down. Repayment will be made in the same number of instalments as those of the assets that secure such assistance, up to a maximum of 70 consecutive monthly instalments.

Assistance under this regime will be restated according to the CER (indexation rate) and will bear interest at an annual 3.5% payable monthly.

Advances granted must be secured in an amount of at least 125% of the principal by means of National Government Secured Loans (Decree 1387/01), National Government Secured Bonds (Decree 1579/02) or National Government Bonds in Dollars or in Pesos (Decrees 905/02, 1836/02 and 739/03).

### **5.2 Monetary Unification Program**

The creation of the Monetary Unification Program will be fundamental to ensure the reunification of the currency and guarantee the circulation of a single monetary unit of legal tender nation-wide, avoiding departures from the provisions of section 30 of the Central Bank's Charter.

As a result, in compliance with the terms of title V –On the Exchange of Securities- of Law 25561, the Executive Branch issued Decree 743/03 creating the Program, with the aim of redeeming the national and provincial securities that had been issued in replacement of the national currency, to avoid a deepening of the crisis in 2001 and early 2002, for a par value equivalent to almost four thousand five hundred million pesos (\$ 4.500.000.000) and its replacement by local currency legal tender.

Subsequently, the Executive Branch, by means of Decree 957/03, expanded the Program to include the bills for the settlement of provincial obligations (LECOP), for a face value equivalent to three thousand three hundred million pesos (\$ 3.300.000.000).

Furthermore, on April 7, 2003, the Executive Branch submitted to Congress a bill empowering the National Government to issue a bond for a face value of seven

thousand eight hundred million pesos (\$7.800.000.000) in order to carry out the Monetary Unification Program.

### **5.3 Advance on Profits on account of Income/Loss for Fiscal 2002**

As laid down in section 38 of the B.C.R.A.'s Charter, during 2003 profits were advanced to the National Government on account of the future distribution of profits at the end of fiscal 2002 for a total of \$ 863.900. These funds were used in full to repay Temporary Advances (a financing mechanism regulated by Section 20 of the Charter), so that such advances were included within the scope contemplated by the monetary program and in international practice applicable to central banks, which recommend making transfers of "realized" profits on the understanding that they should generate only the inverse monetary effect to that generated at the moment they are realized or collected.

### **5.4 Exchange Rate**

Subsequent to year-end, the exchange rate began to show a downward trend in, with a relatively stable ratio to the peso as from the start of the second quarter, so that at April 23, 2003 the rate stood at \$ 2.8378 per US\$. If such a rate were to have been applied to the balances of accounts in foreign currency shown on Exhibit II, the assets of the B.C.R.A. would have fallen to \$ 104.008.539, the liabilities to \$ 91.971.895 and the net equity to \$ 12.036.644.