

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2003 COMPARATIVE WITH THE PRIOR YEAR
-In Thousand Pesos-**

**NOTE 1 – NATURE AND PURPOSE OF CENTRAL BANK OF THE REPUBLIC
OF ARGENTINA (BCRA)**

The BCRA is a self-governed entity of the National Government ruled by the provisions of its Charter (Section 1 of Law 24144).

The BCRA shall primarily and essentially maintain the value of legal tender. In addition, it shall implement monetary and financial policies aimed at safeguarding the value of currency, and its role as reporting unit and means of payment for the settlement of monetary obligations.

The Bank act as the Financial Agent for the National Government, and as the country's depository and agent before international monetary, banking and financial institutions that operate with the National Government.

**NOTE 2 – CHANGES TO THE LEGAL AND FINANCIAL FRAMEWORK
DURING FISCAL YEARS 2002 AND 2003**

These financial statements reflect the financial position of the Central Bank of the Republic of Argentine (BCRA) for the fiscal years ended 2002 and 2003.

To facilitate the reading of these financial statements and enable a full understanding of the transformation process that has taken place and its impact on fiscal year 2003, the following paragraphs describe the most significant economic measures taken during such period and up to the issuance of these financial statements.

2.1 Monetary Unification Program

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

Through the provisions of Decree 743/03, the Executive Branch created the Program in order redeem national and provincial government securities issued in place of the national currency, with a face value equivalent to almost pesos four thousand five hundred million (\$ 4.500.000.000) and replace it by legal tender. Subsequently, the Executive Branch, through Decree 957/03, extended the Program to include the bills for the settlement of provincial obligations (LECOP), with a face value equivalent to pesos three thousand three hundred million (\$ 3.300.000.000).

Law 25736 set forth that BCRA shall receive from the National Government, for the sole purpose of implementing the Monetary Unification Program, “National Government Bonds denominated in Pesos at a 2% interest rate maturing in 2011 and at a 2% interest rate maturing in 2013” up to a face value equivalent to six thousand eight hundred million pesos (\$ 6.800.000.000) and one thousand million (= billion) pesos (\$1.000.000.000), respectively.

2.2 Public debt restructuring

On September 22, 2003, the Ministry of Economy and Production submitted for the consideration of the International Monetary Fund (IMF) Annual Meeting the general guidelines of a proposal to restructure the public debt issued before December 31, 2001.

Decree 319/04 provided for the restructuring of defaulting public debt securities by designating International Managing Banks as well as Managing Banks for the Republic of Argentina. In addition, it was established that the Ministry of Economy and Production shall appoint the financial institutions that should renegotiate the rescheduling of the above-mentioned securities.

All over 2003, the National Government has regularly paid the obligations undertaken with International Financial Institutions (IFIs).

2.3 Treatment given to liquidity assistance to the financial system

The Executive Branch issued Decree 739/03 on March 28, 2003 concerning the settlement of the liquidity assistance provided to financial institutions during the crisis faced in 2001.

In order that the repayment of such loans can be made without disturbing the normal operations of the financial institutions as well as their role as credit generators, this regulation establishes that banks so requesting may settle the balances of their advances and rediscounts in force at the date of issuance of this Decree in the manner laid down. Repayment will be made in the same number of installments as those of the assets that secure such assistance, up to a maximum of 70 consecutive monthly installments. The BCRA issued Communication “A” 3941 regulating the enforcement of the above-mentioned Decree.

The financial assistance under this regime will be restated according to the indexation rate known as CER and it will accrue interest at an annual 3.5% rate payable on a monthly basis.

At least 125% of the principal corresponding to the financial assistance must be secured 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).

Decree 1262/03 provided that the BCRA shall be empowered to change repayment terms and conditions with the prior approval of the Financial System Rescheduling Unit (URSF), being allowed to extend the term to 120 installments.

2.4 Amendments to the Charter

On August 27, 2003, the National Congress amended Section 20 of the BCRA Charter through Law 25780 as follows:

“The BCRA shall be empowered to grant temporary advances to the National Government as long as they do not exceed TWELVE PERCENT (12%) of the monetary base, made up of money in circulation plus the financial institutions’ demand deposits with the BCRA held in current or special accounts. In addition, it shall be allowed to grant advances as long as they do not exceed 10% of the funds obtained by the Government in the last 12 months. At no time shall the amount of temporary advances granted, excluding those that are exclusively allocated for payment of obligations to multilateral credit agencies, exceed TWELVE PERCENT (12%) of the monetary base, as defined above. All advances granted under this Section shall be repaid within twelve months after they have been granted. If any of such advances remained unpaid after maturity of said term, this special power shall not be exercised again until the amounts due have been repaid.”

NOTE 3 – ACCOUNTING STANDARDS APPLIED

3.1 - Basis for presentation of the financial statements

These financial statements have been prepared in accordance with professional accounting principles in force and general valuation criteria applicable to the institutions of the Argentine financial system.

The Professional Council of Economic Sciences of the City of Buenos Aires (CPCECABA) has approved through Resolution C.D. 87/03 dated June 18, 2003 a text restating professional accounting standards to be mandatory applied in such jurisdiction (Technical Resolutions 6, 8, 9, 16, 17, 18, and 21). The restated text includes the Technical Resolutions issued by the Argentine Federation of Professional Councils of Economic Sciences (FACPCE) with the amendments, supplementary information, and interpretations provided for by the CPCECABA.

At the date of issuance of these financial statements, the CPCECABA maintains in full force and effect Resolution C. 98/93, whereby the application of the present value is discontinued for institutions controlled by the BCRA in relation to the valuation at beginning of year and at year-end of receivables and payables originated in financial and refinancing transactions, and other receivables and payables other than those originated in the purchase/sale of goods or services. For such reason, the BCRA has not required the financial institutions to adopt the changes to such valuation and disclosure criteria for the issuance of their financial statements.

The financial statements are comparatively presented with the prior year. The basic financial statements are stated in Argentine pesos, whereas the Notes and Exhibits to the financial statements are stated in thousand pesos.

The specific features of the BCRA 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, which comparatively discloses the changes in indicators defined as funds for fiscal years 2003 and 2002 as follows:

International Reserves, BCRA Monetary Liabilities and National Government deposits - Other Deposits.

3.2 General valuation and recognition criteria

3.2.1 Consideration of the effects of inflation

The professional accounting principles require the information on the financial statements to be presented in currency of constant purchasing power when there is a scenario of monetary instability in the country.

The accounting profession has considered that during the period starting September 1, 1995 and ended December 31, 2001 there was monetary stability and therefore, no inflation adjustment was required for the transactions conducted during that period.

On July 16, 2002, the National Executive Branch issued Decree 1269/2002, stating that the financial statements should reflect the fluctuations in the currency purchasing power based on the economic crisis and monetary instability faced by the country. On March 20, 2003, the National Executive Branch issued Decree 664/2003, whereby it was resolved that the restatement for inflation be discontinued as from March 1, 2003.

The CPCECABA issued Resolution MD 41/2003, whereby it was stated that the restatement in currency of constant purchasing power should continue until September 30, 2003. In order to restate the financial statements in currency of constant purchasing power, the BCRA has followed the methodology applicable to financial institutions set forth by CONAU 1-484 which, in general, is consistent with the requirements laid down by Technical Resolution No.6, as amended by Technical Resolutions 17 and 19 issued by the FACPCE, and the indexation rates derived from the Wholesale Price Index (IPIM) published by the National Institute of Statistics and Census (INDEC) have been used.

Pursuant to the provisions of Section 34 of Law 24144, whereby it is stated that the BCRA's financial statements must be prepared in accordance with the same general principles established by the Superintendence of Financial and Exchange Institutions for the financial sector as a whole, these financial statements have been stated in currency of constant purchasing power, recognizing the effects of inflation until August 31, 1995, and from January 1, 2002 to February 28, 2003 only. Therefore, the BCRA has discontinued applying the method for restating accounting information in currency of constant purchasing power as from March 1, 2003, in conformity with the provisions applicable to financial institutions set forth by CONAU 1-569, which differs from the provisions set forth by the CPCECABA, as mentioned above. The IPIM variation up to February 28, 2003 amounted to 0.92%, whereas the IPIM published by INDEC recorded a negative variance of 1.24% from March 1 to September 30, 2003 (in fiscal year 2002 it amounted to 118.20%.)

Should the financial statements have been restated to reflect the changes in the currency purchasing power up to September 30, 2003, as required by the professional accounting principles, net equity would have decreased by \$ 2,671 and net income would have increased to \$ 473,363. It should be noted that these figures are not significant in terms of Chapter 7 of Technical Resolution 16 issued by FACPCE taking the financial statements as a whole, based on the insignificant fluctuation of IPM (deflation of 1.24% from March 1 to September 30, 2003) far from the annual 8% fluctuation considered by the accounting profession as a limit to avoid the restatement of the financial statements in currency of constant purchasing power.

Balances as of December 31, 2002 disclosed in these financial statements arise from the restatement of the financial statements in currency of constant purchasing power as of February 28, 2003.

3.2.2 Assets and liabilities in local currency

Assets and liabilities are stated at face value according to the accounting standards in force applicable to financial institutions.

3.2.3 Assets and liabilities in foreign currency

Valuation of assets and liabilities in foreign currency has been performed based on the criterion applicable to financial institutions as a whole. In such sense, the dollar exchange rate informed by the BCRA prevailing at year-end, December 31, 2003, was used. The exchange rate at year-end amounted to 2.933 pesos = 1 US dollar. As of December 31, 2002, the exchange rate used was 3.363 pesos = 1 US dollar.

3.2.4 Criteria for recognition of revenue and expenses

Revenue and expenses are recognized on an accrual basis and are calculated according to the Argentine law or the agreements between the parties involved, as applicable.

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

4.1 Gold

	<u>12-31-2003</u>	<u>12-31-2002</u>
Gold	11.215	10.841
1% Gold Purity Allowance (Exhibit I)	<u>(113)</u>	<u>(108)</u>
	<u>11.102</u>	<u>10.733</u>

Gold coin stocks were valued in United States dollars in the amount of 415.00 (US\$ 343.75 as of December 31, 2002) per troy ounce- stated in United States dollars, as quoted by the New York Branch Office of Banco de la Nación Argentina at such dates, and redenominated into Argentine pesos as disclosed in Note 3.2.3.

4.2 Foreign currency

	<u>12-31-2003</u>	<u>12-31-2002</u>
Current accounts with foreign correspondent banks and "overnight" accounts	1.628.876	1.615.523
Treasury holdings	<u>1.615.889</u>	<u>877.469</u>
	<u>3.244.765</u>	<u>2.492.992</u>

Treasury holdings have been valued as mentioned in Note 3.2.3. Current accounts with correspondent banks and "overnight" accounts have been valued by applying the same criterion plus the accrual of the related interest.

Total current accounts with correspondent banks abroad include \$ 659.925 (equivalent to US\$ 225.000 thousand) deposited with foreign branches of Banco de la Nación Argentina (\$ 1.423.417 equivalent to US\$ 419.395 as of December 31, 2002.). At the date of issuance of these financial statements, this balance was settled.

4.3 Deposits to be realized in foreign currency

This account includes the following investments made abroad:

	<u>12-31-2003</u>	<u>12-31-2002</u>
Time deposits in foreign currency	24.392.925	20.238.794
Short-term government securities	7.872.530	9.440.171
Demand deposits	3.560.837	319.666
Repurchase agreements	1.629.575	3.057.975
	<u>37.455.867</u>	<u>33.056.606</u>

Demand deposits and time deposits have been stated at face value plus interest accrued until year-end.

Short-term government securities and repurchase agreements have been marked to market at the related year-end.

As of December 31, 2003, the line "Time deposits in foreign currency" has no balance with the overseas branch of Banco de la Nación Argentina; whereas as of December 31, 2002, the related balance amounted to \$ 523.611 (equivalent to US\$ 154.275.)

This settlement, together with that mentioned in the last paragraph of Note 4.2, resulted in a loss of \$ 786.478, as disclosed in Sundry Results (Loss) Income of the Income Statement.

4.4 Government securities

4.4.1 BCRA's own holdings

This includes the portfolio of government securities described in Exhibit III, owned by the BCRA, which amounted to \$ 8.749.321 as of 12-31-2003, compared to \$ 3.791.811 as of 12-31-2002.

Considering that the BCRA marks to market its portfolio of national government securities at current or expected market price, as mentioned in the following paragraphs, it is estimated that any decision on the restructuring of the public debt will not have a significant impact on the financial statements.

In order to reflect the market values of holdings of government securities recorded as of December 31, 2003, an impairment allowance of \$ 1.148.330 has been booked since the expected results of this process have already been discounted from the above-mentioned figures. This criterion has

been adopted mainly because the National Government has not yet resumed payments of public debt, originally discontinued until December 31, 2002 and subsequently extended until December 31, 2003 (Ministry of Economy Resolutions 73/02 and 158/03 respectively.)

As of December 31, 2002, such debt amounted to \$ 1.168.722, mainly appropriating bonds issued by the Province Governments, which as of that date, have not been exchanged under Decree 1579/02 and supplementary rules, as well as government securities held in portfolio at their technical price and valued in conformity with accounting standards in force.

4.4.1.1 Bills issued in relation to I.M.F. loans

The balance at the end of fiscal years 2003 and 2002 of \$ 1.414.465 and \$ 1.497.494, respectively, represents the debt incurred by the Treasury Department with the BCRA corresponding to the transfer of funds received by the BCRA from the I.M.F. until September 30, 1992. This asset stated in Special Drawing Rights (SDRs) has exactly the same financial features as foreign liabilities (Note 4.14). As a result, collection is made at the same time as the payment of principal and amortization corresponding to foreign liabilities.

4.4.1.2 Securities issued under foreign legislation

This line includes securities issued under the jurisdiction of foreign law courts, which amounted to \$ 874.184 as of December 31, 2003 (\$ 987.512 as of December 31, 2002.). It should be noted that such government securities have been issued before December 31, 2001. Therefore, they are included in the public debt restructuring procedure initiated by the National Government (see Note 2.2.)

4.4.1.3 Securities issued under Argentine legislation

The balance of this account includes securities subject to local legislation, which amounts to \$ 6.460.672 at year-end (\$ 1.306.805 as of December 31, 2002), a holding amounting to \$ 5.167.122 out of such balance is made up of government securities issued after December 31, 2001 (see Note 4.4.1.3.2). Therefore, these securities are not subject to the above-mentioned procedures, i.e. payment suspension and public debt restructuring. The remaining securities holding in the amount of \$ 335.242 corresponds to the national public debt subject to the public debt restructuring procedure and the amount of \$ 76.844 corresponds to holdings of provincial public debt, the exchange of which is still pending at year-end.

4.4.1.3.1 1990 National Treasury Consolidated Bond

This Bond was issued on January 2, 1990 to consolidate obligations assumed by the National Government in connection with advances from the BCRA in accordance with Decree 335/91. This is a 99-year zero-coupon bond in pesos, the principal of which is adjusted according to fluctuations in the buying US- dollar exchange rate as per Banco de la Nación Argentina. Repayments of adjusted principal will be made as from the tenth year. The adjustment was accrued until March 31, 1991 in accordance with Section 8 of the Convertibility Law.

The original amount of the issue totals \$ 881.464 and the adjusted amount according to issuance terms and conditions is \$ 4.734.790. As Section 6 of Law 25565 authorizes 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 repaid in 80 equal annual installments, 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, an allowance has been set up for the balance adjusted according to the issuance terms and conditions net of its counteraccount by calculating its present value, applying a rate that reflects assessment of the time value of money and specific asset risks.

4.4.1.3.2 Other securities issued under Argentine legislation

As of December 31, 2003, the balance of this account totaled \$ 5.579.208 (\$ 417.221 as of December 31, 2002.)

As of December 31, 2003, this line mainly consists of:

- a) National Government Bonds (BODEN) Series 2011 and 2013 in the amount of \$ 5.057.330 included in the BCRA portfolio in compliance with the Monetary Unification Program (see Note 2.1) under which, during fiscal year 2003, a redemption of national and provincial government securities that were issued as a substitute for local currency (see Note 4.17.) was carried out. The date of issuance for both securities is April 30, 2003, and monthly amortization and payment of interest at an annual 2% rate are adjusted by applying the indexation rate known as CER as provided for by Decree 743/03. As such securities are not listed at year-end or at the date on which these financial statements are issued, their valuation was determined based on the notional parity considering the estimated technical values and average life cycle of securities under similar issuance terms and conditions.
- b) Secured Bonds (BOGAR 2018): received as an offsetting entry for the exchange of provincial public debt securities held in the BCRA portfolio. As of December 31, 2003, the assets include bonds for a technical value of NV \$ 192.922, which stated at their market value of 56.91%, are equivalent to \$ 109.792.

4.4.2 Repo portfolio with the financial system

This line includes securities received as an offsetting entry of reverse repo transactions amounting to \$ 211.251 as of December 31, 2003 and \$ 298.834 as of December 31, 2002 (Exhibit III). The offsetting entry is disclosed in Other Liabilities (see Note 4.16).

4.5 Temporary Advances to the National Government

These advances are granted under Section 20 of the Charter, as amended by Law 25780 dated August 27, 2003, which authorizes the BCRA to make advances to the National Government with the limits disclosed in Note 2.4.

As of December 31, 2003, the balance of Temporary Advances to the National Government amounted to \$ 7.368.774. These advances have been allocated to the payment of liabilities with international credit agencies. On the other hand, as of December 31, 2002 total advances pending settlement by the National Government amounted to \$ 706.448.

The balance as of December 31, 2003 and 2002 consists of the following advances pending settlement:

	<u>12-31-2003</u>	<u>12-31-2002</u>
3 rd Advance – Maturing on 03.26.2003	0	201.842
19 th Advance – Maturing on 12.27.2003	0	504.606
38 th Advance– Maturing on 09.11.2004	3.695.000	0
39 th Advance – Maturing on 09.19.2004	75.000	0
40 th Advance – Maturing on 10.24.2004	1.900.000	0
41 st Advance – Maturing on 11.10.2004	435.000	0
42 nd Advance – Maturing on 12.15.2004	1.100.000	0
43 rd Advance – Maturing on 12.19.2004	163.774	0
	<u>7.368.774</u>	<u>706.448</u>

Advances in effect at prior year-end were fully settled as of December 31, 2003.

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>12-31-2003</u>	<u>12-31-2002</u>
Liquidity assistance Com. “A” 3941	19.730.548	0
Advances for the subscription of National Bonds	2.568.104	2.057.390
Financial institutions with license revoked	1.121.556	971.186
Refinanced credit lines	733.719	825.480
Trust Participation Certificates	705.612	677.583
Assets received for rediscounts	147.123	163.232
Assets and rights received (Section 35 bis Financial Institutions Act)	54.475	34.753
Liquidity advances with other guarantees	24.338	4.024.539
Liquidity rediscounts	7.305	429.183
Liquidity advances guaranteed by secured loans	0	15.860.915
Other	20.440	17.391
Counteraccount / Assets received for rediscounts	<u>(123,285)</u>	<u>(134.833)</u>
Subtotal	24.989.935	24.926.819
Less:		
Allowance for loans to the financial system	<u>(3.591.008)</u>	<u>(7.162.349)</u>
	<u>21.398.927</u>	<u>17.764.470</u>

Rediscounts and liquidity advances to financial institutions represent funds granted to meet the needs arising out of temporary liquidity shortages recorded by financial institutions and other lines made available prior to the introduction of the new BCRA Charter in force since 1992. These rediscounts and advances to financial institutions are valued at their face value plus interest accrued and are offset by an allowance calculated on the basis of the estimated uncollectibility and the assessment of guarantees received. Along this line and considering that instruments received as security for liquidity assistance pursuant to Communication "A" 3941 are excluded from the public debt restructuring procedure mentioned in Note 2.2, the allowances in the amount of \$ 5.150.753 were reversed and new allowances were set up in the amount of \$ 1.644.788 for all those credit lines secured by other type of guarantees.

As specified in Note 2.3, the Executive Branch issued Decree 739/03 dated March 28, 2003 concerning settlement of liquidity assistance undertaken by financial institutions as from 2001.

The public debt instruments that financial institutions can grant as security for a loan include National Government Bonds Series 2007 and dollar-denominated Series 2012 (Compensating Bond), and National Government Bonds in US dollars Libor Series 2012 (Dollar Hedging Bond), both issued on behalf of financial institutions, the former to offset the effects of asymmetric pesification, and the latter to adjust the mismatch of their foreign-currency positions after the pesification of their lending and borrowing portfolio in accordance with the provisions set forth in Sections 28 and 29 of Decree 905/02.

At year-end, the final determination of the amount of the above-mentioned offsetting is still pending, as well as the assets to be received from financial institutions. This situation gave rise to a BCRA resolution geared to extend until June 30, 2004 the consideration of repayment schedules pending approval within the framework specified in item I.2.4 of Communication "A" 3941.

In addition, the BCRA shall be empowered to change the repayment conditions set forth in Decree 739/03, whenever the URSF (created by Decree 1262/03) deems it advisable, provided the following conditions are met:

- a) Assets given as security for the liquidity assistance received have an average life cycle exceeding 70 months;
- b) The financial entity falls under the situations categorized in Sections 34 and 35 bis of Law 21526, and has adopted a transformation/organization plan approved by the URSF.

In this case repayment shall be made in the same number of installments as those corresponding to the assets given as security for rediscounts received, with a maximum of 120 installments, and providing for a monthly repayment that shall not be less than 0.40%.

In order to properly adhere to this special liquidity assistance settlement system, the financial institutions should have regularized their foreign liabilities pursuant to the provisions laid down in Communication "A" 3941 before December 5, 2003.

As of the date of issuance of these financial statements, there are entities still waiting for a decision on the application filed with the URSF in order to extend the repayment schedule to 120 months.

Regardless of the foregoing circumstances, the BCRA started to execute the repayment schedule by debiting the current accounts of the respective entities as of March 2 and April 2, 2004. For entities

pending approval, debits were made in relation to payments corresponding to the 70-installment schedule.

At year-end, adherence to the above-mentioned system established by Decree 739/03 24 has been requested by entities whose balances are disclosed in Liquidity Assistance Communication "A" 3941. The position of entities at year-end and as of the date of issuance of these financial statements is as follows:

ENTITIES	Capital to be financed		Amount debited as of 04.30.04, representing 2 installments of principal and interest specified in Exhibit to Com. "A" 3941
	At year-end	As of the date of issuance of financial statements	
APPROVED	749.203	12.609.821	188.275
PENDING	18.688.150	6.827.532	193.578
TOTAL	19.437.353	19.437.353	381.853

At least 125% of principal corresponding to the liquidity assistance granted to financial institutions which have adhered to the settlement system provided for by Decree 739/03 as of the date of issuance of these financial statements were guaranteed with National Government Secured Loans (Decree 1387/01), National Government Secured Bonds (Decree 1579/02) or National Government Bonds in US Dollars or Pesos (Decrees 905/02, 1836/02 and 739/03).

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

	<u>12-31-2003</u>	<u>12-31-2002</u>
National Government Secured Bonds 2018	10.581.594	0
National Government Secured Loans	8.586.344	8.527.504
Other assets	548.220	2.632.708
National Government Bonds (BODEN)	14.390	0
Provincial Loans under exchange process	0	7.498.690
Other government securities	0	1.287.561
Unsecured loans to the private sector	0	335.252
Mortgages on the debtor's own property and secured loans	0	32.920
	<u>19.730.548</u>	<u>20.314.637</u>

These guarantees are recorded in memorandum accounts including, where appropriate, a 25% haircut for the liquidity assistance granted. Section 11 of Decree 739/03 empowered the BCRA, within the scope of its jurisdiction, to issue supplementary and explanatory regulations geared to comply with the goals and principles of such Decree.

In this sense, the BCRA issued Communication “A” 3941, whereby in item *I.4.-Guarantees* provides that: “Liquidity assistance subject to this settlement system shall be guaranteed by means of a pledge on “National Government Secured Loans”, as set forth by Decree 1646/01, for a nominal residual value, including the fluctuation of the indexation rate known as CER, of 125% of principal due which shall, at least, be maintained until the debt be finally settled ...”

It should be noted that 97% of the items received as security as of December 31, 2003 correspond to Argentine National Government debt instruments (as of December 31, 2002, such percentage was 85%.)

The advances for the subscription of National Government Bonds (BODEN) include advances in pesos granted by the BCRA to financial institutions, pursuant to Section 14 of Decree 905/02, against the supply of guarantees in the amounts required for the purchase of National Government Bonds in Dollars 2012, National Government Bonds in Pesos 2007 2%, and National Government Bonds in Dollars 2005 to be delivered to the depositors of the related institutions who requested them in exchange for their deposits.

An allowance has been set up for 100% of Refinanced Credit Lines, Trust Participation Certificates and Financial institutions with License Revoked.

Advances in relation to entities in liquidation correspond to those made to return deposits and meet the cost of the liquidation proceedings of such financial institutions and the residual equity resulting from financial institutions already liquidated in the amount of \$ 20.912.808 (\$ 21.113.961 as of December 31, 2002). An allowance for the total amount of these advances has been fully set up since 1990, notwithstanding the implementation of any actions that may be necessary to pursue collection thereof (Exhibit I).

Pursuant to Decree 905/02, the financial institutions were allowed to request subscription for National Government Bonds in US Dollars Libor 2012 through advances from the BCRA, up to the amount of the net negative position in foreign currency, resulting from the redenomination into pesos of assets and liabilities recorded in the financial statements of the financial institutions as of December 31, 2001, after applying the entire holdings of bonds in pesos determined through the compensation proceedings. At year-end, the BCRA has not yet granted the above-mentioned financial facility because the final amounts of the compensation to financial institutions have not been validated by the BCRA yet.

4.7 Contributions to international agencies on behalf of the National Government

Below there is a description of the account balances corresponding to the contributions made by the BCRA on behalf of the National Government:

	<u>12-31-2003</u>	<u>12-31-2002</u>
Contributions to the IDB, IBRD, IDA, and other	2.697.576	2.993.387
Contributions to the IMF	<u>2.582.007</u>	<u>2.733.572</u>
	<u>5.279.583</u>	<u>5.726.959</u>

The IMF sets the so-called “Quota” that the Republic of Argentina should pay as a Member Country, which has been established at SDR 2.117.100 as of December 31, 2003 (the same balance as of December 31, 2002). This quota has been recorded as follows:

	<u>Amount in SDRs</u>	<u>Amount in Pesos</u> <u>12-31-2003</u>	<u>Amount in Pesos</u> <u>12-31-2002</u>
Treasury Bills	1.524.672	6.645.055	7.035.122
Contributions to the IMF in foreign currency	529.275	2.306.767	2.442.174
Contributions to the IMF in local currency	<u>63.153</u>	<u>275.240</u>	<u>291.398</u>
	<u>2.117.100</u>	<u>9.227.062</u>	<u>9.768.694</u>

Treasury Bills are issued by the BCRA 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 IMF on demand.

4.8 Funds transferred to the National Government for placements from the International Monetary Fund

This account (with a balance of \$ 46.420.413 as of December 31, 2003 and \$ 49.612.779 as of December 31, 2002) reflects the transfer to the Department of the Treasury of funds received from the International Monetary Fund (IMF) as from September 30, 1992. These assets receive the same financial treatment as that given to foreign liabilities (Note 4.14.)

4.9 Other assets

The main items included under this heading are as follows:

	<u>12-31-2003</u>	<u>12-31-2002</u>
Transfer to Department of the Treasury on account of profits as per Section 38 of the Charter	0	5.278.043
Secured Loans –Decree 1387/01	640.405	601.320
Accrued charges and interest from the IMF	289.422	396.017
Debtors from reverse repo transactions	200.393	277.209
Financial assets – Uruguayan Government	161.204	0
Fixed assets (net of accumulated depreciation)	116.555	120.816
Intangible assets (net of accumulated depreciation)	1.862	3.913
National Global 2018 to be included	6.867	0
9% National Government Bonds	408	111.153
Rights under liquidity rediscounts	7.276	419.071
Province of Entre Rios Secured Bond	0	14.464
Sundry	219.855	231.170
Less:		
Allowance for other assets impairment	0	(125.617)
	<u>1.644.247</u>	<u>7.327.559</u>

In accordance with the terms of Section 38 of the BCRA Charter, in the first quarter of 2003 the BCRA remitted profit advances to the National Treasury in the amount of \$ 863.932 (\$ 5.278.043 as of December 31, 2002). Liquidity assistance granted under this heading in fiscal year 2003 was settled with the distribution of Retained Earnings for fiscal year 2002 pursuant to the provisions set forth in Board Resolution 180 dated April 24, 2003.

National public sector obligations documented by means of secured loans (Decree 1387/01) in the BCRA portfolio amount to \$ 640,405 as of December 31, 2003 (\$ 601,320 as of December 31, 2002). These instruments had been accepted in settlement of liquidity assistance to entities that had their operating licenses revoked. The portfolio is stated at year-end pursuant to the provisions applicable to financial institutions by circular CONAU 1-564 (Communication “A” 3911), whereby it is established that these instruments shall be recorded at the lowest amount ranging from the present value determined at year-end based on the discount rate set forth in such regulation to the “technical” value – adjusted, if applicable, with the indexation rate known as CER plus interest accrued in conformity with contractual terms and conditions. In addition, the aggregate amount of the difference between the values determined as specified above and the notional (accounting) value was recorded in a contra-asset account set up to such effect pursuant to the above-mentioned circular. As of December 31, 2002, such holdings were stated at acquisition value.

An allowance has not been set up for the loan balance because the payment thereof has not been affected by the suspension of payment set forth by the Ministry of Economy under the foregoing Resolution 73/02 and Resolution 158/03.

As of December 31, 2003, the amount of \$ 281.468 (\$ 395.444 as of December 31, 2002) has been recorded in connection with accrued charges to be paid to the IMF for the use of loans, and \$ 7.954

(\$ 573 as of December 31, 2002) for interest to be received from the IMF, both items accrued in the period November-December 2003 and settled in February 2004. The offsetting entry for accrued charges is disclosed in Other Liabilities (see Note 4.16.)

Fixed assets have been valued at acquisition cost net of the related accumulated depreciation. Depreciation is calculated by the straight-line method taking into account the estimated useful lives of fixed assets. The residual book value of assets does not exceed, taken as a whole, their recoverable value based on information available at that date.

The balance of liquidity rediscounts in the amount of \$ 7.276 as of December 31, 2003 (\$ 419.071 at December 31, 2002) represents the assets received by the BCRA on account of liquidity assistance.

4.10 Monetary Base

4.10.1 Money in circulation

	<u>12-31-2003</u>	<u>12-31-2002</u>
Bank notes	29.554.530	18.388.934
Coins	742.267	585.998
	<u>30.296.797</u>	<u>18.974.932</u>

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

The evolution of Bank Notes in Circulation has been as follows:

	<u>12-31-2003</u>	<u>12-31-2002</u>
Balance at beginning of year	18.388.934	22.929.488
New bank notes and bank notes in good conditions in the Financial System	14.581.149	14.211.747
Bank notes withdrawn from circulation and in process of destruction	(3.247.705)	(6.330.807)
Adjustment for monetary restatement of balances at beginning of year	<u>(167,848)</u>	<u>(12.421.494)</u>
Balance at year-end	<u>29.554.530</u>	<u>18.388.934</u>

4.11 Current accounts in other currencies

The balance recorded in these accounts at the end of each business day accrues interest for the period elapsed up to the following business day at the rate daily fixed. As of December 31, 2003, the balance amounts to \$ 3.764.827 (\$ 1.023.414 as of December 31, 2002), and it has been redenominated into pesos as indicated in Note 3.2.3.

4.12 National Government Deposits and other

This heading includes the following items:

	<u>12-31-2003</u>	<u>12-31-2002</u>
ANSES – Pension Payment Orders	123.876	603
National Government Deposits	84.990	33.605
Province Funds	24.698	28.580
National Government Deposits - Law 25152 – Anti-Cyclical Fiscal Fund	23.888	3
National Government Deposits - BODEN	1.442	3.919
Return on deposits transferred for strengthening BCRA Reserves	27	30
Other	37	695
	<u>258.958</u>	<u>67.435</u>

Section 9 of Law 25152 provides for the creation of an Anti-Cyclical Fiscal Fund to be made up of the financial surpluses generated in each fiscal period and income deriving from the fund. The Ministry of Economy and Production has entrusted the BCRA with the fund management so that resources may be invested following the same criteria as those applied to international reserves.

4.13 Other deposits

	<u>12-31-2003</u>	<u>12-31-2002</u>
In special accounts	476.279	563.806
Special “Micro-Pyme” Program (micro SMEs)	0	104.453
Sundry	227.650	170
	<u>703.929</u>	<u>668.429</u>

Deposits in Special Accounts include \$ 441.570 corresponding to deposits set up by the National Government as established by Section 1 of Decree 1836/02, which are subject to neither attachment nor alienation, and they shall solely be used as a guarantee for the various series of National Government Bonds earmarked for the exchange of deposit certificates held by depositors in the financial system. As of December 31, 2002, the related balance amounted to \$ 273.219 and, additionally, an amount of \$ 267.722 was recorded as deposits of the Trust Fund for Assistance to

Entities set up by the National Government as established by Section 1 of Decree 1836/02 (there is no account balance as of December 31, 2003).

Sundry account specifically includes the balance of the deposit made in favor of Seguro de Depósitos S.A. (SEDESA) in the amount of \$ 213.052 (there is no account balance as of December 31, 2002).

4.14 International Monetary Fund

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

	<u>12-31-2003</u>	<u>12-31-2002</u>
Offsetting entry for the funds transferred to the Department of the Treasury and bills drawn against obligations	47.834.878	51.110.273
SDR allocations	1.387.568	1.469.019
Other deposit accounts	274.942	291.270
	<u>49.497.388</u>	<u>52.870.562</u>

The offsetting entry for the funds transferred to the Department of the Treasury corresponds to the foreign currency received as financial aid to the national public sector granted by the IMF through the BCRA:

	<u>12-31-2003</u>	<u>12-31-2002</u>
Stand By 2000 and Supplementary Reserve Facility	26.028.044	45.017.437
Stand By 2003	17.453.013	0
Utilization of Reserve Tranche	2.306.837	2.442.247
1992 Extended Facilities Agreement	2.046.984	3.650.589
	<u>47.834.878</u>	<u>51.110.273</u>

4.15 Securities issued by Central Bank

Under Section 18 of its Charter, the BCRA is allowed to issue securities or bonds as well as participation certificates relating to its securities holdings. This mechanism provides the BCRA with a monetary absorption tool which allowed the Institution to issue Bills (LEBAC) in pesos and dollars since year 2002. These bills are traded at a discount and are valued at their face value net of unearned interest at year-end. Bills in foreign currency are marked at face value restated as mentioned in Note 3.2.3.

As from October 2, 2003, the BCRA has additionally issued Notes in pesos (NOBAC \$) annual 8% coupon for a 3-year term and Notes in pesos adjusted by CER (NOBAC) annual 3% coupon for a 3-year term. These Notes are traded at a discount and are marked at their face value net of unearned interest at year-end.

	<u>12-31-2003</u>	<u>12-31-2002</u>
Bills and notes issued in local currency	9.315.351	2.737.116
Bills issued in foreign currency	248.777	627.304
	<u>9.564.128</u>	<u>3.364.420</u>

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

4.16 Other liabilities

This heading includes the following items:

	<u>12-31-2003</u>	<u>12-31-2002</u>
Obligations for subscription of BODEN	1.972.561	1.533.607
Offsetting entry for National Government contributions to International Agencies	1.656.140	1.772.847
Obligations to the National Government	297.064	383.322
Accrued charges and interest to the IMF	285.144	400.309
Obligations in relation to reverse repos	211.251	298.832
Obligations in relation to the payment of Secured Loans	152.163	422.879
Obligations from guarantees for liquidity rediscounts	7.276	419.071
Other obligations to International Agencies	0	2.528.464
Interest accrued on IDB/IBRD loan	0	62.056
Sundry	477.789	540.920
	<u>5.059.388</u>	<u>8.362.307</u>

The obligations for Subscription of BODEN are amounts due to the National Government to be settled upon acceptance of the guarantee received for advances relating to the subscription of BODEN granted to financial institutions.

The obligations arising from the payment of Secured Loans include the funds deriving from the collection of the tax on bank transfers earmarked for the payment of such loans.

The offsetting entry for National Government Contributions to International Agencies include the contributions made on behalf of the National Government as from September 30, 1992, the date on which the BCRA Charter was amended.

As of December 31, 2003, an amount of \$ 285.144 (\$ 400.309 as of December 31, 2002) is recorded for accrued charges to be paid to the IMF for the use of credits accrued in the period

November-December 2003, which were settled in February 2004. The offsetting entry for such accrued charges is disclosed in Other Assets (see Note 4.9.)

The balance of Obligations from guarantees on liquidity rediscounts of \$ 7.276 (\$ 419.071 as of December 31, 2002) represents the BCRA's obligation to return the assets received in consideration of the funds granted to the entities benefiting from liquidity rediscounts upon maturity thereof.

As of December 31, 2002, the balance of Other Obligations to International Agencies amounting to \$ 2.528.464 includes 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 Program, which was settled in fiscal year 2003.

4.17 Provisions

	<u>12-31-2003</u>	<u>12-31-2002</u>
Provision for lawsuits (Exhibit I)	1.121.189	1.161.698
Provision for exchange differences - Communication "A" 4058	389.227	0
Provision for implementation of Monetary Unification Program (Exhibit I)	151.576	3.532.241
Provision for guarantee fund - Law 22510 (Exhibit I)	3.963	3.813
Other provision (Exhibit I)	35.150	27.248
	<u>1.701.105</u>	<u>4.725.000</u>

The criterion used by the BCRA to determine the Provisions 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, labor lawsuits, etc.) estimating a provision based on the experience, and considering a percentage of rulings potentially unfavorable to the BCRA.

The adjustment of lawsuits prior to April 1, 1991 has been made by applying General Level Wholesale Price indexes plus an annual 6% interest until March 31, 1991. As from such date, the applicable interest has been the common savings account rate published by the BCRA. For lawsuits subsequent to March 31, 1991 but prior to January 1, 2002, the deposit rate established in Communication 14290 was applied until December 31, 2001. As from such date the applicable interest has been the common savings account rate because Law 25344 was in full force and effect. For lawsuits after December 31, 2001 and up to year-end, the deposit rate applied by courts and established in Communication 14290 issued by the BCRA.

On the other hand, there are lawsuits brought against the BCRA for unspecified amounts. The probability of an adverse outcome for the BCRA was remote at the date of issuance of these financial statements, and therefore no allowance has been set up.

The provision for differences arising from the redenomination into pesos of balances of foreign-currency accounts opened with the BCRA and Liquidity Requirements accounts opened with Deutsche Bank, New York, represent an estimate of the amount to be returned to financial

institutions according to the determination made by such institutions, recorded as an offsetting entry in the accounts of the Income Statement.

As mentioned in Note 2.1, in order to execute the monetary reunification and ensure circulation of a single, nation-wide legal tender, the Executive Branch provided that a Monetary Unification Program be created to withdraw from circulation national and provincial government securities issued over the 2001 economic crisis and early 2002. For the purpose of implementing such program, the National Administration was empowered to issue National Government Securities in Pesos (BODEN) Series 2011 and 2013 in the amount of \$ 7,800,000, which were received by the BCRA at their face value.

As of December 31, 2002, it was decided that a provision in the amount of \$ 3.500.000 be set up to disclose the estimated loss arising from the face values of securities to be received with respect to the estimated prevailing market values for similar securities as of the date of issuance of the financial statements. On December 31, 2003, the BCRA received BODEN 2011 with a face value of \$ 6.284.176 and BODEN 2013 with a face value of \$ 744.616.

The difference between both values was charged to the provision timely set up in fiscal year 2003, in the amount of \$ 2.003.307. The remaining unused balance was recorded as income for the year in the amount of \$ 1.345.117. At year-end, there is a provision of \$ 151.576 destined to be applied to the valuation adjustment to be recorded on BODENs to be received on account of redemption requests that are still pending resolution.

4.18 Income statement – Main headings

Below there is a description of the main items included in this heading:

	<u>12-31-2003</u>	<u>12-31-2002</u>
FINANCIAL INCOME		
Foreign Currency Placements		
Time deposits	232.117	391.012
Foreign securities	292.382	325.875
Deposit certificates	0	1.042
Net premiums for transactions with the Financial System	0	590.463
Agreements with Managing Banks	4.270	(12.275)
Sundry	<u>(160.401)</u>	<u>(103.148)</u>
	<u>368.368</u>	<u>1.192.969</u>
ON OTHER ASSETS		
INTEREST		
Credits to Financial institutions		
Due from Financial institutions	1.414.165	5.410.589
Trust Participation Certificate	36.362	211.133
Less:		
Provisions	<u>0</u>	<u>(4.454.094)</u>
	<u>1.450.527</u>	<u>1.167.628</u>

	<u>12-31-2003</u>	<u>12-31-2002</u>
GOLD, FOREIGN CURRENCY & GOVT' SECURITIES QUOTATION DIFFERENCES		
(LOSS)/GAIN		
On Gold, Foreign Currency, and Placements Abroad	(2.682.300)	43.392.875
On Foreign Securities	(1.202.440)	14.446.462
Exchange differences related to sale of foreign currency and placement of LEBACs	2.581	4.401.149
On National Government Securities	(262.797)	3.510.947
Adjustment to the valuation of other foreign-currency assets and liabilities	451.283	(9.713.052)
On current account deposits by entities and National Government Deposits	<u>56.480</u>	<u>(20.201.694)</u>
	<u>(3.637.193)</u>	<u>35.836.687</u>

NOTE 5 – SUBSEQUENT EVENTS

Advances of earnings

As provided for by Section 38 of the BCRA Charter, in fiscal 2004 profits were transferred to the National Government towards the future distribution of earnings in the total amount of \$ 1.000.000.