

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
FISCAL YEAR ENDED
DECEMBER 31, 2001
-in thousands of pesos-**

**NOTE 1 - CHANGES TO THE LEGAL AND FINANCIAL FRAMEWORK DURING
FISCAL 2001**

These financial statements reflect the financial position of the Banco Central de la República Argentina (B.C.R.A.) at the end of fiscal 2001. During the course of the year, such a situation provoked 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 Institution. This process was highly complex in both its monetary and fiscal aspects. Although it began during 2001, it has grown more acute since the start of the 2002 fiscal year, 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 23.928 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 financial position of the Institution, the following paragraphs describe the events that took place prior to December 31, 2001. Note 6 includes comments on the most significant economic measures adopted subsequent to the end of the year.

1.1 Changes to the Charter of the B.C.R.A.

Through the issue of Decree 439/01, article 19 was modified to allow the possibility of interest being paid on deposit accounts that Banks hold in the B.C.R.A..

In addition, article 28 has laid down that such deposits can be set up in local currency or in the corresponding foreign currency, depending on whether the liabilities of the financial entities are denominated in local or foreign currency, and the deposits will be able to be held in cash at the entities, in sight deposits at the B.C.R.A. or in government securities marked to market, in this latter instance in the proportion to be established by B.C.R.A. regulations.

As a result of this regulation, the balance corresponding to current accounts in pesos of financial entities is disclosed in the "Monetary Base" account (see Note 4.10) and that corresponding to United States dollars has been included under "Current Accounts in other currencies" (see Note 4.12). Until now, deposits were set up in either pesos or dollars, for which reason the Current Account in pesos did not account for any balance at the end of fiscal 2000.

Decree 1523 dated November 23, 2001, modified by Decree 1526 dated November 27, 2001, made changes to article 17 and 19 of the Charter, with the aim of providing greater flexibility to the granting of advances and rediscounts for temporary liquidity difficulties, as well as to open market transactions, making use of the public debt instruments set forth by Decree 1387/01.

A detail of lending to the financial system is disclosed in Note 4.6.

1.2 Restructuring of Public Debt

Decree 1387/01 was issued on November 1, 2001, leading to an instruction being given to the Ministry of Economy to offer on a voluntary basis the possibility of holders, as defined by Ministry of Economy Resolution 767/01, transforming federal and provincial debt into Guaranteed Loans or Guaranteed Federal Bonds, as long as the guarantee tendered or the change of debtor were to allow the National or Provincial Public Sector to obtain lower rates of interest and on the condition that principal amortisation due dates up until December 31, 2003 should be lengthened and that conversion should take place at par value, at a ratio of one to one, in the same currency as that in which the transaction was stated.

This measure had a significant effect on the financial statements, both because of the situation of the B.C.R.A. as a holder of government securities and because of its position as a lender to the financial system. In its capacity as a holder of securities, the B.C.R.A. did not participate in the debt swap, as it implied a transformation of assets that was not neutral in terms of convertibility. This was because whereas the securities that could be swapped were able to be included in Free International Reserves, the guaranteed loans to be received in exchange, not being tradable on the market, could not be considered as such, so that their receipt implied a deterioration in the net worth eligible for consideration as a backing for the Monetary Base.

1.3 Deferral of Payments on Public Sector Debt

The market price of Argentine debt public bonds fell steadily throughout fiscal 2001, and this decline accelerated with the announcement of a deferral of payment at the Congress on December 23.

The significance of the stocks of government securities in the assets of the B.C.R.A. generated a loss on holding results of such magnitude that it absorbed the gains recorded from the investment of International Reserves. While the Bank obtained Financial income on Reserves for a total of \$ 972,813, losses from Exchange Differences of Gold, Currency and Government Securities totalled \$ 1,085,432 (see Note 4.18).

In accordance with the terms of article 38 of the B.C.R.A. Charter, advances on profits were remitted to the National Treasury for \$ 331,300, an amount considerably below the figure recorded in other years (\$ 750,000 in fiscal 2000).

The general situation and its impact on the Income Statement grew worse as the crisis deepened to such an extent that the profits that had been obtained at the time the first advances were made, were fully absorbed. As a result, such advances will be charged to the unappropriated results corresponding to fiscal 2002. In addition, the losses recorded made it impossible the fulfilment of all the advances planned under the National Budget Law for fiscal 2001.

NOTE 2 - NATURE AND PURPOSE OF BANCO CENTRAL DE LA REPUBLICA ARGENTINA (B.C.R.A.).

The B.C.R.A. is a self-governed entity ruled by the terms of its Charter (Article 1 of Law No. 24.144). The primary function of the Institution is to preserve the value of the currency. In addition, it is to implement monetary and financial policies aimed at safeguarding the role of the currency as a reserve 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 agent before monetary entities, banking and financial institutions with which the country had adhered to.

NOTE 3 – ACCOUNTING POLICIES

3.1 - Basis for presentation of the Financial Statements

The Institution has prepared its Financial Statements in accordance with professional accounting principles and general valuation criteria established for entities in the Argentine financial system, observing the terms of Law 23.928 on Convertibility, in particular sections 4, 5 and 6.

The specific features of the Institution and the mission and functions assigned to it by its Charter, in particular its power to issue banknotes 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. However, a table with similar features that reflects the economic reality of the Institution has been included as Exhibit V. This table displays the items that explain the evolution of the most representative indicators comparative by presented for fiscal 2001 and 2000.

As a result of the enactment of Law 25.561 on “Public Emergency and Reform of the Exchange System”, the Professional Council of Economic Sciences of the City of Buenos Aires, by means of Resolution MD 1 /02, and the B.C.R.A. through Communication “A” 3574 for the entities in the financial system, established guidelines for exclusive application to the financial statements at December 31, 2001 relating to the valuation of assets and liabilities in foreign currency. These guidelines required such assets and liabilities to be valued at the rate of exchange of one peso per US dollar which was in force on the last trading day prior to December 31, 2001.

As a consequence, at year end the financial statements do not include the effects of the peso devaluation nor those derived from the legislation subsequent to the issuance of these financial statements.

The new economic regime established as from January 6, 2002 has made significant changes that will affect the financial position of this Institution as well as its current and future relations with the entities within the Argentine financial system. The financial statements should be read in the light of these uncertain circumstances.

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

3.2 General criteria on valuation and recognition

3.2.1 Consideration of the effects of inflation

In accordance with the guidelines established by National Executive Decree No. 316/95 and by Communication "A" 2365 issued to Financial Entities by this Institution, the application of inflation adjustment has been discontinued as from September 1, 1995.

On July 17, 2002, by means of Decree 1269/02, Decree 316/95 was repealed. Inflation adjustment will therefore be required as from the fiscal year beginning on January 1, 2002.

In accordance with the first paragraph of this point, these financial statements do not recognise the effects of inflation.

3.2.2 Assets and liabilities in local currency

Assets and liabilities are recorded at present value according to current accounting principles.

3.2.3 Assets and liabilities in foreign currency

In view of the change to the exchange rate regime established by Law 25.561 and the measures that were introduced as a consequence by the Executive Branch, the terms of the mentioned Resolution MD 1 /02 issued by the Professional Council of Economic Sciences of the City of Buenos Aires have been applied.

Therefore, assets and liabilities have been valued at the rate of exchange in force on the last date prior to December 31, 2001 on which exchange trading took place in Argentina.

3.2.4 Criteria for the recognition of income and expenses

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

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

4.1 Gold

| | 12-31-2001 | 12-31-2000 |
|--------------------------------------|--------------|--------------|
| Gold | 2,637 | 6,683 |
| 1% gold purity allowance (Exhibit I) | (26) | (52) |
| | <u>2,611</u> | <u>6,631</u> |

Gold coin stocks were valued at the end of the year in United States dollars at US\$ 277.9 (US\$ 272.6 at December 31, 2000) per troy ounce- stated in United States dollars and converted into pesos according to the criterion disclosed in Note 3.2.3. At December 31, 2000, the market value of the premiums related to the put option contracts taken out by the Institution has been

included under this heading, as a result of which the average price totals US\$ 379.0 per troy ounce -stated in units of United States dollars. At the end of fiscal 2001, the B.C.R.A. did not hold any options contracts pending settlement.

4.2 Foreign Currency

| | <u>12-31-2001</u> | <u>12-31-2000</u> |
|---|-------------------|-------------------|
| Held in Treasury | 1,147,228 | 73,178 |
| Current accounts with foreign correspondents and "overnight" deposits | 832,584 | 570,104 |
| | <u>1,979,812</u> | <u>643,282</u> |

Treasury holdings have been valued as established in Note 3.2.3. Current accounts with foreign correspondents and "overnight" accounts have been valued by applying the same criterion, with the addition of the corresponding accrued interest.

4.3 Deposits to be realised in foreign currency

This account includes the following investments made abroad:

| | <u>12-31-2001</u> | <u>12-31-2000</u> |
|-----------------------------------|-------------------|-------------------|
| Short-term government securities | 3,665,958 | 861,182 |
| Time deposits in foreign currency | 7,209,676 | 8,480,422 |
| Sight deposits | 10,659 | 724,455 |
| Custody agreements | 818,532 | 5,309,378 |
| Certificates of Deposit | 167,610 | 1,694,172 |
| Repurchase agreements | 1,060,200 | 624,296 |
| Other | 35,238 | - |
| | <u>12,967,873</u> | <u>17,693,905</u> |

Short-term government securities and securities under custody agreements have been valued at market prices at the closing date of the corresponding year. Sight deposits and time deposits have been recorded at face value plus interest accrued until the end of the year. Certificates of deposit have been valued at cost plus interest accrued at the end of the year.

4.4 Government securities included in free reserves

Includes securities detailed in Exhibit IV under the heading of "Government Securities included in free reserves" valued at market prices at the end of the corresponding years.

This heading records securities issued under local legislation for \$ 2,939,491 and securities issued in accordance with foreign law for \$ 405,113, which have not been the subject of conversion into pesos subsequent to the end of the year (see Note 6.2), of which \$ 3,641,031 have been received as a balancing entry for reverse repos, net of those securities used in repo

transactions abroad for \$ 397,247. The balance of such securities received in reverse repo transactions includes securities submitted for public debt conversion by financial entities taking repos in accordance with Decree 1387/01, for \$ 399,136, in transaction that were pending completion at the end of the fiscal year.

4.5 Government Securities

4.5.1 1990 National Treasury Consolidated Bond:

This Bond was issued on January 2, 1990 to consolidate obligations assumed by the National Government for advances of funds from the B.C.R.A. in accordance with National Executive Decree No. 335/91. This is a 99-year zero-coupon bond expressed in pesos, the principal of which is restated according to changes in the quotation of the United States dollar on the basis of the Banco de la Nación Argentina buying rate of exchange. Repayments of restated principal will be made as from year ten. Re-statement has been accrued until 03.31.91 in accordance with section 8 of the Convertibility Act.

The original amount of the issue totals \$ 881,464 and the adjusted amount according to the issue conditions is \$ 4,734,790. In view of the financial conditions of this Bond, basically its term, grace periods and lack of interest accrual, the asset balance is adjusted for an amount equivalent to the principal adjustment accrual to maintain valuation at original issue value. For this reason the valuation at December 31, 2001 and 2000 amounts to \$ 881,464 in each case.

At December 31, 2001, the first two debt amortisation payments had not been made. A resolution by the Ministry of Economy is currently being readied that would extend the grace period by ten years.

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

The balance at the end of fiscal 2001 and 2000 for \$ 467,072 and \$ 518,014, 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 this Institution from the I.M.F. until 09.30.92, documented at that date by means of the issue of National Treasury Bills. This asset stated in Special Drawing Rights (SDRs) has exactly the same financial features as the liability abroad (Note 4.15). As a result, its servicing has been collected in synchronisation with the payments of principal and interest on the foreign liability.

4.5.3 Other

The balance of this account at December 31, 2001 is \$ 1,199,223 (\$ 412,798 at December 31, 2000).

This account records securities issued by provincial governments submitted for public debt conversion by the entities taking repos, valued at the rates in force at November 6, 2001 (the date taken as a reference for swap for secured loans) in accordance with Decree 1387/01. At the date of issue of these financial statements the swap is in the process of being carried out .

In addition, there are government securities for \$ 1,094,625 received under repo transaction entered into with the financial system which, because of their features, cannot be used as free reserves.

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>12-31-2001</u> | <u>12-31-2000</u> |
|--|--------------------|-------------------|
| Liquidity advances | 3,476,387 | 35,471 |
| Liquidity rediscounts | 648,205 | 55,367 |
| Trust Participation Certificates | 493,983 | 443,533 |
| Refinanced credit lines | 807,248 | 819,961 |
| Financial entities with licences revoked | 502,852 | 502,556 |
| Assets received for rediscounting | 149,946 | 154,267 |
| Assets and rights received (Article 35 bis Financial Entities Act) | 34,577 | 35,343 |
| Other | 4,461 | 904 |
| Less: | | |
| Account deducted from assets received for rediscounts | (118,162) | (117,041) |
| Allowances on loans to the financial system | <u>(1,032,333)</u> | <u>(925,693)</u> |
| | <u>4,967,164</u> | <u>1,004,668</u> |

Rediscounts and advances to financial entities represent funds granted to attend to needs arising out of temporary liquidity shortages recorded by financial entities and other credit lines granted prior to the issuance of the B.C.R.A's Charter effective 1992. These rediscounts and advances to financial entities 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 referred loans.

The increase recorded between the end of fiscal 2001 and 2000 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.

It should be noted that at July 31, 2002 the balance of Advances and Rediscounts for Liquidity amounts to \$ 18,245,410. As mentioned in Note 1.1, the changes made to the Central Bank Charter by Decrees 1523/01 and 1526/01 enabled this Institution to grant rediscounts and advances to resolve liquidity difficulties against the public debt instruments given as security as indicated in Decree 1387/01.

Rediscounts and advances for liquidity purposes granted to public sector financial entities at December 31, 2001 amounted to \$ 2,754,064 and \$ 65,644 at the end of the previous year.

The balance of the guarantees provided for liquidity advances marked to market and recognised up to the balance of the loan is made up as follows:

| | <u>12-31-2001</u> | <u>12-31-2000</u> |
|--|-------------------|-------------------|
| Secured National Government Loans | 2,657,074 | - |
| Public sector promissory notes | 467,352 | - |
| Private sector promissory notes | 250,470 | - |
| Unsecured loans to the private sector | 18,047 | - |
| Loans to the private sector with security interest | 1,567 | - |
| Government securities | - | 34,169 |
| Other | 81,877 | - |
| | <u>3,476,387</u> | <u>34,169</u> |

It should be noted that 90% of the securities received in guarantee at December 31, 2001 correspond to National Government debt paper (at December 31, 2000 this percentage was 100%).

To be able to evaluate the full amount of the assistance provided to the Financial System by the B.C.R.A. (Liquidity Advances and Rediscounts, Assets received for rediscounts and account deducted from assets) consideration should be given to the balances of the reverse repos mentioned in Notes 4.4 and 4.5.3, so that in 2001 it can be seen that there has been an increase in the credit for assistance to the financial system of \$ 9,111,728 .

In addition, this heading includes debt subject to specific treatment based on the nature of each entity. This is the case of the debt of the former BANADE amounting to \$ 30,797 stated at original value without application of any interest accrual. This is because the Sindicatura General de la Nación has not yet issued its definitive opinion on the financial statements of the former entity. Once this step has been taken, the Dirección Nacional de Normalización Patrimonial together with the Oficina Nacional de Presupuesto will establish the corresponding budgetary estimates for the B.C.R.A. to collect the amount due.

In addition, a provision for the debt of \$ 619,657 at the end of fiscal 2001 due from Fondo Fiduciario de Infraestructura Regional (formerly Banco Hipotecario Nacional) has been established in the amount of \$ 31,000 as a result of a significant drop in the trust net equity because of the fall in the 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 entities being wound up and equity released in liquidation processes for \$ 20,930,710 (\$ 20,948,020 at December 31, 2000) for which a provision has been set up 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>12-31-2001</u> | <u>12-31-2000</u> |
|--|-------------------|-------------------|
| Contributions to the I.M.F. | 743,864 | 771,880 |
| Contributions to the I.D.B., I.B.R.D., A.I.F and other | 864,589 | 864,253 |
| | <u>1,608,453</u> | <u>1,636,133</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 balance was recorded at December 31, 2000). This quota has been recorded as follows:

| | <u>Amount In SDRs</u> | <u>Amount in Pesos at 12-31-2001</u> | <u>Amount in Pesos at 12-31-2000</u> |
|--|---------------------------|--|--|
| Contributions to the I.M.F. in Foreign currency | 529,275 | 664,568 | 689,598 |
| Contributions to the I.M.F. in Local currency | 63,153 | 79,296 | 82,282 |
| Treasury Bills | <u>1,524,672</u> | <u>1,928,954</u> | <u>2,010,356</u> |
| | <u>2,117,100</u> | <u>2,672,818</u> | <u>2,782,236</u> |

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

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

This account (with a balance of \$ 14,161,399 at December 31, 2001 and \$ 5,227,236 at December 31, 2000) reflects the transfer to the Treasury Secretariat 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 4.15).

4.9 Other assets

The main items included under this heading are as follows:

| | <u>12-31-2001</u> | <u>12-31-2000</u> |
|--|-------------------|-------------------|
| Transfer to Treasury Secretariat on account of profits as per Sect.38 of the Charter | 331,300 | 750,000 |
| Debtors from repo transactions | 5,151,098 | 67,682 |
| Receivables under reverse repo transactions | - | 9,416,995 |
| Fixed assets (net of accumulated depreciation) | 56,029 | 52,633 |
| Intangible assets (net of accumulated amortisation) | 1,750 | 1,481 |
| Debtors from contingent repo transactions | 1,944,833 | 155,983 |
| Rights under liquidity rediscounts | 610,402 | - |
| Rights to use funds from IDB/IBRD loan for contingent repo program | 127,311 | - |
| Secured Loans -Decree 1387/01 | 534,632 | - |
| Sundry | 586,584 | 231,510 |
| | <u>9,343,939</u> | <u>10,676,284</u> |

To be able to provide liquidity to the local financial system, and particularly to those entities most affected by the lack of liquidity in the market, the B.C.R.A. has provided assistance by means of repo transactions for \$ 5,151,098 at the end of the fiscal year (\$ 67,682 at December 31, 2000). At the same time the B.C.R.A. holds guarantees for the reverse repos entered into with the financial system in the form of collateral margins on government securities for \$ 191,873 at market value.

The balance of debtors from contingent repo transactions corresponds to government securities issued under foreign laws used in the contingent repo program entered into abroad, valued at their market price at the close in the amount of \$ 1,721,476. In addition, government securities were recorded for \$ 223,357, valued at their value of incorporation to the equity increased by the accrual of interest at the internal rate of return at the moment of their incorporation. The difference between the book value and the market value at the end of the year of such securities represents a higher book value of \$ 136,557.

The balance of rights from liquidity discounts at December 31, 2001 for \$ 610,402 represents the funds to be received by the B.C.R.A. when the transactions fall due.

This heading includes the Guaranteed Loans created by Decree 1387/01, derived from the swap of public sector debt for securities received under reverse repos with financial entities for \$ 534,632.

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 value of the assets as a whole does not exceed the value of their economic use, on the basis of information currently available.

4.10 Monetary base

4.10.1 Monetary circulation

| | <u>12-31-2001</u> | <u>12-31-2000</u> |
|-------|-------------------|-------------------|
| Notes | 10,412,081 | 14,479,000 |
| Coins | 547,670 | 575,195 |
| | <u>10,959,751</u> | <u>15,054,195</u> |

The balance of the Monetary 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 has been as follows:

| | <u>12-31-2001</u> | <u>12-31-2000</u> |
|---|--------------------|--------------------|
| Balance at the beginning of the year | 14,479,000 | 15,922,000 |
| New notes and notes in good condition in the Financial System | 5,060,614 | 5,568,000 |
| Notes withdrawn from circulation and destroyed or in the process of being destroyed | <u>(9,127,533)</u> | <u>(7,011,000)</u> |
| Balance at year-end | <u>10,412,081</u> | <u>14,479,000</u> |

4.11 Banking Liquidity Fund

As the impact of the reduction in systemic liquidity was uneven, through the issue of Executive Branch Decree 32/01, the Government set up a Banking Liquidity Fund to be administered by Seguros de Depósitos S.A. (SEDESA), which acted as trustor, with the aim of facilitating the redistribution of the remaining liquidity among entities. This fund was to be set up by financial entities for an amount equivalent to 6% of average daily balances of private sector deposits in pesos and in foreign currency for November 2001. Contributions made until year end are deposited in a current account in pesos amounting to \$ 24.262, which is part of the monetary base, and in US dollars amounting to \$ 483.116 disclosed under Current accounts in other currencies in favour of SEDESA - Banking Liquidity Fund.

4.12 Current accounts in other currencies

The changes to the Charter made by Decree 439/01 allowed the B.C.R.A. to remunerate deposits made by financial entities for liquidity compliance purposes (see Note 1). The balance at December 31, 2001 amounts to \$ 5,875,995 (\$ 22,822 at December 31, 2000), being made up of deposits in foreign currency by financial entities of the system, valued as indicated in Note 3.2.3.

4.13 Deposits of the National Government and other

| | <u>12-31-2001</u> | <u>12-31-2000</u> |
|---|-------------------|-------------------|
| Deposits by the National Government | 341,792 | 1,711,609 |
| Provincial Funds | 8,421 | 56,503 |
| Yield transferred on deposits for the Strengthening of B.C.R.A. reserves | 15,027 | |
| Other | 1,214 | 726 |
| | <u>366,454</u> | <u>1,768,838</u> |
| Funds for the Strengthening of B.C.R.A. reserves | 4,000,000 | - |
| | <u>4,366,454</u> | <u>1,768,838</u> |

The balance of the Funds for the Strengthening of B.C.R.A. reserves account is the deposit made by the National Government in the Bank with the aim of reinforcing Free Reserves in the context of the Convertibility Law. The funds originated in disbursements by the I.M.F.

4.14 Other deposits

| | <u>12-31-2001</u> | <u>12-31-2000</u> |
|------------------------------|-------------------|-------------------|
| In special accounts | 20,378 | 13,626 |
| Special "Micro Pyme" program | 1,294 | 1,175 |
| Sundry | 7,556 | 5,538 |
| | <u>29,228</u> | <u>20,339</u> |

4.15 International Monetary Fund

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

| | <u>12-31-2001</u> | <u>12-31-2000</u> |
|---|-------------------|-------------------|
| Offsetting item for funds transferred to the Treasury Secretariat and bills drawn against Obligations | 14,628,471 | 5,745,249 |
| SDRs Assigned | 399,751 | 414,807 |
| Other deposit accounts | 79,312 | 82,299 |
| | <u>15,107,534</u> | <u>6,242,355</u> |

The contra entries for the funds transferred to the Treasury Secretariat corresponds to the currency amounts received account as credit assistance to the national public sector granted by the I.M.F. through the B.C.R.A.:

| | <u>12-31-2001</u> | <u>12-31-2000</u> |
|--|-------------------|-------------------|
| 1996 Stand-by | 100,763 | 478,494 |
| 1992 Extended Facilities Agreement | 1,612,921 | 2,508,337 |
| 2000 Stand-by and Supplementary Reserve Facility | 12,250,218 | 2,068,799 |
| Utilisation of Reserve Tranche | 664,569 | 689,619 |
| | <u>14,628,471</u> | <u>5,745,249</u> |

4.16 Other liabilities

This heading includes:

| | <u>12-31-2001</u> | <u>12-31-2000</u> |
|--|-------------------|-------------------|
| Obligations from repo transactions | 5,270,288 | 67,682 |
| Obligations from reverse repo transactions | - | 9,416,995 |
| Obligations with the National Government | 148,595 | 742,605 |
| Contingent Repo transaction creditors | 1,354,582 | 151,845 |
| Other liabilities with International Agencies | 995,000 | - |
| Interest accrual on IDB/IBRD loan | 11,538 | - |
| Obligations from guarantees on liquidity rediscount Transactions | 610,402 | - |
| Sundry | 938,354 | 270,799 |
| | <u>9,328,759</u> | <u>10,649,926</u> |

The balance of "Creditors of contingent repo transactions" reflects the amount payable upon maturity (January 10, 2002) of the contracts entered into with entities abroad. It also includes interest accrued on the use of the program in the amount of \$ 4,583. These transactions were settled upon maturity (see Note 5).

"Other liabilities with International Agencies" includes the loans granted by the Inter-American Development Bank and the Inter-American Bank for Reconstruction and Development amounting to \$ 995,000 as a support facility for the contingent repo program and the corresponding interest in the amount of \$ 11,538.

The balance of "Obligations from guarantees on liquidity rediscount transactions" of \$ 610,402 represents the obligation of the B.C.R.A. to return to the entities benefiting from liquidity rediscunts the assets received in consideration for the funds granted to them.

4.17 Provisions

| | <u>12-31-2001</u> | <u>12-31-2000</u> |
|---|-------------------|-------------------|
| Provision for lawsuits (Exhibit I) | 1,144,032 | 1,121,049 |
| Provision for Guarantee Fund - Law 22.510 (Exhibit I) | 1,770 | 3,542 |
| Other provisions (Exhibit I) | 5,431 | 5,431 |
| | <u>1,151,233</u> | <u>1,130,022</u> |

The criterion used by the entity to determine the "Provision for lawsuits" has been as follows:

Lawsuits for which there is still no final ruling 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, 2001 on the basis of the interest paid on such bonds. In view of the requirements of the Economic and Financial Emergency Act (Law No. 25.344), lawsuits subsequent to April 1, 1991 will be also settled with Debt Consolidation Bonds and have been restated using the rate of interest applied to ordinary savings accounts established by the B.C.R.A. through Communication "A" 1828.

In addition, there are lawsuits brought against the B.C.R.A. for damages for undetermined amounts the adverse outcome of which as of the date of issuance of these financial statements is considered of remote probability of occurrence as of consequently no provision has been set up.

4.18 Financial Income

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

| | <u>12-31-2001</u> | <u>12-31-2000</u> |
|--|-------------------|-------------------|
| FINANCIAL INCOME | | |
| Placements to be realised in currency | | |
| Agreements with Managing Banks | 286,834 | 330,008 |
| Time deposits | 257,586 | 487,368 |
| Foreign securities | 240,875 | 133,115 |
| Certificates of deposit | 187,518 | 633,061 |
| Sub-total | <u>972,813</u> | <u>1,583,552</u> |
| Net premiums from transactions with the Financial System | (148,738) | (634,543) |
| Sundry | <u>(14,242)</u> | <u>47,098</u> |
| | <u>809,833</u> | <u>996,107</u> |

ON OTHER ASSETS**INTEREST****Loans to Financial Entities**

| | | |
|----------------------------------|------------------|------------------|
| Debts of Financial Entities | 148,066 | 56,241 |
| Trust Participation Certificates | 54,540 | 38,241 |
| Less: | | |
| Provisions | <u>(108,135)</u> | <u>(51,862)</u> |
| | <u>94,471</u> | <u>42,620</u> |

**DIFFERENCE IN MARKET PRICE OF GOLD,
CURRENCY AND GOVERNMENT SECURITIES****(LOSS)/GAIN**

| | | |
|-----------------------------------|--------------------|------------------|
| On National Government Securities | (1,056,064) | 41,600 |
| On Foreign Securities | 83,300 | 32,600 |
| On Other | <u>(112,668)</u> | <u>(12,956)</u> |
| | <u>(1,085,432)</u> | <u>61,244</u> |

NOTE 5 – CONTINGENT REPO PROGRAM

The Argentine crisis has been strongly reflected in the lack of liquidity in the financial system following the loss of deposits. As part of its policy to maintain liquidity, since December 1996 the B.C.R.A., implemented a contingent repo program agreed with foreign banks.

Under the terms of this program, and in view of the needs that arose as a result of the difficult situation of the financial system, it was resolved to call on the contingent right to sell government securities with a commitment to repurchase them in future (see detail in Notes 4.9 and 4.16), whereby part of the Institution's portfolio of government securities was delivered in exchange for foreign currency. It should be noted that this program covers both the assets making up the B.C.R.A.'s own portfolio and other received in repo transactions entered into between the B.C.R.A. and the financial system.

This program was renewable as long as there were no events of default by the Republic of Argentina on its foreign debt. In January 2002 the B.C.R.A. announced that the facility had been cancelled upon maturity.

NOTE 6 – SUBSEQUENT EVENTS

As described in Note 1, there have been a series of changes in the legal and financial framework within which the B.C.R.A. carries out its activities. This process, which began in 2001, is still continuing as at the date of issuance of these financial statements, for that reason its effect on the activity of the financial system still cannot be determined.

Below is a summary of the main economic measures adopted by the Government subsequent to year-end. These regulations suffered major changes since they were first announced and it is likely that further rules will be issued that could fully or partially alter the system currently in force.

6.1 Law on Public Emergency and Reform to the Exchange System and changes introduced by Decrees 214/02, 410/02 and 905/02

Law 25.561 on “Public Emergency and Reform to the Exchange System” was enacted on January 6, 2002 and subsequently modified by Decrees 214/02 and 410/02 published on February 4 and March 8, 2002 respectively. In addition, Resolution 47/02 of the Ministry of Economy established the definitive mechanism for the rescheduling of deposits in financial entities and Decree 905/02 laid down the compensation that the entities would receive because of the asymmetric conversion into pesos.

These regulations contained measures that could affect the balance sheet and financial position of the Institution, including:

- a) Changes to the Convertibility Law that had set the rate for the US dollar at one Argentine peso. As from the approval of Law 25.561, the B.C.R.A. is no longer obliged to preserve a Free Reserves total equivalent to the Monetary Base, the new law indicating that at all times the reserves of the Institution will be used to support the Monetary Base.
- b) Law 25.561 determined the compensation to be paid to financial entities because of the asymmetric conversion into pesos of assets and liabilities at different rates of exchange. This compensation was eventually ruled by Decree 905/02, which established the issue of two types of Federal Government bonds. The B.C.R.A. has regulated by means of Communication “A” 3650 and other complementary regulations the methodology for determining the compensation bond to be received.
- c) An official exchange market was created, with Decree 71/02 dated January 9, 2002 setting the exchange rate at 1.40 Argentine pesos per US dollar as from January 11, 2002 (for transactions authorised by the B.C.R.A.). This market operated at that value for the settlement of certain imports and exports until February 1, 2002.
- d) A free exchange market was also created as from January 11, 2002 for all transactions not qualifying for the official exchange market or which had not been authorised by the B.C.R.A. for trading on the official exchange market. The opening buying and selling rates on this market were 1.60 and 1.70 Argentine pesos per US dollar.
- e) Decree 260/02 dated February 8, 2002 established that as from February 11, 2002 a single free exchange market would operate for all exchange transactions.

- f) Debt at February 3, 2002 due to the financial system by the private non-financial sector in US dollars or other foreign currencies, whatever its amount or nature, was redenominated into pesos at the rate of \$ 1 = US\$ 1 or the equivalent in any other foreign currency.
- g) Balances of accounts in US dollars or other foreign currencies held on deposit by financial entities at the B.C.R.A. at February 1, 2002 were converted into pesos at the rate of \$ 1.40 per US dollar. The same treatment was applied to the amounts contributed by financial entities deposited in this Institution to make up the Banking Liquidity Fund established by Decree 32/01.
- h) Foreign currency deposit account balances in the financial system were converted into pesos at the rate of \$ 1.40 per US dollar or the equivalent in other currencies. In addition, due dates of deposits in pesos and foreign currencies held within the financial system at November 30, 2001 were rescheduled, except for those time deposits in the name of Pension Fund Managers (AFJPs).
- i) Depositors were given the option to exchange deposits originally set up in foreign currency for different classes of Government Bonds (one in US dollars and two in pesos), while the holders of deposits originally in pesos had the option to exchange them for Government Bonds denominated in pesos. To this end, advances in pesos were granted to financial entities by the B.C.R.A. against guarantees provided by the financial entities in the amounts necessary to acquire the mentioned bonds, so that depositor demand could be met.
- j) Swap transactions in US dollars or other foreign currencies entered into up to the close of operations on February 1, 2002 between financial entities and the B.C.R.A. were converted into pesos at the same rate as that described in clause h).

6.2 Exchange and conversion into pesos of public sector debt. Decree 471/02 and Resolution 55/02 issued by the Ministry of Economy

Decree 471/02 published on March 13, 2002 laid down that obligations of the national, provincial and municipal public sectors in existence at February 3, 2002 denominated in US dollars or any other foreign currency and governed only by Argentine law were to be converted at the rate of \$ 1.40 per US dollar or the equivalent in any other foreign currency, being subject to restatement by an indexation rate the Reference Stabilisation Coefficient (CER). In addition, it was established that national public sector obligations converted into pesos in the form of guaranteed loans approved by Decree 1646/01 and Ministry of Economy Resolution 851/01 were to accrue interest as from February 3, 2002 at rates between 3% and 5% p.a. for loans with an average life, calculated as from November 6, 2001, of up to five years and more than ten years respectively, and a capitalised 5.50% p.a. rate in the case of those loans with capitalisation over at least five years.

Furthermore, in the case of provincial and municipal public sector obligations converted into pesos as mentioned in the previous paragraph, interest has been set at 4% p.a. as from February 3, 2002.

In the case of the portfolios of government securities not submitted for exchange, including the portfolio held by the B.C.R.A., negotiations continue with the Treasury Secretariat under the terms of the so-called Phase II (Ministry of Economy Resolution 767/01), in order to reschedule their composition on the basis of the new securities to be issued by the Government in exchange for them.

Once the rescheduling foreseen by Phase II has been carried out, a greater degree of certainty will exist on the recoverability of these assets, as at present they have ceased to be listed on representative markets.

6.3 Suspension of payments by the Government - Ministry of Economy Resolution 73/02

As mentioned in Note 1, towards the end of December 2001 the Government announced the suspension of public sector debt payments by the Argentine State.

Ministry of Economy Resolution 73/02 published on April 30, 2002 general by established the deferral, as necessary for the operation of the State, of Federal Government public debt servicing until December 31, 2002, or until the refinancing has been completed, if this takes place earlier. This suspension of payments does not apply to the servicing of guaranteed loans issued as a result of Decree 1387/01 and complementary regulations (see Note 1.2).

6.4 Accounting effects of the devaluation

In spite of the change in the exchange rate mentioned in Note 6.1, at the end of fiscal 2001 the valuation criteria mentioned in Note 3.2.3. were applied. As a result, the financial statements at December 31, 2001 do not include the effects of the mentioned devaluation of the Argentine peso, nor those arising from legislation that has become known up to the date of their issue affecting the settlement of transactions denominated in foreign currency in effect at December 31, 2001.

Exclusively for information purposes, it is indicated that as a result of the changes to the exchange regime, if the free rate of exchange when the market opened on January 11, 2002, which was \$ 1.60 = 1 US dollar, had been applied to the balances of the accounts in foreign currency indicated on Exhibit II, the assets of the B.C.R.A. would have totalled \$ 56,110,691, liabilities would have totalled \$ 39,490,248 and net worth would have been \$ 16,620,443. To make this calculation, the foreign currency balances for Argentine Government securities issued according to Argentine law and the current accounts in other currencies have been valued at \$ 1.40 per US dollar or its equivalent in other currencies, as established by Decrees 410/02 and 471/02.

In accordance with accounting standards in force in Argentina (Resolution MD 1/02 issued by the Professional Council of Economic Sciences of the City of Buenos Aires) the impact on results will be given recognition in the fiscal year beginning January 1, 2002.

6.5 Legal action for protection of Constitutional Rights

As a result of the measures adopted by the Executive Branch, a significant number of legal actions have been brought in the Courts against the State and/or entities in the financial system (including the B.C.R.A.) by individuals and legal entities. At the date of issue of these financial statements, these lawsuits have not yet been resolved.

In the period between the end of the fiscal year and the date of issue of these financial statements, judges in various jurisdictions resolved to accept the claims filed by savers through the issue of precautionary measures ordering financial entities to return in part or in full the deposits agreed in foreign currency in that same currency or in the equivalent in pesos at the free market rate of exchange. The growing significance of these court rulings severely affected the liquidity of the financial system, to the point that the Government issued Law 25.587 on April 25, 2002 to prevent the situation from continuing and thus threatening the entire financial

system. This law restricts the admissibility of the precautionary measures and establishes a special system for procedural challenge to be used mainly to suspend orders to hand over funds.

Nevertheless, neither this Law nor subsequent Decree 1316/02, referred to below, were sufficient to halt the outflow of funds by means of such court orders.

This situation led to a significant increase in advances and rediscounts that the B.C.R.A. had to grant to financial entities during the first six months of 2002 (see Note 4.6).

In addition, pursuant to of Decree 1316/02 published on July 24, 2002 a temporary suspension was imposed on compliance with and execution of precautionary measures and definitive rulings issued in the court proceedings listed by section 1 of Law 25.587. This measure lays down that exceptions should be submitted to the B.C.R.A., which should issue a ruling on them within a maximum of five working days.

6.6 Changes to the B.C.R.A. Charter

As Law 25.561 either repealed or modified the sections of the Convertibility Law establishing a monetary rule governing the actions of the B.C.R.A. as the monopolistic issuer of currency, the new changes to the Charter introduced a tool to regulate emission. This established that the primary and fundamental mission of the B.C.R.A. of preserving the value of the currency was to be fulfilled within the framework of a monetary program to be published before the start of each fiscal year, which should include information on inflation targets and forecasts of total money supply variations, with revisions to be made quarterly and whenever deviations are foreseen. These deviations should be made public, together with their reasons and the new monetary program they have given rise to.

On the matter of international reserves, the new Charter establishes that the B.C.R.A. shall only be able to keep part of its foreign assets in deposits or other interest-bearing transactions in banks abroad or in paper of recognised solvency and liquidity payable in gold or foreign currency. In practice this means the exclusion of government securities from free reserves, aligning the components of the Reserves to international standards.

On the matter of Government financing mechanisms, it will be possible to grant temporary advances as long as they do not exceed 10% of the cash resources that the Government were to have obtained in the last 12 months and as long as repayment takes place in the 12 months subsequent to their granting.

In the case of the liabilities of the B.C.R.A., the current Charter authorises the Bank to issue securities or bonds as well as certificates on the value items it holds. This possibility provides the B.C.R.A. with a tool for monetary absorption such as the Central Bank Bills (Lebac) issued during 2002.

These changes have no impact on the financial statements at December 31, 2001.

NOTE 7 - RESTRICTIONS ESTABLISHED BY SECT.6 OF LAW 23.928

As established by Article 6 of the Convertibility Law, reserves included under the heading of Free Reserves constitute a common pledge on the balances disclosed under the Monetary Base heading, cannot be attached and may be applied only as established in that law. These two accounts are those referred to in Sect.5 of Law 23.928.

The balance of the net reserves of the B.C.R.A. disclosed in Exhibit III at December 31, 2001 and 2000 is made up of the balance of free reserves, as per the financial statements, net of the funds that the Government holds on deposit at the B.C.R.A. for \$ 366,454 (Note 4.13).

As from November 2001 the balance of the government security portfolio received under asset swaps with financial entities has been included under "Free Reserves" (having been disclosed ther assets" at December 31, 2000), eliminating the difference with the balance of the net reserves of the B.C.R.A. informed in Exhibit III.