

Auditoría General de la Nación

AUDIT REPORT

The Governor and Members of the Board of Directors of the
CENTRAL BANK OF ARGENTINA
Reconquista 266
Buenos Aires

Based on the powers vested under Section 118, subsection f) of Law 24.156, AUDITORÍA GENERAL DE LA NACIÓN has examined the Financial Statements of CENTRAL BANK OF ARGENTINA (B.C.R.A.) for the fiscal year ended December 31, 2003, as detailed below in item 1. Such financial statements represent information collected and issued by the entity's Management pursuant to their sole responsibilities.

Our responsibility is to issue an opinion about said financial statements based on our audit examination, the scope of which is described in item 2.

1. FINANCIAL STATEMENTS BEING AUDITED

- 1.1 Balance Sheet as of December 31, 2003.
- 1.2 Income Statement for the fiscal year ended December 31, 2003.
- 1.3 Statement of Changes in Shareholders' Equity for the fiscal year ended December 31, 2003.
- 1.4 Notes 1 to 5 and Annexes I to V which are an integral part of the financial statements.

The second column shows the balances of said Financial Statements for the fiscal year ended December 31, 2002, according to note 3.1 to the financial statements, on which we issued our Audit Report dated April 24, 2003, in which we declined to give an opinion on account of the significant uncertainties on the final effects that could derive from the economic and financial crisis the country was going through, especially in relation to the recoverability of public bonds and public and private financing, aside from the remittance of advanced profits to the National Treasury that imported an action non-compliant with professional accounting standards.

2. SCOPE OF THE AUDIT

Our examination was performed according to auditing standards approved by AUDITORÍA GENERAL DE LA NACIÓN by Resolution No. 156/93, issued pursuant the powers vested under Section 119, subsection d) of Law 24.156, which are compatible with those issued by FEDERACIÓN ARGENTINA DE CONSEJOS PROFESIONALES DE CIENCIAS ECONÓMICAS (Argentine Federation of Economic Sciences Professional Associations). Such standards require that the auditor plan and develop its work for the purpose of acquiring a fair degree of certainty about the inexistence of significant misleading statements or errors in the financial statements.

An audit implies selectively examining the data supporting the information presented in the Financial Statements, and it is not intended to detect wrongful actions or intentional irregularities. Furthermore, it includes an assessment of the accounting standards used, of significant assumptions made by the entity's Management and the presentation of the financial statements as a whole. We believe that our audit provides us with reasonable grounds to support our opinion.

3. CLARIFICATIONS PRIOR TO THE OPINION

3.1 The Argentine Republic is still operating within a fragile economic and institutional environment resulting from the crisis unleashed over the last part of 2001, mainly evidenced by a high level of foreign debt, unemployment and interest rates. All these indicators affect the entire financial system's liquidity, stability and profitability.

Against this background, the National Government took a series of actions mainly including the drop of the convertibility system, in force since 1991, public debt service payment suspension, devaluation of the Argentine Peso and subsequent implementation of a free-float exchange rate system, the pesification of certain assets and liabilities denominated in foreign currency, and restrictions to the free availability of funds deposited in financial institutions and to the transfer of foreign currency overseas.

As from the second half of 2002 and during fiscal year 2003, the Argentine economy began to show signs of recovery, with an improvement in economic variables such as GDP's growth rate, the recovery in private consumption, a decline in inflation and interest rates, and an increase in tax revenues, all of which allowed, among other actions, to lift part of the restrictions on bank deposits, ease exchange rate controls, reunify currencies by means of pseudo-currency redemption, establish a special program in order to suspend relieving and compensating initiatives intended to help banks affected by the pesification, and restart payments to international entities.

This notwithstanding, there still are some aspects pending definition and/or implementation referred to the mechanics of the economic activity, especially the Financial System and the Public Sector, and there is also a significant number of judicial claims filed against the National State and/or financial entities which challenge some of the measures already taken by the National Government.

In light of the above, the final actual results could differ from assessments and estimates contained in the financial statements detailed in item 1, especially as to the condition in which the State would meet commitments made and the valuation of loans to the financial sector. Consequently, for the purposes of the entity's financial statements, it must be noted that said statements may not include all the adjustments and reclassifications that might be implied by the resolution of the situation discussed.

The uncertainties raised by the context described mainly affect the estimates on the recoverability of balances shown in the financial statements, as follows.

- a) Holdings in public debt securities recorded in the BCRA's portfolio in compliance with the Monetary Unification Program, described in note 4.4.1.3.2 a) to the financial statements, for a total value of thousands of Pesos 5,057,330, and National State-backed Loans for a total amount of thousands of Pesos 640,405, mentioned in note 4.9 to the financial statements without significant transactions in the market.
- b) Loans granted to the country's financial system for the amount of thousands of Pesos 21,398,927, net of allowances for uncollectibles, including the assistance for lack of liquidity and rediscounts provided to financial entities during the crisis that affected the country in fiscal years 2001-2002, and the cancellation thereof as mandated by Executive Order No. 739/03. Said loans are secured mainly by bonds and debt issued by the National State.
- c) Other credit transactions with local financial entities for the amount of thousands of Pesos 200,393, included in the item Other Assets, and balances of thousands of Pesos 111,935, covered in the line Sundries of the same item (notes 4.9 to the financial statements).

3.2 As explained in note 4.6, for the purpose of estimating allowances for uncollectibles on the portfolio of loans granted to the country's financial sector, the B.C.R.A. priced the collateral received, consisting of unlisted public securities that were not affected by public debt restructuring, at their technical value. However, as described in note 4.4.1.3.2 a) to the financial statements, a theoretical parity based on the market value of similar securities was applied when pricing securities received for the entity's engagement in the monetary unification program, which were not affected by debt restructuring either. This shows the application of inconsistent criteria to similar items.

Likewise, listed securities received as collateral were priced at their technical value instead of at their market value. As a result of applying these collateral valuation criteria, the entity did not make allowances on the loan portfolio by approximately thousands of Pesos 5,363,000.

3.3 The accounting standards prevailing in the Argentine Republic used for the elaboration of the financial statements object of this audit might differ from the accounting standards accepted in other jurisdictions where said statements could be submitted.

4. OPINION

Based on the examination performed, subject to the impact that potential adjustments and reclassifications, if any, might have on the financial statements, which could arise from the conclusion of the uncertainties described in 3.1, and except for the inconsistencies mentioned in 3.2, we believe the financial statements as detailed in item 1 above, fairly present, in all relevant matters, information about CENTRAL BANK OF ARGENTINA's financial position, income statement and statement of changes in shareholders' equity for the fiscal year ended December 31, 2003, according to professional accounting standards and

5. SPECIAL INFORMATION REQUIRED BY PROVISIONS IN FORCE

In compliance with provisions in force, we represent that:

- 5.1 The financial statements described in item 1 were prepared based on accounting records that, owing to this entity's legal nature, are not registered at the Public Registry of Commerce.
- 5.2 As at December 31, 2003, the amounts accrued and owed to the National Social Security System, according to said records, total Pesos 2,479,561 and are not payable as at such date.

BUENOS AIRES, April 29, 2004.

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AUDITORÍA GENERAL DE LA NACIÓN
DR. OSCAR RÓMULO FIGUEROA
CHARTERED PUBLIC ACCOUNTANT (U.M.)
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