

NATIONAL AUDITOR'S OFFICE

AUDIT REPORT

To the President and Directors
of the CENTRAL BANK OF THE ARGENTINE REPUBLIC
Reconquista 266
Buenos Aires

In compliance with the powers vested by Article 118, subparagraph f) of Act 24.156, the NATIONAL AUDITOR'S OFFICE has examined the Accounting Statements of the CENTRAL BANK OF THE ARGENTINE REPUBLIC (B.C.R.A) for the year ended as of December 31, 2002, detailed hereinafter under paragraph 1. Such accounting statements have been prepared and issued by the B.C.R.A's head officers in the exercise of their exclusive powers.

We are responsible for issuing an opinion on said accounting statements based upon our audit examination within the scope established under paragraph 2.

1. ACCOUNTING STATEMENTS SUBJECT TO AUDIT

- 1.1.** General Balance Sheet as of December 31, 2002;
- 1.2.** Statement of Income for the year ended as of December 31, 2002;
- 1.3.** Statement of Net Worth Evolution for the year ended as of December 31, 2002.
- 1.4.** Note 1 through 45, and Annexes I through V that are an integral part of the accounting statements.

The second column contains the Accounting Statements for the year ended as of December 31, 2001 according to note 3.1 to such accounting statements. Our Audit Report dated August 15, 2002 bears a withholding of opinion as a result of substantial uncertainties about the final effects that may arise from the financial and economic crisis the country is undergoing, particularly those related to the possibility of redeeming public securities, and recovering public and private sector financings, regardless of the conversion of profit advances transferred to the National Treasury into assets, without complying with professional accounting standards.

2. SCOPE OF THE AUDIT

Our examination was effected pursuant to audit rules approved by the NATIONAL AUDITOR' OFFICE through Resolution No. 156/93, issued under the powers vested under Article 119, subparagraph d) of Act 24.156, which are consistent with those issued by the ARGENTINE FEDERATION OF ECONOMIC SCIENCE PROFESSIONAL COUNCILS. The above mentioned rules require the auditor to plan and develop his/her task with the purpose of reasonably ensuring the non-existence of untrue statements or substantial mistakes in accounting statements.

An audit implies examining, on a selective basis, those elements of judgment that support the information disclosed in the Accounting Statements but it does not purport to find out crimes or intentional irregularities. Furthermore, it includes an assessment of the accounting rules used, the relevant estimations made by the BCRA's head officers and a submission of accounting statements as a whole. We consider that our audit provides us with a reasonable ground for our opinion.

3. PRELIMINARY CLARIFICATIONS TO THE OPINION

3.1. The Argentine Republic is deep in a critical economic and institutional environment, the chief indicators whereof are a high level of external indebtedness, high interest rates, a substantial reduction of deposits, a country-risk which far exceeds usual average and a protracted economic recession, which implies a strong deterioration of debtor's payment capacity. In addition, there has been an important drop in the demand for goods and services and a substantial increase in unemployment. Liquidity, soundness and profitability of the financial system as a whole has further been impaired.

Under the foregoing framework, and as it has been explained in note 1 to the accounting statements, as from the last few months of Year 2001, the Government took a series of measures that mainly included the exit from the Convertibility regime in force since 1991, a default on public debt services, a devaluation of the Argentine peso, and subsequent exchange rate floating, pesification of foreign currency-denominated assets and liabilities, and curtailment to the free availability of funds deposited with financial entities, and foreign exchange transfer abroad. Up to date, some aspects concerning economic activity, particularly the Financial System and the Public Sector are being defined and/or instrumented, whereas an important number of claims have been filed against the National State and/or financial entities, challenging some of the measures already adopted.

This context gives rise to uncertainties, affecting the balances displayed in the accounting statements as hereunder:

a) BCRA holds national and provincial public debt securities for a total amount of pesos 1.411.427 net of provision for depreciation in value and Guaranteed Loans of the National state for a total amount of 595.831 thousand pesos as well. In addition, and related to the lending swap transactions made, BCRA has granted loans to domestic financial entities for 274.679 thousand pesos, and, in turn, it is bound to provide them with securities for 296.104 thousand pesos. Net balances for pending reconciliation entries under Other Assets for an amount of 176.625 thousand pesos shall be added to Assets.

BCRA has extended loans for 17.602.322 thousand pesos to the Argentine financial system, net of bad debts provisioning, mainly guaranteed with securities and loans issued by the National State. This amount includes a financial aid for illiquidity as rediscount, which, in turn, gives rise to rights and obligations for an amount of 415.246 thousand pesos.

Moreover, BCRA has set up a special provision for an amount for 3.500.000 thousand pesos, accounting for the difference between the nominal value of bonds it expects to receive under B.C.R.A's participation in the Monetary Unification Program, and the market value estimated for similar public securities as displayed in note 4.17. As regards Other Assets not covered by default on public debt services (securities, notes and note-backed loans to the financial sector), BCRA does not record provisions for securities' depreciation in value pursuant to notes 4.6 and 4.9 to the accounting statements.

The following chart displays the items and amounts referred to above, and the notes to the accounting statements disclosing them:

ITEM AND CONCEPT	AMOUNT in \$ (000)	NOTE
Public Securities net of provision for depreciation in value	1.411.427	4.4; 4.4.2; 4.4.4
Other Assets – Guaranteed Loans- Decree no. 1387/01	595.831	4.9
Other Assets – Debtors for Lending Swap Transactions	274.679	4.9
Other Liabilities – Obligations for Lending Swap Transactions	296.104	4.16
Other Assets – Sundry Assets (including a thousand pesos 621.463 balance)	176.625	4.9
Loans to the Argentine Financial System (net of provision for bad debts)	17.602.322	4.6
Other Assets – Fees for Illiquidity Rediscounts	415.246	4.9
Other Liabilities – Obligations for guarantees on Illiquidity rediscounts	415.246	4.16
Provisions (Liabilities)	3.500.000	4.17; 5.2

b) As shown in notes 4.4.1, 4.8, and 4.14, BCRA records on the Asset side with a match on the Liability side, a total 50.643.756 thousand pesos as a transfer to the Secretary of Finance resorting to the financial aid granted by the International Monetary Fund to the National Public Sector through the B.C.R.A. as financial agent for the National State. Pursuant to its Charter, BCRA shall charge the amount of the services to be paid on the National Government's account on its behalf and through its orders, and the National Government shall make the necessary funds available to B.C.R.A. the funds required to honour such debt services. At the close of the year, the National Government held deposits with the BCRA for 66.820 thousand pesos – as shown in note 4.12.

As it is hardly possible to foresee either the economic impact of government measures, evolution of the national economy or of the financial system in particular, or its consequences over BCRA's economic and financial position, real final results may differ from assessments and estimations of the account statements detailed in 1, especially of the conditions under which the State shall face its commitments and of the valuation of loans extended to the financial sector. Hence, for the purposes of construing BCRA's accounting statements, it should be borne in mind that the same may not include all the adjustments and reclassifications required to solve the issues mentioned above.

3.2 Pursuant to note 4.9, within the item Other Assets, an amount of 331.300 thousand pesos is included at the end of the financial year as a profit advance transferred by the B.C.R.A to the National Treasury during the 2001 financial year. However, as BCRA's incomes for the fiscal year 2001 showed a negative result, BCRA's head officers decided to allocate said profit advancement to the fiscal year 2002. Along financial year 2002, B.C.R.A advanced profits to the National Treasury for 4.898.567 thousand pesos, allocating them under the item Other Assets at the close of the financial year. Considering the characteristics of the operation, said amounts are not assets under existing accounting rules; hence, the amounts mentioned above are overvalued in BCRA's Assets and Net Worth.

3.3 Annex IV – BCRA's Statement of Cash Flows prepared as described under note 3.1 to accounting statements, partially displays the effects of a change in the purchasing power of currency.

3.4 Accounting rules in force in the Argentine Republic implemented as a basis for the accounting statements audited may differ from the accounting rules existing in other jurisdiction where such accounting statements may be used.

4. **OPINION**

On the basis of the task performed, and irrespective of the statements made under paragraphs 3.2 and 3.3, we are not in the position to issue, and thereby we do not issue an opinion on the accounting statements of the CENTRAL BANK OF THE ARGENTINE REPUBLIC as a whole, as mentioned under paragraph 1, due to the very substantial effects eventual adjustments and reclassifications required to solve 3.1 assumptions may have on accounting statements.

5 **SPECIAL INFORMATION REQUIRED BY EXISTING REGULATIONS**

For the purpose of complying with existing regulations, we report as follows:

5.1 The accounting statements mentioned under paragraph 1 arise from the accounting records which, considering the BCRA's juridical nature, are not required to be official approved by the Public Registry of Commerce.

5.2 As of December 31, 2002, debts accrued on behalf of the National Social Security System arising from said records amounted to \$2.236.721,43 and are not payable as of that date.

Buenos Aires, April 24, 2003

NATIONAL AUDITOR'S OFFICE
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