

## Table of Contents

Year /Period	High	Low	Average(1)
Month Ended May 31, 2003(4)	Ps. 2.9500	Ps. 2.7485	Ps. 2.8357
Month Ended April 30, 2003(4)	Ps. 2.9792	Ps. 2.8295	Ps. 2.8946
Month Ended March 31, 2003(4)	Ps. 3.2187	Ps. 2.8710	Ps. 3.0747
Month Ended February 28, 2003(4)	Ps. 3.2317	Ps. 3.0848	Ps. 3.1632
Month Ended January 31, 2003(4)	Ps. 3.3625	Ps. 3.0633	Ps. 3.2582
2002 (through December 31)(4)	Ps. 3.8675	Ps. 1.0000	Ps. 2.9793
2001 (through December 31)(3)	Ps. 1.0000	Ps. 1.0000	Ps. 1.0000
2000 (through December 31)(2)	Ps. 1.0000	Ps. 1.0000	Ps. 1.0000
1999 (through December 31)(2)	Ps. 1.0000	Ps. 1.0000	Ps. 1.0000
1998 (through December 31)(2)	Ps. 1.0000	Ps. 1.0000	Ps. 1.0000
1998 (through June 30)(2)	Ps. 1.0000	Ps. 1.0000	Ps. 1.0000

(1) The average of monthly average rates during the period.

(2) Source: Banco Nación.

(3) Source: Banco Nación. From December 23, 2001 through January 11, 2002, Banco Nación did not publish an official exchange rate due to governmental suspension of the exchange market.

(4) Source: Central Bank.

The exchange rate on June 12, 2003 was Ps. 2.84 = US\$1.00.

Fluctuations in the exchange rate between pesos and dollars affect the dollar equivalent of the peso price of the ordinary shares on the Buenos Aires Stock Exchange (*Bolsa de Comercio de Buenos Aires*—"BCBA" and as a result, would most likely affect the market price of the ADSs. Fluctuations in exchange rates also affect dividend income measured in dollars because that The Bank of New York, as depository for the ADSs is required, subject to the terms of the deposit agreement, to convert pesos to dollars at the prevailing exchange rate at the time of making any dividend payments or other distributions. The following table shows the rate of devaluation of the peso vis-à-vis the dollar, the rate of exchange (number of pesos per dollar prevailing in the Argentine foreign exchange market) and the rate of inflation for wholesale prices for fiscal year ended December 31, 2002 and for the five most recent fiscal years. Since the repeal of the Convertibility Law in January 2002, the peso has devalued approximately 184% vis-à-vis the dollar.

	At or for the Fiscal Year Ended December 31,				Irregular six-month Fiscal Year Ended December 31, 1998	At or for the Fiscal Year Ended June 30, 1998
	2002	2001	2000	1999		
Devaluation Rate	236.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Exchange Rate	3.3600	1.0000	1.0000	1.0000	1.0000	1.0000
Inflation Rate(1)	118.21%	(5.45)%	2.61%	1.12%	(5.03)%	(2.00)%

(1) The inflation rate presented is the general WPI published by the INDEC.

### Risk Factors

The following discussion should be read together with this annual report including the consolidated financial statements.

#### Factors related to the economic crisis in Argentina

##### General Overview

Most of our operations and customers are located in Argentina. Accordingly, the quality of our assets, our financial condition and our results of operations depend primarily on macroeconomic and political conditions prevailing in Argentina. As detailed below, the Argentine economy has experienced a severe recession as well as a political crisis, and the abandonment of dollar-peso parity has led to significant devaluation of the peso against

major international currencies. These conditions have and may continue to adversely affect Banco Francés' financial position and results of operations.

In November 2001, following four years of recession, high level of external indebtedness and peaked country risk, Argentina fell into a delicate economic situation marked by a significant decrease in deposit levels, high interest rates, currency depreciation, a significant decline in the demand of products and services and a significant increase in the level of unemployment. The Government's capacity to fulfill its obligations and the access to credit lines was also affected by these circumstances.

In the last quarter of 2001, significant deposits were withdrawn from Argentine financial institutions as a result of the lack of confidence in the country's economic future and the ability of the Government to sustain the peso's parity with the dollar. This run on deposits had a material adverse effect on the Argentine financial system as a whole. For the most part, banks suspended the disbursement of new loans and focused on collection activities to be able to pay their depositors. However, the general unavailability of external or local credit created a liquidity crisis which triggered numerous payment defaults which in turn undermined the ability of many Argentine banks to pay their depositors.

On December 1, 2001, owing to the severe loss of deposits from the financial system, the Government issued Decree No.1570/01, which set tight restrictions on the withdrawal of cash from banks and controls on the transfer of funds abroad while fostering an increased dollarization of the economy. These restrictions, known as the "*corralito*", were relaxed during the first six-month period of 2002 to permit withdrawals of salaries, among other exceptions. As of December 2, 2002, all cash restrictions on demand accounts were removed, putting an end to the so-called "*corralito*".

On December 21, 2001, after declaring a state of siege, President Fernando De la Rúa resigned in the midst of an escalating political, social and economic crisis.

On December 23, 2001, interim President Rodriguez Saá declared that it would be impossible to pay on almost all of Argentina's sovereign debt.

Following his resignation, only one week after his appointment, the Legislative Assembly on January 1, 2002 elected Peronist Senator Eduardo Duhalde as President to serve for the remaining term of former President De la Rúa until December 2003. During his appointment, President Duhalde and his Government undertook a number of far-reaching initiatives including:

- ending the Convertibility Law, with the resulting devaluation of the peso;
- converting debts denominated in foreign currency, subject to Argentine law, with local financial institutions into peso-denominated debts at a one-to-one exchange rate;
- converting dollar-denominated bank deposits into peso-denominated bank deposits at an exchange rate of 1.4 pesos per dollar;
- restructuring bank deposits and continuing restrictions imposed on bank withdrawals and transfers abroad during the worst part of the crisis (subsequently these measures were replaced with more flexible ones);
- enacting an amendment to the Central Bank's charter to allow it to print currency in excess of the amount of the reserves it holds, make short-term advances to the Government and provide financial assistance to financial institutions with liquidity constraints or solvency problems;
- requiring the mandatory sale by all financial institutions of all their foreign currency within Argentina to the Central Bank at an exchange rate 1.4 pesos per dollar;
- providing the issuance of compensatory bonds to compensate financial institutions for the negative effects of the devaluation and for the mandatory conversion of deposits and debt obligations denominated in any foreign currency into pesos at different exchange rates;
- ratifying the suspension of payment of almost all of Argentina's sovereign debt governed by Argentine law; and

## Table of Contents

- establishing optional swap programs for depositors that would give them advance access to their rescheduled deposits, which should have been refunded in installments according to various payment schedules (the “Rescheduling”) beginning March 2002.

On April 23, 2002, Jorge Remes Lenicov, the Minister of Economy appointed by President Duhalde, resigned. Remes Lenicov was replaced by Jorge Lavagna on April 26, 2002.

The rapid and radical nature of the changes in the Argentine social, political, economic and legal environment, and the absence of a clear political consensus in favor of the Government or any particular set of economic policies has created an atmosphere of great uncertainty. President Duhalde announced his decision to resign on May 25, 2003 and called for a presidential election in advance to be held in March 2003, with the new administration taking office in May 2003. The Government decided to call for internal elections in December 2002, and this schedule was objected to in court. As a result of an agreement entered into by President Duhalde and the majority of the governors of the provinces, a new schedule to hold the elections was defined through Decree No. 2356/2002 and presidential elections were finally held on April 27, 2003.

During 2002, measures implemented whether by decrees, Central Bank’s communications or legislation passed by the Argentine Congress (the “Congress”), attempted to redress the effects of amending the Convertibility Law, and to recover access to financing, reduce government spending, restore liquidity to the financial system, reduce unemployment and generally stimulate the economy.

A year and a half has passed since the start of the crisis in the Argentine financial system and, in spite of certain encouraging developments for the sector, such as the relative stabilization of some economic variables and a sustained growth of deposits since mid-2002, there are still a considerable number of macro-economic uncertainties and impediments which affect the normalization of the banking system.

*The devaluation of the peso and subsequent economic measures may not stimulate economic growth and redress the effect of unemployment in Argentina.*

On January 6, 2002, the Congress enacted the Public Emergency and Foreign Exchange System Reform No. 25,561 (the “Public Emergency Law”) that introduced significant changes to the economic model implemented until that date and put an end to eleven years of dollar-peso parity under the Convertibility Law approved in March 1991. The new law empowers the Executive Branch to implement, among other things, additional monetary, financial and exchange measures to overcome the economic crisis in the medium term.

On January 10, 2002, the Executive Branch established a temporary dual exchange rate system, comprised of a fixed rate for certain import and export transactions and other related transactions at 1.4 pesos per dollar and a free exchange rate determined by the market for all other transactions.

On January 11, 2002, after the Central Bank ended a banking holiday that it had imposed since December 21, 2001, the exchange rate began to float for the first time since April 1991. Heightened demand for scarce dollars caused the peso to trade well above the 1.4 pesos per dollar rate used by the Government. As a result, the Central Bank intervened on several occasions by selling dollars in order to support the peso. However, the Central Bank’s ability to support the peso by selling dollars depended on its limited dollar reserves and on the continuity of the financial assistance from the IMF. See *“Operating and financial review and prospects–IMF Financing”*.

On February 3, 2002, the Executive Branch announced the elimination of the dual exchange rate in favor of a single free exchange rate and on the same day another banking holiday was imposed, preventing the conversion of pesos until February 11, 2002. Furthermore, the Central Bank approved only a limited number of transactions involving the transfer of foreign currency abroad.

Pursuant to Emergency Decree No. 214 published in the Official Gazette on February 4, 2002 (the “Emergency Decree No. 214/02”), the Government determined the conversion of: (1) all obligations, whatever their cause or origin, to deliver sums of money stipulated in dollars or any other foreign currency outstanding as of the date of enactment of the Public Emergency Law, (2) all foreign currency-denominated bank deposits into peso-denominated

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## Table of Contents

bank deposits at an exchange rate of 1.4 pesos per dollar-denominated, and (3) all foreign currency-denominated debts with the financial system into peso-denominated debts at a one-to-one exchange rate. Later, Decree No. 410 dated March 1, 2002 (the "Decree No. 410/02") established certain exceptions to the mandatory peso conversion, including credit card balances for purchases made abroad, obligations of the private or public sector to pay sums of money in foreign currency governed by foreign law and bank deposits with local financial institutions made by foreign banks or institutions and converted into credit lines effectively held and applied for terms of at least four years. The obligations of any nature or origin to be generated after the Public Emergency Law has been enacted may not include or become subject to any adjustment provision.

By the first half of 2002 the peso had devalued by 290% the Central Bank had lost a large portion of its reserves and there had been a significant increase in domestic money supply following the granting of rediscounts to banks. Beginning in July 2002, economic agents began to consider that the depreciation of the peso in real terms had been excessive, and the demand for pesos began to grow, stabilizing the exchange rate for the dollar. Beginning in October, the peso recovered at a faster rate while, at the same time, the Central Bank increased its purchases of foreign currency. At the end of 2002, the peso recorded a cumulative depreciation of 240%, with a dollar rate at 3.36 pesos per dollar. At June 12, 2003 the dollar rate was at 2.84 pesos per dollar.

The change in monetary system brought with it new regulations that required renegotiation and changes in contractual relationships that affected the operation of the Argentine economy, resulting in numerous legal disputes that have yet to be resolved.

In the first quarter of 2002 the economy recorded its largest reversal in the last 20 years (-16.3% on a year-on-year basis). The main declines were recorded by consumption and domestic investment, as a result of shrinking incomes following the devaluation and subsequent conversion to pesos, combined with the absence of a stable legal framework. In the following quarters, GDP showed a slight improvement in deseasonalized terms, driven by exporting and import substitution sectors, which benefited from the depreciation of the peso. Even so, output was down 10.9% for the year, because of the predominance of the fall in activity in service sectors that represent over 60% of GDP.

Following three years of deflation and almost a decade of inflation at less than one digit, retail prices increased 40.9% in 2002. The WPI recorded a far larger rise, as a result of the change in relative prices in favor of tradable goods caused by the devaluation, increasing 118% for the year. In April the consumer price index (the "CPI") recorded monthly inflation of 10.4%, but from there peak rates fell steadily month by month to an average rate of 0.3% in the last quarter of the year. The largest increases took place in Food and Beverages (almost 60% for the year), while service prices recorded substantially lower increases, in part due to the conversion into pesos of public utility rates. Considering that the Argentine peso devalued by 240% over the year, the pass-through to prices has been notably low, and far below the rate recorded in similar situations in the past, reaching only 16.3% in 2002. This was due mainly to the severe recession and high level of unemployment that prevented adjustments to nominal wages, leading to a considerable lag in real wages and preventing the transfer to prices of the devaluation in the case of non-tradable goods.

In spite of the significant increase in the real rate of exchange implicit in the relative variations in the nominal exchange rate and domestic prices, the performance by exports was still weak. Exports in 2002 were 4.8% lower in value terms than in 2001, mainly as a result of a fall of 4.5% in international prices. Export volumes showed little dynamism, in spite of the sharp increase in the competitiveness of Argentine products, because of the lack of available finance and the volatility of the exchange rate. Nevertheless, the approximately 56% decline in imports led to a trade surplus of US\$15,547 million, a record for the last 30 years in constant dollar terms. After considerable instability in money markets and a contraction in the demand for pesos in the first six months of the year, the Central Bank began to purchase part of the enormous balance of payments surplus with reserves at a rate of over US\$500 million per month.

In addition, after a first quarter during which tax revenues fell sharply, tax receipts began to pick up as a result of the effect of withholdings on exports and the impact of inflation on sales taxes such as VAT. Export withholdings were introduced in March to help shore up declining revenues by taxing the sectors that benefited from the devaluation, and in the middle of the year rates were increased from 10% to 20% in the case of cereals and

oilseeds and their by-products. Payments on account of the tax on checks were eliminated, and these two taxes totaled Ps.1,000 million monthly, increasing total annual revenues by 12%. The increase in primary spending (caused primarily by the introduction of unemployment subsidies that were made available to over 2 million unemployed heads of households) was substantially lower. As a result the primary surplus rose by 54% compared to 2001, although the 44% reduction in the deficit was mainly the result of default on the public sector external debt held by private creditors, as interest payments continued to be made on multilateral lending agency debt.

The collapse of activity levels in the first half of 2002 caused an even sharper deterioration in the labor market. The unemployment rate increased to 21.5% in May, the highest level since records began to be kept, taking the total number of unemployed people in urban areas to over 3 million. The crude reality of these figures, together with the increase in the cost of the basic food basket, which forced over 50% of the population below the poverty line, drove the government to introduce a program of subsidies for unemployed heads of household. Mainly because some of the beneficiaries of this program perform jobs in exchange for the benefit, employment levels increased in the October survey, lowering the unemployment rate to 17.8%. In the second part of the year there was also a modest increase in employment in the private sector as a result of growth in the tradable goods sector. Industrial activity, driven by exports and import substitution, began to recover in April reaching a monthly growth rate of 1.7% in the last quarter of 2002.

Positive trends continued in the first half of 2003. However, a new administration took office on May 25, 2003 in Argentina, under the mandate of President Néstor Kirchner, and no assurance can be given that measures coming from the new Government will not have a negative impact in the slight economic recovery of these last months.

*Recent appreciation of the peso improved debtors' capacity to repay loans classified as non-performing. However, it is still too early to determine what the real appreciation of the peso will be in the medium term and if its positive effects will impact our results.*

Large corporations in Argentina, mainly utility companies, which were indebted in foreign currency in the international markets, did not have their debt converted into pesos during the crisis, because their loans were not granted under Argentine Law. Most of these companies have defaulted on their debt and are negotiating with the banks the repayment of debt, subject to, in most cases, the adjustment of tariffs in the local market which the companies are negotiating with the Government.

Although the appreciation of the peso improves the economic situation of these companies and could benefit Argentine banks in the recoverability of dollar-denominated loans, no assurance can be given that such appreciation will continue on that the improvement will be used to repay the non-performing loans owed to the Argentine banks.

*The appreciation of the peso has led to more flexible exchange control measures that may be once again tightened following the economic plan of the new administration that took office on May 25, 2003.*

During the first quarter of fiscal year 2002 and as the economic crisis deepened, the Government established a series of restrictions and exchange controls, which were gradually made more flexible towards the end of fiscal year 2002, owing to the stability of the exchange parity.

By Decree No. 260 dated February 8, 2002, the Executive Branch established a single and free exchange market by which all exchange transactions in foreign currency should be conducted.

Foreign exchange transactions in the free market have, among others, the following characteristics:

- i. The exchange rate is freely agreed between supply and demand. As of December 31, 2002, the exchange rate was 3.363 pesos to each dollar, and on June 12, 2003, the peso/dollar exchange rate was 2.84 pesos per US\$1.00 pursuant to the quotation of the Banco Nación;
- ii. Foreign exchange transactions may only be carried out at institutions authorized by the Central Bank;
- iii. Criminal Foreign Exchange Laws will apply to transactions that do not conform to effective regulations;
- iv. Certain requirements related to the registration of transactions and customer identification and certain provisions of the information system must be complied with;

## Table of Contents

- v. The foreign trade transactions as well as the transfers abroad are regulated by the Central Bank as regards previous agreement and the settlement and term method, according to the kind of transaction; and
- vi. Income and dividend payments abroad related to audited balance sheets are permitted, except for financial institutions.

In accordance with Communication "A" 3880, the maximum limit of foreign exchange position of financial institutions, basically made up of the foreign currency holding plus availabilities in that currency within the country or abroad and foreign currency term transactions, was equal to 10% of the Computable Net Worth registered as of November 30, 2001, with a minimum requirement adding to the sum of US\$1,000,000 for banking institutions.

From February 2002 until August 8, 2003, prior approval of the Central Bank is required for transfers of funds outside Argentina by, among others, private companies such as the Bank, when such transfers are related to debt principal or interest repayments to be made until February 8, 2003, to the cancellation of forward contracts and to other financial derivatives or distributions of income or dividends to be made until February 8, 2003 (except for financial institutions), except for certain payments, including payments of principal on loans from international institutions, debts with banks which financed project finance transactions with international institutions, debts with multilateral lending entities and debts with official credit agencies and export credit insurance companies.

However, restrictions became more flexible toward the end of 2002. Among the new exchange conditions set forth by the Central Bank, it is worth mentioning that: (i) non-financial private sector and companies are not required to obtain the prior approval of the Central Bank to transfer funds abroad for the purposes of repaying financial debt principal and/or interest provided compliance with certain conditions, (ii) the prior authorization for the transfer of funds abroad in order to effect payment of interest on financial debt pending payment should not be required provided that such transfer is made up to 15 days prior to the expiration date and (iii) Argentine companies may freely transfer corporate income and dividends corresponding to audited financial statements of local companies with no need for approval by the Central Bank, with the exception of financial institutions.

In addition, on March 7, 2003 the Central Bank, by Communication "A" 3889 effective as of May 1, 2003, established that the absolute value of the global position in foreign currency may not exceed 30% of the computable equity liability for the immediately preceding month or the sector's own liquid resources, whichever is the least.

Furthermore, on May 6, 2003, the Central Bank issued a series of new regulations to give more flexibility to the foreign currency transactions. The main changes were: (i) an extension from 30 to 90 business days in the term for settling the collection of exported goods and services, (ii) elimination of the obligation to assign to the Central Bank a certain portion of the foreign currency originated in the collection of exports for shipments exceeding a value of US\$1,000,000, (iii) payment in advance for debts with foreign countries deriving from the importation of goods regardless of their agreed maturities, (iv) abrogation of the prior conformity requirement in force for the cancellation of capital services on financial debts, other than debts of financial entities which opted for the refinancing mechanism established by the Central Bank according to the provisions of Decree N° 739 dated April 1, 2003 ("Decree No. 739/03"), and (v) on extension of the limit for residents in Argentina to have access to the foreign-exchange market in order to purchase foreign assets, involving an increase of the limit from US\$300,000 to US\$500,000 per month and per person or legal entity.

As regards the treatment of the financial debt of those financial entities which opted for the refinancing mechanisms offered by the Central Bank through chapter II of Decree No. 739/03-, by Communication "A" 3940 dated April 30, 2003 it was established that such entities would have to normalize the situation of their external liabilities before 5 December 5, 2003 and undertake to start negotiations and make the relevant presentation to the Central Bank before July 31, 2003. In addition, such entities must inform the Central Bank regarding the degree of advancement achieved in their negotiations with the foreign creditors within three business days after the close of the months of September and October 2003.

Although measures leading to a more flexible exchange control are being implemented, no assurance can be given that the Government will not impose tight restrictions on the exchange controls in the future.

## Table of Contents

*Although the asymmetric conversion of assets and liabilities into pesos was compensated by the Government with Bonds, an indefinite amount of this compensation is still pending. Losses related to exchange rate differences in the refunding of deposits via lawsuits and substitution of the CER (Stabilization Index) for the CVS (Salaries' variation Index) adjustment in mortgage loans and certain personal and pledge loans are still pending compensation by the government. The profitability and continuity of financial institutions may be materially affected if these losses are not compensated by the Government.*

According to the provisions of Law No. 25,561 and Decrees No. 214/02, No. 494/02, No. 905/02 and No. 2167/02, a compensation for financial institutions consisting of compensatory bonds was established to redress the negative monetary effects arising from conversion into pesos at an asymmetrical exchange rate of assets and liabilities denominated in foreign currency, as well as for the net negative position in foreign currency resulting from the conversion into pesos of certain assets and liabilities.

Emergency Decree No. 214/02 provided that the financial institutions would be compensated through the issuance of bonds by the Government for the losses derived from the conversion of assets and liabilities into pesos at different exchange rates, the resulting negative net position in foreign currency and the devaluation of the peso.

Decree No. 494 dated May 12, 2002 (the "Decree No. 494/02") set forth a methodology to determine the amount of such compensation and provided that such compensation was intended to restore the financial institutions' net worth as of the time of the pesification, compensating for (i) the losses resulting from the conversion into pesos of most of their obligations at an exchange rate well above the Ps.1 per dollar rate applied to the conversion into pesos of some of their credits in foreign currency, through the issuance of compensatory bonds, providing, to such end, the issuance of "Argentine Government Peso Bonds 2007" ("BODEN 2007") and (ii) the gap of their foreign currency positions following the compulsory pesification of a portion of their assets and liabilities portfolio converting the originally peso-denominated compensatory bond into a dollar-denominated bond and, where necessary, the subscription of a compensation bond in dollars. To such end, the Government provided for the issuance of "Argentine Government US Dollar Bonds Libor 2012" ("BODEN 2012").

Later, Decree No. 905/02 replaced Decree No. 494/02, which established a general methodology to be followed to determine the amount of compensation to be received by each financial institution in the form of compensatory bonds. Decree No. 905/02 provided that the compensation to which a financial entity was entitled should be calculated by taking into account the imbalances created on such financial institution's unconsolidated balance sheet as of December 31, 2001, excluding from such balance sheet the assets of its foreign subsidiaries or branches but including, certain secured Government loans held by each bank's foreign branches and subsidiaries which were considered at the value at which they were registered by the relevant foreign branch or subsidiary.

Communications "A" 3650 dated June 28, 2002 and "A" 3716 dated September 5, 2002, as supplemented, determined the compensation procedures as follows:

- (a) The balance sheet of the financial institution as of December 31, 2001, was taken as a reference point and assets affected by the Emergency Decree No. 214/02 and Decree No. 471/02 registered in branches and subsidiaries abroad of local financial institutions were included as asset;
- (b) The Net Worth resulting from the balance sheet mentioned in (a) above was adjusted by applying the exchange rate of 1.4 pesos to each dollar, or its equivalent in any other currency, to the net position in foreign currency;
- (c) The amount to be compensated was the positive difference between the Net Worth determined on the basis of (b) above and the Net Worth resulting from conversion into pesos of certain assets and liabilities in foreign currency at the exchange rates defined by the rules and regulations;
- (d) The compensation for each financial institution, determined in pesos, should be paid by delivering BODEN 2007;
- (e) Financial institutions would have the right to request the swap of the BODEN 2007 for BODEN 2012 at the exchange rate of 1.4 pesos to each dollar, for up to the amount of the net negative position in foreign currency, resulting from the conversion into pesos of assets and liabilities booked in the balance sheet as of December 31, 2001; and



(f) The Government, through the Ministry of Economy, issued additional bonds in dollars to be subscribed by financial institutions up to the amount of the net position in foreign currency of such financial institution and after allocating all the holdings in bonds denominated in pesos received as a compensation at a subscription price of Ps.140 to US\$100 face value.

Subsequently, the Government and the Central Bank issued different amendments (Decrees No. 2167/02 and No. 53/03, and Communications "A" 3825 and "B" 7564, among others), which originated changes in the amounts to be received in compensation, requiring financial institutions to make three reports to the Central Bank. As of December 2002, all financial institutions have registered in their books the compensatory bonds.

However, there are still pending regulatory issues which could generate additional amendments to the amount of compensation determined by the financial institutions. Additionally, the Central Bank has started inspections to confirm the compensation amounts established by the financial institutions.

Furthermore, there are other losses presently borne by the financial system and which have not yet been compensated related to: a) the exchange rate differences in the refunding of deposits via lawsuits and, b) the substitution of the stabilization index (*Coeficiente de Estabilización de Referencia*—"CER") for the salaries' variation index (*Coeficiente de variación salarial*—"CVS") adjustment in mortgage loans and certain personal and pledge loans:

**(a) Losses related to lawsuits:** The measures adopted by the Executive Branch with respect to the political, economic, financial and foreign exchange emergency triggered a number of legal actions to be filed by individuals and companies, in the form of constitutional protection actions (judicial injunctions resulting in the immediate release of frozen deposits), against the Government, the Central Bank and financial institutions as the petitioners consider that the law on public emergency and its supplementary provisions are unconstitutional. Based mainly on the "Kiper against Government and Others" case, decided by the Argentine Supreme Court (the "Supreme Court"), the first instance courts massively started to dictate, through protection actions, the partial reimbursement of bank deposits in dollars or pesos at the free exchange rate. The Supreme Court has not ruled on the constitutionality sustenance of the conversion of foreign currency into pesos established by the Government.

On February 1, 2002, the Supreme Court, upon issuance of its decision in relation to a provisional measure requested in a case submitted to the consideration of such Court (case "Banco Galicia y Buenos Aires on immediate intervention in the proceedings: 'Smith, Carlos Antonio vs. Federal Executive Branch or National State on extraordinary summary proceeding,'" the "Smith Case") declared unconstitutional certain of the measures adopted by the Government to prevent withdrawals of deposits.

On March 11, 2002, the ABAPRA and ABA (Banking Associations) filed a "per saltum" appeal with the Supreme Court under section 195 bis of the Argentine Code of Civil and Commercial Procedure (according to the modification introduced by Law No. 25,561). The appeal was filed for the benefit of government-owned and private banks, members of such associations, and was based on the Argentine institutional and systematic crisis and on the need to comply with effective regulations to attain an ordered and gradual solutions for the restrictions affecting the financial system and guaranteeing a plurality of interest.

On April 26, 2002, Law No. 25,587 was published in the Official Gazette known as "anti-trickle down law" (*ley antigoteo*). This law established limitations to those precautionary measures that judges might adopt. With some exceptions, the law established that: a) the precautionary measures could not consist of giving the petitioner the deposited funds, and that b) the appeals should not be executed until they had been given the final order.

On July 24, 2002, the Executive Branch issued Decree No. 1316/02 establishing the temporary suspension for 120 business days of compliance with and enforcement of precautionary measures and final judgments issued in the legal actions referred to in section 1 of Law No. 25,587. Court orders should be recorded by financial institutions in chronological order and informed to the court and the Central Bank. Suspended resolutions would be complied with after the expiration of the term in their chronological order and within 30 business days. In the case of exceptions to the above rules, the case would be presented to the Central Bank and would comply with the court orders on behalf and account of the Bank.



More recently, the Supreme Court has ruled in favor of the Province of San Luis ordering that Banco Nación should return deposits of such province in the amount of US\$247 million which, in 2002, had been converted from dollars into pesos. Such ruling declared the unconstitutionality of the pesification of this deposit, ordered the return of such amount in dollars or in pesos at the free exchange rate and set a term of 60 calendar days for the parties to agree as to the method and term for the return of the time deposits and further issued a warning stating that in the event the parties fail to so agree in the above mentioned term, the Supreme Court should provide for such method and time period. Although the Supreme Court's decision is applicable only to the case in relation to which such decision is rendered, in general, the courts conform their decisions to those issued by the Supreme Court. Thus, the courts will likely order the banks to return deposits in dollars or in pesos at a free exchange rate, following the Province of San Luis case. If the impact of these potential court decisions is not covered by adequate compensation from the Government through compensatory bonds or otherwise, this situation might have an adverse effect on the financial condition of the banks.

On May 6, 2003, the province of San Luis appeared before the Supreme Court to give formal notification of its failure to reach an agreement with Banco Nación regarding the reimbursement of its deposits. The Court must make a decision in the near future as to how and when the bank must return the funds to the province. See "Factors related to Banco Francés—Legal actions".

In light of the above issues, the constitutionality of the pesification remains unclear and banks have continued to experience decreases in rescheduled deposits. We cannot assure you that the Executive Branch or the National Judiciary (the "Judiciary") or the Congress will solve this issue favorably for financial institutions.

**(b) Substitution of CER by CVS adjustment:** Emergency Decree No. 214/02 provided that all loans and bank deposits mandatorily converted into pesos would be adjusted through the application of the stabilization index (*Coeficiente de Estabilización de Referencia*—"CER"), which reflects the monthly variations of the consumer price index. Later, Decree No. 762/02 dated May 6, 2002 (the "Decree No. 762/02") eliminated the application of the CER for the readjustment of certain loans, which are: (a) house mortgage loans existing as of February 3, 2002 without an amount limit, (b) consumer loans, with or without mortgage security, for an initial principal amount of up to Ps.12,000 or US\$12,000 or other currency and converted into pesos existing as of February 3, 2002, and (c) consumer loans secured with pledge for an initial principal amount of up to Ps.30,000 or US\$30,000 or other currency and converted into pesos existing as of February 3, 2002. In lieu of the application of the CER for the readjustment of these loans, the principal thereunder should be readjusted by applying the salaries' variation index (*coeficiente de variación de salarios*—"CVS"), as calculated and published by the INDEC pursuant to Decree No. 762/02. According to such Decree No. 762/02, the Executive Branch would determine the interest rates applicable to the above mentioned loans from the date on which the CVS became effective.

Former President Eduardo Duhalde passed a law to the Congress seeking for a final decision on the pending issues of compensation for the financial system.

*The asymmetric version of foreign currency assets and liabilities into pesos was compensated by the Government through compensatory bonds. However, a structural mismatch in assets and liabilities in terms and rates remains and may negatively impacting the profitability of banks.*

On September 10, 2002 the Government announced the withdrawal, at the option of depositors, of the rescheduled deposits of up to a maximum amount of Ps.7,000 (excluding the CER adjustment) in force as of May 31, 2002. The withdrawal of rescheduled deposits of up to a maximum amount of Ps.10,000 (excluding the CER adjustment) was also authorized at the option of financial institutions.

Also in line with the continuing measures towards the gradual release of existing rescheduled deposits, on April 1, 2003, Decree No. 739/03 (the "Swap III-Decree 739/03") was published by the Government in the Official Gazette and gave to the holders of rescheduled deposits and of CEDROS originally denominated in foreign currency or in pesos the option to cancel deposits either totally or partially. The optional mechanism to release such deposits depended for said cancellation upon the original nominal value of the deposit or CEDRO (i) up to Ps.42,000, (ii) over Ps.42,000 up to Ps.100,000 and (iii) over Ps.100,000. The return of the applicable amounts to depositors who exercised this option was the responsibility of the financial institutions (which had to return the amount in pesos).

adjusted upon application of the CER until the crediting date plus applicable interest and an interest rate set for deposits of the amounts mentioned in (ii) and (iii)), and of the Government, which had to deliver BODEN 2013 for the difference between the nominal value of the rescheduled deposit adjusted upon application of the CER as of April 1, 2003 and the dollar free market quotation up to such same date. Decree No. 739/03 provided that financial institutions might improve the conditions set forth in such decree subject to the terms of the regulation issued by the Ministry of Economy (Resolution 236/2003). The Central Bank informed that the dollar free market quotation on April 1, 2003 was 2.9792 pesos per dollar.

The Ministry of Economy, by Resolution No. 290 April 24, 2003 extended the term up to May 23, 2003 for the exercise of the above mentioned swap options, which originally matured on April, 23, 2003.

Additionally, rescheduled deposits showed a constant decrease due to refunding of deposits related to legal actions.

Due to the recent Government and Judiciary measures, liabilities adjusted by CER have been decreasing, thus creating a structural mismatch of rates and terms in the financial system. Consequently, net financial income of the banks became strongly dependent on the relative behavior of CPI (CER adjustment) versus the interest rate. As a result of the conversion into pesos of foreign currency risk assets, a significant portion of the financial system's risk assets turned to be variable, adjusted by CER plus an annual interest rate, whereas most of the liabilities remained subject to fixed rates (with a minimum 7 day term for new deposits). Such structural mismatch is growing worse owing to the decrease in the remainder of rescheduled deposits, whether it is through the payment of legal injunctions ordering restitutions of deposits or programmed installments still in effect.

In this respect, it is important to stress that this mismatch is part of the claim made by financial institutions, which have recently received from the Government a favorable response regarding measures to be taken to redress the effects of the mismatch. This response, however, is only a partial solution to the problem. As of April 30, 2003 the Central Bank established a process to match in rate and term the loans and bonds granted by the banks to the Government and the provinces with the liquidity rediscounts received from the Central Bank (Communication "A" 3941). The rediscounts will have a variable cost adjusted by CER plus 3.5% interest annually.

Moreover, by means of Decree 739/03 the Executive Branch established that financial institutions could participate in the procedure to be established by the Central Bank for the repayment of existing advances and rediscounts that had been granted under the terms of Section 17 of Law No. 24,144 and its modifications. On May 22, 2003, the Executive Branch issued Decree No. 1262/2003 creating the Financial System Restructuring Unit (Unidad de Reestructuración del Sistema Financiero—"URSF"), which has been designed to define the strategy for the restructuring of the financial system and a corresponding action plan. This decree empowers the Central Bank, with the authorization of the URSF, to modify the repayment conditions, established by Decree 739/03 as long as a) the assets in guarantee of such advances and /or rediscounts have an average life in excess of the term mentioned in that Decree (maximum of 120 installments), b) the financial institution qualifies under any of the situations foreseen by sections 34 and 35 bis of law 21,526 and c) the financial institution will adopt a transformation and reorganization plan, approved by the URSF, to strengthen its efficiency and viability. The mentioned repayment will be made in the same number of installments as those of the assets assigned in guarantee, with a maximum of 120 installments.

In addition to the structural CER assets and liabilities mismatch, the Net Financial Income of the banks is being affected by the application of Decree No. 762/02, which substituted the application of the CER for the CVS for the readjustment of certain house mortgage, personal and pledge loans, and by the exposure to the evolution of the exchange rate in relation to the foreign exchange position created another interest rate mismatch in the financial system that jeopardizes future profitability.

No assurance can be given that the structural mismatches will ever be completely solved and that the negative effect on profitability will reverse in the near future.

*The economy and the solvency of the financial system may be affected by the outcome of sovereign debt restructuring expected to be carried out by the new administration.*

On November 1, 2001, through Decree No. 1387/2001, the Executive Branch instructed the Ministry of Economy to offer, on a voluntary basis, the federal and provincial public debt swap for loans secured by the Government or the Provincial Development Trust Fund, aiming at obtaining a reduction of the interest related to the securities converted as well as extending amortization terms. This process was part of a first step in the restructuring of sovereign debt, which the Government called the "local tranche".

Decree No. 1387/2001 established the basic characteristics of such secured loans, including: conversion at nominal value plus interest of the swapped obligations (at a one-to-one rate), issuance in the same currency as the one of the swapped obligation; tax exemption on the difference both between the conversion and market values or the booking as well as the interest and secured loans; use of resources from the tax on bank account transactions and in general of all the resources related to the Government on account of the Federal Tax Revenue Sharing System as a guarantee of all the principal and interest maturity dates of secured loans.

Following the conversion of foreign currency into pesos, this public sector debt, mainly in hands of banks and pension funds, was converted into pesos. Decree No. 471/02 provided, among other things, the conversion into pesos of all federal, provincial and municipal obligations denominated in foreign currency on which only Argentine law was applicable, at the exchange rate of 1.4 pesos to each dollar and adjustment thereof through CER and the kind of interest applicable to each secured loan and security based on the average life and original issuance currency.

Subsequently, the Executive Branch issued Decree No. 644/2002 and 79/2003 establishing the steps to be followed by banks to accept the new conditions, for purposes of receiving principal and interest payments on guaranteed loans. If the new conditions were not accepted, the banks should have received the securities originally submitted for the "debt swap".

On August 27, 2002, through Decree No. 1579/2002, the Executive Branch instructed the Trustee Fund for Provisional Development to bear provincial debt in the form of government securities, bonds, treasury bills, or loans voluntary converted into secured bonds.

Later, on October 25 and November 12, 2002, through Resolutions Nos. 539/2002 and 611/2002, respectively, the Ministry of Economy established the unified calculation mechanism for all debts included in the conversion system under Decree No. 1579/2002, and it provided the term for financial institutions that submitted bids to convert provincial debt under Section No. 25, Decree No. 1387/01, as supplemented, to express their will to withdraw them.

On November 19, 2002, the Economy Ministry issued Resolution No. 624/2002, by which new provincial public debt eligible for the provincial public "swap debt" for guaranteed bonds issued by the Fiduciary Fund for Provincial Development was established.

On December 26, 2002, the Economy Ministry accepted the offers of conversion of the Provincial Public Debt under the form of loans and provincial government securities into guaranteed bonds.

As of the date of this annual report, the restructuring of the "international tranche" of sovereign debt, which amounts to approximately US\$59.8 billion is still pending.

Although the local tranche sovereign debt has already been restructured and converted into pesos there can be no assurance that it will not be included in a new restructuring process initiated by the new administration. The proposal of the new administration may include "haircuts" which could affect the solvency of the financial system and hinder even further Argentina's access to new financing in the international markets.

*The remaining approximately Ps 8.14 billion (as of May 23, 2003) in rescheduled deposits may jeopardize the current excess liquidity and the profitability of the financial system.*

## Table of Contents

In an attempt to stop the withdrawal of deposits out of the financial system, the Government through Decree No. 494/02, as subsequently amended by Decree No. 620/02, set forth the general conditions and the procedure through which depositors might exchange their deposits, denominated in foreign currency or in pesos, for certain bonds of the National Treasury.

Through Resolution No. 46/2002 issued by the Ministry of Economy, depositors were offered the possibility to exercise a swap option prior to April 30, 2002. Subsequently, such date was postponed and such first exchange was replaced by another exchange ("Swap I-Decree No. 905/02") regulated by Decree No. 90/2002 as supplemented. Decree No. 905/02 provided the mechanism pursuant to which owners of rescheduled bank deposits and demand accounts, and those depositors who opted for the voluntary exchange previously implemented through Decree No. 494/02, had the option over the course of 30 days to exchange such deposits for the new bonds issued by the Government created by Decree No. 905/02. The new bonds consisted of a peso-denominated bond maturing in 2007 and two dollar-denominated bonds maturing in 2005 and 2012. Approximately 24% of the rescheduled deposits of the financial system were exchanged for Government bonds in Swap I-Decree No. 905/02-between July 16, 2002 and August 8, 2002.

Additionally, Decree No. 905/02 established that non-exchanged rescheduled deposits would remain under the repayment schedule established by Resolution No. 6/2002 of the Ministry of Economy, as amended, but would be registered by each financial entity with the Caja de Valores S.A. ("Caja de Valores") and would constitute publicly negotiable instruments listed in self-regulated markets in Argentina. Holders of such certificates of rescheduled deposits ("CEDROS") would be able to apply such certificates to subscribe for initial public offerings of equity and debt securities authorized by the CNV and listed on a stock exchange. Decree No. 905/02 also established the possibility of using restructured deposits to repay loans granted by the same financial institution where the deposits are held (a practice that was already in place), subject to implementing regulations to be issued by the Central Bank.

On September 10, 2002, the Government announced a new exchange of rescheduled deposits for public bonds issued by the national government ("Swap II-Decree No. 1836/02") and the withdrawal, at the option of depositors, of the rescheduled deposits of up to a maximum amount of Ps.7,000 (excluding the CER adjustment) in force as of May 31, 2002. The withdrawal of rescheduled deposits of up to a maximum amount of Ps.10,000 (excluding the CER adjustment) was also authorized at the option of financial institutions.

The new swap announced through Decree No. 1836/2002, dated September 16, 2002, and regulated by Communication "A" 3740 issued by the Central Bank, provided for different options applicable to holders of CEDROS and to those depositors who exercised their option at the Swap I-Decree No. 905/02. Holders of CEDROS could opt for ten-year bonds due in 2013 denominated in dollars (BODEN 2013). The price of subscription was calculated at US\$100 nominal value for each Ps.140 nominal value of CEDROS. Those financial entities where the deposit had been constituted granted their holders a put option for each coupon of such bonds at a sales price in pesos resulting from conversion at the rate of Ps.140 for each US\$100 nominal value and from adjusting the resulting amount according to CER as from February 3, 2002 and up to the date of maturity of the coupon. Depositors were given the option to convert the re-programmed balance into Fixed-Term Bonds issued by each entity, together with an option to convert into the currency of origin, granted by the government. On the other hand, those who opted for BODEN 2005 or BODEN 2012 as set forth by Decree No. 905/02, were given the option to request from the relevant financial entity the issuance of the put option described above or an exchange of the bonds by Fixed-Term Bonds. The original term for the option expired on October 30, 2002. Communication "A" 3797, dated November 7, 2002 extended the term to exercise the options until November 21, 2002 for cancellation in cash and until December 12, 2002 to opt for the BODEN 2013 and/or the time Note. Moreover, the term to exercise the option was extended up to mature on May 23, 2003.

Subscription of bonds to be delivered to depositors, by financial institutions, was to be made in cash, through advances granted by the Central Bank which had to be secured by assets with the public or private sector held by the financial institutions pursuant to the provisions set forth by section 15 of Decree No. 905/02, except in the case of BODEN 2012 in relation to which subscription should be made, firstly, through the exchange for reserve requirement Bonds 2002 (as defined below) held by the financial institutions.

## Table of Contents

For purposes of obtaining such bonds, financial institutions should first apply their holding in "Federal Government Bonds at a 9% rate maturing in 2002" (the "Bonds 2002"). For the remaining amount of bonds to be subscribed on behalf of depositors, financial institutions had the following options:

- Swap them for certain assets (assistance to the public sector) in accordance with an established priority order.
- Obtain advances from the Central Bank in pesos secured by guarantees in the amount required to acquire the above mentioned bonds.
- Pay them with their own resources without receiving the Central Bank's financial assistance.

Also in line with the continuing measures towards the gradual release of existing deposits, on April 1, 2003, Decree No. 739/03 (the "Swap III-Decree 739/03") was published by the Government in the Official Gazette and gave to the holders of rescheduled deposits and of CEDROS originally denominated in foreign currency or in pesos the option to cancel deposits either totally or partially. The optional mechanism to release such deposits depended for said cancellation upon the original nominal value of the deposit or CEDRO (i) up to Ps.42,000, (ii) over Ps.42,000 up to Ps.100,000 and (iii) over Ps.100,000. The return of the applicable amounts to depositors who exercised this option was the responsibility of the financial institutions (which have to return the amount in pesos adjusted upon application of the CER until the crediting date plus applicable interest and an interest rate set for deposits of the amounts mentioned in (ii) and (iii)) and of the Government (who will have to deliver BODEN 2013 for the difference between the nominal value of the rescheduled deposit adjusted upon application of the CER as of April 1, 2003 and the dollar free market quotation up to such same date). Decree No. 739/03 provided that financial institutions might improve the conditions set forth in such decree subject to the terms of the regulation issued by the Ministry of Economy (Resolution 236/2003). The Central Bank informed that the dollar free market quotation on April 1, 2003 was 2.9792 pesos per dollar.

The Ministry of Economy by Resolution No. 290 dated April 24, 2003 extended the term up to May 23, 2003 for the exercise of the above-mentioned swap options, which originally matured on April 23, 2003.

Rescheduled deposit holders that have not opted for any of the three exchange option plans may be waiting for a favorable rule on a judicial injunction or may prefer either to wait until the maturity date or for a new and better option. Any of these alternatives may result in losses and/or a liquidity problem for financial institutions.

*Recent political events create expectations as to Argentina's economic future.*

On April 27, 2003 election former president Carlos Menem came first with 24.34% (4,677,213 votes) and Néstor Kirchner had 21.99% (4,227,141 votes). Trailing behind were Recrear Federal Movement economist Ricardo López Murphy with 16.35% (3,142,848 votes), Ari's Elisa Carrió with 14.15% (2,720,143 votes) and former San Luis Peronist Governor Adolfo Rodríguez Saá with 14.12 (2,714,760 votes). However Mr. Menem resigned to his right to compete with Kirchner in a second run. Upon Menem's resignation, Mr. Kirchner was elected President by the Legislative Assembly and took over office on May 25, 2003.

The new administration has announced it will adopt gradualist policies while focusing on expanding domestic demand based on an extensive public works program and restoring upward social mobility. It has stressed the importance of fiscal austerity and avoiding increases in Argentina's indebtedness. External policy targets include the strengthening of the Mercosur and relationships with Brazil while negotiating entrance into FTAA as a block. Debt restructuring talks are scheduled to begin in the last quarter of 2003 but no concrete advances have been made yet. The short term agreement with the IMF expires in August 2003 and conversations are under way to reach a long term framework, although no assurances can be given about the date or the characteristics of the new agreement

### **Factors related to Banco Francés**

*Uncertainties resulting from the current macroeconomic situation in Argentina and recent changes to regulations affecting Banco Francés could continue to affect our financial position and solvency.*

The measures adopted by the Government have significantly affected the liquidity, solvency and profitability of the financial system as a whole. As a result, the Government and the Central Bank have adopted some regulations

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## Table of Contents

to moderate the effects of the Argentine crisis and to foster the restructuring of the financial system. As there are still some aspects pending regulation in the process of restructuring the financial system, it is uncertain whether the restructuring of the financial system as a whole and our own plans and actions will allow us to meet the solvency and liquidity requirements that will be in force in the future required by the Central Bank.

Our financial statements have been prepared on the assumption that we will continue as going concern, based on the understanding that the restructuring of the financial system as a whole, the restructuring of the public debt and the Bank's own plan and actions to be implemented by the Bank and its subsidiaries will allow us to continue our operations. Our independent accountants have raised doubts about our ability to continue as a going concern because of the existing uncertainties and its potential effect on the Bank.

*Banco Francés' liquidity and solvency was negatively affected by the crisis. The Bank decided to implement a plan to strengthen its position, which plan was in turn formally requested by the Central Bank. At the date of this annual report, Banco Francés has restored liquidity and increased capital, but the Central Bank has not yet given an opinion on the plan submitted.*

Since December 31, 2001, our liquidity position has suffered, mainly as a result of mass withdrawals of deposits, constitutional protection actions by depositors, the ordering of precautionary measures and immediate measures by tribunals, the suspension of court-enforced collections and foreclosures, and the enactment of numerous laws, decrees, resolutions from the Ministry of Economy and communications by the Central Bank, which led to frequent changes in the Bank's positions.

The liquidity crisis became especially aggravated in the second quarter of 2002, when cash withdrawals (accelerated by the uncertainty derived from cash withdrawal restrictions) and the reimbursement of deposits under precautionary measures, actions for infringement of fundamental rights and freedoms, and immediate measures reached their peak.

At the beginning of 2002, the board of directors of the Bank decided to implement a plan to regularize and reorganize aspects related to compliance with minimum liquidity requirements, which had been affected by the liquidity crisis triggered by the fall of deposits, court rulings on the actions brought by depositors, and by regulatory changes on prudential regulations. Such plan consisted of measures adopted in April and May 2002, in relation to the financial assistance received from BBVA and the Central Bank, the sale of the Bank's shares in BBVA Uruguay the commencement of the implementation of an administrative restructuring plan and the capitalization of the Bank with approximately Ps.750 million. See note 1.2 to the consolidated financial statements.

Similarly, the Central Bank in exercise of its powers requested that the Bank formally submit a plan. As of July 2002, Banco Francés has regularized its liquidity position, thus complying with technical resolutions required by the Central Bank. Such plan was updated in October, 2002, February 2003 and May 2003 and as of December 31, 2002 had increased capital.

However, as of June 15, 2003, the Central Bank has not yet given an opinion in this respect and has required that the Bank explain the ways in which it will deal with the liquidity and solvency situation for the year 2003 in accordance with the Communication "A" 3940 of the Central Bank.

By means of Decree No. 739/03 the National Executive established that financial entities could participate in the procedure to be established by the Central Bank for the repayment of existing advances and rediscounts that had been granted under the terms of Section 17 of Law No. 24,144 and its modifications. On May 22, 2003, the Executive Branch issued Decree No. 1262/03 (creating the "URSF"), which has been designed to define the strategy for the restructuring of the financial system and a corresponding action plan. This decree empowers the Central Bank, with the authorization of the URSF, to modify the repayment conditions, established by Decree 739/03 as long as a) the assets in guarantee of such advances and /or rediscounts have an average life in excess of the term mentioned in that Decree (maximum of seventy installments), b) the financial institution qualifies under any of the situations foreseen by sections 34 and 35 bis of law 21,526 and c) the financial institution will adopt a transformation and reorganization plan, approved by the URSF, to strengthen its efficiency and viability. The mentioned repayment will be made in the same number of installments as those of assets assigned in guarantee, with

a maximum of 120 installments. As the date of the issuance of this report, the Bank has adhered to the cancellation procedure related to such assistance as described above.

Although the Bank's situation has improved since the third quarter of 2002 and we are optimistic as to the development of our future operations, our ability to obtain the financing we need will depend to a large extent upon factors beyond our control, our ability to obtain financing from the Central Bank and its approval of our plan. As a result, we cannot assure you that we will be able to maintain adequate levels of liquidity, and our failure to do so would have a material adverse effect on our ability to pay our debts as they mature.

*Pending regulations may modify the amount to be received for compensation by Banco Francés, and there is still uncertainty as to whether a loss greater than Ps.970 million stemming from measures taken by the Government is to be compensated.*

Banco Francés has submitted to the Central Bank three required information reports regarding the amount to be compensated according to the Decree No. 905/02 dated August 5, September 12 and December 23, 2002, respectively. The final amount to be compensated, which originates from the last presentation made by the Bank on December 23, 2002, amounts to Ps.797,300 thousand. Banco Francés applied this amount to the subscription of BODEN 2012 for a nominal value of US\$569,500 thousand (at the exchange rate of 1.4 pesos to each dollar). In addition, so as to cover the remaining negative foreign currency position after the pesification, the Bank requested from the Central Bank an advance payment to subscribe the above-mentioned bonds up to the concurrence of negative net foreign currency position for the amount of US\$37,039, which were converted in to peso at the Ps.1.4/US\$ exchange rate and adjusted by CER.

On September 11, 2002, the Central Bank credited BODEN 2012 for a nominal value of US\$421,890 thousand and on October 29, 2002 for a nominal value of US\$88,894 thousand (net of collateral security margin of 15%), in accordance with a previous compensation estimate. Such bonds were blocked up to March 2003, where the Central Bank liberated US\$386 million nominal value of BODEN 2012. The remaining bonds are still blocked until the Central Bank's definite approval regarding the compensation amount is given.

According to Central Bank regulations, the Bank keeps registered in its assets BODEN 2012 for an amount of Ps. 1,751,417 thousand (under "Government securities") and BODEN 2012 to be received for an amount of Ps. 328,331 thousand (under "other receivables from financial transactions"), related to a nominal value of US\$606,539 thousand. As of December 31, 2002, such amounts are pending validation on the side of the Central Bank. It is not possible at this point to determine the effect of pending issues on the compensation values registered by the Bank. The consolidated financial statements do not include any adjustment that may derive from the resolution of these uncertainties.

Pursuant to the general accounting principles in force in Argentina, the assets mentioned above should be valued at their current value. As of December 31, 2002, market values were limited to the quotation of BODEN 2012 and BODEN 2007 negotiated as from September 25, 2002 and October 29, 2002, respectively, at the BCBA and at the *Mercado Abierto Electrónico* ("MAE") to values ranging from 40% to 48% of their nominal value in dollars and to surroundings value up to 65% of its nominal value in pesos, respectively. However, as of December 31, 2002 the volume of BODEN was negotiated not significant. Therefore, the market values known may not represent the actual value at which the above mentioned securities will be realized. See note 4.4 to the consolidated financial statements as of December 31, 2002.

As required by Central Bank Communication "A" 3703, the compensation received was booked in January, 2002, as follows:

- The gain resulting from the asymmetrical switch into pesos, which amounted to Ps.1,208,740 thousand (historical value Ps.591,301 thousand), was allocated to "Financial Income-Gold and foreign currency exchange difference", for the purpose of neutralizing the negative effects of the switch into pesos;
- The amount of compensation received for the difference between Stockholders' Equity as of December 31, 2001, and the Stockholders' Equity that resulted from adjusting the net position in foreign currency switched into pesos at the exchange rate of 1.4 pesos to each dollar, amounting to Ps.421,104 thousand (historical value



Ps.205,999 thousand), was allocated to the Stockholders' Equity account "Unrealized valuation difference from compensation of the net position in foreign currency".

Also pending is the compensation of the exchange-rate differences in the payment of deposits withdrawn under court order and the difference resulting from the application of CER and CVS to those mortgage credits qualifying as unique household, chattel or personal. These two issues represented approximately Ps.976 million in fiscal year 2002; approximately 50% of the loss was provisioned. Both losses continue to negatively impact Net Income of the Bank during the fiscal year 2003. Although the Executive Branch has passed a law to the Congress regarding such compensation to the financial system, no assurance can be given that such compensation will be granted to any banks and in particular to Banco Francés.

*The asymmetric conversion of foreign currency assets and liabilities into pesos created a structural assets and liabilities mismatch in terms and rates, which may negatively impact the Bank's profitability.*

Banco Francés remains with a structural imbalance mainly related to a significant positive position in CER adjusted assets and liabilities, representing an exposure to the relative behavior of interest rate vs. CER, mainly CPI and a mismatch in terms of the mentioned assets and liabilities. Although new rules regulating the matching of rediscounts received from the Central Bank with bonds/loans held as assets in the banks books have significantly reduced our exposure and mismatch by approximately Ps.1,800 million as of April 2003, the remaining imbalance jeopardizes our future profitability

*The debt restructuring process of sovereign debt may negatively affect our financial condition given our exposure of approximately Ps.9.5 billion to Public Sector debt.*

Federal and provincial debt represent a very significant portion of our total risk assets. All dollar Public Sector debt with the Financial System was converted into pesos at a rate of 1.4 pesos per dollar, while dollar Private Sector debt was converted into pesos at a rate of 1 peso per dollar, thus increasing the relative share of Public Sector exposure in the Bank's assets. A default by the Government and/or the provinces, in a substantial amount, will materially and adversely affect our financial condition. Similarly, any subsequent failure of the Government to make payments pursuant to the terms of the new compensatory bonds may adversely and materially impact our financial condition.

On November 1, 2001 through Decree No. 1387, the Executive Branch instructed the Ministry of Economy to offer, on a voluntary basis, the federal and provincial public "debt swap" for loans secured by the Government or the Provincial Development Trust Fund aiming at obtaining a reduction of the interest related to the securities converted as well as extending amortization terms. The Bank and its subsidiaries swapped a portion of their holdings in Government securities and/or loans to the public sector outstanding as of November 6, 2001, for a nominal value of US\$3,291,795 thousand, for guaranteed loans amounting to US\$3,360,403 thousand.

Decree No. 1387/2001 established the basic characteristics of secured loans, including: conversion at nominal value plus interest of the swapped obligations (at a one to one rate), issuance in the same currency as the one of the swapped obligation; tax exemption on the difference both between the conversion and market values or the booking as well as the interest and secured loans; and use of resources from the tax on bank account transactions and in general of all the resources related to the Government on account of the Federal Tax Revenue Sharing System as a guarantee of all the principal and interest maturity dates of secured loans.

Furthermore, the Executive Branch subsequently established, by Decree No. 644/02, the new conditions for financial institutions to receive the payments of principal and interest related to the guaranteed loans.

On May 22, 2002, Banco Francés accepted the conditions of the guaranteed loans and its subsidiary Banco Francés (Cayman) accepted them on July 12, 2002. On the other hand, Consolidar AFJP, Consolidar Cía. de Seguros de Vida S.A., and Consolidar Cía. de Seguros de Retiro S.A. (except for certain loans) did not accept the conditions of pesification of the guaranteed loans for a face value of US\$487,642,000. An administrative motion has been filed, the resolution of which is still pending, and therefore no interest is currently accrued.

On December 26, 2002, the Economy Ministry accepted the offers of conversion of the Provincial Public Debt into guaranteed bonds and Banco Francés was able to register the interest accrual of these holdings and financing according to a new interest rate.

In addition, the bank has presented to Banco Nación, in its capacity as trustee for the Provincial Development Trust Fund, provincial governments securities and loans granted to the government sectors of the provinces for a nominal value of US\$480,970,000, so as to carry out the swap provided by Decree No. 1387/01. Such transaction is recorded under the account Loans for the above mentioned value plus related accrued interest receivable as of December 31, 2002, switched into pesos at the exchange rate of 1.4 pesos to each dollar and adjusted by the CER.

The Departments of Treasury and of Finance of the Ministry of Economy, by Joint Resolution No. 39 and No. 10 dated March 19, 2003, denied their conformity under paragraph c) Annex II of Resolution No. 539/2002 in respect of the offer of conversion for an amount of Ps.197,000,000 submitted by the Bank within then framework of Decree No. 1579/2002 on November 27, 2002.

As of December 31, 2002, total exposure to Public Sector amounted to approximately Ps.9.5 billion. Although most of this debt has already been restructured and converted into pesos, no assurance can be given that the restructuring process of sovereign debt would not introduce new conditions for this debt and there is no way to foresee the final resolution on the administrative remedy submitted by the companies of Grupo Consolidar. See note 1.2.3 to the consolidated financial statements.

*Legal actions may continue to impact negatively the financial condition of the Bank.*

The Bank has been notified of injunctions, mainly pursuant to constitutional protection actions, that require deposits to be reimbursed in cash in amounts larger than provided under current legislation or regulations, or the release of rescheduled deposits or that allege that legislation passed by the Congress or measures issued by the Executive Branch or the Central Bank are inapplicable. As of the date of this annual report, neither Federal nor Buenos Aires City or Provincial courts have ruled on the substance of the matter; accordingly, the final outcome of these legal actions is still unknown.

In light of the loss that the fulfillment of precautionary measures imply for the financial system and, in particular, for Banco Francés, the Bank, directly or indirectly, through the ABA, has let this loss be known before the Ministry Economy and the Central Bank, expressing a reservation of legal rights. In addition, it has decided to register as a receivable the difference between the paid amounts for constitutional protection actions and the deposit amount registered in accordance with the existing regulations applying prudent criteria, it has also set up allowances if considers necessary to cover the future recoverability of such assets. As of December 31, 2002, Banco Francés registered Ps.391 million net of allowances under other receivables. To date, the authorities have not pronounced on an eventual compensation to the financial system for these losses.

The government sent to Congress a bill by which it proposes a compensation to the banks for (i) the foreign-exchange differences originated in actions made by depositors, and (ii) the differences resulting from the application of CER and CVS to mortgage and/or personal credits respectively.

Accordingly, to this annual report the loss stemming from judicial injunctions is still subject to Government decisions and/or a ruling of the Supreme Court. However, part of the problem was resolved by a successful performance of the Bank in the exchange plan options implemented by the Government. Banco Frances outperformed the market with a 31% acceptance in Swap I-Decree No. 905/02 of approximately Ps.1.0 billion, as compared to 24% acceptance in the financial system.

On September 10, 2002, the Government announced Swap II-Decree No. 1836/02; Banco Francés exchanged approximately Ps.206 million. The Government also authorized the withdrawal, at the option of depositors, of rescheduled deposits of up to a maximum amount of Ps.7,000 (excluding the CER adjustment) in force as of May 31, 2002, with up to a maximum amount of Ps.10,000 (excluding the CER adjustment) at the option of financial institutions. Banco Frances exercised the Ps.10,000 amount option and retained almost 62% of repaid deposits as new deposits.

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## Table of Contents

As a result of Swap III-Decree No. 739/03 option some additional Ps.540 million rescheduled deposits were liberalized in Banco Francés. Out of Ps.288 million under Ps.42,000, approximately 90% remained in the Bank as new deposits. As of May 31, 2003, total rescheduled deposits in Banco Francés amounted to Ps.784 million, while total deposits amounted to \$6,791million.

*Substantial assets of Banco Francés may be immune from attachment by creditors, preventing creditors from obtaining the amount represented by a judgment against us.*

We are a commercial bank organized under the laws of Argentina. Most of our shareholders, directors, members of the supervisory committee, and officers and certain experts named herein reside outside the United States (principally in Argentina). Substantially all of our assets are located outside the United States.

Under Argentine law, enforcement of foreign judgments is recognized provided that the requirements of Articles 517 through 519 of the Federal Code of Civil and Commercial Procedure are complied with. Among these requirements, is the requirement that the judgment does not violate the principles of public policy of Argentine law, as determined by an Argentine court. We cannot assure you that an Argentine court would not deem the enforcement of foreign judgments condemning us to make a payment in foreign currency outside of Argentina to be judgments contrary to Argentine public policy, if at that time there were legal restrictions prohibiting Argentine debtors to transfer foreign currency outside of Argentina to cancel indebtedness, without the approval of the Central Bank.

In addition, legislation affecting bankruptcy proceedings in Argentina has resulted in (a) the suspension until June 30, 2002 of payment obligations under any judicial creditors' agreement reached at a reorganization proceeding; (b) the suspension, during the 180 days commencing from February 14, 2002, of all court-mandated and out-of-court foreclosures and precautionary measures involving those assets necessary for the operation of factories or for the debtor's normal course of business; and (c) the extension of the exclusivity period in all insolvency proceedings governed by Law No. 24,522 initiated before February 14, 2002, for at least 180 judicial business days beyond such period's original expiration date or from the end of the last extension granted. For new insolvency proceedings, the exclusivity period is extended to 90 judicial business days and may be extended an additional 30 judicial business days. See *"Operating and Financial Review and Prospects-Overview-Evolution of the Current Economic Situation in Argentina"*.

Under Argentine law, the liquidation and commencement of bankruptcy procedures against financial institutions, until their banking license has been revoked by the Central Bank, may only be commenced by the Central Bank. If we are unable to pay our debts as they mature, it is likely that the Central Bank would intervene and revoke our banking license and file a bankruptcy petition in a commercial court. If the Central Bank intervenes, it could result in a prolonged reorganization process and it is likely that your remedies would be restricted. During any such process, the Central Bank would have to consider its interests as a regulator and possibly as a substantial creditor, and could well prioritize the interests of creditors and other parties contrary to yours. As a result of any such intervention, you may realize substantially less on your claims than you would in a bankruptcy in Argentina, the United States or other similar country.

*Creditors of Banco Francés can not collect any debt from any shareholder*

Banco Francés is a corporation registered under Argentine law whose shareholders restrict their liability to the shares they have subscribed and paid-in under the Law of Corporations No. 19,550 (the "Law of Corporations"). Therefore, and in terms of Law No. 25,738, no shareholder of the Bank, whether foreign or local, is liable beyond such paid-in shares for obligations deriving from transactions made by the Bank.

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## Table of Contents

*The Central Bank may disagree with our accounting method.*

On June 19, 2003, the Bank received a letter from the Central Bank stating that its application of the deferred tax method was not acceptable.

In the opinion of the Bank's board of directors and its legal advisors, the rules of the Central Bank do not prohibit the application of the deferred tax method generated by the acknowledgment of temporary differences between the accounting and tax result. Consequently, the entity accounted under such regulation a tax deferred asset that as of December 31, 2002 and 2001 amounts to Ps.366,000 and Ps.144,019, respectively.

*As of December 31, 2002, the Bank has registered a net deferred asset that is affected by uncertainties.*

The Bank determined the charge for income tax applying the effective tax rate to taxable income estimated for each year considering the effect of temporary differences between book and taxable income. The Bank considered as temporary differences those that have a definitive reversal date in subsequent years. As a consequence of the application of the deferred tax method as of December 31, 2002, the Bank has registered under the Other Receivables account a net deferred asset of thousand of Ps.366,000. Since this net deferred asset arises from temporary measure differences between the Central Bank accounting and fiscal standard in effect, and because a that on a significant part of the assets which are generated have uncertainties regarding the way to determine the recoverable value, accordingly, the uncertainties affect this asset recoverability.

### **Factors related to subsidiaries**

#### **1. Consolidar AFJP S.A.**

##### *General Overview.*

From the viewpoint of the Retirement and Pension Fund Administrators ("AFJP"), the mandatory conversion into pesos resolved by law has introduced a unilateral mechanism, which enabled the different actors in the financial scenario to break their contractual commitments, thus creating a series of distortions for which there is no easy solution.

During 2002, the greatest damages sustained by the AFJP industry were caused by regulatory changes which brought about a number of serious consequences, such as:

- A fall in the value of the pension funds expressed in dollars as a consequence of the mandatory conversion of public and private bonds and the default declared in respect of all public and private securities.
- A position of risk involving the Administrators as trust managers.
- A delay in the procedures required to obtain pension benefits payable by the State due to a combination of administrative inefficiency and scarcity of funds to face such obligations.
- A draft to reform the pension system.

In quite the same way as the "state of emergency" resulted in international isolation and the issuance of regulations which—within the framework of economic disorder deriving from devaluation and an asymmetric conversion into pesos—had negative effects on the AFJP industry, the reversion of such situation together with a return to institutional order now make it possible to expect a better scenario as regards the regulatory framework.

*The fall in the value of pension funds expressed in dollars as a result of the mandatory conversion of public and private bonds and the declaration of default in respect of all public securities.*

As regards the allocation of investments, both administrative and judicial measures were adopted to preserve the value of funds, such as (i) the non-acceptance of the conversion of public securities into pesos, and (ii) the implementation measures to maintain equality vis-à-vis other creditors of the State.

The funds under management were and still are expressed as a quota value in pesos, which makes it impossible to generate claims against the administrator based on the conversion into pesos, even if such claims may still be made for loss of relative value in respect of those assets previously expressed in dollars.

*Attribution of trust liability for the management of pension funds.*

One issue which generated great concern was the possibility of trust liability being attributed to the companies and their directors for the management of pension funds.

Such liability has been restricted through the promotion of a series of administrative and judicial actions, in respect of which all AFJP companies have adopted a common strategy to question those measures taken by the government which changed and continue to change the value of the managed funds, and refuse their consent to any legal or regulatory measures which might somehow affect such funds.

If at the start of the Argentine economic crisis there were already considerable delays in the granting of pension benefits by the State, such delays became more serious in the first stage of the government, mainly due to the lack of payment capacity and the illiquidity so generated.

As a result of this situation, an agreement between the UAFJP (the Union of AFJPs) and the public body in charge of pensions, the ANSeS (National Administration of Social Security), consisting of the provision of computer and printer support by the AFJP companies, was implemented in late 2002 and has resulted in a considerable improvement of the situation. As a consequence of the agreement, from the date of its implementation on December 11, 2002 through March 31, 2003 the stock of dossiers submitted by Consolidar to be resolved by the ANSeS was substantially reduced and is now adjusted to normal parameters.

*The reforms still pending to the pension system might negatively affect the AFJP companies.*

During 2002 there was an attempt to promote from the government a modification to the Integrated Retirement and Pension System, mainly sponsored by sectors which support the so-called distribution systems.

The move resulted in a draft containing reform objectives promoted by the Ministry of Labor and contested—successfully so far—by the AFJP companies and other social sectors. This derived from the preparation of a project of their own by the AFJP companies.

The new administration has not yet given further details regarding changes on the Pension System. However the continuity in the Ministry of Labor of officers—Social Security Secretary and his working team—that promoted the reform allows us to expect significant changes to the current system.

## **2. Consolidar Compañía de Seguros de Vida**

*The liquidity of this company has been affected by the economic crisis, and the new regulations might continue to affect its situation.*

As regards the Pension Life Insurance Companies, the default, together with the devaluation and the conversion of their portfolios into pesos, has had an impact on their assets, most of which are placed in public securities expressed in dollars (guaranteed loans), which have also been converted into pesos. These companies need to have their assets in close relationship with their technical liabilities, which, in this case, must be paid-in in pesos adjusted according to AFJP quota values. For this reason, the conversion of their dollar-denominated public securities into guaranteed loans that were later converted into pesos, and the absence of a secondary market for these securities, have placed them in a situation of restricted liquidity based on the legal nature of the new instruments.

Specifically, as a result of the lack of State regulations regarding the conversion of temporary retirements for incapacity (RTI) into definitive retirements for incapacity (RDI), a subject which should have been resolved nearly four years ago, a large number of benefits have continued to accumulate while a decision on such conversion is still

pending. Under the circumstances, the liquidity problem might become more serious in this sector regulation is issued requiring the immediate payment of all such benefits within a certain deadline.

In an attempt to avoid such a risk, talks are currently being held between the UAFJP and the authorities to ensure that the regulation for the payment of Definitive Retirement benefits for Incapacity (RDI) be implemented to adhere to deadlines that are reasonable both for the industry and the beneficiaries according to the system's payment capacity.

### **3. Consolidar Compañía de Seguros de Retiro S.A.**

*The devaluation of the peso and the conversion into pesos of all the foreign currency agreements has negatively affected the company.*

The Retirement Insurance Agreements comprise two well-defined stages. The first is the stage of savings and capitalization, when the capital is accumulated. The second is the stage of constitution of the income, be it originated in the accumulation of capital into the retirement insurance or made up by the capital contributed through savings or retirement insurance.

During the capital accumulation stage, the contracts recognize the insured's right to redeem the accumulated capital at any time prior to the constitution of the income.

Such accumulated capitals were affected by the devaluation and the conversion into pesos. The regulations for such conversion only recognized the insured's right to claim for the value in pesos at a rate of one-to-one to the dollar plus the adjustment of such amount according to the CER.

The insurers, in turn, found it impossible to return the agreed amounts as the default, devaluation and conversion into pesos had directly affected their investments constituted of deposits and private or public securities in foreign currency.

This generated demands for reimbursement from the insured. Right from the start, Consolidar responded by promoting a dialog with its clients, which resulted in a very low level of litigation. As at 31 March 2003, on a total of 6,452 Retirement Insurance policies, there were only 93 legal claims in sixteen months, representing 1.44% of the total portfolio.

To these negotiations we must add the appearance of Decree No. 558/2002, which enabled the Insurers to offer the insureds redemption schemes contemplating a number of options in order to minimize the damaging effects of the asymmetric conversion into pesos.

Following the new regulation, Consolidar submitted for approval of the Argentine Insurance Superintendency different option plans for the redemption or maintenance of policies issued in dollars, which were approved. At present these option plans are being offered to insured, with an acceptance of more than 75% of the original portfolio, to date, both in the number of policies and in amounts.

On the other hand, the investments made afterwards with reserves and the appreciation of the peso, and expectations generated by the institutional changes, have resulted in a decrease of the claims for redemption as a result of an attitude of cautious confidence in the new rules of the game on the part of the insureds.

*Possible claims for the conversion of life income agreements in dollars into Argentine pesos.*

The situation is different in the case of Life Income agreements constituted in dollars. These were converted into pesos at the rate of one peso and forty cents to the dollar by decision of the National Insurance Superintendence.

Initially, such conversion meant a greater amount -in pesos- for the beneficiaries, which increased their purchasing power. As a result there were a minimal number of claims.

Even if these amounts were additionally increased by later gains made on such investments and exceeded any salary adjustment granted by the public sector as well as the inflation for the period, some claims started to come from the insureds.

These claims, to this date, continue to be minimal as compared to the insureds portfolio. As of March 31, 2003 there were a total of 17 claims in a universe of 3,714 life income accounts in force, representing 0.46% of the portfolio.

The favorable evolution of the exchange rate, which puts the reserves more and more in line with the value of the local currency, as well as the revaluation experienced by the public and private securities in default, are both elements which tend to reduce the possibility of greater conflicts.

To this we must add that the disbursements corresponding to Life Income benefits are made on a monthly basis and with a long-term perspective.

#### **4. Banco Francés (Cayman) Limited**

As of December 31, 2002, this subsidiary, with total assets of US\$987 million, suffered losses of US\$222 million, mainly due to the effect of the peso conversion of Argentine risk assets and to the provision for loan losses related to risk assets of the Government. On August 15, 2002, the Bank made a capital irrevocable contribution in kind (Government guaranteed loans GL 08) with original nominal values of US\$185,043,841, which were pesified under the decrees mentioned in note 1.1.1 to the consolidated financial statements, representing a book value in pesos, as of that date, of Ps.305,409. Such contribution was authorized by Resolution No. 360 of the Central Bank's Board of Directors dated May 30, 2002 and by the Cayman Islands Monetary Authority's resolution dated February 19, 2003.

In addition, the Bank has requested from the Central Bank authorization to make a capital contribution consisting of Government Libor 2012 bonds in dollars it received as compensation from the pesification effect of the Government Guaranteed Loans portfolio held by Banco Francés (Cayman). Through Board Resolution No. 645 of October 17, 2002, the Central Bank authorized the Bank to make such capital contribution in kind to Banco Francés (Cayman) in the amount of US\$386 million of BODEN 2012 or the required amount to comply with the capital relations requirements, according to the regulations of Cayman's monetary authority. On February 19, 2003 Cayman Islands Monetary Authority authorized the capitalization of the mentioned bonds which were contributed on March 24, 2003. In April 2003 the Banco Francés (Cayman) stockholder's meeting approved the capitalization of the above mentioned irrevocable capital contributions.

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **IMPACT OF RECENT EVENTS IN ARGENTINA ON BANCO FRANCÉS**

##### **The Financial System's Liquidity Crisis in 2001 and in 2002 and its Effect on Banco Francés**

Substantially all of our operations, property and customers are located in Argentina. Accordingly, the quality of our loan portfolio and our financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing in Argentina. The Argentine economy has experienced a persistent recession since 1998, and in 2002 the recession has deepened into an unprecedented political and economic crisis which has disrupted Argentina's financial system and effectively paralyzed its economy. In response to the crisis, the Government undertook numerous and far-reaching initiatives, the full consequences of which are still uncertain. See *"recent political and economic development in Argentina"*.

Although the long-term effects of the current crisis and the governmental measures still remain uncertain, they have had a material adverse effect on our liquidity, financial condition, results of operations and business prospects. See *"Effects of the Argentine Crisis on Banco Francés since December 31, 2001."*