

Risk Factors

Factors Related to Argentina

Overview

We are an Argentine corporation (sociedad anónima) and most of our operations, properties 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. Our country has experienced an economic and political crisis in past years, marked by a severe recession and the abandonment of U.S. dollar-peso parity, which led to a significant devaluation of the peso against foreign currencies. These conditions have had an adverse effect on Banco Francés's financial condition and results of operations, but currently, and after a strong economy comeback, the Bank is in a steady recovery process, but no assurance can be given that this trend will continue.

In the last quarter of 2001, following almost four years of recession, high levels of external indebtedness, and the highest country risk ratings level yet, Argentina found itself in a critical economic situation marked by a significant decrease in banking deposit levels, high interest rates, a significant decline in the demand of products and services, and a substantial increase in unemployment. The economic debacle was accompanied by a political crisis that led to the resignation of President Fernando De la Rúa in December 2001, which was followed by a quick succession of interim presidents in the course of ten days, which then ended with the election by the Legislative Assembly of Senator Eduardo Duhalde (senator of the Justicialist Party) as president in January 2002. During his term in office, President Duhalde adopted a number of measures designed to help stabilize the economy, including ratifying the suspension of payments of a portion of Argentina's sovereign debt.

By late 2001, significant deposits were withdrawn from financial institutions as a result of the lack of confidence in the country's economic future and the Government's ability to sustain the parity of the peso with the U.S. dollar. This run on deposits had a material adverse effect on the Argentine financial system as a whole, including Banco Francés. 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 that hindered collections by financial institutions thus adversely affecting their ability to refund deposits.

On December 1, 2001, in light of the severe withdrawal of deposits from the financial system, the Government established tight restrictions on cash withdrawals from banks and imposed controls on the transfer of funds outside of Argentina. The restrictions on cash withdrawals from banks, known as the "corralito," were lifted by December, 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, created an atmosphere of great uncertainty. The measures adopted by the government during 2002 led to economic crisis and resulted in a profound change to the Argentine monetary and foreign exchange regime, and to the regulatory framework for all business sectors in Argentina. This strongly impacted economic activity, contracting GDP by 10.9% during the year, and significantly depreciated the peso, which, in turn, led to a 41.4% and 118.2% increase in retail and wholesale prices, respectively. The Government implemented measures aimed at addressing the effects of amending the Convertibility Law and the asymmetric conversion into pesos of foreign currency denominated debts and bank deposits subject to Argentine law, were also designed to allow the Government to recover access to financing, reduce Government spending, restore liquidity to the financial system, reduce unemployment, and generally stimulate the economy. Beginning in July 2002 the demand for pesos began to grow. The peso began to appreciate, the consumer inflation rate decreased sharply and deposits began to flow back into the financial system, attracted in part by high interest rates. Employment in the private sector also showed a modest increase in the second part of the year as a result of growth in the tradable goods sector. Industrial activity, driven by exports and import substitution, began to recover in April 2002 and reached a monthly growth rate of 1.7% in the last quarter of the year.

On May 25, 2003, Néstor Kirchner became the new President of Argentina, for a term that is scheduled to expire on December 10, 2007. Since 2003, there has been a favorable evolution in the Argentine economy, ending the economic recession that lasted over four years. The following economic indicators are worth mentioning: i) The GDP increased by 8.8%, 9.0% and 9.2% during 2003, 2004 and 2005 respectively; ii) unemployment rate declined from 20.7% to 10.1% between the 4th quarters of 2002 and 2005; iii) total deposits in the financial system grew approximately 80.5% between December 2002 and December 2005; iv) the foreign exchange rate after depreciating to Ps.2.96 per U.S. dollar at the end of 2003, remained relatively stable at around 3 pesos per dollar;

v) a steadier financial context with an increase in the deposits made in financial institutions; and vi) a marked increase in the market value of Government securities. More significantly, in February 2005 the Argentine Government announced its plan to restructure its bonds which have been in default since 2001, approximately US\$80 billion. The Government offered to exchange the outstanding bonds for bonds worth roughly 35% of the original bonds. In March 2005, the Government announced that 76% of bondholders accepted its offer and tendered their bonds. The Government subsequently announced that it would not make payments on bonds that were not tendered. In June 2005 the Government issued and delivered the new bonds in exchange for the defaulted bonds. These new bonds were originally scheduled to be issued and delivered in April 2005, but the completion of the exchange offer was delayed due to litigation by hold-out creditors. Although the economic policies implemented by the Kirchner administration have succeeded in the short and mid-terms, there still remain major issues to be resolved, such as contracts with privatized public utilities and continuing default with respect to the pre-existing sovereign debt of the Argentine government that did not participate in the government's exchange offer consummated in June 2005.

Four years have elapsed since the beginning of the crisis in Argentina's financial system, and despite encouraging developments in the Argentine economy, such as the stabilization of economic variables, there are still a considerable number of macroeconomic and political issues that affect the complete normalization and may have an adverse effect on the banking system and the economy as a whole, including an increase in the inflation.

The devaluation of the peso and other economic measures adopted by previous government's, and sustained by the current Government, have stimulated economic growth. After a period of high recession and contraction of the economy, the ceasing of payments of Argentina's debts, the devaluation of the "peso", and the increase of poverty, Argentina was able to reverse the negative trends and resume growth. The gradual closing of the output gap, together with specific price adjustments of certain regulated and semi-regulated goods and services, contributed to registering 6.1% retail inflation in 2004, significantly higher than the 3.7% recorded in 2003. In 2005, the inflation accelerated further, increasing to 12.3%. It is possible that Argentina may experience higher inflation in the future that could limit economic growth and have a material adverse effects on Argentina's financial system, and our results of operations and financial condition.

Furthermore, the Kirchner administration's principal challenge is to generate confidence, and create conditions that allow for long-term and sustainable growth. It cannot be assured that the necessary reforms will be implemented to foster economic growth, keep inflation under control and reestablish political confidence and such circumstances would likely have an adverse effect on the economy

Payment to the IMF reduces backing in international reserves, and may affect the country's ability in case of facing a new scenario of future financial crisis.

At the beginning of December 2005, President Kirchner announced the Executive intention to make an early prepayment all of the Government's debt outstanding with the IMF. The administration announced that it intended to use excess foreign reserves available at the Central Bank of approximately US\$8 billion. On January 3, 2006, the Argentine Government, made an early and total payment of all amounts due to the IMF for an approximate amount of US\$9.55 billion. This reduction of Argentina's international reserves weakens its capacity to face international shocks and may limit access to international capital markets and foreign currency. The depletion of the Central Bank's reserves could also inhibit the Central Bank's ability to intervene in the foreign exchange market in order to stabilize the peso in case of an attack on the currency. Conversely, the attempt to recompose the level of international reserves held prior to the payment to the IMF could lead to substantial increase in Central Bank intervention in the FX market thereby accelerating growth in the monetary aggregates and raising inflationary pressures. Notwithstanding, as of end of May 2006, the Central Bank had recovered almost 60% of its reserves prior to the IMF payment, which means that approximately US\$5.6 billion entered the foreign reserves of the Central Bank.

The incomplete restructuring of Argentina's sovereign debt may affect the future of economic performance

The Argentine debt exchange offer closed on February 25, 2005. On March 18 2005, the Argentine government announced the final results of the debt restructuring process, with a rate of participation by bondholders of approximately 76.15% and an aggregate tendered amount of US\$62.3 billion. Despite the high levels of acceptance of the offer, the amounts not tendered for exchange totaled approximately US\$20 billion, which creates uncertainty as to the final resolution of the sovereign debt problem and its impact on the future performance of the Argentine economy. The settlement of the debt exchange was completed on June 2005 due to a delay resulting from legal action by certain bondholders who did not participate in the exchange offer and attempted to attach the tendered bonds. Some of these bondholders have legal actions against the Argentine government, therefore the Treasury Department of the United States and the IMF have insisted that the Argentine government provide a clear strategy directed to those bondholders who did not participate in the exchange offer.

This circumstance, might lead to a prolonged period where no new alternatives are offered to “hold-outs” and a significant proportion of Argentine public debt remains in default. Therefore, sovereign credit ratings will not improve significantly, while the risk of an attachment being made on an Argentine international payment subsists and might adversely affect access to international financing for the banking system.

The devaluation of the peso diminished the ability of Argentine companies, with foreign currency denominated debt to make payments on such debt. Accordingly, no assurance can be given that this issue will not have a material and adverse effect on Argentina’s economic and financial condition in the future.

The economic policies of the Argentine government as well as any future decrease in the value of the peso against the US dollar might have an adverse impact on the financial condition and the results of operations of Argentine companies. The peso has devalued in the past and may fluctuate significantly in the future. Law No.25.561, or the public Emergency and Foreign Exchange Regime Reform Law (the “Public Emergency Law”), promulgated on January 6, 2002, terminated over a decade of one-to-one parity between the US dollar and the peso and authorized the Argentine government to set the exchange rate. Subsequent to the devaluation of the peso in early 2002, a floating exchange rate regime was adopted and significant fluctuations in the value of the peso may be offset by repeated interventions of the Central Bank through sales of US dollars. In the past 3 years, however, the peso has remained relatively stable and Central Bank intervention through the purchase of US dollars has prevented a further appreciation of the peso. The Public Emergency Law has been extended until December 31, 2006.

However, it can be no assurance that the policies implemented by the Argentine government in the future will stabilize the value of the peso against foreign currencies and therefore, the peso may continue to be subject to significant fluctuations and depreciations in the future, which might significantly and adversely affect the financial condition and the results of operations of Argentine companies.

The stability of the foreign exchange market have led the Government to relax currency exchange controls. However, no assurance can be given that currency exchange controls will not again be tightened and that such circumstance will not have a material adverse effect on the results and the solvency of the financial system.

During the first quarter of 2002 and as the economic crisis deepened, the Government established a series of currency restrictions and foreign exchange controls. These measures included a prohibition of fund transfers abroad as a general matter, except in connection with foreign trade transactions, payment of purchases or withdrawals made through credit or debit cards and settlement of financial transactions, as well as the requirement of Central Bank’s approval to transfer funds outside of Argentina for purposes of paying principal and interest on financial loans. Since then, the currency restrictions and foreign exchange controls have been gradually relaxed in light of the increasing stability in the foreign exchange market. See “Additional Information - Exchange Controls”. While the foreign exchange system has become more flexible under current regulations, there can be no assurance that the Government will not again tighten these restrictions or otherwise change the current foreign exchange system or that one or more of the types of transactions described in this annual report will not be severely restricted. Such restrictions could have a material adverse effect on the Argentine financial system, and on our results of operations and financial condition.

Financial institutions, have made payments related to currency exchange rate differences in the refunding of deposits as ordered by the courts, for which financial institutions have not been compensated. Such payments have had a material and may continue to have an adverse effect on the liquidity and the solvency of the financial system and on its financial condition.

The measures adopted by the Federal Executive with respect to the political, economic, financial and foreign exchange emergency triggered a number of legal actions filed by individuals and companies, in the form of constitutional protection actions (judicial injunctions resulting in the immediate release of frozen deposits), against the Federal Government, the BCRA and Financial Institutions as the petitioners mainly arguing that the Law on Public Emergency and its supplementary provisions are unconstitutional. Based, mainly in the “Kiper against Federal Government and Others” case, dictated by the Supreme Court, the courts massively started to dictate through constitutional protection actions, the partial reimbursement of bank deposits in US dollars or Argentine pesos at the “floating” exchange rate.

On March 11, 2002, the Argentine Association of Government-owned and Private Banks and the Argentine Bank Association filed a “per saltum” appeal with the Argentine Supreme Court under section 195 “bis” and following 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 systemic crisis, and on the need to comply with effective regulations to achieve an ordered and gradual solution for the restrictions affecting the financial system and guaranteeing a plurality of interest.

The Supreme Court of Justice ("CSJN") has handed down the following decisions in relation to the claims filed as a result of the emergency situation described above:

- On March 5, 2003, the action for the protection of constitutional rights brought against the Federal Government by the Province of San Luis, the Banco de la Nación Argentina and the BCRA was declared to be unconstitutional, ordering the return of the amounts deposited in either US dollars or the equivalent in pesos at the free market rate of exchange.
- On July 13, 2004, in the case "Cabrera, Gerónimo Rafael v. Argentine Executive Branch on action for the protection of constitutional rights (amparo)", it rejected the claim of a depositor on the grounds that the depositor had exercised his rights within the framework of the emergency laws and collected a portion of his deposit in pesos without reserving the right to claim the difference in U.S. dollars at the exchange rate prevailing in the open market.
- On September 14, 2004, in the case entitled "CAMPBELL, María Enriqueta Vda. De Tufiño y otro c/ P.E.N. - Banco de Salta S.A. Grupo Macro s/ AMPARO- Medida cautelar", the CSJN rejected the claim of a depositor which was filed before the Court of original Jurisdiction and the Court of appeal, declaring the unconstitutionality of the emergency rule questioned regarding the pesification of the deposit funds in foreign currency.
- On October 26, 2004, in the case entitled "BUSTOS, ALBERTO ROQUE Y OTROS c/ P.E.N. Y OTROS s/ AMPARO", the CSJN revoked a decision on the protection of constitutional rights (amparo), declaring that such action is not adequate for such claim and upheld the constitutionality of the rule by which the Argentine economy was pesified due to the economic, financial and exchange emergency situation which the country is going through, also confirmed by Congress Law. The revoked decision of the Original Jurisdiction does not state how the Judge of this jurisdiction will resolve the fulfillment of the Court and for such reason proceed to the refund of the amount already paid due to the legal claims ordered by a Grade Judge.

Moreover, in connection with the above commented cases, on February 3, 2004, the ABA, which groups all national banks of foreign-capital, filed with the Ministry of Economy a request for compensation of the exchange gain/loss resulting from compliance with judicial injunctions related to constitutional protection actions commenced by holders of deposits denominated in US Dollars prior to the alteration of the convertibility regime. The Bank has consented to such filing.

As of the date hereof, most Argentine banks continue to be subject to precautionary measures and execution of judgments rendered by first or second instance courts as well as to decisions that adhered to the Supreme Court rulings in respect to the constitutionality of pesification and adhering to the own acts' theory (as described in the mentioned cases: "Cabrera, Gerónimo Rafael v. Argentine Executive Branch on action for the protection of constitutional rights", "CAMPBELL, María Enriqueta Vda. De Tufiño y otro c/P.E.N. - Banco de Salta S.A. Grupo Macro s/Amparo-Medida Cautelar", and "BUSTOS, ALBERTO ROQUE Y OTROS c/P.E.N. Y OTROS s/AMPARO").

Enforcement of the precautionary measures ordered by different courts in constitutional protection actions imply for the financial system substantial losses of capital. The Bank has informed of these losses to the Ministry Economy and the BCRA and has sought to reserve all of its legal rights.

To date the authorities have not ruled on possible compensation for the financial system in relation to these matters.

Furthermore, pursuant to Communication "A" 3916 dated April 3, 2003, the BCRA resolved to allow the capitalization of the differences arising from compliance with court orders in cases challenging regulations in force in accordance with Law 25,561, Decree 214/02 and complementary regulations in relation to deposits within the financial system. This asset (calculated according to the difference in nominal terms between the deposit at the free market exchange rate at the moment of each payment compared to the book value of 1.40 pesos per dollar plus CER to that date) is being amortized in 60 monthly installments as of April 2003.

Class actions against financial entities for an indeterminate amount, may affect the profitability of the financial system.

At the moment certain public and private organizations have attempted collective actions against financial institutions in Argentina. Class actions are established in Argentina in the National Constitution but have not been regulated for their use. Nevertheless courts have admitted class actions in the absence of specific regulation, covering the legal void. These courts have

admitted diverse lawsuits against financial entities initiated in defense of collective interests, based on arguments of objection of overcharging on products, applied interest rates, advice in the sale of public securities, etc.

Economic conditions in Argentina could potentially restrict the access to the capital markets and third-party funding.

In view of the combination of macroeconomic and regulatory developments in Argentina principally during 2002 and the adverse effect of those events on the financial condition, Argentine entities encountered significant difficulties in accessing the capital markets and alternative long term financing. No assurance can be given that Argentine entities will be able to access the securities markets or that they may rely on third-party funding, either locally or internationally, in amounts sufficient to meet future projects obligations. In addition, no assurance can be given to investors that the current macroeconomic environment in Argentina will be maintained in the long term, thereby adversely affecting Argentine entities' ability to generate funds sufficiently to meet their current and future debt obligations.

Government measures designed to exercise greater control over funds entering the country may disrupt the enterprises ability to access the international capital markets

Argentina's executive branch enacted Decree No. 616/2005 to regulate funds coming into and flowing out of Argentina. The government has publicly announced that these measures are intended to maintain stability and support the economic recovery of the country. These measures require that 30% of the funds remitted to Argentina must be deposited in an account with a local financial institution as a US dollar deposit for one year, without accruing interest. Financial sector and nonfinancial private sector inflows originated from foreign financial borrowings that are invested in nonfinancial assets and must be fully repaid (principal and interest) within 24 months from the date of the borrowing, are not subject to the foregoing deposit requirement. These measures may adversely affect the Argentine entities ability to access the international capital markets and to effectively invest the funds raised in any such financing which could materially adversely affect Argentine entities' financial condition and results of operations.

Factors Related to Banco Francés

Banco Francés has a significant portfolio of public bonds, and loans to, the Argentine Government and Argentine provinces, including recently restructured debts. Because of our high level of exposure, a failure by the federal or provincial governments to meet their obligations in accordance with their terms would have a material adverse effect on our financial condition.

As of December 31, 2005 Banco Francés and its subsidiaries's holdings of public sector debt totaled approximately Ps.7,972.6 billion, consisting mainly of: (i) External and Internal Restructured debt: Ps.3,808.0 million in secured loans; Ps.105.3 million in guaranteed bonds; and Ps.3.3 million in other provincial loans (ii) External Debt restructured: Ps.652.0 million in Argentine Peso denominated Bonds and Ps.88.1 million in Argentine Dollar denominated Bonds; (iii) Internal debt in the restructuring process: Ps.812.2 million in Provincial Development Trust Fund (*); and (iv) Post default public debt: Ps.74.1 million in bonds issued to compensate for the pesification, which we refer to as Boden 2012, and Ps.180.8 million in other bonds and Ps.2,248.8 million in Central Bank bills and notes. Of the outstanding public sector debt, only the External and Internal debt in the restructuring process mentioned in (iii) were in default. As a result of the Government's debt restructuring, the Bank and its subsidiaries received for the defaulted portfolio Dollar denominated Discount bonds and Peso denominated Discount bonds, to be accounted for at the lower of: (a)the accounting value of the assets exchanged; or (b)the face value of the new bonds (adjusted by CER up to March 17, 2005 in the cases of Discount Bonds in pesos) plus its future nominal interest cash flows (in accordance to Communication "A" 4270 and its amendments).

Although Banco Francés and its subsidiaries their reduced significantly its public sector exposure during 2005, Banco Francés continues to have a significant portfolio of bonds and loans of the Argentine Government. Due to its high level of exposure, any Government proposal that changes the terms and conditions of repayment of the sovereign debt could have a material adverse effect on our financial condition. A new default by the Government in respect of a substantial amount of its debt would have a material adverse effect on our financial condition.

(*) As of May 31, 2006 the restructuring process has successfully ended and the Bank swapped this debt receiving Secured Bonds due 2020.

The asymmetric conversion of foreign currency assets and liabilities into pesos has created a structural mismatch of terms and rates of assets and liabilities that materially and adversely affected the Bank's results of operations in 2003. Banco Francés has a high level of exposure to the risks associated with this mismatch, which may have a material adverse effect on the Bank's future profitability in the event real interest rates significantly increase from the current levels.

Banco Francés finds itself among the private banks in Argentina with the highest volumes of assets and liabilities with mismatched terms and interest rates derived from the asymmetric conversion of foreign currency assets and liabilities into pesos. During fiscal year 2005 the Bank has fully paid the rediscounts received from the Central Bank with the proceeds of the sale of public sector bonds and loans with longer duration than such liability, thus reducing the term mismatch. Furthermore, the following actions have reduced our exposure: (i) the increases in CER adjusted deposits; (ii) the sale of bonds of, and loans to the Argentine Government and the Argentine provinces from our portfolio; and (iii) the subscription of the necessary bonds to be delivered to depositors who had accepted the Government's swap option plans, with CER adjusted assets accounted for in the books of the Bank. Despite these reductions in exposure, the Bank maintains a Ps.3.2 billion long CER position as of December 31, 2005. During fiscal year 2005 the remaining imbalance positively affected the Bank's results of operations, within an environment of negative real interest rates. Nevertheless, no assurance can be given in connection with the future relative behavior of interest rates vis-à-vis the consumer price index. If the real interest rates significantly increase, such increase could have an adverse effect on our profitability in the future.

Banco Francés, has made payments related to currency exchange rate differences in the refunding of deposits as ordered by the courts, for which the Bank had not been compensated. Such payments have had a material and may continue to have an adverse effect on the liquidity and the solvency of the Bank.

Banco Francés continued to be made part of Lawsuits ("amparos"). The Bank expects to present its defenses in line with the normative dictated by the Government.

The judgments of the CSJN mentioned previously have not reduced the number of court orders issued by the inferior courts in the different jurisdictions of the country where the trials are taking place.

Banco Francés paid Ps.44 million of negative exchange rate difference during 2005 in compliance with court orders in lawsuits brought by the Bank's customers, regarding deposit refunds.

Banco Francés has been served with notice of provisional remedies, issued mainly in proceedings against the pesification, that require deposits to be refunded in cash in amounts larger than those established by current law and regulations, or require the release of rescheduled deposits, or that declare the inapplicability of regulations issued by the Congress, the Federal Executive or the Central Bank. As of the date of this report, neither Federal courts nor Buenos Aires City or Provincial courts have ruled on the merits of the such legal actions. Consequently, the final outcome of these legal actions is still unknown. These legal actions have had a material and may continue to have an adverse effect on the results and the financial condition of Banco Francés.

Argentine corporate disclosure, governance, and accounting standards may provide different information than would be provided under U.S. standards.

The securities laws of Argentina that govern publicly listed companies such as ours impose disclosure requirements that are more limited than those in the United States in important respects. The Argentine securities markets are not as highly regulated and supervised as the U.S. securities markets. There are also important differences between accounting and financial reporting standards applicable to financial institutions in Argentina and to those in the U.S. As a result, financial statements and reported earnings of Argentine financial institutions generally differ from those reported based on U.S. accounting and reporting standards. See *"Operating and Financial Review and Prospects-US and Argentine Banking GAAP Reconciliation"* for a description of the principal differences between Argentine banking GAAP and U.S. GAAP and how they affect our financial statements and the reconciliation to U.S. GAAP of net income and total stockholders' equity for the periods ended and as of the dates therein indicated.

Lawsuits brought against us outside Argentina, the enforcement of foreign judgments and complaints based on foreign legal concepts may be unsuccessful.

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. If any shareholder were to bring a lawsuit against our directors, officers or experts in the United States, it may be difficult for them to effect service of legal process within the United States upon these persons or to enforce against them, in the United States courts, judgments obtained in the United States based upon the civil liability provisions of the federal securities laws of 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 other requirements, the foreign judgment must not violate the principles of public policy of Argentine law, as determined by an Argentine court. In addition, there is doubt as to

whether an action could be brought successfully in Argentina on the basis of liability based solely upon the civil liability provisions of the United States federal securities laws.

Because we are a financial institution, any insolvency proceeding against us would be subject to the powers and intervention by the Central Bank, which may limit remedies otherwise available and extend the duration of the proceedings.

Under Argentine law, the liquidation and commencement of bankruptcy proceedings against financial institutions, until their banking license has been revoked by the Central Bank, may only be commenced by the Central Bank. If Banco Francés were unable to pay its debts as they come due, the Central Bank would intervene and revoke its banking license, and file a bankruptcy petition before a commercial court. If the Central Bank intervenes, the reorganization proceeding could take longer and it is likely that the shareholders' remedies would be restricted. During any such process, the Central Bank would have to consider its interests as a regulator, and could well prioritize the claims of other creditors and third parties against the Bank. As a result of any such intervention, the shareholders' may realize substantially less on the claims than they would in a bankruptcy proceeding in Argentina, the United States or any other country.

The special rules that govern the priority of different stakeholders of financial institutions in Argentina, which give priority to depositors with respect to most other creditors, may negatively affect other stakeholders in case of judicial liquidation or bankruptcy of the Bank.

Argentine Law No. 24,485 in force since April 18, 1995, as amended by Law No. 25,089, provides that in case of judicial liquidation or bankruptcy of the Bank, all depositors, irrespective of the type, amount or currency of their deposits, will have general and absolute preferential rights with respect to all other creditors, except for certain labor credits and credits secured with pledge or mortgage, to be paid with 100% of the funds deriving from the liquidation of the Bank's assets. In addition, depositors of any kind of deposits have special preferential rights over the remaining creditors of the Bank, except for certain labor credits, to be paid with (i) any of the Bank's funds which may be held by the Central Bank as total reserves, (ii) any remaining funds of the Bank in existence as of the date on which the Bank's license is revoked, or (iii) any funds derived from the compulsory transfer of certain assets of the Bank according to instructions of the Central Bank, in the following order of priority: (a) deposits made by legal entities up to Ps.5,000 per entity, or its equivalent in foreign currency, (b) deposits for terms exceeding 90 days, and (c) all other deposits on a pro rata basis.

Factors Related to Banco Francés's Subsidiaries

- Consolidar AFJP S.A.

Overview

From the viewpoint of the Retirement and Pension Fund Administrators (Administradoras de Fondos de Jubilaciones y Pensiones or "AFJPs"), the mandatory conversion of foreign currency denominated assets into pesos resolved by law in 2002 introduced a unilateral mechanism that enabled the different actors in the financial system to breach their contractual commitments, thus creating a series of distortions for which there is no easy solution.

Regulatory changes occurred during 2002 brought about serious consequences that continued to pervade the Argentine pension system during 2005, such as the decline in the value of the pension funds dollar terms as a result of the mandatory conversion into pesos of foreign currency denominated bonds of Argentine governmental and private issuers and the default declared in respect of domestic debt securities; an increase in the risk associated with the position of AFJPs as fund managers; and delays in the procedures to obtain pension benefits payable by the Government due to administrative backlog and the Government's lack of resources to fulfill such obligations.

Exposure of AFJPs decreased by approximately 10%, and AFJPs' investment portfolio assets grew considerably.

Since the government of president Néstor Kirchner took office in May 2003, the Government has been promoting a reform in the pension system but the AFJPs have not been given an opportunity to participate in the process.

For more information about relevant developments affecting our subsidiaries engaged in the AFJP business, see *“Information on the Company – Recent Political and Economic Developments in Argentina”*.

The restructuring process and other disruptions in the operations of AFJPs have exposed AFJPs to a heightened risk of litigation that may have a material adverse effect on their financial condition and results of operations.

The pesification of foreign currency denominated assets and liabilities greatly reduced the value of the assets in the pension funds managed by AFJPs in dollar terms. The loss of value of AFJPs’ portfolios was aggravated by the restructuring of the Government’s sovereign debt.

During the last sixteen months, just one lawsuit has been filed against AFJPs but it has been rejected by Court. However, new legal actions directed against the AFJPs, their managers and directors could affect the assets of the AFJPs, which would have an adverse effect on the financial condition of AFJPs.

The Government is promoting a reform of the pension system that may have far-reaching consequences for AFJPs.

The Government is currently promoting a reform of the pension system. Although the scope of the envisaged changes is still unclear, the Government has indicated that any proposed modification would not replace the AFJP based system with a distribution system.

During 2005 no concrete measures were adopted towards the reform of the pension system. Nonetheless, no assurance can be given that the definitive reform plans will not have a material adverse effect on the AFJP’s industry.

- Consolidar Compañía de Seguros de Vida S.A.

The economic performance of our subsidiary Consolidar Compañía de Seguros de Vida S.A. has been negatively affected by the economic crisis. Future regulations may also have a material adverse effect on its financial condition and results of operations.

For pension life insurance companies, the Government’s default on its debt obligations, together with the devaluation and the conversion of their portfolios into pesos, has had an impact on their assets, which consists mostly of securities issued by the Argentine federal and local governments denominated in dollars, such as guaranteed loans, which were also converted into pesos. These companies need to match 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, certain regulatory reforms of the pension system may also have a material adverse effect on pension life insurance companies.

- 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 and may continue to have a material adverse effect on our subsidiary Consolidar Compañía de Seguros de Retiro S.A.

Retirement insurance agreements comprise two well-defined stages. The first is the stage of savings and capitalization, when the capital is accumulated. During the second stage the insurance company makes periodic payments to the insured party. During the capital accumulation stage, the contracts recognize the insured party’s right to redeem the accumulated capital at any time prior to the beginning of annuity payments.

The accumulated capital amounts of policy holders were affected by the devaluation of the peso and the conversion into pesos. The regulations for such conversion only recognized the insured party’s right to claim the value in pesos at a rate of one peso per U.S. dollar plus the adjustment of such amount according to the CER.

The insurers, in turn, were unable to return the agreed amounts as the Government’s default on its debt, the devaluation and conversion into pesos had directly affected their investments, which consist of deposits and private or public securities in foreign currency.

As a consequence, policy holders started to seek reimbursements from the insurance companies. Consolidar immediately responded by promoting a dialog with its clients, which resulted in a very low level of litigation.

To minimize the damaging effects of the asymmetric conversion into pesos, Decree No. 558/02 enabled the insurers to offer to the insured parties redemption schemes contemplating a number of options. 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 have been approved. At present these option plans are being offered to policyholders, and have already been accepted by more than 85% of the original portfolio, both in the number of policies and in amounts.

The investments made with reserves after the devaluation of the peso and the conversion of assets into pesos, the appreciation of the peso, and expectations generated by institutional changes, have resulted in a decrease of the claims for redemption as a result of an attitude of cautious confidence in the current market practices on the part of the insured parties.

Possible claims derived from the conversion of life annuity agreements in dollars into Argentine pesos may have a material adverse effect on the financial condition and results of operations of Consolidar Compañía de Seguros de Retiro S.A.

Pension-related life annuity agreements originally denominated in dollars as of January 31, 2002 were converted into pesos at the rate of Ps.1.40 per U.S. dollar plus an inflation adjustments according to CER index by decision of the National Insurance Superintendence. Initially, beneficiaries had in their accounts a greater amount in pesos as a result of the conversion, 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, Consolidar Compañía de Seguros de Retiro S.A. has started to receive claims from insured parties. These claims, to this date, continue to be not material in comparison to the total policy portfolio. As of December 31, 2005 there had been a total of 164 claims in a universe of 3.660 active life income accounts, representing 2.6% of the related portfolio.

The favorable evolution of the exchange rate, as well as the revaluation of public and private securities in default are elements that tend to reduce the probability of further claims and legal actions against Consolidar Compañía de Seguros de Retiro S.A. However, an increase in the number of claims and legal actions could have a material adverse effect on our financial condition and results of operations.

ITEM 4. INFORMATION ON THE COMPANY

RECENT POLITICAL AND ECONOMIC DEVELOPMENTS IN ARGENTINA

Argentine Economic Scenario

The key economic event during 2005 was the restructuring of the public debt in default launched by the Government in February pursuant to which the Argentine government offered its creditors three types of bonds in exchange for the Argentine sovereign debt they hold, as well as bonds in lieu of past due interest on such sovereign debt. The exchange offer encompassed 81,836 million dollars in securities held by residents and non residents, and achieved an acceptance rate of 76.15% . The new bonds issued after the exchange (par, discount & quasi-par) amounted to 35,261 million dollars, among which 44% were denominated in pesos. The reduction in the debt's face value and the improvement in currencies composition following the exchange, resulted in a significant contraction of the interest burdens and an extension of the maturity profile, with the first amortization of the principal of the restructured debt taking place in 2024.

There was no slow-down in the pace of economic activity and for the third consecutive year, the economy grew by 9.2% . According to the Monthly Estimator of Economic Activity (EMAE), economic activity increased by 8.6% year over year during the first quarter of 2006. However, due to a lower employment/GDP elasticity, improvements in the unemployment rate were not as strong as in the previous year. The unemployment rate fell to 10.1% during 2005 fourth quarter, two percentage points below 2004 fourth quarter.

With an economy growing at high rates, inflationary pressures started to appear during the first quarter of the year. Inflation measured in terms of the consumer price index averaged a 1% monthly increase during the year, with core inflation at a 1.1% monthly average. Regulated prices (mainly public utilities' tariffs) had a moderating impact on inflation in spite of which, the year ended with a 12.3% increase in prices, almost twice the rate of the previous year. The strong increase in food prices during the second half of the