

Risk Factors

Factors Related to Argentina

Overview

We are an Argentine corporation (sociedad anónima) and substantially all 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. Commencing with the last quarter of 2001 our country experienced an economic and political crisis, 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. This crisis was also 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. These conditions 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 this context, 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) GDP increased by 8.8%, 9.0%, 9.2%, and 8.5% during 2003, 2004, 2005 and 2006 respectively;
- ii) Unemployment rate declined from 20.7% to 8.7% between the 4th quarters of 2002 and 2006;
- iii) Total deposits in the financial system grew approximately 137% between December 2002 and December 2006;
- iv) The foreign exchange rate after the initial depreciation has remained relatively stable at around 3 pesos per dollar, ending 2006 at 3.069 pesos per dollar;
- v) A marked increase in the market value of Government securities;
- vi) The restructuring of the Argentine Sovereign Debt completed in June 2005 with a rate of participation by bondholders of approximately 76.15% and an aggregate tendered amount of US\$62.3 billion.
- vii) A considerable increase of the primary balance by 2.5%, 3.9%, 3.7% and 3.5% of the GDP during 2003, 2004, 2005 and 2006 respectively.

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 (for more information regarding the restructuring of Argentina's sovereign debt please see risk factor "The incomplete restructuring of Argentina's sovereign debt may affect the future of economic performance").

Five 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.

The devaluation of the peso and other economic measures adopted by previous governments, 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.

In the event the Argentine government is unable to implement suitable political measures necessary to transform the actual growth of the Argentine economy into a long term process there is a risk of the possible reappearance of political and economic turmoil. This could have a material and adverse effect of the Argentine economy, including the financial system.

A considerable increase of the inflation rate could negatively affect the Argentine economy in general, including the access to the long term financing market.

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. The inflation accelerated further, increasing to 12.3% in 2005 and 9.8% in 2006. In the event of a scenario of high inflation rates, the Argentine market could be severely weakened in relation to international markets by eroding the effects of the devaluation of the peso, which could in turn have a negative effect in the economy activity levels and employment. Moreover, a high inflation rate could undermine confidence in the Argentine financial system in general, and this would negatively affect the business volume of banks, including Banco Francés, and could potentially hinder loan activities.

A considerable decrease of the primary balance could negatively affect the Argentine Economy in general, and the access to international long term financing markets in particular.

Commencing in 2005, primary expenditure started to increase more abruptly than public income. Thus, the primary balance of the public non financial sector has reduced from a 3.9% of the GDP in 2004, to a 3.5% of the GDP in 2006. Moreover, the primary balance could be negatively affected in the future in the event the level of public expenditure is increased due to provisional debts, financial assistance to the provinces with economic problems, and the granting of subsidies to several economic activities.

Consequently, the decrease in the primary balance due to the increase of primary expenditure could negatively affect the future capacity of the government to access the long term financing markets.

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 totalled 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 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 last five years 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 still 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 VS. FEDERAL GOVERNMENT AND OTHERS" case, dictated by the Argentine Supreme Court of Justice ("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 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 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 Supreme Court 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 pesificated 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.
- § On December 27, 2006 in case "MASSA, JUAN AGUSTIN c/P.E.N. s/ AMPARO" the Supreme Court confirmed the constitutionality of the emergency legislation during 2001, 2002 regarding the pesification of the Argentine economy and stated the calculation method applicable for the restitution of the deposits in the financial system subject to the mentioned emergency legislation. This calculation method is substantially different from the method that was originally enforced by the Executive Branch because it entitles each deposit holder to receive from the corresponding financial institution the reimbursement of his deposit at an exchange rate of Ps.1.4 = US\$1, adjusted by the benchmark stabilization coefficient known as and herein referred to as "CER" until payment date, plus a 4% annual compensatory interest for every concept which cannot be capitalized. CER is a stabilization coefficient applicable to debt obligations that have been pesificated as from February 4, 2002. This coefficient is calculated according to the variation of the Consumer Price Index published by a government dependent organism known as INDEC. The Supreme Court also stated that the already withdrawn amounts as result of judicial measures shall be considered as partial payments, but the SCJN did not clarify the corresponding adjustment procedure.

§ On March 20, 2007 the Supreme Court issued a final resolution in case "EMM S.R.L. c/ Tía S.A. s/ ordinario s/ incidente de medidas cautelares (depósitos judiciales)" declaring that the dispositions of Decree No. 214/02 were not applicable to a judicial deposit that was ordered in said case, and therefore ordered Banco de la Ciudad de Buenos Aires to maintain in United States Dollars the funds of said judicial deposit.

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 above-cases).

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. The Dispositions of Communication "A" 3916 dated April 3, 2003, which states the method to account the capitalizations arising from compliance with court orders in cases challenging regulations in force in accordance with Law No. 25,561, Decree No. 214/02 and complementary regulations in relation to deposits within the financial system is still in force.

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

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 during the last years 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. 616/05 to regulate funds coming into and flowing out of Argentina in order 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, 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, 2006 Banco Francés and its subsidiaries' holdings of public sector debt totalled approximately Ps.7,071.1 billion, consisting mainly of: (i) External and Internal Restructured debt: Ps.2,886.8 million in secured loans; Ps.937.4 million in guaranteed bonds; and Ps.525.7 million in Argentine Pesos denominated bonds; and (ii) Post default public debt: Ps.108.6 million in bonds issued to compensate for the pesification, which we refer to as Boden 2012; Ps.91.2 million in other bonds; Ps.0.5 million in other loans and Ps.2,520.9 million in Central Bank bills and notes. During 2006, Banco Francés sold the total amount of Dollar denominated Discount Bonds and part of Peso denominated Discount Bonds. The remaining part of the Peso denominated Discount Bonds were sold on January 2007. As of December 31, 2006, Peso denominated Discount bonds are valued according to the accounting value of the assets exchanged excluding interest paid, and included and estimate to cover the difference between said value and the market value. Moreover, as from December 31, 2006 Peso denominated discount bonds owned by Consolidar Group were valued at market value.

Although Banco Francés and its subsidiaries have reduced significantly their public sector exposure during 2005 and 2006, 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.

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 during the past severe economic crisis. Banco Francés has a high level of exposure to the risks associated with this mismatch, which may have an 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, since the beginning of the crisis, the following actions have reduced our exposure: (i) the increases in CER adjusted deposits; (ii) the sale of bonds adjusted by CER 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.2.5 Billion long CER position as of December 31, 2006. During fiscal year 2005 and 2006 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 Supreme Court 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.40.2 million of negative exchange rate difference during 2006 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, and after the Supreme Court's resolution in case "MASSA, JUAN AGUSTIN C/ PODER

EJECUTIVO NACIONAL-DT0.1750 S/ AMPARO", the consequences of the resolutions issued on such case are still not clear. Notwithstanding that, the Bank has estimated this contingency and has raised allowances for the total amounts (See Note 3.4.13 to the Financial Statements. 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-U.S. 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.

Consolidar A.F.J.P. S.A. is a Privately Owned Pension Funds Managing Company. Its main purpose is to administer the retirement contributions of affiliates and grant them old age pension, disability pension and death pension.

A legal reform has been issued enforcing material changes to the AFJP business, such as the opening procedure for affiliates to switch from the Capitalization Regime to the pay as-you-go Public Regime and setting a maximum 1% commission. These combined changes could reduce the A.F.J.P. industry total affiliates and total results of operation. (see Note 18 to the Consolidated Financial Statements).

In relation to the reform itself, the consequences may not be completely identified during the year 2007 since a very important part of such reform shall start to be in full force and effect as from the year 2008. Therefore, the consequences of the mentioned modifications in the A.F.J.P. business cannot be assessed at this time.

Consolidar's A.F.J.P. Board of Directors is analyzing the effect of the above mentioned legal changes and providing the correspondent adjustments to the Company's procedures to adapt them to the new legal framework.

§ Consolidar Compañía de Seguros de Vida S.A.

The purpose of this company is the coverage of all disability and death risks of workers that are affiliated with the Privately Owned Pension Funds Managing Company. That is to say that it covers the complementary capital necessary to obtain the principal to fix a rent for those pursuing a disability pension or for the beneficiaries of the worker's death pension.

As a consequence of the last Social Security Law Reform, termination of Disability and Death Insurance business shall have a material change in the core business of the company volume of operations and economics results.

The Pension Reform set forth by Law No. 26,222 prescribes that as from the year 2008 disability and death insurance shall not be covered by Life Insurance Pension Companies, but they shall be covered by the creation of a Mutual Fund that shall be financed with a percentage of the Pensions and Retirements Fund managed by each A.F.J.P.

The Company's Board of Directors is analyzing the action plan to be followed and estimates that its execution would have no significant negative equity impact on the Bank.

§ Consolidar Compañía de Seguros de Retiro S.A.

The main purpose of this company is to execute Individual Pension Agreements, Group Agreements and Life Annuities.

In the event of a resolution by the Supreme Court of Justice modifying the actual exchange rate of peso into dollar for extra financial agreements (Ps.1=US\$1, adjusted by the CER until payment date), could cause the fulfillment of multiple judicial claims that could have a negatively adverse effect on our subsidiary Consolidar Compañía de Seguros de Retiro S.A.

The accumulated capital amounts of policy holders were affected by 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.

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.

The National Supreme Court of Justice recognized the constitutionality or validity of the rules and regulations whereby pesification of negotiable instruments were established.

This final resolution is applicable to all obligations of the financial sector, whereas there is a pending definition regarding those obligations which are not related to the financial system, including Insurance Agreements.

The fact that rules concerning pesification of financial system debts are considered valid is an important precedent that could assure the same treatment to obligations of the Insurer Companies.

However, the risk is still present for Consolidar Cia de Seguros de Retiro SA but it is not related to the confirmation of pesification, but to the exchange rate that should be applicable to the conversion of US Dollars into Argentine currency (pesos) for each insured party.

The final resolution regarding the validity of pesification governing financial sector obligations, prescribes a calculation method that is substantially different from the method that was originally enforced by the Executive Branch, because it entitles each deposit holder to receive from the corresponding financial institution the reimbursement of his deposit at an exchange rate of Ps.1.4 = US\$1, adjusted by the CER coefficient until payment date, plus a 4% annual compensatory interest for every concept which cannot be capitalized.

Notwithstanding, the National Supreme Court of Justice rendered a new judgment concerning non-banking matters. In this regard, as in the previous case, the validity of both general and specific pesification rules, was affirmed.

Unlike the previous case, there is an innovation because the exchange rate based on a shared-effort doctrine is applied to this type of obligation (same as those obligations arising from insurance agreements as regards pesification), resulting in an approximately lower exchange rate than the market dollar value.

The National Supreme Court of Justice is expected to issue a final resolution on Life Annuities and Individual Pension Insurance Agreements asserting the validity of the passed rules and regulations and setting an exchange rate value based on the so-called shared-effort principle.

ITEM 4. INFORMATION ON THE COMPANY

RECENT POLITICAL AND ECONOMIC DEVELOPMENTS IN ARGENTINA

Argentine Economic Scenario

The year 2006 began with the total cancellation of the debt with the IMF for an amount of approximately US\$9.5 billion, an event which had a direct impact on the Central Bank's international reserves.

However, a substantial trade surplus together with greater capital inflows received in the last quarter of the year led to a quick recomposition of reserves, which by the end of the year amounted to US\$32.04 billion, more than US\$3.4 billion above their level at the end of 2005. The trade balance rose to US\$12.4 billion, 6% above the surplus of the prior year despite a deceleration in the volumes exported owing to poor wheat and corn harvests and the prohibition to export meat which was partially applied during the year. This was due to an additional improvement in the terms of trade triggered by higher prices for grains and oil, and to less dynamic imports, which are less sensitive to price variations.

Despite an abundant supply of foreign currency, the Government's target of rapidly recovering the level of foreign currency reserves achieved prior to the payment made to the IMF pressured the peso of exchange rate upwards in the first half of the year. The turbulence which affected international financial markets in May-June also had an impact on the foreign exchange market, increasing the demand for US dollars and raising their price to 3.10 pesos (the BCRA reference rate) by mid October. However, an increase in capital flows to emerging markets towards the end of the year resulted in a nominal appreciation of the peso, which averaged Ps.3.06/USD in December.

Economic activity continued to grow at a vigorous pace in 2006, despite a somewhat slower rate in the first quarter, so the year ended with an average increase of 8.5% according to the EMAE (Monthly Economic Activity Index) compiled by the National Statistics Institute, once again led by investment. Private consumption has grown at a strong rate but has not yet recovered its GDP share prior to the crisis. Reflecting steady economic growth, the unemployment rate continued to decrease and reached an 8.7% low in the fourth quarter of 2006, compared to 10.1% in the same period of the previous year. The high employment/GDP elasticity which characterized the early post-devaluation years and permitted year-over-year unemployment decreases of approximately three percentage points in the 2003-2005 period now tends to more moderate values, in line with long term historical elasticity.