

	December 31,				
	2011	2010	2009	2008	2007
Devaluation Rate	8.23%	4.72%	9.93%	9.61%	2.66%
Exchange Rate	4.3032	3.9758	3.7967	3.4537	3.1510
Inflation Rate <sup>(1)</sup>	12.67%	14.56%	10.26%	8.98%	14.56%

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

## 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 from macroeconomic and political conditions prevailing in Argentina. In 2001, the Argentine economy suffered a severe economic and political crisis ("the Argentine Crisis"), but was able to recover during Nestor Kirchner's term as President, which ended in 2007. Kirchner was succeeded by Cristina Fernández de Kirchner, who was reelected for another four year term on October 23, 2011. The global financial crisis in 2009 and 2010 (the "Global Financial Crisis") led to lower growth and a moderate rise in unemployment, but did not affect the stability of Argentina's financial system (see *Item 4. Information on the Company—Recent Political and Economic Developments in Argentina – Macroeconomic Environment*).

Although the economic policies implemented by the Kirchner administrations have succeeded in the short- and mid-term, there still remain issues to be resolved, such as:

- § contracts with privatized public utilities, and the cancellation of subsidies to the energy and gas companies that could affect consumption levels.
- § increasing inflation affecting competitiveness and economic growth.
- § availability of long-term fixed interest rate loans.
- § high commodity prices have had a favourable impact on economic activities in recent years, but are very volatile and out of the Government's scope of control.
- § recent measures implemented by the Government to control import could lead to the imposition of barriers to Argentine exports to trading parties and have a negative impact on economic activities.
- § the Government has issued several measures that have limited the access to the purchase of foreign currency, which has caused certain uncertainty especially to dollar-denominated deposit holders.

*High inflation rate expectations could negatively affect the Argentine economy in general, including access to the long-term financing market.*

In the event of high inflation rates, Argentine exports could lose competitiveness in international markets and private consumption could decline, causing a negative effect on economic activity 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 BBVA Francés, and could potentially hinder the interest margin of long-term and fixed interest rates loans, although currently these loans are not a significant part of the Bank assets.

There exists a discrepancy between statistical data published by National Institute for Statistics and Census ("INDEC") referring to the CPI (consumer price index) for the Greater Buenos Aires area, CPI indexes corresponding to the different Argentine regions/provinces and private estimates. This generates uncertainty about the country's actual rate of inflation and does not contribute to anchor inflation expectations. It is to be noted that assets indexed by Coeficiente de Estabilización de Referencia ("CER") are adjusted according to the Greater Buenos Aires CPI.

*A considerable decrease in the public sector balance could negatively affect the Argentine economy, and access to international financing markets.*

Commencing in 2005, primary spending began to increase more than public income. Thus, the primary fiscal surplus of the central public non-financial sector has fallen from 3.9% of GDP in 2004 to 0.6% of GDP in 2011. Moreover, the primary balance could be negatively affected in the future if public spending continues to increase at a rate higher than revenues due to subsidies to lower-income sectors, social security benefits, financial assistance to provinces with economic problems, increased spending on public works and subsidies to the energy and transportation sectors.

A further deterioration in fiscal accounts could negatively affect the government's ability to access the long-term financing markets.

*The Government has recently imposed a series of restrictions in the foreign exchange markets that could have a material adverse effect on the results and the solvency of the financial system.*

During the months of October and November 2011, new measures were implemented to limit the purchase of foreign currency, by the creation of a "Foreign Exchange Consultation Program", according to which entities authorized to operate in foreign exchange transactions must previously consult and register all operation of purchase and sale of foreign currency carried out by its clients. The prior approval of the National Tax Bureau for any purchase of foreign currency was added as another requirement. Moreover, uncertainties concerning the access to hard currencies led to a 10% withdrawal of dollar denominated deposits in the financial system, during October 2011.

Although these deposits have stabilized in the recent months, further measures in the foreign exchange market, could lead to similar episodes and result in a reduction in liquidity in dollar denominated deposits.

In addition, the Government issued on October 2011, Decree No. 1722, which eliminated an exception for oil and mining companies, and thus require these companies to settle in the foreign exchange market all their export receipts.

Moreover, the National Insurance Bureau, issued on October 2011, Resolution No. 36,162 imposing the obligation for insurance companies to have all investments and liquid assets allocated in Argentina.

Finally, as from January 2012 the National Tax Bureau must be notified in advance and approve all import operations. This new procedure could lead to a delay in the delivery of imported products with a negative impact on industrial activities using imports and spare parts.

These new restrictions could have a material adverse effect on the Argentine financial system, on our results of operations and financial condition and on our ability to make dividend payments to non-residents.

*Government measures designed to exercise greater control over funds entering the country may disrupt our 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 U.S. dollar deposit for one year, without accruing interest. Financial sector and non-financial private sector inflows originated from foreign financial borrowings that are invested in non-financial 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.

*Conditions in the global financial markets and economy have yet to normalize and may materially adversely affect the Bank's business and profitability.*

The outlook for the global economy over the near- to medium-term remains challenging as the global financial system has yet to fully stabilize. Results of operations in the past have been, and in the future may continue to be, materially affected by many factors of a global nature, including political, economic and market conditions; the availability and cost of capital; the liquidity of global markets; the level and volatility of equity prices, commodity prices and interest rates; currency values and other market indexes;

technological changes and events; the availability and cost of credit; inflation, the stability and solvency of financial institutions and other companies; investor sentiment and confidence in the financial markets; or a combination of these factors.

While there are additional signs of global recovery, it is not yet certain whether the global recovery will continue or reverse.

*As a consequence of Financial Action Task Force's ("FATF") evaluation report on Anti-Money Laundering and Combating Financing of Terrorism, Argentina has to implement measures in order to comply with FATF's recommendations. In the event these measures are not correctly addressed, Argentina could find difficulties in obtaining financing and attracting direct foreign investments.*

In October 2010, FATF issued a report on Anti-Money Laundering and Combating the Financing of Terrorism in Argentina, stating that since the last evaluation, finalized in June 2004, Argentina has not made adequate progress in addressing a number of deficiencies identified at the time.

Moreover, in February 2011, Argentina, represented by the Minister of Justice, attended the FATF Plenary in Paris, in order to present a preliminary action plan. Notwithstanding that, FATF has granted an extension until June 2011 to work closely with Argentina and will consider its next steps in the context of the enhanced follow-up process.

During the last semester of 2011, Argentina issued a series of new laws regarding financial and economic crimes together with market manipulation, that were considered an important progress in Argentina's action plan. Notwithstanding that, Argentina continues to be subject to a close follow up process with FATF.

Therefore, the outcome of the on-going evaluation process carried out by FATF could adversely affect Argentina's ability to obtain financing from international markets and attract foreign investments.

#### Factors Related to BBVA Francés

*The short term structure of the deposit base of the Argentine financial system, including the Bank, could lead to a reduction in liquidity levels and limit the long-term expansion of financial intermediation.*

After the Argentine Crisis, the volume of financial activity regarding deposits and loans was severely reduced.

Between 2003 and 2007, a gradual and increasing recovery of deposits levels took place. But because of the international crisis, these levels were reduced during 2008 and further improved during the last semester of 2009, 2010 and 2011.

Such recovery resulted in an improvement of the liquidity of the financial system.

Notwithstanding that, liquidity problems are not totally overcome. Due to the fact that the majority of the new deposits in the local financial system are short term deposits, the financial system could be exposed to other risks, such as: (i) term mismatch for entities that decided to enter into long term loans; (ii) sudden interest rates increases; (iii) and certain limitations to the expansion of long term loans due to deposit volatility.

Therefore, insufficient long term financing and its high costs could affect the activities, the liquidity and financial operations of the Bank.

*The instability of the regulatory framework, in particular the regulatory framework affecting financial entities, could have a material adverse affect in financial entities activities, such as the Bank.*

Since the beginning of Cristina Kirchner's second term as President, a series of new regulations have been issued, mainly regulating the foreign exchange market and new capital requirements for financial institutions.

In this regard, Communications "A" 5272 and 5273 of the Central Bank, dated February 1, 2012, increased the capital requirements for financial institutions carrying out activities in Argentina. These Communications require certain minimum capital levels in order to support operational risks and the distribution of dividends, and an additional capital buffer equivalent to 75% of the total capital requirements.

The Central Bank has stated that these new requirements are based on the credit risk measure required by Basel II.

It must be stressed that the Bank, taking into consideration the new capital requirements for operational risks, still has an excess of capital as of December 31, 2011 with respect to the minimum capital requirements of the Communications, of Ps.765.0 million. Notwithstanding that, as a consequence of the additional 75% capital buffer requirement, the Bank will not distribute dividends to its shareholders during the present fiscal year.

Moreover, a new law has been recently approved by Congress that introduces amendments to the Central Bank 's charter. The principal issues addresses by this bill are the use of Central Bank reserves for the cancellation of public debts, together with the implementation of policies by the Central Bank in order to interfere in the fixing of interest rates, and terms of loans to financial institutions. It is relevant to point out that the future effects of this law, once it is published and fully effective, are still uncertain.

The absence of a stable regulatory framework could result in significant limits to the financial institutions' decisions, such as the Bank, regarding asset allocation, that could cause uncertainty with respect to the future financial activities and result of operations.

*Argentine corporate disclosure, governance and accounting standards may require the Bank to provide different information than would be required under U.S. standards.*

The securities laws of Argentina that govern publicly listed companies such as the Bank impose disclosure requirements that are more limited than those in the United States. 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 "Item 5. 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 a judgment against them in the United States courts based upon the civil liability provisions of the United States federal securities laws, due to specific requirements of Argentine law regarding procedural law issues and principles of public policy.

*Because we are a financial institution, any insolvency proceeding against us would be subject to the powers of 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 BBVA 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 and 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 BBVA Francés' Subsidiaries

##### § Consolidar AFJP S.A.

Consolidar AFJP S.A. ("Consolidar AFJP" or "AFJP") is a privately owned pension fund managing company whose purpose is the administration of retirement contributions from affiliates and the corresponding grant of old age, disability and death pensions. On December 4, 2008, the National Government enacted Law No. 26,425 to implement social security reform, by which the National State assumed once again the coverage of contingencies in cases of old age, disability and death. Certain matters deriving from Law No. 26,425 that remain pending, such as possible indemnity in favor of AFJP in the amount of its corporate capital arising from the loss of its corporate business purpose. Notwithstanding this, on December 7, 2010, Consolidar AFJP filed a claim against the National Government and the Ministry of Labor and Social Security, requesting compensation for the losses suffered by the company and its shareholders, as a result of the aforementioned social security reform.

Moreover, as a consequence of the social security reform and the loss of corporate business purpose, on December 28, 2009, in a Shareholders' Extraordinary Meeting of AFJP, the shareholders decided to terminate the corporate existence of the company and liquidate it.

During 2011, 215 legal labor actions were filed against AFJP claiming differences in severance payment amounts. AFJP has estimated this contingency and raised the corresponding allowances. The exact effects of either of the unknowns described above are impossible to predict, but it is reasonable to anticipate that neither would have material adverse effects on our results.

#### ITEM 4. INFORMATION ON THE COMPANY

##### RECENT POLITICAL AND ECONOMIC DEVELOPMENTS IN ARGENTINA

##### Macroeconomic Environment

Economic activity was very dynamic in 2011 and the high growth rates of the previous year continued in spite of the political cycle, which included several elections in the provinces along with presidential and congressional elections in October, and despite the international financial tensions that continued to be on the high side. The Argentine economy grew on average 8.8% year over year according to the Monthly Economic Activity Indicator (EMAE), which is a proxy for GDP. Growth was driven mainly by Investment Private Consumption and Public Consumption (which increased 19.9%, 11.3% and 10.8%, respectively year over year in real terms in the first 9 months of 2011). Exports grew only 3.4% year over year during the same period.

Strong growth had a positive impact on employment as, similarly to 2010, more jobs were created. Unemployment rates in the fourth quarter of 2011 went down to 6.7% compared to 7.3% in the same period of the prior year. The average unemployment rate in 2011 was 7.2% compared to 7.7% in 2010. Labor force participation averaged 46.3% in 2011, up 0.3 percentage points from an average of 46% in all 2010. Tight labor markets also resulted in significant wage hikes (29.4% year over year to December, according to the INDEC's average wage index). In 2011, formal private sector salaries were increased by 35.8% while wages in the informal private sector rose by 32.8% year over year and by 9.7% year over year in the public sector.

In 2011, the primary fiscal surplus contracted due to a 32.1% year over year increase in public spending by transfers to the private sector that kept growing (36.9% growth in 2011) and a 37.4% increase in pensions and social security payments. Tax collections increased by 28% during the year, spurred by Income Tax, VAT and Social Security contributions. Import and export collections also grew 20.9% resulting in a total primary surplus of Ps.4.9 billion in 2011, 80.4% of the 2010 results. The federal operating deficit, after interest payments, was Ps.30.7 billion compared to a surplus of Ps.3.1 billion obtained in 2010.

The CPI of the Greater Buenos Aires area increased 9.5% in 2011, slightly less than the 10.9% increase in 2010. This was due mainly to more moderate increases in the prices of food and beverages, the main items in the index, which rose 7.6% as compared to 14.7% in 2010. A breakdown between goods and services showed that goods went up by 10.4%, while services went up by only 8.3%, contained by the regulated utility rates and transport prices.