

Exchange Rates

The following table shows the annual high, low, average and year-end free and controlled exchange rates for dollars for the periods indicated. The Federal Reserve Bank of New York does not report a noon buying rate for pesos.

Year /Period	High	Low	Average(1)
May 2005 ⁽⁴⁾	Ps. 2.9040	Ps. 2.8840	Ps. 2.8909
April 2005 ⁽⁴⁾	Ps. 2.9188	Ps. 2.8823	Ps. 2.9004
March 2005 ⁽⁴⁾	Ps. 2.9522	Ps. 2.9142	Ps. 2.9266
February 2005 ⁽⁴⁾	Ps. 2.9353	Ps. 2.8893	Ps. 2.9153
January 2005 ⁽⁴⁾	Ps. 2.9718	Ps. 2.9233	Ps. 2.9460
2004 ⁽⁴⁾	Ps. 3.0718	Ps. 2.8037	Ps. 2.9415
December 2004 ⁽⁴⁾	Ps. 2.9913	Ps. 2.9418	Ps. 2.9709
2003 ⁽⁴⁾	Ps. 3.3625	Ps. 2.7485	Ps. 2.9493
2002 ⁽⁴⁾	Ps. 3.8675	Ps. 1.0000	Ps. 2.9793
2001 ⁽³⁾	Ps. 1.0000	Ps. 1.0000	Ps. 1.0000
2000 ⁽²⁾	Ps. 1.0000	Ps. 1.0000	Ps. 1.0000

- (1) The average of monthly average rates during the period.
(2) Source: Banco de la Nación Argentina ("Banco Nación").
(3) Source: Banco Nación. From December 23, 2001 through January 11, 2002, Banco Nación did not publish an official exchange rate due to governmental suspension of the exchange market.
(4) Source: Central Bank.

The exchange rate on June 23, 2005 was Ps.2.8692 = US\$1.00.

Fluctuations in the exchange rate between pesos and dollars affect the dollar equivalent of the peso price of the ordinary shares on the Buenos Aires Stock Exchange (Bolsa de Comercio de Buenos Aires – "BCBA") and as a result, would most likely affect the market price of the ADSs. Fluctuations in exchange rates also affect dividend income measured in dollars. The Bank of New York, as depositary for the ADSs is required, subject to the terms of the deposit agreement, to convert pesos to dollars at the prevailing exchange rate at the time of making any dividend payments or other distributions. The following table shows the rate of devaluation of the peso vis-à-vis the dollar, the rate of exchange (number of pesos per dollar prevailing in the Argentine foreign exchange market) and the rate of inflation for wholesale prices for fiscal year ended December 31, 2004 and for the four most recent fiscal years. Since the repeal of the Convertibility Law in January 2002, the peso has devalued approximately 186.92% vis-à-vis the dollar.

	For the Fiscal Year Ended December 31,				
	2004	2003	2002	2001	2000
Devaluation Rate	1.39%	(12.71)%	236.00%	0.00%	0.00%
Exchange Rate	2.9738	2.9330	3.3600	1.0000	1.0000
Inflation Rate ⁽¹⁾	7.92%	1.84%	118.21%	(5.45)%	2.61%

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

Risk Factors

Factors Related to Argentina

Overview

Substantially all our operations and customers are located in Argentina. Accordingly, the quality of our assets, our financial condition and our results of operations depend primarily on macroeconomic and political conditions prevailing in Argentina. As detailed below and as further described in *"Information on the Company - Recent Political and Economic Developments in Argentina,"* Argentina has experienced an economic and political crisis in recent 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 and may continue to have an adverse effect on Banco Francés's financial condition and results of operations.

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 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 that ended with the election by the Legislative Assembly of Senator Eduardo Duhalde as president in January 2002.

The Government's ability to fulfill its obligations and the availability of credit lines were greatly diminished. On December 23, 2001, interim President Adolfo Rodríguez Saá declared the suspension of debt payments on a significant 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. During 2002, the Government implemented measures to address 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. Moreover, these measures 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 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 the President of Argentina. 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) an increase in the Treasury primary surplus, the consummation of a short-term agreement with the International Monetary Fund and the achievement of the fiscal goals established by the IMF, described below in further detail; ii) a decrease and stabilization in the foreign exchange parity as a result of substantial commercial surplus; iii) an increase of approximately 9% in the Gross Domestic Product during year 2004; iv) stabilization of wholesale and retail inflation rates; 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.

Moreover, unemployment levels also showed considerable improvements reaching 13.2% during the third quarter of 2004, over 3 percentage points below the rate for the third trimester of 2003. See a more detailed description of the developments in 2004 in "*Information on the Company—Recent Political and Economic Developments in Argentina*."

More significantly, in February 2005 the Argentine Government announced its plan to restructure the bonds 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.

While economic indicators show considerable improvement in the Argentine economy since the start of the recession and the restructuring of the Government debt is a positive development, there are still a number of macroeconomic and political uncertainties that affect the normalization of the banking system and the economy as a whole.

The devaluation of the peso and other economic measures adopted by the Government have stimulated economic growth; however, Argentina faces high inflation rates and energy shortages, which could affect the Argentine financial system and results of operations.

The devaluation of the peso and other economic measures adopted by the Government have stimulated economic growth, ending the interruption in industrial output created by the recession. Although, on average, there is still idle capacity in the industrial sector, some restrictions on manufacturing production may arise from energy shortages. In order to alleviate energy restrictions, the government has made provisions for importing natural gas from Bolivia and fuel-oil from Venezuela, as well as restricting natural gas exports to Chile. However, in the event of an extremely severe winter, gas supply to industries and electricity generation plants may be interrupted since priority is given to residential consumption.

The gradual closing of the industrial output gap, together with specific price adjustments of certain regulated and semi-regulated goods and services, gave rise to a 6.1% retail inflation in 2004, significantly higher than the 3.7% recorded in 2003. In the first quarter of 2005, inflation accelerated further, increasing 4% from the 6.1% rate in 2004 (9.1% year over year in March). In order to meet its 8% inflation target for 2005, the Central Bank may pursue a tighter monetary policy and continue to raise interest rates on reverse repurchase transactions and short term bills which are referred to as LEBAC, as it did in the first four months of 2005.

Despite recent economic growth, it is possible that Argentina may experience higher inflation and energy shortages that could limit economic growth and have a material adverse effect on Argentina's financial system, and our results of operations and financial condition. See *"Information on the Company-Recent Political and Economic Developments in Argentina"*.

In August 2004 the Government suspended the agreement with the IMF to refinance Argentina's debt with multilateral financial institutions maturing over the next three years. On re-establishing negotiations with the IMF, there can be no assurance that the IMF will consider that the Argentine Government met the targets established for 2004. Likewise there can be no assurance on the new targets to be set for the future, their effects and whether they will be reached. Additionally, the effects of an increase in the international interest rate or a breach of this new agreement on the Argentine economy and the financial system are uncertain.

On September 10, 2003, Argentina and the IMF executed a letter of intent for an agreement to refinance Argentina's debt with multilateral financial institutions maturing over the next three years in the amount of US\$21.61 billion. The fiscal and monetary targets agreed with the IMF were met during the first semester of 2004 although no significant progress was made on the structural reforms, such as the amendment of tax revenue-sharing system between Government and Provinces and the renegotiation of public service utilities' contracts and fees. In August 2004, the Argentine Government decided to temporarily call off the agreement with the multilateral entity, until the defaulted debt restructuring process came to an end. Since then, Argentina has been making interest and principal payments to the IMF, thus reducing gross debt with the IMF.

Following the conclusion of the sovereign debt restructuring process, negotiations with the IMF were resumed. Before Argentina and the IMF can enter into a new Agreement and set targets for 2005, the IMF will have to affirm that Argentina accomplished the 2004 targets. There can be no assurance the IMF will consider 2004 targets to be completed which might further delay the negotiations for the new agreement and 2005 targets. In addition to new fiscal, monetary and structural reform targets, a new agreement with the IMF will require proposing a solution for the hold-out creditors from the recent sovereign debt restructuring. There can be no assurance that a new agreement with the IMF will be reached during this year and what targets will be agreed on. In the event that no agreement with the IMF is reached, Argentina's ability to obtain long-term financing will be impaired and its financing needs would be greatly increased since it would be required to continue meeting the full principal amortizations. These factors, together with the increase in international interest rates, could have an adverse impact on the Argentine economy, which would negatively affect the Argentine financial system, our financial condition and results of operations.

See a more detailed description of the negotiations and the agreement with the IMF in *"Information on the Company-IMF Financing."*

Although the restructuring of the Argentine sovereign debt has been completed with a high degree of acceptance, hold-out creditors to such restructuring process represent a critical issue to the National Government. No assurance can be given that the outcome of possible legal actions, which could be filed by such hold-out creditors against the National Government, or international pressure to come to an agreement with them, will not adversely affect the Argentine economy in general.

On January 14, 2005, the restructuring process started for a substantial part of Argentina's sovereign debt that has been in default since late 2001 (for an approximate amount of US\$80 billion). The process included a significant reduction in the principal owed as well as reduction in interest rates and extension of payment terms. For this purpose, the National Government offered three types of bonds in exchange for the defaulted securities, whose characteristics were established pursuant to Decree No. 1753/04.

Additionally, the Government has not adopted any resolution regarding debt not submitted to the restructuring process. The proposal presented contemplates the issuance of bonds with significant waiting periods both for the amortization of principal and interest. This will allow the Government to schedule maturities on a staggered basis and to have financial breathing space, as it will thus be able to adequately honor payments of the debt recently restructured and to continue to honor the payments already committed in the framework of the debt restructured during 2002 (primarily the Secured Loans issued by the National Government) as it has been doing so far. The exchange period came to an end on February 25, 2005. The level of acceptance received by the exchange offer was significant. On March 3, 2005, the National Government announced a 76% degree of acceptance of the exchange offer, which means that Argentina has successfully completed its debt restructuring and is no longer in default. 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 Government announced that it would not make payments on bonds that were not tendered, as of the date of this report it has not adopted any final resolution regarding the subject. Moreover, the hold-out creditors' issue has triggered a legal action that delayed the issuance of the bonds issued in connection with the exchange offer and may in the future lead to more legal actions. Together with the international pressure to come to an agreement with the hold-out creditors, this litigation and any future legal actions may impair the continuity of the current economic recovery and result in recession, higher unemployment rates and increased social discontent.

The devaluation of the peso diminished the ability of Argentine public utility companies, with foreign currency denominated debt to make payments on such debt. The recent appreciation of the peso has improved these debtors' payment capacity. However, because the national government has not allowed rate increases commensurate with the devaluation, no assurance can be given that this issue will not have a material and adverse effect on Argentina's economic and financial condition.

The devaluation of the peso has materially and adversely affected the ability of Argentine utility companies with foreign currency denominated debt that was not converted into pesos to make principal and interest payments on such debt. Moreover, these companies have rates which were US dollar based prior to the devaluation, and regulators have not authorized rate increases commensurate with the devaluation. Based mainly on this fact, and as allowed by the Treaties for the Protection of Foreign Investments, controlling shareholders of some of these public utility companies have initiated arbitration cases before the International Centre for the Settlement of Investment Disputes of the World Bank against the National Government. The outcome of these arbitration cases is still uncertain.

As of the date of this report, the Government has not yet come to an agreement with all said companies, and the outcome of this issue could impact the quality of the services rendered by the utility companies and lead to possible energy shortages, thus producing a negative economic impact. Moreover, increases in tariffs might lead to higher inflation rates that could slow economic growth.

The appreciation of the peso and 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, our results of operations and financial condition.

Financial institutions, including Banco Francés, 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 and may continue to have a material adverse effect on the liquidity and the solvency of the financial system and on our financial condition.

In 2002 the Government passed new laws and regulations covering a wide array of political, economic, financial and foreign exchange emergency matters. Numerous depositors filed lawsuits known as "amparos," against the Government, the Central Bank and the depository financial institutions, in which the plaintiffs claimed that the Public Emergency Law and the regulations thereunder infringed on their constitutional rights. Following the judgment rendered by the Argentine Federal Supreme Court (the "Supreme

Court") in "*Kiper v. the Federal Government et al.*," lower courts massively started to order financial institutions, through provisional remedies in actions for the protection of constitutional guarantees, to partially refund bank deposits in foreign currency or its equivalent amount in pesos calculated at the current market exchange rate. According to Argentine law, a decision of the Supreme Court is limited to the parties in the particular case and is not binding on lower courts, nevertheless, lower courts usually follow and apply the Supreme Court's precedents.

On February 1, 2002, the Supreme Court, in its decision in relation to a provisional remedy in "*Banco de Galicia y Buenos Aires on immediate intervention in the proceeding: "Smith, Carlos Antonio v. Federal Executive on extraordinary summary proceedings"*" held Decree No. 1570/01, as amended and supplemented, unconstitutional, reasoning that it restricted the availability of bank deposits, and indicated that this Decree and the related regulations were unreasonable because of the lack of proportion between the means employed and the purpose sought with their implementation.

In response, Congress passed Law No. 25,587, known as the "anti-trickle down law," which was published in the Official Gazette on April 26, 2002. This law establishes limitations to those provisional remedies that judges may adopt regarding the deposits affected by the provisions of Law No. 25,561 as supplemented. With some exceptions, the law establishes that: a) the provisional remedies cannot consist of giving the petitioner the deposited funds which are the subject matter of the underlying lawsuit, and b) those appeals filed in response to a provisional remedy have a suspension effect, that is to say, that the provisional remedies consisting of giving the petitioners the deposited funds, must not be executed until the final court decision is issued. Due to the uncertainty prevalent at the time this law was issued, the majority of judges disregarded it and continued to issue provisional remedies ordering the return of deposits. Therefore, Banco Francés and the other financial institutions have continued paying depositors to avoid civil penalties that could be issued by judges in those cases. In addition, on July 24, 2002, the Government issued Decree No. 1316/02 (subsequently ratified by Law No. 25,725), establishing a temporary suspension of 120 business days for compliance with, and enforcement of, provisional remedies and final judgments issued in the legal actions seeking the refund of deposits through judicial injunctions. Financial institutions were required to record court orders in chronological order and inform the relevant court and the Central Bank. Upon expiration of the 120-day period, the financial institution was required to comply with the court order within 30 business days. In the case of exceptions to these rules, the case had to be referred to the Central Bank, which was required to comply with the court order on behalf and account of the financial institution. However, several courts held this regulation unconstitutional and it was never enforced.

On March 5, 2003 the Supreme Court of Argentina, in "*Province of San Luis v. Federal Government on action for protection of constitutional guarantees*," ruled that the laws and regulations establishing the pesification and mandatory rescheduling of deposits were unconstitutional, ordering the return of the deposited amounts in either US dollars or the equivalent in pesos at a free market exchange rate. It must be stressed that the deposited funds in the case were public funds, and that the Court granted the parties the right to decide the terms and specific characteristics of the return of the deposited amounts given the public emergency situation at the time. The effects of the Supreme Court's decision were limited to the parties to this case, which were a province and the Federal Government, and not private citizens. Therefore this precedent may not be extended to ordinary depositors. Moreover, as stated above, the Supreme Court's decisions are not binding on the lower courts, i.e. its effects are limited to the parties to the proceedings in which such decisions are rendered. Nevertheless, lower courts usually follow and apply the Supreme Court's precedents. Since this decision, lower courts have ordered banks to return deposits in U.S. dollars or the equivalent amount in pesos calculated at a free exchange rate.

In addition, on February 3, 2004, the *Asociación de Bancos de la Argentina* (Argentine Banks' Association or ABA), which represents all foreign-capital national banks, including Banco Francés, and the remaining financial institutions, filed a compensation request with the Ministry of Economy for the currency exchange differences generated by compliance with court decisions in constitutional protection actions brought by depositors who held accounts denominated in dollars prior to the change of the convertibility regime. Other bank associations, such as ABAPPRA (Argentine Association of Government and Private Owned Banks), have also filed compensation requests on the same terms.

During 2004, the Supreme Court experienced significant changes to its composition because of the impeachment and resignations of certain court members that were replaced with the appointment of new members. These facts could explain the different issues considered by the Supreme Court when issuing decisions in the following cases.

On July 13, 2004 the Supreme Court ruled in "*Cabrera, Gerónimo Rafael c/ P.E.N. s/ Amparo*". It rejected the claim filed by a depositor, due to the fact that he exercised his rights under the scope of the Public Emergency Framework, and received part of his deposit in Argentine Pesos, without asserting his right in the corresponding term to claim for the difference in United States Dollars at the free exchange rate. Therefore, and based on the theory of "*Actos Propios*", which states that an individual forfeits his ability to object to the regulatory framework once he has voluntarily submitted himself to it, the Supreme Court rejected the claim for the exchange rate difference claimed by the deposit holder. One of the opinions issued by the Supreme Court, expressed that an "amparo" is not the proper means to seek the protection of this type of constitutional right. To this date, first instance courts and court of appeals have responded in different ways to this resolution.

On September 14, 2004 the Supreme Court also ruled in "*Campbell, María Enriqueta Vda. De Tufiño y otro c/ P.E.N-Banco de Salta S.A. Grupo Macro s/ Amparo - Medida cautelar*", rejecting the claim filed by the deposit holder, who obtained a favorable decision in the first instance court and the Court of Appeals, alleging the unconstitutionality of the pesification of the funds deposited in foreign currency. The Supreme Court based its decision on the fact that the claimant had exercised one of the options provided by the Emergency Framework and purchased with the deposited funds a real estate and a vehicle therefore the object of the claim, the deposited funds, no longer existed.

On October 26, 2004 the Supreme Court ruled in case "*Bustos, Alberto Roque y Otros c/ P.E.N. y otros s/ amparo*" rejecting the lower court's final decision and declaring that an "amparo" is not the proper means for the claim. The Court also declared the constitutionality of the Emergency Framework which ordered the pesification of the Argentine economy due to the economic, financial and exchange emergency situation which existed at the time. It must be stressed that one of the Supreme Court Judges, Eugenio Zaffaroni, who voted in favor of the constitutionality of the pesification, expressed in his vote that he considered reasonable to provide a different treatment to deposits holders in relation to the deposited amount based on equity principles, stating that in the case of deposit holders of up to US\$70,000 original face value, financial entities should pay such deposits at a free exchange rate. This consideration could be adopted by first instance courts issuing future resolutions on the subject.

Furthermore, Communication "A" 3916 that the Central Bank issued on April 3, 2003, which allowed to record as an intangible asset the differences arising from the compliance with court orders in cases challenging regulations in force in accordance with Law No. 25.561, Decree 214/02 and complementary regulations in relation to deposits in financial institutions. 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 monthly over a 60-month period from April 2003 or as from the date of payment, whichever is later.

As of the date of this report, the banking system continues to be subject to provisional remedies and execution of final resolutions of first instance courts and courts of appeals in proceedings against the pesification. Banco Francés has acted in defense of the shareholders' and clients' interests in its attempts to protect its assets, and has in all cases defended its interests in court as the Bank deemed to be conducive to the preservation of its equity. Although the government may issue a resolution to compensate financial institutions for the exchange rate differences in the deposits they have refunded, until the date of this report said resolutions have not been issued and it remains uncertain whether they will be issued. To the extent that financial institutions are not adequately compensated by the Government for the losses caused by these court decisions the payments made to comply with court orders have and may continue to have an adverse effect on the financial condition of Argentine banks, including Banco Francés.

The measures taken by the Government during 2002 and 2003 to provide liquidity to depositors with rescheduled deposits in the financial system and the court orders regarding the refund of such deposits accelerated the decrease of CER, (mainly consumer price index) adjusted liabilities, producing a structural mismatch in terms and rates of assets and liabilities that has materially and adversely affected the results of operations of financial institutions in 2003. In the event real interest rates significantly increase from current levels, this mismatch may have a material adverse effect on the results and the solvency of the Argentine financial system and on our financial condition.

As a result of the measures adopted by the Government and court orders regarding bank deposits (See "*Information on the Company -The Crisis in Argentina and its effects on Banco Francés since 2001*"), the financial system experienced a structural mismatch in the interest rates and the terms of their assets and liabilities that makes the net interest income remain strongly dependent on the level of real interest rates. As a result of the conversion into pesos of foreign currency risk assets, a significant portion of the financial system's risk assets accrue interest at an annual fixed rate and are adjusted by the CER, whereas most of the liabilities are subject to fixed interest rates not adjusted by the CER (except for rescheduled deposits, new fixed term deposits adjusted by CER and financial liquidity assistance from the Central Bank granted during the crisis, which accrue interest at rates of 2%, 0.63% and 3.5%, respectively, and are adjusted by the CER). Such structural mismatch tends to grow as rescheduled deposits decrease, whether as a result of court rulings ordering the refund of deposits, or the occurrence of the remaining rescheduled maturities, and asset increases due to the capitalization of the CER adjustments.

This mismatch was larger prior to April 30, 2003. On that date, the Government responded with a partial solution to the claims presented by the financial institutions on this matter, by issuing Decree 739/03 and Central Bank Communication "A" 3941, according to which, amounts received as financial liquidity assistance from the Central Bank, which accrued interest at a fixed unadjusted rate, now accrue interest at an annual rate of 3.5% and are adjusted by the CER.

In addition to the structural mismatch of CER-adjusted assets and liabilities, the net interest income of banks is being affected by the exposure to exchange rate variations vis-à-vis the foreign currency position. While we are not negatively affected by the current real interest rates, in the event real interest rates significantly increase from the current levels, we could experience material adverse effects. These structural mismatches, if not appropriately addressed by the authorities, could have a material adverse effect on the profitability of Argentine financial institutions, including Banco Francés.

Factors Related to Banco Francés

Banco Francés has a significant portfolio of bonds of, 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, 2004 Banco Francés and its subsidiaries's holdings of public sector debt totaled approximately Ps.9 billion mainly consisting of: (i) External and Internal Restructured debt: Ps.5,798.2 million in secured loans; Ps.451.1 million in guaranteed bonds; Ps.41.2 million in Tax Credit Certificates (Certificados de Crédito Fiscal) and Ps.3.3 million in other provincial loans; (ii) External Debt in restructuring process: Ps.58.2 million in Argentine Treasury Bonds 90; Ps.594.6 million in Argentine Republic External Bills Series 74 and Ps.383.3 million in secured loans (not pesificated); (iii) Internal debt in restructuring process: Ps.742.9 million in Provincial Development Trust Fund; and (iv) Post default public debt: Ps.78.4 million in bonds issued to compensate for the pesification, which we refer to as Boden 2012 and Ps.999.6 million in Central Bank bills and notes. Of the outstanding public sector debt, only External and Internal debt in restructuring process mentioned in (ii) and (iii) were in default. On September 22, 2003, the Government submitted to bondholders an exchange offer for the restructuring of Argentina's sovereign bonds in default, including the debt mentioned in (ii), which ended on February, 2005. On March 3, 2005, the Government announced a 76% degree of acceptance of the exchange offer, which means that Argentina has successfully completed its debt restructuring and is no longer in default. As a result of such 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).

Banco Francés and its subsidiaries continue 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 has 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 financial condition 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. The following things have reduced our exposure: (i) rules related to the matching of rediscounts received from the Central Bank with bonds and loans recorded as assets in the Bank's books, (ii) increases in CER adjusted deposits, (iii) the sale of bonds of, and loans to the Argentine Government and the Argentine provinces from our portfolio and (iv) 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.3.4 billion long CER position as of December 31, 2004. During fiscal year 2004 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-a-vis the consumer price index. If the real interest rates significantly increase such increase could have a material adverse effect on our profitability in the future.

For more information, please see the risk factor *"The measures taken by the Government during 2002 and 2003 to provide liquidity to depositors with rescheduled deposits in the financial system and the court orders regarding the refund of such deposits accelerated the decrease of CER, (mainly consumer price index) adjusted liabilities, producing a structural mismatch in terms and rates of assets and liabilities that has materially and adversely affected the results of operations of financial institutions in 2003. This mismatch may continue to have a material adverse effect on the results and the solvency of the Argentine financial system and on our financial condition"* in this section.

Creditors of Banco Francés cannot collect any debt from any shareholder.

Banco Francés is a corporation organized under the laws of Argentina. Under Argentine law, the liability of shareholders is limited to the shares they have subscribed and paid in under Law No. 19,550. Therefore, and in terms of Law No. 25,738, no shareholder of the Bank, whether foreign or local, is liable beyond such paid-in shares for obligations arising under transactions conducted by the Bank.

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 and may continue to have a material adverse effect on the liquidity and the solvency of the Bank.

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 and may continue to have a material adverse effect on the results and the financial condition of Banco Francés.

As a result of Communication "A" 3916, Banco Francés records Ps.739.3 million (after deducting the accumulated amortization for Ps.335.8 million as of December 31, 2004) in the Intangible Assets line item of the Organization and Development expenses account. Banco Francés has stated in a note to the financial statements that the amortization described above is charged solely to comply with the regulations of the Central Bank and that it should not be interpreted as an implicit waiver of possible compensation or recovery of the exchange differences resulting from compliance with court orders granted in actions seeking the protection of civil rights or other legal actions derived from the mandatory conversion of bank deposits into pesos.

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 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, Consolidar Vida and Consolidar Retiro.

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.

Regulatory changes occurred during 2002 brought about serious consequences that continued to pervade the Argentine pension system during 2003, such as the decline in the value of the pension funds in dollar terms as a result of the mandatory conversion into pesos of foreign currency denominated bonds of Argentine governmental and private issuers governed by Argentine law and the default declared in respect of the Argentine sovereign external and 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.

During 2003, the sovereign risk 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, some of the most relevant developments for AFJP's were the following:

- (1) Because of the AFJP's decision not to accept the amendments proposed by the National Government to the terms and conditions of the secured loans, the debt service payments on these loans were suspended. Therefore, the Government decided to hand back the underlying exchanged bonds of the secured loans which were in default and afterwards submitted to the restructuring process. Such default generated a liquidity problem in the AFJP industry. As a result of the restructuring of the Argentine Sovereign debt, AFJP's have overcome the liquidity problem and improved their economic and financial situation.
- (2) The Government promoted a reform in the pension system, but the AFJPs were not given an opportunity to participate in the process.

During 2004, one of the main events which took place was the restructuring of the Argentine sovereign debt. As mentioned before, the AFJP had a significant portfolio of bonds to the Argentine Government in default since 2001, which were included in the restructuring process. Because of the successful result of the restructuring process, the AFJPs have considerably improved their position regarding any possible legal action that could be filed by affiliates based on theories of breach of fiduciary duties.

Moreover, regarding pension life insurance companies, the conversion of pension life insurance companies' holding of dollar-denominated public securities into secured loans that were later converted into pesos, and the absence of a secondary market for these securities, limited their liquidity as a consequence of the legal nature of these new instruments. Resolution No. 23/04 of the National Insurance Superintendence of Argentina ("NISA"), provided a solution to liquidity problem by stating payment facility conditions of the pension life insurances.

Finally, the legal framework applicable to pension life insurance companies was modified during 2001 in response to the economic and political crisis in Argentina. Because of these modifications, the new legal framework follows the principle that the accident must be covered by the pension life insurance company which the policy holders has a policy in effect at the time when notice of the accident is given. According to the regulations, pension life insurance companies do not account for legal reserves for accidents that occurred during the period covered by the insurance policy, which were not notified to the insurance company within the specified period, regardless of whether an accident or risk was known by the interested party during the insurance policy period.

For more information about relevant developments affecting our subsidiaries engaged in Banco Francés's subsidiaries' business, see *"Information on the Company - Recent Political and Economic Developments in Argentina"*.

AFJPs' Industry

Although the outcome of the restructuring process of the Argentine sovereign debt has considerably reduced AFJPs exposure to the risk of litigation based on theories of breach of fiduciary duties, AFJPs are still exposed in a certain degree to this risk that could have an 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 Government's failure to honor its obligations under the secured loan agreements with the AFJPs and the Government's proposal to restructure the sovereign debt.

Because the funds managed by AFJPs have significantly lost value in dollar terms, there was a heightened risk of litigation against AFJPs, their managers and directors based on theories of breach of fiduciary duties. AFJPs sought to protect the value of the assets under management through a series of administrative and judicial actions challenging the conversion of Government debt securities denominated in foreign currencies into pesos and the effects of the pesification of assets on the investment portfolio of AFJPs. Most AFJPs questioned, through alternative strategies the measures taken by the Government that impaired and affected the value of the managed funds, and refused to consent to any legal or regulatory measures that might somehow undermine the value of such funds. These legal actions have been withdrawn due to the participation of the AFJPs in the restructuring process of the Argentine Sovereign debt.

As previously mentioned, AFJPs had a significant portfolio of Government bonds which were included in the restructuring process of the Argentine Sovereign Debt, and in order to participate in such restructuring process, AFJPs had to waive their rights concerning the legal actions initiated against the government regarding such public bonds. Because of the successful result of the restructuring process, AFJPs have considerably reduced the risk of litigation based on theories of breach of fiduciary duties. Despite this, it cannot be assured that the risk of litigation has totally disappeared, and any legal action directed against the AFJPs, their managers and directors could affect the assets of the AFJPs as opposed to the assets under management, which would have an adverse effect on the financial condition of AFJPs .

Regarding Consolidar AFJP's particular case, it must be stressed that as of this date it has only received from 12 out of a total of 1,500,000 policyholders based on theories of breach of fiduciary duties.

The Government is promoting a reform of the pension system that may have uncertain 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 2004 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 AFJPs industry.

- Retirement Insurance Industry

The devaluation of the peso and the conversion into pesos of all the foreign currency agreements has had and may continue to have a material adverse effect on retirement insurance companies.

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. To minimize the damaging effects of the asymmetric conversion into pesos, Decree No. 558/2002 enabled the insurers to offer to the insured parties redemption schemes contemplating a number of options. 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 new rules of the game on the part of the insured parties. Despite these positive developments, the long-lasting effects of the devaluation and the conversion of assets into pesos may continue to have a material adverse effect on the financial condition and the results of operations of the retirement insurance industry.

Regarding the particular case of Consolidar Retiro, this company immediately responded to the crisis by promoting a dialogue with its clients, which resulted in a very low level of litigation. As of December 31, 2004, out of a total of 6,263 retirement insurance policies, there had been only 400 legal claims, which represented 7% of the total portfolio. In addition, Consolidar Retiro submitted to NISA and obtained approval of different option plans for the redemption or maintenance of policies issued in dollars. At present these option plans are being offered to policyholders, and have already been accepted by more than 85% of the original portfolio, measured both in terms of the number of policies and the aggregate amount covered by policies.

Possible claims derived from the conversion of life annuity agreements in dollars into pesos may have a material adverse effect on the financial condition and results of operations of retirement insurance companies.

Life annuity agreements denominated in dollars were converted into pesos at the rate of Ps.1.40 per U.S. dollar by decision of the NISA. 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, retirement insurance companies have started to receive claims from insured parties.

Regarding the outcome of the legal actions previously mentioned., it must be stressed that although the Supreme Court of Justice has not yet decided any case involving life annuity agreements, it has considered the pesification to be constitutional in various judicial precedents, "Key Information-See Risk Factors related to Argentina". Regarding Consolidar Retiro's particular case, it must be stressed that as of December 31, 2004 there had been 130 claims out of a total of 7,218 active life annuity accounts, representing 1.80% of the portfolio.

The favorable evolution of the exchange rate, as well as the revaluation of public and private securities in default with the restructuring of the Argentine Sovereign Debt, are elements that tend to reduce the probability of further claims and legal actions against Consolidar Retiro. 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.

RECENT POLITICAL AND ECONOMIC DEVELOPMENTS IN ARGENTINA

Argentine Economic Scenario

In the midst of relative political stability and fewer social disputes, during 2004 the Argentine economy showed once again an excellent improvement both in terms of economic activity and fiscal solvency, with stable prices and exchange rates. On January 14, 2005, the debt restructuring process started for a substantial part of Argentina's sovereign debt, in default ever since late 2001 (for an approximate amount of US\$80 billion). The process included a significant reduction in the principal owed as well as reduction in interest rates and extension of payment terms. For this purpose, the National Government offered three types of bonds in exchange for the defaulted securities, whose characteristics were established pursuant to Decree No. 1753/04. Additionally, the Government announced that it was not planning to make payments to holders of debt that did not accept the government's terms. The exchange period came to an end on February 25, 2005. On March 3, 2005, the National Government announced the outcome of the exchange, the degree of acceptance amounted to 76%, allowing the Government to go forward with the restructuring. In accordance with the prospectus prepared by the National Government, the securities that were to be exchanged for the defaulted bonds were to be issued and delivered by April 1, 2005, but the process was delayed due to legal problems in the New York courts. Finally, the Argentine Government issued and delivered the securities in the beginning of June and the new bonds began quoting in the markets as of June 3, 2005. The negotiations with the IMF that were put on hold to allow the government to focus on the restructuring process have been resumed informally, but no agreement has been reached yet.

The drive of 2003's recovery remained stable and for another consecutive year, the economy grew 9%. Following a slowdown during the second quarter due to the uncertainty fueled by energy restrictions and by an increased pressure of the tax payment schedule, economic activity grew significantly (+9.1% year-over-year) during the fourth quarter, due to higher consumer confidence. Gross fixed investment remained 2004's most dynamic component of the added demand (+34.5%); however, private consumption accelerated, climbing up to 9.4% in the period.

The gradual gap in industrial output closing together with specific price adjustments of certain regulated and semi-regulated goods and services as in the case of cigarettes, transportation, health and education gave rise to 6.1% retail inflation in 2004, significantly over the 3.7% accounted for during the previous year. In particular, the prices of services accumulated a 6.8% rise during the year, over a percentage point above the rise in the price of goods. On the other hand, wholesale prices (IPIM) increased 7.9% driven by the increases in international prices of raw materials, especially oil, and domestic prices of electricity.

Exports from Argentina also benefited from the high prices of commodities, especially the soy sector, during the first semester. While export prices rose 9.3% during the year, the amounts exported only grew 6.6% mainly due to the fall in volumes of primary products exported as a result of the weather conditions that impacted on the soy harvest. Exports of industrial products recorded a strong dynamics showing almost a 24% increase during the year, led by automobile, chemical and plastic products. However, trade surplus (12,133 million dollars) showed a new reduction as compared to the previous year due to the strong increase in imports that showed a 61.4% expansion once again led by capital goods purchases.

Despite the reduction in the trade surplus, the decrease in capital outflows together with the reduction in the outflow of debt services gave rise to a trade balance slightly above that of 2003, with a surplus of 7,443 million dollars during the year. Most of Central Bank foreign exchange free market purchases contributed to an increase in international reserves that accounted for 19,646 million dollars by year-end. 3,623 million dollars were allocated to payments to multilateral entities for amortization and interest. Despite the surplus supply in dollars, there was no significant appreciation of the Argentine Peso. Central Bank intervention supported the peso quotation that closed at \$2.99/US\$ by the end of December (selling price at retail free market), 3 cents above the closing of the previous year.

The most remarkable event in 2004 was the substantial improvement of fiscal solvency. The primary fiscal surplus of the national public sector peaked a record of 17,289 million pesos, around 3.9% of the Gross Domestic Product ("GDP"). With interest payments corresponding to the debt issued after the default, Argentine fiscal surplus amounted to 11,576 million pesos. The 36% growth in tax collection highly exceeded the increase in primary expenses (24%), which were mainly driven by the increase in transfers to provinces due to Tax Federal Co-participation and Special Acts and to the increase in capital expenditures. Public salaries and pensions showed smaller increases mainly due to the fact that adjustments only took place on the lower income brackets. On the tax field, the excellent performance of Income and V.A.T. accounted for the best figures with a year increase of 51.1% and 47.8% respectively. Export tax withholdings, on the contrary, only grew 11.5%, but still account for more than 10% of overall collection.