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	At or for the Fiscal Year Ended December 31,				
	2003	2002	2001	2000	1999
Devaluation Rate	(42.70)%	236.00%	0.00%	0.00%	0.00%
Exchange Rate	2.9330	3.3600	1.0000	1.0000	1.0000
Inflation Rate(1)	1.84%	118.21%	(5.45)%	2.61%	1.12%

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

Risk Factors

Factors Related to Argentina

Overview

Most of our operations and customers are located in Argentina. Accordingly, the quality of our assets, our financial condition and our results of operations depend primarily on macroeconomic and political conditions prevailing in Argentina. As detailed below 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 with the country risk ratings at its worst level, 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 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By late 2001, significant deposits were withdrawn from financial institutions as a result of the lack of confidence in the country's economic future and the ability of the Government to sustain the parity of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.

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On May 25, 2003, Néstor Kirchner became the new the President of Argentina. The main developments that occurred under the new administration include the following: Argentina reached an agreement with the International Monetary Fund, or IMF, to refinance debt with multilateral financial institutions; the Gross Domestic Product, or GDP, increased by 8.7 % during 2003; the unemployment rate declined from 20.7 % to 14.5 % between the 4th quarter of 2002 and the 4th quarter of 2003; total deposits in the financial system grew approximately 22% in 2003; the inflation rate in 2003 was 3.7 %, much lower than the 22% inflation rate estimated in the national budget for 2003; and the foreign exchange rate fell to Ps.2.96 per U.S. dollar at year end. See a more detailed description of the developments in 2003 in *"Information on the Company—Recent Political and Economic Developments in Argentina."*

Two years have elapsed since the beginning of the crisis in Argentina's financial system and, despite some encouraging developments in the Argentine economy, such as the relative stabilization of certain economic variables, there are still a considerable number of macroeconomic and political uncertainties that affect the normalization of the banking system.

The devaluation of the peso and other economic measures adopted by the Government have stimulated economic growth; however, Argentina continues to face considerable political and economic uncertainty.

Although general economic conditions have shown improvement and political and social unrest have diminished considerably in 2003, the rapid and radical nature of the changes in the Argentine social, political, economic and legal environment over the past four years have given rise to significant uncertainties about the country's economic and political future. Therefore, despite recent economic growth, it is possible that Argentina may experience recession, higher inflation and unemployment, and political and social unrest, which could have a material adverse effect on Argentina's financial system, our results of operations and financial condition. See *"Information on the Company—Recent Political and Economic Developments in Argentina."*

The Government has reached an agreement with the IMF; however, there can be no assurance as to the effects of a breach of this agreement on the Argentine economy and the financial system.

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. See a more detailed description of the negotiations and the agreement with the IMF in *"Information on the Company – IMF Financing."* While the agreement was welcomed by several political and business sectors, it requires the adoption of austere fiscal measures to repay the Argentine Government's debt and to balance its budget and other structural reforms, including a primary surplus target of 3% of the GDP for 2004, the reform of the tax laws to extend the VAT base and to gradually eliminate the tax on banking transactions, the amendment of laws and regulations affecting financial institutions, and the revision of utility concession agreements, among others. However, there can be no assurance that Argentina will honor its commitments under the agreement with the IMF, or as to the impact of a breach of the agreement on the Argentine economy. These factors could have an adverse impact on the Argentine economy, which would negatively affect the Argentine financial system, our financial condition and results of operations.

The restructuring of the Argentine sovereign debt is pending and a failure to achieve a restructuring of the sovereign debt may materially and adversely affect the Argentine economy in general, the results and the solvency of the Argentine financial system and our financial condition and results of operations.

After the suspension of payments on portions of Argentina's sovereign debt, the Government's fiscal problems intensified as a result of the devaluation of the peso. As most of the Government's financial liabilities are U.S. dollar-denominated, the cost, in peso terms, of servicing these liabilities increased significantly as a result of the devaluation. In addition, peso-denominated tax revenues constitute the majority of Argentina's tax receipts and although tax revenues have increased in peso terms, they have decreased in U.S. dollar terms. Therefore, the Government's ability to honor its foreign debt obligations was materially and adversely affected by the devaluation of the peso.

On September 22, 2003, the Government submitted to bond holders a first proposal for the restructuring of Argentina's sovereign bonds in default. Dissatisfaction expressed by foreign creditors and institutions led the Argentine Government to announce new guidelines for a debt restructuring proposal on June 1, 2004. Negotiations are likely to be complex, given the large number of creditors holding over one hundred different series of bonds denominated in different currencies. The restructuring of the Argentine sovereign debt is regarded as one of the most complex restructurings in history and is surrounded by uncertainties. For a more detailed discussion of the restructuring process, see *"Information on the Company – The Crisis in Argentina and the measures implemented by the Government in 2001, 2002 and 2003."* The Government's current inability to make payments and to obtain financing may trigger numerous legal actions by creditors, and may impair the continuity of the current economic recovery and result in recession, higher unemployment rates and increased social discontent. In that event, the results and the solvency of the financial system as a whole, and our financial condition and results of operations, are likely to be materially and adversely affected.

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Although the sovereign debt restructuring process currently being carried out by the Government does not include most of the sovereign debt placed in the local market that was already restructured during 2000 and 2001 or new debt, no assurance can be given that these portions of the sovereign debt will not be included in a future restructuring proposal of the Argentine Government. Likewise, no assurance can be given that the Government will honor these obligations in accordance with their terms.

On November 1, 2001, the Government instructed the Ministry of Economy to offer, on a voluntary basis, the exchange of federal and provincial public debt for loans or federal government bonds secured by the Government or the Provincial Development Trust Fund, with the purpose of obtaining a reduction of the interest on the securities exchanged and an extension of repayment terms. This process was part of a first step in the restructuring of the Argentine sovereign debt, which the Government called the "local tranche." For a more detailed description of the restructuring process see "Information on the Company - The Crisis in Argentina and the measures implemented by the Government in 2001, 2002 and 2003." Additionally, financial institutions have received "Argentine Government Peso Bonds due 2007" ("BODEN 2007") and/or "LIBOR Argentine Government U.S. Dollar Bonds Due 2012" ("BODEN 2012") in compensation for the mismatch of their foreign currency positions following the compulsory pesification of a portion of their asset and liability portfolios.

Although BODEN 2012, BODEN 2007 and most of the local tranche of the sovereign debt were not included in the Government's restructuring proposal, no assurance can be given that they will not be eventually included in a new restructuring process initiated by the current administration. Because sovereign debt placed in the local market represents a very significant portion of the assets of Argentine financial institutions, any Government proposal that includes reductions in the amounts to be repaid on such debts would diminish the solvency of the Argentine financial system and undermine even further Argentina's access to new financing in the international markets. These events could have a material adverse effect on our financial condition.

The devaluation of the peso diminished the ability of Argentine borrowers with foreign currency denominated debt to make payments on such debt. The recent appreciation of the peso has improved these debtors' payment capacity. However, no assurance can be given that the exchange rate will remain stable and that Argentine banks will be able to collect on their foreign currency denominated loans.

The devaluation of the peso has materially and adversely affected the ability of Argentine borrowers with foreign currency denominated debt that was not converted into pesos to make principal and interest payments on such debt. Argentine utility companies, whose rates are regulated (and which were U.S. dollar based prior to the devaluation) have been particularly affected since Argentine regulators have not authorized rate increases commensurate with the devaluation. Some of these companies successfully completed debt restructuring processes during 2003. Although the appreciation of the peso has improved the economic situation of these companies and could benefit Argentine banks in terms of their ability to collect on non performing loans, no assurance can be given that the improved payment capacity of these borrowers will result in the repayment of non-performing loans owed to Argentine banks, which could have an adverse effect on the results of operations and financial condition of Argentine banks, including Banco Francés.

As of December 31, 2003 we had a total of Ps.1,035 million in loans outstanding to Argentine utility companies and other large corporate borrowers, which have been conservatively provisioned according to our management's estimates of potential losses. See "Business Overview-Corporate Banking."

The appreciation of the peso and the stability of the foreign exchange market has 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, and 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.

The differences in exchange rates mandated to convert foreign currency into pesos for foreign currency denominated assets as opposed to liabilities was compensated by the Government with bonds. However, the definitive amount of compensation for banks is still subject to validation from the Central Bank, which has objected to the accounting criteria applied by some banks for calculating

such compensation. The final determination of the compensation may have an adverse effect on the financial condition of Argentine financial institutions, including Banco Francés.

Pursuant to the provisions of the Public Emergency Law and various Decrees, it was established that financial institutions would be compensated with bonds for certain losses derived from the pesification of assets. Decree No. 494 dated May 12, 2002 set forth a methodology to determine the amount of such compensation and provided that the compensation was intended to restore the financial institutions' net worth as of the time of the pesification, compensating them for (i) the losses resulting from the conversion into pesos of a substantial portion of their obligations at an exchange rate of Ps.1.40 per U.S. dollar, well above the Ps.1 per U.S. dollar rate applied to the conversion into pesos of some of their receivables in foreign currency, through the delivery of bonds, providing, to such end, the issuance of BODEN 2007; and (ii) the mismatch of their foreign currency positions following the compulsory pesification of a portion of their assets and liabilities portfolio, by converting the originally peso-denominated compensatory bonds into U.S. dollar-denominated bonds and, where necessary, subscribing a U.S. dollar-denominated coverage bond. To such end, the Government provided for the issuance of BODEN 2012.

Subsequently, Decree No. 905 dated May 31, 2002 established a general methodology to determine the amount of compensation to be received by each financial institution in the form of compensatory bonds. The compensation to which a financial institution was entitled was calculated by taking into account the imbalances resulting from the effect of the economic policy measures on such financial institution's balance sheet as of December 31, 2001. The Government and the Central Bank modified and complemented the calculation methodology in several occasions, which resulted in changes in the amount of the compensation. All financial institutions have recorded the compensatory bonds in their financial statements. See a more detailed description of the methodology to be applied to calculate the compensation in *"Information on the Company -The Crisis in Argentina and the Measures Implemented by the Government in 2001, 2002 and 2003."*

The Central Bank, which has started inspections to confirm the compensation amounts determined by the financial institutions, has objected to certain accounting criteria applied by some financial institutions in the calculation of their compensation. The resolution of these regulatory matters could result in an amount of compensation that is lower than expected, which would have an adverse effect on the financial condition of Argentine financial institutions, including Banco Francés.

Financial institutions have made payments related to currency exchange rate differences in the refunding of deposits authorized by decisions of 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 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.

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 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 prevented depositors from withdrawing their deposits through provisional remedies ordered in actions for protection of constitutional rights by the courts, until all possible instances of appeal have been exhausted, with certain exceptions. 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.

The Supreme Court has not yet passed judgment on the constitutionality of the mandatory conversion of foreign currency denominated deposits into pesos in a decision that would encompass all depositors. Thus far, different appellate courts, including the

Supreme Court of Argentina, in *"Province of San Luis v. Federal Government on action for protection of constitutional guarantees,"* have ruled that the laws and regulations establishing the pesification and mandatory rescheduling of deposits were unconstitutional. The effects of this 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, 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. Lower courts have ordered banks to return deposits in U.S. dollars or the equivalent amount in pesos calculated at a free exchange rate.

Furthermore, the Central Bank issued on April 3, 2003 Communication "A" 3916, 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 within the financial system. This asset (calculated according to the difference in nominal terms between the deposit at the free market exchange rate at the moment of each payment compared to the book value of 1.40 pesos per dollar plus CER to that date) is being amortized monthly over a 60-month period as from April 2003.

Banco Francés has paid more than Ps.940 million related to the exchange rate differences in the refunding of deposits pursuant to court orders. 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.

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 foreign 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. In this respect, the Minister of Economy submitted a bill to the Congress to provide compensation to financial institutions for those losses.

However, financial institutions will not be entitled to receive any compensation for these currency exchange rate differences until the Supreme Court has passed judgment on the constitutionality of the mandatory conversion of foreign currency denominated deposits into pesos. 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.

Financial institutions have suffered losses pending compensation related to the difference resulting from the substitution of the Reference Stabilization Index (Coeficiente de Establización de Referencia, or the "CER") by the Salary Variation Index (Coeficiente de Variación Salarial, or the "CVS"). Although the Congress has approved compensation to financial institutions for these losses, and the Central Bank has issued the regulation applicable to the determination of the amount of compensation, the final determination of the compensation for these losses may have a material adverse effect on the results and the solvency of the Argentine financial system and on our financial condition.

In 2002, the Government decided that all loans and bank deposits mandatorily converted into pesos would be adjusted through the application of the CER, which reflects the monthly variations of the consumer price index. In May, 2002 the Government resolved to replace the CER by the CVS for the readjustment of the principal of certain loans outstanding as of February 3, 2003, including certain residential mortgage loans, personal loans, and loans secured by personal property. The CVS is calculated and published by the INDEC, and the Government determines the interest rates applicable to these loans from the date on which the CVS became effective. Argentine financial institutions have had losses as a consequence of the difference in the index (up to March, 2004) applicable to the adjustment of these assets until May, 2004, when the CVS no longer applied. Banco Francés suffered a loss greater than Ps.140 million, as of December 31, 2003, stemming from the substitution of the CER by the CVS; such loss was registered as an asset and partly provisioned.

In January 2004, it was ordered by law that financial institutions would be compensated for the differences resulting from applying CVS over certain assets and CER over certain liabilities, with "Floating Rate Argentine Government Peso Bonds Due 2013" ("BODEN 2013") in a total amount up to Ps.2.8 billion. The Central Bank established the procedure to compensate each financial institution by Communication "A" 4114. For a more detailed description of the compensation procedures see *"Information on the Company -The Crisis in Argentina and the Measures Implemented by the Government in 2001, 2002 and 2003"*.

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On May 6, 2004, the *Asociación de Bancos de la Argentina* (ABA) filed a request before the Ministry of Economy seeking compensation for the losses suffered by financial institutions as a consequence of the substitution of the CER by the CVS. As of the date of this report, the Ministry of Economy has not responded to this request.

Regarding the compensation procedure established in Communication "A" 4114, on May 18, 2004 the Bank filed a note before the Central Bank and the Ministry of Economy by which it accepted the mentioned compensation procedure, subject to the approval by the Central Bank of the methodology carried out by the bank to calculate the corresponding compensation. In the event the Central Bank does not approve the mentioned methodology, the Bank could consider filing a claim for compensation either in administrative or judicial jurisdiction.

The final determination of the compensation to each financial institution as determined under applicable regulations may result in an amount that is lower than the actual loss. Therefore, the losses resulting from the application of the CVS and the final resolution of regulatory questions concerning the compensation to each financial institution may have a material adverse effect on the results and the solvency of the Argentine financial system and on our financial condition.

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.

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 the Measures Implemented by the Government in 2001, 2002 and 2003*"), the financial system experiences 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 (except for rescheduled deposits and financial liquidity assistance from the Central Bank granted during the crisis, which accrue interest at rates of 2% and a 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.

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 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. 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

The Central Bank deemed the reformulation of the regularization and reorganization plan filed by the Bank to have been effected. However, as the plan is subject to completion, if the transactions contemplated therein are not consummated, the Central Bank could take measures provided for in the Financial Institutions Law.

Due to the systemic crisis occurred at the end of 2001, the Bank's Board of Directors decided to implement a plan to strengthen the Bank's stockholders' equity and liquidity. In turn, the Central Bank required the Bank to formally submit this plan. The plan filed on May 31, 2002, would regularize and restore the Bank's financial health in relation to its compliance with the technical regulation on minimum cash, which had been affected by the liquidity crisis triggered by the decline in deposits and court rulings in actions brought by depositors. The plan comprised the measures adopted in April and May, 2002, in relation to the financial assistance received from BBVA and the Central Bank, the sale of the Bank's interest in another company, the commencement of the execution of an administrative restructuring plan and a capital increase. The plan was updated in October, 2002, and in February and May 2003.

On September 4, 2003, the Central Bank requested the Bank to reformulate the regularization and reorganization plan to consider issues such as the adoption of measures to increase the Bank's adjusted stockholders' equity and to conform the Bank's technical ratios to the requirements of Communication "A" 3959 and complementary regulations related to minimum capital

requirements in force as from January 1, 2004. On January 21, 2004, the Bank filed a formal reformulation of the plan with the Central Bank.

On March 18, 2004, the Central Bank notified the Bank of Resolution No. 52/04 issued by the Superintendency of Financial and Exchange Institutions dated March 17, 2004, by which the reformulation of the regularization and reorganization plan of the Bank is deemed to have been effected. Such plan included the following actions:

(i) The sale of the Bank's subsidiary, Banco Francés (Cayman) Limited, after the swap of: a) Government secured loans in pesos held by Banco Francés (Cayman) Limited for private sector loans denominated in dollars belonging to Banco Francés at market value; and b) financial loans granted to Banco Francés by BBVA and Banco Francés (Cayman) Limited, in equal amounts.

(ii) The sale of Federal Government Secured Loans by Banco Francés (Cayman) Limited to BBVA at market value; BBVA would pay-the purchase price of the participation in Banco Francés (Cayman) Limited to Banco Francés-through the transfer of those loans.

(iii) The subsequent capitalization of Francés by means of a loan amounting to US\$ 77.70 million granted by BBVA, and, the commitment to directly or indirectly subscribe and make payments in cash or in kind for up to an additional amount of US\$ 40.00 million, to the extent that other shareholders of Banco Francés do not exercise their preemptive rights.

(iv) In connection with the sale of Banco Francés (Cayman) Limited, the Bank is authorized to: a) consider, for purposes of Communication "A" 3911 and complementary regulations, as holdings as of February 28, 2003, the Government secured loans swapped prior to the sale and the proceeds from the sale of Banco Francés (Cayman) Limited; and b) absorb up to \$ 200.00 million of the net result generated by the transaction against the "unrealized valuation difference" account.

v) Until the earlier of: (a) a term of 90 days or (b) the date of the sale of the Banco Francés (Cayman) Limited, Banco Francés is allowed to compute 75% of its Adjusted Shareholders' Equity on a consolidated basis for purposes of stand-alone calculation of regulatory minimum capital ratios, lending technical ratios except to related clients and affiliates, net global position in foreign currency, custody of securities of pension fund administrators, immobilized assets and risk concentration.

vi) According to the Central Bank's resolution, the facilities granted are subject to the following conditions: (i) the completion of all the actions contemplated in the Regularization and Reorganization Plan, and (ii) the filing with the Central Bank of evidence of any required authorizations of any foreign governmental or regulatory authorities, within specified periods of time.

As of the date of this annual report, the Bank has carried out the swap of assets and sale of the Banco Francés (Cayman) Limited. As a consequence of these transactions, the adjusted shareholders' equity has substantially increased, on an individual basis, allowing the Bank to meet the minimum capital requirements and other technical ratios related to the adjusted shareholders' equity established by the Central Bank. In addition, the shareholders' meeting held on April 22, 2004 resolved a capital increase as required by the Central Bank.

However, as the plan is subject to completion, if the transactions contemplated therein are not consummated, the Central Bank could take actions contemplated in the Financial Institutions Law. See *"The Argentine Banking System and its Regulatory Framework - Central Bank"*

Banco Francés has a significant portfolio of bonds of, and loans to, the Government and Argentine provinces. Because of our high level of exposure, any new restructuring of such debt or the 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, 2003 Banco Francés's position in public sector debt totaled approximately Ps.9.3 billion, mainly consisting of: Ps.5.9 billion in secured loans, Ps.1.3 billion in BODEN 2012, Ps.0.6 billion in Argentine Republic External Bills Series 74, Ps.1.0 billion in guaranteed bonds, Ps.0.086 billion in Tax Credit Certificates (*Certificados de Crédito Fiscal*), Ps. 0.062 billion in Argentine Treasury Bonds 90 and Ps.0.3 billion in Central Bank's bills. On September 22, 2003, the Government submitted to bondholders a proposal for the restructuring of Argentina's sovereign bonds in default, which included the Argentine Republic External Bills Series 74 and the Argentine Treasury Bonds 90. The Bank has ceased to record as a receivable the interest accrued on these assets and has written off the accrued and unpaid interest.

Although most of the bonds and loans from the federal and provincial governments held by Banco Francés were not included in the proposed restructuring, there can be no assurance that the "local tranche" of the sovereign debt or the BODEN 2012 will not be

eventually included in a new restructuring process initiated by the Government. Because of the high level of exposure of Banco Francés to the sovereign debt, 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. Similarly, a default by the Government or the Argentine provinces in a substantial amount would also have a material adverse effect on our financial condition.

Although the differences in exchange rates mandated to convert foreign currency into pesos for foreign currency denominated assets as opposed to liabilities were compensated by the Government with bonds, the definitive amount of compensation is still subject to validation by the Central Bank. The Central Bank has objected to certain accounts and accounting criteria used by the Bank to calculate the compensation, which could have a material adverse effect on our financial condition.

The Bank has submitted to the Central Bank three informative requirements regarding the amount to be compensated according to Decree 905/02 dated August 5, September 12 and December 23, 2002, respectively. The final amount to be compensated, reflected in the last filing made by the Bank on December 23, 2002, amounts to Ps. 797,300 thousands. The Bank subscribed BODEN 2012 for a nominal value of thousands of US\$ 569,500 (at the exchange rate of Ps.1.4 per U.S. dollar). In addition, to cover the remaining negative foreign currency position after the pesification, the Bank requested the Central Bank an advance to subscribe for bonds up to the concurrence of its negative net foreign currency position for the amount of thousands of US\$37,039. As of this date such amounts are pending validation by the Central Bank.

On September 11, 2002, the Central Bank credited BODEN 2012 for a nominal value of US\$421.89 million, and on October 29, 2002 for a nominal value US\$88.89 million (net of collateral security margin of about 15%), in accordance with a previous compensation estimate. During March 2003, the Central Bank released bonds with a face value of US\$386.00 million. Then the Bank made a contribution to its subsidiary Banco Francés (Cayman) Ltd. The remaining bonds will be blocked until the Central Bank gives its definitive approval of the compensation amount.

The balance sheet of the Bank and its subsidiaries shows as of December 31, 2003 in its assets Ps. 1,025,022 in BODEN 2012 (under "Government Securities") and Ps.250,149 in BODEN 2012 to be received (under "Other receivables from financial transactions").

On July 29, 2003 the Bank received a note from the Central Bank in which the Central Bank questioned certain items and recording criteria that gave rise to the compensation requested, and also indicated that it is analyzing other items that are part of the compensation requested. On November 12, 2003, the Bank responded that it had made a reasonable interpretation of current regulations and requested the Central Bank to review the criteria observed. Notwithstanding that, the Bank acknowledged certain minor observations. Subsequently, Resolution 24/04 issued by the Superintendency of Financial and Exchange Institutions on February 13, 2004, partially accepted the defense presented by the Bank in the letter dated November 12, 2003 mentioned above, recognizing part of the compensation amount requested by the Bank, but reducing the requested compensation amount by approximately Ps. 267,000 million. On March 16, 2004, the Bank has filed a motion of appeal of the Central Bank's resolution.

Subsequently, Communication "A" 4122 of the Central Bank, dated March 26, 2004, clarified the criteria for the compensation of the other items subject to the Central Bank's review in respect of the calculation made by Banco Francés, with no additional impact on the calculation of the compensation.

Through a letter dated April 15, 2004, the Bank requested from the Central Bank the release of BODEN 2012 owed to the Bank in connection with the compensation that is not at issue with the Central Bank, which is currently pending resolution.

In addition, on December 31, 2003 the Bank received a complementary letter from the Central Bank objecting to certain additional items of the compensation for lower amounts. The Bank has requested the analysis of said file, which is pending resolution by the Central Bank.

Moreover, the outcome of an action filed by the Bank with the Ministry of Economy regarding the financing of the Trust Fund for the Assistance of Financial Institutions (see note 22 and 23 to the consolidated financial statements as of December 31, 2003) may result in an increase of dollar-denominated liabilities, with the corresponding increase in the total compensation to be received under the terms of the compensation mechanism for financial institutions mentioned before.

The final decision of the Government regarding the compensation amount to be granted to Banco Francés may have a material adverse effect on our financial condition, which may eventually be covered by general provisions made by the Bank.

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

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high level of exposure to the risks associated with this mismatch, which may have a material adverse effect on the Bank's financial condition.

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. Although new rules regulating the matching of rediscounts received from the Central Bank with bonds and loans recorded as assets in the Bank's books had reduced our exposure and mismatch by approximately Ps.1,800 million as of April 2003, the remaining imbalance adversely affected the Bank's results of operations in the first semester of 2003, as a consequence of the real positive interest rates paid on fixed-rate liabilities. During the second half of the year, the negative effect disappeared as interest rates fell to a level of approximately 5%. Nevertheless, no assurance can be given that the relative behavior of interest rates and the consumer price index will not have a material adverse effect on our profitability in the future.

Legal actions may continue to have a material adverse effect on the Bank's financial condition, solvency, and profitability.

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 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.

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. 19550. 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.

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 U.S. accounting and financial reporting standards. 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 relating to our financial statements and a reconciliation to U.S. GAAP of net income and total stockholders' equity for the periods ended and as of the dates therein indicated.

Lawsuits against us brought 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.

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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 fall 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. 24485 in force since April 18, 1995, as amended by Law No. 24467, 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") and Consolidar Compañía de Seguros de Vida S. A. ("Consolidar Vida") have rejected an amendment of the terms of Government secured loans in their portfolios (except, in the case of Consolidar, partially in connection with certain mandatory legal reserves -encaje-). As a consequence, the exchange of Government debt securities by secured loans carried out in year 2001 has been reversed in the case of Consolidar and Consolidar Vida and therefore not only they have been excluded from interest payments under the secured loans, but also, they will be subject to the restructuring of the Argentine government debt securities that they will receive back as a result of the reversal referred to before. In addition, certain other Argentine government securities held by Consolidar, are also subject to such restructuring. The restructuring of the Argentine government debt securities will probably have a material adverse effect on Consolidar and Consolidar Vida (See "Information on the Company - Recent Political and Economic Developments in Argentina"). As a result of all of the circumstances set forth before, Consolidar and ConsolidarVida may be exposed to litigation.

In 2001 Consolidar, Consolidar Vida and Consolidar Compañía de Seguros de Retiro S.A. ("Consolidar Retiro") agreed to exchange certain securities issued by the Government that they had in their portfolios for Government secured loans. In 2002, the Government proposed an amendment to the terms and conditions of such Government secured loans and ordered the suspension of debt service payments on these loans. The acceptance of the amendment was a condition for the creditors under the loans to receive principal and interest payments. Consolidar and Consolidar Vida did not accept (in the case of Consolidar, only partially in connection with certain mandatory legal reserves -encaje-)the amendments to the conditions of pesification of secured loans. As a result of the lack of acceptance of such amendments, in August 2003, the Government ordered the return of the original securities that had been exchanged in year 2001 for the Government secured loans and determined, for accounting purposes, that such original securities be valued as if they were secured loans (without considering interest and CER accrued since August 2003).

In connection with all these Government measures, Consolidar, Consolidar Vida and Consolidar Retiro initiated several legal actions, the resolution of which is still pending. An adverse resolution of those actions could have a material adverse effect on these companies and result in lawsuits in connection to the liability of their managers and directors for the breach of their fiduciary duties.

1. Consolidar.

Overview

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

Regulatory changes occurred during 2002 brought about serious consequences that continued to pervade the Argentine pension system during 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 AFJPs have been the following:

(i) The Government has not honored the terms of the secured loans granted by AFJPs, and interest payments on such loans have been suspended. The Government has decided to hand back the underlying exchanged bonds which are in default and subject to restructuring. Such default has generated a liquidity problem in the AFJP industry, further discussed below. The Government has started negotiations with the AFJPs with respect to the restructuring of the sovereign debt, which will probably have a material adverse effect.

(ii) The Government is promoting a reform in the pension system, and the AFJPs have not been given an opportunity to participate in the process.

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

The loss of value of the assets under management AFJPs have exposed AFJPs to a heightened risk of litigation that may have a material adverse effect on their financial condition and results of operations.

The pesification of foreign currency denominated assets and liabilities greatly reduced the value of the assets in the pension funds managed by AFJPs in dollar terms. The loss of value of AFJPs' portfolios was aggravated by the 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.

AFJPs have initiated legal 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 portfolios of AFJPs.

AFJPs obtained a judicial victory when the Federal Administrative Court of Appeals (*Cámara de Apelaciones en lo Contencioso Administrativo Federal*) allowed to go forward a claim challenging a Government's resolution that required AFJPs in late 2001 to purchase Argentine Treasury notes (*Letras del Tesoro or Letes*) with the proceeds of term deposits. The Government has filed a motion of appeal to this ruling with the Supreme Court. Those *Letes* are subject to the restructuring of the Argentine sovereign debt. As such restructuring may occur before the final decision of the Supreme Court, if Consolidar decided to accept such restructuring, it would have to abandon the legal action referred to in this paragraph.

In addition, Consolidar has initiated legal actions challenging the return of the underlying governmental bonds exchanged for secured loans. Such underlying bonds are subject to the restructuring of the Argentine sovereign debt, which will probably have a material adverse effect.

Because the funds managed by AFJPs have significantly lost value in dollar terms, as discussed above, there is a risk of litigation against AFJPs, their managers and directors based on theories of breach of fiduciary duties. AFJPs have sought to protect the

value of the assets under management through a series of administrative and judicial actions as described above. Most AFJPs are questioning, through alternative strategies the measures taken by the Government that have impaired and continue to affect the value of the managed funds, and have refused to consent to any legal or regulatory measures that might somehow undermine the value of such funds.

No material lawsuits have been filed against Consolidar AFJP. 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 a material adverse effect on the financial condition of AFJPs.

AFJPs are experiencing a liquidity crisis that is preventing in part the normal administration of pension benefits. Such disruptions in the pension system have had and may continue to have a material adverse effect on the financial condition and the results of operations of AFJPs.

The devaluation of the peso, the pesification and the effects of the suspension of payments on the Argentine sovereign debt have also generated liquidity problems in the pension funds. Such liquidity constraints have created difficulties in the transfer of workers from one AFJP to another. AFJPs have been working to implement measures that would alleviate such temporary liquidity problems.

To the extent that there is no solution to the liquidity crisis of the AFJPs, there is a risk that pension benefits may not be provided as contemplated in the laws and regulations governing the pension system, and there is an increased risk of litigation. These factors, taken as a whole, may have a material adverse effect on the financial condition and the results of operations of AFJPs.

Consolidar AFJP has not experienced any liquidity problems, due to the characteristics of its investment portfolio. Consolidar has initiated (i) an administrative motion and (ii) a precautionary measure, challenging the suspension of payments under the secured loans. The latter has been dismissed.

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 2003 no concrete measures were adopted towards the reform of the pension system. Nonetheless, no assurance can be given that the definitive reform plans will not have a material adverse effect on the AFJP's industry.

2. Consolidar Vida.

The liquidity of our subsidiary Consolidar Vida has been materially and adversely affected by the economic crisis. New regulations may also have a material adverse effect on its financial condition and results of operations.

For pension life insurance companies, the Government's default on its debt obligations, together with the devaluation and the conversion of their portfolios into pesos, has had an impact on their assets, which consists mostly of securities issued by the Argentine federal and local governments denominated in dollars, such as secured loans, which were also converted into pesos. These companies need to match their assets in close relationship with their technical liabilities, which, in this case, must be paid-in in pesos adjusted according to AFJP quota values.

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, has limited the AFJPs liquidity as a consequence of the legal nature of the new instruments. However, Consolidar Vida has not been materially affected as of today.

The pesification of the assets of pension life insurance companies may continue to have a material adverse effect on the financial condition of the companies in the industry. Also, the final regulations of definitive retirement benefits for incapacity may also have a material adverse effect on pension life insurance companies, including Consolidar Vida.

3. Consolidar Retiro.

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 our subsidiary Consolidar Retiro.

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

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

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

As a consequence, policy holders started to seek reimbursements from the insurance companies. Consolidar Retiro immediately responded by promoting a dialog with its clients, which resulted in a very low level of litigation. As of December 31, 2003, on a total of 6,263 retirement insurance policies, there had been only 228 legal claims over a sixteen-month period, which claims represented 3.64% of the total portfolio.

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. Following the new regulation, Consolidar Retiro submitted for approval of the SSN different option plans for the redemption or maintenance of policies issued in dollars, which have been approved. At present these option plans are being offered to policyholders, and have already been accepted by more than 85% of the original portfolio, both in the number of policies and in amounts.

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

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 Consolidar Retiro.

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 National Insurance Superintendency of Argentina. Initially, beneficiaries had in their accounts a greater amount in pesos as a result of the conversion, which increased their purchasing power. As a result there were a minimal number of claims.

Even if these amounts were additionally increased by later gains made on such investments and exceeded any salary adjustment granted by the public sector as well as the inflation for the period, Consolidar Retiro has started to receive claims from insured parties. These claims, to this date, continue to be minimal in comparison to the total policy portfolio. As of December 31, 2003 there had been a total of 52 claims in a universe of 4,056 active life annuity accounts, representing 1.28% of the portfolio.

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

ITEM 4. INFORMATION ON THE COMPANY

IMPACT OF RECENT EVENTS IN ARGENTINA ON BANCO FRANCÉS

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

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

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

Since late in the year ended on December 31, 2001, the financial system in general and the Bank in particular had to cope with a significant impact in their liquidity position. This was mainly as a result of mass withdrawals of deposits, constitutional protection actions by depositors, the ordering of precautionary measures and immediate measures by tribunals, the suspension of court-enforced collections and foreclosures, and the enactment of numerous laws.

The liquidity crisis became especially aggravated in the second quarter of 2002 and our deposit base showed a sharp decrease. However, since July 2002 deposits begun to flow back into the system allowing for the gradual rebuilding of our deposit portfolio.

Effects of the Argentine Crisis on Banco Francés since December 31, 2001

The economic recession and the deep crisis in Argentina, as well as governmental measures, described elsewhere in this annual report materially and adversely affected our liquidity in the first half of the year 2002 and materially and adversely affected our financial condition, results of operations and business prospects. Furthermore, future results of operations will continue to be impacted by significant charges mainly related to the foreign exchange differences stemming from the reimbursement of deposits under precautionary measures.

Below is a summary of the main adverse consequences of the measures taken during 2002 and of the economic scenario on Banco Francés:

(i) The economic and financial measures undermined the basis for a large portion of financial institutions' business because said measures deeply affected the confidence of depositors and investors in the Argentine financial system and deteriorated the public sentiment towards all financial institutions. As a result, the role of financial institutions as financial intermediaries was severely hampered, reducing bank activities to the management of payment mechanisms and the administration of the remaining loan portfolio.

(ii) Pursuant to Decree No. 214/02 and complementary rules, certain of our dollar-denominated assets and liabilities were pesified at different exchange rates. For these pesified liabilities and certain pesified assets, an inflation adjustment mechanism was established. For other pesified assets, a salary adjustment mechanism was established. Decree No. 214/02 and Decree No. 905/02 provided that the losses resulting from the "pesification" of certain of our dollar-denominated assets and liabilities together with the devaluation of the peso would be compensated by the Government through the issuance of compensatory bonds and established a methodology for calculating the amount of the compensation. Decree No. 905/02, dated June 1, 2002, provided that the compensation to which a financial entity was entitled would be calculated by taking into account the imbalances created on such financial institution's unconsolidated balance sheet as of December 31, 2001, excluding from such balance sheet the assets of its foreign subsidiaries or branches but including, to that effect, certain secured government loans and other loans which were granted under Argentine law and consequently pesified held by each bank's foreign branches and subsidiaries which would be considered at the value at which they were registered by the relevant foreign branch or subsidiary.

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

On September 11, 2002, the Central Bank had credited BODEN 2012 for a nominal value of US\$421,890 thousand and on October 29, 2002 for a nominal value of US\$88,894 thousand (net of collateral security margin of 15%), in accordance with a