

Risk Factors

Factors Related to Argentina

Overview

We are an Argentine corporation (sociedad anónima) and substantially all of our operations, properties and customers are located in Argentina. Accordingly, the quality of our assets, our financial condition and our results of operations depend primarily on macroeconomic and political conditions prevailing in Argentina. Commencing with the last quarter of 2001 our country experienced an economic and political crisis, marked by a severe recession and the abandonment of U.S. dollar-parity, which led to a significant devaluation of the peso against foreign currencies. This crisis was also marked by a significant decrease in banking deposit levels, high interest rates, a significant decline in the demand of products and services, and a substantial increase in unemployment. These conditions had an adverse effect on BBVA Banco Francés's financial condition and results of operations, but currently, and after a strong economy comeback, the Bank is in a steady recovery process, but no assurance can be given that this trend will continue.

In this context, on May 25, 2003, Néstor Kirchner became the new President of Argentina, for a term that expired on December 10, 2007, assuming in his place Cristina Fernández de Kirchner. Since 2003, there has been a favorable evolution in the Argentine economy, ending the economic recession that lasted over five years. The following economic indicators are worth mentioning:

- i) GDP increased by 8.8%, 9.0%, 9.2%, 8.5% and 8.7% during 2003, 2004, 2005, 2006 and 2007, respectively;
- ii) Unemployment rate declined from 20.8% to 7.5% between the 4th quarters of 2002 and 2007;
- iii) Total deposits in the financial system grew approximately 173% between December 2002 and December 2007;
- iv) The foreign exchange rate after the initial depreciation has remained relatively stable at around 3 pesos per dollar, ending 2007 at 3.15 pesos per dollar (BCRA reference);
- v) A marked increase in the market value of Government securities, despite the decrease registered during 2007;
- vi) The restructuring of the Argentine Sovereign Debt completed in June 2005 with a rate of participation by bondholders of approximately 76.15% and an aggregate tendered amount of U.S.\$62.3 billion; and
- vii) A considerable increase of the primary balance by 2.5%, 3.9%, 3.7%, 3.5% and 3.2% of the GDP during 2003, 2004, 2005, 2006 and 2007, respectively.

Although the economic policies implemented by the Kirchner administration have succeeded in the short and mid-terms, there still remain major issues to be resolved, such as contracts with privatized public utilities and continuing default with respect to the pre-existing sovereign debt of the Argentine government that did not participate in the government's exchange offer consummated in June 2005 (for more information regarding the restructuring of Argentina's sovereign debt please see risk factor *"The incomplete restructuring of Argentina's sovereign debt may affect the future of economic performance"*).

The devaluation of the peso and other economic measures adopted by previous governments, and sustained by the current Government, have stimulated economic growth. After a period of high recession and contraction of the economy, the ceasing of payments of Argentina's debts, the devaluation of the "peso", and the increase of poverty, Argentina was able to reverse the negative trends and resume growth.

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

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

The gradual reduction of the commercial deficit, together with specific price adjustments of certain regulated and semi-regulated goods and services, contributed to registering 6.1% retail inflation in 2004. Inflation later accelerated, increasing to 12.3% in 2005, 9.8% in 2006 and 8.5% in 2007. In the event of a scenario of high inflation rates, the Argentine exports could lose competitiveness in relation to international markets, by eroding the effects of the devaluation, which could in turn have a negative effect in the economy activity levels and employment. Moreover, a high inflation rate could undermine confidence in the Argentine financial system in general, and this would negatively affect the business volume of banks, including BBVA Banco Francés, and could potentially hinder loan activities, especially those at long term and fixed interest rate.

According to statistical data published by the INDEC (a national publication source), there exists discrepancy among the CPI (consumer price indexes) corresponding to the different Argentine regions/provinces. This generates certain uncertainty in respect of inflation in the country as a whole. Consequently, it is to be noted that assets indexed by CER are adjusted according to Greater Buenos Aires CPI.

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

Commencing in 2005, primary expenditure started to increase more abruptly than public income. Thus, the primary balance of the public non financial sector has reduced from a 3.9% of the GDP in 2004, to a 3.2% of the GDP in 2007. Moreover, the primary balance could be negatively affected in the future in the event the level of public expenditure is increased due to provisional debts, financial assistance to the provinces with economic problems, and the granting of subsidies to several economic activities.

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

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

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

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

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

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

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

On March 11, 2002, the Argentine Association of Government-owned and Private Banks and the Argentine Bank Association filed a "per saltum" appeal with the Supreme Court under section 195 "bis" and following of the Argentine Code of Civil and Commercial Procedure (according to the modification introduced by Law No. 25,561). The appeal was filed for the benefit of government-owned and private banks members of such associations and was based on the Argentine institutional and systemic crisis, and on the need to comply with effective regulations to achieve an ordered and gradual solution for the restrictions affecting the financial system and guaranteeing a plurality of interest.

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

- § On March 5, 2003, the action for the protection of constitutional rights brought against the Federal Government by the Province of San Luis, the Banco de la Nación Argentina and the BCRA was declared to be unconstitutional, ordering the return of the amounts deposited in either U.S. dollars or the equivalent in pesos at the free market rate of exchange.
- § On July 13, 2004, in the case "Cabrera, Geronimo Rafael vs. Argentine Executive Branch on action for the protection of constitutional rights (amparo)", it rejected the claim of a depositor on the grounds that the depositor had exercised his rights within the framework of the emergency laws and collected a portion of his deposit in pesos without reserving the right to claim the difference in U.S. dollars at the exchange rate prevailing in the open market.
- § On September 14, 2004, in the case entitled "Campbell, Maria Enriqueta vda. de Tufiño y otro vs. Poder Ejecutivo Nacional. - Banco de Salta S.A. Grupo Macro s/ Amparo- Medida Cautelar", the CSJN rejected the claim of a depositor which was filed before the Court of original Jurisdiction and the Court of appeal, declaring the unconstitutionality of the emergency rule questioned regarding the pesification of the deposit funds in foreign currency.
- § On October 26, 2004, in the case entitled "Bustos Alberto Roque y otros vs. Poder Ejecutivo Nacional y otros s/ Amparo", the Supreme Court revoked a decision on the protection of constitutional rights (amparo), declaring that such action is not adequate for such claim and upheld the constitutionality of the rule by which the Argentine economy was pesificated due to the economic, financial and exchange emergency situation which the country is going through, also confirmed by Congress Law. The revoked decision of the Original Jurisdiction does not state how the Judge of this jurisdiction will resolve the fulfilment of the Court and for such reason proceed to the refund of the amount already paid due to the legal claims ordered by a Grade Judge.
- § On December 27, 2006 in the case "Massa, Juan Agustin vs. Poder Ejecutivo Nacional s/ Amparo" the Supreme Court confirmed the constitutionality of the emergency legislation during 2001, 2002 regarding the pesification of the Argentine economy and stated the calculation method applicable for the restitution of the deposits in the financial system subject to the mentioned emergency legislation. This calculation method is substantially different from the method that was originally enforced by the Executive Branch because it entitles each deposit holder to receive from the corresponding financial institution the reimbursement of his deposit at an exchange rate of Ps.1.4 = U.S.\$1, adjusted by the benchmark stabilization coefficient known as and herein referred to as "CER" until payment date, plus a 4% annual compensatory interest for every concept which cannot be capitalized. CER is a stabilization coefficient applicable to debt obligations that have been pesificated as from February 4, 2002. This coefficient is calculated according to the variation of the Consumer Price Index published by a government dependent organism known as INDEC. Both in this court order as well as in a more recent one, "Kujarchuk vs/ National Executive Power", the National Supreme Court establishes that the amounts withdrawn from the bank by judicial or non-judicial court measures, will be considered as advance payments, thus being obliged to deduce from the original tax in foreign currency, the percentage that, once converted into such currency, represents those payments converted into U.S. dollars at the free market quotation corresponding to each date. The payments thus effected are

consolidated and deducted in this way in the liquidation made in accordance with the Massa case. Legal costs are applied in this instance pursuant to the order thereof and according to Appeals' Court resolutions in prior cases. Also, the Supreme Court restricts the remaining amount to be refunded to the limit fixed by this Court, that is to say, the value in U.S. dollars of the original deposit.

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

As of the date hereof, most Argentine banks continue to be subject to precautionary measures and execution of judgments rendered by first or second instance courts as well as to decisions that adhered to the Supreme Court rulings in respect to the constitutionality of pesification and adhering to the own acts' theory (as described in the mentioned above-cases).

Enforcement of the precautionary measures ordered by different courts in constitutional protection actions imply for the financial system substantial losses of capital. The Bank has informed of these losses to the Ministry Economy and the BCRA and has sought to reserve all of its legal rights. The Dispositions of Communication "A" 3916 dated April 3, 2003, which states the method to account the capitalizations arising from compliance with court orders in cases challenging regulations in force in accordance with Law No. 25,561, Decree No. 214/02 and complementary regulations in relation to deposits within the financial system is still in force.

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

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

At the moment certain public and private organizations have attempted collective actions against financial institutions in Argentina. Class actions are established in Argentina in the National Constitution but have not been regulated for their use. Nevertheless courts have admitted class actions in the absence of specific regulation, covering the legal void. These courts have admitted diverse lawsuits against financial entities initiated in defense of collective interests, based on arguments of objection of overcharging on products, applied interest rates, advice in the sale of public securities, etc.

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

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

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

Argentina's executive branch enacted Decree No. 616/05 to regulate funds coming into and flowing out of Argentina in order to maintain stability, by public announcement, and support the economic recovery of the country. These measures require that 30% of the funds remitted to Argentina must be deposited in an account with a local financial institution as a U.S. dollar deposit for one year, without accruing interest. Financial sector and non-financial private sector inflows originated from foreign financial borrowings that are invested in non-financial assets and must be fully repaid (principal and interest) within 24 months from the date of the borrowing, are not subject to the foregoing deposit requirement. These measures may adversely affect the Argentine entities ability to access the international capital markets and to effectively invest the funds raised in any such financing which could materially adversely affect Argentine entities' financial condition and results of operations.

Factors Related to BBVA Banco Francés

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

As of December 31, 2006 BBVA Banco Francés and its subsidiaries' holdings of public sector debt totaled approximately Ps.7,368.2 billion, consisting mainly of: (i) External and Internal Restructured debt: Ps.2,367.9 million in secured loans; Ps.994.4 million in guaranteed bonds; Ps.380.0 million in Argentine Pesos denominated bonds and Ps.3.3 million U.S. dollars denominated bonds; and (ii) Post default public debt: Ps.238.4 million in bonds denominated in pesos; Ps.61,3 million in bonds denominated in U.S. dollars; Ps.3.9 million in other bonds; and Ps.3.319,0 million in Central Bank bills and notes. During 2007, BBVA Banco Francés sold a part of its guaranteed loan portfolio, thus reducing its exposure to long term National Treasury public risk, while it increased its holdings in BCRA's short-term securities, bills and notes.

Although BBVA Banco Francés and its subsidiaries have reduced significantly their public sector exposure during 2005, 2006 and 2007, BBVA Banco Francés continues to have a significant portfolio of bonds and loans of the Argentine Government. Due to its high level of exposure, any Government proposal that changes the terms and conditions of repayment of the sovereign debt could have a material adverse effect on our financial condition. A new default by the Government in respect of a substantial amount of its debt would have a material adverse effect on our financial condition.

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

BBVA Banco Francés finds itself among the private banks in Argentina with the highest volumes of assets and liabilities with mismatched terms and interest rates derived from the asymmetric conversion of foreign currency assets and liabilities into pesos. During fiscal year 2005 the Bank has fully paid the rediscounts received from the Central Bank with the proceeds of the sale of public sector bonds and loans with longer duration than such liability, thus reducing the term mismatch. Furthermore, since the beginning of the crisis, the following actions have reduced our exposure: (i) the increases in CER adjusted deposits; (ii) the sale of bonds adjusted by CER of, and loans to the Argentine Government and the Argentine provinces from our portfolio; and (iii) the subscription of the necessary bonds to be delivered to depositors who had accepted the Government's swap option plans, with CER adjusted assets accounted for in the books of the Bank. Despite these reductions in exposure, the Bank maintains a Ps.2.5 billion long CER position as of December 31, 2007. During fiscal years 2005, 2006 and 2007 the remaining imbalance positively affected the Bank's results of operations, within an environment of negative real interest rates. Nevertheless, no assurance can be given in connection with the future relative behavior of interest rates vis-à-vis the consumer price index. If the real interest rates significantly increase, such increase could have an adverse effect on our profitability in the future.

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

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

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

BBVA Banco Francés paid Ps.37,1 million of negative exchange rate difference during 2007 in compliance with court orders in lawsuits brought by the Bank's customers, regarding deposit refunds.

BBVA Banco Francés has been served with notice of provisional remedies, issued mainly in proceedings against the pesification, that require deposits to be refunded in cash in amounts larger than those established by current law and regulations, or require the release of rescheduled deposits, or that declare the inapplicability of regulations issued by the Congress, the Federal Executive or the Central Bank. As of the date of this report, and after the Supreme Court's resolution in case "Massa, Juan Agustin vs. Poder Ejecutivo Nacional - Decreto No. 1750 s/ Amparo", the consequences of the resolutions issued on such case are still not clear. Notwithstanding that, the Bank has estimated this contingency and has raised allowances for the total amounts (see Note 3.4.13. to the

Consolidated Financial Statements). Consequently, the final outcome of these legal actions is still unknown. These legal actions have had a material and may continue to have an adverse effect on the results and the financial condition of BBVA Banco Francés.

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

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

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

We are a commercial bank organized under the laws of Argentina. Most of our shareholders, directors, members of the supervisory committee, and officers and certain experts named herein reside outside the United States (principally in Argentina). Substantially all of our assets are located outside the United States. If any shareholder were to bring a lawsuit against our directors, officers or experts in the United States, it may be difficult for them to effect service of legal process within the United States upon these persons or to enforce against them, in the United States courts, judgments obtained in the United States based upon the civil liability provisions of the federal securities laws of the United States.

Under Argentine law, enforcement of foreign judgments is recognized provided that the requirements of Articles 517 through 519 of the Federal Code of Civil and Commercial Procedure are complied with. Among other requirements, the foreign judgment must not violate the principles of public policy of Argentine law, as determined by an Argentine court. In addition, there is doubt as to whether an action could be brought successfully in Argentina on the basis of liability based solely upon the civil liability provisions of the United States federal securities laws.

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

Under Argentine law, the liquidation and commencement of bankruptcy proceedings against financial institutions, until their banking license has been revoked by the Central Bank, may only be commenced by the Central Bank. If BBVA 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 BBVA Banco Francés' Subsidiaries

§ Consolidar Compañía de Seguros de Vida S.A. provides coverage for disability and death risks of workers who are affiliated with privately owned pension funds managing companies by providing to such managing companies with the complementary capital required to obtain the principal amount required to fix the agreed pension for those pursuing a disability pension or for the beneficiaries of the worker's death pension. In addition, the company performs other activities related to life insurance.

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

The Pension Reform set forth by Law No. 26,222 provides that commencing on year 2008, disability and death insurance may not be issued by Life Insurance Pension Companies, but can only be issued by mutual funds to be established with financing from a percentage of the pensions and retirements funds managed by each privately owned pension managing company. Commencing on January 1, 2008, Consolidar Compañía de Seguros de Vida S.A. has stopped issuing any new social-security related life insurance policies. Management activities related to social-security life insurance policies issued prior to the fiscal year commenced on July 1, 2001 as well as the management activities related to policies corresponding to group life insurance and mandatory life insurance policies can continue. The above notwithstanding, the Company's Board of Directors is presently analyzing the current situation and assessing the alternatives most adequate for the continuity of the operations of Consolidar Compañía de Seguros de Vida S.A. and it estimates that the implementation of the above described changes would not have a material negative impact on the BBVA Banco Francés' financial situation.

§ Consolidar Compañía de Seguros de Retiro S.A. writes individual pension agreements, group pension agreements and life annuities.

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

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. To minimize the damaging effects of the asymmetric conversion into pesos, Decree No. 558/02 enabled the insurers to offer to the insured parties redemption schemes contemplating a number of options. Following the new regulation, Consolidar Compañía de Seguros de Retiro S.A. submitted for the approval of the Argentine Insurance Superintendency, different option plans for the redemption or maintenance of policies issued in dollars, which have been approved. The proposed options were based following the principles handed down in a judgment of the National Supreme Court applicable to all obligations of the financial sector, although such decision did not expressly include obligations which are not related to the financial system, such as those related with insurance agreements and policies.

While the National Supreme Court of Justice recognized that the rules and regulations whereby pesification of negotiable instruments were established are valid., the National Supreme Court of Justice rendered a new judgment concerning matters outside of merely financial or banking matters. The fact that rules concerning pesification of banking debts are considered valid is an important background that makes us believe that said consideration shall be applicable to the obligations of insurance companies. However, there is a risk that the National Supreme Court would not confirm these pesification principles as applicable to insurance policies and independently quantify such obligations in Argentine currency (pesos) in a different manner.

It is important to note that the existing judgment for the validity of pesification rules of the financial sector obligations prescribes an equivalence very closed to the actual dollar value. Since such opinion was handed down, the doctrine of "shared-efforts" has been applied to non-financial obligations resulting in a lower dollar conversion value which would be more favorable to the insurance companies. The National Supreme Court of Justice is expected to render its judgment on life annuities and individual pension insurance agreements asserting the validity of the passed rules and regulations and setting an equivalent value based on the so-called shared-effort doctrine, but no assurance can be given that such a judicial decision will occur or whether the impact of such a decision will be favorable to, or adopt principles adverse to Consolidar Compañía de Seguros de Retiro S.A.

RECENT POLITICAL AND ECONOMIC DEVELOPMENTS IN ARGENTINA

Macroeconomic Environment

For the fifth consecutive year, the Argentine economy grew at a pace close to 8.7%, without registering any significant slowdowns, in spite of the turbulence which affected international credit markets from July 2007 onwards. On average, growth was not significantly affected by the energy supply restrictions imposed last winter on industrial and business users. The resulting drop in the manufacturing industry during June and July was more than compensated during the following months. Thus, industrial production grew 7.5% in 2007 (compared to 8.4% in 2006).

The slowdown in the construction sector resulted in a lower increase of Gross Fixed Investment as compared to the previous year, despite the dynamics resulting from investments in durable equipment, both national and imported. On the other hand, private consumption had an expansive performance, driven by improvements in employment, real wages, retirement benefits and Income Tax reductions. For the first time since the devaluation, the services sectors, along with financial intermediation, grew at higher rates than the goods production sectors in the first three quarters of 2007.

In this positive environment, employment market indicators continued to show improvements. Unemployment dropped 1.7 percentage points year over year on average in 2007, as a result of an employment growth rate of around 3.9% and labor force participation remaining at 46.1%, slightly below the previous year. The unemployment rate reached 7.5% during the fourth quarter of 2007, according to the survey carried out by the National Institute of Statistics and Census (INDEC), which did not include Bahía Blanca city.

In line with productivity increases and the fall in unemployment, formal private sector wages continued to recover at a rate similar to previous years', but there was also a significant increase in civil servants and informal sector wages in 2007. Therefore, the economy's average wage index rose by 22.7% between December 2007 and the same month of the previous year. However, in real terms, formal private sector wages were 31% higher in December 2007 than at the end of 2001, while informal and public sector wages are still estimated to be 5-10% below this level.

Fiscal accounts tended to deteriorate during 2007. Tax collection grew by 33%, driven by VAT (IVA), tax on debits and credits on bank accounts, export taxes and Social Security contributions in particular. However, primary public spending accelerated at a faster pace than revenues growing by 44% when compared to the previous year. The factors with the strongest impact on the increase in primary public spending were social security services and transfers to the private sector. In the first case, the increase was due both to raises in retirement benefits and pensions and to a significant increase in the number of beneficiaries after the pension moratorium. In terms of transfers to the private sector, subsidies granted to the energy and transport sectors had a strong incidence. Additionally, public accounts were favorably impacted by the Retirement and Pensions Reform, which contributed an additional Ps.7,800 million in revenues due to the transfer of the funds accumulated in the Private Pension Fund System (AFJPs) to the public social security system as a consequence of the transfer of approximately 2.5 million affiliates from one system to the other. Consequently, the primary fiscal surplus reached Ps.25,764 million, representing a 3.2% of GDP, a slightly lower level than the previous year.

The interest burden rose by 42% due to the increase of the nominal exchange rate, price adjustment (CER index) and the placement of government securities at rates higher than the maturing debt. In particular, payments on the GDP coupon increased by more than 100%.

Argentina's terms of trade improved around 3.6% during 2007, benefiting from the increase in international commodity prices, with agricultural product prices increases exceeding 21% during the year. Despite a strong increase in imports of 31%, the trade balance only suffered a deterioration of U.S.\$1,152 million compared to 2006, due to the excellent performance of exports, also driven by higher volumes of grains, soy seeds, oils and derivatives, based on record crops of corn and soybean, and the continued dynamism of exports of industrial products, particularly automobiles. With exports totaling U.S.\$55,934 million, the 2007 trade surplus closed at U.S.\$11,154 million.

The Consumer Price Index (CPI) for Greater Buenos Aires (GBA) increased 8.5% year over year as of December 2007. Prices for seasonal products dropped by 7.5% year over year compared to December 2006, driven by price drops in tourism and vegetables, while prices of regulated products (including health, education and public transport) grew by 9.5%, and the rest of the CPI (proxy of the underlying inflation) increased by 10.7%. Due to the fact that methodological changes introduced in the GBA CPI index were not applied in all the provinces, the national inflation rate, excluding the Greater Buenos Aires area, rose to 12.3% year over year in 2007.