

foreign exchange market at year end) and the rate of inflation for wholesale price for the fiscal years ended December 31, 2016, 2015, 2014, 2013 and 2012.

Since the repeal of the Convertibility Law in January 2002, the peso has devalued approximately 1,417.42% vis-à-vis the dollar.

	As at December 31,				
	2016	2015	2014	2013	2012
Devaluation Rate <sup>(1)</sup>	21.88%	52.07%	31.21%	32.55%	14.27%
Exchange Rate <sup>(2)</sup>	15.8502	13.0050	8.5520	6.5180	4.9173
Inflation Rate <sup>(3)</sup>	34.50%	10.58%	28.27%	14.76%	13.13%

(1) For the twelve-month period then ending.

(2) Pesos per dollar.

(3) The inflation rate presented is for Wholesale Price Index ("IPIM" by its acronym in Spanish) published by the INDEC.

## B. Capitalization and indebtedness

Not applicable.

## C. Reasons for the offer and use of proceeds

Not applicable.

## D. Risk Factors

### Risks Relating to Argentina

#### Overview

We are an Argentine corporation (*sociedad anónima*), and the vast majority of our operations, properties and customers are located in Argentina. Accordingly, the quality of our assets, our financial condition and our results of operations are significantly affected by macroeconomic and political conditions prevailing in Argentina.

*Economic and political instability in Argentina may adversely and materially affect our business, results of operations and financial condition.*

The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth, high levels of inflation and currency devaluation. As a consequence, our business and operations have been, and could in the future be, affected from time to time to varying degrees by economic and political developments and other material events affecting the Argentine economy, such as inflation, price controls, foreign exchange controls, fluctuations in foreign currency exchange rates and interest rates, governmental policies regarding spending and investment, national, provincial or municipal tax increases and other initiatives increasing government involvement with economic activity, and civil unrest and local security concerns.

In 2001 and 2002, the Argentine economy suffered a severe economic and political crisis (the "Argentine Crisis"). Among other consequences, the Argentine Crisis resulted in Argentina defaulting on its foreign debt obligations and introducing emergency measures and numerous changes in economic policies that affected utilities, financial institutions and many other sectors of the economy. Argentina also suffered a significant real devaluation of the peso, which in turn caused numerous Argentine private sector debtors with foreign currency exposure to default on their outstanding debt. Restrictions on deposit withdrawals from the banking system were implemented, as dollar denominated loans and deposits were "pesified" (reclassified as peso-denominated) and maturities reprogrammed. In 2002, inflation soared to 40% while GDP collapsed by almost 11%. Following that crisis, Argentina substantially increased its real gross domestic product ("GDP"), growing 8.9% in 2005, 8.0% in 2006, 9.0% in 2007 and 4.1 % in 2008. During 2009, however, the Argentine economy suffered a slowdown attributed to local and external factors, including an extended drought affecting agricultural activities, and the effects of the global economic crisis which led to a contraction of the economy of 5.9% in 2009. Real GDP growth recovered in 2010 and 2011, increasing to 10.1% and 6.0%, respectively. However, real GDP fell again by 1.0% in 2012 and then grew by 2.4% in 2013. In 2014, the economy underwent another recession and GDP contracted by 2.5%. Finally, real GDP grew by 2.6% in 2015, primarily driven by an increase in public expenditures and investment. The economic and financial environment in Argentina going forward is expected to be significantly influenced by the presidential elections held on November 22, 2015, which resulted in Mr. Mauricio Macri being elected President of Argentina. The new administration (the "Macri Administration") took office on December 10, 2015 and launched a wide array of measures intended to correct longstanding fiscal and monetary policies that had resulted in recurrent public sector deficits, high inflation, pervasive foreign exchange controls and limited

foreign investment. In 2016, the elimination of foreign exchange restrictions and rebalancing of utility rates led to an increase in inflation to 41% year-on-year according to the City of Buenos Aires index at year end and considerable fall in consumption. According to EMAE (a monthly proxy for GDP), economic activity is estimated to have fallen by 2.3%. Sustainable economic growth and improved employment in the medium term will depend upon the manner in which the structural imbalances are addressed and may develop adversely if these policy issues are not addressed adequately or successfully.

Inflation, any decline in GDP and/or other future economic, social and political developments in Argentina, over which we have no control, may adversely affect our business, results of operations and financial condition

*The Macri Administration has implemented significant changes in policy and has announced additional measures, but the ability to successfully implement such additional measures and the eventual outcome of such changes are unknown.*

Presidential and congressional elections in Argentina took place on October 25, 2015, and a runoff election between the two leading Presidential candidates was held on November 22, 2015, which resulted in Mr. Mauricio Macri being elected President of Argentina. The Macri Administration assumed office on December 10, 2015.

Since assuming office, the Macri Administration has implemented several significant economic and policy reforms and announced other intended reforms, including reforms to:

- § foreign exchange restrictions;
- § methodologies used by the Argentine National Statistics and Censuses Institute (the “INDEC”);
- § financial policy;
- § foreign trade policy;
- § fiscal policy;
- § monetary imbalances;
- § Argentina’s energy generation and consumption regime;
- § the reparation program for retirees and pensioners; and
- § the tax amnesty regime.

For a description of these economic and policy reforms, see *“Item 4. Information on the Company—Recent Political and Economic Developments in Argentina—Macri Administration”*.

Although we understand the Macri Administration believes that the national economy has responded largely as expected to the measures implemented to date, the ultimate long-term impact of each of these measures on the national economy as well as the ability to implement all announced measures as currently contemplated cannot be assured. The ability of the Macri Administration to implement legislative measures will require obtaining support from opposition parties. The opposition parties did support the passage of the Debt Authorization Law submitted by the Macri Administration or the 2017 Budget Law. If the Macri Administration’s agenda cannot be successfully implemented, including as a result of a lack of political support from opposition parties in Congress, the result may weaken confidence in and adversely affect the Argentine economy and financial condition, which could in turn have a material adverse effect on our business, results of operations and financial condition.

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

Historically, inflation has materially undermined the Argentine economy and the government’s ability to create conditions that permit growth. In recent years, Argentina has experienced high inflation rates which rose from 26.6% year-on-year in 2013 to 41% year-on-year in 2016 according to the City of Buenos Aires index.

High inflation rates have led to the loss of competitiveness of Argentine exports in international markets and to a decline in private consumption, causing a negative effect on economic activity and employment. Moreover, high inflation rates have in the past

and could in the future undermine confidence in the Argentine financial sector, in particular with respect to the peso deposit base, reducing the demand for pesos and leading to a portfolio dollarization, which would in turn cause a decrease in the deposit base. This would negatively affect the business volume of banks, including BBVA Francés.

From 2007 to mid-2016, the CPI data for the Greater Buenos Aires area (the “CPI-GBA”) and for other Argentine regions/provinces published by the INDEC was not consistent with the CPI data published by private institutions. These inconsistencies created uncertainty regarding the country’s actual inflation rate and made it difficult to anchor inflation expectations. Assets, such as public bonds, indexed to the Benchmark Stabilization Ratio (*Coeficiente de Estabilización de Referencia* or “CER”) are adjusted according to the CPI-GBA. Uncertainties concerning official inflation indexes have since been reduced or eliminated with the publication of a credible inflation index by INDEC as discussed below. For more information see “Item 5. Operating and Financial Review and Prospect—Effects of Recent Events on BBVA Francés”.

Argentina’s professional accounting standards require applying Technical Pronouncement No. 6 of the Argentine Federation of Professional Councils in Economic Sciences (“FACPCE”) (as amended by Technical Resolution No. 19), which sets forth that financial statements are to be restated in constant currency when the country’s economic environment exhibits certain characteristics. In the event that the restatement of financial statements in constant currency becomes mandatory, the adjustment must be performed based on the last date on which the Bank adjusted its financial statements to reflect the effects of inflation.

Between January 12 and June 2, 2016, the government issued a series of resolutions designating either the CPI calculated by the government of the City of Buenos Aires, the only institution in Argentina with the statutory authority to produce official nationwide statistics, or the CPI calculated by the Province of San Luis as the index to be used by the Central Bank to calculate the CER. On June 15, 2016, the INDEC published the inflation rate for May 2016 using its new methodology for calculating the CPI. Beginning as of June 26, 2016, the government resumed using the INDEC CPI to calculate the CER. Adjustments and payments on Argentina’s inflation-indexed debt are not subject to restatement or revision.

On June 15, 2016, the INDEC resumed publishing inflation rates, reporting an increase of 4.2% month-on-month in May 2016, 3.1% in June 2016 and 2% month-on-month in July 2016. In the last quarter of the year, CPI increases for the Greater Buenos Aires area were 2.4% for October 2016, 1.6% for November 2016 and 1.2% for December 2016 using the new INDEC methodology for calculating the CPI. In the past and through the Fernández de Kirchner Administration, the government implemented programs to control inflation and monitor prices for essential goods and services, including attempts to freeze the prices of certain supermarket products, and price support arrangements agreed between the government and private sector companies in several industries and markets that did not address the structural causes of inflation and failed to reduce inflation. In early 2016, the government’s adjustments to electricity and gas tariffs, as well as the increase in the price of gasoline impacted prices, created additional inflationary pressure which resulted in an acceleration of inflation in the first half of 2016.

Inflation remains a challenge for Argentina given its persistent nature in recent years. The Macri Administration has announced its intention to reduce the primary fiscal deficit as a percentage of GDP over time and also reduce the government’s reliance on Central Bank financing by 0.5% of GDP in 2017. If, despite the measures adopted by the Macri Administration, these measures fail to address Argentina’s structural inflationary imbalances, the current levels of inflation may continue and have an adverse effect on Argentina’s economy and financial condition, which could in turn have a material adverse effect on our business, results of operations and financial condition.

*The credibility of several Argentine economic indices was called into question in the past, which led to a lack of confidence in the Argentine economy and could affect the evolution of the Argentine economy in the future.*

During the presidency of Cristina Fernández de Kirchner, the INDEC, the government’s principal statistical agency, underwent institutional and methodological reforms that gave rise to controversy regarding the reliability of the information that it produced, including inflation, GDP, unemployment and poverty data.

Reports published by the International Monetary Fund (the “IMF”) stated that their staff used alternative measures of inflation for macroeconomic surveillance, including data produced by private sources, which showed inflation rates considerably higher than those published by the INDEC since 2007. The IMF also censured Argentina for failing to make sufficient progress, as required under the Articles of Agreement of the IMF, in adopting remedial measures to address the quality of official data, including inflation and GDP data. In February 2014, the INDEC released a new inflation index, known as the National Urban Consumer Price Index (the “CPI NU”), which measured prices of goods across the country and replaced the previous index that only measured inflation in the greater Buenos Aires metropolitan area. Although the new methodology brought inflation statistics closer to those estimated by private sources, there were still significant differences between official inflation data and private estimates.

On January 8, 2016, based on the determination that the INDEC had failed to produce reliable statistical information, particularly with respect to CPI, GDP and foreign trade data, poverty and unemployment rates, the Macri Administration declared a state of administrative emergency for the national statistical system and the INDEC until December 31, 2016. The INDEC suspended publication of certain statistical data pending reorganization of its technical and administrative structure to recover its ability to produce sufficient and reliable statistical information. During the first six months of this reorganization period, the INDEC published official CPI figures published by the City of Buenos Aires and the Province of San Luis for reference, as described in *“High inflation rates could negatively affect the Argentine economy in general, including access to the long-term financing market.”* above.

After revision of the methodology and data compilation in June 2016, the INDEC began publishing a new CPI index for the Greater Buenos Aires area which showed inflation rates of 4.2% month-on-month in May 2016 and 3.1% month-on-month in June 2016, in line with private estimates. Also in June 2016, the INDEC published revised GDP series for the 2004-2015 period.

In July 2016, an IMF team met officers of the INDEC and the Argentine finance ministry to discuss the government’s new inflation and gross domestic product statistics and expressed it was pleased with Argentina’s efforts to restore confidence in its official statistics under the Macri Administration. In November 2016, the IMF concluded the Article IV Consultation with Argentina after 10 years of its last revision. At the same time, the Executive Board of the IMF lifted Censure on Argentina’s official data concluding that Argentina’s CPI and GDP data collection and publication were in line with international standards.

In order to be effective, reforms implemented by the INDEC require, however, data to be collected on a timely basis and the continuous implementation of correct methodologies. If these reforms fail to sustain credibility, such failure may adversely affect the Argentine economy. The INDEC’s past or future data also may be materially revised to reveal a different economic or financial situation in Argentina, which could affect investment decisions in the country. All of these factors could adversely affect our business, results of operations and financial conditions.

*A considerable increase in the government’s expenditure could negatively affect the Argentine economy and its access to international financial markets.*

Starting in 2005, public expenditures began to increase faster than public revenues and the primary fiscal balance of the national public non-financial sector went from a surplus of 3.2% of GDP in 2004 to a deficit of 5.4% of GDP in 2015. In 2016, the primary deficit was Ps.359.4, which represented an increase of 52.9% compared with the previous year, because the reduction of export duties and the income tax reform negatively impacted revenue growth while the reduction in subsidies to the energy and transport sectors was slower than expected. The Macri Administration announced gradual adjustments to the primary fiscal deficit, which is expected to decline to -2.2 % of GDP in 2019. Most of the fiscal adjustments are intended to come from the elimination of the subsidies to the energy sector, a measure which is currently being implemented, while primary spending is expected to remain constant in real terms as revenues recover on the back of economic growth.

Any further deterioration of the government’s fiscal position, however, would negatively affect its ability to access the debt markets and could in turn result in more limited access to such markets by Argentine companies, including BBVA Francés.

Moreover, in 2016 the former government started issuing debt in the local Argentine market again after a number of years without any such issuance, which Argentine private banks, such as BBVA Francés, often purchase. The Macri Administration has announced that it will continue to issue debt in the local Argentine market and this could lead to increased exposure of private banks, such as BBVA Francés, to the public sector.

The Macri Administration has undertaken important steps to curb the fiscal deficit through a series of tax and other measures aimed at increasing revenues, reducing energy, gas and transport subsidies and controlling public expenditures. However, we cannot assure that such measures will be successful or sufficient to reduce the fiscal deficit.

Certain programs recently announced by the Macri Administration may also increase public expenditures, including the bill for the *Programa de Reparación Histórica para Jubilados y Pensionados* (Historical Reparations Program for Retirees and Pensioners) passed on June 29, 2016, which, if implemented, would require retroactive compensation in an aggregate amount of more than Ps. 47.0 billion and an investment of up to Ps. 75.0 billion to cover all potential beneficiaries. The funding is expected to be generated in part through revenues raised under a tax amnesty proposed in the same bill. However, these revenues may be insufficient to offset such increases in public expenditures, which may increase the fiscal deficit.

It is uncertain whether the Macri Administration will succeed in implementing its strategy to reduce the fiscal deficit and public expenditures, particularly in light of the fact that any measures subject to congressional approval will require support from the opposition. Failure to implement these policies, or if they prove ineffective, could increase the fiscal deficit, negatively impact

consumers' purchasing power and lead to overall higher prices. Furthermore, the government's primary fiscal balance could be negatively affected if public expenditures continue to increase in the future. A weaker fiscal position could have a material adverse effect on the government's ability to obtain long-term financing and adversely affect economic conditions in Argentina, which could adversely affect our business, results of operations and financial condition.

*The Argentine economy remains vulnerable to external events that could be caused by significant economic difficulties of Argentina's major regional trading partners, particularly Brazil, or by more general "contagion" effects, including those precipitated by the United Kingdom's impending departure from the European Union and the economic policy of the new government of the United States. Such external events and "contagion" effects could have a material adverse effect on Argentina's economic growth and its ability to service its public debt, and, as a result, on our business.*

Weak, flat or negative economic growth of any of Argentina's major trading partners, such as Brazil, could adversely affect Argentina's balance of payments and, consequently, Argentina's economic growth.

In 2015 and 2016, the economy of Brazil, Argentina's largest export market and the principal source of imports, experienced heightened negative pressure due to the uncertainties stemming from its political crisis, including the removal of Ms. Dilma Rousseff as President from office. The Brazilian economy contracted by 3.8% during 2015, mainly due to a 8.3% decrease in industrial production, and further decreased by 3.6% in 2016. The Brazilian real depreciated against the U.S. dollar by approximately 49.1% from January 2015 to February 2016, the largest depreciation in over a decade, in an attempt to increase exports, before appreciating by 15.98% between March, 2016 and February, 2017. Any further deterioration of economic conditions in Brazil may reduce demand for Argentine exports and increase demand in Argentina for Brazilian imports. While the impact of Brazil's downturn on Argentina cannot be predicted, it is possible that the Brazilian political and economic crisis could have a further negative impact on the Argentine economy.

The Argentine economy may also be affected by "contagion" effects. International investors' reactions to events occurring in one developing country sometimes appear to follow a "contagion" pattern, in which an entire region or investment class is disfavored by international investors. In the past, the Argentine economy has been adversely affected by such contagion effects on a number of occasions, including the 1994 Mexican financial crisis, the 1997 Asian financial crisis, the 1998 Russian financial crisis, the 1999 devaluation of the Brazilian real, the 2001 collapse of Turkey's fixed exchange rate regime and the global financial crisis that began in 2008.

The Argentine economy may also be affected by conditions in developed economies, such as the United States, that are significant trading partners of Argentina or have influence over world economic cycles. A more protectionist trade policy from the new government of the United States could affect world trade with negative repercussions for Argentina. If interest rates increase significantly in developed economies, including the United States and Europe (particularly as a result of the United Kingdom's vote in favor of leaving the European Union on June 23, 2016 and the commencement of the official path for departure from the EU (the "Brexit"), Argentina and its developing economy trading partners, such as Brazil, could find it more difficult and expensive to borrow capital and refinance existing debt, which could adversely affect economic growth in those countries. The perceptions as to the impact of the withdrawal of the United Kingdom from the European Union may adversely affect business activity and economic and market conditions in the United Kingdom, the Eurozone and globally, and could contribute to instability in global financial and foreign exchange markets. In addition, Brexit could lead to additional political, legal and economic instability in the European Union.

Any of these factors could adversely affect economic conditions in Argentina which would in turn adversely affect our business, results of operations and financial conditions.

*A decline in international prices for Argentina's principal commodity exports could have a material adverse effect on Argentina's economy and public finances, and, as a result, on our business.*

Historically, the commodities market has been characterized by high volatility. Despite the volatility of prices of most of Argentina's commodities exports, commodities have significantly contributed to the government's revenues during recent years due to the imposition of export duties on agricultural products in 2002. Although most duties were eliminated and the export tax on soy was reduced from 35% to 30% by the Macri Administration in 2016, the Argentine economy is still relatively dependent on the price of its main agricultural exports, primarily soy. This dependence, in turn, renders the Argentine economy more vulnerable to commodity prices fluctuations. International commodities prices decreased during 2015 but partially recovered during 2016. Declines in commodity prices may adversely affect the Argentine economy, and the government's fiscal revenues, which could in turn adversely affect our business, results of operations and financial condition.

While the lowering of export taxes implemented in 2016 was intended to encourage exports, reductions in export taxes in the future, unless replaced with other sources of revenues, may adversely affect the Argentina's public finances, which could in turn adversely affect our business, results of operations and financial condition.

*Exchange controls and restrictions on capital inflows and outflows could have a material adverse effect on Argentine public sector activity, and, as a result, our business.*

In 2001 and 2002, following a run on the financial sector triggered by the public's lack of confidence in the continuity of the convertibility regime that resulted in massive capital outflows, the government introduced exchange controls and restrictions on the transfer of foreign currency in an attempt to prevent capital flight and a further depreciation of the peso. These exchange controls substantially limited the ability of issuers of debt securities, among others, to accumulate or maintain foreign currency in Argentina or make payments abroad.

Although several of such exchange controls and transfer restrictions were subsequently suspended or terminated, in June 2005 the government issued a decree that established new controls on capital flows, which resulted in a decrease in the availability of international credit for Argentine companies.

In addition, from 2011 until the Macri Administration took office in December 2015, the government increased controls on the sale of foreign currency and the acquisition of foreign assets by local residents, limiting the possibility of transferring funds abroad. Together with regulations established in 2012 that subjected certain foreign exchange transactions to prior approval by Argentine tax authorities or the Central Bank, these measures significantly curtailed access to the foreign exchange market. In response, an unofficial U.S. dollar trading market developed in which the peso-U.S. dollar exchange rate differed substantially from the official peso-U.S. dollar exchange rate.

The Macri Administration has substantially eliminated all foreign exchange restrictions that developed under the Fernández de Kirchner regime. See "*Fluctuations in the value of the peso could adversely affect the Argentine economy and the Republic's ability to service its debt obligations.*" below. Notwithstanding the measures recently adopted by the Macri Administration, if in the future the Central Bank and/or the government re-introduce exchange controls and impose restrictions on transfers abroad, such measures may negatively affect Argentina's international competitiveness, discourage foreign investments and increase foreign capital outflows, which could have an adverse effect on economic activity in Argentina.

Any of these factors could have a material adverse effect on our business, results of operations and financial condition.

*The Macri Administration has begun to implement significant measures to solve the current energy sector crisis, but the eventual outcome of such measures is unknown.*

Economic policies since the Argentine Crisis have had an adverse effect on Argentina's energy sector. The failure to reverse the freeze on electricity and natural gas tariffs imposed during the Argentine Crisis created a disincentive for investments in the energy sector. Instead, the government sought to encourage investment by subsidizing energy consumption. The policy proved ineffective and operated to further discourage investment in the energy sector and caused production of oil and gas and electricity generation, transmission and distribution to stagnate while consumption continued to rise. To address energy shortages starting in 2011, the government attempted to increase imports of energy, with adverse implications for the trade balance and the international reserves.

In response to the growing energy crisis, the Macri Administration declared a state of emergency with respect to the national electricity system, which will be in effect until December 31, 2017. The state of emergency allows the government to take actions designed to stabilize the supply of electricity to the country, such as instructing the *Ministerio de Energía y Minería de la Nación* (Ministry of Energy and Mining) to design and implement, with the cooperation of all federal public entities, a coordinated program to guarantee the quality and security of the electricity system. In addition, the Macri Administration announced the elimination of certain energy subsidies and significant adjustments to electricity rates to reflect generation costs.

Additionally, the Macri Administration announced the elimination of a portion of subsidies to natural gas and adjustment to natural gas rates. As a result, average electricity and gas prices have already increased and could increase further. However, certain of the government's initiatives relating to the energy and gas sectors were challenged in the Argentine courts and resulted in judicial injunctions or rulings against the government's policies, which were later lifted as the legal objections were overcome.

The Macri Administration has taken steps and announced measures to address the energy sector crisis while taking into consideration the implications of these price increases for the poorest segments of society by approving subsidized tariffs for qualifying users. Failing to address the negative effects on energy generation, transportation and distribution in Argentina with respect

to both the residential and industrial supply, resulting in part from the pricing policies of the prior administrations, could weaken confidence in and adversely affect the Argentine economy, lead to social unrest and political instability, and adversely affect the Republic's ability to service its debt. There can be no assurance that the measures adopted by the Macri Administration to address the energy crisis will not be challenged in the local courts in the future and/or be sufficient to restore production of energy in Argentina within the short or medium term.

Any failure by the Macri Administration to solve the current energy crisis could have a material adverse effect on Argentine economy, which could in turn have a material adverse effect on our business, results of operations and financial condition.

*Any failure to adequately address actual and perceived risks of institutional deterioration and corruption may adversely affect Argentina's economy and financial condition.*

The lack of a solid institutional framework and corruption have been identified as, and continue to be a significant problem for Argentina. In Transparency International's 2016 Corruption Perceptions Index survey of 176 countries, Argentina ranked #95. In the World Bank's Doing Business 2016 report, Argentina ranked #121 out of 189 countries, up from #124 in 2015.

Recognizing that the failure to address these issues could increase the risk of political instability, distort decision-making processes and adversely affect Argentina's international reputation and ability to attract foreign investment, the Macri Administration has announced several measures aimed at strengthening Argentina's institutions and reducing corruption. These measures include reducing criminal sentences in exchange for cooperation with the government in corruption investigations, increasing access to public information, seizing assets from corrupt officials, increasing the powers of the Anticorruption Office (*Oficina Anticorrupción*) and the passing of a new public ethics law, among others. The government's ability to implement these initiatives is uncertain as it requires the involvement of the judicial branch, which is independent, as well as legislative support from opposition parties. No assurances can be given that the implementation of these measures will be successful.

Any failure by the Macri Administration to adequately address actual and perceived risks of institutional deterioration and corruption may adversely affect Argentina's economy and financial condition, which could in turn have a material adverse effect on our business, results of operations and financial condition.

*Fluctuations in the value of the peso could adversely affect the Argentine economy and the Republic's ability to service its debt obligations.*

Fluctuations in the value of the peso may adversely affect the Argentine economy. The devaluation of the peso may have a negative impact on the government's revenues (measured in U.S. dollars), fuel inflation and significantly reduce real wages. After several years of moderate variations in the nominal exchange rate, the peso lost more than 33% of its value with respect to the U.S. dollar in each of 2014 and 2015, and approximately 38.5% in 2016.

Persistent high inflation during this period, with formal and "de facto" exchange controls, resulted in an increasingly overvalued real official exchange rate. Compounded by the effects of foreign exchange controls and restrictions on foreign trade, these highly distorted relative prices resulted in a loss of competitiveness of Argentine production, impeded investment and resulted in economic stagnation during this period. For a description of the measures taken by the Macri Administration to address these issues, see "Item 4. Information on the Company—Recent Political and Economic Developments in Argentina—Macri Administration".

A significant appreciation of the peso against the U.S. Dollar also presents risks for the Argentine economy, including the possibility of a reduction in exports as a consequence of the loss of external competitiveness. Any such appreciation could also have a negative effect on economic growth and employment and reduce tax revenues in real terms.

From time to time, the Central Bank may intervene in the foreign exchange market in order to maintain the currency exchange rate. Additional volatility, appreciations or depreciations of the peso or reduction of the Central Bank's reserves as a result of currency intervention could adversely affect the Argentine economy and the Republic's ability to service its debt obligations.



Any of these factors could have a material adverse effect on our business, results of operations and financial condition.

*There can be no assurances that the Republic will be able to obtain financing on satisfactory terms in the future, which could have a material adverse effect on the Republic's ability to make payments on its outstanding public debt.*

The Republic's future tax revenue and fiscal results may be insufficient to meet its debt service obligations and the Republic may have to rely in part on additional financing from domestic and international capital markets in order to meet future debt service obligations. However, the Republic may not be able to access international or domestic capital markets at acceptable prices or at all, and, if that is the case, the Republic's ability to service its outstanding public debt could be adversely affected, which could in turn adversely affect Argentina's economy and financial condition and thereby have a material adverse effect on our business, results of operations and financial condition.

#### **Risks Relating to the Argentine Financial System and to BBVA Francés**

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

After the Argentine Crisis, the volume of financial activity regarding deposits and loans was severely reduced. Between 2003 and 2007, a gradual and increasing recovery of deposit levels took place. As a result of the global financial crisis, deposit levels decreased again during 2008 until the last semester of 2009 but they have been increasing since then. As result of the implementation of the tax amnesty regime in 2016, the deposits base registered a significant growth in 2016.

In recent years, growth of the Argentine financial sector has been heavily dependent on deposit levels because of the small size of the Argentine capital markets and the lack of access to foreign capital markets. Since the Macri Administration took office, access to foreign capital markets may be possible again to support credit growth in addition to the deposit base.

During the 2011-2013 period, credit grew at a higher rate than deposits, thereby consuming excess liquidity of financial institutions. Since 2014, this scenario started to change, and deposits started to grow at a higher rate than credit.

The liquidity of the Argentine financial sector is currently relatively high due to the high level of mandatory deposit reserves applicable to Argentine financial institutions, among other short-term investments, such as repurchase transaction entered into by certain Argentine banks, including BBVA Francés with the Central Bank on March 2016. These liquid assets account for approximately 34.7% of the total deposits of the Argentine financial institutions as of December 31, 2016. Banks can also invest in short-term Central Bank bills ("LEBAC") which also increase the liquidity ratios of the financial sector.

Notwithstanding the above, because most deposits are short-term deposits, a substantial part of loans must also have short-term maturities to match the terms of the deposits. The proportion of long-term credit lines, such as mortgages, is small.

We have a continuous demand for liquidity to fund our business activities. Our profitability or solvency could be adversely affected if access to liquidity and funding is constrained or made more expensive for a prolonged period of time. Furthermore, withdrawals of deposits or other sources of liquidity may make it more difficult or costly for us to fund our business on favorable terms. Although we believe that deposit liquidity levels are currently reasonable, no assurance can be given that those levels will not be reduced due to future negative economic conditions or otherwise. If depositors lose confidence as a result of negative economic conditions or otherwise and withdraw significant funds from financial institutions, there will be a substantial negative impact on the manner in which financial institutions, including us, conduct their business and on their and our ability to operate as financial intermediaries. If we are unable to access adequate sources of medium and long-term funding or if we are required to pay high costs in order to obtain the same and/or if we cannot generate profits and/or maintain our current volume and/or scale of our business, whether due to a decline in deposits or otherwise, our liquidity position and ability to honor our debts as they come due may be adversely affected.

*Significant growth of peso cash (physical bills) positions in the Bank could have an adverse impact on our results of operations.*

Since 2012, the Argentine Central Bank's charter states that peso cash balance in physical bills cannot be used by financial institutions to comply with liquidity reserve requirements. As a result, the Bank has sought to minimize its cash balances, as they yield no income.



BBVA Francés' business model contemplates the collection of a substantial amount of bills from large retail corporations as a way to promote business within the retail sector. Collecting bills generates a surplus of bills that the Bank used to deposit in its current account in Central Bank and then allocated to profitable assets.

During 2016 the Central Bank started to show reluctance to receive bills from financial institutions and, consequently, our peso balance increased above normal levels, adversely affecting our income as those funds yielded zero interest.

We believe that for the Central Bank, the banks have a key role in its purpose of reducing the informal economy as well as reducing the amount of bills. However, considering the current situation, as the extent of the informal economy in the country is high and multi sectorial efforts and regulation are needed to address the problem, this could take some time to be solved.

The excess of bills in the economy will take time to solve, as the extent of the informal economy in the country is high and multi sectorial efforts and regulation are needed to address the problem. Meanwhile, if the Central Bank maintains its decision of not accepting bills, we could end up with a higher balance of this kind of asset, which could have a material adverse effect on our business, results of operations and financial condition.

Although the Bank is currently analyzing measures to offset this impact, such as raising the fees we charge for the collection service or reducing the net amount of bills we receive from customers every month, no assurance can be given as to the potential results of these measures. Therefore, a significant growth of peso cash (bills) positions in the Bank could have an adverse impact on our business, results of operations and financial condition.

*Our estimates and established reserves for credit risk and potential credit losses may prove to be inaccurate and/or insufficient, which may materially and adversely affect our results of operations and financial condition.*

A number of our products expose us to credit risk, including consumer loans, commercial loans and other receivables. Changes in the income levels of our borrowers, increases in the inflation rate or an increase in interest rates could have a negative effect on the quality of our loan portfolio, causing us to increase provisions for loan losses and resulting in reduced profits or in losses. We estimate and establish reserves for credit risk and potential credit losses. This process involves subjective and complex judgments, including projections of economic conditions and assumptions on the ability of our borrowers to repay their loans. We may not be able to timely detect these risks before they occur, which may increase our exposure to credit risk. Overall, if we are unable to effectively control the level of non-performing or poor credit quality loans in the future, or if the loan loss reserves are insufficient to cover future loan losses, this would have a material adverse effect on our business, results of operations and financial condition.

*Reduced spreads between interest rates received on loans and those paid on deposits without corresponding increases in lending volumes could adversely affect our profitability.*

The spread for Argentina's financial sector between the interest rates on loans and deposits could be affected as a result of increased competition in the banking sector and the government's tightening of monetary policy in response to inflation concerns. During recent years, the financial sector has registered in Argentina an increase in interest rates. The relative weight of demand deposits as sources of liquidity in the Argentine financial system results in an increase of spreads between interest rates received on loans and those paid on deposits. If inflation declines a decrease in interest rates should occur, which should in turn result in a higher demand of credit. However, we cannot guarantee that an increase in the volume of lending will occur. Any failure to increase the volume of lending could have an adverse effect on our business, results of operations and financial condition.

*Increased competition in the banking industry may adversely affect the Bank's operations.*

The markets in which we operate are highly competitive and this trend will likely continue. In particular, we expect that competition with respect to small- and medium-sized businesses is likely to increase. As a result, even if the demand for financial products and services from these markets continues to grow, competition may adversely affect our results of operations by decreasing the net margins we are able to generate. In addition, the trend towards consolidation in the banking industry has created larger and stronger banks with which we must now compete. We also face competition from non-bank competitors, such as payment platforms, e-commerce businesses, department stores (for some credit products), automotive finance corporations, leasing companies, factoring companies, mutual funds, pension funds, insurance companies, crowdfunding platforms and public debt. There can be no assurance that this competition will not adversely affect our business, results of operations and financial condition.

*Our business is particularly vulnerable to volatility in interest rates.*

Our results of operations are substantially dependent upon the level of our net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. Interest rates are highly sensitive to many factors beyond our control, including fiscal and monetary policies of governments and central banks, regulation of the financial sector in the market in which we operate, domestic and international economic and political conditions and other factors.

In the current Argentine scenario where the government attempts to stabilize high inflation rates, there is a risk of volatility in the interest rates. This scenario could adversely affect our financial margin as a result of differential movements in interest rates for deposits, loans or other bank assets and liabilities. In addition, a high proportion of loans referenced to variable interest rates makes debt service on such loans more vulnerable to changes in interest rates. In addition, a rise in interest rates could reduce the demand for credit and our ability to generate credit for our clients, as well as contribute to an increase in the credit default rate. As a result of these and the above factors, significant changes or volatility in interest rates could have a material adverse effect on the our business, results of operations and financial condition.

*Our credit ratings depend on sovereign credit ratings, and such dependence limits our access to international financial markets.*

Our credit ratings are based on Argentina's sovereign rating, which has fluctuated considerably since the Argentine Crisis. As a result, our ratings have also fluctuated in this period, although they have tended to be higher than the sovereign rating. These fluctuations impact our costs of funding, our collateral obligations and our ability to access international markets. Although Argentina is no longer in default following the final agreement reached with certain the holders of bonds issued by the Republic (holdouts), a decrease in, Argentina's sovereign rating could limit our access to financing or make such financing more expensive for us, even if available, which could in turn adversely affect our business, results of operations and financial condition.

*The financial industry is increasingly dependent on information technology systems, which may fail, may not be adequate for the tasks at hand or may no longer be available.*

Banks and their activities are increasingly dependent on highly sophisticated information technology ("IT") systems. IT systems are vulnerable to a number of problems, such as software or hardware malfunctions, computer viruses, hacking and physical damage to vital IT centers. IT systems need regular upgrading and banks, including us, may not be able to implement necessary upgrades on a timely basis or upgrades may fail to function as planned. Furthermore, failure to protect financial industry operations from cyber-attacks could result in the loss or compromise of customer data or other sensitive information. See "*Cybersecurity events could negatively affect our reputation, results of operations and financial condition.*" below. These threats are increasingly sophisticated and there can be no assurance that the Bank will be able to prevent all breaches and other attacks on its IT systems. In addition to costs that may be incurred as a result of any failure of IT systems, the Bank could face fines from bank regulators if it fails to comply with applicable banking or reporting regulations. Any of these factors could have a material adverse effect on our business, results of operations and financial condition.

*Cybersecurity events could negatively affect our reputation, results of operations and financial condition.*

We depend on the efficient and uninterrupted operation of internet-based data processing, communication and information exchange platforms and networks, including those systems related to the operation of our automated teller machine ("ATM") network. We have access to large amounts of confidential financial information and control substantial financial assets belonging to our customers as well as to us. In addition, we provide our customers with continuous remote access to their accounts and the possibility of transferring substantial financial assets by electronic means. Accordingly, cybersecurity is a material risk for us. Cybersecurity incidents such as computer break-ins, phishing, identity theft and other disruptions could negatively affect the security of information stored in and transmitted through our computer systems and network infrastructure and may cause existing and potential customers to refrain from doing business with us.

In addition, contingency plans in place may not be sufficient to cover liabilities associated with any such events and, therefore, applicable insurance coverage may be deemed inadequate, preventing us from receiving full compensation for the losses sustained as a result of such a disruption.

Although we intend to continue to implement security technology devices and establish operational procedures to prevent such damage, we cannot assure you that all of our systems are entirely free from vulnerability and these security measures will be successful. If any of these events occur, it could damage our reputation, entail serious costs and affect our transactions, as well as our business, results of operations and financial condition.

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

Under Argentine law, the liquidation and commencement of bankruptcy proceedings against financial institutions, until their banking license has been revoked by the Central Bank, may only be commenced by the Central Bank. If BBVA Francés were unable to pay its debts as they come due, the Central Bank could 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 us. As a result of any such intervention, shareholders may realize substantially less on the claims than they would in a bankruptcy proceeding of a non-financial institution in Argentina or a financial institution or non-financial institution in the United States or any other country.

*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 in Argentina a judgment against them obtained in the courts of the United States based upon the civil liability provisions of the United States federal securities laws, due to specific requirements of Argentine law regarding procedural law issues and principles of public policy.

*Class actions against financial institutions for an indeterminate amount may adversely affect the profitability of the financial sector and of the Bank.*

The Argentine national constitution and the Argentine Consumer Protection Law No. 24,240, as supplemented or amended (the "Consumer Protection Law"), contain certain provisions regarding class actions. However, their guidance with respect to procedural rules for instituting and trying class action cases is limited. Nonetheless, Argentine courts have admitted class actions in certain cases, including various lawsuits against financial institutions related to "collective interests" such as alleged overcharging on products, interest rates and advice in the sale of public securities. Recently, some of these lawsuits have been settled by the parties out of court. These settlements have typically involved an undertaking by the financial institution to adjust their fees and charges. If class action plaintiffs were to prevail against financial institutions generally, or against us specifically, this could have an adverse effect on the financial industry generally and on our business, results of operations and financial condition in particular.

In the future, court and administrative decisions may increase the degree of protection afforded to our debtors and other customers, or be favorable to the claims brought by consumer groups or associations. This could affect the ability of financial institutions, including us, to freely determine charges, fees or expenses for their services and products, thereby affecting our business and results of operations.

*BBVA, our controlling shareholder, has the ability to direct our business and its interests could conflict with yours.*

As of December 31, 2016, our parent company, BBVA, directly or beneficially owned approximately 76% of our capital stock. As a result, BBVA controls virtually all decisions with respect to our company made by shareholders. It may, for example, without the concurrence of the remaining shareholders, elect a majority of our directors, effect or prevent a merger, sale of assets or other business acquisition or disposition, cause us to issue additional equity securities and determine the timing and amounts of dividends, if any, always subject to the applicable legal framework. Its interests may conflict with your interests as a holder of our shares or ADSs, and it may take actions that might be desirable to BBVA but not to our other shareholders.

## **Legal, Regulatory and Compliance Risks**

*We operate in a highly regulated environment, and our operations are subject to regulations adopted, and measures taken, by several regulatory agencies.*

Financial institutions in Argentina are subject to significant regulation relating to functions that historically have been determined by the Central Bank and other regulatory authorities. The Central Bank may penalize us, in case of any breach of applicable regulations. Similarly, the CNV, which authorizes securities offerings and regulates the public securities markets in Argentina, has the authority to impose sanctions on us and our Board of Directors and controllers committee for breaches of corporate governance. In addition, pursuant to Law No. 26,831, the CNV may appoint supervisors with veto powers over resolutions of our board of directors and may temporarily remove our board of directors when as determined by the CNV, minority shareholders' or bondholders' interests or rights have been infringed upon. The Financial Information Unit (*Unidad de Información Financiera*, or "UIF") regulates matters relating to anti-money laundering and has the ability to monitor compliance with any such regulations by financial institutions and, eventually, impose sanctions. Any such regulatory agencies could initiate proceedings and impose sanctions against us, our shareholders or directors.

The Central Bank has also imposed restrictions on the positive foreign currency net global position of financial institutions, which have been modified several times, to prevent the Central Bank's foreign currency reserves from further decreasing. As of the date of this annual report, the positive foreign currency net global position may not exceed 25% of the lesser of the financial institution's total capital computed for the relevant preceding month or the financial institution's own liquid assets.

In addition, pursuant to Communication "A" 5785, sanctions imposed by the Central Bank, the UIF, the CNV and/or the *Superintendencia de Entidades Financieras y Cambiarias* (the Superintendence of Financial Institutions and Exchanges, referred to as the "Superintendence") and/or their authorities, may result in the revocation of their licenses to operate as financial institutions. Such revocation may occur when, in the opinion of the board of directors of the Central Bank, there was a material change in the conditions deemed necessary to maintain such license, including those relating to the suitability, experience, moral character or integrity of (i) the members of a financial institution's board of directors (directors, counselors or equivalent authorities), (ii) its shareholders, (iii) the members of its supervisory committee or (iv) others, such as its managers.

The absence of a stable regulatory framework or the imposition of measures that may affect the profitability of financial institutions in Argentina and limit the capacity to hedge against currency fluctuations could result in significant limits to financial institutions' decision-making ability. In turn, this could cause uncertainty and negatively affect our future financial activities and result of operations. In addition, existing or future legislation and regulation could require material expenditures or otherwise have a material adverse effect on our business, results of operations and financial conditions.

In addition to regulations specific to our industry, we are subject to a wide range of federal, provincial and municipal regulations and supervision generally applicable to businesses operating in Argentina, including laws and regulations pertaining to labor, social security, public health, consumer protection, the environment, competition and price controls.

These or any other future governmental measures or regulations may adversely affect our business, results of operations and financial condition.

*The instability of the regulatory framework, in particular the regulatory framework affecting financial institutions, could have a material adverse effect on financial institutions such as the BBVA Francés.*

During Cristina Kirchner's second term as President a series of new regulations were issued affecting financial institutions, mainly regulating the foreign exchange market and imposing new capital requirements for financial institutions. In this regard, Communications "A" 5272 and 5273 of the Central Bank, dated February 1, 2012, increased the capital requirements for financial institutions carrying out activities in Argentina. These Communications required certain minimum capital levels in order to support operational risks and the distribution of dividends, and an additional capital buffer equivalent to 75% of the total capital requirements. The Central Bank stated that these new requirements were based on the credit risk measure required by Basel II. For more information regarding capital requirements for Argentine banks please see "Item 4. Information on the Company—F. The Argentine Banking System and its Regulatory Framework". Moreover, a new law was approved by the Congress introducing amendments to the Central Bank's charter. The principal issues addressed by this bill were the use of Central Bank's reserves for the cancellation of public debt together with the implementation of policies by the Central Bank in order to interfere in the determination of interest rates and terms of loans to financial institutions.

The Central Bank issued Communications "A" 5319 and "A" 5380, dated July 5, 2012 and December 21, 2012, respectively, and Communication "A" 5516, dated December 27, 2013, making it mandatory for banks to provide credit lines for productive purposes. The government's intention was to increase investments, although an increase in the demand for these loans could in turn lower the demand for other types of loans. The Bank granted approximately Ps.18,875 million in 2016 for these types of loans.

On November 29, 2012, the Argentine Congress passed the new "Securities Law", which modified the public offer regime set forth by Law No. 17,811, as amended. One of the most significant amendments introduced by the Securities Law referred to the powers of the CNV. The adoption of Section 20 of the Securities Law raised concern in the market, especially among listed companies, since it entitles the CNV to (i) appoint supervisors with veto power over the resolutions adopted by the board of directors of listed companies and (ii) disqualify the board of directors of listed companies for a period of 180 days when, as determined by the CNV, the interests of the minority shareholders and/or security holders are adversely affected.

On October 1, 2013, the Central Bank issued Communication “A” 5460, granting broad protections to consumers of financial services, including, among other aspects, the regulation of fees and commissions charged by financial institutions for their services. As a result, fees and charges must represent a real, direct and demonstrable cost and should have technical and economic justification. Communication “A” 5514 introduced an exception to the application of Communication “A” 5460 for certain credit agreements that have pledges as collateral and are entered into before September 30, 2019.

On December 23, 2014, the Central Bank amended Communication “A” 5460 through Communication “A” 5685. As a result of this amendment, any increase in commissions for new products or services for retail customers must have the prior authorization of the Central Bank.

Additionally, according to Central Bank Communication “A” 5689, dated January 8, 2015, financial institutions must deduct from the potential dividend distributable amount any fine imposed by the Central Bank, the CNV and the UIF.

While the Macri Administration has repealed part of the regulatory framework enacted by the Fernández de Kirchner Administration, such as (i) the restrictions on the foreign exchange market, (ii) the regulations concerning minimum and maximum interest rates on certain loans and deposits, (iii) the requirements governing the flow of capital into Argentina, (iv) the percentage of foreign currency positions of financial institutions, (v) the monthly contributions that banks must set aside each month to fund the deposit guarantee fund, (vi) additional capital requirements for the dividend distribution, and (vii) the requirement of prior authorizations to increase commissions, it is still early to know whether the new regulatory framework will be stable and the impact that the new regulatory framework may have on our business. The absence of a stable regulatory framework or the introduction of new regulations that affect the banking business could limit the ability of financial institutions, including BBVA Francés, to make long-term decisions, such as asset-allocation decisions, and could cause uncertainty with respect to our future business, results of operations and financial condition. We cannot assure that laws and regulations currently governing the financial sector will not continue to change in the future or that any changes will not adversely affect our business, results of operations and financial condition.

*Exposure to multiple provincial and municipal legislation and regulations could adversely affect our business and results of operations.*

Argentina has a federal system of government with 23 provinces and one autonomous city (Buenos Aires), each of which, under the Argentine national constitution, has full power to enact legislation concerning taxes and other matters. Likewise, within each province, municipal governments have broad powers to regulate such matters. Due to the fact that our branches are located in multiple provinces, we are also subject to multiple provincial and municipal legislation and regulations. Future developments in provincial and municipal legislation concerning taxes, provincial regulations or other matters may adversely affect our business, results of operations or financial condition.

*The Consumer Protection Law and the Credit Card Law may limit some of the rights afforded to us and our subsidiaries.*

The Consumer Protection Law establishes a number of rules and principles for the protection of consumers. Although the Consumer Protection Law does not contain specific provisions for its enforcement in relation to financial activities, it does contain general provisions that might be used as grounds to uphold such enforcement, as it has been previously interpreted in various legal precedents. Moreover, the new Argentine Civil and Commercial Code has captured the principles of the Consumer Protection Law and established their application to banking agreements.

The application of both the Consumer Protection Law and the Credit Card Law No. 25,065 (the “Credit Card Law”) by administrative authorities and courts at the federal, provincial and municipal levels has increased. Moreover, administrative and judicial authorities have issued various rules and regulations aimed at strengthening consumer protection. In this context, the Central Bank issued Communication “A” 5460, as supplemented and amended, granting broad protection to financial services customers, limiting fees and charges that financial institutions may validly collect from their clients. In addition, the Argentine Supreme Court of Justice issued the Acordada 32/2014, creating the Public Registry of Collective Proceedings for the purpose of registering collective proceedings (such as class actions) filed with national and federal courts. In the event that we are found to be liable for violations of any of the provisions of the Consumer Protection Law or the Credit Card Law, the potential penalties could limit some of our rights, such as reducing our ability to collect payments due from services and financing provided us, or otherwise adversely affect our business, results of operations and financial condition.

On September 18, 2014, a new pre-judicial service of dispute resolution was created by Law No. 26,993, in order for consumers and providers to resolve any dispute within the course of 30 days, including fines for companies that do not attend the hearings.

Furthermore, the rules that govern the credit card business provide for variable caps on the interest rates that financial institutions may charge clients and the fees that they may charge merchants. Moreover, general legal provisions exist pursuant to which courts could decrease the interest rates and fees agreed upon by the parties on the grounds that they are excessively high. A change in applicable law or the existence of court decisions that lower the cap on interest rates and fees that clients and merchants may be charged would reduce our revenues and therefore negatively affect our results of operations.

The application of this regulation or any new regulation that may limit some of the rights afforded to us could have a material adverse effect on our business, results of operations and financial condition.

*We are exposed to risks in relation to compliance with anti-corruption laws and regulations and economic sanctions programs.*

Our operations are subject to various anti-corruption laws, including the U.S. Foreign Corrupt Practices Act of 1977, and economic sanction programs, including those administered by the United Nations and the United States, including the U.S. Treasury Department's Office of Foreign Assets Control. The anti-corruption laws generally prohibit providing anything of value to government officials for the purposes of obtaining or retaining business or securing any improper business advantage. As part of our business, we may deal with entities the employees of which are considered government officials. In addition, economic sanctions programs restrict our business dealings with certain sanctioned countries, individuals and entities.

Although we have internal policies and procedures designed to ensure compliance with applicable anti-corruption laws and sanctions regulations, there can be no assurance that such policies and procedures will be sufficient or that our employees, directors, officers, partners, agents and service providers will not take actions in violation of our policies and procedures (or otherwise in violation of the relevant anti-corruption laws and sanctions regulations) for which we or they may be ultimately held responsible. Violations of anti-corruption laws and sanctions regulations could lead to financial penalties being imposed on us, limits being placed on our activities, our authorizations and licenses being revoked, damage to our reputation and other consequences that could have a material adverse effect on our business, results of operations and financial condition. Further, litigations or investigations relating to alleged or suspected violations of anti-corruption laws and sanctions regulations could be costly.

*Our anti-money laundering and anti-terrorism policies may be circumvented or otherwise not be sufficient to prevent all money laundering or terrorism financing.*

We are subject to rules and regulations regarding money laundering and the financing of terrorism. Monitoring compliance with anti-money laundering and anti-terrorism financing rules can put a significant financial burden on banks and other financial institutions and pose significant technical problems. Although we believe that our current policies and procedures are sufficient to comply with applicable rules and regulations, we cannot guarantee that our anti-money laundering and anti-terrorism financing policies and procedures will not be circumvented or otherwise not be sufficient to prevent all money laundering or terrorism financing. Any of such events may have severe consequences, including sanctions, fines and notably reputational consequences, which could have a material adverse effect on our business, results of operations and financial condition.

*Argentine corporate disclosure, governance and accounting standards may require us to provide different information than would be required under U.S. standards. This difference could influence foreign investors' decisions to invest in Argentine securities and could therefore limit our access to international markets.*

The securities laws of Argentina that govern publicly-listed companies such as us impose disclosure requirements that are more limited than those in the United States. The Argentine securities markets are not as highly regulated and supervised as the U.S. securities markets. There are also important differences between accounting and financial reporting standards applicable to financial institutions in Argentina and those in the United States. As a result, financial statements and reported earnings of Argentine financial institutions generally differ from those reported based on U.S. accounting and reporting standards. See "Item 5. Operating and Financial Review and Prospects—U.S. and Argentine Banking GAAP Reconciliation" for a description of the principal differences between Argentine banking GAAP and U.S. GAAP and how they affect our financial statements and the reconciliation to U.S. GAAP of net income and total stockholders' equity for the periods ended and as of the dates therein indicated.

Accordingly, the information available about us will not be the same as the information available about a U.S. company. The difference in the disclosure requirements between Argentine corporate governance and accounting standards and U.S. GAAP could limit foreign investors' ability to evaluate our business, results of operations and financial condition, and influence foreign investors' decisions whether to invest in Argentine securities, thereby limiting our access to international financial markets.

*The special rules that govern the priority of different stakeholders of financial institutions in Argentina, which give priority to depositors with respect to most other creditors, may negatively affect other stakeholders in case of judicial liquidation or bankruptcy of the Bank.*

Argentine Law No. 24,485, in force since April 18, 1995 and as amended by Law No. 25,089, provides that in case of judicial liquidation or bankruptcy of a financial institution such as BBVA Francés, 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 a pledge or mortgage, to be paid with 100% of the funds deriving from the liquidation of our assets. In addition, depositors of any kind of deposits have special preferential rights over the remaining creditors of us, except for certain labor credits, to be paid with (i) any of our funds which may be held by the Central Bank as total reserves, (ii) any remaining funds of ours in existence as of the date on which our license is revoked, or (iii) any funds derived from the compulsory transfer of certain of our assets 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.

In case of a judicial liquidation or bankruptcy of a financial institution such as BBVA Francés, shareholders may not be able to partially or completely recover their investment due to the priority imposed by law.

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **Recent Political and Economic Developments in Argentina**

*Macri Administration*