

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. In the last quarter of 2001 Argentina experienced an economic and political crisis, marked by a severe recession and the abandonment of U.S. dollar-peso parity, which led to a significant devaluation of the peso against foreign currencies. 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' financial condition and results of operations, but after a strong economic comeback, the Bank is currently in a steady recovery process, although no assurance can be given that this trend will continue.

On May 25, 2003, Néstor Kirchner became the new President of Argentina, for a term that expired on December 10, 2007, after which Cristina Fernández de Kirchner assumed the presidency. Since 2003, there has been a favorable evolution in the Argentine economy, ending an economic recession that lasted more than six years. The following economic indicators are worth mentioning:

- i) GDP increased by 8.8%, 9.0%, 9.2%, 8.5%, 8.7% and 7% during 2003, 2004, 2005, 2006, 2007 and 2008, respectively;
- ii) the unemployment rate declined from 20.8% to 7.3% between the 4th quarters of 2002 and 2008;
- iii) total deposits in the financial system grew approximately 228% between December 2002 and December 2008;
- iv) the foreign exchange rate after the initial depreciation has remained relatively stable at around 3 pesos per dollar, ending 2008 at 3.4537 pesos per dollar (BCRA reference);
- v) the restructuring of the Argentine Sovereign Debt was completed in June 2005 with a bondholder participation by rate of approximately 76.15% and an aggregate tendered amount of U.S.\$62.3 billion; and
- vi) the primary balance of the GDP increased considerably by 2.5%, 3.9%, 3.7%, 3.5%, 3.2% and 3.15% during 2003, 2004, 2005, 2006, 2007 and 2008, 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 Factors - 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 in poverty, Argentina was able to reverse the negative trends and resume growth.

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

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

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.

There exists discrepancy between statistical data published by INDEC (National Institute for Statistics and Census) referring to the CPI (consumer price index) for the Greater Buenos Aires area and CPI indexes corresponding to the different Argentine regions/provinces. This generates certain uncertainty in respect to inflation rates in the country as a whole and does not contribute to anchor inflation expectations. It is to be noted that assets indexed by CER are adjusted according to Greater Buenos Aires CPI.

A considerable decrease in the operating balance could negatively affect the Argentine economy in general, and the access to international financing markets.

Commencing in 2005, primary spending started to increase more abruptly than public income. Thus, the primary balance of the public non-financial sector has reduced from 3.9% of the GDP in 2004, to a 3.15% of the GDP in 2008. Moreover, the primary balance could be negatively affected in the future if the level of public spending is increased due to social security debts, financial assistance to the provinces with economic problems, increased spending on public works 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 totalled 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 remains 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 the Central Bank's approval to transfer funds outside of Argentina for purposes of paying principal and interest on financial loans and making dividend payments. 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.

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 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.

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 adverse effect 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. Poder Ejecutivo Nacional s/ Amparo", the Supreme Court 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 "Campbell, Maria Enriqueta vda. de Tufiño y otro vs. Poder Ejecutivo Nacional. - Banco de Salta S.A. Grupo Macro s/ Amparo- Medida Cautelar", the Supreme Court rejected the claim of a depositor that was filed before the Court of Original Jurisdiction and the Court of Appeals, 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 fulfillment 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 - Dto. 1570 y Otro s/ Amparo Ley 16,986" the Supreme Court confirmed the constitutionality of the emergency legislation during 2001 and 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/ Poder Ejecutivo Nacional", the National Supreme Court establishes that the amounts withdrawn from the bank by judicial or non-judicial court measures will be considered 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 the Court of Appeals' resolutions in prior cases. Also, the Supreme Court restricts the remaining amount to be refunded to the limit fixed by the Supreme 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 implies 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 their use has not been regulated. 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 and advice in the sale of public securities, among other things.

The business may be vulnerable to the current disruptions and volatility in the global financial markets as well as to government action intended to alleviate the effects of the current financial crisis.

Since August 2007, the global financial system has experienced difficult credit and liquidity conditions and disruptions leading to greater volatility. In September 2008, global financial markets deteriorated sharply following the bankruptcy filing by Lehman Brothers Holdings Inc. In the days that followed, it became apparent that a number of other major financial institutions, including some of the largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies, were experiencing significant difficulties.

In recent months, there have been runs on deposits at several financial institutions and numerous institutions have sought additional capital. Central banks around the world have coordinated efforts to increase liquidity in the financial markets by taking measures such as increasing the amounts they lend directly to financial institutions, lowering interest rates and significantly increasing temporary reciprocal currency arrangements. In an attempt to prevent the failure of the financial system, the United States and European governments have intervened on an unprecedented scale. There is no assurance that these measures will successfully alleviate the current financial crisis.

Despite the extent of the aforementioned intervention, global investor confidence remains low and credit remains relatively scarce. In addition, the world's largest developed economies are widely considered to be in the midst of, or about to enter, economic recessions. Continued or worsening disruption and volatility in the global financial markets could have a material adverse effect on our ability to access capital and liquidity on acceptable financial terms. An economic downturn could negatively affect the financial stability of our customers, which could result in a general reduction in business activity and a consequent loss of income for us.]

Factors Related to BBVA Banco Francés

BBVA Banco Francés has a considerable portfolio in public securities from, and loans to, the National Government, including the debt rescheduled in 2005. Due to our high level of exposure, any failure by the National Government to comply with its duties according to the terms thereof would have a substantial adverse effect on our equity situation.

As of December 31, 2008, the holdings of BBVA Banco Francés and its subsidiaries in debt from the public sector totaled approximately Ps.7,270.0 billion, which consists mainly of: (i) Rescheduled Foreign and Domestic Debt: Ps.2,400.5 billion in guaranteed loans, Ps.282.7 billion in guaranteed bonds; Ps.369.7 million in bonds denominated in pesos and Ps.57.5 million in bonds denominated in dollars; and (ii) Post-default foreign debt: Ps.231.6 million in bonds denominated in pesos; Ps.390.3 million in bonds denominated in dollars; 3.9 million in other bonds; and Ps.3,533.8 billion in Bills and Notes of the Central Bank. During 2008, BBVA Banco Francés increased its holdings in short-term bills and notes of the BCRA.

Although BBVA Banco Francés and its subsidiaries significantly reduced their exposure to the public sector during 2005, 2006, 2007 and 2008, BBVA Banco Francés continues to have a significant bonds and loans portfolio from the Government. Due to its high level of exposure, a new Government default in respect of a substantial part of its debt would have a substantial adverse effect over our asset situation.

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 is among the Argentine private banks with greater volumes of assets and liabilities having different terms and interest rates derived from the asymmetric assets and liability conversion into pesos. During fiscal year 2005, the Bank paid in its entirety any discounts received from the Central Bank with the proceeds of selling public securities and loans with a term of duration greater than those applicable to liabilities, thus reducing the period's mismatch. Also, since the beginning of the crisis, the following factors have reduced our exposure: (i) the sale of bonds adjusted by CER from government bonds and to the Argentine provinces of our portfolio; and (ii) subscription of bonds necessary to hand over to depositors who have accepted the Government's swap option, with assets adjusted by CER and accounted for in the Bank's accounting books. In spite of these reductions in exposure, the Bank holds a long position in CER for Ps.1,909.4 billion as of December 31, 2008. A swap of National Government Guaranteed Loans for new debt instruments issued by the National Government (Bonar 2014) with 5-year maturity took place in January 2009. For BBVA Banco Francés and its subsidiaries the swap was made by a reference value of Ps.1,414.0 million reducing the CER long position. Pursuant to the BCRA regulations, there will not be an initial impact in the valuation of the assets received.

During fiscal years 2005, 2006 and 2007 the remaining mismatch positively affected the results of the Bank's transactions, within a context of negative actual interest rates. During fiscal year 2008, the long position in CER negatively affected the results of the Bank's operations in a context of positive interest rates. However, nothing can be asserted in relation to the future relative behavior of interest rates regarding consumer price index. If actual interest rates increase in a significant manner, such increase may have an adverse substantial effect on our future profitability.

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 adverse effect 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.

During 2008, BBVA Banco Francés paid Ps.50.3 million, the exchange rate difference of deposit refunds, in compliance with court orders in lawsuits brought by the Bank's customers.

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 the case "Massa, Juan Agustin vs. Poder Ejecutivo Nacional - Dto. 1570 y Otro s/ Amparo Ley 16,986", 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 adverse effect 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 require the Bank to provide different information than would be required under U.S. standards.

The securities laws of Argentina that govern publicly listed companies such as the Bank impose disclosure requirements that are more limited than those in the United States 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 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 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 and as amended by Law No. 25,089, provides that in case of judicial liquidation or bankruptcy of the Bank, all depositors, irrespective of the type, amount or currency of their deposits, will have general and absolute preferential rights with respect to all other creditors, except for certain labor credits and credits secured with pledge or mortgage, to be paid with 100% of the funds deriving from the liquidation of the Bank's assets. In addition, depositors of any kind of

deposits have special preferential rights over the remaining creditors of the Bank, except for certain labor credits, to be paid with (i) any of the Bank's funds which may be held by the Central Bank as total reserves, (ii) any remaining funds of the Bank in existence as of the date on which the Bank's license is revoked, or (iii) any funds derived from the compulsory transfer of certain assets of the Bank according to instructions of the Central Bank, in the following order of priority: (a) deposits made by legal entities up to Ps.5,000 per entity, or its equivalent in foreign currency, (b) deposits for terms exceeding 90 days, and (c) all other deposits on a pro rata basis.

Factors Related to BBVA Banco Francés' Subsidiaries

§ Consolidar AFPJ S.A.

Consolidar AFPJ S.A. is a privately owned pension funds managing company having as its purpose the administration of retirement contributions from affiliates and the corresponding grant of old age pension, disability pension and death pension. On December 4, 2008, the National Government enacted Law No. 26,425 to implement a deep social security reform, by which the National State assumed once again the coverage of contingencies in cases of old age, disability and death.

Currently, Consolidar's board of directors has undertaken the actions it has deemed necessary to accommodate its structure to the new regulatory framework. Consolidar AFPJ S.A. has prepared its financial statements for the year ending on December 31, 2008 on the basis of having to re-examine the continuation of its asset management activities. As of the date of this report, Consolidar AFPJ S.A. is not aware of any contingencies or claims relating to former affiliates. Notwithstanding, certain matters deriving from Law 26425 remain pending, such as an indemnity in favor of Consolidar AFPJ S.A. arising from its loss of its corporate business purpose. While it is reasonable to expect such indemnity, at this time its magnitude and whether or not a formal administrative or judicial proceedings will have to be undertaken is not known. It is also not possible at this time to estimate what consequences may ensue if former affiliates establish claims against Consolidar AFPJ S.A. The exact effects of either of the unknowns described above are impossible to predict, but it is reasonable to anticipate that neither would have material adverse effects in the results of BBVA Banco Francés.

§ Consolidar Compañía de Seguros de Vida S.A.

Consolidar Compañía de Seguros de Vida S.A. provides coverage for risks of disability and death of workers joining private pension funds administrators, granting the necessary supplement capital to determine the pension to be granted to those who request a disability pension or to pensions beneficiaries as a consequence of workers death.

As a consequence of the amendment of Law No. 26,222, this subsidiary has ceased subscribing the pension fund related coverage. Additionally, this subsidiary has sold the group life portfolio to BBVA Consolidar Seguros S.A. in September 2008 and is in the process of merging with Consolidar Compañía de Seguros de Retiro S.A. The merger was approved by the National Insurances Superintendency in January 2009. Its registration before the Office of Corporations is still pending.

§ Consolidar Compañía de Seguros de Retiro S.A.

Consolidar Compañía de Seguros de Retiro S.A. enters into individual pension agreements, group agreements and life annuity agreements. Within the scope of the judicial system, the National Supreme Court has rendered judgment in a case where the dollarization of a social security life annuity was claimed; it's been resolved by a split ruling having the minimum required majority that the claim should be sustained as social security benefits.

The judgments rendered by the National Supreme Court are applicable exclusively to those individual cases it resolves. In this sense, it is pertinent to point out that Consolidar Compañía de Seguros de Retiro has received various claims arising from the required government pesification for all contracts providing for foreign currency and it is possible that these claims will be resolved in a manner adverse to the subsidiary which however would not be reasonable expected to result in a material adverse effect in the financial results of BBV Banco Francés.

As mentioned above, Compañía de Seguros de Vida S.A. is in the process of merging and being absorbed by Compañía de Seguros de Retiro S.A. This merger will result in an important capital increase for this subsidiary and it will become one of the most solvent entities in the market.

ITEM 4. INFORMATION ON THE COMPANY**RECENT POLITICAL AND ECONOMIC DEVELOPMENTS IN ARGENTINA****Macroeconomic Setting**

The economic activity in Argentina was affected in 2008 by several national and international events that resulted in a slowdown of the growth rate. During the first half of the year, confrontations of the National Government with the agriculture and livestock sector due to the introduction of escalating export duties on grain led to a rise of the country risk level and to a fall in confidence levels. The impact of this phenomenon was partly cushioned by the large increase in the terms of trade during that period. During the first semester of 2008, GDP grew 7.8% in year-on-year terms, which implied a slowdown of only one percentage point compared to the same period of the previous year. However, during the second semester, the decline in global demand started to have an impact on the economy, the first sign of which was a fall of approximately 40% in agricultural raw material prices. The worsening of the international financial crisis and the reform of the social security system in Argentina increased risk aversion and the demand for dollarized assets, which resulted in a GDP slowdown during the fourth quarter. In this context, after five years of expansion rates of more than 8.5% the rate of economy grew by 7% in 2008.

Unemployment had a slight decline in 2008, mainly due to a reduction in labor force participation since there was a certain stagnation in the creation of new jobs. Average unemployment was 0.6 percentage points lower than in 2007. In line with agreements between major worker unions and the Government, formal private sector wages continued to improve during the year, growing 18.1%. The same as in 2007, wages paid by the informal and public sectors increased more than the wages of formal private employees. Consequently, the average wage levels increased overall by more than 22.4%.

Tax collections grew above nominal GDP at 34.8%, boosted by VAT, income tax, payroll taxes, and, in particular, export duties. The remarkable rise in prices of crude oil, grain and oil seeds in international markets increased revenues from export taxes by 76% in 2008. Public expenditures, in turn, slowed down with regard to the previous year, though still growing at a rate of 35%. Subsidies (mainly granted to the energy and transport sectors) were an instrumental boost factor due to an increase in oil prices. Conversely, capital expenditures increased only by 18.5%, practically half the rate of 2007. Public accounts benefited from pension fund reform as personal contributions from workers previously affiliated to Private Pension Funds were transferred to the pay-as-you go state-owned system in December. Primary surplus reached Ps.32.529 million, which represents 3.15% of GDP.

The CPI of the Buenos Aires Metropolitan Area increased by 7.2% in 2008, with the service sector prices showing the highest growth rate during the year (especially private education). Core inflation led the price increase while seasonal products had a negative impact on inflation.

The Argentine terms of trade increased by 12.9% on average during 2008, due to an increase in international prices of raw materials. In spite of the conflict with the farming sector that affected export volumes of primary products and agricultural manufactured products, exports increased by 26.5% as a result of the high prices of these exported products during most of the year. On the other hand, imports grew by 28.4%, at the same rate as the previous year. During the last quarter, both exports and imports slowed down sharply as a consequence of the international crisis. Nevertheless, the balance of trade rose 19% with respect to 2007, closing with a trade surplus of U.S.\$13,175 million.

Trade surplus did not contribute to the accrual of international reserves as in previous years, because domestic and international shocks had a negative impact on confidence, causing capital outflow from the private sector. Due to growing demand for foreign currency, for the first time in the last five years, the Central Bank became a net seller of dollars on the exchange market in order to stabilize currency depreciation expectations.

Higher portfolio dollarization during May and October resulted in higher volatility in the exchange rate as compared to previous years. In the last quarter of the year, the worsening of the international crisis caused severe currency depreciations of Argentina's main trading partners, such as Brazil, Chile and Europe, and boosted the devaluation of the Argentine peso, which had fallen below the beginning of the year rate in July and August. In this framework, the exchange rate (BCRA reference) finally increased by 9% in 2008, closing at an average rate of 3.42 pesos to the dollar in December 2008 (3.4537 \$/U.S.\$ on the last day of the year).

Monetary Policy

The first quarter of 2008 continued with the process of international reserves accumulation, low interest rates and solid deposit growth. The confrontation of the National Government with the agricultural sector, which had begun at the end of that first quarter, gave rise to a period of greater uncertainty. This situation worsened towards the last quarter when the international financial crisis began to impact local markets and monetary policy became more restrictive. The Central Bank compensated the lack of monetization from the external sector, by only partially renewing the bills and notes (Lebac and Nobac) maturing during the period. During 2008, the monetary expansion through Central Bank bills and notes amounted to Ps.19,193 million. With this less expansionary policy, the Monetary Base increased by 10.5% during the year and M2 rose by 18.9%, close to the intermediate target bands of the monetary program.