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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 20-F

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report \_\_\_\_\_

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-12568

### BBVA BANCO FRANCÉS S.A.

(Exact name of Registrant as specified in its charter)

### BBVA FRENCH BANK

(Translation of Registrant's name into English)

Republic of Argentina

(Jurisdiction of incorporation or organization)

Reconquista 199

(C1003ABB) Buenos Aires, Republic of Argentina

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing the right to receive three ordinary shares, par value Ps.1.00 per share	New York Stock Exchange
Ordinary shares, par value Ps.1.00 per share	New York Stock Exchange*

\* The ordinary shares are not listed for trading, but are listed only in connection with the registration of the American Depositary Shares, pursuant to requirements of the New York Stock Exchange.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of each of the classes of capital or common stock of the registrant as of the close of the period covered by the annual report:

Title of class	Number of shares outstanding
Ordinary Shares, par value Ps.1.00 per share	471,361,306

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days: ☒ Yes ☐ No

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark which financial statement item the registrant has elected to follow: ☐ Item 17 ☒ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

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## TABLE OF CONTENTS

	<u>Page</u>
FORWARD-LOOKING STATEMENTS	1
PRESENTATION OF FINANCIAL INFORMATION	1
CERTAIN TERMS AND CONVENTIONS	2
PART I	
ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS	3
ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE	3
ITEM 3. KEY INFORMATION	3
ITEM 4. INFORMATION ON THE COMPANY	15
ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS	90
ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	116
ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	132
ITEM 8. FINANCIAL INFORMATION	135
ITEM 9. THE OFFER AND LISTING	136
ITEM 10. ADDITIONAL INFORMATION	139
ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	148
ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	151
PART II	
ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	152
ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS	152
ITEM 15. CONTROLS AND PROCEDURES	152
ITEM 16 A. AUDIT COMMITTEE FINANCIAL EXPERT	152
ITEM 16 B. CODE OF ETHICS	152
ITEM 16 C. PRINCIPAL ACCOUNTANT FEES AND SERVICES	153
ITEM 16 D. EXEMPTIONS FROM LISTING REQUIREMENTS FOR AUDIT COMMITTEES	153
ITEM 16 E. PURCHASES OF EQUITY SECURITIES BY ONE ISSUER AND AFFILIATED PERSONS	153
PART III	
ITEM 17. FINANCIAL STATEMENTS	154
ITEM 18. FINANCIAL STATEMENTS	154
ITEM 19. EXHIBITS	154

## FORWARD-LOOKING STATEMENTS

This Form 20-F contains words, such as “believe”, “expect”, “estimate”, “intend”, “plan”, “may” and “anticipate” and similar expressions, that identify forward-looking statements, which reflect our views about future events and financial performance. Actual results could differ materially as a result of factors beyond our control, including but not limited to:

- Changes in general economic, business or political or other conditions in the Republic of Argentina (“Argentina”) or changes in general economic or business conditions in Latin America;
- Changes in capital markets in general that may affect policies or attitudes toward lending to Argentina or Argentine companies;
- Increased costs and decreased income related to macroeconomic variables such as exchange rates and the Consumer Price Index (“CPI”);
- Unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms; and
- The factors discussed under “*Risk Factors*”.

Accordingly, readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Banco Francés undertakes no obligation to update or revise these forward-looking statements or to publicly release the results of any revisions to these forward-looking statements. The accompanying information in this annual report, including, without limitation, the information under “*Information on the Company*”, “*Operating and Financial Review and Prospects*” and “*Quantitative and Qualitative Disclosures About Market Risk*” identifies important factors that could cause material differences between any forward-looking statements and actual results.

## PRESENTATION OF FINANCIAL INFORMATION

### General

Banco Francés is an Argentine bank and maintains its financial books and records in Argentine pesos and prepares its financial statements in conformity with the accounting rules of the Banco Central de la República Argentina (the “Central Bank”) related thereto (“Argentine Banking GAAP”), which differ in some respects from generally accepted accounting principles in Argentina (see Note 4. to our Consolidated Financial Statements) and the accounting principles in the United States (“U.S. GAAP”). See Note 17. to our Consolidated Financial Statements for a description of the principal differences between Argentine Banking GAAP and U.S. GAAP, as they relate to us, and a reconciliation to U.S. GAAP of net income and total stockholders’ equity. In this annual report, references to “\$”, “US\$” and “dollars” are to United States dollars, references to “Ps.” or “pesos” are to Argentine pesos. Percentages and certain dollar and peso amounts have been rounded for ease of presentation. Unless otherwise stated, all market share and other industry information has been derived from information published by the Central Bank.

The Consolidated Financial Statements are presented in accordance with the guidelines of Technical Resolution No. 4 of the Argentine Federation of Economic Sciences Professional Association (Federación Argentina de Consejos Profesionales de Ciencias Económicas—“FACPCE”), modified by Technical Resolution No. 19, and the disclosure standards set by the Central Bank.

The Bank presents its financial statements in equivalents purchasing power. These financial statements recognize the effects of the changes in the purchasing power of the currency through February 28, 2003, following the restatement method established by FACPCE Technical Resolution No. 6 (modified by Technical Resolution No. 19), using an adjustment rate derived from the Argentine internal Wholesale Price Index published by the National Institute of Statistics and Census (“INDEC”) of Argentine.

According to the above mentioned method, the accounting measurements were restated by the purchasing power changes through August 31, 1995. As of that date, based in the prevailing economic stability conditions and according with the National Securities Commission (“CNV”) General Resolution No. 272 and Central Bank Communication “A” 2365, the accounting measures were not restated through December 31, 2001. In view of CNV General Resolution No. 415 and Central Bank Communication “A” 3702, the method was reinstated effective as of January 1, 2002, considering the previous accounting measures restated as of December 31, 2001.

By Communication “A” 3921 of the Central Bank and General Resolution No. 441/03 of the CNV, in compliance with Decree No. 664/03 of the Federal Executive, application of the restatement method to financial statements in equivalent purchasing power has been suspended as of March 1, 2003. Accordingly, BBVA Banco Francés S.A. applied the mentioned restatement method until February 28, 2003.

Unless otherwise indicated, financial information contained in this annual report reflects the consolidation of the following subsidiaries at and for the fiscal years indicated below:

<u>Entity</u>	<u>December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Banco Francés Cayman Ltd. and subsidiary <sup>(1)</sup>			X
PSA Finance Argentina Compañía Financiera S.A.	X	X	X
Consolidar AFJP S.A.	X	X	X
Consolidar Compañía de Seguros de Vida S.A. and subsidiary <sup>(3)</sup>	X	X	X
Consolidar Compañía de Seguros de Retiro S.A. and subsidiary <sup>(3)</sup>	X	X	X
Francés Valores Sociedad de Bolsa S.A.	X	X	X
Credilogros Compañía Financiera S.A. and subsidiary <sup>(2)</sup>	X	X	X
Atuel Fideicomisos S.A. and subsidiary	X	X	X

(1) The Bank sold its entire equity interest in Banco Francés Cayman to BBVA in March 2004.

(2) The Bank sold its entire equity interest in Credilogros Compañía Financiera S.A. to Banco de Servicios y Transacciones S.A and Grupo de Servicios y Transacciones in March 2005 (see Note 1.4. to the Consolidated Financial Statements).

(3) In December 2005, both Consolidar Compañía de Seguros de Vida S.A. and Consolidar Compañía de Seguros de Retiro S.A., sold their entire equity interest in Consolidar Comercializadora S.A.

On January 7, 2002, Argentina abandoned the peso-dollar parity introduced in April 1991 under Law No. 23,928 (the “Convertibility Law”). Following the initial devaluation and the setting of an official rate exchange at Ps.1.4 per US\$1.0, the peso was allowed to float, and as of June 15, 2006 traded at approximately Ps.3.0778 per US\$1.0. See “*Key Information—Exchange Rates*” for information regarding the evolution of rates of exchange since fiscal year 2000.

### **Impact of Argentine Crisis on Presentation of Financial Information**

Changes to Argentine law have had a significant impact on our operations. The events described in this annual report, including the conversion of certain of our dollar-denominated assets and liabilities into peso-denominated assets and liabilities and the devaluation of the peso, took place after December 31, 2001, and are reflected in our financial statements for the fiscal year ended December 31, 2002. Because of the changes in Argentine law and their impact on our operations, any comparison of our financial statements for periods ended after December 31, 2001 with those for periods ended on or prior to December 31, 2001 are meaningless.

### **CERTAIN TERMS AND CONVENTIONS**

As used in this Form 20-F, “Banco Francés”, the “Bank”, the “Company” and terms such as “we,” “us” and “our” mean BBVA Banco Francés S.A. and its consolidated subsidiaries unless the context otherwise requires.

**- PART I -**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

**Recent Events in Argentina**

Substantially all of our operations, property and customers are located in Argentina. Therefore, the performance of our loan portfolio, our financial condition and the results of our operations depend primarily on the macroeconomic and political conditions prevailing in Argentina. In response to the Argentine political and economic crisis that began in the last quarter of 2001, the Government has undertaken numerous far-reaching initiatives that, especially in 2002, have radically changed the macroeconomic and regulatory environment in Argentina generally, and for the financial industry in particular.

**Selected Financial Data**

The information in this section has been selected from the Consolidated Financial Statements as of the dates and for the fiscal years indicated and gives effect to the measures adopted by the Government since December 31, 2001. This information should be read in conjunction with, and is qualified in its entirety by reference to, “*Risk Factors*” and “*Recent Events in Argentina*”, Consolidated Financial Statements, and related notes. The selected financial data for the fiscal years ended December 31, 2005, December 31, 2004, December 31, 2003, December 31, 2002, and December 31, 2001 are derived from the financial statements. For information concerning the preparation and presentation of the financial statements, see “*Presentation of Financial Information*”.

Changes to Argentine law have had a significant impact on our operations. Such changes in the law and their impact on our operations have rendered meaningless any comparison of our financial statements of ours for periods ended after December 31, 2001 with those for periods ended on or prior to December 31, 2001.

See “*Key Information—Recent Events in Argentina*”, “*Risk Factors—Factors Related to Argentina*”, and “*Risk Factors—Factor Related to Banco Francés*”.

	For the Fiscal Year Ended December 31,				
	2005	2004 <sup>(9)</sup>	2003 <sup>(9)</sup>	2002 <sup>(9)(10)</sup>	2001 <sup>(9)(10)</sup>
	(in thousands of pesos) <sup>(1)</sup>				
<b>CONSOLIDATED INCOME STATEMENT</b>					
<b>Amounts in accordance with Argentine Banking GAAP</b>					
Financial income	1,654,152	1,154,825	1,883,236	5,664,274	3,019,080
Financial expenses	(608,949)	(458,360)	(1,711,293)	(4,612,425)	(1,409,278)
Gross Intermediation Margin	1,045,203	696,465	171,943	1,051,849	1,609,802
Provision for loan losses	(114,628)	(52,002)	(77,506)	(655,395)	(1,126,014)
Service charge income	721,167	584,913	457,778	548,764	1,172,799
Service charge expenses	(77,764)	(54,829)	(49,594)	(58,031)	(126,620)
Operating expenses	(775,835)	(679,829)	(711,407)	(869,188)	(1,393,156)
Net other income / (Net other expenses)	(645,076)	(458,764)	43,937	(787,126)	11,490
(Loss) / Income before income tax	153,067	35,954	(164,849)	(769,127)	148,301
Income tax	(18,712)	(77,099)	(189,232)	(8,976)	(61,064)
Monetary Loss	-	-	(1,091)	(616,475)	-
Net (Loss) / Income	134,355	(41,145)	(355,172)	(1,394,578)	87,237
Net (Loss) / Income on Minority Interests in Subsidiaries	(17,151)	(12,901)	4,844	60,069	(73,935)
Final Consolidated (Loss) / Income	117,204	(54,046)	(350,328)	(1,334,509)	13,302
Net Operating Revenue <sup>(3)</sup>	1,688,606	1,226,549	580,127	1,542,582	2,655,980
Operating Income <sup>(4)</sup>	798,143	494,718	(208,786)	17,999	136,810
Net (Loss) / Income per Ordinary Shares <sup>(2)(11)</sup>	0.25	(0.14)	(0.95)	(4.84)	0.06
Net (Loss) / Income per ADS <sup>(2)(11)</sup>	0.75	(0.42)	(2.85)	(14.52)	0.18
Cash dividends per Ordinary Share <sup>(11)</sup>	0.05728	-	-	-	-
Cash dividends per ADS <sup>(11)</sup>	0.17184	-	-	-	-
Net Operating Income per Ordinary Shares <sup>(2)(11)</sup>	1.69	1.28	(0.57)	0.07	0.65
Net Operating Income per ADS <sup>(2)(11)</sup>	5.07	3.84	(1.71)	0.21	1.95
Average Ordinary Shares outstanding (000s) Primary <sup>(11)</sup>	471,361	385,334	368,128	275,672	209,631
Net (Loss) / Income per Ordinary Shares <sup>(2)(12)</sup>	0.25	(0.13)	(0.95)	(4.62)	0.06
Net (Loss) / Income per ADS <sup>(2)(12)</sup>	0.75	(0.39)	(2.85)	(13.86)	0.18
Cash dividends per Ordinary Share <sup>(12)</sup>	0.05728	-	-	-	-
Cash dividends per ADS <sup>(12)</sup>	0.17184	-	-	-	-
Net Operating Income per Ordinary Shares <sup>(2)(12)</sup>	1.69	1.18	(0.57)	0.06	0.65
Net Operating Income per ADS <sup>(2)(12)</sup>	5.07	3.54	(1.71)	0.18	1.95
Average Ordinary Shares outstanding (000s) Primary <sup>(12)</sup>	471,361	419,745	368,128	288,880	209,631
<b>Amounts in accordance with U.S. GAAP:</b>					
Net (loss) Income <sup>(13)</sup>	1,634,612	1,407,519	(26,356)	(2,922,578)	(3,351,566)
Net (loss) Income per Ordinary Share <sup>(2)(11)</sup>	3.47	3.65	(0.07)	(10.60)	(15.99)
Net (loss) Income per ADS <sup>(2)(11)</sup>	10.41	10.95	(0.21)	(31.80)	(47.97)
Average Ordinary Shares outstanding (000s) Primary <sup>(11)</sup>	471,361	385,334	368,128	275,672	209,631
Net (loss) Income per Ordinary Share <sup>(2)(12)</sup>	3.47	3.35	(0.07)	(10.12)	(15.99)
Net (loss) Income per ADS <sup>(2)(12)</sup>	10.41	10.05	(0.21)	(30.36)	(47.97)
Average Ordinary Shares outstanding (000s) Primary <sup>(12)</sup>	471,361	419,745	368,128	288,880	209,631

	For the Fiscal Year Ended December 31,				
2005	2004 <sup>(9)</sup>	2003 <sup>(9)</sup>	2002 <sup>(9)(10)</sup>	2001 <sup>(9)(10)</sup>	
	(in thousands of pesos) <sup>(11)</sup>				
<b>P</b>					
	1,611,506	1,666,617	1,639,154	1,050,636	1,899,133
	3,504,311	2,476,948	3,042,451	2,239,859	1,506,631
	8,481,476	9,268,723	8,336,352	9,283,971	16,112,926
	2,386,455	2,629,384	3,339,882	3,588,352	2,833,141
	15,983,748	16,041,672	16,357,839	16,162,818	22,351,831
	10,613,086	8,993,780	8,078,216	6,921,468	15,140,378
	3,569,115	5,363,549	6,705,646	7,317,045	5,159,781
	14,182,201	14,357,329	14,783,862	14,238,513	20,300,159
	471,361	471,361	368,128	368,128	209,631
	175,132	1,195,390	934,211	934,211	343,215
	312,979	769,904	769,904	769,904	742,537
	428,698	430,500	430,500	430,500	430,500
	230,282	230,282	430,282	430,282	-
	183,095	(1,413,094)	(1,359,048)	(1,008,720)	325,789
	1,801,547	1,684,343	1,573,977	1,924,305	2,051,672

#### Amounts in accordance with U.S. GAAP

Total Assets <sup>(13)</sup>	15,421,682	14,069,122	12,440,507	12,467,287	19,772,824
Total Stockholders' equity <sup>(13)</sup>	246,268	(1,325,801)	(3,010,278)	(2,824,245)	(1,006,825)

#### SELECTED RATIOS IN ACCORDANCE WITH ARGENTINE BANKING GAAP

##### Profitability and Performance

Return on average total assets <sup>(5)</sup>	0.73%	(0.33)%	(2.15)%	(6.93)%	0.05%
Return on average stockholders' equity <sup>(6)</sup>	6.72%	(3.32)%	(20.03)%	(67.13)%	0.62%
Services charge income as a percentage of operating expenses	92.95%	86.04%	64.35%	63.14%	84.18%
Operating expenses as a percentage of average total assets <sup>(7)</sup>	4.85%	4.20%	4.38%	4.51%	5.42%

##### Capital

Stockholders' equity as a percentage of total assets	11.27%	10.50%	9.62%	11.91%	9.18%
Total liabilities as a multiple of stockholders' equity	7.87x	8.52x	9.39x	7.40x	9.89x

##### Credit Quality

Allowances for loan losses as a percentage of total loans	2.13%	2.14%	5.22%	10.27%	7.37%
Non-performing loans as a percentage of gross loans <sup>(8)</sup>	1.08%	1.11%	6.66%	11.19%	3.95%
Allowances for loan losses as a percentage of non-performing loans <sup>(8)</sup>	197.80%	192.79%	78.39%	91.79%	186.48%

(1) Except per-share and per-ADS data and financial ratios.

(2) Assumes average ordinary shares outstanding in each period. The cash dividend amounts do not reflect any deduction for certain charges that are taken with regard to the "American Depositary Receipts".

(3) Includes: financial income, financial expenses, service charge income and service charge expenses.

(4) Includes: financial income, financial expenses, provision for loan losses, services charge income, service charge expenses and operating expenses.

(5) Net income as a percentage of average total assets, computed as the average of fiscal-year-beginning and fiscal-year-ending balances.

(6) Net income as a percentage of average stockholders' equity, computed as the average of fiscal-year-beginning and fiscal-year-ending balances.

(7) Operating expenses as a percentage of average total assets, computed as the average of fiscal-year-beginning and fiscal-year-ending balances.

(8) Non-performing loans include all loans to borrowers classified as "problem", "deficient servicing", "high insolvency risk", "difficult recovery", "irrecoverable" and "irrecoverable for technical decision" according to the Central Bank's loan classification system as well as all loans contractually past due 90 days or more. See "Information on the Company—Selected Statistical Information—Allowance for Loan Losses and Loan Loss Experience".

(9) Restated from its original version to apply the adjustments to prior years income to these Consolidated Financial Statements related with Argentine Central Bank regulations (see Note 3.5.18. to our Consolidated Financial Statements).

(10) The Financial Statements for the fiscal year ended December 31, 2002 and 2001 were restated in the February 28, 2003 currency by applying the adjustment rate derived from the internal WPI published by INDEC.

(11) The average ordinary shares outstanding was computed as the average of the previous twelve months.

(12) The average ordinary shares outstanding was computed as the average of fiscal-year-beginning and fiscal-year-ended.

(13) Restated from its original version to apply the adjustments required by US GAAP to prior years income to these Consolidated Financial Statements (see Note 17.15.).

## Cash Dividends

The table below shows the cash dividends paid on each ordinary share and the equivalent of those dividends expressed in terms of dividends per American Depositary Share, each representing three ordinary shares (the “ADSs”), in each case adjusted for all stock dividends during the relevant periods. The Central Bank requires that we maintain 20% of our net income in legal reserves.

	Cash Dividends Per Ordinary Share		Cash Dividends Per ADS	
	Ps. <sup>(1)</sup>	US\$ <sup>(2)</sup>	Ps. <sup>(1)</sup>	US\$ <sup>(2)</sup>
December 31, 2005 <sup>(3) (4)</sup>	0.05728	0.17619	0.17184	0.52858
December 31, 2004 <sup>(3)</sup>	—	—	—	—
December 31, 2003 <sup>(3)</sup>	—	—	—	—
December 31, 2002 <sup>(3)</sup>	—	—	—	—
December 31, 2001 <sup>(3)</sup>	—	—	—	—

(1) Historical values.

(2) Based upon the reference exchange rate quoted by Central Bank on the date of payment.

(3) On April 2002, the Central Bank suspended the payment of dividends by Argentine financial institutions. As of June 2, 2004, pursuant to Communication “A” 4152 the Central Bank will make some exceptions to the suspension of profits distributions and may pre-authorize dividend payments under certain conditions. See “Financial Information – Dividends”.

(4) Dividends were paid on June 2, 2006 (see Note 18 to the Consolidated Financial Statements).

## Exchange Rates

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

Year /Period	High	Low	Average <sup>(1)</sup>
May 2006 <sup>(3)</sup>	Ps. 3.0868	Ps. 3.0367	Ps. 3.0535
April 2006 <sup>(3)</sup>	Ps. 3.0828	Ps. 3.0367	Ps. 3.0663
March 2006 <sup>(3)</sup>	Ps. 3.0845	Ps. 3.0650	Ps. 3.0763
February 2006 <sup>(3)</sup>	Ps. 3.0757	Ps. 3.0625	Ps. 3.0689
January 2006 <sup>(3)</sup>	Ps. 3.0637	Ps. 3.0305	Ps. 3.0460
2005 <sup>(3)</sup>	Ps. 3.0523	Ps. 2.8592	Ps. 2.9232
December 2005 <sup>(3)</sup>	Ps. 3.0523	Ps. 2.9700	Ps. 3.0145
2004 <sup>(3)</sup>	Ps. 3.0718	Ps. 2.8037	Ps. 2.9415
2003 <sup>(3)</sup>	Ps. 3.3625	Ps. 2.7485	Ps. 2.9493
2002 <sup>(3)</sup>	Ps. 3.8675	Ps. 1.0000	Ps. 2.9793
2001 <sup>(2)</sup>	Ps. 1.0000	Ps. 1.0000	Ps. 1.0000

(1) The average of monthly average rates during the period.

(2) Source: Banco Nación. From December 23, 2001 through January 11, 2002, Banco Nación did not publish an official exchange rate due to governmental suspension of the exchange market.

(3) Source: Central Bank.

The exchange rate on June 15, 2006 was Ps.3.0778 = US\$1.00.

Fluctuations in the exchange rate between pesos and dollars affect the dollar equivalent of the peso price of the ordinary shares on the Buenos Aires Stock Exchange (Bolsa de Comercio de Buenos Aires — the “BCBA”) and as a result, would most likely affect the market price of the ADSs. Fluctuations in exchange rates also affect dividend income measured in dollars. The Bank of New York, as depositary for the ADSs is required, subject to the terms of the deposit agreement, to convert pesos to dollars at the prevailing exchange rate at the time of making any dividend payments or other distributions. The following table shows the rate of devaluation of the peso vis-à-vis the dollar, the rate of exchange (number of pesos per dollar prevailing in the Argentine foreign exchange market) and the rate of inflation for wholesale prices for fiscal year ended December 31, 2005 and for the four most recent fiscal years. Since the repeal of the Convertibility Law in January 2002, the peso has devalued approximately 207.78% vis-à-vis the dollar.

	For the Fiscal Year Ended December 31,				
	2005	2004	2003	2002	2001
Devaluation Rate	1.94%	1.39%	(12.71)%	236.00%	0.00%
Exchange Rate	3.0315	2.9738	2.9330	3.3600	1.0000
Inflation Rate <sup>(1)</sup>	10.59%	7.92%	1.84%	118.21%	(5.45)%

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



## **Risk Factors**

### **Factors Related to Argentina**

#### *Overview*

We are an Argentine corporation (sociedad anónima) and most 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. Our country has experienced an economic and political crisis in past years, marked by a severe recession and the abandonment of U.S. dollar-peso parity, which led to a significant devaluation of the peso against foreign currencies. These conditions have had an adverse effect on Banco Francés's financial condition and results of operations, but currently, and after a strong economy comeback, the Bank is in a steady recovery process, but no assurance can be given that this trend will continue.

In the last quarter of 2001, following almost four years of recession, high levels of external indebtedness, and the highest country risk ratings level yet, Argentina found itself in a critical economic situation marked by a significant decrease in banking deposit levels, high interest rates, a significant decline in the demand of products and services, and a substantial increase in unemployment. The economic debacle was accompanied by a political crisis that led to the resignation of President Fernando De la Rúa in December 2001, which was followed by a quick succession of interim presidents in the course of ten days, which then ended with the election by the Legislative Assembly of Senator Eduardo Duhalde (senator of the Justicialist Party) as president in January 2002. During his term in office, President Duhalde adopted a number of measures designed to help stabilize the economy, including ratifying the suspension of payments of a portion of Argentina's sovereign debt.

By late 2001, significant deposits were withdrawn from financial institutions as a result of the lack of confidence in the country's economic future and the Government's ability to sustain the parity of the peso with the U.S. dollar. This run on deposits had a material adverse effect on the Argentine financial system as a whole, including Banco Francés. For the most part, banks suspended the disbursement of new loans and focused on collection activities to be able to pay their depositors. However, the general unavailability of external or local credit created a liquidity crisis that hindered collections by financial institutions thus adversely affecting their ability to refund deposits.

On December 1, 2001, in light of the severe withdrawal of deposits from the financial system, the Government established tight restrictions on cash withdrawals from banks and imposed controls on the transfer of funds outside of Argentina. The restrictions on cash withdrawals from banks, known as the "corralito," were lifted by December, 2002.

The rapid and radical nature of the changes in the Argentine social, political, economic and legal environment, and the absence of a clear political consensus in favor of the Government or any particular set of economic policies, created an atmosphere of great uncertainty. The measures adopted by the government during 2002 led to economic crisis and resulted in a profound change to the Argentine monetary and foreign exchange regime, and to the regulatory framework for all business sectors in Argentina. This strongly impacted economic activity, contracting GDP by 10.9% during the year, and significantly depreciated the peso, which, in turn, led to a 41.4% and 118.2% increase in retail and wholesale prices, respectively. The Government implemented measures aimed at addressing the effects of amending the Convertibility Law and the asymmetric conversion into pesos of foreign currency denominated debts and bank deposits subject to Argentine law, were also designed to allow the Government to recover access to financing, reduce Government spending, restore liquidity to the financial system, reduce unemployment, and generally stimulate the economy. Beginning in July 2002 the demand for pesos began to grow. The peso began to appreciate, the consumer inflation rate decreased sharply and deposits began to flow back into the financial system, attracted in part by high interest rates. Employment in the private sector also showed a modest increase in the second part of the year as a result of growth in the tradable goods sector. Industrial activity, driven by exports and import substitution, began to recover in April 2002 and reached a monthly growth rate of 1.7% in the last quarter of the year.

On May 25, 2003, Néstor Kirchner became the new President of Argentina, for a term that is scheduled to expire on December 10, 2007. Since 2003, there has been a favorable evolution in the Argentine economy, ending the economic recession that lasted over four years. The following economic indicators are worth mentioning: i) The GDP increased by 8.8%, 9.0% and 9.2% during 2003, 2004 and 2005 respectively; ii) unemployment rate declined from 20.7% to 10.1% between the 4th quarters of 2002 and 2005; iii) total deposits in the financial system grew approximately 80.5% between December 2002 and December 2005; iv) the foreign exchange rate after depreciating to Ps.2.96 per U.S. dollar at the end of 2003, remained relatively stable at around 3 pesos per dollar; v) a steadier financial context with an increase in the deposits made in financial institutions; and vi) a marked increase in the market value of Government securities. More significantly, in February 2005 the Argentine Government announced its plan to restructure its bonds which have been in default since 2001, approximately US\$80 billion. The Government offered to exchange the outstanding bonds for bonds worth roughly 35% of the original bonds. In March 2005, the Government announced that 76% of bondholders

accepted its offer and tendered their bonds. The Government subsequently announced that it would not make payments on bonds that were not tendered. In June 2005 the Government issued and delivered the new bonds in exchange for the defaulted bonds. These new bonds were originally scheduled to be issued and delivered in April 2005, but the completion of the exchange offer was delayed due to litigation by hold-out creditors. 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.

*Four years have elapsed since the beginning of the crisis in Argentina's financial system, and despite encouraging developments in the Argentine economy, such as the stabilization of economic variables, there are still a considerable number of macroeconomic and political issues that affect the complete normalization and may have an adverse effect on the banking system and the economy as a whole, including an increase in the inflation.*

The devaluation of the peso and other economic measures adopted by previous government's, and sustained by the current Government, have stimulated economic growth. After a period of high recession and contraction of the economy, the ceasing of payments of Argentina's debts, the devaluation of the "peso", and the increase of poverty, Argentina was able to reverse the negative trends and resume growth. The gradual closing of the output gap, together with specific price adjustments of certain regulated and semi-regulated goods and services, contributed to registering 6.1% retail inflation in 2004, significantly higher than the 3.7% recorded in 2003. In 2005, the inflation accelerated further, increasing to 12.3%. It is possible that Argentina may experience higher inflation in the future that could limit economic growth and have a material adverse effects on Argentina's financial system, and our results of operations and financial condition.

Furthermore, the Kirchner administration's principal challenge is to generate confidence, and create conditions that allow for long-term and sustainable growth. It cannot be assured that the necessary reforms will be implemented to foster economic growth, keep inflation under control and reestablish political confidence and such circumstances would likely have an adverse effect on the economy

*Payment to the IMF reduces backing in international reserves, and may affect the country's ability in case of facing a new scenario of future financial crisis.*

At the beginning of December 2005, President Kirchner announced the Executive intention to make an early prepayment all of the Government's debt outstanding with the IMF. The administration announced that it intended to use excess foreign reserves available at the Central Bank of approximately US\$8 billion. On January 3, 2006, the Argentine Government, made an early and total payment of all amounts due to the IMF for an approximate amount of US\$9.55 billion. This reduction of Argentina's international reserves weakens its capacity to face international shocks and may limit access to international capital markets and foreign currency. The depletion of the Central Bank's reserves could also inhibit the Central Bank's ability to intervene in the foreign exchange market in order to stabilize the peso in case of an attack on the currency. Conversely, the attempt to recompose the level of international reserves held prior to the payment to the IMF could lead to substantial increase in Central Bank intervention in the FX market thereby accelerating growth in the monetary aggregates and raising inflationary pressures. Notwithstanding, as of end of May 2006, the Central Bank had recovered almost 60% of its reserves prior to the IMF payment, which means that approximately US\$5.6 billion entered the foreign reserves of the Central Bank.

*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 US\$62.3 billion. Despite the high levels of acceptance of the offer, the amounts not tendered for exchange totaled approximately US\$20 billion, which creates uncertainty as to the final resolution of the sovereign debt problem and its impact on the future performance of the Argentine economy. The settlement of the debt exchange was completed on June 2005 due to a delay resulting from legal action by certain bondholders who did not participate in the exchange offer and attempted to attach the tendered bonds. Some of these bondholders have legal actions against the Argentine government, therefore the Treasury Department of the United States and the IMF have insisted that the Argentine government provide a clear strategy directed to those bondholders who did not participate in the exchange offer.

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

*The devaluation of the peso diminished the ability of Argentine companies, with foreign currency denominated debt to make payments on such debt. Accordingly, no assurance can be given that this issue will not have a material and adverse effect on Argentina's economic and financial condition in the future.*

The economic policies of the Argentine government as well as any future decrease in the value of the peso against the US dollar might have an adverse impact on the financial condition and the results of operations of Argentine companies. The peso has devalued in the past and may fluctuate significantly in the future. Law No.25.561, or the public Emergency and Foreign Exchange Regime Reform Law (the "Public Emergency Law"), promulgated on January 6, 2002, terminated over a decade of one-to-one parity between the US dollar and the peso and authorized the Argentine government to set the exchange rate. Subsequent to the devaluation of the peso in early 2002, a floating exchange rate regime was adopted and significant fluctuations in the value of the peso may be offset by repeated interventions of the Central Bank through sales of US dollars. In the past 3 years, however, the peso has remained relatively stable and Central Bank intervention through the purchase of US dollars has prevented a further appreciation of the peso. The Public Emergency Law has been extended until December 31, 2006.

However, it can be no assurance that the policies implemented by the Argentine government in the future will stabilize the value of the peso against foreign currencies and therefore, the peso may continue to be subject to significant fluctuations and depreciations in the future, which might significantly and adversely affect the financial condition and the results of operations of Argentine companies.

*The stability of the foreign exchange market have led the Government to relax currency exchange controls. However, no assurance can be given that currency exchange controls will not again be tightened and that such circumstance will not have a material adverse effect on the results and the solvency of the financial system.*

During the first quarter of 2002 and as the economic crisis deepened, the Government established a series of currency restrictions and foreign exchange controls. These measures included a prohibition of fund transfers abroad as a general matter, except in connection with foreign trade transactions, payment of purchases or withdrawals made through credit or debit cards and settlement of financial transactions, as well as the requirement of Central Bank's approval to transfer funds outside of Argentina for purposes of paying principal and interest on financial loans. Since then, the currency restrictions and foreign exchange controls have been gradually relaxed in light of the increasing stability in the foreign exchange market. See "Additional Information – Exchange Controls". While the foreign exchange system has become more flexible under current regulations, there can be no assurance that the Government will not again tighten these restrictions or otherwise change the current foreign exchange system or that one or more of the types of transactions described in this annual report will not be severely restricted. Such restrictions could have a material adverse effect on the Argentine financial system, and on our results of operations and financial condition.

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

The measures adopted by the Federal Executive with respect to the political, economic, financial and foreign exchange emergency triggered a number of legal actions filed by individuals and companies, in the form of constitutional protection actions (judicial injunctions resulting in the immediate release of frozen deposits), against the Federal Government, the BCRA and Financial Institutions as the petitioners mainly arguing that the Law on Public Emergency and its supplementary provisions are unconstitutional. Based, mainly in the "Kiper against Federal Government and Others" case, dictated by the Supreme Court, the courts massively started to dictate through constitutional protection actions, the partial reimbursement of bank deposits in US 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 Argentine 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 of Justice (“CSJN”) 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 US dollars or the equivalent in pesos at the free market rate of exchange.
- On July 13, 2004, in the case “Cabrera, Gerónimo Rafael v. Argentine Executive Branch on action for the protection of constitutional rights (amparo)”, it rejected the claim of a depositor on the grounds that the depositor had exercised his rights within the framework of the emergency laws and collected a portion of his deposit in pesos without reserving the right to claim the difference in U.S. dollars at the exchange rate prevailing in the open market.
- On September 14, 2004, in the case entitled “CAMPBELL, María Enriqueta Vda. De Tufiño y otro c/ P.E.N. - Banco de Salta S.A. Grupo Macro s/ AMPARO- Medida cautelar”, the CSJN rejected the claim of a depositor which was filed before the Court of original Jurisdiction and the Court of appeal, declaring the unconstitutionality of the emergency rule questioned regarding the pesification of the deposit funds in foreign currency.
- On October 26, 2004, in the case entitled “BUSTOS, ALBERTO ROQUE Y OTROS c/ P.E.N. Y OTROS s/ AMPARO”, the CSJN 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 pesified 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.

Moreover, in connection with the above commented cases, on February 3, 2004, the 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 US 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 cases: “Cabrera, Gerónimo Rafael v. Argentine Executive Branch on action for the protection of constitutional rights”, “CAMPBELL, María Enriqueta Vda. De Tufiño y otro c/P.E.N. – Banco de Salta S.A. Grupo Macro s/Amparo-Medida Cautelar”, and “BUSTOS, ALBERTO ROQUE Y OTROS c/P.E.N. Y OTROS s/AMPARO”).

Enforcement of the precautionary measures ordered by different courts in constitutional protection actions imply for the financial system substantial losses of capital. The Bank has informed of these losses to the Ministry Economy and the BCRA and has sought to reserve all of its legal rights.

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

Furthermore, pursuant to Communication “A” 3916 dated April 3, 2003, the BCRA resolved to allow the capitalization of the differences arising from compliance with court orders in cases challenging regulations in force in accordance with Law 25,561, Decree 214/02 and complementary regulations in relation to deposits within the financial system. This asset (calculated according to the difference in nominal terms between the deposit at the free market exchange rate at the moment of each payment compared to the book value of 1.40 pesos per dollar plus CER to that date) is being amortized in 60 monthly installments as of April 2003.

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

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

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

In view of the combination of macroeconomic and regulatory developments in Argentina principally during 2002 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. 616/2005 to regulate funds coming into and flowing out of Argentina. The government has publicly announced that these measures are intended 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 US dollar deposit for one year, without accruing interest. Financial sector and nonfinancial private sector inflows originated from foreign financial borrowings that are invested in nonfinancial assets and must be fully repaid (principal and interest) within 24 months from the date of the borrowing, are not subject to the foregoing deposit requirement. These measures may adversely affect the Argentine entities ability to access the international capital markets and to effectively invest the funds raised in any such financing which could materially adversely affect Argentine entities' financial condition and results of operations.

### **Factors Related to Banco Francés**

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

As of December 31, 2005 Banco Francés and its subsidiaries's holdings of public sector debt totaled approximately Ps.7,972.6 billion, consisting mainly of: (i) External and Internal Restructured debt: Ps.3,808.0 million in secured loans; Ps.105.3 million in guaranteed bonds; and Ps.3.3 million in other provincial loans (ii) External Debt restructured: Ps.652.0 million in Argentine Peso denominated Bonds and Ps.88.1 million in Argentine Dollar denominated Bonds; (iii) Internal debt in the restructuring process: Ps.812.2 million in Provincial Development Trust Fund<sup>(\*)</sup>; and (iv) Post default public debt: Ps.74.1 million in bonds issued to compensate for the pesification, which we refer to as Boden 2012, and Ps.180.8 million in other bonds and Ps.2,248.8 million in Central Bank bills and notes. Of the outstanding public sector debt, only the External and Internal debt in the restructuring process mentioned in (iii) were in default. As a result of the Government's debt restructuring, the Bank and its subsidiaries received for the defaulted portfolio Dollar denominated Discount bonds and Peso denominated Discount bonds, to be accounted for at the lower of: (a) the accounting value of the assets exchanged; or (b) the face value of the new bonds (adjusted by CER up to March 17, 2005 in the cases of Discount Bonds in pesos) plus its future nominal interest cash flows (in accordance to Communication "A" 4270 and its amendments).

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

(\*) As of May 31, 2006 the restructuring process has successfully ended and the Bank swapped this debt receiving Secured Bonds due 2020.

*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 in 2003. 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.*

Banco Francés finds itself among the private banks in Argentina with the highest volumes of assets and liabilities with mismatched terms and interest rates derived from the asymmetric conversion of foreign currency assets and liabilities into pesos. During fiscal year 2005 the Bank has fully paid the rediscounts received from the Central Bank with the proceeds of the sale of public sector bonds and loans with longer duration than such liability, thus reducing the term mismatch. Furthermore, the following actions have reduced our exposure: (i) the increases in CER adjusted deposits; (ii) the sale of bonds of, and loans to the Argentine

Government and the Argentine provinces from our portfolio; and (iii) the subscription of the necessary bonds to be delivered to depositors who had accepted the Government's swap option plans, with CER adjusted assets accounted for in the books of the Bank. Despite these reductions in exposure, the Bank maintains a Ps.3.2 billion long CER position as of December 31, 2005. During fiscal year 2005 the remaining imbalance positively affected the Bank's results of operations, within an environment of negative real interest rates. Nevertheless, no assurance can be given in connection with the future relative behavior of interest rates vis-à-vis the consumer price index. If the real interest rates significantly increase, such increase could have an adverse effect on our profitability in the future.

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

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 CSJN 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.

Banco Francés paid Ps.44 million of negative exchange rate difference during 2005 in compliance with court orders in lawsuits brought by the Bank's customers, regarding deposit refunds.

Banco Francés has been served with notice of provisional remedies, issued mainly in proceedings against the pesification, that require deposits to be refunded in cash in amounts larger than those established by current law and regulations, or require the release of rescheduled deposits, or that declare the inapplicability of regulations issued by the Congress, the Federal Executive or the Central Bank. As of the date of this report, neither Federal courts nor Buenos Aires City or Provincial courts have ruled on the merits of the such legal actions. Consequently, the final outcome of these legal actions is still unknown. These legal actions have had a material and may continue to have an adverse effect on the results and the financial condition of Banco Francés.

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

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

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

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

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

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

Under Argentine law, the liquidation and commencement of bankruptcy proceedings against financial institutions, until their banking license has been revoked by the Central Bank, may only be commenced by the Central Bank. If Banco Francés were unable to pay its debts as they come due, the Central Bank would intervene and revoke its banking license, and file a bankruptcy petition before a commercial court. If the Central Bank intervenes, the reorganization proceeding could take longer and it is likely that the shareholders' remedies would be restricted. During any such process, the Central Bank would have to consider its interests as a regulator, and could well prioritize the claims of other creditors and third parties against the Bank. As a result of any such intervention, the shareholders' may realize substantially less on the claims than they would in a bankruptcy proceeding in Argentina, the United States or any other country.

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

Argentine Law No. 24,485 in force since April 18, 1995, as amended by Law No. 25,089, provides that in case of judicial liquidation or bankruptcy of the Bank, all depositors, irrespective of the type, amount or currency of their deposits, will have general and absolute preferential rights with respect to all other creditors, except for certain labor credits and credits secured with pledge or mortgage, to be paid with 100% of the funds deriving from the liquidation of the Bank's assets. In addition, depositors of any kind of deposits have special preferential rights over the remaining creditors of the Bank, except for certain labor credits, to be paid with (i) any of the Bank's funds which may be held by the Central Bank as total reserves, (ii) any remaining funds of the Bank in existence as of the date on which the Bank's license is revoked, or (iii) any funds derived from the compulsory transfer of certain assets of the Bank according to instructions of the Central Bank, in the following order of priority: (a) deposits made by legal entities up to Ps.5,000 per entity, or its equivalent in foreign currency, (b) deposits for terms exceeding 90 days, and (c) all other deposits on a pro rata basis.

#### **Factors Related to Banco Francés's Subsidiaries**

- Consolidar AFJP S.A.

##### *Overview*

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

Regulatory changes occurred during 2002 brought about serious consequences that continued to pervade the Argentine pension system during 2005, such as the decline in the value of the pension funds dollar terms as a result of the mandatory conversion into pesos of foreign currency denominated bonds of Argentine governmental and private issuers and the default declared in respect of domestic debt securities; an increase in the risk associated with the position of AFJPs as fund managers; and delays in the procedures to obtain pension benefits payable by the Government due to administrative backlog and the Government's lack of resources to fulfill such obligations.

Exposure of AFJPs decreased by approximately 10%, and AFJPs' investment portfolio assets grew considerably.

Since the government of president Néstor Kirchner took office in May 2003, the Government has been promoting a reform in the pension system, but the AFJPs have not been given an opportunity to participate in the process.

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

*The restructuring process and other disruptions in the operations of AFJPs have exposed AFJPs to a heightened risk of litigation that may have a material adverse effect on their financial condition and results of operations.*

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

During the last sixteen months, just one lawsuit has been filed against AFJPs but it has been rejected by Court. However, new legal actions directed against the AFJPs, their managers and directors could affect the assets of the AFJPs, which would have an adverse effect on the financial condition of AFJPs.

*The Government is promoting a reform of the pension system that may have far-reaching consequences for AFJPs.*

The Government is currently promoting a reform of the pension system. Although the scope of the envisaged changes is still unclear, the Government has indicated that any proposed modification would not replace the AFJP based system with a distribution system.

During 2005 no concrete measures were adopted towards the reform of the pension system. Nonetheless, no assurance can be given that the definitive reform plans will not have a material adverse effect on the AFJP's industry.

- Consolidar Compañía de Seguros de Vida S.A.

*The economic performance of our subsidiary Consolidar Compañía de Seguros de Vida S.A. has been negatively affected by the economic crisis. Future regulations may also have a material adverse effect on its financial condition and results of operations.*

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

- Consolidar Compañía de Seguros de Retiro S.A.

*The devaluation of the peso and the conversion into pesos of all the foreign currency agreements has negatively affected and may continue to have a material adverse effect on our subsidiary Consolidar Compañía de Seguros de Retiro S.A.*

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

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

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

As a consequence, policy holders started to seek reimbursements from the insurance companies. Consolidar immediately responded by promoting a dialog with its clients, which resulted in a very low level of litigation.

To minimize the damaging effects of the asymmetric conversion into pesos, Decree No. 558/02 enabled the insurers to offer to the insured parties redemption schemes contemplating a number of options. Following the new regulation, Consolidar submitted for approval of the Argentine Insurance Superintendency different option plans for the redemption or maintenance of policies issued in dollars, which have been approved. At present these option plans are being offered to policyholders, and have already been accepted by more than 85% of the original portfolio, both in the number of policies and in amounts.



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

*Possible claims derived from the conversion of life annuity agreements in dollars into Argentine pesos may have a material adverse effect on the financial condition and results of operations of Consolidar Compañía de Seguros de Retiro S.A.*

Pension-related life annuity agreements originally denominated in dollars as of January 31, 2002 were converted into pesos at the rate of Ps.1.40 per U.S. dollar plus an inflation adjustments according to CER index by decision of the National Insurance Superintendence. Initially, beneficiaries had in their accounts a greater amount in pesos as a result of the conversion, which increased their purchasing power. As a result there were a minimal number of claims.

Even if these amounts were additionally increased by later gains made on such investments and exceeded any salary adjustment granted by the public sector as well as the inflation for the period, Consolidar Compañía de Seguros de Retiro S.A. has started to receive claims from insured parties. These claims, to this date, continue to be not material in comparison to the total policy portfolio. As of December 31, 2005 there had been a total of 164 claims in a universe of 3.660 active life income accounts, representing 2.6% of the related portfolio.

The favorable evolution of the exchange rate, as well as the revaluation of public and private securities in default are elements that tend to reduce the probability of further claims and legal actions against Consolidar Compañía de Seguros de Retiro S.A. However, an increase in the number of claims and legal actions could have a material adverse effect on our financial condition and results of operations.

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

##### **RECENT POLITICAL AND ECONOMIC DEVELOPMENTS IN ARGENTINA**

###### **Argentine Economic Scenario**

The key economic event during 2005 was the restructuring of the public debt in default launched by the Government in February pursuant to which the Argentine government offered its creditors three types of bonds in exchange for the Argentine sovereign debt they hold, as well as bonds in lieu of past due interest on such sovereign debt. The exchange offer encompassed 81,836 million dollars in securities held by residents and non residents, and achieved an acceptance rate of 76.15%. The new bonds issued after the exchange (par, discount & quasi-par) amounted to 35,261 million dollars, among which 44% were denominated in pesos. The reduction in the debt's face value and the improvement in currencies composition following the exchange, resulted in a significant contraction of the interest burdens and an extension of the maturity profile, with the first amortization of the principal of the restructured debt taking place in 2024.

There was no slow-down in the pace of economic activity and for the third consecutive year, the economy grew by 9.2%. According to the Monthly Estimator of Economic Activity (EMAE), economic activity increased by 8.6% year over year during the first quarter of 2006. However, due to a lower employment/GDP elasticity, improvements in the unemployment rate were not as strong as in the previous year. The unemployment rate fell to 10.1% during 2005 fourth quarter, two percentage points below 2004 fourth quarter.

With an economy growing at high rates, inflationary pressures started to appear during the first quarter of the year. Inflation measured in terms of the consumer price index averaged a 1% monthly increase during the year, with core inflation at a 1.1% monthly average. Regulated prices (mainly public utilities' tariffs) had a moderating impact on inflation in spite of which, the year ended with a 12.3% increase in prices, almost twice the rate of the previous year. The strong increase in food prices during the second half of the year drove the government to increase export taxes on meat and dairy products and to reach an agreement with the main supermarket chains in December to reduce prices from a list of selected products (mainly food, cleaning and toiletries) by 15%.

Greater optimism following the successful debt restructuring resulted in the return of positive capital flows to Argentina which added to the dollar surplus stemming from the trade balance. Increased export dynamics, mainly in manufactured industrial goods, was reflected in a 15% accrued growth of volumes exported in 2005. Thus, the trade surplus for the year closed at 11,322 million dollars, only 6.5% below 2004's, despite the 28% growth of imports.

In this environment of abundant foreign exchange supply and with the public sector as the main buyer of dollars with the purpose of honoring debt commitments with multilateral organizations, the exchange rate that showed seasonal fluctuations similar to those of previous year, and closed 2005 at 3.03 pesos per dollar, slightly above December 2004 levels.

During 2005 the Government was able to sustain fiscal solvency and the primary result of the non financial public sector reached 19,661 million pesos, more than 13% above previous year's surplus. Tax collection showed a 21.3% increase at year-end, and taxes with an increased relative participation were mainly represented by Income tax (due to the maintenance of non-taxable minimum incomes and restrictions to companies for inflation adjustment) and social security taxes (due to improvements in employment and formality in labor markets). In general, improvements in collection were the result of an increased inflation, economic activity growth and reduction of tax evasion. As of the second half of the year primary expenses started to grow at a rate stronger than that of revenues and this performance continued during the first quarter of 2006. The items that showed more increases were transfers to provinces due to the tax Co-participation régime and capital expenses.

The year 2005 was characterized by the higher interest payments and debt amortizations, of approximately 12,000 million dollars, that the government had to face due to different reasons, including the completion of the debt restructuring process and the lack of agreement with the IMF during the year. In order to honor these commitments, the government used the primary surplus of the year and of previous years. In addition, some peso-denominated debt issuance (Boden 14) were placed for 3,000 million pesos and dollar-denominated (Boden 12) for 2,986 million dollars, consequently achieving the renewal of part of the maturities. By mid-December, the government decided to pay off, completely and in advance, its 9,500 million dollar debt with the IMF making use of accrued international reserves at the Central Bank. This transaction was carried out at the beginning of January 2006, replacing those reserves at the Central Bank by a dollar-denominated government security with similar yield.

### **IMF Financing**

In light of the fact that presidential elections would be held on April 27, 2003, a stand-by agreement with the IMF was based on a short-term transitional program (January 1 – August 31) aimed at maintaining macroeconomic stability during the political transition. After the transitional program, a new 36-month stand-by agreement in an amount of approximately US\$12.5 billion (equivalent to amortizations payments falling due during the period) was signed with the IMF on September 10, 2003. Under the terms of that agreement, the World Bank and the IDB would maintain the levels of their exposure to Argentina and the Government would pay interest on all its indebtedness with international financial institutions from its own resources.

Fiscal and monetary targets agreed on with the IMF were met in excess during the first semester of 2004, even though structural reforms such as the reform of tax revenue-sharing method between Government and Provinces and the renegotiation of public services contracts showed a lack of significant progress. In August 2004, the Argentine Government decided to temporarily call off the agreement with the IMF, until the defaulted public debt restructuring process was completed. From then on, Argentina started to pay not only the interests payable to the IMF (as it was doing in accordance with the agreement) but also principal payments, thus reducing the total debt with the entity.

After the completion of the debt restructuring process in June 2005, discussions with the IMF were resumed but no agreement was reached, so Argentina continued to make full payments on principal falling due during the whole of 2005. By mid-December, the government decided to cancel, completely and in advance, its 9,500 million dollar debt with the IMF making use of accumulated international reserves at the Central Bank. This transaction was carried out at the beginning of January 2006 and Argentina will no longer be subject to quarterly revisions by the IMF since there is no program currently underway. Since Argentina maintains its membership in the IMF, it will continue to be monitored by the IMF on a yearly basis according to the provisions of article IV of the IMF charter.

### **International Monetary Situation**

One of the main characteristics of 2005 was the positive balance of world economic growth despite the increases in oil prices. The coincidence of both factors timing could be the result of an increase in world demand, that would be the cause of a significant trade flow dynamism and an increase in raw material prices, mainly energy and metals. This global economic framework of high growth favorably impacted on Argentina, given the high prices of commodities and oil in particular, of which Argentina is a net exporter. Furthermore, strong growth in Southeast Asia, namely China, also had a positive impact on the domestic economy, due to the fact that being one of the world's largest economies it maintained a remarkable dynamism in investment, consistent with an expansion model that seeks the development of exporting platforms.

The relative increase of work-force resulted in a lower growth of wages, partially offsetting the increase in energy expenses and curbing inflationary pressures. This allowed central banks to maintain a high liquidity in times of strong economic growth, without building up inflationary expectations in the medium term. Long-term interest rates remained low, as a result of the high credibility of central banks in combating inflationary pressures.

In this environment, the US Federal Reserve continued with its policy of gradual increases of the Federal Funds rate, from 2.25% at beginning of the year to 3.75% at 2005 year-end. On the other hand, in Europe, with more uncertainty regarding growth, the European Central Bank (“BCE”) maintained official rates unchanged almost throughout the year, starting the tightening cycle only in December with a hike of 25 basis points.

The interest rate differentials became, together with positive productivity differentials as compared to other areas, a support for the dollar, despite the high current account deficit of the US economy. During 2005, the US dollar strengthened by 14% both as compared to the Euro and to the Yen. Conversely, in the region, Latin American currencies, such as the Real (Brazil), Chilean peso and Mexican peso, appreciated in relation to the US dollar. In particular, the Brazilian real appreciated by 12%, reaching an exchange rate of R\$2.325 per dollar at the end of 2005.

## **The Financial System**

During 2005, and after 4 consecutive years, the financial system began to show positive earnings in the aggregate. Improvements were sustained by the gradual recovery in interest margins and a reduction of the costs associated to the 2002 crisis. The increase in the financial margin resulted mainly from the mismatch of CER (CPI inflation) vs. nominal interest rates in a context of rising inflation and negative real interest rates.

Another outstanding factor was the strong growth of loans to the private sector, one of the more dynamic variables in the financial system, and the strong rediscount amortizations. In this sense, the abundant liquidity allowed the banks to cancel in advance almost 30% of their liabilities with the Central Bank.

In the financial system on average, there still persists a high exposure to public assets and this situation is being corrected very slowly due to the fact that at the same time during 2005 the financial system placed a large proportion of its excess liquidity in bills and notes issued by the Central Bank. Simultaneously, the solvency of the banking system improved during the year due to the capitalization of several institutions by their majority shareholders.

## **Deposits and Loans**

Total deposits of the financial system, in pesos and in dollars, grew by approximately 18%, at a slower pace than in the previous year. Deposits of public sector only grew 8% (these had doubled in 2004), while deposits of the private sector showed a very positive performance, with an increase over 21%. This change in deposit distribution was the result of the reduced savings capacity of the government, despite its relevant primary fiscal surplus, due to the higher volume of both local and foreign debt maturing during the year.

In the private sector, term deposits increased their share in total deposits after growing 21% during 2005, probably due to the gradual rise in interest rates, while deposits in checking accounts continued growing significantly, showing an approximate variation of 28%. On the other hand, 2005 represented the end of Cedros (re-scheduled deposits), with the last series maturing during that period.

The most dynamic financial variable of 2005 were loans to the private sector, accounting for 35% increase, associated both to a higher demand fuelled by improvements in the economic situation, and to a healthier condition of the overall financial system.

## **Interest Rates**

Interest rates for deposits maintained an upward trend during the year, consistent with the evolution of the inflation rate. The average rate of 30-day deposits in pesos rose by 200 basis points during the year, reaching a 5% average in December, while wholesale rates showed a more significant increase of 350 basis points. However, these continued to be negative in real terms, in view of the overall liquidity of the financial system, considering both the integration of legal reserves requirements and holdings of BCRA bills and notes. The Central Bank’s policy as regards Argentine Central Bank Bills (“Lebac”) was to continue to shorten terms and to avoid validating increases in interest rates, due to the continuous need to absorb pesos through these instruments originating in the exchange rate policy. Therefore, the stock of Central Bank’s bills and notes increased 75% during the year. On the other hand, as

regards the repo market, the Central Bank consolidated the system by establishing a corridor for rates on direct and reverse repo operations.

### **International Reserves**

The Central Bank maintained a policy of reserve accumulation during the year which contributed to sustain the nominal exchange rate. An increase of approximately 8,500 million dollars in reserves was accomplished, taking advantage of the significant trade surplus and additional capital inflows fueled by the end of the debt restructuring process by mid-year. This was possible despite the fact that, due to the lack of agreement with the IMF, the government had to pay in full all the interest and capital amortizations becoming due during the year. At the end of 2005, the government decided to devote part of the international reserves to the prepayment of the overall debt of 9,530 million dollars to the IMF, a transaction that was settled at the beginning of 2006.

### **Circulation and Monetary Base**

Monetary base grew by 10% on average during the year. Similarly to previous years, monetary base expansion derived mainly from the external sector. The basic target of the monetary program was accomplished after a significant absorption effort, not only through Lebac and Nobac tenders, but also through the contribution of the financial system that reduced rediscounts with Central Bank, in accordance both with the predetermined schedule and through advanced cancellations. The public sector continued to contribute to the monetary base contraction by purchasing dollars with its fiscal surplus in order to honor its debt obligations denominated in dollars.

During the year, the Central Bank reduced reserve requirements for the financial system on several occasions, since the remarkable expansion of the demand for currency in circulation (which grew by 30%, more than the previous year) was jeopardizing the fulfillment of the monetary base growth targets established in the Monetary Program.

## **HISTORY AND DEVELOPMENT OF THE COMPANY**

Banco Francés, an Argentine corporation (a “sociedad anónima” or “S.A.”), was duly incorporated under the name Banco Francés del Río de la Plata S.A. on October 14, 1886. We have our registered office in the Argentina, Reconquista 199, C1003ABB Buenos Aires, telephone number 54-11-4346-4000. Our agent in the United States for U.S. federal securities law purposes is CT Corporation System, currently with offices at 111 Eighth Avenue, New York, New York 10011.

Our original bylaws (“Estatutos”) were approved on November 20, 1886, by a decree recorded in the Public Registry of Commerce of Buenos Aires City on December 6, 1886, under Number 1065 on Folio 359, Book 5, Volume “A” of National By-laws. Our bylaws, including all amendments introduced to this date, were recorded in the Public Registry of Commerce (the Governmental regulatory agency of corporations). The last amendment was recorded on December 19, 2005, under No. 16,335, Book 30, of Corporations (sociedades anónimas). Pursuant to current corporate bylaws, the Bank will terminate its activities on December 31, 2080, unless this term is extended by the shareholders. At the ordinary and extraordinary shareholders’ meeting held on April 27, 2000, a resolution was passed to change our name to BBVA Banco Francés S.A. On October 4, 2000, the Public Registry of Commerce registered the change from “Banco Francés S.A.” to our new name, and the amendment to our bylaws that reflected the name change.

The Bank is supervised by the Central Bank of Argentina, an entity that establishes valuation and accounting criteria, the rules on liquidity and capital requirements as well as the informative systems of Argentine financial institutions. The Bank is also subject to inspections by the Central Bank, on which basis a “rating” is assigned to the Bank. See *“Information on the Company—The Argentine Banking System and its Regulatory Framework”*.

On August 11, 1997, we acquired 71.75% of the capital stock of Banco de Crédito Argentino S.A. (“Banco de Crédito”) for the purchase price of Ps.401.8 million. The difference between the amount paid and the net equity value acquired of approximately Ps.203 million was booked as goodwill, the majority of which was subsequently reversed against shares issuance premium. We completed this merger of the two banks by final registration with the Public Registry of Commerce, on March 5, 1998. To effect the merger, Banco Francés issued 14,174,432 ordinary shares to the existing shareholders of Banco de Crédito through a capital increase. Each Banco de Crédito shareholder received one ordinary share for each 3.926 Banco de Crédito shares held.

As a result of the acquisition of Banco de Crédito, we gained control of Consolidar Compañía de Seguros de Retiro S.A., Consolidar Compañía de Seguros de Vida S.A. and Consolidar Administradora de Fondos de Jubilaciones y Pensiones S.A. (“Consolidar AFJP”) (the “Consolidar entities” or the “Consolidar Group”), and also acquired control of Crédito Argentino Sociedad de Bolsa S.A. which was liquidated in 2000.

On November 5, 1999, Banco Francés S.A. and Banco Bilbao Vizcaya (today Banco Bilbao Vizcaya Argentaria S.A. or “BBVA”), executed a share purchase agreement, pursuant to which Banco Francés acquired 99.99% of the shares of Corp Banca S.A., an Argentine bank, for the amount of Ps.51.9 million, and 99.99% of Atuel Fideicomisos S.A., a trust company, for the amount of Ps.79,000. The difference between the purchase price of the transactions and the incorporation value of both companies was charged to goodwill under the “Intangible Assets” account for an amount of Ps.24.5 million. In addition, after the transfer of assets and liabilities, we added to the goodwill value additional charges amounting to Ps.5.7 million related to a decrease in the assets incorporated, as resulted from the more precise assessment made after the acquisition, employee termination payments to Corp Banca S.A. personnel within the organizational restructuring process initiated before the acquisition and other expenses incurred in the acquisition process. On November 22, 1999, as part of a corporate reorganization, all assets and liabilities of Corp Banca S.A. were transferred to Banco Francés, with full integration of operations and systems.

On May 20, 1999, the Central Bank approved the creation of Credilogros Compañía Financiera S.A. (“Credilogros”), which was registered with the Public Registry of Commerce on June 24, 1999. On November 10, 1999, Banco Francés and Credilogros executed a contract for the sale of certain assets and liabilities of Banco Francés. Such assets and liabilities were transferred to Credilogros pursuant to the agreement on August 2, 1999. On December 28, 1999, Banco Francés and Finanzia Banco de Crédito S.A. (“Finanzia”) executed a purchase agreement, pursuant to which Banco Francés transferred to Finanzia the rights and exclusive property rights to the brands used by Credilogros for the development of its business for a purchase price of Ps.9.6 million. In October 2000, Finanzia sold exclusive property rights to the brands used by Credilogros to Credilogros at a total price of Ps.9.6 million.

In June 1, 2002 Finanzia Banco de Crédito S.A. sold 29.95% of its interest in Credilogros to BBVA for 23,782,680 Euros. Such transaction was approved by the Central Bank on April 3, 2003, under Resolution No. 37.

On March 9, 2005, Banco Francés sold to Banco de Servicios y Transacciones S.A. and Grupo de Servicios y Transacciones S.A. all of its participation interest in Credilogros which represented 69.52% of the capital stock of such entity (see Note 1.4. to the Consolidated Financial Statements). This operation is subject to approval from the Central Bank (see Note 1.4. to the Consolidated Financial Statements).

On March 29, 2000 our affiliate Rombo Compañía Financiera S.A. (“Rombo Compañía Financiera”) was registered with the Public Registry of Commerce. On April 24, 2000 the Central Bank authorized Rombo Compañía Financiera to conduct business as a finance company by Communication “B” 6684.

On October 17, 2000, as part of BBVA group’s business reorganization plan started after the merger of BBVA, Banco Exterior de América S.A. (Uruguay) (wholly owned by BBVA) merged with and into Banco Francés Uruguay S.A. (wholly owned by us). As a result of such merger, Banco Francés Uruguay has changed its corporate name to Banco Bilbao Vizcaya Argentaria Uruguay S.A., or BBVA Banco Uruguay (“BBVA Uruguay”).

In May 2002 Banco Francés sold its 60.88% interest in BBVA Uruguay to BBVA for the amount of US\$55 million. This transaction was approved by the Central Bank of Uruguay.

Credilogros and Banque PSA Finance formed PSA Finance Argentina Cía. Financiera S.A. (“PSA Finance”), in which Credilogros held a 50% interest, in November 2001. On February 21, 2002, the Central Bank authorized PSA Finance to begin its activities as a finance company through Communication “B” 7134. PSA Finance, which has a single office located in Buenos Aires, is in the business of granting loans in the retail market for the acquisition of new and used cars offered by the Peugeot Argentina S.A. dealership network. Rather than funding itself with deposits, term investments or corporate bonds, PSA Finance obtains financing through loans granted by the Bank and other domestic financial institutions. On October 31, 2003, subject to the approval of the Central Bank, Banco Francés acquired 50% of the shares of PSA Finance from Credilogros for Ps.11.9 million and Credilogros applied the proceeds to repay a loan from Banco Francés for a total of Ps.11.7 million plus interest. On December 16, 2004, the Central Bank issued Resolution No. 371, approving the transfer of 50% of PSA Finance capital stock to Banco Francés.

On February 3, 2004, the Bank made an irrevocable contribution of capital in its subsidiary Atuel Fideicomisos S.A. for Ps.13.0 million. Also, on February 4, 2004, the Bank acquired 5% of the capital stock of Francés Administradora de Inversiones S.A. from Banco Francés (Cayman) Limited for Ps.580,000 while the remaining 95% was acquired by Atuel Fideicomisos S.A.

Banco Francés (Cayman) Ltd., was as of December 31, 2003 a wholly owned subsidiary formed in 1998. As of December 31, 2003, this subsidiary, with total assets of US\$950.8 million registered a gain of US\$121.6 million. Within the framework of the regularization and reorganization plan filed by the Bank with the BCRA, and Resolution No. 52/04 of the Superintendence of Financial and Exchange Institutions, dated March 17, 2004, on March 18, 2004, the Bank sold to BBVA S.A. its 100% interest in Banco Francés (Cayman) Limited. See Note 1.5. to our Consolidated Financial Statements. The sale price amounted to US\$238.5

million, and it was collected through Federal Government secured loans previously purchased by BBVA S.A. from Banco Francés (Cayman) Limited. Banco Francés has recorded such secured loans in conformity with Communication “A” 3911 and supplementary regulations. The negative result of the transaction was recorded as follows: Ps.200 million of the negative result from the transaction was absorbed and charged to the account “Unrealized valuation difference” under stockholders’ equity, as authorized by Resolution No. 52/04 of the Superintendence of Financial and Exchange Institutions, and Ps.11 million was charged to income (loss) for the year ended December 31, 2004.

## **BUSINESS OVERVIEW**

Our strong corporate culture, with our customers and our team of professionals as cornerstones, enhances our franchise differentiation. Banco Francés is the third largest bank in Argentina in terms of deposits, and the fourth largest in total assets according to statistics published by the Central Bank (Information of Financial Institutions, as of November, 2005). As of December 31, 2005 we had, on a consolidated basis, a total of Ps.10.6 billion in deposits, Ps.16.0 billion in total assets and a market capitalization of Ps.3.4 billion.

We were one of the first companies listed on the Buenos Aires Stock Exchange. Our shares have been listed in the New York Stock Exchange since 1993, and in the LATIBEX (“Mercado de Valores Latinoamericanos”), based in Madrid since December 1999.

Substantially, all of our operations, property and customers are located in Argentina. Accordingly, following the 2002 crisis and the package of government measures, our financial condition and results of operations were deeply affected. Since December 2001 our business activity contracted compared to historical levels and our lack of liquidity led to a suspension of most new originations of all types of loans. Our structural strengths, our reaction capacity, and our adjustment to the new economic environment were the pillars of our performance in 2002. We responded to the deepening of the crisis by prioritizing liquidity, substituting foreign currency funds with domestic currency funds and satisfying the growing demand for transactional business, while adjusting the operating structure to the new business profile.

Following a four-year recession period, the economy recovered during 2003 and deposits flowed back into the system. The adequate 2004- policy management, reflected in the primary fiscal surplus, the trade surplus and a conservative monetary policy, led us to maintain such economic growth, with stable prices and exchange rates. These conditions remained in place during 2005 and the Argentine economy further expanded while banks strengthened their focus on lending activities within an environment of negative real interest rates that helped to improve their financial margin.

Accordingly, during fiscal year 2005, Banco Francés successfully bolstered its credit activity aiming at rebuilding its traditional loan portfolio composition, more focused on the private sector than on public sector assets. With a commercial strategy oriented towards our core business, we increased our deposit base by 18%, reaching a 10.5% market share (source: Central Bank) and expanded our net private sector loan portfolio 71%; while maintaining our strength in the transactional business. Furthermore, taking advantage of the sustained recovery of prices of public sector debt in the secondary market, we sold 2,937 million pesos of public sector assets and paid the outstanding balance of loans received from the Central Bank as financial support during the liquidity crisis of 2002. These actions improved our asset and liability structure, with no significant impact on our income statement. The consolidation of our financial margin was attained due to an efficient pricing policy combined with a higher intermediation volume and an increasing CER index variation, given our long CER adjusted position.

As part of our business, we conduct capital markets and securities operations directly in the over-the-counter market and indirectly on the Buenos Aires Stock Exchange. The emerging recovery of these activities allowed for successful closings of securities transactions. According to statistics published by the Argentine Mutual Funds Association, we had a 7.21% market share in the mutual fund portfolio management industry in Argentina through “Francés Administradora de Inversiones S.A.”. We also participate in the pension fund industry through our 53.89% equity interest in Consolidar AFJP, a pension fund manager which, as of December 31, 2005, managed Ps.12.8 billion in pension fund holdings, with an 18.81% market share in the aggregate contributions to all AFJPs, according to statistics published by the Pension Funds Association.

Furthermore, we have traditionally accepted deposits and made loans in pesos and in certain other currencies, primarily in dollars. Following the 2002 crisis, dollar deposits and loans were suspended in Argentina. During 2003, with the stabilization of the exchange rate and according to new regulations from the Central Bank, we began to accept dollar deposits and to grant dollar-denominated loans in relation to foreign trade transactions, which continued to be subject to Central Bank restrictions in 2005. As of December 31, 2005, approximately 7.56% of our loans and 12.11% of our deposits were denominated in dollars.

The following table presents financial information for our principal business segments for the year ended December 31, 2005.

	As of December 31, 2005 (in thousands of pesos)				
	Banking and Financial	Pension Fund Management	Insurance	Eliminations <sup>(1)</sup>	Total
Total assets	13,990,688	346,858	1,787,736	(141,534)	15,983,748
Total income <sup>(2)</sup>	2,222,450	334,138	482,760	(180,178)	2,859,170
Total expenses <sup>(3)</sup>	(2,124,334)	(317,265)	(463,394)	180,178	(2,724,815)
Gain / (Loss) on minority interest in subsidiaries	(2,850)	(7,843)	(6,458)		(17,151)
Total Net (Loss) / Income	95,266	9,030	12,908		117,204

(1) Includes intercompany operations.

(2) Includes: financial income, service charge income and other income.

(3) Includes: financial expenses, provision for loan losses, service charge expenses, operating expenses and income tax and tax on minimum presumed income.

Our branch system operates as a distribution network for all the products and services that we offer to our customers. Our 230 branches are complemented by other distribution channels, such as 527 automatic teller machines or ATMs, as of December 2005, a telephone banking service, which answered on average over 700,000 calls per month in 2005, and an Internet banking service called Francés Net, which serves over 166,000 active clients. We are a member of Banelco S.A., a corporation owned by seven partner banks, and that includes 18 participating banks, and our ATMs are part of the Banelco Network (Red Banelco). The customers of all the participating banks have access to the Banelco Network, which comprises over 3,393 ATMs throughout Argentina, approximately 16% of which belong to Banco Francés.

Our universal commercial strategy aims to achieve a leading position in all of different market segments.

### Banco Francés - Background

Since 1886, BBVA Banco Francés, previously known as Banco Francés del Río de la Plata S.A., has been recognized as a leading provider of financial services to large corporations. It was only in the early 1980's that we broadened our customer base to include medium and small companies as well as individual consumers. In response to demands from the corporate market and following the structural changes brought about by the stabilization process in Argentina since 1991, we added to our traditional commercial banking products a full range of services, such as investment banking, capital market transactions and international banking.

In the 1980's and 1990's in order to achieve a wider market penetration, we expanded our branch network by opening branches throughout Argentina.

In December 1996, when BBVA became our principal shareholder, we reaffirmed our universal banking strategy, with the goal of increasing the most profitable business segments of medium and low-income individuals and small and medium-size businesses in the middle market. To this end, in August 1997, we acquired 71.752% of Banco de Crédito Argentino (the "Crédito acquisition"), a retail bank focused on the middle market and consumer banking sectors. This merger allowed us to maximize the strengths of each bank and to implement an ambitious leadership plan that included an expansion plan - starting with a strong initial positioning in each market.

The liquidity crisis that started in December 2001 and the ensuing economic and political instability led to a deep contraction in the intermediation volume. In response, we changed our short-term commercial strategy toward the transactional business, adjusted our operating structure and implemented a strict cost control plan. Actions were also focused on recovering asset quality levels, which had been strongly impacted by the crisis. By mid-2003 the economy began to recover and we returned to offering the full range of financial services, including credit facilities, albeit restricted to short-term financing. Since 2004 we gradually strengthened our credit activity in the midst of economic solvency, and consolidated our transactional business. During fiscal year 2005 we kept our focus on the core business, reaffirming our leading position in the market in terms of deposits, strongly growing in private sector loans and achieving asset quality standards better than those previous to the crisis, while we maintained our strength in the transactional business. Meanwhile we carried out significant improvements in the assets and liabilities structure, including a reduction of public sector assets and the repayment of the financial assistance granted by the Central Bank, during 2002 crisis, which accrued a fixed interest rate plus CPI adjustment. Furthermore, most recently, we marked to market part of the National Government bonds, aiming to strengthening our financial conditions.

## Banking and Financial Services

Our financial condition and results of operations for the fiscal year 2005 we are still impacted by the effects of 2002 crisis. Following the strong contraction in financial activity and the redefinition of our commercial strategy toward the transactional business, as an alternative source of income since the second semester of 2003, we resumed our lending activity. During 2005 we reinforced our efforts on expanding our intermediation volume while we continued rendering banking services, which included cash management of means of payment (with emphasis on electronic means), the bank account services for transactional purposes and operation of credit cards and transactional deposit taking.

Credit facilities included short and medium-term financing, such as overdrafts on demand accounts, personal loans and credit card financing in the retail segment and notes discounted, working capital financing and investment-banking products, such as trustees, in the corporate segment.

In addition, the structural term and rate mismatch in assets and liabilities, caused by measures taken by the Government during 2002 and 2003, made our profitability strongly dependent on the relative behavior of the CPI vis-à-vis interest rates, because we have a long CER adjusted position. A significant part of the Bank's risk assets are variable rate assets, adjusted by CER plus an interest rate. Most liabilities accrue interest at a fixed rate except for certain discount loans granted to Banco Francés by the Central Bank – which were repaid last November 2nd, a Ps.306 million remaining portfolio of rescheduled deposits, known as CEDROS and new CPI adjusted time deposits, totaling Ps.1.5 billion as of December 31, 2005. Accordingly, during fiscal year 2005 we benefited from our long CER position in an environment of negative real interest rate, while we focused on rebuilding our private portfolio pursuing a medium long-term strategy. Furthermore, we also reduced our public sector exposure in order to comply with regulations that limit public sector holdings to 40% of total assets. Public sector loans decreased 33.26% - from Ps.6.9 billion in December 2004 to Ps.4.6 billion by the end of present fiscal year.

The following table sets forth our estimates of the relative proportions of loans and deposits attributable to our principal markets.

		Loans					
		December 31, 2005		December 31, 2004		December 31, 2003	
		(in thousands of pesos, except percentages)					
Public Sector		4,623,626	54.52%	6,927,719	74.73%	6,693,431	80.29%
Corporate		1,786,387	21.06%	1,093,271	11.80%	672,779	8.07%
Middle market		880,266	10.38%	462,995	5.00%	186,687	2.24%
Retail		1,191,197	14.04%	784,738	8.47%	783,456	9.40%
Total		8,481,476	100.00%	9,268,723	100.00%	8,336,353	100.00%

		Deposits					
		December 31, 2005		December 31, 2004		December 31, 2003	
		(in thousands of pesos, except percentages)					
Corporate		2,788,669	26.28%	2,712,696	30.16%	2,895,897	35.85%
Middle market		1,106,171	10.42%	1,023,288	11.38%	830,313	10.28%
Retail		6,718,246	63.30%	5,257,796	58.46%	4,352,006	53.87%
Total		10,613,086	100.00%	8,993,780	100.00%	8,078,216	100.00%

*Corporate Banking.* The Corporate Banking Division specializes in business with large international and domestic companies having minimum annual sales of Ps.75 million or companies that belong to an international group. This division has three branches dedicated to serving groups of companies from Argentina, Europe, and the United States and the rest of the world.

In the fiscal year 2005, BBVA Banco Francés consolidated its leadership in the corporate segment, reporting a remarkable performance in the lending activity as well as in the transactional business.

Following the favorable macroeconomic evolution and the increasing activity level in this market segment, the Corporate Banking division efficiently managed the needs and requirements of more than 750 customers. The total loan portfolio reached 1,786 million pesos, reflecting a 63.4% growth, which succeeded not only in satisfying market needs but also in creating demand.

It should be noted that such growth was attained with a strict control of the risk assumed and by the offer of different types of financing lines, such as export prefinancing programmes, structured financing transactions and working capital loans.



It is also worth mentioning the positive evolution of foreign trade business. In spite of the complex regulatory framework that characterized this business, our remarkable performance, turned the Bank into a reference for companies, both in terms of credit assistance and advisory service.

The Bank's capacity to generate transactional services, key to a model of full relation, is based on the geographical, domestic and regional coverage, and on an integrated supply of products and services. This business, which showed a significant growth in net fee income, reported a 42% increase in operating volume in the last year, also positions the Bank as the client's main entity.

*Capital Markets.* The restructuring of public debt in default carried out at the beginning of fiscal year 2005 impacted both in investment banking activity and in a further development of the capital market. The exchange offer, in which the Bank took part as regional lead manager for Argentina (together with Banco Nación Argentina and Banco de Galicia), encompassed 81,836 million dollars in securities held by residents and non-residents and achieved an acceptance rate of 76.15%. The level of bond swap under Argentine legislation was of 86.25%, and the value bonds swapped under the system of total clearing, pursuant to all legislations, totaled 23,701 million dollars.

The 2005 fiscal year featured lower capital markets activity. However, by the year end, Banco Francés launched the Fideicomiso Financiero Radar Series 5 ("Radar Series 5 Financial Trust") for a total of 841.2 million pesos. This trust was constituted by Préstamos Garantizados Global 2008 ("Global 2008 Secured Loans") from the Bank's Treasury. Lead managed and placed by the Bank in Argentina and by Citigroup, this turned out to be the highest issuance by a trust in 2005.

In the variable income or equity business, which registered lower activity this year, the Bank participated as advisor for Renault D.I.C. in the takeover bid over those shares of Renault Argentina S.A. not controlled by the Renault Group. The operation closed in December and the Renault Group reached 99.06% stockholding. BBVA Banco Francés and Francés Valores S.A. were lead manager and exchange agent, respectively.

During the fiscal year 2005 the Investment Banking Group continued to perform its financial advisory business, both in financial assessment for terms over one year or first-tier companies, as well as in the analysis of projects and in the business of financing Mergers and Acquisitions.

*Trading and Brokerage.* As of December 31, 2005, we routinely traded (on behalf of our customers and for our own account) corporate and Government bonds, money market instruments and foreign currency. In the fiscal year 2005, we were one of the most important brokers in the bond market through the MAE (Mercado Abierto Electrónico, an OTC market) and securities market through Francés Valores, an affiliate company registered in Mercado de Valores de Buenos Aires S.A. (MERVAL).

We typically earn both brokerage commissions and a spread on over-the-counter transactions, depending on the type of transaction involved. Our proprietary trading, as well as third party brokerage trading, is supported by research and analysis provided by our research department.

*Middle Market Banking.* The Middle Market division handles our relations with small and medium-sized companies, *i.e.*, those with annual sales of up to Ps.75 million. The Bank has the first network in Argentina specialized in serving the small and medium-sized company segment.

For the second consecutive year, small and medium-sized companies have shown increasing need for financing, both to cover their working capital requirements and to incorporate capital assets. Our Middle Market banking is supported by a 27-business unit structure dedicated to the exclusive service to small and medium-sized companies, has extended specialized service in response to the growing demand for credit and to requirements for transactional products of over 6,700 customers.

In this sense, our loan portfolio amounted to 880 million pesos, reporting an 90.12% interannual growth. Liabilities managed by the Bank showed, in turn, a 8.10% increase, reaching 1,106 million pesos.

The evolution of fees and foreign exchange trading also constituted key elements to management during 2005, reporting a 25% growth with respect to the level reached the previous year, totalling 66 million pesos.

Likewise, as in the previous year, the levels of activity in those segments linked to foreign trade and agriculture was prominent.

As to human resources, the whole commercial staff took part in the process of "certificación en riesgos" ("Risk Certification") implemented during the course of the year, and studied specialization and training in risk management in depth.

In turn, training continued in specific resources in the agricultural business and to foreign trade technical experts in business units in the interior of the country.

*Retail Banking.* The Retail Banking division is in charge of commercial relations with individuals and small companies.

As of December 31, 2005, this division served about 1.4 million individuals through a network of 230 branches. In late December 2005, intermediation volume accounted for over 8 billion pesos, with a 51.8% increase in loans and a 27.3% growth in deposits.

For the purpose of boosting growth in business on each market segment, Retail Banking employs a consolidated management model, articulated on the following main principles:

- Consistent customer focus with quality service and product innovation serving as the two main cornerstones of the value proposal.
- Permanent customer orientation, with an attitude towards service and strategic products as the two main pillars of the value proposal.

We continued to focus on innovation of strategic products with higher value and quality aiming to reinforce relationships with existing customers and to attract new customers and balancing the processes of efficient service and effective sales.

The following are our main operating items in 2005:

**Personal and Mortgage Loans:** The personal loans plan have been extended with improved credit support, by means of a personalized offer. Management was focused upon the Salary Plan segment lending up to five salaries, and with pre-approved mass commercial actions, which facilitate sales. Furthermore, we began to grant new loans through alternative channels, planning to expand such action to include our website in 2006.

In 2005 we were able to double our sales, to 290 million pesos, as well as our loan portfolio, which grew by 165 million pesos in the year.

As to Mortgage Loans, we consolidated and increased the set of products offered to cover all financing and purpose possibilities that may arise. This broad range of alternatives is called Flexible Mortgage. The financial system showed a decreasing trend in the stock of mortgages, which did not level out until the second quarter; however we were able to maintain our portfolio, representing a 150% growth in sales.

**Deposits:** In terms of deposit, throughout the year we have carried out different commercial actions, which led to an increase in portfolio of approximately 1,430 million pesos.

As a result, concrete commercial actions including 'El Libretón' were promoted, offering a variety of attractive prizes, and promoting saving campaigns, proving brand and product awareness and acceptability.

**Insurance:** In 2005, the insurance business broadened its offer to the segment of private customers and businesses, reinforcing its prominent position.

In car insurance, we worked in alliances with the main insurance companies in the country, being able to offer a better product in the market.

Besides the current products and according to the needs perceived, we provided thematic insurance together with our thematic cards, incorporated a provision for "cessation" and / or "unemployment" over account debit balances, credit cards, and loans and broadened our coverage of personal accident insurance.

**Payrolls:** One of the key products managed by the Bank has been the direct deposit of salary plans, which continued its growth and attracted more companies to utilize this service. This development positioned the Bank among the market leaders: as of December 2005, over 6,000 companies –with approximately 403,300 employees- credited their salaries through our branch office network.

**Vip BBVA:** The Banca Vip ("Vip Banking") division continued its positive trend and reinforced its presence in the high value segments of individual customers. In spite of the constant changes in the financial market, customers showed a favorable response

toward the tailor-made services offered by Banco Francés, including personalized contact and products with benefits. The segment grew 25%, amounting to 23,000 active customers at the end of the present fiscal year.

Among the commercial actions, the most prominent was Cuenta Premier, a set of tri-monetary accounts and two credit cards: Visa and MasterCard, with a further benefit of the Plan Puntos system over purchases made by either card (debit and/or credit) and the exclusive discount plan.

### **E-Banking:**

*ATMs:* As in previous years, we maintain a leading position over our competitors in the number of transactions through ATMs. Banco Francés holds the highest operational volume, reaching an annual average of 3.8 million transactions, mainly due to our high level of availability (95.5% on average), again leading the rest of the system.

During the present fiscal year Banca Automática (“Automated Banking”) satisfactorily passed the maintenance audit carried out by IRAM, thus ratifying its International Quality Certificate ISO9001:2000.

With respect to the transaction migration plan, the 670 Francés Autoservicio (Self-service) terminals played a fundamental role as a direct derivation channel for branches. These account for 12% of migrating cash transactions, improving 10% over last year.

Advertising on ATMs continued its success allowing for the spread of non-banking advertisements as well as those for own products, thus validating the service as an important tool for promotion.

*Internet - Francés Net:* Stemming from the high quality of internet service demanded by customers used to operating through this channel, Francés Net has registered the highest rates of acceptability and growth rate, reporting over 5 million monthly transactions made by more than 160,000 customers.

During 2005, 3.2 million pesos in investment transactions in shares, bonds, mutual funds and time deposits, transfers, payments and purchases were operated through ‘Tienda Virtual’. Purchases deserve a special mention, since this method is the first safe means of payment over the Internet through a debit account, allowing payment transactions online and providing total security in transactions.

During the last 12-month period transactions grew over 70%, from a total of 2.9 million to more than 5 million. This rate of growth is continuing with new clients joining as they discover the advantages of Home Banking as well as new transactions for all users.

**Means of payment:** The year 2005 saw the relaunching of means of payment in Banco Francés:

- The product was strongly promoted in the market through differentiation strategies. With a more aggressive investment in advertising and promotion campaigns, the Bank linked itself to chains dealing in household appliances, cell phones, fuel, clothing and supermarkets, to offer substantial discounts and interest-free installment-payment plans to those paying for their purchases by these means.
- Personalized activities (micromarketing) were carried out seeking to increase volume activity, average consumer spending and adherence of services to automatic debit.
- Several commercial strategies implying area discount plans were carried out in businesses with regional presence in the interior of the country.

An improvement in the product brought about an increase in sales and activity, in an extremely competitive market. Sales reached 85,000 plastic cards, 117% over last year, consumer spending increased 40% and the stock of active cards 25%.

*Credit Cards and Debit Cards:* Since the economic crisis of 2001, the first major credit product to regain acceptance was the credit card, which was easy for consumers to acquire and for financial institutions to sell. The economic jump of this product started in 2004 and steadfastly increased in 2005, with big players investing strongly in publicity and promotion. Debit cards were promoted along credit cards, as a way of increasing not only sales but also consumption volume.

Credit and debit cards generate income for the Bank in the form of renewal fees, maintenance fees, retailer transaction fees, merchant processing fees, and, in the case of credit cards, financing and penalty charges.

We issue mainly “Visa” and “MasterCard” credit cards, with the latter brand launched in 2005 to give our clients two strong options and increase the use of our credit cards, and debit-only cards (i.e. Visa Electron). We had a total credit card base of 783,966 as of December 31, 2005. We hold the third largest Visa card market share, gaining one position from 2004, with 10.48% of the consumption volume market and 10.00% in current credit cards. Our Visa Electron client base as of December 31, 2005 consists of approximately 1.16 million debit-only cards, representing 15.30% market share, and generates 19.35% of the consumption volume market making us the second largest player in that arena.

In 2005, we continued offering securities brokerage services to our individual clients whereby over-the-counter transactions are executed directly through us, and Stock Exchange related transactions through Francés Valores. We similarly offer the services of Francés Inversiones, a telephone banking advisory service, and Francés Net, an electronic service, through which our clients may conduct securities and other transactions. Although clients are not charged for these services, we collect fees for brokerage services performed on behalf of any customer.

*Trust Banking.* Since 1996, we have organized a wide variety of trusts for large, medium and small customers in the private sector, for governmental entities and for multilateral organizations. Our Trust Banking division excelled in organizing guarantee trust funds for export pre-financing, bringing together producers and investors. Trust banking transactions decreased 8.3% as compared to fiscal year 2004, generating an 11.1% drop in receivable fees. This decrease was due to the maturity of trust agreements, in especially with the Provincial Development Trust Fund. Our commercial strategy was focused on strengthening the synergies between the activities of the Trust Banking division and other banking activities, aiming to maximize profitability.

### **Asset and Pension Fund Management**

BBVA Banco Francés continued to be a reference in investments advisory services and management, whether directly through portfolio management or indirectly through the offer of Mutual Funds that are part of the group of funds known as the “FBA Management”.

#### *Mutual Funds*

Francés Administradora de Inversiones S.A, in its capacity of Fund Manager, continued during 2005 to manage FBA Management products. This resulted in good performance of investments both from individual and institutional customers, and for FBA products to rank in leading positions in terms of yield as compared to competitors, in the following categories: variable income funds Argentina (FBA Calificado), Latinamerican Flexible Dollar Fixed Income Funds (FBA Bonos) and Dollar Mixed Income (FBA Total).

The FBA family grew from an equity management of 521.52 million pesos at the end of 2004 to 799.86 million pesos upon the closing of 2005 fiscal year, with a market share of 7.21%<sup>(1)</sup> of total mutual funds.

In respect to fixed term funds, FBA Renta Pesos, which is the only fund that allows subscriptions and redemptions, ended the year with a net worth of 176.51 million pesos. Like in the previous fiscal year, the rest of the fixed term funds (FBA Ahorro Pesos, FBA Renta Dólares, FBA Ahorro Dólares) continued allowing only the redemption option all year round.

In mutual funds asset management, FBA Management Fondos de Mercado showed a significant growth: from Ps.325.09<sup>(1)</sup> million under management in December 2004 to Ps.595.55<sup>(1)</sup> million by 2005 year-end, with a 7.92%<sup>(1)</sup> market share. It should be noted that while total Market Funds showed an 82.89%<sup>(1)</sup> increase in net worth, during the period, the Market Funds of the FBA family increased their net worth by 149.53%<sup>(1)</sup>. Among the different funds, FBA Calificado had a remarkable performance ending with a 327.24 million pesos net worth compared to 195.42 million pesos in 2004. Likewise, FBA Horizonte increased its net worth from 10.57 million pesos in 2004 to 159.78 million pesos in December 2005.

As of December 31, 2005, our mutual funds had the following Net Asset Values:

<b>Name of Mutual Fund</b>	<b>Thousands of Pesos</b>
FBA Acciones Globales	41,821
FBA Total	11,839
FBA Renta	15,817
FBA Renta Pesos	176,512
FBA Renta Dólares	4,761
FBA Bonos	9,780
FBA Calificado	327,246
FBA International	526
FBA Ahorro Dólares	15,443
FBA Ahorro Pesos	550
FBA Renta Fija	24,452
FBA Renta Premium	8,952
FBA Horizonte	159,783
FBA Europa	1,031
FBA EE.UU.	781
FBA Renta Corto Plazo	567
<b>Total</b>	<b>799,861</b>

<sup>(1)</sup> Source: "Cámara Argentina de Fondos Comunes de Inversión"

### *Portfolio Management*

During the 2005 fiscal year, Banco Francés renewed its commitment to customized portfolio management, an exclusive service for companies and high-income individuals, by providing professional and efficient investment management, tailored to each customer's particular needs and investor profile.

Financial institutions and insurance companies are permitted to invest in pension and retirement fund management companies in Argentina. Such funds, which are modeled after those currently in existence in Chile, are funded strictly by pension and retirement contributions made by Argentine employees. As of December 31, 2005, we owned 53.89% of Consolidar AFJP, a pension fund manager that is operated jointly with BBVA. As of December 31, 2005, Consolidar AFJP managed Ps.12.8 billion in pension fund holdings (with a 18.81% market share in collections).

### **Insurance**

We provide advisory services to our customers in the selection of the adequate coverage of risks related to life, personal accident and home insurance and ATM's theft insurance, with a range of products offered by certain insurance companies.

Additionally, as part of our overall business, we have equity interests in some of the following companies: 12.22% of the capital stock of BBVA Seguros S.A., 65.96% of Consolidar Compañía de Seguros de Vida S.A. (a company that offers life insurance to the persons with retirement accounts at Consolidar AFJP), 66.67% of Consolidar Compañía de Seguros de Retiro S.A. (a company that offers retirement plans) and 12.5% of Consolidar ART S.A. (a workers compensation insurance company that offers labor risk insurance to corporations pursuant to a statutory framework established by the Labor Risks Law). BBVA holds the remaining shares in these four companies.

At December 31, 2005, Consolidar Retiro reached a 22.81% market share in the number beneficiaries. Labor risk insurance provider, Consolidar ART increased its insured clients from 56,535 companies and 794,021 employees in December 2004 to 62,442 companies and 865,867 employees by 2005 year-end (equivalent to a 10.45% and 9.05% respective growth).

### **International Operations**

Since the economic and financial crisis that started at the end of year 2001 the access to international markets for Argentine companies have been very limited.

Notwithstanding this constraint we have been able to assist our clients with traditional foreign trade services, including letters of credit, collections, bank drafts, fund transfers and foreign currency transactions.

During fiscal year 2005 we have signed an agreement with Inter American Development Bank (IADB) that will guarantee trade related transactions up to three years. Also we have signed a similar program with International Finance Corporation (IFC) with similar characteristics. As of the end of fiscal year 2005 BBVA Banco Francés was the only Argentine bank to have signed such agreements.

These aforementioned agreements signify our confidence in our ability to assist and service the increasing demand for imports of capital goods.

#### *Cost Controls and Efficiency Improvements*

During fiscal year 2005, we continued to maintain a strict control on administrative expenses, keeping expenses in line with the inflation target for the period. Leveraged by increasing recurrent earnings, we were able to substantially improve the efficiency ratio (measured as administrative expenses over ordinary margin) lower than 50%.

Furthermore, our corporate guidelines include an efficiency follow-up model that was applied during 2005 to strictly control immobilized assets as well as the reinvestment of assets not related to the business.

The following table shows the revenue derived from the business areas described above for the fiscal years ended December 31, 2005, 2004 and 2003:

	As of December 31, 2005							
	Banking Financial							
	BBVA Banco Francés S.A.	Credilogros Cía. Financiera S.A.	PSA Finance S.A.	Total	Pension Fund Manager	Insurance	Eliminations	Total
Total assets	13,839,847	86,734	64,107	13,990,688	346,858	1,787,736	(141,534)	15,983,748
Financial income	1,412,036	27,469	3,093	1,442,598	40,067	183,627	(12,140)	1,654,152
Service charge income and other income	757,620	16,267	5,965	779,852	294,071	299,133	(168,038)	1,205,018
Total income <sup>(1)</sup>	2,169,656	43,736	9,058	2,222,450	334,138	482,760	(180,178)	2,859,170
Financial expenses	(617,332)	(3,551)	(79)	(620,962)	(124)	(3)	12,140	(608,949)
Allowances for doubtful loans	(109,265)	(4,970)	(393)	(114,628)	-	-	-	(114,628)
Operating expenses	(564,742)	(24,751)	(2,550)	(592,043)	(141,146)	(44,302)	1,656	(775,835)
Other expenses	(791,684)	(3,703)	(1,314)	(796,701)	(175,995)	(419,089)	166,382	(1,225,403)
Total expenses <sup>(2)</sup>	(2,083,023)	(36,975)	(4,336)	(2,124,334)	(317,265)	(463,394)	180,178	(2,724,815)
Loss on minority interest in subsidiaries	(1)	(1,850)	(999)	(2,850)	(7,843)	(6,458)	-	(17,151)
Total net income / (loss)	86,632	4,911	3,723	95,266	9,030	12,908	-	117,204

	As of December 31, 2004							
	Banking Financial							
		Credilogros Cía.						
	BBVA Banco Francés S.A.	Financiera S.A.	PSA Finance S.A.	Total	Pension Fund Manager	Insurance	Eliminations	Total
Total assets	14,275,608	98,603	29,119	14,403,330	311,420	1,545,654	(218,732)	16,041,672
Financial income	951,586	23,915	1,251	976,752	35,812	148,700	(6,439)	1,154,825
Service charge income and other income	675,257	14,191	1,340	690,788	245,905	514,454	(136,887)	1,314,260
Total income <sup>(1)</sup>	1,626,843	38,106	2,591	1,667,540	281,717	663,154	(143,326)	2,469,085
Financial expenses	(461,014)	(1,727)	(64)	(462,805)	(1,642)	(352)	6,439	(458,360)
Allowances for doubtful loans	(49,464)	(2,260)	(278)	(52,002)	-	-	-	(52,002)
Operating expenses	(474,568)	(26,907)	(2,018)	(503,493)	(133,296)	(44,143)	1,103	(679,829)
Other expenses	(719,669)	(5,495)	(383)	(725,547)	(141,392)	(588,884)	135,784	(1,320,039)
Total expenses <sup>(2)</sup>	(1,704,715)	(36,389)	(2,743)	(1,743,847)	(276,330)	(633,379)	143,326	(2,510,230)
Loss on minority interest in subsidiaries	(7)	(779)	505	(281)	(2,484)	(10,136)	-	(12,901)
Total net income / (loss)	(77,879)	938	353	(76,588)	2,903	19,639	-	(54,046)

As of December 31, 2003

	Banking Financial					Pension Fund Manager	Insurance	Eliminations	Total
	BBVA Banco Francés S.A.	BBVA Francés (Cayman) Ltd.	Credilogros Cía. Financiera S.A.	PSA Finance S.A.	Total				
Total assets <sup>(3)</sup>	12,248,072	2,506,379	54,992	11,846	14,857,289	298,830	1,332,840	(131,120)	16,357,839
Financial income	1,163,181	563,068	10,628	600	1,737,477	46,580	118,211	(19,032)	1,883,236
Service charge income and other income <sup>(3)</sup>	1,094,203	89,612	22,230	147	1,206,192	186,902	342,025	(82,995)	1,652,124
Total income <sup>(1)</sup>	2,257,384	652,680	32,858	747	2,943,669	233,482	460,236	(102,027)	3,535,360
Financial expenses	(1,181,831)	(468,884)	(10,540)	(1,709)	(1,662,964)	(12,925)	(54,436)	19,032	(1,711,293)
Allowances for doubtful loans	(73,203)	-	(4,164)	(139)	(77,506)	-	-	-	(77,506)
Operating expenses	(539,465)	(6,155)	(23,165)	(1,713)	(570,498)	(105,906)	(35,655)	652	(711,407)
Other expenses <sup>(3)</sup>	(972,796)	(2,985)	(5,114)	(284)	(981,179)	(95,052)	(395,347)	82,343	(1,389,235)
Total expenses <sup>(2)</sup>	(2,767,295)	(478,024)	(42,983)	(3,845)	(3,292,147)	(213,883)	(485,438)	102,027	(3,889,441)
Gain on minority interest in subsidiaries <sup>(3)</sup>	-	-	3,027	1,812	4,839	(8,065)	8,070	-	4,844
Net monetary loss	1,548	-	(100)	(195)	1,253	(2,099)	(245)	-	(1,091)
Total net income / (loss)	(508,363)	174,656	(7,198)	(1,481)	(342,386)	9,435	(17,377)	-	(350,328)

(1) Includes: financial income, service charge income and other income.

(2) Includes: financial expenses, provision for loan losses, service charge expenses, operating expenses, other expenses and income tax.

(3) Restated from its original version to apply the adjustments to prior years income to these Consolidated Financial Statements relating to Argentine Central Bank regulations (see Note 3.5.18. to the Consolidated Financial Statements).

## Information technology

During the year 2005, we focused on four main subjects:

- Update of the whole technological infrastructure at branch offices,
- Biannual plan for the updating and upgrading of the central technological infrastructure, including high, middle and low platforms.
- Strong support to the business during the launch of products, and
- Corporate projects related to internal control and risk management.

As for the 2002 crisis, in a setting in which the financial sector was adversely affected, the Bank concentrated on dealing with the crisis and holding down costs; this led to the postponement of infrastructure update projects.

In view of the clear recovery in the levels of activity and profitability registered since 2004, the launching of a significant number of technological updating projects was reconsidered. These projects were already necessary to ensure operating continuity and go along with growth in business.

The most important project taken up this year was the update of the whole technological infrastructure at our branches, which includes communications, servers, user desktop and peripherals. This project not only involves the change of hardware, but also the implementation of a new and completely innovative technological architecture and the replacement of existing proprietary terminals with ones in compliance with JAVA standards. Some of the benefits associated with its implementation are:

- Substantially improved efficiency, with significant reduction in processing time at branches,
- Reduction of equipment maintenance costs,
- Cost savings on software leases,
- Improved information security,
- Higher availability in jobs,

- Facilitates implementation of new applications and tools, and
- Lays the foundations for further incorporation of technology into the processes of branches.

In the first semester of 2006, deployment of new technology will be completed at all branches.

An ambitious biannual plan gained momentum during 2005, which consisted of updating and expanding the of central processing resources of high, middle and low platforms.

Among the main actions implemented are:

- Extension of processing capacity of Mainframe.
- Change in storage technology and extension of its capacity.
- Reengineering of intermediate platform with SUN technology.
- High availability for Windows-Intel platform.
- Changes in communication infrastructure.

Actions regarding the support of business areas

- The sales process flow was automated, which will allow decentralization of product provisioning over the branches networks,
- Alternative channels were given new and significant functionality,
- The mass sale process was redesigned,
- Continued implementation of document digitalization technology for various processes,
- Optimized foreign trade business using image technology and strengthened transactions available over Francés Net,
- Full reengineering of the net collection system,
- Deployed NetCash (a new corporate product for banking over the Internet), and
- Continued progress on relaunching the following products:
  - Credit cards (models and processes)
  - Mortgage loans
  - Insurance
  - Foreign currency (processes, accounts, channels, costs)
  - New financial products



In terms of internal control and risk management, the year was marked by the continuation of large corporate projects, which have entered into more advanced stages:

- Sarbanes Oxley
- Basle II – RAR
- Business Continuity Plan
- Prevention of money laundering

Lastly, also worthy of mention is the realization of infrastructure to facilitate growing commercial plans (opening of branches, remodeling, Mortgage center, banca Vip), and the construction of new facilities to house and protect the magnetic media of the Computing Center

## **ORGANIZATIONAL STRUCTURE**

### **Banco Bilbao Vizcaya Argentaria S.A. (BBVA)**

As of December 31, 2005 and 2004, BBVA owned approximately 75.59% and 75.97%, respectively, of Banco Francés' capital stock.

BBVA is the result of a merger by absorption of Argentaria, Caja Postal y Banco Hipotecario, S.A., formerly a Spanish retail banking, asset management and insurance provider, into Banco Bilbao Vizcaya, S.A. The merger was approved by the shareholders of both institutions on December 18, 1999. As of December 31, 2005, BBVA, through its subsidiaries, has a presence in 14 American countries and several countries throughout Europe, with 3,578 branch offices in Spain and 3,832 branch offices outside Spain, and 31,154 employees in Spain and 63,527 employees outside of Spain.

BBVA is a global financial group, organized in four major business areas: Retail Banking in Spain and Portugal, Wholesale and Investment Banking, Banking in America (includes Mexico) and Corporate Activities.

The tangible benefits provided by the BBVA Group to the Bank are the following:

- Sharing of technology;
- Development of new banking products that have been customized for the Argentine market;
- Leveraging BBVA's global client relationships to serve those clients operating in Argentina; and
- BBVA's participation in Banco Francés as a shareholder is both long term and strategic.

### **Subsidiaries of Banco Francés**

We conduct our securities trading operations on the BCBA through our brokerage affiliate, Francés Valores Sociedad de Bolsa S.A., or Francés Valores. Among other subsidiaries engaged in a range of financial businesses, it is important to mention Consolidar AFJP, a pension fund administrator, which as of December 31, 2005, managed Ps.12.8 billion in pension fund holdings, with a 18.83% market share in collections in Argentina. Banco Francés currently has a 53.89% equity interest in Consolidar AFJP, with the remaining interest held by BBVA.

Until recently we provided certain financial services to customers in the lower-income segment through our subsidiary Credilogros. On March 9, 2005 we entered into sale-purchase agreement with Banco de Servicios y Transacciones and Grupo de Servicios y Transacciones S.A., whereby we sold our equity investment in Credilogros. Prior to that transaction, the capital stock structure of Credilogros, as of December 31, 2005, was as follows:

Banco Francés	69.5271%
Banco Bilbao Vizcaya Argentaria S.A.	29.9475%
Inversora Otari S.A.	0.5254%

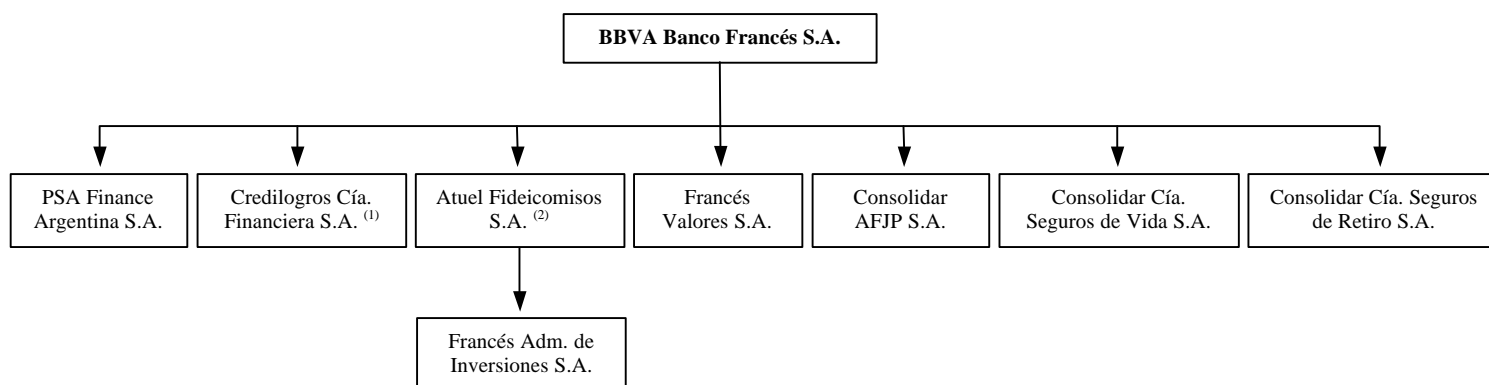
Rombo Compañía Financiera S.A., with a single branch located in Buenos Aires, grants loans on the retail market to finance the purchase of new and second hand cars offered by the Renault dealership network. During 2005, total transactions increased from 4,468 to 7,174, with total financing – including leasing operations - amounting to approximately Ps.100 million. Out of total transactions, 320 correspond to financing the purchase of Nissan cars, 717 to second hand cars and the remaining 6,010 to Renault cars. We hold a 40% equity interest in this company, which capital stock consists of 20,000,000 shares of common stock with a par value of Ps.1 each.

PSA Finance is located in Buenos Aires. This financial entity was organized in 2001 and its original shareholders were Credilogros Compañía Financiera S.A. (50%) and Banque PSA Finance (50%), a company owned by the PSA French group. The company's business is to finance brand new Peugeot and Citroën vehicles, as well as second-hand vehicles of all brands, through motor-vehicle secured loans or leasing transactions. On October 31, 2003, subject to the approval of the Central Bank, Banco Francés acquired 50% of the shares of PSA Finance from Credilogros for Ps.11.9 million and the latter settled the call received from Banco Francés for a total of Ps.11.7 million plus interest.

Until March 2004, we offered financial services in the Cayman Island through Banco Francés (Cayman) Ltd. On March 18, 2004 we sold our interest in Banco Francés (Cayman) Ltd. to BBVA.

Until May 2002, we offered financial services in Uruguay through BBVA Uruguay. On May 13, 2002 we sold our 60.88% interest in BBVA Uruguay to BBVA.

The following chart reflects Banco Francés's subsidiaries as of December 31, 2005:



(1) The Bank sold its entire equity interest in Credilogros Compañía Financiera S.A. to Banco de Servicios y Transacciones S.A and Grupo de Servicios y Transacciones in March 2005 (see Note 1.4. to the Consolidated Financial Statements).

(2) On February 4, 2004, Atuel Fideicomisos S.A. acquired 95% of the capital stock of Francés Administradora de Inversiones S.A. from Banco Francés (Cayman) Limited.

The following information is related to subsidiaries and affiliates as of December 31, 2005:

Subsidiary or Associated Company	Country of Incorporation/ Residence	Banco Francés Ownership and Voting Power	Principal Activity	Stockholders' Equity (in millions of pesos) (4)
Atuel Fideicomisos S.A. and subsidiary <sup>(1)(3)</sup>	Argentina	99.99%	Trust services	13.5
			Stock exchange	
Francés Valores Sociedad de Bolsa S.A. <sup>(1)(3)</sup>	Argentina	99.97%	brokerage	8.7
Credilogros Compañía Financiera S.A. <sup>(1)(3)</sup>	Argentina	69.53%	Financial Institution	38.8
Consolidar Cía. de Seguros de Retiro S.A. <sup>(1)(3)</sup>	Argentina	66.67%	Insurance	46.7
Consolidar Seguros de Vida S.A. <sup>(1)(3)</sup>	Argentina	65.96%	Insurance	82.7
			Pension and Retirement	
Consolidar AFJP S.A. <sup>(1)(3)</sup>	Argentina	53.89%	Fund Administrators	263.2
PSA Compañía Financiera S.A. <sup>(1)(3)</sup>	Argentina	50.00%	Financial Institution	24.1
Rombo Compañía Financiera S.A. <sup>(3)</sup>	Argentina	40.00%	Financial Institution	30.2
			Workers Compensation	
Consolidar ART S.A. <sup>(3)</sup>	Argentina	12.50%	Insurance	151.9
BBVA Consolidar Seguros S.A. <sup>(3)</sup>	Argentina	12.22%	Insurance Company	43.7
Assurex S.A. <sup>(2)</sup>	Argentina	12.50%	Insurance Broker	0.1

(1) For information regarding the number of shares we hold in such entities, see Note 2. to the Consolidated Financial Statements.

(2) Total stockholders' equity as of June 30, 2002.

(3) Total stockholders' equity as of December 31, 2005.

(4) Statutory Stockholders' Equity, adjusted for purposes of consolidation so as to apply an accounting criterion being uniform with that of Banco Francés, if applicable.

## Equity Investments

The following are all positions that we hold in non-financial institutions wherever such a position represented an ownership in excess of 2% of the invested companies' equity as of December 31, 2005.

Investment	Country	% of Shares Owned	Principal Activity	Total Stockholders' Equity (in millions of pesos)
Coelsa S.A. <sup>(1)</sup>	Argentina	10.00%	Clearing house	1.5
Interbanking S.A. <sup>(1)</sup>	Argentina	9.09%	Information services for financial markets	12.3
Argencontrol S.A. <sup>(2)</sup>	Argentina	7.71%	Agent Mandatary	0.9
Sedesa S.A. <sup>(1)</sup>	Argentina	8.12%	Deposit Guarantee Fund	11.8
Banelco S.A. <sup>(4)</sup>	Argentina	11.43%	Nationwide ATM network & credit card	
			Adminstration	48.4
Visa Argentina S.A. <sup>(3)</sup>	Argentina	5.00%	Credit card issuer	23.2
AIG Latin American Fund <sup>(5)</sup>	Virgin Islands	19.48%	Investment Funds	27.6

(1) Total Stockholders' Equity as of December 31, 2004.

(2) Total Stockholders' Equity as of December 31, 2003.

(3) Total Stockholders' Equity as of May 31, 2005.

(4) Total Stockholders' Equity as of November 30, 2005.

(5) Total Stockholders' Equity as of December 31, 2000. The Bank maintains an allowance for the 100% of the amounts.

## PROPERTY, PLANTS AND EQUIPMENT

Banco Francés is domiciled in Argentina and has its principal executive offices at Reconquista 199, C1003ABB Buenos Aires, Argentina. The principal executive offices, which we own, are approximately 16,000 square meters in area.

At December 31, 2005, our branch network consisted of 230 branches, of which 114 were located in properties that we own and 116 were located in properties leased to us. The branches are located throughout all of the 23 Argentine provinces as well as the City of Buenos Aires.

## SELECTED STATISTICAL INFORMATION

The following information is included for analytical purposes and should be read in conjunction with the Consolidated Financial Statements as well as “*Operating and Financial Review and Prospects*”. This information has been prepared from our financial records, which are maintained in accordance with the regulations established by the Central Bank and do not reflect adjustments necessary to state the information in accordance with U.S. GAAP. See Note 17. to the Consolidated Financial Statements for a summary of the significant differences between Argentine Banking GAAP and U.S. GAAP.

The dollar-denominated assets and liabilities reflect balances held by Banco Francés and Banco Francés (Cayman) Ltd. (for fiscal years ended up to December 2003). Banco Francés (Cayman) Ltd operated exclusively in dollars, while Banco Francés operates both in dollars and in pesos.

### Average Balance Sheets and Income From Interest-Earning Assets and Interest-Bearing Liabilities

For the fiscal year ended December 31, 2003, the average balances of interest-earning assets and interest-bearing liabilities, including the related interest earned or paid, was calculated on a monthly basis restated into February 2003 pesos in the case of the financial information of Banco Francés and its Argentine subsidiaries. Average balances have been separated between those denominated in pesos and in dollars.

For the fiscal years ended December 31, 2004 and 2005, the average balances of interest-earning assets and interest-bearing liabilities, including the related interest earned or paid, were calculated on a monthly basis in the case of the financial information of Banco Francés and its Argentine subsidiaries. Average balances have been separated between those denominated in pesos and in dollars.

The nominal interest rate is the amount of interest earned or paid during the period divided by the related average balance.

The nominal average rates for each fiscal year were converted to average real rates as follows:

$$R_p = \frac{1 + N_p}{1 + I} - 1 \quad R_d = \frac{(1 + N_d)(1 + D)}{1 + I} - 1$$

Where:

R<sub>p</sub>: real average rate for Argentine peso-denominated (in the case of Banco Francés), assets and liabilities of Banco Francés ,

R<sub>d</sub>: real average rates for dollar-denominated assets and liabilities of Banco Francés and Banco Francés (Cayman) Ltd ,

N<sub>p</sub>: nominal peso average rate in peso-denominated (in the case of Banco Francés), assets and liabilities for the period;

N<sub>d</sub>: nominal dollar average rate in dollar-denominated assets and liabilities for the period;

D: devaluation rate of the Argentine peso (in the case of Banco Francés), to the dollar for the period; and

I: Argentine inflation rate (WPI) (in the case of Banco Francés).

The formula for the average real rates for dollar-denominated assets and liabilities (R<sub>d</sub>), when compared with the corresponding nominal rates, reflects the loss, or gain, in purchasing power of the dollar caused by the difference between peso, devaluation and inflation in Argentina, for each period.

Included in interest earned are the net gains on our portfolio of Government securities and related differences in market quotations. We manage our trading activities in Government Securities as an integral part of our business. We do not, as a matter of practice, distinguish between interest income and gain or loss on our Government Securities portfolio. Non-accrual loans have been included in the related average loan calculation.

Negative interest rates in real terms occur in periods when the inflation rate in each country exceeds the nominal interest rate in pesos or exceeds the combination of the nominal interest rate on dollar-denominated assets or liabilities and the devaluation rate.

The following illustrates the calculation of the real interest rate in pesos for a dollar-denominated asset yielding a nominal annual interest rate of 20.0% ( $N_d=0.20$ ) using different combinations of devaluation and inflation rates. If devaluation is 15.0% per annum ( $D=0.15$ ) and inflation runs at a rate of 25.0% per annum ( $I=0.25$ ), the result is as follows:

$$R_d = \frac{(1+0.20)(1+0.15)}{1+0.25} - 1 = 10.4\% \text{ per annum}$$

which in this case means that, because inflation exceeds devaluation, the real interest rate in pesos is less than the nominal interest rate in dollars. In this example, if the devaluation rate had been 30.0% per annum, and the other assumptions had remained the same, then the real interest rate in pesos would have been 24.8% per annum, which is more than the nominal interest rate in dollars. If the inflation rate were to exceed 38.0% per annum, then the real interest rate in pesos on this dollar denominated asset would become negative.

## Average Balance Sheets, Interest Earned on Interest-Earning Assets and Interest Paid on Interest-Bearing Liabilities

The following tables show average balances, interest amounts and real rates for our interest-earning assets and interest-bearing liabilities for the fiscal years ended December 31, 2005, 2004 and 2003. Average balances do not include the adjustments to prior years income (loss) mentioned in Note 3.5.18. to the Consolidated Financial Statements. These adjustments do not have an impact on Interest-earning assets or Interest-bearing liabilities.

	Fiscal Years ended December 31,								
	2005			2004			2003		
	Average balance <sup>(1)</sup>	Interest earned/ paid	Average real rate <sup>(2)</sup>	Average balance <sup>(1)</sup>	Interest earned/ paid	Average real rate <sup>(2)</sup>	Average balance <sup>(1)</sup>	Interest earned/ paid	Average real rate <sup>(2)</sup>
	(in thousands of pesos, except percentages)								
ASSETS									
Interest-earning assets									
Government securities <sup>(3)</sup>									
Pesos	2,103,943	207,703	(0.65)%	1,060,651	170,136	7.53%	770,114	69,593	6.87%
Dollars	542,603	6,242	(6.76)%	870,829	33,282	0.13%	2,244,896	5,454	(44.00)%
Total	2,646,546	213,945	(1.90)%	1,931,480	203,418	4.19%	3,015,010	75,047	(31.00)%
Loans <sup>(4)</sup>									
Private Sector									
Pesos	2,640,539	304,134	0.84%	1,680,780	229,900	5.34%	1,271,305	227,591	15.56%
Dollars	695,066	37,074	(2.90)%	496,364	26,471	1.59%	907,028	34,459	(42.01)%
Total	3,335,605	341,208	0.06%	2,177,144	256,371	4.48%	2,178,333	262,050	(8.41)%
Public Sector									
Pesos	6,150,407	899,429	3.65%	6,561,812	555,672	0.51%	7,065,043	533,892	5.42%
Dollars	49,099	—	—	—	—	—	138,936	11,615	(39.46)%
Total	6,199,506	899,429	3.62%	6,561,812	555,672	0.51%	7,203,979	545,507	4.55%
Deposits with the Central Bank									
Pesos	729,166	17,434	(7.41)%	108,931	643	(6.79)%	942,216	8,723	(1.08)%
Dollars	431,764	7,927	(6.13)%	—	—	—	—	—	—
Total	1,160,930	25,361	(6.94)%	108,931	643	(6.79)%	942,216	8,723	(1.08)%
Other assets									
Pesos	1,164,771	85,821	(2.91)%	787,658	44,587	(2.09)%	456,619	52,335	9.25%
Dollars	101,121	15,422	6.24%	262,881	16,666	2.56%	324,895	37,295	(37.72)%
Total	1,265,892	101,243	(2.18)%	1,050,539	61,253	(0.93)%	781,514	89,630	(10.28)%
Total interest-earning assets									
Pesos	12,788,826	1,514,521	1.13%	10,199,832	1,000,938	1.76%	10,505,297	892,134	6.34%
Dollars	1,819,653	66,665	(4.44)%	1,630,074	76,419	0.97%	3,615,755	88,823	(42.76)%
Total	14,608,479	1,581,186	0.44%	11,829,906	1,077,357	1.65%	14,121,052	980,957	(6.24)%

**Fiscal Years ended December 31,**

	<b>2005</b>			<b>2004</b>			<b>2003</b>		
	<b>Average balance <sup>(1)</sup></b>	<b>Interest earned/ paid</b>	<b>Average real rate <sup>(2)</sup></b>	<b>Average balance <sup>(1)</sup></b>	<b>Interest earned/ paid</b>	<b>Average real rate <sup>(2)</sup></b>	<b>Average balance <sup>(1)</sup></b>	<b>Interest earned/ paid</b>	<b>Average real rate <sup>(2)</sup></b>
	<b>(in thousands of pesos, except percentages)</b>								
<b>Non interest-earning assets</b>									
Cash and due from banks									
Pesos	323,807	—	—	1,000,398	—	—	189,076	—	—
Dollars	315,285	—	—	630,871	—	—	400,202	—	—
Total	639,092	—	—	1,631,269	—	—	589,278	—	—
Investments in other companies									
Pesos	62,218	—	—	295,773	—	—	49,004	—	—
Dollars	783	—	—	—	—	—	786	—	—
Total	63,001	—	—	295,773	—	—	49,790	—	—
Property and equipment and miscellaneous and intangible assets and items pending of allocation									
Pesos	1,201,801	—	—	1,427,228	—	—	1,438,254	—	—
Total	1,201,801	—	—	1,427,228	—	—	1,438,254	—	—
Allowance for loan losses									
Pesos	(172,559)	—	—	(192,320)	—	—	(645,982)	—	—
Dollars	(69,057)	—	—	(161,137)	—	—	(351,663)	—	—
Total	(241,616)	—	—	(353,457)	—	—	(997,645)	—	—
Other assets									
Pesos	541,249	—	—	275,729	—	—	809,324	—	—
Dollars	63,143	—	—	65,698	—	—	71,991	—	—
Total	604,392	—	—	341,427	—	—	881,315	—	—
Total non interest-earning assets									
Pesos	1,956,516	—	—	2,806,808	—	—	1,839,676	—	—
Dollars	310,154	—	—	535,432	—	—	121,316	—	—
Total	2,266,670	—	—	3,342,240	—	—	1,960,992	—	—
<b>TOTAL ASSETS</b>									
Pesos	14,745,342	—	—	13,006,640	—	—	12,344,973	—	—
Dollars	2,129,807	—	—	2,165,506	—	—	3,737,071	—	—
Total	16,875,149	—	—	15,172,146	—	—	16,082,044	—	—

(1) Average Balances are derived from month-end balances.

(2) Annualized on a 360-day basis.

(3) Includes trading gains and losses in all fiscal years. Unrealized gains and losses arising from changes in the market value of our trading portfolio of Government Securities and yield on our investment portfolio of Government Securities are included.

(4) Loan amounts are stated before deduction of the allowance for loan losses. Non-accrual loans are included in loans as interest-earning assets.

**Fiscal Years ended December 31,**

	<b>2005</b>			<b>2004</b>			<b>2003</b>		
	<b>Average balance <sup>(1)</sup></b>	<b>Interest earned/ paid</b>	<b>Average real rate <sup>(2)</sup></b>	<b>Average balance <sup>(1)</sup></b>	<b>Interest earned/ paid</b>	<b>Average real rate <sup>(2)</sup></b>	<b>Average balance <sup>(1)</sup></b>	<b>Interest earned/ paid</b>	<b>Average real rate <sup>(2)</sup></b>
	<b>(in thousands of pesos, except percentages)</b>								
<b>LIABILITIES</b>									
<b>Interest-bearing liabilities</b>									
Savings accounts									
Pesos	2,189,515	5,536	(9.35)%	2,061,226	10,652	(6.86)%	733,310	4,226	(1.42)%
Dollars	583,270	379	(7.76)%	363,986	306	(3.47)%	273,838	1,582	(43.81)%
Total	2,772,785	5,915	(9.01)%	2,425,212	10,958	(6.35)%	1,007,148	5,808	(12.95)%
Time deposits									
Pesos	4,852,674	332,452	(3.38)%	3,972,531	176,391	(3.22)%	4,563,821	475,201	8.22%
Dollars	379,025	4,244	(6.79)%	195,105	1,925	(2.60)%	454,065	5,695	(43.43)%
Total	5,231,699	336,696	(3.63)%	4,167,636	178,316	(3.19)%	5,017,886	480,896	3.54%
Borrowing from the Central Bank									
Pesos	1,247,803	171,537	2.86%	1,947,353	170,252	0.77%	2,167,645	123,675	3.60%
Dollars	1,503	3	(7.63)%	2,272	21	(2.66)%	2,907	124	(41.75)%
Total	1,249,306	171,540	2.84%	1,949,625	170,273	0.76%	2,170,552	123,799	3.54%
Borrowings from other financial institutions									
Pesos	38,267	1,483	(6.07)%	67,013	1,727	(4.95)%	127,074	11,096	6.57%
Dollars	257,832	13,373	(3.04)%	469,015	13,690	(0.74)%	1,443,772	59,732	(41.82)%
Total	296,099	14,856	(3.43)%	536,028	15,417	(1.27)%	1,570,846	70,828	(37.91)%
Corporate Bonds									
Pesos	—	—	—	8,573	1,232	5.98%	17,205	2,043	9.65%
Dollars	317,516	15,612	(3.29)%	406,627	10,929	(0.96)%	465,590	17,451	(42.04)%
Total	317,516	15,612	(3.29)%	415,200	12,161	(0.82)%	482,795	19,494	(40.20)%
Other liabilities									
Pesos	391,081	31,522	(2.29)%	528,554	25,426	(2.88)%	707,313	15,563	0.17%
Dollars	37,018	43	(7.71)%	143,762	2,318	(2.00)%	399,434	6,820	(43.18)%
Total	428,099	31,565	(2.76)%	672,316	27,744	(2.69)%	1,106,747	22,383	(15.48)%
Total Interest-bearing liabilities									
Pesos	8,719,340	542,530	(3.95)%	8,585,250	385,680	(3.17)%	8,316,368	631,804	5.46%
Dollars	1,576,164	33,654	(5.85)%	1,580,767	29,189	(1.77)%	3,039,606	91,404	(42.45)%
Total	10,295,504	576,184	(4.24)%	10,166,017	414,869	(2.96)%	11,355,974	723,208	(7.37)%



Fiscal Years ended December 31,

	2005			2004			2003		
	Average balance <sup>(1)</sup>	Interest earned/ paid	Average real rate <sup>(2)</sup>	Average balance <sup>(1)</sup>	Interest earned/ paid	Average real rate <sup>(2)</sup>	Average balance <sup>(1)</sup>	Interest earned/ paid	Average real rate <sup>(2)</sup>
(in thousands of pesos, except percentages)									
<b>Non-interest bearing liabilities and Stockholders' equity</b>									
Demand accounts									
Pesos	1,636,017	—	—	1,122,143	—	—	791,205	—	—
Dollars	13,007	—	—	5,578	—	—	1,306	—	—
Total	1,649,024	—	—	1,127,721	—	—	792,511	—	—
Other liabilities									
Pesos	2,789,191	—	—	2,100,406	—	—	1,865,066	—	—
Dollars	210,525	—	—	180,886	—	—	90,733	—	—
Total	2,999,716	—	—	2,281,292	—	—	1,955,799	—	—
Minority Interest									
Pesos	182,288	—	—	167,069	—	—	160,582	—	—
Total	182,288	—	—	167,069	—	—	160,582	—	—
Stockholders equity									
Pesos	1,748,617	—	—	1,430,047	—	—	1,817,178	—	—
Total	1,748,617	—	—	1,430,047	—	—	1,817,178	—	—
Total non-interest bearing liabilities and stockholders equity									
Pesos	6,356,113	—	—	4,819,665	—	—	4,634,031	—	—
Dollars	223,532	—	—	186,464	—	—	92,039	—	—
Total	6,579,645	—	—	5,006,129	—	—	4,726,070	—	—
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>									
Pesos	15,075,453	—	—	13,404,915	—	—	12,950,399	—	—
Dollars	1,799,696	—	—	1,767,231	—	—	3,131,645	—	—
Total	16,875,149	—	—	15,172,146	—	—	16,082,044	—	—

(1) Average balances are derived from month-end balances.

(2) Annualized on a 360-day basis.

The following tables show average balances, interest amounts and nominal rates for our interest-earning assets and interest-bearing liabilities for the fiscal years ended December 31, 2005, 2004 and 2003.

Fiscal Years ended December 31,									

**Fiscal Years ended December 31,**

	<b>2005</b>			<b>2004</b>			<b>2003</b>		
	<b>Average balance <sup>(1)</sup></b>	<b>Interest earned/ paid</b>	<b>Average nominal rate <sup>(2)</sup></b>	<b>Average balance <sup>(1)</sup></b>	<b>Interest earned/ paid</b>	<b>Average Nominal rate <sup>(2)</sup></b>	<b>Average balance <sup>(1)</sup></b>	<b>Interest earned/ paid</b>	<b>Average nominal rate <sup>(2)</sup></b>
	<b>(in thousands of pesos, except percentages)</b>								
<b>Non interest-earning assets</b>									
Cash and due from banks									
Pesos	323,807	—	—	1,000,398	—	—	189,076	—	—
Dollars	315,285	—	—	630,871	—	—	400,202	—	—
Total	639,092	—	—	1,631,269	—	—	589,278	—	—
Investments in other companies									
Pesos	62,218	—	—	295,773	—	—	49,004	—	—
Dollars	783	—	—	—	—	—	786	—	—
Total	63,001	—	—	295,773	—	—	49,790	—	—
Property and equipment and miscellaneous and intangible assets and items pending of allocation									
Pesos	1,201,801	—	—	1,427,228	—	—	1,438,254	—	—
Total	1,201,801	—	—	1,427,228	—	—	1,438,254	—	—
Allowance for loan losses									
Pesos	(172,559)	—	—	(192,320)	—	—	(645,982)	—	—
Dollars	(69,057)	—	—	(161,137)	—	—	(351,663)	—	—
Total	(241,616)	—	—	(353,457)	—	—	(997,645)	—	—
Other assets									
Pesos	541,249	—	—	275,729	—	—	809,324	—	—
Dollars	63,143	—	—	65,698	—	—	71,991	—	—
Total	604,392	—	—	341,427	—	—	881,315	—	—
Total non interest-earning assets									
Pesos	1,956,516	—	—	2,806,808	—	—	1,839,676	—	—
Dollars	310,154	—	—	535,432	—	—	121,316	—	—
Total	2,266,670	—	—	3,342,240	—	—	1,960,992	—	—
<b>TOTAL ASSETS</b>									
Pesos	14,745,342	—	—	13,006,640	—	—	12,344,973	—	—
Dollars	2,129,807	—	—	2,165,506	—	—	3,737,071	—	—
Total	16,875,149	—	—	15,172,146	—	—	16,082,044	—	—

(1) Average Balances are divided from month-end balances.

(2) Annualized on a 360-day basis.

(3) Includes trading gains and losses in all fiscal years. Unrealized gains and losses arising from changes in the market value of our trading portfolio of Government Securities and yield on our investment portfolio of Government Securities are included.

(4) Loan amounts are stated before deduction of the allowance for loan losses. Non-accrual loans are included in loans as interest-earning assets.

**Fiscal Years ended December 31,**

	<b>2005</b>			<b>2004</b>			<b>2003</b>		
	<b>Average balance <sup>(1)</sup></b>	<b>Interest earned/ paid</b>	<b>Average nominal rate <sup>(2)</sup></b>	<b>Average balance <sup>(1)</sup></b>	<b>Interest earned/ paid</b>	<b>Average Nominal rate <sup>(2)</sup></b>	<b>Average balance <sup>(1)</sup></b>	<b>Interest earned/ paid</b>	<b>Average nominal rate <sup>(2)</sup></b>
	<b>(in thousands of pesos, except percentages)</b>								
<b>LIABILITIES</b>									
<b>Interest-bearing liabilities</b>									
Savings accounts									
Pesos	2,189,515	5,536	0.25%	2,061,226	10,652	0.52%	733,310	4,226	0.58%
Dollars	583,270	379	0.07%	363,986	306	0.08%	273,838	1,582	0.58%
Total	2,772,785	5,915	0.21%	2,425,212	10,958	0.45%	1,007,148	5,808	0.58%
Time deposits									
Pesos	4,852,674	332,452	6.85%	3,972,531	176,391	4.44%	4,563,821	475,201	10.41%
Dollars	379,025	4,244	1.12%	195,105	1,925	0.99%	454,065	5,695	1.25%
Total	5,231,699	336,696	6.44%	4,167,636	178,316	4.28%	5,017,886	480,896	9.58%
Borrowing from the Central Bank									
Pesos	1,247,803	171,537	13.75%	1,947,353	170,252	8.74%	2,167,645	123,675	5.71%
Dollars	1,503	3	0.21%	2,272	21	0.93%	2,907	124	4.26%
Total	1,249,306	171,540	13.73%	1,949,625	170,273	8.73%	2,170,552	123,799	5.70%
Borrowings from other financial institutions									
Pesos	38,267	1,483	3.87%	67,013	1,727	2.58%	127,074	11,096	8.73%
Dollars	257,832	13,373	5.19%	469,015	13,690	2.92%	1,443,772	59,732	4.14%
Total	296,099	14,856	5.02%	536,028	15,417	2.88%	1,570,846	70,828	4.51%
Corporate bonds									
Pesos	—	—	—	8,573	1,232	14.37%	17,205	2,043	11.87%
Dollars	317,516	15,612	4.92%	406,627	10,929	2.69%	465,590	17,451	3.75%
Total	317,516	15,612	4.92%	415,200	12,161	2.93%	482,795	19,494	4.04%
Other liabilities									
Pesos	391,081	31,522	8.06%	528,554	25,426	4.81%	707,313	15,563	2.20%
Dollars	37,018	43	0.12%	143,762	2,318	1.61%	399,434	6,820	1.71%
Total	428,099	31,565	7.37%	672,316	27,744	4.13%	1,106,747	22,383	2.02%
Total Interest-bearing liabilities									
Pesos	8,719,340	542,530	6.22%	8,585,250	385,680	4.49%	8,316,368	631,804	7.60%
Dollars	1,576,164	33,654	2.14%	1,580,767	29,189	1.85%	3,039,606	91,404	3.01%
Total	10,295,504	576,184	5.60%	10,166,017	414,869	4.08%	11,355,974	723,208	6.37%

Fiscal Years ended December 31,

	2005			2004			2003		
	Average balance <sup>(1)</sup>	Interest earned/paid	Average nominal rate <sup>(2)</sup>	Average balance <sup>(1)</sup>	Interest earned/paid	Average Nominal rate <sup>(2)</sup>	Average balance <sup>(1)</sup>	Interest earned/paid	Average nominal rate <sup>(2)</sup>
(in thousands of pesos, except percentages)									
<b>Non interest-bearing liabilities and Stockholders' equity</b>									
Demand deposits									
Pesos	1,636,017	—	—	1,122,143	—	—	791,205	—	—
Dollars	13,007	—	—	5,578	—	—	1,306	—	—
Total	1,649,024	—	—	1,127,721	—	—	792,511	—	—
Other liabilities									
Pesos	2,789,191	—	—	2,100,406	—	—	1,865,066	—	—
Dollars	210,525	—	—	180,886	—	—	90,733	—	—
Total	2,999,716	—	—	2,281,292	—	—	1,955,799	—	—
Minority Interest									
Pesos	182,288	—	—	167,069	—	—	160,582	—	—
Total	182,288	—	—	167,069	—	—	160,582	—	—
Stockholders equity									
Pesos	1,748,617	—	—	1,430,047	—	—	1,817,178	—	—
Total	1,748,617	—	—	1,430,047	—	—	1,817,178	—	—
Total non-interest-bearing liabilities and stockholders equity									
Pesos	6,356,113	—	—	4,819,665	—	—	4,634,031	—	—
Dollars	223,532	—	—	186,464	—	—	92,039	—	—
Total	6,579,645	—	—	5,006,129	—	—	4,726,070	—	—
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>									
Pesos	15,075,453	—	—	13,404,915	—	—	12,950,399	—	—
Dollars	1,799,696	—	—	1,767,231	—	—	3,131,645	—	—
Total	16,875,149	—	—	15,172,146	—	—	16,082,044	—	—

(1) Average balances are derived from month-end balances.

(2) Annualized on a 360-day basis.

## Changes in Interest Income and Interest Expense; Volume and Rate Analysis

The following tables allocate, by currency of denomination, changes in our interest income and interest expense between changes in the average volume of interest-earning assets and interest-bearing liabilities and changes in their respective nominal interest rates for the fiscal year ended December 31, 2005 compared to the fiscal year ended December 31, 2004, for the fiscal year ended December 31, 2004 compared to the fiscal year ended December 31, 2003 and for the fiscal year ended December 31, 2003 compared to the fiscal year ended December 31, 2002. Volume and rate variances have been calculated based on movements in average balances over the period and changes in nominal interest rates on average interest-earning assets and average interest-bearing liabilities. The net change attributable to changes in both volume and rate has been allocated to volume. Trading and yield on government trading and investment accounts results are included in the computation of interest income in all fiscal years.

	December 2005/December 2004 Increase (Decrease) Due to Changes in			December 2004/December 2003 Increase (Decrease) Due to Changes in			December 2003/December 2002 Increase (Decrease) Due to Changes in		
	Volume	Rate	Net Change	Volume	Rate	Net Change	Volume	Rate	Net Change
(in thousands of pesos, except percentages)									
<b>ASSETS</b>									
<b>Interest-earning assets</b>									
Government securities									
Pesos	102,995	(65,428)	37,567	46,604	53,939	100,543	(22,649)	67,107	44,458
Dollars	(3,776)	(23,264)	(27,040)	(52,515)	80,343	27,828	(929)	(145,454)	(146,383)
Total	99,219	(88,692)	10,527	(5,911)	134,282	128,371	(23,578)	(78,347)	(101,925)
Loans									
Private sector									
Pesos	110,544	(36,310)	74,234	56,009	(53,700)	2,309	(256,304)	(259,413)	(515,717)
Dollars	10,599	4	10,603	(21,900)	13,912	(7,988)	(7,581)	(126,439)	(134,020)
Total	121,143	(39,306)	84,837	34,109	(39,788)	(5,679)	(263,885)	(385,852)	(649,737)
Public sector									
Pesos	(60,163)	403,920	343,757	(42,616)	64,396	21,780	(96,370)	(2,257,332)	(2,353,702)
Dollars	—	—	—	(11,615)	—	(11,615)	11,615	—	11,615
Total	(60,163)	403,920	343,757	(54,231)	64,396	10,165	(84,755)	(2,257,332)	(2,342,087)
Deposits with the Central Bank									
Pesos	14,829	1,962	16,791	(4,915)	(3,165)	(8,080)	4,530	(1,280)	3,250
Dollars	7,927	—	7,927	—	—	—	—	—	—
Total	22,756	1,962	24,718	(4,915)	(3,165)	(8,080)	4,530	(1,280)	3,250
Other assets									
Pesos	27,786	13,448	41,234	18,739	(26,487)	(7,748)	241	(248,581)	(248,340)
Dollars	(24,670)	23,426	(1,244)	(3,931)	(16,698)	(20,629)	(14,266)	18,325	4,059
Total	3,116	36,874	39,990	14,808	(43,185)	(28,377)	(14,025)	(230,256)	(244,281)
Total interest-earning assets									
Pesos	195,991	317,592	513,583	73,821	34,983	108,804	(370,552)	(2,699,499)	(3,070,051)
Dollars	(9,920)	166	(9,754)	(89,961)	77,557	(12,404)	(11,161)	(253,568)	(264,729)
Total	186,071	317,758	503,829	(16,140)	112,540	96,400	(381,713)	(2,953,067)	(3,334,780)

	December 2005/December 2004 Increase (Decrease) Due to Changes in			December 2004/December 2003 Increase (Decrease) Due to Changes in			December 2003/December 2002 Increase (Decrease) Due to Changes in		
	Volume	Rate	Net Change	Volume	Rate	Net Change	Volume	Rate	Net Change
	(in thousands of pesos, except percentages)								
<b>LIABILITIES</b>									
<b>Interest-bearing liabilities</b>									
Savings accounts									
Pesos	324	(5,440)	(5,116)	6,862	(436)	6,426	(2,419)	419	(2,000)
Dollars	142	(69)	73	76	(1,352)	(1,276)	(1,873)	226	(1,647)
Total	466	(5,509)	(5,043)	6,938	(1,788)	5,150	(4,292)	645	(3,647)
Time deposits									
Pesos	60,297	95,764	156,061	(26,255)	(272,555)	(298,810)	(1,456)	(1,231,464)	(1,232,920)
Dollars	2,059	260	2,319	(2,555)	(1,215)	(3,770)	(5,707)	(24,133)	(29,840)
Total	62,356	96,024	158,380	(28,810)	(273,770)	(302,580)	(7,163)	(1,255,597)	(1,262,760)
Borrowings from the Central Bank									
Pesos	(96,169)	97,454	1,285	(19,259)	65,836	46,577	33,486	(470,221)	(436,735)
Dollars	(2)	(16)	(18)	(6)	(97)	(103)	(744)	(166)	(910)
Total	(96,171)	97,438	1,267	(19,265)	65,739	46,474	32,742	(470,387)	(437,645)
Borrowings from other financial institutions									
Pesos	(1,113)	869	(244)	(1,549)	(7,820)	(9,369)	(31,598)	(26,481)	(58,079)
Dollars	(10,953)	10,636	(317)	(28,452)	(17,590)	(46,042)	(21,673)	(45,668)	(67,341)
Total	(12,066)	11,505	(561)	(30,001)	(25,410)	(55,411)	(53,271)	(72,149)	(125,420)
Corporate Bonds									
Pesos	—	(1,232)	(1,232)	(1,240)	429	(811)	(536)	(8,609)	(9,145)
Dollars	(4,382)	9,065	4,683	(1,585)	(4,937)	(6,522)	(29,755)	(5,182)	(34,937)
Total	(4,382)	7,833	3,451	(2,825)	(4,508)	(7,333)	(30,291)	(13,791)	(44,082)
Other liabilities									
Pesos	(11,081)	17,177	6,096	(8,599)	18,462	9,863	109	(234,960)	(234,851)
Dollars	(125)	(2,150)	(2,275)	(4,123)	(379)	(4,502)	975	(142,882)	(141,907)
Total	(11,206)	15,027	3,821	(12,722)	18,083	5,361	1,084	(377,842)	(376,758)
Total interest-bearing liabilities									
Pesos	(47,742)	204,592	156,850	(50,040)	(196,084)	(246,124)	(2,414)	(1,971,316)	(1,973,730)
Dollars	(13,261)	17,726	4,465	(36,645)	(25,570)	(62,215)	(58,777)	(217,805)	(276,582)
Total	(61,003)	222,318	161,315	(86,685)	(221,654)	(308,339)	(61,191)	(2,189,121)	(2,250,312)

## Interest-Earning Assets: Net Interest Margin and Spread

The following table analyzes, by currency of denomination, our levels of average interest-earning assets and net interest income, and illustrates the comparative margins and spreads for each of the fiscal years indicated.

	Fiscal Years ended December 31,		
	2005	2004	2003
	(in thousands of pesos, except percentages)		
Average interest-earning assets			
Pesos	12,788,826	10,199,832	10,505,297
Dollars	1,819,653	1,630,074	3,615,755
Total	14,608,479	11,829,906	14,121,052
Net interest income <sup>(1)</sup>			
Pesos	971,991	615,258	260,330
Dollars	33,011	47,230	(2,581)
Total	1,005,002	662,488	257,749
Net interest margin <sup>(2)</sup>			
Pesos	7.60%	6.03%	2.48%
Dollars	1.81%	2.90%	(0.07)%
Weighted average rate	6.88%	5.60%	1.83%
Yield spread nominal basis <sup>(3)</sup>			
Pesos	5.62%	5.32%	0.90%
Dollars	1.52%	2.84%	(0.55)%
Weighted average rate	5.22%	5.03%	0.58%

(1) Net interest income is defined as interest earned less interest paid. Trading results from our portfolio of Government Securities are included in interest.

(2) Net interest margin is net interest income stated as a percentage of average interest-earning assets.

(3) Yield spread nominal basis is defined as the difference between the average nominal rate on interest-earning assets and the average nominal rate on interest-bearing liabilities.

## Return on Equity and Assets

The following table presents certain selected financial information and ratios of Banco Francés for the fiscal years indicated.

	Fiscal Years ended December 31,		
	2005	2004 <sup>(3)</sup>	2003 <sup>(3)</sup>
	(in thousands of pesos, except percentages)		
Net (loss) / income	117,204	(54,046)	(350,328)
Average total assets <sup>(1)</sup>	16,012,710	16,199,756	16,260,329
Average stockholders' equity <sup>(1)</sup>	1,742,945	1,629,160	1,749,141
Stockholders' equity at the end of the fiscal year	1,801,547	1,684,343	1,573,977
Net income as a percentage of:			
Average total assets	0.73%	(0.33)%	(2.15)%
Average stockholders' equity	6.72%	(3.32)%	(20.03)%
Declared cash dividends <sup>(4)</sup>	27,000	—	—
Dividend payout ratio <sup>(2)</sup>	23.04%	—	—
Average stockholders' equity as a percentage of Average Total Assets	10.88%	10.06%	10.76%

(1) Computed as the average of fiscal year-beginning and fiscal year-ending balances.

(2) Declared cash dividends stated as percentage of net income. No cash dividend was declared for 2002 and 2001. Since April 2002, the Central Bank has suspended the payment of dividends. As of June 2, 2004, by Communication "A" 4152 financial institutions are allowed to make distributions will have no effect with the prior authorization of the Central Bank and provided that certain conditions are met. See "Financial Information – Dividends"

(3) Restated from its original version to apply the adjustments to prior years income to these Consolidated Financial Statements related with Argentine Central Bank regulations (see Note 3.5.18. to the Consolidated Financial Statements).

(4) In thousands of pesos.



## Investment Portfolio: Government and Private Securities

We own, manage and trade a portfolio of securities issued by the Argentine and other governments and private issuers. The following table sets out our investments in Argentine and other governments and private securities as of December 31, 2005, 2004 and 2003 by type and currency of denomination.

	Fiscal Years ended December 31,		
	2005	2004	2003
	(in thousands of pesos)		
<b>Government Securities</b>			
<b>In Pesos:</b>			
<b>Investment Accounts</b>			
Argentine Treasury Bills	—	58,169	64,379
Argentine Bonds	360,516	—	—
<b>Holding for Trading or Financial Transactions</b>			
Debt Consolidation Bonds—Social Security (BOCON)	45,238	1,670	10,495
Argentine Bonds	456,637	54,453	56,245
Argentine Treasury Bills	—	9,032	9,047
Other Debt Bonds	1,077	12,539	11,711
<b>Instruments issued by the Argentine Central Bank</b>			
Argentine Central Bank Bills (LEBAC)	1,160,312	958,979	480,917
Argentine Central Bank Notes (NOBAC)	1,088,526	40,584	—
<b>Unlisted Government Securities</b>			
Argentine Bonds (BOGAR 2018)	—	451,121	979,507
Argentine Provinces Bonds	—	—	—
Tax credit certificates due in 2003/2006	6	41,151	86,225
Other Debt Bonds	—	630	39
Total Government Securities in pesos	3,112,312	1,628,328	1,698,565
<b>In Foreign Currency:</b>			
<b>Investment Accounts</b>			
Argentine Bonds	74,588	78,384	1,025,022
Argentine External Bills (VEY4D)	—	594,593	88,323
Other Debt Bonds	—	11,756	15,633
<b>Holding for Trading or Financial Transactions</b>			
Argentine Bonds	151,682	32,789	19,758
Medium Term Treasury Bonds (BONTE)	—	5,165	7,399
United States Treasury Notes	—	—	14,610
Other Debt Bonds	10,203	13,140	10,409
<b>Other</b>			
Argentine Bonds (9%)	—	—	1,071
Total Government Securities in foreign currency	236,473	735,827	1,182,225
Total Government Securities	3,348,785	2,364,155	2,880,790
<b>Investments in Listed Private Securities</b>			
Shares	28,284	40,965	41,076
Corporate Bonds—Listed	87,541	93,102	40,573
Mutual Funds	18,925	45,145	98,772
Certificates of Participation in Financial Trusts	21,099	—	4,184
Total Private Securities	155,849	179,212	184,605
Subtotal Government and Private Securities	3,504,634	2,543,367	3,065,395
Allowances	(323)	(66,419)	(22,944)
Total Government and Private Securities	3,504,311	2,476,948	3,042,451
<b>Corporate Bonds—Unlisted</b>	78,228	99,691	223,830

The following table analyzes the remaining maturities of our investment portfolio as of December 31, 2005 in accordance with issuance terms.

	Maturing				
	Within 1 year	After 1 year but within 5 years	After 5 years but within 10 years	After 10 years	Total
	Book value				
	(in thousands of pesos, except percentages)				
<b>Government Securities</b>					
<b>In Pesos:</b>					
<b>Investment Accounts</b>					
Argentine Bonds <sup>(*)</sup>	2,580	584	584	356,768	360,516
<b>Holding for Trading on Financial Transactions</b>					
Debt Consolidation Bonds-Social Security (BOCON) <sup>(*)</sup>	10,342	34,880	16	—	45,238
Argentine Bonds <sup>(*)</sup>	20,716	87,793	37,439	310,689	456,637
Other Debt Bonds	58	937	82	—	1,077
<b>Instruments issued by the Argentine Central Banks</b>					
Argentine Central Bank Bills (LEBAC) <sup>(*)</sup>	993,113	167,199	—	—	1,160,312
Argentine Central Bank Notes (NOBAC) <sup>(*)</sup>	36,215	1,052,311	—	—	1,088,526
<b>Unlisted Government Securities</b>					
Tax credit certificates due in 2003/2006	6	—	—	—	6
Total Government securities in pesos	1,063,030	1,343,704	38,121	667,457	3,112,312
<b>In Foreign Currency:</b>					
<b>Investment Accounts</b>					
Argentine Bond <sup>(*)</sup>	22,960	42,855	8,671	102	74,588
<b>Holding for Trading on Financial Transactions</b>					
Argentine Bonds (BODEN 2012) <sup>(*)</sup>	7,033	31,605	14,149	—	52,787
Argentine Bonds (BODEN 2013) <sup>(*)</sup>	83	416	167	—	666
Argentine Bonds (BODEN 2015) <sup>(*)</sup>	5,629	2,518	1,888	—	10,035
Argentine Bonds (Others)	—	—	—	73	73
Argentine Bonds (Discounts) <sup>(*)</sup>	1,673	—	—	86,448	88,121
Other Debt Bonds	3,739	4,296	2,145	23	10,203
Total Government securities in foreign currency	41,117	81,690	27,020	86,646	236,473
Total Government securities	1,104,147	1,425,394	65,141	754,103	3,348,785
<b>Certificates of Participation on Financial Trust</b>	3,256	12,055	5,788	—	21,099
<b>Corporate Bonds—Listed</b>	26,948	43,140	17,453	—	87,541
<b>Corporate Bonds —Unlisted</b>	3,191	18,485	56,552	—	78,228
Weighted average yield (for the securities indicated with * )	5.76%	6.03%	2.95%	5.98%	

## Loan Portfolio

The following table analyzes our loan portfolio by types of loan at December 31, 2005, 2004 and 2003. Loans are stated before deduction of the allowance for loan losses.

	Fiscal Years ended December 31,		
	2005	2004	2003
	(in thousands of pesos)		
Principal Advances <sup>(1)</sup>	733,514	272,275	154,098
Notes discounted and purchased <sup>(2)</sup>	560,863	251,332	200,061
Secured with mortgages	394,678	401,064	415,885
Consumer loans <sup>(3)</sup>	962,281	572,675	301,900
Financial loans <sup>(4)</sup>	142,307	169,509	78,786
Loans to governmental sector <sup>(5)</sup>	4,623,626	6,927,719	6,693,431
Other loans	1,364,291	964,177	903,467
Less: Unaccrued interest and unused collections <sup>(6)</sup>	(154,763)	(112,764)	(630)
Less: Difference arising from purchase of portfolio	(89)	(88)	-
Plus: Interest and exchange differences receivable	39,653	25,517	48,927
Less: Allowance for loan losses	(184,885)	(202,693)	(459,573)
Total	8,481,476	9,268,723	8,336,352

(1) Advances include short and long-term loans to companies and overdraft lines of credit.

(2) Notes discounted and purchased are endorsed promissory notes.

(3) Consumer loans include credit card loans and other consumer loans. Overdrafts to individuals are included under "Advances".

(4) Financial loans are defined as loans to financial institutions.

(5) Loans to governmental sector are secured by tax rights.

(6) Unaccrued interest is defined as the discount on notes and bills.

## Secured Loans

	Fiscal Years ended December 31,		
	2005	2004	2003
	(in thousands of pesos)		
Liquid guarantees	4,722,686	6,992,645	6,718,381
Preferred guarantees	483,234	445,306	458,887
Total	5,205,920	7,437,951	7,177,268

## Credit Policy

### Overview

The credit policy of the Bank aims to maintain adequate controls on and consistent monitoring of credit risk.

Risk is conceived in a global sense. Our Risk Department is responsible for credit risk, market risk and operational risk.

Risk Management reports to an Assistant Executive Director, the Accounting and Risk Management Director, and is composed of five main areas: Admission and Follow-up, Credit Recoveries, Operational Risk, Market Risk and Global and Strategic Risk Management.

Risk Management represents us as a member of the Risk Commission in the A.B.A., the Argentine Banking Association.

## *Risk Management in 2005*

During 2005, banks continued working on asset quality to reach normalized standards, which led to an improved profitability level and strengthen their asset and liability structure. In this sense, BBVA Banco Francés strongly reduced the outstanding non-performing financing loans; from Ps.117 million at December 31, 2004 to Ps.95 million by the end of 2005. Similarly, the conservative provisioning policy implemented during the previous fiscal years, which resulted in a stock of allowance for financing losses of Ps.134 million at December 31, 2004 with a 114.31% coverage ratio, allowed us to register during the 2005 fiscal year Ps.6 million, in spite of an increasing growth trend in business. We ended fiscal year 2005 with a stock of Ps.140 million for provisions, and a 146.90% coverage ratio. This had a positive impact on our profitability.

Institutional, political and economical stability led to more flexible risk policies for the future. Liquidity improvements coupled with the stabilization of the rate of exchange, provided the necessary basis to increase our activities as credit providers. We issued credit cards, granted short and middle term loans and personal and mortgage loans in the retail segment, while we financed working capital mainly to exporters, middle market and corporations that produce for local and external demand.

The Admission and Follow-Up Department worked together with other areas of the Bank in the last restructuring of defaulted debts, a process which, albeit complex and slow, helped to normalize the corporate portfolio.

The Credit Recoveries Department achieved a high rate of recovery of the charged-off portfolio. During fiscal year 2005, we recovered Ps.57 million, ranking BBVA Banco Francés as one of the best banks in Argentina; in terms of recovery level, according to information published by the Central Bank.

The Operational Risk Department continued with the implementation risk management tools in compliance with its medium-term plan, reaching all their goals.

In the fiscal year 2005, the Market Risk unit increased its responsibility to include liquidity and structural risk matters.

Risk Management, following its medium term strategy, continued working on internal processes to reach the advanced model standards of the new Basle Accord (BIS II). In this sense, during 2005, we created a new team exclusively dedicated to this strategic project. We moved towards the development and implementation of methodologies aimed at achieving the concept of risk related to profitability, within a more ambitious plan for 2006 and 2007 that involves its implementation by segments, products and customers.

## Loans by Economic Activity

The table below analyzes our loan portfolio according to the borrowers' main economic activity as of December 31, 2005, 2004 and 2003. Where appropriate, personal loans are allocated to the economic activity of the borrower. Loans are stated before deduction of the allowance for loan losses.

	Fiscal year ended December 31,					
	2005		2004		2003	
	Loan Portfolio	% of Loan Portfolio	Loan Portfolio	% of Loan Portfolio	Loan Portfolio	% of Loan Portfolio
	(in thousands of pesos, except percentages)					
Agricultural and Livestock	238,549	2.75%	96,136	1.02%	84,571	0.96%
Beverage	136,097	1.57%	41,335	0.44%	29,168	0.33%
Chemicals	—	—	53	—	38,400	0.44%
Construction	79,900	0.92%	66,068	0.70%	182,213	2.07%
Consumer	1,336,441	15.42%	941,556	9.94%	544,741	6.19%
Electrical Machinery	29,667	0.34%	31,512	0.33%	4,223	0.05%
Electricity, Oil, Water and Sanitary Services	—	—	—	—	303,862	3.45%
Financial Sector	142,307	1.64%	169,509	1.79%	78,786	0.90%
Foodstuff	175,622	2.03%	152,421	1.61%	173,428	1.97%
Furniture and Accessories	—	—	—	—	429	0.01%
Government Services	4,623,626	53.35%	6,927,719	73.14%	6,693,431	76.10%
Industrial Metals	70,012	0.81%	106,839	1.13%	1,980	0.02%
Leather and Fur Product	52,580	0.61%	9,976	0.11%	6,261	0.07%
Machinery and Tools	—	—	—	—	1,853	0.02%
Mining Products	402,258	4.64%	152,492	1.61%	53,964	0.61%
Oil and Carbon	351,029	4.05%	173,849	1.84%	56,415	0.64%
Others	509,333	5.88%	207,860	2.17%	57,312	0.67%
Other Manufacturing	76,672	0.88%	11,409	0.12%	3,240	0.04%
Paper Products	—	—	—	—	2,959	0.03%
Printers, Publishers and Related Industries	3,527	0.04%	3,984	0.04%	40,456	0.46%
Rubber Products	42,366	0.49%	23,263	0.25%	1,186	0.01%
Retail Trade	198,933	2.30%	135,851	1.43%	45,047	0.51%
Services	256	—	111,322	1.18%	201,504	2.29%
Shoes, Apparel and Other Textile Products	7,660	0.09%	5,144	0.05%	2,774	0.03%
Textile	13,336	0.15%	8,278	0.09%	5,456	0.06%
Tobacco	11,927	0.14%	2,523	0.03%	—	—
Transportation Material	77,613	0.90%	37,967	0.40%	27,791	0.32%
Wholesale Trade	78,267	0.90%	48,030	0.51%	151,500	1.72%
Wood Products and Cork	8,472	0.10%	6,408	0.07%	2,975	0.03%
Total	8,666,450	100.00%	9,471,504	100.00%	8,795,925	100.00%

## Maturity Composition of the Loan Portfolio

The following table analyzes our loan portfolio as of December 31, 2005 by type and by the time remaining to maturity. Loans are stated before deduction of the allowance for loan losses. We expect most loans to be repaid at maturity in cash or through refinancing at market terms.

	Amount at December 31, 2005	Maturing			
		Within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years
		(in thousands of pesos, except percentages)			
To the non-financial public sector	4,623,626	90,601	96,446	2,640,642	1,795,937
To the financial sector	142,307	46,159	84,710	11,438	—
To the non-financial private sector and residents					
abroad	3,900,517	2,068,970	975,035	623,623	232,889
Overdraft	738,636	641,421	95,567	1,648	—
With privileged guarantees	459,044	25,924	55,171	159,356	218,593
Credit cards	546,906	546,906	—	—	—
Other	2,155,931	854,719	824,297	462,619	14,296
Total	8,666,450	2,205,730	1,156,191	3,275,703	2,028,826
Percentage of total loan portfolio	100.00%	25.45%	13.34%	37.80%	23.41%

## Foreign Country Outstanding Positions

The following table sets forth, as of December 31, 2005, 2004 and 2003, the aggregate amount of our cross-border outstanding exceeding 1% of total assets at each date. Cross-border outstanding are defined as loans, interest-bearing deposits in other banks, and other monetary assets held by borrowers outside of Argentina (in the case of Banco Francés) and the Cayman Islands (in the case of Banco Francés (Cayman) Ltd.). Cross-border outstanding of Banco Francés and Banco Francés (Cayman) Ltd are denominated exclusively in dollars, converted into pesos in the chart below.

	Fiscal Year Ended December 31,		
	2005	2004	2003
(in thousands of pesos)			
Outstanding of Banco Francés (Cayman) Ltd. to American borrowers	—	—	40,145
Outstanding of Banco Francés (Cayman) Ltd. to Argentine borrowers	—	—	1,896,858
Total	—	—	1,937,003

## Interest Rate Sensitivity of Outstanding Loans as of December 31, 2005

The following table analyzes, by currency of denomination, the interest rate sensitivity of our loan portfolio as of December 31, 2005. Loans are stated before deduction of the allowance for loan losses.

	Fiscal Year Ended December 31, 2005 (in thousands of pesos)
<b>Variable Rate</b>	
Pesos — including adjustable loans	4,759,779
Foreign Currency	136,046
	<u>4,895,825</u>
<b>Fixed Rate</b>	
Pesos	3,160,891
Foreign Currency	516,262
	<u>3,677,153</u>
<b>Non-performing<sup>(1)</sup></b>	
Pesos	86,844
Foreign Currency	6,628
	<u>93,472</u>
Total	<u>8,666,450</u>

(1) For additional information on non-performing loans see “*Information on the Company—Selected Statistical Information—Non-performing and Restructured Loans*”, below in this section.

The following table sets forth a breakdown of our fixed and variable rate loans which have a maturity of one year or more at December 31, 2005.

	Interest Sensitivity in Outstanding Loans Maturing In More Than One Year	
	Fixed Rate	Variable Rate
	(in thousands of pesos)	
To the non-financial public sector	—	4,436,579
To the financial sector	10,974	465
To the non-financial private sector and residents abroad	755,287	101,224
Total	766,261	4,538,268

### **Allowance for Loan Losses and Loan Loss Experience**

Banco Francés classifies its borrowers in accordance with the regulations of the Central Bank, its primary bank regulator, and not in the manner established by the Securities and Exchange Commission. As a result, Banco Francés does not keep records classifying loans as “non-accrual”, “past due”, “restructured” and “potential problem loans”, as those terms are defined by the SEC.

### **Classification System According to Central Bank Regulations**

The Central Bank established requirements, with respect to the classification of borrowers and the provisions for loan losses. The following is a summary of the Central Bank’s loan classification requirements up to the date of this annual report.

The loan classification system is a bifurcated system, which requires the application of one set of criteria to classify loans in a bank’s “consumer” portfolio, and another set of criteria to classify loans in a bank’s “commercial” portfolio.

The principal criterion applied to loans in the consumer portfolio is delinquency aging, irrespective of the fact that, prior to the granting of financing, debtors payment capacity should be analyzed, evaluating:

- The allocation of their periodic income in relation to the totality of credit commitments assumed, or
- Through the use of the credit scoring method.

The principal criterion applied to loans in the commercial portfolio is the borrower’s ability to pay, as measured by such borrower’s future cash flow. We can opt to apply the consumer loan classification criteria to commercial loans of up to Ps.500,000 (Ps.200,000 until April, 2005).

Under the regulations, consumer borrowers are classified as follows:

1. “Normal” if all payments on its loans are current or less than 31 days overdue and, in checking account overdrafts, less than 61 days overdue;
2. “Inadequate Servicing” if payments with respect to principal, interest or otherwise, on any of its loans, are overdue for more than 31 and up to 90 days;
3. “Deficient Servicing” if payments on any of its loans are overdue for more than 90 and up to 180 days;
4. “Difficult Recovery” if payments on any of its loans are overdue for more than 180 days and up to one year or if it is subject to judicial proceedings for default on any of those loans;
5. “Irrecoverable” if payments on any of its loans are overdue for more than one year, if the borrower is in bankruptcy or liquidation proceedings or if it is insolvent; and

6. “Irrecoverable for Technical Decision” if such borrower is:

- (a) In arrears for more than 180 days according to a list provided by the Central Bank, which includes:
  - Financial institutions liquidated by the Central Bank,
  - Entities created as a result of the privatization of public financial institutions and in the process of dissolution,
  - Financial institutions whose licenses have been revoked by the Central Bank and are under judicial liquidation or bankruptcy,
  - Any trust in which SEDESA is the beneficiary.
- (b) A foreign borrower (including banks or other financial institutions) which is not classified as “investment grade” by any of the rating agencies admitted by the Central Bank pursuant to the Evaluation of Financial Entities’s standards, except for the following:
  - Foreign banks or other financial institutions controlling or controlled by the financial entity under the consolidated or other supervision systems approved by the Central Bank,
  - Financing that is:
    - Secured by foreign banks and classified as “Investment Grade” by any of the international rating agencies admitted by the Central Bank;
    - Related to the buying or selling of securities through custodian banks admitted by the Central Bank (Caja de Valores, Cedel, Euroclear or the Depositary Trust Company), arising from the usual business practices in the market in which they are made;
    - Related to foreign trade transactions;
    - Entailing swaps of dollars and domestic government bonds at market price, with sufficient margins, involving custodians admitted by the Central Bank;
    - Foreign banks or financial institutions subject to the consolidated supervision system which controls local financial institutions organized as corporations (sociedades anónimas); and
    - Other foreign banks authorized to take part in reciprocal payment and credit regimes to which the Central Bank is a party, to the extent the controlling financial entity is subject to a consolidated supervision system.
    - Non-financial private sector clients whose debt together with the amount of the financing requested at the time of granting it, exceeds the lower of 2.5% of the bank’s computable equity responsibility as at the last day of the preceding month or the equivalent to \$1,000,000, and who have not submitted a sworn statement as to whether they are related or not to the respective financial agent, or whether their relationship with the latter implies the existence of controlling influence, or who have not updated their previous statement.
  - Assistance provided through foreign subsidiaries or branches of local financial institutions under the consolidated supervision system, to the extent the financial assistance is not funded directly or indirectly by local financial institutions.

Commercial borrowers are classified as follows:

1. “Normal” if there is no doubt that they can meet all of their financial obligations.

2.(a)“Special Tracking-Under Observation” if they are able to meet all of their financial obligations but are sensitive to changes that could compromise that ability absent timely corrective measures.

2.(b)“Special Tracking-Under Negotiation or with Refinancing Agreements” if they are unable to comply with their obligations as agreed and formally state, at least 60 days before the date on which the payment of their obligations is due, their intention to refinance such debts.

The borrower must enter into an agreement with the lender within 90 days (if up to two lenders are involved) or 180 days (if more than two lenders are involved) after the date on which the obligations became overdue. If no agreement has been reached within the established deadline, the borrower must be reclassified to the next category below according to the indicators established for each level.



3. “Problem” if they have problems in meeting their ordinary financial obligations.
4. “High Risk of Insolvency” if they are highly unlikely to meet their financial obligations.
5. “Irrecoverable” if it is clear, at the time of the classification, that they will not meet their financial obligations to the classifying bank.
6. “Irrecoverable for Technical Decision” if such borrower meets the same criteria as described above for consumer borrowers.

In classifying a commercial borrower, banks must take into account other factors depending upon the classification category, such as the quality of the borrower’s management, the borrower’s operating history, its present and projected financial situation, the adequacy of its financial reporting, the general risks associated with the market in which the borrower operates, the borrower’s relative position within such market, its payment history and ability to service debt.

In the case of legal proceedings, whether these proceedings are initiated by us or at the instance of the borrower, commercial borrowers must be classified according to pre-determined circumstances, independently from the classification under which they would fall.

Under this classification system, all loans to a given borrower are grouped under the highest classification assigned to that borrower by the classifying bank. The classification of a given borrower must not differ by more than one higher category from a lower classification given to that borrower by at least two other banks whose aggregate loans outstanding to that borrower represent 40% or more of the total loans outstanding to that borrower in the Argentine financial system at the time of the classification.

Under the Central Bank regulation, banks must establish the following loan loss provisions based on the amount owed on the loan (including accrued but unpaid interest). As the table suggests, the presence of preferred guarantees reduces the level of required provisions.

	Loan Loss Provision Required		
	With Preferred “A” Guarantees	With Preferred “B” Guarantees	Without Preferred “A” or Preferred “B” Guarantees
Normal	1%	1%	1%
Inadequate Servicing / Special tracking - under observation <sup>(2)</sup>	1%	3%	5%
Special tracking - under negotiation or with refinancing agreements <sup>(2)</sup>	1%	6%	12%
Deficient Servicing / Problem	1%	12%	25%
Difficult Recovery / High Risk of Insolvency	1%	25%	50%
Irrecoverable	1%	50%	100%
Irrecoverable for Technical Decision	1%	100% <sup>(1)</sup>	100% <sup>(1)</sup>
Additional Loans <sup>(3)</sup>	1%	1%	1%

(1) The classification of a debtor under this category will require a loan loss provision of 100% of any financings, such as rollovers, extensions and express or implied waits, that may be granted after 90 days have elapsed since the day following the announcement by the Central Bank of the data base that includes the debtor. The presence of preferred guarantees does not affect this obligation.

(2) The entity has not yet classified its debtors in the “Special tracking -under negotiation or with refinancing agreements” category.

(3) Extensions of credit that do not surpass the result of applying the percentages indicated below over the balance of the existing debt on the day prior to the extension of the additional credit:

Irrecoverable	10%
Difficult Recovery/High Risk of Insolvency	20%
Deficient Servicing/Problem	30%
Inadequate Servicing/Potential Risk	40%

Non-compliance with the payments for the services corresponding to this additional assistance will determine the obligation to provision the assistance consistent with the objective standards for overdue payments or legal requirements pursuant to the classification of debtors included in the consumer portfolio for consumption or housing. This also applies to borrowers in the commercial portfolio, in which case the additional financing will be considered independently of the rest of the client’s debt.

Furthermore, banks are required to establish provisions equal to 100% of any interest accrued on loans to borrowers classified as “problem” or lower or “deficient servicing” or lower. The Bank chooses to interrupt interest accrual accounting as permitted by the regulation.

The Central Bank regulations set requirements for the review by banks of their classification of borrowers. The classification given to borrowers whose outstanding loans represent at any given time more than 5% of the lending bank’s risk weighted capital must be reviewed at least on a quarterly basis. The classification given to borrowers whose outstanding loans represent at any time between 1.00% and 5.00% of the lending bank’s risk weighted capital, or are for an amount greater than Ps.1.0 million, must be reviewed at least every six months. The classification of all other types of borrowers must be reviewed at least once a year. In addition, banks must review the classification given to a borrower in any of the following situations:

- Any time the Central Bank modifies the definition of its borrower classifications;
- Any time another bank downgrades a borrower whose loan standings are greater than 10% of the total loans outstanding in the Argentine financial system;
- Any time a credit rating agency downgrades by more than one category the rating assigned to bonds issued by such borrower; and
- If the Central Bank requires it as a result of an inspection.
- In case of discrepancy by more than one level between the rating given by the financial entity and those granted by at least another two financial entities or trusts in categories below that assigned by it, and whose credits as a whole represent at least 20% and are below 40% of the total amount informed by all creditors, as per the latest information available at the Debtors Department of the financial system”.

We are therefore fully compliant with the Central Bank requirements relating to borrower declassifications. We also fully complied with the provisioning requirements regarding all our normal loans; that is, we had established the full 1.0% provision for normal loans, as well as the 100% provision required for loans with preferred guarantees being twenty-five months in arrears and classified as “Difficult Recovery”, “High Risk of Insolvency” and “Irrecoverable”. In addition, we believe that we have adequate provisions to cover any known losses and any losses inherent in the loan portfolio. See Note 3.5.5. to the Consolidated Financial Statements.

The Bank stops accruing interest on a loan as soon as any scheduled payment is 90 days overdue, or earlier if the customer is classified as “Problem”, “Deficient Servicing”, “High Risk of Insolvency”, “Difficult Recovery”, “Irrecoverable” or “Irrecoverable for Technical Decision”. In the case of installment loans, which include mortgage loans, 15 days after the second consecutive installment is overdue, the loan is assigned to the “Problem Loans Department” and we cease to accrue interest. The “Past Due Collections Department” commences follow-up collection actions 5 days after the loan is overdue. In the case of an overdraft, the account is assigned to the Problem Loans Department after 60 days past due, and in the case of a credit card loan, after the second minimum payment is missed.

The following table presents our loan portfolio, before the deduction for the allowance for loan losses, using the classification system of the Central Bank in effect at the end of each fiscal year:

	Fiscal Years Ended December 31,					
	2005	%	2004	%	2003	%
	(in thousands of pesos, except percentages)					
<b>Loan Portfolio</b>						
<b>Categories</b>						
Normal	8,489,941	97.96%	9,190,677	97.04%	7,942,853	90.30%
Inadequate servicing and Potential Risk	83,037	0.96%	175,691	1.85%	266,840	3.03%
Deficient servicing and with Problem	11,829	0.14%	52,118	0.55%	252,377	2.87%
Difficult recovery and high risk of insolvency	68,160	0.79%	21,965	0.23%	287,741	3.27%
Irrecoverable	13,362	0.15%	30,921	0.33%	45,545	0.52%
Irrecoverable for Technical decision	121	—	132	—	569	0.01%
Total	8,666,450	100.00%	9,471,504	100.00%	8,795,925	100.00%

By Communications “A” 4060 and “A” 4242, the Permanent Text of the Debtor Rating Regulations was amended as summarized below:

- 5% reduction in the percentage of cancellation determined for the different categories (1 to 5), in order to reclassify a debtor to a higher rating.
- Private or Judicial Arrangements: 20% cancellation is required (previously 30%) for a debtor to be moved to Special tracking – under observation situation.
- Modification in the conditions for preferred “A” guarantees – Credit Securities (checks / promissory notes/invoices).
- Extension to 18 months of the term for considering mortgage guarantees (in force until June 30, 2004).
- Flexibility of percentages for the granting of “additional credit”.

In addition to this, Communication “A” 4467, extended until December 31, 2005 the effect of the following temporary provisions of the regulation on Classification of Debtors:

- It extended until June 30, 2006 the temporary provisions of Communication “A” 4060 which permits the reclassification of debtors restructured on the basis of their repayment capacity as being in normal situation, with the agreement of the Board of Directors.
- It incorporated point 2.2.7 of the Allowances Exhibit, by which the situation of a debtor who has made a Refinancing with Capital Reduction is determined by difference between the allowances net of debt and the amount of the referred reduction.

According to these points those agreements (of whatever kind) made between the debtor and the financial institution between June 30, 2002 and December 31, 2004, may be reclassified to “Normal” with the approval of the financial institution’s Board of Directors, provided that it can be demonstrated that the debtor has repayment capacity based on the projected cash flows under the new loan conditions, the company is shown to be viable, and other Normal situation conditions.

For debts exceeding Ps.5 billion in the financial system, the Central Bank must be informed about the parameters considered for re-categorization, and an opinion of the external auditor of the bank must be obtained.

It is also possible to waive conditions considered for a change of category, depending on the category.

In the case of a refinancing with a rebate, the provision to be made should be equal to the difference between the amount of the previous provision and the rebate granted.

## Classification of Loan Portfolio

The following table presents our consumer and commercial loan portfolio as of December 31, 2005, 2004, 2003, 2002 and 2001 under the classification system of the Central Bank, before the deduction of the allowance for loan losses:

	Fiscal Years Ended December 31,									
	2005		2004		2003		2002		2001	
	Total	%	Total	%	Total	%	Total	%	Total	%
	(in thousands of pesos, except percentages) <sup>(1)</sup>									
Normal (Consumer)	1,442,324	98.09%	936,401	96.61%	747,257	92.05%	783,601	79.94%	3,338,647	89.07%
Normal (Commercial)	7,047,617	97.94%	8,254,276	97.08%	7,195,596	90.12%	7,986,855	85.27%	13,132,326	96.23%
	8,489,941	97.96%	9,190,677	97.04%	7,942,853	90.30%	8,770,456	84.77%	16,470,973	94.69%
Inadequate servicing (Consumer)	8,518	0.58%	7,576	0.78%	8,892	1.10%	21,528	2.20%	111,171	2.97%
Special tracking (Commercial)	74,519	1.04%	168,115	1.98%	257,948	3.23%	396,957	4.24%	125,055	0.92%
	83,037	0.96%	175,691	1.85%	266,840	3.03%	418,485	4.04%	236,226	1.36%
Deficient servicing (Consumer)	5,040	0.34%	11,115	1.15%	10,660	1.31%	17,229	1.76%	60,639	1.62%
Problem (Commercial)	6,789	0.09%	41,003	0.48%	241,717	3.03%	245,855	2.62%	115,128	0.84%
	11,829	0.14%	52,118	0.55%	252,377	2.87%	263,084	2.54%	175,767	1.01%
Difficult recovery (Consumer)	6,395	0.43%	4,351	0.45%	6,587	0.81%	62,302	6.36%	117,365	3.13%
High risk of insolvency (Commercial)	61,765	0.86%	17,614	0.21%	281,154	3.52%	371,400	3.97%	173,122	1.27%
	68,160	0.79%	21,965	0.23%	287,741	3.27%	433,702	4.19%	290,487	1.67%
Irrecoverable (Consumer)	8,007	0.55%	9,696	1.00%	37,812	4.66%	94,872	9.68%	118,267	3.16%
Irrecoverable (Commercial)	5,355	0.07%	21,225	0.25%	7,733	0.10%	365,155	3.90%	100,626	0.74%
	13,362	0.15%	30,921	0.33%	45,545	0.52%	460,027	4.45%	218,893	1.26%
Irrecoverable for technical decision (Consumer)	121	0.01%	132	0.01%	569	0.07%	729	0.06%	2,016	0.05%
Irrecoverable for technical decision (Commercial)	—	—	—	—	—	—	—	—	—	—
	121	—	132	—	569	0.01%	729	0.01%	2,016	0.01%
Total consumer loans	1,470,405	100.00%	969,271	100.00%	811,777	100.00%	980,261	100.00%	3,748,105	100.00%
Total commercial loans	7,196,045	100.00%	8,502,233	100.00%	7,984,148	100.00%	9,366,222	100.00%	13,646,257	100.00%
Total	8,666,450	100.00%	9,471,504	100.00%	8,795,925	100.00%	10,346,483	100.00%	17,394,362	100.00%

(1) Percentages for each category are of total consumer, commercial or total loans, as the context requires.

## Non-performing and Restructured Loans

Applying the Central Bank's loan classification criteria described above, the following table analyzes at each of the dates indicated below our gross non-performing and restructured loan portfolio, and further breaks down the total into loans with preferred guarantees and those which are unsecured:

	Fiscal Years Ended December 31,				
	2005	2004	2003	2002	2001
Non-performing loans <sup>(1)</sup>	93,472	105,136	586,232	1,157,542	687,162
Total	93,472	105,136	586,232	1,157,542	687,162
With preferred guarantees	7,008	16,179	34,596	95,648	186,468
Unsecured	86,464	88,957	551,636	1,061,894	500,694
Total	93,472	105,136	586,232	1,157,542	687,162

- (1) Non-performing loans includes all loans to borrowers classified as "Problem", "Deficient Servicing", "High Risk of Insolvency", "Difficult Recovery", "Irrecoverable" and "Irrecoverable for Technical Decision" under the Central Bank loan classification system. Non-performing loans also include all loans contractually past due 90 days loans or more. At December 31, 2005, 2004, 2003, 2002 and 2001 non-performing loans include Ps.81,965 thousand, Ps.91,819 thousand, Ps.157,085 thousand, Ps.472,700 thousand and Ps.600,775 thousand respectively, of non-accrual loans.

The table below sets forth non-performing loans by economic activity as of each of the dates indicated:

	Fiscal Years Ended December 31,									
	2005		2004		2003		2002 <sup>(1)</sup>		2001 <sup>(1)</sup>	
	Total	%	Total	%	Total	%	Total	%	Total	%
	(in thousands of pesos, except percentages) <sup>(1)</sup>									
Agricultural and Livestock	20	0.02%	15	0.01%	17,357	2.96%	37,546	3.24%	61,046	8.88%
Beverage	1	—	—	—	4,105	0.70%	11,418	0.99%	15,988	2.33%
Chemicals	—	—	—	—	5,881	1.00%	19,559	1.69%	8,223	1.20%
Construction	1,778	1.90%	2,506	2.38%	98,146	16.75%	153,309	13.24%	83,653	12.17%
Consumer	14,423	15.43%	6,957	6.62%	38,256	6.53%	115,744	10.00%	238,100	34.65%
Electrical Machinery	—	—	5	—	343	0.06%	11,946	1.03%	15,684	2.28%
Electricity, Oil, Water and Sanitary Services	—	—	—	—	171,948	29.34%	232,625	20.10%	69	0.01%
Financial Sector	—	—	—	—	1,077	0.18%	18,961	1.64%	22	—
Foodstuff	1	—	1	—	7,396	1.26%	30,492	2.63%	39,398	5.73%
Furniture and Accessories	—	—	—	—	241	0.04%	1,413	0.12%	1,605	0.23%
Government Services	—	—	—	—	4	—	21	—	93	0.01%
Industrial Metals	—	—	—	—	258	0.04%	17,886	1.55%	24,787	3.61%
Leather and Fur Products	—	—	1	—	11	—	412	0.04%	10,112	1.47%
Machinery and Tools	—	—	—	—	4	—	2,485	0.21%	2,455	0.36%
Mining Products	—	—	6	0.01%	28,999	4.95%	65,392	5.65%	14,587	2.12%
Oil and Carbon	221	0.24%	—	—	5,297	0.90%	25,347	2.19%	25,293	3.68%
Others	61,268	65.54%	87,930	83.63%	190	0.03%	1,312	0.12%	15,028	2.21%
Other Manufacturing	—	—	7,671	7.30%	312	0.05%	7,227	0.62%	6,817	0.99%
Paper Products	—	—	—	—	11	—	2,758	0.24%	6,408	0.93%
Printer, Publishers and Related Industries	—	—	1	—	22,272	3.80%	99,883	8.63%	2,895	0.42%
Rubber Products	—	—	1	—	14	—	169	0.01%	732	0.11%
Retail Trade	13,142	14.06%	6	0.01%	1,042	0.18%	11,322	0.98%	22,411	3.26%
Services	—	—	14	0.01%	109,087	18.62%	139,876	12.08%	41,745	6.08%
Shoes, Apparel and Other Textile Products	—	—	—	—	789	0.13%	3,513	0.30%	4,145	0.60%
Textile	—	—	—	—	6	—	3,169	0.27%	3,169	0.46%
Transportation Material	1	—	—	—	1,719	0.29%	3,426	0.30%	2,367	0.34%
Wholesale Trade	2,614	2.81%	22	0.03%	70,241	11.98%	138,513	11.97%	35,999	5.24%
Wood Products and Cork	3	—	—	—	1,226	0.21%	1,818	0.16%	4,331	0.63%
Total	93,472	100.00%	105,136	100.00%	586,232	100.00%	1,157,542	100.00%	687,162	100.00%

(1) The financial statements for the fiscal years ended December 31, 2002 and 2001, were restated in the February 28, 2003 currency by applying the adjustments rate derived from the internal Price Index published by INDEC.

As of December 31, 2005, the majority of our loan portfolio, and non-performing and restructured loan portfolio, consisted of loans to Argentine borrowers. At that date, approximately Ps.27.7 million or 0.32% of our total loan portfolio, consisted of loans to foreign borrowers.

Gross interest income that would have been recorded on non-performing loans during the fiscal years ended December 31, 2005, 2004, 2003, 2002 and 2001 amounted to Ps.57.8 million, Ps.59.4 million, Ps.75.2 million, Ps.99.5 million and Ps.157.4 million, respectively.

## Analysis of the Allowance for Loan Losses

The table below sets forth the activity in the allowance for loan losses for the fiscal years ended December 31, 2005, 2004, 2003, 2002 and 2001. See Note 16.6. to the Consolidated Financial Statements. In conformity with Central Bank requirements, we charge off non-performing loans when we believe that recovery is unlikely and in any event no later than seven months after a loan has been classified as “irrecoverable” without preferred guarantees. We continue to try to collect all amounts past due, even if they have been charged off, if we believe that the likelihood of collecting such amounts justifies the commitment of resources to do so.

	Fiscal Years Ended December 31,				
	2005	2004	2003	2002	2001
	(in thousands of pesos, except percentages)				
Balance at the beginning of the year	202,693	459,573	1,062,512	1,281,432	449,806
Provisions for loan losses	114,220	62,509	317,993	1,097,613	1,132,699
Charge-offs <sup>(1)</sup>	(132,028)	(319,389)	(920,932)	(1,316,533)	(301,073)
Advances	(18,136)	(10,545)	(11,433)	(91,197)	(80,566)
Consumer	(39,081)	(30,182)	(38,146)	(65,751)	(95,347)
Notes discounted and purchased	(17,418)	(159)	(30)	(3,472)	(14,660)
Other	(57,393)	(278,503)	(871,323)	(1,156,113)	(110,500)
Balance at the end of year	184,885	202,693	459,573	1,062,512	1,281,432
Net charge-off / average loans	1.49%	3.63%	7.72%	1.35%	2.55%

- (1) Charge-offs are not concentrated in any particular economic activity. Our management estimates that of the Ps.132.0 million charged off in the fiscal year ended December 31, 2005, Ps.111.73 million, or 84.64% were related to corporate borrowers and Ps.20.27 million, or 15.36% were related to individual consumers. Of the Ps.319.4 million charged off in the fiscal year ended December 31, 2004, Ps.281.4 million, or 88.09% were related to corporate borrowers and Ps.38.0 million, or 11.91% were related to individual consumers. Of the Ps.920.9 million charged off in the fiscal year ended December 31, 2003, Ps.861.6 million, or 93.56% were related to corporate borrowers and Ps.59.3 million, or 6.44% were related to individual consumers. Of the Ps.1,316.5 million charged off in the fiscal year ended December 31, 2002, Ps.1,157.7 million, or 87.94% were related to corporate borrowers and Ps.158.8 million, or 12.06% were related to individual consumers. Of the Ps.301.1 million charged off in the fiscal year ended December 31, 2001, Ps.161.5 million, or 46.32% were related to corporate borrowers and Ps.161.3 million, or 53.68% were related to individual consumers. Charge-offs include reversal and applications.

## Allocation of the Allowance for Loan Losses

The following table allocates the allowance for loan losses and sets forth the percentage distribution by each category of loans in the total loan portfolio (principals only) for each of the fiscal years ended December 31, 2005, 2004, 2003, 2002 and 2001.

	Fiscal Years Ended December 31,									
	2005		2004		2003		2002		2001	
	Total	%	Total	%	Total	%	Total	%	Total	%
	(in thousands of pesos, except percentages)									
Advances	11,550	11.24%	14,707	2.90%	7,903	1.77%	81,721	1.60%	10,150	4.39%
Notes discounted and purchased	7,393	8.60%	3,478	2.67%	7,697	2.29%	11,181	2.28%	59,698	12.00%
Secured with mortgages	7,082	6.05%	13,310	4.27%	17,857	4.97%	32,055	4.96%	57,979	9.68%
Chattel mortgage	760	0.93%	474	0.28%	871	0.06%	2,061	0.10%	5,779	0.39%
Consumers loans	14,664	11.49%	10,343	4.64%	16,623	3.42%	66,052	3.34%	91,287	8.14%
Financial Loans	1,691	2.10%	5	1.79%	122	1.47%	431,312	1.62%	5,340	0.36%
Other loans to governmental sector	49,324	38.67%	80,729	73.14%	103,417	76.10%	200,298	72.35%	750,043	49.53%
Other	92,421	20.92%	79,647	10.31%	305,083	9.92%	237,832	13.75%	301,156	15.51%
Total	184,885	100.00%	202,693	100.00%	459,573	100.00%	1,062,512	100.00%	1,281,432	100.00%

## Composition of Deposits

The following table sets out the composition of each category of deposits that exceeded 10% of average total deposits in each of the fiscal years ended December 31, 2005, 2004, and 2003.

	Fiscal Year ended December 31,		
	2005	2004	2003
	(in thousands of pesos)		
Deposits in Domestic Bank's Offices			
Non-interest-bearing Demand Deposits			
Average			
Pesos	1,636,017	1,122,143	791,205
Dollars	13,007	5,578	1,306
Total	1,649,024	1,127,721	792,511
Saving Accounts			
Average			
Pesos	2,189,515	2,061,226	733,310
Dollars	583,270	363,986	77,829
Total	2,772,785	2,425,212	811,139
Average real rate			
Pesos	(9.35)%	(6.86)%	(0.16)%
Dollars	(7.76)%	(3.47)%	(43.38)%
Total	(9.01)%	(6.35)%	(4.31)%
Time Deposits			
Average			
Pesos	4,852,674	3,972,531	4,563,821
Dollars	379,025	195,105	50,748
Total	5,231,699	4,167,636	4,614,569
Average real rate			
Pesos	(3.38)%	(3.22)%	9.60%
Dollars	(6.79)%	(2.60)%	(43.17)%
Total	(3.63)%	(3.19)%	9.02%
Deposits in Foreign Bank's Offices <sup>(1)</sup>			
Savings Accounts			
Average			
Pesos	—	—	—
Dollars	—	—	196,009
Total	—	—	196,009
Average real rate			
Pesos	—	—	—
Dollars	—	—	(42.98)%
Total	—	—	(42.98)%
Time Deposits			
Average			
Pesos	—	—	—
Dollars	—	—	403,317
Total	—	—	403,317
Average real rate			
Pesos	—	—	—
Dollars	—	—	(42.65)%
Total	—	—	(42.65)%

(1) On March 18, 2004, we sold our 100% interest in Banco Francés (Cayman) Limited to BBVA. Consequently, as of December 31, 2004, the Bank did not register deposits in Foreign Bank's Offices.



## Maturity of Deposits at December 31, 2005

The following table sets forth information regarding the maturity of our deposits at December 31, 2005.

	Maturing,				
	Total	Within 3 months	After 3 but within 6 months	After 6 but within 12 months	After 12 months
	(in thousands of pesos)				
Checking	1,886,905	1,886,905	—	—	—
Savings	3,000,508	3,000,508	—	—	—
Time deposits	5,034,949	3,574,046	784,288	443,101	233,514
Investment accounts	212,013	64,134	12,181	20,269	115,429
Other	478,711	473,814	259	4,624	14
Total	10,613,086	8,999,407	796,728	467,994	348,957

We are including in Other Deposits the CEDROS, as established by Decree No. 905/02 and Communication “A” 3656 of the Central Bank.

The following table sets forth information regarding the maturity of our time deposits and investment accounts in denominations of Ps.100,000 or more at December 31, 2005.

	Maturing,				
	Total	Within 3 months	After 3 but within 6 months	After 6 but within 12 months	After 12 months
	(in thousands of pesos)				
Domestic offices	3,259,081	2,048,643	567,189	306,982	336,267
Total	3,259,081	2,048,643	567,189	306,982	336,267

## Short-Term Borrowings

Our short-term borrowings totaled approximately Ps.0.9 billion, Ps.1.3 billion and Ps.2.3 billion for the fiscal years ended December 31, 2005, 2004 and 2003, respectively. The table below shows those amounts at the end of each fiscal year.

	At December 31,					
	2005		2004		2003	
	Amount	Average Annualized Rate	Amount	Average Annualized Rate	Amount	Average Annualized Rate
	(in thousands of pesos, except percentages)					
Total amount outstanding at the end of the reported period	867,039	—	1,291,458	—	2,256,450	—
Average during year	1,224,225	10.2%	1,157,430	6.3%	2,455,176	4.4%
Maximum month-end balance	2,049,672	—	1,291,458	—	2,529,138	—

## THE ARGENTINE BANKING SYSTEM AND ITS REGULATORY FRAMEWORK

### Argentine Banking System

On December 31, 2005, Argentina's banking system consisted of 71 commercial banks, including 13 government-owned or government-related banks and 58 privately owned banks. The principal regulators of financial institutions in Argentina are the Central Bank, the *Superintendencia de Entidades Financieras y Cambiarias* (the Superintendency of Financial institutions and Exchanges, referred to as the "Superintendency") and, in the case of financial institutions that publicly offer their own securities in Argentina or otherwise engage in the offering or trading of third parties' securities in Argentina, the CNV.

#### *Private Sector Banks*

On December 31, 2005, the largest privately owned locally based commercial banks, in terms of total assets, were the following: Banco de Galicia y Buenos Aires S.A., Banco Francés, Banco Río de la Plata S.A., Bank Boston N.A., and Banco Macro Bansud S.A. Some of these banks, including Banco Francés, have one or more significant foreign investors. According to information published by the Central Bank, at December 31, 2005, private financial institutions accounted for approximately 54.46% of deposits and approximately 67.76% of gross loans in the Argentine financial system. In addition, the ten largest private financial institutions accounted for 39.40% of all deposits and 51.81% of all loans in the Argentine financial system. The largest foreign banks at such date were Bank Boston N.A. and HSBC Bank. Foreign banks compete under the same regulatory conditions as Argentine banks.

#### *Public Sector Banks*

The principal state owned banks are: Banco Nación, Banco de la Provincia de Buenos Aires and Banco Ciudad de Buenos Aires. As of December 31, 2005, based on the available data of the Central Bank, such entities accounted for approximately 39.24% of deposits and approximately 25.60% of gross loans in the Argentine banking system.

Under the provisions of the Argentine financial institutions Law No. 21,526 (the "Financial Institutions Law"), government owned or government-related banks and private banks have comparable rights and obligations except that the former have the sole right and obligation to handle public revenues and promote regional development. Government-owned banks are required to meet the credit needs of public sector entities. Moreover, the by-laws of some government-owned banks, which include federal, provincial and locally owned banks, require that the principalities which own them guarantee their commitments.

### Central Bank

The Financial Institutions Law regulates banking activities in Argentina and places the supervision and control of the Argentine banking system in the hands of the Central Bank, an autonomous institution. The Financial Institutions Law provides the Central Bank with broad access to the accounting systems, books, correspondence, documents and other papers of banking institutions. The Central Bank regulates the provision of credit and supervises the liquidity and the general operation of the Argentine financial markets. The Central Bank enforces the Financial Institutions Law and authorizes banks to operate in Argentina. This law distinguishes between public and private financial institutions. It was amended in February 1994 to eliminate the previous distinctions between locally owned and foreign owned private financial institutions. The Central Bank does not have the authority to supervise the liquidation of financial institutions.

Moreover, the Central Bank establishes "technical ratios" to limit the levels of indebtedness, liquidity, maximum credit that may be granted per customer and foreign exchange assets and liabilities positions, among others. The Central Bank carries out formal inspections from time to time of all banking institutions to monitor their compliance with legal and regulatory requirements. If a bank does not comply with the technical ratios, it must explain such noncompliance to the Central Bank. There are specific regulations governing reinstatement plans and other measures arising from the failure of these plans. Furthermore, the Central Bank has the power to impose sanctions for noncompliance, which vary from a strong reprimand to revocation of banking licenses.

The Central Bank requires banks to submit information to it on a daily, monthly, quarterly, semiannual and annual basis. These reports contain, among other important information, balance sheets and income statements, information relating to reserve funds, use of deposits and indications on portfolio quality, including details on principal debtors and any loan-loss provisions established. The reports are designed to allow the Central Bank to monitor the banks' business practices. If the Central Bank's rules are breached, various sanctions may be imposed depending on the gravity of the violation, ranging from calling attention to the infraction to the imposition of fines or even the revocation of a bank's operating license. Moreover, noncompliance with certain rules may result in the obligatory presentation to the Central Bank of specific capital adequacy or regularization plans. These plans must be approved by the Central Bank for a bank to maintain its license.

Additionally, the Central Bank can make on-site inspections in order to confirm the accuracy of information it receives from banks. Since September 1994, the Central Bank has supervised banks on a consolidated basis.

During 1997, the Central Bank organized a supervision area of internal and external auditors of financial institutions that evaluate performance comprehensively in internal audit areas as well as firms and professionals working as external audit of financial institutions. See *“Information on the Company—The Argentine Banking System and its Regulatory Framework—BASIC System”* below.

On January 23, 2002 the Congress amended the charter of the Central Bank, eliminating certain restrictions on the Central Bank’s ability to provide financial assistance to financial institutions with liquidity constraints. On February 4, 2002, by virtue of Decree No. 214/02 the Central Bank was also allowed until December 2003 to grant financial assistance to financial institutions whose solvency had been affected. Before these measures, the Central Bank had limitations on its ability to make loans or otherwise extend financial assistance to banks with financial difficulties. Primarily, such assistance could not be granted, other than in exceptional circumstances, for more than 30 days or if it would affect the Central Bank’s foreign currency reserves.

On September 5, 2003, Law No. 25,780 was enacted, which introduced amendments to the Financial Institutions Law Corporate and the Central Bank charter. Among the most significant of such modifications we may mention the following:

- Except by express provision to the contrary established by-law, the Central Bank will not be affected by any regulations of a general character which may have been or shall have been enacted with reference to Public Administration bodies and which may introduce limitations to the authority or powers of the Central Bank as set forth in its own Charter.
- The Central Bank is empowered to make temporary advances to the Government up to an amount equivalent to 12% of the monetary base, which for this purpose includes amounts constituted by the monetary circulation plus the sight deposits of the financial institutions with the Central Bank, in current account or in special accounts. It may also grant advances up to an amount not exceeding 10% of the cash resources obtained by the Government in the past twelve months. At no time may the amount granted as temporary advances, excluding those exclusively allocated to the payment of obligations with the multilateral credit institutions, exceed 12% of the monetary base. All advances so granted must be reimbursed within the next twelve months; should any of these advances remain unpaid after its due date, it will not be possible to use these powers again until all owed amounts shall have been reimbursed.
- The provisions of Decree No. 1131/01 are abrogated, and the validity of Articles 44, 46 paragraph (c), 47 and 48 of the Central Bank Charter, regarding the powers and authority of the Superintendency of Financial and Foreign Exchange Entities, is reestablished in terms of the text approved as Article 1 of Law No. 24,144.
- A temporary regulation was introduced, applicable until December 2005, authorizing the Central Bank to: (i) provide assistance to financial institutions with liquidity and/or solvency problems, including those undergoing restructuring by resolution of the Central Bank in terms of Article 35 bis of the Financial Institutions Law; and (ii) authorize the integration of the reserve requirements for financial institutions with financial assets other than cash, in the form of sight deposits with the Central Bank or in foreign currency accounts as per Art. 28 of the Central Bank Charter.
- Decree N° 1599/05, as amended by Law 23,928: Reserves exceeding 100% of the monetary base may be allocated to the payment of obligations assumed with international financial entities.

#### *Supervision on a Consolidated Basis*

According to Communication “A” 2227 dated July 15, 1994 and its amendments and correlative provisions, since 1994 the Argentine financial entities are subject to supervision in consolidated form by the Central Bank (irrespective of the observance on an individual basis of the regulations applicable thereto). In other words, the financial statements and other information regarding them must reflect the transactions of their head office as well as those of their branches in the country and abroad, and those of any significant local and foreign subsidiaries. Consequently, the requirements as to liquidity, solvency, minimum capital, risk concentration, and provisions for loan losses, among others, must be calculated on a consolidated basis.

From the above-mentioned communication it is clear that the financial institutions must submit certain information to the Central Bank, including the following:

- Financial statements and other quarterly and annual reports reflecting in consolidated form the transactions of the financial entity, its local and foreign branches, and its local and foreign “significant subsidiaries” (as defined below); and

- Financial statements and other quarterly and annual reports reflecting in consolidated form the transactions of the financial entity, its local and foreign branches, its local and foreign “subsidiaries” (as defined below), or entities or companies in the country and abroad where the financial entity has possession or control over more than 12.5% of the shares entitled to vote, in those cases determined by the Superintendency of Financial and Foreign Exchange Institutions, and those companies not subject to consolidated supervision which the financial entity may have chosen to include with the prior approval of the Superintendency of Financial and Foreign Exchange Institutions.

For the purposes of these regulations:

- A “subsidiary” of a local financial entity is any local or foreign financial entity or company in any of the following positions:
  - (1) The local financial entity has direct or indirect control of more than 50% of the total votes of any instrument with voting rights in such entity or company,
  - (2) The local financial entity has direct or indirect control as to determining by itself the composition of most of the management bodies of such entity or company,
  - (3) A majority of the directors of the local financial entity is also a majority of the directors of such entity or company.

The possession or control by the financial entity is considered indirect if exercised through another legal person, its controlling shareholders or directors appointed by such controlling shareholders or persons linked to them, in control of more than 50% – measured as a whole– of the total votes of any instrument with voting rights in another entity or company. Also considered indirect is any other form of control or interest where, in the opinion of the Superintendency of Financial and Foreign Exchange Institutions, and even if the shareholders’ interest does not exceed 50%, a situation of control, and therefore the subsidiary character of an entity or company is configured or can be inferred from the evidence collected.

- A “significant subsidiary” is any subsidiary:
  - (1) Whose assets, possible commitments and other transactions recorded in memorandum accounts represent 10% or more of the Computable Net Worth of the local financial entity and its subsidiaries abroad; or
  - (2) Whose results of operations corresponding to the current fiscal year represent 10% or more of the results of operations for the current fiscal year of the local financial entity and its subsidiaries abroad.

## **Legal Reserve**

The Central Bank requires that on an annual basis banks allocate a certain percentage of their net income, set by the Central Bank, to a legal reserve, which is currently set at 20%. This reserve can only be used during periods in which a bank has incurred losses and has exhausted all unappropriated retained earnings and other reserves on profit. Banks may not pay dividends if the legal reserve has been impaired. However, as from April 24, 2006 the Central Bank has established by Communication “A” 4526 that whenever the Legal Reserve is used to absorb losses, profits could be distributed if the balance prior to absorption were greater than 20% of the corporate capital plus capital adjustment, once this last amount is achieved.

## **Reserve Requirements and Liquidity Requirements**

The minimum cash system determines what portion of their deposits or obligations the entities must keep available, that is to say, not as part of their lending capacity. The minimum cash requirement is calculated on the monthly average of daily balances for comprised obligations as recorded at the close of each calendar month, and must be observed separately for each currency of denomination of the comprised obligations. The minimum cash must be made effective in any of the instruments indicated below:

- (i) Cash in the country;
- (ii) Current accounts in Pesos, special guarantee accounts and accounts in connection with the attention of pension benefits, of the financial entities with the Central Bank; and
- (iii) Minimum cash accounts of the financial entities with the Central Bank, denominated in U.S. dollars or other foreign currencies.

Minimum daily cash: on no day of the month may the sum of the balances admitted for integration as mentioned in (ii) and (iii) above, as at the close of each day, be less than 50% of the total minimum cash required, as determined for the immediately preceding month, or less than 70% if the immediately preceding calculation period showed a monthly average deficiency exceeding the admitted margin to be transported.

The balances maintained on accounts opened with the Central Bank as eligible for minimum cash integration are remunerated up to those amounts corresponding to legal requirements, that is to say, no remuneration applies for any excess reserves. Commencing on April 2006 and according to Communication “A” 4509 of the Central Bank, the accounts mentioned above will only be remunerated up to the amounts set forth for term transactions. Therefore, no interest will be acknowledged for the payment of the pertinent sight deposits and obligations.

By Communication “A” 4147 of May 28, 2005 and in effect as of June 1, 2004, the Central Bank set forth the application of different requirements for deposits in pesos as opposed to foreign currencies. In addition, the requirements applicable to deposits in pesos were reduced and as of August 2004 an increase in requirements for deposits in foreign currency took effect.

The following table discloses the minimum cash requirements with respect to each type of account in force since December 2003:

Type of Account	From Dec-2003	From Jun-2004	From Aug-2004	From Jan-2005	From Jun-2005	From Jul-2005	From Aug-2005	From Dec-2005	From Feb-2006	From Apr-2006
Mutual Funds sight deposits (made accordingly CNV rules)	80%	80%	100%	100%	100%	100%	_(4)	_(4)	_(4)	_(4)
Current accounts	20%	18%	18%	16%	16%	16%	16%	15%	15%	17%
Other demand deposits										
In pesos	20%	18%	18%	16%	16%	16%	16%	15%	15%	17%
In foreign currency	20%	20%	30%	30%	30%	30%	30%	30%	30%	30%
Savings accounts										
In pesos	20%	18%	18%	16%	16%	16%	16%	15%	15%	17%
In foreign currency	20%	20%	30%	30%	30%	30%	30%	30%	30%	30%
Current accounts of financial institutions <sup>(1)</sup>	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Unused balances from current-account advances effected	20%	18%	18%	16%	16%	16%	16%	15%	15%	17%
Fixed-term deposits (including “CEDROS ” and others with “CER” clauses), bonds for acceptances—including liabilities for the sale or assignment of credits to subjects other than financial institutions, reverse repurchases, bonds and stock-exchange reverse swaps, investments at constant term, with advanced cancellation or renewal option with the exception of fixed-term deposits in US dollars payable in pesos and of sight and fixed-term deposits made under court order with funds allocated in cases under court jurisdiction, and their immobilized balances by residual term <sup>(3)</sup> :										
In pesos										
Up to 29 days	18%	18%	18%	16%	16%	16%	16%	14%	14%	14%
From 30 to 59 days	14%	14%	14%	13%	13%	13%	13%	11%	11%	11%
From 60 to 89 days	10%	10%	10%	9%	9%	9%	9%	7%	7%	7%
From 90 to 179 days	5%	5%	5%	4%	4%	4%	4%	2%	2%	2%
From 180 to 365 days	3%	3%	3%	2%	2%	2%	2%	1%	1%	1%
More than 365 days	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
In foreign currency										
Up to 29 days	18%	18%	35%	35%	35%	35%	35%	35%	35%	35%
From 30 to 59 days	14%	14%	28%	28%	28%	28%	28%	28%	28%	28%
From 60 to 89 days	10%	10%	20%	20%	20%	20%	20%	20%	20%	20%
From 90 to 179 days	5%	5%	10%	10%	10%	10%	10%	10%	10%	10%
From 180 to 365 days	3%	3%	6%	6%	6%	6%	6%	6%	6%	6%
More than 365 days	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Bonds for foreign financial lines	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Debt securities (including corporate bonds)										
a) Debt issued as of January 1, 2002, including those from restructured bonds, as per their residual term:										
In pesos										
Up to 29 days	18%	18%	18%	16%	16%	16%	16%	14%	14%	14%
From 30 to 59	14%	14%	14%	13%	13%	13%	13%	11%	11%	11%
From 60 to 89 days	10%	10%	10%	9%	9%	9%	9%	7%	7%	7%
From 90 to 179 days	5%	5%	5%	4%	4%	4%	4%	2%	2%	2%
From 180 to 365 days	3%	3%	3%	2%	2%	2%	2%	1%	1%	1%
More than 365 days	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Type of Account	From Dec-2003	From Jun-2004	From Aug-2004	From Jan-2005	From Jun-2005	From Jul-2005	From Aug-2005	From Dec-2005	From Feb-2006	From Apr-2006
In foreign currency										
Up to 29 days	18%	18%	35%	35%	35%	35%	35%	35%	35%	35%
From 30 to 59	14%	14%	28%	28%	28%	28%	28%	28%	28%	28%
From 60 to 89 days	10%	10%	20%	20%	20%	20%	20%	20%	20%	20%
From 90 to 179 days	5%	5%	10%	10%	10%	10%	10%	10%	10%	10%
From 180 to 365 days	3%	3%	6%	6%	6%	6%	6%	6%	6%	6%
More than 365 days	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
b) Others	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Fixed-term deposits in US dollars, payable in pesos	0%	_(2)	_(2)	_(2)	_(2)	_(2)	_(2)	_(2)	_(2)	_(2)
Bonds with the Trust Fund for Assistance to Financial and Insurance Institutions	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Sight and term deposits made by judicial order with funds originated in legal actions currently under course and their immobilized balances										
In pesos	10%	10%	10%	10%	10%	8%	8%	8%	8%	8%
In foreign currency	10%	10%	15%	15%	15%	15%	15%	15%	15%	15%
Special accounts in US dollars for the deposit of guarantees required in futures and options transactions at self-regulated markets subject to the control of the National Securities Commission	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Special at-sight accounts in foreign currency	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Mutual Funds deposits (except mutual funds sight deposits made accordingly CNV rules)										
In pesos			25%	25%	25%	25%	25%	18%	18%	18%
In foreign currency			40%	40%	40%	40%	40%	40%	40%	40%
Special deposits related to funds revenues from abroad – Decree No. 616/05					100%	100%	100%	100%	100%	100%
Deposits and other demand obligations in pesos, whose return exceeds 50% BADLAR rate of private financial institutions' average <sup>(5)</sup>									100%	100%

(1) Computable for payment of their Minimum Required Reserves.

(2) This type of funding was left without effect as of May 15, 2004 by Communication "A" 4140 of Central Bank. The different provisions derived from the applicability of this type of operation will remain effective until the maturity of existing obligations is reached.

(3) Except, term deposits made by judicial order with funds originated in legal actions currently under course and their immobilized balances, mutual funds term deposits and Special deposits related to funds revenues from abroad – Decree No. 616/05.

(4) This type of funding was left without effect as of August 17, 2005 by Communication "A" 4406 of Central Bank.

(5) In accordance with the Communication "A" 4532, effective as of April 1, 2006, this concept not included the unemployment fund for the construction workers.

In addition to the above mentioned requirements, the following requirements must be observed:

- 100% reserve for any defect in the application of resources in foreign currency for the month in respect to which the calculation of the minimum cash requirement is made. See *“Information on the Company—The Argentine Banking System and its Regulatory Framework—Lending Capacity Provided by Deposits in Foreign Currency”*.
- 100% reserve for any defect in the application of resources deriving from sight bonds in pesos for the month in respect of which the calculation of the minimum cash requirement is made (effective as October 2003). See *“Information on the Company—The Argentine Banking System and its Regulatory Framework—Minimum Application of Resources Deriving from Sight and Term Obligations in Pesos”*.

### **Minimum Application of Resources Deriving from Sight and Term Obligations in Pesos**

Through Communication “A” 3598, the Central Bank created a system for the application of resources from sight bonds in pesos whose observance was optional from March 2002 to May 2002 and mandatory after such date.

By Communication “A” 3824 the Central Bank incorporated certain obligations in pesos among the items included in the system.

Any defect in the application of resources under this system must be computed for an amount equivalent in order to calculate the minimum cash requirement in pesos for the same period.

These resources must be used for the following purposes:

- Credits acquired, participation certificates or debt securities issued by financial trusts and amounts otherwise contributed for any of the above destinations in transactions closed or to be closed as of November 26, 1998, on occasion of the restructuring of within the framework of the Argentine Law.
- Central Bank drafts in pesos adjustable by the reference stabilization coefficient, and acquired either in bidding transactions or through secondary negotiation (until April 30, 2003).

These rules were in force until October 31, 2003 and have no effect as of November 1, 2003 as per Communication “A” 4032 issued by the Central Bank on October 10 of the same year.

### **Lending Capacity Provided by Deposits in Foreign Currency**

According to Communication “A” 3528 and complementary communications of the Central Bank, the lending capacity provided by deposits denominated in foreign currency must be applied in the denomination of the currency of the deposits. This includes those deposits denominated in dollars and payable in pesos and applies to the following purposes:

- (1) Prefinancing or financing of exports, carried out directly or through agents, consignees or other proxies acting for the account and order of the owner of the goods. This comprises those operations for the purpose of financing working capital and/or the acquisition of objects related to the production of goods to be exported, provided the flow of income in foreign currency deriving from such exports is sufficient to settle such transactions.
- (2) Financing transactions granted to goods, producers or processors, provided they have firm sale contracts for the goods to be produced for an exporter, with prices fixed in a foreign currency and involving fungible goods with a regular and customary quotation in foreign currency which is widely known and easily accessed by the public in local or international markets.
- (3) Financing transactions for producers of goods to be exported, either in the same condition or as part of other goods, by third-party purchasers, provided they have total pledges or guarantees in foreign currency from such third parties.
- (4) Financing of investment projects, working capital and/or the acquisition of any kind of goods, including temporary importation of commodities, which may increase or be related to the production of goods for exportation. Even though income from exporter companies does not totally derive from sales abroad, financing may only be allocated if the income flow deriving from exportation is sufficient. It comprises those transactions where financing is granted via the Bank’s participation in “syndicated loans”, be they with local or foreign entities (in force as from 23 September 2005 as per Central Bank Communication “A” 4423).



- (5) Financing to clients from the commercial portfolio and of a commercial nature who receive treatment for their consumption or housing credits –under the provisions of the “Debtors’ Classification” regulations–destined for the importation of capital goods (“BK” according to the Common Nomenclator for the MERCOSUR attached as Annex I to Decree 690-02 and other complementary provisions) which will result in an increase in the production of goods destined for domestic consumption. In order to grant such financing, the financial entities must verify that their clients have sufficient paying capacity considering at least two scenarios which contemplate significant exchange rate variations within a term of up to one year and which, in either case, exceed the latest estimate available resulting from the “Market Expectations Survey” published by this institution (in force since 9 December 2005 under Central Bank Communication “A” 4453).
- (6) Debt securities or certificates of participation in financial trusts -including other collection rights specifically acknowledged in the trust agreement to be constituted within the framework “IDB Loan N° 1192/OC-AR“- whose assets under management are loans originated by financial entities under the terms described in points (1) through (3) above.
- (7) Debt securities or certificates of participation in financial trusts, issued in foreign currency and with public offer authorized by the CNV, whose assets under management are documents guaranteed by mutual guarantee companies or by provincial funds created for the same purpose, and admitted by the Central Bank, acquired by the trustee for the purpose of financing transactions under the terms and conditions described in points (1) through (3) above.
- (8) Financing transactions for purposes other than those mentioned in the preceding points, included in the credit program to which the IDB loan makes reference as mentioned in the fourth point above, without exceeding 10% of the lending capacity.
- (9) Interfinancing loans (any interfinancing loans granted with such resources must be identified).
- (10) Central Bank bills in U.S. dollars acquired by bidding or secondary negotiation (such application must be as a minimum equivalent to the amount of deposits in U.S. dollars payable in pesos) ceased to be effective on July 29, 2005 according to Communication "A" 4395 of the Banco Central.

The lending capacity will result from the sum of all deposits in foreign currency plus all inter-financial loans received originated in the lending capacity for this type of deposit, after deduction of the minimum reserve requirements applicable to deposits.

Any application defects must be subject to an equivalent increase in the minimum cash requirement, unless they correspond to the minimum application contemplated in (10) above.

Those defects contemplated in (10) above must be subject to a charge equivalent to twice the annual interest rate on maturity resulting from the offers of bills in pesos made by the Central Bank.

Effective as of May 15, 2004 and in terms of Communication “A” 4140, the Central Bank canceled the possibility of taking fixed-term deposits in U.S. dollars payable in pesos as mentioned in the first paragraph, the provisions contemplated for this type of deposits will remain valid until expiration of those in existence. As of December 31, 2004, the Bank does not maintain any deposits of this type.

## **Reporting Requirements**

On September 26, 1995, the Central Bank issued Communication “A” 2374, the latest restated text of Communication “A” 2879 and amendments. It complements the regulations designed to limit the liquidity risk that financial institutions in Argentina assume. Under this regulation, beginning in April 1996, banks have to draw up monthly reports on cash flow, detailing the following:

- Contractual cash flow of assets and liabilities,
- Current cash flow to renew assets and liabilities,
- Cash flow designed to prevent illiquidity of the bank, and
- Cash flow designed to anticipate illiquidity in the financial system, both with and without compliance with minimum requirements.

Financial institutions also have to adopt management and control policies to assure reasonable levels of liquidity to effectively manage the different potential scenarios which may affect deposits and other financial obligations. These policies must establish procedures to evaluate and sufficiently anticipate the liquidity of the institutions in the context of the market so as to revise projections, adopt measures to eliminate liquidity problems and obtain funds on market terms sufficient to maintain a prudent level of assets over the long term. These policies must also address:

- The concentration of assets and liabilities in particular clients;
- The general economic situation, probable trends and the impact on available credit; and
- The ability to obtain funds through the sale of public debt instruments and/or liquid assets.

Furthermore, Communication “A” 2374 requires financial institutions to establish a “daily tracking” of its liquidity and of the market, calling for the participation of and coordination with the highest level management of the institution. Additionally, financial institutions must appoint one member of the board of directors to be informed at least weekly of the changes in the liquidity condition of the institutions and the market which may require new strategies to protect the liquidity of the institution.

Communication “A” 3465 of the Central Bank dated February 7, 2002 suspended the implementation of this scheme from December 2001.

### **Limitations on Types of Business**

Argentine commercial banks may conduct all activities and operations that are not specifically prohibited by law or by regulations of the Central Bank, banks are permitted, among other things, to:

- Make loans in pesos and foreign currency,
- Receive deposits in pesos and foreign currency,
- Issue guarantees,
- Underwrite, place and broker equity and debt securities in the over-the-counter market, subject to the prior approval of the CNV,
- Conduct transactions in foreign currency,
- Act as fiduciary, and
- Issue credit cards.

According to the Financial Institutions Law, banks in Argentina are prohibited from investing in commercial, industrial or agricultural entities, or other entities without the express authorization of the Central Bank. The Central Bank may then impose conditions and limits to guarantee the safety and soundness of the financial institutions.

These limitations include:

- The prohibition of a bank from pledging its shares,
- Restriction on incurring any liens upon its properties without prior approval from the Central Bank, and
- Limitations on transactions with directors or officers, including any company or person related to such directors or officers, on terms more favorable than those normally provided to clients. See “*Information on the Company—The Argentine Banking System and its Regulatory Framework—Lending and Investment Limits—Related Persons*” below in this section.

Notwithstanding the foregoing, banks may own shares in other financial institutions with prior approval of the Central Bank and in public service companies if necessary to obtain those services.

## Capital Adequacy Requirements

### *Basle Accord*

In July 1988, the Basle Committee on Banking Regulations and Supervisory Practices (the “Basle Committee”), which includes the supervisory authorities of twelve major industrial countries, adopted an international framework (the “Basle Accord”) for capital measurement and capital standards of banking institutions. The Basle Accord established a risk asset ratio as the principal measure of capital adequacy. The framework provides:

- Definitions for Tier I (core) capital (“Tier I Capital”) and Tier II (supplemental) capital (“Tier II Capital”),
- A system for weighing assets and off-balance sheet items according to credit risk (this weighted total referred to as the “Basle Risk Weighted Assets”), and
- As of the end of 1992, a requirement that banks engaged in international operations maintain
  - (1) Tier I Capital at least equal to 4.0% of Basle Risk Weighted Assets; and
  - (2) “Total Capital”, equal to Tier I Capital plus up to an equal amount of Tier II Capital, at least equal to 8.0% of Basle Risk Weighted Assets.

These requirements, subject to certain transition rules which effectively reduce the amount of capital required in the first two years, went into effect at the end of 1990. If the Basle Accord had been applied to us at December 31, 2005, our Total Capital would have been approximately 4.37 times the minimum required.

### *Central Bank Rules*

Under the Financial Institutions Law, Argentine financial institutions must comply at all times with the minimum capital requirements described by the Central Bank. In July 1991, the Central Bank amended its minimum capital adequacy rules to follow those recommended by the Basle Committee more closely. However, the Central Bank’s capital adequacy rules remain stricter than the Basle Committee’s recommendations. Under rules issued by the Central Bank in July 1993 and its amendments, a commercial bank must maintain its “Minimum Capital” above a certain level.

“Minimum Capital” is equal to the sum of:

- “Basic Net Worth”, which includes:
  - (1) Capital stock,
  - (2) Capital adjustments,
  - (3) Reserves and irrevocable capital contributions,
  - (4) Unappropriated earnings, and
  - (5) Third parties’ participations for those corporations subject to a supervision system on a consolidated basis;

#### Minus:

Balances favorable to the entity as registered in the assets, corresponding to the minimum presumed income tax for such portion as exceeds 10% of the Basic net equity without computing this item, or 10% of the Bank’s Computable Net Worth for the preceding period, whichever is smaller (Communication “A” 4296 dated February 11, 2005);

#### Plus:

“Complementary Net Worth”, which includes 50% of loan loss provisions for loans to borrowers classified as “Normal” under Central Bank rules, certain subordinated debt and certain unaudited net income, minus unaudited losses and certain items such as permanent investments in other financial institutions and intangible assets.

Minimum Capital must be, at least, the greater of:

- Minimum basic capital, and
- Minimum capital required for credit risk, which includes the minimum capital requirement for market risk, plus the minimum capital requirement for interest rate risk.

The entities in operation as of October 31, 1995 must maintain as of January 1, 1999 a basic minimum capital of Ps.5 million if at December 31, 1998 they were subject to basic requirements lower than Ps.5 million, or about Ps.8.9 million for the rest of the entities. As of January 1, 2003 the basic minimum capital is fixed at Ps.15 million for all commercial banks (excepting wholesale banks subject to a basic minimum capital of Ps.10 million). Effective as of July 1, 2005, changes were made to the minimum capital requirements applicable to financial entities. Differential requirements were established for banks and other financial entities, mainly based on the area where their head offices are located, in order to benefit those areas with smaller banking coverage according to Central Bank criteria, which now enjoy less stringent requirements as regards minimum basic capital. However, those banks in operation as at June 30, 2005 will maintain their differentiated minimum capital if it does not exceed Ps.15 million. On the other hand, the above-mentioned differences in force with respect to wholesale banks have disappeared, all banking institutions now being subject to the same minimum capital requirements. Those banks which act as custodians and/or registration agents of securities representing the investments of the retirement and pension funds and/or as registration agents for registered mortgage letters must certify a minimum capital equal to or above the greater of Ps.50 million or the equivalent of 5% of the securities under custody (in the case of mortgage letters, considering the net value of any amortizations effected).

By Communication “A” 3959 dated May 30, 2003 and other complementary communications, the Central Bank modified the regulations for calculating minimum capital requirements for credit, interest rate and market risk. These modifications became fully effective as of January 2004. There follows a description of such regulations as are applicable as of the date of this report.

The minimum capital requirement for credit risk is the sum of:

- (a) 10% of the value of our fixed or illiquid assets; and
- (b) 8% of the value of certain categories of financial or liquid assets, net of certain allowances and reserves, multiplied by a coefficient based on the perceived risk of such assets.
- (c) 8% of certain assets of the non-financial public sector as accounted for in investment accounts or under special valuation criteria determined by the Central Bank.

The sum of (a), (b) and (c) shall then be multiplied by a second coefficient ranging from 0.970 to 1.15 based on the rating that the Superintendency grants to the bank based on the its net worth, asset quality, management, profitability and liquidity. To determine a bank’s risk-weighted assets, the Central Bank has assigned to each category of liquid asset a risk value based on the type of asset, borrower, collateral or guarantee, if any. For example, consider the risk values assigned to the following assets:

- Cash, gold, public securities subject to minimum capital requirements for market risk, and debt instruments issued by the Central Bank were assigned a 0% risk value;
- Correspondents’ accounts and other accounts at sight with banks of the country and abroad rated as “investment grade” and bonds issued by governments of member countries of the Organization of Economic Cooperation and Development (“OECD”), which are internationally rated “AA” or higher, were assigned a 20% risk value;
- Debt instruments issued by Argentine provinces, municipalities or other public sector agencies, which are not expressly guaranteed by the national government were assigned a 100% risk value,
- Loans to the non-financial private sector with preferred guarantees in cash, gold or bonds on fixed-term deposit certificates issued by the creditor entity itself and with automatic reimbursements for export transactions corresponding to multilateral and bilateral foreign trade agreements were assigned a 0% risk value;
- Loans to the non-financial private sector with preferred guarantees granted by mutual guarantee companies registered with the Central Bank, export credit insurance policies and documentary credits in use were assigned a 50% risk value;

- Purchase money, home mortgage loans and automobile-backed loans were assigned a 50% risk value, provided they do not exceed 75% of their appraisal value; and
- The amount of a loan exceeding 75% of their appraisal value and most unsecured loans and debt instruments as well as holdings of listed stock were assigned a 100% risk value.
- Loans to the non-financial public sector not guaranteed by the national government were assigned a 100% risk value.

On July 25, 2003, the Central Bank introduced Communication “A” 3986, effective as of January 2004, which provided for the application of a correction coefficient (ALFA 1), for the purpose of temporarily reducing the minimum capital requirement for credit risk with respect to assets in investment accounts and financing transactions granted to the non-financial public sector up to May 31, 2003, for instruments received by the financial entities on account of the compensation implemented under articles 28 and 29 of Decree No. 905/02, for instruments issued by the Trust Fund for Provincial Development under Decree No. 1579/02, even if their reception or incorporation takes place after the established date, and for “Discount Bonds” and the corresponding “GDP-related negotiable securities issued under the conditions of Annexes IV and V, respectively, of Decree No. 1735/04, received in exchange for assets on record as May 31, 2003 as a consequence of the sovereign debt restructurings. Therefore, the application of this coefficient excludes those financing and refinancing transactions -including express or tacit renewals or time extensions- to the national non-financial public sector granted as of June 1, 2003. Such coefficient was fixed in the following values:

<u>Period</u>	<u>ALFA1</u>
January / December 2004	0.05
January / December 2005	0.15
January / December 2006	0.30
January / December 2007	0.50
January / December 2008	0.75
From January 2009	1.00

Finally, any excesses incurred for noncompliance with other technical regulations must be added to the credit risk requirement calculated as indicated in the preceding paragraphs.

*Minimum Capital Requirement for Market Risk:* under Communication “A” 2435, dated May 16, 1996, as amended by Communication “A” 2461, dated August 30, 1996, the Central Bank implemented, effective from September 1, 1996, additional minimum capital requirements in relation to market risk associated with positions held by financial institutions in “local assets”, “foreign assets”, “foreign currency” and “gold”, including derivatives bought or sold on such positions.

“Local Assets” include:

- Debt securities issued by the National Government, except for those held in investment accounts, and quotas in common investment funds that invest in those securities; provided that, such securities and/or holdings are usually listed on a national securities exchange; and
- Shares of capital stock of Argentine companies included in the Argentine stock market index (or “Merval Index”) and quotas in common investment funds that invest in those shares.

“Foreign Assets” are defined to include:

- Debt securities (i.e., positions held in debt securities issued by foreign companies, sovereign securities issued by foreign governments and quotas in common investment funds; provided that, such securities and/or holdings are usually listed on a national securities exchange); and
- Shares (i.e., positions held in shares of capital stock of foreign companies, quotas in common investment funds; provided that, such securities, holdings and/or indexes are usually listed on a national securities exchange). If any of the assets mentioned in this clause are listed in different stock markets in diverse foreign currencies, the listing price and foreign currency of the most representative stock market (in terms of the volume of transactions in the relevant asset) will be taken into consideration for purposes of these new capital requirements.

The positions under consideration must be separated according to the currency of issue of each instrument, regardless of the issuer's residence. In the cases of assets expressed in foreign currency, the entity must consider the risk for two positions: that which corresponds to the assets and the position in foreign currency, the relevant capital requirement being determined on the basis of the latter. The value of all positions will be expressed in pesos by using the reference exchange rate published by the Central Bank for the U.S. dollar, after application of the swap rate corresponding to the other currencies.

"Foreign currency" includes the net positions for each foreign currency, considering the totality of assets and liabilities in such currencies, and the gold position. Those positions in foreign currency which, individually considered at the close of each day of transactions, are below the equivalent of Ps.300,000 may be excluded. This exclusion will not apply if the computable foreign currencies considered as a whole at the close of each day exceeds Ps.1,500,000. Purchase or sale of contracts that give the right to buy or sell local assets and foreign assets, are taken into consideration in calculating minimum capital requirements. The swaps and other derivatives on assets not affected by these regulations will be excluded from the portfolios that are subject to risk value calculation, provided such transactions are for the purpose of covering financial intermediation risks.

The market risk-related capital requirements are determined by using specific risk methodologies and based on the financial institution's daily net positions in any of the above-mentioned assets. These requirements follow, in general, standards established by the Basle Committee and the European Union.

*Minimum Capital Requirement for Rate Risk:* under Communication "A" 2793, dated October 27, 1998, the Central Bank has implemented certain modifications, to be made effective by March 1999, to the methodology financial institutions use to calculate minimum capital requirements. This regulation requires that additional items be considered for purposes of determining minimum capital requirements, including risks associated with fluctuations in interest rates, credit quality and certain types of market risk. Communication "A" 3959 dated May 30, 2003 and effective as of January 2004 included the calculation of risk for those transactions adjustable by CER and CVS (see Note 15.3. to the Consolidated Financial Statements). However, the following items are excluded from this Regulation:

- Securities and derivative instruments that are already subject to minimum capital requirements;
- Holdings in foreign currency not subject to minimum capital for market risk as they are below the minimum applicable limits;
- Banker's acceptances;
- Assets affected, covered by derivatives agreements made with foreign banks with international risk rate "A" or above, granted by international rating agencies accepted by the Central Bank; and
- Subordinated debt that is included in the calculation of Complementary Net Worth, and other assets deductible from minimum capital integration;

Effective as of January 2004 according to the terms of Communication "A" 3986 dated July 25, 2003, the Central Bank determines the application of an "ALFA2" coefficient in order to temporarily reduce the requirement for interest rate risk. For these purposes, the following values are fixed:

<u>Period</u>	<u>ALFA2</u>
January / December 2004	0.20
January / December 2005	0.40
January / December 2006	0.70
From December 2007	1.00

According to the Central Bank regulations on Minimum Capitals, the financial entities must adjust to such regulations on an individual and consolidated basis.

Although the Bank fully complied on a consolidated basis with the ratios for minimum capital and spreading of credit risk, it fell short from meeting those ratios on the basis of the Bank's individual financial statements. This shortfall did not constitute a violation of Central Bank requirements through December 31, 2003. On January 21, 2004 the Bank filed the reformulation of the Regularization and Reorganization Plan, which would enable the Bank to fully meet the mentioned technical ratio. On March 18, 2004, the Central Bank deemed the reformulation of the plan to have been effected, which plan included the sale of Banco Francés (Cayman) Ltd. to

BBVA. As a consequence of such sale, consummated on March 18, 2004, the Banks' Computable Net Worth has been substantially increased on an individual level, thus enabling the Bank to meet the minimum capital requirements set by the Central Bank both on an individual and consolidated basis since April 2004. The Shareholders Meeting of April 22, 2004, authorized a capital increase (see Note 1.2.1. to the Consolidated Financial Statements). The subscription and payment for shares issued in connection with this capital increase were completed in November 2004, thus increasing the capital reserves beyond the level of compliance attained in April 2004 (see Note 15.5. to the Consolidated Financial Statements).

If a financial institution does not comply with all these minimum capital requirements, it must submit a regulatory and redress plan to the Central Bank, which may impose various penalties, including:

- Temporary limitation on the amount of deposits a bank may accept,
- Institutional restrictions as per expansion capacity and dividends distribution in cash,
- Revocation of the license of a bank to conduct foreign exchange transactions, and in some extreme cases;
- Revocation of the license of a bank to operate.

The following table presents, at December 31, 2005, both the calculation of our ratio of capital to risk-weighted assets computed under the Basle Accord and our capital under the minimum capital rules of the Central Bank. In addition, see Note 16.14 to the Consolidated Financial Statements.

	<u>At December 31, 2005</u> (in millions of Pesos, except percentages)
<u>Basle Accord</u>	
Total Capital	1,698.7
Risk-weighted asset	4,861.2
Ratio of total capital to risk-weighted assets <sup>(1)</sup>	34.9%
Required capital	388.9
Excess capital	1,309.8
<u>Central Bank's Rules</u> <sup>(2)</sup>	
Total Capital	1,889.9
Risk and Fixed weighted assets	11,375.7
Ratio of total capital to risk-weighted assets <sup>(3)</sup>	16.6%
Required capital <sup>(4)</sup>	868.5
Excess capital	1,021.4

(1) Under the risk-based capital requirements of the Basle Accord, the Bank would be required to maintain a minimum ratio of total capital to risk-weighted assets of 8%.

(2) Calculated on a consolidated basis in accordance with Central Bank requirements.

(3) Under the risk-based capital requirements of the Central Bank, we are required to maintain a minimum ratio of total capital to risk and fixed weighted assets of 10% and 8% (depending upon the nature of the asset) by application of an alpha correction factor equal to 0.05 over financing to the national public sector granted up to May 31, 2003.

(4) The Bank must maintain a surplus of minimum paid-in capital amounting to at least Ps.38,440, equivalent to 0.25% of the amount of values under custody for securities representing investments from pension funds, as well as in connection with its function as registrar of mortgage-backed bonds, invested in national public securities and other destinations authorized by the BCRA and guaranteed in favor of the said Entity.

### **System Governing the Holding of Securities in Investment Accounts**

By Communication "A" 2793, dated March 1, 1999, the Central Bank abolished the previous system of holdings in investment accounts available and for sale.

As a result of this change, the Central Bank established in paragraph 7 of Communication "A" 2859 the canceling of the balance of the account entitled "Unrealized Valuation Differences in Government Bonds Available for Sale" as of February 28, 1999, which was charged against unappropriated earnings. This reclassification did not result in any change in our net worth as of that date.

The new system included in the "Attachment" to Communication "A" 2793 permits placing in investment accounts government and private debt instruments which must comply with minimum capital requirements due to market risk (published on a monthly basis by the Central Bank).

Holdings were recorded at their cost value and increased in accordance with their internal rate of return and the time elapsed since the beginning of the holding period.

The positive differences between accounting value and market value increased by 20% at the end of each month constitute an item deductible from the minimum paid-in capital.

As of March 1, 2000 and according to Communication “A” 3039 of the Central Bank, the holdings in investment accounts are recorded at cost value increased by the interest resulting from the current coupon. The book value of the holdings on the last day of each month will be reduced by an amount resulting from the positive difference between the book value for the position of each security as of that date and its market value increased by 20% (this treatment was suspended as of April 2001 until December 2001 as set forth by Communications “A” 3269 and “A” 3303 of the Central Bank). As a compensation, the obligation to deduct from the computable net worth the difference between the book value of the securities and their market value increased by 20% was eliminated.

As of June 1, 2001, according to Communication “A” 3083 of the Central Bank, the criteria for the accounting registration of the holdings in investment account was modified. Such holdings are registered at cost value exponentially increased up to each service due date according to its internal return rate and the time elapsed since their incorporation to such accounts.

In the case of holdings incorporated to investment accounts prior to June 1, 2001, the basis to be considered will be the value registered at May 31, 2001, resulting from the use of the valuation procedures admitted so far and the internal return rate resulting as of May 31, 2001 for such securities. With respect to the treatment of valuation differences, the criteria set forth by Communication “A” 3039 of the Central Bank is maintained.

By Communication “A” 3857 the Central Bank restricts the application of these provisions to those securities incorporated up to December 31, 2002, except for those received by the financial institutions as part of the compensation implemented by articles 28 and 29 of Decree No. 905/02.

By Communication “A” 3785 the Central Bank added a new chapter to the regulations, applicable only to those bonds received under the compensation mechanism implemented by the National Government in order to reimburse the entities for certain negative equity effects generated by the conversion into pesos at different exchange rates of those credits and obligations denominated in foreign currency, as well as by the negative net position deriving from such conversion (Articles 28 and 29, Decree No. 905/02). Such bonds may be registered by the entities at their technical value.

By Communication “A” 4114 dated March 12, 2004, the Central Bank included in the above-mentioned chapter those bonds to be received by the financial institutions as compensation for the transformation of loans adjustable by CER into loans adjustable by CVS (Chapter II of Law No. 25,796 and Annex II to Decree No. 117/04).

For so long as this procedure is in force the entities may only distribute cash dividends for such amount as the profits exceed the difference between the above-mentioned accounting value for registration purposes and the quotation of the bonds after all legal and statutory appropriations have been made.

According to Communication “A” 4084 dated January 30, 2004, those securities in respect of which the Central Bank ceases to publish daily volatility reports as they do not comply with the liquidity requirements for such purpose, must be excluded from this regulatory framework and considered as “Without Quotation”. Those securities excluded for this reason may not be reincorporated to the system in the future.

### **CAMEL Quality Rating System**

Under Law No. 24,144 the Central Bank established the “CAMEL” quality rating system which is based on weighting consistent and comparable criteria, creditworthiness, compliance with the Financial Institutions Law, its administrative order and the general operating solvency of the entity. Each letter of the CAMEL system corresponds to the following areas of the operations of each bank that is being rated: “C” represents capital, “A” represents assets, “M” represents management, “E” represents earnings and “L” represents liquidity. Each factor is evaluated and rated on a scale from 1 to 5, 1 being the highest rating an institution can receive. By combining the individual factors that are under evaluation, a combined index can be obtained which represents the final rating for the entity. The rating a bank receives from the CAMEL system can be used by the Central Bank in making decisions such as determining the levels of minimum capital or the amount of contributions a bank is required to contribute to the insurance guarantee system. According to the letter presented by the Central Bank on November 30, 2000, we were granted a quality rating of 1. Since then no new ratings have been published by the Central Bank.



## BASIC System

The Central Bank established a control system known as “BASIC” which requires that all financial institutions comply with a set of procedures affecting their transactions. The system allows public access to a higher level of information and security as regards its placements in the Argentine banking system. Each letter in the name of the BASIC system identifies one of the following procedures:

B (“Bonds”). By decision of the Central Bank’s board, banks were expected to issue bonds and other securities or obtain placements from international top-rated banks for an equivalent of 2% of their deposits in pesos and foreign currency. The placement of such bonds would make it possible for depositors to know the perception of the market on the equity situation of each financial entity. The Central Bank required that all financial institutions in Argentina should once a year perform at least one of the following actions:

- A debt issue in a country which must be a member of the OECD and at the same time have an “AAA” rating in respect of its sovereign debt;
- An issue of capital stock approved by the relevant local authorities and according to which the shares could be freely traded either in such local market or in the market of a member nation of the OECD with an “AAA” rating in respect of its sovereign debt;
- A debt issue to an Argentine financial entity which complies with the alternative procedure described in (a) above; or
- A transaction with a foreign bank with a minimum credit rating of “A”, by which the Argentine entity would receive deposits or take loans from such foreign bank. The purpose of such requirement was to have the Argentine financial institutions exposed to scrutiny and analysis by third parties considered by the Central Bank to be rating demanding in matters that have to do with credit analysis and quality control. The need to respond to the expectations of such third parties at the same time created for the Central Bank an additional source of quality control over the Argentine banking system. While this requirement remained in force the Bank complied with it at all times.

The requirement was abrogated by Communication “A” 3498 of the Central Bank, dated March 1, 2002.

A (“Audit”). The Central Bank requires a number of auditing procedures which include:

- The creation of a registry of auditors;
- The implementation of strict accounting procedures to be observed by auditors;
- The payment of a guarantee of compliance by such auditors so as to induce them to fully comply with the procedures; and
- The creation of a Central Bank division in charge of verifying the observance of the established regulations by the external auditors.

The purpose of this requirement is to ensure accurate representations by the financial institutions to both the Superintendency and to the public. It involves verifying the figures presented by the entity as well as an in-depth investigation into whether such figures appropriately reflect the activities of the bank in question.

S (“Supervision”). The supervision by the monetary authorities is not replaced but is naturally complemented and reinforced by the information from market sources and continues to be a basic element for controlling the financial system. In Argentina, as in most of the world, what is in use is a combination of remote analysis and inspections in the bank itself. The Argentine supervision system specifically applies an internationally recommended classification system, known as the above-mentioned CAMEL system. In summary, this requirement implies that the Central Bank reserves the right to regularly inspect all financial institutions.

I (“Information”). This is a fundamental element in banking supervision and also as regards the control exercised by the market. It is clear that no effective supervision is possible without relevant, reliable and timely information. No discipline can be imposed by the market on the banks and no control will be effective on the supervision if there is no access to such information. This is why the Central Bank requires that the financial institutions disclose certain statistical information on a daily, weekly, monthly and quarterly basis.

C (“Calificación” (Spanish for Rating)). The rating agencies play a quite significant role in banking supervision. The rating work pays attention to the available guarantees and informs the less-specialized investors about the risk involved in the different securities. The investor’s information universe is thus expanded and this increases the efficiency of the information process. It would be economically inefficient for the smaller investors to conduct their own collection and analysis of information for each alternative present in the marketplace. This is the reason that justifies the existence of the rating agencies which naturally appear in the marketplace to fulfill such role. The Central Bank established a system that requires that a credit evaluation be regularly performed by internationally recognized rating agencies.

### **Foreign Currency Position**

As at the date of this Prospectus, the maximum limit for the general foreign exchange position that must be maintained on a daily basis by the financial institutions is the greater of :

- 15% of the equivalent in dollars of their Bank’s Computable Net Worth (Responsabilidad Patrimonial Computable or “RPC”), as registered at the close of the month that is two months prior to the relevant month plus the amount that results from multiplying 5% of the total amount transacted with clients in the purchase and sale of foreign currencies in the month that is two months prior to the relevant month, and 2% of the total deposits at sight and at term locally constituted and payable in foreign bank notes (excluding deposits under custody), as registered at the close of the calendar month that is two months prior to the relevant month.
- And a minimum equivalent to US\$1,500,000 (for the banks), these minimum limits may be increased according to the number of establishments devoted to foreign exchange transactions and by operations with holdings in foreign currencies other than the dollar or the Euro and other permitted transactions. Banco Francés maintains the limit indicated in the point above mentioned.

The maximum limit is reduced by 50% if the financial entity has a debt on record for rediscounts and/or advances with the Central Bank for an amount exceeding 50% of the latest RPC recorded by the entity, excluding from the calculation of the indebtedness those transactions which the entity chose to refinance in terms of Communication “A” 3941 of the Central Bank.

To this effect, the Central Bank defined the general foreign-exchange position as the sum of the following items:

- Gold and foreign currency resources available in the country;
- Gold and foreign currency resources available abroad;
- Foreign public and private securities;
- Cash or future foreign-exchange purchases pending settlement;
- Cash or future public and private security purchases pending settlement;
- Cash or future foreign-exchange sales pending settlement;
- Cash or future public and private security sales pending settlement; and
- Foreign-exchange holdings in the form of deposits and investments at any term in banks from abroad and all kinds of liquid investments abroad.

The general foreign exchange position does not include foreign assets of third parties under custody, balances with correspondents of third parties pending settlement, purchases and sales of foreign currencies or securities at a term and direct investments abroad.

In addition to the limit described above, all funds from foreign currency deposits and received financial loans granted with funds from foreign currency deposits must be applied mainly to the financing of foreign trade transactions, any defects of application being subject to an equivalent increase in the minimum cash requirements. See *“Information on the Company—The Argentine Banking System and its Regulatory Framework—Lending Capacity Provided by Deposits in Foreign Currency”*.

Effective May 1, 2003 in terms of Communication “A” 3889 of the Central Bank, the global net position in foreign currency may not exceed the following limits:

- Negative global net position (liabilities exceeding assets), 30% of the Computable Net Worth.
- Positive global net position (assets exceeding liabilities), the least of the following:
  - (1) 30% of the Computable Net Worth.
  - (2) Own liquid resources.

Own liquid resources means Computable Net Worth minus the immobilized assets and related persons assistance.

The global net position in foreign currency will include all assets and liabilities from financial intermediation in foreign currency and securities in foreign currency (deriving from cash and term transactions) including those contracts for derivatives linked to these concepts, those items which must be included in the General Foreign Exchange Position, all deposits in such currency in accounts opened with the Central Bank, as well as the gold position, the fixed-term deposits in U.S. dollars payable in pesos and any Central Bank bills in U.S. dollars.

In addition to the above and irrespective of the observance of the limit set forth above, the net global position, considering the balances of accounts at sight and other related assets and liabilities –whichever the nature or character of the transaction- (be they assets negotiated on a customary basis or by significant volumes in institutionalized markets) realized or expiring within the following 180 days, may not exceed the percentage applied over the computable equity responsibility of the month prior to that duly indicated by the Central Bank. In order to determine the above position, only the securities registered on the accounts at market value will be considered, irrespective of the calculation in the position of the services whose expiration falls within 180 days (Communication “A” 4135 of May 5, 2004).

By Communication “A” 4350 dated May 12, 2005, the Central Bank suspended as of May 1, 2005 the limits for the global positive net position and the additional short-term limit (transactions due within 180 days), as mentioned above.

Any excess above the limits will be subject to a charge amounting to the greatest of twice the annual rate at due date for Central Bank drafts in dollars or twice the LIBOR rate at thirty days for transactions in such currency.

For financial information regarding our net foreign currency exposure, see Note 25. to the Consolidated Financial Statements.

#### **Fixed assets and other items**

The Central Bank determines that the fixed assets and other items maintained by the financial entities must not exceed 100% of the entity’s RPC.

Such fixed assets and other items include the following:

- Shares of local companies.
- Various credits (including the net balance favorable to Entity corresponding to the Minimum Presumed Income Tax. Undeductible of Basic Net Worth).
- Property for own use.
- Various property items.
- Organization and development expenses.
- Goodwill.
- Financing transactions for related clients.

Excluded from the above concepts are those assets deductible for calculating the entity's RPC and assets affected as guarantee for certain operations mainly related to swaps and derivatives, as well as the financing transactions with certain related companies provided the participation in the company exceeds 50% of the corporate capital and 50% of the votes.

The calculation of such assets will be effected according to the balances at the close of each month, net of depreciations, accumulated amortizations and bad debt risk allowances (except for 50% of the allowance on the portfolio in normal situation). It will also be possible to deduct certain liabilities related to the assets being calculated. In the case of financing transactions with related clients, the calculation will be based on the balance at the close of each month or the largest assistance provided to each client during the period in question.

Any excesses in this relationship generate an equivalent increase of the minimum capitals. Furthermore, any entity incurring noncompliance violations in three consecutive or four non-consecutive months within a period of twelve consecutive months must submit a regularization and normalization program.

## **Lending and Investment Limits**

### *Lending and Investment Limits (except for the public sector)*

Central Bank rules limit the amount of credit, including guarantees, that a commercial bank may extend to, and the amount of equity that it may invest in, any entity at any time. These limits are based on the Bank's Computable Net Worth on the last day of the immediately preceding month.

According to Central Bank rules, a commercial bank may not extend credit to a single non-related client and its affiliates, or invest in that client's equity, in an amount in excess of 15% of the bank's Computable Net Worth. However, we may extend additional credit to that client up to 25% of the Bank's Computable Net Worth if that additional credit is secured with certain senior preferred liquid assets, including public or private debt securities. Total loans or other extensions of credit that a commercial bank may grant to any particular borrower and its affiliates are also limited based on the borrower's net worth. Total loans or other extensions of credit to any particular borrower and its affiliates may not exceed, in general, 100% of such borrower's net worth, but such limit may be increased to 300% of the borrower's net worth if such amount does not exceed 2.5% of the Bank's Computable Net Worth.

Effective October 1, 1995, the Central Bank requires that extensions of credit in any form in excess of 2.5% of a Bank's Computable Net Worth must be approved by the relevant branch manager, regional manager, relevant first line administrative officer of the credit area, general manager and credit committee, if any, of the bank, as well as by its board of directors, administration council or similar corporate body.

In addition, an equity investment of a commercial bank in another company that does not provide services that are complementary to the services provided by a commercial bank may not exceed 12.5% of the stockholders' equity of such company. Temporarily until December 31, 2003, the entities may receive up to 20% as protection for their credits.

### *Related Persons*

The Central Bank limits the amount a bank can lend to, and the amount of equity it may invest in, a "Related Person". A Related Person is defined to include:

- Any individual or entity controlling a bank, controlled by a bank or affiliated with a bank, as defined by the Central Bank;
- Any entity that both controls the bank and has common directors to the extent such directors, voting together, will constitute a simple majority of the boards of directors of the bank and such entity; or
- In certain exceptional cases, any individual or entity whom the Central Bank has determined to be in a position to adversely affect the financial condition of the bank.

"Control" is defined as:

- Holding or controlling, directly or indirectly, 25% of the voting stock of the controlled person;
- Having held 50% or more of the voting stock of the controlled person at the time of the last election of that entity's board of directors;

- Any type of equity holding which creates the ability to vote or direct the vote so as to prevail on any issue considered at the controlled person's general shareholders' meeting or meeting of the board of directors, or
- When a person is determined by the Board of Directors of the Central Bank to be exercising any influence, directly or indirectly, on the management or policies of the bank.

Under Communication "A" 3129 dated June 30, 2000, applied from July 1, 2000, the Central Bank established that the total amount of the operations of a company or related person may not exceed the following percentages of their computable equity as of the last day of the month prior to that to which they apply :

- Local financial institutions whose transactions are subject to consolidation by lender or borrower in terms of regulations on consolidated supervision and which are rated CAMEL 1 or 2:
  - (1) 100% when the entity receiving the loan is rated 1.
  - (2) If the receiving entity is rated 2, 10% without limitations and an additional 90% to be used if the term for the loans and other credit facilities not exceed 180 days.
- Local financial institution not included in the above definition: 10%.
- Local companies consolidated by the financial entity in terms of the consolidated supervision regulations issued by the Central Bank and whose only object is one of the activities defined as "complementary services of the financial activity" that are mentioned below:
  - (1) Stock-exchange or over-the-counter agent in stock exchanges or markets.
  - (2) Issuance of credit or debit or similar cards.
  - (3) Financial assistance through lease transactions in capital goods, durable goods or real property acquired for such purpose or in connection with credits from sales.
  - (4) Temporary acquisition of shareholdings in companies to facilitate their development in order to sell such holdings afterwards. The granting of financing or management and planning advice to such companies.
    - (a) If the controlling financial entity is rated 1: 100%.
    - (b) If the rating is 2, 10% without limitations, plus an additional 90% to be used if the term of the loans and other credit facilities does not exceed 180 days.
- All other domestic companies not complying with the provisions mentioned in the preceding point: 10%.
- Foreign financial institutions rated as "Investment Grade": 10%; all others, 5% for non-guaranteed operations and up to 10% for guaranteed operations, without exceeding 10% as a whole.
- All other transactions: 5% without guarantee and up to 10% with guarantees, without exceeding 10% as a whole.

General Limit: the total amount of the operations of all companies or persons related to the financial institutions referred under the second, fourth, fifth and sixth points above, may not in any case exceed 20% of the company's Computable Net Worth as of the last day of the preceding month.

As of November 13, 1998, pursuant to Communication "A" 2800 of the Central Bank, as supplemented, all lending to or investing in Related Persons is prohibited for any financial institution having a CAMEL rating of 4 or 5 (Communication "A" 2829 of the Central Bank) except in the following situations and under the following limitations:

- Foreign financial institutions which are subsidiaries of the domestic institution subject to oversight on a consolidated basis (Communication "A" 2829 of the Central Bank),
- Foreign banks controlling domestic financial institutions or their branches or subsidiaries abroad (Communication "A" 2829 of the Central Bank),
- When the Related Person is a company that has been fully consolidated by the bank and is exclusively involved in certain activities that are complementary to financial intermediation, the foregoing traditional restrictions with regard to investments and loans apply; and

- When the Related Person is a company expressly referred to as an exempted entity under Article 28 of Law No. 21,726 and only in respect of equity investments, the bank is limited to lending to such Related Person and only in accordance with the previous traditional restrictions.

In addition, with respect to Related Persons who are natural persons, the total amount of loans to those Related Persons cannot exceed Ps.50,000, which must be used exclusively for personal or family purposes. Failure to properly observe these requirements can result in an increase of the minimum capital requirements for credit risk in an amount equal to 100% of the daily excess amounts over the requirements beginning on the month when the excess amounts are not corrected and continuing while the excess amounts remain. In the case of information registered out of term, this increase will be applied beginning on the month when the information is registered and for as long as the default exists. Moreover, once the default has been corrected, the increase will be applied for a number of months equal to the period during which the Central Bank was not informed. For repeated defaults the increase can reach up to 130% of the excess amount.

At December 31, 2005 the aggregate of computable loans, other extensions of credit and equity investments by Banco Francés on a consolidated basis to Related Persons amounted to Ps.131.6 million, or 6.98% of Banco Francés' Computable Net Worth.

#### *Non-financial Public Sector:*

By Communication "A" 3911 dated March 28, 2003 and effective as of April 2003, the Central Bank set forth new limits for those transactions carried out with the non-financial public sector.

The non-financial public sector includes inter alia:

- National Government;
- Provincial Governments;
- City of Buenos Aires;
- Municipal Governments; and
- Central administration, ministries, departments and their decentralized and autonomous entities and other official bodies.

Communication "A" 4527 dated April 25, 2006 determines that the Central Bank may apply to public sector companies governed by Law 20,705 the general treatment foreseen for the non-financial private sector in connection with all effects of the rules applicable on the subject, provided they comply with the following requirements:

- In order to develop their activities, they should not require resources from the state budget –be it the national, municipal, provincial or belonging to the Autonomous City of Buenos Aires– for such concepts as transfers, capital contributions – excepting those corresponding to their incorporation – or reimbursable financial assistance- destined for covering expenses and/or investments made in the course of their normal and customary businesses, with the only exception of those which may have been contemplated in the 2001 and 2003 budgets.
- Technical and professional independence of their managerial bodies for implementing corporate policies.
- To trade their goods and/or services at market prices.
- To possess fixed assets; the use of which in the activity is not subject to any condition from their shareholders.
- No distribution of dividends among their shareholders.

Compliance with all the above conditions must have been verified uninterruptedly during at least the ten years immediately preceding the date of the granting of financial assistance.

All financing granted to the above entities may not exceed the following limits with respect to the entity's equity liability as at the last day of the preceding month:

- Transactions of the national public sector: 50%, this limit include loans granted to governments from other jurisdictions guaranteed by their participation in the federal tax collection system.
- Total of transactions granted to each provincial jurisdiction and the city of Buenos Aires (excluding those comprised in the previous paragraph which must be guaranteed by the collection of local taxes or by pledge or implemented under leasing agreements: 10%. This limit includes financing operations granted to municipal governments in the respective jurisdiction and guaranteed by their participation in the collection of provincial taxes.
- Total of transactions with each municipal jurisdiction, which must be guaranteed by the collection of local taxes or by pledge, or implemented under leasing agreements: 3%. Total financing granted to the above-mentioned jurisdictions (excluding those mentioned in the previous paragraph) : 15%.
- Total of transactions comprised in the first three points above: 75%.

On the other hand, the Central Bank determined that any excesses to the above relations and to the limit mentioned in the last paragraph of this point, exclusively originated in the application of the new limits and conditions for computing financing transactions, will not be considered as non-compliances, provided that such excesses result from transactions existing prior to March 31, 2003, or are determined or increased by the receipt of compensation bonds or promissory notes as per Articles 28 and 29 of Decree No. 905/02, or of those eventually received by application of other specific provisions after that date, and deriving from Law No. 25,561 of Public Emergency and Foreign Exchange Reform (including bonds issued in terms of Decree No. 1735/04 which may be received within the framework of the Argentine debt restructuring, in exchange for eligible securities pre-existing as at March 31, 2003), as well as those received within the framework of the Mortgage Refinancing System established by Law No. 25,798. Those excesses registered in the case of new transactions will also not be considered as non-compliances, provided that they originate exclusively in the granting of financing to the non-financial public sector with funds originated in amortization services or partial or total payments of the aforementioned debt. These funds must be applicable within 180 calendar days following the due date. In the case of a primary subscription of National Government debt securities, point 2 of Communication "A" 4343 authorizes the reinvestment of the funds to be collected for amortizations or partial or total payments, with an anticipation of up to 180 calendar days to their due date.

In addition, by point 1 of Communication "A" 4455 and effective as of December 1, 2005, a margin has been admitted for those entities exceeding the observance of the limits (due to the above-mentioned preexisting operations) to carry out purchase and sale of, or financial transactions with, national public securities responsible for applying minimum capital requirements for market risk, that is to say, with such volatility as informed by the Central Bank, provided it does not exceed the equivalent to 15% of the RPC. Such limit will be constituted with the allocation, as from the date referred to above, of any of the following: i) the realization of non-financial public sector assets in the portfolio which are computable for determining such limits, ii) the allocation at market value of national public securities holdings, and iii) funds received for amortization services corresponding to the public sector assets involved.

However, no financing will be granted in those cases where the ratio of transactions comprised with respect to the Bank's Computable Net Worth determined as of March 31, 2003 is exceeded owing to reductions in this last parameter and until such relationship is reestablished.

Apart from the above-mentioned limits, the guarantee provided to all effects by the collection of taxes (either federal or local) and/or by the collection of royalties by provincial or municipal jurisdictions may not exceed 40% of the total of such income at the time of evaluating the granting of new financing, and considering the new financing about to be granted. This requirement does not apply for transactions guaranteed by pledge or leasing agreements.

Effective July 1, 1993, the amount of non-exempted credit to and equity stakes in a single client, whether related to us or not, of a given bank which individually exceeds 10% of that bank's Computable Net Worth may not exceed, in the aggregate, three or five times the bank's Computable Net Worth, excluding loans in domestic financial institutions and including equity stakes in domestic financial institutions. This last limit does not consider those guaranteed loans received in exchange for national public debt securities implemented through guaranteed loans (Communication "A" 3366). Also excluded until December 31, 2005 will be the compensation bonds or promissory notes received according to the provisions of Articles 28 and 29 of Decree No. 905/02 as amended (point 3 of Communication "A" 4093, as amended by point 7 of Communication "A" 4467).

## **Loan Loss Allowance**

The Central Bank has established specific loan loss allowance requirements for loans to borrowers in the “Risk of insolvency”, “Legal proceeding” and “Bankruptcy or liquidation” categories under the old Central Bank loan classification system in effect prior to June 30, 1994, and loans to borrowers classified as “Inadequate Servicing”, “Potential Risk” or “Special Tracking” (as of October 2001), “Problem”, “Deficient Servicing”, “High Risk of Insolvency”, “Difficult Recovery”, “Irrecoverable” and “Irrecoverable for Technical Decision” under the new Central Bank loan classification system effective on June 30, 1994. In addition, effective in 1993, the Central Bank established a mandatory general allowance requirement for all performing loans. See *“Information on the Company—Selected Statistical Information—Allowance for Loan Losses and Loan Loss Experience”*.

## **Priority of Deposits**

Law No. 24,485 in force since April 18, 1995, as amended by Law No. 25,089, provides that in the event 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 (such as Holders), except for certain labor credits and credits secured with pledge or mortgage, or such credits granted under Article 17, subparagraphs (b), (c) and (f) of the Central Bank’s Charter (including rediscounts granted by financial institutions due to temporary lack of liquidity, advance payments made to financial institutions with security interest, assignment of security interest, pledge or special allocation of certain assets) and credits granted by the Bank Liquidity Fund (Fondo de Liquidez Bancaria) secured by pledge or mortgage, to be paid with 100% of the funds deriving from the liquidation of the Bank’s assets. Moreover, the holders of any type of deposit have a special priority right over all other creditors of the bank, except certain employee creditors, to be paid out of (i) any funds of the bank that may be in the possession of the Central Bank as Minimum Cash Reserve, (ii) any other funds of the bank existing as of the date on which the bank’s license is revoked, or (iii) any proceeds resulting from the mandatory transfer of certain assets of the financial institution to another as determined by the Central Bank pursuant Section 35 of the Argentine Financial Institutions Law, according to the following order of priority: (a) deposits of up to Ps.50,000 per person (including all amounts such person deposited in one financial entity), or its equivalent in foreign currency, (b) all deposits of an amount higher than Ps.50,000 , or its equivalent in foreign currency, and (c) all other deposits on a pro rata basis.

Furthermore, pursuant to section 53 of Law No. 21,526 as amended, credits of the Central Bank shall have priority over other credits, except for credits secured by pledge or mortgage, certain labor credits and depositors, credits granted under Article 17, subparagraphs (b), (c) and (f) of the Central Bank’s Charter (including rediscounts granted by financial institutions due to temporary lack of liquidity, advance payments made to financial institutions with security interest, assignment of security interest, pledge or special allocation of certain assets) and credits granted by the Bank Liquidity Fund (Fondo de Liquidez Bancaria) secured by pledge or mortgage.

## **Capital Markets**

Under the Financial Institutions Law, banks may underwrite and place both equity and debt securities. There are currently no statutory limitations on the size of a bank’s underwriting commitments. However, a bank’s underwriting commitment would be treated as an extension of credit subject to the limitations discussed under “Lending and Investment Limits”.

Commercial banks are authorized to trade public and private debt securities in the Argentine over-the-counter market if they are members of the MAE and authorized to act as over-the-counter brokers (“agentes de mercado abierto”). The MAE is a self-regulatory institution that has been authorized by the CNV. In our capacity as an over-the-counter broker, we are subject to the supervision of the MAE as a self-regulatory institution, and of the CNV as primary regulator, and accordingly, must comply with certain reporting requirements.

Since 1990, the Buenos Aires Stock Market (Mercado de Valores de Buenos Aires—“MERVAL”) has authorized brokerage firms or houses organized as sole purpose corporations to operate as securities brokers on the Buenos Aires Stock Exchange. Commercial banks may freely own a Securities Brokerage Company, there are no current restrictions on ownership, and most of the principal commercial banks operating in Argentina have already established their own Securities Brokerage Company. All brokers, individuals or firms, are required to own at least one share of stock in the MERVAL to be admitted as a securities broker on the Buenos Aires Stock Exchange.

An agreement between the Buenos Aires Stock Exchange and representatives of the MAE dealers provides that trading in shares and other equity securities will be conducted exclusively on the Buenos Aires Stock Exchange and that all debt securities listed on the Buenos Aires Stock Exchange may also be traded on the MAE. Trading in Argentine government securities, which are not covered by the agreement, is conducted mainly on the MAE. The agreement does not extend to other Argentine exchanges.



Commercial banks may operate as both managers and custodians of Argentine mutual funds; provided, however, that a bank may not act simultaneously as manager and custodian for the same fund.

We have been registered as an over-the-counter broker since 1989. In 1991, we established Francés Valores Sociedad de Bolsa S.A.

### **Financial Institutions with Economic Difficulties**

Under the Financial Institutions Law, if a financial institution:

- Evidences a cash reserve deficiency,
- Has not satisfied certain technical standards,
- Has not maintained minimum net worth standards, or
- Is deemed by the Central Bank to have impaired solvency or liquidity,

Such financial entity must submit a regularization and normalization plan under such terms and conditions as may be established by the Central Bank within a term that may not exceed thirty days. This notwithstanding, the Central Bank may appoint overseers with veto powers and/or demand the creation of guarantees and restrict or prohibit the distribution of remittances or profits. The lack of submission, the rejection or any noncompliance with the regularization or normalization plans entitle the Central Bank to revoke the authorization to operate as a financial entity and to apply sanctions. Stet if the plan is accepted, the Central Bank may grant a temporary exemption with respect to the observance of the technical regulations and excuse or postpone the payment of fines (if any).

Likewise, and prior to the revocation of the authorization to operate as a financial entity, the Central Bank may authorize the restructuring of the entity for the protection of its depositors, by applying any of the following decisions or a combination thereof in a sequential, gradual or direct manner: reduction, increase and assignment of the corporate capital, exclusion of assets and liabilities and their transfer to other financial institutions, judicial intervention, responsibility and transfer of excluded assets or liabilities.

### **Dissolution and liquidation of financial institutions**

As provided in the Argentine Financial Institutions Law, the Central Bank must be notified of any decision adopted by a financial institution's legal or corporate authorities concerning its dissolution. The Central Bank, in turn, must then notify such decision to a competent court, which should determine who will liquidate the entity between the corporate authorities or an independent liquidator appointed for the purpose. The court's decision will be based on whether or not there is sufficient assurance that the corporate authorities are capable of carrying out such liquidation properly.

Pursuant to the Argentine Financial Institutions Law, the Central Bank no longer acts as liquidator of financial institutions. However, if a restructuring plan has failed or is not deemed feasible, or violations of local laws and regulations have been incurred, or significant changes have occurred in the institution's condition since the original authorization was granted, then the Central Bank may revoke a bank's license to operate as a financial institution. In this event, the law allows for judicial or extra judicial liquidation. During the liquidation process and once the license to operate as a financial institution has been revoked, a court of competent jurisdiction may adjudge the former financial institution in bankruptcy or a petition in bankruptcy may be filed by any creditor of the bank after a period of 60 calendar days has elapsed since the license was revoked.

### **Money laundering**

The concept of money laundering is generally used to denote transactions intended to introduce criminal proceeds into the institutional system and thus to transform profits from illegal activities into assets of a seemingly legitimate origin.

On April 13, 2000, the Argentine congress passed Law No. 25,246, which defines money laundering as a type of crime. In addition, the law creates the so-called Financial Information Unit, establishing an administrative criminal system, and supersedes several sections of the Argentine criminal code.

Money laundering is defined as a crime under the criminal code, which states that a crime will be committed whenever a person converts, transfers, manages, sells, encumbers, or otherwise uses money or any other assets stemming from a crime in which that

person has not participated, with the possible result that the original or substituted assets may appear to be of a legitimate origin, provided the value of the assets exceeds Ps.50,000 whether such amount results from one or more transactions.

The main purpose of Law No. 25,246 is to prevent money laundering. In line with internationally accepted practice, it does not attribute responsibility for controlling these criminal transactions only to government agencies, but also assigns certain duties to diverse private sector entities such as banks, stockbrokers, brokerage houses and insurance companies. These duties consist basically in information capturing functions. The Central Bank regulation requires banks to take certain minimum precautions to prevent money laundering.

Each institution must appoint a senior management officer as the person responsible for money laundering prevention in charge of centralizing any information the Central Bank may require on its own initiative or at the request of any competent authority. In addition, this officer or other person reporting to the general manager, the board of directors, or equivalent authority, will be responsible for the implementation, tracking, and control of internal procedures to ensure compliance with the regulations.

In addition, financial institutions are required to report to the Superintendence any transaction that appears suspicious or unusual, or lacks economic or legal justification, or is unnecessarily complex, whether performed on isolated occasions or repeatedly. In July 2001, the Central Bank released a list of “non cooperative” jurisdictions so that financial institutions would pay special attention to transactions to and from those areas. Some of those jurisdictions include: Egypt, Guatemala, Cook Islands, Indonesia, Hungary, Lebanon, Marshall Islands and the Philippines.

We comply with all applicable money laundering regulations as provided for by the Central Bank and the Financial Information Unit; in particular with Resolution No. 2 of the Financial Information Unit, dated October 25, 2002, which regulates Section 21 paragraphs a) and b) of Law No. 25,246 that provides for the gathering of information regarding suspicious operations and its reporting to the authorities.

### **Deposit Guarantee Insurance System**

Law No. 24,485, published on April 18, 1995 and Decree No. 540/95 of the same date provided for the organization of a Bank Deposit Guarantee Insurance System. This system is limited, mandatory, and for valuable consideration, designed to provide coverage for risks inherent in bank deposits, as a subsidiary and supplementary protection to that offered by the system of bank deposit privileges and protection created by the Financial Institutions Law.

That Law provided for the organization of the company “Seguros de Depósitos Sociedad Anónima” to manage the Deposit Guarantee Fund, whose shareholders, as amended by Decree No. 1292/96, will be the Central Bank, with one share, as a minimum, and the trust made up of the financial institutions in such proportion as may be determined by the Central Bank for each one, based on their contributions to the Deposit Guarantee Fund.

This guarantee system does not include:

- Deposits made by other financial institutions, including certificates of deposit acquired by secondary trading;
- Deposits made by persons directly or indirectly related to the financial institution;
- Deposits acquired by means of offering incentives, including deposits under the El Libretón program;
- Certificates of deposit of securities, acceptances or guarantees;
- Those deposits made after July 1, 1995 and to September 17, 1998, at a rate exceeding by two percentage points per annum or more than paid by the Banco Nación for similar terms and, after such date, at a rate exceeding by two percentage points per annum the rolling average for the last five banking days of the deposit rates found by the survey performed by the Central Bank; and
- Certificates of deposit transferable whose ownership has been acquired by way of endorsement.

In August 1995, Seguros de Depósitos Sociedad Anónima was organized. We hold a 12.5657% equity interest in the company.

By Communication “A” 2337 of May 19, 1995, the Central Bank notified the financial institutions of the approval of the regulations on the application of the guarantee system as of April 18, 1995.

Decree No. 1127/98 dated September 24, 1998, increased the amount covered by the deposit guarantee system to Ps.30,000, irrespective of the term. In the case of transactions in the name of two or more persons, the guarantee will be prorated among the respective holders. The total guarantee amount by persons may not exceed Ps.30,000, regardless of the number of accounts and/or deposits.

The deposits for amounts over Ps.30,000 are also included in the guarantee system up to the Ps.30,000 limit. The Central Bank may decide at any time to amend the guarantee system cover amount based on continued consolidation of the Argentine financial system or any other indicators.

The Argentine insurance system was financed with monthly contributions by all financial institutions operating in Argentina, ranging from 0.03% to 0.06% of average peso and foreign currency deposits held by such financial institutions.

According to Communication “A” 3064 of the Central Bank, applicable to contributions from January 2000, financial institutions may choose to make a contribution to the Deposit Guarantee Fund equivalent to 50% of the amount mentioned in the preceding paragraph, and arrange a loan with Seguros de Depósitos Sociedad Anónima to provide for the remaining 50%.

Such loans are for a maximum term of 36 months, for each monthly loan, due on the twelfth day of the month in question. The balances owed for Deposit Guarantee Fund accrue an interest equivalent to the yield obtained from the placement to the Deposit Guarantee Fund resources in instruments that are similar to those chosen for the investment of foreign currency reserves of the Central Bank.

Under Communication “A” 3153 dated August 24, 2000, the Central Bank decided to cancel, effective September 2000, the obligation to lend to SEDESA 50% of the monthly contributions, and reduced these contributions to a rate ranging from 0.015% to 0.03% of the monthly average of deposits in pesos and foreign currency held at each entity.

As of December 2004 the contribution to the deposit guarantee fund made by the financial entities has had the following evolution:

- “A” 3358 of November 9, 2001 of the Central Bank, contributions percentage increased to 0.03% effective as of the contribution due December 2001.
- “A” 4206 of September 14, 2004 of the Central Bank, contributions percentage decreased to 0.02% effective as of the contribution due September 2004.
- “A” 4271 of December 30, 2004 of the Central Bank, contributions percentage decreased to 0.015% effective as of the contribution due January 2005.

During 2002, Decree No. 214/02 of the Executive, in its Article 16, made changes to the provisions of Decree No. 540/95 as amended, which allowed SEDESA to issue nominative non-endorsable securities to be offered to depositors as payment of the deposit guarantee whenever it did not have sufficient funds to that effect. Such securities, whose conditions would be established for general purposes by the Central Bank, must be accepted by the financial entities in order to constitute deposits.

### **Credit Cards Law No. 25,065**

Law No. 25,065, enacted in 1999, governs different aspects of the credit, purchase and debit card system. In its main aspects, this law: (i) creates an obligation to sign a contract between the bank and the holder of the credit card before the card is issued, (ii) fixes a maximum limit to financial interest charged on balances, which may not exceed by more than 25% the rate applied to personal loan transactions, (iii) sets a maximum 3% fee to be charged by the banks to commercial establishments, and is not entitled to charged commercial establishments in the same line of business with different rates and (iv) prohibits providing information to financial background databases regarding particulars of credit card holders in delinquent payment situations.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### Considerations on Politics and Economy in Argentina

The Argentine economy has experienced significant volatility in recent decades characterized by periods of low or negative growth and high and variable levels of inflation. Although inflation was tempered and the economy experienced growth during most of the period from 1991 to the middle of 1998, in the third quarter of 1998 the economy entered into a long-lasting recession. In addition, the government experienced an increasing fiscal deficit which rose from approximately US\$4.2 billion in 1998 to US\$8.8 billion in 2001. By December of 2001, Argentina's sovereign debt had increased to approximately US\$143.9 billion, an increase of more than 84% from the end of 1994, primarily due to the inability of the Government to reduce public spending and increase tax collections. In the last quarter of 2001, Argentina's economic conditions deteriorated significantly, precipitating a political and economic crisis.

In the context of marked uncertainty following political and regulatory changes, in the first quarter of 2002 the economy recorded its largest reversal in the last 20 years (-16.3% on a year-over-year basis). The main declines were recorded by consumption and domestic investment, as a result of shrinking incomes following the devaluation and subsequent pesification, combined with the absence of a stable legal framework. In the following quarters, GDP showed a slight improvement in seasonally adjusted terms, driven by exporting and import substitution sectors, which benefited from the depreciation of the peso. Even so, output was down 10.9% for the year, because of the predominance of the fall in activity in service sectors that represent over 60% of the GDP.

The year 2003 started with strong political uncertainties, which decreased with the newly elected administration. President Kirchner, who won the elections with only 22% of the votes, thereafter consolidated his political power through provincial elections and reinforced his positive image. Moreover, the exchange and price stability allowed for a significant recovery of consumer confidence that translated into higher consumption levels in the second semester. The growing economic activity, GDP increased by 8.8 % in 2003, was also driven by fixed gross investment, mainly in the construction industry, which rose by 38 %. Local demand recovery, however, did not result in a larger pressure on prices as on average the economic figures are still below full use of resources. Showing strong differences between goods and services, consumer prices increased only 3.7% in 2003.

A favorable evolution in the Argentine economy was recorded during year 2004. In this respect, the following indicators are worth mentioning: i) an increase in the Treasury primary surplus which exceeded the targets agreed on in the short-term agreement with the International Monetary Fund; ii) a decrease and stabilization in the foreign exchange parity as a result of substantial trade surplus; iii) an increase of 9% in the Gross Domestic Product during the year 2004; iv) stabilization of wholesale and retail inflation rates; v) a more steady financial context with an increase in the financial system deposits; and vi) a marked increase in the prices of publicly traded Government securities.

Moreover, unemployment levels also showed considerable improvements reaching 12.1% during the fourth quarter of 2004, over 2 percentage points below the same rate of the same period of the previous year.

Exports from Argentina also benefited from the high prices of commodities, especially the soy sector during the first semester. While export prices rose 9.4% during the year, the amounts exported only grew 6.6% mainly due to the fall in volumes of primary products exported as result of the weather conditions that impacted on the soy harvest. Exports of industrial products rose by almost 24% during the year, led by automobile, chemical and plastic products. However, the trade surplus (of 12,105 million dollars) fell in comparison to the previous year due to the strong increase in imports that expanded 62 % once again led by capital goods purchases.

The key economic event during 2005 was the restructuring of the public debt in default since 2001 launched by the Government in February pursuant to which the Argentine government offered its creditors three types of bonds (Par, Discount & Quasi-par) in exchange for the Argentine sovereign debt they held, as well as bonds in lieu of past due interest on such sovereign debt. The exchange offer encompassed 81,836 million dollars in securities held by residents and non residents, and achieved an acceptance rate of 76.15%. The new bonds issued after the exchange amounted to 35,261 million dollars, among which 44% were denominated in pesos.

For the third consecutive year, the economy grew by 9.2%. With an economy growing at high rates, inflationary pressures started to appear during the first quarter of the year. Regulated prices (mainly public utilities' tariffs) had a moderating impact on inflation in spite of which, the year ended with a 12.3% increase in prices.

Greater optimism following the successful debt restructuring resulted in the return of positive capital flows to Argentina which added to the dollar surplus stemming from the trade balance. Increased export dynamics, mainly in manufactured industrial goods,

was reflected in a 14.2% accrued growth of volumes exported in 2005. Thus, the trade surplus for the year closed at 11,418 million dollars, only 5.7 % below 2004's, despite the 23.6 % growth of imports.

In this environment of abundant foreign exchange supply and with the public sector as the main buyer of dollars with the purpose of honoring debt commitments with multilateral organizations, the exchange rate closed 2005 at 3.03 pesos per dollar, slightly above December 2004 levels.

During 2005 the Government was able to sustain fiscal solvency and the primary result of the non financial public sector reached 19,661 million pesos, more than 13% above previous year's surplus.

In general, improvements in collection were the result of an increased inflation, economic activity growth and reduction of tax evasion. As of the second half of the year primary expenses started to grow at a rate stronger than that of revenues and this performance continued during the first quarter of 2006.

The year 2005 was characterized by the higher interest payments and debt amortizations, of approximately 12,000 million dollars, that the government had to face due to different reasons, including the completion of the debt restructuring process and the lack of agreement with the IMF during the year. By mid-December, the government decided to pay off, completely and in advance, its 9,500 million dollar debt with the IMF making use of accrued international reserves at the Central Bank. This transaction was carried out at the beginning of January 2006, replacing those reserves at the Central Bank by a dollar-denominated government security with similar yield.

### **Effects of Recent Events on Banco Francés**

Substantially all of our operations, property and customers are located in Argentina. Consequently, following the 2002 crisis and the package of government measures described elsewhere in this annual report, our financial condition and results of operations were deeply affected. During 2002 our business activities contracted compared to historical levels since December 2001, and a liquidity needs led to a suspension of most of new loans. Our structural strengths, our reaction capacity and our adjustment to the new economic environment were the pillars of our performance in 2002. We responded to the deepening of the crisis by prioritizing liquidity, substituting foreign currency funds with domestic currency funds and satisfying the growing demand for transactional business, while adjusting the operating structure to the new business profile.

Following a four-year recession period, the economy began to recover in 2003 and deposits flowed back into the system. This positive trend continued during 2004 both in terms of economic activity and fiscal solvency, with stable prices and exchange rates, while in the financial system peso and dollar deposits continued to grow and loans to the private sector accelerated their recovery. Similarly the economy showed a solid performance during 2005, with a robust 9% GDP growth. The successful conclusion of the sovereign debt restructuring process by the beginning of the year led to a capital inflow, which in turn, combined with a positive trade balance, allowed to maintain the national government's fiscal surplus, while the monetary policy implemented by the Central Bank focused on increasing international reserves. Deposits also have recovered, spurred by the strong performance of private sector deposits, and private sector loans outperformed with cumulative expansion of over 30%.

In 2005, we concentrated our efforts on implementing the following measures:

- Increase private sector loans with a conservative risk assessment strategy;
- Reduce our public sector exposure in order to comply with regulations that limit public sector holdings to 40% of total assets;
- Further develop the transactional business as a source of fee income;
- Improve our assets and liabilities structure (including the payment of the loans granted by the Central Bank during the liquidity crisis) given the increase in public sector assets' market value; and
- Engage in discussions with the Government on the solution of pending issues, such as: 1) compensation of losses related to the payment of judicial injunctions; and 2) reduction of structural mismatches between our assets and liabilities accounts (term and rate).

## Critical Accounting Policies

Our Consolidated Financial Statements are prepared in accordance with the rules prescribed by the Central Bank, which differ in certain respects from generally accepted accounting principles in Argentina, as described in Notes 3. and 4. to the Consolidated Financial Statements. These rules require Banco Francés and its subsidiaries to make some estimates and assumptions. Some of these estimates require difficult, subjective or complex judgments about matters that are inherently uncertain, and as a result, actual results could differ from those estimates. Due to the estimation process involved, the following summarized accounting policies and their applications are considered to be critical to understanding the business operations, financial condition and results of operations of Banco Francés and its subsidiaries.

### *Allowance for Commercial Loan Losses*

Banco Francés provides for estimated possible losses on loans and the related accrued interest generally through the establishment of an allowance for loan losses. The allowance for commercial loan losses charged to expense is determined by management based on a periodic analysis of updated financial information provided by the debtor at the request of Banco Francés. The basic assessment criterion is the future debt payment capacity or the collateral granted to Banco Francés on the basis of the estimated cash flow. Banco Francés also takes into account other circumstances such as timely compliance with obligations, qualified and honest management, whether the company is engaged in economic activities with acceptable prospects and the competitiveness of the debtor within its industry.

On the basis of these conditions, the customer is placed in any of the six categories established by the Central Bank that have been assigned minimum fixed allowance requirements. Based on its analysis, Banco Francés books additional allowances for certain debtors, which does not require recategorizing the debtor under the rules of the Central Bank. The use of different estimates or assumptions could result in different allowances for commercial loan losses.

### *Contingent Liabilities*

We are subject to proceedings, lawsuits and other claims related to labor, commercial, civil and other matters. We make determinations of the amount of reserves required, if any, for these contingencies after a careful analysis of each individual issue. The required reserves may change in the future due to new developments in each matter or changes in the settlement strategy.

The Bank is a defendant in several actions in which the petitioner claims the government measures taken with respect to their deposits during the economic crisis was a violation of constitutional law. Several judges in these actions have issued injunctions against Banco Francés ordering: 1) the reimbursement of deposits in amounts larger than those provided for under current legislation or 2) the release of rescheduled deposits or 3) inapplicability of the "emergency framework" legislation passed by the National Congress and the measures issued by the Federal Executive or the Central Bank. Because no city, state, or supreme court has ruled on the matter as of the date of filing of this report, the final outcome of these legal actions is unknown.

At December 31, 2005, as described in Note 15.2. to the Consolidated Financial Statements, the Bank records as an intangible asset the difference in nominal terms between the deposit at the free market exchange rate at the moment of each payment compared to the book value of 1.40 pesos per dollar plus CER to that date. This asset is being amortized in 60 monthly installments from April 2003. As of December 31, 2005, Banco Francés keeps registered under this concept Ps.1,119.4 million less accumulated amortization of Ps.554.0 million under Intangible Assets. Moreover, Banco Francés has stated in a note to the Financial Statements that the amortization described above is charged solely to comply with the regulations of the Central Bank and that it should not be interpreted as an implicit waiver of possible compensation or recovery of the exchange rate differences resulting from the compliance with court orders granted in actions seeking the protection of civil rights or other legal actions derived from the mandatory conversion of bank deposits into pesos.

### *Fair Value*

We prepare our financial statements in accordance with the rules of the Central Bank related thereto, which differ from U.S. GAAP in valuing financial instruments. U.S. GAAP require financial instruments to be valued at fair value. We estimated the fair value as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and such value was best evidenced by a quoted market price, if one existed. In cases where quoted market prices were not available, fair value estimation was based on the quoted market price of a financial instrument with similar characteristics, the present value of expected future cash flows, or other valuation techniques, all of which were significantly affected by the assumptions used (see Note 17.16. to Consolidated Financial Statements).

Although we used our best judgment in estimating the fair value of these financial instruments, there are inherent weaknesses in any estimation technique. As a result, the fair value may not be indicative of the net realizable or liquidation value. Moreover, minor changes in the assumptions used could have a significant impact on the resulting estimated fair values.

For a detailed description of the applicable accounting principles, please see Note 3. to the Consolidated Financial Statements.

#### *Differences Between Central Bank Rules and Generally Accepted Accounting Principles Effective in the City of Buenos Aires*

The most significant valuation differences between the rules prescribed by the Central Bank and the professional accounting standards effective in Buenos Aires City are detailed below (see Note 4. to the Consolidated Financial Statements).

- Restatement of the financial statements to recognize the changes in the purchasing power of the currency

The Consolidated Financial Statements recognize the effects of changes in the purchasing power of the currency up to February 28, 2003 following the restatement method established by Technical Pronouncement No. 6 of the F.A.C.P.C.E. (amended by TP No. 19). In accordance with Decree No. 664/03 of the National Executive Branch, Communication “A” 3921 of the Central Bank and Resolution No. 441 of the C.N.V., application of that method was discontinued by the Bank and, therefore, it the Bank did not recognize the effects of changes in the purchasing power of the currency arising after March 1, 2003.

Professional accounting standards effective in Buenos Aires City established the discontinuance of the restatement into homogenous currency as of October 1, 2003 on the understanding that the country had a stable monetary context. The change in the Wholesale Price Index between March 1, 2003 and September 30, 2003 was 2.14% (negative). Had the accounting information been restated in accordance with professional accounting standards, effective in the City of Buenos Aires, the effect on the net loss for each fiscal year and total stockholders’ equity would not have been significant considering the financial statements as a whole.

- Valuation Criteria

##### (1) Federal Government Secured loans

As detailed in Note 3.5.3. to the Consolidated Financial Statements, and as a consequence of the provisions of Decree No. 1387/01, on November 6, 2001, the Bank and its subsidiaries exchanged national government securities, bonds, treasury bills and/or unsecured loans with the National Government for a face value of US\$3,291,795 thousand for Federal Secured loans. At December 31, 2005 and 2004, those loans are recorded under “Loans – to the Public Sector” amounting to Ps.3,809,264 thousand and Ps.6,181,489 thousand, respectively, in accordance with Central Bank regulations.

In accordance with current professional accounting standards, effective in the City of Buenos Aires, at December 31, 2005 and 2004, the value of these assets should have been calculated by considering the respective quotation values of the swapped bonds at November 6, 2001, which as from that date are considered as transaction costs, plus interest accrued through the end of each period, converted into pesos at the rate of Ps.1.40 per dollar plus CER. However, the recoverable values of these assets exceed their book values.

##### (2) Government Securities and Other credit assistance with the Public Sector

As of December 31, 2005 and 2004, the Bank and its subsidiaries own Government Securities and other assets with the Public Sector, valued in accordance with the criterion described in Notes 3.5.2., 3.5.3. and 3.5.8. to the Consolidated Financial Statements. In accordance with accounting standards currently in effect in the City of Buenos Aires, these assets are to be valued at current value.

The net balance sheet effect resulting from considering current values would imply a decrease in shareholders’ equity in approximately Ps.265,000 and Ps.518,000 thousand as of December 31, 2005 and 2004, respectively.

##### (3) Effects caused by court measures related to deposits (constitutional protection actions)

As mentioned in Note 15.2. to the Consolidated Financial Statements, at December 31, 2005 and 2004, the Bank recorded assets amounting to Ps.565,352 thousand and Ps.739,289 thousand, respectively, under “Intangible Assets – Organization and Development Expenses” corresponding to differences resulting from compliance with the court

measures generated by the repayment of deposits in the financial system within the framework of Law No. 25,561, Decree No. 214/02 and complementary regulations, as established by Communication “A” 3916 of the Central Bank. In accordance with current professional accounting standards, effective in the City of Buenos Aires, those amounts should be recognized based on the best possible estimate of amounts receivable, considering the circumstances mentioned in that note.

(4) Tax Effects

As it is indicated in Note 5.1. to the Consolidated Financial Statements., the Bank has received various communications from the Central Bank pursuant to which that Central Bank indicates that the capitalization of items arising from the application of the deferred tax method is not allowed. In accordance with current professional accounting standards, effective in the City of Buenos Aires, a deferred tax asset should be recognized to the extent the reversal of temporary differences generates a future decrease in the tax effectively determined. As a result, the provisions set up by the Bank in this respect, for Ps.360,000 thousand and Ps.118,000 thousand as of December 31, 2005 and 2004, respectively, should be recovered.

In all other material respects, Central Bank rules are consistent with generally accepted accounting principles in Buenos Aires City.

*Differences Between Other Regulatory Bodies and Accepted Accounting Principles Effective in the City of Buenos Aires*

In 2005, Consolidar Cía de Seguros de Retiro S.A. included the balance from the technical commitments incurred with the insured in the Other Liabilities caption. The Other Subsidiaries’ Liabilities caption includes Ps.29,819 corresponding to the regularizing account called “Unaccrued Secured Loans Valuation Difference” which, as established by the Superintendency of Insurance, will be settled through subsequent accrual of the regularizing accounts of secured loans. In accordance with the current professional accounting standards, effective in the City of Buenos Aires, such amount should have been recorded as a loss for the year ended December 31, 2003.

**Operating Results**

Changes to Argentine law have had a significant impact on our operations. The conversion of certain of our dollar-denominated assets and liabilities into peso-denominated assets and liabilities and the devaluation of the peso, took place during fiscal year 2002 and therefore are reflected in our Financial Statements for the fiscal year ended December 31, 2002. Furthermore, the changes in Argentine law and their impact on our operations are expected to render any comparison of financial statements of ours for periods ended after December 31, 2001 with those for periods ended on or prior to December 31, 2001 meaningless.

The Bank presents its financial statements in equivalent purchasing power, following the restatement method established by FACPCE Technical Resolution No. 6 (modified by Technical Resolution No. 19), using an adjustment rate derived from the internal WPI published by the INDEC.

According to the above mentioned method, the accounting measurements were restated according to the purchasing power changes of August 31, 1995. As of that date, based on the prevailing economic stability conditions and according with CNV General Resolution No. 272 and Central Bank Communication “A” 2365, the accounting measures were not restated through December 31, 2001. In light of CNV General Resolution No. 415 and Central Bank Communication “A” 3702, the method was reinstated effective as of January 1, 2002, considering the previous accounting measures restated as of December 31, 2001.

By means of Communication “A” 3921 of the Central Bank and CNV General Resolution No. 441/03 in compliance with Decree No. 664/03 of the Executive Branch the application of the restatement method on financial statements in equivalent purchasing power has been suspended as of March 1, 2003. Accordingly, Banco Francés applied the mentioned restatement only until February 28, 2003.

The following discussion is based upon information contained in the Consolidated Financial Statements and should be read in conjunction with them. The Consolidated Financial Statements have been prepared in accordance with the rules of the Central Bank related thereto (Argentine Banking GAAP), which differ in certain respects from Argentine GAAP and U.S. GAAP. The principal differences between Argentine Banking GAAP and U.S. GAAP are discussed in Note 17 to the Consolidated Financial Statements as they relate to us, together with a reconciliation to U.S. GAAP of our net income and total stockholders’ equity. For a more detailed description of the accounting principles and considerations used in preparing the following discussion, see “*Presentation of Financial Information*”. Additionally the information set below for the fiscal years ended December 2004 and 2003 has been modified from its



original version to apply the adjustments to prior years' income (loss). As fully explained in Note 3.5.18. to the Consolidated Financial Statements.

Within the framework of the Regularization and Reorganization Plan filed by the Bank with the Central Bank, and Resolution No. 52/04 of the Superintendency of Financial and Exchange Institutions, dated March 17, 2004, on March 18, 2004, the Bank sold to BBVA S.A. its 100% interest in Banco Francés (Cayman) Ltd. Accordingly, the Financial Statements for the fiscal years ended up to December 31, 2003 include the consolidation of Banco Francés (Cayman) Ltd. For more information see Notes 1.5. and 15.5. to the Consolidated Financial Statements.

## Results of Operations for the Fiscal Years Ended December 31, 2005, 2004 and 2003.

### Overview

Our net income for fiscal year ended December 31, 2005 was Ps.117.2 million. This income was mainly due to a 50.07% increase in Gross Intermediation Margin, a 23.29% increase in Service Charge Income, a 4.98% decrease in Other Expenses and a 75.73% decrease in Income Tax. This income was partially offset by a 120.43% increase in Provisions for Loan Losses, a 41.83% increase in Service Charge Expense, a 14.12% increase in Operating Expenses, a 33.66% decrease in Other Income and a 32.94% increase in loss on Minority Interest in Subsidiaries.

Our net loss for fiscal year ended December 31, 2004, was Ps.54.0 million. This loss was mainly due to a 10.56% increase in Service Charge Expense, a 38.93% decrease in Other Income, a 3.28% increase in Other Expense and a 366.33% increase in loss on Minority Interest in Subsidiaries. The loss was partially offset by a 305.06% increase in Gross Intermediation Margin, a 32.91% decrease in Provisions for Loan Losses, a 27.77% increase in Service Charge Income, a 4.44% decrease in Operating Expenses, a 59.26% decrease in Income Tax and the elimination of monetary loss.

### Financial Income

Our Financial Income increased 43.24% to Ps.1,654.2 million for the fiscal year ended December 31, 2005 from Ps.1,154.8 million for the fiscal year ended December 31, 2004 which in turn decreased 5.86% from Ps.1,226.7 million for the fiscal year ended December 31, 2003. The components of our Financial Income are reflected in the following table.

	Fiscal Year Ended December 31,		
	2005	2004	2003 <sup>(1)</sup>
	(in thousands of pesos)		
Interest on cash and due from banks	25,364	12,641	10,045
Interest on loans to the financial sector	21,245	5,675	6,997
Interest on overdraft	41,346	25,184	28,710
Interest on loans with privileged guarantees	45,109	46,256	48,696
Interest on credit card loans	24,095	17,606	32,992
Interest on other loans	498,423	354,247	384,035
Net income from government and private securities	209,438	182,183	179,667
Interest from other receivables from financial transactions	10,374	6,921	7,181
Indexation by benchmark stabilization coefficient (CER)	663,743	375,921	284,274
Listed-price differences	-	-	193,147
Other	115,015	128,191	50,993
Total	<u>1,654,152</u>	<u>1,154,825</u>	<u>1,226,737</u>

(1) Some reclassifications in both financial income and financial expenses have been carried out to make comparisons easier.

The increase in Financial Income during fiscal year ended December 31, 2005, was mainly due to an increase in CER, Net income on Government and Private Securities, Interest on Other Loans, Interest on Overdraft, Interest on Loans to the Financial Sector, Interest on Cash and Due from Banks and Interest on Credit Card Loans. These increases were partially offset by decreases in Interest on Loans with Privileged Guarantees and Other Financial Income. This variation reflected the increase in average volume and average nominal interest rate on interest earning assets.

The decrease in Financial Income during the fiscal year ended December 31, 2004, was mainly due to a decrease in listed-price differences, Interests on Other Loans, Interest on Overdraft, Interest on Credit Card Loans, Interest on Loans with Privileged Guarantees and Interest on Loans to the Financial Sector. These decreases were partially offset by increases in CER, Interest on Cash and Due from Banks, Net Income from Government and Private Securities and increases in Other Income. This variation reflected the

decrease in average volume on interest earning assets partially offset by increases in average nominal rates on interest earning assets (increase in average real rates).

The following table sets forth the changes in financial income due to increases/decreases in volume and increases / decreases in nominal rates of average interest-earning assets. Such financial income excludes exchange differences and premiums or forward sales of foreign exchange.

	December 31 2005 vs. December 31 2004 Increase (Decrease)	December 31 2004 vs. December 31 2003 Increase (Decrease)
	(in thousands of pesos)	(in thousands of pesos)
Financial Income due to changes in the volume of interest-earning assets	253,128	(159,235)
Financial Income due to changes in average nominal rates of interest-earning assets	202,735	305,015
Financial Income due to changes in the volume and average nominal rates of interest-earning assets	47,966	(49,380)
Net Change	503,829	96,400

#### *Financial Expenses*

Financial Expenses increased 32.85% to Ps.608.9 million in the fiscal year ended December 31, 2005 from Ps.458.4 million in the fiscal year ended December 31, 2004, which in turn was decrease of 56.55% from Ps.1,054.8 million in the fiscal year ended December 31, 2003. The components of our Financial Expenses are reflected in the following table.

	Fiscal Year Ended December 31,		
	2005	2004	2003 <sup>(1)</sup>
	(in thousands of pesos)		
Interest on checking accounts	23,782	20,359	17,454
Interest on savings deposits	3,675	3,639	4,282
Interest on time deposit <sup>(2)</sup>	152,660	116,569	413,390
Interest from other liabilities from financial transactions	28,001	21,845	173,568
Indexation by benchmark stabilization coefficient (CER)	306,815	166,712	101,091
Listed-price differences	525	-	225,463
Other	93,491	129,236	119,546
Total	608,949	458,360	1,054,794

(1) Some reclassifications in both financial income and financial expenses have been carried out to make comparisons easier.

(2) Includes interest on "CEDROS".

Taxes on Financial Income and Contributions to the Bank Deposit Guarantee Insurance System, included in Financial Expense—Other, amounted to Ps.32.2 million as of December 31, 2005, Ps.43.1 million as of December 31, 2004 and Ps.33.9 million as of December 31, 2003.

Contributions to the Bank Deposit Guarantee Insurance System decreased during fiscal year 2005 due to the decrease in the rate of contribution from 0.03% - 0.02% during fiscal year ended December 31, 2004 to 0.015% in the fiscal year ended December 31, 2005.

Contributions to the Bank Deposit Guarantee Insurance System increased during fiscal year 2004 due to increases in volume of savings and demand deposits.

The following table sets forth the changes in Financial Expenses due to the increases/decreases in volume and decreases/increases of nominal rates of average interest-bearing liabilities. Such Financial Expense excludes exchange rate variations and premiums on forward purchases of foreign exchange, contributions to Bank Deposit Guarantee Insurance System, mandatory contributions and taxes on interest income.

	December 31, 2005 vs. December 31, 2004 Increase (Decrease)	December 31, 2004 vs. December 31, 2003 Increase (Decrease)
	(in thousands of pesos)	(in thousands of pesos)
Financial Expense due to changes in the volume of interest-bearing liabilities	5,283	(75,800)
Financial Expense due to changes in average nominal rates of interest-bearing liabilities	154,165	(260,052)
Financial Expense due to changes in the volume and average nominal rates of interest-bearing liabilities	1,867	27,513
Net Change	161,315	(308,339)

Our average interest-bearing liabilities increased 1.27% from Ps.10.2 billion in fiscal 2004 to Ps.10.3 billion in the fiscal year ended December 31, 2005. This increase was mainly attributable to a increase in volume of saving deposits and time deposits, partially offset by decreases in volume of loans from the Central Bank, other financial institutions, corporate bonds and Other liabilities. Average dollar-denominated time deposits increased 94.27% from Ps.195.1 million in the fiscal year ended December 31, 2004 to Ps.379.0 million in the fiscal year ended December 31, 2005. Average peso-denominated time deposits increased 22.16% to Ps.4,852.7 million in the fiscal year ended December 31, 2005, from Ps.3,972.5 million in the fiscal year ended December 31, 2004. Average dollar-denominated and peso-denominated saving deposits increased 60.25% and 6.22% from Ps.364.0 million and Ps.2,061.2 million in the fiscal year ended December 31, 2004, to Ps.583.3 million and Ps.2,189.5 million in the fiscal year ended December 31, 2005, respectively. Average corporate bonds issued decreased 23.53% from Ps.415.2 million in the fiscal year ended December 31, 2004 to Ps.317.5 million in the fiscal year ended December 31, 2005. Borrowings from the Central Bank decreased 35.928% from Ps.1,949.6 million in the fiscal year ended December 31, 2004 to Ps.1,249.3 million in the fiscal year ended December 31, 2005 mainly due to the payments made during the fiscal year and the full prepayment in September 2005 of the Advances received from BCRA during the liquidity crisis of fiscal 2002. See *“Information on the Company—Selected Statistical Information—Changes in Interest Income and Interest Expense; Volume and Rate Analysis”*.

Our average interest-bearing liabilities decreased 10.5% from Ps.11.4 billion in fiscal 2003 to Ps.10.2 billion in the fiscal year ended December 31, 2004. This decrease was mainly attributable to a decrease in volume of time deposits, loans from the Central Bank, other financial institutions, corporate bonds and Other liabilities, partially offset by an increase in volume of saving deposits. Average dollar-denominated time deposits decreased 57.03% from Ps.454.1 million in the fiscal year ended December 31, 2003 to Ps.195.1 million in the fiscal year ended December 31, 2004. Average peso-denominated time deposits decreased 12.96% to Ps.3,972.5 million in the fiscal year ended December 31, 2004, from Ps.4,563.8 million in the fiscal year ended December 31, 2003. Average dollar-denominated and peso-denominated saving deposits increased 32.92% and 181.09% from Ps.273.8 million and Ps.733.3 million in the fiscal year ended December 31, 2003, to Ps.364.0 million and Ps.2,061.2 million in the fiscal year ended December 31, 2004, respectively. Average corporate bonds issued decreased 14.0% from Ps.482.8 million in the fiscal year ended December 31, 2003 to Ps.415.2 million in the fiscal year ended December 31, 2004. Borrowings from the Central Bank decreased 10.18% from Ps.2,170.6 million in the fiscal year ended December 31, 2003 to Ps.1,949.6 million in the fiscal year ended December 31, 2004 mainly due to the payments made during the fiscal year.

#### Gross Intermediation Margin

Our Gross Intermediation Margin (defined as Financial Income less Financial Expenses) of Ps.1,045.2 million in the fiscal year ended December 31, 2005, represented a 50.07% increase over Gross Intermediation Margin of Ps.696.5 million in the fiscal year ended December 31, 2004, which in turn represented a 305.06% increase over Gross Intermediation Margin of Ps.171.9 million in the fiscal year ended December 31, 2003.

The following table sets forth the changes in Gross Intermediation Margin:

	December 31, 2005 vs. December 31, 2004 Increase (Decrease)	December 31, 2004 vs. December 31, 2003 Increase (Decrease)
	(in thousands of pesos)	(in thousands of pesos)
Gross Intermediation Margin due to changes in the volume of interest-earning assets and interest-bearing liabilities	247,845	(83,435)
Gross Intermediation Margin due to changes in average nominal rates of interest-earning assets and interest-bearing liabilities	48,570	565,067
Gross Intermediation Margin due to changes in the volume and average nominal rates of interest-earning assets and interest-bearing liabilities	46,099	(76,893)
Net Change	342,514	404,739

The increase in the Gross Intermediation Margin in the fiscal year ended December 31, 2005 was principally due to an increase in the yield spread (nominal basis) from 5.03% in the fiscal year ended December 31, 2004 to 5.22% in the fiscal year ended December 31, 2005, and to the increases in volume and average nominal rates of interest-earning assets partially offset by increases in volume and nominal rates of interest-bearing liabilities.

The increase in the Gross Intermediation Margin in the fiscal year ended December 31, 2004 was principally due to an increase in the yield spread (nominal basis) from 0.87% in the fiscal year ended December 31, 2003 to 5.03% in the fiscal year ended December 31, 2004, and to the decreases in volume and average nominal rates of interest-bearing liabilities and increase in average nominal rates of interest-earning assets partially offset by decrease in volume of interest-earning assets.

See “*Information on the Company—Selected Statistical Information—Average Balance Sheets, Interest Earned on Interest-Earning Assets and Interest Paid on Interest-Bearing Liabilities*”, “*Interest-Earning Assets: Net Interest Margin and Spread*”.

#### *Provision for Loan Losses*

Loan loss provisions totaled Ps.114.6 million in the fiscal year ended December 31, 2005, a 120.43% increase over Ps.52.0 million in the fiscal year ended December 31, 2004, which in turn represents a 32.91% decrease over the Ps.77.5 million in the fiscal year ended December 31, 2003. The increase in fiscal 2005 was mainly due to direct charge offs derived from the sale of Public Sector Loans done during the year. The decrease in fiscal 2004 was mainly due to the improvement of the economic situation in some economic sectors, which allowed for a better recovery of the loans portfolio and due to the sale of nonperforming loans in connection to the Banco Francés (Cayman) Ltd. transaction.

Our non-performing loan portfolio amounted to Ps.93.5 million at December 31, 2005, a 11.10% decrease over Ps.105.1 million at December 31, 2004, which in turn represented a 82.07% decrease over the Ps.586.2 million at December 31, 2003.

The non-performing loan portfolio ratio decreased from 6.66% at December 31, 2003 to 1.11% as of December 31, 2004 and decreased to 1.08% as of December 31, 2005.

Our management believes that our allowance for loan losses is adequate to cover any known losses and any losses inherent in its loan portfolio. For a discussion of our policy with respect to the establishment of our allowance for loan losses see “*Information on the Company—Selected Statistical Information—Allowance for Loan Losses and Loan Loss Experience*”.

#### *Service Charge Income*

Service Charge Income was Ps.721.2 million for fiscal year ended December 31, 2005, Ps.584.9 million for fiscal year ended December 31, 2004 and Ps.457.8 million for fiscal 2003. The fiscal year 2005 amount represented a 23.29% increase from the amount earned in fiscal 2004. The fiscal 2004 amount represented a 27.77% increase from the amount earned in 2003. The following table provides a breakdown of our Service Charge Income by category.

	Fiscal Year Ended December 31,		
	2005	2004	2003
	(in thousands of pesos)		
Service charges on deposit accounts	141,885	136,537	114,046
Credit card operations	75,913	74,540	55,309
Other fees related to foreign trade	33,051	24,215	23,734
Credit-related fees	14,391	7,668	4,231
Fund management fees	317,633	257,520	193,225
Capital markets and securities activities	9,496	8,798	10,604
Rental of safety deposit boxes	11,419	9,210	6,314
Fees related to guarantees	1,791	2,547	1,813
Insurance agency	20,409	18,101	10,493
Other	95,179	45,777	38,009
Total	721,167	584,913	457,778

Service charges on deposit accounts are comprised principally of maintenance fees on checking and savings accounts and transaction fees on current accounts. These fees increased 19.32% from Ps.114.0 million in the fiscal year ended December 31, 2003 to Ps.136.1 million in the fiscal year ended December 31, 2004 which in turn increased 4.26% to Ps.141.9 million in the fiscal year ended December 31, 2005. The increase in fiscal 2005 was mainly due to increases in the volume and number of transactions of such

accounts. The increase in fiscal 2004 was mainly due to an increase in activity. At December 31, 2005, we had 1,285,428 of such accounts compared to 1,211,006 such accounts at December 31, 2004 and compared to the 1,271,479 such accounts at December 31, 2003.

Income from credit card operations, which consists of customer fees, retailer transaction fees, merchant processing fees and penalty charges, increased 34.77% from Ps.55.3 million in the fiscal year ended December 31, 2003 to Ps.74.5 million in the fiscal year ended December 31, 2004, and in turn increased 1.84% to Ps.75.9 million in fiscal 2005. The increase in the fiscal year 2005 was mainly due to increases in activity, in the use of credit cards and in the volume of credit cards issued. The increase in the fiscal year 2004 was mainly due to the recovery of the Argentine economic situation during the fiscal year. At December 31, 2005, the total number of credit cards we issued amounted to 672,558 compared to 558,864 at December 31, 2004 and to 507,687, at December 31, 2003.

Fees related to foreign trade increased 2.03% from Ps.23.7 million in the fiscal year ended December 31, 2003, to Ps.24.2 million in the fiscal year ended December 31, 2004, and in turn increased 36.49% to Ps.33.1 million in the fiscal year ended December 31, 2005. The increase in fiscal 2005 was mainly due to increases in volume of foreign trade and to the increase in the exchange rate. The increase in the fiscal year 2004 was mainly because of increases in volume of foreign trade (imports) which we attribute to the stability of the rate of exchange during the fiscal year.

Credit related fees increased 81.23% from Ps.4.2 million in the fiscal year ended December 31, 2003 to Ps.7.7 million in the fiscal year ended December 31, 2004, which in turn increased 87.68% to Ps.14.4 million in the fiscal year ended December 31, 2005. These increases were mainly due to the increase in granting of new loans due to the improvement in the economic situation of Argentina.

Fees related to fund management increased 33.27% from Ps.193.2 million in the fiscal year ended December 31, 2003 to Ps.257.5 in the fiscal year ended December 31, 2004, as a result of an increase in fund management and pension fund management activities. Similarly these fees increased 23.34% to Ps.317.6 million in the fiscal year ended December 31, 2005, as a result of an increase in fund management and pension fund management activities. Funds under management grew 19.0% to Ps.12.5 billion in the fiscal year 2005 from Ps 10.5 billion in the fiscal year 2004, which in turn increased 17.5% from Ps.9.5 billion in fiscal 2003.

We placed special emphasis on creating funds under the concept of managing an investment portfolio diversified among the various kinds of financial assets, both local and foreign (shares, bonds and certificates of deposit). These fees increased during fiscal years 2004 and 2005 mainly due to the recovery of the economic environment in Argentina.

Income from capital markets and securities activities principally represents fees from underwriting and placement of corporate bonds, commercial paper and equity securities. It also reflects fees for our corporate advisory business, but excludes gains from trading Government Securities. Trading gains are included in "Financial Income" under "Income from Government and Private Securities". Finally, income from capital markets and securities activities also includes brokerage commissions earned by Francés Valores, Banco Francés' securities brokerage subsidiary, but does not include similar income earned by Banco Francés itself, which is recorded as "Financial Income" under "Income from Government and Private Securities".

Income from capital markets and securities activities decreased 17.03% from Ps.10.6 million in the fiscal year ended December 31, 2003, to Ps.8.8 million in the fiscal year ended December 31, 2004, mainly due to a decrease in activity related to private debt restructuring, and increased 7.93% to Ps.9.5 million in the fiscal year ended December 31, 2005 mainly due to increase in activity in placement of bonds of private sector enterprises.

Rental of safety deposit boxes increased 45.87% from Ps.6.3 million in the fiscal year ended December 31, 2003 to Ps.9.2 million in the fiscal year ended December 31, 2004, and further increased 23.98% to 11.4 million in the fiscal year ended December 31, 2005. These increases were mainly due to the increase in activity due to the improvement of the economic situation in Argentina.

Fees related to Insurance Agency increased 72.51% from Ps.10.5 million in the fiscal year ended December 31, 2003 to Ps.18.1 million in the fiscal year ended December 31, 2004 and increased 12.75% to Ps.20.4 million in the fiscal year ended December 31, 2005. These increases were mainly due to the increase in consumer economic activity.

Fees related to guarantees increased 40.49% from Ps.1.8 million in the fiscal year ended December 31, 2003 to Ps.2.5 million in the fiscal year ended December 31, 2004 and in turn decreased 29.68% to Ps.1.8 million in the fiscal year ended December 31, 2005. The increase in fiscal 2004 was mainly due to increase in activity. The decrease in fiscal 2005 was mainly due to a decrease in activity.

Other service charge income increased 21.63% from Ps.38.0 million in the fiscal year ended December 31, 2003 to Ps.46.2 million in fiscal 2004. This service charge income increased 105.88% to Ps.95.2 million in the fiscal year ended December 31, 2005.

#### *Service Charge Expenses*

Service Charge Expenses, which consist of fees that we paid principally to other financial institutions, and taxes on service charge income increased 10.56% from Ps.49.6 million in the fiscal year ended December 31, 2003 to Ps.54.8 million in the fiscal year ended December 31, 2004, mainly as a result of the increase in commissions paid and due to the increase in Service Charge Income. These expenses increased 41.83% to Ps.77.8 million in the fiscal year ended December 31, 2005 mainly as a result of the increase in Service Charge Income.

#### *Operating Expenses*

Our operating expenses increased 14.12% to Ps.775.8 million in the fiscal year ended December 31, 2005 from Ps.679.8 million in the fiscal year ended December 31, 2004, which in turn decreased 4.44% from Ps.711.4 million in the fiscal year ended December 31, 2003.

Operating expenses increased in the fiscal year 2005 mainly because of: (i) a 20.66% increase in personnel expenses, (ii) a 22.19% increase in taxes, (iii) a 34.10% increase in credit card advertising and issuance expenses, (iv) a 45.72% increase in advertising and promotion, (v) a 10.57% increase in maintenance and repairs, (vi) a 19.40% increase in staff welfare, (vii) a 13.82% increase in rentals, (viii) a 18.03% increase in business travel and development, (ix) a 5.68% increase in utilities, (x) a 6.12% increase in fees and external administrative services and (xi) a 15.41% increase in other operating expenses. Such increases were partially offset by: (i) a 15.78% decrease in depreciation of Bank premises and equipment, (ii) a 38.29% decrease in courier transportation and (iii) a 26.30% decrease in amortization of organization and development expenses.

Operating expenses decreased in the fiscal year 2004 mainly because of: (i) a 63.59% decrease in amortization of organization and development expenses, (ii) a 10.80% decrease in utilities (iii) a 33.13% decrease in depreciation of bank premises and equipment, (iv) a 9.8% decrease in fees and external administrative services and (v) a 0.92% decrease in courier transportation. Such decreases were partially offset by: (i) a 10.17% increase in personnel expenses, (ii) a 209.34% increase credit card advertising and issuance expense, (iii) a 45.51% increase in advertising and promotion, (iv) a 20.19% increase in taxes and (v) a 4.08% increase in other expenses.

The components of our Operating Expenses are reflected in the following table:

	Fiscal Year Ended December 31,		
	2005	2004 <sup>(1)</sup>	2003 <sup>(1)</sup>
	(in thousands of pesos)		
Personnel expenses	372,128	308,400	279,935
Fees and external administrative services	10,852	10,226	11,337
Taxes	37,818	30,949	25,749
Utilities	20,989	19,860	22,265
Depreciation of Bank property and equipment	29,248	34,727	51,935
Credit card advertising and issuance expense	16,302	12,157	3,930
Courier transportation	7,213	11,688	11,797
Advertising and promotion (excluding credit card advertising)	34,146	23,433	16,104
Maintenance and repairs	26,157	23,656	22,669
Business travel and development	12,961	10,981	10,945
Staff welfare	25,565	21,411	20,613
Amortization of organization and development expenses	28,082	38,104	104,660
Rentals	38,968	34,237	33,388
Other	115,406	100,000	96,080
Total	775,835	679,829	711,407

(1) Restated from its original version to apply the adjustments to prior years' income to these Consolidated Financial Statements based on Argentine Central Bank's regulations (see Note 3.5.18.).

The largest component of Operating Expenses in each of these years was personnel expenses, which increased 20.66% during fiscal year 2005 and 10.17% during fiscal year 2004 principally as a result of increases in salaries (which include payroll, termination payments and bonuses).

The number of our full-time employees decreased from 3,753 in the fiscal year ended December 31, 2003 to 3,541 in the fiscal year ended December 31, 2004 and increased to 3,618 in the fiscal year ended December 31, 2005 (not including 1,907; 1,884 and 1,908 employees from non-banking subsidiaries, at December 31, 2005, 2004 and 2003, respectively). The decrease in total personnel from fiscal year 2003 to fiscal year 2004 was principally due to the reduction in the number of bank personnel because of cost-cutting efforts. The increase in fiscal 2005 was mainly due to the recovery of our business activity.

During fiscal 2005 we opened 3 branch offices while during fiscal year 2004, we closed 8 branch offices (including four branch offices of Credilogros) and during fiscal year 2003, we closed 10 branch offices.

Fees and external administrative services increased 6.12% to Ps.10.9 million in the fiscal year ended December 31, 2005 from Ps.10.2 million in the fiscal year ended December 31, 2004, which in turn decreased 9.8% from Ps.11.3 million in the fiscal year ended December 31, 2003. The decrease in the fiscal year ended December 31, 2004 was mainly due to a decrease in hiring external administrative resources. The increase in fiscal 2005 was mainly due to increases in the costs of services and in hiring external resources.

Taxes other than income tax increased 22.19% to Ps.37.8 million in the fiscal year ended December 31, 2005 from Ps.30.9 million in the fiscal year ended December 31, 2004, which in turn increased 20.19% from Ps.25.7 million in the fiscal year ended December 31, 2003. The increases in fiscals 2005 and 2004 were mainly due to increase in activity.

Depreciation of property and equipment decreased 15.78% to Ps.29.2 million in the fiscal year ended December 31, 2005, from Ps.34.7 million in the fiscal year ended December 31, 2004, which in turn decreased 33.13% from Ps.51.9 million in the fiscal year ended December 31, 2003. The decreases in fiscal 2005 and 2004 were mainly due to reductions in additions to the Bank's properties and equipment.

Credit card advertising and issuance expense increased 34.09% to Ps.16.3 million in the fiscal year ended December 31, 2005 from Ps.12.2 million in the fiscal year ended December 31, 2004, which in turn increased 209.34% from Ps.3.9 million in the fiscal year ended December 31, 2003. The increases in fiscals 2005 and 2004 were mainly a result of an increases in the use of credit cards due to the improving economic situation of Argentina, and the relaunching of all credit products by the Financial System.

Advertising and promotion fees increased 45.71% to Ps.34.1 million in the fiscal year ended December 31, 2005, from Ps.23.4 million in the fiscal year ended December 31, 2004, which in turn increased 45.51% from Ps.16.1 million in the fiscal year ended December 31, 2003. The increases in fiscal 2005 and 2004 were mainly due to an increase of advertising expenses related to products relaunched during those fiscal years.

Utility costs increased 5.68% to Ps.21.0 million in the fiscal year ended December 31, 2005, from Ps.19.9 million in the fiscal year ended December 31, 2004, which in turn decreased 10.79% from Ps.22.3 million in fiscal 2003. The increase in the fiscal year 2005 was mainly due to a higher activity level. The decrease in the fiscal year ended December 31, 2004 was mainly due to the different plans adopted in order to reduce administrative expenses, the negotiation of contracts with suppliers at corporate level, the closing of branches and improvements in efficiency derived from new processing systems.

Amortization of organization and development expenses decreased 26.30% to Ps.28.1 million in the fiscal year ended December 31, 2005, from Ps.38.1 million in the fiscal year ended December 31, 2004, which in turn decreased 63.59% from Ps.104.7 million in the fiscal year ended December 31, 2003. The decreases in fiscals 2005 and 2004 were mainly due to reductions in additions during those fiscal years.

Rental expenses increased 13.82% to Ps.39.0 million in the fiscal year ended December 31, 2005, from Ps.34.2 million in the fiscal year ended December 31, 2004, which in turn increased 2.54% from Ps.33.4 million in the fiscal year ended December 31, 2003. The increases in the fiscal years 2005 and 2004 were mainly due to higher rental costs. At December 31, 2005 our branch network consisted of 230 branches, of which 114 were located in properties we own and 116 were located in properties we lease. At December 31, 2004 our branch network consisted of 227 branches, of which 114 were located in properties we own and 113 were located in properties we lease.

Other operating expenses increased 15.40% to Ps.115.4 million in the fiscal year ended December 31, 2005 from Ps.100.0 million in the fiscal year ended December 31, 2004, which in turn increased 4.07% from Ps.96.1 million in the fiscal year ended December 31, 2003. The increases in fiscal 2005 and 2004 were mainly due to increases in costs and to the increase in activity.

### *Other Income*

Other Income decreased 33.66% to Ps.483.9 million in the fiscal year ended December 31, 2005 from Ps.729.3 million in the fiscal year ended December 31, 2004, which in turn decreased 38.93% from Ps.1,194.3 million in the fiscal year ended December 31, 2003. The decrease in fiscal 2005 was mainly due to a 72.10% decrease in recoveries of charged off loans and reversal of allowances, an 85.67% decrease in income from long-term investments and a 37.24% decrease in income from disposal of assets, partially offset by increases in rentals, punitive interest and interest on other assets. The decrease in fiscal 2004 was mainly due to a 65.59% decrease in recoveries of charged-off loans and reversal of allowances, and decreases in punitive interest and interest on other assets, partially offset by increases in income from long-term investments, rentals and income from disposal of fixed assets.

### *Other Expenses*

Other Expenses decreased 4.98% to Ps.1,128.9 million in the fiscal year ended December 31, 2005 from Ps.1,188.1 million in the fiscal year ended December 31, 2004, which in turn increased 3.28% from Ps.1,150.4 million in the fiscal year ended December 31, 2003.

The decrease in the fiscal year ended December 31, 2005 was mainly due to a 26.51% decrease in Other Expenses (from Ps.608.6 million in the fiscal year ended December 31, 2004 to Ps.447.2 million in the fiscal year ended December 31, 2005), partially offset by a 8.13% increase in depreciation on differences paid on constitutional protection actions (from Ps.203.4 million in the fiscal year ended December 31, 2004 to Ps.220.0 million in the fiscal year ended December 31, 2005) and a 20.31% increase in provision for other receivables and other allowances (from Ps.351.5 million in the fiscal year ended December 31, 2004 to Ps.422.9 million in the fiscal year ended December 31, 2005).

The increase in the fiscal year 2004 was mainly due to: (i) a 53.65% increase in depreciation on differences paid on constitutional protection actions (from Ps.132.4 million in the fiscal year ended December 31, 2003 to Ps.203.4 million in the fiscal year ended December 31, 2004) and (ii) a 61.99% increase in Other Expenses—other (from Ps.375.7 million in the fiscal year ended December 31, 2003 to Ps.608.6 million in the fiscal year ended December 31, 2004). These increases were partially offset by: (i) a 42.58% decrease in provision for other receivables and other allowances (from Ps.612.2 million in the fiscal year ended December 31, 2003 to Ps.351.5 million in the fiscal year ended December 31, 2004) and (ii) a 31.82% decrease in amortization in goodwill (from Ps.9.9 million in the fiscal year ended December 31, 2003 to Ps.6.8 million in the fiscal year ended December 31, 2004).

### *Income Tax*

Income Tax expense was Ps.18.7 million in the fiscal year ended December 31, 2005, a 75.73% decrease from Ps.77.1 million of the fiscal year ended December 31, 2004, which in turn represents a 59.26% decrease over the Ps.189.2 million posted in the fiscal year ended December 31, 2003. The decreases in the fiscal years 2005 and 2004 were mainly due to the temporary differences originated in each fiscal year according to the deferred tax method of accounting.



The following table illustrates, for each of the last three fiscal years, our income before income tax, the income tax expense that would have been payable at the statutory rate, various adjustments, and our actual income tax expense.

	Fiscal Year Ended December 31,		
	2005	2004 <sup>(2)</sup>	2003 <sup>(2)</sup>
	(in thousands of pesos, except percentages)		
Net Income before income tax and minority interest	153,067	35,954	(165,940)
Statutory tax rate	35%	35%	35%
Income tax (at statutory rate)	53,573	12,584	(58,079)
Deferred tax	(84,700)	—	63,176
Inflation adjustment not deductible	—	—	22,636
Tax-exempt income	(54,363)	(71,766)	(12,360)
Unrealized valuation difference	—	—	—
Loss on capital contribution in kind to subsidiaries	—	—	(227,455)
Allowances on deferred tax assets	84,700	(23,624)	64,924
Other	(12,815)	(73,881)	323,063
Income tax (gain) / loss (Allowances)	(13,605)	(156,687)	175,905
Income tax (gain) / loss, net	(13,605)	(73,135)	225,038
Actual income tax	13,605	5,638	8,178
Deferred income tax <sup>(1)</sup>	—	67,497	216,860

(1) Included in Other Income and Income Tax.

(2) Restated from its original version to apply the adjustments to prior years' income to these Consolidated Financial Statements based on Argentine Central Bank's regulations (see Note 3.5.18.).

Our effective income tax rates differ significantly from the statutory income tax rate applicable to us. The difference between the statutory rate and the effective rate is principally due to the following factors. First, the income from local subsidiaries is tax exempt, and depreciation of goodwill is not tax deductible. Second, effective tax rate is affected by the different treatment of loan loss provisions for financial and tax reporting purposes. Additionally, the allowance made on public loans is not tax deductible. Finally, Government Securities are generally marked-to-market for tax reporting purposes, with unrealized gains and losses included in taxable income, even if such securities are carried on a cost-plus-yield basis for financial reporting purposes. See Note 17.1. to the Consolidated Financial Statements.

#### *Minority interest in subsidiaries*

Loss on minority interest was Ps.17.1 million in the fiscal year ended December 31, 2005; Ps.12.9 million in the fiscal year ended December 31, 2004 and Ps.4.8 million (income) in the fiscal year ended December 31, 2003. These changes were mainly due to the changes in net income of Consolidar Group (through which we hold a 53.89% interest in Consolidar AFJP S.A., a 65.96% in Consolidar Compañía de Seguros de Vida S.A. and a 66.67% interest in Consolidar Seguros de Retiro S.A.) and the changes in net income of Credilogros Compañía Financiera S.A. (in which we have a 69.52% interest) and PSA Compañía Financiera S.A. (in which we hold a 50% interest).

#### *Monetary loss*

Monetary loss reflects the effect derived from inflation (since January 1, 2002 up to February 2003) for maintaining monetary assets and liabilities. See Note 3.2. to the Consolidated Financial Statements.

### **Financial Condition**

#### *Total Assets*

At December 31, 2005 we had total assets of Ps.15,983.7 million, which represented a 0.36% decrease from the Ps.16,041.7 million as of December 31, 2004.

The decrease was mainly due to the following: an 8.49% decrease in Loans net of allowances (from Ps.9,268.7 million at December 31, 2004 to Ps.8,481.5 million at December 31, 2005) mainly due to the sale of Public Sector loans during the present fiscal year; a 14.74% decrease in Other Receivables from Financial Transactions (from Ps.975.2 million at December 31, 2004 to Ps.831.5 million at December 31, 2005), mainly due to the decrease of spot and forward sales of government securities; a 22.98% decrease in Intangible Assets (from Ps.850.8 million at December 31, 2004 to Ps.655.3 million at December 31, 2005), mainly due to the

amortization of differences on constitutional protection actions paid; a 33.81% decrease in Other Assets (from Ps.95.5 million at December 31, 2004 to Ps.63.2 million at December 31, 2005), a 3.31% decrease in Cash and due from Banks (from Ps.1,666.6 million in the fiscal year ended December 31, 2004 to Ps.1,611.5 million in the fiscal year ended December 31, 2005), a 1.47% decrease in Bank Premises and Equipment (from Ps.381.4 million at December 31, 2004 to Ps.375.8 million at December 31, 2005) and a 21.85% decrease in Suspense items (from Ps.1.2 million at December 31, 2004 to Ps.0.9 million at December 31, 2005).

These decreases were partially offset by: a 41.48% increase in Government and private securities (from Ps.2,476.9 million at December 31, 2004 to Ps.3,504.3 million at December 31, 2005), mainly due to the increase in Instruments issued by the Argentine Central Bank, a 122.22% increase in Assets Subject to Financial Lease (from Ps.58.6 million at December 31, 2004 to Ps.130.2 million at December 31, 2005), a 6.06% increase in Investments in Other Companies (from Ps.47.4 million at December 31, 2004 to Ps.50.3 million at December 31, 2005), a 27.9% increase in Other Receivables (from Ps.186.8 million at December 31, 2004 to Ps.239.0 million at December 31, 2005) and a 24.47% increase in Other Subsidiaries Assets (from Ps.32.3 million at December 31, 2004 to Ps.40.3 million at December 31, 2005).

#### *Total Liabilities and Stockholders' Equity*

At December 31, 2005, we had total liabilities and minority interests in subsidiaries of Ps.14,182.2 million, representing a 1.22% decrease from the Ps.14,357.3 million at December 31, 2004.

The decrease was mainly due to the following: a 61.98% decrease in Other Liabilities from Financial Transactions (from Ps.3,274.4 million at December 31, 2004 to Ps.1,244.8 million at December 31, 2005) mainly due to the anticipated payment of the advances owed to the Argentine Central Bank, a 100% decrease in Subordinated Corporate Bonds (from Ps.60.3 million at December 31, 2004 to Ps.0 million at December 31, 2005), a 93.2% decrease in Suspense Items (from Ps.33.8 million at December 31, 2004 to Ps.2.3 million at December 31, 2005), and a 0.94% decrease in Allowances (from Ps.265.7 million at December 31, 2004 to Ps.263.2 million at December 31, 2005). These decreases were partially offset by: an 18% increase in Deposits (from Ps.8,993.8 million at December 31, 2004 to Ps.10,613.1 million at December 31, 2005), mainly due to the increase in certificates of deposits and savings accounts, a 14.47% increase in Other Subsidiary Liabilities (from Ps.1,413.4 million at December 31, 2004 to Ps.1,617.9 million at December 31, 2005), a 74.93% increase in Other liabilities (from Ps.144.0 million at December 31, 2004 to Ps.252.0 million at December 31, 2005) and an 8.31% increase in Minority Interest in Subsidiaries (from Ps.171.9 million at December 31, 2004 to Ps.189.0 million at December 31, 2005), mainly due to the income in subsidiaries.

Stockholders' Equity increased from Ps.1,684.3 million at December 31, 2004 to Ps.1,801.5 million at December 31, 2005. The 6.96% increase reflected the Net income of the year (Ps.117.2 million).

### **Liquidity and Capital Resources**

#### *Asset and Liability Management*

The purpose of asset and liability management is to structure our consolidated balance sheet in light of interest rate, liquidity and foreign exchange risks, as well as market risk, public sector risk and capital structure. We have an Asset and Liability Committee, which meets weekly, and is composed of the Chief Executive Officer, the Assistant Executive Director, Accounting and Risk Management, the Wholesale Banking Director, the Retail Banking Director, the Chief Financial Officer and the Treasury Manager. The Asset and Liability Committee establishes specific limits with respect to risk exposure, sets policy with respect to pricing and approves commercial policies which may have a financial impact on our balance sheet. It is also responsible for the follow-up of monetary aggregates and financial variables, our liquidity position, regulations from the Central Bank and the competitive environment in assets, liabilities and interest rates.

#### *Liquidity*

Our asset and liability management policy attempts to ensure that sufficient liquidity is available to meet our funding requirements. As a measure of our liquidity, we had a ratio of liquid assets to total deposits of 44.11%, 33.07% and 30.26% at December 31, 2005, 2004 and 2003, respectively. Liquid assets include cash, debt from banks and government and corporate securities (excluding holdings in investment accounts and unlisted government securities).

Our primary source of funds is our deposit base, which primarily consists of peso and dollar denominated deposits in current accounts, savings accounts and time deposits from individuals and corporations, which deposits at December 31, 2005 totaled Ps.10,613.1 million. Approximately 12% of our deposits at such date were dollar denominated.

Under a medium-term note program, that expired in December 2005, we issued the first series of subordinated corporate bonds, on March 31, 1998, in the amount of US\$150 million, at an annual floating interest rate of LIBOR plus 3.3 points, maturing on March 31, 2005. As of December 31, 2002 we capitalized US\$130 million of the above mentioned subordinated debt. As of December 31, 2004 the outstanding capital of this debt amounted to US\$20 million, which was paid on March 31, 2005 upon maturity.

On April 27, 2000, the general ordinary and extraordinary shareholders meeting approved the increase of the aggregate outstanding maximum amount of the corporate bonds to be issued under the Medium-Term Note Program to US\$1,000 million. The shareholders meeting also approved the creation of a short-term program to be issued in various series and classes for a total outstanding amount of up to US\$300 million (or its equivalent in other currency) for five years. Under this program we can issue corporate bonds (not convertible into shares) maturing in one year or less with or without third party guarantees according to the dispositions of the Board of Directors.

On October 31, 2000, we issued corporate bonds in the amount of US\$150 million face value, at a price equal to 100% of the face value, with an annual interest rate of LIBOR plus 145 basis points, payable on a semi-annual basis maturing on October 31, 2002, to be amortized upon maturity. On October 2002 we agreed to refinance these corporate bonds through the issue of a new series of bonds. Such refinancing included the interest payment and a 5% payment of the capital as of October 31, 2002, the payment of a 5.26% of the capital of the new bond at 180 days of the issuance and the balance in one year. In November 2003 we agreed upon the refinancing of these bonds through the issue of a new series of bonds. Such refinancing included the interest payment and a 10% payment of the capital as of November 26, 2003, and the remaining in semi-annual installments with final maturity on October 31, 2008. As of December 31, 2005 the principal outstanding of this debt amounts to US\$94.5 million. Section 36 of Law No. 23,576, states that in order for the issuance of notes to be subject to fiscal benefits, said notes must be sold by public offering procedures, and their proceeds must be invested: (i) in physical assets situated in Argentina; (ii) in working capital in Argentina; (iii) for the refinancing of debt; or (iv) for the payment of irrevocable contributions in affiliate companies of the issuer, if their proceeds are exclusively invested as described in (i) and (ii).

The shareholders meeting held on July 15, 2003, approved the creation of a new medium-term note program, for five years, for the issuance and re-issuance of simple notes (Obligaciones Negociables), non-convertible into shares with common guarantee or such guarantees determined by the Board of Directors and subordinated notes without guarantee, convertible or non-convertible into shares, for a total outstanding amount of up to US\$300 million according to the provisions of the Central Bank's Communications "A" 2970 and "A" 3558 as amended under Law No. 23,576 as amended by Law No. 23,962.

On December 22, 2003 we paid a Ps.60 million seven-year loan plus CER (originally US\$60 million) granted by the Fiduciary Fund for Assistance to Financial and Insurance Institutions to Banco de Crédito Argentino, on December 20, 1996, for the financing of the acquisition of certain assets and liabilities.

On January 10, 2003, the Federal Executive published Decree No. 53/03 which amended Decree No. 410/02. Decree No. 410/02 had the effect of not converting certain foreign currency obligations of public and private sector companies into pesos. The Decree governed obligations to the National Government as a result of i) subsidiary or other loans and guarantees originally financed by multilateral credit entities or ii) arising from liabilities owed by the National Treasury and refinanced with external creditors. The decision taken by the Managing Committee of the Trust Fund for Reconstruction of Companies at the meeting held on May 28, 2003 stated that 50% of the aforementioned financing was to be converted into pesos while the difference would be remain in its original currency.

On December 29, 2004, we paid the last installment of subordinated corporate bonds issued by Corpbanca, which we thereby acquired. This debt was originally stated in U.S. dollars for an amount of US\$30 million and was converted into pesos at the exchange rate Ps.1 per U.S. dollar, and indexed by applying CER in accordance with the regulations established by the Government in February, 2002.

The Bank has filed a subsidiary appeal for reversal before a higher administrative authority applying for a change in the aforementioned criterion and has reiterated its position at the time of each interest and principal payment. Upon the appeal's dismissal, the claims were filed with the hierarchical superior officer on March 16, 2004. On May 17, 2004 the grounds for the appeal before the higher administrative authority were expanded. On February 7, 2005, the Bank was notified of Resolution No. 25 dated January 17, 2005, executed by the Argentine Minister of Economy and Production, which dismissed the Hierarchical Remedy sought. On May 16, 2005, an administrative action under section 100 (Decree No. 1759/72, 1991 revision) was filed against Resolution No. 25 issued by the Ministry of Economy and Production, which dismissed the Hierarchical Appeal filed by the Bank. At present, the case is pending determination by the Federal Executive. This notwithstanding, in May 2005 a liability of US\$23,176 thousand was recorded under Other Liabilities from Financial Transactions, this being the dollar amount owed estimated by the Bank in the filing mentioned above. This effect should be compensated under the terms of the compensation mechanism for financial institutions mentioned in Note 15.1. to the Consolidated Financial Statements which was also recorded for 114,922 thousand pesos in the line Other receivables not

covered by debtor classification regulations under Other receivables from financial transactions and 72,429 thousand pesos for the corresponding liability to be paid to B.C.R.A. At any event, the final determination of this issue would not imply additional losses for the Bank.

Dividends and other payments from our Argentine non-banking subsidiaries also provide an additional potential source of liquidity, even though relatively insignificant in amount. Each Argentine non-banking subsidiary is required to allocate 5% of its annual net income to a legal reserve until such reserve equals 20% of the subsidiary's capital stock. This reserve cannot be used to pay us dividends.

The measures taken by the Government at the beginning of 2002, including the repeal of the Convertibility Law, the "pesification" of all assets and liabilities in the formal economy and the default by the Government on its debt, led to a massive withdrawal of deposits and a breakdown in the chain of payments. We had to face a persistent drain of deposits, lawsuits brought by depositors to get back their deposits in cash and in their original currency, and the maturing of our foreign currency liabilities. As of December 31, 2005, we have repaid a total of approximately US\$105.1 million and Ps.2,114.3 million in connection with lawsuits brought by depositors.

### *Capital Resources*

At the regular and special stockholders meeting held on August 7, 2002, the stockholders approved the Bank's capital increase in the amount of up to 1,250,000 nominal value for the subscription of common, book-entry shares, entitled to one vote per share. Those shares might be paid up in cash and/or with subordinated corporate bonds in foreign currency issued by the Bank, maturing on March 31, 2005, and/or with loans granted by BBVA to the Bank. The Bank management, at its meeting of December 5, 2002, decided to: approve the assets to be contributed, as follows: (i) cash, (ii) subordinated corporate bonds issued by the Bank, maturing March 31, 2005, and (iii) the loan granted by BBVA on April 19, 2002, in the amount of US\$79.3 million; establish the value of subordinated corporate bonds to capitalize in US\$58.10 per US\$100 nominal value, based on valuation reports made by independent third parties; and establish the amount of shares to be listed as 209,631,892.

On December 31, 2002, in accordance with the issuance conditions of the new shares, 158,361,439 new shares in the exercise of preemptive rights and 135,101 new shares in the exercise of the option to buy additional shares that were not purchased by other shareholders in exercise of their preemptive rights, were subscribed and integrated. The Bank's capital stock amounts to Ps.368,128,432 as of December 31, 2002 and 2003.

At the regular and special meetings held on April 22, 2004, the stockholders approved the Bank's capital increase in the amount of up to 385,000 nominal value for the subscription of common, book-entry shares, entitled to one vote per share. The stockholders delegated to the Board of Directors the power to establish the remaining conditions.

On June 11, 2004, the Bank filed an application for public offering of shares to be sold through subscription (Chapter VI Rules of the National Securities Commission, General Resolution No. 368/01) with the Buenos Aires Stock Exchange and the National Securities Commission.

The public offering of 103,232,874 ordinary shares of Ps.1.00 par value each, entitled to one vote per share and with equal rights than the remaining shares of the Bank, according to what was established by the Board of Directors Meeting held on June 10, 2004, and the Meeting of Sub-Delegates appointed by the Board of Directors Meeting of October 5, 2004, was authorized by Resolution No. 14,917 of the National Securities Commission on October 4, 2004. The stock-market listing of the referred shares was authorized by the Buenos Aires Stock Exchange on October 7, 2004. It was stated that the preferential subscription period began on October 18, 2004 and ended on November 17, 2004.

On November 2, 2004, BBVA subscribed to 65,326,744 new shares. The integration of the amount of Ps.230,603,406.32 corresponding to the new shares is carried out by the capitalization of BBVA by means of a loan amounting to US\$77,701,464.68 plus interest up to November 2, 2004 inclusive, of US\$21,288.07.

On November 19, 2004 the subscription procedure came to an end. An aggregate of 103,232,874 new shares was issued for a paid-in amount of Ps.364,412,045.22, which resulted in an additional paid-in capital of Ps.261,179,171.12.

### *Interest Rate Sensitivity*

A key component of our asset and liability policy is the management of interest rate sensitivity. Interest rate sensitivity is the exposure and the measure of sensitivity to interest rate variations. The interest rate sensitivity measures the impact on the gross intermediation margin in response to a change in market interest rates. For any given period, the pricing structure is matched when an

equal amount of assets and liabilities reprice. Any mismatch of interest-earning assets and interest-bearing liabilities is known as a gap position and is shown in the following tables. A negative gap denotes liability sensitivity and normally means that a decline in interest rates would have a positive effect on net interest income while an increase in interest rates would have a negative effect on interest income.

Our interest rate sensitivity strategy takes into account not only the rates of return and their underlying degree of risk, but also liquidity requirements, including minimum regulatory cash reserves, mandatory liquidity ratios, withdrawal and maturity of deposits and additional demands for funds. Our gap limits are established and subsequently monitored by the Asset and Liability Management Committee.

The following table shows the interest rate sensitivity of our interest-earning assets and interest-bearing liabilities. Variations in interest rate sensitivity may also arise within the repricing periods presented.

It is important to highlight that given the devaluation of the peso and the following conversion into pesos of assets and liabilities in foreign currency, the Government measures introduced an important interest rate gap in our Net Financial Income. While a significant part of the Bank's risk assets, mainly Public sector loans and bonds, accrue CER adjustment plus an annual interest rate, most liabilities accrue interest at a fixed rate, except for certain discount loans granted to Banco Francés by the Central Bank, the remaining portfolio of rescheduled deposits, known as CEDROS, and the new CER adjusted deposits. Rescheduled deposits — Ps.459 million as of December 31, 2004 — were converted into pesos at a Ps.1.4 per dollar and are subject to CER adjustment plus a 2% annual interest rate; new CER CDs — Ps.1,202 million by 2004 year-end — are subject to CER adjustment plus a 0.49% interest rate. On the asset side, certain mortgages, personal and pledge loans accrued CVS instead of CER adjustment, plus an annual interest rate until April 2004, when they began to accrue a fixed interest rate (with no adjustment) – in accordance with Law No. 25,713, Decree No. 117/04. Fixed rate assets and liabilities with a maturity of no more than three months and total adjusted assets and liabilities, are included in the following chart, in the 0-3 months interval, given that CER adjustment changes on a monthly basis. The chart shows our exposure to a positive interest rate gap, but it is important to bear in mind that CER behavior may differ from that of the interest rate. In this sense, the aforementioned adjusted CER deposits help to reduce the long CER adjusted position.

	Remaining Maturity or Earliest Repricing Intervals at December 31, 2005					
	0-3 months	3 Months- One Year	1-5 Years	5-10 Years	Over 10 Years	Total
	(in thousands of pesos, except percentages)					
Interest-earning assets						
Interest earning deposits in banks	1,033,277	-	-	-	-	1,033,277
Government securities	3,069,417	21,663	188,356	50,646	18,703	3,348,785
Corporate bonds	84,416	25,837	46,870	11,649	-	168,772
Loans <sup>(1)</sup>	6,897,495	1,002,693	586,150	97,866	82,246	8,666,450
Total	11,084,605	1,050,193	821,376	160,161	100,949	13,217,284
Interest-bearing liabilities						
Deposits	8,240,329	368,930	2,485	-	-	8,611,744
Corporate bonds	-	286,486	-	-	-	286,486
Due to other banks	766,265	-	-	-	-	766,265
Total	9,006,594	655,416	2,485	-	-	9,664,495
Asset/liability gap	2,078,011	394,777	818,891	160,161	100,949	3,552,789
Cumulative sensitivity gap	2,078,011	2,472,788	3,291,679	3,451,840	3,552,789	
Cumulative sensitivity gap as a percentage of total interest-earning assets	15.72%	18.71%	24.90%	26.12%	26.88%	

(1) Loan amounts are stated before deducting the allowance for loan losses. Non-accrual loans are included with loans as interest-earning assets.

The following table shows the interest rate sensitivity of our peso-denominated interest-earning assets and interest-bearing liabilities.

	Remaining Maturity or Earliest Repricing Intervals at December 31, 2005					Total
	0-3 months	3 Months- One Year	1-5 Years	5-10 Years	Over 10 Years	
	(in thousands of pesos, except percentages)					
Interest-earning assets:						
Interest earning deposits in banks	357,493	-	-	-	-	357,493
Government securities	2,930,167	14,012	165,413	6,761	77	3,116,430
Corporate bonds	22,025	25,837	43,070	-	-	90,932
Loans <sup>(1)</sup>	6,394,074	850,530	582,798	97,866	82,246	8,007,514
Total	9,703,759	890,379	791,281	104,627	82,323	11,572,369
Interest-bearing liabilities:						
Deposits	7,161,322	227,681	1,953	-	-	7,390,956
Corporate bonds	-	-	-	-	-	-
Due to other banks	289,944	-	-	-	-	289,944
Total	7,451,266	227,681	1,953	-	-	7,680,900
Asset/liability gap	2,252,493	662,698	789,328	104,627	82,323	3,891,469
Cumulative sensitivity gap	2,252,493	2,915,191	3,704,519	3,809,146	3,891,469	
Cumulative sensitivity gap as a percentage of total interest-earning assets	19.46%	25.19%	32.01%	32.92%	33.63%	

(1) Loan amounts are stated before deducting the allowance for loan losses. Non-accrual loans are included with loans as interest-earning assets.

The following table shows the interest rate sensitivity of our foreign currency denominated interest-earning assets and interest-bearing liabilities. Variations in interest rate sensitivity may also arise within the repricing periods presented.

	Remaining Maturity or Earliest Repricing Intervals at December 31, 2005					Total
	0-3 months	3 Months- One Year	1-5 Years	5-10 Years	Over 10 Years	
	(in thousands of pesos, except percentages)					
Interest-earning assets:						
Interest earning deposits in banks	675,784	-	-	-	-	675,784
Government securities	139,250	7,651	22,943	43,885	18,626	232,355
Corporate bonds	62,391	-	3,800	11,649	-	77,840
Loans <sup>(1)</sup>	503,421	152,163	3,352	-	-	658,936
Total	1,380,846	159,814	30,095	55,534	18,626	1,644,915
Interest-bearing liabilities:						
Deposits	1,079,007	141,249	532	-	-	1,220,788
Corporate bonds	-	286,486	-	-	-	286,486
Due to other banks	476,321	-	-	-	-	476,321
Total	1,555,328	427,735	532	-	-	1,983,595
Asset/liability gap	(174,482)	(267,921)	29,563	55,534	18,626	(338,680)
Cumulative sensitivity gap	(174,482)	(442,403)	(412,840)	(357,306)	(338,680)	
Cumulative sensitivity gap as a percentage of total interest-earning assets	(10.61)%	(26.90)%	(25.10)%	(21.72)%	(20.59)%	

(1) Loan amounts are stated before deducting the allowance for loan losses. Non accrual loans are included with loans as interest-earning assets.

### Exchange Rate Sensitivity

As of December 31, 2005, our total foreign exchange-denominated asset position was Ps.2,323.3 million and our total foreign exchange-denominated liability position was Ps.1,605.7 million, resulting in a net asset currency position of Ps.717.6 million, which is 44.34% of stockholders' equity.

For a description of the changes in the exchange rates since December 2005, see "Information on the Company—Recent Political and Economic Developments in Argentina" and Note 16.13. to the Consolidated Financial Statements. For a description of foreign exchange risk, see "Quantitative and Qualitative Disclosures About Market Risk—Foreign Exchange Risk".

## *Capital Requirements*

As of December 31, 2005 we had a consolidated excess capital of Ps.983.8 million pursuant to the Central Bank's rules. At such date, "Basic Net Worth" and "Complementary Net Worth", subject to applicable deductions, amounted to Ps.1,890.8 million under the Argentine risk-based capital guidelines (which are based on the Basle Committee). As of December 31, 2004, our excess capital amounted to Ps.1,189.8 million, with a "Basic Net Worth" and "Complementary Net Worth", subject to applicable deductions, of Ps.1,656.4 million.

As of December 31, 2005, we complied with the Central Bank's capital requirements on a consolidated basis and our capital resources were sufficient for our capital requirements. See a description of the minimum capital requirements currently in effect in *"Information on the Company—The Argentine Banking System and its Regulatory Framework"*.

As of December 31, 2005 and 2004, our stockholders' equity was Ps.1,801.6 million and Ps.1,684.3 million, respectively. At such dates, our ratio of average stockholders' equity/average total assets was 10.88% and 10.06%, respectively. See *"Information on the Company—Select Statistical Information—Return on Equity and Assets"*.

In our opinion, our capital resources are sufficient for the Bank's present requirements also on an individual and a consolidated basis.

We are not aware of any legal or economic restrictions on the ability of our subsidiaries to transfer funds to Banco Francés in the form of cash dividends, loans, advances - subject to the regulations of each industry- or by other means. However, there can be no assurance that in the future such restrictions will not be adopted or that, if adopted, they will not negatively affect our liquidity.

As of December 31, 2005, the Bank had no material commitments for capital expenditures.

The following table sets forth, for the dates indicated, the calculation of our excess capital under the Central Bank's rules and certain capital and liquidity ratios.

	At December 31,		
	2005 <sup>(5)</sup>	2004 <sup>(5)</sup>	2003 <sup>(5)</sup>
	(in thousands of pesos, except ratios and percentages)		
Calculation of Excess Capital <sup>(1)</sup>			
Allocated to assets at risk	331,836	232,962	195,456
Allocated to Bank premises and equipment, intangible assets and equity investment assets	132,125	137,918	167,783
Market risk	38,079	27,767	21,994
Interest rate risk	97,950	35,612	38,973
Incremental minimum capital requirements originated in excesses in other regulations	197,645	-	-
Public sector and securities in investment account	70,877	32,336	38,377
Required minimum capital under Central Bank rules	868,512	466,595	462,583
Basic net worth	1,684,343	1,703,124	2,026,123
Complementary net worth	122,207	(73,371)	(257,835)
Deductions	(105,617)	(145,632)	(187,401)
Minority interest	188,960	172,275	161,102
Total Capital under Central Bank rules	1,889,893	1,656,396	1,741,989
Excess capital	1,021,381	1,189,801	1,279,406
Selected Capital and Liquidity Ratios			
Average stockholders' equity as a percentage of average total assets <sup>(1)(2)</sup>	10.88%	10.06% <sup>(4)</sup>	10.76% <sup>(4)</sup>
Total Liabilities as a multiple of total stockholders' equity	7.77x	8.42x <sup>(4)</sup>	9.29x <sup>(4)</sup>
Cash and due from banks as a percentage of total deposits	15.18%	18.53%	20.29%
Liquid assets as a percentage of total deposits <sup>(1)(3)</sup>	48.20%	46.07%	57.95%
Loans as a percentage of total assets	53.06%	57.78% <sup>(4)</sup>	50.96% <sup>(4)</sup>

(1) See "Information on the Company—The Argentine Banking System and its Regulatory Framework —Capital Adequacy Requirements" for a discussion of the Central Bank's capital requirements.

(2) Average stockholder's equity and average total assets computed as the average of period-beginning and period-ending balances.

(3) At December 31, 2005, 2004 and 2003, "Liquid Assets" includes cash and due from banks and government and private securities.

(4) Restated from its original version to apply the adjustments to prior years income to these Consolidated Financial Statements related with Argentine Central Bank regulations (see Note 3.5.18. to the Consolidated Financial Statements).

(5) The Bank must maintain a surplus of minimum paid in capital amounting to at least Ps.38,440, Ps.40,392 and Ps.37,969 as at December 31, 2005, 2004 and 2003, respectively, equivalent to 0.25% of the amount of values under custody for securities representing investments from pension funds, as well as in connection with its function as registrar of mortgage-backed bonds, invested in national public securities and other destinations authorized by the BCRA and guaranteed in favor of the said Entity.



## Contractual Obligations and Commercial Commitments

The following table represents our contractual obligations and commercial commitments as of December 31, 2005:

	Payments due by Period (in thousands of Pesos)				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Contractual obligations					
Long-term debt	1,134,115	745,595	324,596	37,724	26,200
Capital lease obligations	-	-	-	-	-
Operating leases	37,934	9,996	13,127	6,918	7,893
Unconditional purchase obligations	-	-	-	-	-
Other long-term obligations	-	-	-	-	-
Total	1,172,049	755,591	337,723	44,642	34,093
Commercial Commitments					
Lines of credit	3,827	3,827	-	-	-
Standby letters of credit	80,571	80,526	45	-	-
Guarantees	171,084	162,528	3,114	2,637	2,805
Standby repurchase obligations	110,680	110,680	-	-	-
Total	366,162	357,561	3,159	2,637	2,805

## Off-Balance Sheet Arrangements

We enter into various transactions involving off-balance sheet financial instruments (see Note 16.19 to the Consolidated Financial Statements). We use these instruments to meet the risk management, trading and financing needs of clients or for our proprietary trading and asset and liability management purposes. These instruments are subject to varying degrees of credit and market risk. We monitor credit risk and market risk associated with on- and off-balance sheet financial instruments on an aggregate basis.

We use the same credit policies in determining whether to enter or extend call and put option contracts, commitments, conditional obligations and guarantees as we do for granting loans. Our management believes that the outstanding off-balance sheet items do not represent an unusual credit risk.

## Derivatives

The market risk of derivatives arises from the potential for changes in value due to fluctuations in market prices. We reduce our exposure to market risk, if necessary, by entering into offsetting transactions in accordance with the hedging global policy defined by BBVA for its subsidiaries. The credit risk of derivatives arises from the potential of a counterparty to default on its contractual obligations. The effect of such a default varies as the market value of derivative contracts changes. Credit exposure exists at a particular point in time when a derivative has a positive market value. We attempt to limit our credit risk by dealing with creditworthy counterparties and obtaining collateral where appropriate. Our activities related to hedging and derivatives transactions in 2005 are explained in Note 16.19. to the Consolidated Financial Statements.

## Credit Commitments

Commitments to extend credit are agreements to lend to a customer at a future date, subject to compliance with contractual terms. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent actual future cash requirements for the Bank. The Bank evaluates each customer's creditworthiness on a case-by-case basis. Foreign trade acceptances represent Bank customers' liabilities on outstanding drafts or bills of exchange that have been accepted by the Bank and the Bank's liability to remit payment upon the presentation of the accepted drafts or bills of exchange. The credit risk involved in foreign trade acceptances and guarantees granted is essentially the same as that involved in extending loan facilities to customers.

## *Financial Trusts*

We act as trustee in several financial trusts established for various purposes. We are in no case personally liable for the liabilities assumed in the performance of the trust obligations. Any liabilities resulting from the trust are satisfied with and up to the full amount of the trust assets or their proceeds. See Note 10. to the Consolidated Financial Statements.

## *Non Financial Trusts*

In addition, we act as trustee in 63 non financial trusts. We are in no case personally liable for the liabilities assumed in the performance of the contract obligations. Any liabilities are satisfied with and up to the full amount of the trust assets and their proceeds. The non-financial trusts at issue were set up to secure the receivables of several creditors (beneficiaries) and the trustee was entrusted with the management, care, preservation and custody of the trust assets. The trust assets represent about Ps.4,068 million and consist mainly of cash, creditors' rights, real estate and shares. See Note 10. to the Consolidated Financial Statements.

## **U.S. and Argentine Banking GAAP Reconciliation**

We prepare our financial statements in accordance with the rules of the Central Bank related thereto, which differ from U.S. GAAP in certain respects, as discussed in Note 17 to the Consolidated Financial Statements. The differences and the most significant effects on our net income and Stockholders' Equity over the fiscal years ended December 31, 2005, 2004 and 2003 are described below.

Under U.S. SFAS No. 109, deferred tax assets or liabilities are recorded for temporary differences between the financial reporting basis and the tax basis of assets and liabilities at statutory tax rates expected to be in effect when such amounts will be realized. Deferred tax assets are recognized if it is more likely than not that such assets will be realized. As explained in Note 5.1. to the Consolidated Financial Statements, we applied this method to determine the charge for income tax. The adjustments required in order to reconcile assets and liabilities with U.S. GAAP, as detailed in the following paragraph, are shown without considering their effect on income tax. This effect would have caused our net income to increase by Ps.19.3 million, Ps.513.7 million and Ps.392.5 million for the fiscal years ended December 31, 2005, 2004 and 2003 respectively. In addition, stockholders' equity would have increased by Ps.536.6 million and Ps.483.6 million as of December 31, 2005 and 2004, respectively.

In addition, as mentioned in Note 5.2. to the Consolidated Financial Statements, the Bank, as requested by the Central Bank, did not record an asset for the credit for tax on minimum presumed income. As of December 31, 2003, a valuation allowance was provided to reserve the amount recorded, in view of the deteriorating economic situation in Argentina. Several events arose after the closing of the year ended December 31, 2004 that improved the forecast of the Argentine economy and the development of future operations in the Bank. Given that the Bank estimates that it shall have taxable income against which these tax credits shall be offset, the valuation allowance should be reversed in accordance with U.S. GAAP. Had U.S. GAAP been applied, and as a result of the adjustment to earnings of prior years booked by the Bank under Central Bank's rules, the Bank's assets would be increased by Ps.1.0 million as of December 31, 2004 and decrease by Ps.61.6 as of December 31, 2003. On the other hand, the Bank's net income would be decreased by Ps.1.0 million and Ps.66.5 million as of December 31, 2005 and 2003, respectively and would be increased by Ps.62.6 million for the year ended December 31, 2004.

Under Argentine Banking GAAP, loan origination and issuance credit card's fees are recognized when collected. Under U.S. SFAS No. 91, these fees are recognized over the life of the related loan as an adjustment to yield. The effect of applying SFAS No. 91 would have been to decrease our net income by Ps.2.3 million and Ps.9.7 million for the fiscal years ended December 31, 2005 and 2004 and to increase it by Ps.19.3 million in the fiscal year ended December 31, 2003. Since the effect of U.S. GAAP treatment would have been to decrease the principal balance of outstanding loans, application of SFAS No. 91 to our financial statements would have reduced Stockholders' Equity by Ps.23.1 million, Ps.20.8 million and Ps.11.1 million for the fiscal years ended December 31, 2005, 2004 and 2003, respectively.

Under Argentine Banking GAAP, certain software development expenses are amortized over the estimated useful life of the software, for up to a maximum of 60 months. Under Argentine Banking GAAP, the Consolidar Group capitalized expenses incurred in connection with the launching of certain activities. The Pension Fund Manager Superintendency (the agency overseeing Consolidar AFJP) authorized the capitalization of disbursements made through September 25, 1994, for "salaries, advertising, software, agent's commissions, fees, brochures, forms, printing and leases and rentals". Under U.S. SFAS No. 2, these expenses are to be charged off to income when incurred. If U.S. GAAP had been applied, our assets would have decreased by Ps.16.9 million, Ps.16.4 million and Ps.18.9 million for the fiscal years ended December 31, 2005, 2004 and 2003, respectively. Our net income would have decreased by Ps.0.5 million for the fiscal year ended December 31, 2005 and would be increased by Ps.2.4 million and Ps.40.1 million for the fiscal years ended December 31, 2004 and 2003, respectively.

Under Argentine Banking GAAP, Government securities that we decided to classify as investment accounts (including those used for forward purchases under repurchase agreements) were carried at a cost adjusted for the accrual at fiscal year-end of interest based on the internal rate of return from the time elapsed from acquisition date. According to U.S. GAAP, these securities should be considered as available for sale and carried at fair value (market value if available) with unrealized gains and losses reported as a net amount, net of income tax within the stockholder's equity accounts. However, SFAS No. 115 requires that if the decline in fair value is judged to be other than temporary, the cost of the security shall be written down to fair value, and the amount of the write down shall be included in earnings. Had U.S. GAAP been applied, our assets would have decreased by Ps.173.0 million, Ps.460.1 million and Ps.821.4 million for the fiscal years ended December 31, 2005, 2004 and 2003, respectively. Our net income would have increased by Ps.383.3 million and Ps.167.3 million for the fiscal years ended December 31, 2005 and 2004, respectively and would be decreased by Ps.378.5 million for the fiscal year ended December 31, 2003.

Under Argentine Banking GAAP, we carry our unlisted Government and private securities denominated in pesos at cost and our unlisted Government and private securities denominated in foreign currencies at par plus accrued income translated at the closing exchange rate on the day of valuation. Under U.S. GAAP for trading securities, a fair valuation methodology should be used to value securities for accounting purposes. Had U.S. GAAP been applied, our assets would be increased by Ps.4.5 million for the fiscal years ended December 31, 2005 and would be decreased by Ps.7.9 million and Ps.372.2 million for the fiscal years ended December 31, 2004 and 2003, respectively. On the other hand, the income for the year ended December 31, 2005, 2004 and 2003 would be increased by Ps.12.4, Ps.364.3 and Ps.542.7, respectively.

Under Argentine Banking GAAP, the allowance for loans has been calculated based on the Bank's estimated loan loss risk in light of debtor compliance and the collaterals supporting the respective transactions, as provided by Communication "A" 2950 and supplemented by the Central Bank. SFAS No. 114, as amended by SFAS No. 118, requires a creditor to measure impairment of a loan based on the present value of expected future cash flows discounted at the loan's effective interest rate, or at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. This statement is applicable to all loans (including those restructured in a troubled debt restructuring involving a modification of terms), except large groups of smaller-balance homogenous loans that are collectively evaluated for impairment. Had U.S. GAAP been applied, the Bank's assets would be increased by Ps.49.6 million and Ps.37.6 million at December 31, 2005 and 2004, respectively and would be decreased by Ps.10.8 million at December 31, 2003. On the other hand, the income for the years ended December 31, 2005 and 2004 would be increased by Ps.12.0 million and Ps.48.4 million, respectively and would be decreased by Ps.10.8 million for the fiscal year ended December 31, 2003.

Under Argentine Banking GAAP, BBVA Banco Francés and its subsidiaries swapped Federal State Securities, bonds, treasury bills and unsecured loans at face value for secured loans. The initial value of the certificates matched that of the prior book value as of the date of the swap. According to U.S. GAAP, a non-temporary impairment affects the swapped obligations and therefore requires that, in the event that such obligations have been classified as "held to maturity", a loss be recorded for the difference between the book value of the obligation swapped and its quotation at the date of the swap, as such quotation is considered the best measure for recognizing the above mentioned impairment. The effects of adjustments required to state the amounts swapped in accordance with U.S. GAAP would be to decrease assets by Ps.909.5 million, Ps.1,821.8 million and Ps.2,005.5 million at December 31, 2005, 2004 and 2003 respectively. On the other hand, income would be increased by Ps.912.3 million and Ps.183.7 million for the fiscal years ended December 31, 2005 and 2004, respectively and would be decreased by Ps.289.0 million for the year ended December 31, 2003.

As a result of Public Emergency and Exchange System Reform Law and the public debt default, an impairment affects the credit facilities given to non-financial provincial governmental sector and other government agencies. Therefore according to U.S. GAAP, a loss must be recorded for the difference between their accounting value and the expected value of their future cash flows. The effects of adjustments required to state these amounts in accordance with U.S. GAAP would decrease assets by Ps.149.0 million, Ps.175.3 million and Ps.328.6 million at December 31, 2005, 2004 and 2003, respectively. On the other hand, income for the years ended December 31, 2005, 2004 and 2003 would be increased by Ps.26.3, Ps.153.3 million and Ps.381.1 million, respectively.

On April 26, 2004, the Bank swapped Secured Bonds due in 2018 to conclude the Swap I of deposits for Government Bonds. This swap generated, in accordance with U.S. GAAP, gains on extinguishments of deposit-related liabilities for the fiscal year ended December 31, 2003 by Ps.104.3 million, thus generating an increase of the Bank's assets by that amount as of December 31, 2003 and a decrease in the income for the fiscal year ended December 31, 2004.

In August, 2004, the Bank swapped Secured Bonds due in 2018 in the framework of Swap II of Deposits for Government Bonds. This swap generated, in accordance with U.S. GAAP, gains on extinguishments of deposit-related liabilities in the income for the year ended December, 31 2004 by Ps.108.0 million.

Pursuant to Argentine Banking GAAP, at December 31, 2003 the Bank recorded as assets: a) the difference between the paid amounts for constitutional protection actions and the deposit amounts registered in accordance with the existing regulations. The Government has not indicated that it will compensate the Bank for the difference between the amounts paid for constitutional

protection actions and the deposit amounts registered in accordance with the existing regulations; b) the difference generated by the application of the CVS coefficient instead of the CER, on the understanding that the Government would compensate the Bank for the loss caused by those situations. The National Congress has enacted a law contemplating that compensation. On January 23, 2004, the Federal Executive ruled the abovementioned law through Decree No. 117/04. The Central Bank regulated the compensation through Communication "A" 4114. As described in Note 15.3. to the Consolidated Financial Statements, on June 2004 the Bank wrote off the relevant asset and recorded an adjustment to earnings of prior years. This adjustment has not had impact under U.S. GAAP because these assets were not recognized under those policies; and c) in the fiscal year 2003, the Bank registered a loss because Credilogros decided to abandon the claim, after several adverse instances, about recorded as an asset the compensation generated by the negative position in foreign currency as of December 31, 2001. SFAS No. 5 "Accounting for Contingencies" requires that contingencies that might result in gains should not be reflected in the accounts since to do so might be to recognize revenue prior to its realization. Had U.S. GAAP been applied, our assets would have decreased by Ps.586.5 million, Ps.739.3 million and Ps.811.6 million at December 31, 2005, 2004 and 2003, respectively. On the other hand, net income would have increased by Ps.152.8 million and Ps.72.3 million at December 31, 2005 and 2004, respectively and would be decreased by Ps.409.8 million at December 31, 2003.

Under Argentine Banking GAAP the Bank accounted for its investment in the Buenos Aires Stock Exchange at market value. Under U.S. GAAP, such investments would have been valued at cost or at a lesser amount where there is a non-temporary impairment in value. Additionally, the companies that are under 20% were valued by the equity method in accordance with Central Bank rules. Under U.S. GAAP, those investments, that are non-marketable securities, would have been valued at cost. Had U.S. GAAP been applied, the Bank's assets would be decreased by Ps.18.8 million, Ps.12.8 million and Ps.8.6 million at December 31, 2005, 2004 and 2003, respectively. On the other hand, the income for the years ended December 31, 2005, 2004 and 2003 would be decreased by Ps.5.9 million, Ps.4.3 million and Ps.3.5 million, respectively.

Pursuant to Argentine Banking GAAP, we generally record the cost of vacation payments earned by employees when paid, U.S. GAAP requires that this expense be recorded on an accrual basis as the vacations are earned. If U.S. GAAP had been applied, our liabilities would have increased by Ps.44.8 million, Ps.36.1 million and Ps.33.6 million for the fiscal years ended December 31, 2005, 2004 and 2003, respectively. Net income would have decreased by Ps.8.8 million, Ps.2.5 million and Ps.1.5 million for the fiscal years ended December 31, 2005, 2004 and 2003, respectively.

Pursuant to Argentine Banking GAAP, we do not give accounting recognition to checks drawn against the Bank or other banks or other items to be collected, until such time as the related item clears or is accepted. Such items are recorded by the Bank in memorandum accounts. U.S. banks, however, account for such items through balance sheet clearing accounts at the time the items are presented. Had U.S. GAAP been applied, the Bank's assets and liabilities would be increased by approximately Ps.768.7 million and Ps.740.8 million at December 31, 2005 and 2004, respectively.

Under Argentine Banking GAAP, the Bank recognizes for forward and unsettled spot transactions as a receivable and a payable at the time of the agreement, which reflect the amount of cash, currency or securities to be exchanged at the closing date. The receivable or payable representing the receipt or delivery of securities or currency is stated at the quoted market value of such securities or currency. Under U.S. GAAP, in general entities would not recognize a receivable or payable but would recognize the differences arising from changes in the market price of securities or currency to be received or delivered if the transaction did not qualify as a hedge. Had U.S. GAAP been applied, the Bank's assets and liabilities would be decreased by approximately Ps.84.5 million and Ps.53.3 million at December 31, 2005 and 2004, respectively.

Under Argentine Banking GAAP, foreign trade acceptances are not recorded on the balance sheet by the Bank. In accordance with Regulation S-X, acceptances and related customer liabilities should be recorded on the balance sheet. The effect of the adjustment required to state balance sheets in accordance with Regulation S-X would be to increase assets (due from customers on acceptances) and increase liabilities (bank acceptances outstanding) by Ps.80.6 million and Ps.109.7 million at December 31, 2005 and 2004, respectively.

At December 31, 2005 and 2004, the subsidiary Consolidar AFJP, manages a retirement and pension plan for an amount of 12.8 and 10.5 billion pesos, respectively. During the period ended December 31, 2005, the Bank has performed a review and recalculation for its pension and retirement obligations' activities, as well as the amounts considered to recover for any future compensation, consequently, the Bank has reconsidered the amounts previously recorded under US GAAP for such obligations. As a result of such review, the shareholders' equity and consolidated net income in accordance with accounting principles generally accepted in the United States of America have been restated for the year ended December 31, 2004 and 2003. Therefore, the stockholders' equity for the periods ended December 31, 2004 and 2003 have been reduced in Ps.172.9 million and Ps.124.7 million, respectively, and net income has been reduced in Ps.48.3 million and Ps.124.7 million, respectively. Additionally, for the period ended December 31, 2005 if U.S. GAAP had been applied, the stockholders' equity would be decreased by Ps.209.0 million and net income has been reduced by Ps.36.1 million.

On May 4, 1998, our shareholders approved the reversal of the shares issuance premium related to the capital increase paid on December 19, 1997 and relating to the business goodwill from the acquisition of 71.754% of the capital stock of Banco de Crédito Argentino. Under Argentine Banking GAAP, we recognize the issuance premium under “Issuance premiums” and capitalize the related amount under Intangible assets. The effect of adjustments required to state such amounts in accordance with U.S. GAAP would be to increase assets by Ps.254.9 million for fiscal years ended December 31, 2005, 2004 and 2003.

On May 13, 1999, BBVA acquired Corp Banca S.A. and Atuel Fideicomisos S.A. and on September, 13, 1999, BBVA sold its interests in both companies to BF. For the difference between the definitive price of the transaction and the incorporation value of both companies, the Bank recognized a goodwill and amortized it in proportion to the months of estimated useful life (120-month period). Under U.S. GAAP, we would be required to account for the acquisition of the mentioned companies at BBVA’s book balance. Had U.S. GAAP been applied, the Bank’s assets would be increased by Ps.29.2 million, Ps.22.6 million and Ps.16.0 million at December 31, 2005, 2004 and 2003, respectively. Additionally, the income would be increased by Ps.6.6 million for the fiscal years ended December 31, 2005, 2004 and 2003.

SFAS 142 requires, effective January 1, 2002, that goodwill no longer be amortized, but is subject to an impairment test annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. Accordingly, we have recognized an impairment loss. Had U.S. GAAP been applied, our assets would be decreased by Ps.309.6 million for the fiscal years ended December 31, 2005, 2004 and 2003. On the other hand, the income for the year ended December 31, 2003 would be increased by Ps.3.3 million.

As a result of the sale of Banco Francés (Cayman) Ltd. during the year ended December 31, 2004, as described in Note 1.5. the income for the year then ended would be decreased by Ps.200.0 million.

In the fiscal year ended December 31, 2004 we sold our interest in Banco Francés (Cayman) Ltd. In consequence, the comprehensive income at December 31, 2003 was charged to income in the fiscal year ended December 31, 2004. Had U.S. GAAP been applied, our income for the fiscal year ended December 31, 2004 and 2003 would be increased by Ps.143.4 million and Ps.159.7 million, respectively.

Consolidar Cía. de Seguros de Retiro S.A. and Consolidar Cía. de Seguros de Vida S.A. maintain reserves accounted in Other Liabilities from Subsidiaries valued in accordance with de accounting standards established by the Superintendence of Pension Fund Administrators and the National Superintendence of Insurance (see Notes 3.5.21. and 6.). Had U.S. GAAP been applied, liabilities would be decreased by Ps.10.1 million for the year ended December 31, 2005 and would be increased by Ps.36.8 million and Ps.41.4 million at December 31, 2004 and 2003, respectively. On the other hand, income for the year ended December 31, 2005 and 2004 would be increased by Ps.46.9 million and Ps.4.6 million, respectively and decreased by Ps.41.4 million for the fiscal year ended December 31, 2003.

Calculated in accordance with U.S. GAAP, our net income (net loss) for the fiscal years ended December 31, 2005, 2004 and 2003 would have been Ps.1,634.6 million, Ps.1,407.5 million and Ps.(26.4) million, respectively. Under Argentine Banking GAAP, our net income (net loss) was Ps.117.2 million, Ps.(54.0) million and Ps.(350.3) million, for the same respective periods.

## **Credit Ratings**

The international rating agencies downgraded our ratings in 2001 and 2002, following the crisis and the sovereign ceiling. Standard & Poor’s rated our counterparty credit risk rating “SD” (selective default) and our senior debt rating “CC” and Moody’s Investors Service rated our financial strength credit rating “E” and our senior debt rating “Ca”.

As of June 15, 2002, we asked the international rating agencies to temporarily suspend the ratings of Banco Francés. We made this decision within cost reduction measures and because we believed that our ratings would not improve in the medium term in light of the deep crisis in Argentina and in the financial system.

As of June 1, 2005, with the completion of the sovereign debt restructuring, Standard & Poor upgraded the new sovereign debt to B-. Accordingly Standard & Poor’s rated our local counterparty credit risk rating “A+”, our senior debt rating as “A+”.

As of the filing of this annual report, credit ratings in the banking system are still very affected by the remaining effects of the crisis and the lack of resolution on relevant pending issues. We intend to request for international ratings once the financial and economic situation of Argentina, of the financial system and of the Bank gives added value to investors and justifies the cost.

## **Research and Development, Patents and Licenses**

We incur research and development expenses in connection with technology information systems. See *“Information on the Company-Business Overview-Information Technology”*. We hold no material patents and do not license to others any of our intellectual property. We plan infrastructure development (processing, telecommunications, Internet, information security) based upon present and projected future demand of such services. We acquire the necessary technology, including equipment, from third parties.

## **Trend Information**

In light of strong economic activity and fiscal solvency, coupled with stable exchange rate and inflation under control, the financial system will continue to be focused, during 2006, on further expanding the private sector lending activity while reinforcing the transactional business. Solid credit growth was mainly biased towards short and medium-term loans in the corporate market and personal loans and credit cards in the consumer segment and represents a clear trend for the years to come. However, no assurance can be given that credit demand will remain strong and that this trend will continue. For a description of recent changes in our business strategy see *“Information on the Company-Business Overview”*.

## **ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

### **Directors and Senior Management**

#### *Directors*

The Bank is managed by a Board of Directors (the “Board”) consisting of a minimum of three and a maximum of nine directors, all of whom are elected by the shareholders for a period of three years and are eligible for re-election. Although the terms of our current directors are staggered, this is not required by our bylaws. Our bylaws also contemplate the election of alternate directors. The Board regularly meets at least once per month.

At present, the Board consists of five regular and two alternate directors. The table below indicates the names of the members of our Board, their present position in the company, their business background and the date of expiration of the period for which they were elected.

The General Regular and Special Shareholders Meeting held on April 27, 2006 elected one regular director, re-elected two regular directors and two alternate directors, all for a period of three years. After the relevant distribution of positions, the Board was constituted as follows: Mr. Jorge Carlos Bledel as Chairman, Mr. José Carlos Plá Royo as Vice-Chairman, and Messrs. Marcelo Gustavo Canestri, Javier D’Ornellas and Oscar Miguel Castro as Regular Directors. Messrs. Martín Ezequiel Zarich and Carlos Horacio Peguet were also elected as alternate members of the Board.

Name	Current Term Ends	Position as of December 31, 2004	Date of Birth	Present principal occupations outside Banco Francés and business experience
Jorge Carlos Bledel	December 2008	Chairman	04/19/1954	<p><u>Present principal occupations:</u>  Director, Rombo Compañía Financiera S.A. (“Rombo Compañía Financiera”); Director, Credilogros Compañía Financiera S.A. (“Credilogros”); Vice Chairman, Francés Valores Sociedad de Bolsa S.A. (“Francés Valores”); Chairman, Inversora Otari S.A. (“Inversora Otari”); Chairman, Consolidar AFJP S.A. (“Consolidar AFJP”); Chairman, Consolidar ART S.A. (“Consolidar ART”); Chairman, Consolidar Compañía de Seguros de Vida S.A. (“Consolidar Seguros de Vida”); Chairman, Consolidar Compañía de Seguros de Retiro S.A. (“Consolidar Seguros de Retiro”); Chairman, Consolidar Seguros S.A. (“Consolidar Seguros”) and Chairman, Consolidar Salud S.A. (“Consolidar Salud”).</p> <p><u>Business experience:</u> Credit Manager, Banco del Interior y Buenos Aires; Business Manager, Corporación Metropolitana de Finanzas; Financial Manager, Banco Francés; Wholesale Banking Director, Banco Francés and Retail Banking Director, Banco Francés.</p> <p>Mr. Bledel joined the staff of Banco Francés in 1986 and was first elected to the Board in March 2003.</p>
(*)				
Juan Ignacio Giménez Echeverría	December 2005	Vice-chairman	04/01/1944	<p><u>Present principal occupations:</u>  Vice-Chairman, Inversora Otari.</p> <p><u>Business experience:</u> Director J. Justo S.A. and Stein Baltogar.</p> <p>Mr. Jiménez Echeverría was first elected to the Board in December 1996.</p>
(**)				
Marcelo Gustavo Canestri	December 2006	Director	04/23/1953	<p><u>Present principal occupations:</u>  Director, Francés Valores; Alternate Director, Consolidar AFJP; Alternate Director, Consolidar Seguros de Vida; Alternate Director, Consolidar Seguros de Retiro; Alternate Director, Consolidar ART; Regular Director, Inversora Otari; Chairman, Credilogros and Alternate Director, BBVA Consolidar Seguros S.A. (“BBVA Seguros”).</p> <p><u>Business experience:</u> Corporate Assistant Manager, Banco Francés; Wholesale Banking Assistant Manager, Banco Francés; Asset Management Director, Banco Francés and Financial Director, Banco Francés.</p> <p>Mr. Canestri joined the Bank in 1973 was first elected to the Board in September 2001.</p>
(*)				
Javier José D’Ornellas	December 2006	Director	06/07/1940	<p><u>Present principal occupations:</u>  Chairman, Rentar S.A.; Chairman, VASA S.A.; Chairman, MASISA Argentina S.A.; Director, HSBC S.A. de Inversiones; Chairman, Vidriería Argentina S.A., Chairman, Vidrios Lirquén S.A. and Vice-Chairman, Santa Lucía Cristal SACIF.</p> <p><u>Business experience:</u> Director, HSBC Roberts S.A. de Inversiones.</p> <p>Mr. D’Ornellas was elected as Director in 1998.</p>
(***)				

Name	Current Term Ends	Position as of December 31, 2004	Date of Birth	Present principal occupations outside Banco Francés and business experience
Oscar Miguel Castro	December 2008	Director	12/04/1945	<p><u>Present principal occupations:</u> Statutory auditor (síndico), Origenes Retiro, Internacional Vida, Origenes A.F.J.P., Transportadora Gas del Sur (Alternate).</p> <p><u>Business experience:</u> Statutory auditor: Santander Sociedad de Bolsa, Banco Supervielle, Banco Rio, Banco Societe Generale S.A., Axa Inversora, BBVA Banco Francés. Alternate statutory auditor: Banco Comafi, BNP Asset Management. Financial Executive Team member: Arthur Andersen Worldwide. Partner in charge of Financial Markets division: Arthur Andersen Latinamerica. Partner: Pistrelli Diaz y Asoc. (Arthur Andersen).</p>

(\*\*\*)

Mr. Castro was elected as director in 2003.

(\*) According to the provisions of General Resolution No. 368 (New Text 2001), as amended by General Resolution No. 400 of the CNV, Messrs. Jorge Carlos Bledel and Marcelo Gustavo Canestri do not qualify as independent directors, as they are employees of the Bank.

(\*\*) Mr. Juan Ignacio Giménez Echeverría, died on December 27, 2005. He had been appointed in 2003.

(\*\*\*) Mr. D'Ornellas and Mr. Castro qualify as independent directors according to the independence criteria established by General Resolution No. 368 (New Text 2001), as amended by General Resolution No. 400 of the CNV.

The Regular and Special Shareholder Meeting held on April 27, 2006 appointed Mr. José Carlos Plá Royo as director for a period of three years. According to the provisions of General Resolution No. 368, as amended by General Resolution No. 400 of de CNV, Mr. José Carlos Royo Plá does not qualify as independent director, as he is a former employee of BBVA.

The Regular and Special Shareholder Meeting held on April 27, 2006 re-elected Messrs. Jorge Carlos Bledel, and Oscar Miguel Castro as directors for a period of three years. The Regular and Special Shareholders Meeting held on April 30, 2003 appointed the following persons as alternate directors for a period of three years: Messrs. Martín Ezequiel Zarich (Background: Director of Banking Development in the Americas for BBVA; Retail Banking Director; Financial Director; Banco Francés Merger Director; Planning Director for Banco de Crédito; Manager, Management Control, for Banco de Crédito; Economist for Banco de Crédito; he joined Banco Crédito in 1987); and Carlos Horacio Peguet (Background: Vice Chairman and General Manager, Consolidar AFJP; Vice Chairman, Consolidar ART; Vice Chairman Consolidar Salud; Vice Chairman, Consolidar Seguros de Retiro; Vice Chairman, Consolidar Seguros de Vida; Vice Chairman Consolidar Seguros; Vice Chairman, Consolidar Salud; Chairman, Clínica y Maternidad Santa Isabel S.A.; Chairman, Clínica Bazterrica S.A.; Vice Chairman, Assurex S.A.; he joined the Consolidar Group in 1994); none of them qualify as independent directors under the independence criteria established by General Resolution No. 400 of the CNV.

The Regular and Special Shareholder Meeting held on April 22, 2004 re-elected Messrs. Javier D'Ornellas and Marcelo Gustavo Canestri as directors for a period of three years.

The Regular and Special Shareholder Meeting held on April 27, 2006 re-elected Messrs. Martín Ezequiel Zarich and Carlos Horacio Peguet as alternate directors for a period of three years.

Until the date of this annual report, the Central Bank has not issued the corresponding authorization to the appointment of the above-mentioned director José Carlos Plá Royo.



## Executive Officers

The table below indicates the names of the members of the management committee who are our main executives, their present positions and the year of their appointment for the position, as well as their business background. All main executives are appointed for an indefinite period.

Name	First Appointed	Current Position	Date of Birth	Background and Work Experience
Jorge Carlos Bledel	2001	Executive Chairman	04/19/1954	Director, Rombo Compañía Financiera; Director, Credilogros; Vice Chairman, Francés Valores; Chairman, Inversora Otari; Chairman, Consolidar AFJP; Chairman, Consolidar ART; Chairman, Consolidar Seguros de Vida; Chairman, Consolidar Seguros de Retiro; Chairman, Consolidar Seguros and Chairman, Consolidar Salud.  Mr. Bledel joined Banco Francés in 1986.
José Carlos López Álvarez	2003	Assistant Executive Director, Accounting and Risk Management Director	03/15/1959	General Assistant Director and Financial Director of Banco del Comercio (Spain) and Vice-president, Risk Management Director and Financial Director of BBVA Brasil.  Mr. López Álvarez joined the Bank in 2003.
Tomás Deane	2003	Director, Local Wholesale Banking	03/29/1967	Mr. Deane joined the Bank in 1990, in the area of Financial Funds Management.
Oscar Hugo Fantacone	2002	Director, Retail Banking	03/27/1951	Director, Credilogros Compañía Financiera S.A.; Director, Rombo Compañía Financiera; Regular Director, Banelco S.A.; Regular Director Visa Argentina S.A.  Mr. Fantacone joined Banco Francés in 1982, as Special Credits Manager. He also was Client Services Manager and was promoted to Regional Director in 1997.
Marcelo Gustavo Canestri	2001	Financial Director	04/23/1953	Director, Francés Valores; Alternate Director, Consolidar AFJP; Alternate Director, Consolidar Seguros de Vida; Alternate Director, Consolidar Seguros de Retiro; Alternate Director, Consolidar ART; Alternate Director, BBVA Consolidar Seguros S.A.; Regular Director, Inversora Otari S.A.; Chairman, Credilogros Compañía Financiera S.A. and Alternate Director, BBVA Consolidar Seguros S.A.  Mr. Canestri joined the Bank in 1973.
Gabriel Milstein	2002	Media Director	08/14/1958	Organization Manager, Banco Francés.  Mr. Milstein joined the Bank in 1995.
Carlos E. Montoto	1998	Director, Human Resources and Quality	08/10/1957	Director, Atuel Fideicomisos S.A.; Chairman, Promoción y Servicios Financieros S.A.  Mr. Montoto joined Banco Francés in 1975.

Name	First Appointed	Current Position	Date of Birth	Background and Work Experience
Daniel M González (*)	2001	Director, Global Wholesale Banking	05/17/1962	Manager Recovery of Corporate Credits, Banco de Crédito, Manager; Credit Recovery, Banco de Crédito; Manager Wholesale Banking, Banco de Crédito; Individual Risks Manager, Banco Francés and Director Corporate Banking, Banco Francés.

Mr. González joined the former Banco de Crédito in 1988.

Juan Eugenio Rogero González	2005	Director, Risk Management	06/20/1956	Mr. Rogero González joined the BBVA in 1973, his background and work experience includes: Branch Corporate Banking Director of Bilbao BBVA; Risk and Corporate Director, BBVA Puerto Rico; Insurance Development Director, BBVA America and Global Corporate Risk Control Director, BBVA.
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Mr. Rogero González joined the Bank in 2005.

(\*) Mr. Daniel Marcelo González, died on July 8, 2005.

The service contracts of the directors and the executive officers do not provide for benefits upon termination of employment. Expect for mentioned in “*Directors, Senior Management and Employees-Compensation of Directors and Officers*”.

#### *Supervisory Committee*

The following table indicates the composition of the Supervisory Committee of Banco Francés until December 31, 2005:

		Expiration of term
<b>Regular</b>	Mario Rafael Biscardi	December 31, 2005
	Carlos Roberto Chiesa	December 31, 2005
	Alejandro Mosquera	December 31, 2005
<b>Alternate</b>	Osvaldo Pablo Alejandro Jofré	December 31, 2005
	Julieta Paula Pariso	December 31, 2005
	Paola Lorena Rolotti	December 31, 2005

As of December 31, 2005, both the regular and alternate members of the Bank’s Supervisory Committee, in their capacity as public accountants, have represented to the Bank that: (a) they perform or are prepared to perform the function of statutory auditors with the professional independence required by Technical Resolution No. 15 of the Argentine Federation of Professional Councils in Economic Sciences, and (b) they are members of Biscardi & Asociados.

The General Ordinary and Special Shareholders Meeting of Banco Francés held on April 27, 2006, appointed the following members of the Supervisory Committee:

		Expiration of term
<b>Regular</b>	Mario Rafael Biscardi	December 31, 2006
	Carlos Roberto Chiesa	December 31, 2006
	Alejandro Mosquera	December 31, 2006
<b>Alternate</b>	Osvaldo Pablo Alejandro Jofré	December 31, 2006
	Julieta Paula Pariso	December 31, 2006
	Paola Lorena Rolotti	December 31, 2006

## Background information

Mario Rafael Biscardi: Attorney, a partner of the firm Biscardi & Asociados, he is a member of the Supervisory Committee of, inter alia, Banco Soci  t   G  n  rale S.A., Banco Banex S.A., Banco Ita   Buen Ayre S.A., GMAC Cia. Financiera S.A., General American Compa  a de Seguros de Vida S.A., Renault Argentina S.A., Sociedad Comercial del Plata S.A., P&G Holding S.R.L and Inta S.A.

Carlos Roberto Chiesa: Attorney, a partner of the firm Biscardi & Asociados, he is a member of the Supervisory Committee of, inter alia, Banco Soci  t   G  n  rale S.A., Banco Banex S.A., Banco Ita   Buen Ayre S.A., GMAC Cia. Financiera S.A., General American Compa  a de Seguros de Vida S.A. and Hidroel  ctrica Cerros Colorados S.A.

Alejandro Mosquera: Attorney, a partner of the firm Biscardi & Asociados, he is a member of the Supervisory Committee of, inter alia, Banco Soci  t   G  n  rale S.A., Banco Banex S.A., Banco Ita   Buen Ayre S.A., GMAC Cia. Financiera S.A., General American Compa  a de Seguros de Vida S.A., Renault Argentina S.A., Sociedad Comercial del Plata S.A., P&G Holding S.R.L, and Inta S.A.

Osvaldo Pablo Alejandro Jofr   : Attorney, a member of the firm Biscardi & Asociados, he is a member of the Supervisory Committee of Banco Soci  t   G  n  rale S.A., Banco Banex S.A., Banco Ita   Buen Ayre S.A., GMAC Cia. Financiera S.A., General American Compa  a de Seguros de Vida S.A., Duke Energy International Southern Cone S.R.L., Sofital SAF  II and Santista Textil S.A.

Julieta Paula Pariso: Attorney, a member of the firm Biscardi & Asociados, she is a member of the Supervisory Committee of Banco Soci  t   G  n  rale S.A., Banco Banex S.A., Banco Ita   Buen Ayre S.A., General American Compa  a de Seguros de Vida S.A., Duke Energy International Southern Cone S.R.L., Sofital SAF  II, GMAC Cia. Financiera S.A. and Hidroel  ctrica Cerros Colorados S.A.

Paola Lorena Rolotti: Attorney, a member of the firm Biscardi & Asociados, she is a member of the Supervisory Committee of Banco Soci  t   G  n  rale S.A., Banco Banex S.A., Banco Ita   Buen Ayre S.A., General American Compa  a de Seguros de Vida S.A., Duke Energy International Southern Cone S.R.L., Sofital SAF  II, Santista Textil S.A. and Hidroel  ctrica Cerros Colorados S.A.

Both the regular and alternate members of the Bank's Supervisory Committee, in their capacity as attorneys, have represented to the Bank that: (i) they are members of Biscardi & Asociados S.R.L. Law Firm and qualify as "independent" according to General Resolution No. 368 (New Text 2001), as amended by General Resolution No. 400 of the CNV; and (ii) have filed all the information required by the mentioned dispositions of the CNV, regarding their professional relations with the Bank.

There are no agreements between the Bank and its directors, members of the Supervisory Committee or main executives, as a consequence of which the directors, members of the Supervisory Committee or main executives might have interests in opposition to those of the Bank, according to the provisions of Article 272 of LC.

## *Advisors*

All legal advice is provided to the Bank by its own Legal Affairs Department.

The Bank has no financial advisors.

## *External Auditors*

As of October 1, 2002, Deloitte & Co. S.R.L. acts as the Bank's external auditor. The Regular and Special Shareholders Meetings held on August 7, 2002, April 30, 2003 and April 22, 2004, April 28, 2005 and April 27, 2006 approved such appointment.

According to the provisions of General Resolution No. 368 of the CNV (New Text 2001) the auditor of the financial statements for (i) the fiscal years ended December 31, 2001 was Mr. Mario A. Bittar, National Public Accountant (University of Buenos Aires), who is registered with the Professional Council of Economic Sciences of the City of Buenos Aires, Volume 184, Page 238, (ii) the fiscal year ended December 31, 2002 was Mr. Carlos Alberto Haehnel, National Public Accountant registered with the Professional Council of Economic Sciences of the City of Buenos Aires, Volume 60, Page 89; and (iii) the auditor of the financial statements for the fiscal years ended December 31, 2003, 2004 and 2005 was Mr. Carlos Bernardo Srulevich, National Public Accountant (University of Buenos Aires), who is registered with the Professional Council of Economic Sciences of the City of Buenos Aires, Volume 139, Page 192.

The firm Deloitte & Co. S.R.L. has its domicile at Florida 234, 5th floor (C1005AAF), City of Buenos Aires, Argentina and is registered with the Professional Council in Economic Sciences of the City of Buenos Aires, under Volume 1, Page 3.

### *Audit Committee (I)*

Banco Francés established the Audit Committee (I) as described in the Minutes of the Board of Directors No. 4,878 to comply with the provisions set out by the Central Bank in its Communication “A” 2525, as supplemented, dated April 1997.

As of this date, the Audit Committee (I) is comprised of:

- Jorge Carlos Bledel
- Oscar Hugo Fantacone
- Oscar Miguel Castro
- Javier D’Ornellas
- Eduardo Zerega

The Audit Committee (I) meets once a month. In each of these meetings, the Internal Audit Director presents the projects undertaken by the Internal Audit Department. The minutes of the meeting are then drawn up detailing the issues discussed as well as those items requiring further discussion. The minutes are transcribed into an internal control book which is sent to the Board of Directors for their information.

The Audit Committee (I)’s duties are to:

- Supervise the appropriate implementation of the internal control systems defined in the institution through a regular evaluation;
- Provide assistance to improve the effectiveness of the internal controls;
- Inquire about external audit planning and comment as necessary on the nature, scope, and time for the performance of the audit proceedings;
- Revise and approve the annual work program of the institution’s internal audit area (“Internal Audit Planning Memorandum” or “Annual Planning”) to be carried out under these rules, as well as the level of compliance with such program;
- Revise the reports issued by the internal auditors pursuant to the provisions set forth in these rules;
- Consider the observations made by the external and the internal auditors regarding the internal control weaknesses found during the performance of their duties, as well as the corrective measures implemented by the general management to minimize or cure such weaknesses;
- Review the results obtained by the Supervisory Committee of the Bank during the performance of its duties, as informed in the applicable reports;
- Maintain a permanent communication with the officers of the Superintendency of Financial and Exchange Institutions in charge of the control of the Bank, so as to learn about their concerns, and the problems identified during the inspections conducted in the Bank, and control the actions adopted to solve such problems;
- Keep informed of the annual financial statements and the financial statements for the respective three-month periods as well as the external auditors’ report issued with respect to the former, and any other applicable accounting information; and
- Regularly control compliance with the independence rules applicable to external auditors.

Banco Francés has an Audit Committee (II) created by resolution of the Board of Directors dated on May 21, 2004. General Ordinary and Special Shareholders Meeting held on April 27, 2006, appointed José Carlos Plá Royo in replacement of Juan Ignacio Giménez Echeverría in order to comply with NYSE Section 303A.07(b), which states that as from July 1, 2005 all members of the Audit Committee are required to be “independent”.

With the appointment of José Carlos Plá Royo, the Audit Committee (II) consists of three members of the Board, most of them are independent directors in terms of Decree No. 677/01 and Resolution No.400/02, are elected for three years and may be re-elected. Its present composition, according Board of Directors resolution held on April 27, 2006 will be constituted as follows:

Members:            José Carlos Plá Royo  
                             Oscar Miguel Castro  
                             Javier D’Ornellas

The powers and duties of the Audit Committee (II) are as follows:

- To render an opinion on the Board’s proposal to appoint the external auditors to be retained by the company, and ensure their independence.
- To supervise the operation of internal control and administrative accounting systems, as well as ensure the reliability of the latter and of all financial information or other significant facts submitted to the CNV and the self-regulated bodies in compliance with the applicable information regulations.
- To supervise the application of policies as regards the information about the company’s risk management.
- To furnish the market with comprehensive information in respect of operations which may involve conflicts of interest with members of the corporate bodies or controlling shareholders.
- To render an opinion on the reasonableness of proposals concerning fees and share option plans for the company’s directors and managers as submitted by the administration body.
- To render an opinion on the observance of legal requirements and the reasonableness of the conditions for the issuance of shares or securities convertible into shares in the event of a capital increase, with exclusion or limitation of preference rights.
- To verify the observance of the applicable standards of behavior.
- To issue a duly grounded opinion with regard to operations with related parties in those cases contemplated by the Decree.
- To issue a duly grounded opinion and forward it to the self-regulated entities as determined by the CNV whenever there is a conflict of interests or the possibility of such a conflict in the company.
- To prepare annually an action plan to be submitted to the Board and the Supervisory Committee.
- To examine the plans prepared by the external and internal auditors, evaluate their performance and issue an opinion on the matter on occasion of the presentation and publication of the annual financial statements.

All directors, members of the Supervisory Committee, managers and external auditors must, at the request of the Audit Committee, attend its sessions and cooperate with it, facilitating its access to such information as may be available to them. In order to ensure a more appropriate exercise of the powers and duties contemplated herein, the committee may request the advice of lawyers and other independent professionals and retain their services for the account of the company within the budget allocated for such purposes by the shareholders meeting. The Audit Committee shall have access to such information and documentation as it may deem necessary in order to comply with its obligations.

We do not have a compensation committee.

### *Compensation of Directors and Officers*

The aggregate amount of compensation paid by Banco Francés and its subsidiaries during the fiscal year ended December 31, 2005, to all directors and officers for services in all capacities, including salaries and bonuses, was Ps.14.2 million. This amount also includes compensation accrued during 2004 and paid in 2005. Compensation in the amount of Ps.7.5 million accrued during 2005 and was fully paid in 2006 before the date of this annual report. During the fiscal year ended December 31, 2005, Banco Francés was required to set aside Ps.4.1 million to provide defined contribution pension plans (see Note 16.16. to our Consolidated Financial Statements).

### *Special Committees*

The Bank has the following special committees (i) Management, (ii) Media, (iii) Risks and (iv) Disclosure, among others.

#### ▪ Management Committee

The Management Committee is comprised of: (i) Jorge Carlos Bledel, (ii) Marcelo Gustavo Canestri, (iii) Carlos Eduardo Montoto, (iv) Oscar Hugo Fantacone, (v) Gabriel Milstein, (vi) Tomás Deane, (vii) José Carlos López Álvarez and Juan Eugenio Rogero González.

The duties of the Management Committee are: (i) to set the business and investment strategies, general risk policies and human resources policies, together with the General Manager of the Company, (ii) grant delegation powers to the officers, (iii) analyze and approve the annual general budget, (iv) monitor its evolution and determine the corrective measures pursuant to internal and market variables, and (v) create business synergies with the rest of the group's companies.

#### ▪ Media Committee

The Media Committee has as duties the institutional treatment of policies, objectives and the planning of the information system area and is comprised of: (i) Gabriel Milstein, (ii) Oscar Hugo Fantacone, (iii) Marcelo Gustavo Canestri, (iv) Daniel Marcelo González, (v) Eduardo Zerega, (vi) Jorge Carlos Bledel and (vii) Guillermo de la Plaza.

#### ▪ Risk Committee

The Risk Committee is comprised of: (i) Chairman and Chief Executive Officer, Jorge Bledel; (ii) Vice Chairman, José Carlos López Álvarez; (iii) Risk Management Director, Juan Eugenio Rogero González; and (iv) Corporate Risk Manager, Gerardo Fiandrino.

The duties of the Risk Committee are:

- (1) Approve ratings for amounts (regularly adjusted) and those which were delegated as being Special Risks (Multiple Risk Ratings or Risks related to the media, political parties, trade unions or related to Banco Francés or its officers);
- (2) If it is a rating proposal for an amount exceeding the limit mentioned, it shall first be approved by the Operations Technical Committee ("OTC") and send it to the Credit Risk Central Unit (UCRC) for its approval;
- (3) If the UCRC's decision coincides with the decision taken by the OTC, the committee shall register such resolution in the applicable record of the OTC, shall further inform the applicable area for the rating to be included and shall send a copy to the applicable business area;
- (4) If the UCRC decision differs from the decision made by the OTC, a new rating shall have to be effected and informed to a new OTC; and
- (5) Decide proposed refinancing for amounts (regularly adjusted) and as to any relief or fine pursuant to the rules in force.
- (6) The OTC's decisions shall be adopted upon the consent of the committee; in the event the decision were not unanimous, such decision shall fall within the discretion of the Committee's Chairman.

▪ Disclosure Committee

The Disclosure Committee is comprised of: (i) Assistant Director to the Executive Director, José Carlos López Álvarez, (ii) Director, Financial Area (Chairman), Marcelo Gustavo Canestri, (iii) Director, Legal Advisory, Evelina Leoní Sarrailh, (iv) Auditing Director, Eduardo Zerega, (v) Accounting Manager, Claudia Gonzalez, (vi) Planning and MIS Manager, Enrique Bartolomé; (vii) Independent Director, Oscar Miguel Castro; and (viii) Investor Relations (Secretary), Adriana Arbelbide.

The General Functions of the Disclosure Committee are to make sure that all information supplied to the Bank's shareholders, the markets where its shares are listed and the regulatory bodies of such markets is true and complete, adequately represents its financial situation and the results of its operations, and is communicated in compliance with the terms and other requirements of the applicable regulations and with general market operation and good corporate governance principles. It must therefore ensure the existence and maintenance by the Bank of procedures and controls regarding the preparation and content of all information included in the Financial Statements as well as of any accounting or financial information which must be registered with the CNV and other regulatory bodies and agents of the stock exchanges where the shares of Banco Francés are listed.

▪ Terrorism Assets and Money Laundering Prevention Committee

The Terrorism Assets and Money Laundering Prevention Committee is comprised of: The Regulatory Compliance Direction Director (Coordinator), the Regulatory Compliance Direction's officer (Vice-coordinator) in charge of Assets Laundering, the BBVA – Banco Francés S.A.'s Director (Vocal member) Responsible for Anti-laundering activities, a Regular Director (Vocal member) of the Board of BBVA – Banco Francés S.A. the Chief Financial Trading (Vocal member), the Regulatory Compliance Direction's officer (Vice-coordinator) responsible for Related Companies, the Legal Services Direction's Director (Vice-coordinator), the Auditing Direction's Director (Vice-coordinator), a Representative (Secretary) of the Legal Services Direction, the Media Direction's Director (Vocal member), the Direction of Human Resources and Quality's Director (Vocal member), the Commercial Banking Direction's Director (Vocal member), the Financial Companies Area Manager of the Commercial Banking Direction (Vocal member), Consolidar's Internal Control and Regulatory Compliance Manager (Vocal member), the President of Francés Valores Sociedad de Bolsa S.A. (Vocal member), and the President of Francés Administradora de Inversiones S.A. (Vocal member).

In order to comply with its control and prevention purposes, the Terrorism Assets and Money Laundering Prevention Committee assumes the following responsibilities:

- To deal with all matters related to the prevention of terrorism assets laundering and financing.
- To define operational policies and continuously monitor their degree of advancement.
- To provide support for the terrorism assets laundering and financing Sub-Committee in order to make decisions on reporting to the competent authorities about any transactions which may appear unusual or suspicious, or dismissing such action as may be required.
- To assign duties to the different areas involved.

Each Vocal member assumes the following functions:

- To render his or her area of activity more sensitive as to the importance of preventing terrorism assets laundering and financing.
- To detect any relevant situation which may occur in his or her area in this connection.
- To analyze any new product or service and evaluate potential asset laundering risks.
- To assume the necessary commitments in his or her area in order to implement prevention systems in coordination with the officer responsible for Asset Laundering Prevention.

The Terrorism Asset Laundering and Financing Committee has delegated some of its powers in order to optimize the treatment of reports received. To this effect a Prevention Subcommittee has been created with powers to receive, analyze and report any unusual or suspicious operations according to the procedure determined by the Bank's internal regulations.

The committee meets every three months, or extraordinarily whenever the coordinator should deem it convenient due to the existence of relevant matters to be discussed.

Not fewer than five business days in advance of the meeting the Regulatory Compliance Director will discuss with the secretary those subjects to be treated at the quarterly meeting, and the Secretary will submit the agenda to the members of the Committee.

- Terrorism Assets Laundering and Financing Committee

Participants

The Regulatory Compliance Director (Coordinator), the Regulatory Compliance Direction's officer responsible for Asset Laundering (vice-coordinator), the Head of the Legal Services Direction (vice-coordinator), the Head of the Auditing Direction (vice-coordinator)

The Regulatory Compliance Director in his capacity as Coordinator is empowered to summon the involved reporting area even if it is not a member of the Subcommittee in order to clarify or provide such information as may be necessary for the resolution of the case.

Functions

Its mission is to analyze the information received about suspicious operations, agree upon actions to further examine them as required in each particular case and decide on such basis as to whether the operation will be reported to the BCRA or not.

- Corporate Integrity Management Committee

Participants

The Committee members acquire such condition as a result of their position and will cease to be such members as soon as they cease in their functions as heads of the relevant areas.

Director Legal Advisory

Director Regulatory Compliance

Director Human Resources

Director Internal Auditing

The Committee members may appoint any executive in their area to replace them in case of absence or impossibility to attend any of its meetings.

Secretary

The Committee will appoint a Secretary pertaining to the Legal Services Area to attend the meetings without a vote and perform the following functions:

- Convene the Committee.
- Prepare the agenda for the Committee meetings based on the proposals received from the different members.

Functions

To authorize exemptions from compliance with concrete provisions of the Code. In all cases such exemptions will be of an exceptional character and for a justified reason which will not result in any risks for the Corporate Integrity of BBVA Banco Francés and companies of the group in Argentina.



To promote the adoption of such measures as are required in order to resolve about any ethically questionable behaviors which may be brought to the knowledge of any of the members, either as a consequence of their functions in their areas or due to the reception of communications of the type mentioned in paragraph 6.28. of the Code of Behavior.

With respect to those circumstances from which might derive significant risks for BBVA Banco Francés Banco Francés and companies of the group in Argentina, to bring the case to the attention of the relevant:

- (1) Board of Directors or Auditing and Regulatory Compliance Commission as the case may be.
- (2) Management Committee.
- (3) Officer responsible for the preparation of financial statements, in order to ensure that such statements will reflect any relevant facts.

To resolve on any situations where the interests of BBVA Banco Francés and companies of the group in Argentina may appear to be in opposition to those of their clients.

To prepare and distribute interpretation notes on such aspects of the Code as may so require in order to ensure their application in practice.

To propose changes to the content of the Code in order to adjust it to the evolution of the activities and businesses of BBVA Banco Francés and companies of the group in Argentina, to their operational environment and to the best practices of the financial industry.

#### Regular meetings

The Committee will meet with such frequency as may be required for the performance of its functions.

#### ▪ Discipline Committee

##### Participants

Human Resources: Director Human Resources, II Labor Relations and III Labor Relations Management.

Auditing: Auditing Director, III of the relevant Auditing area (Companies or Individuals) as the case may be and III Special Audits.

Retail Banking: Director Retail Banking and the relevant Territorial Director.

If the representation of the area involved is not included in the points above, it will correspond to its highest level or to the one delegated by it.

##### Functions

It is BBVA Banco Francés corporate body in charge of examining labor disciplinary files.

It resolves restrictively on the following irregularities:

- (1) Fraud, violation of Bank regulations, negligence in their compliance.
- (2) Disloyalty in the tasks requested.
- (3) Confidence abuse; theft or robbery of property belonging to the Bank, fellows, clients or any person in the Bank's premises.
- (4) Powers abuse.

### Regular meetings

A meeting is held once a month and only if necessary in case the matters to be considered require an urgent and immediate decision.

- Computing Security Committee

#### Participants

Media Director

II Computing Planning and Security

II Design and Development

II Organization

II Computing Technology

III Computing Security

Presidency

Media Director

#### Functions

The purpose is to ensure confidentiality, integrity and accuracy of information, and continuity of transaction, in any form or manner it may appear, thus protecting it against any unauthorized use, disclosure, deliberate or accidental modification or interruption, focused on the business development in an adequate security and control encounter. To approve human resources policies.

### Regular meetings

On a monthly basis.

## **Significant Differences between Banco Francés's Corporate Governance Practices and U.S. Companies' Practices under NYSE Listing Standards**

Banco Francés's corporate governance practices are governed by the applicable Argentine law (particularly, the Business Companies Law, Decree No. 677/01 and the Standards of the CNV), as well as by its bylaws. Banco Francés has securities that are registered with the SEC and are listed on the NYSE, and is therefore subject to corporate governance requirements applicable to NYSE-listed non-U.S. companies.

NYSE-listed non-U.S. companies may, in general, follow their home country corporate governance practices in lieu of most of the new NYSE corporate governance requirements codified in Section 303A of the NYSE's Listed Company Manual. However, NYSE-listed non-U.S. companies must comply with NYSE Sections 303A.06, 303A.11 and 303A.12(b) and (c).

NYSE Section 303A.11 requires that non-U.S. companies disclose any significant ways in which their corporate governance practices differ from U.S. companies under NYSE listing standards. In accordance with NYSE Section 303A.11, we describe below the relevant differences between Banco Francés's corporate governance practices and NYSE standards for listed companies.

### *Director Independence*

Under NYSE Section 303A.01, a NYSE-listed company must have a majority of independent directors on its board of directors.

Under Argentine law, the board is not required to consist of a majority of independent directors. Notwithstanding, when directors are appointed, each shareholder that nominates a director is required to report at the meeting whether or not such director is independent. As of May 28, 2004, Argentine companies are required to have at least two independent directors to appoint to the Audit Committee. Since October 29, 1998, Banco Francés has two independent directors out of its five members of the Board of Directors.

### *Standards for Evaluating Director Independence*

NYSE Section 303A.02 establishes general standards to evaluate directors' independence (no director qualifies as "independent" unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company)), and emphasizes that the concern is independence from management. The board is also required, on a case by case basis, to express an opinion with regard to the independence or lack of independence, of each individual director.

To qualify as an "independent" or "non-independent" director, CNV standards (General Resolution No. 400) are substantially similar to NYSE standards. CNV standards provide that independence is required with respect to the Bank, and to its controlling shareholders or to shareholders with material holdings (35% or more), and that, for any person to be appointed as an independent director, such person must not perform executive functions within the Bank. Close relatives of any persons who would not qualify as "independent directors" would also not be considered "independent".

### *Non-management Directors Meetings*

Under NYSE Section 303A.03, non-management directors must meet at regularly scheduled executive meetings not attended by management. Neither Argentine law nor Banco Francés's bylaws require that any such meetings be held.

### *Nominating Corporate Governance Committee*

Under NYSE Section 303A.04, listed companies shall have a "nominating/corporate governance committee" comprised entirely of independent directors. Neither Argentine law nor Banco Francés's bylaws require the formation of a "nominating/corporate governance committee". The right to nominate directors is vested in the shareholders and the nomination is made at the shareholders' meeting. Pursuant to CNV Standards, the person who nominates a director shall report at the shareholders' meeting whether or not the nominee is an "independent person", based on criteria established by CNV (which are substantially similar to NYSE standards).

### *Compensation Committee*

Under NYSE Section 303A.05(a), listed companies had to have a "Compensation Committee" comprised entirely of independent directors. Under NYSE Section 303A.05(b), the "Compensation Committee" shall have a written charter establishing certain minimum responsibilities as set forth in NYSE Section 303A.05(b)(i). Banco Francés does not have a compensation committee because neither Argentine law nor Banco Francés's bylaws require the formation of a "compensation committee".

### *Audit Committee (II)*

Under NYSE Section 303A.06, listed companies must have an "audit committee" that complies with SEC requirements. Foreign private issuers shall have this audit committee in place prior to July 31, 2005. Decree No. 677/01 and CNV's standards require Banco Francés to have its audit committee in place on or prior to May 28, 2004. The Audit Committee (II) of Banco Francés currently complies with the standards of Decree No. 677/01 and CNV.

Under NYSE Section 303A.07(a), the audit committee shall consist of at least three members. All of its members shall be financially literate or must acquire such financial knowledge within a reasonable period and at least one of its members shall have experience in accounting or financial administration. Argentine law also requires the Audit Committee to be comprised of at least three members. Pursuant to CNV's standards, audit committee members are required to be conversant in business, financial, or accounting issues. CNV's rules provide for the training of its members to carry out their duties and Banco Francés engages in this training.

Under NYSE Section 303A.07(a), if a member of the audit committee is simultaneously a member of the audit committee of more than three public companies, and the listed company does not limit the number of audit committees on which its members may serve, then, in each case the board shall determine whether the simultaneous service would prevent such member from effectively serving on the listed company's audit committee, and shall report its decision in the annual proxy statement of the company or in the company's annual report filed with the SEC. No such provision regarding an audit committee member's simultaneous membership on public companies exists under Argentine law or Banco Francés's bylaws.

Under NYSE Section 303A.07(b), all members of the audit committee are required to be "independent". In accordance with Decree No. 677/01, a majority of the members of Audit Committee (II) are "independent".

Under NYSE Section 303A.07(c), the audit committee shall have a charter establishing the duties and responsibilities of its members, including, at a minimum, some of the duties and responsibilities required by Rule 10A-3 of the Securities Exchange Act of 1934 (the "Exchange Act") and as set forth in NYSE Section 303A.7(c) of the NYSE Manual. The functions and responsibilities of the audit committee in Argentina, established by Decree No. 677/01 and CNV's standards, are essentially the same as provided for under Rule 10A-3 of the Exchange Act.

NYSE Sections 303A.07(c)(iii)(B) and (C) establish audit committee objectives: (i) to discuss the annual audited financial statements and the quarterly financial statements of the company with management and the independent auditor, including the information disclosed under the heading "Management's Discussion and Analysis of Financial Conditions and Results of Operations"; (ii) to discuss the company's press releases relating to its earnings, as well as the financial information and guidelines relating to its earnings that are supplied to equity researchers and rating agencies. No such provision is contained in the Argentine law or Banco Francés's bylaws. However, CNV standards establish similar functions for the audit committee, namely, "to verify the reliability of the administrative-accounting system, and of all financial data, or of any significant data submitted to CNV and to self-regulated exchanges, in compliance with the applicable reporting regime".

NYSE Section 303A.07(c)(iii)(B) provides that the audit committee shall establish clear policies for hiring external auditors' employees. No such provision regarding hiring external auditors' employees is contained in Argentine law or Banco Francés's bylaws.

NYSE Section 303A.07(d) provides that each company must have an internal audit function in order to provide to the management and to the audit committee permanent assessments on the company's risk management processes and internal control system. No such provision regarding an internal audit function is required by Argentine law or Banco Francés's bylaws. However, Banco Francés has an Audit Committee according to Central Bank's rules, which provides to the management permanent assessments about management and operating processes, and risks of the company.

#### *Disclosure of Corporate Governance Guidelines*

NYSE Section 303A.09 provides that companies must adopt and disclose corporate governance guidelines, including several issues for which such reporting is mandatory, and include such information on the company's website, which should also include the charters of the Audit Committee, the Nominating Committee and the Compensation Committee.

Decree No. 677/01 required additional information that companies must include in their annual reports, including information relating to the decision-making organization (corporate governance), the company's internal controls system, norms for director and manager compensation, stock-options, and any other compensation system applicable to Board members and managers. Decree No. 677/01 does not address the remaining issues included in NYSE Section 303A.09. However, all relevant information sent by the Bank to the CNV is forwarded to the CNV through the CNV's Financial Reporting Highway and may be viewed on the CNV's website.

#### *Evaluation of Board Performance*

Under NYSE Section 303A.09, the board of directors must make a self-assessment of its performance at least once a year to determine if it or its committees function effectively and report thereon. Under Argentine law, the board's performance is evaluated at the annual shareholders' meeting.

## *Code of Ethics*

NYSE Section 303A.10 provides for the adoption of a Code of Business Conduct and Ethics and sets out the topics that such code must contain. Banco Francés's Board approved in December 18, 2003 a "Code of Conduct of BBVA Banco Francés and its group of companies in Argentina", which applies to all management and employees, with no exceptions, the English translation of which is available to the public on Banco Francés's website. See "Code of Ethics". Banco Francés believes that its Code of Conduct complies with the NYSE requirements.

## *Certifications by the CEO*

NYSE Section 303A.12 (a) provides that the CEO shall on a yearly basis certify to NYSE that he/she knows of no violation by the company of NYSE Sections relating to corporate governance. No such certification is required by Argentine law or by Banco Francés's bylaws.

## *Notification of Non-fulfillment*

Under NYSE Section 303A.12 (b), the CEO shall notify the NYSE in writing whenever any executive officer of the company becomes aware of any substantial non-fulfillment of any applicable provision under NYSE Section 303A.

No such provision regarding notification of non-fulfillment of NYSE Section 303A is contained in Argentine law or Banco Francés's bylaws, but Banco Francés's CEO will comply with the notice provisions as set forth under NYSE Section 303A.12(b).

## **Employees**

The following table shows the breakdown of our full-time payroll employees as of December 31, 2005, 2004 and 2003:

	As of December 31,		
	2005 <sup>(1)</sup>	2004 <sup>(1)</sup>	2003 <sup>(1)</sup>
Main office	1,218	1,221	1,368
Branches	2,400	2,320	2,385
Foreign Subsidiaries	-	-	-
Total	3,618	3,541	3,753

(1) Excludes 1,907, 1,884 and 1,908 employees from non-banking subsidiaries as of December 31, 2005, 2004 and 2003, respectively.

Our employees are represented by a national bank union with optional membership. As of December 31, 2005, 320 employees were unionized. The union negotiates a collective bargaining agreement to establish minimum salaries for all of its members. We have not experienced any conflicts with the union for over 20 years and we consider relations with our employees to be satisfactory.

We have a personnel Training and Development Department, which is in charge of the training of all of the Bank's employees. This includes in-house training courses and seminars in all the areas: Operations, Technology and Business (Branches, Corporate Banking). We provide bonuses to individual employees throughout the bank on a discretionary basis, taking into consideration individual merit and overall profit levels. We do not have a formal profit-sharing plan.

## **Share Ownership**

As of May 31, 2006, Gabriel Milstein (Media Director), Marcelo Canestri (Financial Director), Oscar Fantacone (Retail Banking Director) and Carlos Montoto (Human Resources and Quality Director), owned shares in Banco Francés, which represented less than 1% of the capital stock of the Bank.

None of our directors, members of the Supervising Committee or our remaining senior executives own shares or options on shares of Banco Francés.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### Major Shareholders

The following table sets forth certain information regarding the beneficial ownership of our ordinary shares as of December 31, 2005, by each person who, to our knowledge, owns beneficially more than 5% of our ordinary shares. These persons do not have different voting rights.

Beneficial Owner	Ordinary Shares Beneficially Owned At December 31, 2005	
	Number	Percent of class
Banco Bilbao Vizcaya Argentaria <sup>(1)</sup>	215,195,798	45.65%
Bilbao Vizcaya America BV <sup>(2)</sup>	96,796,099	20.54%
Inversora Otar S.A. <sup>(3)</sup>	44,301,125	9.40%
The Bank of New York <sup>(4)</sup>	39,245,315	8.33%

(1) Number of shares and percent of class owned directly and indirectly by BBVA except for shares held through Bilbao Vizcaya América BV.

(2) Banco Bilbao Vizcaya América BV is controlled by BBVA.

(3) Inversora Otar S.A. is controlled indirectly by BBVA.

(4) As holder agent of ADR.

On December 31, 2002, Banco Francés carried out a capital increase, in the domestic market. Accordingly the capital stock of Banco Francés increased from 209,631,892 shares to 368,128,432 shares and BBVA increased its equity interest in the Bank from 68.2% to 79.53%.

Banco Francés carried out a new capital increase in 2004. The subscription period for the exercise of the preemptive and accretion rights regarding the issuance of 103,232,874 ordinary shares of Ps.1 nominal value and one vote per share, entitled to dividends on the same conditions as the shares of the company outstanding-ended on November 17, 2004. The offer was carried out by the capitalization of certain eligible assets and cash, and took place in Argentina. Accordingly the capital stock of Banco Francés increased from 368,128,432 shares to 471,361,306 shares. As a result of the capitalization BBVA (the main shareholder of Banco Francés) owns, directly and indirectly, 75.59% of Banco Francés' capital stock.

Banco Francés is a corporation registered under Argentine law whose shareholders restrict their liability to the shares they have subscribed and paid-in under the Business Companies Law. Therefore, and in terms of Law No. 25,738, no shareholder of the Bank, whether foreign or local, is liable beyond such paid-in shares for obligations deriving from transactions made by the Bank.

Except as described above, we are unaware of any arrangements the operation of which may, at a subsequent date, result in a change of control of Banco Francés.

As of December 31, 2005, according to our records and the records of the Depositary, 28 holders of ordinary shares and 38 registered holders of ADSs have an address in the United States, representing, in the aggregate, 8.94% of our issued and outstanding ordinary shares.

### Related Parties Transactions

The following table presents the loans granted, guarantees given and extensions of credit granted (unused portions) to related parties for the fiscal years ended December 31, 2005 and 2004. Related parties include controlled companies, controlling shareholders and entities under common control, key management and directors and associated entities.

Related Party	Fiscal Year ended December 31, 2005					Fiscal Year ended December 31, 2004				
	Largest Outstanding Amount <sup>(1)(2)</sup>	Interest Rates	Amount Outstanding <sup>(2)</sup>	Interest Rates	Nature	Largest Outstanding Amount <sup>(1)(2)</sup>	Interest Rates	Amount Outstanding <sup>(2)</sup>	Interest Rates	Nature
<b>Controlled, Controlling and under common control Entities</b>										
BBVA and subsidiaries	238,295	—	118,590	—	Guarantees given, other loans	48,561	—	23,003	—	Guarantees given, other loans
BBVA Uruguay and subsidiary	—	—	—	—	—	438	—	263	—	Guarantees given
Banco Francés Cayman Ltd. and Subsidiary <sup>(3)</sup>	—	—	—	—	—	1,448,898	—	—	—	Equity investment
Credilogros Cía. Financiera S.A.	77,635	4.81%	47,339	7.59%	Call money, credit card loans, guarantees given and Equity investment	38,946	3.38%	33,487	3.29%	Call money, credit card loans, guarantees given and Equity investment
Francés Valores Sociedad de Bolsa S.A.	28,016	45.00%	18,394	—	Advances, other loans and Equity investment	15,655	—	7,640	—	Other loans and Equity investment
Francés Administradora de Inversión	836	—	678	—	Other loans and Equity investment	775	—	766	—	Other loans and Equity investment
Consolidar AFJP S.A.	34,000	45.00%	34,000	45.00%	Advances, credit card loans, guarantees given and Equity investment	35,356	45.00%	33,697	45.00%	Advances, credit card loans, guarantees given and Equity investment
Consolidar Seguros de Vida S.A.	9,973	45.00%	9,343	—	Advances, other loans and Equity investment	9,805	45.00%	9,343	45.00%	Advances, other loans and Equity investment
Consolidar Seguros de Retiro S.A.	13,147	45.00%	12,918	23.49%	Advances, credit cards loans, other loans and Equity investment	14,994	45.00%	12,910	25.39%	Credit cards loans, other loans and Equity investment
Consolidar ART S.A.	4,753	45.00%	4,653	23.49%	Advances, credit cards loans, other loans and Equity investment	4,670	45.00%	4,652	25.39%	Credit cards loans, other loans and Equity investment
Consolidar Comercializadora S.A.	1,253	45.00%	1,253	45.00%	Advances	—	—	—	—	—
PSA Finance	49,346	9.02%	49,346	9.02%	Call money, other loans and Equity investment	17,555	7.16%	17,555	7.16%	Call money, advances, other loans and Equity investment
Consolidar Seguros S.A.	5,529	45.00%	5,341	45.00%	Advances, credit cards loans and other loans	4,940	85.80%	4,909	25.39%	Credit cards loans, other loans and Equity investment
Assurex S.A.	303	—	—	—	Equity investment	31	45.00%	15	—	Advances and Equity investment
Inversora Otari	—	—	—	—	—	2,442	—	—	—	Other loans
Atuel Fideicomisos S.A.	16,292	—	13,507	—	Equity investment	15,589	—	15,496	—	Equity investment

(1) Largest amount during the period indicated.

(2) In thousands of pesos.

(3) On March 18, 2004, the Bank sold to BBVA S.A. its 100% interest in Banco Francés (Cayman) Limited (see Note 1.5. to our Consolidated Financial Statements).

Related Party	Fiscal Year ended December 31, 2005					Fiscal Year ended December 31, 2004				
	Largest Outstanding Amount <sup>(1)(2)</sup>	Interest Rates	Amount Outstanding <sup>(2)</sup>	Interest Rates	Nature	Largest Outstanding Amount <sup>(1)(2)</sup>	Interest Rates	Amount Outstanding <sup>(2)</sup>	Interest Rates	Nature
<b>Associated Entities</b>										
Consolidar Salud S.A.	297	45.00%	97	—	Advances and credit card loans	—	—	—	—	—
Clínica Baxterrica	293	45.00%	293	45.00%	Advances	—	—	—	—	—
Renault Credit Int. Suc. Argentina	—	—	—	—	—	10,010	4.17%	5,006	4.00%	Call money
Rombo Cia Financiera S.A.	84,638	8.71%	84,638	8.71%	Call money and Equity investment	35,279	8.78%	35,279	8.78%	Call money, other loans and Equity investment
<b>Key Management Personnel <sup>(3)</sup></b>	883	28.00%	691	28.00%	Advances, credit card loans, personal loans, real state mortgage and guarantees given	796	21.00%	770	21.00%	Advances, credit card loans, personal loans, real state mortgage and guarantees given

(1) Largest amount during the period indicated.

(2) In thousands of pesos.

(3) Includes directors, senior managers, members of the audit committee and managers with relevant authority.



Assistance received from BBVA: to Banco Francés

Date	Description	Original principal amount <sup>(1)</sup>	Outstanding Amount at December 31, 2005 <sup>(1)</sup>	
March, 1998	Corporate Bonds	130,000	—	Capitalized in December, 2002
April, 2002	Loan	79,316	—	Capitalized in December, 2002
April, 2002	Loan	80,000	—	Paid in March, 2004
July, 2002	REPO	102,100	—	Paid in May, 2004
March, 2004	Loan	77,701	—	Capitalized in November, 2004
October, 2000	FRN	20,000	—	Paid in March, 2005
May, 2004	Loan	64,000	—	Paid in November, 2004 and in May, 2005
October, 2002	Loan	1,000	1,009	
April, 2003	Loan	1,000	1,009	
November, 2003	Loan	1,800	1,814	
October, 2004	Loan	900	908	
February, 2005	Loan	900	908	
May, 2005	Loan	900	908	
November, 2005	Loan	900	909	

(1) In thousands of US\$.

## ITEM 8. FINANCIAL INFORMATION

### Financial Statements

See “Item 18. Financial Statements”.

### Legal Proceedings

We are involved in collection proceedings initiated in the normal course of business and in the proceedings mentioned in Note 36 to the Consolidated Financial Statements, none of which, if determined adversely to us, would have a material adverse effect on us or our operations.

The measures taken by the Government at the beginning of 2002, including the repeal of the Convertibility Law, the “pesification” of all assets and liabilities in the formal economy and the default by the Government on its debt, led to a massive withdrawal of deposits and a breakdown in the chain of payments. We have faced many lawsuits brought by depositors to recover their deposits in cash and in their original currency interest on their foreign currency deposits. As of May 31, 2005, we had repaid a total of approximately Ps.2,050 million and US\$104.9 million in deposits in connection with lawsuits brought by depositors, and during 2005 BBVA Banco Francés has paid Ps.123.1million (comprised by Ps.79.1 million of deposits and Ps.44 million of negative exchange difference) regarding lawsuits brought against the Bank (“amparos”).

### Dividends

We do not have a defined policy of dividend distributions. However, according Communication “A” 4152 of the Central Bank from June 2, 2004, such distribution must have the prior authorization of the Central Bank and is subject to the following conditions:

- The entity must not be under any regularization or restructuring plans for the protection of credit and bank deposits (Articles 34 and 34 bis of the Financial Entities Law).
- The entity shall not have received financial assistance from the Central Bank.
- The entity must not be affected in its liquidity and solvency as a result of the distribution of profits.

For a description of the cash dividends that we have paid on our ordinary shares and ADSs for the years 2000 to 2005, see “Key Information-Cash Dividends”.

## ITEM 9. THE OFFER AND LISTING

We were one of the first companies listed on the BCBA. Since 1993 our shares have also been listed on the New York Stock Exchange and, since December, 1999 on the Madrid Stock Exchange. Before November 1993, there was no public market for our ordinary shares or ADSs outside of Argentina. The ordinary shares are currently traded on the Buenos Aires Stock Exchange under the symbol “FRAN” and the ADSs are currently traded on the New York Stock Exchange under the symbol “BFR”. We cannot give assurance that a public market in the United States for the ADSs will continue to exist.

The table below shows the quarterly high and low closing prices of the ordinary shares in pesos on BCBA for the periods indicated. Prices have been adjusted to reflect all stock dividends paid through the date of this annual report.

	Pesos Per Ordinary Share <sup>(1)</sup>	
	High	Low
2006		
June 2006 (through June 15, 2006)	7.37	7.19
May 2006	8.80	7.10
April 2006	8.80	8.07
March 2006	8.50	7.56
February 2006	7.76	7.40
January 2006	7.93	7.15
Fiscal year ended December 31, 2005	8.13	5.60
Fourth quarter	8.13	6.92
Third quarter	7.80	6.18
Second quarter	6.87	5.60
First quarter	7.40	5.75
Fiscal year ended December 31, 2004	9.95	4.80
Fourth quarter	7.03	5.33
Third quarter	6.53	4.98
Second quarter	8.45	4.80
First quarter	9.95	7.14
Fiscal year ended December 31, 2003	9.40	3.45
Fiscal year ended December 31, 2002	4.49	1.60
Fiscal year ended December 31, 2001	10.45	2.34

(1) Pesos per ordinary share data reflect nominal prices at trading date.  
Source: Bloomberg.

The ordinary shares trade on the New York Stock Exchange in the form of ADSs issued by The Bank of New York, as depositary. Each ADS represents three ordinary shares. The table below shows the quarterly high and low closing prices of the ADSs in dollars on the New York Stock Exchange for the periods indicated.

	US\$ Per ADS	
	High	Low
2006		
June 2006 (through June 15, 2006)	7 <sup>1</sup> / <sub>4</sub>	6 <sup>17</sup> / <sub>20</sub>
May 2006	8 <sup>43</sup> / <sub>50</sub>	6 <sup>17</sup> / <sub>20</sub>
April 2006	8 <sup>46</sup> / <sub>63</sub>	7 <sup>7</sup> / <sub>10</sub>
March 2006	8 <sup>3</sup> / <sub>13</sub>	7 <sup>21</sup> / <sub>50</sub>
February 2006	7 <sup>33</sup> / <sub>50</sub>	7 <sup>4</sup> / <sub>25</sub>
January 2006	7 <sup>24</sup> / <sub>25</sub>	7 <sup>1</sup> / <sub>20</sub>
Fiscal year ended December 31, 2005	8 <sup>1</sup> / <sub>4</sub>	5 <sup>39</sup> / <sub>50</sub>
Fourth quarter	8 <sup>1</sup> / <sub>4</sub>	6 <sup>3</sup> / <sub>4</sub>
Third quarter	8 <sup>7</sup> / <sub>50</sub>	6 <sup>8</sup> / <sub>89</sub>
Second quarter	7 <sup>1</sup> / <sub>5</sub>	5 <sup>39</sup> / <sub>50</sub>
First quarter	7 <sup>64</sup> / <sub>81</sub>	5 <sup>4</sup> / <sub>5</sub>
Fiscal year ended December 31, 2004	10 <sup>3</sup> / <sub>20</sub>	4 <sup>46</sup> / <sub>63</sub>
Fourth quarter	7 <sup>9</sup> / <sub>53</sub>	5 <sup>10</sup> / <sub>13</sub>
Third quarter	6 <sup>49</sup> / <sub>71</sub>	4 <sup>32</sup> / <sub>33</sub>
Second quarter	9 <sup>9</sup> / <sub>53</sub>	4 <sup>46</sup> / <sub>63</sub>
First quarter	10 <sup>3</sup> / <sub>20</sub>	6 <sup>81</sup> / <sub>89</sub>
Fiscal year ended December 31, 2003	9 <sup>2</sup> / <sub>5</sub>	3 <sup>9</sup> / <sub>20</sub>
Fiscal year ended December 31, 2002	7 <sup>21</sup> / <sub>64</sub>	1 <sup>9</sup> / <sub>31</sub>
Fiscal year ended December 31, 2001	31 <sup>31</sup> / <sub>64</sub>	6 <sup>5</sup> / <sub>32</sub>

### Trading on the BCBA

There are nine exchanges in Argentina, of which five have affiliated stock markets and, accordingly, are authorized to quote publicly offered securities: Buenos Aires, Rosario, Córdoba, Mendoza and Santa Fe. The oldest and largest of these exchanges is the BCBA, which was founded in 1854. Usually, the overwhelming majority of all Argentine equity trades take place on the BCBA. As of December 31, 2005 the shares of 104 Argentine companies, excluding mutual funds, were listed on the BCBA. As of December 31, 2005, the 10 most actively traded stocks represented 87.71% of the total volume of equity traded on the exchange (“SINAC” plus “Floor”). All publicly offered securities may be traded on authorized securities exchanges and, except for equity securities, in the Argentine over-the-counter market or MAE. See *“Information on the Company—The Argentine Banking System and its Regulatory Framework—Capital Markets”*.

The Merval, which is affiliated with the BCBA, is the largest stock market in Argentina. The Merval is a corporation which regulates its members (all of whom are stockholders of the corporation) and transactions conducted on that market. Only stockholders of the Merval are allowed to effect transactions either as principal or as agent in that stock market. In 1990, brokerage houses, including bank subsidiaries, were allowed to enter as full members of the market. Trading in the Merval is conducted through three different trading systems:

- the “Floor”;
- the “SINAC”; and
- the “Continuous”.

The operations at the traditional auction system (“Floor”) start from 11:00 A.M. and end at 5:00 P.M. each business day. Also available is an electronic auction system called “SINAC” where each broker inputs both its buys and sells while the system matches the operations. Since July 1998, both auction systems (the “Floor” and “SINAC”) are considered to be a single market. Additionally, the Buenos Aires Stock Market’s trades are made through an electronic Continuous Market System (the “Continuous”) that operates from 11:00 A.M. to 5:00 P.M. each business day. The Continuous is a system that registers and makes public trades that were privately arranged by registered brokers and brokerage companies on behalf of their clients. Such trades are reported on the “Mercado Abierto”, an electronic reporting system similar to, but different from, the Continuous Market System. To control price volatility, the BCBA operates a system which suspends dealing in shares and bonds of a particular issuer for 30 minutes or less when changes in the price of such shares exceed or fall more than 10% of the preceding day’s closing share price. From then on, the BCBA suspends trading for a few minutes when prices rise or fall an additional 5% or more in the same day.

As of December 31, 2005, the market capitalization of the 104 companies listed on the BCBA was approximately US\$254.56 billion.

The following table summarizes certain historical information about the Buenos Aires Stock Exchange.

	Year ended December 31,		
	2005	2004	2003
Market capitalization (US\$ billion)	254.5	231.7	185.4
Number of companies listed	104	108	111
Rate of return in dollars <sup>(1)</sup>	10.60%	26.67%	134.00%
Market/book ratio <sup>(2)</sup>	2.02	2.68	1.96

(1) Based on the Merval Index

(2) Estimated

Source: BCBA and Instituto Argentino de Mercados de Capitales (IAMC).

## Market Regulation

Both the CNV and BCBA oversee the regulation of the Argentine capital markets. The CNV is responsible for authorizing public offerings of securities and supervising stockbrokers, including those which are subsidiaries of banking institutions. Generally, Argentine securities markets are regulated by Law No. 17,811, which created the CNV and which regulates securities exchanges, stockbrokers, market operations and the public offering of securities.

Under Law No. 17,811, public trading of securities on exchanges must be made with stock markets organized as stock corporations, which must be affiliated with a stock exchange.

Each stock market has the operating responsibility for all transactions performed by stockbrokers and has disciplinary power over them. Each stock market guarantees the proper settlement or clearance of transactions entered into by stockbrokers. The effect of such a guarantee is to provide brokers assurances that transactions will be consummated in a timely manner.

The CNV has passed a set of resolutions establishing a system of self-regulatory entities, under which each self-regulatory entity (which currently includes each exchange and the MAE) is responsible for developing and implementing regulations governing its respective securities market, subject to the approval and oversight of the CNV. Internal rules of each exchange for its affiliated stock market establish conditions for listing securities, admitting brokers, conducting trades and controlling the truthfulness of any information which is required to be reported.

In recent years, changes to the legal framework have been introduced permitting the issuance and trading of new financial products in the Argentine capital markets, including commercial paper, new types of corporate bonds and futures and options. On November 1991, brokerage fees were deregulated and transfer taxes and stamp taxes on publicly offered securities were eliminated.

In compliance with the provisions of Law No. 20,643, most debt and equity securities traded on the exchanges and on the MAE must, unless otherwise instructed by the stockholders, be deposited by the stockbrokers or over-the-counter dealers in the Caja de Valores, which is a corporation owned by the BCBA, the Merval and certain provincial exchanges. The Caja de Valores provides central depository facilities for securities and acts as a transfer and paying agent. In September 2000, the Caja de Valores started Argenclear S.A. ("Argenclear"), a clearing house owned by the most important private and public banks of Argentina, Merval and BCBA. Argenclear provides services to the brokers for the settlement of public bond trades registered in the MAE. It also handles settlement of securities transactions carried out by the BCBA and operates the computerized "Exchange Information System".

On May 17, 2001, by means of General Resolution No. 368 the CNV approved a new restated text for a number of regulations in force in order to unify, harmonize and simplify the different requirements established by them. The new text incorporates the changes implemented by all general resolutions issued after General Resolution No. 290. On May 28, 2001, the Official Bulletin published the text of Decree No. 677/01 which created a regulatory framework to ensure Public Offer Transparency.

In order to offer securities to the public in Argentina, an issuer must meet certain requirements of the CNV, regarding assets, operating history, management and other matters, and only securities for which an application for a public offering has been approved by the CNV may be listed on the BCBA. This approval does not imply any kind of certification or assurance related to the merits or the quality of the securities, or the solvency of the issuer. Issuers of listed securities are required to file with the CNV and the BCBA quarterly financial statements and audited annual financial statements, as well as various other periodic reports.

Although participation by foreign investors in BCBA has historically been low, it has increased since 1991 as a consequence of the economic reform programs implemented by the Government and the liberalization of restrictions to the access by foreign investors to securities in the Argentine securities market. Currently, an important amount of floating capital and public bonds is held by foreign investors.

## **ITEM 10. ADDITIONAL INFORMATION**

### **Memorandum and Articles of Association**

The following summarizes certain material provisions of our bylaws and Argentine law, the main bodies of regulation governing Banco Francés. This summary is qualified in its entirety by reference to the Business Companies Law, the Financial Institution Law and our bylaws. Copies of our bylaws have been filed as exhibits to our 2003 annual report on Form 20-F.

At our Ordinary and Extraordinary Stockholders' Meeting held on April 28, 2005, our stockholders voted to amend section 11 of the Bylaws in order to comply with Resolution No. 20/04 of the Companies Supervisory Department (Inspección General de Justicia), and its amendments. This amendment will require each of our Directors to (i) pledge an amount of at least Ps.10,000 as a guarantee of the Director's performance and (ii) maintain a special domicile within the Argentine Republic. This amendment has been filed with the Public Registry of Commerce, which has been approved as of the filing of this annual report, on December 12, 2005, under Number 16.335, Book 30.

#### *Registry and Company's Objects*

Banco Francés is registered with the Public Registry of Commerce of the Argentina (Registro Público de Comercio) under company number 1,065, Page 359, Book 5, Volume "A" of Local Corporate Bylaws. Section 3 of our bylaws provides that the object of Banco Francés is to engage in the commercial banking business, including financial brokerage, whether in Argentina or abroad. To this end, Banco Francés is authorized to perform the following activities:

- Accept term and demand deposits;
- Grant short-term bullet and other amortizable loans;
- Discount, purchase and sell bills of exchange, promissory notes, pledges, checks, drafts and other negotiable instruments;
- Grant guarantees, bonds or other forms of collateral; accept bills of exchange, drafts and other orders of payment, transfer funds and issue and accept letters of credit;
- Grant advances on credits from property sales, acquire the same and undertake the risks resulting therefrom, take steps to collect them and offer technical and administrative assistance;
- Invest in Government securities;
- Make temporary investments in liquid assets;
- Invest in new stock or securities issues, in pursuance of such regulations as may be set forth to that purpose;
- Accept securities in custody and provide other services related to the banking business;
- Manage, on account of third parties, the purchase and sale of securities, and act as paying agents in relation to dividends, redemption and interest; engage in brokerage activities in the over-the-counter securities market;
- Perform foreign exchange transactions;
- Comply with agencies related to its operations;
- Receive deposits of participation in mortgage loans and in special accounts;
- Issue mortgage obligations;

- Grant loans for the acquisition, construction, enlargement, repair, improvement and maintenance of urban or rural real estate, and for the substitution of mortgages taken out for that same purpose;
- Receive loans from abroad and act as intermediary in local or foreign currency-denominated loans;
- Issue private bonds, and
- Carry out such lending, borrowing and service-related operations as are not forbidden under the Financial Institutions Law.

### *Directors*

Under Section 18 of our by-laws, the Board of Directors receives an annual fee established by the shareholders. This fee is subject to the restrictions of Section 261 of the Business Companies Law, which provides that the aggregate compensation of the directors may not exceed 25% of the income of the company, or 5% of the income if no dividends were distributed to the shareholders.

Under Section 272 of the Business Companies Law, a director may not vote in respect of any proposal in which he, or any person connected to him, has an interest contrary to the interests of Banco Francés.

Directors need not hold shares in Banco Francés or any of our subsidiaries to qualify and be appointed as directors of Banco Francés.

### *Rights Attaching to Shares*

As of the date of the filing of this annual report, our capital is formed by a single class of shares, all of which are ordinary shares and have the same voting and economic rights. Shareholders participate in the distribution of dividends pro rata the paid-in capital. Furthermore, shareholders are entitled to participate in the distribution resulting from the liquidation of Banco Francés in proportion to the paid-in capital.

Shareholders are entitled to vote cumulatively one-third of the vacancies of the board of directors. The board may not be reelected in alternative intervals if it impairs or prevents the exercise by shareholders of their cumulative voting rights.

Shareholders may no longer claim the payment of dividends from Banco Francés once three years have elapsed from the date on which the relevant dividend was made available to such shareholder.

Our bylaws do not contain any provisions related to sinking funds or potential liability of shareholders of Banco Francés to make additional contributions.

According Communication “A” 4152, from June 2, 2004 states that financial entities can distribute utilities, with the corresponding authorization from the Central Bank, who must verify the following regarding such financial entity:

- It is not under the dispositions of Section 34 “Reformulation and Reorganization Procedure” and Section 35 bis “Restructuring of financial entity in defense of credit and bank deposits” of the Financial Entities Law;
- It does not register financial assistance from the Central Bank; and
- It does not affect the liquidity and solvency as a consequence of the utilities distribution.

### *Shareholders Meetings*

All general meetings other than annual general meetings are called regular or special meetings. Regular and special shareholders’ meetings are to be convened by the Board of Directors of the Bank or by the Supervisory Committee in such instances as set forth by law, or whenever they may deem it necessary, or upon requisition of shareholders representing at least 5% of our stock capital, as provided by Section 236 of the Business Companies Law.

Shareholders’ meetings are called by publication for five days, at least 20 and not more than 45 days before the date of the meeting, in the Official Gazette and in one of the most widely circulated newspapers in Argentina. The notice must include the nature, the date, time and place of the meeting, the agenda, and any special requirements in our bylaws for the shareholders to attend.

In case of adjournment of a regular shareholders meeting, the meeting on second call may be held on the same date, at least one hour after the time set for the meeting on first call, in compliance with Section 237 of the Business Companies Law. In case of adjournment of a special shareholders' meeting, the meeting on second call must be held within the following thirty days, and the publication must appear for three days at least eight days before the date set for that meeting.

In order to attend and vote at any shareholders' meeting, shareholders must deposit with us their shares or a share certificate or a statement of account representing book-entry shares, as the case may be, issued by us, a securities depository or any other authorized institution, to be recorded in the record book of attendance, at least three business days before the date of the meeting.

Holders of registered or book-entry shares, the record of which we keep, are only required to notify us to register their names in the record book of attendance, at least three business days before the date of the meeting. We must provide such shareholders with certificates authorizing them to attend the meeting.

Shareholders may be present at meetings by power-of-attorney or proxy. In the latter case, the principal's signature shall be certified by a court, notary public or bank. Directors, statutory auditors, managers or any other of our employees may not act as agents for these purposes.

A quorum must be present at any regular shareholders' meetings on first call upon the attendance of shareholders representing the majority of voting stock. On second call, there is a quorum with the attendance of any number of shares present. A quorum is present at any special shareholders' meeting on first call upon the attendance of shareholders representing 60% of the voting stock. Shareholders representing 30% of our voting stock shall constitute a quorum at a special shareholders' meeting on second call. In any case, resolutions require the absolute majority of the voting stock present.

#### *Restrictions on Voting and Shareholding*

There are no restrictions imposed by Argentine law or our bylaws or other organizational documents regarding the rights of non-residents or foreign persons to hold or vote our ordinary shares or ADSs of the Bank.

#### *Change of Control*

There are no provisions in our articles of incorporation or bylaws that would have the effect of delaying, deferring or preventing a change of control of Banco Francés and that would operate only with respect to a merger, acquisition, corporate restructuring involving Banco Francés or any of its subsidiaries.

#### *Ownership Disclosure*

There are no provisions in our bylaws governing the ownership threshold above which shareholder ownership must be disclosed.

#### *Change in the Capital*

Our bylaws do not establish conditions for the changes in the capital of Banco Francés more stringent than those conditions imposed by the Business Companies Law.

#### *Material Agreements*

No material agreements outside the ordinary course of business have been entered into during the last two years.

#### **Exchange Controls**

On January 7, 2002, Congress approved the Public Emergency Law that introduced dramatic changes to the country's economic model and amended the currency board that pegged the peso at parity with the dollar which had been in effect since April 1, 1991 pursuant to the Convertibility Law. The new law empowers the Executive Branch to implement, among other things, additional monetary, financial and exchange measures to overcome the economic crisis in the medium term, including the power to establish a system to determine the exchange rate applicable to the peso. The Central Bank, among other restrictive measures, restricted the transfer of U.S. dollars abroad without its prior approval. In 2003 and 2004, the government substantially eased these restrictions. However, on June 26, 2003, the government set restrictions on capital flows into Argentina, which mainly consisted of a prohibition against the transfer abroad on any funds until 180 days after their entry into the country. Furthermore, on June 10, 2005 the government established further restrictions on capital flows into Argentina, including increasing the period that certain incoming funds, including capital contributions, must remain in Argentina to 365 calendar days and requiring that 30% of incoming funds be deposited with a bank in Argentina in a non-interest bearing account for 365 calendar days.

Moreover, on devaluing the peso in early 2002, the Government has implemented a dual exchange rate whereby export and certain import transactions would be governed by a fixed, “official” exchange rate of Ps.1.40 to US\$1.00, while all other transactions would be governed by a free exchange rate to be set freely by the exchange market, with occasional intervention by the Central Bank. Following an extended bank holiday, the exchange market reopened on January 11, 2002, with transactions between Ps.1.60 and Ps.1.70 to US\$1.00 (bid price) by market close on that date.

As a general rule, transfer of funds abroad required prior Central Bank approval. However, this general principle was eased by numerous exceptions introduced since December 2002. Currently, in order to purchase and/or transfer foreign currency abroad, the transaction should be specifically admitted among the list of “items” (authorizing the purchase and/or transfer of foreign currency) that is published by the Central Bank. Certain items are, however, still subject to restrictions.

#### *Cross Border Transfers of Funds. Foreign Debts*

Under the Central Bank’s exchange regulations, proceeds of new financing must be transferred into Argentina and converted into pesos in the local exchange market within 30 days as from the relevant disbursement.

Repayment of principal of, and interest on, foreign indebtedness, was initially subject to Central Bank’s prior authorization. Currently, due to the recent changes introduced by the Central Bank, local companies (with the exception of financial institutions), following certain requirements, may:

- Pay abroad interest on foreign debt at maturity or 15 days in advance, without prior Central Bank authorization. However, in case the proceeds of the loan were disbursed abroad, payment of interest would be restricted to the difference between: (i) the total interest accrued under the relevant debt until the date of payment, minus (ii) the interest obtained by the local borrower abroad on the loan proceeds between the date of disbursement and the date of effective transfer and exchange for pesos of the proceeds of the relevant loan.
- Repay principal of foreign debt at maturity (or 90 days in advance, to the extent that the amounts so prepaid were brought into the local market and exchanged for pesos, and repayment takes place at least 180 days therefrom) without prior Central Bank authorization. Communication “A” 4177 (as amended) also allows prepayment of principal with an anticipation of more than 90 days, but subject to the following conditions:
  - (1) If prepayment of principal is not made in the context of a debt restructuring process, then the amount prepaid should not exceed the present value of such amount, calculated according to the formula provided by the Central Bank, unless the prepayment is coupled with the transfer and exchange for pesos of a new loan with a present value equal to the prepaid amounts.
  - (2) If the prepayment is made within the context of a debt restructuring process, then the new terms and conditions of the debt after the restructuring, including the amount prepaid, shall not result in an increase of the present value of the whole debt (according to the formula of the Central Bank).

#### **Regulations regarding Imports and Exports**

The Central Bank established under Communication “A” 3473, as amended, an obligation to transfer from abroad to Argentina the foreign currency obtained from the collection of exports and to settle the foreign currency in the single free exchange market. This is a general obligation applicable to all export transactions, except certain specific cases such as oil exports. In addition, all collections by exporters must be collected between 60 and 360 calendar days from the date of the export, depending on the product being exported, for the exporter to negotiate the foreign currency in the domestic exchange market.

In respect to imports, advanced payments of any goods are allowed, upon condition that the clearance of the imported goods (nationalization) is credited within 360 days.



## *Purchase of Foreign Currency*

### **A. Local individuals and companies**

Local individuals and companies are now authorized to buy up to certain amounts of foreign currency for purposes of (i) real estate investments outside of Argentina; (ii) loans granted to persons not domiciled in Argentina; (iii) direct investments outside of Argentina of persons domiciled in Argentina; (iv) portfolio investments outside of Argentina, among others.

To that extent, the limits currently in force are:

- US\$2,000,000 per month; or
- The aggregate equivalent amount in pesos paid by such individual or company to the Argentine tax authority (Administración Federal de Ingresos Públicos) on the immediately preceding month in connection with export duties, plus three times the amount paid in connection with the tax on bank credits and debits.

In addition, pursuant to Communication “A” 3998 (as amended), individuals and companies can, up to June 30, 2005, purchase and transfer abroad up to US\$40,000,000, per month and per person (not cumulative), under the item “portfolio investments outside of Argentina” if certain conditions are fulfilled.

### **B. Non-residents**

Moreover, pursuant to Communication “A” 3661 (as amended), prior authorization from the Central Bank is required by non-residents for the purchase of foreign exchange for any amount above the equivalent of US\$5,000 per month.

Notwithstanding the above, Communication “A” 4129 (as amended) states that no authorization from the Central Bank will be required with regard to the repatriation of direct and portfolio investments of non-residents, in the following cases:

- Transfers abroad of an aggregate equivalent of up to US\$2,000,000 per month arising out of:
  - (1) Foreign indebtedness of residents related to Argentine imports of goods and services;
  - (2) Recoveries under local bankruptcy proceedings to the extent the foreign creditor was admitted as such by the bankruptcy court;
  - (3) Proceeds of sales of direct investments in local non-financial companies; and
  - (4) Proceeds of final winding up of direct investment in local non-financial companies.
- Transfers abroad of an aggregate equivalent of up to US\$500,000 per month arising out of:
  - (1) Proceeds of sales of other portfolio investments and their revenues, such as investments in shares of local companies, investment funds and local trusts;
  - (2) Purchases of loans granted to residents by local banks;
  - (3) Acquisition of invoices and promissory notes for local commercial transactions, investment in local bonds denominated in pesos; and
  - (4) The acquisition of other local credits.

## *Transfer of Corporate Bonds*

According to Communication “A” 3859 (as amended), Argentine companies may freely transfer corporate profits and dividends corresponding to audited financial statements (i.e., no prior Central Bank approval is needed). Moreover, transfers abroad in order to pay reinsurance premiums will be subject only to the issuance of a statement by the Argentine Superintendency of Insurance (the regulatory authority on insurance matters) detailing the amount to be transferred.

## *Foreign Investments. Limitations on Repatriation*

Pursuant to Decree No. 285/03 and Communication “A” 3972 (as amended), as of June 30, 2003, all purchases and sales of foreign currency, as well as transfers to and from the local market, should be registered with the Central Bank.

In addition, the proceeds of new credit facilities (including loans, issuance of bonds, credit facilities, repos, etc.) should be brought into the local market and exchanged into pesos, and such debt cannot be repaid abroad prior to 365 days from the date of the

relevant disbursement. Moreover, in these cases a deposit corresponding to the 30% of the amount in question, must be maintained for a term of 365 days. As a general rule, credit facilities related to foreign trade is exempted from this time limit (subject to certain requirements).

#### *Direct Investments*

On March 4, 2005 the Argentine Central Bank issued Communication “A” 4305 that regulates the reporting system of direct investments and real estate investments carried out by non-residents in Argentina and by Argentine residents abroad, which had been implemented through Communication “A” 4237 dated November 10, 2004.

- Direct investments in Argentina of non-Argentine residents

Non-Argentine residents are compelled to comply with the reporting regime if the value of their investments in Argentina reaches or surpasses the equivalent of US\$500,000 – measured in terms of the net worth of the company in which they participate or fiscal value of the real estate owned. If the investments do not reach such amount, the compliance with such regime is optional.

According to Communication “A” 4237, companies in which non-Argentine residents participate in and administrators of real estate pertaining to non-Argentine residents are those obliged to comply with the reporting regime.

- Direct investments made abroad by Argentine residents

Argentine investors are compelled to comply with the reporting regime if the value of their investments abroad reaches or surpasses the equivalent of US\$1,000,000 – measured in terms of net worth of the company in which they participate or the fiscal value of the real estate they own.

If the value of those investments abroad do not exceed the equivalent of US\$5,000,000, the declaration could be carried out annually instead of semiannually. If the investments do not reach the equivalent of US\$1,000,000, the compliance with such regime is optional.

The first declarations will correspond to the semester ended on December 31, 2004, and will have to be filed within 90 calendar days as of such date.

#### *Future and Forward Operations*

Communication “A” 4049, dated November 11, 2003 and Communication “A” 4285 (as amended) dated January 17, 2005, relaxed restrictions on foreign currency transactions by abrogating the requirement of prior approval of the Central Bank for the execution of certain future and forward operations and for the access to the foreign exchange market for their cancellation. These operations include agreements for the coverage of foreign currencies and interest rates, commodity prices, and the execution of external transactions in the form of Repos.

Communication “A” 4086 (as amended), dated February 3, 2004 also relaxed restrictions on the access to the foreign exchange market, by allowing investment funds to carry out their operations under general regulations.

### **Taxation**

The following is a summary of certain Argentine and United States federal tax consequences of the acquisition, ownership and disposition of our ADSs or ordinary shares by a United States holder. This summary is not a complete analysis or listing of all possible tax considerations that may be relevant to a holder of our ADSs or ordinary shares.

#### **Argentine Taxes**

##### *General*

The following is a summary of certain Argentine tax matters that may be relevant with respect to the acquisition, ownership and disposition of ADSs or ordinary shares. Investors in and prospective purchasers of ADSs or ordinary shares should consult their own tax advisers as to the United States, Argentine or other tax consequences of the acquisition, ownership and disposition of ADSs or ordinary shares. Such summary is based upon the tax laws of Argentina, and regulations thereunder, in effect as of the date of this annual report and is subject to any subsequent change in Argentine laws and regulations which may come into effect after such date.

### *Taxation of Dividends*

Pursuant to Law No. 25,063, as enacted into law on December 30, 1998, dividend payments on the ordinary shares (and ADSs), whether in the form of cash, stock, or other types of consideration, are subject to Argentine withholding taxes at the rate of 35% to the extent the aggregate amount distributed exceeds the sum of: (i) our accumulated taxable earnings and (ii) certain tax-exempt income (such as dividend payments from other corporations).

In accordance with a resolution adopted by the Ordinary and Extraordinary Shareholders' Meeting held on April 27, 2006, it was resolved that as of June 2, 2006 the Bank will proceed with the payment of cash dividends.

Such dividend distributions will be subject to a 35% income tax withholding on the portion of the dividends exceeding profits determined on the basis of the application of the general regulations of the Income Tax Law. The Bank informed that it will previously inquire with the AFIP (Argentine Public Revenue Administration – the Argentine Tax Authority) in respect to the applicability of such withholding.

Until the pertinent reply is received from AFIP, the Bank will retain any amounts withheld in an interest bearing account. Any reply received from the AFIP will be duly informed through the Daily Bulletin of the Buenos Aires Stock Exchange. If pertinent, all shareholders will be duly informed of any amounts withheld plus any interest at their disposal at the Caja de Valores S.A.

### *Taxation of Capital Gains*

To the extent the ADSs or ordinary shares are listed on a local or foreign stock exchange market, capital gains derived by non-resident individuals or foreign companies from the sale, exchange or other disposition of ADSs or ordinary shares are not currently subject to income tax.

In the event that capital gains should become subject to income tax in the future, such taxation would be the responsibility of the beneficial owners of ADSs and not the responsibility of "Euroclear" or "Cedel", as the case may be.

### *Value Added Tax ("VAT")*

Neither the sale, exchange or other disposition of ADSs or ordinary shares nor the payment of dividends thereunder is subject to VAT.

### *Transfer Taxes*

The sale or transfer of ADSs or ordinary shares is not subject to transfer tax.

### *Personal Property Tax*

According to Law No. 23,966, as amended, and Decrees No. 127/96 and 812/96, all individuals and undivided estates are subject in Argentina to a personal property tax on all assets held at December 31 of each fiscal year (the "Personal Property Tax"). In the case of individuals and undivided estates domiciled or located in Argentina, an exemption is available to taxpayers whose assets included in the tax base for purposes of the Personal Property Tax do not exceed Ps.102,300. Corporations and other legal entities domiciled or located in Argentina are not subject to the Personal Property Tax. Individuals and undivided estates domiciled or located in a foreign country are subject to the Personal Property Tax only with respect to assets located in Argentina.

Pursuant to Law No. 25,585, published in the Official Gazette on May 15, 2002, the Personal Property Tax on shares of the capital stock of corporations, such as ADSs (held in book-entry form or evidenced by ADRs) and shares of common stock, or equity interests in other entities organized under the Business Companies Law No. 19,550, as amended, and whose holders are individuals or undivided estates domiciled in Argentina or in a foreign country, or corporations or any other entities located in a foreign country, shall be assessed and paid by the corresponding Argentine issuer of the shares or equity interests, such as Banco Francés.

The tax rate to be applied is 0.50% and the taxable base is the value of the shareholders' equity arising from the last balance sheet of the company at December 31. The minimum exempted amount of Ps.102,300 is not applicable. The tax so paid is considered a definitive payment.

Pursuant to Law No. 25,585, it is presumed — without the right to rebut such presumption — that shares of stock corporations, such as ADSs (held in book-entry form or evidenced by ADRs) and shares of common stock, and equity interests in entities governed by the Business Companies Law No. 19,550, as amended, whose holders are corporations or any other entities, companies, permanent establishments and trusts, domiciled, settled or located in a foreign country, belong indirectly to individuals or undivided estates domiciled in a foreign country.

The companies responsible for the tax payment, such as Banco Francés, are entitled to obtain refunds of the amounts paid, and may retain or foreclose on the property included in the tax base for purposes of the Personal Property Tax that originated the payment.

On May, 2005 and 2006, Banco Francés paid Ps.3,021,317 and 3,254,699 respectively, on account of its shareholders in connection with the Personal Property Tax due with respect to assets held as of December 31, 2004 and 2005, respectively. As of June 15, 2006, only Ps.1,692,683 and Ps.3,143,008, respectively has been refunded to us.

#### *Other Taxes*

There are no Argentine inheritance, succession or gift taxes applicable to the ownership, transfer or disposition of ADSs or ordinary shares. There are no Argentine stamp, issue, registration or similar taxes or duties payable by holders of ADSs or ordinary shares. Such holdings are also not affected by the tax applied on bank-account debits and credits and other transactions.

#### *Deposit and Withdrawal of ordinary shares in Exchange for ADSs*

No Argentine tax is imposed on the deposit or withdrawal of ordinary shares in exchange for ADSs.

#### *Tax Treaties*

There is currently no income tax treaty or convention in effect between Argentina and the United States.

### **U.S. Tax Considerations**

The following summary describes the material U.S. federal income tax consequences of the acquisition, ownership and disposition of ADSs or ordinary shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to acquire such securities. The summary applies only to U.S. Holders (as described below) that hold ADSs or ordinary shares as capital assets for U.S. federal income tax purposes and does not address special classes of holders, such as:

- Certain financial institutions;
- Insurance companies;
- Dealers and traders in securities or foreign currencies;
- Holders holding ADSs or ordinary shares as part of a hedge, straddle or conversion transaction;
- Holders whose "functional currency" for U.S. federal income tax purposes is not the U.S. dollar;
- Holders liable for alternative minimum tax;
- Tax exempt organizations;
- Partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
- Holders that own or are deemed to own 10% or more of our voting shares; or
- Persons who acquired our ADSs or ordinary shares pursuant to the exercise of any employee stock option or otherwise as compensation.

The summary is based upon tax laws of the United States including the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, changes to any of which may affect the tax consequences described herein possibly with retroactive effect. In addition, the summary assumes that each obligation provided for in or otherwise contemplated by the Deposit Agreement or any other related document will be performed in accordance with its terms. Prospective purchasers of the ADSs or ordinary shares are urged to consult their own tax advisors as to the United States, Argentine or other tax consequences of the purchase, ownership and disposition of ADSs or ordinary shares in their particular circumstances, including the effect of any U.S. state or local tax laws.

As used herein, a “U.S. Holder” is a beneficial owner of ADSs or ordinary shares that is, for United States federal income tax purposes:

- A citizen or resident of the United States;
- A corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or of any political subdivision thereof; or
- An estate or trust the income of which is subject to United States federal income taxation regardless of its source.

In general, U.S. Holders of ADSs will be treated as the holders of the underlying ordinary shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying ordinary shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. Holders of ADSs. Such actions would also be inconsistent with claiming the 15% rate applicable to dividends received by certain non-corporate U.S. Holders. Accordingly, the analysis of the creditability of Argentine taxes and the availability of the 15% rate for dividends received by certain non-corporate U.S. Holders described below could be affected by actions taken by parties to whom ADSs are pre-released.

#### *Taxation of Distributions*

To the extent paid out of our current or accumulated earnings and profits (as determined in accordance with United States federal income tax principles), distributions, including any Argentine withholding tax, made with respect to ADSs or ordinary shares (other than certain pro rata distributions of our capital stock or rights to subscribe for ordinary shares of our capital stock) will be includible in the income of a U.S. Holder as foreign source ordinary dividend income. Such dividends will not be eligible for the “dividends received deduction” generally allowed to corporations under the Code. Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid to non-corporate U.S. Holders in taxable years beginning before January 1, 2011, will be taxable at a maximum rate of 15% if the dividends are “qualified dividends.” Dividends paid on ADSs will be treated as qualified dividends if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company, or “PFIC,” for U.S. federal income tax purposes. The ADSs are listed on the New York Stock Exchange, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. We believe that we will not be considered a PFIC for U.S. federal income tax purposes with respect to our 2005 taxable year, as discussed below. The amount of the distribution will equal the U.S. dollar value of the Argentine pesos received, calculated by reference to the exchange rate in effect on the date such distribution is received (which, for U.S. Holders of ADSs, will be the date such distribution is received by the Depositary), whether or not the Depositary or U.S. Holder in fact converts any Argentine pesos received into U.S. dollars at that time. Any gains or losses resulting from the conversion of Argentine pesos into U.S. dollars will be treated as ordinary income or loss, as the case may be, of the U.S. Holder and will be U.S. source.

Subject to applicable limitations that may vary depending upon a U.S. Holder’s circumstances and subject to the discussion above regarding concerns expressed by the U.S. Treasury, a U.S. Holder will be entitled to a credit against its U.S. federal income tax liability for any Argentine taxes withheld from dividends on ADSs or ordinary shares. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. Amounts paid on account of the Argentine Personal Property Tax, if any, will not be eligible for credit against the U.S. Holder’s U.S. federal income tax liability. U.S. Holders are urged to consult their own tax advisors to determine whether they are subject to any special rules that limit their ability to make effective use of foreign tax credits. Instead of claiming a credit, a U.S. Holder may, at its election, deduct such otherwise creditable Argentine taxes in computing its taxable income, subject to generally applicable limitations under U.S. law.

#### *Sale and Other Disposition of ADSs or Ordinary Shares*

Subject to the discussion of the PFIC rules below, gain or loss realized by a U.S. Holder on the sale or exchange of ADSs or ordinary shares will be subject to United States federal income tax as capital gain or loss in an amount equal to the difference between the U.S. Holder’s tax basis in the ADSs or ordinary shares and the amount realized on the disposition. Such capital gain or loss will be long term capital gain or loss if the U.S. Holder held the ADSs or ordinary shares for more than one year. Gain or loss, if any, will be U.S. source for foreign tax credit purposes. The deductibility of capital losses is subject to limitations. Long-term capital gain of a non-corporate U.S. Holder is generally taxed at a preferential rate.

### *Passive Foreign Investment Company Rules*

We believe that we are not a PFIC for U.S. federal income tax purposes for the taxable year 2005. However, since our PFIC status depends upon the composition of our income and assets and the market value of our assets (including, among others, less than 25 percent owned equity investments) from time to time, and based upon certain proposed Treasury regulations that are not yet in effect but are generally proposed to become effective for taxable years after December 31, 1994, there can be no assurance that we will not be considered a PFIC for any taxable year. If we are treated as a PFIC for any taxable year, gain recognized by a U.S. Holder on a sale or other disposition of ADSs or ordinary shares would be allocated ratably over the U.S. Holder's holding period for the ADSs or ordinary shares. The amounts allocated to the taxable year of the sale or other exchange and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, and an interest charge would be imposed on the amount allocated to such taxable year. Further, any distribution in respect of ADSs or ordinary shares in excess of 125 percent of the average of the annual distributions on ADSs or ordinary shares received by the U.S. Holder during the preceding three years or the U.S. Holder's holding period, whichever is shorter, would be subject to taxation as described above. Certain elections may be available (including a mark-to-market election) to United States persons that may mitigate the adverse consequences resulting from PFIC status.

In addition, if we were to be treated as a PFIC in a taxable year in which we pay a dividend or the prior taxable year, the 15% dividend rate discussed above with respect to dividends paid to non-corporate holders would not apply.

### *Information Reporting and Backup Withholding*

Payment of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting and to backup withholding unless (i) you are a corporation or other exempt recipient or (ii) in the case of backup withholding, you provide a correct taxpayer identification number and certify that you are not subject to backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is furnished to the Internal Revenue Service.

### **Documents on Display**

This annual report and the exhibits thereto and any periodic reports or other information filed pursuant to the Exchange Act may be inspected without charge and copied at prescribed rates at the SEC's public reference room located at 450 Fifth Street, NW, Washington, D.C. 25049. In addition, the SEC maintains a website that contains information filed electronically with the SEC, which can be accessed over the internet at <http://www.sec.gov>. The documents concerning Banco Francés which are referred to in this annual report may also be inspected at our office at Reconquista 199, C1003ABB Buenos Aires, Republic of Argentina.

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Market Risk**

Market risk is the uncertainty to which future earnings and financial position are exposed as a result of adverse changes in the financial markets in which we operate. This risk is a consequence of our lending, trading and investments businesses and mainly consists of interest rate risk, foreign exchange risk and equity prices risk.

The estimation of potential losses that could arise from reasonably likely adverse changes in market conditions is the key element of managing market risk. The main tool we use to make this estimation on our trading and investments activities is a value at risk methodology ("VAR").

VAR is an estimate (made with a given confidence interval) of the maximum potential loss in the fair or market value of a certain instrument or portfolio likely to occur over a specified time period, or "time horizon," if that portfolio were held unchanged for that time period. This methodology is based on statistical methods that take into account many variables that may cause a change in the value of Banco Francés's portfolios, including interest rates, foreign exchange rates, securities prices, volatility of all this, and any correlation among the foregoing.

Additionally, the Bank has an independent area of market risk management called "Market Risk Department" that manages the control of all market activities that may be involved in the calculation of VAR. This area interacts in a daily basis with all the different areas of the Bank that are related with the trading activities of Banco Francés and with the market risk management area in Spain.

We are also involved in a continuous process of improvement of our systems, in order to update them to the latest methodological advances in market risk measurement and control.

Our VAR estimations provide us with a consistent and uniform measure of market risk in our trading portfolios.

VAR uses historical movements in these variables to estimate reasonably likely potential losses in trading activities assuming normal market conditions and market liquidity. The historical observation involves building a distribution of hypothetical daily changes in trading portfolio value. These hypothetical changes are based on daily-observed percentage changes in key market indexes or other market factors to which the portfolio may be sensitive.

Our VAR analysis is updated daily by recalculating the historic volatility and correlation that serve as the basis for this analysis. In the case of our VAR analysis, the period for estimating risk factors is about one year and we assume a one-day holding period and adverse market movements of 2.3264 standard deviations as the standard for risk measurement and comparison. This range approximates a 99% one-tailed confidence interval. For a given portfolio, this implies that changes in market value are statistically likely to deviate adversely from VAR estimates approximately 1% of the time or one day out of 100 days. The volatility and correlation used in the calculation process are obtained by the technique known as “exponential smooth,” which confers a higher relative weight to the last historical data considered within the one-year series.

The area of Market Risk Management uses VAR as a corporate tool to estimate and limit market risks related to all of our trading activities. Global VAR limits for trading activities at our dealing room are set by the agreement between the Market Risk Area, the Trading Area and the Permanent Executive Commission at BBVA Group headquarters in Spain. Two types of limits are used to seek to control market risk arising from our trading activities: limits based on VAR and stop-loss limits for the principal portfolios. Limits on particular portfolios and products are established within each business.

The VAR model incorporates several variables that could impact the fair value of our trading portfolio, as well as the correlation between these variables. It takes into account linear and non-linear exposures to price and interest rate risk and linear exposure to implied volatility risks.

We estimate VAR for each of our trading portfolios and all trading portfolios combined. The following table shows the VAR for Banco Francés combined trading activities for last year.

**Daily Trading VAR at Banco Francés (in million pesos)**

	<u>2005</u>	<u>2004</u>
Average	0.81	0.37
Minimum	0.22	0.02
Maximum	2.57	2.01
Dec.31	0.98	0.58

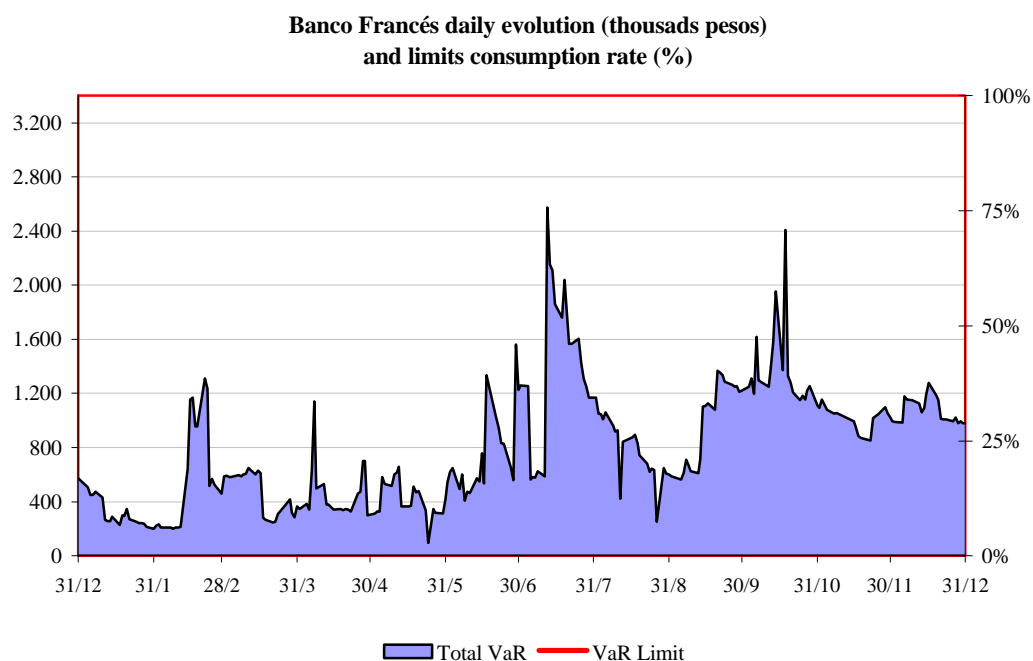
**Daily Trading VAR – Categories (in million pesos)**

<u>Interest Risk Var</u>	<u>2005</u>	<u>2004</u>
Average	0.76	0.28
Minimum	0.12	0.01
Maximum	2.57	2.00
Dec.31	0.97	0.28
<u>Currency Risk Var</u>	<u>2005</u>	<u>2004</u>
Average	0.20	0.14
Minimum	0.04	0.01
Maximum	0.96	0.50
Dec.31	0.10	0.49

Interest rate risk is mainly explained by the allocation of excess liquidity.

Our exposure to Foreign Exchange Risk is minimal and is primarily a result of Foreign Trade Business.

The following graph shows the movements in Banco Francés VAR for their trading activities during 2005:



The graph above indicates the evolution of the risk exposure, measured with VAR, during the year 2005. Because of market conditions, and internal restrictions from the Central Bank, Banco Francés, was not allowed to purchase local bonds, which might have derived a bigger amount of VAR exposure.

This restriction made the risk assumed during the year 2005, a very small one, giving the average VAR amount a risk exposure of 800 thousand pesos with a minimum of 200 thousand pesos and a maximum of 2,57 million pesos.

The evolution that fixed rate bonds denominated in local currency (Central Bank's Bills) had in the portfolio of the Bank accounts for almost all the variability in VAR risk exposure during 2005. This evolution depended mostly on the liquidity possibilities that the Bank had during the period involved. The portfolio of the Bank during the year was almost entirely comprised of fixed rate bonds (Central Bank's Bills).

### Non-Trading Risk

None.

### Interest Rate Risk

The discussion that follows relates to interest risk in 2005 and bears no relation to our current or future interest rate risk.

Interest rate sensitivity is the relationship between market interest rates and net portfolio value on the one hand and net interest income on the other, due to the repricing of assets and liabilities. Our interest rate sensitivity analysis measures the sensitivity of the net portfolio value and net interest income to parallel changes in interest rates and to changes in the yield curve.

For the purpose of calculating net present value, when the rate of interest is fixed, future cash flows of financial assets and liabilities are calculated on a contractual basis. When the interest rate is variable, cash flows are included that have a maturity during the repricing interval. Such amounts are added to the remaining balance of the asset or the liability at the end of the interval.

Net interest income is calculated as the difference between interest income earned on interest-earning assets and interest expense from interest-bearing liabilities for each month of the fiscal year immediately following the fiscal year ended December 31, 2005.

In general, the usefulness of this calculation is limited to its assumption of a permanent increase or decrease in interest rates and that all of such rates change at the same rate. Accordingly, actual results could differ materially from those projected.



For any given period, the pricing structure is matched when an equal amount of assets and liabilities reprice. Any mismatch of interest-earning assets and interest-bearing liabilities is known as a gap. A positive gap denotes asset sensitivity and normally means that an increase in interest rates would have a negative effect on net portfolio value and a positive effect on interest income, while a decline in interest rates would have a positive effect on net portfolio value and a negative effect on net interest income.

Changes in interest rates affect our profitability as a result of timing differences on the repricing of the assets and liabilities. One measure of the effect of a change in interest rates is to measure the change in net portfolio value (defined as the net present value of interest-earning assets and interest-bearing liabilities) and the effect on net interest income from a given change in interest rates. In the table below, interest rates are assumed to change immediately, while the consistency and levels of interest-earning assets and interest-bearing liabilities, including the effects of derivative financial instruments, remain constant. The table measures the net portfolio value and net interest income under various interest rate scenarios and the percentage changes from amounts generated under a stable interest rate environment.

The following chart include adjusted assets and liabilities in the 0-3 months interval assuming 10.16% annual adjustment. In order to measure the effect of a change in interest rates in net portfolio value and net interest income we are assuming the same change in interest rate as in the adjustment rate. However as this may not be the case we are including another column showing the impact of a variation in the adjustment rate with no variation in interest rate.

At December 31, 2005						
Change in Base Interest Rates (Basis points)	Net Portfolio Value	Percentage Change	Net Interest and Adjust Income	Percentage Change	Net Income of Adjustable Portfolio	Percentage Change
		(in millions of pesos, except percentages)				
100	2,037.2	(2.03)%	902.7	2.40%	580.2	6.84%
50	2,058.0	(1.03)%	892.1	1.20%	561.6	3.42%
0	2,079.5	0.00%	881.5	0.00%	543.1	0.00%
(50)	2,101.5	1.06%	870.9	(1.20)%	524.5	(3.42)%
(100)	2,124.2	2.15%	860.4	(2.40)%	505.9	(6.84)%

Based on our position at December 31, 2005, and assuming a hypothetical, immediate 50 basis points increase in interests rates affecting all interest rate sensitive assets and liabilities as of January 1, 2006, net portfolio value would be reduced by Ps.21.5 million and net interest income over 2006 would be increased by approximately Ps.10.6 million.

Accordingly, on considering a 50 b.p. increase in the adjustment rate Net interest income increases Ps.18.5 million.

## Foreign Exchange Risk

As of December 31, 2005, as part of our asset and liability management, we aimed to minimize the impact on results of foreign exchange rate fluctuations by maintaining excess balances of assets over liabilities denominated in dollars.

Peso Against All other Currencies	Effect on Net Income based on our position as of December 31, 2005 (in millions of pesos, except percentages)	Effect on Net Income based on our position as of December 31, 2004
5%	(4)	(36)
(5)%	4	36

For a description of the changes in the exchange rates since December 2005, see “*Information on the Company—Recent Political and Economic Developments in Argentina*” and Note 37.23. to the Consolidated Financial Statements.

## Equity and Commodity Price Risk

Equity and commodity risk are the risks associated with adverse movements in the value of equity securities and commodities or related indexes. We do not have any material exposure to either of them.

## ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

**- PART II -**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

None.

**ITEM 15. CONTROLS AND PROCEDURES**

- Evaluation of disclosure controls and procedures. As of December 31, 2005, the Bank, under the supervision and with the participation of the Bank's management, including the Chief Executive Officer and the Chief Financial Officer, performed an evaluation of the effectiveness of the Bank's disclosure controls and procedures. The Bank's management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature can provide only reasonable assurance regarding management's control objectives. Based on this evaluation, the Bank's Chief Executive Officer and Chief Financial Officer concluded that the Bank's disclosure controls and procedures are effective at the reasonable assurance level for gathering, analyzing and disclosing the information the Bank is required to disclose in the reports it files under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms.
- Changes in internal controls over financial reporting. There has been no change in the Bank's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

The Bank's Board of Directors has appointed Mr. Oscar Miguel Castro to serve on its audit committees (I and II). The Bank's Board of Directors has concluded that Mr. Castro is a financial expert based on his extensive audit experience, having been a partner of an international accounting firm until 2001. Mr. Castro qualifies as an independent director according to the independence criteria established by General Resolution No. 368 (New Text 2001), as amended by General Resolution No. 400 of the CNV.

**ITEM 16B. CODE OF ETHICS**

The standards of ethical conduct that Banco Francés expects from its employees are found within the "Code of Conduct of BBVA Banco Francés and its group of companies in Argentina", or the Code of Conduct, approved by the Board of Directors on December 18, 2003.

The Code of Conduct is applicable to all our management and employees, including the Executive Chairman, the Financial Director and other senior financial officers of the Bank. All officers and employees are accountable for adhering to the Code of Conduct. Suspected violations of the Code of Conduct may be reported in accordance with procedures designed to address the reported situation and to protect the reporting employee. The failure to comply with criteria and rules of the Code of Conduct may result in disciplinary action in accordance with applicable Argentine employment laws.

The Code of Conduct is accessible via Banco Francés's corporate website at:

[http://www.bancofrances.com.ar/html/institucional/informacion\\_banco/codigo\\_etica/inst\\_info\\_codigoetica.htm](http://www.bancofrances.com.ar/html/institucional/informacion_banco/codigo_etica/inst_info_codigoetica.htm)  
(the information found at this website is not incorporated by reference into this report).

A copy of our Code of Conduct is also available on request, free of charge, by writing or telephoning us at:

**BBVA Banco Francés S.A.**  
**Attention: Investor Relations Department**  
**Reconquista 40**  
**C1003ABB Buenos Aires**  
**Republic of Argentina**  
**Telephone number: (54 11) 4341 5036**  
**e-mail address: [marbelbide@bancofrances.com.ar](mailto:marbelbide@bancofrances.com.ar)**

During fiscal year 2005, there have been no amendments to any provisions of the Code of Conduct that apply to our executive officers.

No waivers from any provisions of the Code of Conduct were expressly or implicitly granted to the Executive Chairman, the Financial Director and any other senior financial officer of the Bank in the fiscal year 2005.

#### **ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Following is a summary of the fees to our independent external auditors for the years ended December 31, 2005 and 2004:

	<b>2005 Actual Fees</b>	<b>2004 Actual Fees</b>
	<b>(in millions of pesos)</b>	
Audit fees	2.06	1.79
Audit-related fees	—	—
Tax fees	0.13	0.16
All other fees	—	—
Total fees	<u>2.19</u>	<u>1.95</u>

*Audit fees* are fees for professional services performed by Deloitte & Co. S.R.L. for the audit and limited review of the Bank's annual and quarterly financial statements and services that are normally provided in connection with statutory and regulatory filings.

*Audit-related fees* consist of fees for assurance and related services performed by Deloitte & Co. S.R.L. that are reasonably related to the performance of the audit or review of the Bank's financial statements and are not reported as Audit fees.

*Tax fees* consist of tax compliance, tax advice and tax planning services and assistance and advice related to tax audits and appeals.

The Audit Committee has approved policies and procedures for pre-approving all non-audit work performed by Deloitte & Co. S.R.L. after January 1, 2005. Specifically, the policies and procedures prohibit Deloitte & Co. S.R.L. from performing any services for the Bank or its subsidiaries without the prior approval of the Audit Committee. All of the services provided by Deloitte & Co. S.R.L. in 2005 were approved by the Audit Committee pursuant to these approval policies. The Audit Committee meets once a month. In each of these meetings, the Internal Audit Director presents the projects undertaken by the Internal Audit Department. The minutes of the meeting are then drawn up detailing the issues discussed as well as those items requiring further discussion. The minutes are transcribed into an internal control book which is sent to the board of directors for their information. See "*Directors, senior management and employees-Audit Committee(I)*".

#### **ITEM 16D. EXEMPTIONS FROM LISTING REQUIREMENTS FOR AUDIT COMMITTEES**

Not applicable.

#### **ITEM 16E. PURCHASES OF EQUITY SECURITIES BY ONE ISSUER AND AFFILIATED PERSONS**

None.

**- PART III -**

**ITEM 17. FINANCIAL STATEMENTS**

We have responded to Item 18 in lieu of this item.

**ITEM 18. FINANCIAL STATEMENTS**

Reference is made to Item 19 for a list of the financial statements filed as a part of this annual report.

**ITEM 19. EXHIBITS**

▪ Index to Consolidated Financial Statements:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2005 and 2004	F-4
Consolidated Statements of Operations for the fiscal years ended December 31, 2005, 2004 and 2003	F-8
Consolidated Statements of Cash Flows for the fiscal years ended December 31, 2005, 2004 and 2003	F-10
Consolidated Statements of Changes in Stockholders' Equity for the fiscal years ended December 31, 2005, 2004 and 2003	F-12
Notes to the Consolidated Financial Statements	F-13
Legal Actions – Constitutional Protection Actions (Exhibit I)	F-78

▪ Index to Exhibits:

<u>Exhibit Number</u>	<u>Description</u>
1.1	Amended and Restated By-Laws (Estatutos) of BBVA Banco Francés
1.2	English translation of the Amended and Restated By-Laws (Estatutos) of BBVA Banco Francés
8.1	Subsidiaries of the Company
12.1	Section 302 Certification of Chief Executive Officer
12.2	Section 302 Certification of Chief Financial Officer
13.1	Section 906 Certification

We will furnish to the Securities and Exchange Commission, upon request, copies of any unfiled instruments that define the rights of holders of long-term debt of Banco Francés.

## **SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

BBVA BANCO FRANCÉS S.A.

By: /s/ Marcelo Gustavo Canestri

Name: Marcelo Gustavo Canestri

Title: Chief Financial Officer

Date: June 29, 2006