

BBVA BANCO FRANCES SA
Form 20-F
April 19, 2017

As filed with the Securities and Exchange Commission on April 19, 2017

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, 2016

OR

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

OR

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

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)

Adrián Bressani – 011-54-11-4346-4286 – abressani@bbva.com – Reconquista 281 3° (C1003ABE) Buenos Aires, Republic of Argentina

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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	536,877,850

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o 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 x Accelerated filer o Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP o International Financial Reporting Standards by the International Accounting Standards o

Other
x

Board as issued

If "Other" has been checked in response to the previous question, 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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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 “the Republic”) or changes in general economic or business conditions in Latin America;

§ changes in capital markets in general that may affect policies towards or lending to Argentina or Argentine companies;

§ increased costs and decreased income related to macroeconomic variables such as exchange rates and the Consumer Price Index in Argentina (“CPI”);

§ unanticipated increases in financing and other costs or the inability to obtain additional debt, equity or wholesale financing on attractive terms or at all; and

§ the factors discussed under “*Item 3. Key Information—D. Risk Factors*”.

Accordingly, readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. BBVA Banco Francés S.A. (“BBVA 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 “*Item 4. Information on the Company*”, “*Item 5. Operating and Financial Review and Prospects*” and “*Item 11. 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

BBVA Francés is an Argentine bank and maintains its financial books and records in Argentine pesos and prepares its Consolidated Financial Statements in conformity with the accounting rules of the Banco Central de la República Argentina (the “Central Bank” or “BCRA”) 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 generally accepted accounting principles in the United States (“U.S. GAAP”). See Note 25 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 and 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.

By Communication “A” 3921 of the BCRA and General Resolution No. 441/03 of the National Securities Commission of Argentina (the “CNV”), in compliance with Decree No. 664/03 of the Federal Executive, application of the restatement method on financial statements in equivalent purchasing power has been suspended as from March 1, 2003.

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

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

<u>Entity</u>	As of December 31, 201620152014		
PSA Finance Argentina Compañía Financiera S.A.	X	X	X
Volkswagen Financial Services Compañía Financiera S.A.	X		
Consolidar AFJP S.A. (undergoing liquidation proceedings)	X	X	X
BBVA Francés Valores S.A.	X	X	X
BBVA Francés Asset Management S.A. Sociedad Gerente de Fondos Comunes de Inversión	X	X	X

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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\$1.00, the peso was allowed to float, and as of April 12, 2017 the peso traded at Ps.15.1742 per US\$1.00. See “Item 3. Key Information—Exchange Rates” for information regarding the evolution of rates of exchange since 2012.

As mentioned in Note 15 to our Consolidated Financial Statements, the Pension Fund Manager segment was affected by the reform of the integrated retirement and pension system and Consolidar AFJP has been undergoing liquidation proceedings since then. As the Pension Fund Manager segment did not meet the quantitative thresholds detailed in ASC 280-10-50-12, the Bank decided to discontinue the separate reporting for this segment since fiscal year 2016 and, instead, reports it within the BBVA Banco Francés S.A. (banking) segment included therein. Prior years’ segment information has been revised to reflect this change in reporting.

CERTAIN TERMS AND CONVENTIONS

The terms below are used as follows throughout this report:

§ “BBVA Francés”, the “Bank” or the “Company” and terms such as “we”, “us” and “our” mean BBVA Banco Francés S.A. and its consolidated subsidiaries unless otherwise indicated or the context otherwise requires.

§ “BBVA” or the “BBVA Group” means Banco Bilbao Vizcaya Argentaria, S.A. and its consolidated subsidiaries unless otherwise indicated or the context otherwise requires.

§ “Consolidated Financial Statements” means our audited consolidated financial statements as of and for the years ended December 31, 2016, 2015 and 2014 prepared in accordance with Argentine Banking GAAP.

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- 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

A. Selected Financial Data

The historical financial information set forth below for the years ended December 31, 2016, 2015 and 2014 has been selected from, and should be read together with, the Consolidated Financial Statements included herein. The audited financial statements for 2013 and 2012 are not included in this document, but they are included in our annual reports on Form 20-F for the years ended December 31, 2015 and December 31, 2014, respectively, filed by us with the U.S. Securities and Exchange Commission (“SEC”) on April 27, 2016 and April 10, 2015, respectively, with retrospective adjustments made for the application of certain changes in accounting principles.

For information concerning the preparation and presentation of the Consolidated Financial Statements, see “*Presentation of Financial Information*”. See also “*D. Risk Factors—Risks Relating to Argentina*”, and “*D. Risk Factors—Risks Related to the Argentine Financial System and to BBVA Francés*” below.

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	For the fiscal year ended December 31,				
	2016	2015	2014	2013	2012
	(in thousands of pesos) ⁽¹⁾				
CONSOLIDATED INCOME STATEMENT					
Amounts in accordance with Argentine Banking GAAP					
Financial income	22,679,938	16,564,779	13,276,999	8,243,409	5,714,921
Financial expenses	(10,255,842)	(7,121,001)	(5,660,119)	(3,253,810)	(2,057,871)
Gross intermediation margin	12,424,096	9,443,778	7,616,880	4,989,599	3,657,050
Allowances for loan losses	(1,054,828)	(637,017)	(574,663)	(453,264)	(256,259)
Service charge income	8,255,907	6,095,836	4,678,533	3,453,850	2,530,197
Service charge expenses	(3,933,108)	(2,420,780)	(1,329,085)	(955,329)	(683,730)
Operating expenses	(9,557,633)	(6,595,146)	(5,607,097)	(3,900,469)	(3,061,708)
Net other income / (expenses)	65,328	84,357	194,315	65,731	(21,000)
Income before income tax	6,199,762	5,971,028	4,978,883	3,200,118	2,164,550
Income tax	(2,449,870)	(2,050,470)	(1,670,724)	(1,121,460)	(864,676)
Net income	3,749,892	3,920,558	3,308,159	2,078,658	1,299,874
Results on minority interests in subsidiaries	(106,220)	(136,071)	(103,663)	(54,414)	(36,195)
Final consolidated income	3,643,672	3,784,487	3,204,496	2,024,244	1,263,679
Net operating revenue ⁽²⁾	16,746,895	13,118,834	10,966,328	7,488,120	5,503,517
Net operating income ⁽³⁾	6,134,434	5,886,671	4,784,568	3,134,387	2,185,550
Net income per ordinary share ^{(4) (5)}	6.79	7.05	5.97	3.77	2.35
Net income per ADS ^{(4) (5)}	20.37	21.15	17.91	11.31	7.05
Dividends per ordinary share ^{(5) (6)}	1.69685	1.67636	0.74505	0.05364	—
Dividends per ADS ^{(5) (6)}	5.09055	5.02908	2.23515	0.16092	—
Net operating income per ordinary share ^{(4) (5)}	11.43	10.96	8.91	5.84	4.07
Net operating income per ADS ^{(4) (5)}	34.29	32.88	26.73	17.52	12.21
Average ordinary shares outstanding (000s) ⁽⁵⁾	536,878	536,878	536,878	536,878	536,878
Amounts in accordance with U.S. GAAP:					
Net income	4,242,163	3,429,835	3,157,758	2,178,544	1,541,104
Net income per ordinary share ^{(4) (5)}	7.90	6.39	5.88	4.06	2.87
Net income per ADS ^{(4) (5)}	23.70	19.17	17.64	12.18	8.61
Average ordinary shares outstanding (000s) ⁽⁵⁾	536,878	536,878	536,878	536,878	536,878
CONSOLIDATED BALANCE SHEET					
Amounts in accordance with Argentine Banking GAAP					
Cash and due from banks	48,226,107	27,970,286	12,560,154	12,881,781	8,614,889
Government and corporate securities	12,738,809	14,422,191	11,633,489	3,459,935	4,101,846
Loans, net of allowances	78,889,921	56,563,321	41,442,840	36,468,194	28,493,431
Other assets	11,897,874	11,780,400	8,652,423	5,713,714	3,574,413
Total assets	151,752,711	110,736,198	74,288,906	58,523,624	44,784,579

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Deposits	114,621,753	76,864,493	51,442,877	43,759,465	34,165,053
Other liabilities and minority interest in subsidiaries	20,670,923	20,155,342	12,514,153	7,607,979	5,487,590
Total liabilities and minority interest in subsidiaries	135,292,676	97,019,835	63,957,030	51,367,444	39,652,643
Capital stock	536,878	536,878	536,878	536,878	536,878
Issuance premiums	182,511	182,511	182,511	182,511	182,511
Adjustments to stockholders' equity	312,979	312,979	312,979	312,979	312,979
Retained earnings	11,783,995	8,899,508	6,095,012	4,099,568	2,835,889
Unappropriated earnings	3,643,672	3,784,487	3,204,496	2,024,244	1,263,679
Total stockholders' equity	16,460,035	13,716,363	10,331,876	7,156,180	5,131,936

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	For the fiscal year ended December 31,					
	2016	2015	2014	2013	2012	
Amounts in accordance with U.S. GAAP						
Total assets	155,974,903	111,713,362	76,039,348	61,316,755	47,552,013	
Total stockholders' equity	17,609,603	14,203,995	10,834,230	7,615,291	5,535,611	
SELECTED RATIOS IN ACCORDANCE WITH ARGENTINE BANKING GAAP						
Profitability and Performance						
Return on average total assets ⁽⁷⁾	2.78	% 4.09	% 4.83	% 3.92	% 3.02	%
Return on average stockholders' equity ⁽⁸⁾	24.15	% 31.47	% 36.65	% 32.95	% 28.08	%
Services charge income as a percentage of operating expenses	86.38	% 92.43	% 83.44	% 88.55	% 82.64	%
Operating expenses as a percentage of average total assets ⁽⁹⁾	7.28	% 7.13	% 8.44	% 7.55	% 7.31	%
Capital						
Stockholders' equity as a percentage of total assets	10.85	% 12.39	% 13.91	% 12.23	% 11.46	%
Total liabilities as a multiple of stockholders' equity	8.22	x 7.07	x 6.19	x 7.18	x 7.73	x
Credit Quality						
Allowances for loans losses as a percentage of total loans	2.01	% 1.92	% 2.21	% 1.94	% 1.81	%
Non-performing loans as a percentage of gross loans ⁽¹⁰⁾	0.77	% 0.64	% 0.99	% 0.76	% 0.65	%
Allowances for loans losses as a percentage of non-performing loans ⁽⁹⁾	262.65	% 298.90	% 224.20	% 254.16	% 278.79	%

(1) Except net income per ordinary share and net income per ADS data and financial ratios.

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

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

(4) Based on the average number of ordinary shares outstanding during the year.

(5) The average number of ordinary shares outstanding during a year was computed as the average number of shares outstanding during the twelve months taking into account the outstanding amounts as of the end of each month.

For the fiscal year ended December 31, 2016, the dividends in cash authorized at the ordinary and extraordinary shareholders' meeting on March 30, 2017 were Ps.911 million (see Note 14.b) to the Consolidated Financial Statements). For the fiscal year ended December 31, 2015, the dividends in cash authorized at the ordinary and extraordinary shareholders' meeting on April 26, 2016 were Ps.900 million. For the fiscal years ended December 31, 2014, the dividends in cash authorized at the ordinary and extraordinary shareholders' meeting on April 7, 2015 (6) were Ps.400 million. For the fiscal years ended December 31, 2013, the dividends in cash authorized at the ordinary and extraordinary shareholders' meeting on April 10, 2014 were Ps.28.8 million. For the fiscal year ended December 31, 2012, the Bank decided not to declare and distribute dividends as result of the issuance of Communications "A" 5272 and 5273 of the Central Bank (see "Item 8. Financial Information—Dividends"). Dividends per ordinary share for each year are calculated taking into account dividends declared in such year and the number of outstanding shares at the end of such year.

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

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

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

(10) Non-performing loans include all loans to borrowers classified as "Problem", "Medium Risk", "High Risk of Insolvency", "High Risk", "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 "Item 4. Information on the Company—E. Selected Statistical Information—Allowance for Loan Losses and Loan Loss Experience".

Dividends

The table below shows the 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.

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	Declared Dividends Per Ordinary Share ⁽¹⁾		Declared Dividends Per ADS ⁽¹⁾	
	Ps. ⁽²⁾	US\$	Ps. ⁽²⁾	US\$
	December 31, 2016 ^{(3) (4)}	1.69685	0.11182	5.09054	0.33547
December 31, 2015 ^{(3) (5)}	1.67636	0.11596	5.02908	0.34789
December 31, 2014 ^{(3) (6)}	0.74505	0.08434	2.23515	0.25301
December 31, 2013 ^{(3) (7)}	0.05364	0.00670	0.16092	0.02011
December 31, 2012 ⁽³⁾	—	—	—	—

(1) For the fiscal year ended December 31, 2016, the dividends in cash authorized at the ordinary and extraordinary shareholders' meeting on March 30, 2017 were Ps.911 million (see Note 14.b) to the Consolidated Financial Statements). For the fiscal year ended December 31, 2015, the dividends in cash authorized at the ordinary and extraordinary shareholders' meeting on April 26, 2016 were Ps.900 million. For the fiscal year ended December 31, 2014, the dividends in cash authorized at the ordinary and extraordinary shareholders' meeting on April 7, 2015 were Ps.400 million. For the fiscal year ended December 31, 2013, the dividends in cash authorized at the ordinary and extraordinary shareholders' meeting on April 10, 2014 were Ps.28.8 million. For the fiscal year ended December 31, 2012, the Bank decided not to declare and distribute dividends as result of the issuance of Communications "A" 5272 and 5273 of the Central Bank (see "Item 8. Financial Information—Dividends"). During the fiscal years ended December 31, 2016, 2015, 2014 and 2013 the average number of outstanding shares were 536,877,850. Dividends per ordinary share for each year are calculated taking into account dividends authorized in such year and the number of outstanding shares at the end of such year.

(2) Historical values.

(3) Since 2004, prior authorization from the Central Bank is required to pay dividends. See "Item 8. Financial Information—Dividends".

(4) Based upon the reference exchange rate quoted by the Central Bank at April 12, 2017.

(5) Based upon the reference exchange rate quoted by the Central Bank at April 22, 2016.

(6) Based upon the reference exchange rate quoted by the Central Bank at April 7, 2015.

(7) Based upon the reference exchange rate quoted by the Central Bank at April 7, 2014.

Exchange Rates

The following tables show the annual high, low, average and period-end exchange rate for US\$1.00 for the periods indicated. The exchange rate is calculated by the Central Bank based on the information provided by financial institutions on the exchange rate for trading of U.S. dollars for settled transactions in Argentine pesos and U.S. dollars. Such information must be representative of the prevailing market conditions. After gathering this information, the Central Bank calculates the daily exchange rate using the formula set out in Annex I of Communication "A" 3500.

The Federal Reserve Bank of New York does not report a noon buying rate for pesos.

Year /Period	High ⁽¹⁾	Low ⁽¹⁾	Average ⁽²⁾	Period-end
	(in pesos per US\$1.00)			
2012	4.9173	3.9715	4.5502	4.9173
2013	6.5180	4.9228	5.4789	6.5180
2014	8.5555	6.5430	8.1188	8.5520
2015	13.7633	8.5537	9.2692	13.0050
2016	16.0392	13.0692	14.7738	15.8502
2017 (through April 12, 2017)	16.0533	15.1742	15.6415	15.1742
October 2016	15.2250	15.1152	15.1810	15.1745
November 2016	15.8442	15.0183	15.3399	15.8442
December 2016	16.0392	15.5225	15.8296	15.8502
January 2017	16.0533	15.8083	15.9065	15.9117
February 2017	15.8350	15.3675	15.5983	15.4550
March 2017	15.6687	15.3818	15.5237	15.3818
April 2017 (through April 12, 2017)	15.4175	15.1742	15.3342	15.1742

(1) Source: BCRA.

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

The exchange rate on April 12, 2017 was Ps.15.1742 = 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 Mellon, 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 at year end, the rate of exchange (number of pesos per dollar prevailing in the Argentine

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

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

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

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

(2) Pesos per dollar.

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

B. Capitalization and indebtedness

Not applicable.

C. Reasons for the offer and use of proceeds

Not applicable.

D. Risk Factors

Risks Relating to Argentina

Overview

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

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

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

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

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

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

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

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

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

- § foreign exchange restrictions;
- § methodologies used by the Argentine National Statistics and Censuses Institute (the “INDEC”);
- § financial policy;
- § foreign trade policy;
- § fiscal policy;
- § monetary imbalances;

- § Argentina's energy generation and consumption regime;
- § the reparation program for retirees and pensioners; and
- § the tax amnesty regime.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Argentine economy may also be affected by conditions in developed economies, such as the United States, that are significant trading partners of Argentina or have influence over world economic cycles. A more protectionist trade policy from the new government of the United States could affect world trade with negative repercussions for Argentina. If interest rates increase significantly in developed economies, including the United States and Europe (particularly as a result of the United Kingdom's vote in favor of leaving the European Union on June 23, 2016 and the commencement of the official path for departure from the EU (the "Brexit")), Argentina and its developing economy

trading partners, such as Brazil, could find it more difficult and expensive to borrow capital and refinance existing debt, which could adversely affect economic growth in those countries. The perceptions as to the impact of the withdrawal of the United Kingdom from the European Union may adversely affect business activity and economic and market conditions in the United Kingdom, the Eurozone and globally, and could contribute to instability in global financial and foreign exchange markets. In addition, Brexit could lead to additional political, legal and economic instability in the European Union.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to the Argentine Financial System and to BBVA Francés

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our business is particularly vulnerable to volatility in interest rates.

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

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

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

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

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

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

business, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

Legal, Regulatory and Compliance Risks

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

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

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

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

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

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

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

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

During Cristina Kirchner's second term as President a series of new regulations were issued affecting financial institutions, mainly regulating the foreign exchange market and imposing new capital requirements for financial

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are subject to rules and regulations regarding money laundering and the financing of terrorism. Monitoring compliance with anti-money laundering and anti-terrorism financing rules can put a significant financial burden on banks and other financial institutions and pose significant technical problems. Although we believe that our current

policies and procedures are sufficient to comply with applicable rules and regulations, we cannot guarantee that our anti-money laundering and anti-terrorism financing policies and procedures will not be circumvented or otherwise not be sufficient to prevent all money laundering or terrorism financing. Any of such events may have severe consequences, including sanctions, fines and notably reputational consequences, which could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

Recent Political and Economic Developments in Argentina

Macri Administration

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Presidential and congressional elections in Argentina took place in October and November 2015, resulting in Mr. Mauricio Macri being elected President of Argentina. The Macri Administration assumed office on December 10, 2015. Since assuming office, the Macri Administration has announced and executed several significant economic and policy reforms and transactions, including:

§ **Foreign exchange reforms.** The Macri Administration eliminated substantially all of the foreign exchange restrictions, including certain currency controls that were imposed by the Fernández de Kirchner administration. These reforms are expected to provide greater flexibility and easier access to the foreign exchange market. See “*Item 10. Additional Information. D. Exchange Controls*” for a description of the principal measures adopted as of the date of this annual report.

§ **INDEC reforms.** On January 8, 2016, based on its determination that the INDEC had failed to produce reliable statistical information, particularly with respect to CPI, GDP, poverty and foreign trade data, the Macri Administration declared a state of administrative emergency for the national statistical system and the INDEC until December 31, 2016. As of the date of this annual report, the INDEC has published certain revised data, including the CPI for May, June, July, August, September, October, November and December 2016 and foreign trade and balance of payment statistics. On June 29, 2016, the INDEC published the INDEC report including revised GDP data for the years 2004 through 2015. On September 22, 2016, the INDEC resumed publication of its essential goods and services basket assessment. On November 9, 2016, the IMF Executive Board lifted its censure on the Republic, noting that the Republic had resumed the publication of data in a manner consistent with its obligations under the Articles of Agreement of the IMF. However, the administrative emergency continues.

§ **Access to public information act.** On September 14, 2016, Congress passed Law No. 27,275, which establishes the right to access certain information of, among others, the government, the attorney general’s office, the judiciary council, congress, the Central Bank, entities owned by the Argentine state, institutions or funds administered by the government and business organizations or trusts that have received public funds.

§ **Financial policy.** Soon after taking office, the Macri Administration sought to settle the outstanding claims with the holders of untendered government debt (holdouts), and the Minister of the Treasury designed a debt restructuring and cancellation program with the aim of reducing the amount of outstanding untendered government debt. In February 2016, the Republic entered into agreements in principle to settle outstanding claims with certain holdouts and put forward a proposal to other holdouts, including those with pending claims in U.S. courts, subject to certain conditions. On March 31, 2016, the Argentine Congress repealed the legislative obstacles to the settlement and approved the settlement proposal. Since April 2016, Argentina has continued settling claims with holdouts consistent with the terms of its February 2016 settlement proposal. As of December 31, 2016, the outstanding principal amount of untendered government debt that was not subject to a settlement agreement totaled approximately US\$1.51 billion.

§ **Foreign currency-denominated bonds.** Since April 2016 Argentina has issued foreign currency denominated bonds in aggregate amounts of US\$2.75 billion and €2.5 billion under foreign law and reopened securities issued under

local law for a total of US\$1.2 billion. In addition, Argentina accessed the domestic U.S. dollar market by issuing Treasury bonds, of which US\$7.6 billion were outstanding as of December 31, 2016.

§ **Foreign trade reforms.** The Kirchner and Fernández de Kirchner administrations imposed export duties and other restrictions on several sectors, particularly the agricultural sector. The Macri Administration eliminated export duties on wheat, corn, beef, mining, oil and regional products, and reduced the duty on soybean exports by 5%, from 35% to 30%. A 5% export duty on most industrial exports was also eliminated. With respect to payments for imports of goods and services to be performed abroad, the Macri Administration eliminated the restrictions on access to the foreign exchange market. In addition, importers were offered short-term debt securities issued by the Republic to be used to repay outstanding commercial debt for the import of goods.

§ **Fiscal policy.** The Macri Administration took steps to anchor the fiscal accounts and to reduce the primary fiscal deficit, and pursued a primary fiscal deficit target of 4.8% of GDP in 2016 through the elimination of subsidies, the reorganization of certain expenditures and the generation of increased revenue through the Tax Amnesty Regime (as defined below).

§ **Correction of monetary imbalances.** The Macri Administration announced the adoption of an inflation targeting regime in parallel with the floating exchange rate regime and set inflation targets for the next three years. The Central Bank has increased efforts to reduce excess monetary imbalances and raised peso interest rates to offset inflationary pressure. Inflation from May to December 2016, as measured by INDEC, was 16.9%. In October 2016, the Central Bank announced its intention to use the 7-day repo reference rate as the anchor of its inflation targeting regime beginning in January 2017. The short-term Central Bank notes rate (LEBAC 35-day term), which had initially been used as the monetary policy rate, would therefore only be used to manage the system liquidity.

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§ **National electricity state of emergency and reforms.** Following years of very limited investment in the energy sector, as well as the continued freeze on electricity and natural gas tariffs since the Argentine Crisis, Argentina began to experience energy shortages in 2011. In response to the growing energy crisis, the Macri Administration declared a state of emergency with respect to the national electricity system, which is scheduled to remain in effect until December 31, 2017. The state of emergency allows the government to take actions designed to ensure the supply of electricity to the country. In addition, the Macri Administration announced the elimination of a portion of energy subsidies and a substantial increase in electricity rates. As a result, average electricity prices have already increased and could increase further. By correcting tariffs, modifying the regulatory framework and reducing the government's role as an active market participant, the Macri Administration sought to correct distortions in the energy sector and stimulate investment. However, certain of the government's initiatives were challenged in the Argentine courts and resulted in judicial injunctions or rulings limiting the government's initiatives. As of the date hereof the determination of the final tariffs and reference prices is pending.

§ **Tariff increases.** With the aim of encouraging companies to invest and improve the services they offer and enabling the government to assist those in needs, the Macri Administration has begun updating the tariffs for electricity, transportation, gas and water services. Each of the announced tariff increases contemplates a social tariff, which is designed to provide support to vulnerable groups, including beneficiaries of social programs, retirees and pensioners that receive up to two minimum pensions, workers that receive up to two minimum salaries, individuals with disabilities, domestic workers and individuals receiving unemployment insurance, among others. Subsequent modifications to these announced tariff increases were made thereafter. Certain of these tariff increases are being challenged in court.

§ **Tax Amnesty Regime.** In July 2016, the Régimen de Sinceramiento Fiscal was introduced to promote the voluntary declaration of assets by Argentine residents (the "Tax Amnesty Regime"). The law allows Argentine tax residents holding undeclared funds or assets located in Argentina or abroad to (i) declare such property until March 31, 2017 without facing prosecution for tax evasion or being required to pay outstanding tax liabilities on the assets, provided they can provide evidence that the assets were held by certain specified cut-off dates, and (ii) keep the declared property outside Argentina and not repatriate such property to Argentina. In the case of cash that was not deposited in bank accounts by the specified cut-off dates, such amounts have to be disclosed by October 31, 2016 and deposited by November 21, 2016 in special accounts opened at Argentine financial institutions. As of December 31, 2016, assets totaling approximately, Ps.106.8 billion had been declared. Depending on the amount declared, how soon it is declared, the election to subscribe for certain investment securities and the payment method used, those who take advantage of the law will pay a special tax of between 0 and 15% on the total amount declared. Alternatively, they can invest an equivalent amount in government bonds or a fund that will finance, among other things, public infrastructure projects and small to medium-sized businesses in general.

Recent Macroeconomic Environment

According the figures issued by the INDEC, economic activity, measured in terms of GDP, declined by 2.3% during 2016 compared with 2015.

With respect to the labor market, the latest official data published is for the third quarter of 2016, which reflected a decrease in the unemployment rate to 8.5% from 9.3% in the second quarter of 2016 (source: INDEC). These are the first figures published after the statistical emergency was declared, and the historical series has not been modified.

Since June 2016, the INDEC has resumed the publication of the CPI-GBA, with April of 2016 as the reference period. The GBA covers the autonomous city of Buenos Aires and the 24 districts of the Greater Buenos Aires area, representing 44.7% of the urban household expenditures according to the household expenditures survey, the source for determining the new weighting values of the index. The INDEC is working on designing the next household expenditures survey, which is scheduled to be launched in 2017.

At year-end 2016, the CPI-GBA accumulated a 16.9% increase since April 2016 (the date in which it was released), the average monthly variation being 2.09%. In 2016, significant adjustments were made in the charges for transport, water, gas and electricity which had an impact on prices, but the effect is not fully captured by the CPI-GBA due to the lack of historical data.

Therefore, in order to better understand the evolution of prices in 2016, the CPI of the City of Buenos Aires (the “CPI-CABA”) was used. The CPI-CABA accumulated a 41.0% variation during the year, with an average monthly inflation of 4.4% in the first half of the year and of 1.5% in the second half (source: Government of the City of Buenos Aires).

By sectors, the division comprising household, water, electricity and other fuels stood out with a 71.2% increase, which is one of the main reasons for the annual inflation of 21.5% at year end.

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Due to the new publication of the CPI-GBA by the INDEC, as from and including June 26, 2016 the calculation of the Reference Stabilization Index (CER) is made on the basis of the median geometric rate of variation of the CPI-GBA, as per Resolution 203/2016 of the Ministry of the Treasury and Public Finance.

The national public sector registered a primary deficit of Ps.359.4 billion in 2016, which represents an increase of 52.9% compared with the deficit of Ps.235.1 billion for the preceding year (source: Ministry of Economy). These figures do not include the income from rents of the Central Bank and the Social Security Administration (the "ANSES").

Primary public spending increased by 38.2% in 2016 while the public sector income increased by 35.3%. The public debt interest payments increased by 53.3%. Taking into account the rental income of the BCRA and the ANSES, the total deficit amounted to Ps.365.2 billion at December 31, 2016, representing a 61.8% increase compared with 2015 (source: Ministry of Economy).

On the expenditure side, the 56.9% year-on-year increase in current transfers to the private sector and the 37.2% increase in social security outlays stand out. Capital expenditure increased by 13.2% in 2016 compared with 2015. On the other hand, income was sustained by social security contributions, which increased by 33.1% in 2016 compared with 2015, while the tax collection increase amounted to 37.8%, thanks to the collection of tax amnesty-related penalties at the end of 2016 (source: Ministry of Economy).

In 2016, tax revenue increased by 34.6%. Revenue derived from income taxes increased by 13.5% and the VAT collected was 34.7% higher than in 2015. Export duties decreased by 5.8% due to a reduction of the applicable rates. There was also an extraordinary, one-off tax windfall in the last two months of 2016 resulting from fines applied in connection with a fiscal amnesty. Fines on the newly reported funds amounted Ps.82.0 billion. Without considering these contributions, tax collections would have increased by 29.3% in 2016 compared with 2015 (source: Ministry of Economy).

The foreign trade balance went from a US\$3.0 billion deficit in 2015 to a US\$2.2 billion surplus in 2016. This was mainly due to the decrease in imports during the year, which totaled US\$55.6 billion, representing a 6.9% decrease compared with 2015, mainly due to the 30.7% decrease in the price of fuels and lubricants and the 14.4% decrease in the price of intermediate goods. Exports totaled US\$57.7 billion, 1.7% higher than in the previous year, with a 17.7% increase in sales of primary products, partially offsetting a fall of 11.5% in sales of fuels and energy (source: INDEC).

In the foreign exchange market, the peso underwent a devaluation of 21.9% during the year to reach an exchange rate of Ps.15.85 per US\$ at the close of 2016. The average exchange rate increased by 38.5% during 2016, taking into account the devaluation of December 2015 resulting from the liberalization of the foreign exchange market (source: Central Bank).

International reserves at December 31, 2016 amounted to US\$38.8 billion, representing an increase of US\$13.2 billion compared with international reserves at December 31, 2015 (source: Central Bank).

Monetary Policy

Beginning in January 2017, the BCRA has implemented a formal scheme of inflation targeting, which foresees annually decreasing objectives until 2019 and uses the 7-day repo reference rate as the anchor of its inflation targeting regime. The Central Bank determines a “rates corridor”, defined by the spread between active and passive repo rates, from which the monetary policy rate is derived. The inflation objective range for 2016 was between 20%-25% and for 2017 is between 12%-17% (source: Central Bank).

The monetary aggregate base known as “M2”, which includes cash held by the public and current account and savings account deposits of the private and the public sector, measured in terms of balances, increased by 30.3% in 2016 compared with a 28.2% increase in 2015. Considering the average balances, the growth during 2016 reached 19.2% compared with 37% in 2015 (source: Central Bank).

The private banks' Badlar interest rate expressed in monthly averages was 26.3% in January 2016 and reached a maximum of 30.9% in May and then decreased to 20.1% in December 2016 (source: Central Bank).

Total deposits in the financial sector increased by 41.5% in 2016. By contributors, the public sector increased its deposits by 32.8%, and the funding originated in the private sector grew by 43.9% in the year, with increases of 27.5% for deposits in pesos and 157.5% for deposits in dollars (111.4% if measured by currency of origin), stimulated by the lift of restrictions in the foreign exchange market and the effect of the application of the Tax Amnesty Regime (source: Central Bank).

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The stock of loans in pesos granted to the non-financial private sector increased by 19.2% during 2016. These loans were mainly personal loans followed by secured loans, which increased by 37.3% and 32.7% at December 31, 2016, respectively, compared with December 31, 2015. The foreign-exchange market liberalization was a determining factor in the performance of loans granted to the private sector in U.S. dollars, which increased by 205.7% in 2016 measured in U.S. dollars, compared with the 10.9% decline experienced by this portfolio during 2015 (source: Central Bank).

A. History and development of the company

BBVA 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. The Bank has registered its office in Reconquista 199, C1003ABB, Ciudad Autónoma de Buenos Aires, Argentina; telephone number 54-11-4346-4000. The Bank’s 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.

BBVA Francés original by-laws (*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 No. 1,065 on Folio 359, Book 5, Volume “A” of National By-laws. The by-laws, 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 September 18, 2014, under N° 17995 Book 70 of Corporations (*sociedades anónimas*). Pursuant to its current corporate by-laws, the Bank will terminate its activities on December 31, 2080, unless this term is extended by the shareholders.

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 reporting systems of Argentine financial institutions. It is also subject to inspections by the Central Bank, based on which it is assigned a “rating”. See “*Item 4. Information on the Company—F. The Argentine Banking System and its Regulatory Framework*”.

Since 1886, the Bank has been recognized as a leading provider of financial services to large corporations. In the early 1980s, it broadened its customer base to include small and medium enterprises (“SMEs”) as well as individual customers. In response to demands from the corporate market and following the structural changes brought about by the stabilization process in Argentina, since 1991, the Bank added to its traditional commercial banking products a full range of services, such as investment banking, capital market transactions and international banking.

In the 1980s and 1990s, in order to achieve a wider market penetration, it expanded its distribution network by opening branches throughout Argentina.

In December 1996, when BBVA became the principal shareholder, the Bank reaffirmed its universal banking strategy with the goal of increasing the most profitable business segment: medium- and low-income individuals and SMEs in the middle market.

To this end, in August 1997, 71.75% of Banco de Crédito Argentino, a retail bank focused on the middle market and consumer banking sectors, was acquired. To effect the merger, BBVA Francés issued 14,174,432 ordinary shares to the existing shareholders of Banco de Crédito through a capital increase. On March 5, 1998 the Public Registry of Commerce registered the merger as well as the change in the name of the company from Banco Francés del Río de la Plata S.A. to Banco Francés S.A.

At the ordinary and extraordinary shareholders' meeting held on April 27, 2000, a resolution was passed to change our name to BBVA Francés S.A. On October 4, 2000, the Public Registry of Commerce registered our change from Banco Francés S.A. to BBVA Francés S.A., and the amendment to our by-laws were made reflects the name change.

In the early 2000's the Argentine Crisis and the ensuing economic and political instability led to a deep contraction in the intermediation volumes. In response, the Bank changed its short-term commercial strategy towards the transactional business, adjusted its operating structure and implemented a strict cost control plan. Actions were also focused on recovering asset quality levels, which had been strongly affected by the Argentine 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. Commencing in 2004, BBVA Francés gradually strengthened its credit activity in the midst of economic solvency, and consolidated its transactional business. During last years, the Bank focused mainly in the most profitable segments, retail and small and medium size companies, maintaining the leadership in the large corporations business.

On February 9, 2012, the board of directors of BBVA Francés and Inversora Otari S.A. approved the merger between both companies and on March 26, 2012, the shareholders' meetings of both companies approved the transaction. On July 18, 2013, the Argentine Central Bank authorized the merger by Resolution No. 473 and on August 8, 2013 the CNV approved it by Resolution No. 17,155. On March 27, 2014, it was registered with the supervisory board of companies (the "IGJ") under No. 5,302, Book 68 of Corporations.

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On March 26, 2014, BBVA Francés cancelled 50,410,182 ordinary shares and issued simultaneously 50,410,182 ordinary shares of BBVA Francés, to be delivered in exchange to the former owners of Inversora Otar (BBV América S.L., Corporación General Financiera S.A. and Sucesión Romero) pursuant to the exchange ratio duly approved. As a result of this transaction as of December 31, 2014, the shareholders of Inversora Otar S.A. have the following ownership of BBVA Francés: BBV América S.L. 29.81%, Corporación General Financiera S.A. 0.47% and Sucesión Romero 0.0041%.

Because of this simultaneous increase and cancellation of the shares, the total amount of the corporate capital of the Bank remained unchanged. On April 1, 2012, as a result of the merger between BBVA Francés and Inversora Otar S.A., BBVA Francés acquired all the shares of BBVA Francés Valores S.A. previously held by Inversora Otar S.A., becoming its sole shareholder. On June 29, 2012, BBVA Francés S.A. sold a 3.0047% interest in BBVA Francés Valores S.A. to BBV America SL for Ps.441,194.

On July 10, 2013, BBVA Francés and Consultatio S.A. signed a sale and purchase agreement, under which the Bank acquired 23 of the 33 floors of the building under construction by Consultatio S.A., which became the “BBVA Tower”. This was the largest corporate headquarters real estate development project in the country and was part of the plan designed in 2010 by BBVA Francés to unify its core areas, currently divided among 10 buildings in the City of Buenos Aires. The goal is to have a building with the highest construction and environmental standards that will allow the Bank’s staff to work together in the same area, thus achieving greater efficiency. It is worth noting the building has been developed according to the highest international environmental and sustainability standards and with the commitment of the BBVA Group of preserving the environment. The investment of approximately Ps.1,200 million has a payment schedule associated with the work progress of the project. On December 27, 2016 the Bank took possession of the floors and started the relocation process. This process is still ongoing.

BBVA Francés considers the high income segment as strategic and for that reason the Bank has been working over the past three years on a long term plan in order to achieve a leading and differentiated position in this target. Accordingly, by the end of November 2013, the Bank launched the PREMIUM segment with an exclusive event at the Greek embassy in Argentina. This segment is composed of the 15,000 clients with the highest income, who have access to a new and different service experience: “Premium” executives, parking at branches with VIP spaces, free of charge subscriptions to magazines and newspapers, birthday presents and many other premium experiences at theatres, concerts and movies, with pre-sales on tickets and priority in invitations and exclusive brochures, among others.

In September 2014, BBVA Francés created the new Digital and Transformation Banking Division, following the guidelines of the BBVA Group. The new division was created in order to develop more convenient and relevant products for customers and to pursue more dynamic business, employing increasingly innovative communication channels. Furthermore, BBVA Francés implemented some organizational changes, redefining roles and simplifying the organizational chart, in order to adapt the Bank’s internal structure to its business needs. In September 2016, with the goal of promoting and consolidating the transformation process and advancing in the fulfillment of strategic objectives, the Digital and Transformation Banking Division became part of the Business Development Department. Under this new scheme, the Business Development Department has adopted a project-based structure to take full advantage of the opportunities presented by the current context.

On May 20, 2015, BBVA Francés entered into a share purchase agreement with the Volkswagen Group for the acquisition of 51% of the issued and outstanding capital stock and voting rights of the Volkswagen Credit Compañía Financiera S.A., representing 23,970,000 registered, non-endorsable shares of common stock, par value Ps.1. On August 25, 2016, the Central Bank issued Resolution No. 332, authorizing the acquisition of 51% of the share capital of Volkswagen Credit Compañía Financiera S.A. by BBVA Francés. Moreover, on September 26, 2016, the shareholders of Volkswagen Credit Compañía Financiera S.A. amended its bylaws in order to include the new shareholders structure and approved the amendment of the company's name to Volkswagen Financial Services Compañía Financiera S.A. The name change was registered with the IGJ on November 14, 2016, under No. 22302, Book 82 of Corporations.

In May 2015, BBVA Francés' Board of Directors accepted the resignation of Ricardo Enrique Moreno as Executive Director (CEO), and appointed Martin Ezequiel Zarich to fill this position. The Board also decided that the resignation of Mr. Moreno shall be effective when the Central Bank of Argentina authorizes Mr. Zarich as the new Executive Director (CEO). Finally, our Board has also decided to appoint Gustavo Alonso as the new Director of Innovation & Development, replacing Mr. Zarich.

On June 30, 2015, the Board of Directors of BBVA Francés decided to carry out some changes in the Senior Management. The Board accepted the resignation of Mr. Juan Eugenio Rogero González as Risk Director and appointed Mr. Gerardo Fiandrino for this position.

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On January 11, 2016 Mr. Martin Ezequiel Zarich was appointed Executive Director (CEO) after the BCRA issued the corresponding authorization through Resolution No. 9.

BBVA Tower

The BBVA Tower is the image of leadership, innovation and excellence, and a clear evidence of the commitment of BBVA Francés to its employees as well as to the country.

This real estate development began in 2013 as part of a plan to centralize the Bank's main areas, and is the biggest corporate tower project in the country.

The tower was built by Consultatio Real Estate and its 149m-high structure consists of 33 floors, 23 of which are owned by the Bank and will be occupied by approximately 2,000 employees of the Bank. It meets the highest sustainability standards and was awarded a LEED Gold Certification (Leadership in Energy & Environmental Design), recognizing that the building is environmentally sustainable and a healthy space to work in.

With more technology and new services which improve workplace quality in line with open space corporate layout, the tower provides spaces that allow working in areas without limits or offices dividing the employees. It promotes more fluid and transparent communication, team work and the exchange of knowledge and experiences.

In the last quarter of 2016 personnel began moving to the new headquarters, a process that is still ongoing.

B. Business overview

Most of the Bank's operations, property and customers are located in Argentina. The Bank has traditionally accepted deposits and granted loans in pesos and in certain other currencies, primarily U.S. dollars. Following the Argentine Crisis, foreign currency deposits can only be lent to companies that generate flows in the same currency.

As part of its business, BBVA Francés conducts capital markets and securities operations directly in the over-the-counter market and indirectly in the BCBA. At the end of December 2016, the Bank had a 5.4% market share in the mutual fund portfolio management industry in Argentina through BBVA Francés Asset Management S.A., according to the Argentine Chamber of Mutual Investment Funds or *Cámara Argentina de Fondos Comunes de*

Inversión.

The Bank was one of the first companies listed on the BCBA, quoting since 1888 (ticker: FRAN). Its shares in the form of American Depositary Shares have been listed on the New York Stock Exchange since 1993 (ticker: BFR) and on the Madrid-based LATIBEX (*Mercado de Valores Latinoamericanos*) since December 1999 (ticker: XBFR).

BBVA Francés ended its fiscal year 2016 with Ps.151.7 billion in total assets, a total of Ps.114.6 billion in deposits, and a market capitalization of Ps.49.9 billion. According to statistics published by the Central Bank, as of December 2016 it was the third largest private bank in Argentina in terms of deposits and the fourth one in terms of loans.

Our principal service is the provision of banking and financial services. The following table presents financial information of our principal business for the year ended December 31, 2016.

	As of and for the year ended December 31, 2016			
	BBVA Francés ⁽¹⁾	PSA Finance S.A.	Volkswagen Financial Services S.A.	Total
	(Banking)	(Financial Services)	(Financial Services)	
	(in thousands of pesos)			
Total assets	146,804,631	3,154,836	1,793,244	151,752,711
Total income ⁽²⁾	31,201,152	844,045	52,794	32,097,991
Total expenses ⁽³⁾	(27,698,383)	(591,940)	(57,776)	(28,348,099)
Results on minority interest in subsidiaries	2,334	(114,850)	6,296	(106,220)
Total net income / (loss)	3,505,103	137,255	1,314	3,643,672

⁽¹⁾ Includes BBVA Francés Asset Management S.A. Sociedad Gerente de Fondos Comunes de Inversión, BBVA Francés Valores S.A. and Consolidar AFJP (undergoing liquidation proceedings).

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

⁽³⁾ Includes financial expenses, allowances for doubtful loans, service charge expenses, operating expenses, other expenses and income tax.

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BBVA Francés operates a comprehensive distribution model, with a presence all over the country, thanks to a network consisting as of December 31, 2016 of 302 client support points, of which 251 are retail branches and 34 specialize in small and medium companies and institutions. Corporate Banking is divided by industrial sectors: Consumer, Heavy Industries and Energy, all of which provide personalized support to large companies. Complementing the distribution network, at December 31, 2016 there were 15 in-company branches, one point of sale outlet (a contact point that offers only automated services and commercial assistance, but does not have a license granted by the BCRA to operate as a branch) and one point of express support (see detailed description below under the subtitle Banking and Financial Services/Development of channels/Express support point), 728 ATMs and 789 self-service terminals (“ATS”), a telephone banking service, an Internet banking service called Francés Net and an app for smartphones from which clients and non-clients may access a wide variety of discounts and benefits. At December 31, 2016, the Bank had 6,253 employees.

Through this wide network the Bank provided support to over 2.2 million retail clients, 19,330 companies and 743 large corporations as of December 31, 2016.

Strategy

In 2016, the BBVA Group promoted a new purpose: “bring the age of opportunity to everyone”, which was implemented at a global scale through the development of six strategic priorities:

- § New standard in customer experience
- § Drive digital sales
- § New business models
- § Optimize capital allocation
- § Unrivaled efficiency
- § A first class workforce

At BBVA Francés, such priorities were fostered through five work agendas and 14 strategic initiatives which were the core element of our performance during the year. Emphasis was placed on transformation, differentiation, boosting business, development of the best working team and control. These five work agendas and their development during 2016 are described further below under “*Main activities and 2016 highlights—2016 Strategic Agenda*”.

Plans for 2017

After a year of transition and adaptation to macroeconomic policies and regulations, financial intermediation activity did not reflect the expected growth in 2016. Consensus expectations for 2017 are that the economy will start to grow again. In this context, BBVA Francés seeks to lead the growth we believe the Argentine financial sector will experience in the years to come.

We believe that the measures of the Central Bank against inflation are beginning to show results and will slowly result in more deposits in local currency in the financial sector. We believe that lending activity will also show signs of recovery, especially in underdeveloped lines of business like mortgages and investment. We believe the Bank has appropriate levels of liquidity and access to new funding sources in order to face such challenges.

In order to achieve our growth targets, we are putting a strong emphasis on transformation and productivity, with user experience, digital sales, efficient management and optimization of capital allocation as our top priorities. In this sense, our plans for 2017 are based on pillars related to what we believe clients need and demand:

§

Improving customer experience

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Apart from concentrating on quality standards, we will focus on defining processes and establishing measurable service levels, both for external and internal clients. Innovation will be a necessary ingredient to achieve this.

In relation to the segments, we expect to make efforts to gain flexibility in the present model of customer service, roles and functions so as to provide a better service. The aim is to empower Bank officers to be able to give quick answers to our clients' needs and provide them with new channels of support.

In the new economic environment, one of our top priorities will be growing in funding and asset management activities. To that effect we intend to design a completely renewed set of products for our customers and to improve our digital channels.

§ Distribution channels

We attempt to increase our portfolio of clients and we are continuously analyzing the most efficient and profitable way to do it. The strategy to achieve this goal relies on developing and enhancing the different channels of contact with our clients. To that effect, we believe it is essential to have 100% of our clients digitalized so that they may choose through which channel they want to receive assistance from us. In this regard, we have developed detailed plans to remove a substantial part of transactions from human tellers and drive them to digital channels, where we will keep investing to provide a high quality service. It will also be key for us to keep evolving in sales productivity and cross-selling.

§ Business in main segments or products and efficient capital allocation

To support leadership in our value proposition for our clients, and take full advantage of future growth in the financial sector, the Bank will put special emphasis on:

- Continuing to gain new clients and successfully retaining them.
- Maintaining our leading position in mature markets such as car loans and the credit cards business.

Developing value propositions in new segments with growth opportunities, such as mortgages and investment loans. We expect these products to account for a substantial part of our expected growth in loans during 2017. We will explore the possibility of developing an online engine for mortgages on our website and an engine to facilitate the expansion of the client-attraction networks in the companies segment.

- Managing the small end of the companies segment.

- Growing our payroll business as an essential way to capture value in the retail business.

- Implementing return on regulatory capital tools in our pricing and asset allocation activities.

Main activities and 2016 highlights

During 2016 BBVA Francés was focused on the banking business, mainly in the private sector. As of December 31, 2016, our private loan portfolio was Ps.75.9 billion, an increase of 38.2% compared with 2015, and our share of the private loan market was 6.7%. During 2016, consumer loans increased by 21.8%. Such increase was mainly due to personal loans, with an increase of 27.6%, whereas our credit card loans grew at a 22.9% rate. Commercial loans registered a strong growth of 67.5% annually, mainly due to the performance of loans to SMEs, reaching a market share in commercial loans of 7.1%.

In terms of liabilities, total deposits were Ps.114.6 billion at the end of 2016, 49.1% higher than the previous year, with demand deposits increasing by 53.7%, mainly influenced by the performance of the U.S. dollar, and time deposits by 12.7%, affected by the low growth in the wholesale market.

As of December 31, 2016 the Bank's dollar-denominated deposits totaled Ps.39,719 billion (equivalent to US\$2.5 billion). This amount represented 34.7% of the Bank's total deposits and an increase of 112.9% compared with the prior year. The main reasons for the increase were the increasing confidence in deposits in U.S. dollars and the Tax Amnesty Regime that was implemented during the second semester of 2016. The new deposits derived from the implementation of the Tax Amnesty Regime represented 28.7% of the total dollar-denominated deposits as of December 31, 2016.

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The following table sets forth our estimates of the relative proportions of loans and deposits attributable to our principal business lines during the last three years.

	Loans							
	December 31, 2016		December 31, 2015		December 31, 2014			
	(in thousands of pesos, except percentages)							
Retail	46,977,934	59.55 %	34,171,994	60.41 %	24,694,156	59.59 %		
Middle market	21,767,746	27.59 %	15,357,261	27.15 %	10,604,054	25.59 %		
Corporate & Investment	10,045,422	12.73 %	6,967,267	12.32 %	6,090,171	14.69 %		
Public sector	98,819	0.13 %	66,799	0.12 %	54,459	0.13 %		
Total	78,889,921	100.00 %	56,563,321	100.00 %	41,442,840	100.00 %		

	Deposits							
	December 31, 2016		December 31, 2015		December 31, 2014			
	(in thousands of pesos, except percentages)							
Retail	93,092,861	81.22 %	54,777,510	71.27 %	37,370,091	72.64 %		
Middle market	14,803,347	12.91 %	9,509,185	12.37 %	6,794,714	13.21 %		
Corporate & Investment	6,725,545	5.87 %	12,577,798	16.36 %	7,278,072	14.15 %		
Total	114,621,753	100.00 %	76,864,493	100.00 %	51,442,877	100.00 %		

Our most relevant business lines are (i) Retail Banking, whose strategy relies on building a comprehensive relationship with customers and strengthening the credit card segment; (ii) Middle-market Banking, which aims at providing companies with both short- and long-term financing; and (iii) Corporate & Investment Banking, an area that deals with foreign trade transactions and provides advice on mergers and acquisitions and on capital market transactions. Below is an overview of the evolution of each business line during 2016.

Retail Banking

Retail banking increased its credit investment by 28.9% during 2016 year-on-year, reaching Ps.39,732 billion (measured in both pesos and dollars as the average volume in December 2016). In terms of liabilities, deposits increased by 78.4% to Ps.88,182 billion. The balances of demand deposits grew by 107.4% during 2016 whereas time deposits increased by 39.4%. Mutual funds grew by 208.4% in terms of total assets under management. In line with the market trend, the growth was led by the market funds, especially short-term fixed income funds. It is worth highlighting the growth in dollars deposits, which increased by 445.2% compared with the previous year, in part due to the implementation of the Tax Amnesty Regime.

Middle-market Banking

In terms of assets, the middle market business line amounted to Ps. 21,057 billion at the end of 2016, increasing by 32.7% compared with the previous year (measured in both pesos and dollars as the average volume in December 2016). Deposits increased by 69.0% year-on-year to Ps.14,850 billion (measured in both pesos and dollars as the average volume in December 2016) , with demand and time deposits increasing by 68.6% and 71.1%, respectively. Commissions earned during 2016 amounted to Ps.1.103 billion, 58.2% higher than the prior year. This positive performance was mainly due to a strong growth in foreign trade and insurance.

Corporate & Investment Banking (C&IB)

At the end of 2016 C&IB accounted Ps.11,888 billion in credit investment, increasing by 46.1% compared with the prior year. On the liabilities side, time deposits were mostly flat compared with the prior year and there was demand balances decreased by 17.1% due to various factors such as the release of foreign-exchange and import restrictions, the authorization to pay dividends to domestic and foreign shareholders and an optimization of the cash flows and balances in current accounts. During 2016 commissions had a positive performance due to the income derived from financial transactions related to the foreign-exchange market. Transactional commissions increased by 30.2% compared with 2015, concentrating the banking activity in the strengthening of the collection and payment services.

2016 Strategic Agenda

Regarding our strategic agenda for 2016, BBVA Francés placed its focus on five main issues: (i) transformation; (ii) differentiation; (iii) boosting business; (iv) development of the best working team; and (v) control. Below is a brief description of each.

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1-

Transformation

We focused our efforts on improving the user's experience and accelerating the acquisition of new clients. Along these lines, access to the digital world was a priority.

- *Improving the user's experience*

Our main actions to improve users' experience were based on the internet and the mobile banking transformation. New developments were incorporated during 2016 to digitalize more clients and improve our digital services, such as adding the main transactions (payment of credit card balances and other services (*mis pagos*) or auto settlement of consumer loans, among others) to our mobile application and a better designed web platform to operate in a more secured and friendly way.

- *Accelerating the acquisition of new clients*

We continued to promote 'Francés GO', the program of benefits and experiences for clients and non-clients of BBVA Francés, which continued to grow in benefits and positioning, offering the users credit card discounts and the possibility of enjoying additional benefits. In September 2015 we launched the platform "App & Web" and by December 2016 it had been downloaded more than a half a million times and increased the number of subscribers by more than 40% from 405,000 to 580,000. Lastly, the development of a new online engine (based on a credit evaluation system) permitted the incorporation of a significant number of new clients.

- *Digital sales*

During 2016 we continued improving sales through digital channels in more mature products like time deposits or mutual funds. In addition, commercial campaigns were launched with the aim of increasing the digital sales such as:

§ Personal loans: more than 500,000 credit lines were offered online. In 2016, this process represented 10% of the total sales and we expect them to increase during 2017.

§ Sale of credit cards through the open market: a process was developed and optimized for the sale of credit cards in the open market, with online qualification. This process completed more than 40,000 sales of cards during 2016.

The proportion of digitalized clients at the close of 2016 exceeded 46%, with a year-on-year growth of 30%. These figures capitalize on the efforts made to implement the digital strategy.

2-

Differentiation

Servicing and quality levels were defined as key drivers, and a comprehensive plan was adopted to improve both.

-

Servicing

Important actions were carried out during 2016 regarding ATMs, devices and new technologies in order to differentiate us from our competitors. With the aim of reducing waiting times in branches, during 2016 we expanded the use of the queue manager device to 81 branches. We also installed new banknote counting machines to enhance productivity, and in those branches with the highest level of activity, our teller workforce assumed both a commercial and an operative role.

In addition, during the year we started a plan to replace and increase the number of ATMs and ATSSs to cover the demand of services. In 2016 a total of 127 ATMs were replaced and 51 new ATMs were added. In terms of ATSSs, 134 Quick Deposits Boxes (QDB) were replaced by ATSSs and an additional 21 ATSSs were added. These strategic advances resulted in an increase of the operating capacity of the Bank as these machines reduce processing tasks, facilitate processes and attract new transactionstransversa.

Moreover, “Línea Francés” is one of the main alternative channels for client support. By the end of 2016, approximately five million calls were received through this channel, 70% of which were automatically resolved by an interactive voice response system.

-

Quality

During 2016, we developed a transversal plan called “+ Calidad”, with the purpose of strengthening the quality culture. The plan was implemented both at headquarters and branch levels, based on the “NPS methodology”, which consists of measuring how strongly our clients recommend the Bank and the reasons for their recommendation. With this purpose, parameters such as the branch, the call center, the internet and the global experience are valued according to a specific score. The ultimate goal of the plan is to improve the customer service model.

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For the fourth consecutive year BBVA Francés was during 2016 the market leader based on clients' recommendation according to the syndicated quality study, which compares the level of client satisfaction in the Bank with that of its main competitors. In the high-income segment, the Bank also held the top position.

Additionally the Bank has a complaint management model, which in 2016 incorporated a new channel of support to respond to all inquiries from clients and users who access by electronic form on the public and private network as well as all complaints entered through the social networks (Facebook and Twitter).

3- Boosting business

We performed several activities during 2016 to strengthen each of the business lines of the Bank, with positive results in terms of product sales and use of our services by the clients.

- *Retail Banking*

We continued to reinforce our strong franchise in credit cards, by renewing our alliance with Latam and the agreements with the most important soccer teams in Argentina, Club Atlético Boca Juniors and Club Atlético River Plate, as well as a new agreement with Club Atlético Talleres de Córdoba, which we expect will give an important boost to our activity in the province of Córdoba.

The Latam Pass program continued giving our clients the possibility of accumulating kilometers by using BBVA Francés credit cards.

In 2016 we also reaffirmed our leading position in the car loans market by purchasing 51% of Volkswagen Financial Services Compañía Financiera S.A. This stake, combined with our participation in PSA Finance Argentina Compañía Financiera S.A and Rombo Compañía Financiera S.A. resulted in us generating around 40% of the new sales of car loans by the end of the year, according to ACARA (*Asociación de Concesionarios de Automotores de la República Argentina*).

During 2016 we also took its first steps with the aim of becoming a top player in the mortgage market, which we believe has a positive outlook in the coming years. We also continued providing more personalized and specialized support to our Premium clients and opened six new spaces exclusive for them in our branches, totaling 31 by the end of 2016.

Since we expect retail deposits to become a core funding product in coming years, in 2016 we launched a broader set of products, such as inflation indexed and floating rate deposits, as well as a new group of mutual funds.

- *Middle-market Banking*

Since we consider middle market companies as key for the development of Argentina, we continued working to become their strategic ally by developing a business model and transactional solutions tailored specifically for them. During 2016, a new edition of Camino al Éxito (Road to success) program was staged. This program provides middle market companies access to online trading on finance, businesses and leadership free of charge. Further, in order improve customer support, new executives were incorporated in different locations.

In terms of credit activity, the removal of currency and foreign trade restrictions by the Macri Administration fostered the loan growth in the agricultural business and international trade. In this context of loan growth, transfers of checks (*cesión de cheques*) were one of the drivers of credit demand, which allowed the Bank to increase its market share in transfer of deferred payment checks (*cesión de cheques de pago diferido*) by 300 basis points during 2016 according to the Central Bank. Small companies qualified to access to credit lines grew by 30% (or by 1,000) to reach a total of approximately 4,500 clients by the year end.

- *Corporate & Investment Banking (C&IB)*

During 2016, C&IB focused on seizing opportunities offered by the market, adjusting the operations to the new business climate generated by the change of government, working to consolidate long-term relationships with clients through a better understanding of their transactions, keeping ahead of their needs and offering a set of products and services adapted to them. The management of C&IB maintains its focus on client loyalty thanks to a continuous development of non-credit products. Tools such as Francés Net Cash allowed us to improve the payment and collection system and integrate the relationship with Global Markets and Distribution areas, strengthening the offer of spot products and derivatives.

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Credit activity was mainly focused on foreign currency loans, benefiting from the important growth of the deposits in U.S. dollars. Peso loan activity was short term based, due to the high level of local interest rates. Whereas the Bank continued assisting its clients in the issuance of domestic debt, the new environment permitted an opening towards the international markets, both for the government (national state, provinces, etc.) and corporations. BBVA Francés took part in the issue of bonds by the Republic and the Province of Buenos Aires, in the international issuance by YPF of US\$ 750 million in securities and in the cross-border loans (IFC A/B loans) granted to Axxion, Enap Sipetrol and YPF Energía Eléctrica.

As a complement to the investment banking business, a structuring service was provided with the use of interest rate swaps, covering the clients' rate risks.

4-

Development of the best working team

With the aim of achieving a first class workforce, BBVA Francés continued to work during 2016 to position itself as the best place to work. In line with such a goal, the new program Talento Joven was implemented in order to develop young people with a high potential so that in the future they may be prepared to assume strategic and leadership positions. Ten young professionals were incorporated to central areas with a high potential for future growth.

Likewise, a new program of internships was launched to build up a group of future professionals who may subsequently develop their careers in the branches network. In this first edition, 18 trainees were incorporated.

In order to promote talent at BBVA Francés, advances were made in the year around the talent pool management model. This is a selection model implemented on a biannual basis whose purpose is to promote a differential style of training and development for the people involved.

BBVA Francés not only attempts to be a company of leadership and excellence, but also seeks to provide a better working experience so that the most talented people may want to work for it. In this connection, it has also focused its attention on such matters as the moving of its team to the new headquarters and promoting better meeting and working places as well as a system of valuation based on capabilities, thus stimulating its employees' self-development.

Since 2014 BBVA Francés has ranked among the "top ten" in the Great Place to Work ranking and in 2016 it improved its position to the seventh position. Also in 2016, BBVA Francés was ranked third by the Universum ranking among the 50 companies that are the most desired workplaces. The survey is conducted independently among university students for the purpose of identifying the most attractive Latin American employers.

Lastly, in the 2016 edition of the Randstad awards, BBVA Francés obtained for the second consecutive year a special mention as the most attractive working place in the banking and financial sector. It also was included among the top 20 in the general ranking.

5-

Control

We are working on the development of a comprehensive control model, as it is a priority to have one that not only supports compliance with the regulations, but also one that internalizes within the organization a “positive control structure”, which seeks to result in a better cost/control equation and help preserve the value of the franchise.

Business Segment Financial Information

As mentioned in Note 24.15 to our Consolidated Financial Statements, our business is mainly concentrated on banking and financial services. We organize our activities in three business segments: (i) BBVA Banco Francés S.A. (banking), (ii) PSA Finance S.A. (financial services) and (iii) Volkswagen Financial Services S.A. (financial services), which we consider a single reportable segment for reporting purposes. The following table shows assets and income derived from each segment for the fiscal years ended December 31, 2016, 2015 and 2014. As mentioned in Note 15 to our Consolidated Financial Statements, the Pension Fund Manager segment was affected by the reform of the integrated retirement and pension system and Consolidar AFJP has been undergoing liquidation proceedings since then. As the Pension Fund Manager segment did not meet the quantitative thresholds detailed in ASC 280-10-50-12, the Bank decided to discontinue the separate reporting for this segment since fiscal year 2016 and, instead, reports it within the BBVA Banco Francés S.A. (banking) segment included therein. Prior years' segment information has been revised to reflect this change in reporting.

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	BBVA Banco Francés S.A.⁽⁴⁾ (Banking)	PSA Finance S.A. (Financial Services)	Volkswagen Financial Services S.A. (Financial Services)	Total
	(in thousands of pesos)			
Total assets	146,804,631	3,154,836	1,793,244	151,752,711
Financial income	22,251,586	414,316	14,036	22,679,938
Service charge income and other income	8,949,566	429,729	38,758	9,418,053
Total income ⁽¹⁾	31,201,152	844,045	52,794	32,097,991
Financial expenses	(9,970,755)	(284,657)	(430)	(10,255,842)
Allowances for doubtful loans	(1,023,044)	(15,562)	(16,222)	(1,054,828)
Operating expenses	(9,456,435)	(70,397)	(30,801)	(9,557,633)
Other expenses ⁽²⁾	(7,248,149)	(221,324)	(10,323)	(7,479,796)
Total expenses ⁽³⁾	(27,698,383)	(591,940)	(57,776)	(28,348,099)
Results on minority interest in subsidiaries	2,334	(114,850)	6,296	(106,220)
Total net income	3,505,103	137,255	1,314	3,643,672

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

(2) Includes service charge expense, other expenses and income tax.

(3) Includes financial expenses, allowances for doubtful loans, service charge expenses, operating expenses, other expenses and income tax.

(4) Includes BBVA Francés Asset Management S.A. Sociedad Gerente de Fondos Comunes de Inversión, BBVA Francés Valores S.A. and Consolidar AFJP (undergoing liquidation proceedings).

**As of and for the year ended December 31,
2015**

	BBVA Banco Francés S.A.⁽⁴⁾ (Banking)	PSA Finance S.A. (Financial Services)	Total
	(in thousands of pesos)		
Total assets	108,383,094	2,353,104	110,736,198
Financial income	16,022,362	542,417	16,564,779
Service charge income and other income	6,319,458	387,549	6,707,007
Total income ⁽¹⁾	22,341,820	929,966	23,271,786
Financial expenses	(6,962,151)	(158,850)	(7,121,001)
Allowances for doubtful loans	(627,854)	(9,163)	(637,017)
Operating expenses	(6,550,301)	(44,845)	(6,595,146)
Other expenses ⁽²⁾	(4,805,250)	(192,814)	(4,998,064)
Total expenses ⁽³⁾	(18,495,556)	(405,672)	(19,351,228)

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Results on minority interest in subsidiaries	(5,681)	(130,390)	(136,071)
Total net income	3,390,583	393,904	3,784,487

(1)

Includes financial income, service charge income and other income.

(2)

Includes service charge expense, other expenses and income tax.

(3) Includes financial expenses, allowances for doubtful loans, service charge expenses, operating expenses, other expenses and income tax.

(4) Includes BBVA Francés Asset Management S.A. Sociedad Gerente de Fondos Comunes de Inversión, BBVA Francés Valores S.A. and Consolidar AFJP (undergoing liquidation proceedings).

As of and for the year ended December 31, 2014

BBVA Banco Francés S.A.⁽⁴⁾	PSA Finance S.A. (Financial Services)	Total
(Banking)		

(in thousands of pesos)

Total assets	71,988,196	2,300,710	74,288,906
Financial income	12,724,564	552,435	13,276,999
Service charge income and other income	4,788,023	421,777	5,209,800
Total income ⁽¹⁾	17,512,587	974,212	18,486,799
Financial expenses	(5,411,306)	(248,813)	(5,660,119)
Allowances for doubtful loans	(561,330)	(13,333)	(574,663)
Operating expenses	(5,569,355)	(37,742)	(5,607,097)
Other expenses ⁽²⁾	(3,181,124)	(155,637)	(3,336,761)
Total expenses ⁽³⁾	(14,723,115)	(455,525)	(15,178,640)
Results on minority interest in subsidiaries	2,840	(106,503)	(103,663)
Total net income	2,792,312	412,184	3,204,496

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

(2) Includes service charge expense, other expenses and income tax.

(3) Includes financial expenses, allowances for doubtful loans, service charge expenses, operating expenses, other expenses and income tax.

(4) Includes BBVA Francés Asset Management S.A. Sociedad Gerente de Fondos Comunes de Inversión, BBVA Francés Valores S.A. and Consolidar AFJP (undergoing liquidation proceedings).

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C. Organizational structure

Banco Bilbao Vizcaya Argentaria S.A. (BBVA)

As of December 31, 2016, BBVA owned approximately 76% of our capital stock.

BBVA is the result of a merger by absorption of Argentaria and Banco Bilbao Vizcaya, S.A., formerly Spanish retail banking, asset management and insurance providers, into Banco Bilbao Vizcaya Argentaria, S.A. The merger was approved by the shareholders of both institutions on December 18, 1999. As of December 31, 2015, BBVA, through its subsidiaries, has a presence in 9 Latin American countries, United States, Mexico, several countries throughout Europe and Turkey.

BBVA is a global financial group, organized in six geographical business segments: (i) Banking Activity in Spain, (ii) Real Estate Activity in Spain, (iii) Mexico, (iv) South America, (v) the United States and (vi) Eurasia. In addition to these geographical business areas, BBVA has a separate “Corporate Center” segment. This segment handles certain general management functions. Some of the benefits we receive from the BBVA Group are:

- § 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 BBVA Francés as a shareholder is both long term and strategic.

Subsidiaries and investees of BBVA Francés

The following chart reflects our subsidiaries as of December 31, 2016:

(1) Undergoing liquidation proceedings.

The following information is related to our subsidiaries and investees as of December 31, 2016:

Subsidiary or Affiliate Company	Country of Incorporation/ Residence	BBVA Francés Ownership and Voting Power (in percentages)	Principal Activity	Stockholders' Equity (in millions of pesos) ⁽¹⁾ ₍₂₎
BBVA Francés Asset Management S.A. ^{(3) (4)}	Argentina	95.00 %	Investment fund manager	227.1
BBVA Francés Valores S.A. ⁽³⁾	Argentina	97.00 %	Stock exchange brokerage	96.7
Consolidar AFJP S.A. (undergoing liquidation proceedings) ⁽³⁾	Argentina	53.89 %	Pension fund manager	6.0
Volkswagen Financial Services S.A. ⁽³⁾	Argentina	51.00 %	Financial institution	534.1
PSA Finance Argentina Cía. Financiera S.A. ⁽³⁾	Argentina	50.00 %	Financial institution	704.8
Rombo Compañía Financiera S.A.	Argentina	40.00 %	Financial institution	739.0
BBVA Consolidar Seguros S.A. ⁽³⁾	Argentina	12.22 %	Insurance	534.1

(1) Total stockholders' equity as of December 31, 2016.

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

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

(4) The Bank has an effective 95.00% ownership interest in the capital stock of the company and has an indirect 4.8498% ownership interest through BBVA Francés Valores S.A.

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Below is a description of our subsidiaries.

-BBVA Francés Valores S. A.

Capital Markets

During 2016 the local securities market was mainly affected by the dynamics started in December 2015 with the liberalization of the foreign-exchange market and the arrival of a new flow of activity, principally from abroad, due to the attractive rates in pesos in relation to an exchange rate with little variation in the year. The main market indicators ended the year with positive variations. Measured in pesos, the Buenos Aires Stock Exchange Merval Index (the “Merval Index”) was up 45%, more than twice the 21.8% increase observed by the Merval Argentina Index, an index that only includes domestic companies. The top performer stocks during the year were Petróleo Brasileiro APBR (up 165%), TS (up 78%) and PETR (up 264.9%). In conclusion, at the end of 2016, the market capitalization of domestic companies represented 12.3% of the GDP of the third quarter of 2016 (the latest available date) compared with 11.3% at the close of 2015.

In this context, fix income markets had a strong performance, with the bonds index (IAMC) recording a 33% increase in pesos and an 8.4% increase in dollars (considering an inflation of nearly 40% in the year). The situation in the stock as well as in the bonds market reflects the change of political and economic expectations. In spite of a slow economic recovery, expectations continue to be positive and the reduction in debt spreads allowed a lower cost of financing for the public as well as for the private sector.

During 2016 the capital markets witnessed a change in the economic policy with greater monetary and foreign-exchange mobility. A successful negotiation with the holdouts permitted a strong reduction of the debt spreads and the return of the government and private sectors to international financing.

Activity of BBVA Francés Valores S.A.

Since the enactment of Law 26,831 and of General Resolution No. 622/13 of the CNV, the activity of Francés Valores S.A. was devoted to providing the service of purchase and sale of negotiable bonds and other securities and authorized transactions directly to clients. As mentioned in the preceding annual report, since January 1, 2015 all transactions with securities done through BBVA Banco Francés S.A. as promoter of Francés Valores, have been canceled according to the new market regulations.

In 2016 Francés Valores practically did not generate any operating income as it reduced its activity almost completely, being now limited to managing the company and its investment portfolio, and to maintaining its operational capacity and the search for new commercial and business opportunities. In such context, the net result for 2016 was Ps.53.7 million, mainly generated by the re-evaluation of its own investment portfolio and the minimum operating expenses required for maintaining the company in full operating capacity.

-BBVA Francés Asset Management S.A. Sociedad Gerente de Fondos Comunes de Inversión.

During 2016, Argentina's Mutual Funds industry continued on a track of continuous growth. According to provisional data compiled by the Chamber of Mutual Investment Funds, the industry ended the year with assets under management for Ps.323,007 million, up Ps.110,477.1 million, which represents an increase of 51.9% compared with the level of December 31, 2015.

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This increase in the assets under management was led by the market funds segment, which ended the year totaling Ps.278,208.2 million, a 72.8% increase. Fixed-income funds had a particularly strong year increasing their assets under management by Ps.90,702 million, or 81.9%, to a total of Ps.201,519.1 million.

Time deposit funds reached the end of 2016 with a total equity of Ps.44,798.9 million, a decrease of Ps.6,850.8 million, or 13.3%, compared with December 31, 2015. The decline is mainly explained by the switch by large corporations from time deposits to more profitable sources of funding, especially short-term fixed income funds.

At December 31, 2016, the assets under management by BBVA Francés Asset Management amounted to Ps.17,475.5 million, an increase of Ps.8,629.7 million, or 97.6% over the previous year, with a 5.4% participation in the mutual investment funds market. Considering the variation of the average equities managed by the entity between December 2015 (Ps.10,643.9 million) and December 2016 (Ps.19,096.4 million), the increase exceeded Ps.8,452.5 million, or 79.4%.

At December 31, 2016 the company had registered with the CNV eleven managed funds:

FBA Renta Pesos, FBA Ahorro Pesos, FBA Bonos Argentina, FBA Horizonte, FBA Renta Mixta, FBA Calificado, §FBA Acciones Argentinas and FBA Acciones Latinoamericanas: were in operation, accepting subscriptions and redemptions in pesos;

§ FBA Bonos Globales and FBA Renta Pesos Plus were operative but had not been marketed yet; and

§ FBA Commodities, whose investment policy was submitted to the CNV.

As of December 31, 2016, FBA Commodities had not equity volume. The rest of mutual funds had the following equity volumes:

Name of Mutual Fund	Thousands of pesos
FBA Ahorro Pesos	11,269,857
FBA Bonos Argentina	2,793,125
FBA Renta Pesos	2,609,965
FBA Calificado	393,708
FBA Horizonte	252,402
FBA Acciones Latinoamericanas	101,400
FBA Acciones Argentinas	35,594

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FBA Renta Pesos Plus	10,083
FBA Renta Mixta	9,055
FBA Bonos Globales	282
Total	17,475,471

-Grupo Consolidar

Grupo Consolidar comprises Consolidar AFJP S.A. (*undergoing liquidation proceedings*) and BBVA Consolidar Seguros S.A.

Consolidar AFJP S.A. (undergoing liquidation proceedings)

Law No. 26,425 was enacted on December 4, 2008. It abolished the capitalization system that was part of the Integrated Pension and Retirement System (Sistema Integrado de Jubilaciones y Pensiones) which was merged into and substituted by a single public distribution system called SIPA (Sistema Integrado Previsional Argentino, i.e. Argentine Integrated Pension System). As a consequence, Consolidar AFJP S.A. no longer managed the resources in the individual capitalization accounts of its members, who were beneficiaries of the Argentine Integrated Pension System. These funds were transferred to the Sustainability Guarantee Fund of the Argentine Pension System in the same form as they were invested, and the ANSES became the only and single holder of its assets and rights.

On October 29, 2009 the ANSES issued Resolution No. 290/2009 granting pension and retirement fund managers the possibility of reconverting their corporate purpose to manage funds consisting of voluntary contributions and deposits of the members in their respective capitalization accounts. Interested companies had 30 business days to express their interest.

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In view of all of the above, on December 28, 2009, and bearing in mind that it was impossible for Consolidar AFJP S.A. to maintain the corporate purpose for which it had been organized, the company held a unanimous special shareholders meeting. The resolution of this meeting was to dissolve and subsequently wind-up the company as of December 31, 2009. It was understood that this was the best alternative to preserve in the best possible way the creditors' and shareholders' interests. At the same time, and in accordance with the terms of the Business Companies Law No. 19,550, the shareholders' meeting resolved to appoint accountants Messrs. Gabriel Orden and Rubén Lamandía, to liquidate Consolidar AFJP S.A. These accountants are the legal representatives of the Company as of December 31, 2009 and are working in order to wind it up. As of this date, they are taking all necessary steps to carry out the liquidation of Consolidar AFJP S.A. On January 28, 2010, the dissolution of Consolidar AFJP S.A. (undergoing liquidation proceedings) was registered with the IGJ, as were the names of the appointed liquidators.

The general and special shareholders' meeting of Consolidar AFJP S.A. (undergoing liquidation proceedings) approved on October 19, 2009 a voluntary reduction of the corporate capital by Ps.75 million, which was approved by the Office of Corporations on January 11, 2010. Subsequently, on January 19, 2010, all capital contributions were transferred to the shareholders, in accordance with the above-mentioned reduction.

BBVA Francés, as shareholder, requested that Consolidar AFJP S.A. (undergoing liquidation proceedings) submit a request for negotiations with the Argentine Ministry of Economy and Public Finance (*Ministerio de Economía y Finanzas Públicas de la Nación*) and the ANSES (*Administración Nacional de la Seguridad Social*). This was done in accordance with the terms of Law No. 26,425 in order to find solutions to the consequences of implementation of the Law. This request was filed by Consolidar AFJP S.A. (undergoing liquidation proceedings) on June 11, 2010.

In turn, on December 7, 2010, Consolidar AFJP S.A. (undergoing liquidation proceedings) filed a complaint for damages against the federal government and the Ministry of Labor, Employment and Social Security at the Contentious-Administrative Federal Court number 4, Secretariat No. 7, under case number 40,437/2010. The claim was confirmed by BBVA Francés as the controlling shareholder of the company. On July 15, 2011 Consolidar AFJP S.A. (undergoing liquidation proceedings) and BBVA Francés filed an additional motion to determine the amount of damages. On March 9, 2012, the Court ordered the service of process to the National State.

In this connection, on May 13, 2013, the judge in charge ordered the commencement of the trial stage. The company collected and submitted all witness, documentary and expert evidence and on May 28, 2013 the submitted evidence was examined at court. At December 2016, the case was still in the stage of producing the accounting evidence.

BBVA Consolidar Seguros S.A.

BBVA Consolidar Seguros operates in fire, mixed family and comprehensive insurance, civil liability, theft, personal accidents, umbrella life, debtor balances, funeral services and other insurance risks.

During 2016, it achieved a level of issued premiums of Ps.1,793.5 million, which represents a growth of 39% with respect to the previous year. This increase was derived from a strategy that combines an ample variety of products with multiple channels of distribution and support, all of which are based on segmentation of its clients' needs and brochures. Accidents paid amounted to Ps.332.9 million in 2016, representing an increase of 13% over its issued premiums.

Net income amounted to Ps.618.7 million, representing a return on net equity at year end of 68.9%. As of December 31, 2016, the minimum capital surplus amounted to Ps.526.1 million and the index of solvency amounted to 1.49.

For 2017, BBVA Consolidar Seguros intends to continue to develop its main business lines, in particular those dealing with other risks, personal accidents, collective life, debit balance, etc., based on an offer of products that satisfies in a differential manner the needs of its main clients.

-PSA Finance Argentina Compañía Financiera S.A.

The corporate stock of PSA Finance is divided in equal parts between BBVA Francés and Banque PSA Finance, a subsidiary of PSA Peugeot Citroën S.A., with headquarters in France.

PSA Finance's main business is focused on providing secured loans for the purchase and leasing of new Peugeot and Citroën vehicles. It also offers financing to purchase second-hand cars for clients suggested by the official concessionaries' networks, as well as other financial products and services linked to the purchase, maintenance and insurance of vehicles.

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The motor car industry in Argentina closed 2016 with a total of 682,000 vehicle licenses, a 10% rise compared with 2015.

The year 2016 was difficult for Peugeot and Citroën, mainly due to the struggle to recover market share that had decreased in 2015 due to restrictions imposed on the importation of cars and car parts. The market share of PSA Finance increased from 11.7% in 2015 to 12.8% in 2016. In this context, PSA Finance reached a market penetration of 21.8% in the market for transactions involving newly-issued vehicle licenses, for both brands, an increase of 3.5 percentage points with respect to 2015. This was mainly the result of the close cooperation between PSA Finance, the motor car terminal and the network of concessionaries, which made possible to carry out product campaigns with subsidized interest rates for clients in an environment of high interest rates. The company achieved a total of 22,696 financed transactions in secured loans for new and second-hand cars and vehicles assigned by leasing, for a value equivalent to Ps.1,643 million. As at December 31, 2016, the portfolio of 45,402 clients reached a valuation of Ps.3,126 million, 42% above the figure at the end of 2015.

Net income for PSA Finance was Ps.230 million in 2016, a decrease of 11.9% compared with 2015. The following factors explain the decrease: i) a greater need of financing by third-party equity to cover the increase in our loan portfolio, due to a decrease in our capacity to finance ourselves with our own equity as a consequence of the payment of dividends; ii) a higher payment of commissions to concessionaries according to an increase of production in the year; iii) a reduction of administration expenses in relation to the level of activity and the growth of inflation; iv) higher charges for nonperforming provisions related to an increase in the portfolio of credits granted; and v) an unusually greater tax burden related to the payment of dividends distributed on results from previous years. The Bank expects to continue with a dynamic commercial offer of financial products and services, operating in a process of continuous improvements so as to support a more efficient management.

In recent years we have been developing a system of excellence, focused on the company's strategy and strengthening the development of competitive products, by putting at the disposal of the Peugeot and Citroën concessionaries a set of tools for developing the sales of our financial products, without neglecting profitability as the basic element. In 2017 we expect to continue on the same path.

- Rombo Compañía Financiera S.A.

Rombo Compañía Financiera S.A. ("RCF") is the main financing company of the Renault concessionaries' network, both for new and second-hand vehicles. In 2016 Renault achieved a 14.5% share of the car market, as compared with 12.7% in 2015, ranking third in sales and having held the first place in the second half of the year. In an environment of strong competition, it has maintained its share and positioning based on the launching and renovation of models with the significant support of secured loans provided by its financial entity.

The RCF intervention rate, which indicates the percentage of transactions financed by RCF compared with the total amount of Renault vehicles licensed in Argentina, showed a significant increase to 33.7% compared with 27.5% in 2015 and 16.3% in 2014. Although the industry as a whole suffered adverse impact of the economic conditions, mainly due to a slump in the Brazilian demand of vehicles, this was offset in part by commercial management mainly focused on improving penetration and loyalty throughout the network. As for Renault Argentina, it provided strong cooperation with the financial activity, contributing significant commercial means (rate subsidies) both for new and second-hand vehicles.

With this support, RCF financed a record of 33,262 new vehicles in 2016 (compared to 21,797 in 2015) and 8,927 second-hand units (compared to 4,611 in 2015), a growth of 60% in the number of financed contracts. The aggregate value of financing transactions was Ps.4,335 million, an increase of 49% with respect to the Ps.2,914 million financed in 2015. These levels allowed RCF to lead the ranking of loans and loyalty among the companies linked to a trademark, closing the year at 95.7% and achieving an average of 96.6% in 2016 according to AFIMA (*Asociación de Financieras de Marcas de Automotrices*). This rate indicates the percentage of transactions financed by RCF compared with the total financing transactions made in the concessionaires of Renault in Argentina.

The indicators that measure portfolio risk and quality were relatively low compared to the company's historical levels. The volume of non-performing loans decreased from 1.4% in December 2015 to 0.92% at the close of 2016, mainly as a result of a significant increase in the loan portfolio.

Regarding financing, during 2016 five series of corporate bonds were issued for a total amount of Ps.843 million, with a total outstanding balance of Ps.1,201 million in corporate bonds at the end of the year. The 2016 issues surpassed the historical record of 2015. The amount of the program remained at Ps.1,400 million, and it was rated as "raAA" by Fix SCR S.A. Agente Calificadora de Riesgo and as "AA2.ar" by Moody's.

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Earnings before taxes at December 31, 2016 amounted to Ps.251 million, lower than 2015 due to the significant increase of sales which generated a higher outlay for commissions paid.

- Volkswagen Financial Services Compañía Financiera S.A.

Until September 2016, the name of the financial company was Volkswagen Credit Compañía Financiera S.A. and 99.99% of the shares belonged to Volkswagen Argentina S.A., a company owned by Volkswagen AG through direct participation. In September the company was purchased by BBVA Banco Francés S.A. and Volkswagen Financial Services Holding Argentina S.R.L., with participations of 51% and 49%, respectively. In October, the partners increased the capital by Ps.450 million, and the company name was changed to Volkswagen Financial Services Compañía Financiera S.A. ("VWFS"), all of which was authorized by the BCRA. The change of shareholders and the capital increase were for the purpose of developing and expanding the business of providing finance to final clients and concessionaries of the Volkswagen group in Argentina.

During 2016, the Volkswagen Group achieved a participation of 15.8% in the motor car market, once again ranking first in respect of sales. Strong competition derived from the market growth, among other reasons, and an increase in the offer caused a 9% decrease in sales and the loss of 3.1 percentage points of participation in the market as compared to 2015.

The changes in the company's shareholding structure resulted in a change in its business strategy, which changed from a strategy of cooperation with external business partners to one where all products and services are offered by the company.

In spite of the sales decrease in the Volkswagen Group, VWFS managed to maintain the level of contracts of the previous year, reaching a penetration of 9.6% in licensing of the Volkswagen Group's trademarks. This is a result of the cooperation among VWFS, the motor car terminal and the concessionaries network in a context of high rates, in order to negotiate products with subsidized rates to the clients, thanks to contributions made by the terminal and the concessionary.

During 2016, the main objective was to prepare the company to be able to offer its own products and financing services. The company has evolved from a staff of 17 employees in 2015 to 44 at the close of 2016. The company headquarters has been completely refurbished and significant investments have been made in equipment and computer systems, all of which are expected to result in offering high quality services and complying at the same time with the regulatory requirements.

In spite of having commenced to offer secured loans and wholesale financing only in November 2016, at the end of the year the company already had granted Ps.165 million in retail financing and Ps.1,454 million in financing to concessionaries. In this year of transition, the company has made an effort to control its costs and investments to improve its results. Net income before taxes attributable to BBVA Francés at December 31, 2016 was a loss of Ps.8.9 million. VWFS is planning to launch a plan for joint commercial actions with the Volkswagen Group' trademarks in order to increase the financing of units and thus help them improve their sales.

Equity Investments

The following are all positions that we hold in non-financial institutions where we own more than 2% of the invested companies' equity as of December 31, 2016.

Investment	Country	% of Shares Owned (in percentages)		Principal Activity	Total Stockholders' Equity (in millions of pesos)
Coelsa S.A. ⁽¹⁾	Argentina	8.15	%	Clearing house	15.7
Interbanking S.A. ⁽¹⁾	Argentina	11.11	%	Information services for financial markets	383.4
Argencontrol S.A. ⁽¹⁾	Argentina	7.77	%	Agent mandatory	3.3
Sedesa S.A. ⁽¹⁾	Argentina	9.15	%	Deposit guarantee fund	27.9
Prisma Medios de Pagos S.A. ⁽¹⁾	Argentina	10.48	%	Credit card issuer	436.5

(1) Total Stockholders' Equity as of December 31, 2015.

D. Property, plants and equipment

BBVA 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 21,500 square meters in area.

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At December 31, 2016, our branch network consisted of 251 retail branches, of which 112 were located in properties that we own and 139 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.

On July 10, 2013, BBVA Francés and Consultatio S.A. signed a sale and purchase agreement, under which the Bank acquired 23 of the 33 floors of the building under construction by Consultatio S.A., which will become the “BBVA Tower.” This is the largest corporate headquarters real estate development project in the country and is part of the plan designed in 2010 by BBVA Francés to unify its core areas, currently divided among 10 buildings in the City of Buenos Aires. The goal is to have a building with the highest construction and environmental standards that will allow the Bank’s staff to work together in the same area, thus achieving greater efficiency. The building is being developed according to the highest international environmental and sustainability standards and with the commitment of the BBVA Group to preserving the environment. The investment of approximately Ps.1,200 million has a payment schedule associated with the work progress of the project. Construction was completed in 2016. As of December 31, 2016 the Bank had invested approximately Ps.1,786 million in the project. In the last quarter of 2016 personnel began moving to the new headquarters, a process that still continues.

E. 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 “*Item 5. 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 25 to the Consolidated Financial Statements for a summary of the significant differences between Argentine Banking GAAP and U.S. GAAP.

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

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 BBVA Francés and its subsidiaries. We believe that such averages are representative of our operations and we do not believe that monthly averages present trends materially different from those that would be presented by daily averages. 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_p: real average rate for Argentine peso-denominated assets and liabilities of BBVA Francés;

R_d: real average rates for dollar-denominated assets and liabilities of BBVA Francés;

N_p: nominal peso average rate in peso-denominated assets and liabilities for the fiscal year;

N_d: nominal dollar average rate in dollar-denominated assets and liabilities for the fiscal year;

D: devaluation rate of the Argentine peso to the dollar for the fiscal year; and

I: Argentine inflation rate ("WPI").

The formula for the average real rates for dollar-denominated assets and liabilities (R_d), 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 fiscal year.

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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 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% ($N_d=0.20$) using different combinations of devaluation and inflation rates. If devaluation is 15% per annum ($D=0.15$) and inflation runs at a rate of 25% 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% 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% per annum, then the real interest rate in pesos on this dollar denominated asset would become negative.

The following tables show average balances, interest amounts and average real rates for our interest-earning assets and interest-bearing liabilities for the fiscal years ended December 31, 2016, 2015 and 2014.

	Year ended December 31, 2016			2015			2014		
	Average balance ⁽¹⁾	Interest earned/ paid	Average real rate ⁽²⁾	Average balance ⁽¹⁾	Interest earned/ paid	Average real rate ⁽²⁾	Average balance ⁽¹⁾	Interest earned/ paid	
	(in thousands of pesos, except percentages)								
ASSETS									
Interest-earning assets									
Government securities ⁽³⁾									
Pesos	15,677,666	4,552,875	(4.06)%	12,923,775	3,685,594	14.09%	8,613,465	1,906,410	
Dollars	1,311,842	11,830	(8.57)%	1,034,674	8,456	36.10%	320,584	77,294	

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Total Loans ⁽⁴⁾	16,989,508	4,564,705	(4.41)%	13,958,449	3,694,050	15.72 %	8,934,049	1,983,704
Private Sector								
Pesos	59,247,269	15,516,955	(6.18)%	45,436,586	11,263,271	10.78 %	36,673,627	9,381,990
Dollars	8,539,771	294,828	(6.26)%	2,900,642	127,178	40.91 %	2,139,557	84,964
Total	67,787,040	15,811,783	(6.19)%	48,337,228	11,390,449	12.58 %	38,813,184	9,466,954
Public Sector								
Pesos	744,689	858	(25.56)%	644,724	3,994	(10.68)%	767,109	6,959
Dollars	38	—	—	16	—	—	1	—
Total	744,727	858	(25.56)%	644,740	3,994	(10.68)%	767,110	6,959
Deposits with the Central Bank								
Pesos	722,982	—	—	460,382	—	—	226,182	—
Dollars	12,293,078	—	—	5,074,517	—	—	4,790,093	—
Total	13,016,060	—	—	5,534,899	—	—	5,016,275	—
Other assets								
Pesos	4,325,810	898,137	(10.21)%	3,382,485	1,093,416	17.47 %	3,036,790	963,458
Dollars	37,036	1,635	(5.38)%	51	—	—	5,094	(204)
Total	4,362,846	899,772	(10.17)%	3,382,536	1,093,416	17.47 %	3,041,884	963,254
Total interest-earning assets								
Pesos	80,718,416	20,968,825	(6.34)%	62,847,952	16,046,275	11.44 %	49,317,173	12,258,817
Dollars	22,181,765	308,293	(8.13)%	9,009,900	135,634	37.03 %	7,255,329	162,054
Total	102,900,181	21,277,118	(6.72)%	71,857,852	16,181,909	14.64 %	56,572,502	12,420,871

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	Year ended December 31, 2016		2015		2014		Average	
	Average balance ⁽¹⁾	Interest earned/ paid	Average real balance ⁽¹⁾ rate ⁽²⁾	Interest earned/ paid	Average real balance ⁽¹⁾ rate ⁽²⁾	Interest earned/ paid	Average real rate ⁽²⁾	Average real rate ⁽²⁾
(in thousands of pesos, except percentages)								
Non-interest-earning assets								
Cash and due from banks								
Pesos	12,078,050	—	— 8,696,017	—	— 6,503,743	—	—	—
Dollars	4,379,521	—	— 1,220,425	—	— 725,282	—	—	—
Total	16,457,571	—	— 9,916,442	—	— 7,229,025	—	—	—
Investments in other companies								
Pesos	454,912	—	— 321,753	—	— 270,451	—	—	—
Dollars	3,949	—	— 2,495	—	— 2,175	—	—	—
Total	458,861	—	— 324,248	—	— 272,626	—	—	—
Property and equipment and miscellaneous and intangible assets and items pending allocation								
Pesos	3,564,522	—	— 2,603,963	—	— 1,881,670	—	—	—
Total	3,564,522	—	— 2,603,963	—	— 1,881,670	—	—	—
Allowance for loan losses								
Pesos	(1,835,424)	—	— (1,294,206)	—	— (1,063,412)	—	—	—
Dollars	(118,394)	—	— (73,779)	—	— (73,906)	—	—	—
Total	(1,953,818)	—	— (1,367,985)	—	— (1,137,318)	—	—	—
Other assets								
Pesos	3,711,795	—	— 2,732,283	—	— 1,907,143	—	—	—
Dollars	1,372,099	—	— 630,322	—	— 461,939	—	—	—
Total	5,083,894	—	— 3,362,605	—	— 2,369,082	—	—	—
Total non-interest-earning assets								
Pesos	17,973,855	—	— 13,059,810	—	— 9,499,595	—	—	—
Dollars	5,637,175	—	— 1,779,463	—	— 1,115,490	—	—	—
Total	23,611,030	—	— 14,839,273	—	— 10,615,085	—	—	—
TOTAL ASSETS								
Pesos	98,692,271	20,968,825	— 75,907,762	16,046,275	— 58,816,768	12,258,817	—	—
Dollars	27,818,940	308,293	— 10,789,363	135,634	— 8,370,819	162,054	—	—
Total	126,511,211	21,277,118	— 86,697,125	16,181,909	— 67,187,587	12,420,871	—	—

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

(2) Annualized on a 360-day basis.

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.

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	Year ended December 31, 2016			2015			2014		
	Average balance ⁽¹⁾	Interest earned/ paid	Average real rate (²)	Average balance ⁽¹⁾	Interest earned/ paid	Average real rate ⁽²⁾	Average balance ⁽¹⁾	Interest earned/ paid	
(in thousands of pesos, except percentages)									
LIABILITIES									
Interest-bearing liabilities									
Savings accounts									
Pesos	15,971,208	32,835	(25.50)%	12,195,649	22,504	(11.07)%	9,008,762	18,438	
Dollars	10,888,220	670	(9.38)%	3,414,786	179	35.00%	2,055,366	257	
Total	26,859,428	33,505	(18.96)%	15,610,435	22,683	(0.99)%	11,064,128	18,695	
Time deposits									
Pesos	30,592,404	7,628,780	(7.11)%	23,126,105	5,116,213	8.41%	18,763,652	4,160,679	
Dollars	5,301,300	61,787	(8.33)%	2,126,313	47,027	37.98%	1,529,879	6,362	
Total	35,893,704	7,690,567	(7.29)%	25,252,418	5,163,240	10.90%	20,293,531	4,167,041	
Borrowings from the Central Bank									
Pesos	198,826	2,962	(24.54)%	179,478	5,186	(8.66)%	174,668	7,248	
Dollars	12,999	—	—	6,290	—	—	2,703	—	
Total	211,825	2,962	(23.04)%	185,768	5,186	(8.37)%	177,371	7,248	
Borrowings from other financial institutions									
Pesos	722,017	397,857	15.32%	119,208	339,350	241.47%	1,194,336	390,783	
Dollars	784,532	39,851	(4.78)%	630,548	36,515	42.81%	338,868	12,087	
Total	1,506,549	437,708	4.85%	749,756	375,865	74.40%	1,533,204	402,870	
Corporate bonds									
Pesos	1,825,101	477,511	(6.20)%	1,792,624	393,905	8.28%	1,674,170	310,596	
Total	1,825,101	477,511	(6.20)%	1,792,624	393,905	8.28%	1,674,170	310,596	
Other liabilities									
Pesos	957,428	14,371	(24.53)%	639,270	(151,726)	(32.30)%	1,213,596	(170,402)	
Dollars	651,496	—	—	93,840	—	—	70,714	—	
Total	1,608,924	14,371	(14.60)%	733,110	(151,726)	(28.16)%	1,284,310	(170,402)	
Total interest-bearing liabilities									
Pesos	50,266,984	8,554,316	(13.00)%	38,052,334	5,725,432	2.13%	32,029,184	4,717,342	
Dollars	17,638,547	102,308	(8.86)%	6,271,777	83,721	36.80%	3,997,530	18,706	
Total	67,905,531	8,656,624	(11.92)%	44,324,111	5,809,153	7.03%	36,026,714	4,736,048	
Year ended December 31, 2016									
2015									
2014									
Average balance ⁽¹⁾									
Interest earned/									
Average									
Average balance ⁽¹⁾									
Interest earned/									
Average									
Average balance ⁽¹⁾									
Interest earned/									

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		paid	real rate (2)		paid	real rate (2)		paid
(in thousands of pesos, except percentages)								
Non-interest bearing liabilities and stockholders' equity								
Demand deposits								
Pesos	20,644,679	—	—	17,429,167	—	—	13,187,858	—
Dollars	6,037,571	—	—	1,377,380	—	—	1,348,613	—
Total	26,682,250	—	—	18,806,547	—	—	14,536,471	—
Other liabilities								
Pesos	14,029,701	—	—	10,194,647	—	—	6,377,714	—
Dollars	2,243,718	—	—	1,423,064	—	—	1,157,522	—
Total	16,273,419	—	—	11,617,711	—	—	7,535,236	—
Minority interest								
Pesos	410,156	—	—	—	—	—	—	—
Total	410,156	—	—	—	—	—	—	—
Stockholders' equity								
Pesos	15,239,855	—	—	11,948,756	—	—	9,089,166	—
Total	15,239,855	—	—	11,948,756	—	—	9,089,166	—
Total non-interest bearing liabilities and stockholders' equity								
Pesos	50,324,391	—	—	39,572,570	—	—	28,654,738	—
Dollars	8,281,289	—	—	2,800,444	—	—	2,506,135	—
Total	58,605,680	—	—	42,373,014	—	—	31,160,873	—
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY								
Pesos	100,591,375	8,554,316	—	77,624,904	5,725,432	—	60,683,922	4,717,342
Dollars	25,919,836	102,308	—	9,072,221	83,721	—	6,503,665	18,706
Total	126,511,211	8,656,624	—	86,697,125	5,809,153	—	67,187,587	4,736,048

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

(2) Annualized on a 360-day basis.

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The following tables show average balances, interest amounts and average nominal rates for our interest-earning assets and interest-bearing liabilities for the fiscal years ended December 31, 2016, 2015 and 2014.

	Year ended December 31, 2016			2015			2014			Average nominal rate
	Average balance ⁽¹⁾	Interest earned/ paid	Average nominal rate ⁽²⁾	Average balance ⁽¹⁾	Interest earned/ paid	Average Nominal rate ⁽²⁾	Average balance ⁽¹⁾	Interest earned/ paid		
(in thousands of pesos, except percentages)										
ASSETS										
Interest-earning assets										
Government securities ⁽³⁾										
Pesos	15,677,666	4,552,875	29.04 %	12,923,775	3,685,594	28.52 %	8,613,465	1,906,410	22.2	
Dollars	1,311,842	11,830	0.90 %	1,034,674	8,456	0.82 %	320,584	77,294	24.1	
Total	16,989,508	4,564,705	26.87 %	13,958,449	3,694,050	26.46 %	8,934,049	1,983,704	22.2	
Loans ⁽⁴⁾										
Private Sector										
Pesos	59,247,269	15,516,955	26.19 %	45,436,586	11,263,271	24.79 %	36,673,627	9,381,990	25.3	
Dollars	8,539,771	294,828	3.45 %	2,900,642	127,178	4.38 %	2,139,557	84,964	3.9	
Total	67,787,040	15,811,783	23.33 %	48,337,228	11,390,449	23.56 %	38,813,184	9,466,954	24.1	
Public Sector										
Pesos	744,689	858	0.12 %	644,724	3,994	0.62 %	767,109	6,959	0.9	
Dollars	38	—	—	16	—	—	1	—	—	
Total	744,727	858	0.12 %	644,740	3,994	0.62 %	767,110	6,959	0.9	
Deposits with the Central Bank										
Pesos	722,982	—	—	460,382	—	—	226,182	—	—	
Dollars	12,293,078	—	—	5,074,517	—	—	4,790,093	—	—	
Total	13,016,060	—	—	5,534,899	—	—	5,016,275	—	—	
Other assets										
Pesos	4,325,810	898,137	20.76 %	3,382,485	1,093,416	32.33 %	3,036,790	963,458	31.1	
Dollars	37,036	1,635	4.41 %	51	—	0.20 %	5,094	(204)	(4.0)	
Total	4,362,846	899,772	20.62 %	3,382,536	1,093,416	32.33 %	3,041,884	963,254	31.1	
Total interest-earning assets										
Pesos	80,718,416	20,968,825	25.98 %	62,847,952	16,046,275	25.53 %	49,317,173	12,258,817	24.1	
Dollars	22,181,765	308,293	1.39 %	9,009,900	135,634	1.51 %	7,255,329	162,054	2.2	
Total	102,900,181	21,277,118	20.68 %	71,857,852	16,181,909	22.52 %	56,572,502	12,420,871	21.9	

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	Year ended December 31, 2016		2015		2014		
	Average	Interest	Average	Interest	Average	Interest	Average
	balance ⁽¹⁾	earned/ paid	nominal balance ⁽¹⁾	earned/ paid	Nominal rate ⁽¹⁾	earned/ paid	nominal rate ⁽²⁾
			rate ⁽²⁾				
(in thousands of pesos, except percentages)							
Non-interest-earning assets							
Cash and due from banks							
Pesos	12,078,050	—	— 8,696,017	—	— 6,503,743	—	—
Dollars	4,379,521	—	— 1,220,425	—	— 725,282	—	—
Total	16,457,571	—	— 9,916,442	—	— 7,229,025	—	—
Investments in other companies							
Pesos	454,912	—	— 321,753	—	— 270,451	—	—
Dollars	3,949	—	— 2,495	—	— 2,175	—	—
Total	458,861	—	— 324,248	—	— 272,626	—	—
Property and equipment and miscellaneous and intangible assets and items pending of allocation							
Pesos	3,564,522	—	— 2,603,963	—	— 1,881,670	—	—
Total	3,564,522	—	— 2,603,963	—	— 1,881,670	—	—
Allowance for loan losses							
Pesos	(1,835,424)	—	— (1,294,206)	—	— (1,063,412)	—	—
Dollars	(118,394)	—	— (73,779)	—	— (73,906)	—	—
Total	(1,953,818)	—	— (1,367,985)	—	— (1,137,318)	—	—
Other assets							
Pesos	3,711,795	—	— 2,732,283	—	— 1,907,143	—	—
Dollars	1,372,099	—	— 630,322	—	— 461,939	—	—
Total	5,083,894	—	— 3,362,605	—	— 2,369,082	—	—
Total non-interest-earning assets							
Pesos	17,973,855	—	— 13,059,810	—	— 9,499,595	—	—
Dollars	5,637,175	—	— 1,779,463	—	— 1,115,490	—	—
Total	23,611,030	—	— 14,839,273	—	— 10,615,085	—	—
TOTAL ASSETS							
Pesos	98,692,271	20,968,825	— 75,907,762	16,046,275	— 58,816,768	12,258,817	—
Dollars	27,818,940	308,293	— 10,789,363	135,634	— 8,370,819	162,054	—
Total	126,511,211	21,277,118	— 86,697,125	16,181,909	— 67,187,587	12,420,871	—

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(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.

	Year ended December 31, 2016		2015		2014					
	Average balance ⁽¹⁾	Interest earned/ paid	Average nominal rate ⁽²⁾	Average balance ⁽¹⁾	Interest earned/ paid	Average Nominal rate ⁽²⁾	Average balance ⁽¹⁾	Interest earned/ paid	Average nominal rate ⁽²⁾	
(in thousands of pesos, except percentages)										
LIABILITIES										
Interest-bearing liabilities										
Savings accounts										
Pesos	15,971,208	32,835	0.21 %	12,195,649	22,504	0.18 %	9,008,762	18,438	0.20	
Dollars	10,888,220	670	0.01 %	3,414,786	179	0.01 %	2,055,366	257	0.01	
Total	26,859,428	33,505	0.12 %	15,610,435	22,683	0.15 %	11,064,128	18,695	0.17	
Time deposits										
Pesos	30,592,404	7,628,780	24.94 %	23,126,105	5,116,213	22.12 %	18,763,652	4,160,679	22.17	
Dollars	5,301,300	61,787	1.17 %	2,126,313	47,027	2.21 %	1,529,879	6,362	0.42	
Total	35,893,704	7,690,567	21.43 %	25,252,418	5,163,240	20.45 %	20,293,531	4,167,041	20.53	
Borrowings from the Central Bank										
Pesos	198,826	2,962	1.49 %	179,478	5,186	2.89 %	174,668	7,248	4.15	
Dollars	12,999	—	—	6,290	—	—	2,703	—	—	
Total	211,825	2,962	1.40 %	185,768	5,186	2.79 %	177,371	7,248	4.09	
Borrowings from other financial institutions										
Pesos	722,017	397,857	55.10 %	119,208	339,350	284.67 %	1,194,336	390,783	32.72	
Dollars	784,532	39,851	5.08 %	630,548	36,515	5.79 %	338,868	12,087	3.57	
Total	1,506,549	437,708	29.05 %	749,756	375,865	50.13 %	1,533,204	402,870	26.28	
Corporate bonds										
Pesos	1,825,101	477,511	26.16 %	1,792,624	393,905	21.97 %	1,674,170	310,596	18.55	
Total	1,825,101	477,511	26.16 %	1,792,624	393,905	21.97 %	1,674,170	310,596	18.55	
Other liabilities										
Pesos	957,428	14,371	1.50 %	639,270	(151,726)	(23.73)%	1,213,596	(170,402)	(14.04)	
Dollars	651,496	—	—	93,840	—	—	70,714	—	—	

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Total	1,608,924	14,371	0.89 %	733,110	(151,726)	(20.70)%	1,284,310	(170,402)	(13.27)%
Total interest-bearing liabilities									
Pesos	50,266,984	8,554,316	17.02 %	38,052,334	5,725,432	15.05 %	32,029,184	4,717,342	14.73 %
Dollars	17,638,547	102,308	0.58 %	6,271,777	83,721	1.33 %	3,997,530	18,706	0.47 %
Total	67,905,531	8,656,624	12.75 %	44,324,111	5,809,153	13.11 %	36,026,714	4,736,048	13.15 %

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	Year ended December 31, 2016		2015		2014				
	Average balance ⁽¹⁾	Interest earned/ paid	Average nominal rate ⁽²⁾	Average balance ⁽¹⁾	Interest earned/ paid	Average Nominal rate ⁽²⁾	Average balance ⁽¹⁾	Interest earned/ paid	Average nominal rate ⁽²⁾
(in thousands of pesos, except percentages)									
Non-interest-bearing liabilities and stockholders' equity									
Demand deposits									
Pesos	20,644,679	—	—	17,429,167	—	—	13,187,858	—	—
Dollars	6,037,571	—	—	1,377,380	—	—	1,348,613	—	—
Total	26,682,250	—	—	18,806,547	—	—	14,536,471	—	—
Other liabilities									
Pesos	14,029,701	—	—	10,194,647	—	—	6,377,714	—	—
Dollars	2,243,718	—	—	1,423,064	—	—	1,157,522	—	—
Total	16,273,419	—	—	11,617,711	—	—	7,535,236	—	—
Minority interest									
Pesos	410,156	—	—	—	—	—	—	—	—
Total	410,156	—	—	—	—	—	—	—	—
Stockholders' equity									
Pesos	15,239,855	—	—	11,948,756	—	—	9,089,166	—	—
Total	15,239,855	—	—	11,948,756	—	—	9,089,166	—	—
Total non-interest-bearing liabilities and stockholders' equity									
Pesos	50,324,391	—	—	39,572,570	—	—	28,654,738	—	—
Dollars	8,281,289	—	—	2,800,444	—	—	2,506,135	—	—
Total	58,605,680	—	—	42,373,014	—	—	31,160,873	—	—
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY									
Pesos	100,591,375	8,554,316	—	77,624,904	5,725,432	—	60,683,922	4,717,342	—
Dollars	25,919,836	102,308	—	9,072,221	83,721	—	6,503,665	18,706	—
Total	126,511,211	8,656,624	—	86,697,125	5,809,153	—	67,187,587	4,736,048	—

(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, 2016 compared with the fiscal year ended December 31, 2015 and for the fiscal year ended December 31, 2015 compared with the fiscal year ended December 31, 2014. 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.

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	Year ended December 31, 2016/2015			Year ended December 31, 2015/2014		
	Increase (Decrease) Due to Changes in			Increase (Decrease) Due to Changes in		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	(in thousands of pesos)					
ASSETS						
Interest-earning assets						
Government securities						
Pesos	799,744	67,537	867,281	1,229,212	549,972	1,779,184
Dollars	2,499	875	3,374	5,836	(74,674)	(68,838)
Total	802,243	68,412	870,655	1,235,048	475,298	1,710,346
Loans						
Private sector						
Pesos	3,617,040	636,644	4,253,684	2,172,250	(290,969)	1,881,281
Dollars	194,686	(27,036)	167,650	33,370	8,844	42,214
Total	3,811,726	609,608	4,421,334	2,205,620	(282,125)	1,923,495
Public sector						
Pesos	115	(3,251)	(3,136)	(758)	(2,207)	(2,965)
Total	115	(3,251)	(3,136)	(758)	(2,207)	(2,965)
Other assets						
Pesos	195,856	(391,135)	(195,279)	117,748	18,210	129,958
Dollars	1,633	2	1,635	(10)	214	204
Total	197,489	(391,133)	(193,644)	117,738	18,424	130,162
Total interest-earning assets						
Pesos	4,612,755	309,795	4,922,550	3,512,452	275,006	3,787,458
Dollars	198,818	(26,159)	172,659	39,196	(65,616)	(26,420)
Total	4,811,573	283,636	5,095,209	3,551,648	209,390	3,761,038
	Year ended December 31, 2016/2015			Year ended December 31, 2015/2014		
	Increase (Decrease) Due to Changes in			Increase (Decrease) Due to Changes in		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	(in thousands of pesos)					
LIABILITIES						
Interest-bearing liabilities						
Savings accounts						
Pesos	7,761	2,570	10,331	5,882	(1,816)	4,066
Dollars	460	31	491	71	(149)	(78)
Total	8,221	2,601	10,822	5,953	(1,965)	3,988
Time deposits						
Pesos	1,861,859	650,708	2,512,567	965,111	(9,577)	955,534
Dollars	37,005	(22,245)	14,760	13,191	27,474	40,665

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Total	1,898,864	628,463	2,527,327	978,302	17,897	996,199
Borrowings from the Central Bank						
Pesos	289	(2,513)	(2,224)	139	(2,201)	(2,062)
Total	289	(2,513)	(2,224)	139	(2,201)	(2,062)
Borrowings from other financial institutions						
Pesos	332,169	(273,662)	58,507	(3,060,570)	3,009,137	(51,433)
Dollars	7,822	(4,486)	3,336	16,891	7,537	24,428
Total	339,991	(278,148)	61,843	(3,043,679)	3,016,674	(27,005)
Corporate bonds						
Pesos	8,497	75,109	83,606	26,028	57,281	83,309
Total	8,497	75,109	83,606	26,028	57,281	83,309
Other liabilities						
Pesos	4,776	161,321	166,097	136,312	(117,636)	18,676
Total	4,766	161,321	166,097	136,312	(117,636)	18,676
Total interest-bearing liabilities						
Pesos	2,215,351	613,533	2,828,884	(1,927,098)	2,935,188	1,008,090
Dollars	45,287	(26,700)	18,587	30,153	34,862	65,015
Total	2,260,638	586,833	2,847,471	(1,896,945)	2,970,050	1,073,105

Table of Contents**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.

	Year ended December 31,		
	2016	2015	2014
	(in thousands of pesos, except percentages)		
Average interest-earning assets			
Pesos	80,718,416	62,847,952	49,317,173
Dollars	22,181,765	9,009,900	7,255,329
Total	102,900,181	71,857,852	56,572,502
Net interest income ⁽¹⁾			
Pesos	12,414,509	10,320,843	7,541,475
Dollars	205,985	51,913	143,348
Total	12,620,494	10,372,756	7,684,823
Net interest margin ⁽²⁾			
Pesos	15.38	% 16.42	% 15.29
Dollars	0.93	% 0.58	% 1.98
Weighted average rate	12.26	% 14.44	% 13.58
Yield spread nominal basis ⁽³⁾			
Pesos	8.96	% 10.49	% 10.13
Dollars	0.81	% 0.17	% 1.77
Weighted average rate	7.93	% 9.41	% 8.81

(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.

Investment Portfolio: Government and Corporate Securities

We own, manage and trade a portfolio of securities issued by the Argentine and other governments and corporate issuers. The following table sets out our investments in Argentine and other governments and corporate securities as of December 31, 2016, 2015 and 2014 by type and currency of denomination.

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	Year ended December 31,		
	2016	2015	2014
	(in thousands of pesos)		
Government securities			
In pesos:			
Holdings booked at fair value			
Debt consolidation bonds—Social security (BOCON)	62,190	21,120	43,400
Argentine bonds	4,040,409	2,873,474	2,482,705
Other debt bonds	2,623	2,458	608
Holdings booked at amortized cost			
Other debt bonds	100,441	164	164
Instruments issued by the Argentine Central Bank			
Argentine Central Bank bills (LEBAC)	7,375,103	11,065,745	8,630,056
Total government securities in pesos	11,580,766	13,962,961	11,156,933
In foreign currency:			
Holdings booked at fair value			
Argentine bonds	197,364	326,126	415,760
Treasury bills	2,345		
Holdings booked at amortized cost			
Treasury bills	803,648	—	—
Instruments issued by the Argentine Central Bank			
Argentine Central Bank bills (LEBAC)	—	20,835	—
Total government securities in foreign currency	1,003,357	346,961	415,760
Total government securities	12,584,123	14,309,922	11,572,693
Corporate securities—Listed			
Shares	49	174	178
Mutual funds	154,850	112,307	60,819
Total corporate securities	154,899	112,481	60,997
Subtotal government and corporate securities	12,739,022	14,422,403	11,633,690
Allowances	(213)	(212)	(201)
Total government and corporate securities	12,738,809	14,422,191	11,633,489
Corporate securities—Unlisted	325,925	200,894	48,653

As of December 31, 2016, we held securities issued by the Republic for a total of Ps. 1,737,508 thousand and Ps. 1,737,508 thousand and securities issued by the BCRA for a total of Ps. 1,986,321 thousand and Ps. 1,978,462 thousand, both in terms of market value and book value, respectively. These amounts exceeded 10% of our shareholders' equity as of such date.

The table below shows the composition of such securities:

Issuer	Securities	Book value	Market value
		(in thousands of pesos)	

Argentine Republic	BOGAR 2020	1,737,508	1,737,508
BCRA	I01F7BCRA	1,978,462	1,986,321

Investment Portfolio: remaining maturities of our investment portfolio

The following table analyzes the remaining maturities of our investment portfolio as of December 31, 2016 in accordance with the relevant issuance terms.

	Maturing				Total
	Within 1 year	After 1 year but within 5 years	After 5 years but within 10 years	After 10 years	
	Book value (in thousands of pesos, except percentages)				
Government securities					
In Pesos:					
Holdings booked at fair value					
Debt consolidation bonds—Social security (BOCON) (*)	4,807	19,228	38,156	—	62,190
Argentine bonds (*)	587,913	3,037,786	237,360	177,350	4,040,409
Other debt bonds	874	1,749	—	—	2,623
Holdings booked at amortized cost					
Other debt bonds	164	100,277	—	—	100,441
Instruments issued by the Argentine Central Bank					
Argentine Central Bank bills (LEBAC)	7,375,103	—	—	—	7,375,103
Total government securities in pesos	7,968,861	3,159,040	275,515	177,350	11,580,766
In foreign currency:					
Holdings booked at fair value					
Argentine bonds (*)	197,364	—	—	—	197,364
Treasury bills	2,345	—	—	—	2,345
Holdings booked at amortized cost					
Treasury bills	803,648	—	—	—	803,648
Total government securities in foreign currency	1,003,357	—	—	—	1,003,357
Total government securities	8,972,218	3,159,040	275,515	177,350	12,584,123
Corporate bonds —Unlisted	78,813	247,112	—	—	325,925
Weighted average yield (for the securities indicated with *)	0.40	% 11.99	% 17.75	% 4.77	%

Table of Contents**Loan Portfolio**

The following table analyzes our loan portfolio by types of loan as of December 31, 2016, 2015, 2014, 2013 and 2012. Loans are stated before deduction of the allowance for loan losses. See Note 24.4 to the Consolidated Financial Statements for further details on the types of loans that compose our loan portfolio.

	As of December 31,				
	2016	2015	2014	2013	2012
	(in thousands of pesos)				
Principal					
Advances ⁽¹⁾	9,546,565	6,739,426	6,861,786	6,552,258	5,097,179
Notes discounted and purchased ⁽²⁾	10,896,722	9,559,666	6,035,048	5,476,961	4,240,993
Secured with mortgages	1,889,443	2,122,955	1,466,346	1,243,900	877,775
Consumer loans ⁽³⁾	37,518,102	30,234,396	21,253,033	16,907,751	11,981,439
Financial loans ⁽⁴⁾	1,991,564	1,743,165	1,127,116	1,871,093	1,493,493
Loans to governmental sector ⁽⁵⁾	98,819	66,799	54,459	40,915	35,067
Other loans ⁽⁶⁾	17,754,130	6,510,536	5,025,304	4,647,736	4,921,690
Unaccrued interest and unused collections ⁽⁷⁾	(329,346)	(216,365)	(133,912)	(132,213)	(73,413)
Interest and exchange differences receivable	1,142,074	908,684	691,454	582,255	443,065
Allowance for loan losses	(1,618,152)	(1,105,941)	(937,794)	(722,462)	(523,857)
Total	78,889,921	56,563,321	41,442,840	36,468,194	28,493,431
Secured Loans					
Liquid guarantees	1,158,818	1,506,208	1,098,205	412,176	328,725
Preferred guarantees ⁽⁸⁾	6,817,731	5,901,564	4,799,288	4,484,338	3,390,488
Total	7,976,549	7,407,772	5,897,493	4,896,514	3,719,213

(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 taxable rights.

(6) Other loans are loans not included in other categories.

(7) Unaccrued interest and unused collections is defined as the discount on notes and bills.

Preferred guarantees are those that ensure the collection of the amount owed because they are entered into with (8) solvent third parties or in markets where they can be settled directly, as well as those that are executed through simple legal processes.

For a description of the risk elements associated with our investment portfolio and our risk policies, see “*Item 11. Quantitative and Qualitative Disclosures about Market Risk.*”

Table of Contents**Loans by Economic Activity**

The table below analyzes our loan portfolio according to the borrowers' main economic activity as of December 31, 2016, 2015, 2014, 2013 and 2012. Where appropriate, personal loans are allocated to the economic activity of the borrower. Loans are stated before deduction of the allowance for loan losses.

	As of December 31,		2015		2014		2013		2012				
	Loan	% of	Loan	% of	Loan	% of	Loan	% of	Loan	Loan			
	Portfolio	Loan	Portfolio	Loan	Portfolio	Loan	Portfolio	Loan	Loan	Portfolio			
		Portfolio		Portfolio		Portfolio		Portfolio		Portfolio			
	(in thousands of pesos, except percentages)												
Agricultural and livestock	2,548,330	3.17	%	2,946,020	5.11	%	2,240,333	5.29	%	2,057,623	5.53	%	1,591,185
Beverage	901,045	1.12	%	1,314,655	2.28	%	1,234,121	2.91	%	798,011	2.15	%	453,931
Chemicals	2,973,652	3.69	%	2,402,739	4.17	%	2,801,410	6.61	%	2,481,665	6.67	%	1,804,376
Construction	454,516	0.56	%	636,285	1.10	%	449,476	1.06	%	240,707	0.65	%	186,295
Consumer	38,622,005	47.99	%	29,571,132	51.28	%	20,976,356	49.50	%	16,511,057	44.40	%	11,628,171
Electricity, oil, water and sanitary services	779,459	0.97	%	447,488	0.78	%	386,656	0.91	%	515,041	1.38	%	278,560
Financial sector	1,991,564	2.47	%	1,743,165	3.02	%	1,127,116	2.66	%	1,871,093	5.03	%	1,493,493
Foodstuff	1,936,185	2.40	%	1,848,101	3.20	%	1,143,085	2.70	%	1,623,070	4.36	%	1,263,087
Government services	98,819	0.12	%	66,799	0.12	%	54,459	0.13	%	40,915	0.11	%	35,067
Industrial metals	2,160,340	2.68	%	754,741	1.31	%	691,058	1.63	%	648,184	1.74	%	697,031
Leather and fur product	28,451	0.04	%	34,283	0.06	%	36,764	0.09	%	38,521	0.10	%	16,315
Mining products	259,425	0.32	%	112,472	0.20	%	386,382	0.91	%	981,471	2.64	%	922,630
Oil and carbon	362,943	0.45	%	835,427	1.45	%	399,569	0.94	%	330,340	0.89	%	288,784
Others	15,678,193	19.48	%	8,021,186	13.91	%	5,263,827	12.39	%	3,864,947	10.39	%	4,726,115
Other manufacturing	300,045	0.37	%	166,064	0.28	%	165,554	0.39	%	265,935	0.72	%	272,287
Printers, Publishers and Related Industries	102,557	0.13	%	82,295	0.14	%	62,144	0.15	%	66,277	0.18	%	36,612
Rubber products	323,205	0.40	%	293,736	0.51	%	252,596	0.60	%	389,815	1.05	%	279,394
Retail trade	4,990,286	6.20	%	2,957,944	5.13	%	2,275,910	5.37	%	1,502,148	4.04	%	988,538
Services	124,497	0.15	%	93,519	0.16	%	66,306	0.16	%	135,106	0.36	%	85,421

Shoes, apparel and other textile products	298,094	0.37	%	161,720	0.28	%	163,752	0.39	%	268,601	0.72	%	161,859
Textile	325,421	0.40	%	226,061	0.39	%	163,468	0.39	%	148,434	0.40	%	120,637
Tobacco	4,462	0.01	%	5,844	0.01	%	9,119	0.02	%	6,590	0.02	%	10,885
Transportation material	1,594,160	1.98	%	423,682	0.73	%	328,774	0.78	%	577,112	1.55	%	365,210
Wholesale trade	3,568,864	4.43	%	2,451,069	4.25	%	1,651,395	3.90	%	1,787,888	4.81	%	1,275,964
Wood products and cork	81,555	0.10	%	72,835	0.13	%	51,004	0.12	%	40,105	0.11	%	35,437
Total	80,508,073	100.00	%	57,669,262	100.00	%	42,380,634	100.00	%	37,190,656	100.00	%	29,017,281

Maturity Composition of the Loan Portfolio

The following table analyzes our loan portfolio as of December 31, 2016 by type of loan 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 as of December 31, 2016	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	98,819	98,819	—	—	—
To the financial sector	1,991,564	1,462,531	365,668	163,365	—
To the non-financial private sector and residents abroad	78,417,690	47,637,880	17,077,519	13,563,135	139,156
Overdrafts	9,801,870	6,624,123	3,059,579	118,168	—
With privileged guarantees	7,631,029	1,540,502	2,556,271	3,403,801	130,455
Credit cards	22,625,315	22,625,315	—	—	—
Other	38,359,476	16,847,940	11,461,669	10,041,166	8,701
Total	80,508,073	49,199,230	17,443,187	13,726,500	139,156
Percentage of total loan portfolio	100.00	% 61.11	% 21.67	% 17.05	% 0.17

Table of Contents**Interest Rate Sensitivity of Outstanding Loans**

The following table analyzes, by currency of denomination, the interest rate sensitivity of our loan portfolio as of December 31, 2016. Loans are stated before deduction of the allowance for loan losses.

	As of December 31, 2016 (in thousands of pesos)
Variable Rate	
Pesos — including adjustable loans	826,930
Foreign currency	152,449
Sub-total	979,379
Fixed Rate	
Pesos	66,625,139
Foreign currency	12,287,479
Sub-total	78,912,618
Non-performing ⁽¹⁾	
Pesos	611,291
Foreign currency	4,785
Sub-total	616,076
Total	80,508,073

(1) For additional information on non-performing loans see “Item 4. Information on the Company—E. Selected Statistical Information—Non-performing and Restructured Loans” below.

The following table sets forth a breakdown of our fixed and variable rate loans which have a maturity of one year or more as of December 31, 2016.

	Interest Sensitivity of Outstanding Loans Maturing in More Than One Year	
	Fixed rate	Variable rate
	(in thousands of pesos)	
To the non-financial public sector	—	—

To the financial sector	163,365	—
To the non-financial private sector and residents abroad	13,622,613	146
Total	13,785,978	146

Foreign Country Outstanding Positions

The following table sets forth, as of December 31, 2016, 2015 and 2014, the aggregate amount of our “cross-border outstandings” exceeding 1% of our total assets at each date. Cross-border outstandings are defined as loans (including accrued interest), acceptances, interest-bearing deposits with other banks, other interest-bearing investments and any other monetary assets which are denominated in dollars or other non-local currency. Our cross-border outstandings are denominated exclusively in dollars, converted into pesos in the chart below.

	As of December 31,		
	2016	2015	2014
	(in thousands of pesos)		
To the non-financial private sector and residents abroad			
Other	1,674,658	—	—
Total	1,674,658	—	—

Classification of Loan Portfolio

We classify our borrowers in accordance with the regulations of the Central Bank, our primary regulator, and not in the manner established by the SEC. As a result, we do not keep records classifying loans as “non-accrual”, “past due”, “restructured” and “potential problem loans”, as those terms are defined by the SEC. For a description of the regulations of the Central Bank classification of debtors and provisioning, see “F. The Argentine banking System and its regulatory framework—Loan Loss Allowance.”

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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 December 31, 2016, 2015, 2014, 2013 and 2012:

	As of December 31,										
	2016	%	2015	%	2014	%	2013	%	2012		
	(in thousands of pesos, except percentages)										
Loan Portfolio Categories											
Normal	79,475,425	98.72 %	57,045,217	98.92 %	41,694,657	98.38 %	36,677,132	98.62 %	28,660,468		
Low risk / Special tracking	416,573	0.52 %	254,045	0.44 %	267,694	0.63 %	229,270	0.62 %	168,917		
Medium risk / Substandard	369,347	0.46 %	186,600	0.32 %	207,858	0.49 %	138,687	0.37 %	96,211		
High risk / High risk of insolvency	207,725	0.26 %	139,648	0.24 %	142,797	0.34 %	106,622	0.29 %	72,974		
Irrecoverable	38,917	0.05 %	43,616	0.08 %	67,495	0.16 %	38,811	0.10 %	18,556		
Irrecoverable for technical decision	86	—	136	—	133	—	134	—	162		
Total	80,508,073	100.00 %	57,669,262	100.00 %	42,380,634	100.00 %	37,190,656	100.00 %	29,017,288		

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We classify our loan portfolio in three categories: (i) commercial, (ii) consumer, and (iii) consumer-like loans.

The following table presents our consumer and commercial (the latter including also consumer-like loans) loan portfolio as of December 31, 2016, 2015, 2014, 2013 and 2012 under the classification system of the Central Bank, before the deduction of the allowance for loan losses:

	As of December 31,		2015		2014		2013		2012				
	Total	%	Total	%	Total	%	Total	%	Total	%			
	(in thousands of pesos, except percentages) ⁽¹⁾												
Normal (Consumer)	36,113,077	97.42	%	28,473,942	98.75	%	20,054,997	97.14	%	16,527,979	97.43	%	12,067,721
Normal (Commercial)	43,362,348	99.82	%	28,571,275	99.09	%	21,639,660	99.56	%	20,149,153	99.61	%	16,592,741
	79,475,425	98.72	%	57,045,217	98.92	%	41,694,657	98.38	%	36,677,132	98.62	%	28,660,462
Low risk (Consumer)	390,802	1.05	%	230,691	0.80	%	251,710	1.22	%	202,832	1.20	%	151,296
Special tracking (Commercial)	25,771	0.06	%	23,354	0.08	%	15,984	0.07	%	26,438	0.13	%	17,621
	416,573	0.52	%	254,045	0.44	%	267,694	0.63	%	229,270	0.62	%	168,917
Medium risk (Consumer)	344,485	0.93	%	174,717	0.61	%	179,378	0.87	%	132,417	0.78	%	90,692
Substandard (Commercial)	24,862	0.06	%	11,883	0.04	%	28,480	0.13	%	6,270	0.03	%	5,519
	369,347	0.46	%	186,600	0.32	%	207,858	0.49	%	138,687	0.37	%	96,211
High risk (Consumer)	190,789	0.51	%	110,443	0.38	%	132,140	0.64	%	72,717	0.43	%	55,616
High risk of insolvency (Commercial)	16,936	0.04	%	29,205	0.10	%	10,657	0.05	%	33,905	0.17	%	17,358
	207,725	0.26	%	139,648	0.24	%	142,797	0.34	%	106,622	0.29	%	72,974
Irrecoverable (Consumer)	30,450	0.08	%	27,537	0.10	%	26,891	0.13	%	27,205	0.16	%	14,916
Irrecoverable (Commercial)	8,467	0.02	%	16,079	0.06	%	40,604	0.19	%	11,606	0.06	%	3,640
	38,917	0.05	%	43,616	0.08	%	67,495	0.16	%	38,811	0.10	%	18,556
Irrecoverable for technical decision (Consumer)	86	—		136	—		133	—		134	—		162
Irrecoverable for technical decision (Commercial)	—	—		—	—		—	—		—	—		—

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	86	—	136	—	133	—	134	—	162
Total consumer loans	37,069,689	100.00%	29,017,466	100.00%	20,645,249	100.00%	16,963,284	100.00%	12,380,40
Total commercial loans	43,438,384	100.00%	28,651,796	100.00%	21,735,385	100.00%	20,227,372	100.00%	16,636,88
Total	80,508,073	100.00%	57,669,262	100.00%	42,380,634	100.00%	37,190,656	100.00%	29,017,28

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

Table of Contents**Non-performing and Restructured Loans**

Applying the Central Bank’s loan classification criteria described in “*Item 4.F—The Argentine Banking System and its regulatory framework—Loan Losses Allowance*”, 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:

	As of December 31,				
	2016	2015	2014	2013	2012
	(in thousands of pesos)				
Non-performing loans ⁽¹⁾	616,076	370,000	418,283	284,254	187,903
Total	616,076	370,000	418,283	284,254	187,903
With preferred guarantees	71,017	66,318	76,291	68,581	50,080
Unsecured	545,059	303,682	341,992	215,673	137,823
Total	616,076	370,000	418,283	284,254	187,903

Non-performing loans includes all loans to borrowers classified as “Medium Risk”, “Problem”, “High Risk”, “High Risk of Insolvency”, “Irrecoverable” and “Irrecoverable for Technical Decision” under the Central Bank loan classification (1) system. Non-performing loans also include all loans contractually past due 90 days or more. At December 31, 2016, 2015, 2014, 2013 and 2012, non-performing loans include Ps.420,256, Ps.236,870, Ps.259,401, Ps.161,588 and Ps.114,515, respectively, of non-accrual loans.

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

	As of December 31,		2015		2014		2013		2012		
	Total	%	Total	%	Total	%	Total	%	Total	%	
	(in thousands of pesos, except percentages)										
Agricultural and livestock	21,300	3.46 %	35,751	9.66 %	25,440	6.08 %	24,034	8.46 %	10,557	5.62 %	
Beverage	101	0.02 %	2	—	—	—	3	—	1	—	
Chemicals	56	0.01 %	14	—	2,486	0.59 %	115	0.04 %	9	—	
Construction	6,325	1.03 %	99	0.03 %	538	0.13 %	560	0.20 %	1,058	0.56 %	
Consumer	570,999	92.68 %	315,920	85.38 %	341,003	81.53 %	240,428	84.57 %	162,742	86.61 %	
Electrical machinery	17	—	594	0.16 %	23	0.01 %	8	—	230	0.12 %	
Financial sector	55	0.01 %	58	0.02 %	147	0.04 %	14	—	1	—	
Foodstuff	4,444	0.72 %	2,118	0.57 %	8,611	2.06 %	140	0.05 %	168	0.09 %	
Industrial metals	364	0.06 %	23	0.01 %	9	—	260	0.09 %	5	—	
Leather and fur products	397	0.06 %	26	0.01 %	9	—	3	—	833	0.44 %	
Machinery and tools	6	—	13	—	7,880	1.88 %	10,177	3.58 %	9,462	5.04 %	
Mining products	5	—	16	—	6	—	300	0.11 %	4	—	
Oil and carbon	5,420	0.88 %	23	0.01 %	81	0.02 %	3	—	1	—	
Others	372	0.06 %	83	0.02 %	9	—	14	—	11	0.01 %	
Other manufacturing	111	0.02 %	26	0.01 %	5,449	1.30 %	894	0.31 %	40	0.02 %	
Paper products	—	—	23	0.01 %	4	—	190	0.07 %	4	—	
Printer, publishers and related industries	1,018	0.17 %	1,422	0.38 %	1,393	0.33 %	165	0.06 %	231	0.12 %	
Rubber products	—	—	6	—	49	0.01 %	—	—	—	—	
Retail trade	671	0.11 %	517	0.14 %	1,627	0.39 %	1,076	0.38 %	1,040	0.55 %	
Services	310	0.05 %	1,276	0.34 %	3,148	0.75 %	108	0.04 %	328	0.17 %	
Textile	1,062	0.17 %	271	0.07 %	2,563	0.61 %	6	—	342	0.18 %	
Transportation material	387	0.06 %	839	0.23 %	646	0.15 %	336	0.12 %	192	0.10 %	
Wholesale trade	238	0.055	5,383	1.46 %	11,650	2.80 %	5,419	1.92 %	644	0.34 %	
Wood products and cork	2,418	0.39 %	5,497	1.49 %	5,512	1.32 %	1	—	—	—	
Total	616,076	100.00 %	370,000	100.00 %	418,283	100.00 %	284,254	100.00 %	187,903	100.00 %	

As of December 31, 2016, the majority of our loan portfolio, and non-performing and restructured loan portfolio, consisted of loans to Argentine borrowers. At that date, approximately Ps.1,674.7 million, or 2.08% 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, 2016, 2015, 2014, 2013 and 2012 amounted to Ps.22.3 million, Ps.15.2 million, Ps.17.4 million, Ps.29.8 million and Ps.25.5 million, respectively.

Table of Contents**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, 2016, 2015, 2014, 2013 and 2012. See Note 24.5 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.

	Year ended December 31,				
	2016	2015	2014	2013	2012
	(in thousands of pesos, except percentages)				
Balance at the beginning of the year	1,105,941	937,794	722,462	523,857	444,973
Provisions for loan losses	1,057,807	648,207	575,510	456,267	259,181
Charge-offs ⁽¹⁾	(545,596)	(480,060)	(360,178)	(257,662)	(180,297)
Advances	—	—	—	—	(37,869)
Consumer	(514,529)	(434,915)	(321,645)	(241,126)	(119,112)
Notes discounted and purchased	(3,469)	(6,668)	—	—	—
Other	(27,598)	(38,477)	(38,533)	(16,536)	(23,316)
Balance at the end of year	1,618,152	1,105,941	937,794	722,462	523,857
Net charge-off / average loans	0.81 %	0.98 %	0.92 %	0.79 %	0.70 %

Charge-offs are not concentrated in any particular economic activity. Our management estimates that of the Ps.545.6 million charged-off in the fiscal year ended December 31, 2016, Ps.46.6 million or 8.54%, were related to corporate borrowers and Ps.499.0 million or 91.46%, were related to individual consumers. The variation between 2016 and 2015 was due to the increases in the ratio of arrears and doubtful loan portfolio . Of the Ps.480.1 million charged-off in the fiscal year ended December 31, 2015, Ps.70.5 million or 14.68%, were related to corporate borrowers and Ps.409.6 million or 85.32%, were related to individual consumers. The variation between 2015 and 2014 was due to the increases in the ratio of arrears and doubtful loan portfolio. Of the Ps.360.2 million charged-off in the fiscal year ended December 31, 2014, Ps.29.9 million or 8.31%, were related to corporate (1) borrowers and Ps.330.2 million or 91.69%, were related to individual consumers. The variation between 2014 and 2013 was due to the increases in the ratio of arrears and doubtful loan portfolio. Of the Ps.257.7 million charged-off in the fiscal year ended December 31, 2013, Ps.26.0 million or 10.08%, were related to corporate borrowers and Ps.231.7 million or 89.92%, were related to individual consumers. The variation between 2013 and 2012 was due to the increases in the ratio of arrears and doubtful loan portfolio. Of the Ps.180.3 million charged-off in the fiscal year ended December 31, 2012, Ps.23.0. million or 12.76%, were related to corporate borrowers and Ps.157.3 million or 87.24%, were related to individual consumers. The variation between 2012 and 2011 was due to the increases in the ratio of arrears and doubtful loan portfolio. 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 (principal only) as of December 31, 2016, 2015, 2014, 2013 and 2012.

	As of December 31,		2015		2014		2013		2012		
	Total	%	Total	%	Total	%	Total	%	Total	%	
	(in thousands of pesos, except percentages)										
Advances	129,765	12.01 %	86,336	11.89 %	101,951	16.51 %	80,045	17.96 %	63,394	17.94 %	
Notes											
discounted	110,800	13.71 %	105,838	16.86 %	68,917	14.52 %	56,611	15.01 %	44,713	14.92 %	
and purchased											
Secured with											
mortgages	22,164	2.38 %	29,936	3.74 %	21,705	3.53 %	15,705	3.42 %	10,802	3.10 %	
Chattel											
mortgage	97,836	7.08 %	83,562	8.06 %	72,818	8.89 %	72,982	9.54 %	47,060	8.72 %	
Consumers											
loans	861,454	40.15 %	637,615	45.26 %	512,003	42.25 %	382,529	36.81 %	260,970	33.44 %	
Financial											
Loans	31,139	2.32 %	15,639	2.69 %	21,922	2.19 %	25,926	4.50 %	21,867	4.54 %	
Other loans to											
governmental	—	0.01 %	—	0.02 %	—	0.02 %	—	0.02 %	—	0.03 %	
sector											
Other	364,994	22.34 %	147,015	11.48 %	138,478	12.09 %	88,664	12.74 %	75,051	17.31 %	
Total	1,618,152	100.00 %	1,105,941	100.00 %	937,794	100.00 %	722,462	100.00 %	523,857	100.00 %	

Table of Contents**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, 2016, 2015 and 2014.

	Year ended December 31,					
	2016		2015		2014	
	(in thousands of pesos)					
Deposits in domestic Bank's offices						
Non-interest-bearing demand deposits						
Average						
Pesos	20,644,679		17,429,167		13,187,858	
Dollars	6,037,571		1,377,380		1,348,613	
Total	26,682,250		18,806,547		14,536,471	
Saving accounts						
Average						
Pesos	15,971,208		12,195,649		9,008,762	
Dollars	10,888,220		3,414,786		2,055,366	
Total	26,859,428		15,610,435		11,064,128	
Average real rate						
Pesos	(25.50	)%	(11.07	)%	(21.88)%
Dollars	(9.38	)%	35.00	%	2.30	%
Total	(18.96	)%	(0.99	)%	(17.39)%
Time deposits						
Average						
Pesos	30,592,404		23,126,105		18,763,652	
Dollars	5,301,300		2,126,313		1,529,879	
Total	35,893,704		25,252,418		20,293,531	
Average real rate						
Pesos	(7.11	)%	8.41	%	(4.75)%
Dollars	(8.33	)%	37.98	%	2.71	%
Total	(7.29	)%	10.90	%	(4.19)%

Maturity of Deposits

The following table sets forth information regarding the maturity of our deposits at December 31, 2016.

Maturing Total	Within 3	After 3 but	After 6	After 12
	months	within 6	but	months

			months	within 12 months	
	(in thousands of pesos)				
Checking	22,176,365	22,176,365	—	—	—
Savings	42,591,155	42,591,155	—	—	—
Time deposits	36,300,192	33,218,873	2,514,851	388,580	177,888
Investment accounts	85,194	—	85,194	—	—
Other	13,468,847	13,468,847	—	—	—
Total	114,621,753	111,455,240	2,600,045	388,580	177,888

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The following table sets forth information regarding the maturity of our certificates of deposit and other time deposits in denominations of US\$100,000 or more at December 31, 2016.

	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	8,945,152	7,163,662	1,385,736	243,254