

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F/A
Amendment No. 1

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, 2018

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

Date of event requiring this shell company report

For the transition period from _____ to _____

Commission file number: 001-12568

BBVA BANCO FRANCÉS S.A.

(Exact name of Registrant as specified in its charter)

BBVA FRENCH BANK
(Translation of Registrant's name into English)

Republic of Argentina
(Jurisdiction of incorporation or organization)

Av. Córdoba 111, C1054AAA
Ciudad Autónoma de Buenos Aires, Argentina
(Address of principal executive offices)

Eduardo González Correas – 011-54-11-4348-0000 (ext. 14483) – egonzalezcorreas@bbva.com – Av. Córdoba 111 31° (C1054AAA)
Ciudad Autónoma de 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 | Trading Symbol | 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 | BFR | 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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock 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 | 612,659,638 |

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

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

TABLE OF CONTENTS

| | Page |
|---|---------------------|
| EXPLANATORY NOTE | i |
| FORWARD-LOOKING STATEMENTS | 1 |
| PRESENTATION OF FINANCIAL INFORMATION | 1 |
| CERTAIN TERMS AND CONVENTIONS | 2 |
| PART I | |
| ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS | 3 |
| ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE | 3 |
| ITEM 3. KEY INFORMATION | 3 |
| ITEM 4. INFORMATION ON THE COMPANY | 24 |
| ITEM 4A. UNRESOLVED STAFF COMMENTS | 98 |
| ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS | 98 |
| ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES | 128 |
| ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS | 142 |
| ITEM 8. FINANCIAL INFORMATION | 145 |
| ITEM 9. THE OFFER AND LISTING | 146 |
| ITEM 10. ADDITIONAL INFORMATION | 149 |
| ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK | 161 |
| ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES | 170 |
| PART II | |
| ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES | 172 |
| ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS | 172 |
| ITEM 15. CONTROLS AND PROCEDURES | 172 |
| ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT | 178 |
| ITEM 16B. CODE OF ETHICS | 178 |
| ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES | 179 |
| ITEM 16D. EXEMPTIONS FROM LISTING REQUIREMENTS FOR AUDIT COMMITTEES | 179 |
| ITEM 16E. PURCHASES OF EQUITY SECURITIES BY ONE ISSUER AND AFFILIATED PERSONS | 179 |
| ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT | 179 |
| ITEM 16G. CORPORATE GOVERNANCE | 179 |
| PART III | |
| ITEM 17. FINANCIAL STATEMENTS | 183 |
| ITEM 18. FINANCIAL STATEMENTS | 183 |
| ITEM 19. EXHIBITS | 183 |

EXPLANATORY NOTE

This Amendment No. 1 (the “Amendment No. 1”) to the Bank’s annual report on Form 20-F for the year ended December 31, 2018 (the “2018 Form 20-F”) is being filed solely for the purpose of (i) revising Item 15, including to provide an amended attestation report of KPMG on the Bank’s internal control over financial reporting as of December 31, 2018; (ii) providing an amended opinion of KPMG on the Consolidated Financial Statements to align the date thereof with KPMG’s amended attestation report on the Bank’s internal control over financial reporting as of December 31, 2018; (iii) providing an amended consent of KPMG on Exhibit 15.1; and (iv) providing the interactive data file as Exhibit 101, which was previously omitted from the 2018 Form 20-F in accordance with the 30-day grace period for initial interactive data files provided under Rule 405(a)(2)(ii) of Regulation S-T.

Other than as expressly set forth above, the Bank has not modified or updated any other disclosures and has made no other changes to the items or sections in the Bank’s 2018 Form 20-F. Other than as expressly set forth above, this Amendment No. 1 does not, and does not purport to, amend, update or restate the information in any part of the Bank’s 2018 Form 20-F or reflect any events that have occurred after the 2018 Form 20-F was filed on May 10, 2019. The filing of this Amendment No. 1, and the inclusion of newly executed certifications, should not be understood to mean that any other statements contained in the original filing are true and complete as of any date subsequent to May 10, 2019. Accordingly, this Amendment No. 1 and Exhibit 15.1 hereto should be read in conjunction with the 2018 Form 20-F.

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 exchange rates or 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” or the “Bank”) 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

The Bank’s audited consolidated financial statements as of and for the years ended December 31, 2018 and 2017 (the “Consolidated Financial Statements”) are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS-IASB”). These are the first financial statements prepared by the Bank under IFRS-IASB, and therefore the opening statement of financial position was prepared as of January 1, 2017, the date of our transition to IFRS, as required by IFRS 1—“First Time Adoption of International Financial Reporting Standards”. The comparative figures at and for the year ended December 31, 2017 reflect adjustments and reclassifications made as a result of our adoption of IFRS-IASB. Previously, our consolidated financial statements were prepared in accordance with the accounting rules (“BCRA-GAAP”) established by Argentine Central Bank (the “Central Bank” or “BCRA”), which differ in some respects from IFRS-IASB.

All 2018 and 2017 data included in this report have been prepared in accordance with IFRS-IASB for the sole purpose of filing this annual report on Form 20-F with the Securities and Exchange Commission (“SEC”).

The statutory consolidated annual financial statements for the fiscal year ended December 31, 2018 that the Bank prepared to comply with the requirements of the Central Bank are the Bank’s first annual financial statements prepared pursuant to the reporting framework established by the Central Bank requiring supervised entities to submit financial statements prepared pursuant to IFRS-IASB, with temporary exceptions from the application of (i) the impairment model in Section 5.5 Impairment of IFRS 9 Financial Instruments and (ii) IAS 29 Financial Reporting in Hyperinflationary Economies, both of which are applicable under the Central Bank’s rules for the fiscal years beginning on or after January 1, 2020, and in accordance with the standards prescribed by Memorandum No. 6/2017 Financial Reporting Framework Established by the BCRA issued on May 29, 2017 regarding the treatment to be applied to uncertain tax positions. We refer in this annual report on Form 20-F to IFRS-IASB as adjusted by the regulations of the BCRA as “IFRS-BCRA”. Beginning with the fiscal year commencing January 1, 2020, we expect to prepare our financial statements for purposes of both our annual reports on Form 20-F and the Central Bank under IFRS-IASB.

For 2018, the Consolidated Financial Statements include entities in which the Bank holds control, directly or indirectly. See “*Item 4. Information on the Company – C. Organizational Structure*” for an organizational chart depicting BBVA Francés and its subsidiaries.

In this annual report, references to “\$”, “US\$”, “U.S. dollars” 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.

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.

| Entity | As of December 31, | |
|--|--------------------|------|
| | 2018 | 2017 |
| Volkswagen Financial Services Compañía Financiera S.A. | | X |
| Consolidar AFJP S.A. (undergoing liquidation proceedings) | X | X |
| BBVA Francés Valores S.A. | X | X |
| BBVA Francés Asset Management S.A. Sociedad Gerente de Fondos Comunes de Inversión | X | X |

On September 25, 2018, BBVA Francés lost control of Volkswagen Financial Services Compañía Financiera S.A. (“VWFS”) due to the termination of the two-year commitment by the Bank to provide financing to VWFS if it were unable to diversify its sources of funding. According to IAS 28 Investments in Associates and Joint Ventures, VWFS qualifies as a joint venture and, as such, it has been deconsolidated effective since the date of loss of control.

Since the Bank has adopted IFRS-IASB with respect to its consolidated financial statements as of and for the year ended December 31, 2018, we have applied the accommodation granted by General Instruction G to Form 20-F (First-Time Application of International Financial Reporting Standards), and as a result financial information prior to 2017 has generally been omitted from this annual report on Form 20-F. Please see our annual report on Form 20-F for the year ended December 31, 2017 for BCRA-GAAP and certain other financial information of the Bank prior to 2017.

IAS 29 Financial Reporting in Hyperinflationary Economies requires that an entity whose functional currency is the currency of a hyperinflationary economy must state its assets, liabilities, income and expenses in terms of the measuring unit current at the end of the reporting period (December 31, 2018). The Bank has applied IAS 29 as follows:

- Restated the Consolidated Statement of Financial Position as of January 1, 2017, which is the earliest financial information presented.
- Restated the Consolidated Statement of Financial Position as of December 31, 2017.
- Restated the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Shareholders’ Equity and Consolidated Statements of Cash Flow for the year ended December 31, 2017, including the calculation and separate disclosure of the gain or loss on the net monetary position.
- Adjusted the Consolidated Statement of Financial Position as of December 31, 2018.
- Adjusted the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Shareholders’ Equity and Consolidated Statements of Cash Flow for the year ended December 31, 2018, including the calculation and separate disclosure of the gain or loss on the net monetary position.

For further information regarding the methodology and criteria applied as well as the impact of the application of IAS 29 in the Bank’s accounting, see Note 3.2 to the Consolidated Financial Statements.

See “Item 3. Key Information—A. Selected Financial Data—Exchange Rates” for information regarding the evolution of rates of exchange since 2012.

All figures and percentages of variations in this annual report on Form 20-F, unless otherwise stated, are presented in real terms based on the measuring unit current at December 31, 2018.

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, 2018 and 2017 and consolidated statement of financial position as of January 1, 2017, prepared in accordance with IFRS-IASB and included in this Form 20-F.

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 as of and for the years ended December 31, 2018 and 2017 has been selected from, and should be read together with, the Consolidated Financial Statements included herein.

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 Relating to the Argentine Financial System and to BBVA Francés*” below.

| | For the year ended December 31, | |
|---|---|-------------------|
| | 2018 | 2017 |
| | (in thousands of pesos) ⁽¹⁾ | |
| CONSOLIDATED STATEMENT OF PROFIT OR LOSS | | |
| Amounts in accordance with IFRS-IASB | | |
| Interest and other income | 56,472,561 | 35,714,188 |
| Interest expenses | (24,738,228) | (11,959,325) |
| NET INTEREST INCOME | 31,734,333 | 23,754,863 |
| Fee and commission income | 12,574,698 | 10,772,307 |
| Fee and commission expense | (5,501,505) | (4,882,374) |
| Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net | 115,843 | 4,361,298 |
| Gains (losses) on derecognition of financial assets not measured at fair value through profit or loss | (136,740) | 11,983 |
| Exchange differences, net | 6,489,026 | 3,377,178 |
| Other operating income | 2,106,977 | 1,943,178 |
| Other operating expenses | (7,984,040) | (7,346,168) |
| NET INTEREST INCOME AND OTHER OPERATING INCOME | 39,398,592 | 31,992,265 |
| Administration costs | (19,538,918) | (19,631,612) |
| Personnel benefits | (10,887,691) | (11,221,860) |
| Administrative expenses | (8,651,227) | (8,409,752) |
| Depreciation and amortization | (1,922,260) | (1,429,362) |
| Impairment of financial assets | (3,834,036) | (2,527,822) |
| Loss on net monetary position | (11,654,234) | (6,159,779) |
| NET OPERATING INCOME | 2,449,144 | 2,243,690 |
| Share of profit of equity accounted investees | 317,523 | 338,313 |
| PROFIT BEFORE TAX | 2,766,667 | 2,582,003 |
| Income tax expense | (4,336,370) | (722,492) |
| (LOSS) PROFIT FOR THE YEAR | (1,569,703) | 1,859,511 |
| Attributable to owners of the Bank | (1,489,732) | 1,903,820 |
| Attributable to non-controlling interest | (79,971) | (44,309) |
| (Loss) Profit for the year attributable to owners of the Bank per ordinary share ⁽²⁾⁽³⁾ | (2.43) | 3.34 |
| (Loss) Profit for the year attributable to owners of the Bank per ADS ⁽²⁾⁽³⁾⁽⁵⁾ | (7.29) | 10.02 |
| Declared dividends per ordinary share ⁽²⁾⁽³⁾⁽⁴⁾ | 3.92877 | 2.29327 |
| Declared dividends per ADS ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾ | 11.78631 | 6.87981 |
| Net operating income per ordinary share ⁽²⁾⁽³⁾ | 4.00 | 3.94 |
| Net operating income per ADS ⁽²⁾⁽³⁾⁽⁵⁾ | 12.00 | 11.82 |
| Average ordinary shares outstanding (000s) ⁽³⁾ | 612,660 | 569,910 |

| | For the Fiscal Year Ended December 31, | |
|---|---|--------------------|
| | 2018 | 2017 |
| | (in thousands of pesos) ⁽¹⁾ | |
| CONSOLIDATED STATEMENT OF FINANCIAL POSITION | | |
| Amounts in accordance with IFRS | | |
| Cash, cash balances at central bank and other demand deposits | 99,105,461 | 56,453,684 |
| Financial assets at fair value through profit or loss | 8,627,543 | 9,494,547 |
| Financial assets at amortized cost | 203,541,121 | 201,776,086 |
| Financial assets at fair value through Other Comprehensive Income (“OCI”) | 24,563,962 | 25,220,479 |
| Tangible assets | 17,061,205 | 17,770,756 |
| Other assets | 8,643,157 | 8,067,540 |
| TOTAL ASSETS | 361,542,449 | 318,783,092 |
| Financial liabilities at fair value through profit or loss | 2,069,529 | 339,253 |
| Financial liabilities at amortized cost | 293,240,299 | 249,393,674 |
| Other liabilities | 20,690,480 | 19,533,510 |
| TOTAL LIABILITIES | 316,000,308 | 269,266,437 |
| Share capital | 612,660 | 612,660 |
| Share premium | 12,593,197 | 12,593,197 |
| Inflation adjustment to share capital | 8,580,581 | 8,580,581 |
| Reserves | 30,374,629 | 26,456,104 |
| Retained earnings | (6,679,416) | 761,204 |
| Other comprehensive income | 30,378 | 58,125 |
| Equity attributable to owners of the Bank | 45,512,029 | 49,061,871 |
| Non-controlling interests | 30,112 | 454,784 |
| TOTAL EQUITY | 45,542,141 | 49,516,655 |
| SELECTED RATIOS | | |
| <i>Profitability and Performance</i> | | |
| Return on average total assets ⁽⁶⁾ | (0.44)% | 0.63% |
| Return on average total equity ⁽⁷⁾ | (3.15)% | 4.37% |
| <i>Capital</i> | | |
| Total equity as a percentage of total assets | 12.60% | 15.53% |
| Total liabilities as a multiple of total equity | 6.94x | 5.44x |
| <i>Credit Quality</i> | | |
| Allowances for loan losses as a percentage of Financial assets at amortized cost | 2.01% | 1.37% |
| Non-performing loans as a percentage of gross loans ⁽⁸⁾ | 1.80% | 0.65% |
| Allowances for loan losses as a percentage of non-performing loans ⁽⁸⁾ | 120.94% | 207.19% |

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

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

(3) 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.

(4) For the year ended December 31, 2018, the dividends in cash declared at the ordinary and extraordinary shareholders’ meeting on April 24, 2019 were Ps.2,407 million. For the fiscal year ended December 31, 2017, the dividends in cash declared at the ordinary and extraordinary shareholders’ meeting on April 10, 2018 were Ps.970 million. 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.

(5) Each ADR represents three ordinary shares.

(6) Profit or loss for the year attributable to owners of the Bank as a percentage of average total assets, computed as the average of fiscal-year-beginning and fiscal-year-ending balances.

(7) Profit or loss for the year attributable to owners of the Bank as a percentage of average stockholders’ equity, computed as the average of fiscal-year-beginning and fiscal-year-ending balances.

(8) Non-performing loans include all loans to borrowers classified as Stage 3 in accordance with IFRS 9.

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.

| | Declared Dividends Per Ordinary Share ⁽¹⁾ | | Declared Dividends Per ADS ⁽¹⁾ | |
|----------------------------------|---|---------|--|----------|
| | Ps. | US\$ | Ps. | US\$ |
| | December 31, 2018 ⁽²⁾ | 3.92877 | 0.08723 | 11.78631 |
| December 31, 2017 ⁽³⁾ | 2.13325 | 0.10433 | 6.39975 | 0.31298 |
| December 31, 2016 ⁽⁴⁾ | 2.86925 | 0.18909 | 8.60775 | 0.56726 |

- (1) For the fiscal year ended December 31, 2018, the dividends in cash declared at the ordinary and extraordinary shareholders' meeting on April 24, 2019 were Ps.2,407 million. For the fiscal year ended December 31, 2017, the dividends in cash declared at the ordinary and extraordinary shareholders' meeting on April 10, 2018 were Ps.970 million. For the fiscal year ended December 31, 2016, the dividends in cash declared at the ordinary and extraordinary shareholders' meeting on March 30, 2017 were Ps.911 million. During the fiscal years ended December 31, 2018 and 2017 the number of outstanding shares were 612,659,638. During the fiscal year ended December 31, 2016 the number of outstanding shares were 536,877,850. 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.
- (2) Based upon the reference exchange rate quoted by the Central Bank at May 8, 2019.
- (3) Based upon the reference exchange rate quoted by the Central Bank at April 26, 2018.
- (4) Based upon the reference exchange rate quoted by the Central Bank at April 12, 2017.

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) | | | |
| 2016 | 16.0392 | 13.0692 | 14.7738 | 15.8502 |
| 2017 | 18.8300 | 15.1742 | 16.5665 | 18.7742 |
| 2018 | 40.8967 | 18.4158 | 28.0937 | 37.8083 |
| 2019 (through May 8, 2019) | 45.6333 | 37.0350 | 40.2641 | 45.0383 |
| November 2018 | 38.8750 | 35.4883 | 36.4590 | 38.0217 |
| December 2018 | 38.5700 | 36.8900 | 37.8852 | 37.8083 |
| January 2019 | 37.9333 | 37.0350 | 37.4069 | 37.0350 |
| February 2019 | 40.0400 | 37.1967 | 38.4086 | 38.9983 |
| March 2019 | 43.6983 | 39.4450 | 41.3624 | 43.3533 |
| April 2019 | 45.6333 | 41.5617 | 43.2338 | 44.0100 |
| May 2019 (through May 8, 2019) | 45.0383 | 44.4233 | 44.8003 | 45.0383 |

- (1) Source: BCRA.
- (2) The average of monthly average rates during the period.

The exchange rate on May 8, 2019 was Ps.45.0383 = 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, ("BCBA"), which is now known as the Bolsa y Mercados Argentinos S.A. ("BYMA")) 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 compared with the dollar at year end, the rate of exchange (number of pesos per dollar prevailing in the Argentine foreign exchange market at year end) and the rate of inflation for wholesale price for the fiscal years ended December 31, 2018, 2017 and 2016.

Since the repeal of the Convertibility Law in January 2002, the peso has devalued 4,403.8% compared with the dollar.

| | As at December 31, | | |
|---------------------------------|---------------------|---------------------|---------------------|
| | 2018 ⁽¹⁾ | 2017 ⁽¹⁾ | 2016 ⁽¹⁾ |
| Devaluation Rate ⁽²⁾ | 101.38% | 18.45% | 21.88% |
| Exchange Rate ⁽³⁾ | 37.8083 | 18.7742 | 15.8502 |
| Inflation Rate | 47.65% | 24.80% | 34.59% |

(1) The inflation rate presented is for the Consumer Price Index published by the Argentine National Statistics and Censuses Institute (“INDEC”) and is calculated over the prior twelve months.

(2) For the twelve-month period then ending according to the Argentine Central Bank.

(3) Pesos per dollar according to the Argentine Central Bank.

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 in business activities, and civil unrest and local security concerns.

In 2001 and 2002, the Argentine economy suffered a severe economic and political 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 increased to 40% while GDP fell by almost 11%. Although 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, in 2009 it was affected by an extended drought, which reduced agricultural production, and the effects of the global economic crisis which led to a contraction of the economy of 5.9% during that year. Real GDP growth was strong in 2010 and 2011, increasing to 10.1% and 6.0%, respectively, but economic performance was erratic in subsequent years and after another recession in 2014, GDP contracted by 2.5%, leading to a GDP level below that of 2011 in constant prices. The economy grew again by 2.7% in 2015, primarily driven by an increase in public expenditures and investment.

The economic and financial environment in Argentina was significantly influenced by the presidential elections held on November 22, 2015, which resulted in Mr. Mauricio Macri being elected President of Argentina. Mr. Macri’s administration (the “Macri Administration”) took office on December 10, 2015 and launched a wide array of measures intended to correct longstanding fiscal and monetary policies that had resulted in recurrent public sector deficits, high inflation, pervasive foreign exchange controls and limited foreign investment. In 2016, the elimination of foreign exchange restrictions and rebalancing of utility rates led to an increase in inflation to 41% year-on-year according to the City of Buenos Aires index at year end and a considerable decline in consumption. As a result, GDP fell by 1.8% in 2016. Once the main imbalances were eliminated, the economy picked up again in 2017, with GDP growing 2.9% and inflation slowing to 24.8% year-on-year, though higher than the goal defined by the Central Bank. The Macri Administration’s Cambiemos political party triumphed in the midterm elections of 2017, obtaining the necessary support to implement certain gradual tax and pension reforms, as well as a fiscal agreement with the provinces aimed at normalizing the finances of the provincial administrations.

The gradualist approach implemented by the Macri administration in order to reduce the substantial fiscal and current account deficits and correct the legacy of macroeconomic imbalances came to an abrupt end in the second quarter of 2018 due to a combination of internal shocks (primarily a severe drought), a deterioration of global financial environment (including an increase in U.S. interest rates and the U.S.-China trade war) and policy errors (including a change to BCRA inflation targets and a tax on financial revenues), that led to significant capital outflows from Argentina and the closing of global credit markets for Argentine issuers. From April 30 to July 31, 2018, the Argentine peso (Central Bank reference foreign exchange rate) depreciated 32.1% despite frequent interventions in the foreign exchange market. Even after a strong tightening of monetary policy and International Monetary Fund (“IMF”) support in the form of a high level access stand-by arrangement of US\$50 billion signed in mid-June 2018, tensions in the foreign exchange market resurfaced in August, and the peso lost 38.8% of its value during the month in a strong sell off of local assets. Between April and September 2018 there was a loss of international reserves of almost US\$14 billion due to sales of U.S. dollars by the Central Bank in the foreign exchange market.

Finally, in early October 2018 a new program was implemented which included a frontloading to 2019 of the IMF disbursements projected to take place in 2020-2021 under a revised agreement which required further fiscal tightening in 2019, including reaching a primary deficit target of 0% of GDP, strengthening Central Bank reserves with further support from official creditors and the continuation of orthodox monetary and fiscal policies. The program with the IMF helps ensure that 2019 financial needs can be met with limited roll-over, while the success of the program should create conditions for market access in 2020, although risks to debt sustainability remain.

The new monetary and exchange rate scheme, which aims to control foreign exchange volatility by absorbing all surplus liquidity in pesos, targets holding the nominal monetary base constant until June 2019 and sets up broad bands within which the foreign exchange can float, was successful in stabilizing the currency in October. The peso appreciated 5% between September 30, 2018 and February 28, 2019 (Ps.39.00/US\$ to Ps.40.89/US\$) and Leliq Central Bank Bills interest rates have fallen by more than 2,900 basis points from the peak.

Inflation accelerated during the first quarter of 2019, increasing 54.7% during the 12 months ended March 31, 2019 compared to inflation of 47.6% during the 12 months ended December 31, 2018. Prices were negatively affected by the devaluation of the peso during 2018 and adjustments to public utility rates, despite the restrictive monetary policy of the Central Bank during such period. The EMAE index (a monthly estimator of economic activity) signaled that economic activity continued to decline in the beginning of 2019 but to a lesser extent than at the end of 2018. Based on the performance of such index, a slow recovery is expected in 2019.

Although the revised IMF program has had a positive effect by stabilizing financial variables and reducing inflation, risks to the ongoing correction of imbalances remain both on the domestic and external fronts. Sustainable economic growth and improved employment in the medium term will depend upon the manner in which the remaining structural imbalances are addressed and may develop adversely if these policy issues are not addressed adequately or successfully.

The Argentine economy has experienced significant volatility, characterized by periods of low or negative growth, high levels of inflation and currency devaluation. Inflation, any decline in GDP and/or other future economic, social and political developments in Argentina, over which we have no control, have in the past, and may in the future, adversely affect our business, results of operations and financial condition.

The Macri Administration has implemented significant changes in economic policy, but the ability to successfully implement structural reforms may be limited by the decrease in its approval ratings and its lack of support in Congress. The continuation of current economic policies may depend on the result of the 2019 presidential elections.

The Macri Administration assumed office on December 10, 2015 and immediately implemented several significant economic and policy reforms such as lifting foreign exchange restrictions, restoring the credibility of the Argentine National Statistics and Censuses Institute (the “INDEC”), reducing foreign trade controls and settling claims from hold-outs of the 2005 debt swaps which allowed Argentina to emerge from default and again access international credit markets.

A tax reform approved by Congress in late 2017 provided for a gradual reduction in payroll taxes, corporate income tax benefits for investment projects and other taxes such as provincial gross sales taxes and a tax on banking transactions. Export duties on most products were eliminated in 2016, and the tax rates on exports of soybean products were lowered considerably. However, a new tax on all exports of goods and services was introduced on October 5, 2018 in order to achieve the zero primary deficit target in 2019, in spite of its negative impact on the competitiveness of Argentine exports. Although this measure implies a set-back in terms of Macri Administration campaign promises of reducing tax pressures and improving productivity, nonetheless the administration managed to deal with the currency crisis of 2018 while avoiding capital controls and restrictions in the financial system, and reinforcing the commitment to a pro-business environment. This is particularly relevant in the case of Argentina where currency crises have in the past led to restrictions on the withdrawal of deposits or access to foreign currency.

The ability of the Macri Administration to implement legislative measures will require obtaining support from opposition parties, which have opposed Macri Administration initiatives in the past. After the 2017 congressional elections, Cambiemos, Mr. Macri's political party, increased its representation in both chambers of Congress but still lacks an absolute majority in either. As such, it will need to continue negotiating with opposition parties in order to pass laws in Congress. In October 2019, presidential and congressional elections will be held. As such, making and passing structural reform legislation is expected to be difficult during the election cycle, although the 2019 budget bill required to implement the fiscal adjustment has already been approved by Congress. 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 the Argentine economy and adversely affect its financial condition, which could in turn have a material adverse effect on our business, results of operations and financial condition.

Additionally, the approval ratings of the Macri administration began to fall in December 2017 with the reform to the pension adjustment plan and the relaxation of monetary policy which lead to the weakening of the peso. The strong deterioration in economic conditions in 2018 led to further falls in approval ratings and lowered the possibility of a Macri re-election in 2019. If a populist candidate were to be elected in October 2019, it is likely that part of the economic policies and the reforms implemented by the Macri administration could be reversed and less market friendly policies could be put in place with 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.

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 26.9% year-on-year in 2015 to 45.5% year-on-year in 2018 according to the City of Buenos Aires index.

High inflation rates have led to the loss of competitiveness of Argentine exports in international markets and to a decline in private consumption, causing a negative effect on economic activity and employment. Moreover, high inflation rates have in the past and could in the future undermine confidence in the Argentine financial sector, in particular with respect to the peso deposit base, reducing the demand for pesos and leading to a portfolio dollarization, which would in turn cause a decrease in the deposit base. This would negatively affect the business volume of banks, including BBVA Francés.

From 2007 to mid-2016, the CPI data for the Greater Buenos Aires area (the "CPI-GBA") and for other Argentine regions/provinces published by the INDEC was not consistent with the CPI data published by private institutions. These inconsistencies created uncertainty regarding the Republic's actual inflation rate and made it difficult to anchor inflation expectations.

In 2017, the INDEC began publishing a national CPI index for the purpose of calculating CER adjustments going forward. This new national CPI extended the methodology of the previous CPI-GBA, which had covered only the City of Buenos Aires and Greater Buenos Aires, utilizing December 2016 as its base of 100. 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 2016. Further increases in energy tariffs and other regulated prices led to an inflation rate of 24.8% year-on-year in 2017, missing the Central Bank inflation targets of 12-17% by a wide margin. These targets were changed at the end of 2017 to 15% for 2018, 10% for 2019 and 5% as a long-run target to be reached by 2020, one year later than previously targeted. However, once again, these targets were widely missed in 2018 mainly due to the 50.3% depreciation of the peso which was partly passed through to domestic prices in spite of extremely tight monetary policies. Inflation, which had risen to 2.5% per month in the first half of 2018 due to increases in regulated prices, reached a maximum of 6.5% month-on-month in September 2018 and fell gradually in subsequent months to reach 47.6% year-on-year in December 2018.

Inflation remains a significant challenge for Argentina given its persistent nature in recent years. The revised agreement with the IMF targets a 2.4% of GDP reduction in the primary deficit in 2019 and the complete elimination of Central Bank financing to the Argentine Treasury by the end of 2018.

Failure to comply with the fiscal targets agreed with the IMF 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 3.8% of GDP in 2015. In 2016, the primary deficit was Ps.343.5 billion, 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. In 2017, fiscal tightening proceeded at a stronger pace and the Macri Administration met the primary fiscal deficit target of 4.2% of GDP by lowering the deficit to 3.8% of GDP.

However, due to the loss of credibility and access to capital markets, in the midst of the 2018 currency crisis, the Macri Administration was forced to target a faster reduction in the primary fiscal deficit. The national Treasury outperformed the revised primary deficit target of 2.6% of GDP in 2018 by posting a deficit of 2.4% of GDP. The target for 2019 is a more ambitious zero primary deficit. Most of the fiscal adjustments are intended to come from an increase in export duties and the elimination of subsidies to the energy and transport sectors, a reduction in capital spending and efficiency gains in primary spending. However, there can be no assurance that such measures will be successful or sufficient to reduce the fiscal deficit in the medium term. The government is strongly committed to meeting the spending cuts, but a slower than expected economic recovery and weaker tax collections could prevent the Treasury from reducing the deficit to the required amount, jeopardizing access to IMF disbursements during 2019.

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

In 2016 the government started issuing debt in the local Argentine market again after a number of years without any such issuance. Argentine private banks, such as BBVA Francés, often purchase such issuances. The Macri Administration has announced that in 2020 when the IMF program matures it will once again seek to issue net debt in the local Argentine market, and this could lead to increased exposure of private banks, such as BBVA Francés, to the public sector.

It is uncertain whether the Macri Administration will succeed in implementing its strategy to reduce the fiscal deficit and public expenditures in the future, 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 result in higher deficits, negatively impact consumers' purchasing power and lead to overall higher prices. 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 is 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 economic policy of the current government of the United States and the United Kingdom's impending departure from the European Union. 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. Although the Brazilian economy began to recover in 2017 as GDP grew 1%, inflation fell to 2.9% year-on-year and the Brazilian Real appreciated 1.5% year-on-year in December 2017. In 2018, the Brazilian Real depreciated 17.2% in the context of uncertainty regarding presidential elections but inflation only rose to 3.7% and GDP increased by 1.1%. Any deterioration of economic conditions in Brazil may reduce demand for Argentine exports and increase demand in Argentina for Brazilian imports. Political instability has decreased after the 2018 elections when Jair Bolsonaro was elected president, but fiscal and social security reforms required to ensure debt sustainability could face opposition in the Brazilian congress and lead to uncertainty regarding fiscal solvency in Brazil. Any deterioration of economic conditions in Brazil may reduce demand for Argentine exports and increase demand in Argentina for Brazilian imports. It is possible that Brazilian political instability 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, the global financial crisis that began in 2008 and the strong depreciation of the Turkish Lira in 2018.

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 abruptly in developed economies, including the United States and Europe, or if global financial conditions become tighter due to higher risk aversion due to trade and geopolitical tensions, as occurred in 2018, 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 scheduled withdrawal of the United Kingdom from the European Union (often referred to as "Brexit") and uncertainty regarding such process 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 the 2000s 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, and was further reduced in 2018 by 0.5% per month, 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 vulnerable to commodity prices fluctuations. International soybean prices decreased slightly during 2017 and further in 2018 due to growing trade tensions between the United States and China. 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.

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 previous administration. 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 adopted by the Macri Administration in 2015-2016 and the fact that during the 2018 significant decline in the value of the peso the government avoided instrumenting any kind of restrictions on purchases of hard currency or capital controls, if in the future the Central Bank and/or the government re-introduces 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 was in effect until December 31, 2017. The state of emergency allowed 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 increased gradually and energy subsidies fell from Ps.209.2 billion in 2016 to Ps.125.6 billion (a decline of 39.9% year-on-year) during 2017 according to the Ministry of Economy. 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. In 2018, energy rates for residential consumers were raised again, and the sharp devaluation of the Argentine peso led to an increase in energy costs in pesos and a 41.6% year-on-year increase in energy subsidies to Ps.177.9 billion

The Macri Administration has taken steps and announced measures to address the energy sector crisis while taking into consideration the implications of these price increases for the poorest segments of society by approving subsidized tariffs for qualifying users. Failing to address the negative effects on energy generation, transportation and distribution in Argentina with respect to both the residential and industrial supply, resulting in part from the pricing policies of the prior administrations, could weaken confidence in and adversely affect the Argentine economy and the Republic's ability to service its debt.

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 2018 Corruption Perceptions Index survey of 180 countries, Argentina ranked #85. In the World Bank's Doing Business 2019 report, Argentina ranked #119 out of 190 countries, down from #117 in 2018.

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. In 2018, an in-depth investigation into a corruption scandal linked to a public works graft scheme implemented by the prior administration was investigated and led to the arrest of several prominent individuals. Public perception of the independence of the judicial system has been strengthened by these actions, but 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. A devaluation of the peso may adversely affect 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 35.3% of its value in 2014 and 33.7% in 2015. 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.

After the foreign exchange controls were lifted at the end of 2015, the peso depreciated by 38.5% in 2016 considering the average foreign exchange rate in December of 2016 compared with the average foreign exchange rate in December of 2015. In 2017, the depreciation of the peso fell to 11.8%, well below inflation, raising doubts about potential appreciation of the peso in real terms once again. In this scenario, the vulnerability of the Argentine economy to a tightening of international financial conditions was reflected in a current account deficit of 4.9% of GDP in 2017 and a low level of international reserves compared to other countries in the region. When ten-year U.S. treasury rates began to rise and the U.S. dollar strengthened, these vulnerabilities resulted in a negative differentiation of Argentina compared with other emerging countries, which led to a prolonged run on the currency despite frequent interventions by the Central Bank and a sizeable loan from the IMF signed in June 2018. Finally, after another sell-off of Argentine assets in August 2018 and a strong depreciation, in early October 2018 a revised program with the IMF which further tightened fiscal and monetary policy managed to stabilize the foreign exchange market and the peso appreciated by 7.5% in the last quarter of 2018. Considering the full year, the peso depreciated by 50.3% in nominal terms in 2018. Together with the decline in economic activity, the real depreciation of the peso resulted in a strong reduction in imports and a correction of the external deficit in the fourth quarter of 2018.

According to the revised IMF agreement, the Argentine peso floats freely within an accepted band of exchange rates, but the Central Bank may intervene to a limited extent in the foreign exchange market selling reserves if the exchange rate rises above a certain level, defined initially at Ps.44/US\$ (and subsequently adjusted by inflation) which is the upper threshold of the accepted band in which the peso floats freely without intervention of the Central Bank. Conversely the Central Bank can purchase reserves if the foreign exchange rate falls below the lower threshold of the non-intervention band.

In early 2019, the peso crossed the lower threshold, prompting purchases by the Central Bank and a strong decline in interest rates pursuant to the monetary program. As inflation has remained high, a stronger nominal appreciation of the peso could lead to renewed doubts regarding the appreciation of the peso against the U.S. dollar in real terms. This presents risks for the Argentine economy, including the possibility of a reduction in exports as a consequence of the loss of external competitiveness and deterioration of the current account deficit. Any such appreciation could also have a negative effect on economic growth and employment, reduce tax revenues in real terms and also raise fears regarding the impact of a sudden stop in capital flows.

In addition, political uncertainty or changes in liquidity in international markets could lead to additional volatility and depreciation of the peso or a reduction of the Central Bank's reserves as a result of currency intervention and could adversely affect inflation expectations and the Argentine economy and the Republic's ability to service its debt obligations.

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

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

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

Risks Relating to the Argentine Financial System and to BBVA Francés

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

In recent years, growth of the Argentine financial sector has been heavily dependent on deposit levels because of the relatively small size of the Argentine capital markets and the lack of access to foreign capital markets. After the Macri Administration took office, access to foreign capital markets was again possible, supporting credit growth in addition to the deposit base, but during 2018 international and local markets were closed for most of the year for Argentine companies due to growing risk aversion toward emerging markets generally, and to Argentina in particular, after the foreign exchange crisis that began in May. There can be no assurance regarding when access to foreign credit markets may resume and, if resumed, access may be disrupted again in the future.

From 2016, the implementation of the tax amnesty regime and restored investor confidence resulted in a significant growth of U.S. dollar deposits. That process came to a halt in the first half of 2018 during the currency crisis due to fears that these deposits might be immobilized by the government and financial institutions indeed suffered a slight withdrawal of these kind of deposits in September 2018. Dollar-denominated deposits have begun to grow again after the new IMF program was implemented in early October 2018, but 2019 is an election year in Argentina, and U.S. deposits may again be subject to volatility. Although banks, including BBVA Francés, generally maintain high levels of liquidity in U.S. dollars, among them Central Bank reserve requirements that represent almost a quarter of total U.S. deposits, if we experience significant withdrawals by depositors it could have a material adverse effect on our business, results of operations and financial condition.

The local currency deposit base is mostly short-term and transactional. Deposits represent a small fraction of GDP when compared with other emerging countries. During the first part of the year, foreign exchange volatility reduced the pace of growth of peso deposits, reflecting negative growth in real terms.

The liquidity in local currency of the Argentine financial sector is currently relatively high, in part due to the level of minimum cash requirements applicable to Argentine financial institutions, which the Central Bank raised several times during 2018, and in part due to a slowing demand for loans after interest rates were raised sharply in 2018. For BBVA Francés, these liquid assets account for 55.3% of our total deposits as of December 31, 2018.

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, although at December 31, 2018 it was higher than one year prior due to the success of UVA (inflation adjusted) loans. At the beginning of 2018 there was also an incipient local and international debt market to issue long term bonds, including fixed rate, floating rate and UVA. Origination of both long-term loans and liabilities was severely affected during the second half of the year as a consequence of the peso devaluation, the increase in interest rates and generally worsened economic conditions.

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

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

The Central Bank has made it a key policy to try to minimize the use of physical bills (banknotes) in the economy as a way to reduce informal activity and improve efficiency. This policy involves numerous sectors of the Argentine economy, including banks, and is likely to require significant time to realize significant changes. Since 2012, the Argentine Central Bank's charter states that peso cash balances in physical bills (banknotes) cannot be used by financial institutions to comply with statutory reserve requirements. As a result, the Bank has sought to minimize its peso cash balances in physical bills (banknotes), as they yield no income. Since the second half of 2016, the Central Bank began refusing to receive physical bills from financial institutions in order to further decrease their use in the Argentine economy. As a consequence, BBVA Francés' balance of physical bills increased above normal levels, mainly through the first half of 2017, as a result of our business strategy of collecting a substantial amount of physical 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 the Central Bank and then allocated to profitable assets. This policy affected adversely our net income through these periods. Although the Bank took 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, and banknotes balances declined to more reasonable levels from the third quarter of 2017 and stayed at those levels for most part of 2018, no assurance can be given that our peso cash balances in physical bills (banknotes) will not arise again in the future. A significant growth of peso cash balances in physical bills (banknotes) positions in the Bank could have an adverse impact on our business, results of operations and financial condition.

Reduced spreads between interest rates received on loans and those paid on deposits could adversely affect our profitability.

The spread 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 or loosening of monetary policy in response to inflation concerns. During recent years, as a consequence of higher inflation, interest rates have significantly increased in Argentina.

After the Macri Administration took office, expectations were of a decline in both inflation and interest rates and therefore banking spreads. However, in 2018 devaluation of the peso and higher inflation led the Central Bank to substantially raise interest rates, ending the margin contraction trend. If the process of declining inflation expectations and rates resume, renewed pressure on banking spreads would be expected. Moreover, a change in the composition of the source of funding, which is currently heavily weighted by non-interest-bearing deposits, could also put downward pressure on margins. A change in the composition of the source of funding could result from lower interest rates, higher demand of credit and therefore a need to increase the amount of time deposits or other types of bearing interest liabilities. Further reduction in spreads could have a material adverse effect on our business, results of operation and financial conditions.

Our business is particularly vulnerable to volatility in interest rates.

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

In the current Argentine scenario where the government is attempting 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, high 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 our business, results of operations and financial condition.

Mismatch between UVA loans and UVA deposits could adversely affect our profitability.

During 2017, new UVA (inflation-adjusted) mortgages started to grow significantly. At the same time, the Bank launched UVA deposits, but such deposits grew at a slower pace, leading to a mismatch in this activity. During 2018, as a consequence of the peso devaluation, higher inflation and interest rates, growth in both UVA loans and liabilities slowed. If this mismatch continues or increases in the future it could have a material adverse effect 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 our loan loss reserves are insufficient to cover future loan losses, this could have a material 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 with new business models likely to be developed in coming years whose impact is unforeseeable. 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 Argentine 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, investment funds, pension funds, insurance companies, and public debt. In recent years, the financial services sector has experienced a significant transformation, closely linked to the development of the internet and mobile technologies. Part of that transformation involves the entrance of new players, such as non-bank digital providers that compete (and cooperate) between them and with banks in most of the areas of financial services as well as large digital players such as Google, Facebook or Apple, who have also started to offer financial services (mainly, payments and credit) ancillary to their core business. However, as of the date of this annual report, there is an uneven playing field between banks and such non-bank players. For example, banking groups are subject to prudential regulations that have implications for most of their businesses, including those in which they compete with non-bank players that are only subject to activity-specific regulations or benefit from regulatory uncertainty. Existing loopholes in the regulatory framework are another source of uneven playing fields between banks and non-bank players. Some new services or business models are not yet covered under existing regulations. In these cases, asymmetries between players arise since regulated providers often face obstacles to engage in unregulated activities.

Our future success may depend, in part, on our ability to use technology to provide products and services that provide convenience to customers. Despite the technological capabilities that we have been developing and our commitment to digitalization, as a result of the uneven playing field referred to above or for other reasons, we may not be able to effectively implement new technology-driven products and services or be successful in marketing or delivering these products and services to our customers, which would adversely affect our business, financial condition and results of operations.

In addition, companies offering new applications and financial-related services based on artificial intelligence are becoming more competitive. The often lower cost and higher processing speed of these new applications and services can be especially attractive to technologically-adept purchasers. As technology continues to evolve, more tasks currently performed by people may be replaced by automation, machine learning and other advances outside of our control. If we are not able to successfully keep pace with these technological advances, our business may be adversely affected.

We are a subsidiary of BBVA Group, and activities across BBVA Group could adversely affect us.

We are a part of a highly diversified international financial group which offers a wide variety of financial and related products and services including retail banking, asset management, private banking and wholesale banking. The BBVA Group strives to foster a culture in which its employees act with integrity and feel comfortable reporting instances of misconduct. The BBVA Group employees are essential to this culture, and acts of misconduct by any employee, and particularly by senior management, could erode trust and confidence and damage the BBVA Group and the Bank's reputation among existing and potential clients and other stakeholders. Negative public opinion could result from actual or alleged conduct by the BBVA Group entities in any number of activities or circumstances, including operations, employment-related offenses such as sexual harassment and discrimination, regulatory compliance, the use and protection of data and systems, and the satisfaction of client expectations, and from actions taken by regulators or others in response to such conduct.

For example, BBVA is currently conducting an investigation regarding allegations of improper activity related to its relationship with Grupo Cenyt which may have violated its ethical standards and applicable governance or regulatory obligations. Governmental authorities are also investigating this matter. This matter or any similar matters arising across the BBVA Group could damage our reputation and adversely affect the confidence of our clients, rating agencies, regulators, bondholders and other parties and could have a material adverse effect on our business, results of operations and financial condition.

Our credit ratings depend on Argentine 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. Argentina is no longer in default following the final agreement reached with certain of the holders of bonds issued by the Republic (holdouts), and as a result between 2016 and 2017 Argentina's sovereign ratings were upgraded, but in 2018 that trend was reversed, and the country was either downgraded or had its outlook put under review with negative outlook. A further 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 have a material adverse effect on 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, we are under continuous threat of loss due to cyber-attacks, especially as we continue to expand customer capabilities to utilize internet and other remote channels to transact business. Two of the most significant cyber-attack risks that we face are e-fraud and breach of sensitive customer data. Loss from e-fraud occurs when cybercriminals breach and extract funds directly from customers' or our accounts. A breach of sensitive customer data, such as account numbers, could present significant reputational impact and significant legal and/or regulatory costs to us.

Over the past few years, there have been a series of distributed denial of service attacks on financial services companies. Distributed denial of service attacks are designed to saturate the targeted online network with excessive amounts of network traffic, resulting in slow response times, or in some cases, causing the site to be temporarily unavailable. Generally, these attacks have not been conducted to steal financial data, but meant to interrupt or suspend a company's internet service. While these events may not result in a breach of client data and account information, the attacks can adversely affect the performance of a company's website and in some instances have prevented customers from accessing a company's website. Distributed denial of service attacks, hacking and identity theft risks could cause serious reputational harm. Cyber threats are rapidly evolving and we may not be able to anticipate or prevent all such attacks. Our risk and exposure to these matters remains heightened because of the evolving nature and complexity of these threats from cybercriminals and hackers, our plans to continue to provide internet banking and mobile banking channels, and our plans to develop additional remote connectivity solutions to serve our customers. We may incur increasing costs in an effort to minimize these risks and could be held liable for any security breach or loss.

Additionally, fraud risk may increase as we offer more products online or through mobile channels.

In addition to costs that may be incurred as a result of any failure of our IT systems, we could face fines from bank regulators if we fail to comply with applicable banking or reporting regulations as a result of any such IT failure or otherwise. Any of the above risks could have a material adverse effect on our business, results of operations and financial condition.

We face security risks, including denial of service attacks, hacking, social engineering attacks targeting its colleagues and customers, malware intrusion or data corruption attempts, and identity theft that could result in the disclosure of confidential information, adversely affect our business or reputation, and create significant legal and financial exposure.

Our computer systems and network infrastructure and those of third parties, on which we are highly dependent, are subject to security risks and could be susceptible to cyber-attacks, such as denial of service attacks, hacking, terrorist activities or identity theft. Our business relies on the secure processing, transmission, storage and retrieval of confidential, proprietary and other information in its computer and data management systems and networks, and in the computer and data management systems and networks of third parties. In addition, to access our network, products and services, our customers and other third parties may use personal mobile devices or computing devices that are outside of our network environment and are subject to their own cybersecurity risks.

We, our customers, regulators and other third parties, including other financial services institutions and companies engaged in data processing, have been subject to, and are likely to continue to be the target of, cyber-attacks. These cyber-attacks include computer viruses, malicious or destructive code, phishing attacks, denial of service or information, ransomware, improper access by employees or vendors, attacks on personal email of employees, ransom demands to not expose security vulnerabilities in our systems or the systems of third parties or other security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of us, our employees, our customers or of third parties, damage our systems or otherwise materially disrupt our or our customers' or other third parties' network access or business operations. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities or incidents. Despite efforts to ensure the integrity of our systems and implement controls, processes, policies and other protective measures, we may not be able to anticipate all security breaches, nor may we be able to implement guaranteed preventive measures against such security breaches and the measures we implement may not be sufficient. Cyber threats are rapidly evolving and we may not be able to anticipate or prevent all such attacks and could be held liable for any security breach or loss.

Cybersecurity risks for banking organizations have significantly increased in recent years in part because of the proliferation of new technologies, and the use of the internet and telecommunications technologies to conduct financial transactions. For example, cybersecurity risks may increase in the future as we continue to increase our mobile-payment and other internet-based product offerings and expand our internal usage of web-based products and applications. In addition, cybersecurity risks have significantly increased in recent years in part due to the increased sophistication and activities of organized crime affiliates, terrorist organizations, hostile foreign governments, disgruntled employees or vendors, activists and other external parties, including those involved in corporate espionage. Even the most advanced internal control environment may be vulnerable to compromise. Targeted social engineering attacks and "spear phishing" attacks are becoming more sophisticated and are extremely difficult to prevent. In such an attack, an attacker will attempt to fraudulently induce colleagues, customers or other users of our systems to disclose sensitive information in order to gain access to its data or that of our clients. Persistent attackers may succeed in penetrating defenses given enough resources, time, and motive. The techniques used by cyber criminals change frequently, may not be recognized until launched and may not be recognized until well after a breach has occurred. The risk of a security breach caused by a cyber-attack at a vendor or by unauthorized vendor access has also increased in recent years. Additionally, the existence of cyber-attacks or security breaches at third-party vendors with access to our data may not be disclosed to it in a timely manner.

We also face indirect technology, cybersecurity and operational risks relating to the customers, clients and other third parties with whom we does business or upon whom we rely to facilitate or enable our business activities, including, for example, financial counterparties, regulators and providers of critical infrastructure such as internet access and electrical power. As a result of increasing consolidation, interdependence and complexity of financial entities and technology systems, a technology failure, cyber-attack or other information or security breach that significantly degrades, deletes or compromises the systems or data of one or more financial entities could have a material impact on counterparties or other market participants, including us. This consolidation, interconnectivity and complexity increases the risk of operational failure, on both individual and industry-wide bases, as disparate systems need to be integrated, often on an accelerated basis. Any third-party technology failure, cyber-attack or other information or security breach, termination or constraint could, among other things, adversely affect our ability to effect transactions, service our clients, manage our exposure to risk or expand our business.

Cyber-attacks or other information or security breaches, whether directed at us or at third parties, may result in a material loss or have material consequences. Furthermore, the public perception that a cyber-attack on our systems has been successful, whether or not this perception is correct, may damage our reputation with customers and third parties with whom we do business. Hacking of personal information and identity theft risks, in particular, could cause serious reputational harm. A successful penetration or circumvention of system security could cause us serious negative consequences, including loss of customers and business opportunities, significant business disruption to our operations and business, misappropriation or destruction of our confidential information and/or that of our customers, or damage to our or our customers' and/or third parties' computers or systems, and could result in a violation of applicable privacy laws and other laws, litigation exposure, regulatory fines, penalties or intervention, loss of confidence in our security measures, reputational damage, reimbursement or other compensatory costs, additional compliance costs, and could adversely impact our results of operations, liquidity and financial condition.

An increase in fraud or transaction errors may adversely affect our reputation, results of operations and financial condition.

Due to the large number of transactions that occur in a financial institution such as the Bank, errors can occur and worsen before being detected and corrected. In addition, some of our transactions are not fully automated, which may increase the risk of human error, or manipulation, and it may be difficult to detect losses quickly. If we are unable to effectively and timely detect and remedy fraudulent and erroneous transactions, it could damage our reputation, entail serious costs and affect our transactions, as well as have a material adverse effect on our business, results of operations and financial condition.

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

Under Argentine law, the liquidation and commencement of bankruptcy proceedings against financial institutions, until their banking license has been revoked by the Central Bank, may only be commenced by the Central Bank. If BBVA Francés were unable to pay its debts as they come due, the Central Bank could intervene and revoke our 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. In recent years, 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 its fees and charges. If class action plaintiffs were to prevail in these or other matters 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, 2018, our parent company, BBVA, directly or beneficially owned 66.55% 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.

Our ability to grow our business depends on our ability to manage our relationships with partners and grow our deposit base.

We seek to grow our business by, among other means, increasing our client base. Our strategic partnerships are important components of our client acquisition strategy. We have various strategic partnerships, including those with LATAM Airlines, sponsorship of the soccer club Talleres de Córdoba and credit card programs with River Plate and Boca Junior, as well as insurance companies, such as La Caja, as well as the agreements with the automobile companies Peugeot, Renault and Volkswagen, which we depend on to expand our client reach cost-effectively, further expand our points of presence and enhance our value proposition. Any deterioration in our relationships with our strategic partners could adversely affect our strategy and materially and adversely affect our business, results of operations and financial condition.

In addition, the successful growth of our business depends on our ability to grow our deposit base. Political, economic or legal developments in Argentina or other factors could lead customers to withdraw funds from the Argentine financial system, adversely affecting us. If there are improvements in the Argentine economy, including lower inflation and increased bancarization and lending activity in the Argentine banking sector, we expect this would contribute to the growth of our business and profitability. However, we can provide no assurance regarding the future performance of the Argentine economy or how any improvements will affect us. If the Argentine economy fails to improve, it could have a material adverse effect on our business, results of operations and financial condition.

We may enter into one or more acquisitions which could adversely affect the value of the Bank.

We regularly explore consolidation opportunities in the ordinary course of business and believe there are significant opportunities to expand our footprint in the Argentine banking sector. In the event that we choose to make an acquisition in the future, any such transaction would involve a number of risks and uncertainties, including:

- the possibility that we pay more than the value we will derive from any such transaction;
- the possibility that Argentine economic and political conditions will not develop in the manner we expect;
- the possibility that the Argentine financial services market will not develop in the manner we expect;
- a reduction in our cash available for operations and other uses;
- the potential incurrence of indebtedness to finance any such transaction;
- delays in achieving or our failure to achieve successfully achieve the anticipated benefits of any acquisition;
- difficulties in integrating any business acquired, including difficulties in harmonizing the companies' operating practices, technology platforms, internal controls and other policies, procedures and processes;
- diversion of management time and resources in coordinating a larger or more geographically dispersed organization;
- the quality of the assets of the acquired business may be lower than we anticipate; and
- the assumption of certain liabilities, whether known or unknown.

Any of the foregoing or other risks and uncertainties related to any acquisition could have a material adverse effect on our business, results of operations and financial condition or the value of the Bank.

We may suffer adverse consequences related to our calculation of income tax for the years ended December 31, 2016 and 2017.

As discussed in our Form 6-K furnished to the SEC on June 30, 2017, on May 12, 2017, we filed a request for declaratory judgment with the Contentious Administrative Federal Court No. 12, Secretariat No. 23, seeking that such court declare unconstitutional certain provisions of Argentine law that prevented us from applying an inflation adjustment mechanism. On May 12, 2017, we filed our income tax return for 2016 giving effect to an adjustment for inflation, and in 2018 we filed our income tax return for 2017 also giving effect to an adjustment for inflation. As of the date of this annual report on Form 20-F, our request for declaratory judgment remains pending before the Contentious Administrative Federal Court No. 12, Secretariat No. 23. We are currently preparing our income tax return for 2018 and our Board of Directors will decide in the coming days whether to give effect to an adjustment for inflation in such income tax return.

At the request of the Central Bank, the Bank recognized an income tax provision of Ps.1,185.8 million in nominal terms for the year ended December 31, 2016 in our statutory consolidated annual financial statements presented to the Central Bank. Subsequently, based on our consideration of the technical merits of the tax deduction, which was confirmed by the Bank's legal and tax advisors, such provision was eliminated in the preparation of our Consolidated Financial Statements under IFRS-IASB included herein, positively affecting our results of operations for the year ended December 31, 2017. The Bank followed the same methodology in respect of the year ended December 31, 2017, recording a provision of Ps.1,021.5 million in nominal terms in respect of such year in our statutory consolidated annual financial statements, which in turn was eliminated in the preparation of our Consolidated Financial Statements under IFRS-IASB included herein, positively affecting our results of operations for the year ended December 31, 2018.

We cannot predict the outcome of this legal action or whether we will be required to amend our income tax returns for 2016, 2017 or any subsequent year (as applicable) in the future or make any provisions with respect thereto in our financial statements prepared under IFRS-IASB. If we are required to amend our income tax returns for 2016, 2017 or any subsequent year (as applicable), we may be required to pay interest and charges to the Argentine tax authorities, and could be subject to other consequences. We cannot predict the outcome of our request for declaratory judgment pending before the Contentious Administrative Federal Court No. 12, Secretariat No. 23, or whether it would have a material adverse effect on our business, results of operations or financial condition, or the trading prices of our ordinary shares and ADSs.

The Argentine economy qualifies as a hyperinflationary economy under IAS 29. Given that the peso is our functional currency, we apply IAS 29 for periods ending after July 1, 2018, and our Consolidated Financial Statements and other financial information are presented in terms of the measuring unit current at December 31, 2018.

IAS 29 requires that financial statements of any entity whose functional currency is the currency of a hyperinflationary economy, whether based on the historical cost method or on the current cost method, be adjusted in terms of the measuring unit current at the end of the reporting period. IAS 29 does not establish a set inflation rate beyond which an economy is deemed to be experiencing hyperinflation. However, hyperinflation is commonly understood to occur when changes in price levels are close to or exceed 100% on a cumulative basis over the prior three years, when presented together with certain other qualitative macroeconomic factors.

During the six-month period ended June 30, 2018, the decreasing trend of inflation in Argentina noted in recent prior periods reversed, with variations in different indexes being higher than in previous months. The total cumulative inflation in Argentina in the 36 months prior to June 30, 2018, as measured by both consumer and wholesale price indexes published by INDEC, exceeded 100%. Qualitative macroeconomic factors, including the depreciation of the peso in recent months, also support the conclusion that Argentina is now a hyperinflationary economy for accounting purposes. Accordingly, IAS 29 is applicable to any information as from July 1, 2018 included in any of our filings with the SEC under the Securities Act of 1933, as amended, or the Exchange Act of 1934, as amended (the "Exchange Act"). Argentine accounting standards authorities have reached a consensus that the "general price index" for IAS 29 purposes is determined considering the wholesale price index (WPI) up to December 2016 and the consumer price index (CPI) onwards. These indexes have been determined or referred to the National Institute of Statistics and Census (INDEC). Therefore, our Consolidated Financial Statements included in this annual report are adjusted by applying the relevant indexes and presented in terms of the measuring unit current at December 31, 2018.

In December 2018, the Congress approved Law No. 27,468, which included the possibility of adjusting for inflation. Likewise, Law No. 27,468 delegated to the Central Bank, in the case of financial entities, the entry into force of the new regulations. We have not applied IAS 29 Financial Reporting in Hyperinflationary Economies to our statutory consolidated annual financial statements presented to the Central Bank. In addition, the financial statements provided to the Central Bank are prepared in accordance with IFRS BCRA, which differs in significant respects from IFRS-IASB. See "*Presentation of Financial Information*". As such, the Consolidated Financial Statements included in this annual report are not comparable with our financial statements furnished to the Central Bank. The application of IAS 29 Financial Reporting in Hyperinflationary Economies to our financial statements presented to the Central Bank is required for fiscal years beginning on or after January 1, 2020 as set forth by the BCRA through Communication "A" 6651 issued on February 22, 2019.

We are subject to numerous restrictions on our ability to pay dividends.

We are subject to legal and other restrictions on our ability to pay dividends. In Argentina, financial institutions may distribute dividends provided that (i) they are not covered by the terms of sections 34 "Regularization and recovery" and 35 bis "Institution restructuring to safeguard lending and bank deposits" of the Law on Financial Institutions (Law No. 21,526); (ii) they are not receiving financial assistance from the BCRA; (iii) they are not in arrears or non-compliance with the information regime established by the BCRA; and (iv) they meet minimum capital requirements and cash requirements. See "*Item 8. Financial Information—A. Financial Statements and other Financial Information—Dividends*". Amounts available for distribution as dividends are determined pursuant to Argentine law and IFRS-BCRA. As a result, dividends may be paid when we have no income as determined under IFRS-IASB and, conversely, dividends may not be payable even if we have income as determined under IFRS-IASB. Moreover, BBVA as our majority shareholder has the power to approve or fail to approve any proposed dividends.

Legal, Regulatory and Compliance Risks

We identified material weaknesses in our internal control over financial reporting as part of management's assessment. If we are unable to remediate these material weaknesses, or if we identify additional material weaknesses in the future or otherwise fail to maintain an effective system of disclosure controls and procedures, investor confidence in the Bank and the market price of our ordinary shares and ADSs may be adversely affected.

We maintain disclosure controls and procedures designed to ensure that we timely report information as specified in applicable Argentine and U.S. rules. Within such disclosure controls and procedures, we maintain a system of internal control over financial reporting. However, these controls may not achieve, and in some cases have not achieved, their intended objectives.

Our management has issued a report on its assessment of the effectiveness of our internal control over financial reporting as of December 31, 2018 and concluded that we did not maintain effective internal control over financial reporting as a result of material weaknesses. These material weaknesses related to the preparation of the Consolidated Financial Statements in accordance with IFRS-IASB. Previously, our management also concluded as of December 31, 2017 that we did not maintain effective internal control over financial reporting as a result of certain material weaknesses. See *"Item 15. Controls and Procedures"*.

Although we have developed a remediation plan, we can provide no assurance that such plan will be successful or that we will be able to maintain effective internal control over financial reporting in the future, that misstatements due to error or fraud or otherwise will not occur, that all control issues have been detected or that we will be able to prepare our financial information on a timely basis. If our disclosure controls and procedures, including internal control over financial reporting, are not effective, it could have a material adverse effect on our business, results of operations and financial condition, could have an adverse effect on the price of our ordinary shares and ADSs and could subject us to regulatory scrutiny.

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 (for capital requirements see *"Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Capital Requirements"*). The Central Bank may penalize us, in case of any breach of applicable regulations. Similarly, the Argentine National Securities Commission ("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 for breaches of corporate governance. 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 our directors.

The Central Bank has also imposed restrictions on the positive foreign currency net global position of financial institutions, which have been modified several times, to prevent the Central Bank's foreign currency reserves from further decreasing. As of the date of this annual report, the positive foreign currency net global position may not exceed 5% 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" 6129, 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 the 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 could have a material adverse effect on 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 BBVA Francés.

During Cristina Kirchner's second term as President (from 2011 to 2015) 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 January 27, 2012, increased the capital requirements for financial institutions operating 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. 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. This requirement has been renewed every six months since then. The purpose of these measures implemented by the former government was to foster investment and growth. Finally, on November 3, 2017 the Central Bank determined that mandatory credit lines for productive financing and financial inclusion will continue to be required until December 2018. The quota for 2018 was a percentage of monthly non-financial private deposits in pesos as of November 30, 2017, according to the following schedule: January 2018: 16.5%, decreasing by 1.5 percentage points monthly until reaching 0% in December 2018. This is a significant development for banks given that the portion of deposits that financial institutions must loan at low interest rates was significantly reduced, allowing banks to allocate such funds in a more profitable way.

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

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

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

While the Macri Administration has repealed part of the regulatory framework enacted by the 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 unclear 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 have a material adverse effect on 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 could have a material adverse effect on our business, results of operations and 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 by us, or otherwise adversely affect our business, results of operations and financial condition.

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

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

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

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

Our operations are subject to various anti-corruption laws, including the U.S. Foreign Corrupt Practices Act of 1977, and economic sanction programs, including those administered by the United Nations and the United States, including the U.S. Treasury Department's Office of Foreign Assets Control. The anti-corruption laws generally prohibit providing anything of value to government officials for the purposes of obtaining or retaining business or securing any improper business advantage. As part of our business, we may directly or indirectly, through third parties, 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 adopted internal policies, procedures, systems and other mitigating measures designed to ensure compliance with applicable anti-corruption laws and sanctions regulations, there can be no assurance that such policies, procedures, systems and other mitigating measures 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, we engage in investigations relating to alleged or suspected violations of anti-corruption laws and sanctions regulations from time to time and any such investigations or any related proceedings could be time-consuming and 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. Moreover, after the enactment of Law No. 27,401 on Corporate Criminal

Liability, the Bank has begun to draw up an Integrity Program consisting of a set of actions, mechanisms and internal procedures to promote integrity, supervision and control, aimed at preventing, detecting and correcting irregularities and illegal acts included in Law No. 27,401. In this context, the Bank has an internal official whose function is the development, coordination and supervision of the Integrity Program. Although we believe that our current anti-money laundering program (which includes, among other elements, policies, procedures, technical infrastructure, independent reviews and training activities) is, and the Integrity Program will be, sufficient to comply with applicable rules and regulations, we cannot guarantee that our anti-money laundering and anti-terrorism financing programs and procedures will not be circumvented or otherwise not be sufficient to prevent all money laundering or terrorism financing. For example, we were recently notified by the UIF of the initiation of a summary proceeding against us and the members of our Board of Directors and our compliance officer relating to alleged violations of anti-money laundering regulations. We expect to defend the interests of such parties in such proceedings, but cannot predict the outcome thereof. Any violations of applicable anti-money laundering, anti-terrorism or other laws and regulations 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.

The statutory consolidated annual financial statements for the fiscal year ended December 31, 2018 that the Bank prepared to comply with the requirements of the Central Bank are the Bank's first annual financial statements prepared pursuant to the reporting framework established by the Central Bank requiring supervised entities to submit financial statements prepared pursuant to IFRS-IASB, with temporary exceptions from the application of (i) the impairment model in Section 5.5 Impairment of IFRS 9 Financial Instruments and (ii) IAS 29 Financial Reporting in Hyperinflationary Economies, both of which are applicable under the Central Bank's rules for the fiscal years beginning on or after January 1, 2020, and in accordance with the standards prescribed by Memorandum No. 6/2017 Financial Reporting Framework Established by the BCRA issued on May 29, 2017 regarding the treatment to be applied to uncertain tax positions. The Consolidated Financial Statements included in this annual report on Form 20-F have been prepared in accordance with IFRS-IASB. Although we expect to prepare our financial statements for purposes of both our annual reports on Form 20-F and the Central Bank under IFRS-IASB beginning with the fiscal year commencing January 1, 2020, we do not intend to report in accordance with IFRS-IASB on an interim basis during 2019. As such, our interim financial information for 2019 will not be comparable with the Consolidated Financial Statements and other information contained in this annual report on Form 20-F.

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

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

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

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

There is uncertainty regarding the possible effects that pension and tax reform could have in the Argentine economy.

On December 19, 2017, the Argentine Congress enacted the pension reform law that reformulates the Integrated Pension System in Argentina (SIPA), proposing an adjustment of the valuations of pensions and social benefits according to inflation and economic growth. The purpose of this law, together with the tax reform law, the labor reform bill and the capital markets law, is to increase the competitiveness of the Argentine economy by reducing both the fiscal deficit and poverty in a sustainable way.

Through Decree No. 110/2018 of February 8, 2018, the Argentine government regulated the articles of Law No. 27,426 on Pension Reform approved by the Argentine Congress at the end of 2017, and Law No. 27,260 that created the so-called “Historical Reparation Program”, which is a national program for retirees and pensioners by which the national government offers a proposal for readjustment of retirement benefits and, if applicable, the recognition of retroactive sums owed to certain retirees who have received inadequate payments. This Decree specified the scope of the new retirement regime, which will be applicable to retirees who have been granted readjustments through the Historical Reparation Program, and those who obtained a definitive sentence before March 1, 2018. It also leaves without effect the terms of article 252 of the Labor Contract Law (LCT) that had begun to elapse before the entry into force of Law No. 27,426 of December 29, 2017. Therefore, Decree No. 110/2018 allows the employer to require a worker who reaches 70 years of age to begin legal processes for retirement.

On December 28, 2017, the Argentine Congress enacted the tax reform law. The main taxes that are modified are those related to social security contributions, taxes on corporate and personal profits, bank credits and debits, gross income, stamp tax, value added tax, elimination of internal customs (subject to agreement with the provinces), environmental taxes (CO2) on fuels, transfer taxes on real estate and modifications to the customs code. The reform is to be implemented within one and five years (depending on each modification), which is expected to provide predictability to the changes and support the fiscal sustainability of the reform. These tax reforms are designed to promote investment, competitiveness and quality employment, by reducing tax evasion, to comply with the proposed fiscal goals and to move towards sustained development of the Argentine economy.

We cannot assure you that these reforms adopted by the Argentine Congress will achieve their stated goals. If these reforms are unsuccessful, they could have an adverse effect on the Argentine economy and, consequently, on our business, results of operations and financial condition.

There is uncertainty regarding financial sector reforms.

On January 10, 2018, the Argentine Executive Branch issued Decree No. 27/2018 (the “DNU”) whereby a series of new measures were implemented in order to facilitate public and private action by deregulating various markets and activities and simplifying standards. Much of the DNU is aimed at the financial sector, including Chapters II (on companies), III (on the trust fund for the development of entrepreneur capital MiPyMES), IX (which regulates the Argentine guarantee fund), X (on reciprocal guarantee companies), XVI (on the sustainability guarantee fund), XIX (on insurance), XX (on the actions of the financial information unit) and XXII (on access to credit and financial inclusion). The DNU aims in general to reduce government bureaucracy, simplify processes, improve the operation of the financial system and generate competition. We can provide no assurance that the DNU will achieve its intended results. Any failure of the DNU to achieve its goals could have a material adverse effect on our business, results of operations and financial condition.

ITEM 4. INFORMATION ON THE COMPANY

Recent Political and Economic Developments in Argentina

Argentina experienced economic growth of 2.9% in 2017 and an environment of global optimism. 2018 started with a greater level of uncertainty and expectations of increases in the main benchmark interest rate of the United States.

In December 2017, the financial authorities in Argentina decided to increase inflation targets. Because such targets appeared to be unattainable, the Central Bank decreased the monetary policy rate, which had previously been subject to incremental adjustments. This led to a loss of confidence in the Central Bank’s monetary policy and an increase in inflation expectations.

A period of volatility began by mid-April 2018, initially in the foreign exchange market, triggered by both external and internal factors. In particular, the increase in the main benchmark interest rate of the United States and trading tensions between the United States and its main trading partners had consequences on emerging markets, in particular on the economies that showed greater vulnerability such as Argentina and Turkey.

In addition to such external factors, a significant and unexpected drought caused heavy damage to the main agricultural area of Argentina with an adverse impact on the harvest and, consequently, on domestic economic growth and the supply of foreign currency from the external sector. On the financial side, a number of policy imbalances and inconsistencies became evident and caused alarm in the markets, eventually triggering an abrupt capital flight and a stop in foreign funding by mid-May thus causing the exchange rate (Central Bank benchmark) to rise from 20.69 Ps./US\$ at April 30, 2018 to 28.86 Ps./US at June 30, 2018.

The Central Bank was unable to control the run on the foreign exchange market in spite of having used reserves to stabilize it. In this scenario, the government decided to seek credit support from the IMF in order to achieve an orderly adjustment process for the economy. The arrangement was closed in June 2018 and provided for a three-year US\$50 billion stand-by loan agreement subject to the fulfilment of certain stricter fiscal goals and reserve objectives, but also to more relaxed inflation targets and without any request for wide structural reforms. Emphasis was placed on the need to reinforce the independence of the Central Bank, with reforms including the immediate prohibition against financing the treasury and strengthening of the Central Bank balance sheet by reducing the stock of Central Bank Bills (Letras del Banco Central, Lebac). A floor was prescribed for social spending that could be increased by up to 0.2% of GDP if a need arises to provide assistance to the most vulnerable.

As a result of the considerable amount of the IMF loan and rapid disbursement of the first tranche, the foreign exchange market started to stabilize early in July 2018, following the change in the President of the Central Bank. However, such stability did not last long. The run on the currency increased the uncertainty about the future of the economy and had an adverse impact on the image of the government and consumers' confidence declined. By the end of August 2018 a new round of capital flight and peso depreciation took place (the exchange rate rose from Ps./US\$ 27.34 on July 31, 2018 to Ps./US\$ 40.9 on September 28, 2018. Following a new fiscal adjustment which accelerated to 2019 the zero primary fiscal deficit target, a revised agreement was signed with the IMF which increased the funding from US\$50 billion to US\$57.6 billion and also frontloaded the disbursements to cover all financial needs of 2018 and 2019 so that the government would not have to resort to credit markets to place debt until 2020. The new fiscal goal required a step back in relation to certain reforms enacted in 2017 to ease the tax pressure, such as a decrease in export tax withholdings and the tax on personal assets.

Following a new change of management in the Central Bank, the inflation target system was abandoned and superseded by a new monetary-foreign exchange scheme effective in October 2018 based on a strict control over the monetary base and which is designed to remain steady on a non-seasonal basis until June 2019 with minimum growth until December of such year. At the same time, a "non-intervention" band was established for the foreign exchange market by which the exchange rate floats and the Central Bank may only engage in intervention outside such ranges and on a restricted basis. This scheme appeared to be effective during the fourth quarter of 2018 as the monetary base goals were fulfilled and the exchange rate remained within the stipulated ranges.

Economic Data

- Economic Activity

During 2018 economic activity measured by GDP fell 2.5% compared to 2017. In the first half of the year the deterioration in economic activity was mainly related to the effects of the drought. However, in the second half of the year the deterioration of domestic financial conditions worsened the economic recession, mainly affecting the levels of consumption and investment. Although the economy could begin to recover in 2019, GDP is still expected to contract by 1.2%.

With respect to the labor market, in 2018 there was an increase in the unemployment rate to around 9.2% compared to 8.4% in 2017.

- Prices

The domestic CPI increased by 47.6% in 2018, reflecting an acceleration of inflation compared to 24.8% in 2017, as a result of the foreign exchange and financial crisis during the year.

Core inflation reached 47.7% as a result of the effect of devaluation on prices. Transportation prices increased by 66.8%, food and beverages increased by 51.6%, miscellaneous goods and services increased by 53.2%, health costs increased by 50.2% and household furniture and maintenance increased by 50.3%, all of which changes were above average.

- Public Finances

The domestic public sector recorded a primary deficit of Ps.338,987 million in 2018, accounting for approximately 2.3% of GDP. As a consequence, the annual fiscal goal of 2.7% was exceeded based on the commitment for the year in the agreement with the IMF. This result reflects a 16.1% decrease compared to the deficit in the previous year.

Primary public spending showed a year-on-year 22.4% increase, while revenues from the public sector increased 30.2%. Repayment of interest on public debt increased by 72.9% as a result of both an increase in indebtedness and the effect of devaluation on liabilities denominated in foreign currency. The overall deficit reached Ps.727,927 million, accounting for a 15.7% increase compared to 2017.

With respect to spending, there was a year-on-year 1.1% increase in capital spending while subsidies to economic sectors rose by 22.5%, to partially offset the effect of devaluation on the price of energy. Total welfare benefits increased by 27.6%, operating expenditures increased by 22.5% and transfers from the federal government to the provinces fell by 4.1%.

Tax revenues rose by 25.6% due to increases in revenues from the value added tax ("VAT"), the tax on banking transactions and taxes on foreign trade.

- *External Sector*

The trade deficit in 2018 reached US\$3,823 million, a reduction compared to the deficit of US\$8,472 million in the previous year. This result is a consequence of exports totaling US\$61,621 million, 5.1% higher than the previous year, with a 5.4% decline in sales of primary products as a result of the adverse effects of the drought. Exports of agricultural products increased by 1.5%, while industrial exports increased by 9.3% and exports of fuel and energy increased by 69.2%, with fuel and energy accounting for 6.8% of total exports.

On the other hand, imports reached US\$65,441 million in 2018, a 2.2% decrease compared to 2017. All categories of imports experienced decreases as a result the contraction of the economy and the impact of devaluation of the peso, except for intermediate goods which increased by 14.6% and fuels and lubricants which increased by 14.1%. The greatest decline was in capital goods which decreased by 17.9%.

The current account deficit of the balance of payments amounted to US\$28,003 million in 2018, 11.4% lower than the previous year. Despite devaluation, the external sector did not experience a rapid adjustment, in addition to increasing the accrual of interest on debt held by non-residents.

In the foreign exchange market, the Peso depreciated by 50.3% in the year, and the exchange rate reached 37.81 Ps./US\$ as of December 31, 2018. The market was characterized by great volatility during the year and such volatility was one of the main factors of instability and was especially strong in May/June and August/September.

International reserves reached US\$65,806 million as of the end of the year, a US\$10,751 million increase compared to the balance as of December 2017, mainly due to three disbursements received under the stand-by agreement with the IMF in an aggregate amount of US\$28 billion and the accounting as international reserves of a supplementary currency swap agreement with China in the amount of ¥ (yuan) 60 billion (US\$9 billion) confirmed in December 2018. Sales of reserves held by the Central Bank on the foreign exchange market reached US\$15,968 million and were effected in March and September 2018.

Monetary Policy

At the beginning of the year the monetary aggregates were driven by the growth in the previous year but were also affected by the financial crisis and policy changes at the Central Bank. The monetary base in terms of balances increased by 40.7% in 2018, mainly as a result of an increase in the current account of banks at the Central Bank which grew by 156.3% due to increase in mandatory reserve requirements (encajes), while cash held by the public rose by 5.4% in the year. The M2 monetary aggregate (which includes money in circulation plus sight deposits), measured in balances, grew by 22.7% in the same period.

In 2018, the Central Bank managed to eliminate the stock of Lebac (Letras del Banco Central, an instruments of short term debt issued by the Central Bank), which had reached a peak of Ps.1,290,667 million in March, out of which 72% was held by private sector investors. Monthly auctions had become one of the events of great uncertainty and volatility due to the large number of monthly maturities. The strategy consisted in partial rollovers, increasing the system liquidity requirements to neutralize the ensuing monetary expansion and at the same time offering instruments denominated in pesos issued by the treasury to channel the demand for short-term debt instruments in pesos. The stock was discharged in full on December 19, 2018. This discharge and the elimination of monetary funding to the Treasury are the main pillars on which the new monetary and foreign exchange scheme are based.

As a consequence of the crisis, the instability of the financial market and the agreement with the IMF, the Central Bank abandoned the inflation target scheme and replaced it with a strategy consisting of control over the monetary base as a nominal anchor of the economy.

The monetary base goal was implemented in the fourth quarter of 2018 through daily auctions of Liquidity bills (Leliq), an instrument which is only held by banks, the benchmark interest rate of which is determined endogenously at the auctions according to demand by banks and the amount offered by the Central Bank for purposes of achieving the intended monetary base target.

With respect to the foreign exchange market, a non-intervention band was established, the ranges of which are adjusted as determined by the Central Bank. The lower and upper band were initially set at 34 and 44 Ps./US\$ and during the last quarter of the year they were adjusted on a daily basis by a 3% monthly rate. If the exchange rate falls outside such range, the Central Bank would have the option to engage in intervention with certain restrictions, such as a daily intervention level. During the fourth quarter of 2018 the exchange rate remained within the ranges.

Financial System

All comparisons of the financial system contained in this annual report on Form 20-F are presented in nominal terms.

The rise in interest rates had an impact on the operation of the financial system throughout the year. As to deposits, both this factor and the cancellation of the stock of Lebac resulted in a 50.4% growth of total deposits denominated in pesos, while peso-denominated deposits held exclusively by the private sector increased by 41.4%. The increase in term deposits (65% for traditional term deposits denominated in pesos and 865.3% for those indexed by the benchmark stabilization coefficient/purchasing power unit (CER/UVA)) is notable. Performance of sight deposits was weaker in the private sector, with peso-denominated checking accounts increasing by 23.5% and peso-denominated savings accounts increasing by 23.2%. Dollar-denominated deposits held by the private sector grew by 9.7% during the period.

As regards loans, the lending growth, in particular consumer loans and loans to companies, was contingent upon the interest rates and the BCRA's restrictive monetary policy. The stock of peso-denominated loans granted to the non-financial private sector grew by 17.2% in the year. Placements were led by mortgage-backed loans which rose by 62.3%, which remained strong during the first 4 months of the year. Dollar-denominated loans grew by 3.7% in dollar terms.

The Badlar interest rate (interest on deposits in excess of Ps.1 million) of private banks, stated in monthly averages, was 23% at the start of the year and rose during the second half of the year up to 51.3% in November, and it averaged 48.6% in December 2018. The rise in the Badlar rate, and those of other lending and borrowing rates rose in tandem with the rise in the BCRA policy rate (until October the average monetary policy rate and thereafter the Leliq rate) which was 27.25% in January 2018 but reached almost 72% in October ending at 59.25% on December 31, 2018. The high interest rates contributed to maintaining attractive deposits in pesos in light of the foreign exchange market instability and the increasing country risk.

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 Avenida Córdoba 111 31st floor, C1054AAA, 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 28 Liberty Street, New York, New York 10005.

BBVA Francés' original by-laws were approved on November 20, 1886 by a decree recorded in the Public Registry of Commerce of the City of Buenos Aires, and the last amendment was recorded on October 25, 2017. 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 ordinary and extraordinary shareholders' meeting held on April 24, 2019 modified BBVA Francés' by-laws to change the Bank's legal name to BBVA Argentina S.A. and make certain modifications regarding public offerings in conformity with Articles 62 bis and 63 of Law 26,831. Such amendments are pending registration with the Public Registry of Commerce ("IGJ").

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-sized companies ("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 its focus on medium- and low-income individuals and small and medium-sized companies 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 Banco Francés S.A. On October 4, 2000, the Public Registry of Commerce registered our change from Banco Francés S.A. to BBVA Banco Francés S.A., and the amendment to our by-laws were made to reflect the name change.

In the early 2000s 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 recent years, the Bank has focused mainly in the most profitable segments, retail and small and medium-sized companies, while maintaining the leadership in the large corporations business.

On February 9, 2012, the respective boards of directors of BBVA Francés and Inversora Otar S.A. (a company whose sole purpose was to develop the activities of an investment company, and whose majority shareholder was BBV America SL) approved the merger between the two companies, and on March 26, 2012 the shareholders' meetings of both companies approved the transaction. After being approved by the Central Bank and the CNV, the merger was registered in the Public Registry of Commerce on March 27, 2014, under number 5,302.

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.

BBVA Francés considers the high income segment as strategic and for that reason in 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 in that 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. On January 18, 2018, Volkswagen Financial Services Holding Argentina S.A. and BBVA Banco Francés S.A., as shareholders, held an ordinary and extraordinary general meeting at which they decided to increase the share capital by Ps.400 million, going from Ps.497 million to Ps.897 million. The amount corresponding to the capital increase was subscribed in its entirety on the day of the shareholders' meeting, in proportion to the shareholding of each shareholder. As a result, the 51% shareholding of BBVA Francés in the company is represented by 204 million common shares, nominative, non-endorsable, with a par value of Ps.1.00 each and entitled to one vote per share. On September 25, 2018, BBVA Francés lost control over the company due to the termination of the two-year commitment by the Bank to provide financing to the company if it were to fail to diversify its sources of funding. According to IAS 28, VWFS qualifies as a joint venture and, as such, it has been deconsolidated effective since the date of loss of control.

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. Throughout 2017, new changes were implemented in the Senior Management. Mr. Ernesto Gallardo was appointed as Director of the Financial and Planning Area, succeeding Mr. Ignacio Sanz y Arcelus; Mr. Eduardo González Correas was appointed as Director of Legal Services, succeeding Mr. Adrián Bressani; and Mrs. Mónica Etcheverry was appointed as Director of Normative Compliance, succeeding Mr. Walter Vallini. On October 13, 2017 the Nomination and Remunerations Committee decided to incorporate Mr. Eduardo González Correas and Mrs. Mónica Etcheverry into the Management Committee.

On June 13, 2017, the shareholders of BBVA Francés held an ordinary and extraordinary general meeting in which they approved the increase of share capital by public subscription for the sum of up to Ps.145 million of par value, through the issuance of up to 145,000,000 ordinary, book-entry shares with the right to one vote and par value one Ps.1.00 per share, delegating to the Board of Directors the powers to implement this share capital increase and determine the conditions of the offering.

On July 18, 2017, the Board of Directors approved the offering of 66,000,000 ordinary shares with a subscription price of US\$5.28 per share and US\$15.85 per American Depositary Share (ADS), utilizing the reference exchange rate published by the BCRA on that date (Ps.17.0267) for the purposes of determining the price in pesos. On July 24, 2017 the offering was closed.

In accordance with the terms of the underwriting agreement for the offering, on July 26, 2017, the underwriters exercised the option to acquire 9,781,788 additional new shares (equivalent to 3,260,596 ADS) at the same offering price. On July 31, 2017 the offering of the additional shares closed. The proceeds from the offering were used to continue with the Bank's growth strategy in the Argentine financial system.

On March 8, 2019, the respective boards of BBVA Francés and BBVA Francés Valores S.A. approved the merger of the two companies, and on April 24, 2019, the respective shareholders' meetings approved the transaction. Currently, the transaction is pending authorization by the CNV.

Within the framework of the Divestment Commitment assumed by Prisma Medios de Pago S.A. ("Prisma") and its shareholders against the National Commission for the Defense of Competition, the Bank, together with the other shareholders of Prisma, accepted an offer by AI Zenith (Netherlands) B.V. (an affiliate of Advent International Corporation) to acquire 51% of the common shares of Prisma. The Bank's pro rata share of such offer amounted to 2,344,064 common shares, representing 5.6721% of the share capital of Prisma and 51% of the Bank's stake in Prisma.

For each shareholder, including the Bank, the divestment commitment involves the pro rata sale of at least 51% of their shares in Prisma before January 23, 2019 and the remaining 49% of their shares within 36 months after the end of such initial sale.

The sale was completed on February 1, 2019. Following this transaction, the Bank owns 2,252,139 shares of Prisma, representing 5.4496% of its share capital. This transition does not affect the normal development of the Bank's business.

On March 26, 2019 Mr. Jorge Bledel presented, and the Board of Directors accepted, his resignation as member of the Board. The shareholders' meeting held on April 24, 2019 elected Mrs. Isabel Goiri to succeed Mr. Jorge Bledel, and she became the new chairwoman of the Board. This appointment is subject to BCRA approval.

BBVA Tower

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 Republic and was part of the plan designed in 2010 by BBVA Francés to unify its core areas, which were divided among 10 buildings in the City of Buenos Aires.

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 Republic. 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 was completed in April 2017.

On October 30, 2018, BBVA Francés recorded the deed to its headquarters offices.

As a result of the completion of the process, the Bank has decided to offer for sale certain buildings where its central offices were located. At the Board meeting of June 26, 2018, it was decided to accept a purchase offer for the properties located at Reconquista 40, Presidente Perón 362, Maipú 356 functional unit 16, Bolívar 501 and Mexico 628 functional unit 1, all within the Autonomous City of Buenos Aires. On July 05, 2018, the sale of these properties was finalized.

B. Business overview

BBVA Francés is a leading Argentine banking institution present in the local financial system since 1886. We are a subsidiary of the BBVA Group, our principal shareholder since 1996. We are the third largest bank in Argentina not controlled by a government entity in terms of total deposits, with a 6.4% market share of total banking system deposits and the third largest private Argentine bank in terms of total loans, with 7.8% of total banking system loans excluding the Bank's joint ventures, and 8.6% of total banking system loans including the Bank's joint ventures, based on information published by the Central Bank as of December 31, 2018. As presented in this annual report on Form 20-F, market share data is based on data published by the Central Bank which has not been adjusted for inflation. As such, certain of the information presented in this annual report as adjusted for inflation may not be directly comparable to information published by the Central Bank.

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. Foreign currency deposits can be lent only to companies that generate flows in the same currency.

The Bank was one of the first companies listed on the Buenos Aires Stock Exchange (now the BYMA), 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).

As of December 31, 2018, we had total consolidated assets of Ps.361.5 billion, a total loan portfolio of Ps.181.6 billion, total deposits of Ps.259.5 billion and total shareholders' equity of Ps.45.5 billion, on a consolidated basis. Our consolidated net loss for the year ended December 31, 2018 was Ps.1.5 billion and our consolidated net income for the year ended December 31, 2017 was Ps.1.9 billion.

Through our universal banking platform, we provide a broad range of financial and non-financial services to both individuals and companies throughout Argentina, going across all segments of the population, including retail and commercial banking, insurance, asset management, securities brokerage, and investment banking products and services. We believe the wide range of financial solutions we offer our customers, complemented by our unique strategic alliances and strategic partners, as well as our capacity to leverage the BBVA Group's global expertise, relationships and technological platform, provide us with a significant competitive edge compared to other Argentine companies in the financial sector. Such competitive advantages place us in a privileged position to capture opportunities arising from favorable macroeconomic policies and reforms implemented in 2015-2016, and to capitalize on the consolidation potential of the fragmented banking sector.

We manage the following entity-wide business lines:

- *Retail banking*, through which we offer financial services to individuals across all income segments. Our main retail banking products include checking and savings accounts, time deposits, credit cards, personal and auto loans, mortgages, insurance and investment products. Despite our historically strong presence within the middle-income and affluent segments of the population, our products and distribution channels are designed to attract clients across all client segments. As of December 31, 2018, we had approximately 2.5 million active retail banking clients, compared with 2.3 million active retail banking clients as of December 31, 2017. Our retail banking strategy is focused on growing our client base, expanding our product offering and services, particularly in underdeveloped products such as mortgages and in products where we see potential to increase our market share such as personal loans, and leveraging our technological platform to enhance our clients' banking experience. As of December 31, 2018, we had total loans of Ps.76.9 billion and total deposits of Ps.180.6 billion within our retail banking business line, which decreased 4.4% and increased 12.0%, respectively, when compared to December 31, 2017.

- *Small and medium-sized companies* through which we offer financial services primarily to local private-sector companies. Our main middle market products include financing products, factoring, checking accounts, time deposits, transactional and payroll services, insurance and investment products. As of December 31, 2018, we had approximately 46 thousand middle market clients. We believe that small and medium-sized companies are a key element for economic growth in Argentina, and we are focused on expanding the number of clients we serve and on being a strategic ally to our middle market clients, supporting them with tailored products and transactional solutions, as well as with differentiated customer support through our 252 branches. As of December 31, 2018, we had total loans of Ps.52.4 billion and total deposits of Ps.49.2 billion within our small and medium-sized companies business line, which decreased 17.5% and increased 5.8%, respectively, when compared to December 31, 2017.
- *Corporate and investment banking (C&IB)*, through which we offer financial services to some of the largest Argentine corporations and multinational companies operating in Argentina. In addition to the products we offer to our middle market company clients, we provide our corporate and investment banking clients with global transaction services, global markets solutions such as risk management and securities brokerage, long term financing products including project finance and syndicated loans, and corporate finance services including mergers and acquisitions and capital markets advisory services. As of December 31, 2018, we had approximately 1,100 corporate banking clients, which included substantially all of the largest corporates and multinational companies in Argentina. Within our corporate and investment banking business line, we are focused on leveraging the deep expertise of our industry-focused relationship executives, supported by the BBVA Group's global network, to continue to provide bespoke global financial solutions to our corporate client base. We are focused on being a trusted partner for our corporate clients as they seek to finance investment opportunities, particularly within certain sectors of the economy where investment has lagged such as telecommunications, energy and infrastructure. As of December 31, 2018, we had total loans of Ps.52.2 billion and total deposits of Ps.29.7 billion within our corporate and investment banking business line, which increased 15.7% and 52.3% respectively, when compared to December 31, 2017.

We offer our products and services through a wide multiple-channel distribution network with presence in all the Argentine provinces and in the City of Buenos Aires, servicing 2.5 million active clients as of December 31, 2018. This network includes 252 branches, which provide services to the retail segment and to small and medium-sized companies and institutions. Corporate Banking is divided by industry sector into Consumer Goods, Heavy Industries and Energy, each of which provides personalized services to large companies. Complementing the distribution network, at December 31, 2018 there were 14 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 two points of express support, 834 ATMs and 844 self-service terminals ("SSTs").

Additionally, we provide an electronic banking service, a modern, secure and functional internet banking platform and a mobile banking app. The Bank had a total number of 6,107 employees as of December 31, 2018.

The distribution network is complemented by business alliances, including those with LATAM Airlines, sponsorship of the soccer club Talleres de Córdoba and credit card programs with River Plate and Boca Junior, as well as insurance companies, such as La Caja, as well as the agreements with the automobile companies Peugeot, Renault and Volkswagen, that have allowed us to expand our client reach cost-effectively and further expand our points of presence while enhancing our value proposition.

BBVA Francés has invested in its physical and digital distribution network, making it possible to offer a differential, flexible, convenient banking experience to its customers. In addition, we consider that with our existing distribution structure, we have the necessary reach and scale to facilitate our expected growth while improving our operating efficiency, number of customers and products.

We believe we have a privileged position to take advantage of the market opportunities that appear in a scenario of economic growth and declining inflation and in a financial system expected to grow and further consolidate.

Strategy

BBVA Francés has identified transformation and growth as the drivers of its strategy.

Transformation

BBVA Francés focuses on transformation based on the conviction that client experience will be the decisive differentiating factor in the success of the institution in the coming years. Moreover, the financial intermediation activity is aligned with the technological revolution reshaping most industries, forcing the Bank to reconsider and redesign the model to service, attract and interact with customers in general.

The following describes the Bank's primary transformative initiatives in 2018:

Digital Transformation

The Bank's digital transformation began in 2015 with an expanded digital presence in Google and Facebook. In 2017 and 2018 the Bank's digital strategy became more sophisticated by adding leading digital applications and focusing on excellence in user experience and digital sales solutions, thus supplementing the Bank's traditional channels to become more productive and increase the number of clients.

During 2018, 46.4% of the Bank's products were sold through digital platforms, while 59.4% of retail clients were already engaging in digital transactions compared to 41.1% and 54.7% in 2017, respectively. The Bank believes this transformation makes it distinct from its competitors as to quality of service, leading to its consistently high NPS (Net Promoter Score), for which the Bank always aims to rank first among Argentine banks. In turn, BBVA Francés seeks to take advantage of data and technology to design offerings of products and services that meet clients' needs.

The Bank's digital transformation strategy is primarily focused on increasing client self-service through digital tools, growing in an open market and improving points of physical contact with clients. BBVA Francés has been focused on developing an omni-channel service model, in which physical branches are just one way among many of connecting with clients. While the Bank has an extensive countrywide branch network present in all provinces, the role of branches is changing and is expected to continue to change. More and more value-added transactions are expected to be served personally, while other types of transactions will be increasingly undertaken through digital channels.

In sum, the Bank's digital transformation process is an essential element of its strategy, from both business and growth perspectives, which enables it to connect and serve clients in a manner consistent with their expectations, as reflected in the Bank's consistently high NPS. It also contributes to the Bank's efficiency, paving the way for a better use of resources and delivering a competitive advantage.

Cultural Transformation - Agile

In 2018 the Bank undertook a cultural transformation under the name and concept of "agile", with a focus on always putting the customer first and finding solutions to their needs. Under this new model the Bank implemented a new organizational structure, providing greater resources to teams and new working methodologies including reorganization of roles and tasks, open communication and synergies fostered by open plan workspaces, and the latest technology available.

Growth

In 2018 BBVA Francés reaffirmed its goal to increase its market share and is now one of the leading banks in the Argentine financial system. The Bank has implemented an ambitious growth plan which includes expanding the customer base, both for individuals and companies, as well as the size of the balance sheet. This growth plan, which was implemented by BBVA Francés in 2017, continued during 2018 in terms of expansion of the client base of both individuals and companies, with an increase of over 162 thousand active clients during 2018, reaching an aggregate of 2.5 million retail clients as of December 31, 2018. With respect to small and medium-sized companies, BBVA Francés reorganized the management model for this client segment, providing service to small and medium-sized companies throughout the entire network of branches, thus enabling greater penetration of and closeness to smaller companies, achieving a client base of approximately 48 thousand companies as of December 31, 2018.

2018 Highlights

BBVA Francés closed its fiscal year ended December 31, 2018 as one of the leading financial institutions in the Argentine financial system, increasing its customer portfolio and gaining market share in its credit portfolio.

The total loan portfolio of BBVA Francés amounted to Ps.181.6 billion as of December 31, 2018, which reflected a 3.9% decrease year-on-year, while private loans amounted to Ps.171.9 billion, decreasing 5.7% year-on-year. As a result, the Bank had a private loans consolidated market share of 8.7% as of December 31, 2018 (based on BCRA market information as of such date).

The Bank's growth plan has focused on products and segments that the Bank considers vital for economic development of both customers and Argentina as a whole in the coming years. Loans decreased by 3.9% from December 31, 2017 to December 31, 2018 and increased by 42% on a nominal basis, in which context the Bank has expanded its market share from 7.3% as of December 31, 2017 to 7.7% as of December 31, 2018, an increase of 40 b.p. (based on BCRA market information as of such date).

BBVA Francés has been focused on gaining market share for its core products. In the retail business there was an increase in personal loans, which had a market share of 5.29% as of December 31, 2018, an increase of 65 b.p. compared to its market share as of December 31, 2017 (based on BCRA market information as of such date). It also increased its share in the credit card business, both in financing and consumption, which increased by 97 b.p and 96 b.p., respectively, from December 31, 2017 to December 31, 2018. In addition, the market share for commercial loans increased by 63 b.p. over the same period (based on BCRA market information as of such date).

With respect to liabilities as of December 31, 2018 total deposits amounted to Ps.259.5 billion, increasing 14.2% over the prior twelve months, over which period our sight account deposits (checking and savings accounts) grew 11.2%, whereas time deposits rose 26.6%. As of December 31, 2018, saving and checking accounts amounted to Ps.169.7 billion. The Bank's market share for private sector deposits rose 25 b.p reaching 8.0% as of December 31, 2018 (based on BCRA market information as of such date).

The Bank considers funding from deposits as a vital component in its financing given the lack of depth of the Argentine capital markets and difficulties of Argentine companies in accessing international capital markets, especially in the retail and middle market segments. In this line, UVA deposits were launched in 2017 and have been significant for the Bank at both the retail and wholesale levels.

On November 8, 2018, BBVA Francés issued Series 25 of its UVA bonds for Ps.784.3 million (nominal value). The bonds mature 24 months after issuance and carry a 9.5% fixed interest rate which is payable quarterly.

Business Lines

Below is an overview of each of our principal business lines and their evolution during 2018.

Retail Banking

The Bank has a very strong presence in the retail banking segment where it offers a comprehensive set of financial services across all income segments and provides services to employees (payroll), professionals and merchants.

We offer our products and services through our extensive multi-channel distribution network that includes 252 branches, 834 ATMs, 844 self-service terminals, a telephone banking service, a modern, secure and functional internet banking platform with over one million active users representing over 59% of our total clients (including Premium World (Affluent), Premium (Mass Affluent) and Classic (Mass)), a mobile banking app with more than 563,000 users and a total of 6,107 employees, each as of December 31, 2018. Our distribution network is complemented by strategic partnerships that have allowed us to expand our client reach cost-effectively.

Our business alliances, which include for example LATAM Airlines, the Talleres de Cordoba soccer team and credit card programs with River Plate and Boca Junior, as well as Peugeot, Renault and Volkswagen, and insurance companies such as La Caja, allow us to not only offer an attractive and differentiated value proposition to our 2.5 million active customers but also expand our customer base.

We have made our digital strategy a priority. In this respect, maintaining a cutting-edge digital banking platform has been a key element of our strategy as clients increasingly value the flexibility and convenience of digital channels. As of December 31, 2018, more than half of our total clients were active users of our website and/or our mobile banking app. We have established an ambitious internal goal of all of our clients experiencing our digital channels and of originating a significant portion of our sales online. In addition to being convenient for our clients, digital channels yield other benefits for us such as improving our operating efficiency, reducing capacity utilization and resources used at our branches and other physical channels and generating business intelligence with respect to our clients' behaviors and needs that facilitates innovation.

We are also committed to providing a differentiated and high quality service and user experience for our clients at our branches and throughout our entire distribution network. We believe that customer service is highly valued by users of financial services in Argentina and that providing high quality service is an important way of distinguishing ourselves from our competitors. In this respect, we constantly improve our branches and digital applications to further enhance our customers' experience. In addition, we monitor regularly our performance through client surveys and other feedback mechanisms to ensure that we consistently provide a high quality experience. We will continue to be focused on deploying technology innovations and adapting our processes to reduce customer wait times at branches and improve the productivity of our workforce.

With the objective of providing the best possible value proposition to all our customers, we have segmented our retail business in the following groups:

- Premium World (Affluent). This group includes our wealthiest customers and as of December 31, 2018 accounted for approximately 94,108 clients, a 40% increase from the previous year.
- Premium (Mass Affluent). As of December 31, 2018 this group accounted for approximately 173,219 clients, a 12% increase from the previous year.
- Classic (Mass). As of December 31, 2018 this group accounted for approximately 1,530,085 clients, a 5% increase from the previous year.
- Financial Inclusion (Express). As of December 31, 2018 this group accounted for approximately 670,278 clients, a 6% increase from the previous year. This group is defined by the limited interactions they currently have with us; however they also represent an attractive cross-selling opportunity. They usually have a single savings account and sometimes one credit card.

We strive to be our clients' principal bank, and to that end we have teams that actively work across each of these customer groups to obtain our customers' payroll deposits. As of December 31, 2018 we had 583,474 customers with their payroll direct deposited with the Bank.

As of December 31, 2018, our non-performing loan ("NPL") ratio (defined as loans with more than 90 days past due divided by total loans) for retail lending was 2.14%, compared to 1.44% as of December 31, 2017.

In terms of assets, as of December 31, 2018, the loan portfolio amounted to Ps.76.9 billion, decreasing 4.5% in the year, whereas deposits amounted to Ps.180.6 billion, an increase of 12.0%.

In 2018, Retail Banking focused on the following products:

Personal Loans

BBVA Francés continued offering a wide range of products through all selling channels, engaging in tactical pricing actions during the year, attaining good spread management and placement, and enabling it to increase its market share. As of December 31, 2018, BBVA Francés accounted for 5.29% of the total market, an increase of 65 b.p. compared to December 31, 2017.

In turn, the Bank maintained its product communication campaign in advertising media and continued to expand in terms of web and mobile placement, ending the year with of digital sales amounting to 48% of total sales for the year.

Mortgages

During the year, alliances were reinforced through the real estate channel and a stronger relationship was developed with different real estate developers and search portals. Other 2018 highlights in mortgage loans included the improvement of the website portal for digital simulation and optimization of operating processes. Such developments, in the context of the macroeconomic climate in 2018, contributed to an increase in transactions that enabled the Bank to perform strongly relative to its competitors in the market. As of December 31, 2018, BBVA Francés accounted for 3.4% of the total market, an increase of 17 b.p. compared to December 31, 2017.

Car Loans

BBVA Francés was one of the leaders during 2018 in the placement of car loans, through its respective joint ventures with Peugeot-Citroën, Renault-Nissan and Volkswagen-Audi-Ducatti. Following historic record sales in the first half of the year, the automobile market was affected by the foreign exchange crisis, the rise in interest rates and a fall in purchasing power, which negatively affected the automobile financing business. BBVA Francés and its joint venture partners had a market share of 40% for new secured financing transactions in respect of new vehicles in 2018.

During 2018, the Bank attracted more than 60,000 new clients with its products, and car loans were one of the main channels for attracting new customers to the Bank. In addition, wholesale financing transactions were performed with car dealers in coordination with automobile manufacturers, in a vertical integration fashion, and cross-selling with car dealers of the brands associated with the Bank's joint ventures was significant.

In the motorcycle business, BBVA Francés doubled its share of loans for high-end motorcycles from 20% in 2017 to 40% in 2018 of performed transactions, with new customers for motorcycle loans accounting for 20% of the volume of new customers to the Bank in 2018. Commercial agreements were reinforced during 2018 with respect to the brands KTM, BMW, Royal Enfield and Husqvarna. In addition, a new agreement was reached with Harley Davison during 2018. In the car business, new agreements were reached with Suzuki and Subaru.

In line with the digital development strategy, new website tools were enabled for online scoring of loans for both cars and motorcycles offered by the Bank's main business partners, which gave rise to client referrals already pre-qualified in the dealer platform.

Credit Cards

BBVA Francés continues to expand options for the redemption of loyalty points to include a wide variety of products and experiences. Sponsorships continued to be implemented during 2018 by means of alliances with the music producers Move Concerts and Popart. Moreover, a new agreement was executed with the theater producer RGB, which adds the traditional winter holiday events "Disney on Ice" and "Cabaret". FrancésGo, which is important to the Bank's communication with its credit card customers, reached 690 thousand net downloads in 2018 and had an NPS equal to 61%. In 2018 the Bank added new features such as fingerprint access on iOS devices and notifications regarding rebates and payments due.

Promotional actions were carried out for redemption of miles accrued in exchange for air tickets and catalog products. In 2018 there is a new chance to redeem points in exchange for hotel accommodation and to earn miles on reservations. In addition, actions were carried out for the purchase of miles at a 50% discount for BBVA Francés customers. Premium and Premium World customers are eligible for special earning benefits, access to VIP lounges and cabin upgrades.

As part of its merchant program, the LATAM Pass program continued to be offered to retail stores that provided evidence of sales vouchers with BBVA Francés. In addition, an immediate web-based voucher payment option was implemented, adding benefits to the value offer to retail stores.

These actions allowed the Bank to increase credit card consumptions in terms of amounts processed 47.2% in 2018 compared to the previous year, which reflects an increase in the credit cards consumption market share of 96 b.p., closing the year at 13.5%. During 2018, 60% of credit card accounts activated recorded activities, reflecting an 8.6 percentage point decline over 2018.

Time Deposits

For BBVA Francés, this is the core product in the funding strategy. The goal is to grow retail balances, which tend to be more stable and at a lower cost compared to time deposits from our corporate and investment banking business line, by expanding the customer base with investment on the Classic (Mass) segment, and offering better options and convenience for the high income segment.

During 2018, performance of time deposits was strong. Total time deposits denominated in pesos had a market share of 6.26% as of December 31, 2018, an increase of 31 b.p. compared with December 31, 2017. Retail time deposits, which are time deposits of less than Ps.1 million, had a market share of 7.1% as of December 31, 2018, an increase of 12 b.p. compared with December 31, 2017, and wholesale time deposits, which are time deposits of more than Ps.1 million, had a market share of 5.6% as of December 31, 2018, an increase of 97 b.p. compared with December 31, 2017. Wholesale time deposits saw a significant increase in the number of customers in 2018 as a result of the Bank's multi-segment integral management, especially as a result of the incorporation of private banking in addition to Premium client management. In the Classic segment, the Bank focused on the incorporation of new clients, growing by 30 thousand clients in the retail segment during 2018.

For 2019, the focus is expected to continue to be on attracting new clients both in the Classic and high-income segments, by implementing a multi-channel strategy of including executives at branches, private banking, dedicated representatives and web and mobile channels. In December 2018, a raffle was held for all customers who are holders of the savings account package "El Libretón", which includes a savings account in U.S. dollars. Prizes were drawn in the total amount of Ps.150 thousand.

Small and Medium-sized Companies

BBVA Francés maintains a leadership presence among corporations, agricultural producers and other institutions and continues working to maintain a strategic alliance with this sector in Argentina with a loan portfolio of Ps.52.4 billion as of December 31, 2018, a decrease of 17.5%. Total deposits amounted to Ps.49.2 billion as of December 31, 2018, an increase of 5.8% compared with December 31, 2017. We have approximately 46 thousand clients in this business area. Our commercial lending portfolio NPL ratio, including our corporate lending portfolio, was 1.83% as of December 31, 2018 as compared with 0.20% as of December 31, 2017. This significant increase was mainly due to the effect of the adverse economic climate on our customers.

Among our principal lending products are cash advances, overdraft protection, financial loans and foreign trade. In addition, we offer services such as leasing and differentiated corporate and agriculture credit cards, among others. We also offer checking accounts and time deposits as well as investment management services through our investment funds, transaction services, cash management solutions, collection services and payment services.

The Bank's operating model for middle market was strengthened in 2018, through which the Bank increased its geographic capillarity, providing improved servicing to clients. In turn, automatic self-service tools and channels were developed, and they generated more than 30% of transactions through the Bank's digital channels, which has resulted in a leading position in the market among private banks for providing advances on post-dated checks. Despite market changes, an aggressive growth strategy was sustained by adjusting prices of short- and long-term loans, thus generating good penetration among larger enterprise clients and expanding the base of smaller clients. During 2018, over 40,000 new payroll accounts were contributed to the Bank for payment of wages, with 49,136 active clients, increasing by over 7,000 net clients since the launching of the New Enterprise Model.

In order to expand the service model, in 2018 new officers were recruited with varying business profiles to assist different types of clients in various markets. As of December 31, 2018, the segment had 167 specially qualified officers assigned to provide ongoing assistance in the development of clients through the Bank's network of branches. In addition, in 2018 the Bank worked to improve service quality by continuing its onboarding training program for business agents and candidates, conducting a training program targeted at branch managers, delegating credit-related powers to managers to improve response times and an incentive plan focused on goal achievement, and launching ten new digital products mainly intended for the self-service segment.

In 2018, small and medium-sized companies banking focused on the following products:

Foreign Trade

BBVA Francés performed well in the foreign trade market in 2018, despite a 21% decrease in the volume of imports and exports in 2018 compared with 2017. The Bank reached a market share of 15.99% in import payments as of December 31, 2018, based on the import ranking published by BCRA, thus having maintained its leading position for six consecutive quarters, while it ranked second as of December 31, 2018 in the ranking published by the BCRA for export charges, with a market share of 13.63%. In 2018, the foreign trade market contracted by 1.29%. The portfolio in U.S. dollars was US\$1.4 billion as of December 31, 2018, compared to US\$1.3 billion as of December 31, 2017. In 2018, the Bank recorded US\$3,293 billion in new loans, compared to US\$2,350 billion in 2017. In 2018 the Bank registered 246 new commercial customers, for a total of 6,814 commercial customers as of December 31, 2018. In December 2018, 64.59% of foreign trade transactions were carried out through the Bank's Comex platform, compared with 52.5% in December 2017.

In order to continue growing in terms of the number of clients, digitalizing and strengthening the business in 2019, the Bank is working on the following lines of action: export/import financing at Comex online; transfers from individuals abroad through a web-based self-service; re-engineering of rates with business rules per concept and client intelligence; minimization of approval times for a new rating or exchange rating; implementing GPI Swift, where clients will have a tracking number for their transactions; completing product digitalization (opening of letters of credit for imports, letters of credit for exports and collections); works have begun in line with global in cash management; increased presence in the provinces; client training workshops in Comex business digital products; and campaigns/ commercial actions with follow-up on performance.

Agricultural Business

In 2018 the Bank's agricultural business segment experienced a 65% increase in the size of its asset portfolio to Ps.19.9 billion at December 31, 2018 from Ps.12.0 billion at December 31, 2017. In addition, the Bank added more than 200 new agricultural business customers and recorded a significant increase in transaction volume. In 2018 in the agricultural business area, the Bank experienced strong volumes with suppliers of machinery and other production inputs. In addition, the Visa Agro card has also experienced strong participation among the Bank's customers, including more than 80 agreements with major providers participating in the card program. The Bank also experienced strong performance in the livestock sector as well as in regional services. There was significant increase in the Bank's market share of agricultural business, and the Bank ranked third in 2018, from fourth in 2017.

Digital Products

The Bank continued to implement its digital transformation plan during 2018. See "*—Strategy—Transformation—Digital Transformation—*" above.

Corporate & Investment Banking (CIB)

Through our corporate and investment banking business we offer banking services to approximately 1100 multinational companies and local private-sector and state-owned enterprises. In terms of assets, as of December 31, 2018, the loan portfolio for CIB amounted to Ps.52.2 billion, an increase of 15.7%, whereas deposits for CIB amounted to Ps.29.7 billion, an increase of 52.3%.

In our corporate business line, we leverage the BBVA Group's global presence and interconnected structure covering the corporate business line across the globe. Our corporate and investment banking products include checking, savings, time deposits and bilateral loan products that allow for structured finance for our global clients. In addition, as part of our investment banking services, we offer advisory services on mergers and acquisitions and initial public offerings and corporate- and project financing. In Argentina we cover local clients, including large and medium-sized companies, and large international clients. Our clients also include institutional and governmental clients including pension funds, insurance companies and banks.

Through our treasury unit we also offer trading services, and we are also engaged in capital markets, money markets and foreign exchange markets, brokerage services in connection with fixed-income securities, derivatives, leasing and trust services.

BBVA Francés continued to enjoy a leading position in the Argentine wholesale segment with notable performance both in the credit business and transaction-based banking services. CIB was focused in 2018 on achievement of strategic goals, including, among others, leadership in both Corporate Banking and Investment Banking, optimization of capital allocation and increasing cross-selling margins. The Bank is working to attain these goals through increased business consolidation, process efficiencies and the establishment of long-term relationships with customers.

The following describes the four main business areas within CIB.

Global Finance

This area provides credit solutions across the entire value chain, including advice, structuring and financing, with a wide range of products. This area is divided into Project Finance and Global Lending.

Global Transaction Banking

This area provides front-office services to companies to allow them to manage working capital by means of financing instruments denominated both in pesos and dollars. It also provides products for cash management and transaction products through multiple channels: transaction platform, electronic banking (BBVA Francés Net Cash), personal attention, direct channels, SWIFT and mobile banking. Global Transaction Banking is divided into Working Capital, Cash Management, Client Resources, and Trade Finance and Correspondent Banks. Global Transaction Banking has been focused on becoming a well-established leader in financing to clients both in pesos and dollars.

Global Markets

This area is responsible for providing services related to origination, structuring, distribution and risk management of market products. Global Markets is divided into Foreign Exchange, Fixed Income and Credit (Debt Capital Markets).

Corporate Finance

In Equity Capital Markets, Corporate Finance is in charge of meeting clients' needs related to the securities markets, with focus on developing customized solutions for companies to enhance their value. Services include initial public offerings (IPOs), capital increases with or without rights, accelerated placements, convertible notes, flexible dividends, treasury shares and public offerings for withdrawal of outstanding shares from public offering (PTOs).

Corporate Finance also provides advice on acquisitions, divestments and mergers, both for registered and privately owned companies, to help them attain their strategic goals. In addition, it works on matching private equity (financial or strategic partners), valuation reports and fairness opinions, advice on acquisitions and privatizations.

The following table sets forth the relative proportions of loans and advances (net of allowance for loan losses) and deposits attributable to our principal business lines during the last two years.

| | Financial assets at amortized cost - Loans and advances | | | |
|----------------------------------|--|---------|--------------------------|---------|
| | December 31, 2018 | | December 31, 2017 | |
| | (in thousands of pesos, except percentages) | | | |
| C&IB | 52,196,585 | 28.75% | 45,101,039 | 23.86% |
| Small and medium-sized companies | 52,444,965 | 28.88% | 63,454,009 | 33.57% |
| Retail banking | 76,943,205 | 42.37% | 80,460,210 | 42.57% |
| Total | 181,584,755 | 100.00% | 189,015,258 | 100.00% |

| | Financial liabilities at amortized cost - Deposits | | | |
|----------------------------------|---|---------|--------------------------|---------|
| | December 31, 2018 | | December 31, 2017 | |
| | (in thousands of pesos, except percentages) | | | |
| C&IB | 29,668,066 | 11.44% | 19,489,209 | 8.58% |
| Small and medium-sized companies | 49,240,049 | 18.97% | 46,547,108 | 20.48% |
| Retail banking | 180,600,946 | 69.59% | 161,241,437 | 70.94% |
| Total | 259,509,061 | 100.00% | 227,277,754 | 100.00% |

Management Model

The evolution of our service models is inspired by the values of BBVA: Client comes first, We think big and We are one team. For such reason, great efforts are in progress to provide better customer service, to provide the best solutions and to innovate in the way the Bank conducts business. In response to such efforts, clients have embraced the use of new technologies and formats in performing their transactions, thus allowing the Bank to continue promoting projects aimed at differentiation and meeting clients' demands.

The Bank's comprehensive service concept was expanded in the branch network during 2018 for all customer segments through specialized agents. Additionally, specialized middle market servicing was extended to every branch during the year.

BBVA Francés works with a multiple-channel strategy focused on the user's experience fostering the best practices for each contact channel and innovating with the technological advances available for each area. On the one hand, it has a brick-and-mortar structure which includes branches, a call center and a network of ATMs and SSTs. On the other, it has digital channels, such as web and mobile. Both are complemented by partners and strategic alliances which make it possible to present the value proposition to a higher number of parties.

In retail banking, the focus in 2018 was on expanding digital banking and optimizing management tools in the following client segments:

- Premium World (Affluent) / Premium (Mass Affluent): This group includes high-income retail customers serviced by dedicated executives in branches which have a premium space to provide the highest customer service quality by executives who follow a specific protocol for customer service and management. During the year, a direct management model was well established. Such model is addressed to clients who engage in a high level of digital transactions, thus enabling them to be served without the need to visit branches, by account managers responsible for such service. This model is expected to be expanded next year to reflect clients' evolution in the digital era. The connection, growth and retention in this client segment is a priority to the Bank.
- Classic (Mass): For retail customers with an identified business activity, the Bank has developed a management model based on business officers who can understand both their personal and business needs in order to offer them unified, simple assistance. During the year, it was tested in some regions and may be expanded based on clients' feedback.
- Financial Inclusion (Express): Retail customers who do not fall into any of the previous segments are managed by commercial officers from the branches and, increasingly, through automatic or telephone channels.

The middle market banking model was altered to create regional business centers with officers that assist their middle market and small- and medium-sized companies portfolios with the following objectives:

- Unifying small- and medium-sized companies and middle market banking: This implied a comprehensive view of the business regardless of the company size. For this purpose, follow-up and support to these segments were unified from central areas.
- Approaching customers and dynamism in management: In order to improve customer service, the structures were adapted and regional business centers were created. Every branch can now assist customers in their needs.
- Measurement: It was expanded to follow the activity of companies and individuals for information processes in each branch.
- Digitalization: Significant innovations were generated for automatic management of customers.

In parallel with traditional channels, several optimizations are being undertaken to streamline the rest of the tasks with a productivity aim.

- Mass Sales Force: The sales team has been focused in 2018 on improving channel performance through productivity plans, incentive models, enhanced processes and revising the value offer. Advantage was taken of the dynamism of this team to link individuals engaged in business or small and medium-sized companies to products, for example, merchant acquisition.
- Call Center: It is a cross-selling and client attraction channel through specific campaigns. With client analysis models, performance of this channel continues to improve. In addition, the retention service division was strengthened through improvements in the value proposition and service processes.
- Partners and Business Alliances: These are boosters of the Bank's strategy of attraction of and connection with clients, enabling the Bank to reach eligible prospective clients for each product. Follow-up on each of these initiatives is essential to tailor offers to clients' needs and satisfaction.

The Bank is focused on customer service by improving servicing, and one of its goals is customers' self- management through the development of multiple channels. In this line, over the past year, more than 131,000 transactions were migrated away from branches, which implied the transfer of significant operating resources to other commercial roles. In turn, waiting times in branches were lowered, leading to first place in the Net Promoter Score for customers' experience in branches. The Net Promoter Score is a management tool that can be used to gauge the loyalty of the customer.

In 2018, the Bank made progress in connection with the following main lines of action as described below:

- ATM/SST Replacement and Expansion Plan: 44 works and 217 new pieces of equipment.
- ATS Plus, enabling input of up to 160 bills per transaction: 81 SSTs at 74 branches.
- Deposits in dollars was enabled at SSTs of 31 branches.
- SST Availability Plan: record 93.6%.

[Table of Contents](#)

- SSTs were enabled to receive payments and deposits on Saturdays, Sundays and holidays from 7 a.m. to 10 p.m. through a pilot program at Branch 68 Concordia. Expansion is expected to take place in 2019.
- Full Time Lobby: lobby always open. Implemented at 129 branches.
- ATM and SST balancing and maintenance using cameras as a double check system: implemented at 90 branches.
- Francés Express: 100 pieces of equipment were replaced.
- Double-profile Cashiers (Cashier and Operating Agent/Cashier and Business Agent): 98% of cashiers.
- Harmonized Service Model: Customer routing system at 84% of the network (213 branches).
- New feature for generation of online appointments, through the app for Premium and Premium World clients (90 branches).
- Francés Line: comprehensive plan for migration to automated management channels (IVR / FNET). 24% reduction of calls to operators, now served automatically.

With the aim of boosting digital banking, the Bank has been focused on three core ideas: attracting new customers, excellence in users' experience and digital sales solutions.

In the second half of 2018, BBVA Francés reached the first level in the Net Promoter Score for web channel within its peer group. With respect to internet banking, this indicator reached 80%, which represents an improvement compared to 70% obtained in 2017.

BBVA Francés continues to aim to provide the greatest availability of web-based and mobile browsing in the market, supported by technology that provides the most suitable solutions. All these changes boosted the number of digital clients, who engage in transactions on the web and through mobile channels, with 59.4% of active clients using digital tools in 2018.

With respect to digital sales in 2018, the growth strategy was focused on the incorporation of new digital marketing tools, incorporating new solutions and optimizing those tools put in place in previous years.

In retail banking, in 2018 the Bank provided migration to BBVA Group-wide interfaces for credit card applications from non-clients and a mortgage-backed loan simulator. Improvements were made in the public web experience both for payroll accounts and account bundled packages. Additionally, the ability for clients to apply for UVA-indexed personal loans was added to Francés Net. These efforts translated into a significant increase in the number of credit cards sold through digital channels, an increase in the share of digital personal loans (including UVA-indexed) over total loans of the Bank and a large number of requests for mortgage-backed loans.

In 2018, the Bank focused its digital marketing efforts on attracting new clients through new tools and developing deeper relations with partners.

In relation to the Bank's various products, results and improvements developed in 2018 are described below:

- Personal Loans: These accounted for a 48% share over total loans as of December 31, 2018 in the individual banking segment, from 33% as of December 31, 2017.
- Credit Cards: The issuance of primary cards was 37% of total card issuances in 2018, the same as in 2017, and the issuance of additional cards accounted for 38% of total card issuances.
- Mortgage-backed loans: These accounted for an 18% share over total transactions during 2018 in terms of loans amounts settled at the Bank.
- Investments: Represented a 53% share of digital sales over total time deposits as of December 31, 2018, and represented 94% of the total subscription for mutual investment funds during 2018.
- Savings Accounts: Benefitted from cross-selling, reaching a 46% share of total savings accounts in the Bank as of December 31, 2018, compared with 44% as of December 31, 2017.
- Insurance: The share in digital sales was 22% over total sales during 2018, compared with 20% in 2017.

Throughout 2018 the Bank added new features to the FrancésGo application, and the user experience was enhanced, which resulted in over 940 thousand subscribers to the program, representing a 25% increase, through experiences such as Cirque de Soleil, Disney on Ice, Sugar, Abel Pintos, and Boca vs. River.

The Bank added new features in the section My Cards (Mis Tarjetas), including the option to withdraw cash without a card from any ATM, login with fingerprint in iOS devices, LATAM Pass loyalty program subscription and other, with over 35 thousand users a month since its launch in November 2017.

Late last year, the Bank launched a specialized version of FrancésGo for retail stores, providing access to the benefits offered by BBVA Francés. During the year over 1,000 retail stores registered digitally.

In 2018 the Bank's corporate banking strategy of offering digital solutions was well-established, enabling improvement and retaining positioning within such segment.

Digital Products launched in 2018 included the following:

- Francés Net Cash digital agreements;
- mobile check discounting;
- Francés Net Cash custody account registration;
- immediate payment of vouchers for people engaged in business at Francés Net; and
- check discounting for people engaged in business at Francés Net.

The following were highlights from corporate banking from 2018:

- 39% of check discounting transactions were performed through a digital channel;
- 15% of total agreements of corporate banking were digital and over 700 clients were using the digital product;
- new report was introduced on reconciliation of vouchers and separate detail of taxes for clients using immediate payment of vouchers; and
- improvement in mobile deposits enabled multiple deposits from the Francés Net Cash app.

Quality and Client Experience

In line with BBVA's mission "To make the opportunities of this new era accessible to everyone", and in a manner consistent with the strategic priority of "Delivering the best experience to the client", in 2018 the function and scope of quality and client experience was expanded and improved, with a focus on the clients' needs.

Supported by a strong feedback infrastructure and the NPS index as a metric of excellence, the Bank developed a plan to gain insight into customers' experience at each point of contact with BBVA Francés and each purchased product or service. Based on such information about the main needs of customers at each interaction with the Bank, along with a strategy in place that is intended to execute projects and processes with a greater impact, the Bank has been focused on experience enhancement. Focused on sharing client information throughout the entire organization, in 2018 the Bank undertook a detailed analysis, seeking to solve problems found in a fast, dynamic and innovating way based on quality metrics and indicators, with a focus on the user.

Understanding peoples' needs to design products and services that meet their expectations is one of the fundamental pillars to achieve differentiation. Innovation in solutions is seen by the Bank as the way to a real transformation now and in the future. For such reason, the Quality and Client Experience Plan for 2019 consists of establishing a governance model that enables implementation of concrete actions for improvement in priority fields identified in interactions with the clients, and exploring new opportunities to get to know the customers beyond the NPS surveys while engaging the entire organization.

Information Technology

Our information technology, or IT, area is responsible for our systems operation and availability as well as data security and integrity. Our main data center and our disaster recovery and back-up center are located in Buenos Aires, Argentina. Our modern technology platform is interconnected with the platform of the BBVA Group, which enables us to provide seamless coverage to our customers.

We have made significant investments in technology, and we plan to continue doing so to enable us to retain and enhance our competitive position in various markets and to improve the security and quality of our services.

Our operational platform efficiently combines our modern business-oriented IT systems with our multichannel distribution strategy, resulting in innovative ways to serve our clients. We have well-developed CRM tools that allow us to monitor our clients' behavior and provide them with targeted product offerings through diverse channels. As a result, we are able to effectively leverage alternative distribution channels, such as ATMs, internet banking and our contact centers, which are complementary to our traditional proprietary branch network, which enables us to provide better service to our clients and to increase our sales ratios.

We have implemented multiple controls to respond to the new threat of cybersecurity, based on a comprehensive, multi-faceted security framework that include people, technology, processes and procedures.

Intellectual Property

In Argentina, ownership of trademarks can be acquired only through a validly approved registration with the National Institute of Industrial Property (Instituto Nacional de la Propiedad Industrial, or INPI), the agency responsible for registering trademarks and patents in Argentina. After registration, the owner has exclusive use of the trademark in Argentina for five years. Trademarks registrations can be renewed indefinitely for additional five-year periods, if the registrant proves that it has used such trademark within the last five years.

We have several trademarks, most of which are brand names of our products or services. All our material trademarks are registered or have been submitted to INPI for registration by the BBVA Group or us.

C. Organizational structure

Banco Bilbao Vizcaya Argentaria, S.A. (BBVA)

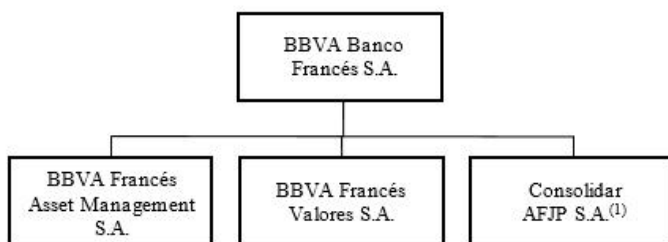
As of December 31, 2018, BBVA owned 66.55% of our capital stock.

BBVA is a global financial group, organized in six geographical business segments: (i) Banking Activity in Spain, (ii) Non-Core Real Estate, (iii) Mexico, (iv) South America, (v) the United States, (vi) Turkey and (vii) Rest of 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, 2018:



⁽¹⁾Undergoing liquidation proceedings.

The following information is related to our subsidiaries, joint ventures and associates as of December 31, 2018:

▪ **Subsidiaries**

| Subsidiary or investee company | Country of Incorporation/ Residence | BBVA Francés Ownership and Voting Power (in percentages) | Principal Activity | Stockholders' Equity (in millions of Ps.)⁽¹⁾⁽²⁾ |
|---|--|---|---------------------------|---|
| BBVA Francés Asset Management S.A. ⁽³⁾ | Argentina | 95.00% | Investment fund manager | 449.2 |
| BBVA Francés Valores S.A. | Argentina | 97.00% | Stock exchange brokerage | 169.4 |
| Consolidar AFJP S.A. (undergoing liquidation proceedings) | Argentina | 53.89% | Pension fund manager | 52.8 |

(1) Total stockholders' equity as of December 31, 2018.

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

(3) 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.

Below is a description of our subsidiaries:

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

During 2018, the investment funds industry in Argentina continued to grow. As per preliminary information prepared by the Argentine Investment Funds Association (CAFCI), the industry ended the fiscal year with assets under management amounting to Ps.599,645.2 million, an increase of Ps.55,595.5 million, or 10.2% compared to at December 31, 2017.

Such increase was led by the term-deposit fund segment, which at December 31, 2018 totaled Ps.151,840.3 million, an increase of Ps.89,800.1 million, or 144.7%.

The money market segment ended the fiscal year with total assets under management amounting to Ps.447,804.8 million, decreasing by Ps.34,204.6 million during the year, or 7.1%. The largest declines were in fixed-income funds, which decreased by Ps.43,865.4 million, or 11.7%.

As of December 31, 2018, the assets under management by BBVA Francés Asset Management amounted to Ps.34,566.6 million, a decrease of Ps.895.3 million, or 2.5% compared to the previous year. Pursuant to the interim asset ranking prepared by CAFCI, BBVA Francés Asset Management had a total market share for investment funds of 5.7% as of December 31, 2018, thus ranking fourth.

In the category of fixed-term funds, at December 31, 2018 the company managed assets in the amount of Ps.15,899.2 million, an increase of Ps.10,922.3 million, or 219.5% compared to the assets held as of December 31, 2017.

In the market funds segment, the company showed a decrease in 2018 of Ps.11,817.6 million, or 38.8%. At December 31, 2018, managed funds amounted to Ps.18,667.3 million. In this latter category, there was a considerable decrease in fixed-income funds, which fell by Ps.11,343.8 million, or 39.5%, in the year, and amounted to Ps.17,342.6 million at December 31, 2018.

As of December 2018, the company had registered 21 investment funds under management with the CNV.

As of the date hereof, the funds managed by the company are as follows:

- FBA Renta Pesos, FBA Ahorro Pesos, FBA Bonos Argentina, FBA Renta Fija Plus, FBA Horizonte, FBA Horizonte Plus, FBA Bonos Globales, FBA Renta Mixta, FBA Retorno Total I, FBA Calificado, FBA Acciones Argentinas and FBA Acciones Latinoamericanas are currently operating normally, with subscriptions and redemptions in pesos.
- FBA Renta Fija Dólar, FBA Renta Fija Dólar Plus, FBA Bonos Latam and FBA Retorno Total II are also operating normally, and they admit subscription and redemption in US dollars.
- FBA Renta Pesos Plus is registered with the CNV in the process of changing its name, changing from subsection b to subsection a, and changing its investment policy.
- FBA Brasil I, FBA Renta Pública I, FBA Renta Pública II and FBA Renta Fija Local were approved by the CNV and started doing business by means of a contribution made by the company. For the time being, they are not operational, as the company is waiting for the right timing for their commercial launch.

As in previous years, the company plans to pay particular attention to the development of international economic and financial conditions, performance of the currency market and performance of the price of crude oil and other commodities.

With respect to the local context, the volume of business, inflation and foreign exchange rates, as well as indebtedness and public spending, will be closely monitored in 2019. Likewise, special attention will be paid to compliance with commitments undertaken with the IMF.

In the local context, investment funds are expected to represent an efficient alternative option for various types of investors in 2019. Accordingly, the company will aim to continue developing products that are tailored to customers' demands, seeking an expanded offer and improvements for investors' risk management.

As of December 31, 2018, FBA Commodities had no equity volume. The rest of the Bank's investment funds at such date had the following assets:

| Name of investment fund | Thousands of pesos |
|--|--------------------|
| FBA Renta Pesos | 15,883,270 |
| FBA Ahorro Pesos | 6,302,409 |
| FBA Bonos Argentina | 4,011,931 |
| FBA Renta Fija Dólar | 3,747,771 |
| FBA Renta Fija Dólar Plus | 1,582,891 |
| FBA Horizonte | 1,309,573 |
| FBA Calificado | 381,258 |
| FBA Acciones Argentinas | 371,680 |
| FBA Acciones Latinoamericanas | 363,493 |
| FBA Renta Fija Plus (ex FBA Commodities) | 219,981 |
| FBA Horizonte Plus | 94,620 |
| FBA Renta Mixta | 83,995 |
| FBA Retorno Total II | 65,690 |
| FBA Retorno Total I | 57,549 |
| FBA Bonos Latam | 36,718 |
| FBA Bonos Globales | 34,199 |
| FBA Renta Pesos Plus | 15,974 |
| FBA Renta Publica I | 1,060 |
| FBA Renta Fija Local | 1,060 |
| FBA Brasil I | 1,059 |
| FBA Renta Publica II | 377 |
| Total | 34,566,558 |

- BBVA Francés Valores S.A.

During 2018, the local securities market was mainly affected by high price volatility and the foreign exchange crisis. The fall in the market measured in dollars was the steepest in the last ten years. The exchange rate on December 31, 2017 was 18.77 Ps./US\$ while on December 31, 2018 it was 37.8 Ps./US\$, which accounts for a 50.3% depreciation. In turn, inflation was 47.6%. As such, inflation and the exchange rate presented significant challenges to the stabilization of the economy.

Measured in pesos, the Merval Index rose by 0.8% and the M.Ar (Merval Argentina) Index fell by 7.2% during 2018. Measured in dollars, they fell by 50.2% and 54.2%, respectively. These were the largest declines since 2002 and occurred in the context of the Merval and the M.Ar indexes recording historic highs in January.

Market capitalization of domestic companies fell by 12% in pesos and 56.8% in dollars during 2018. Within the SP Merval Index, the securities of TGS U2 (Transportadora de Gas del Sur) and YPF (YPF SA) rose 32.03% and 19.06%, respectively, in pesos. However, measured in dollars, all domestic securities lost market value during the year. Within the same index, the worst performing securities were CVH (Cablevisión Holding SA) and SUPV (Grupo Supervielle SA), which fell 49.37% and 43.68%, respectively, in pesos. In dollar terms, the same securities also were the worst performers, falling 74.96% and 72.15%, respectively.

In addition, during 2018 trading concentration increased as the ten securities with the highest trading volume accounted for 67.3% of the total, compared to 54.4% in 2017.

In this context, the bond market also showed a poor performance, with the bond index published by the Argentine Institute of Capital Markets (IAMC as per its Spanish acronym) showing a 57% increase measured in pesos, while falling by 21.6% in dollars. Both the equity market and the bond market performance reflected a significant lack of confidence in financial expectations and uncertainty of investors regarding development of the economy and monetary variables. However, it is worth noting that in the last quarter, as a result of its agreement for financing and assistance from the IMF, the government launched a new aggressive plan for monetary and fiscal stabilization that is beginning to accomplish the targeted results. For example, late in 2018 the economy started to become stabilized in terms of foreign exchange and monetary policy.

On March 8, 2019, the Board of Directors of BBVA Francés Valores S.A. decided to submit to consideration at the shareholders' meeting a proposal for the merger of BBVA Francés Valores S.A. into its parent company BBVA Banco Francés S.A., with a view to optimizing operating costs by combining resources and processes. The Board of Directors of BBVA Francés Valores approved the consolidated statement of financial position for merger purposes, and authorized submission of the merger prospectus to the CNV to apply for authorization of the merger. Provided that all relevant final approvals are obtained, the merger is expected to be consummated on October 1, 2019.

Following Law No. 26,831 and General Resolution No. 622/13 issued by the CNV coming into force in December 2012 and September 2013, respectively, the business of BBVA Francés Valores S.A. has been carried out on a residual basis with an aim to retaining its operating capacity, while also searching for new trading and business opportunities, subject to the performance of the capital markets.

Accordingly, the company's loss for the year was Ps.43 million, mainly generated by a revaluation of its own treasury investments, net of the expenses and taxes required to keep the company fully capable of doing business.

- Consolidar A.F.J.P. 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 A.F.J.P. 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 Argentine Social Security Administration (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.

In view of all of the above, on December 28, 2009, and bearing in mind that it was impossible for Consolidar A.F.J.P. 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 Argentine Corporations Law, the shareholders' meeting resolved to appoint accountants Messrs. Gabriel Orden and Rubén Lamandia, to liquidate Consolidar A.F.J.P. 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 A.F.J.P. S.A.

On January 28 2010, the dissolution of Consolidar A.F.J.P. 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 A.F.J.P. 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 A.F.J.P. 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 Argentine Social Security Administration (ANSES). 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 A.F.J.P. S.A. (undergoing liquidation proceedings) on June 11, 2010.

In turn, on December 7, 2010, Consolidar A.F.J.P. 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 number 7, under case number 40,437/2010. The claim was confirmed by BBVA Francés as controlling shareholder of the company. On July 15, 2011 Consolidar A.F.J.P. 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 is collecting and submitting all witness, documentary and expert evidence and on May 28, 2013 the statements of its witnesses were submitted as evidence at court. There have been no further updates on the case since then.

At December 2018, the case is in a stage of producing accounting evidence.

▪ **Joint ventures**

| Joint ventures | Country of Incorporation/ Residence | BBVA Francés Ownership and Voting Power (in percentages) | Principal Activity | Stockholders' Equity (in millions of Ps.)⁽¹⁾⁽²⁾ |
|--|--|---|---------------------------|---|
| Volkswagen Financial Services S.A. | Argentina | 51.00% | Financial institution | 1,241.9 |
| PSA Finance Argentina Cia. Financiera S.A. | Argentina | 50.00% | Financial institution | 869.0 |
| Rombo Compañía Financiera S.A. | Argentina | 40.00% | Financial institution | 1,286.9 |

(1) Total stockholders' equity as of December 31, 2018.

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

Below is a description of our joint ventures:

- Volkswagen Financial Services Compañía Financiera S.A. (VWFS)

The main business of VWFS focuses on granting secured loans for the acquisition of new and used vehicles of makes belonging to the Volkswagen group, and on offering wholesale financing to the dealer network.

The focus of the company in 2018, which was characterized by financial instability and general declines in automotive sales, was maintaining a competitive offer to clients and ensuring liquidity and availability of products at all times. During the year UVA-indexed secured loans were granted, and capital lease lines, financed maintenance and retail loans for the Ducati brand were also launched. In addition, response times were improved for approvals of applications for financing loans from clients and settlement of secured loans. This was reflected in positive feedback in the customer and dealer satisfaction survey.

In January 2018, the company received a capital contribution from its shareholders equal to Ps.400 million in support of expected portfolio growth. In turn, funding sources from other banks were increased in a total amount of Ps.1,380 million. In December 2018, VWFS successfully issued its first series of notes in an amount of Ps.737 million.

During 2018, the Volkswagen Group achieved a 14.6% automobile market share in Argentina, thus regaining its ranking as the leader in sales. In a highly competitive environment, in 2018 Volkswagen obtained a 67% loyalty rate in the network of dealers, compared with 70% in 2017. VWFS maintained its 13.4% penetration consistent again in 2018, in an environment where average penetration of the financial affiliates of automobile manufacturers has generally declined.

During 2018, the main objective was to offer competitive financing products and services to the clients. The company settled an aggregate number of 16,317 secured loans, a 21.7% decrease compared to the previous year, derived from a decline in sales of the brand.

VWFS had net loss of Ps.220 million for 2018, compared with a net gain of Ps.99 million in 2017.

To finance the portfolio of secured loans, the company plans to continue diversifying its funding sources with its main business partner, other commercial banks and through the issuance of notes.

- PSA Finance Argentina Compañía Financiera S.A.

PSA Finance's equity is divided into equal share interests held by BBVA Francés and Banque PSA Finance, an affiliate of the PSA Peugeot Citroën group, based in France.

PSA Finance's main business is focused on providing secured loans for the purchase and leasing of new Peugeot, Citroën and DS vehicles. In addition, it offers financing for the purchase of used cars for customers proposed by the official Peugeot and Citroën dealer network, as well as other financial products and services related to the purchase, maintenance and insurance of vehicles.

The automotive industry closed 2018 with a total of 773 thousand registrations, a 10.2% decrease compared to 2017. The first five months of 2018 showed a record volume of activity, while a significant volume decrease was recorded in the second half of the year as a result of the impact of the macroeconomic conditions and the increase in interest rates.

PSA Finance in 2018 had a 19.53% penetration over registrations of the brands (measured on the basis of financing of new cars), a 6.5% decrease compared to 2017. The company's market share declined during 2018 as a result of PSA Finance's focus on financing of new cars in the context of deceleration of the economy and higher interest rates.

In this context, the total financing volume in 2018 was equal to 19,785 transactions for secured loans for new and used cars and leasing-related units, equivalent to Ps.3,655 million.

With respect to the product offering, in 2018 the company continued working together with Peugeot, Citroën and DS in development of exclusive and distinct financial products for certain vehicles.

Promotional campaigns and rebates were increased in the retail financing segment in an attempt to attract more clients in a highly competitive market that offers a wide range of products intended to meet demand. In 2018, private banks played an important role in the segment of secured financing as a result of UVA-indexed loans, and PSA Finance was required to reinforce its commercial offer in tandem with changes in the market. In 2018, 84.5% of the network of dealers chose financing through PSA Finance.

The company is focused on a policy of optimization and containment of financial costs in a context of market deceleration. Under these conditions, the net loss amounted to Ps.1,408 million in 2018, compared with a net loss of Ps.687 million in 2017.

- Rombo Compañía Financiera S.A.

Rombo Compañía Financiera (RCF) is the main financing company of the network of Renault and Nissan dealers, both for new and used vehicles. During 2018, Renault had a 14.8% market share in the automotive market in 2018 (compared to 13.3% in 2017), ranking third in sales. Nissan's market share was 2.8% in 2018 (compared to 1.8% in 2017). Within a framework of strong competition, it managed to improve its market share and position, supported by the launch and renovation of models, largely assisted by car loans secured by pledges granted by its financial company.

RCF's share of sales by Renault decreased to 24.2% in 2018 compared to 36.3% in 2017 for Renault, while its share of Nissan sales was 17.6% in 2018 compared to 26.3% in 2017 mainly due to the high interest rates volatility.

RCF continues to be the leading company in the ranking of loans and loyalty among brand captive companies, closing the year with an average share equal to 90.5% (loans granted by RCF out of total loans for the sale of Renault vehicles) (source: AFIMA). In addition, Renault and Nissan contributed to the lending business by making available significant commercial options (subsidized rates) both for new and used vehicles.

With such support, RCF obtained 31,558 financings for new Renault and Nissan vehicles in 2018 (compared to 42,969 in 2017) and 6,514 used vehicles in 2018 (compared to 11,255 in 2017). Thus, the total financing portfolio was Ps.8,888 million as of December 31, 2018, which accounts for a 30.1% decrease compared to Ps.12,707 million as of December 31, 2017.

The volume of non-performing loans increased from 0.94% as of December 31, 2017 to 1.33% as of December 31, 2018 due to the economic decline.

Regarding financing, in 2018 four series of notes were issued in an aggregate amount of Ps.906.9 million, and the total outstanding balance of notes as of the fiscal year end was Ps.2,876.1 million. The program amount was increased to Ps.6 billion in fiscal year 2018, with a "AA (arg)" rating from Fix SCR S.A. Agente Calificadora de Riesgo and "Aa1.ar" from Moody's.

RCF had a net loss of Ps.427 million and Ps.75 million for 2018 and 2017, respectively.

▪ **Associates**

| Associates | Country of Incorporation/ Residence | BBVA Francés Ownership and Voting Power (in percentages) | Principal Activity | Stockholders' Equity (in millions of Ps.) (1)(2) |
|---|--|---|--|---|
| BBVA Consolidar Seguros S.A. ⁽³⁾ | Argentina | 12.22% | Insurance | 1,120.1 |
| Interbanking S.A. ⁽¹⁾ | Argentina | 11.11% | Information services for financial markets | 889.8 |

(1) Total stockholders' equity as of December 31, 2018.

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

Below is a description of our associates:

- BBVA Consolidar Seguros S.A.

BBVA Consolidar Seguros provides fire, mixed family and comprehensive insurance, theft, personal accidents, group life, debt balance, funeral services and other insurance.

In 2018, premiums amounted to Ps.2,382.9 million, representing a 0.1% increase compared to the previous year in nominal terms. Since September 2017, as a result of a change in applicable Argentine law to encourage competition, BBVA Consolidar Seguros no longer receives life insurance premiums for the entirety of new debt issued by BBVA Francés for personal loans, credit cards, secured loans or overdraft protection products.

[Table of Contents](#)

The increase in 2018 in turnover from voluntary insurance premiums was 19.5% compared with 2017. The company's business strategy combines a wide range of products with multiple distribution and service channels, all of which are based on segmentation of clients' and prospects' needs. Claims paid amounted to Ps.439.0 million, or 18.4% of issued premiums.

Net income amounted to Ps.653.4 million and represents a return on shareholders' equity as of the year end of 59.1%. As of December 31, 2018 the minimum capital surplus amounted to Ps.644.4 million and the solvency ratio, measured as the quotient between cash and cash equivalents, investments and real property, and the technical commitments and debts with insured parties, equaled 1.59.

On January 22, 2016, the Argentine Superintendence of Insurance ("SSN") issued Resolution No. 39,647, which refers to shares held in SME investment funds (authorized by the CNV) and establishes a minimum investment of 3% and a maximum investment of 20%.

On March 21, 2016, the Central Bank published Communication "A" 5928, which amends the Financial User Protection Rules in relation to insurance. As regards debtor balance life insurance, it establishes, for financial institutions subject to such communication, the prohibition from charging any type of commission and/or fees related to debtor balance insurance that covers death or total permanent disability. In addition, it determines that financial institutions are required to purchase a debtor balance insurance to cover those contingencies or, alternatively, to provide for "self-insurance", being a challenge for the insurance company to attract the greatest number of customers/banking and financial institutions to offer them such product.

In November 2017, the SSN issued Resolution No. 41057, which provides for changes in investments in insurance companies.

To comply with such resolution, eligible investments will be those assets issued by the Central Bank, with a date of incorporation to the assets prior to the publication of this regulation (November 16, 2017), and up to maturity, provided that they will be required to observe the following schedule:

- As of December 31, 2017, the highest permitted amount in investment funds containing assets issued by the BCRA was required to be 75% of the total value of such investments.
- As of January 31, 2018, the highest permitted amount in investment funds containing assets issued by the BCRA was required to be 50% of the total value of such investments.
- As of February 28, 2018 the highest permitted amount in investment funds containing assets issued by the BCRA was required to be 25% of the total value of such investments.
- As of March 31, 2018 investment funds containing assets issued by the BCRA may not be considered as eligible investments.

Up to 40% as of Resolution No. 41,057 of the SSN may be invested in public-private participation projects, infrastructure or real estate development projects, notarized real estate meant for rent. In addition to existing provincial securities, municipal securities are added (up to 3%), and those from the City of Buenos Aires (up to 10%). For close-end investment funds, the limit was extended from 18% to 60% of total investments.

For 2019, BBVA Consolidar Seguros plans to continue expanding its main business lines, particularly other risks, personal accident, group life, and mixed family and comprehensive insurance, by means of a product offering that is designed to meet its main clients' needs.

- Interbanking S.A.

As a member and shareholder of Interbanking S.A., together with seven other leading Argentine banks, the Bank offers an electronic communications system which enables its customers to optimize their banking transactions. The Bank's corporate customers can connect to the service from their personal computers at any time and review their accounts at any member bank, send messages, transfer funds, make electronic wage payments, supplier payments and tax payments, and display market data. Through Interbanking, the Bank offers distinct electronic products for each segment of its corporate clientele and processes online transfers, allowing debit and credit transactions to be settled automatically and to be reflected in the relevant accounts in real time. As a result of the Bank's shareholding in Interbanking S.A., on June 29, 2018 the Bank received Ps.65 million in dividends.

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, 2018.

| Investment | Country | % of Shares Owned (in percentages) | Principal Activity | Total Stockholders' Equity (in millions of pesos)⁽¹⁾ |
|--|----------------|---|---------------------------|--|
| Coelsa S.A. | Argentina | 8.91% | Clearing house | 56.0 |
| Argencontrol S.A. | Argentina | 7.77% | Agent mandatory | 4.2 |
| Sedesa S.A. | Argentina | 10.04% | Deposit guarantee fund | 93.6 |
| Prisma Medios de Pagos S.A. ⁽²⁾ | Argentina | 11.12% | Credit card issuer | 3,852.0 |

(1) Total Stockholders' Equity as of December 31, 2018.

(2) Held for sale as at December 31, 2018 and 2017.

D. Property, plants and equipment

BBVA Francés is domiciled in Argentina and has its principal executive offices at Av. Córdoba 111, C1054AAA Buenos Aires, Argentina. The principal executive offices, which we own, are approximately 30,517 square meters in area.

At December 31, 2018, our branch network consisted of 252 retail branches, of which 112 were located in properties that we own and 140 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.

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 IFRS-BCRA. The Consolidated Financial Statements and the selected statistical information below have been adjusted to comply with IFRS-IASB for the sole purpose of filing this annual report on Form 20-F with the SEC.

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 daily basis for the years ended December 31, 2018 and 2017. Average balances have been separated between those denominated in pesos and in foreign currencies.

This selected statistical information has been prepared in accordance with IAS 29, which requires that in the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy, the assets, liabilities, income and expenses of such entity be stated in terms of the measuring unit current at the end of the reporting period (December 31, 2018).

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

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.

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, 2018 and 2017.

| | Fiscal Year ended December 31, | | | | | |
|--|---|-------------------------|--------------------------|------------------------|-------------------------|--------------------------|
| | 2018 | | | 2017 | | |
| | Average balance (1) | Interest earned/paid | Average real rate (2) | Average balance (1) | Interest earned/paid | Average real rate (2) |
| | (in thousands of pesos, except percentages) | | | | | |
| ASSETS | | | | | | |
| Interest-earning assets | | | | | | |
| Government securities (3) | | | | | | |
| Pesos | 25,736,050 | 9,801,022 | 38.08% | 25,662,223 | 1,894,109 | 7.38% |
| Foreign currencies | 7,077,057 | 353,735 | 5.00% | 11,980,242 | 180,423 | 1.51% |
| Total | 32,812,107 | 10,154,757 | 30.95% | 37,642,465 | 2,074,532 | 5.51% |
| Loans and advances (4) | | | | | | |
| To customers/financial institutions | | | | | | |
| Pesos | 135,294,299 | 43,369,962 | 32.06% | 122,003,810 | 31,814,377 | 26.08% |
| Foreign currencies | 55,671,087 | 2,414,726 | 4.34% | 31,741,989 | 1,070,967 | 3.37% |
| Total | 190,965,386 | 45,784,688 | 23.98% | 153,745,799 | 32,885,344 | 21.39% |
| To central bank | | | | | | |
| Pesos | 182 | — | 0.00% | 13,270 | 1,919 | 14.46% |
| Foreign currencies | 586 | — | 0.00% | 145 | — | 0.00% |
| Total | 768 | — | 0.00% | 13,415 | 1,919 | 14.30% |
| Other assets | | | | | | |
| Pesos | 2,557,761 | 113,999 | 4.46% | 6,505,546 | 635,777 | 9.77% |
| Foreign currencies | 7,673,707 | 419,117 | 5.46% | 2,904,330 | 116,616 | 4.02% |
| Total | 10,231,468 | 533,116 | 5.21% | 9,409,876 | 752,393 | 8.00% |
| Total interest-earning assets | | | | | | |
| Pesos | 163,588,292 | 53,284,983 | 32.57% | 154,184,849 | 34,346,182 | 22.28% |
| Foreign currencies | 70,422,437 | 3,187,578 | 4.53% | 46,626,706 | 1,368,006 | 2.93% |
| Total | 234,010,729 | 56,472,561 | 24.13% | 200,811,555 | 35,714,188 | 17.78% |

| | Fiscal Year ended December 31, | | | | | |
|---|---|-------------------------|--------------------------|-----------------------|-------------------------|--------------------------|
| | 2018 | | | 2017 | | |
| | Average balance(1) | Interest earned/paid | Average real rate (2) | Average balance(1) | Interest earned/paid | Average real rate (2) |
| | (in thousands of pesos, except percentages) | | | | | |
| Non interest-earning assets | | | | | | |
| Cash, cash balances at central bank and other demand deposits | | | | | | |
| Pesos | 32,212,617 | — | — | 27,357,609 | — | — |
| Foreign currencies | 40,581,718 | — | — | 40,626,591 | — | — |
| Total | 72,794,335 | — | — | 67,984,200 | — | — |
| Investments in joint ventures and associates | | | | | | |
| Pesos | 1,520,119 | — | — | 880,733 | — | — |
| Foreign currencies | — | — | — | 7,258 | — | — |
| Total | 1,520,119 | — | — | 887,991 | — | — |
| Tangible and intangible assets | | | | | | |
| Pesos | 14,939,960 | — | — | 15,759,669 | — | — |
| Foreign currencies | — | — | — | — | — | — |
| Total | 14,939,960 | — | — | 15,759,669 | — | — |
| Allowance for loan losses | | | | | | |
| Pesos | (2,995,933) | — | — | (1,848,428) | — | — |
| Foreign currencies | (702,750) | — | — | (158,116) | — | — |
| Total | (3,698,683) | — | — | (2,006,544) | — | — |
| Other assets | | | | | | |
| Pesos | 8,497,689 | — | — | 9,902,762 | — | — |
| Foreign currencies | 3,066,604 | — | — | 3,732,788 | — | — |
| Total | 11,564,293 | — | — | 13,635,550 | — | — |
| Total non interest-earning assets | | | | | | |
| Pesos | 54,174,452 | — | — | 52,052,345 | — | — |
| Foreign currencies | 42,945,572 | — | — | 44,208,521 | — | — |
| Total | 97,120,024 | — | — | 96,260,866 | — | — |
| TOTAL ASSETS | | | | | | |
| Pesos | 217,762,744 | 53,284,983 | 24.47% | 206,237,194 | 34,346,182 | 16.65% |
| Foreign currencies | 113,368,009 | 3,187,578 | 2.81% | 90,835,227 | 1,368,006 | 1.51% |
| Total | 331,130,753 | 56,472,561 | 17.05% | 297,072,421 | 35,714,188 | 12.02% |

| | Fiscal Year ended December 31, | | | | | |
|--|---|-------------------------|--------------------------|------------------------|-------------------------|--------------------------|
| | 2018 | | | 2017 | | |
| | Average balance (1) | Interest earned/paid | Average real rate (2) | Average balance (1) | Interest earned/paid | Average real rate (2) |
| | (in thousands of pesos, except percentages) | | | | | |
| LIABILITIES | | | | | | |
| Interest-bearing liabilities | | | | | | |
| Saving accounts | | | | | | |
| Pesos | 45,635,924 | 4,379,423 | 9.60% | 40,345,926 | 888,394 | 2.20% |
| Foreign currencies | 67,926,113 | 7,021 | 0.01% | 42,378,035 | 4,113 | 0.01% |
| Total | 113,562,037 | 4,386,444 | 3.86% | 82,723,961 | 892,507 | 1.08% |
| Time deposits | | | | | | |
| Pesos | 59,169,716 | 18,297,669 | 30.92% | 54,018,786 | 10,065,503 | 18.63% |
| Foreign currencies | 15,048,631 | 94,369 | 0.63% | 10,728,559 | 36,309 | 0.34% |
| Total | 74,218,347 | 18,392,038 | 24.78% | 64,747,345 | 10,101,812 | 15.60% |
| Banks loans - Central bank | | | | | | |
| Pesos | 424 | 39 | 9.20% | 17,126 | 1,506 | 8.79% |
| Foreign currencies | 36,280 | — | 0.00% | — | — | 0.00% |
| Total | 36,704 | 39 | 0.11% | 17,126 | 1,506 | 8.79% |
| Banks loans - Other financial institutions | | | | | | |
| Pesos | 3,161,757 | 696,556 | 22.03% | 1,430,453 | 147,968 | 10.34% |
| Foreign currencies | 3,731,144 | 154,811 | 4.15% | 478,609 | 19,363 | 4.05% |
| Total | 6,892,901 | 851,367 | 12.35% | 1,909,062 | 167,331 | 8.77% |
| Debt securities issued | | | | | | |
| Pesos | 2,339,865 | 998,143 | 42.66% | 2,250,574 | 600,692 | 26.69% |
| Foreign currencies | — | — | 0.00% | — | — | 0.00% |
| Total | 2,339,865 | 998,143 | 42.66% | 2,250,574 | 600,692 | 26.69% |
| Other liabilities | | | | | | |
| Pesos | 336,536 | 110,197 | 32.74% | 787,353 | 195,477 | 24.83% |
| Foreign currencies | 19,960 | — | 0.00% | 1,748,480 | — | 0.00% |
| Total | 356,496 | 110,197 | 30.91% | 2,535,833 | 195,477 | 7.71% |
| Total interest-bearing liabilities | | | | | | |
| Pesos | 110,644,222 | 24,482,027 | 22.13% | 98,850,218 | 11,899,540 | 12.04% |
| Foreign currencies | 86,762,128 | 256,201 | 0.30% | 55,333,683 | 59,785 | 0.11% |
| Total | 197,406,350 | 24,738,228 | 12.53% | 154,183,901 | 11,959,325 | 7.76% |

| | Fiscal Year ended December 31, | | | | | |
|---|---|-------------------------|--------------------------|------------------------|-------------------------|--------------------------|
| | 2018 | | | 2017 | | |
| | Average balance (1) | Interest earned/paid | Average real rate (2) | Average balance (1) | Interest earned/paid | Average real rate (2) |
| | (in thousands of pesos, except percentages) | | | | | |
| Non-interest-bearing liabilities and stockholders' equity | | | | | | |
| Checking accounts | | | | | | |
| Pesos | 30,417,316 | — | — | 36,963,608 | — | — |
| Foreign currencies | 16,601,221 | — | — | 19,801,262 | — | — |
| Total | 47,018,537 | — | — | 56,764,870 | — | — |
| Other liabilities | | | | | | |
| Pesos | 35,852,553 | — | — | 30,711,988 | — | — |
| Foreign currencies | 5,988,883 | — | — | 11,538,528 | — | — |
| Total | 41,841,436 | — | — | 42,250,516 | — | — |
| Stockholders equity | | | | | | |
| Pesos | 44,864,430 | — | — | 43,873,134 | — | — |
| Foreign currencies | — | — | — | — | — | — |
| Total | 44,864,430 | — | — | 43,873,134 | — | — |
| Total non-interest-bearing liabilities and stockholders equity | | | | | | |
| Pesos | 111,134,299 | — | — | 111,548,730 | — | — |
| Foreign currencies | 22,590,104 | — | — | 31,339,790 | — | — |
| Total | 133,724,403 | — | — | 142,888,520 | — | — |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | | | | | | |
| Pesos | 221,778,521 | 24,482,027 | 11.04% | 210,398,948 | 11,899,540 | 5.66% |
| Foreign currencies | 109,352,232 | 256,201 | 0.23% | 86,673,473 | 59,785 | 0.07% |
| Total | 331,130,753 | 24,738,228 | 7.47% | 297,072,421 | 11,959,325 | 4.03% |

- (1) Average balances for 2017 are derived from monthly-end balances. Such average balances have been adjusted for inflation by applying an average coefficient for both 2018 and 2017.
- (2) Annualized on a 360-days 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.

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, 2018 compared with the fiscal year ended December 31, 2017. 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.

| Year ended December 31, 2018/2017 Increase (Decrease) Due to Changes in | | | |
|--|-----------|------------|------------|
| | Volume | Rate | Net change |
| ASSETS | | | |
| Interest-earning assets | | | |
| Government securities | | | |
| Pesos | 28,115 | 7,878,798 | 7,906,913 |
| Foreign currencies | (245,078) | 418,390 | 173,312 |
| Total | (216,963) | 8,297,188 | 8,080,225 |
| Loans and advances | | | |
| To customers/financial institutions | | | |
| Pesos | 4,260,401 | 7,295,184 | 11,555,585 |
| Foreign currencies | 1,037,921 | 305,838 | 1,343,759 |
| Total | 5,298,322 | 7,601,022 | 12,899,344 |
| To central bank | | | |
| Pesos | — | (1,919) | (1,919) |
| Foreign currencies | — | — | — |
| Total | — | (1,919) | (1,919) |
| Other assets | | | |
| Pesos | (175,952) | (345,826) | (521,778) |
| Foreign currencies | 260,490 | 42,011 | 302,501 |
| Total | 84,538 | (303,815) | (219,277) |
| Total interest-earning assets | | | |
| Pesos | 4,112,564 | 14,826,237 | 18,938,801 |
| Foreign currencies | 1,053,333 | 766,239 | 1,819,572 |
| Total | 5,165,897 | 15,592,476 | 20,758,373 |

| Year ended December 31, 2018/2017 Increase (Decrease) Due to Changes in | | | |
|--|-----------|------------|------------|
| | Volume | Rate | Net change |
| LIABILITIES | | | |
| Interest-bearing liabilities | | | |
| Saving accounts | | | |
| Pesos | 507,651 | 2,983,378 | 3,491,029 |
| Foreign currencies | 2,641 | 267 | 2,908 |
| Total | 510,292 | 2,983,645 | 3,493,937 |
| Time deposits | | | |
| Pesos | 1,592,876 | 6,639,290 | 8,232,166 |
| Foreign currencies | 27,091 | 30,969 | 58,060 |
| Total | 1,619,967 | 6,670,259 | 8,290,226 |
| Banks loans - Central bank | | | |
| Pesos | (1,536) | 69 | (1,467) |
| Foreign currencies | — | — | — |
| Total | (1,536) | 69 | (1,467) |
| Banks loans - Other financial institutions | | | |
| Pesos | 381,418 | 167,170 | 548,588 |
| Foreign currencies | 134,953 | 495 | 135,448 |
| Total | 516,371 | 167,665 | 684,036 |
| Debt securities issued | | | |
| Pesos | 38,090 | 359,361 | 397,451 |
| Foreign currencies | — | — | — |
| Total | 38,090 | 359,361 | 397,451 |
| Other liabilities | | | |
| Pesos | (147,618) | 62,338 | (85,280) |
| Foreign currencies | — | — | — |
| Total | (147,618) | 62,338 | (85,280) |
| Total interest-bearing liabilities | | | |
| Pesos | 2,370,881 | 10,211,606 | 12,582,487 |
| Foreign currencies | 164,685 | 31,731 | 196,416 |
| Total | 2,535,566 | 10,243,337 | 12,778,903 |

Interest-Earning Assets: Net Interest Margin and Spread

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

| | Fiscal Year ended December 31, | |
|--|--|--------------------|
| | 2018 | 2017 |
| | (in thousands of pesos, except percentages) | |
| Average interest-earning assets | | |
| Pesos | 163,588,292 | 154,184,849 |
| Foreign currencies | 70,422,437 | 46,626,706 |
| Total | 234,010,729 | 200,811,555 |
| Net interest income (1) | | |
| Pesos | 28,802,956 | 22,446,642 |
| Foreign currencies | 2,931,377 | 1,308,221 |
| Total | 31,734,333 | 23,754,863 |
| Net interest margin (2) | | |
| Pesos | 17.61% | 14.56% |
| Foreign currencies | 4.16% | 2.81% |
| Weighted average rate | 13.56% | 11.83% |
| Yield spread, nominal basis (3) | | |
| Pesos | 10.45% | 10.24% |
| Foreign currencies | 4.23% | 2.83% |
| Weighted average rate | 11.60% | 10.03% |

- (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, 2018 and 2017 by type and currency of denomination.

| | Year ended December 31, | |
|--|--------------------------------|-------------------|
| | 2018 | 2017 |
| | (in thousands of pesos) | |
| Government securities | | |
| In pesos: | | |
| Securities measured at fair value | | |
| Argentine bonds | 8,556,747 | 3,275,919 |
| Other debt bonds | 55,857 | 8,072 |
| Instruments issued by the BCRA | | |
| Measured at fair value | 20,202,428 | 23,008,419 |
| Total government securities in pesos | 28,815,032 | 26,292,410 |
| In foreign currency: | | |
| Securities measured at fair value | | |
| Treasury bills | 3,233,616 | 7,068,530 |
| Total government securities in foreign currency | 3,233,616 | 7,068,530 |
| Total government securities | 32,048,648 | 33,360,939 |
| Corporate securities—Listed | | |
| Equity instruments | 133,248 | 196,035 |
| Investment funds | 408,704 | 517,873 |
| Total corporate securities | 541,952 | 713,908 |
| Subtotal government and corporate securities | 32,590,600 | 34,074,847 |
| Allowances | (271,574) | (5,664) |
| Total government and corporate securities | 32,319,026 | 34,069,183 |
| Corporate securities—Unlisted | 281,061 | 435,087 |

The table below presents the issuer of which, as of December 31, 2018, we held securities in excess of 10% of our stockholder equity as of such date:

| Issuer | Book value | Market value |
|--------------------|-------------------------|--------------|
| | (in thousands of pesos) | |
| BCRA | 20,202,428 | 20,202,428 |
| Argentine Republic | 11,790,363 | 11,790,363 |

Investment Portfolio: remaining maturities of our investment portfolio

The following table analyzes the remaining maturities of our investment portfolio as of December 31, 2018 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: | | | | | |
| Securities measured at fair value | | | | | |
| Argentine bonds (*) | 1,363,441 | 7,115,611 | 45,225 | 32,470 | 8,556,747 |
| Other debt bonds | 55,857 | - | - | - | 55,857 |
| Instruments issued by the BCRA | | | | | |
| Measured at fair value | 20,202,428 | - | - | - | 20,202,428 |
| Total government securities in pesos | 21,621,726 | 7,115,611 | 45,225 | 32,470 | 28,815,032 |
| In foreign currency: | | | | | |
| Securities measured at fair value | | | | | |
| Treasury bills | 3,233,616 | - | - | - | 3,233,616 |
| Total government securities in foreign currency | 3,233,616 | - | - | - | 3,233,616 |
| Total government securities | 24,855,342 | 7,115,611 | 45,225 | 32,470 | 32,048,648 |
| Corporate securities—Unlisted | | | | | |
| | 148,820 | 132,241 | - | - | 281,198 |
| Weighted average yield (for the securities indicated with *) ⁽¹⁾ | 18.38% | 29.04% | 21.91% | 8.75% | |

(1) The maturity profile above is based on each bond contractual maturity and its amortization profile. The weighted average yield was calculated using the internal rate of return of each bond published by the Argentine Institute of Capital Markets (“IAMC”) weighted by the expected outstanding principal at each maturity bucket.

Loan Portfolio

The following table analyzes our loan portfolio by types of loan as of December 31, 2018 and 2017. Loans are stated before deduction of the allowance for loan losses.

| | As of December 31, | |
|---|--------------------------------|--------------------|
| | 2018 | 2017 |
| | (in thousands of pesos) | |
| Loans and advances to government sector | 206 | 322 |
| Loans and advances to central bank | 383 | - |
| Loans and advances to financial institutions | | |
| Loans and advances to financial institutions | 9,669,330 | 6,772,988 |
| Allowance for loan losses | (33,486) | (49,296) |
| | 9,635,844 | 6,723,692 |
| Loans and advances to customers | | |
| Overdrafts ⁽¹⁾ | 11,789,313 | 17,285,259 |
| Discounted instruments ⁽²⁾ | 11,310,587 | 16,484,475 |
| Notes | 12,739,330 | 10,407,731 |
| Documents purchased | 264,434 | 19,858 |
| Real estate mortgage | 10,104,731 | 6,570,691 |
| Pledge loans | 1,650,222 | 6,729,439 |
| Consumer loans | 23,560,930 | 24,254,887 |
| Credit Cards | 41,869,188 | 44,142,402 |
| Loans for the prefinancing and financing of exports | 45,088,576 | 34,176,155 |
| Receivables from financial leases | 2,377,747 | 3,390,288 |
| Loans to personnel | 1,205,501 | 926,209 |
| Other financing ⁽³⁾ | 14,051,828 | 20,614,282 |
| Allowance for loan losses | (4,064,066) | (2,710,432) |
| | 171,948,321 | 182,291,244 |
| Secured loans | | |
| Liquid collateral | 820,650 | 2,064,967 |
| Preferred guarantees ⁽⁴⁾ | 10,470,296 | 15,988,272 |
| | 11,290,946 | 18,053,239 |

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

(2) Discounted instruments are endorsed promissory notes.

(3) Other financing are loans not included in other categories.

(4) Preferred guarantees mainly relate to mortgages and car loans, for which collection of the amounts owed is reasonably assured because the guarantees may be executed through established 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.*”

Loans by Economic Activity

The table below analyzes our loan portfolio according to the borrowers’ main economic activity as of December 31, 2018 and 2017. 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, | | | |
|---|--|----------------------------|-----------------------|----------------------------|
| | 2018 | | 2017 | |
| | Loan Portfolio | % of Loan Portfolio | Loan Portfolio | % of Loan Portfolio |
| | (in thousands of pesos, except percentages) | | | |
| Agricultural and livestock | 11,186,199 | 6.02% | 4,452,891 | 2.32% |
| Construction | 1,530,149 | 0.82% | 1,274,719 | 0.65% |
| Consumer | 61,518,019 | 33.13% | 88,070,584 | 45.92% |
| Electricity, oil, water and sanitary services | 2,034,506 | 1.10% | 1,786,537 | 0.93% |
| Financial sector | 9,669,537 | 5.21% | 6,773,310 | 3.53% |
| Government services | 589 | 0.00% | 322 | 0.00% |
| Mining products | 20,247,476 | 10.90% | 1,129,881 | 0.59% |
| Others | 16,604,074 | 8.94% | 46,818,135 | 24.41% |
| Other manufacturing | 26,107,936 | 14.06% | 20,112,359 | 10.49% |
| Services | 16,790,055 | 9.04% | 285,114 | 0.15% |
| Transport | 1,826,261 | 1.00% | 3,155,287 | 1.65% |
| Wholesale and retail trade | 18,167,505 | 9.78% | 17,915,847 | 9.34% |
| | 185,682,306 | 100.00% | 191,774,986 | 100.00% |

Maturity Composition of the Loan Portfolio

The following table analyzes our loan portfolio as of December 31, 2018 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, 2018 | 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 government sector | 206 | 206 | — | — | — |
| To central bank | 383 | 383 | — | — | — |
| To financial institutions | 9,669,330 | 5,202,337 | 1,929,153 | 2,537,840 | — |
| To customers | 176,012,387 | 98,873,664 | 34,600,104 | 34,611,333 | 7,927,286 |
| Overdrafts | 11,789,313 | 11,083,533 | 523,451 | 182,329 | — |
| With privileged guarantees | 11,754,953 | 873,917 | 1,004,412 | 2,716,636 | 7,159,988 |
| Credit cards | 41,869,188 | 41,869,188 | — | — | — |
| Other | 110,598,933 | 45,047,026 | 33,072,241 | 31,712,368 | 767,298 |
| Total | 185,682,306 | 104,076,590 | 36,529,257 | 37,149,173 | 7,927,286 |
| Percentage of total loan portfolio | 100.00% | 56.05% | 19.67% | 20.01% | 4.27% |

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, 2018. Loans are stated before deduction of the allowance for loan losses.

| | As of December 31, 2018 (in thousands of pesos) |
|--------------------------------------|--|
| Variable Rate | |
| Pesos | 545,786 |
| Foreign currency | — |
| Sub-total | 545,786 |
| Fixed Rate | |
| Pesos — including adjustable loans | 121,164,596 |
| Foreign currency | 60,218,441 |
| Sub-total | 181,383,037 |
| Non-performing ⁽¹⁾ | |
| Pesos | 2,257,806 |
| Foreign currency | 1,495,677 |
| Sub-total | 3,753,483 |
| Total | 185,682,306 |

(1) For additional information on non-performing loans see “—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, 2018.

| | Interest Sensitivity of Outstanding Loans Maturing in More Than One Year | |
|---------------------------|--|---------------|
| | Fixed rate | Variable rate |
| | (in thousands of pesos) | |
| To financial institutions | 2,537,840 | — |
| To customers | 42,523,617 | 15,002 |
| Total | 45,061,457 | 15,002 |

Foreign Country Outstanding Positions

As of December 31, 2018 and 2017 we did not hold "cross-border outstandings" exceeding 1% of our total assets. 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.

Classification of Loan Portfolio by Stage

The following table presents our loan portfolio classified by stage, before the deduction for the allowance for loan losses as of December 31, 2018 and 2017:

| | As of December 31, | | | |
|---------|---|----------------|--------------------|----------------|
| | 2018 | % | 2017 | % |
| | (in thousands of pesos, except percentages) | | | |
| Stage 1 | 169,108,709 | 91.07% | 189,596,035 | 98.86% |
| Stage 2 | 12,820,114 | 6.90% | 849,653 | 0.44% |
| Stage 3 | 3,753,483 | 2.03% | 1,329,298 | 0.70% |
| | <u>185,682,306</u> | <u>100.00%</u> | <u>191,774,986</u> | <u>100.00%</u> |

We have concluded that all our refinanced loans comply with the conditions for considering them as troubled debt restructuring (“TDR”). A restructured loan is considered a TDR if the debtor is experiencing financial difficulties and the Bank grants a concession to the debtor that would not otherwise be considered. Concessions granted could include: reduction in interest rate to rates that are considered below market, extension of repayment schedules and maturity dates beyond original contractual terms.

Loans considered TDR for the years ended December 31, 2018 and 2017 were as follows:

| Troubled debt restructuring | As of December 31, | |
|-----------------------------|-------------------------|----------------|
| | 2018 | 2017 |
| | (in thousands of pesos) | |
| Commercial | | |
| Mortgage | — | — |
| Others | 75,351 | 128,237 |
| Consumer | | |
| Personal Loans | 704,949 | 618,312 |
| Mortgage | 845 | 1,748 |
| Others | 527 | 5,702 |
| | <u>781,672</u> | <u>753,999</u> |

We classify our loan portfolio in two categories: (i) retail and (ii) wholesale.

The following table presents our retail and wholesale loan portfolio as of December 31, 2018 and 2017 before the deduction of the allowance for loan losses:

| | As of December 31, | | | |
|-----------------------|---|----------------|--------------------|----------------|
| | 2018 | % | 2017 | % |
| | (in thousands of pesos, except percentages) (1) | | | |
| Stage 1 (Retail) | 67,711,127 | 85.11% | 76,479,792 | 97.67% |
| Stage 1 (Wholesale) | 101,397,582 | 95.55% | 113,116,243 | 99.69% |
| | <u>169,108,709</u> | <u>91.07%</u> | <u>189,596,035</u> | <u>98.86%</u> |
| Stage 2 (Retail) | 10,207,375 | 12.83% | 744,200 | 0.95% |
| Stage 2 (Wholesale) | 2,612,739 | 2.46% | 105,453 | 0.09% |
| | <u>12,820,114</u> | <u>6.90%</u> | <u>849,653</u> | <u>0.44%</u> |
| Stage 3 (Retail) | 1,641,773 | 2.06% | 1,081,630 | 1.38% |
| Stage 3 (Wholesale) | 2,111,710 | 1.99% | 247,668 | 0.22% |
| | <u>3,753,483</u> | <u>2.02%</u> | <u>1,329,298</u> | <u>0.70%</u> |
| Total retail loans | 79,560,275 | 100.00% | 78,305,622 | 100.00% |
| Total wholesale loans | 106,122,031 | 100.00% | 113,469,364 | 100.00% |
| | <u>185,682,306</u> | <u>100.00%</u> | <u>191,774,986</u> | <u>100.00%</u> |

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

Non-performing and Restructured Loans

The following table analyzes at each of the dates indicated below our gross non-performing loan portfolio, and further breaks down the total into loans with preferred guarantees and those which are unsecured:

| | As of December 31, | |
|---------------------------|--------------------|-----------|
| | 2018 | 2017 |
| Non-performing loans | 3,753,483 | 1,334,734 |
| Total | 3,753,483 | 1,334,734 |
| With preferred guarantees | 36,745 | 121,746 |
| Unsecured | 3,716,738 | 1,212,988 |
| Total | 3,753,483 | 1,334,734 |

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

| | As of December 31, | | | |
|---|---|---------------------|----------------|---------------------|
| | 2018 | | 2017 | |
| | Loan Portfolio | % of Loan Portfolio | Loan Portfolio | % of Loan Portfolio |
| | (in thousands of pesos, except percentages) | | | |
| Agricultural and livestock | 45,284 | 1.21% | 63,015 | 4.72% |
| Construction | 19,140 | 0.51% | 12,910 | 0.97% |
| Consumer | 1,723,857 | 45.93% | 1,125,462 | 84.32% |
| Electricity, oil, water and sanitary services | 269 | 0.01% | 1,524 | 0.11% |
| Financial sector | — | 0.00% | 1,474 | 0.12% |
| Mining products | 61,213 | 1.63% | 9,592 | 0.72% |
| Others | 611,189 | 16.28% | 1,223 | 0.10% |
| Other manufacturing | 1,167,686 | 31.11% | 58,089 | 4.35% |
| Services | 6,901 | 0.18% | 13,663 | 1.02% |
| Transport | 32,024 | 0.86% | 1,479 | 0.11% |
| Wholesale trade | 85,920 | 2.28% | 46,303 | 3.47% |
| Total | 3,753,483 | 100.00% | 1,334,734 | 100.00% |

As of December 31, 2018, the majority of our loan portfolio, and non-performing and restructured loan portfolio, consisted of loans to Argentine borrowers. At that date, Ps.329.4 million, or 0.18% 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, 2018 and 2017 amounted to Ps.802.9 million and Ps.43.1 million, respectively.

Analysis of the Allowance for Loan Losses

The table below sets forth the activity in the allowance for loan losses for the fiscal years ended December 31, 2018 and 2017. 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, | |
|--------------------------------------|---|---------------------|
| | 2018 | 2017 ⁽¹⁾ |
| | (in thousands of pesos, except percentages) | |
| Balance at the beginning of the year | 2,767,041 | 1,317,015 |
| Adoption IFRS 9 | 1,036,297 | - |
| Subtotal | 3,803,338 | 1,317,015 |
| Provisions for loan losses | 3,871,311 | 2,749,775 |
| Charge-offs ⁽²⁾ | (2,805,207) | (1,299,749) |
| Balance at the end of year | 4,869,442 | 2,767,041 |
| Charge-off / average loans | 1.51% | 0.78% |

(1) In accordance with IAS 39

(2) Charge-offs are not concentrated in any particular economic activity. The Ps.2,805.2 million charged-off in the fiscal year ended December 31, 2018, Ps.1,057.0 million or 37.68%, were related to corporate borrowers and Ps.1,748.2 million or 62.32%, were related to individual consumers. The variation between 2018 and 2017 was due to the increases in the doubtful loan portfolio. Of the Ps.1,299.7 million charged-off in the fiscal year ended December 31, 2017, Ps.57.9 million or 4.46%, were related to corporate borrowers and Ps.1,241.8 million or 95.54%, were related to individual consumers. Charge-offs include reversal and applications.

Allocation of the Allowance for Loan Losses

The following table allocates the allowance for loan losses and sets forth the percentage distribution by each category as of December 31, 2018 and 2017.

| | As of December 31, | | | |
|--------------------------------|--|----------------|---------------------------|----------------|
| | 2018 | | 2017⁽¹⁾ | |
| | Total | % | Total | % |
| | (in thousands of pesos, except percentages) | | | |
| Advances | 333,332 | 6.85% | 198,279 | 7.17% |
| Notes discounted and purchased | 123,296 | 2.53% | 231,187 | 8.36% |
| Secured with mortgages | 28,864 | 0.59% | 56,414 | 2.04% |
| Pledge loans | 23,717 | 0.49% | 184,175 | 6.66% |
| Consumers loans | 2,692,465 | 55.29% | 1,533,963 | 55.47% |
| Other | 1,667,768 | 34.25% | 563,023 | 20.30% |
| Total | <u>4,869,442</u> | <u>100.00%</u> | <u>2,767,041</u> | <u>100.00%</u> |

(1) In accordance with IAS 39

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, 2018 and 2017.

| | Fiscal Year ended December 31, | |
|--|--|-------------------|
| | 2018 | 2017 |
| | (in thousands of pesos, except percentages) | |
| Deposits in Domestic Bank Offices | | |
| <i>Non interest-bearing liabilities</i> | | |
| Checking accounts | | |
| Average | | |
| Pesos | 30,417,316 | 36,963,608 |
| Foreign currencies | 16,601,221 | 19,801,262 |
| Total | <u>47,018,537</u> | <u>56,764,870</u> |
| <i>Interest-bearing liabilities</i> | | |
| Saving Accounts | | |
| Average | | |
| Pesos | 45,635,924 | 40,345,926 |
| Foreign currencies | 67,926,113 | 42,378,035 |
| Total | <u>113,562,037</u> | <u>82,723,961</u> |
| Average real rate | | |
| Pesos | 9.60% | 2.20% |
| Foreign currencies | 0.01% | 0.01% |
| Total | 3.86% | 1.08% |
| Time Deposits | | |
| Average | | |
| Pesos | 59,169,716 | 54,018,786 |
| Foreign currencies | 15,048,631 | 10,728,559 |
| Total | <u>74,218,347</u> | <u>64,747,345</u> |
| Average real rate | | |
| Pesos | 30.92% | 18.63% |
| Foreign currencies | 0.63% | 0.34% |
| Total | 24.78% | 15.60% |

Maturity of Deposits

The following table sets forth information regarding the maturity of our deposits at December 31, 2018.

| | Maturing | | | | |
|-------------------|-------------------------|--------------------|-----------------------------|------------------------------|-----------------|
| | Total | Within 3 months | After 3 but within 6 months | After 6 but within 12 months | After 12 months |
| | (in thousands of pesos) | | | | |
| Checking accounts | 28,574,950 | 28,574,950 | - | - | - |
| Savings accounts | 140,956,173 | 140,956,173 | - | - | - |
| Time deposits | 83,804,407 | 77,366,435 | 5,096,260 | 1,302,658 | 39,054 |
| Other | 6,173,531 | 6,173,531 | - | - | - |
| Total | 259,509,061 | 253,071,089 | 5,096,260 | 1,302,658 | 39,054 |

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, 2018.

| | 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 | 34,844,545 | 31,573,835 | 2,495,727 | 762,473 | 12,510 |
| Total | 34,844,545 | 31,573,835 | 2,495,727 | 762,473 | 12,510 |

Return on Equity and Assets

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

| | Year ended December 31, | |
|---|---|-------------|
| | 2018 | 2017 |
| | (in thousands of pesos, except percentages) | |
| (Loss) profit for the year attributable to owners of the Bank | (1,489,732) | 1,903,820 |
| Average total assets ⁽¹⁾ | 340,162,771 | 302,179,660 |
| Average stockholders' equity attributable to owners of the Bank ⁽¹⁾ | 47,286,950 | 43,542,070 |
| Stockholders' equity attributable to owners of the Bank at the end of the fiscal year | 45,512,029 | 49,061,871 |
| Profit or loss for the year attributable to owners of the Bank as a percentage of: | | |
| Average total assets | (0.44)% | 0.63% |
| Average stockholders' equity attributable to owners of the Bank | (3.15)% | 4.37% |
| Declared dividends ⁽²⁾ | 2,407,000 | 1,306,954 |
| Dividend payout ratio ⁽³⁾ | (161.57)% | 68.25% |
| Average stockholders' equity as a percentage of average total assets | 13.90% | 14.41% |

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

(2) For the fiscal years ended December 31, 2018, the dividends in cash declared at the ordinary and extraordinary shareholders' meeting on April 24, 2019 were Ps.2,407 million (nominal value). See "Item 8. Financial Information—A. Financial Statements and other Financial Information—Dividends".

(3) Declared dividends stated as percentages of loss or profit for the year attributable to owners of the Bank. See "Item 8. Financial Information—Dividends".

Short-Term Borrowings

Our short-term borrowings, which equaled or exceeded 30% of stockholders' equity, totaled Ps.32.8 billion, Ps.12.5 billion and Ps.13.9 billion at December 31, 2018 and 2017, respectively. The table below shows those amounts at the end of each fiscal year and other related information.

| | At December 31, | | | |
|--|---|--------------------------------|------------|--------------------------------|
| | 2018 | | 2017 | |
| | Amount | Weighted Average Interest Rate | Amount | Weighted Average Interest Rate |
| | (in thousands of pesos, except percentages) | | | |
| Total amount outstanding at the end of the reported period | 36,489,314 | 5.3% | 48,479,647 | 17.1% |
| Average during year ⁽¹⁾ | 28,481,686 | 6.8% | 46,274,753 | 17.9% |
| Maximum month-end balance | 36,489,314 | | 54,663,202 | |

(1) Calculated as the average of balances at the end of each quarter during the relevant year.

F. The Argentine Banking System and its Regulatory Framework

Argentine Banking System

On December 31, 2018, Argentina's banking system consisted of 53 commercial banks, 13 of which were government-owned or government-related banks and 50 of which were Argentine private banks. The principal regulators of financial institutions in Argentina are the Central Bank, the Superintendence and, in the case of financial institutions that publicly offer their own securities in Argentina or otherwise engage in the offering or trading of third parties' securities in Argentina, the CNV.

Private Sector Banks

According to information published by the Central Bank, on December 31, 2018, the largest Argentine private banks, in terms of total assets, were: Banco de Galicia y Buenos Aires S.A., Banco Santander Río S.A., BBVA Francés, Banco Macro S.A. and HSBC Bank Argentina. Some of these banks, including BBVA Francés, have one or more significant foreign investors. Argentine private banks accounted for 55.71% of total deposits and 61.33% of total gross loans in the Argentine financial sector as of December 31, 2018, of which the ten largest Argentine private banks accounted for 46.45% of total deposits and 51.03% of total gross loans in the Argentine financial sector. Foreign banks compete under the same regulatory conditions as Argentine banks.

Public Sector Banks

The principal state-owned banks are Banco de la Nación Argentina, Banco de la Provincia de Buenos Aires and Banco de la Ciudad de Buenos Aires. As of December 31, 2018, based on the available data of the Central Bank, these three institutions accounted for 38.14% of total deposits and 29.26% of total gross loans in the Argentine financial sector.

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

Central Bank

The Financial Institutions Law regulates banking activities in Argentina and places the supervision and control of the Argentine banking system in the hands of the Central Bank, an autonomous institution. The Financial Institutions Law provides the Central Bank with broad access to the accounting systems, books, correspondence, documents and other paperwork of banking institutions. The Central Bank regulates the provision of credit and supervises the liquidity and the general operation of the Argentine financial markets. The Central Bank enforces the Financial Institutions Law and authorizes banks to operate in Argentina. Since an amendment to the Financial Institutions Law of 1994, there is no distinction between domestically-owned and foreign-owned financial institutions.

The Central Bank establishes "technical ratios" to limit the levels of indebtedness, liquidity, maximum credit that may be granted per customer and foreign exchange assets and liabilities positions of financial institutions, among others. The Central Bank carries out formal inspections from time to time of all banking institutions to monitor their compliance with legal and regulatory requirements. The Central Bank supervises banks on a consolidated basis. It has a supervision department of internal and external auditors of financial institutions that evaluate performance comprehensively in internal audit areas as well as firms and professionals working as external auditors of financial institutions. See "*—value BASIC System*" below. When a financial institution does not comply with the mandatory technical ratios, it must explain such noncompliance to the Central Bank. There are specific regulations governing reorganization plans and other measures arising from non-compliance with these plans. Moreover, the Central Bank has the authority to impose sanctions for non-compliance, ranging from a warning to the revocation of banking licenses.

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

Law No. 25,780 introduced amendments to the Financial Institutions Law and to the Central Bank's Charter (*carta orgánica*). Among the most important modifications we can mention the following:

- Unless expressly provided otherwise by law, the Central Bank shall not be affected by regulations of a general nature that have been or may be enacted with reference to public administration entities and which introduce limitations on the authority or powers of the Central Bank established in its Charter.
- The Central Bank is authorized to make temporary advances to the federal government up to an amount equivalent to 12% of the monetary base, which for this purpose includes monetary circulation plus deposits at sight of financial institutions in the Central Bank, whether in current account or in special accounts. It may also grant advances up to an amount not exceeding 10% of the cash resources obtained by the federal government in the previous twelve months. At no time may the amount granted as temporary advances, excluding those exclusively destined to the payment of obligations with multilateral lending institutions, exceed 12% of the monetary base. All advances thus granted must be repaid within the following twelve months; if any of these advances remain unpaid after their expiration date, it will not be possible to use again these powers until all amounts owed have been repaid.
- The validity of Sections 44, 46 (c), 47 and 48 of the Central Bank's Charter, with respect to the powers of the Superintendent of Financial and Exchange Entities (Superintendente de Entidades Financieras y Cambiarias) under the terms of the text approved as Article 1 of the Law No. 24,144.
- A transitional provision is introduced authorizing the Central Bank to: (i) provide assistance to financial entities with liquidity and / or solvency problems (already authorized under Decree No. 214/02), including those in process of restructuring by resolution of the Central Bank in terms of Article 35 bis of the Financial Institutions Law; (ii) to authorize the integration of reserve requirements of financial institutions with financial assets other than cash, in the form of demand deposits at the Central Bank or in foreign currency accounts according to Article 28 of the Central Bank's Charter.

Amendments to the Central Bank's Charter and the Convertibility Law

Law No. 26,739 amended in 2012 the functions and powers of the Central Bank and the ability of the federal government to obtain financing from the Central Bank. This law amended the charter of the Central Bank (as amended, the "Charter"), which had been previously approved by Law No. 24,114 and the Convertibility Law. The amendments introduced by Law No. 26,739 may be grouped under two subjects: (i) amendments to the functions and powers of the Central Bank as the regulatory and supervisory authority of the financial sector; and (ii) expansion of the federal government's access to financing from the Central Bank. We briefly explain below the most relevant aspects of each.

▪ **Functions and powers of the Central Bank:**

- *Purpose of the Central Bank.* Prior to Law No. 26,739 according to the Charter, the "primary and fundamental purpose" of the Central Bank was to "preserve the value of the currency". Following Law No. 26,739, the Central Bank has multiple purposes, including "promoting currency stability, financial stability, employment and economic development with social equity".
- *Relationship of the Central Bank with the executive branch and Congress.* Under the Charter, the Central Bank remains a "self-governed entity" and (i) in the exercise of its powers and faculties, the Central Bank shall not be subject to the instructions of the executive branch, and (ii) the Central Bank may not enter into any obligation that implies a restriction or a delegation of its powers, without Congress' express authorization. However, the Charter provides that the Central Bank's purpose must be fulfilled "within the framework of the policies set by the federal government".
- *Obligations and powers of the Central Bank related to economic information.* The amendments to the Charter limited the ability of the Central Bank to supply economic information. In particular, (i) the requirement to report the expected rate of inflation for each year; (ii) the publication of statistics regarding the balances of payment and the national accounts of the Republic and (iii) the requirement that the entity's financial statements reflect the amount and composition of the reserves and of the monetary base were removed from the Charter.
- *Functions and powers of the Central Bank.* New powers were vested in the Central Bank, including: (i) to regulate the amount of money and the interest rates, and direct credit policies; (ii) to regulate payment systems, liquidating and clearing houses, fund remittance entities, and transportation of valuables and (iii) to protect the rights of consumers of financial services and fair competition within the financial sector.

- *Powers of the Central Bank’s president.* The amendments strengthened the powers of the president of the Central Bank’s board of directors. In this respect, (i) the Superintendence is now under the president’s supervision; (ii) the president was empowered to operate directly in the currency and foreign exchange markets (formerly, these powers were vested in the Central Bank’s board of directors) and (iii) the president’s powers in emergency situations were increased.
- *Powers of the Central Bank’s board of directors.* New regulatory powers were expressly conferred to the board, such as: (i) to establish the information and accounting regime for the entities subject to the Central Bank’s supervision; (ii) to regulate credit conditions and policies; (iii) to enact rules that preserve competition in the financial markets and (iv) to regulate the capture (through negotiable instruments or otherwise) of foreign currency funds by financial institutions.
- Financing of the federal government:
 - Temporary Advances. The amendment of the Charter significantly increased the Central Bank’s ability to grant temporary advances to the federal government. See “—Central Bank” above.
 - Powers of the Central Bank’s board of directors. See “—Central Bank—Functions and powers of the Central Bank” above.

Determination and application of the “freely available” reserves. The amendments to the Convertibility Law abrogated the requirement that the Central Bank’s reserves must underpin up to 100% of the monetary base. Now the Central Bank’s board of directors shall determine the amount of reserves necessary to carry out the foreign exchange policy, taking into consideration the evolution of the external accounts. Consequently, the “freely available” reserves will no longer be constituted by those that exceed the amount necessary to underpin up to 100% of the monetary base. The “freely available” reserves will now be those which exceed the amount determined by the board of directors in the manner contemplated above. The amendments also expanded the scope of application of “freely available” reserves. In addition to the payment of obligations with international financial institutions, pursuant to the reform approved by Congress, the “freely available” reserves may also be applied to the payment of “official bilateral external debt”, which includes the debt that the Republic has with creditors grouped together in the “Paris Club”.

- Argentine Fund for Indebtedness Reduction. This fund was created through Decree No. 298/10 in order to apply “freely available” reserves of the Central Bank to the payment of sovereign debt held by private creditors. This Fund is composed by the “freely available” reserves allocated for each fiscal year. Law No. 26,739 provides that this fund will continue to operate until the purpose for which it was created has been fulfilled.

Supervision on a consolidated basis

Argentine financial institutions are subject to supervision on an individual and consolidated basis by the Central Bank. Therefore, the financial statements and other information of financial institutions must reflect the transactions of their head office as well as those of their branches domestically and offshore, and those of any domestic and foreign “significant subsidiaries” (as defined below). The requirements as to liquidity, solvency, minimum capital, risk concentration, and provisions for loan losses, among others, must be calculated on a consolidated basis.

Financial institutions must submit certain financial information to the Central Bank, including the following:

- financial statements and other quarterly and annual reports reflecting on a consolidated basis the transactions of the financial institution, its domestic and foreign branches and its domestic and foreign “significant subsidiaries” (as defined below); and
- financial statements and other quarterly and annual reports reflecting on a consolidated basis the transactions of the financial institution, its domestic and foreign branches, its domestic and foreign “significant subsidiaries” (as defined below) or entities or companies in the Republic and abroad where the financial institution owns or controls more than 12.5% of the shares entitled to vote (in those cases determined by the Superintendence), and those companies not subject to consolidated supervision which the financial institution may have chosen to include with the prior approval of the Superintendence.

For the purposes of these regulations:

- A “subsidiary” of a domestic financial institution is any domestic or foreign financial institution or company where:

- (1) the domestic financial institution has direct or indirect control of more than 50% of the total votes of any instrument with voting rights in such entity or company,
- (2) the domestic financial institution has direct or indirect control as to determining by itself the composition of most of the management bodies of such entity or company, or
- (3) a majority of the directors of the domestic financial institution is also a majority of the directors of such entity or company.

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

▪ A "significant subsidiary" is any subsidiary:

- (1) whose assets, possible commitments and other transactions recorded in memorandum accounts represent 10% or more of the total capital of the local financial institution and its subsidiaries abroad; or
- (2) whose results of operations corresponding to the current fiscal year represent 10% or more of the aggregate results of operations for the current fiscal year of the local financial institution and its subsidiaries abroad.

Acquisition of Shares of Financial Entities

Central Bank regulations require the approval of the Central Bank as a condition to the consummation of an acquisition of shares of a financial entity if such acquisition is likely to modify the control or the structure of the shareholders' groups controlling a financial entity ("Significant Acquisitions"). In addition, any acquisition, other than a Significant Acquisition, in a public offering of 2% or more of the capital stock of a financial entity, such entity must report the identity, nationality and domicile of each purchaser to the Central Bank.

Legal Reserve

The Central Bank requires that financial institutions allocate on an annual basis a certain percentage of their net income in accordance with BCRA rules to a legal reserve. Such percentage is currently set at 20%. This reserve can only be used during periods in which a financial institution has incurred losses and has exhausted all unappropriated retained earnings and other reserves. Financial institutions may not pay dividends if the legal reserve has been impaired. However when the legal reserve is used to absorb losses, no profits may be distributed until such losses are fully refunded. If the legal reserve balance before any loss absorption exceeds 20% of the capital stock plus a capital adjustment, profits may be distributed once the latter value (capital stock plus the capital adjustment) is reached.

Reserve Requirements and Liquidity Requirements

Financial institutions must keep available at all times, and therefore not available for lending, a portion of their deposits or obligations in cash. The minimum cash requirement is calculated on the monthly average of daily balances for certain obligations as recorded at the end of each calendar month, and must be observed separately for each currency of denomination and/or government securities and instruments issued by the BCRA. Compliance must take place in the same currency as the obligations, except for demand liabilities derived from transfers from abroad in foreign currencies other than the U.S. dollar, which must be accounted for in U.S. dollars making use of one of the following instruments:

- (i) current accounts in pesos of the financial institutions with the Central Bank;
- (ii) minimum cash accounts of the financial institutions with the Central Bank, denominated in U.S. dollars or other foreign currencies;
- (iii) special guarantee accounts in favor of electronic clearing houses;
- (iv) current accounts of non-banking financial institutions;
- (v) special current accounts (opened in the Central Bank) in connection with the fulfillment of social security benefits; and

(vi) minimum cash accounts of public securities and instruments issued by the Central Bank, at market value and of the same type.

Since April 1, 2012, cash and cash equivalents in pesos and foreign currencies are not considered as part of the minimum cash requirement. Any default in cash and cash equivalents in foreign currency for a particular period will be taken into account when calculating, and will increase by the same amount, the minimum cash requirements for such foreign currency.

The minimum cash requirement is reduced according to the participation of the financing in pesos granted to MiPyMEs in the total financing in pesos for the non-financial private sector, as indicated in the table below:

| Participation of the financing to MiPyMEs in the total financing granted by the entity to the non-financial private sector. | Deduction (on the total of items included in pesos). | |
|---|--|------|
| | In % | In % |
| Less than 4 | | 0.00 |
| Between 4 and less than 6 | | 0.75 |
| Between 6 and less than 8 | | 1.00 |
| Between 8 and less than 10 | | 1.25 |
| Between 10 and less than 12 | | 1.50 |
| Between 12 and less than 14 | | 1.75 |
| Between 14 and less than 16 | | 2.00 |
| Between 16 and less than 18 | | 2.20 |
| Between 18 and less than 20 | | 2.40 |
| Between 20 and less than 22 | | 2.60 |
| Between 22 and less than 24 | | 2.80 |
| Between 24 and less than 26 | | 3.00 |
| Between 26 and less than 28 | | 3.20 |
| Between 28 and less than 30 | | 3.40 |
| 30 or more | | 3.60 |

Depending on the granting of loans under the program “AHORA 12” the minimum cash requirement in pesos was reduced again in July 2018 in an amount equivalent to 20% of the sum of financings in pesos and a similar percentage was reduced in January 2017 for the consumptions made with credit cards since December 2016 through the program “AHORA 18” and in May 2017 for the consumptions made with credit cards since April 2017 through the program “AHORA 3” and “AHORA 6”.

Likewise, in case of an excessive concentration of liabilities (in holders and/or terms), which implies a significant risk on the financial institution’s liquidity and/or an important negative effect on the system’s liquidity, additional minimum cash requirements may be imposed on the affected liabilities of the financial institution and/or any other measures considered relevant.

The balances of cash accounts opened with the Central Bank as eligible for cash integrations were only compensated up to the amounts corresponding to the legal requirements for forward transactions.

The Central Bank sets forth the application of different requirements for deposits in pesos as opposed to foreign currencies.

The following schedule indicates the minimum cash requirements for each type of account as of January of 2019. In the case of transactions in pesos, the minimum cash requirements will depend on the category assigned to the location of the operating office where the deposit was made:

| Type of Account | January 2019 | |
|--|--------------|----------|
| | I | II to VI |
| Current accounts and demand accounts open in Credit Unions | 45% | 20% |
| Other demand deposits, basic account and universal free account | | |
| In pesos | 45% | 20% |
| In foreign currency | 25% | 25% |
| Unused balances from current account advances effected | 45% | 20% |
| Current accounts of financial institutions | 100% | 100% |
| Fixed-term deposits, bonds for acceptances (including liabilities for the sale or assignment of credits to subjects other than financial institutions), reverse repurchases, bonds and stock-exchange reverse swaps, investments at constant term, with advanced cancellation or renewal option: | | |
| In pesos | | |
| Up to 29 days | 35% | 14% |
| From 30 to 59 days | 25% | 10% |
| From 60 to 89 days | 7% | 5% |
| More than 90 days | 0% | 0% |
| In foreign currency | | |
| Up to 29 days | 23% | 23% |
| From 30 to 59 days | 17% | 17% |
| From 60 to 89 days | 11% | 11% |
| From 90 to 179 days | 5% | 5% |
| From 180 to 365 days | 2% | 2% |
| More than 365 days | 0% | 0% |
| Debt securities (including corporate bonds) | | |
| a) Debt issued, including those from restructured bonds, as per their residual term: | | |
| In pesos | | |
| Up to 29 days | 35% | 14% |
| From 30 to 59 days | 25% | 10% |
| From 60 to 89 days | 7% | 5% |
| More than 90 days | 0% | 0% |
| In foreign currency | | |
| Up to 29 days | 23% | 23% |
| From 30 to 59 | 17% | 17% |
| From 60 to 89 days | 11% | 11% |
| From 90 to 179 days | 5% | 5% |
| From 180 to 365 days | 2% | 2% |
| More than 365 days | 0% | 0% |
| Bonds with the Trust Fund for Assistance to Financial and Insurance Institutions | 0% | 0% |
| Demand and term deposits made by judicial order with funds originated in legal actions currently under course and their immobilized balances | | |
| In pesos | 32% | 13% |
| In foreign currency | 15% | 15% |
| Special deposits related to funds revenues from abroad – Decree No. 616/05 | 100% | 100% |
| Deposits and other demand obligations in pesos, whose return exceeds 15% BADLAR rate of private financial institutions' average | — | — |
| Term investments instrumented by nominative non-transferable certificates in pesos corresponding to public sector security holders, entitled to exercise the prepayment option within a term not greater than 30 days after constitution thereof | 35% | 14% |
| Deposits and term investments of "UVA" and "UVI" - including savings accounts in "UVA" and "UVI" | | |
| Up to 29 days | 7% | 7% |
| From 30 to 59 | 5% | 5% |
| From 60 to 89 days | 3% | 3% |
| More than 90 days | 0% | 0% |
| Labor Closure Fund for Workers of the Construction Industry in "UVA" | 7% | 7% |
| Deposits and term investments that are constituted on behalf of minors by funds received gratuitously | 0% | 0% |

In addition to the above mentioned requirements, a reserve must be established for the total amount of any default in the application of resources in foreign currency for the month in respect to which the calculation of the minimum cash requirement is made. See "Item 4. Information on the Company—F. The Argentine Banking System and its Regulatory Framework—Lending Capacity Provided by Deposits in Foreign Currency".

Lending Capacity Provided by Deposits in Foreign Currency

The lending capacity provided by deposits denominated in foreign currency must be calculated in the same currency of the underlying deposits. Deposits denominated in foreign currency also include deposits denominated in dollars but payable in pesos. Customers who engage in any of the transactions below must be financed in foreign currency:

- (1) Prefinancing and financing of exports carried out directly or through agents, consignees or other proxies acting for the account and order of the owner of the goods. It also comprises the financing of suppliers of services to be exported. This includes those transactions for the purpose of financing working capital and/or the acquisition of objects related to the production of goods to be exported, provided the flow of income in foreign currency deriving from such exports is sufficient to settle such transactions.
- (2) Other financing to exporters who can rely on a flow of future income in foreign currency and who, in the year prior to the finance being granted, can provide evidence of invoicing in foreign currency -brought into the Republic- for an amount reasonably proportional to such financing.
- (3) Financing transactions granted to goods, producers or processors, provided:
 - They have firm sale contracts for the goods to be produced for an exporter, with prices fixed or to be fixed in a foreign currency (regardless of the currency in which the transaction is settled) and involving fungible goods with a regular and customary quotation in foreign currency which is widely known and easily accessed by the public in local or international markets. In all cases of term purchase and sale agreements for a price to be fixed, such price must be in direct relation with the price of such products in local markets.

- Their main activity is the production, processing and/or storage of fungible goods with a normal and regular foreign currency quotation in markets abroad that is widely known and easily accessible to the public and provided there is evidence, in the year prior to obtaining the financing, that total revenue from sales of such goods bears a reasonable proportion to that activity and its financing.

This category also includes transactions to finance suppliers of services directly used in the process of exporting goods.

- (4) Financing transactions for producers of goods to be exported, either in the same condition or as part of other goods, by third-party purchasers, provided they have total pledges or guarantees in foreign currency from such third parties.
- (5) Financings to suppliers of goods and/or services that form part of the production process of perishable items with prices quote in foreign currency, being customarily used in local markets or abroad, widely spread and with easy access to public knowledge, provided they enter into firm sales agreements for such goods and/or services in foreign currency.
- (6) Financing of investment projects, working capital and/or the acquisition of any kind of goods, including temporary importation of commodities, which may increase or be related to the production of goods for exportation. Even though income from exporter companies does not totally derive from sales abroad, financing may only be allocated if the income flow deriving from exportation is sufficient.

This category also includes those transactions where financing is granted via the bank's participation in "syndicated loans", be they with domestic or foreign entities.

- (7) Financing to clients from the commercial portfolio and of a commercial nature who receive treatment for their consumption or housing credits –under the provisions of the "Debtors' Classification" regulations–destined for the importation of capital goods ("BK" according to the Common Nomenclature for the MERCOSUR attached as Annex I to Decree No. 690/02 and other complementary provisions) which will result in an increase in the production of goods destined for domestic consumption.
- (8) Debt securities or certificates of participation in financial trusts in foreign currency -including other collection rights specifically acknowledged in the trust agreement to be constituted within the framework of loans established by multilateral credit institutions of which Argentina is a party whose assets under management are loans originated by financial institutions under the terms described in (1) through (3) and the first paragraph of (4) above or documents denominated in foreign currency, bought by the trustee for the purpose of financing transactions on the terms and conditions mentioned in the above points above.
- (9) Financing transactions for purposes other than mentioned in (1) to (3) and the first paragraph of (4) above, included in the credit program "IDB Loan No. 1192/OC-AR", without exceeding 10% of the lending capacity.
- (10) Underfinancing loans (any interfinancing loans granted with such resources must be identified).
- (11) Notes and bills issued by the Central Bank denominated in U.S. dollars.
- (12) Direct investments abroad by companies residing in the Republic, whose purpose is to develop production activities of non-financial goods and/or services, be they through contributions and/or purchases of participations in companies, as far as they are incorporated in countries or territories considered as cooperators regarding tax transparency in terms of article 1 of Decree No. 589/13, as amended.
- (13) Financing of investment projects, including their working capital, which permit increasing production in the power sector, and having firm sales agreements and/or full sureties or guaranties in foreign currency.
- (14) Primary subscription of debt instruments in foreign currency of the national treasury, up to an amount equivalent to one third the total amount of applications made according to this article.
- (15) Financings of investment projects for bovine cattle, including their working capital, without exceeding 5% of the entity's deposits in foreign currency.
- (16) Financing of investment projects for bovine livestock, including working capital, without exceeding 5% of the entity's foreign currency deposits.
- (17) Financing to foreign importers for the acquisition of goods and/or services produced in the Republic, either directly or through lines of credit to foreign banks.

(18) Financing to residents guaranteed by stand-by letters of credit issued by foreign banks that comply with the provisions of section 3.1. of the rules on “Credit assessments”, requiring to this effect an international rating of investment grade risk, insofar as such letters of credit are unrestricted and the accreditation of the funds is carried out immediately at the simple request of the beneficiary entity.

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

Any deficiencies in the application of foreign currency lending capacity, net of a portion of: (i) cash balances, (ii) cash under custody in other financial institutions, (iii) cash in transit and (iv) cash with armored car transport companies, up to the amount of such deficiency, requires an equivalent increase in the minimum cash requirement discussed in “—Reserve Requirements and Liquidity Requirements” above.

Limitations on Types of Business

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

- make loans in pesos and foreign currency;
- receive deposits in pesos and foreign currency;
- issue guarantees;
- underwrite, place and broker equity and debt securities in the over-the-counter market, subject to the prior approval of the CNV;
- conduct transactions in foreign currency;
- act as fiduciary; and
- issue credit cards.

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

These limitations include:

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

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

Capital Adequacy Requirements

Basel Accord

In July 1988, the Basel Committee on Banking Regulations and Supervisory Practices (the “Basel Committee” or “BCBS”), which includes the supervisory authorities of twelve major industrial countries, adopted an international framework (the “Basel Accord”) for capital measurement and capital standards of banking institutions (known as Basel I).

In 2007 the Central Bank published its road map for the implementation of the capital adequacy requirements contained in the document “International Convergence of Capital Measurement and Capital Standards”, issued by the Basel Committee and known as Basel II. The first stages were implemented according to the schedule and consisted of the publication of best practices for risk management, seminars, review of supervision processes on the basis of the best practices being encouraged by the BCBS, analysis of the areas subject to “national discretion” in the calculation of regulatory capital, and publication of the text “Guidelines for Operational Risk Management in Financial Institutions”.

Following the sub-prime lending crisis that spread in 2008 and 2009, the BCBS published in December 2010 a set of measures known as Basel III, designed to increase the capacity of the system to absorb shocks from stress situations and improve risk management and the transparency of bank disclosures.

Basel III incorporated the terms of Basel II, contained in three “pillars”:

- Pillar 1 provides supervisors with a number of options to quantify capital requirements for credit, operational and market risk, and defines which components of an institution’s net worth are eligible to satisfy those requirements.
- Pillar 2 describes the process to be followed by institutions to evaluate the sufficiency of their capital in relation to their risk profile.
- Pillar 3 establishes minimum information requirements that financial institutions must provide on the adequacy of their capital.

- Minimum Capital

Since the introduction of Basel I, financial institutions must keep an amount of total capital not less than 8% of their risk weighted assets. Items going towards compliance with this capital requirement are classified in two groups:

- Core capital (Tier 1), and
- Supplementary capital (Tier 2).

According to Basel II, at least half of the capital requirement should be composed of core capital, preferably common equity, a category that includes both common shares and retained earnings.

Had the Basel Accord been applied to us at December 31, 2018, our total capital would have been 1.67 times the minimum required.

Basel III established more demanding requirements, as banks must comply with three minimum ratios in relation to their risk-weighted assets:

- 4.5% for common equity (for which the qualifying criteria are more restrictive than for Basel II),
- 6% for Tier 1 capital, and
- 8% for total capital.

These new capital composition requirements help ensure that there will be greater capacity to absorb losses in stress situations.

- Capital Conservation Buffer

The so-called capital conservation buffer imposed an additional capital requirement equivalent to 2.5% of risk-weighted assets and it must be satisfied by common equity. Its purpose was to be able to count on sufficient reserves to absorb additional losses generated at times of economic and financial stress. In fiscal years where common equity is less than 7% of risk-weighted assets (the 4.5% base requirement from Basel III plus the conservation buffer), constraints are established for financial institutions, restricting their ability to pay dividends, award discretionary bonuses or perform share buybacks.

- Countercyclical Capital Buffer

The goal of the countercyclical capital buffer was to offset the pro-cyclical nature of the financial sector. In times of exceptional credit growth at the aggregate level, financial institutions will be required to increase their common equity until 2.5% of their risk-weighted assets.

- Leverage Ratio

Basel III complemented risk weighted asset capital requirements with a limit on total leverage. This limit, known as the leverage ratio, is the ratio between core capital (Tier 1) and total assets without risk weighting, both on and off balance sheet, plus derivatives. At the international level, this ratio was initially set at 3%. Although Basel II had previously established a capital requirement for the market risk generated by foreign currency positions, Basel III did not impose any limitation on foreign currency positions. Basel III introduced a limitation through the leverage ratio, set forth in relation to total exposure regardless of the currency in which the underlying assets are recorded. Argentine regulations limited direct exposure to currency risk. Furthermore, with the aim of preventing the indirect exposure generated by the granting of loans denominated in foreign currency to agents whose income is in pesos, regulations in Argentina only allowed funds obtained from deposits in foreign currency to be lent to customers who generate income in the same currency.

- Liquidity Coverage Ratio

The Liquidity Coverage Ratio (“LCR”) is based on the methodologies used by international banks. It is calculated so that financial institutions can tolerate stress scenarios over a thirty-day period. Liquidity requirements in Argentina are stricter than those established by the international standards. See “—*Liquidity Coverage Ratio*” below.

- Net Stable Funding Ratio

The Net Stable Funding Ratio (“NSFR”) is calculated on the basis of long-term liquidity and structural mismatching in the composition of sources of funding. The design of the NSFR is based on net liquid assets and liquid capital methodologies used by internationally active banks. Banks should hold sufficient stable sources of funding (net worth and long-term liabilities) to fund the proportion of their assets that they cannot monetize within a term of one year.

- Intensive Supervision of Systemically Important Institutions

The Financial Stability Board and the BCBS are working on the design of an appropriate regulatory framework for global systemically important financial institutions (“G-SIFIs”). It is being discussed whether G-SIFIs should be subject to more demanding capital requirements than those foreseen by Basel III. To that effect, a methodology to identify G-SIFIs and the additional capital requirements to ensure a greater loss-absorbing capacity would have to be agreed.

Central Bank Rules

Under the Financial Institutions Law, Argentine financial institutions must comply at all times with the minimum capital requirements described by the Central Bank.

Since February 1, 2013, by Communication “A” 5369 of the BCRA, minimum capital is equal to total capital (basic net equity plus complementary net equity, “RPC”), as per the Central Bank’s denomination.

Basic Net Equity includes:

- Ordinary Capital Level 1:
 - a) Corporate capital (excepting preferred shares);
 - b) Non-capitalized contributions (excepting share premiums);
 - c) Equity adjustments;
 - d) Reserve (excepting the special reserve for debt instruments);
 - e) Retained earnings;
 - f) Other results (either positive or negative);
 - g) Share premiums for instruments included in ordinary capital level 1; and
 - h) Third-party participations for those companies subject to consolidated supervision systems.
- Additional Capital Level 1:
 - a) Instruments issued by the financial institution and not included in ordinary capital level 1;

- b) Share premiums for instruments included in additional capital level 1;
- c) Instruments issued by subsidiaries in the hands of third parties not included in ordinary capital level 1 for those companies subject to consolidated supervision systems.

Less: certain deductible items

“Complementary Net Equity” includes:

- a) Instruments issued by the financial institution and not included in the basic net equity;
- b) Share premiums for instruments included in the complementary net equity;
- c) Allowances for loan losses from the portfolio of debtors classified as in “normal” situation which do not exceed 1.25% of the credit-risk-weighted assets; and
- d) Instruments issued by subsidiaries in the hands of third parties not included in the basic net equity for those companies subject to consolidated supervision systems.

Less: certain deductible items

Minimum limits were also established to be observed by the ordinary capital level 1, the basic net equity and the minimum capital (4.5%, 6% and 8% of the risk-weighted assets, respectively). Noncompliance with these minimum levels is considered as noncompliance with the minimum capital payment.

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

- Minimum basic capital; and
- The sum of minimum capital required for credit risk, market risk and operational risk.

Differential requirements were established for banks and other financial institutions, mainly based on the area where their head offices are located, in order to benefit those areas with smaller banking coverage according to Central Bank criteria, which now enjoy less stringent requirements with respect to minimum basic capital.

Minimum capital requirement for credit risk will be determined as the sum of:

- (a) 8% of the sum of credit-risk-weighted asset transactions without delivery against payment;

The risk-weighters table is reformulated with new items and weighters and with a new scheme. Some of the new items and weighters are, among others:

- Within the “Cash and cash equivalents” item, the cash on hand, in transit (if the financial institution assumes the transportation risk and liability) and in automated teller machines (weighted at 0%); and the cash items in the process of being received (collectible checks and drafts), cash in treasury transporting companies and cash in custody of financial institutions (weighted at 20%).
- Exposure to governments and central banks (with weighters from 0% to 100%)
 - a) To governmental sector and Central Bank (with weighters of 100%)^(*):

| Qualification | AAA until AA- | A+ until A- | BBB+ until BBB- | BB+ until B- | Less than B- | Not rated |
|----------------------|--------------------------|------------------------|----------------------------|-------------------------|---------------------|------------------|
| Risk weighting | 0% | 20% | 50% | 100% | 150% | 100% |

^(*) The risk weight is 100% until the Central Bank issues the list of external rating agents.

- b) To other sovereign states (or their central banks)^(*):

| Qualification | AAA until AA- | A+ until A- | BBB+ until BBB- | BB+ until B- | Less than B- | Not rated |
|----------------------|--------------------------|------------------------|----------------------------|-------------------------|---------------------|------------------|
| Risk weighting | 0% | 20% | 50% | 100% | 150% | 100% |

^(*) The risk weight is 100% until the Central Bank issues the list of external rating agents.

c) Entities from the governmental sector of other sovereign states according to the credit rating assigned to the corresponding sovereign ^(*):

| Qualification | AAA until AA- | A+ until A- | BBB+ until BBB- | BB+ until B- | Less than B- | Not rated |
|----------------------|--------------------------|------------------------|----------------------------|-------------------------|---------------------|------------------|
| Risk weighting | 20% | 50% | 100% | 100% | 150% | 100% |

(*) The risk weight is 100% until the Central Bank issues the list of external rating agents.

- Exposure to Multilateral Development Banks (with weighters from 0% to 100%)
- Exposure to financial institutions in the Republic (with weighters from 20% to 100%). For those entities with 100% risk score, a risk weight corresponding to a less favorable category than those assigned to exposures with the National Government is applied in foreign currency with a 100% cap amount, provided that the risk assessment is B-, in which case the risk score will be 150%.
- Exposure to financial institutions from abroad (100%).

| Qualification | AAA until AA- | A+ until A- | BBB+ until BBB- | BB+ until B- | Less than B- | Not rated |
|----------------------|--------------------------|------------------------|----------------------------|-------------------------|---------------------|------------------|
| Risk weighting | 20% | 50% | 100% | 100% | 150% | 100% |

- Exposure to companies and other legal persons in the Republic and abroad –including foreign-exchange dealers, insurance companies, stock exchanges and local companies treated as part of the non-financial private sector (100%)
- Exposures included in the retail portfolio (with weighters from 75% to 100%)
- Mortgage-guaranteed financing, which, subject to certain conditions, has weighters between 35% and 100%
- Loans more than 90 days in arrears (with weighters from 50% to 150%)

(b) failed delivery-against-payment transactions; and

(c) requirement for counterparty credit risk in transactions with over-the-counter derivatives.

The sum of (a), (b) and (c) is multiplied by a coefficient which varies from 1 to 1.19 based on the rating the entity is granted by the Superintendence.

Minimum Capital Requirement for Market Risk: the Central Bank imposes additional minimum capital requirements in relation to market risk associated with positions held by financial institutions in “local assets”, “foreign assets”, “foreign currency” and “gold”, including derivatives bought or sold on such positions.

“Local Assets” include:

- debt securities issued by the federal government and instruments of monetary regulation of the BCRA included in the list of volatilities recorded at fair value and quotas in common investment funds that invest in those securities; and
- shares of capital stock of Argentine companies included in the Merval Index and quotas in common investment funds that invest in those shares.

“Foreign Assets” are defined to include:

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

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

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

The market risk-related capital requirements are determined by using specific risk methodologies and are based on the financial institution’s daily net positions in any of the above-mentioned assets. These requirements follow, in general, standards established by the Basel Committee and the European Union. As of the effective date of Communication “A” 5867 and until August 31, 2016, financial entities were required to calculate the market risk minimum capital requirement in accordance with the method set forth in Communication “A” 5867 and also on an off-balance sheet basis, pursuant to the method in effect as of December 31, 2015, and to consider, for purposes of determining the minimum capital requirement, the result of the method involving the highest amount of the market risk capital requirements. After August 31, 2016, only the method set forth in Communication “A” 5867 is applicable.

Minimum Capital Requirement for Interest Rate Risk: Interest rate risk extends to all assets and liabilities for financial intermediation not included in the computation of market risk. It tries to capture the risk arising when sensitivity of the asset to changes in the interest rate does not match with that related with the liabilities.

The BCRA abrogated effective since January 1, 2013 the regulations on minimum capital for interest rate risk. Even so, the financial institutions must continue to manage such risk, and will be subject to revision by the Superintendence, which may determine the need to pay a higher amount of capital.

Minimum Capital Requirement for Operational Risk: Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk but excludes strategic and reputational risk. Financial institutions must establish a system for the management of operational risk that includes policies, processes, procedures and the structure for their adequate management.

Seven operational risks event types are defined, according to internationally accepted criteria:

- internal fraud;
- external fraud;
- employment practices and workplace safety;
- clients, products and business practices;
- damage to physical assets, resulting from acts of terrorism and vandalism, earthquakes, fire or flood;
- business disruption and system failures; and
- execution, delivery and process management.

The operational risk management process comprises the following stages:

1. Identification and assessment: the identification process should consider both internal and external factors that could adversely affect the development of the processes and projections done according to the business strategies defined by the bank.
2. Monitoring: an effective monitoring process is required, to quickly detect and correct deficiencies in the policies, processes and procedures for managing operational risk. In addition, the development of indicators should be analyzed to detect deficiencies and undertake corrective actions.
3. Control and mitigation: financial institutions must have an appropriate control system to ensure compliance with internal policies, and they should re-examine control and operational risk reduction strategies with at least an annual frequency in order to make the necessary adjustments.

Financial institutions must have contingency plans and business continuity programs that are in accordance with the size and complexity of their operations, to ensure the continuity of their operating capacity and loss reduction in the event of a business interruption.

The BCRA by Communication “A” 5282 established that the additional capital requirement for operational risk (which is added to the credit risk and market risk requirements) is equivalent to 15% of the average of positive gross income for the last three years. This calculation will be made on a monthly basis by taking three periods of 12 consecutive months in which gross income was positive, considering the last 36 months preceding the month in which the calculation is made.

Gross income is defined as the sum of:

- (i) financial and service income less financial and service charges; and
- (ii) other profits less other losses.

The following items, however, must be excluded, as applicable, from the accounting entries mentioned in (i) and (ii) above:

- charges originated in the constitution of allowances, the cancellation of allowances from previous financial years and credits recovered in the financial year which were settled in previous years;
- the result from participations in financial institutions and in companies, to the extent that these may be items deductible from the computable equity liability;
- extraordinary or irregular items –namely those originated in atypical and exceptional results occurred during the period, of infrequent occurrence in the past and not expected for the future–, including income from the collection or insurance (loss recoveries); and
- results from the sale of items included in Section 2 of the regulations on “valuation of instruments of non-financial public sector debts and of monetary regulation issued by the BCRA”.

According to the Central Bank regulations on minimum capital requirements, the financial institutions must comply with such regulations on an individual and consolidated basis.

Any defects of application derived from the requirement of additional capital will not make the financial institution fall into noncompliance with the Minimum Capital Regulations, even if they will not be allowed to distribute cash dividends and pay fees, ownership interest or bonuses originated in the bank’s distribution of results.

By Communication “A” 5827, the BCRA established that financial institutions must maintain the following as of that date:

- Capital conservation margin

The capital conservation margin is equivalent to 2.5% of the amount of risk-weighted assets (“APR”). This is in addition to the minimum capital requirement. Furthermore, financial institutions that the BCRA classifies as Domestic Systemically Important Banks (“D-SIBs”) or Global Systemically Important Financial Institutions (“G-SIFIs”) must increase their capital conservation margin by 1% of the APR, resulting in a capital conservation margin requirement of 3.5%. The capital conservation margin must be composed exclusively of regular level 1 capital (COn1), net of any deductible items (CDCOn1).

- Contra cyclical margin

Whenever credit growth is excessive in the Central Bank’s opinion which is causing an increase in systemic risk, the Central Bank may impose the obligation on financial institutions to establish a contra cyclical margin between 0% and 2.5% of their APR, subject to a 12-month prior notice. The Central Bank may also eliminate or reduce this obligation whenever, in its opinion, such systemic risk has disappeared or decreased. Banks must comply on an individual and consolidated basis with the ratios for minimum capital. If a financial institution does not comply with all these minimum capital requirements, it must submit a regulatory and restructuring plan to the Central Bank, which may impose various penalties, including:

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

The following table presents, at December 31, 2018, both the calculation of our ratio of capital to risk-weighted assets computed under the Basel Accord and our capital under the minimum capital rules of the Central Bank.

| | December 31, 2018 (in millions of pesos, except percentages) |
|---|---|
| Basel Accord | |
| Total capital | 38,031.2 |
| Risk-weighted assets | 342,499.9 |
| Ratio of total capital to risk-weighted assets ⁽¹⁾ | 11.1% |
| Required capital | 27,400.0 |
| Excess capital | 10,631.2 |
| Central Bank's Rules ⁽²⁾ | |
| Total capital | 36,478.8 |
| Risk-weighted assets | 265,801.5 |
| Ratio of total capital to risk-weighted assets ⁽³⁾ | 13.7% |
| Required capital | 21,791.4 |
| Excess capital | 14,687.4 |

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

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

(3) Under the risk-based capital requirements of the Central Bank, we are required to maintain a minimum ratio of total capital to risk-weighted assets of 8%.

Liquidity Coverage Ratio (LCR)

By Communication "A" 5693, the BCRA ordered the application of the Liquidity Coverage Ratio, or "LCR", which took effect as of January 30, 2015.

This Communication sets forth that financial institutions must have an adequate stock of high-quality liquid assets (HQLA) free of any restrictions which can be immediately converted into cash in order to cover their liquidity needs during a period of 30 days in case of a stress scenario. Also, financial institutions must carry out their own stress tests to determine the liquidity level that they should maintain in other scenarios, considering a period greater than 30 calendar days. The LCR must be equal to or greater than 1 (the stock of high-quality liquid assets must not be lower than the total net cash outlays) in the absence of a financial stress scenario. The LCR may fall below 1 in other scenarios.

The BCRA describes how to categorize a stress scenario, taking into account the following: the partial loss of retail deposits; the partial loss of wholesale non-guaranteed funding capacity; the partial loss of guaranteed funding; additional fund outlays due to situations contractually provided for as a consequence of a significant decline in the financial institution's credit quality; market volatility increases that have an effect on the quality of guarantees or on the potential future exposure of positions in derivatives; the unforeseen use of credit and liquidity facilities compromised and available but not used that the financial institution may have granted to its clients; and/or the need that the financial institution may experience to repurchase debt or to comply with non-contractual obligations so as to mitigate its reputational risk.

In implementing the above, the financial institutions must consider the following schedule:

| Period | LCR |
|--|------------|
| From January 30, 2015 to December 2015 | 0.60 |
| From January 2016 to December 2016 | 0.70 |
| From January 2017 to December 2017 | 0.80 |
| From January 2018 to December 2018 | 0.90 |
| From January 2019 onwards | 1.00 |

The LCR calculation must be made on a permanent and monthly basis.

In order to calculate the LCR, the related assets include, among others, cash in hand, in transit, in armored transportation companies and ATMs; deposits with the BCRA, certain national public bonds in pesos or in foreign currency, securities issued or guaranteed by the *Banco de Pagos Internacionales*, the International Monetary Fund, the European Central Bank, the European Union or Multilateral Development Banks that comply with certain conditions and debt securities issued by other sovereign entities (or their central banks).

CAMEL Quality Rating System

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

BASIC System

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

B (“Bonds”). By decision of the Central Bank’s board, banks are expected to issue bonds and other securities or obtain placements from international top-rated banks for an equivalent of 2% of their deposits in pesos and foreign currency. The placement of such bonds would make it possible for depositors to know the perception of the market on the equity situation of each financial institution. The requirement was abrogated by Communication “A” 3498 of the Central Bank, dated March 1, 2002.

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

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

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

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

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

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

Foreign Currency Position

General Exchange Position

The maximum limit for the general foreign exchange position that must be maintained on a daily basis by the financial institutions is the greater of:

- 15% of the equivalent in dollars of their bank's RPC, as registered at the close of the month that is two months prior to the relevant month plus 5% of the total amount transacted with clients in the purchase and sale of foreign currencies in the month that is two months prior to the relevant month, 2% of the total demand and term deposits domestically constituted and payable in foreign bank notes (excluding deposits under custody and those incorporated under Tax Disclosure System Law No. 27,260 (*Régimen de sinceramiento fiscal*), and in the daily amount equivalent in U.S. dollars to deposits in foreign currency in terms of the Tax Disclosure System Law No. 27,260, net of bills in foreign currency used for carrying out swaps and arbitrations with foreign entities, as per Communication "A" 3661, as amended, as from October 1, 2016, as registered at the close of the calendar month that is two months prior to the relevant month; and
- a minimum equivalent to US\$8,000,000 plus the daily amount equivalent in U.S. dollars to deposits in foreign currency in terms of the Tax Disclosure System Law No. 27,260, net of bills in foreign currency used for carrying out swaps and arbitrations with foreign entities, as per Communication "A" 3661, as amended, as from October 1, 2016, which may be increased according to the number of establishments devoted to foreign exchange transactions and by operations with holdings in foreign currencies other than the dollar or the euro and other permitted transactions. BBVA Francés maintains the limit indicated in the immediately preceding bullet point.

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

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

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

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

In addition to the limit described above, all funds from foreign currency deposits and received financial loans granted with funds from foreign currency deposits must be applied mainly to the financing of foreign trade transactions, any deficiencies in the application of foreign currency lending capacity, net of a portion of: (i) cash balances, (ii) cash under custody in other financial institutions, (iii) cash in transit and (iv) cash with armored car transport companies, requires an equivalent increase in the minimum cash requirement. See "Item 4. Information on the Company—F. The Argentine Banking System and its Regulatory Framework—Lending Capacity Provided by Deposits in Foreign Currency" above.

Through Communication "A" 6237 dated May 4, 2017, the Central Bank provided that financial entities may freely determine the level and use of their general foreign exchange position. Thus, financial entities are enabled to manage their foreign currency positions, both in terms of the composition of their assets, and the possibility of entering and withdrawing their holdings of the Republic, with its consequent impact on reserves.

The aforementioned Communication also provided that financial entities may also conduct arbitration and foreign exchange transactions, to the extent that the counterparty is a branch or agency abroad of local official banks, a foreign financial entity owned totally or majorly by foreign countries, a foreign financial entity incorporated in countries or territories where the International Financial Action Task Force Recommendations are not applied or are not sufficiently implemented, or a foreign company dedicated to the purchase of currency from different countries and / or precious metals in coins or good delivery bars and whose head office is located in a member country of the Basel Committee for Banking Supervision.

Global Net Position

The global net position of a financial institution may not exceed the following limits:

- Negative global net position of foreign currency (liabilities exceeding assets), may not exceed 30% of the RPC of the last immediately preceding month.
- Positive global net position (assets exceeding liabilities), is the lesser of the following:
 - (1) 30% of the RPC, or
 - (2) Own liquid resources of the last immediately preceding month, whichever is lower.

Own liquid resources means the excess of RPC with respect to fixed assets and other concepts computed according to the rules on fixed assets and other items described in “*Fixed Assets and Other Items*” immediately below.

An additional limit to the positive global net position for term transactions applies which may not exceed 7.5% of the RPC.

The global net position in foreign currency will include all assets and liabilities from financial intermediation in foreign currency and securities in foreign currency (deriving from cash and term transactions) including those contracts for derivatives linked to these concepts, those items which must be included in the general foreign exchange position, all deposits in such currency in accounts opened with the Central Bank, as well as the gold position, any Central Bank bills in U.S. dollars as well as foreign currency subordinated debt and foreign currency debt securities. Term transactions made within a framework agreement in the area of self-regulatory markets of the Republic based on liquidation by difference will be also computed, without delivery of the negotiated underlying asset. Furthermore, the pass-through certificates or debt securities issued by financial trusts as well as the credit rights regarding ordinary trusts, in the pertinent proportion, when their underlying asset is constituted by assets in foreign currency, will also be considered.

Any excess above the limits will be subject to a charge equivalent to 1.5 times the nominal annual overdue interest rate arising from tenders for BCRA bills (LEBAC) denominated in pesos.

In addition to the above-mentioned charge, sanctions set forth in Section 41 of the Financial Institutions Law shall apply (including: caution; warning; fine; temporary or permanent disqualification to dispose of a banking current account; temporary or permanent disqualification to act as promoters, founders, directors, administrators, members of surveillance committees, comptrollers, liquidators, managers, auditors, partner or shareholders; and license revocation).

Fixed Assets and Other Items

The Central Bank requires that the fixed assets and other items maintained by financial institutions must not exceed 100% of the entity’s RPC. The BCRA has resolved to increase by 50 percentage points the specified limit to the extent that the immobilization of the assets is originated in the holding of national public securities and/or monetary regulation instruments of the BCRA appropriated as guaranteed by financial institutions in favor of such entity according to the regulations in force for operations implemented by the ALADI (*Asociación Latinoamericana de Integración*) reciprocal payments and credits agreement.

Such fixed assets and other items include the following:

- shares of local companies;
- various credits (including the net balance favorable to the given entity corresponding to the tax on minimum presumed income or “TOMPI”);
- property for own use;
- various other property items;

- debt securities or financial trust participation certificates whose underlying assets are the above-mentioned loans, computed in their respective proportion; and
- financing transactions for related clients.

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

The calculation of such assets must be done according to the balances at the close of each month, net of depreciations, accumulated amortizations and bad debt risk allowances (except the allowance on the portfolio in a normal situation and grants covered by preferred guarantees "A", which have been computed to determine the complementary net equity of the rules on minimum capital). It is also possible to deduct certain liabilities related to the assets being calculated. In the case of financing transactions with related clients, the calculation is based on the balance at the close of each month or the largest assistance provided to each client during the period in question.

Any excess in this relationship generates an equivalent increase of the minimum capital requirements. Furthermore, any entity incurring noncompliance violations in three consecutive or four non-consecutive months within a period of twelve consecutive months must submit a regularization program.

Lending and Investment Limits

Private sector

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

According to Central Bank rules, a financial institution may not extend credit to a single non-related client and its affiliates, or invest in that client's equity, in an amount in excess of 15% of the bank's RPC. However, it may extend additional credit to that client up to 25% of the bank's RPC if that additional credit is secured with certain senior preferred liquid assets, including public or private debt securities. Total loans or other extensions of credit that a financial institution may grant to any particular borrower and its affiliates are also limited based on the borrower's net worth. Total loans or other extensions of credit to any particular borrower and its affiliates may not exceed, in general, 100% of such borrower's net worth, but such limit may be increased to 200% of the borrower's net worth if such amount does not exceed 2.5% of the bank's RPC or 300% in the case of reciprocal guarantee companies and public guarantee funds registered (in both cases) with the pertinent registry authorized at the Central Bank, and provided it does not exceed 5% of relevant entity's RPC.

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

In addition, an equity investment of a financial institution in another company that does not provide services that are complementary to the services provided by a financial institution may not exceed 12.5% of the stockholders' equity of such company.

Related Persons

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

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

"Control" is defined as:

- holding or controlling, directly or indirectly, 25% of the voting stock of the controlled entity;

[Table of Contents](#)

- having held 50% or more of the voting stock of the controlled entity at the time of the last election of such entity’s board of directors;
- any type of equity holding that creates the ability to vote or direct the vote so as to prevail on any issue considered at the controlled entity’s general shareholders’ meeting or meeting of the board of directors; or
- when a person is determined by the board of directors of the Central Bank to be exercising any influence, directly or indirectly, on the management or policies of the bank.

The Central Bank requires that the total amount of financing that a financial institution may provide to a related company or person may not exceed the following percentages of the computable equity of that related company or person as of the last day of the immediately prior month:

- By controlling relationship
 1. Local financial sector

| Lender entity | Borrowing entity | General | Additional | | |
|---------------|--------------------------------------|---------|--|---|--|
| | | | Tranche I | Tranche II | Tranche III |
| CAMEL 1 to 3 | CAMEL 1 (*) | 100% | 25% earmarked by the financial institution acquiring assistance to finance transactions that comply with certain conditions. | 25% in the event of financing transactions with guarantee or assignment of credit portfolio where assignor is responsible provided the requirements of Tranche I are met. | — |
| | CAMEL 2 (*) | 20% | 25% earmarked by the financial institution acquiring assistance to finance transactions that comply with certain conditions. | 25% if the financing transactions involve guarantee or assignment of credit portfolio where assignor is responsible provided the requirements of Tranche I are met. | 55% for financing transactions for an agreed initial term of up to 180 days. |
| | CAMEL 3 (*) | 10% | 20% earmarked by the financial institution acquiring assistance to finance transactions that comply with certain conditions. | 20% if the financing transactions involve guarantee or assignment of credit portfolio where assignor is responsible provided the requirements of Tranche I are met. | — |
| | Not meet any of the above conditions | 10% | — | — | — |
| CAMEL 4 or 5 | | 0% | — | — | — |

(*) Subject to consolidation with the lender.

2. Foreign financial sector

| Lender entity | Borrowing entity | Maximum limits |
|---------------|---|----------------|
| CAMEL 1 to 3 | To each foreign related bank: | |
| | - With "Investment Grade" classification | 10% |
| | - Without "Investment Grade" classification: | |
| | Financing without computable warranty | 5% |
| | Financing with/without computable warranty | 10% |
| CAMEL 4 or 5 | To each foreign related bank subject to consolidation and parent company: | |
| | - With "Investment Grade" classification | 10% |
| | - Without "Investment Grade" classification: | |
| | Financing without computable warranty | 5% |
| | Financing with/without computable warranty | 10% |
| CAMEL 4 or 5 | To each foreign related bank not subject to consolidation: | |
| | - With "Investment Grade" classification | 10% |
| | - Without "Investment Grade" classification | 5% |
| | To each foreign related bank that does not meet any of the above conditions | 0% |

3. Local complementary services companies

| Lender entity | Borrowing entity | General | Additional | | |
|---------------|--|---------|--|---|--|
| | | | Tranche I | Tranche II | Tranche III |
| CAMEL 1 | Stock exchange agent or other broker, leasing, factoring or temporary acquisition of participation in companies to sell the holdings afterwards (**) | 100% | — | — | — |
| | Debit/credit card issuers (**) | 100% | 25% earmarked by the financial institution acquiring assistance to finance transactions that comply with certain conditions. | 25% in the event of financing transactions with guarantee or assignment of credit portfolio where assignor is responsible provided the requirements of Tranche I are met. | — |
| | Not meet any of the above conditions | 10% | — | — | — |
| CAMEL 2 | Stock exchange agent or other broker, leasing, factoring or temporary acquisition of participation in companies to sell the holdings afterwards (**) | 10% | — | — | 90% |
| | Debit/credit card issuers (**) | 20% | 25% earmarked by the financial institution acquiring assistance to finance transactions that comply with certain conditions. | 25% if the financing transactions involve guarantee or assignment of credit portfolio where assignor is responsible provided the requirements of Tranche I are met. | 55% for financing transactions for an agreed initial term of up to 180 days. |
| | Not meet any of the above conditions | 10% | — | — | — |
| CAMEL 3 | Debit/credit card issuers (**) | 10% | 20% earmarked by the financial institution acquiring assistance to finance transactions that comply with certain conditions. | 20% if the financing transactions involve guarantee or assignment of credit portfolio where assignor is responsible provided the requirements of Tranche I are met. | — |
| | Not meet any of the above conditions | 10% | — | — | — |
| CAMEL 4 or 5 | Complementary services companies (**) | 10% | — | — | — |
| | Not meet any of the above conditions | 0% | — | — | — |

(**)Subject to consolidation with the lender.

4. Foreign complementary services companies

| Lender entity | Borrowing entity | Maximum limits |
|---------------|---|----------------|
| CAMEL 1 to 3 | To each complementary services related companies: | |
| | - Financing without computable warranty | 5% |
| | - Financing with/without computable warranty | 10% |
| CAMEL 4 or 5 | To each complementary services companies subject to consolidation with the lender: | |
| | - Financing without computable warranty | 5% |
| | - Financing with/without computable warranty | 10% |
| | To each complementary services related companies that do not meet any of the above conditions | 0% |

5. Other clients related by controlling relationship

| Lender entity | Borrowing entity | Maximum limits |
|---------------|---|----------------|
| CAMEL 1 to 3 | To each related borrower: | |
| | - Financing without computable warranty | 5% |
| | - Financing with/without computable warranty | 10% |
| CAMEL 4 or 5 | - To each related company (only equity investment) (***) | 5% |
| | - To each related borrower that does not meet any of the above conditions | 0% |

(***)Admitted activity under Section 3 of the rules on “Complementary services of the financial activity and permitted activities”.

- By personal relationship

| Lender entity | Borrowing entity | Maximum limits |
|---------------|--|-----------------|
| CAMEL 1 a 3 | To each related borrower | 5% |
| CAMEL 4 or 5 | - To each related person to use exclusively for personal or family purposes - To each related borrower that does not meet any of the above conditions | Ps.50,000 0% |

The total financing granted to all related clients (subject to maximum individual limits exceeding 10%) may not exceed 20% of the RPC of the entity.

Failure to properly observe these requirements can result in an increase of the minimum capital requirements for credit risk in an amount equal to 100% of the daily excess amounts over the requirements beginning on the month when the excess amounts are not corrected and continuing while the excess amounts remain. In the case of information registered out of term, this increase will be applied beginning on the month when the information is registered and for as long as the default exists. Moreover, once the default has been corrected, the increase will be applied for a number of months equal to the period during which the Central Bank was not informed. For repeated defaults the increase can reach up to 130% of the excess amount.

At December 31, 2018, the aggregate of computable loans, other extensions of credit and equity investments by BBVA Francés on a consolidated basis to related persons totaled Ps.2,215.2 million, or 6.54% of BBVA Francés' RPC.

Non-financial Public Sector

The non-financial public sector includes, *inter alia*:

- the federal government;
- provincial governments;
- the city of Buenos Aires;
- municipal governments;
- central administration, ministries, departments and their decentralized and autonomous entities and other official bodies; and
- trusts and trust funds whose final beneficiary or trustee, as determined by the respective contracts or applicable regulations, belongs to the non-financial public sector, including other trusts or trust funds where such sector is the final destination of the financed works.

In certain circumstances the Central Bank may apply to state-owned companies governed by Law No. 20,705 the provisions applicable to non-financial private sector corporations, provided such state-owned companies:

- do not require resources from the state budget whether national, municipal, provincial or belonging to the Autonomous City of Buenos Aires for such items as transfers, capital contributions (excepting those corresponding to their incorporation) or reimbursable financial assistance to be used for covering expenses and/or investments made in the course of their normal and customary businesses, except those which may have been contemplated in the 2001 and 2002 budgets;
- maintain technical and professional independence of their management for implementing corporate policies;
- trade their goods and/or services at market prices;
- possess fixed assets; the use of which in the activity is not subject to any condition from their shareholders; and
- do not distribute of dividends among their shareholders.

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

The Central Bank may also apply the provisions applicable to non-financial private sector corporations to state-owned companies that are not governed by Law No. 20,705, provided that such state-owned companies not governed by Law No. 20,705 comply with the following requirements:

- their creation must have been ordered by a national law or decree by the federal executive;
- they must create a limited liability company according to the rules of Chapter II, Sections V and VI of the Business Companies Law No. 19,550;
- the public state must hold a majority interest, direct or indirect;
- they must be the purpose of developing of activities for oil reserves, its transportation, distribution, commercialization and industrialization or the generation and/or sale of electric energy; and
- they must be subject to internal and external control by the national public sector in terms of the Financial Administration Law and the National Public Sector's Control System Law No. 24,156.

Consequently, those corporations receiving the treatment set forth in this resolution are exempted from the application of the provisions regarding financial assistance to the owners of entities in the non-financial public sector.

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

- for transactions in the national public sector: 50%, which includes loans granted to governments from other jurisdictions guaranteed by their participation in the federal tax collection system;
- for all transactions granted to each provincial jurisdiction and the City of Buenos Aires (excluding those comprised in the previous paragraph which must be guaranteed by the collection of local taxes or by pledge or implemented under leasing agreements): 10%. This limit includes financing operations granted to municipal governments in the respective jurisdiction and guaranteed by their participation in the collection of provincial taxes;
- for all transactions with each municipal jurisdiction, which must be guaranteed by the collection of local taxes or by pledge, or implemented under leasing agreements: 3%;
- the limits mentioned above may be increased by 15 percentage points, provided that the increases are applied to a specific purpose; and
- for all transactions referred to in the first three points above: 75%.

The Central Bank determined that any excesses above the limits mentioned above, exclusively originated in the application of the new limits and conditions for computing financing transactions, will not be considered as non-compliant, provided that such excesses result:

- From transactions existing prior to March 31, 2003, including bonds issued pursuant to the terms of Decree No. 1735/04 which may be received within the framework of the Argentine debt restructuring;
- From increases or by the receipt of:
 - (i) compensation bonds or promissory notes as per Articles 28 and 29 of Decree No. 905/02, or of those eventually received by application of other specific provisions after that date, and deriving from Law No. 25,561 of Public Emergency and Foreign Exchange Reform;
 - (ii) bonds received within the framework of the Mortgage Refinancing System established by Law No. 25,798;
- From new transactions if excesses are registered in accordance with the first and second points above, provided that they originate exclusively in the granting of financing to the non-financial public sector with funds originated in amortization services of the aforementioned debt. These transactions include the amounts that apply to the primary subscription of government securities with an anticipation of up to 180 days to their due date.

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

In addition a margin has been admitted for those entities exceeding the observance of the limits (due to the above-mentioned preexisting operations) to carry out the purchase and sale of, or financial transactions with, national public securities responsible for applying minimum capital requirements for market risk, that is to say, with such volatility as informed by the Central Bank, provided it does not exceed the equivalent to 25% of the RPC. Such limit will be constituted with the allocation, as from the date referred to above, of any of the following: i) the realization of non-financial public sector assets in the portfolio which are computable for determining such limits, ii) the market value of national public securities whose volatility is published by the Central Bank, and iii) funds received for amortization services.

- From participations greater than 50% by the government as trustee in financial trusts to finance the construction area as provided for in subsection i), paragraph 3.2.4 of the “Financing to Non-Financial Public Sector” rules.
- From trust funding or public trust funds.
- From temporary advances. These are excesses originated solely and exclusively from certain temporary advances incurred by financial institutions until July 31, 2016. These institutions had to normalize their situation before January 31, 2017.

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

The amount of non-exempted credit to and equity stakes in a single client, whether related to us or not, of a given bank which individually exceeds 10% of that bank’s RPC may not exceed, in the aggregate, three or five times the bank’s RPC, excluding loans in domestic financial institutions and including equity stakes in domestic financial institutions. This last limitation does not take into account guaranteed loans received in exchange for national public debt securities implemented through guaranteed loans.

Loan Loss Allowances

The loan loss allowances presented in our Consolidated Financial Statements included in this Form 20-F are prepared under IFRS-IASB (see Note 5.4.b) and c) to the Consolidated Financial Statements), which differs from the statutory consolidated annual financial statements for the fiscal year ended December 31, 2018 that the Bank prepared to comply with the requirements of the Central Bank. Communication “A” 6430 of the BCRA requires the application of Section 5.5 Impairment of the IFRS 9 for fiscal years beginning on or after January 1, 2020. The below describes the treatment of loan loss allowances pursuant to BCRA-GAAP as they are applicable to our statutory financial statements and the regulatory framework of the Argentine banking system.

Classification System According to Central Bank Regulations

The Central Bank has established specific loan loss allowance requirements for loans to borrowers classified as “Substandard”, “Medium Risk”, “High Risk of Insolvency”, “High Risk”, “Irrecoverable” and “Irrecoverable for Technical Decision”. In addition, the Central Bank established a mandatory general allowance requirement for all performing loans.

A. Debtor classification

The Central Bank establishes guidelines for classifying debtors depending on their credit quality and compliance with their commitments, according to the evaluation performed for that purpose by the financial institution.

1. The guidelines vary depending on whether commercial loans are involved, or consumer and housing loans. Commercial loans of:

a) Up to Ps.2,500,000⁽¹⁾ for clients who qualify as micro-credit institutions.

(1) 20% of the reference amount established in point 3.7. of the BCRA’s “Classification of Debtors” rules.

b) Up to Ps.19,800,000⁽²⁾ for all other activities.

(2) 40% of the reference amount established in point 3.7. of the BCRA’s “Classification of Debtors” rules.

may be considered, for classification purposes, as consumer loans at the bank’s discretion, and treated as such. The Bank has used that option.

2. Debtors and all their loans are included in one of six categories or situations of decreasing credit quality:

| Commercial Loans | Consumer or Housing Loans | Arrears |
|--|---------------------------|------------------|
| 1. Normal ⁽¹⁾ | | up to 31 days |
| 2. Special Tracking ⁽²⁾ | 2. Low risk | up to 90 days |
| 3. Substandard | 3. Medium risk | up to 180 days |
| 4. High Insolvency Risk ⁽³⁾ | 4. High risk | up to 1 year |
| 5. Irrecoverable ⁽⁴⁾ | | more than a year |
| 6. Irrecoverable for Technical Decision ⁽⁵⁾ | | |

(1) In the case of consumer or housing loans, current account overdrafts are considered to be performing until 61 days have elapsed from the date granted.

(2) Commercial loans in category 2 are divided into loans:

- a) under observation, which include debtors up to 90 days in arrears in situations that, if not controlled or corrected in a timely manner, could compromise their repayment capacity, and
 - b) under negotiation or with refinancing agreements, which include debtors that although unable to pay their obligations under the agreed conditions, have declared their intention of refinancing their debts no later than 60 days after becoming past due. The borrower must enter into an agreement with the lender within 90 days (if up to two lenders are involved) or 180 days (if more than two lenders are involved) after the date on which the obligations become overdue. If no agreement has been reached within the established deadline, the borrower must be reclassified to the next category below according to the indicators established for each level.
- (3) This category includes debtors that have filed for creditor protection or an out-of-court preventive measure, or for which payment has been demanded in court. In the case of the consumer portfolio, debtors that have filed for creditor protection or are covered by out-of-court measures can record arrears of up to 540 days.
- (4) This category includes mainly insolvent debtors facing bankruptcy or liquidation processes.
- (5) This category includes debtors with arrears in excess of 180 days that are customers of banks that have been liquidated or have had their license revoked by the BCRA, residual entities of privatized banks, or trusts in which SEDESA is a beneficiary.

3. The basic criterion for the evaluation and classification of clients is their repayment capacity of the debt or commitments guaranteed by a financial institution.

- a) For the commercial portfolio, evaluation is made on the basis of repayment capacity and debtor cash flows. Indicators used include liquidity, financing structure, compliance with payment of obligations, quality of management and administration, IT systems, prospects for the client's business sector, its position within the sector, its legal standing and the existence of refinancing or debt discounts.
- b) For the consumer and housing loans portfolio, evaluation is based on debt payment compliance and the legal status of the debtor. The evaluation criteria is exclusively objective – the degree of compliance with the obligations, the legal situation of the debtor and the existence of refinancing or debt discounts.

An evaluation of the payment capacity based on the borrower's income is not mandatory as long as other specific evaluation methods are used or the borrower's loans are for minimal amounts as determined by the BCRA.

4. When loans are fully collateralized by preferred class A collateral, evaluation of the repayment capacity is not required.

5. Minimum classification frequency. Debtors and loans must be valued and classified with a minimum frequency depending on the type of clients, as described below.

a) Consumer portfolio clients: monthly

b) Commercial portfolio clients: annually. However classification should be performed:

- During the course of each quarter for clients whose debts are equivalent to 5% or more of the financial institution's total capital;
- During the course of each half-year in the case of clients whose debt at some moment has totaled between 1% of the financial institution's total capital or the equivalent to Ps.12,500,000 ⁽¹⁾ whichever is lower, and less than 5% of the financial institution's total capital.

(1) 40% of the reference amount established in point 3.7. of the BCRA's "Classification of Debtors" rules.

- In addition, the bank should review a debtor's situation when any of the following circumstances occur:

- a) when a debtor has debts equivalent to at least 10% of the total notified to the credit information debtor base in another financial institution, and that institution lowers the client's rating on the mentioned database;

- b) when there are changes to any of the objective classification criteria (arrears or legal situation);
- c) when a credit rating agency lowers the rating of securities issued by the client by more than one level; or
- d) when there is more than a one-level discrepancy between the classification assigned by the financial institution and at least two other institutions, and certain requirements have been met.

Re-appraisal must be immediate in the case of clients with debts totaling 1% or more of the financial institution’s RPC or the equivalent to Ps.12,500,000 ⁽²⁾, whichever is lower.

(2) 40% of the reference amount established in point 3.7. of the BCRA’s “Classification of Debtors” rules.

- 6. Mandatory reclassification of clients. One-level discrepancy is allowed in relation to the information submitted by financial institutions to the credit information data base. If there is a greater discrepancy between the rating of the bank and the lower classification awarded by at least two other banks, and total loans from such banks account for 40% or more of the total informed, the bank will be required to reclassify the debtor to at least the level immediately above that registering the highest level of indebtedness with the comparison institutions.
- 7. Criterion for an improving credit rating. For a debtor to be categorized as “normal”, up to two refinancings must have taken place within the last twelve months and it must be no more than 31 days in arrears since the date of the last refinancing. For all other scenarios, the basic criterion is that the highest penalty must be applied to borrowers who have delays after refinancing, such that:

The borrower must accumulate a greater number of down payments (as shown in table (i) below) or increase his repayment percentage (as shown in table (ii) below) in order to improve his situation. The BCRA regulations provide that those clients whose debts have been refinanced via obligations subject to regular payments (monthly or bi-monthly) may be reclassified at the immediately upper level if they have complied punctually (or with delays not exceeding 31 days) with the payment of the established installments or who have repaid at least a certain specified percentage of their refinanced principal obligations.

Table (i) – Enhanced situation by the payment of installments. Consumer portfolio ^(*)

| Change of category | Quantity of payments | | | |
|-----------------------|----------------------|----------------|------------------|---------------|
| | from Irrecoverable | from High Risk | from Medium Risk | from Low Risk |
| Change to High Risk | 3 | — | — | — |
| Change to Medium Risk | 6 | 3 | — | — |
| Change to Low Risk | 8 | 5 | 2 | — |
| Change to Normal | 9 | 6 | 3 | 1 |

^(*) The refinancing requires a punctual payment or with delays of not more than 31 days according to the German or French Amortization System. Regularity may be monthly or bimonthly.

Table (ii) – Enhanced situation by cancellation percentage of repayment of outstanding amount. Consumer and commercial portfolios ^(**)

| Change of category | Percentage of repayment of outstanding amount | | | |
|-----------------------|---|----------------|------------------|---------------|
| | from Irrecoverable | from High Risk | from Medium Risk | from Low Risk |
| Change to High Risk | 15% | — | — | — |
| Change to Medium Risk | 25% | 10% | — | — |
| Change to Low Risk | 30% | 15% | 5% | — |
| Change to Normal | 35% | 20% | 10% | 5% |

^(**) For amortization systems with periods greater than bimonthly or irregular.

Recoverables are not applied and rebates may not be counted in order to improve the situation (they belong to the debt preceding the signing of the refinancing agreement), so no quantification was made. Up-front payments may be computed as per their equivalent in installments or amortization percentage in order to improve the borrower’s situation.

- 8. Refinancing. This refers to the criterion for deteriorating situation as a result of non-compliance with refinancing requirements. Arrears are considered to exist in a refinancing scenario if a delay exceeding 31 days from the due date occurs.

a) Tranches of arrears are allocated in any applicable situation according to the table below:

| Situation | Minimum delay time (in days) |
|---------------|---------------------------------|
| Normal | 0 |
| Low Risk | 32 |
| Medium Risk | 91 |
| High Risk | 181 |
| Irrecoverable | More than 1 year |

b) Afterwards the refinancing arrears must be taken into account to determine the situation in which the refinanced client must be placed at.

B. Provisioning

1. Loan provisioning must be performed on the basis of the classification assigned to the debtor. No provision is required for loans for up to 30 days granted to other financial institutions (if not past due), for loans granted to the public non-financial sector, or unused balances of current account overdraft agreements.
2. The following minimum provisioning levels are to be applied on total debt:

| Debtor Category | With preferred collateral “A” (1) | With preferred collateral “B” (2) | Without preferred collateral |
|---|--------------------------------------|--------------------------------------|------------------------------|
| 1. Normal | 1% | 1% | 1% |
| 2. a) Under observation and low risk | 1% | 3% | 5% |
| b) Under negotiation or with refinancing agreements | 1% | 6% | 12% |
| 3. Substandard and medium risk | 1% | 12% | 25% |
| 4. High insolvency risk and high risk | 1% | 25% | 50% |
| 5. Irrecoverable | 1% | 50% | 100% |
| 6. Irrecoverable for technical decision | 1% | 100% | 100% |

- (1) Consists of titles or documents that the creditor can easily liquidate to settle an unpaid debt without following the normal procedure of bankruptcy. They include foreign currencies, certificates of deposit, government securities and other.
- (2) Includes mortgages and pledges in the first degree for which it must comply with legal enforcement procedures;

Banks are required to establish provisions equal to 100% of any interest accrued on loans to borrowers classified as “Substandard and Medium Risk” or lower. The Bank chooses to interrupt interest accrual accounting as permitted by the regulation.

By Communication “A” 4683, the BCRA introduced the possibility for debtors of the consumer and consumer-like portfolio to be assigned a percentage above the minimum estimate for a particular category without having to be automatically reclassified to the next category. BBVA Francés has used this possibility.

3. Procedure for constituting provisions above the minimum ones established by the regulations for a portfolio in a normal situation.

The main criterion is based on the provisions of point 7.1. of the “Debtor Classification Standard” and “Debt Provisions Standard”, more stringent criteria may be adopted on the basis of the objective guidelines mentioned in the first paragraph of the same point, provided this constitutes a generally applied policy which must be duly detailed in the “Debtor Classification and Provision Procedures Manual”, without this affecting the rating that must be allocated to eligible borrowers as provided hereunder, and provided this is duly grounded on objective criteria based on behavioral studies that give support to the higher provisions (be it for the active portfolio as a whole or by type of financing). In accordance with the regulations in force, we apply provision percentages above the established minimum.

The policy in force for the management of provisions by BBVA Francés sets forth two control levels:

- Regulatory and technical control

Two basic references when it comes to the management of provisions are, on the one hand, compliance with the regulatory requirements on minimum capital and non-performance provisions; and, on the other hand, the Bank’s capital ratio. BBVA Francés strives at all times to comply with the regulatory requirements on minimum capital and non-performance provisions. Therefore, both values per se determine a lower limit for the management of provisions. Likewise, a second lower limitation is established for the management of provisions: the capital ratio. In this regard, any disablement of provisions may only take place if the capital ratio (defined as the computable equity liability divided by the risk-weighted assets) is 10.5% or higher.

- Behavioral control of portfolio indicators.

In order to provide for the Bank an appropriate level of provisions, the behavior of the Bank’s main credit portfolio indicators are monitored on a regular basis.

At least the following portfolio behavior indicators are analyzed:

- NPL ratio behavior
- Cycle-adjusted expected loss behavior
- Expected loss behavior without cycle adjustment
- Coverage performance

Absolute variations (increases and decreases) for these indicators and their tendencies are analyzed, considering the last 12 months prior to the lowest month under analysis.

This procedure also requires authorization by the same member officers who are responsible for approving “extraordinary financings”. Those extraordinary financing are for an amounts exceeding 2.5% of the Bank’s RPC, must be discussed and approved by our Risk Management Committee and further validated by our Board of Directors.

4. Allowance percentages used by BBVA Francés.

These allowances cover expectations of arrears and estimate possible losses per portfolio and per type of financing. Considering the applicable coverage and their regular revision and after a qualitative analysis of the environment, it is decided whether the policy of allowances should be maintained or modified. BBVA Francés has resolved to modify the allowance percentages applied for the commercial, consumer and consumer-like portfolios as detailed below:

- Percentages of allowance for clients in a normal situation from April 30, 2012 until November 27, 2017:

| Product | Consumer Portfolio | Consumer-like Portfolio | Commercial Portfolio |
|------------------------------|---------------------------|--------------------------------|-----------------------------|
| Overdrafts | | | |
| Negotiated Securities | | | |
| Pledges | | | |
| Personal | | | |
| Credit Accounts | | | |
| Checks | 1.75 | 1.00 | 1.00 |
| Credit Cards | | | |
| Corporate Bonds | | | |
| Foreign Trade | | | |
| Loans to Companies | | | |
| Financial Loans | | | |
| Mortgages | 1.00 | 1.00 | 1.00 |
| Other provisionable products | 1.00 | 1.00 | 1.00 |

- Percentages of allowance for clients in a normal situation since November 28, 2017:

| Product | Consumer Portfolio | Consumer-like Portfolio | Commercial Portfolio |
|------------------------------|--------------------|-------------------------|----------------------|
| Overdrafts | | | |
| Negotiated Securities | | | |
| Pledges | | | |
| Personal | | | |
| Credit Accounts | | | |
| Checks | 1.40 | 1.00 | 1.00 |
| Credit Cards | | | |
| Corporate Bonds | | | |
| Foreign Trade | | | |
| Loans to Companies | | | |
| Financial Loans | | | |
| Mortgages | 1.00 | 1.00 | 1.00 |
| Other provisionable products | 1.00 | 1.00 | 1.00 |

- Percentages of allowance for consumer portfolio clients (other than normal situation):

| Situation | Category | Without Preferred Guarantees | With Preferred Guarantees B (in percentages) | With Preferred Guarantees A |
|-----------|-------------------------------------|------------------------------|---|-----------------------------|
| 2 | Low Risk | 5 | 3 | 1 |
| 3 | Medium Risk | 100 ^(*) | 12 | 1 |
| 4 | High Risk | 100 ^(*) | 25 | 1 |
| 5 | Irrecoverable | 100 | 50 | 1 |
| 6 | Irrecoverable for Technical Reasons | 100 | 100 | 1 |

^(*) In the event of clients classified under the current situations by the mandatory reclassification process, the applicable provision percentage will be 95%.

- Percentages of allowance for consumer-like portfolio clients (other than normal situation)^(*):

| Situation | Category | Without Preferred Guarantees | With Preferred Guarantees B (in percentages) | With Preferred Guarantees A |
|-----------|-------------------------------------|------------------------------|---|-----------------------------|
| 2 | Low Risk | 5 | 3 | 1 |
| 3 | Medium Risk | 100 ^(**) | 12 | 1 |
| 4 | High Risk | 100 ^(**) | 25 | 1 |
| 5 | Irrecoverable | 100 | 50 | 1 |
| 6 | Irrecoverable for Technical Reasons | 100 | 100 | 1 |

^(*) This Policy will be applicable except as authorized by the Companies and Wholesale Banking Monitoring Committee.

^(**) In the event of clients classified under the current situations by the mandatory reclassification process, the applicable provision percentage will be 95%.

- Percentages of allowance for commercial portfolio clients (other than normal situation):

| Situation | Category | Without Preferred Guarantees | With Preferred Guarantees B (in percentages) | With Preferred Guarantees A |
|-----------|-------------------------------------|------------------------------|---|-----------------------------|
| 2.a. | Under Observation | 5 | 3 | 1 |
| 2.b. | Under Negotiation | 12 | 6 | 1 |
| 3 | Substandard | 25 | 12 | 1 |
| 4 | High Risk of Insolvency | 50 | 25 | 1 |
| 5 | Irrecoverable | 100 | 50 | 1 |
| 6 | Irrecoverable for Technical Reasons | 100 | 100 | 1 |

- The Superintendence may require additional provisioning if it determines that the current level is inadequate.
- Accrual of interest on client debts classified as “under negotiation or with refinancing agreements” when arrears of more than 90 days in the payment of obligations are recorded, and those in the “substandard” or “medium risk”, “high risk”, and “unrecoverable” categories must be provided for at 100% as from the moment they are classified in any of those categories. The financial institution may opt to interrupt interest accrual.
- Client debt classified as “unrecoverable” and fully provided for must be written off as from the seventh month subsequent to that in which such actions were taken. These loans should be booked in memorandum accounts.
- Inclusion of debtors in the “unrecoverable based on technical criteria” category results in the obligation to provision loans at 100%, including renewals, stays, forbearance –express or tacit – granted after such classification, once 90 or 180 days have elapsed as from the date on which the first of such financing measures were taken.
- Provision for the normal portfolio is of a global nature, while in the case of the other categories the allocation of provisions for each debtor is made on an individual basis.

Priority of Deposits

Law No. 24,485, as amended, sets forth that in case of judicial liquidation or bankruptcy of a financial institution, all depositors, irrespective of the type, amount or currency of their deposits, would be senior to the other remaining creditors (such as the shareholders of the bank), with exceptions made for certain labor creditors (Article 53 paragraphs “a” and “b”) and for those creditors backed by a pledge or mortgage, in the following order of priority: (a) deposits of up to Ps.450,000 per person (including any amount of said person deposited with a financial institution), or their equivalent in foreign currency; (b) any and all deposits higher than Ps.450,000, or their equivalent in foreign currency; and (c) the liabilities originated in commercial lines granted to the bank and that directly affect international commerce.

Furthermore, pursuant to article 53 of the Financial Institutions Law, as amended, Central Bank credits will have absolute priority over the other credits, except for pledged or mortgaged credits, certain labor credits, the depositors’ credits as per art. 49, paragraph e), points i) and ii), credits granted under Article 17, paragraphs (b), (c) and (f) of the Central Bank’s Charter (including discount granted by financial institutions due to temporary lack of liquidity, advances in favor of financial institutions with security interest, assignment of rights, pledge or special assignment of certain assets) and credits granted by the fund *Fondo de Liquidez Bancaria* backed by pledge or mortgage.

The amendment introduced to art. 35 bis of Financial Institutions Law by Law No. 25,780, sets forth that if a financial institution is in a situation where the Central Bank may revoke its authorization to operate and become subject to dissolution or liquidation by judicial resolution, the Central Bank’s Board may decide by absolute majority to transfer assets and liabilities of the bank in favor of financial trusts or other financial institutions, the Central Bank may totally or partially exclude the liabilities mentioned in article 49, paragraph e) of the Financial Institutions Law, as well as its credits defined in art. 53, observing the order of priority among its creditors. Regarding the partial exclusion, the order of priority of point e) art. 49 of the Financial Institutions Law must be followed, without assigning, in any case, a differentiated treatment to liabilities of the same grade.

Capital Markets

Under the Financial Institutions Law, financial institutions may underwrite and place both equity and debt securities. There are currently no statutory limitations on the size of a financial institution’s underwriting commitments. However, a financial institution’s underwriting commitment would be treated as an extension of credit subject to the limitations discussed under “Item 4. Information on the Company—F. The Argentine Banking System and its Regulatory Framework—Lending and Investment Limits”.

Commercial banks are authorized to trade public and private debt securities in the Argentine over-the-counter market if they are members of the Mercado Abierto Electrónico (“MAE”) and authorized to act as over-the-counter brokers (*agentes de mercado abierto*). In our capacity as an over-the-counter broker, we are subject to MAE rules and the supervision of the CNV as our primary regulator, and accordingly, we must comply with certain reporting requirements.

Since 1990, the Buenos Aires Stock Exchange (BCBA) (now the BYMA) has authorized brokerage firms or houses organized as sole purpose corporations to operate as securities brokers on the BYMA. Commercial banks may freely own a securities brokerage company, as there are no current restrictions on ownership, and most of the principal commercial banks operating in Argentina have already established their own securities brokerage company. An agreement between the BYMA and representatives of the MAE dealers provides that trading in shares and other equity securities will be conducted exclusively on the BYMA and that all debt securities listed on BYMA may also be traded on the MAE. Trading in Argentine government securities, which are not covered by the agreement, is conducted mainly on the MAE. The agreement does not extend to other Argentine exchanges.

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

We have been registered as an over-the-counter broker since 1989. In 1991, we created Francés Valores Sociedad de Bolsa S.A., currently renamed as BBVA Francés Valores S.A., by virtue of the last change of name registered before the IGJ on April 4, 2014 under No. 5,883 Book 68 of Corporations.

On December 28, 2012 Law No. 26,831, the “Capital Markets Law” was enacted, and was supplemented by the CNV by Resolution No. 622/13 dated September 5, 2013. According to section 47 of the said law, all agents acting in the different markets, must have the prior approval and registration of the CNV. During 2014 Banco Francés and BBVA Francés Valores S.A. completed their registration as settlement and integral compensation agents.

Financial Institutions with Economic Difficulties

Under the Financial Institutions Law, if a financial institution:

- evidences a cash reserve deficiency,
- has not satisfied certain technical standards,
- has not maintained minimum net worth standards, or
- is deemed by the Central Bank to have impaired solvency or liquidity;

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

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

Dissolution and Liquidation of Financial Institutions

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

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

Money Laundering

The concept of money laundering is generally used to denote transactions intended to introduce criminal proceeds into the institutional system and thus to transform profits from illegal activities into assets of a seemingly legitimate origin. On April 13, 2000, the Argentine Congress passed Law No. 25,246 (as amended, the “Anti-Money Laundering Law”), which defines money laundering as a type of crime. The Anti-Money Laundering Law established severe penalties for anyone participating in any such criminal activity and created the UIF as the agency responsible for the analysis, treatment and transmission of information, with the aim of preventing money laundering resulting from different crimes and the financing of terrorism.

Below is a summary of certain provisions of the anti-money laundering regime set forth by the Anti-Money Laundering Law, as amended and supplemented by other rules and regulations, including regulations issued by the UIF, the Central Bank, the CNV and other regulatory entities. Investors are advised to consult their own legal counsel and to read the Anti-Money Laundering Law and its statutory regulations.

In line with internationally accepted practices, the Anti-Money Laundering Law does not merely assign responsibility for controlling criminal transactions to government agencies, but also assigns certain duties to various private sector entities such as financial institutions, stockbrokers, brokerage houses and insurance companies, which become legally bound reporting parties. These duties basically consist of information-capturing functions.

According to the Anti-Money Laundering Law, the following persons, among others, are subject to report to the UIF: (i) financial institutions and insurance companies; (ii) exchange agencies and individuals or legal entities authorized by the Argentine Central Bank to operate in the purchase and sale of foreign currency in the form of cash or checks drawn in foreign currency or by means of credit or debit cards or in the transfer of funds within Argentina or abroad; (iii) broker-dealers, companies managing investment funds, over-the-counter market agents, and intermediaries engaged in the purchase, lease, or borrowing of securities; (iv) armored transportation services companies and companies or concessionaires rendering postal services that carry out foreign currency transfers or remittance of different types of currency or notes; (v) governmental organizations, such as the Central Bank, the Argentine Tax Authority, the National Superintendency of Insurance (*Superintendencia de Seguros de la Nación*), the CNV and the IGJ; (vi) professionals in economics sciences and notaries public; and (vii) individuals and legal entities acting as trustees of any kind and individuals or legal entities related directly or indirectly to trust accounts, trustees and trustors under trust agreements.

Individuals and entities subject to the Anti-Money Laundering Law must comply with some duties that include: (i) obtaining documentation from their customers that irrefutably evidences their identity, legal status, domicile, and other data stipulated in each case (know your customer policy); (ii) reporting any suspicious event or transaction (which according to the customary practices of the field involved, as well as to the experience and competence of the parties who have the duty to inform, are those transactions attempted or consummated that, having been previously identified as unusual transactions by the legally bound reporting party, or have no economic or legal justification or are unusually or unjustifiably complex, whether performed on a single occasion or repeatedly (regardless its amount)); and (iii) abstaining from disclosing to customers or third parties any act performed in compliance with the Anti-Money Laundering Law. Within the framework of analysis of a suspicious transaction report, the aforementioned individuals and entities cannot refrain from disclosing to the UIF any information required from it by claiming that such information is subject to bank, stock market or professional secret, or legal or contractual confidentiality agreements. The Argentine Tax Authority (AFIP) shall only disclose to UIF the information in its possession when the suspicious transaction report has been made by such entity and refers to the individuals or entities involved directly with the reported transaction. In all other cases the UIF shall request that the federal judge holding authority in a criminal matter order the AFIP to disclose the information in its possession.

Argentine financial institutions must comply with all applicable anti-money laundering regulations as provided by the Central Bank, the UIF, and, if applicable, the CNV. In this regard, in accordance with Resolution No. 229/2014 of the UIF, both the Central Bank and the CNV are considered “Specific Control Organs”. In such capacity, they must cooperate with the UIF in the evaluation of the compliance with the anti-money laundering proceedings by the legally bound reporting parties subject to their control. In that respect, they are entitled to supervise, monitor and inspect such entities, and if necessary, to implement certain corrective measures and actions. Resolution No. 121/2011 issued by the UIF, as amended (“Resolution No. 121”), is applicable to financial entities subject to the FIL, to entities subject to the Law No. 18,924, as amended, and to individuals and legal entities authorized by the Central Bank to intervene in the purchase and sale of foreign currency through cash or checks issued in foreign currency or through the use of credit or payment cards, or in the transfer of funds within or outside the national territory. Resolution No. 229/2011 of the UIF, as amended or supplemented by Resolutions No. 52/2012 and 140/2012 (“Resolution No. 229”), is applicable to brokers and brokerage firms, companies managing common investment funds, agents of the over-the-counter market, intermediaries in the purchase or leasing of securities affiliated with stock exchange entities with or without associated markets, and intermediary agents registered on forwards or option markets. Resolution No. 121 and Resolution No. 229 regulate, among other things, the obligation to collect documentation from clients and the terms, obligations and restrictions for compliance with the reporting duty regarding suspicious money laundering and terrorism financing transactions.

Resolution No. 30 and Resolution No. 21 establishes general and specific guidelines, based on a risk-regarding customer identification approach, due diligence to be applied depending on the level of risk assigned and procedures to detect and report suspicious transactions.

Additionally, as mentioned, each financial institution must appoint a member of the Board of Directors as the person responsible for money laundering prevention, in charge of centralizing any information the Central Bank may require on its own initiative or at the request of any competent authority and reporting any suspicious transactions to the UIF. Notwithstanding the officer's role as a liaison with the UIF, all board members have personal, joint, several and unlimited responsibility for the entity's compliance with its reporting duties with the UIF. In addition, this officer will be responsible for the implementation, tracking and control of internal procedures to ensure compliance with the regulations in financial institutions and its subsidiaries.

In addition, pursuant to Communication "A" 5738 (as amended and supplemented) of the Central Bank, Argentine financial institutions must comply with certain additional "know your customer policies". In this sense, pursuant to such Communication, under no circumstance may new commercial relationships be initiated if the "know your customer policies" and the risk management legal standards have not been complied with. In addition, in respect of the existing clients: if the "know your customer policies" could not be complied with, the Argentine financial institution must discontinue operations with such client (i.e. terminate the relationship with the client in accordance with Central Bank's regulations for each type of product) within 150 calendar days as of the notice of such circumstances. Operations do not have to be discontinued when the "know your customer" policies are complied with in such period or when simplified due diligence procedures were implemented pursuant to applicable laws. Furthermore, pursuant to this Communication, Argentine financial entities must keep the documentation related to the discontinuance for 10 years and include in their prevention manuals the detailed procedures to initiate and discontinue operations with clients in accordance with the above-mentioned additional "know your customer policies" implemented.

The CNV Rules include a specific chapter regarding "Prevention of Money Laundering and the Financing of Terrorism" and state that the persons set forth therein (Negotiation Agents, Clearing and Settlement Agents (which are stockbrokers), Distribution and Placement Agents, Manager and Custody Agents of Collective Investment Funds, Brokerage Agents, Collective Depository Agents, issuers with respect to capital contributions, irrevocable capital contributions for future capital increases or significant loans that have been made in its benefit, specifically with respect to the identity of contributors and/or creditors and the origin and legality of the funds so contributed or loaned) are to be considered legally bound to report under the Anti-Money Laundering Law, and therefore must comply with all the laws and regulations in force in connection with anti-money laundering and terrorism financing, including resolutions issued by the UIF, presidential decrees referring to resolutions issued by the United Nations Security Council in connection with the fight against terrorism and the resolutions (and its annexes) issued by the Ministry of Foreign Affairs.

In addition, the CNV Rules establish that the above-mentioned entities shall only be able to carry out any transactions contemplated under the public offering system, when such transactions are carried out or ordered by persons organized, domiciled or resident in dominions, jurisdictions, territories or associated States included in the cooperating countries list contained in Executive Decree No. 589/2013, section 2(b). When such persons are not included in such list and in their home jurisdiction qualify as registered intermediaries in an entity under control and supervision of a body that carries out similar functions to those carried out by the CNV, they will only be allowed to carry out such transactions if they provide evidence indicating that the relevant securities and exchange commission in their home jurisdiction has signed a memorandum of understanding for cooperation and exchange of information with the CNV.

Deposit Guarantee Insurance System

The Bank is included in the Deposit Guarantee System established by Law No. 24,485, Regulatory Decrees No. 540/95, No. 1292/96, 1127/98 and No. 30/18 and Communication "A" 5943 issued by the BCRA.

Such law provided for the creation of the company "Seguros de Depósitos S.A." ("SEDESA") for purposes of managing the Deposit Guarantee Fund (the "DGF"), whose shareholders, in accordance with the changes introduced by Decree No. 1292/96, shall be the BCRA with one share as a minimum and the trustees of the trust created by the financial institutions in such proportion as may be determined for each by the BCRA according to their contributions to the Deposit Guarantee Fund. This guarantee system does not include:

- transferable certificates of deposit whose ownership has been acquired by way of endorsement;
- demand deposits for which the interest rate is higher than the benchmark interest rate and deposits and term investments that exceed 1.3 times that rate. They will also be excluded when those interest rate limits are distorted by incentives or additional remuneration;

- deposits made by other financial institutions, including certificates of deposit acquired by secondary trading;
- deposits made by persons directly or indirectly related to the financial institution;
- certificates of deposit of securities, acceptances or guarantees; or
- fixed amounts from deposits and other excluded transactions.

We held a 10.038% equity interest in *Seguros de Depósitos Sociedad Anónima* as of December 31, 2018.

The amount covered by the deposit guarantee system is Ps.450,000 per person and per deposit. In the case of transactions in the name of two or more persons, the guarantee will be prorated among the respective holders. The total guarantee amount by persons may not exceed Ps.450,000, regardless of the number of accounts and/or deposits.

The deposits for amounts over Ps.450,000 are also included in the guarantee system up to the Ps.450,000 limit. The Central Bank may decide at any time to amend the guarantee system cover amount based on the continued consolidation of the Argentine financial sector or any other indicators.

The Argentine insurance system is financed by monthly contributions from all financial institutions operating in Argentina. These contributions are equivalent to 0.015% of average daily balances of demand deposits, time deposits, term investments, salary account of social security and fixed assets of previous concepts.

Furthermore, institutions must make an additional contribution which will depend on the rating assigned by the Central Bank, the excess recorded in the integration of the RPC and the portfolio quality. This additional contribution may not exceed the standard contribution.

Seguros de Depósitos Sociedad Anónima may issue nominative non-endorsable securities to be offered to depositors as payment of the deposit guarantee whenever it did not have sufficient funds for such purpose. Such securities, whose conditions would be established for general purposes by the Central Bank, must be accepted by the financial institutions in order to constitute deposits.

The BCRA issued, on February 28, 2019, Communication “A” 6654 whereby it ordered the increase of the guarantee from Ps.450,000 to Ps.1,000,000 with effect from March 1, 2019.

Credit Cards Law No. 25,065

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

Law No. 26,361, enacted in 2008, amended article 50 of Law No. 25,065, empowering the Secretariat of the Domestic Commerce, dependent on the Ministry of Economy and Production, to issue regulatory provisions and to exercise powers of control, survey and ensure compliance with the law. The City of Buenos Aires and the Provinces act as local authorities of application, with powers which they may delegate, if applicable, to their dependent bodies or to municipalities. Irrespective of the above, the national authority of application may act concurrently, even if the presumed infringements occur only within the scope of the Autonomous City of Buenos Aires or the Provinces.

Since the enforcement of Law No. 25,065, the Central Bank is the relevant authority in matters related to the credit, purchase and debit card system.

Disclosure of Iranian Activities Pursuant to Section 13(r) of the Exchange Act

The Company discloses the following information pursuant to Section 13(r) of the Exchange Act, which requires an issuer to disclose whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with natural persons or entities designated by the U.S. government under specified executive orders, including activities not prohibited by U.S. law and conducted outside the United States by non-U.S. affiliates in compliance with local law. In order to comply with this requirement, the Company has requested relevant information from its affiliates globally.

The Company has not knowingly engaged in activities, transactions or dealings required to be disclosed pursuant to Section 13(r) of the Exchange Act.

Because the Company is controlled by BBVA, a Spanish corporation, the Company's disclosure includes activities, transactions or dealings conducted outside the United States by non-U.S. affiliates of BBVA and its consolidated subsidiaries that are not controlled by the Company. The BBVA Group has the following activities, transactions and dealings with Iran requiring disclosure.

Legacy contractual obligations related to counter indemnities. Before 2007, the BBVA Group issued certain counter indemnities to its non-Iranian customers in Europe for various business activities relating to Iran in support of guarantees provided by Bank Melli, one of which remained outstanding and was executed on October 16, 2018, triggering a payment of €21,427.96 (equivalent to US\$24,798.5).

Iranian embassy-related activity. The BBVA Group maintains bank accounts in Spain for one employee of the Iranian embassy in Spain. This employee is a Spanish citizen. Estimated gross revenues for the year ended December 31, 2018, from embassy-related activity, which include fees and/or commissions, totaled €1,899.33. The BBVA Group does not allocate direct costs to fees and commissions and therefore has not disclosed a separate profit measure.

G. Cybersecurity and Fraud Management

The Corporate Security & Engineering Risk (CS&ER) Operations team of the BBVA Group handles the main operational cybersecurity policies and measures regarding the BBVA Group's global infrastructures, digital channels and payments methods, including those of the Bank, with a holistic and threat intelligence-led approach.

The Global Computer Emergency Response Team (CERT) is the BBVA Group's first line of detection and response to cyberattacks aimed to global users and the BBVA Group's infrastructures, combining information on cyber threats from its Threat Intelligence unit. The Global CERT, which is based in Madrid, is made up of approximately 100 people and provides services in all countries where the BBVA Group operates, including Argentina. The BBVA Group is currently in the process of harmonizing the catalogue of services that the Global CERT provides to the subsidiaries of BBVA worldwide and expects to complete such process by the end of 2019. The Global CERT operates 24 hours a day and seven days a week, with operation lines dedicated to fraud and cybersecurity.

During 2018, the BBVA Group detected an increase in cyberattack attempts across the entire BBVA Group, especially phishing attacks, none of which were considered to be material. As cyberattacks evolve and become more sophisticated, the BBVA Group has had to strengthen its prevention and monitorization efforts. As part of such efforts, the BBVA Group routinely reviews, reinforces and tests its security processes and procedures through simulation exercises in the areas of physical security and digital security. The outcome of such exercise is a fundamental part of a feedback process designed to improve the BBVA Group's cybersecurity strategies. In this context, during 2018 BBVA Francés expanded the use of chip cards and, relatedly, renewed and expanded the ATM network to be compatible with such technology. In addition, biometric data readers were added, such as signature pads in branches, with an aim to strengthen commercial channels and reduce fraud. The Bank continued to optimize management processes and forensic analysis of detected alerts and fraud events, in order to accelerate the Bank's response to such incidents. Likewise, the Bank has focused on training and raising awareness regarding matters of security and fraud prevention for the internal staff of BBVA Francés and for the Bank's clients. Pursuant to the Bank's Comprehensive Awareness Plan 2018, the Bank is implementing new specific automation tools that are expected to be launched during 2019, including optimizing notification channels, sending support material and evaluating results.

The BBVA Group also tests its continuity plans in order to improve disaster recovery in instances where an incident or vulnerability threatens the continuity of one or several critical processes, services or platforms.

Other lines of action also include the adequate training of BBVA's board members in the area of security and incident management. Each year the BBVA Group carries out simulation exercises in order to raise the level of awareness and preparedness of certain key personnel.

Cybersecurity efforts are frequently undertaken in close coordination with fraud prevention efforts and there are considerable interactions and synergies between the relevant teams. As part of efforts to monitor fraud evolution and to actively support the deployment of adequate anti-fraud policies and measures, the BBVA Group has a Corporate Fraud Committee that oversees the evolution of all external and internal fraud types in all countries where the BBVA Group operates. Its functions include: (i) actively monitoring fraud risks and mitigation plans; (ii) evaluating the impact thereof on the BBVA Group's business and customers; (iii) monitoring relevant fraud facts, events and trends; (iv) monitoring accrued fraud cases and losses; (v) carrying out internal and external benchmarking; and (vi) monitoring relevant fraud incidents in the financial industry.

The Corporate Fraud Committee of the BBVA Group is chaired by the Global Head of Engineering. The composition of this committee is quite broad and includes representatives from various units (in particular, Global Risk Management - Retail Credit, Global Risk Management - Non-Financial Risk, Finance & Accounting, Internal Audit, Corporate Security, Client Solutions – Payments, Country Monitoring and Engineering Deployment). The Corporate Fraud Committee is convened three times per year.

The BBVA Group maintains cybersecurity and fraud insurance policies in respect of each of its subsidiaries, including the Bank. These insurance policies are subject to certain loss limits, deductions and exclusions and we can provide no assurance that all losses related to a cybersecurity or fraud incident will be covered under our policies.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Economic conditions

2018

During 2018 economic activity measured by GDP fell 2.5% compared to 2017. In the first half of the year the deterioration in economic activity was mainly related to the effects of the drought. However, in the second half of the year the deterioration of domestic financial conditions worsened the economic recession, mainly affecting the levels of consumption and investment.

With respect to the labor market, in 2018 there was an increase in the unemployment rate to around 9.2% compared to 8.4% in 2017.

The national CPI increased by 47.6% in 2018, reflecting an acceleration of inflation compared to 24.8% in 2017, as a result of the foreign exchange and financial crisis during the year.

The domestic public sector recorded a primary deficit of Ps.338,987 million, accounting for approximately 2.3% of GDP. As a consequence, the annual fiscal goal of 2.7% was exceeded based on the commitment for the year in the agreement with the IMF. This result reflects a 16.1% decrease compared to the deficit in the previous year.

The trade deficit in 2018 was US\$3.8 billion, a reduction compared to the deficit of US\$8.5 billion in the previous year.

2017

According to data in 2017, economic activity, measured in terms of GDP, increased 2.7% year-on-year.

According to INDEC figures published in 2017, the unemployment rate was 8.4%, compared to 8.5% one year prior.

In 2017, the INDEC started publishing a new national CPI using December 2016 with a base of 100 covering 39 urban conglomerates in each of the provinces in Argentina, the City of Buenos Aires and 24 municipalities in Greater Buenos Aires. This index adds to the coverage of the CPI GBA (covering the City of Buenos Aires and 24 municipalities of Greater Buenos Aires) which was published by the INDEC April 2016.

The national CPI increased 24.8% in 2017, whereas the CPI-GBA increased 25% in the same period.

In 2017, the national public sector had a primary deficit of Ps.404.1 billion, which accounts for 3.9% of the 2017 GDP, exceeding the fiscal target of 4.2% set for the year. This fiscal result accounts for a 17.6% increase compared to the Ps.343.5 billion deficit the previous year according to the new methodology for presenting statistics on the non-financial public sector.

With respect to the balance of trade, the accumulated deficit in 2017 amounted to US\$8.5 billion compared to a surplus of US\$2.1 billion for 2016, as a result of exports, which amounted to US\$58.4 billion, or 0.9% higher than the year before.

Effects of Recent Regulatory Changes on BBVA Francés

Since the Macri Administration took office, a set of regulations in place since 2012 were removed or modified. The main regulations introduced in recent years are summarized below.

Regulations regarding capital requirements and dividend distribution

In January 2012 the BCRA increased the capital requirements related to operational risk for financial institutions operating in Argentina and introduced an additional buffer requirement equivalent to 75% of the total capital requirement solely for the purpose of distributing profits. Consequently, the Bank did not pay dividends for fiscal years 2011 and 2012. Then, in compliance with applicable regulations, the Bank paid a cash dividend in the amount of Ps.28.8 million for fiscal year 2013 and Ps.400 million for 2014 based in BCRA-GAAP.

In January 2015 the BCRA classified BBVA Francés for all purposes as a Domestic Systemically Important Bank (“D-SIB”). A new capital requirement of 1% of risk-weighted assets was required for D-SIBs to be implemented gradually from 2016 to 2019. Such requirement, however, is immediately effective for purposes of profit distributions, which means that D-SIBs are not allowed to distribute dividends until they meet such requirement and the BCRA approves such distribution. These regulations were removed by the end of 2015, and the cash dividend paid by the Bank for the fiscal year 2015 was Ps.900 million.

In addition, since January 2015 financial institutions must also record allowances for 100% of any administrative, disciplinary and criminal penalty implemented or which may result from administrative, disciplinary or criminal proceedings against them. Financial institutions must also disclose in a note to their financial statements any proceedings ever initiated by the BCRA against them regardless of the amounts involved or whether such amounts have been quantified.

On June 9, 2016, the BCRA removed the additional buffer for financial institutions (equivalent to 75% of the total capital requirement) to pay dividends but it established an additional conservation buffer of 2.5% of risk-weighted assets, and an additional 1% buffer for D-SIBs.

It also modified the requirements to request authorization for the distribution of dividends, establishing that financial institutions that have a capital ratio 1% above the regulatory requirements considering the conservation buffer and systemic buffer (1% buffer for D-SIBs) are not required to ask for Central Bank authorization to pay it. The Bank paid a cash dividend for fiscal year 2016 of Ps.911 million, and for fiscal year 2017 of Ps.970 million.

Based on the Bank’s results of operations under IFRS-BCRA for fiscal year 2018, the Board of Directors proposed a cash dividend payment to the shareholders in the amount of Ps.2,407 million.

Regulations regarding credits for productive investment projects

In 2012, the BCRA established that certain financial institutions should allocate a minimum portion of their total deposits to finance investment projects. This requirement has been renewed every six months since then.

In 2016, the BCRA amended the requirements, moving from a “disbursed amounts” system to a “six monthly average of daily amounts” system and established for the first semester of 2016 a quota equivalent to 14% of the private deposits stock, calculated according to the monthly average of daily amounts of November 2015 and imposed a fixed annual interest rate of 22%. The minimum amount to be allocated to investment projects for the first semester of 2016 was Ps.7,904.5 million (or Ps.9,942.1 million including carryover amounts of previous periods and adjustments per geographical zones and small and medium-sized company sizes).

In May 2016, the BCRA extended this requirement for the second half of 2016, increasing the quota from 14% to 15.5% of private deposits stock, calculated according to the monthly average of daily amounts of May 2016. The fixed annual interest rate remained at 22% until October 2016 and declined to 17% thereafter. The minimum amount to be allocated to investment projects for the second half of 2016 was Ps.9,559.8 million (or Ps.12,088 million including carryover amounts of previous periods and adjustments per geographical zones and small and medium-sized company sizes).

On October 21, 2016, the BCRA released the guidelines for the calculation of the relevant amount for the first half of 2017. Financial institutions have to maintain a portion equivalent to 18% of total private deposits stock in pesos, calculated according to the monthly average of daily amounts of November 2016, with a fixed annual interest rate of 17%. The Bank’s quota for the first half of 2017 has increased to Ps.12,311.1 million on this basis.

On June 23, 2017, the BCRA issued communication “A” 6259, which renews the quotas for “credit line for production financing and financial inclusion” under the same framework as during the first half of that year. Thus, financial entities must maintain, since July 1, 2017, a financing balance equal to at least 18% of the non-financial private sector deposits in pesos, calculated as a function of the monthly average of daily balances of May 2017.

On November 3, 2017 the BCRA determined that the credit lines for production financing and financial inclusion would be applied until December 2018. The quota for 2018 is a percentage of the monthly average of non-financial private sector deposits in pesos in November, 2017, according to the following schedule: 16.5% for January 2018, decreasing 1.5 percentage points monthly until reaching 0% in December 2018.

Regulations regarding foreign exchange market and banks' foreign exchange positions

On December 17, 2015, the restrictions on the foreign exchange market implemented in 2011 were removed.

On June 23, 2016 the BCRA, through Communication "A" 5997, increased the maximum limit for the net foreign currency balances to a total of 15% of the RPC, effective from January 1, 2016, and removed the limit applicable to forward positions.

On July 22, 2016 the BCRA through Communication "A" 6022 mandated the creation of special accounts in order to implement the Tax Amnesty Regime (Law No. 27,260). Since this regulation generated a significant inflow of U.S. dollars, the BCRA through Communication "A" 6128 increased in December 2016 the maximum limit for the net foreign currency balances to 25% of total capital and eliminated some exemptions included in the previous regulation to estimate the net global position in foreign currency. Finally, through Communication "A" 6233, dated on April 25, 2017, the BCRA increased the maximum limit for net foreign currency balances to 30% of total capital. On May 7, 2018 the BCRA set the maximum limit for the net foreign currency balances at 10% of total capital. On June 21, 2018, the BCRA reduced the maximum limit for net foreign currency balances to 5% of total capital.

As of December 31, 2018 the Bank's U.S. dollar-denominated deposits totaled Ps.112,294 million (equivalent to US\$2,970.1 million using a 37.81 Ps/US\$ exchange rate as of such date), representing 42.4% of the Bank's total deposits as of such date.

The BCRA reference exchange rate was Ps.37.81 per U.S. dollar on December 31, 2018, increasing by 101.4% from December 31, 2017.

Regulations regarding interest rates

On January 6, 2017, through Communication "A" 6148, the Central Bank abolished a prior communication which prohibited financial institutions from paying interest on checking accounts, special checking accounts for legal entities and time accounts opened in cooperative credit accounts. Financial institutions are now permitted to pay customers interest on their checking account deposits. This voluntary measure generates competition among financial institutions for these funding sources. Furthermore, financial institutions may also pay other types of remuneration in addition to or instead of interest, as long as such remuneration is established in the relevant account agreement. In addition, the Central Bank eliminated the minimum cash requirement on investment fund deposits.

Regulations regarding income from services and the deposit guarantee fund

In October 2014, the monthly contribution that banks must set aside each month to fund the deposits guarantee fund (*Fondo de Garantía de los Depósitos*) was increased to 0.06% of the monthly average of the daily deposits balance which has had a negative impact on the Bank's income statement. In April 2016, the BCRA issued Communication "A" 5943 by which the contribution was decreased to 0.015% of the monthly average of the daily deposits.

Regarding fees and charges, in December, 2014, the BCRA determined that all increases or re-pricing of fees charged by financial institutions require prior authorization from the BCRA.

Further, on July 31, 2015, the BCRA issued Communication "A" 5785, which amended previous regulations protecting the consumers of financial services and limited the amount of charges that may be imposed to customers. For example, it prevents financial institutions from collecting fees on deposits in branches other than where the account is held and from generating margins for insurance on financial services to individuals.

In March 2016, the BCRA through Communication "A" 5928 allowed financial institutions to increase their fees by up to 20% and since September 2016 no authorization is required in order to further increase fees.

Regulations regarding liquidity

In January 2015, new rules on the Liquidity Coverage Ratio (LCR) became effective, under which financial institutions must have funds of high quality assets free of restrictions in case of potential stress scenarios. BBVA Francés has implemented this metric and, given the quality of its assets and its liquidity management, it exceeds the Basel liquidity requirements.

On May 26, 2016 the BCRA through Communication "A" 5980 increased minimum cash requirements in two stages: from June 1, 2016 to June 30, 2016, an increase of 2.5 p.p. on demand deposits and of 1.5 p.p. on term deposits, and after July 1, 2016 an additional 2.5 p.p. increase on demand accounts and of 1.5 p.p. on term deposits.

On March 2, 2017 the BCRA, through Communication "A" 6195 reduced by two percentage points the minimum cash requirement in pesos.

[Table of Contents](#)

From June 2018, BCRA instrumented a continuous process of increases in minimum reserve requirements, with the last on September 28, 2018, through Communication “A” 6575. Through this process reserves for sight accounts increased from 20% to 44%, and reserves for short term time deposits increased from 14% to 38%.

BCRA also allowed banks to comply in part with these requirements with BOTE 2020 and with Leliq, a 7-day instrument bill in which only banks can invest, for 5% and 13%, respectively, of sight deposits and short term time deposits. The remaining reserve requirements must be met in the account banks have in the Central Bank, which pay no interest rate.

In January 2018, new rules on the Net Stable Funding Ratio (NSFR) became effective, pursuant to which the Central Bank aims to promote resilience over a longer time horizon by creating incentives for banks to fund their activities with more stable sources of funding on an ongoing basis. BBVA Francés has implemented this metric and, given the quality of its assets and its liquidity management, it exceeds the Basel liquidity requirements.

Other events

On September 1, 2016 certain changes affecting the insurance business were introduced, through the Communication “A” 5928 issued by the BCRA. The new regulation prohibited imposing any type of commissions and/or fees on life insurance products linked to new loan sales.

Since January 5, 2017 the Central Bank allows banks to pay customers interest on their checking account deposits. This is voluntary and allows banks to compete for this funding source.

Furthermore, financial institutions may also pay other kinds of remuneration in addition to or instead of interest, as long as this is established in the relevant contract.

Moreover, through a private agreement between the chambers of commerce, banks and acquiring companies, fees on credit and debit cards were voluntarily reduced beginning on April 1, 2017. The fee for credit cards was reduced from 3% to 2.5% for 2017 and further reduced to 2.35% for 2018, and will further decrease each year to 2.15% for 2019, 2% for 2020, and 1.8% for 2021. Fees on debit card transactions were reduced from 1.5% to 1.2% for 2017, and then they decreased to 1.1% for 2018, 1.0% for 2019 and are scheduled to decrease to 0.9% for 2020, reaching 0.8% for 2021. Simultaneously, the BCRA, through its Communication “A” 6212, established, as of April 1, a cap at the interchange fee of 2% and 1% for credit and debit cards, respectively, with a gradual decrease schedule for the next years.

Financial management

As a result of the foreign exchange crisis in May 2018 and the resulting arrangement between Argentina and the IMF, BBVA Francés has faced a new financial environment necessitating an increasing focus on financial risk management. At the same time, BBVA Francés has remained focused on its transformation and growth. In this context, liquidity management was one of the fundamental pillars of financial risk management at BBVA Francés in 2018, covering various priorities, from compliance with mandatory bank deposit requirements, Basel III recommendations adopted by the BCRA and internal risk limits, to adequate balance planning enabling successful management of both lending growth and unexpected situations, such as deposit outflows and difficulties in obtaining financing in the capital markets.

At the beginning of 2018, BBVA Francés experienced high levels of liquidity that were above minimum regulatory requirements, as reflected in the Bank’s ratios of total liquid assets (banknotes, BCRA account, Lebac, Letes and net Repos) to deposits of 43.3% as of December 31, 2017 and 38% as of March 31, 2018. From May to September of 2018, the period of greatest foreign exchange volatility, peso-denominated deposits showed stable performance and maintained a gradual rising trend, despite an increased demand for dollars from investors and depositors. The Badlar interest rate was 22.8% on April 27, 2018, and it increased 20.5 percentage points to 43.3% as of September 28, 2018 and increased an additional 6.2 percentage points to 49.5% on December 28, 2018. This increase was fueled by both by the change in the BCRA’s monetary policy rate from 30.3% on April 27, 2018 to 65.0% as of September 28, 2018 and by substantial increases in mandatory deposit requirements beginning in June 2018. See “—*Effects of Recent Regulatory Changes on BBVA Francés—Regulations regarding liquidity*”.

As a result of the increase in interest rates in 2018, the deterioration of the economic environment and expectations and the monetary plan implemented by the new BCRA authorities in October 2018, lending by the Bank in pesos was negatively affected and recorded nominal growth below inflation in 2018. Additionally, the cancellation of the Central Bank’s Lebac short-term notes helped to increase term deposits denominated in pesos, which resulted in an increase in the level of liquidity in local currency in the balance sheet of BBVA Francés. The ratio of total liquid assets to total deposits as of December 31, 2018 reached 55.2%, up from 43.3% at December 31, 2017. Nonetheless, a high portion of such liquidity continues to be immobilized as a result of the increased mandatory deposits implemented beginning in May 2018.

With respect to assets on our balance sheet denominated in foreign currency, deposits in U.S. dollars were highly volatile in 2018. Although the Bank experienced a net increase in deposits in U.S. dollars in 2018, significant declines in deposits in May and September of 2018, which occurred in tandem with periods of steeper depreciation of the peso, led the Bank to take precautions, such as temporarily reducing the size of the loan portfolio and increasing the amount of banknotes held in branches, in order to maintain high levels of liquidity in pesos, as well as the availability of a sufficient number of banknotes in branches in order to meet any potential increase in demand for cash withdrawals. From May 1 to 30, 2018, U.S. dollar-denominated deposits fell by 2.6%, and in the succeeding months there was a recovery of balances before falling again by 3.3% from September 1 to 30, 2018. Thereafter, U.S. dollar-denominated deposits grew slowly and showed a full-year increase of 4.4% at December 31, 2018 as compared to December 31, 2017.

To anticipate potential stress situations, during the peaks of exchange rate volatility the Bank reinforced its liquidity level by obtaining funding lines with correspondent banks outside Argentina. In addition, with respect to interest rate management, the Bank's focus in 2018 was on quickly passing on higher financing costs to customers. As a result of the increase in interest rates all of the Bank's lending and borrowing products experienced strong increases in prices in 2018, with a positive impact on the Bank's net interest margin, which started to increase in the second quarter of the year.

Critical Accounting Policies

The Consolidated Financial Statements as of and for the years ended December 31, 2018 and 2017 were prepared by the Bank's directors in compliance with IFRS-IASB, and by applying the basis of consolidation, accounting policies and measurement bases described in Note 2.1 to the Consolidated Financial Statements, so that they present fairly the Bank's total equity and financial position as of December 31, 2018 and 2017 and January 1, 2017, and its results of operations and consolidated cash flows for the years ended December 31, 2018 and 2017. The Consolidated Financial Statements were prepared in accordance with IFRS-IASB.

In preparing the Consolidated Financial Statements, estimates were made in order to recognize and measure assets, liabilities, income, expenses and commitments reported therein. These estimates relate mainly to the following:

- The impairment on certain financial assets.
- The assumptions used to measure other provisions.
- The useful life and impairment losses of tangible and intangible assets.
- The fair value of certain unlisted financial assets and liabilities.

Although these estimates were made on the basis of the best information available as of December 31, 2018 and 2017 respectively, events that take place in the future might make it necessary to revise these estimates (upwards or downwards) in coming years.

Note 5 to our Consolidated Financial Statements contains a summary of our significant accounting policies. We consider certain of these policies to be particularly important due to their effect on the financial reporting of our financial condition and results of operations and because they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Our reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our Consolidated Financial Statements. The nature of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our Consolidated Financial Statements and the discussion below.

We have identified the accounting policies enumerated below as critical to the understanding of our financial condition and results of operations, since the application of these policies requires significant management assumptions and estimates that could result in materially different amounts to be reported if the assumptions used or underlying circumstances were to change.

- Financial instruments

As we describe in Note 5.4.b) to our Consolidated Financial Statements, IFRS 9 became effective as of January 1, 2018 and replaced IAS 39 regarding the classification and measurement of financial assets and liabilities, the impairment of financial assets and hedge accounting. As permitted by IFRS 1, IFRS 9 has not been applied retrospectively for previous years and financial information relating to 2017 is presented in accordance with IAS 39. The explanations included in this section refer to IFRS 9. For information regarding the classification and measurement of financial instruments under IAS 39, see Note 5.4.c) to our Consolidated Financial Statements.

▪ *Classification and measurement of financial assets*

1. *Classification of financial assets*

IFRS 9 contains three main categories for the classification of financial assets: measured at amortized cost, measured at fair value through other comprehensive income, and measured at fair value through profit or loss.

The classification of financial assets must be carried out on the basis of two tests: the entity's business model and the assessment of the contractual cash flow, commonly known as the "solely payments of principle and interest" criterion (the "SPPI"). A debt instrument will be classified in the amortized cost portfolio if the two following conditions are fulfilled:

- The financial asset is managed with a business model, the purpose of which is to maintain financial assets to receive contractual cash flows; and
- In accordance with the contractual characteristics of the instrument, the cash flows it generates represent the return on the principal and interest only, as consideration for the time value of money and the debtor's credit risk.

A debt instrument will be classified in the portfolio of financial assets at fair value through other comprehensive income if the two following conditions are fulfilled:

- The financial asset is managed with a business model, the purpose of which combines the collection of contractual cash flows and the sale of assets, and
- The contractual characteristics of the instrument generate, at specific dates, cash flows which only represent the return of the principal and interest.

A debt instrument will be classified at fair value through profit or loss when the business model used for its management or the contractual characteristics relating to its cash flows do not require classification into one of the portfolios described above.

In general, equity instruments will be measured at fair value through profit or loss. However the Bank may make an irrevocable election at their initial recognition to present subsequent changes in their fair value through other comprehensive income.

Financial assets will only be reclassified when the Bank decides to change the relevant business model. In such a case, all of the financial assets assigned to the relevant business model will be reclassified. The change of the objective of the business model should occur before the date of the reclassification.

2. *Measurement of financial assets*

All financial instruments are initially recognized at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument.

Excluding all trading derivatives not considered as accounting or economic hedges, all the changes in the fair value of financial instruments arising from the accrual of interest and similar items are recognized under the headings "Interest and other income" or "Interest expense", as appropriate, in the consolidated statement of profit or loss in the period in which the change occurred (see Notes 28.1 and 28.2 to our Consolidated Financial Statements). The changes in fair value after the initial recognition, for reasons other than those mentioned in the preceding sentence, are treated as described below, according to the categories of financial assets.

2.1. *Financial assets at fair value through profit or loss*

Financial assets recorded under the heading "Financial assets at fair value through profit or loss" are assigned to a business model the objective of which is to obtain the contractual cash flows and / or to sell such instruments in the event that their contractual cash flows do not comply with the requirements of the SPPI test, such as derivatives.

The assets recognized under this heading of the consolidated statement of financial position are measured upon acquisition at fair value and changes in their fair value (gains or losses) are recognized at their net value under the heading "Gains (losses) on financial assets and liabilities at fair value through profit or loss" in the consolidated statement of profit or loss (see Note 32 of our Consolidated Financial Statements).

2.2. *Financial assets at fair value through other comprehensive income*

2.2.1. *Debt instruments*

Assets recognized under this heading in the consolidated statement of financial position are measured at their fair value. Subsequent changes in fair value (gains or losses) are recognized temporarily net of tax effect, under the heading “Other comprehensive income- Items that may be reclassified to profit or loss” in the consolidated statement of financial position (see Note 15 to the Consolidated Financial Statements).

The amounts recognized under the headings “Other comprehensive income- Items that may be reclassified to profit or loss” continue to form part of the Bank’s consolidated equity until the corresponding asset is derecognized from the consolidated statement of financial position or until an impairment loss is recognized on the corresponding financial instrument. If these assets are sold, these amounts are derecognized and included under the headings “Gains (losses) on financial assets and liabilities, net” or “Exchange differences, net”, as appropriate, in the consolidated statement of profit or loss for the period in which they are derecognized (see Notes 32 a 33 to the Consolidated Financial Statements).

The net impairment losses in “Financial assets at fair value through other comprehensive income” over the reported year are recognized under the heading “Impairment of financial assets” (see Note 13 to our Consolidated Financial Statements) in the consolidated statement of profit or loss for that period.

Changes in foreign exchange rates which affect monetary items are recognized under the heading “Exchange differences, net” in the consolidated statement of profit or loss (see Note 34 to our Consolidated Financial Statements).

2.2.2. *Investment in equity instruments*

The Bank may, at the time of initial recognition, elect to present changes in the fair value of an investment in an equity instrument that is not held for trading in other comprehensive income. The election is irrevocable and can be made on an instrument-by-instrument basis. Subsequent changes in fair value (gains or losses) are recognized, under the heading “Other comprehensive income (loss) – Items that will not be reclassified to profit or loss – Fair value changes of equity instruments measured at fair value through other comprehensive income”.

2.3. *Financial assets at amortized cost*

Subsequently after acquisition, a financial asset is classified and measured at amortized cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and it meets the SPPI test.

The assets under this category are subsequently measured at amortized cost, using the effective interest rate method.

Net impairment losses of assets recorded under this heading arising in each period are recognized under the heading “Impairment of financial assets” in the consolidated statement of profit or loss for that period.

▪ *Classification and measurement of financial liabilities*

1. *Classification of financial liabilities*

Under IFRS 9, financial liabilities are classified in the following categories:

- Financial liabilities at amortized cost; and
- Financial liabilities at fair value through profit or loss: financial instruments are recorded in this category when the Bank’s objective is to generate gains by buying and selling these financial instruments.

2. *Measurement of financial liabilities*

Financial liabilities are initially recognized at fair value less, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issuance of the financial liability. Unless there is evidence to the contrary, the best evidence of the fair value of a financial instrument at initial recognition shall be the transaction price.

The changes in fair value after the initial recognition, for reasons other than those mentioned in the preceding paragraph, are treated as described below, according to the categories of financial liabilities.

2.1. Financial liabilities at fair value through profit or loss

The subsequent changes in the fair value (gains or losses) of the liabilities recognized under these headings of the Consolidated Statement of Financial Position are recognized at their net value under the heading “Gains (losses) on financial assets and liabilities at fair value through profit or loss” in the consolidated statement of profit or loss (see Note 32 to our Consolidated Financial Statements).

2.2. Financial liabilities at amortized cost

The liabilities under this category are subsequently measured at amortized cost, using the effective interest rate method.

▪ *Impairment losses on financial assets*

1. Definition of impaired financial assets under IFRS 9

IFRS 9 replaced the “incurred loss” model in IAS 39 with one of “expected credit loss”. The IFRS 9 impairment model is applied to financial assets valued at amortized cost and to financial assets valued at fair value through other comprehensive income, except for investments in equity instruments and contracts for financial guarantees and loan commitments unilaterally revocable by BBVA. All the financial instruments at fair value through profit or loss are excluded from the impairment model.

The new standard classifies financial instruments into three categories, based on the evolution of their related credit risk from the time of their initial recognition. As further explained at the end of this section, the first category includes transactions when they are initially recognized (Stage 1); the second category comprises financial assets in respect of which a significant increase in credit risk has been identified since their respective initial recognition (Stage 2); and the third category comprises impaired financial assets (Stage 3).

The calculation of provisions for credit risk in each of these three categories must be done differently. With respect to financial assets classified in the first of the aforementioned categories, the expected losses for the next 12 months must be recorded. With respect to financial assets classified in the other two categories, the expected losses for the remaining life of such financial assets must be recorded. Thus, IFRS 9 differentiates between the following concepts of “expected loss”:

- Expected loss for the next 12 months: this is the expected credit loss that arises from possible default events within 12 months following the date of the financial statements; and
- Expected loss during the life of the transaction: this is the expected credit loss that arises from all possible default events over the remaining life of the financial instrument.

Estimating the expected loss for a financial asset requires considerable judgment, both with respect to the expected losses estimation model and the making of forecasts as to how economic factors may affect such losses, which must be carried out on a weighted probability basis.

The Bank has applied the following definitions in accordance with IFRS 9:

2. Default

BBVA Francés has applied a definition of default for financial instruments which is consistent with the definition used in internal credit risk management, as well as with the indicators under applicable regulation at the date of the implementation of IFRS 9. Both qualitative and quantitative indicators have been considered.

The Bank considers there is a default when one of the following situations occurs:

- Payment is past-due for more than 90 days; or
- There are reasonable doubts regarding the full reimbursement of the instrument.

In accordance with IFRS 9, the 90-day past-due stipulation may be waived in cases where the Bank considers it appropriate, based on reasonable and documented information that it is appropriate to use a longer term. As of December 31, 2018, the Bank has not considered periods longer than 90 days for any of its significant portfolios.

3. Credit impaired asset

According to IFRS 9, an asset is credit impaired if one or more events having a detrimental impact on the estimated future cash flows of the asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract (e.g. a default or past due event);
- A lender having granted a concession to the borrower – for economic or contractual reasons relating to financial difficulties faced by the borrower – that the lender would not otherwise consider;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; and
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event. Instead, the combined effect of several events may cause financial assets to become credit-impaired.

The Bank's definition of impaired financial assets is aligned with that set forth in the above paragraphs.

4. Significant increase in credit risk

The objective of the impairment requirements is to recognize lifetime expected credit losses for financial instruments for which there have been significant increases in credit risk since initial recognition considering all reasonable and supportable information, including that which is forward looking.

The model developed by the Bank for assessing the significant increase in credit risk has a two-prong approach that is applied globally:

- Quantitative criterion: the Bank carries out a quantitative analysis based on comparing the current expected probability of default over the life of the transaction with the original adjusted expected probability of default, so that both values are comparable in terms of expected default probability for its residual life. The thresholds used for considering an increase in risk as significant vary depending on the geographic area and portfolio. Depending on how old transactions were at the time the new standard was implemented, some simplifications were made to compare the original and current probabilities of default, based on the best information available at that time.
- Qualitative criterion: since most indicators for detecting significant increase in risk are included in the Bank's systems through rating/scoring systems or macroeconomic scenarios, the quantitative analysis covers the majority of circumstances. The Bank will only use additional qualitative criteria when it considers it necessary to include circumstances that may not be reflected in the rating/score systems or in the macroeconomic scenarios used.

Instruments meeting one of the following conditions are considered to be "Stage 2" instruments:

- More than 30 days past due. According to IFRS 9, default of more than 30 days is a presumption of impairment that can be rebutted in those cases in which the entity considers, based on reasonable and documented information, that such non-payment does not represent a significant increase in risk. As of December 31, 2018, the Bank has not considered periods of more than 30 days for assessing impairment in any of its significant portfolios.
- Watch list: These instruments are subject to special watch by the relevant Risks unit because there are negative signs relating to their credit quality, even though there may be no objective evidence of impairment.

The Bank's definition of significant credit increase is aligned with that set forth in the above paragraphs

5. Refinancing or restructuring that does not result in the evidence of impairment.

Although IFRS 9 introduces a series of operational simplifications or practical solutions for analyzing the increase in significant risk, the Bank does not use them as a general rule.

As indicated above, the classification of financial instruments subject to impairment under IFRS 9 is as follows:

- Stage 1– without significant increase in credit risk: Loss allowances in respect of financial assets which are not considered to have experienced a significant increase in credit risk are measured at an amount equal to the expected credit losses for the next 12 months.

- Stage 2– significant increases in credit risk: When the credit risk of a financial asset has increased significantly since its initial recognition, the impairment losses of that financial asset are calculated as the expected credit loss during the entire life of the asset.
- Stage 3 – Impaired: When there is objective evidence that the instrument is credit impaired, the financial asset is transferred to this category in which the provision for losses of that financial instrument is calculated as the expected credit loss during the entire life of the asset.

6. *Method for calculating expected loss*

In accordance with IFRS 9, the measurement of expected losses must reflect:

- A considered and unbiased amount, determined by evaluating a range of possible results;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort and that reflects current conditions and forecasts of future economic conditions.

The Bank measures expected losses both individually and collectively. The purpose of the Bank's individual measurement is to estimate expected losses for significant impaired instruments, or instruments classified in Stage 2. In these cases, the amount of credit losses is calculated as the difference between the expected discounted cash flows at the effective interest rate of the transaction and the carrying amount of the instrument.

For the collective measurement of expected losses the instruments are grouped into groups of assets based on their risk characteristics. Exposure within each group is segmented according to shared credit risk characteristics, which may be indicative of the payment capacity of the borrower in accordance with the relevant contractual conditions. Characteristics taken into account must be considered to be relevant in estimating future flows of each group. Among others, we may consider the following factors:

- Type of instrument;
- Rating or scoring tools;
- Credit risk scoring or rating;
- Type of collateral;
- Amount of time at default for stage 3;
- Segment;
- Qualitative criteria which can have a significant increase in risk; and
- Collateral value if it has an impact on the probability of a default event.

The estimated losses are derived from the following parameters:

- PD: estimate of the probability of default in each period;
- EAD: estimate of the exposure in case of default at each future period, taking into account the changes in exposure after the date of the financial statements; and
- LGD: estimate of the loss in case of default, calculated as the difference between the contractual cash flows and receivables, including guarantees.

In the case of debt securities, the Bank supervises the changes in credit risk through monitoring the external published credit ratings.

To determine whether there is a significant increase in credit risk that is not reflected in published ratings, the Bank also revises the changes in bond yields together with the news and regulatory information available on the issuers.

7. *Use of present, past and future information*

IFRS 9 requires incorporation of present, past and future information to detect any significant increase in risk and measure expected loss.

The standard does not require identification of all possible scenarios for measuring expected loss. However, the probability of a loss event occurring and the probability it will not occur have to be considered, even though the possibility of a loss may be very small. Also, when there is no linear relation between the different future economic scenarios and their associated expected losses, more than one future economic scenario must be used for the measurement.

The approach used by the Bank consists of using first the most probable scenario (baseline scenario) consistent with that used in the Bank's internal management processes, and then applying an additional adjustment, calculated by considering the weighted average of expected losses in two economic scenarios (one more positive and the other more negative). The main macroeconomic variable considered is the Gross Domestic Product (GDP).

▪ *Fair value of financial instruments*

The fair value of an asset or a liability on a given date is taken to be the price that would be received upon the sale of an asset, or paid, upon the transfer of a liability in an orderly transaction between market participants at the measurement date. The most objective and common reference for the fair value of an asset or a liability is the price that would be paid for it on an organized, transparent and active market ("quoted price" or "market price").

If there is no market price for a given asset or liability, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, by using mathematical measurement models sufficiently tried and trusted by the international financial community. Such estimates would take into consideration the specific features of the asset or liability to be measured and, in particular, the various types of risk associated with the asset or liability. However, the limitations inherent to the measurement models developed and the possible inaccuracies of the assumptions required by these models may signify that the fair value of an asset or liability thus estimated does not coincide exactly with the price for which the asset or liability could be purchased or sold on the date of its measurement.

- *Derivatives and other future transactions*

These instruments include outstanding foreign currency purchase and sale transactions, outstanding securities purchase and sale transactions, futures transactions relating to securities, exchange rates or interest rates, forward interest rate agreements, options relating to exchange rates, securities or interest rates and various types of financial swaps.

All derivatives are recognized at fair value from the date of arrangement. If the fair value of a derivative is positive, it is recorded as an asset and if it is negative, it is recorded as a liability. Unless there is evidence to the contrary, it is understood that on the date of arrangement the fair value of the derivatives is equal to the transaction price. Changes in the fair value of derivatives after the date of arrangement are recognized in the heading "Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net" in the consolidated statement of profit or loss.

Specifically, the fair value of the standard financial derivatives included in the held for trading portfolios is equal to their daily quoted price. If, under exceptional circumstances, their quoted price cannot be established on a given date, these derivatives are measured using methods similar to those used to measure over-the-counter ("OTC") derivatives.

The fair value of OTC derivatives is equal to the sum of the future cash flows arising from the instruments discounted at the measurement date ("present value" or "theoretical value"). These derivatives are measured using methods recognized by the financial markets, including the net present value method and option price calculation models.

- *Income tax*

In estimating accrued taxes, we assess the relative merits and risks of the appropriate tax treatment considering statutory, judicial and regulatory guidance in the context of the tax position.

Because of the complexity of tax laws and regulations, interpretation can be difficult and subject to legal judgment. It is possible that others, given the same information, may reach different reasonable conclusions regarding the estimated amounts of accrued taxes.

Changes in the estimate of accrued taxes may occur due to changes in tax rates, interpretations of the status of examinations being conducted by various taxing authorities, and newly-enacted statutory and regulatory guidance that affect the relative merits and risks of tax positions. These changes, when they affect accrued taxes, could affect our operating results.

- *Contingent liabilities*

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

- *Hyperinflationary adjustments*

IAS 29 Financial Reporting in Hyperinflationary Economies requires that an entity whose functional currency is the currency of a hyperinflationary economy must state its assets, liabilities, income and expenses in terms of the measuring unit current at the end of the reporting period (December 31, 2018). The Bank has applied IAS 29 as follows:

- Restated the Consolidated Statement of Financial Position as of January 1, 2017, which is the earliest financial information presented.
- Restated the Consolidated Statement of Financial Position as of December 31, 2017.
- Restated the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Shareholders' Equity and Consolidated Statements of Cash Flow for the year ended December 31, 2017, including the calculation and separate disclosure of the gain or loss on the net monetary position.
- Adjusted the Consolidated Statement of Financial Position as of December 31, 2018.
- Adjusted the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Shareholders' Equity and Consolidated Statements of Cash Flow for the year ended December 31, 2018, including the calculation and separate disclosure of the gain or loss on the net monetary position.

For further information on the methodology and criteria applied as well as the impact of the application of IAS 29 in the Bank's accounting, see Note 3.2 to the Consolidated Financial Statements.

A. Operating Results

The Consolidated Financial Statements have been prepared in accordance with IFRS-IASB.

The Bank applied IFRS 9 and IAS 39 for the years ended as of December 31, 2018 and 2017, respectively, to measure the impairment of financial assets as well as IAS 29 Financial Reporting in Hyperinflationary Economies.

Results of Operations for the Fiscal Years Ended December 31, 2018 and 2017

Overview

The table below shows the Bank's consolidated statement of profit or loss for 2018 and 2017.

| | Year ended December 31, | | Variation | |
|---|--|-------------------|---------------------|-----------------|
| | 2018 | 2017 | 2018 vs 2017 | |
| | (in thousands of pesos, except percentages) | | | |
| Interest and other income | 56,472,561 | 35,714,188 | 20,758,373 | 58.1% |
| Interest expenses | (24,738,228) | (11,959,325) | (12,778,903) | 106.9% |
| NET INTEREST INCOME | 31,734,333 | 23,754,863 | 7,979,470 | 33.6% |
| Fee and commission income | 12,574,698 | 10,772,307 | 1,802,391 | 16.7% |
| Fee and commission expense | (5,501,505) | (4,882,374) | (619,131) | 12.7% |
| Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net | 115,843 | 4,361,298 | (4,245,455) | (97.3)% |
| Gains (losses) on derecognition of financial assets not measured at fair value through profit or loss | (136,740) | 11,983 | (148,723) | n.m. |
| Exchange differences, net | 6,489,026 | 3,377,178 | 3,111,848 | 92.1% |
| Other operating income | 2,106,977 | 1,943,178 | 163,799 | 8.4% |
| Other operating expenses | (7,984,040) | (7,346,168) | (637,872) | 8.7% |
| NET INTEREST INCOME AND OTHER OPERATING INCOME | 39,398,592 | 31,992,265 | 7,406,327 | 23.2% |
| Administration costs | (19,538,918) | (19,631,612) | 92,694 | (0.5)% |
| Personnel benefits | (10,887,691) | (11,221,860) | 334,169 | (3.0)% |
| Administrative expenses | (8,651,227) | (8,409,752) | (241,475) | 2.9% |
| Depreciation and amortization | (1,922,260) | (1,429,362) | (492,898) | 34.5% |
| Impairment of financial assets | (3,834,036) | (2,527,822) | (1,306,214) | 51.7% |
| Loss on net monetary position | (11,654,234) | (6,159,779) | (5,494,455) | 89.2% |
| NET OPERATING INCOME | 2,449,144 | 2,243,690 | 205,454 | 9.2% |
| Share of profit of equity accounted investees | 317,523 | 338,313 | (20,790) | (6.1)% |
| PROFIT BEFORE TAX | 2,766,667 | 2,582,003 | 184,664 | 7.2% |
| Income tax expense | (4,336,370) | (722,492) | (3,613,878) | 500.2% |
| (LOSS) PROFIT FOR THE YEAR | (1,569,703) | 1,859,511 | (3,429,214) | (184.4)% |
| Attributable to owners of the Bank | (1,489,732) | 1,903,820 | (3,393,552) | (178.2)% |
| Attributable to non-controlling interest | (79,971) | (44,309) | (35,662) | 80.5% |

Our loss for the fiscal year ended December 31, 2018 was Ps.1,489.7 million compared with a profit of Ps.1,903.8 million for the year ended December 31, 2017.

The changes in our consolidated statement of profit or loss for 2018 and 2017 were as follows:

Interest and other income

Our interest and other income increased by 58.1% to Ps.56,472.6 million in the fiscal year ended December 31, 2018 from Ps.35,714.2 million in the fiscal year ended December 31, 2017. The components of our interest and other income are reflected in the following table.

| | Year ended December 31, | | | Variation |
|---|---|------------|------------|-----------|
| | 2018 | 2017 | | |
| | (in thousands of pesos, except percentages) | | | |
| Interest on loans to financial institutions | 2,280,074 | 1,132,461 | 1,147,613 | 101.3% |
| Interest from overdrafts | 7,188,105 | 5,031,740 | 2,156,365 | 42.9% |
| Interest from commercial paper | 6,507,940 | 3,562,354 | 2,945,586 | 82.7% |
| Interest from mortgage loans | 927,648 | 643,231 | 284,417 | 44.2% |
| Interest from car loans | 1,486,518 | 1,552,982 | (66,464) | (4.3)% |
| Interest from credit card loans | 9,368,007 | 9,736,979 | (368,972) | (3.8)% |
| Interest from financial leases | 645,301 | 656,847 | (11,546) | (1.8)% |
| Interest from consumer loans | 7,612,122 | 6,477,835 | 1,134,287 | 17.5% |
| Interest from other loans | 3,671,918 | 3,181,390 | 490,528 | 15.4% |
| Premium for reverse repurchase agreements | 673,440 | 760,091 | (86,651) | (11.4)% |
| Interest from government securities | 9,876,503 | 1,354,630 | 8,521,873 | 629.1% |
| Interest from private securities | 41,876 | 101,831 | (59,955) | (58.9)% |
| Interest from loans for the prefinancing and financing of exports | 1,749,417 | 617,100 | 1,132,317 | 183.5% |
| Stabilization Coefficient (CER) clause adjustment | 112,024 | 671,755 | (559,731) | (83.3)% |
| UVA clause adjustment | 4,331,628 | 231,040 | 4,100,588 | 1774.8% |
| Other financial income | 40 | 1,922 | (1,882) | (97.9)% |
| | 56,472,561 | 35,714,188 | 20,758,373 | 58.1% |

The increase in interest and other income during the fiscal year ended December 31, 2018 was mainly due to an increase in interest from government securities (principally instruments issued by the Argentine Central Bank) mainly due to increases in interest rates, the UVA clause adjustment (due to inflation), interest from commercial paper (mostly interest from discounted instruments) due to increases in interest rates, interest from overdrafts, interest on loans to financial institutions (due to an increase in volume of loans and in interest rates), interest from consumer loans (principally personal loans), interest from loans for the prefinancing and financing of exports, interest from other loans and interest from mortgage loans, partially offset by decreases in stabilization coefficient (CER) clause adjustments, interest from credit card loans, interest from premium for reverse repurchase agreements, interest from car loans, interest from private securities, interest from financial leases and other financial income.

The UVA is an index determined by the Central Bank, reflecting the variation of one one-thousandth of the average value of a square meter built for housing in Argentina (such that 1,000 UVAs are equivalent to one square meter). This value was initially set at Ps.14.05 and is updated daily based on the variation in the Reference Stabilization Coefficient (CER) since March 31, 2016. The CER is an index that reflects the variation in inflation in Argentina and is calculated based on the daily variations in the CPI as determined by the INDEC.

[Table of Contents](#)

The indexation by UVA clause requires the recognition of the adjustment for loans indexed by UVA. As of December 31, 2018 and 2017, the Bank held Ps.15,295.9 million and Ps.4,956.5 million, respectively, of UVA-indexed assets, which represented 4.23% and 1.55%, respectively, of our total assets as of such dates.

For the year ended December 31, 2018 the variation in the interest component of interest and other income resulted from mostly an increase in the average real rates of interest-earning assets and to a much lesser extent by an increase in the average volume of interest earning assets.

The following table sets forth the changes in the interest component of interest and other income due to increases or decreases in the volume of interest-earning assets and increases or decreases in the average real rates of interest-earning assets.

| | December 31, 2018 vs. December 31, 2017 Increase (Decrease) (in thousands of pesos) |
|--|--|
| Interest component of Financial Income due to changes in: | |
| the volume of interest-earning assets | 5,165,897 |
| average real rates of interest-earning assets | 15,592,476 |
| Net Change | <u>20,758,373</u> |

Interest expenses

Interest expenses increased by 106.9% to Ps.24,738.2 million in the fiscal year ended December 31, 2018 from Ps.11,959.3 million in the fiscal year ended December 31, 2017. The components of our interest expenses are reflected in the following table.

| | Year ended December 31, | | | |
|---|--|-------------------|-------------------|---------|
| | 2018 | 2017 | Variation | |
| | (in thousands of pesos, except percentages) | | | |
| Savings accounts deposits | 4,386,444 | 892,507 | 3,493,937 | 391.5% |
| Time deposits | 16,986,001 | 10,009,766 | 6,976,235 | 69.7% |
| Bank loans | 183,209 | 54,636 | 128,573 | 235.3% |
| Other liabilities | 1,777,276 | 739,176 | 1,038,100 | 140.4% |
| Premium for reverse repurchase agreements | 110,197 | 195,477 | (85,280) | (43.6)% |
| UVA clause adjustment | 1,283,502 | 65,655 | 1,217,847 | 1854.9% |
| Other | 11,599 | 2,108 | 9,491 | 450.2% |
| | <u>24,738,228</u> | <u>11,959,325</u> | <u>12,778,903</u> | 106.9% |

The increase in interest expenses during the fiscal year ended December 31, 2018 was mainly due to an increase in interest on time deposits (mainly due to an increase in the rates at which these products are remunerated, driven in turn by the increase of the reference rate by BCRA), an increase in interest on saving accounts deposits following regulatory changes regarding payment of interest on checking accounts, an increase in UVA clause adjustments (principally time deposits), interest on other liabilities (mainly corporate bonds and loans for export and import activities), bank loans, saving accounts deposit and other, partially offset by a decrease on premium for reverse repurchase agreements.

The variation in interest component of interest expenses for the year ended December 31, 2018 reflected an increase in the average real rates of interest bearing liabilities and, to a lesser extent, in average volume of interest-bearing liabilities.

The following table sets forth the changes in the interest component of interest expenses due to increases or decreases in the volume of interest-bearing liabilities and increases or decreases in the average nominal rates of interest-bearing liabilities.

| | December 31, 2018 vs. December 31, 2017 Increase (Decrease) (in thousands of pesos) |
|---|--|
| Interest component of Financial Expense due to changes in: | |
| the volume of interest-bearing liabilities | 2,535,566 |
| average real rates of interest-bearing liabilities | 10,243,337 |
| Net Change | <u>12,778,903</u> |

Net Interest Income

Our net interest income (defined as interest and other income minus interest expenses) of Ps.31,734.3 million in the fiscal year ended December 31, 2018 represented a 33.6% increase over our net interest income of Ps.23,754.9 million in the fiscal year ended December 31, 2017.

The following table sets forth the changes in the components of our net interest income for the periods discussed herein:

| | December 31, 2018 |
|--|--------------------------------|
| | vs. |
| | December 31, 2017 |
| | Increase (Decrease) |
| | (in thousands of pesos) |
| Net interest income due to changes in: | |
| the volume of interest-earning assets and interest-bearing liabilities | 2,630,331 |
| average real rates of interest-earning assets and interest-bearing liabilities | 5,349,139 |
| Net Change | 7,979,470 |

BBVA Francés' net interest income evolved positively in 2018 compared with 2017, both in nominal and in real terms.

After a strong performance in terms of loans in 2017, when the Bank gained market share in most of the relevant credit segments, 2018 was difficult year, marked by a high degree of volatility for the Argentine financial markets and a slow down in credit demand. The peso lost approximately half of its value between May and August of 2018, and an agreement was signed between Argentina and the IMF. Interest rates increased significantly in 2018, and inflation was 47.6% in 2018 compared with 24.8% in 2017. As a result, credit demand was poor in 2018, and the Bank's portfolio grew slightly below inflation, even considering the effect of the depreciation of the peso on loans in foreign currency. Consumer loans had a better growth performance than the commercial portfolio, which grew well below inflation.

Deposits also grew slightly below inflation, with time deposits behaving better than sight and savings accounts, as a consequence of rising rates.

During the second part of the year, the Central Bank increased the level of Liquidity Reserve Requirements in local currency, with the intention of containing the run on the currency and the rise in prices. This measure had a negative impact on margins.

During 2018, the Bank's balance of banknotes in branches and central treasury was mostly in lines with historical levels. The Bank raised fees on cash deposits for small and medium-sized companies and tried to reduce cash reception agreements with large companies.

In spite of the lukewarm evolution of assets and liabilities in real terms during 2018, interest margins increased Ps.7,979.5 million compared with 2017, mainly because of the sharp increase in rates that took place since the second quarter of 2018. With more than half of liabilities in non-interest-bearing accounts, a short maturity loan portfolio, and a growing stock of liquid assets (Short term Central Bank instruments), the rise in rates had a positive effect on spreads that explained most of the good performance in interest margins.

Mortgages (inflation adjusted), discount of checks, overdrafts and Central Bank notes performed well in terms of rates, all of them rising well above the rise in cost of deposits.

The interest margin in the portion of the balance sheet denominated in dollars also increased when measured in local currency, positively affecting our total margin.

See "Item 4. Information on the Company—E. Selected Statistical Information—Average Balance Sheets, Interest Earned on Interest-Earning Assets and Interest Paid on Interest-Bearing Liabilities" and "Item 4. Information on the Company—E. Selected Statistical Information—Interest-Earning Assets: Net Interest Margin and Spread".

Fee and commission income

Fee and commission income increased by 16.7% to Ps.12,574.7 million for the fiscal year ended December 31, 2018 from Ps.10,772.3 million for the fiscal year ended December 31, 2017. During 2018 the increase was driven mainly by a significant increase in the charges generated by deposit accounts which grew both due to a higher activity and to price increases, as well as the charges generated by credit cards and increases in charges for collection services.

The following table provides a breakdown of our fee and commission income by category.

| | Year ended December 31, | | | Variation |
|------------------------------------|---|-------------|-----------|-----------|
| | 2018 | 2017 | | |
| | (in thousands of pesos, except percentages) | | | |
| Linked to liabilities | 7,315,614 | 5,066,749 | 2,248,865 | 44.4% |
| Linked to credit cards | 6,303,208 | 5,938,331 | 364,877 | 6.1% |
| LATAM Pass commissions | (2,790,108) | (2,083,877) | (706,231) | 33.9% |
| Linked to securities | 156,044 | 140,914 | 15,130 | 10.7% |
| From guarantees granted | 3,099 | 1,640 | 1,459 | 89.0% |
| Insurance agent fees | 867,957 | 1,075,334 | (207,377) | (19.3)% |
| Transportation of values | 56,217 | 80,021 | (23,804) | (29.7)% |
| Custody | 79,637 | 81,224 | (1,587) | (2.0)% |
| From foreign currency transactions | 583,030 | 471,971 | 111,059 | 23.5% |
| | 12,574,698 | 10,772,307 | 1,802,391 | 16.7% |

Commissions linked to liabilities include commissions accrued on deposits and other liabilities from financial transactions, such as those arising from activity in current accounts and collections on behalf of third parties. These commissions rose by 44.4% from Ps.5,066.7 million in the fiscal year ended December 31, 2017 to Ps.7,315.6 million in the fiscal year ended December 31, 2018. The increase was primarily attributable to an increase in savings account service charges.

Commissions linked to credit cards, including commissions on credit and debit cards, loans and other receivables from financial transactions, rose 6.1% from Ps.5,938.3 million in the fiscal year ended December 31, 2017 to Ps.6,303.2 million in the fiscal year ended December 31, 2018 as a consequence of the increase in commissions paid by credit card issuers (Visa and MasterCard).

LATAM Pass commissions were negative Ps.2,790.1 million in the fiscal year ended December 31, 2018, compared with negative Ps.2,083.9 million in the fiscal year ended December 31, 2017, mainly due to an increase in the exchange rate and higher consumption of customers with the LATAM Pass program.

Commissions linked to securities include commissions accrued on security brokerage activities, which increased by 10.7% from Ps.140.9 million in the fiscal year ended December 31, 2017 to Ps.156.0 million in the fiscal year ended December 31, 2018 primarily as a result of fees charged on the operation of mutual funds.

Commissions from guarantees granted rose by 89.0% from Ps.1.6 million in the fiscal year ended December 31, 2017 to Ps.3.1 million in the fiscal year ended December 31, 2018, primarily as a consequence of the increase in the volume of transactions.

Insurance agent fees fell by 19.3% from Ps.1,075.3 million in the fiscal year ended December 31, 2017 to Ps.867.9 million in the fiscal year ended December 31, 2018, primarily as a consequence of the decrease in the volume of transactions.

Finally, commissions from foreign currency transactions rose by 23.5% from Ps.472.0 million in the fiscal year ended December 31, 2017 to Ps.583.0 million in the fiscal year ended December 31, 2018 primarily as a consequence of the increase in the amount and activity level in this business line.

Fee and commission expense

Our fee and commission expense amounted to Ps.8,291.6 million and Ps.6,966.3 million for the fiscal years ended December 31, 2018 and 2017, respectively. The amount booked for 2018 accounted for a 19.0% increase compared with 2017.

The table below shows a breakdown of our commission expense by category.

| | Year ended December 31, | | | Variation |
|--|---|-----------|-----------|-----------|
| | 2018 | 2017 | | |
| | (in thousands of pesos, except percentages) | | | |
| For credit and debit cards | 3,433,679 | 2,778,335 | 655,344 | 23.6% |
| Linked to transactions with securities | 1,863 | 1,738 | 125 | 7.2% |
| For foreign trade transactions | 156,826 | 142,815 | 14,011 | 9.8% |
| For promotions | 1,300,964 | 975,732 | 325,232 | 33.3% |
| Other commission expenses | 608,173 | 983,754 | (375,581) | (38.2)% |
| | 5,501,505 | 4,882,374 | 619,131 | 12.7% |

Commissions for credit and debit cards include commissions paid for the use of trademarks and processing services, which rose by 23.6% from Ps.2,778.3 million in the fiscal year ended December 31, 2017 to Ps.3,433.7 million in the fiscal year ended December 31, 2018 primarily as a consequence of an increase in the royalty fees paid for the use of the Visa trademark.

[Table of Contents](#)

Commissions linked to transactions with securities, including commissions paid on transactions in Merval, rose by 7.2% from Ps.1.7 million in the fiscal year ended December 31, 2017 to Ps.1.9 million in the fiscal year ended December 31, 2018 due to an increase in stock trades.

Commissions for foreign trade transactions rose by 9.8% from Ps.142.8 million in the fiscal year ended December 31, 2017 to Ps.156.8 million in the fiscal year ended December 31, 2018 mainly due to increase in the exchange rate.

Commissions for promotions (related to raffles arranged by us among customers with product bundles) rose by 33.3% from Ps.975.7 million in the fiscal year ended December 31, 2017 to Ps.1,301.0 million in the fiscal year ended December 31, 2018 mainly due to higher consumption and commercial campaigns.

Other commission expenses decreased by 38.2% from Ps.983.8 million in the fiscal year ended December 31, 2017 to Ps.608.2 million in the fiscal year ended December 31, 2018.

Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net

For the fiscal year ended December 31, 2018, we recorded a gain from measurement of financial instruments at fair value through profit or loss in the amount of Ps.115.8 million compared with a gain of Ps.4,361.3 million for the fiscal year ended December 31, 2017, accounting for a period-on-period decrease of 97.3%.

Accumulated gains (losses) from changes in the fair value of financial instruments are charged to income under this item. The aforementioned decrease is mainly attributable to losses on transactions with government securities (principally due to a lower average volume of these securities in the trading portfolio during 2018) and interest rate swaps (due to an increase in the variable interest rate paid).

The table below shows a breakdown of our net income (loss) from measurement of financial instruments at fair value through profit or loss by category:

| | Year ended December 31, | | | Variation |
|--|---|-----------|-------------|-----------|
| | 2018 | 2017 | | |
| | (in thousands of pesos, except percentages) | | | |
| (Loss) / Income from foreign currency forward transactions | (296,182) | 84,561 | (380,743) | (450.3)% |
| Income from debt and equity instruments | 1,429,211 | 4,286,558 | (2,857,347) | (66.7)% |
| Interest rate swaps | (1,017,186) | (9,821) | (1,007,365) | 10,257.3% |
| | 115,843 | 4,361,298 | (4,245,455) | (97.3)% |

Gain (losses) on derecognition of financial assets not measured at fair value through profit or loss

For the fiscal year ended December 31, 2018, we recorded a loss from derecognition of assets not measured at fair value through profit or loss in the amount of Ps.136.7 million compared with a gain of Ps.12.0 million for the fiscal year ended December 31, 2017, which was mainly due to the sale of bonds recorded at fair value with changes in other comprehensive income.

The gains (losses) resulting from the expiration of contractual rights in cash flows from assets or transfers of financial assets qualifying for derecognition are recorded in this item.

The table below shows a breakdown of our Net income (loss) from derecognition of financial assets and liabilities not measured at fair value through profit or loss by category:

| | Year ended December 31, | | | Variation |
|--|---|--------|-----------|-----------|
| | 2018 | 2017 | | |
| | (in thousands of pesos, except percentages) | | | |
| (Loss) Income from sale of government securities | (135,835) | 11,983 | (147,818) | (1233.6)% |
| (Loss) Income from sale of private securities | (905) | - | (905) | - |
| | (136,740) | 11,983 | (148,723) | (1241.1)% |

Exchange differences, net

Exchange differences, net increased by 92.1% to Ps.6,489.0 million for the fiscal year ended December 31, 2018 from Ps.3,377.2 million for the fiscal year ended December 31, 2017.

The increase was driven mainly by a 56% increase in the income from purchase-sales of foreign currency to Ps.5,082.3 million, for the fiscal year ended December 31, 2018 from Ps.3,258.7 million for the fiscal year ended December 31, 2017 (mainly due to the increase in volume and spreads resulting from higher volatility in the exchange rate) and a 1087.6% increase in conversion of foreign currency assets and liabilities into peso from Ps.118.5 million for the fiscal year ended December 31, 2017 to Ps.1,406.8 million for the fiscal year ended December 31, 2018 (mainly due to the effect of the increase in the exchange rate on the Bank's assets and liabilities position).

The following table provides a breakdown of our Exchange differences by category.

| | Year ended December 31, | | | Variation |
|--|---|-----------|-----------|-----------|
| | 2018 | 2017 | | |
| | (in thousands of pesos, except percentages) | | | |
| Conversion of foreign currency assets and liabilities into pesos | 1,406,769 | 118,456 | 1,288,313 | 1,087.6% |
| Income from purchase-sale of foreign currency | 5,082,257 | 3,258,722 | 1,823,535 | 56.0% |
| | 6,489,026 | 3,377,178 | 3,111,848 | 92.1% |

Other operating income

Other operating income amounted to Ps.2,107.0 million for the fiscal year ended December 31, 2018 and Ps.1,943.2 million for the fiscal year ended December 31, 2017. The amount recorded in 2018 increased by 8.4% compared with 2017 driven mainly by a 154.0% increase in adjustments and interest on miscellaneous receivables to Ps.496.1 million, for the fiscal year ended December 31, 2018 from Ps.195.3 million for the fiscal year ended December 31, 2017 (mainly due to the increase in interest charged for the funds deposited related to credit cards, due to increases in interest rates and in the exchange rate).

The following table shows a breakdown of other operating income by category:

| | Year ended December 31, | | | Variation |
|---|---|-----------|-----------|-----------|
| | 2018 | 2017 | | |
| | (in thousands of pesos, except percentages) | | | |
| Rental of safe deposit boxes | 537,072 | 555,549 | (18,477) | (3.3)% |
| Adjustments and interest on miscellaneous receivables | 496,144 | 195,316 | 300,828 | 154.0% |
| Proceeds from electronic transactions | 122,026 | 87,462 | 34,564 | 39.5% |
| Income related to foreign trade | 220,897 | 80,804 | 140,093 | 173.4% |
| Services rendered | 154,422 | 183,966 | (29,544) | (16.1)% |
| Other operating income | 576,416 | 840,081 | (263,665) | (31.4)% |
| | 2,106,977 | 1,943,178 | 163,799 | 8.4% |

Other operating expenses

Other operating expenses amounted to Ps.7,984.0 million for the fiscal year ended December 31, 2018 and Ps.7,346.2 million for the fiscal year ended December 31, 2017. The amount recorded in 2018 increased by 8.7% compared with 2017. The increase was driven mainly by a 32.0% increase in turnover tax to Ps.4,980.5 for the fiscal year ended December 31, 2018 from Ps.3,772.3 million for the fiscal year ended December 31, 2017 mainly due to an increase in the gross income tax as a consequence of the increase in interest charged and commissions earned.

Other operating expenses decreased 62.2%, from Ps.2,277.9 for the fiscal year ended December 31, 2017 to Ps.860.0, for the fiscal year ended December 31, 2018 mainly due to lower insurance payments for active products as a result of a change in regulation, and recalculations of taxes paid during fiscal year 2018.

The components of other operating expenses are detailed below:

| | Year ended December 31, | | | |
|---|---|-----------|-------------|---------|
| | 2018 | 2017 | Variation | |
| | (in thousands of pesos, except percentages) | | | |
| Contributions to the Deposits Guarantee Fund | 394,431 | 348,836 | 45,595 | 13.1% |
| Turnover tax | 4,980,485 | 3,772,285 | 1,208,200 | 32.0% |
| Provision for contingencies | 621,222 | 402,745 | 218,477 | 54.2% |
| Provision for financial guarantee and loan commitments issued | 37,274 | - | 37,274 | - |
| Damage claims | 193,821 | 206,714 | (12,893) | (6.2)% |
| Loss on initial recognition of loans bearing below market interest rate | 640,829 | 337,696 | 303,133 | 89.8% |
| Loss on sale of non-current assets held for sale | 256,005 | - | 256,005 | - |
| Other operating expenses | 859,973 | 2,277,892 | (1,417,919) | (62.2)% |
| | 7,984,040 | 7,346,168 | 637,872 | 8.7% |

Administration costs

Administration costs, which include personnel benefits and administrative expenses, for the fiscal year ended December 31, 2018 amounted Ps.19,538.9 million, a 0.5% decrease compared with Ps.19,631.6 million recorded for the fiscal year ended December 31, 2017, mainly as a result of the decrease in personnel benefits by 3.0% to Ps.10,887.7 million for the fiscal year ended December 31, 2018 from Ps.11,221.9 million for the fiscal year ended December 31, 2017, which was offset in part by an increase in administrative expenses by 2.9% from Ps.8,409.8 million in the fiscal year ended December 31, 2017 to Ps.8,651.2 million in the fiscal year ended December 31, 2018.

The table below provides a breakdown of personnel benefits for the years ended December 31, 2018 and 2017:

| | Year ended December 31, | | | |
|--|---|------------|-----------|---------|
| | 2018 | 2017 | Variation | |
| | (in thousands of pesos, except percentages) | | | |
| Salaries | 6,224,799 | 6,730,474 | (505,675) | (7.5)% |
| Social security charges | 1,838,875 | 1,942,070 | (103,195) | (5.3)% |
| Personnel compensations and rewards | 876,749 | 759,730 | 117,019 | 15.4% |
| Personnel services | 228,629 | 260,821 | (32,192) | (12.3)% |
| Other short term personnel benefits | 1,635,207 | 1,458,747 | 176,460 | 12.1% |
| Termination benefits | 15,907 | 9,464 | 6,443 | 68.1% |
| Fees to bank directors and supervisory committee | 20,004 | 16,022 | 3,982 | 24.9% |
| Other long term benefits | 47,521 | 44,532 | 2,989 | 6.7% |
| | 10,887,691 | 11,221,860 | (334,169) | (3.0)% |

Salaries declined 7.5% in the fiscal year ended December 31, 2018 compared with the fiscal year ended December 31, 2017 as a result of a change in the way of calculating the increases agreed with the unions for the year 2018.

The table below provides a breakdown of administrative expenses for the fiscal years ended December 31, 2018 and 2017:

| | Year ended December 31, | | | |
|---------------------------------|---|-----------|-----------|---------|
| | 2018 | 2017 | Variation | |
| | (in thousands of pesos, except percentages) | | | |
| Travel expenses | 108,333 | 104,830 | 3,503 | 3.3% |
| Administrative expenses | 644,421 | 570,631 | 73,790 | 12.9% |
| Security services | 362,799 | 499,667 | (136,868) | (27.4)% |
| Other fees | 352,361 | 335,488 | 16,873 | 5.0% |
| Insurance | 86,530 | 88,918 | (2,388) | (2.7)% |
| Rent | 939,607 | 771,473 | 168,134 | 21.8% |
| Stationery and supplies | 45,114 | 62,206 | (17,092) | (27.5)% |
| Electricity and communications | 393,556 | 325,774 | 67,782 | 20.8% |
| Advertising | 495,336 | 663,827 | (168,491) | (25.4)% |
| Taxes | 2,018,210 | 1,934,474 | 83,736 | 4.3% |
| Maintenance costs | 922,100 | 886,699 | 35,401 | 4.0% |
| Armored transportation services | 1,289,761 | 1,115,168 | 174,593 | 15.7% |
| Other administrative expenses | 993,099 | 1,050,597 | (57,498) | (5.5)% |
| | 8,651,227 | 8,409,752 | 241,475 | 2.9% |

Within administrative expenses, security services decreased 27.4% from Ps.500.0 million in the fiscal year ended December 31, 2017 to Ps.362.8 million in the fiscal year ended December 31, 2018 as a consequence of the implementation of the Bank's new security system, which involved a reduction in security personnel.

Rent increased 21.8% from Ps.771.5 million in the fiscal year ended December 31, 2017 to Ps.939.6 million in the fiscal year ended December 31, 2018 as a consequence of the increase in the exchange rate, due to the fact that most contracts are denominated in foreign currency.

Advertising decreased 25.4% from Ps.663.8 million in the fiscal year ended December 31, 2017 to Ps.495.3 million in the fiscal year ended December 31, 2018 as a consequence of the termination of the sponsorship agreements with the Boca Juniors and River Plate soccer teams in the second half of 2017.

Finally, armored transportation services increased by 15.7% from Ps.1,115.2 million in the fiscal year ended December 31, 2017 to Ps.1,289.8 million in the fiscal year ended December 31, 2018 due to an increase in the amount of services used by the Bank and by an increase in the price of such services.

Depreciation and amortization

Depreciation and amortization amounted to Ps.1,922.3 million in the fiscal year ended December 31, 2018 and Ps.1,429.4 million in the fiscal year ended December 31, 2017. The amount recorded in 2018 increased 34.5% compared with 2017. Changes for the period under analysis are mainly due to the incorporation of several assets, such as furniture and facilities and equipment, which began to be depreciated, and the effect of the adjustment for inflation on depreciation.

The components of depreciation and amortization are detailed below:

| | Year ended December 31, | | | |
|--|---|-----------|-----------|---------|
| | 2018 | 2017 | Variation | |
| | (in thousands of pesos, except percentages) | | | |
| Depreciation of property and equipment | 1,765,921 | 1,288,416 | 477,505 | 37.1% |
| Depreciation of investment properties | 4,420 | 3,308 | 1,112 | 33.6% |
| Amortization of intangible assets | 151,583 | 136,224 | 15,359 | 11.3% |
| Depreciation of other assets | 336 | 1,414 | (1,078) | (76.2)% |
| | 1,922,260 | 1,429,362 | 492,898 | 34.5% |

Impairment of financial assets

Impairment of financial assets totaled Ps.3,834.0 million in the fiscal year ended December 31, 2018, representing a 51.7% increase compared with Ps.2,527.8 million of impairment of financial assets in the fiscal year ended December 31, 2017.

In 2018, the Argentine financial sector experienced deteriorating conditions due to a large increase in the inflation rate, the consequent loss of purchasing power and the fall in GDP, which resulted in an increase in the default rate.

The non-performing loan portfolio amounted to Ps.3,753.5 million at December 31, 2018, representing a 181.2% increase compared with Ps.1,334.7 million at December 31, 2017 due to the foregoing and, in particular, due to an increase in non-performing loans in the wholesale portfolio. The non-performing loan portfolio ratio increased to 1.8% at December 31, 2018 from 0.7% at December 31, 2017 as a result of the foregoing.

Loss on net monetary position

In a hyperinflationary economy, reporting of operating results and financial position in the local currency without restatement is generally not considered useful to investors. Money loses purchasing power at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, can be different or misleading.

The table below sets forth the Bank's net monetary inflation adjustment effect, which has been calculated by applying the CPI to the average balances of monetary assets and liabilities in each of 2018 and 2017, with such average balances calculated as the averages of the beginning and ending balances for each year:

| | Year ended December 31, | |
|---|--------------------------------|---------------------|
| | 2018 | 2017 |
| | (stated in thousands of pesos) | |
| ASSETS | | |
| Cash and cash equivalents | (32,392,419) | (16,080,565) |
| Loans and other receivables, net | (73,024,239) | (38,576,522) |
| Investment securities | (9,673,053) | (4,877,458) |
| Financial assets pledged as collateral | (1,875,898) | (1,011,481) |
| Other assets | (12,262,964) | (69,030,761) |
| (A) TOTAL ASSETS | (129,228,573) | (65,057,549) |
| LIABILITIES | | |
| Deposits | 97,514,883 | 49,980,673 |
| Other financial liabilities | 9,951,225 | 4,055,099 |
| Bank loans | 1,466,653 | 259,888 |
| Corporate bonds issued | 1,067,572 | 714,459 |
| Income tax liabilities | 1,992,359 | 984,119 |
| Other liabilities | 5,581,645 | 2,903,533 |
| (B) TOTAL LIABILITIES | 117,574,337 | 58,897,771 |
| (A) + (B) Net monetary inflation adjustments | (11,654,234) | (6,159,779) |

Share of profit of equity accounted investees

Share of profit of equity accounted investees decreased by 6.1% to Ps.317.5 million for the fiscal year ended December 31, 2018 from Ps.338.3 million for the fiscal year ended December 31, 2017 mainly due to a lower profit obtained by the our investees.

On September 25, 2018, the Bank deconsolidated Volkswagen Financial Services Compañía Financiera S.A. as result of the loss of control over the company due to the termination of the two-year commitment by the Bank to provide financing to the company. As a result, since such date it has been accounted for under share of profit of equity accounted investees.

Income tax

Income tax expense for the fiscal year ended December 31, 2018 was Ps.4,336.4 million, a 500.2% increase compared to Ps.722.5 million recorded for the fiscal year ended December 31, 2017. The increase in 2018 was mainly due to a higher monetary inflation adjustment and the revaluation of property.

Profit

As a result of the foregoing, loss for the fiscal year ended December 31, 2018 amounted to Ps.1,569.7 million, compared with the Ps.1,859.5 million profit recorded for the fiscal year ended December 31, 2017.

Profit attributable to the owners of the Bank

As a result of the foregoing, loss attributable to owners of the Bank for the fiscal year ended December 31, 2018 amounted to Ps.1,489.7 million, compared with the Ps.1,903.8 million profit recorded for the fiscal year ended December 31, 2017.

Loss attributable to non-controlling interests

Loss attributable to non-controlling interests for the fiscal year ended December 31, 2018 amounted to Ps.80.0 million, an 80.4% increase compared with the Ps.44.3 million loss attributable to non-controlling interests recorded for the fiscal year ended December 31, 2017.

Financial Position

| | Year ended December 31, | | | |
|---|---|--------------------|--------------------|---------------|
| | 2018 | 2017 | Variation | |
| | (in thousands of pesos, except percentages) | | | |
| Cash, cash balances at central banks and other demand deposits | 99,105,461 | 56,453,684 | 42,651,777 | 75.6% |
| Financial assets at fair value through profit or loss | 8,627,543 | 9,494,547 | (867,004) | (9.1)% |
| Financial assets at amortized cost | 203,541,121 | 201,776,086 | 1,765,035 | 0.9% |
| Financial assets at fair value through other comprehensive income | 24,563,962 | 25,220,479 | (656,517) | (2.6)% |
| Investment in joint ventures and associates | 1,756,254 | 1,394,154 | 362,100 | 26.0% |
| Tangible assets | 17,061,205 | 17,770,756 | (709,551) | (4.0)% |
| Goodwill and intangible assets | 633,943 | 592,146 | 41,797 | 7.1% |
| Income tax assets | 385 | 44,874 | (44,489) | (99.1)% |
| Other assets | 5,710,639 | 5,746,421 | (35,782) | (0.6)% |
| Non-current assets held for sale | 541,936 | 289,945 | 251,991 | 86.9% |
| TOTAL ASSETS | 361,542,449 | 318,783,092 | 42,759,357 | 13.4% |
| Financial liabilities at fair value through profit or loss | 2,069,529 | 339,253 | 1,730,276 | 510.0% |
| Financial liabilities at amortized cost | 293,240,299 | 249,393,674 | 43,846,625 | 17.6% |
| Debt securities issued | 2,473,690 | 3,030,411 | (556,721) | (18.4)% |
| Provisions | 1,708,116 | 1,319,780 | 388,336 | 29.4% |
| Income tax liabilities | 5,552,524 | 4,098,310 | 1,454,214 | 35.5% |
| Other liabilities | 10,956,150 | 11,085,009 | (128,859) | (1.2)% |
| TOTAL LIABILITIES | 316,000,308 | 269,266,437 | 46,733,871 | 17.4% |
| Equity attributable to owners of the Bank | 45,512,029 | 49,061,871 | (3,549,842) | (7.2)% |
| Non-controlling interests | 30,112 | 454,784 | (424,672) | (93.4)% |
| TOTAL EQUITY | 45,542,141 | 49,516,655 | (3,974,514) | (8.0)% |

Total Assets

At December 31, 2018 we had total assets of Ps.361,542.4 million, which represented a 13.4% increase from Ps.318,783.1 million of total assets as of December 31, 2017.

The increase was mainly due to a 75.6% increase in cash, cash balances at Central Bank and other demand deposits from Ps.56,453.7 million at December 31, 2017 to Ps.99,105.5 million at December 31, 2018 mainly due to an increase in the minimum cash requirement established by BCRA; a 0.9% increase in financial assets at amortized cost from Ps.201,776.1 at December 31, 2017 to Ps.203,541.1 million at December 31, 2018; a 26.0% increase in joint ventures and associates from Ps.1,394.2 million at December 31, 2017 to Ps.1,756.3 million at December 31, 2018; a 86.9% increase in non-current assets held for sale from Ps.289.9 million at December 31, 2017 to Ps.541.9 million at December 31, 2018; a 7.1% increase in goodwill and intangible assets from Ps.592.1 million at December 31, 2017 to Ps.633.9 million at December 31, 2018. These increases were partially offset by a 9.1% decrease in financial assets at fair value through profit or loss from Ps.9,494.5 million at December 31, 2017 to Ps.8,627.5 million at December 31, 2018; 4.0% decrease tangible assets from Ps.17,770.8 million at December 31, 2017 to Ps.17,061.2 million at December 31, 2018; a 2.6% decrease in financial assets at fair value through other comprehensive income from Ps.25,220.5 million at December 31, 2017 to Ps.24,564.0 million at December 31, 2018; a 99.1% decrease in income tax assets from Ps.44.9 million at December 31, 2017 to Ps.0.4 million at December 31, 2018 and a 0.6% decrease in other assets from Ps.5,746.4 million at December 31, 2017 to Ps.5,710.6 million at December 31, 2018.

Total Liabilities and Equity

At December 31, 2018, we had total liabilities of Ps.316,000.3 million, which represented a 17.4% increase from the Ps.269,266.4 million at December 31, 2017. The increase was mainly due to a 17.6% increase in financial liabilities at amortized cost from Ps.249,393.7 million at December 31, 2017 to Ps.293,240.3 million at December 31, 2018 mainly due to growth in term deposits and saving accounts as a consequence of the increase in interest rates; a 510.0% increase financial liabilities at fair value through profit or loss from Ps.339.3 million at December 31, 2017 to Ps.2,069.5 million at December 31, 2018; a 35.5% increase in income tax liabilities from Ps.4,098.3 million at December 31, 2017 to Ps.5,552.5 million at December 31, 2018; and 29.4% increase in provisions from Ps.1,319.8 million at December 31, 2017 to Ps.1,708.1 million at December 31, 2018. These increases were partially offset by a 18.4% decrease in debt securities issued from Ps.3,030.4 million at December 31, 2017 to Ps.2,473.7 million at December 31, 2018 and a 1.2% decrease in other liabilities from Ps.11,085.0 million at December 31, 2017 to Ps.10,956.2 million at December 31, 2018.

Shareholders' equity decreased by 8.0% from Ps.49,516.7 million at December 31, 2017 to Ps.45,542.1 million at December 31, 2018. The decrease resulted mainly from the impact of the first-time implementation of IFRS 9 of Ps.725.4 million, a decrease of Ps.1,569.7 million in net income for the year, a decrease of Ps.27.7 million of other comprehensive income, less the distribution of Ps.1,307.0 million of dividends in cash, other net increases of Ps.24.5 million and a Ps.369.2 million decrease for loss of control of VWFS. In addition the Bank increased its legal and facultative reserves during the year by Ps.1,045.1 million and Ps.2,873.4 million, respectively, against retained earnings.

Significant changes in financial position

Credit growth was affected due to the devaluation of the peso and higher interest rates. In retail banking, positive growth was recorded in connection with credit card and personal loans, while mortgages loans reflected the impact of the increasing inflation.

Short-term liquidity was allocated in BCRA instruments. National government debt held by the Bank increased as a consequence of the increase in peso-denominated debt and the renovation and extension of the reverse repurchase agreements.

Under the reverse repurchase agreements, the Bank entered into agreements with the Republic for which the Republic receives funds from the Bank for a term of 18 months with a LIBOR rate plus a spread and the Republic pledges certain bonds.

During 2018, the Bank carried out two reverse repurchase transactions with the Argentine Republic with respect to the Argentine bond in U.S. dollars due 2024 (“BONAR 8.75% due 2024”) for a total amount of US\$350,000,000.00. It matures in part on March 5, 2019 (US\$50,000,000.00 at the LIBOR six-month rate plus 290 basis points) and the remaining portion matures on May 7, 2020 (US\$300,000,000.00 at the LIBOR six-month rate plus 550 basis points).

During 2017, the Bank carried out two reverse repurchase transactions with the Argentine Republic with respect to the BONAR 8.75% due 2024 for a total amount of US\$250,000,000.00. It matures in part on December 30, 2018 (US\$200,000,000.00 at the six-month rate plus 290 basis points) and the remaining portion matures on March 5, 2019 (US\$50,000,000.00 at the LIBOR six-month rate plus 290 basis points).

As of December 31, 2018 and 2017, the book value of these reverse repurchase transactions was Ps.12,832.5 million and Ps.9,345.9 million, respectively.

Deposits rose during the year, growing at a faster pace than loans, mainly driven by the interest rate increase and the disbanding of the Lebac portfolio implemented during the year by the BCRA.

The growth in lines from other banks, which consist of financing received from banks and international credit organizations, corresponds mainly to funds to finance foreign trade operations.

B. Liquidity and Capital Resources

Asset and Liability Management

The purpose of the asset and liability management is to structure our consolidated statement of financial position in light of interest rates, liquidity and foreign exchange risks, as well as market risk, public sector risk and our capital structure. Our Asset and Liability Committee establishes specific limits with respect to risk exposure, sets forth our policy with respect to pricing and approves commercial policies which may have a financial impact on our balance sheet. It is also responsible for the follow-up of monetary aggregates and financial variables, our liquidity position, regulations from the Central Bank and monitoring the competitive environment in assets, liabilities and interest rates.

Liquidity

Our asset and liability management policy attempts to ensure that sufficient liquidity is available to meet our funding requirements. As a measure of our liquidity, our ratio of liquid assets to total deposits was 36.7% and 26.4% at December 31, 2018 and 2017. Liquid assets include cash, amounts due from banks and government and corporate securities.

Our primary source of funds is our deposit base, which primarily consists of peso- and dollar-denominated deposits in checking accounts, savings accounts and time deposits from individuals and corporations. Deposits at December 31, 2018 totaled Ps.259,509.1 million compared with Ps.227,277.8 million at December 31, 2017.

On July 15, 2003, an extraordinary shareholders’ meeting approved the establishment of a program for the issuance and re-issuance of ordinary non-convertible corporate bonds with ordinary guarantees, or such guarantees as may be decided by the Bank, and unsecured subordinated corporate bonds, convertible or not into shares (the “Program”). In 2007, the Program was extended for five additional years and the maximum aggregate amount of issuances was successively increased to US\$750 million.

[Table of Contents](#)

As of December 31, 2017 we had issued 24 series under the Program for Ps.6,944.2 million of corporate bonds, with a maturity between one and three years, and subject to floating interest rates. The bonds have been fully subscribed and paid in and must be repaid at maturity.

As of December 31, 2018 and 2017, the outstanding principal and accrued interest under the program amounted to Ps.2,473,690 (in connection with Classes 20, 22, 23, 24 and 25 of the corporate bonds) and Ps.3,030,411 (in connection with series 18, 19, 20, 21, 22, 23 and 24 of corporate bonds), respectively.

On February 28, 2019, the Bank issued Class 26 and 27 Corporate Bonds. Class 26 Corporate Bonds were fully subscribed and paid in for Ps.529.4 million, at 9-month and fully payable upon maturity, with an annual nominal applicable rate of 43% and payment of interest upon maturity of the Corporate Bond.

In addition, Class 27 Corporate Bonds were fully subscribed and paid in for 1,090,000, at 18 months and fully payable upon maturity, at private Badlar and an annual nominal applicable margin of 6.25% and quarterly interest payments.

Dividends and other payments from our Argentine non-banking subsidiaries also provide an additional potential source of liquidity, even though relatively insignificant in amount. Each Argentine non-banking subsidiary is required to allocate 5% of its annual net income to a legal reserve until such reserve equals 20% of the subsidiary's capital stock. This reserve cannot be used to pay us dividends.

Capital Stock

The shareholders at the shareholders' meeting on June 13, 2017 approved an increase in capital stock by up to Ps.145 million in par value through issuance of 145 million ordinary shares entitled to one vote and a value of Ps.1.00 per share, delegating to the Board of Directors the powers necessary to consummate such capital increase and determine the issuance conditions.

On July 18, 2017, the issuance of 66,000,000 ordinary shares with par value of Ps.1.00 per share was approved with a subscription price of US\$5.28 per share and US\$15.85 per each American Depositary Share (ADS), based on the benchmark exchange rate published by the BCRA as of that date (17.0267 Ps./US\$) for purposes of their payment in pesos. The shares offering closed on July 24, 2017.

In accordance with the terms of the underwriting agreement, the underwriters exercised their option to acquire 9,781,788 additional new shares (equivalent to 3,260,596 ADS) on July 26, 2017 at the same issue price. These shares were paid and delivered on July 31, 2017.

As at December 31, 2018 the Bank's capital stock consisted of 612,659,638 ordinary shares, par value Ps.1.00 each, all of which were issued to the stockholders. After taking into account the adjustment for inflation, the capital stock of the Bank would amount to 13,205,857 thousand.

Interest Rate Sensitivity

A key component of our asset and liability policy is the management of interest rate sensitivity. Interest rate sensitivity measures the exposure of net interest income to interest rate changes. For any given period, the pricing structure is matched when an equal amount of assets and liabilities reprice. Any mismatch of interest-earning assets and interest-bearing liabilities is known as a gap position and is shown in the following tables. A negative gap denotes liability sensitivity and normally means that a decline in interest rates would have a positive effect on net interest income while an increase in interest rates would have a negative effect on interest income.

Our interest rate sensitivity strategy, which seeks to maintain exposure within levels that are consistent with BBVA SA's risk appetite framework approved by the Board of Directors, takes into account not only the rates of return and their underlying risk, but also liquidity requirements, including minimum regulatory cash reserves, mandatory liquidity ratios, withdrawal and maturity of deposits and additional demands for funds.

The following table shows the interest rate sensitivity of our interest-earning assets and interest-bearing liabilities. Variations in interest rate sensitivity may also arise within the repricing periods presented.

During 2018, the gap generated by the mismatch between assets and liabilities has declined, primarily due to the increase in foreign currency deposits.

| | Remaining Maturity or Earliest Repricing Intervals at December 31, 2018 | | | | | Total |
|---|---|-----------------------|-------------------|------------------|------------------|--------------------|
| | 0-3 months | 3 Months- One Year | 1-5 Years | 5-10 Years | Over 10 Years | |
| | (in thousands of pesos, except percentages) | | | | | |
| Interest-earning assets | | | | | | |
| Interest earning deposits in banks | 558,850 | 648,802 | — | — | — | 1,207,652 |
| Government securities | 21,274,537 | 2,603,696 | 7,091,261 | 1,353 | — | 30,970,946 |
| Corporate bonds | 60,221 | 164,228 | 56,748 | — | — | 281,197 |
| Loans ⁽¹⁾ | 104,279,444 | 36,103,691 | 36,847,330 | 3,018,264 | 5,431,857 | 185,680,586 |
| Total | 126,173,052 | 39,520,417 | 43,995,339 | 3,019,617 | 5,431,857 | 218,140,381 |
| Interest-bearing liabilities | | | | | | |
| Deposits | 199,747,883 | 6,021,931 | 37,856 | — | — | 205,807,670 |
| Corporate bonds | 2,394,163 | — | 24,988 | — | — | 2,419,151 |
| Due to other banks | 5,694,419 | 664,582 | 852,795 | — | — | 7,211,796 |
| Total | 207,836,465 | 6,686,513 | 915,639 | — | — | 215,438,617 |
| Asset/liability gap | (81,663,413) | 32,833,904 | 43,079,700 | 3,019,617 | 5,431,857 | 2,701,764 |
| Cumulative sensitivity gap | (81,663,413) | (48,829,509) | (5,749,809) | (2,730,192) | 2,701,764 | |
| Cumulative sensitivity gap as a percentage of total interest-earning assets | (37.44)% | (22.38)% | (2.64)% | (1.25)% | 1.24% | |

(1) Loan amounts are stated before deducting the allowance for loan losses.

The following table shows the interest rate sensitivity of our peso-denominated interest-earning assets and interest-bearing liabilities.

| | Remaining Maturity or Earliest Repricing Intervals at December 31, 2018 | | | | | Total |
|---|---|-----------------------|-------------------|------------------|------------------|--------------------|
| | 0-3 months | 3 Months- One Year | 1-5 Years | 5-10 Years | Over 10 Years | |
| | (in thousands of pesos, except percentages) | | | | | |
| Interest-earning assets: | | | | | | |
| Interest earning deposits in banks | 145,886 | — | — | — | — | 145,886 |
| Government securities | 20,793,428 | 913,057 | 7,091,173 | 1,338 | — | 28,798,996 |
| Corporate bonds | 60,221 | 51,080 | 56,748 | — | — | 168,049 |
| Loans ⁽¹⁾ | 75,590,184 | 12,727,306 | 27,167,975 | 3,018,264 | 5,431,857 | 123,935,586 |
| Total | 96,589,719 | 13,691,443 | 34,315,896 | 3,019,602 | 5,431,857 | 153,048,517 |
| Interest-bearing liabilities: | | | | | | |
| Deposits | 105,345,539 | 4,700,247 | 28,429 | — | — | 110,074,215 |
| Corporate bonds | 2,394,163 | — | 24,988 | — | — | 2,419,151 |
| Due to other banks | 293,737 | 664,582 | 852,795 | — | — | 1,811,114 |
| Total | 108,033,439 | 5,364,829 | 906,212 | — | — | 114,304,480 |
| Asset/liability gap | (11,443,720) | 8,326,614 | 33,409,684 | 3,019,602 | 5,431,857 | 38,744,037 |
| Cumulative sensitivity gap | (11,443,720) | (3,117,106) | 30,292,578 | 33,312,180 | 38,744,037 | |
| Cumulative sensitivity gap as a percentage of total interest-earning assets | (7.48)% | (2.04)% | 19.79% | 21.77% | 25.31% | |

(1) Loan amounts are stated before deducting the allowance for loan losses.

The following table shows the interest rate sensitivity of our foreign currency denominated interest-earning assets and interest-bearing liabilities.

Remaining Maturity or Earliest Repricing Intervals at December 31, 2018

| | 0-3 months | 3 Months- One Year | 1-5 Years | 5-10 Years | Over 10 Years | Total |
|---|--|-------------------------------|------------------|-------------------|----------------------|--------------|
| | (in thousands of pesos, except percentages) | | | | | |
| Interest-earning assets: | | | | | | |
| Interest earning deposits in banks | 412,964 | 648,802 | — | — | — | 1,061,766 |
| Government securities | 481,109 | 1,690,639 | 88 | 15 | — | 2,171,851 |
| Corporate bonds | | 113,148 | | — | — | 113,148 |
| Loans ⁽¹⁾ | 28,689,260 | 23,376,385 | 9,679,355 | — | — | 61,745,000 |
| Total | 29,583,333 | 25,828,974 | 9,679,443 | 15 | — | 65,091,765 |
| Interest-bearing liabilities: | | | | | | |
| Deposits | 94,402,344 | 1,321,684 | 9,427 | — | — | 95,733,455 |
| Due to other banks | 5,400,682 | — | — | — | — | 5,400,682 |
| Total | 99,803,026 | 1,321,684 | 9,427 | — | — | 101,134,137 |
| Asset/liability gap | (70,219,693) | 24,507,290 | 9,670,016 | 15 | — | (36,042,372) |
| Cumulative sensitivity gap | (70,219,693) | (45,712,403) | (36,042,387) | (36,042,372) | (36,042,372) | |
| Cumulative sensitivity gap as a percentage of total interest-earning assets | (107.88)% | (70.23)% | (55.37)% | (55.37)% | (55.37)% | |

(1) Loan amounts are stated before deducting the allowance for loan losses.

Exchange Rate Sensitivity

At December 31, 2018, our total foreign exchange-denominated asset position was Ps.131,091 million and our total foreign exchange-denominated liability position was Ps.126,200 million, resulting in a net asset currency position of Ps.4,891 million. For a description of foreign exchange risk, see “*Item 11. Quantitative and Qualitative Disclosures About Market Risk—Foreign Exchange Risk*”.

Capital Requirements

As of December 31, 2018, we had consolidated excess capital of Ps.14,687.9 million pursuant to the Central Bank’s rules. At such date, both “Basic Net Worth” and “Complementary Net Worth”, subject to applicable deductions, amounted to Ps.36,478.8 million under the Argentine risk-based capital guidelines, which are based on the Basel Accord.

As of December 31, 2017, we had consolidated excess capital of Ps.11,655.9 million pursuant to the Central Bank’s rules. At such date, both “Basic Net Worth” and “Complementary Net Worth”, subject to applicable deductions, amounted to Ps.27,309.7 million under the Argentine risk-based capital guidelines, which are based on the Basel Accord.

As of December 31, 2018, we complied with the Central Bank’s capital requirements on a consolidated basis. See a description of the minimum capital requirements currently in effect in “*Item 4. Information on the Company—F. The Argentine Banking System and its Regulatory Framework*”.

As of December 31, 2018 and 2017, our stockholders’ equity was Ps.45,723.1 million and Ps.49,061.9 million, respectively. At such dates, our ratio of average stockholders’ equity/average total assets was 12.64% and 15.39%, respectively. See “*Item 4. Information on the Company—E. Selected Statistical Information—Return on Equity and Assets*”.

In our opinion, our capital resources are sufficient for the Bank’s present requirements on an individual and a consolidated basis.

We are not aware of any legal or economic restrictions on the ability of our subsidiaries to transfer funds to us in the form of dividends, loans or advances — subject to the regulations of each industry — or corporate law requirements. However, there can be no assurance that in the future such restrictions will not be adopted and that, if adopted, they will not negatively affect our liquidity.

On January 18, 2018, the Bank made a capital contribution in proportion to its ownership interest in Volkswagen Financial Services Compañía Financiera S.A. of Ps.204 million, equivalent to 204 million ordinary, non-endorsable registered shares, with nominal a value of Ps.1 and one vote per share.

The following table sets forth, for the dates indicated, the calculation of our excess capital under the Central Bank’s rules and certain capital and liquidity ratios.

| | At December 31, | |
|--|--|------------|
| | 2018 | 2017 |
| | (in thousands of pesos, except ratios and percentages) | |
| Calculation of excess capital ⁽¹⁾ | | |
| Allocated to assets at risk | 18,103,885 | 12,726,716 |
| Allocated to Bank premises and equipment, intangible assets and equity investment assets | — | — |
| Interest rate risk | — | — |
| Public sector and securities in investment account | — | — |
| A- Minimal exigency by adds up risks | 18,103,885 | 12,726,716 |
| B- Basic exigency for custody of titles of the AFJP and / or agent of record of mortgage notes | — | — |
| Maximum between A and B | 18,103,885 | 12,726,716 |
| Market risk | 92,786 | 369,204 |
| Operational risk | 3,594,744 | 2,557,896 |
| Required minimum capital under Central Bank rules | 21,791,415 | 15,653,816 |
| Basic net worth | 33,742,881 | 24,641,018 |
| Complementary net worth | 1,940,905 | 1,578,420 |
| Deductions | — | — |
| Minority interest | 795,022 | 1,090,307 |
| Total capital under Central Bank rules | 36,478,808 | 27,309,745 |
| Excess capital | 14,687,393 | 11,655,929 |
| Selected capital and liquidity ratios | | |
| Average stockholders' equity as a percentage of average total assets ⁽¹⁾⁽²⁾ | 11.13% | 11.27% |
| Total liabilities as a multiple of total stockholders' equity | 8.20x | 7.66x |
| Cash and due from banks as a percentage of total deposits | 38.19% | 24.45% |
| Liquid assets as a percentage of total deposits ⁽¹⁾⁽³⁾ | 50.44% | 46.55% |
| Loans as a percentage of total assets | 51.16% | 56.89% |

(1) See "Item 4. Information on the Company—F. The Argentine Banking System and Its Regulatory Framework—Capital Adequacy Requirements" for a discussion of the Central Bank's capital requirements.

(2) Average stockholders' equity and average total assets computed as the average of period-beginning and period-ending balances.

(3) At December 31, 2018 and 2017, "Liquid Assets" includes cash and due from banks and government and corporate securities.

Market discipline

The BCRA imposed by Communication "A" 5394 the mandatory publication on the website of financial institutions of certain information in order to allow market participants to assess the information related to capital, risk exposures, assessment processes risk and capital adequacy of each of them. Financial institutions must provide appropriate information to ensure transparency in the management and measurement of risks and the adequacy of their capital.

This standard applies to the highest level of consolidation of each entity. Information concerning BBVA Francés is available at: <https://www.bbvafrances.com.ar/relaciones-inversores/disciplina-mercados.jsp>. Such information is not incorporated by reference in this document.

Credit Ratings

The cost and availability of debt financing are influenced by our credit ratings. A reduction in these ratings could increase the cost of and reduce our market access to debt financing. See "Item 3. Key Information—D. Risk Factors—Risks Relating to the Argentine Financial System and to BBVA Francés—Our credit ratings depend on Argentine sovereign credit ratings, and such dependence limits our access to international financial markets."

Standard & Poor's

In November 2017, Standard & Poor's upgraded the local sovereign debt rating of Argentina to "raAA" from "raA+" and upgraded the global long-term institutional rating to "B+" from "B", maintaining the global short-term institutional rating in "B". These upgrades reflected more confidence regarding the political capacity of the Argentine government to continue with its economic agenda, which was expected to result in a more predictable economic policy. As a result, the Bank's ratings were also modified. Its long-term and short-term institutional ratings were upgraded to "raAA" and "raA-1+" from "raA+" and "raA-1", respectively. Additionally, the Bank's negotiable obligations program was also upgraded to "raAA" from "raA+".

[Table of Contents](#)

In April 2018, Standard & Poor's affirmed the Bank's negotiable obligations program rating as "raAA", considering the extension of the program up to US\$1,500 million (from US\$750 million)

In August 2018, Standard & Poor's placed Argentina B+/B ratings on CreditWatch negative. The CreditWatch negative reflects the risk of worsening creditworthiness due to potential problems in the implementation of the government's strategy to stabilize the economy. Consequently, the Bank's ratings were also modified and put on CreditWatch negative.

In November 2018, Standard & Poor's downgraded the local sovereign rating of Argentina to "raAA-" from "raAA". This downgrade reflects the erosion of the debt profile, slower economic growth and inflation associated challenges in the implementation of the government's economic adjustment program. As a result, the Bank's ratings were also modified. The Bank's long-term institutional rating was downgraded to "raAA-" from "raAA". The Bank's negotiable obligations program was also downgraded to "raAA-". Additionally, the Bank's ratings were removed from CreditWatch negative, and were changed to stable.

Fix SCR

In April 2018, Fix SCR (the local Argentine affiliate of Fitch Ratings) reconfirmed the Bank's ratings as "AAA" in Argentina, the Bank's national short-term rating as "A1+" and its rating as stable. In making its determination, Fix SCR considered the Bank's branch network, asset quality, expected returns and its liquidity and capitalization, as well as the strength of the BBVA Group.

Fitch Ratings

The Bank's Local Currency Long-term Default Rating ("IDR") and Support Rating ("SR") are sensitive to a change in Fitch's view on BBVA's ability and propensity to provide support to the Bank. The Bank's IDR and Viability Rating ("VR") would also likely move in line with a change in Argentina's sovereign rating.

In October 2017, Fitch Ratings upgraded the Bank's IDR to "B+" from "B" and its SR to "4" from "5", with a stable outlook. Fitch also affirmed the Bank's standalone VR at "b". The upgrades were based on Fitch's opinion that BBVA Francés's shareholder support has improved. Notwithstanding BBVA's strong financial profile (A-/Stable), BBVA Francés's rating is limited to one notch above Argentina's IDR given downside risks of high economic stress, the country's tentative policy reforms and still normalizing relations with creditors.

In November 2017, Fitch Ratings upgraded the Bank's outlook to Positive from Stable following Fitch's revision of the outlook on Argentina's sovereign rating on November 7, 2017.

In May 2018, Fitch Ratings revised its rating outlook on the IDR to Stable from Positive, following Fitch's revision of the outlook on Argentina's sovereign rating to Stable from Positive on May 4, 2018.

In September 2018, Fitch Ratings assigned a Foreign Currency Long-term Issuer Default Rating ("FC IDR") of "B". Fitch also assigned an IDR of "B" in order to publish the full set of ratings for the Bank. The rating outlook is stable.

In November 2018, Fitch Ratings revised the Bank's rating outlook on the IDR to Negative from Stable, following Fitch's revision of the outlook on Argentina's sovereign rating.

C. Research and Development, Patents and Licenses

We incur research and development expenses in connection with technology information systems. The amount spent during each of the last three years was not material and we hold no material patents and do not license to others any of our intellectual property. We plan infrastructure development (processing, telecommunications, Internet, information security) based upon present and projected future demand of such services. We acquire the necessary technology, and equipment from third parties.

D. Trend Information

We believe that the macroeconomic environment and the following trends in the Argentine financial system and in our business have affected and will, for the foreseeable future, continue to affect our results of operations and profitability. Our continued success and ability to increase our value to our shareholders will depend upon, among other factors, economic growth in Argentina and the corresponding growth of the market for long-term private sector lending and access to financial products and services by a larger segment of the population. This analysis should be read in conjunction with the discussion in "Item 3. Key Information—D. Risk Factors" of this annual report on Form 20-F.

Trends related to the international and local scenario

2018 was a year of economic deterioration for the global economy. Financial tensions, the worsening of economic activity indicators, the deceleration of growth of the American and Chinese economies, uncertainty regarding protectionism and indications by the U.S. Federal Reserve Bank of interest rate increases were the main factors affecting the global economy in 2018.

Poor economic indicators negatively impacted the confidence of both the consumers and the service sector, and had a direct implication in the decline in consumption growth. These negative implications produced a strong increase in global risk aversion.

In Argentina, 2018 was a year of high volatility, mainly in the foreign exchange market, generated by both internal and external factors. On the one hand the country was affected by higher interest rates imposed by the U.S. Federal Reserve Bank and the commercial tensions between the United States and its trading partners, the consequences of which extended to emerging economies such as Argentina and Turkey. On the other hand, Argentina suffered a significant drought that affected the harvest and consequently the economic growth and the foreign currency supply. On the financial side, a series of inconsistencies and imbalances caused alarm in the markets, causing an abrupt capital outflow the closing of international capital markets to Argentine companies, which culminated with the IMF assistance in June 2018.

In terms of activity, Argentine GDP in 2018 showed a decrease of 2.5% compared to 2017. While in the first part of the year economic activity deterioration was driven by the drought, in the second part of the year it was driven by the domestic financial conditions.

In terms of inflation, prices increased 47.6% in 2018, reflecting an acceleration compared to the 24.8% inflation of the previous year, as a result of the foreign exchange and financial crises suffered in 2018.

In terms of fiscal result, the public sector registered a deficit of 2.4% of GDP, surpassing the fiscal target of 2.7% of GDP, as agreed with the IMF.

Trends related to the Argentine financial system

Argentina has a small and under-penetrated system compared to its peers in Latin America. For this reason, we believe that the financial sector has potential room to grow if adequate policies are implemented and inflation and interest rates are normalized.

In terms of the distribution network, the financial sector has a good penetration, with points of sales covering all the provinces, advanced technology, strong regulations and good practices.

The financial sector has maintained good levels of solvency and liquidity even though asset quality has deteriorated due to the financial environment. In terms of profitability, although domestic financial institutions have not had profits in real terms in recent years, mainly due to the high inflation environment, the Central Bank is playing an active role in trying to control inflation and exchange rate volatility.

In this sense, although lower interest margins are expected, lower rates might not necessarily result in lower profitability in real terms as inflation is also expected to be lower.

According to BBVA Research estimates, the Argentine financial system is expected to grow in the coming years, with a private loans and total deposits to GDP ratios of 11.4% and 19.6%, respectively, expected for 2019, and 11.3% and 20.7%, respectively, expected for 2020, with increasing growth in subsequent years.

The Argentine banking system remains largely unconsolidated, with significantly more financial institutions compared to other countries of the region, and with the top five banks concentrating only approximately 50% of the loan market share, compared to an average of 75% in other Latin American peers. As a result, we believe there is significant room for industry consolidation.

Trends related to BBVA Francés

2018 was a challenging year in which the objective of increasing the sources of financing in order to increase the Bank's balance sheet transformed into a new scenario of excess liquidity in local currency due to strong increases in the interest rates and the limited availability of credit, as well as greater prudence in the foreign currency balance sheet due to high volatility in deposits, as a result of the financial crisis and foreign exchange volatility.

Nonetheless, despite greater foreign exchange volatility, deposits in pesos remained stable and even had a slight upward trend.

In terms of interest rates, the focus was mainly on the increase in financing costs. All of the Bank's products, assets and liabilities experienced strong increases in their prices, which had a direct impact on the Bank's net interest margin, which began to increase in the second quarter of the year.

Although the economy could begin to recover in 2019, GDP is still expected to contract by 1.2%.

In this context, BBVA Francés' goal is transformation, combining digital with cultural transformation in order to be more productive and increase its client base.

BBVA Francés plans to reinforce its strategy and focus on clients and customer service.

Additionally, the Bank expects to focus on improving penetration of its core products, seeking to take advantage of different opportunities, in spite of the challenging economic environment.

E. Off-Balance Sheet Arrangements

We enter into various transactions involving off-balance sheet financial instruments. We use these instruments to meet the risk management, trading and financing needs of clients or for our proprietary trading and asset and liability management purposes. These instruments are subject to varying degrees of credit and market risk. We monitor credit risk and market risk associated with on- and off-balance sheet financial instruments on an aggregate basis.

We use the same credit policies in determining whether to enter or extend call and put option contracts, commitments, conditional obligations and guarantees as we do for granting loans. Our management believes that the outstanding off-balance sheet items do not represent an unusual credit risk.

Derivatives

The market risk of derivatives arises from the potential for changes in value due to fluctuations in market prices. We reduce our exposure to market risk, if necessary, by entering into offsetting transactions in accordance with the hedging global policy defined by the Bank for its subsidiaries. The credit risk of derivatives arises from the potential of a counterparty to default on its contractual obligations. The effect of such a default varies as the market value of derivative contracts changes. Credit exposure exists at a particular point in time when a derivative has a positive market value. We attempt to limit our credit risk by dealing with creditworthy counterparties and obtaining collateral where appropriate.

Credit Commitments

Commitments to extend credit are agreements to lend to a customer at a future date, subject to compliance with contractual terms. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent actual future cash requirements for the Bank. The Bank evaluates each customer's creditworthiness on a case-by-case basis. Foreign trade acceptances represent Bank customer's liabilities on outstanding drafts or bills of exchange that have been accepted by the Bank and the Bank's liability to remit payment upon the presentation of the accepted drafts or bills of exchange. The credit risk involved in foreign trade acceptances and guarantees granted is essentially the same as that involved in extending loan facilities to customers.

Trust Activities

We act as trustee in several financial trusts established for various purposes. We are in no case personally liable for the liabilities assumed in the performance of the trust obligations. Any liabilities resulting from the trust are satisfied with and up to the full amount of the trust assets or their proceeds.

In addition, we act as trustee in 12 non-financial trusts. We are in no case personally liable for the liabilities assumed in the performance of the contract obligations. Any liabilities are satisfied with and up to the full amount of the trust assets and their proceeds. The non-financial trusts at issue were set up to secure the receivables of several creditors (beneficiaries) and the trustee was entrusted with the management, care, preservation and custody of the trust assets. The trust assets represented Ps.229.1 million as of December 31, 2018 and mainly consisted of cash, creditors' rights, real estate and shares.

F. Tabular Disclosure of Contractual Obligations

The following table represents our contractual obligations and commercial commitments as of December 31, 2018:

| | Payments due by period (in thousands of pesos) | | | | |
|--------------------------------|---|---------------------|------------------|----------------|------------------|
| | Total | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
| Contractual obligations | | | | | |
| Long-term debt | 38,020,230 | 36,489,314 | 1,529,776 | 1,139 | — |
| Operating leases | 1,174,139 | 448,271 | 442,694 | 206,620 | 76,554 |
| Total | 39,194,369 | 36,937,585 | 1,972,470 | 207,759 | 76,554 |
| Commercial commitments | | | | | |
| Lines of credit | 531,590 | 531,590 | — | — | — |
| Foreign trade acceptances | 603,401 | 603,044 | 357 | — | — |
| Guarantees | 713,584 | 600,316 | 112,920 | — | 348 |
| Total | 1,848,575 | 1,734,950 | 113,277 | — | 348 |

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Directors

The corporate by-laws of BBVA Francés state that the Bank’s management is led by a board of directors consisting of a minimum of three and a maximum of nine directors, who are elected by the shareholders to hold such office for a period of three years and who may be re-elected (the “Board”). The by-laws also provide for the appointment of alternate directors. According to the by-laws, the Board meets at least once per month.

The table below indicates the names of the current members of our Board, their present position in the Board, their business background and the date of expiration of the period for which they were elected.

[Table of Contents](#)

| Name | Current Term Ends | Current Position | Date of Birth | Present principal occupations and business experience |
|--|--------------------------|-------------------------|----------------------|---|
| Jorge Carlos Bledel (*) | December 2020 | Chairman | 04/19/1954 | <p><u>Present principal occupation:</u> regular director at BBVA Francés and Rombo Compañía Financiera S.A.</p> <p><u>Business experience:</u> regular director at RPBC Gas S.A.; regular director at Distrilec Inversora S.A.; director at Credilogros Compañía Financiera S.A.; credit manager at Banco del Interior y Buenos Aires; business manager at Corporación Metropolitana de Finanzas; financial manager at BBVA Francés; wholesale banking director at BBVA Francés; retail banking director at BBVA Francés; regular director at Central Puerto S.A.; vice chairman at RPM Gas S.A.; alternate director at RPU Agropecuaria S.A.; regular director at RPE Distribución S.A.; vice chairman at PB Distribución S.A.; regular director at Hidro Distribución S.A.</p> <p>Mr. Bledel joined the staff of BBVA Francés in 1986 and was first elected to the Board in March 2003.</p> |
| Alfredo Castillo Triguero (*) | December 2019 | Vice Chairman 1° | 06/19/1957 | <p><u>Present principal occupation:</u> regular director at BBVA Francés.</p> <p><u>Business experience:</u> risks general director and audits general director at BBVA Bancomer; vice chairman of the financing area at BBVA Banco Provincial of Venezuela; member of the management boards of several subsidiaries of BBVA Bancomer and BBVA Colombia Financial Group; and executive vice chairman of the financial area of BBVA Banco Ganadero of Colombia.</p> <p>Mr. Castillo Triguero was elected Director in April 2016.</p> |
| Juan Manuel Ballesteros Castellano (*) | December 2019 | Vice Chairman 2° | 02/07/1963 | <p><u>Present principal occupation:</u> regular director at BBVA Francés.</p> <p><u>Business experience:</u> organization director at BBVA; and human resources director at BBVA.</p> <p>Mr. Juan Manuel Ballesteros Castellano was elected Director in April 2016.</p> |
| Gabriel Eugenio Milstein (*) | December 2020 | Director | 08/14/1958 | <p><u>Present principal occupation:</u> regular director at BBVA Francés; PSA Finance Argentina Compañía Financiera S.A. and Rombo Compañía Financiera S.A.; council member at Fundación Banco Francés; alternate director at Volkswagen Financial Services Compañía Financiera S.A.</p> <p><u>Business experience:</u> media director at BBVA Francés; human resources and services director at BBVA Francés.</p> <p>Mr. Milstein was elected Director in April 2016.</p> |
| Jorge Delfin Luna | December 2019 | Director | 11/17/1958 | <p><u>Present principal occupation:</u> regular director at BBVA Francés; PSA Finance Argentina Compañía Financiera S.A. and Rombo Compañía Financiera S.A.; council vice chairman at Fundación Banco Francés.</p> <p><u>Business experience:</u> commercial director of BBVA; committee director member of BBVA Francés; regional interior manager at Banco de Crédito Argentino; director business banking and foreign trade; general manager and vice president of BBVA Uruguay; general manager of Easy Bank (BBVA Francés); and regional manager at Citibank.</p> <p>Mr. Luna was elected Director in March 2017.</p> |

[Table of Contents](#)

| Name | Current Term Ends | Current Position | Date of Birth | Present principal occupations outside BBVA Francés and business experience |
|--------------------------------|--------------------------|-------------------------|----------------------|---|
| Oscar Miguel Castro (*) | December 2020 | Director | 12/04/1945 | <p><u>Present principal occupation:</u> regular director at BBVA Francés; regular director at Molino Agro; independent director at Zurich Argentina Cia. de Seguros S.A. and Zurich Argentina Cia. de Reaseguros S.A.; regular director at Volkswagen Financial Services Compañía Financiera S.A.</p> <p><u>Business experience:</u> international partner at Arthur Andersen, Pistrelli Díaz y Asoc. for twenty years; partner in charge of financial services division for Latin America and Argentina, and executive member of the committee of financial services at Arthur Andersen.</p> <p>Mr. Castro was elected Director in March 2003.</p> |
| Javier Pérez Cardete (*) | December 2018 (**) | Director | 02/19/1961 | <p><u>Present principal occupation:</u> alternate director at BBVA Francés.</p> <p><u>Business experience:</u> south and east territorial director at BBVA; area director at BBVA; and risk responsible of Valencia at BBVA.</p> <p>Mr. Javier Pérez Cardete was elected Director in April 2016.</p> |
| Gustavo A. Mazzolini Casas | December 2018 (**) | Director | 03/27/1967 | <p><u>Present principal occupation:</u> alternate director at BBVA Francés.</p> <p><u>Business experience:</u> CFO at BBVA; financial staff country monitoring at BBVA; strategies and financial director lobs and ads at BBVA; financial director at Banco Provincial grupo BBVA; department responsible of coordination financial directions Latam grupo at BBVA; planning financial director at Credilogros Compañía Financiera at BBVA; and financial director at Corp Banca Argentina.</p> <p>Mr. Mazzolini was elected Director in March 2017.</p> |
| Adriana M. Fernández de Melero | December 2018 (**) | Director | 04/02/1961 | <p><u>Present principal occupation:</u> alternate director at BBVA Francés.</p> <p><u>Business experience:</u> in charge of profitability analyses and financial planning at Banco Español; development and planning human resources manager at Banco de Crédito Argentino; human resources administration manager at BBVA Banco Francés; organization manger and productivity at BBVA Francés; development business manager at BBVA Francés; director of corporate development and transformation BBVA Francés; presidential advisor at Banco Provincia.</p> <p>Mr. Melero was elected Director in March 2017.</p> |

(*) Qualify as independent directors according to the independence criteria set forth by General Resolution No. 622 of the CNV.

(**) Pending resolution of BCRA.

The ordinary and extraordinary shareholders' meeting held on April 26, 2016 elected Gabriel Milstein in substitution of Mario Luis Vicens as Regular Director and Alfredo Castillo Triguero, Juan Manuel Ballesteros and Javier Pérez Cardete as Alternate Directors.

The ordinary and extraordinary shareholders' meeting held on March 30, 2017 elected Jorge Delfin Luna in substitution of Marcelo Gustavo Canestri as Regular Director; reelected Juan Manuel Ballesteros Castellano and Alfredo Castillo Tiguero as Regular Directors and elected Adriana Fernández de Melero and Gustavo Alberto Mazzolini Casas as Alternate Directors.

At the ordinary and extraordinary shareholders' meeting held on April 10, 2018, Oscar Miguel Castro and Gabriel Eugenio Milstein were reelected as Regular Directors.

At the ordinary and extraordinary shareholders' meeting held on April 24, 2019, María Isabel Goiri Lartitegui was elected chairwoman to succeed Jorge Carlos Bledel. In addition, Adriana María Fernández de Melero was elected as Regular Director and Gabriel Alberto Chaufán was elected as Alternate Director. Moreover, Javier Pérez Cardete and Gustavo Alberto Mazzolini Casas were reelected as Alternate Directors.

Senior Management

Our senior management consists of the Chief Executive Officer and those executive officers who have decision-making powers and who report directly to the Chief Executive Officer. As described below, the main members of our senior management are members of the Management Committee. The table below shows the names of our senior managers and the year of their appointment to such position, as well as their business background. The senior managers are appointed for an indefinite period.

| Name | First Appointed | Current Position | Date of Birth | Background and Business Experience |
|--------------------------------|------------------------|----------------------------------|----------------------|---|
| Martín Ezequiel Zarich | 2015 | Chief Executive Officer | 04/09/1964 | <u>Work Experience:</u> alternate director at BBVA Francés; regular director at BBVA Consolidar Seguros S.A.; regular director at BBVA Francés Valores S.A.; council chairman at Fundación Banco Francés; director of innovation and development at BBVA Francés; merger director at BBVA Francés; planning director at BBVA Francés; financial director at BBVA Francés; retail banking director at BBVA Francés; director at Credilogros; director at BBVA Banco Francés Uruguay; deputy general director, business development at BBVA Group; sub deputy director general development of the business of the BBVA Group; economist at Banco de Crédito Argentino; management control and budget manager at Banco de Crédito Argentino; director of planning, control of management and economics at Banco de Crédito Argentino. Mr. Zarich joined the Bank in 1987. |
| Ernesto Ramón Gallardo Jimenez | 2017 | Director, Finance and Planning | 10/05/1963 | <u>Work Experience:</u> Financial management Director at BBVA Bancomer; Director COAP América; Global Director of Fixed Income for Asset Management Companies at Banco Santander; fixed income and arbitration at Société Générale; derivatives director at Capital Markets Sociedad de Valores y Bolsa. Mr. Gallardo Jimenez joined the Bank in 2017. |
| Jorge Alberto Bledel | 2014 | Director, Business Development | 01/04/1980 | <u>Work Experience:</u> innovation and business model manager at BBVA Francés; manager of investment goods, insurance and property services at BBVA Francés; head portfolio manager at BBVA Francés; wholesale banking analyst at BBVA Francés; and personal banking officer at BBVA Francés. Mr. Bledel joined the Bank in 2010. |
| Gustavo Siciliano | 2014 | Director, Systems and Operations | 02/25/1961 | <u>Work Experience:</u> design and development manager technology and operations at BBVA; information technology manager – media at BBVA; media director at BBVA Uruguay; planning and information security media manager at BBVA Francés; and information security manager at Banco de Crédito Argentino. Mr. Siciliano joined the Bank in 1996. |
| Gustavo Alonso | 2015 | Director, Commercial | 07/02/1964 | <u>Work Experience:</u> retail product manager at BBVA Francés; BBVA Francés means of payment and consumption manager; general manager of strategic alliances and products at BBVA Francés; marketing manager at BBVA Francés; advisor manager for commercial banking at BBVA Francés; area manager at BBVA Francés; and Pilar, San Nicolás and Rosario branch manager at BBVA Francés. Mr. Alonso joined the Bank in 1988. |

| | | | | |
|---------------------------|------|--|------------|---|
| Gustavo Osvaldo Fernández | 2010 | Director, Talent & Culture | 01/22/1964 | <u>Work Experience:</u> director of technology and operations at BBVA; systems and organizations coordinator at Banca Nazionale del Lavoro; systems coordinator at Banco de Galicia; organization and systems development manager at Banco de Crédito Argentino; design and development manager at BBVA Francés; media director at BBVA Francés; design and development at América director at BBVA; and business partner America at BBVA. Mr. Fernández joined the Bank in 1995. |
| Carlos Elizalde | 2014 | Director, Corporate & Investment Banking | 06/12/1961 | <u>Work Experience:</u> regional director for global transaction banking Latam at BBVA; general manager at AL-Rajhi Bank; free-lance consultant at Riyadh KSA Buenos Aires; general director at Citigroup Miami; regional chief for Latin America at Citigroup Miami; and head of regional sales at Citigroup Buenos Aires. Mr. Elizalde joined the Bank in 2011. |
| Gerardo Fiandrino | 2015 | Director, Risks | 11/11/1965 | <u>Work Experience:</u> retail banking director for South América at BBVA; wholesale banking director for South América at BBVA; retail risks manager at BBVA Francés; wholesales and corporate manager at BBVA Francés; admission and control manager at BBVA Francés; control and operational risks manager at BBVA Francés; director at Rombo Compañía Financiera S.A.; director at PSA Finance Argentina Compañía Financiera S.A; portfolio control manager at Banco de Crédito Argentino; and senior investment banking officer at Banco de Crédito Argentino. Mr. Fiandrino joined the Bank in 1992. |
| Eduardo González Correas | 2017 | Director, Legal Services | 03/07/1982 | <u>Work Experience:</u> Legal manager Banking Business, Corporate & Investment Banking at BBVA Francés; Legal Assistant Manager Corporate & Investment Banking at BBVA Francés; lawyer Legal Assistant Management Corporate & Investment Banking at BBVA Francés; lawyer at Estudio Jurídico Allende & Brea; lawyer at Estudio Jurídico Pérez Alati, Grondona, Benites, Arntsen & Martínez de Hoz (h). Mr. González Correas joined the Bank in 2008. |

The service agreements of the directors and the executive officers of the Bank do not provide for benefits upon termination of employment except as described in “—B. Compensation” below.

B. Compensation

The Bank has a Nomination and Remunerations Committee which was created on March 30, 2009. Its members must be directors with no executive functions, and the majority of its members must be “independent”. Its main functions are to provide assistance to the Board in all issues regarding compensation policies and other benefits. Moreover, it is also in charge of stating the terms and conditions for the selection and hiring of the key principal executives of the company. As of the date hereof it consists of (i) Oscar Miguel Castro; (ii) Alfredo Castillo Triguero; (iii) Gabriel Eugenio Milstein; (iv) Gustavo Fernández and (v) Eduardo González Correas.

The aggregate amount of compensation paid by the Bank and its subsidiaries during the fiscal year ended December 31, 2018 to all directors and officers for services in all capacities, including salaries and bonuses, was Ps.185,800 million. This amount also included compensation accrued during 2017 and paid in 2018. Compensation in the amount of Ps.61,126 million accrued during 2018 and was fully paid in 2019. We hereby confirm that disclosure of the directors individual compensation is not required under the Argentine law. Moreover, Argentine legislation requires approval of an aggregate amount of Director’s compensation in the annual ordinary shareholders’ meeting.

During the fiscal year ended December 31, 2018 and 2017, the Bank did not pay, set aside or accrue any amount as contribution to pension plans.

C. Board practices

Our corporate governance system is based on the distribution of functions between the Board and the several committees described below.

Supervisory Committee

The primary responsibilities of the Supervisory Committee are to monitor the management’s compliance with Argentine corporate law, the by-laws, the Bank’s internal regulations, if any, and the shareholders’ resolutions. It also, performs other functions, including, but not limited to: (i) attending meetings of the Board, the Management Committee and shareholders’ meetings, (ii) calling extraordinary shareholders’ meetings when deemed necessary and ordinary and special shareholders’ meetings when not called by the Board, and (iii) investigating written complaints of shareholders. In performing these functions, the Supervisory Committee does not control our operations or assess the merits of the decisions made by the directors.

The Supervisory Committee has unlimited access to our books and records and a right to request as much information as necessary for the performance of its duties.

At the ordinary and extraordinary shareholders’ meeting of BBVA Francés held on April 24, 2019, the following members were appointed to the Supervisory Committee:

| | | Expiration of term |
|------------------|---------------------------|---------------------------|
| Regular | Mario Rafael Biscardi | December 31, 2019 |
| | Gonzalo José Vidal Devoto | December 31, 2019 |
| | Alejandro Mosquera | December 31, 2019 |
| Alternate | Julieta Paula Pariso | December 31, 2019 |
| | Lorena Claudia Yansenson | December 31, 2019 |
| | Daniel Oscar Celentano | December 31, 2019 |

Both the regular and alternate members of the Supervisory Committee as of December 31, 2018 had represented, in their capacity as lawyers, to the Bank that: (a) they performed or were prepared to perform the function of legal advisors with the professional independence required by technical resolution No. 15 of the Argentine federation of professional councils in economic sciences; (b) they were members of Biscardi & Asociados S.R.L. and qualify as “independent” according to General Resolution No. 622 (New Text 2013), and (c) they had disclosed all the information required by the CNV regarding their professional relations with the Bank.

Below is some background information of the current members of the Supervisory Committee.

- Mario Rafael Biscardi: Lawyer, member of Biscardi & Asociados S.R.L.; member of the Supervisory Committee of: BBVA Banco Francés S.A.; BBVA Broker S.A.; Consultatio Asset Management Gerente De Fondos Comunes De Inversión S.A.; PSA Finance Compañía Financiera S.A.; Rombo Compañía Financiera S.A.; BBVA Consolidar Seguros S.A.; Centro Automotores S.A.; Centro del Norte S.A.; Consolidar AFJP S.A. (undergoing liquidation proceedings); Cormasa S.A.; Courtage S.A.; Orazul Energy Cerros Colorados S.A.; Orazul Generating S.A.; Orazul Energy Southern Cone S.R.L.; BBVA Francés Valores S.A.; Industrial Valores S.A.; Metalúrgica Tandil S.A.; Plan Rombo S.A. De Ahorro Para Fines Determinados; Renault Argentina S.A.; Rombo Ahorro S.A. De Ahorro Para Fines Determinados (undergoing liquidation proceedings); MSD Argentina SRL (formerly known as Schering Plough S.A.); Santista Argentina S.A.; V.T.V. Norte S.A.; Banco de Servicios Financieros S.A.; Valentín Bianchi S.A.C.I.F.; Industrial Asset Management Sociedad Gerente de Fondos Comunes de Inversión S.A.; Consultatio Investments S.A.; VTV Metropolitana S.A., INC S.A. and Volkswagen Financial Services Compañía Financiera S.A. He serves as an alternate member of the Supervisory Committee in: Bridgestone Argentina S.A.I.C.; Compañía de Alimentos Fargo S.A.; Procter & Gamble Argentina S.R.L.; Fresh Food S.A.; Panificación Argentina S.A.I. y C.; Capital Foods S.A., Establecimiento Elaborador de Alimentos SACAAAN de Argentina S.A.; TWW Argentina S.A and Colle di Boasi S.A.U. He serves as regular Director in: GMS Management Solutions S.A., Tecnoespumas S.A. and Molding Tex S.A. and as regular liquidator of Plas Alco Argentina S.A. (undergoing liquidation proceedings).
- Gonzalo José Vidal Devoto: Lawyer, member of Biscardi & Asociados S.R.L.; regular member of the Supervisory Committee of Bimbo de Argentina S.A.; Rombo Compañía Financiera S.A.; BBVA Francés Valores S.A.; BBVA Banco Francés S.A.; BBVA Broker S.A.; BBVA Consolidar Seguros S.A.; Consolidar AFJP (undergoing liquidation proceedings). Centro Automotores S.A.; Centro del Norte S.A.; Cormasa S.A.; Courtage S.A.; Orazul Generating S.A.; Orazul Energy Southern Cone S.R.L.; INC S.A.; Plan Rombo S.A. de Ahorro para Fines Determinados; Santista Argentina S.A.; VTV Norte S.A.; Banco de Servicios Financieros S.A.; Alimentos Valente Argentina AVA S.A.; Rombo Compañía Financiera S.A.; Renault Argentina S.A.; VTV Metropolitana S.A.; Bimbo Frozen Argentina S.A. and Metalúrgica Tandil S.A. He serves as an alternate member of the supervisory committee in: Consultatio Asset Management Gerente de Fondos Comunes de Inversión S.A.; Volkswagen Financial Services Compañía Financiera S.A.; Orazul Energy Cerros Colorados S.A. and Industrial Asset Management Sociedad Gerente de Fondos Comunes de Inversion S.A.

[Table of Contents](#)

- Alejandro Mosquera: Lawyer, member of Biscardi & Asociados S.R.L.; member of the Supervisory Committee of: BBVA Banco Francés S.A.; BBVA Broker S.A.; Consultatio Asset Management Gerente De Fondos Comunes De Inversión S.A.; Rombo Compañía Financiera S.A.; BBVA Consolidar Seguros S.A.; Centro Automotores S.A.; Centro del Norte S.A.; Consolidar AFJP S.A. (undergoing liquidation proceedings); Cormasa S.A.; Compañía de Alimentos Fargo S.A.; Courtage S.A.; Orazul Energy Cerros Colorados S.A.; Orazul Generating S.A.; Orazul Energy Southern Cone S.R.L.; BBVA Francés Valores S.A.; Fresh Food S.A.; Industrial Valores S.A.; Metalúrgica Tandil S.A.; Plan Rombo S.A. De Ahorro Para Fines Determinados; Procter & Gamble Argentina S.R.L.; Renault Argentina S.A.; Rombo Ahorro S.A. De Ahorro Para Fines Determinados (undergoing liquidation proceedings); Santista Argentina S.A.; Panificación Argentina S.A.I. y C.; Capital Foods S.A.; Banco de Servicios Financieros S.A.; Establecimiento Elaborador de Alimentos SACAAN de Argentina S.A.; INC S.A. and Industrial Asset Management Sociedad Gerente de Fondos Comunes de Inversión S.A.; Daikin Air Conditioning Argentina S.A. and Volkswagen Financial Services Compañía Financiera S.A. He serves as an alternate member of the supervisory committee in: PSA Finance Argentina Compañía Financiera S.A.; MSD Argentina S.A. (formerly known as Schering Plough S.A.) and Consultatio Investments S.A. He serves as regular Director in: VTV Norte S.A. and VTV Metropolitana S.A. He serves as alternate Director in: GDC Argentina S.A. and GMS Management Solutions S.A.; He serves as alternate liquidator of Plas Alco Argentina S.A. (undergoing liquidation proceedings).
- Julieta Paula Pariso: Lawyer, member of Biscardi & Asociados S.R.L.; alternate member of the Supervisory Committee of: BBVA Banco Francés S.A.; BBVA Broker S.A. Consultatio Asset Management Gerente De Fondos Comunes De Inversión S.A.; Daikin Air Conditioning Argentina S.A.; Rombo Compañía Financiera S.A.; BBVA Consolidar Seguros S.A.; Centro Automotores S.A.; Centro del Norte S.A.; Consolidar AFJP S.A. (undergoing liquidation proceedings); Cormasa S.A.; Courtage S.A.; Orazul Energy Cerros Colorados S.A.; Orazul Generating S.A.; Orazul Energy Southern Cone S.R.L.; BBVA Francés Valores S.A.; Industrial Valores S.A.; Metalúrgica Tandil S.A.; Plan Rombo S.A. De Ahorro Para Fines Determinados; Renault Argentina S.A.; Rombo Ahorro S.A. De Ahorro Para Fines Determinados; Santista Argentina S.A.; V.T.V. Norte S.A.; Banco de Servicios Financieros S.A.; VTV Metropolitana S.A.; INC S.A. Industrial Asset Management Sociedad Gerente de Fondos Comunes de Inversión S.A. and Volkswagen Financial Services Compañía Financiera S.A.
- Lorena Claudia Yansenson: Lawyer, member of Biscardi & Asociados S.R.L.; alternate member of the Supervisory Committee of Bimbo de Argentina S.A.; Rombo Compañía Financiera S.A.; BBVA Francés Valores S.A.; BBVA Banco Francés S.A.; BBVA Broker S.A.; Consolidar Seguros S.A.; Consolidar AFJP (undergoing liquidation proceedings); Centro Automotores S.A.; Centro del Norte S.A.; Cormasa S.A.; Courtage S.A.; Orazul Generating S.A.; Orazul Energy Southern Cone S.R.L.; INC S.A.; Plan Rombo S.A. de Ahorro para Fines Determinados; Renault Argentina S.A.; Santista Argentina S.A.; VTV Norte S.A.; Banco de Servicios Financieros S.A.; Alimentos Valente Argentina AVA S.A.; VTV Metropolitana S.A.; Bimbo Frozen Argentina S.A. and Metalurgica Tandil S.A.
- Daniel Oscar Celentano: Lawyer, member of Biscardi & Asociados S.R.L.; alternate member of the Supervisory Committee of: BBVA Banco Francés S.A.; BBVA Broker S.A.; Rombo Compañía Financiera S.A.; BBVA Francés Valores S.A.; Consolidar AFJP S.A. (undergoing liquidation proceedings); BBVA Consolidar Seguros S.A.; Metalúrgica Tandil S.A.; Courtage S.A.; Centro del Norte S.A.; Centro Automotores S.A.; Orazul Generating S.A.; Orazul Energy Southern Cone S.R.L.; Renault Argentina S.A.; Cormasa S.A.; Plan Rombo S.A. de Ahorro para Fines Determinados; Santista Argentina S.A.; Banco de Servicios Financieros S.A.; VTV Norte S.A.; VTV Metropolitana S.A.; Rombo Ahorro S.A. de Ahorro para Fines Determinados and INC S.A.

There are no agreements between the Bank and its directors, members of the Supervisory Committee or main executives, as a consequence of which the directors, members of the Supervisory Committee or main executives might have interests in opposition to those of the Bank, according to the provisions of Article 272 of the Argentine Business Companies Law.

Audit Committee (I)

On February 24, 2015, BBVA Francés established the Audit Committee (I) to comply with the provisions set out by the Central Bank in its Communication “A” 5042, as supplemented, dated February 2010.

As of this date, the Audit Committee (I) is comprised of the following members:

Members: Gabriel Eugenio Milstein
Oscar Miguel Castro
Alberto Muñiz

The Audit Committee (I) meets once a month. In each of these meetings, the internal audit director presents the projects undertaken by the internal audit department. The minutes of the meeting are then drafted detailing the issues discussed as well as those items requiring further discussion. The minutes are transcribed into an internal control book which is sent to the Board of Directors for their information.

The Audit Committee (I)'s duties are to:

- supervise the appropriate implementation of the internal control systems defined in the Bank through a regular evaluation;
- provide assistance to improve the effectiveness of the internal controls;
- inquire about external audit planning and comment as necessary on the nature, scope and time for the performance of the audit proceedings;
- revise and approve the annual work program of the Bank's internal audit area ("internal audit planning memorandum" or "annual planning") to be carried out under said annual planning, as well as the level of compliance with such program;
- revise the reports issued by the internal auditors pursuant to the provisions set forth in these rules;
- consider the observations made by the external and the internal auditors regarding the internal control weaknesses found during the performance of their duties, as well as the corrective measures implemented by the general management to minimize or cure such weaknesses;
- review the results obtained by the Supervisory Committee of the Bank during the performance of its duties, as informed in the applicable reports;
- maintain a permanent communication with the officers of the Superintendence in charge of the control of the Bank, so as to learn about their concerns, and the problems identified during the inspections conducted in the Bank, and monitor the actions adopted to solve such problems;
- be informed about the annual financial statements and the financial statements for the interim periods as well as the external auditors' reports issued with respect to the former, and any other applicable accounting information; and
- regularly control compliance with the independence rules applicable to external auditors

Audit Committee (II) (as per Law No.26,831, which complies with NYSE Listing Standards)

According to Board's resolution dated April 25, 2017, BBVA Francés has an Audit Committee (II), whose current composition is as follows:

Members: Oscar Miguel Castro
Alfredo Castillo Triguero
Jorge Carlos Bledel

According to Section 303A.07(b) of the NYSE Listed Company Manual, all of the members of this Audit Committee must be "independent". Moreover, according to Decree Law No. 26,831 the Audit Committee (II) must consist of at least three members of the Board, the majority of whom should be independent directors. All the members of the Audit Committee (II) qualify as an independent director according to the independence criteria set forth by General Resolution No. 622 of the CNV. The powers and duties of the Audit Committee (II) are as follows:

- to opine on the Board's proposal to appoint the external auditors of the company, and to ensure their independence;
- to supervise the operation of internal control and administrative accounting systems, as well as to ensure the reliability of the latter and of all financial information or other significant facts submitted to the CNV and the self-regulated bodies in compliance with the applicable information regulations;
- to supervise the application of policies regarding the information about the Bank's risk management;
- to furnish the market with comprehensive information in respect of transactions which may involve conflicts of interest with members of the corporate bodies or controlling shareholders;
- to opine on the reasonableness of proposals of management concerning fees and share option plans for the Bank's directors and managers;

- to opine on the compliance with legal requirements and the reasonableness of the conditions for the issuance of shares or securities convertible into shares in the event of a capital increase, with exclusion or limitation of preference rights;
- to verify the observance of the applicable standards of behavior;
- to issue a duly grounded opinion with regard to operations with related parties in those cases contemplated by Law No. 26,831;
- to issue a duly grounded opinion and forward it to the self-regulated entities as determined by the CNV whenever there is a conflict of interests or the possibility of such a conflict in the Bank;
- to annually prepare an action plan to be submitted to the Board and the Supervisory Committee; and
- to examine the plans prepared by the external and internal auditors, evaluate their performance and issue an opinion on the matter on occasions of the presentation and publication of the annual financial statements.

All directors, members of the Supervisory Committee, managers and external auditors must, at the request of the Audit Committee (II), attend its sessions and cooperate with it, facilitating its access to such information as may be available to them. In order to ensure a more appropriate exercise of the powers and duties contemplated herein, the committee may request the advice of lawyers and other independent professionals and retain their services for the account of the Bank within the budget allocated for such purposes by the shareholders' meeting. The Audit Committee (II) shall have access to such information and documentation as it may deem necessary in order to comply with its obligations.

Nomination and Remunerations Committee

The Nomination and Remunerations Committee was created on October 31, 2017. Its members as of the date hereof are:

Members: Oscar Miguel Castro
Alfredo Castillo Triguero
Gabriel Eugenio Milstein
Gustavo Fernández
Eduardo González Correas

Its main purpose is to provide information and advice regarding the nomination and compensations of directors and executive officers. Its main functions are to:

- establish the requirements for the appointments of directors and executive officers;
- approve training programs for directors and executive officers;
- approve policies and criteria for the evaluation of performances of directors and executive officers;
- annually inform the Board of Directors of the criteria enforced to determine the compensation of directors and executive officers; and
- state the policies for the promotion, layoff, suspension and retirement of directors and executive officers.

Special Committees

The Bank has the following special committees:

- Management Committee

As of the date hereof the Management Committee consists of: (i) Martín Ezequiel Zarich; (ii) Gustavo Alonso; (iii) Jorge Alberto Bledel; (iv) Gustavo Fernández; (v) Ernesto Ramón Gallardo; (vi) Gerardo Fiandrino; (vii) Gustavo Siciliano; (viii) Carlos Elizalde and (ix) Eduardo González Correas.

The obligations of the Management Committee are to: (i) establish the business and investment strategies, the general risks policies, the human resources policies and cooperate with the General Manager; (ii) delegate powers to other officers; (iii) analyze and approve the general annual budget; (iv) monitor its evolution and determine corrective measures according to internal and market variables and (v) create business synergies with other companies of the group.

The Management Committee meets monthly.

- Information Technology Committee

The Information Technology Committee is responsible for the institutional treatment of the policies, goals and planning of the information systems area, and currently consists of: (i) Gustavo Siciliano; (ii) Rubén Stempellato; (iii) Gabriel Eugenio Milstein; (iv) Analia Gonzalez; (v) Gustavo Andrés; (vi) Daniel Neme; (vii) Lucrecia Eiriz and (viii) Verónica Redlich.

The Information Technology Committee meets quarterly.

- Disclosure Committee

As of the date of this annual report, the Disclosure Committee currently consists of: (i) the financial planning director Ernesto Ramón Gallardo; (ii) the independent director, Oscar Miguel Castro; (iii) the legal services director, Eduardo González Correás; (iv) the audit director, Alberto Muñiz Zurita; (v) the accounting manager, Carlos Reinaudo; (vi) the financial manager, Diego Cesarini; (vii) the investor relations analyst Cecilia Acuña; (viii) the risks director, Gerardo Fiandrino and (ix) the institutional area of legal services manager Leonel Manevy.

The general functions of the Disclosure Committee are to make sure that all information supplied to the Bank's shareholders, the markets where its shares are listed and the regulatory bodies of such markets is true and complete, adequately represents the financial condition and results of operations of the Bank and it is communicated in compliance with applicable regulations and corporate governance principles. It must therefore ensure the existence and maintenance by the Bank of procedures and controls regarding the preparation and content of all information included in the financial statements as well as of any accounting or financial information which must be registered with the CNV and other regulatory bodies and agents of the stock exchanges where the shares of BBVA Francés are listed.

The Disclosure Committee meets quarterly.

- Asset Laundering and Terrorism Financing Prevention Committee

The Asset Laundering and Terrorism Financing Prevention Committee currently consists of: (i) two directors, Oscar Miguel Castro, who is the compliance officer on money laundering prevention before the anti-money laundering organism (*Unidad de Información Financiera*) and Gabriel Eugenio Milstein, (ii) the director in charge of the regulatory compliance area, Mónica Etcheverry, manager in regulatory compliance; (iii) the official in charge of the compliance area processes, Adriana Scorza and (iv) the responsible for the money laundering prevention area Federico Maliandi.

In order to comply with its control and prevention purposes, the Terrorism Assets and Money Laundering Prevention Committee assumes the following responsibilities:

- to deal with all matters related to the prevention of terrorism assets laundering and financing;
- to define operational policies and continuously monitor their degree of advancement; and
- to assign duties to the different areas involved.

Each member assumes the following functions:

- to render his or her area of activity more sensitive as to the importance of preventing terrorism assets laundering and financing;
- to detect any relevant situation which may occur in his or her area in this connection;
- to analyze any new product or service and evaluate potential asset laundering risks; and
- to assume the necessary commitments in his or her area in order to implement prevention systems in coordination with the officer responsible for Asset Laundering Prevention.

The Terrorism Asset Laundering and Financing Committee meets every three months, or extraordinarily whenever the coordinator should deem it convenient due to the existence of relevant matters to be discussed.

Not later than five business days prior to the meeting the regulatory compliance director shall discuss with the secretary the agenda to be treated at the quarterly meeting, and the secretary will submit such agenda to the members of the committee.

▪ Regulatory Compliance Committee

This committee consists of three regular directors, the executive director, the compliance director, the retail banking director, the planning and financial area director and the legal services director. The records office shall be under the supervision of the institutional area of the legal services department.

The main functions of this Regulatory Compliance Committee are to:

- monitor the compliance of the law applicable to any matter concerning capital markets and the protection of personal data;
- monitor the scope of the actions taken by the Bank within its jurisdiction, as well as information requirements made by the competent official bodies;
- ensure that the internal code of conduct and the code of conduct within the Argentine securities market (the “Code of Conduct”) is applicable to the employees of the Bank and that it complies with the regulatory requirements and is suitable for the Bank;
- authorize exemptions regarding the compliance of the rules set forth in the Code of Conduct. Such exemptions shall be exceptional and must not cause any risks to the corporate integrity of BBVA Francés and its subsidiaries in Argentina;
- implement the necessary measures to deal with any ethically questionable matter known by any of its members as a result of their activity or as a consequence of the reception of communications referred to in Section 6.28 of the Code of Conduct;
- promptly inform the Board of Directors regarding those circumstances which may give rise to significant risks for BBVA Francés, in order to ensure that the financial statements accurately reflect the reality; and
- settle those situations in which the interests of BBVA Francés conflict with those of their clients.

▪ Risk Management Committee

This committee consists of the executive director or general manager, the risks director, the validations and internal audit manager, the retail risk manager, the corporate and wholesale risks manager, all of them as permanent participants; the financial and reporting risks manager and the recoveries manager as optional participants or for specific matters; and the responsible for global management and technical office and the responsible for the area which shall deal with the issue to be discussed and speaker as specific participants.

The main purpose of the Risks Management Committee is to:

- approve any transactions and financial programs of clients which exceed the powers granted to the credit risk, financial institutions and issuer risk committee, and any other matter solved outside the regional scope. Any and all transactions which may result special or exceptional may be dealt with by such committee;
- approve refinancing, cancellations and penalties for individual or corporate clients;
- approve the operations of non-delegated risks (risks concerning means of communications, public importance, political parties, trade unions or associated companies of the Bank or its members);
- define and approve the necessary strategies, manuals, policies, practices and procedures to identify, evaluate, measure and handle the risks to which the entity is exposed to (credit, market, structure, liquidity, operational risks, among others);
- approve credit policies, rating tools and new campaigns of pre-approved items or massive campaigns);
- approve the limits of asset allocation and stress tests; and
- approve the proceedings for the sale of portfolios and the results arising thereof, and the realization of assets seeking to protect the credit.

▪ Corporate Assurance Committee

As of the date hereof, the Corporate Assurance Committee consists of the executive director as Chairman, the members of the Management Committee as permanent participants and the Secretary of the Committee, which is the audit director.

The main functions of this committee are:

- to promote and ensure the effectiveness of the control model and the necessary culture of transparency and self-criticism;
- to ensure the implementation and maintenance of the corporate assurance model within the BBVA Group entities;
- to prioritize control weaknesses identified by the expert areas and the internal audit bureau regarding adequacy, appropriateness and timeliness of the proposed remedial actions;
- to ensure that experts activities are carried out with self-criticism and transparently;
- to understand, evaluate, and assign responsibilities for managing risks that are submitted for consideration;
- to give timely follow up on agreed action plans to mitigate risks;
- to communicate to specialists and business units all decisions;
- to promote awareness of the operational risk model , as well as the dissemination of corporate policies governing the matter;
- to solve and take decisions regarding the operational risk, required by its materiality or importance;
- to ensure the implementation of the operational risk model and facilitate proper management for operational risks related to BBVA Francés business;
- to supervise the proper implementation of tools and model methodology; and
- to deal with any matter that enhances the quality and reliability of BBVA Francés internal controls and its affiliated companies.

Meetings of the Corporate Assurance Committee may be ordinary and extraordinary. The former, are held on a quarterly basis, summoned in advance by the secretary. The latter are held when summoned by the secretary or upon the request of one or more members of the committee when special circumstances so require it.

▪ Assets and Liabilities Committee

The Assets and Liabilities Committee consists of: (i) the executive director; (ii) the business development and digital banking director; (iii) the financial and planning director; (iv) the risks director; (v) the commercial director; (vi) the business development and digital banking director; (vii) the corporate & investment banking director; (viii) the economic research deputy director; planning and efficiency manager; (ix) the financial and investors manager and (x) the financial risks manager.

The main functions of this committee are:

- to monitor macroeconomic variables;
- to analyze and discuss domestic and foreign market conditions and forecast any potential impact on the Bank's structural risks;
- to monitor and control limits and liquidity alerts, rates, change position and market risks, both internal and regulatory, and to define corrective actions if necessary;
- to analyze the historical evolution and projection of the balance sheet, deviations from budget, and comparison against the market and competition;

- to monitor the Bank’s excess liquidity, comparison of market and analysis of stress scenarios;
- to determine the resource allocation strategy;
- to determine price and products policy for assets and liabilities;
- to monitor the Bank’s financial margin and its main deviations;
- to determine the strategy to be applied for investments and surplus;
- to analyze risks associated with investments in the public sector;
- to analyze the historical and projected evolution of the capital position and projected dividends of the Bank; and
- to order financial or other analyzes deemed necessary to optimize management of the items mentioned above.

This committee meets on a monthly basis.

▪ Integrity, Market Behavior, Customer Compliance, Personal Data Protection and Regulatory Oversight Committee

This committee consists of: (i) a director of BBVA Francés S.A., as compliance officer; (ii) the head of the compliance sector; (iii) the chief executive officer and (iv) the head of the integrity, market behavior, customer compliance, personal data protection and regulatory oversight.

Its main functions are:

- to set action plans and continuously review their progress;
- to determine review procedures to prevent money laundering by employees and suppliers;
- to promote the adoption of the necessary measures to resolve ethically questionable situations;
- to take the necessary measures to comply with the Code of Ethical Conduct; the capital market regulations; the regulations on personal data protection, customer compliance and regulatory control; and
- to promote training and awareness-raising action plans for the Bank’s staff and related companies about how important is to know the concepts of integrity, behavior in markets, customer compliance, personal data protection and regulatory control.

This committee meets on a monthly basis.

Also in compliance with resolutions of the Central Bank or other controlling bodies, the Bank has appointed different offices responsible for specific subjects, as detailed below:

- Responsible for Foreign Exchange Positions (Communication “A” 4246 BCRA)
Main Responsible Officer: Javier Steindl Balestra
Alternate Responsible Officer: María Susana Dopazo Tomey
- Responsible for Foreign Exchange Control (Communication “A” 4246 BCRA)
Main Responsible Officer: Rubén José Lauriente
Alternate Responsible Officer: María Susana Dopazo Tomey
- Responsible for customer services in compliance with Communication “A” 5388 of BCRA.
Main Responsible Officer: Rubén Lemme
Alternate Responsible Officer: Mónica Gabriela Etcheverry / Carolina Noelia Guevara
- Responsible for the Liquidity Policy (Communication “A” 2879 BCRA):
Main Responsible Officer: Diego Cesarini

- Responsible for Information Systems (Communication “A” 2593 BCRA)
Main Responsible Officer: Ernesto Gallardo
Alternate Responsible Officer: Jorge Alberto Bledel
- Responsible for Information Systems (Communication “A” 2593 BCRA)
Main Responsible Officer: Ernesto Gallardo
Alternate Responsible Officers: Martín Ezequiel Zarich and Eduardo González Correas
- Compliance Officer on Money Laundering Prevention (Communication “A” 5004 BCRA):
Main Responsible Officer: Oscar Miguel Castro
Alternate Responsible Officer: Gabriel Eugenio Milstein
- Security Responsible for Financial Entities (Communications “A” 5120 and 5132)
Main Responsible Officer: Albis Noe Gonzalez
Alterante Responsible Officer: Christian Ventura

Advisors

All internal legal advice is provided to the Bank by its own legal services department.

External Auditors

Since March 2017, KPMG has acted as the Bank’s external auditor. Its last appointment was approved by the ordinary and extraordinary shareholders’ meetings held on April 10, 2018.

The ordinary and extraordinary shareholders’ meetings held on April 24, 2019 designated KPMG as the Bank’s external auditor for the fiscal year 2019, with María Gabriela Saavedra (Registered in Professional Council of Economic Sciences of the City of Buenos Aires, Volume 260, Page 161) as the Bank’s auditor and Carlos Fernando Bruno as alternate auditor for the same period.

The firm KPMG has its domicile at Bouchard 710, 1st floor (C1106ABL), City of Buenos Aires, Argentina and is registered with the Professional Council of Economic Sciences of the City of Buenos Aires, under Volume 2, Page 6.

D. Employees

The following table shows the breakdown of our full-time payroll employees as of December 31, 2018 and 2017:

| | As of December 31, | |
|-------------|----------------------------|----------------------------|
| | 2018 ⁽¹⁾ | 2017 ⁽¹⁾ |
| Main office | 3,568 | 3,480 |
| Branches | 2,521 | 2,602 |
| Total | 6,089 | 6,082 |

(1) Excludes 18 and 14 employees from non-banking subsidiaries as of December 31, 2018 and 2017, respectively.

Our employees are represented by a national bank union with optional membership. As of December 31, 2018, 2,547 employees were unionized. The union negotiates a collective bargaining agreement to establish minimum salaries for all of its members. We have not experienced any conflicts with the union for over 20 years and we consider relations with our employees to be satisfactory.

We have a personnel Training and Development Department, which is in charge of the training of all of the Bank’s employees. This includes in-house training courses and seminars in all the areas: Operations, Technology and Business (Branches, Corporate Banking). We provide bonuses to individual employees throughout the bank on a discretionary basis, taking into consideration individual merit and overall profit levels. We do not have a formal profit-sharing plan.

The Bank does not employ a significant number of temporary employees.

E. Share Ownership

As of March 31, 2019, Jorge Carlos Bledel (Chairman), Gabriel Eugenio Milstein (Director), Jorge Alberto Bledel (Business Development Director), Gustavo Alonso (Commercial Director) and Gustavo Osvaldo Fernández (Talent & Culture Director) own shares in BBVA Francés. The ownership of each of them represented less than 1% of the capital stock of the Bank. The shares owned by these persons do not have different voting rights.

None of our directors or our remaining senior executives own shares or options on shares of BBVA Francés.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table sets forth certain information regarding the beneficial ownership of our ordinary shares as of March 31, 2019, by each person who, to our knowledge, beneficially owns more than 5% of our ordinary shares. These persons do not have different voting rights.

| Beneficial Owner | Ordinary Shares Beneficially Owned at March 31, 2019 | |
|---|--|----------------------------------|
| | Number of Shares | Percentage of Shares Outstanding |
| Banco Bilbao Vizcaya Argentaria S.A. | 244,870,968 | 39.97% |
| BBV América SL ⁽¹⁾ | 160,060,144 | 26.13% |
| The Bank of New York Mellon ⁽²⁾ | 126,481,611 | 20.64% |
| Administración Nacional de Seguridad Social | 42,439,494 | 6.93% |

(1) BBV América S.L. is under the control of BBVA.

(2) As holder agent of ADSs.

On March 26, 2012, the ordinary and extraordinary general shareholders' meetings of BBVA Francés and Otar approved a preliminary merger agreement, in connection which the Bank approved an capital increase by issuing 50,410,182 book-entry, ordinary shares with a par value of Ps.1 each and one vote per share. Immediately thereafter, BBVA Francés redeemed under the terms of the merger the 50,410,182 book-entry, ordinary shares, with a par value of Ps.1 each and right to one vote each.

On July 18, 2013, the BCRA resolved not to make any observations against the merger by absorption of Otar by BBVA Francés through its Resolution No. 473. On August 8, 2013, the CNV approved the merger by absorption in accordance with Section 82 of the Argentine Companies Law pursuant to its Resolution No. 17,155. On March 27, 2014, the merger was registered with the IGJ under No. 5,302 of Book 68 of Stock Corporations. Finally, 50,410,182 book-entry, ordinary shares with par value Ps.1 each and 1 vote per share of BBVA Francés were redeemed and 50,410,182 book-entry, ordinary shares with par value Ps.1 each and 1 vote per share of BBVA Francés were simultaneously issued and delivered in exchange to Otar's former shareholders.

The shareholders at the meeting on June 13, 2017 approved the increase in capital stock by up to Ps.145 million in par value through the issuance of 145 million ordinary shares entitled to one vote and a value of Ps.1.00 per share, delegating to the Board of Directors the powers necessary to consummate such capital increase and determine the terms of the issuance.

On July 18, 2017, the issuance of 66 million ordinary shares with par value of Ps.1.00 per share was approved with a subscription price of US\$5.28 per share and US\$15.85 per each American Depositary Share (ADS), computing the benchmark exchange rate published by the BCRA as of that date (Ps.17.0267) for purposes of their payment in pesos. The offering closed on July 24, 2017.

In accordance with the terms of the underwriting agreement, the underwriters exercised the option to acquire 9,781,788 additional new shares (equivalent to 3,260,596 ADS) on July 26, 2017 at the same issue price. These shares were paid for and delivered on July 31, 2017.

Accordingly, our capital stock at December 31, 2018 was 612,659,638 shares and BBVA maintained its equity interest in the Bank at 66.55%. After taking into account the adjustment for inflation, the capital stock of the Bank would amount to Ps.9,193,241.

On January 4, 2012 BBVA Francés was notified of the registration in the Public Registry of Commerce of Madrid of the merger between Bilbao Vizcaya América B.V. and BBV América SL, in its capacity as successor company. The merger has been carried out as part of a corporate reorganization plan of the Group.

We are a corporation registered under Argentine law whose shareholders restrict their liability to the shares they have subscribed and paid-in under the Business Companies Law. Therefore, and in terms of Law No. 25,738, no shareholder of the Bank, whether foreign or local, is liable beyond such paid-in shares for obligations deriving from transactions made by the Bank.

Except as described above, we are unaware of any arrangements the operation of which may, at a subsequent date, result in a change of control of BBVA Francés.

As of December 31, 2018, according to our records 16 holders of ordinary shares and 132 registered holders of ADSs (in accordance with the records of the Bank of New York Mellon (“BoNY”), as depository for the ADSs) have an address in the United States, representing 20.37% of our issued and outstanding ordinary shares.

B. Related Parties Transactions

The following table presents the aggregate amounts of total financial exposure of BBVA Francés to related parties for the three-month period ended March 31, 2019 and for the fiscal year ended December 31, 2018. Related parties include controlled companies, controlling shareholders and entities under common control, key management and directors and associated entities.

The financings described below (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and (c) did not involve more than the normal risk of collectability or present other unfavorable features.

[Table of Contents](#)

| Related Party | March 31, 2019 | | | | | December 31, 2018 | | | | |
|--|--|----------------|-----------------------------------|----------------|---|--|----------------|-----------------------------------|----------------|---|
| | Largest Outstanding Amount ⁽¹⁾⁽²⁾ | Interest Rates | Amount Outstanding ⁽²⁾ | Interest Rates | Nature | Largest Outstanding Amount ⁽¹⁾⁽²⁾ | Interest Rates | Amount Outstanding ⁽²⁾ | Interest Rates | Nature |
| Controlled, Controlling and Under Common Control Entities | | | | | | | | | | |
| BBVA and subsidiaries | 2,107,389 | — | 2,107,389 | — | Guarantees given and correspondents | 1,313,395 | — | 1,292,644 | — | Guarantees given and correspondents |
| BBVA Francés Valores S.A. | 173,202 | — | 167,215 | — | Equity investment | 180,846 | — | 164,294 | — | Equity investment |
| BBVA Francés Asset Management S.A. | 517,695 | 32.73% | 517,695 | 32.73% | Credit card loans, other loans and equity investment | 442,166 | | 429,559 | | Other loans, credit card loans and equity investment |
| Consolidar AFJP S.A. (undergoing liquidation proceedings) | 32,521 | — | 32,521 | — | Other loans, guarantees given and equity investment | 29,079 | — | 28,765 | — | Other loans, advances, guarantees given and equity investment |
| PSA Finance S.A. | 722,170 | 33.21% | 669,742 | 39.67% | Call money, advances, other loans, guarantees given and equity investment | 1,963,683 | 25.96% | 738,553 | 33.38% | Call money, advances, other loans, guarantees given and equity investment |
| BBVA Consolidar Seguros S.A. | 189,344 | 32.73% | 189,344 | 32.73% | Credit card loans, other loans and equity investment | 206,726 | — | 172,527 | — | Advances, credit card loans, other loans and equity investment |
| Volkswagen Financial Services S.A | 4,623,531 | 61.02% | 2,676,568 | 42.87% | Advances, credit card loans, other loans, call money and equity investment | 5,070,183 | 28.53% | 4,589,088 | 60.90% | Credit card loans, other loans, call money, advances and equity investment |
| Associated Entities | | | | | | | | | | |
| Rombo Cia Financiera S.A. | 2,112,886 | 35.81% | 2,112,886 | 35.81% | Call money, other loans, guarantees given and equity investment | 2,445,570 | 42.99% | 2,165,637 | 34.22% | Call money, other loans, guarantees given and equity investment |
| Key Management Personnel ⁽³⁾ | | | | | | | | | | |
| | 28,090 | 50.00% | 21,417 | 50.00% | Credit card loans, personal loans, other loans, advances and real estate mortgage | 28,824 | 55.00% | 21,259 | 55.00% | Credit card loans, personal loans, other loans, advances and real estate mortgage |

(1) Largest amount during the period indicated.

(2) In thousands of pesos.

(3) Includes directors, senior managers, members of the audit committee, managers with relevant authority and close family members.

The transactions included in this section (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and (c) did not involve more than the normal risk of collectability or present other unfavorable features.

As of December 31, 2018, the Bank did not have outstanding any financial assistance from BBVA.

C. Interest of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Financial Statements and Other Financial Information

See “*Item 3. Key information—A. Selected Financial Data*” and “*Item 18. Financial Statements*” and other financial information filed with this annual report.

Legal Proceedings

The Bank and its subsidiaries are involved in a number of legal and regulatory actions and proceedings, including legal claims and proceedings, civil and criminal regulatory proceedings, including class actions, governmental investigations and proceedings, tax proceedings and other proceedings. Legal and regulatory actions and proceedings are subject to many uncertainties, and their outcomes, including the timing thereof, the amount of fines or settlements or the form of any settlements, or changes in business practices we may need to introduce as a result thereof, any of which may be material, are often difficult to predict, particularly in the early stages of a particular legal or regulatory matter.

As of the date hereof, the Bank is involved in a number of legal and regulatory actions and proceedings, the adverse resolution of which may also adversely impact the Bank.

The Bank can provide no assurance that the legal and regulatory actions and proceedings to which it is subject, or to which it may become subject in the future or otherwise affected by, will not, if resolved adversely, result in a material adverse effect on the Bank’s financial position, results of operations or liquidity.

Dividends

In Argentina, financial institutions may distribute dividends provided that (i) they are not covered by the terms of sections 34 “Regularization and recovery” and 35 bis “Institution restructuring to safeguard lending and bank deposits” of the Law on Financial Institutions (Law No. 21,526); (ii) they are not receiving financial assistance from the BCRA; (iii) they are not in arrears or non-compliance with the information regime established by the BCRA; and (iv) they meet minimum capital requirements and cash requirements.

Financial institutions not included in the above paragraph may distribute earnings up to an amount equal to retained earnings of legal reserves less the following items:

1. 100% of the debit balance of each of the items recorded under other comprehensive income (loss);
2. income (loss) arising from the revaluation of property, plant and equipment, intangible assets and investment properties;
3. net positive amount arising from the difference between the measurement at amortized cost and the fair market value recorded by the financial institution with respect to public debt instruments and/or monetary regulation instruments of the BCRA valued at amortized cost, adjustments to asset valuations: (i) notified by the Superintendence of Financial and Exchange Entities (SEFyC)—whether or not accepted by the institution—and/or (ii) required by external auditing and, in both cases, pending accounting registration; and
4. preferential asset valuation exemptions granted by the SEFyC on a case-by-case basis, including adjustments for failure to implement agreed adequacy plans.

Notwithstanding the adjustments mentioned before, dividends distribution will not be admitted if:

- average of liquidity compliance in pesos, foreign currency or national government bonds is less than the last requirement or the one projected, considering the effect of dividends distribution; or
- the financial institution has not complied with any applicable additional capital buffer.

Amounts available for distribution as dividends are determined pursuant to Argentine law and IFRS-BCRA. As a result, dividends may be paid when the Bank has no income as determined under IFRS and, conversely, dividends may not be payable even if the Bank has income as determined under IFRS.

Based on the Bank’s results of operations for the fiscal year 2016, the Board of Directors resolved to propose a cash dividend payment to the shareholders in the amount of Ps.911 million at the annual shareholders’ meeting. On July 20, 2017, the Bank was notified of Resolution No. 550 dated July 18, 2017, whereby the Central Bank authorized a dividend distribution by the Bank for a total amount Ps.911 million. The Board of Directors decided at the meeting held on July 26, 2017 that the payment of such dividends would occur on August 10, 2017.

With respect to fiscal year 2017, the Board of Directors decided at the meeting held on April 26, 2018 that the payment of such dividends would occur on May 9, 2018 for a total amount Ps.970 million.

For the fiscal year 2018, the Board of Directors decided at the meeting held on April 24, 2019 to distribute a total amount Ps.2,407 million based on the Bank’s results as determined under IFRS-BCRA.

For a description of the dividends that we have paid on our ordinary shares and ADSs for the years 2012 to 2018, see “*Item 3. Key Information—Dividends*”.

B. Significant Changes

None.

ITEM 9. THE OFFER AND LISTING

We were one of the first companies listed on the BCBA (now the BYMA), quoting since 1888. Currently our shares are listed on the BYMA under the ticker FRAN. Since 1993 our shares have also been listed on the NYSE in the form of ADSs under the ticker BFR and, since December 1999, our shares have also been listed on the Madrid Stock Exchange under the ticker XBFR. We cannot give assurance that a public market in the United States for the ADSs will continue to exist.

The table below shows the quarterly high and low closing prices of the ordinary shares in pesos on BYMA for the periods indicated. The following prices have not been adjusted for any stock dividends.

| | Pesos Per Ordinary Share ⁽¹⁾ | |
|--------------------------------|--|--------|
| | High | Low |
| May 2019 (through May 7, 2019) | 132.05 | 125.05 |
| April 2019 | 136.15 | 114.40 |
| March 2019 | 149.60 | 134.15 |
| February 2019 | 174.30 | 144.50 |
| January 2019 | 169.70 | 140.25 |
| Year ended December 31, 2018 | 170.50 | 89.00 |
| Fourth quarter | 158.20 | 119.10 |
| December, 2018 | 151.95 | 130.15 |
| November, 2018 | 151.00 | 134.25 |
| October, 2018 | 158.20 | 119.10 |
| Third quarter | 160.50 | 89.00 |
| Second quarter | 157.20 | 113.85 |
| First quarter | 170.50 | 143.80 |
| Year ended December 31, 2017 | 157.00 | 87.00 |
| Fourth quarter | 157.00 | 113.60 |
| Third quarter | 118.30 | 90.00 |
| Second quarter | 111.20 | 91.40 |
| First quarter | 102.80 | 87.00 |
| Year ended December 31, 2016 | 119.00 | 78.50 |
| Year ended December 31, 2015 | 122.00 | 51.80 |
| Year ended December 31, 2014 | 64.00 | 19.40 |

(1) Pesos per ordinary share data reflect nominal prices at trading date.
Source: BYMA.

The ordinary shares trade on the NYSE in the form of ADSs issued by The Bank of New York Mellon, as depositary. Each ADS represents three ordinary shares. The table below shows the quarterly high and low closing prices of the ADSs in dollars on the NYSE for the periods indicated.

| | US\$ Per ADS ⁽¹⁾ | |
|--------------------------------|-----------------------------|-------|
| | High | Low |
| May 2019 (through May 8, 2019) | 8.70 | 8.29 |
| April 2019 | 9.58 | 7.67 |
| March 2019 | 11.26 | 9.14 |
| February 2019 | 13.97 | 11.08 |
| January 2019 | 13.59 | 11.24 |
| Year ended December 31, 2018 | 26.60 | 7.18 |
| Fourth quarter | 12.71 | 9.56 |
| December, 2018 | 12.31 | 9.83 |
| November, 2018 | 12.71 | 11.05 |
| October, 2018 | 12.56 | 9.56 |
| Third quarter | 14.40 | 7.18 |
| Second quarter | 23.26 | 12.34 |
| First quarter | 26.60 | 21.29 |
| Year ended December 31, 2017 | 25.54 | 15.30 |
| Fourth quarter | 25.54 | 19.58 |
| Third quarter | 20.39 | 15.30 |
| Second quarter | 20.75 | 17.23 |
| First quarter | 19.79 | 16.44 |
| Year ended December 31, 2016 | 23.10 | 16.50 |
| Year ended December 31, 2015 | 24.77 | 13.08 |
| Year ended December 31, 2014 | 15.26 | 5.56 |

(1) Source: BoNY Mellon Depository.

Trading on the BYMA

In Argentina all publicly offered securities must be traded on markets authorized by the CNV. At the end of 2018, the four principal authorized markets in Argentina were the *Bolsas y Mercados Argentinos*-BYMA (for equity and fix income), the *Mercado Abierto Electrónico*-MAE (for fix income and derivatives), the *Mercado a Término de Buenos Aires*-MATBA (for commodities and derivatives) and the ROFEX (for commodities and derivatives).

The BYMA, founded as the BCBA in 1854, is the oldest and largest equity market in Argentina. Usually, the overwhelming majority of all Argentine equity trades take place on the BCBA.

As of December 31, 2018, the shares of 95 Argentine companies, excluding investment funds, were listed on the BYMA. In 2018, the total value in shares traded on the exchange increased by 74.3% in comparison with previous year. See “*Instituto Argentino de Mercado de Capitales*.”

All the agents authorized by the CNV can conduct transactions in the authorized markets. These agents must be affiliated with BYMA (stock market continued by BYMA) if they want to trade on this market. Trading on the BYMA is conducted through four different trading systems:

- the “Floor”;
- the “Millennium”;
- the “Senebi”; and
- the “Sistaco”.

The operations at the traditional auction system (the “Floor”) start from 11:00 A.M. and end at 5:00 P.M. each business day, but only a few transactions are conducted by this system. An electronic auction system called “Millennium” is also available where each broker inserts both its buying and selling orders while the system matches the transactions. Both auction systems (the Floor and Millennium) have been considered to be a single market. Both systems allow for the trade of securities, public bonds, private bonds, futures and derivatives.

The Buenos Aires Stock Market’s trades are made through an electronic Senebi Market System (the “Senebi”) that operates from 11:00 A.M. to 5:00 P.M. each business day. Member Agents operate on their own, arranging transactions through direct negotiations. The concerted operations must be informed by the BYMA agents for their disclosure, registration and publication. The transactions arranged and registered in Senebi are considered unsecured and, consequently, do not enjoy the backing of the Mandatory Guarantee Fund Constituted by BYMA. Additionally, such transactions are made through an electronic Sistaco Market System (the “Sistaco”) that operates from 11:00 A.M. to 5:00 P.M. each business day. That allows Brokers of Negotiable Securities (ACVN) to inform BYMA, the occurrence of business on negotiable securities, in the systems that the ACVN manages, in which it links authorized intermediaries that are later confirmed for subsequent registration in the segment Senebi or agree in the PPT. To control price volatility, the BYMA operates a system which suspends dealing in shares and bonds of a particular issuer for 30 minutes or less when changes in the price of such shares exceed or fall more than 10% of the preceding day’s closing share price. From then on, the BYMA suspends trading for a few minutes when prices rise or fall an additional 5% or more in the same day. In all markets, the operations can be executed in pesos or dollars from local accounts or foreign accounts.

As of December 31, 2018, the market capitalization of the 95 domestic companies listed on the BYMA was approximately US\$285.4 billion. At the same time, the market capitalization of the domestic companies totaled US\$47.7 billion.

The following table summarizes certain historical information about the BYMA.

| | December 31, | | |
|---------------------------------------|--------------|--------|--------|
| | 2018 | 2017 | 2016 |
| Market capitalization (US\$ billion) | 285.4 | 356.9 | 282.9 |
| Number of companies listed | 95 | 95 | 89 |
| Rate of return in US\$ ⁽¹⁾ | (50.20)% | 51.80% | 18.10% |
| Market/book ratio ⁽²⁾ | 1.87 | 3.14 | 2.07 |

(1) Based on the Merval Index

(2) Estimated

Source: BYMA and Instituto Argentino de Mercados de Capitales (IAMC).

Market Regulation

In November 2012, the Argentine Congress passed Law No. 26,831 (the “Capital Market Law”), which abrogated Law No. 17,811 enacted in 1968. In July 2013, the Argentine executive branch issued implementing Decree 1023/2013, and in September 2013, the CNV issued a new set of rules further implementing and administering the requirements of the Securities Law (General Resolution 622/2013 and, together with Decree No. 1023/2013, the “CNV Rules”).

The objectives of the Securities Law are, among others, the promotion of the participation in the securities market of small investors, including retail investors, trade unions, chambers of commerce, professional organizations, and small and medium-sized companies; the strengthening of the mechanisms to protect and prevent abuses against such investors and the simplification of the mechanisms by which persons trade on the market.

The Securities Law introduced other important amendments, the most important of which are: (i) the end of the Argentine securities market’s self-regulation; (ii) new categories of licenses for participants in the public offering regime; (iii) the new powers conferred on the CNV; and (iv) the mandatory tender offer rules. These amendments are briefly described below.

▪ End of Self-Regulation of the Securities Market

The Securities Law brought to an end the self-regulation of the Argentine securities market. Prior to the Securities Law, in order to trade on a market, broker dealers had to be shareholders of the self-regulated organization (“SRO”) that operated such market. Accordingly, in the city of Buenos Aires, the only persons authorized to trade securities listed on the BYMA were the shareholders of the Buenos Aires Stock Market, the entity overseeing brokerage activities and transactions on the Buenos Aires Stock Market. Likewise, for persons to trade securities on the Mercado Abierto Electrónico (“MAE”; basically an electronic system to which broker dealers are linked), they had to be shareholders of such entity. While these entities supervised their participants, the CNV, in turn, supervised the entities.

The Securities Law expressly provided that stock exchanges and other securities markets may no longer impose as a requirement for membership to be a shareholder of the relevant exchange or market. It also established that markets must be organized as public companies (i.e. with listed shares), excluding other types of companies or civil associations.

Moreover, the CNV now directly authorizes, revokes the authorization of, regulates and supervises the securities markets, as well as any individuals and companies that in any manner participate in the public offering of securities. Accordingly, the indirect regulation through SROs was abandoned.

▪ New Licenses for Participants in the Public Offering Regime

The Securities Law set several types of licenses for persons and companies already engaged, or wishing to engage, in the public offering of securities. Regarding the former, such as stock brokers or MAE broker dealers that already held a license, the CNV Rules allowed them to choose until March 2014 among the new set of licenses and comply with the requirements of each of them, with longer periods of time available to comply with certain specific requirements such as mandatory minimum capital requirements.

The new types of licenses included the following: Negotiating Agents (*Agentes de Negociación–AN*), for companies that wish to engage in the primary and secondary offer of securities; Liquidation and Compensation Agents (*Agentes de Liquidación y Compensación–ALyC*), for companies that, in addition to the primary and secondary offer of securities, wish to participate in the settlement of transactions; Soliciting Agents (*Agentes Productores–AP*), which allows individuals and companies to solicit clients for referral to either an AN or ALyC; Capital Market Advisors (*Agentes Asesores de Mercados de Capitales–AA*), for individuals or companies giving advice to the public relating to the capital markets; and Selling Agents (*Agentes de Corretaje de Valores Negociables–ACVN*), for ANs, ALyCs and other authorized participants to act as intermediaries among sellers and buyers through electronic platforms.

There are also specific licenses to act as central securities depositories or Collective Deposit Agents (*Agente de Depósito Colectivo–ADC*); or perform certain of their related activities as Custody and Payment Agents (*Agente de Custodia, Registro y Pago–ACRyP*).

Regarding rating agencies, the Securities Law introduced the possibility for public universities to act as such, and therefore there are two categories in this area: rating agents (*Agentes de Calificación de Riesgo–ACR*) and public university rating agents (*Agentes de Calificación de Riesgo–Universidades Públicas*).

Regarding collective investments, including investment funds and trusts, the Securities Law maintained a similar scheme of licenses, extending the requirement imposed on other non-banking entities to register with the CNV to banks, to act as financial trustees.

Finally, the Securities Law required that all employees of registered entities who deal with the public, whether due to the provision of advisory services or any services, must be registered in a special registry to be kept by the CNV (Registry of Competent Agents or *Registro de Idóneos*), and, among others, complete the training programs mandated by the CNV.

- New Powers Conferred on the CNV

The CNV directly regulates, supervises and disciplines individuals and companies that participate in any manner in the public offering of securities. The indirect regulations through SROs were abandoned.

The CNV authorizes the public offering of securities and keeps record of companies authorized to publicly offer their securities. Also, the CNV keeps a registry of, and grants, suspends or revokes the authorization to operate the markets (which governing rules will also approve), licensed agents, and of any other persons or companies that because of their activities are under the CNV supervision. It also approves the governing rules of the securities markets.

The CNV, in addition to the power it already had of controlling the companies authorized to publicly offer their securities, assumes the power of controlling companies which hold the licenses described in “*New Licenses for participants in the Public Offering Regime*” section above. The CNV must carry on the permanent supervision of such companies, approving any amendments to their by-laws, variations of their capital, and their dissolution and liquidation.

The CNV enforces the Securities Law, with the power to impose sanctions. The CNV may declare acts which are under its supervision null and void, without the need of prior administrative proceedings, when such acts were contrary to the Securities Law. The courts reviewing the decisions of the CNV are the administrative law courts instead of the commercial courts.

In carrying out its duties, the CNV may, inter alia, request information, conduct inspections and investigations, request the assistance of law enforcement authorities, and file judicial complaints.

- Mandatory Tender Offers Rules

A mandatory tender offer for taking of control of a company is now applicable to all companies admitted to the public offering regime, with no possibility to opt out of the regime.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable

B. Memorandum and Articles of Association

The following summarizes certain material provisions of our by-laws and Argentine law, the main regulatory bodies governing BBVA Francés. This summary is qualified in its entirety by reference to the Business Companies Law, the Financial Institutions Law and our by-laws, and corresponds to the last five years.

At the ordinary and extraordinary shareholders' meeting held on April 10, 2014, our shareholders approved an amendment to section 1 and 3 of the corporate by-laws in order to comply with the Capital Markets Law. This amendment was registered before the Public Registry of Commerce on September 18, 2014 under No. 17,995, Book 70 of Corporations. A copy of our by-laws was filed as an exhibit to our annual report on Form 20-F for the year ended December 31, 2014. Nothing has changed in our corporate by-laws since the shareholders' meeting held on April 10, 2014.

At the ordinary and extraordinary shareholders' meeting held on April 24, 2019, our shareholders approved an amendment to section 1 and 3 of the corporate by-laws in order to change the company name, allow the board of directors to issue obligaciones negociables without the previous delegation of the shareholders' meeting, the exercise of preemptive rights in accordance of the prospectus in case of a capital increase and the elimination of the accretion right.

Registry and Company's Objects and Purposes

BBVA Francés is registered with the Public Registry of Commerce of the Argentina (Registro Público de Comercio) under company number 1,065, Page 359, Book 5, Volume "A" of Local Corporate By-laws. Section 3 of our by-laws provides that the object of BBVA Francés is to engage in the commercial banking business, including financial brokerage, whether in Argentina or abroad. Under our by-laws, BBVA Francés is authorized to perform the following activities:

- accept term and demand deposits;
- grant short-term bullet and other amortizable loans;
- discount, purchase and sell bills of exchange, promissory notes, pledges, checks, drafts and other negotiable instruments;
- grant guarantees, bonds or other forms of collateral; accept bills of exchange, drafts and other orders of payment, transfer funds and issue and accept letters of credit;
- grant advances on credits from property sales, acquire the same and undertake the risks resulting therefrom, take steps to collect them and offer technical and administrative assistance;
- invest in government securities;
- make temporary investments in liquid assets;
- invest in new stock or securities issues, in pursuance of such regulations as may be set forth to that purpose;
- accept securities in custody and provide other services related to the banking business;
- manage, on account of third parties, the purchase and sale of securities, and act as paying agents in relation to dividends, redemption and interest;
- engage in brokerage activities in the over-the-counter securities market;
- perform foreign exchange transactions;
- comply with agencies related to its operations;
- receive deposits of participation in mortgage loans and in special accounts;
- issue mortgage obligations;
- grant loans for the acquisition, construction, enlargement, repair, improvement and maintenance of urban or rural real estate, and for the substitution of mortgages taken out for that same purpose;
- receive loans from abroad and act as intermediary in local or foreign currency-denominated loans;
- issue private bonds;
- carry out such lending, borrowing and service-related operations as are not forbidden under the Financial Institutions Law; and
- serve and register before the CNV as management agent for collective investment products, custodian for collective investment products, trading agent, settlement and clearing agent, broker, capital market advisor agent, securities broker and/or custody, registration and paying agent, taking into account the compatibilities established by the Argentine Securities Commission and upon compliance with the requirements established by that entity.

Directors

Under Section 18 of our by-laws, the Board of Directors receives an annual fee established by the shareholders. This fee is subject to the restrictions of Section 261 of the Business Companies Law, which provides that the aggregate compensation of the directors may not exceed 25% of the income of the Bank, or 5% of the income if no dividends were distributed to the shareholders.

The compensation of the members of the Board is previously approved by the Nominations and Compensation Committee and the Audit Committee (II) of the Bank, taking into consideration the reasonability and legality of the amount proposed. The decision of these two committees regarding the compensation amount will then be submitted to the approval of the Board of Directors and the annual shareholders' meeting.

Under Section 272 of the Business Companies Law, a director may not vote in respect of any proposal in which he, or any person connected to him, has an interest contrary to the interests of BBVA Francés. Moreover, Directors are not entitled to carry out personal transactions with the company or its affiliates, other than the banking common operations, unless they are approved by a special procedure that guarantees the transparency of proposed transaction.

Directors need not hold shares in BBVA Francés or any of our subsidiaries to qualify and be appointed as directors of BBVA Francés.

The bank has no policies regarding age limits or retirement age.

Rights Attaching to Shares

As of the date of the filing of this annual report, our capital is formed by a single class of shares, all of which are ordinary shares and have the same voting and economic rights. Shareholders participate in the distribution of dividends pro rata of the paid-in capital. Furthermore, shareholders are entitled to participate in the distribution resulting from the liquidation of BBVA Francés in proportion to the paid-in capital.

Shareholders are entitled to vote cumulatively one-third of the vacancies of the Board of Directors. The board may not be partially reelected if it impairs or prevents the exercise by shareholders of their cumulative voting rights.

Shareholders may no longer claim the payment of dividends from BBVA Francés once three years have elapsed from the date on which the relevant dividend was made available to such shareholder.

Our by-laws do not contain any provisions related to sinking funds or potential liability of shareholders of BBVA Francés to make additional contributions.

Shareholders' meetings

All general meetings apart from annual regular meetings are called regular or special meetings. Ordinary and extraordinary shareholders' meetings are to be convened by the Board of Directors of the Bank or by the Supervisory Committee in such instances as set forth by law, or whenever they may deem it necessary, or upon requisition of shareholders representing at least 5% of our stock capital, as provided by Section 236 of the Business Companies Law.

Shareholders' meetings are called by publication for five days, at least 20 and not more than 45 days before the date of the meeting, in the Official Gazette and in one of the most widely circulated newspapers in Argentina. The notice must include the nature, the date, time and place of the meeting, the agenda, and any special requirements in our by-laws for the shareholders to attend.

In case of adjournment of a regular shareholders' meeting, the meeting on second call may be held on the same date, at least one hour after the time set for the meeting on first call, in compliance with Section 237 of the Business Companies Law. In case of adjournment of a special shareholders' meeting, the meeting on second call must be held within the following thirty days, and the publication must appear for three days at least eight days before the date set for that meeting.

In order to attend and vote at any shareholders' meeting, shareholders must deposit with us their shares or a share certificate or a statement of account representing book-entry shares, as the case may be, issued by us, a securities depository or any other authorized institution, to be recorded in the record book of attendance, at least three business days before the date of the meeting.

Holders of registered or book-entry shares, the record of which we keep, are only required to notify us to register their names in the record book of attendance, at least three business days before the date of the meeting. We must provide such shareholders with certificates authorizing them to attend the meeting.

Shareholders may be present at meetings by power-of-attorney or proxy. In the latter case, the principal's signature shall be certified by a court, notary public or bank. Directors, statutory auditors, managers or any other of our employees may not act as agents for these purposes.

A quorum must be present at any regular shareholders' meetings on first call upon the attendance of shareholders representing the majority of voting stock. On second call, there is a quorum with the attendance of any number of shares present. A quorum is present at any special shareholders' meeting on first call upon the attendance of shareholders representing 60% of the voting stock. Shareholders representing 30% of our voting stock shall constitute a quorum at a special shareholders' meeting on second call. In any case, resolutions require the absolute majority of the voting stock present.

Restrictions on Voting and Shareholding

There are no restrictions imposed by Argentine law or our by-laws or other organizational documents regarding the rights of non-residents or foreign persons to hold or vote our ordinary shares or ADSs of the Bank.

Change of Control

There are no provisions in our articles of incorporation or by-laws that would have the effect of delaying, deferring or preventing a change of control of BBVA Francés and that would operate only with respect to a merger, acquisition, corporate restructuring involving BBVA Francés or any of its subsidiaries.

Ownership Disclosure

There are no provisions in our by-laws governing the ownership threshold above which shareholder ownership must be disclosed.

Change in the Capital

Our by-laws do not establish conditions for the changes in the capital of BBVA Francés more stringent than those conditions imposed by the Business Companies Law.

C. Material Contracts

No material contracts outside the ordinary course of business have been entered into during the last two years.

D. Exchange Controls

On January 7, 2002, Congress approved the Public Emergency Law that introduced dramatic changes to the Republic's economic model and amended the currency board that pegged the peso at parity with the dollar which had been in effect since April 1, 1991 pursuant to the Convertibility Law. The law empowered the executive branch to implement, among other things, additional monetary, financial and exchange measures to overcome the economic crisis in the medium term. The Central Bank, among other restrictive measures, restricted the transfer of U.S. dollars abroad without its prior approval. In 2003 and 2004, the government substantially eased these restrictions. On June 10, 2005 the government issued Decree No. 616/05 establishing further restrictions on capital flows into Argentina, with the following provisions:

- (i) all incoming and outgoing funds from the Argentine Exchange market, and any debt operation with non-residents which could demand future payments in foreign currency to non-residents, are subject to registration with the Central Bank for informative purposes;
- (ii) any debt entered into between non-governmental persons or entities and non-residents must be agreed for a term of at least 365 days, except for the financing of import and export operations and the primary placements of public debt listed in an authorized stock exchange; and
- (iii) all incoming funds relating to foreign private debt, and all incoming funds of non-residents, excluding foreign direct investments and certain types of portfolio investments (purchases in the primary market of debt instruments and equity, listed in authorized stock exchanges, etc.) regardless of the agreed payment procedure, must be agreed for at least 365 days, and 30% of incoming funds must be deposited with a bank in Argentina in a non-interest bearing account, known as "encaje" (legal reserve)

On December 16, 2015, the Ministry of Economy and Public Finances issued Resolution No. 3/2015 (published in the Official Gazette on December 18, 2015) amending Decree No. 616/2005. Pursuant to such resolution, the mandatory waiting period was reduced from 365 to 120 calendar days and the mandatory deposit was reduced to zero percent.

Accompanying this resolution, the Central Bank issued new foreign exchange regulations on December 17, 2015: Communications "A" 5850 and continuing with Communications "A" 5861, 5899, 6037, 6137 and supplementary, under which structural changes were made to the current foreign exchange regime, easing the access to the foreign exchange market.

On February 2017, the Ministry of Economy and Public Finances issued Resolution No. 1/2017 reducing the mandatory waiting period to zero days and, at the same time, the Central Bank issued new foreign exchange regulations in Communications "A" 6037, 6118, 6137, 6150, 6163 and 6174 that ease the access to the foreign exchange market in Argentina.

On May 19, 2017, the Central Bank issued Communication "A" 6244 effective as of July 1, 2017, whereby all the rules that regulated trading in the foreign exchange market were significantly modified and rendered more flexible. Therefore, a description of the restrictions and regulations in effect until June 30, 2017 and those that will be in effect as of July 1, 2017 are detailed herein below.

Cross Border Transfers of Funds, Foreign Debts

Repayment of principal of, and interest on, foreign indebtedness, was initially subject to the Central Bank's prior authorization and the previous entry and liquidation of the funds through the single and free exchange market (MULC).

Currently, due to the changes introduced by the Central Bank, since August 9, 2016 new indebtedness is no longer subject to the mandatory inflow and settlement through the foreign exchange market.

Nowadays, regardless of whether the financial indebtedness was incurred before or after December 17, 2015, all indebtedness can be prepaid or canceled without complying with any minimum waiting period.

Regulations Regarding Exports, Imports, and Services

Regarding exports, in 2016 the Central Bank relaxed certain rules related to the inflow and outflow of foreign currency collected abroad as a result of the collection of exports of goods, advance payments, and pre-export financings, establishing that the deadline to repatriate to Argentina the foreign currency is 10 years.

The prior 10-business day period applicable for the transfer of funds collected abroad as a result of the collection of exports of goods, advance payments, and pre-export financings to a correspondent bank account of a local financial institution (cuenta de corresponsalia) was eliminated in December 2015. Finally, since November 11, 2017 Communication "A" 6363 eliminated the obligation of repatriate to Argentina the collection of exports of goods.

In relation to the export of services, Communication "A" 6137 the Central Bank eliminated the obligation to repatriate to Argentina the foreign currency obtained.

Regarding imports, access to the foreign exchange market for the payment of imports with customs clearance date as of December 17, 2015 can be paid through the local foreign exchange market without any limit. The AFIP Regulation No. 3252 published on January 5, 2012 which required importers to file sworn statements was eliminated in December 2015 and the import monitoring system (*Sistema Integral de Monitoreo de Importaciones* or "SIMI"), was created which established an obligation for importers to submit certain information electronically.

Importers do not have to repatriate the goods within a specified period (previously this period was 365 calendar days from the date of access to the foreign exchange market).

Regarding the payment of services, the access to the foreign exchange market for payments of services rendered as from December 17, 2015 may be carried out without any limits and without the Central Bank's prior authorization.

Purchase of Foreign Currency

A. Domestic individuals and companies

Communications "A" 5850, 6037 and 6163 and Resolution No. 3,821 modified and replaced the prior regimes related to, among others, the purchase of external assets by Argentine residents – domestic individuals and companies - for investment purposes (a practice commonly referred to as *atesoramiento*) and for travel, tourism and family assistance.

The regime currently applicable is characterized by the following:

- External assets may only be acquired by Argentine individuals, legal entities from the private sector incorporated in Argentina that are not authorized to trade on the foreign exchange market, assets (patrimonios), and other entities incorporated in Argentina and local government agencies.
- Access to the local foreign exchange market without requiring prior Central Bank approval is allowed for an unlimited amount, for all of the following: real estate investments abroad, loans granted to non-Argentine residents, Argentine residents' contributions of direct investments abroad, portfolio investment of Argentine individuals abroad, certain other investments abroad of Argentine residents, portfolio investments of Argentine legal entities abroad, purchase of foreign currency bills to be held in Argentina, donations complying certain conditions, as well as purchase of traveler checks.
- In the case of foreign currency sales to Argentine residents for portfolio investments abroad, the transfer has to be made directly to the bank account of such Argentine resident, which must be located at foreign banks or financial institutions that regularly conduct investment banking activities, which are not incorporated in countries or territories considered not to be cooperative for purposes of fiscal transparency in terms of the provisions of Section 1 of the Decree No. 589/13 and its complementary provisions, or in countries or territories that do not apply the recommendations of the FATF. For these purposes, countries or territories considered to be uncooperative are the countries or territories identified by the FATF (www.fatf-gafi.org).
- The proceeds of the sale of foreign currency by Argentine residents in the foreign exchange market for all the items can be credited in a checking or savings bank account in a local financial institution in the client's name or withdrawn by cash.
- Regarding the collection for services provided to non-Argentine residents and/or resulting from the sale of non-produced non-financial assets exempted from mandatory sale in the foreign exchange market.

Argentine residents that receive funds in foreign currency for the payment of services rendered to non-Argentine residents or for the sale of non-produced non-financial assets may receive those funds in a local foreign currency account without exchanging it for Argentine pesos in the foreign exchange market.

Following Communications "A" 6011, 6037 and 6163 of the Central Bank foreign assets may be acquired for investment purposes by Argentine residents without limitations. In addition foreign currency may be purchased through a debit account or through an unlimited cash withdrawal without limits.

B. Non-residents

Communication "A" 6150 dated January 13, 2017 abolished all restrictions regarding prior approval from the Central Bank, minimum amounts, or minimum holding periods to repatriate portfolio investments or direct investments of non-residents.

A declaration is required to transfer funds to foreign accounts of non-residents without prior authorization from the Central Bank. The funds to be transferred must belong to import payments; external debts of residents for Argentine imports of goods; services, rents and any other current transfers abroad; financial debts originated by external loans of non-residents; income from bonds and guaranteed loans from the national government issued in local currency; recoveries of local bankruptcy credits and collections of insolvency debts; inheritances; benefits; repatriations of direct investments in the non-financial private sector or real estate; sale of direct investment and final liquidation of direct investment; capital reduction and refund of irrevocable contributions made by the local company.

Access to the MULC is also recognized by court decisions granting compensation to non-residents.

As set forth in Communication "A" 6174, the entities authorized to operate changes may sell foreign currency to non-residents without limitations if the funds are duly credited to a local account in their name.

Transfer of Dividends

According to Communications "A" 3859 and "A" 6037 (as amended), Argentine companies in general, may distribute corporate profits and dividends corresponding to audited financial statements certified by external public accountants.

For information regarding the payment of dividends for Financial institutions please "*Item 8.—Financial Information—A. Financial Statements and Other Financial Information—Dividends*".

Direct Investments

On March 4, 2005, the Argentine Central Bank issued Communication "A" 4305 that regulates the reporting system of direct investments and real estate investments carried out by non-residents in Argentina and by Argentine residents abroad, which had been implemented through Communication "A" 4237 dated November 10, 2004.

- Direct investments in Argentina of non-Argentine residents. Non-Argentine residents must comply with the reporting regime if the value of their investments in Argentina reaches or surpasses the equivalent of US\$500,000 – measured in terms of the net worth of the company in which they participate or fiscal value of the real estate owned. If the investments do not reach such amount, the compliance with such regime is optional. According to Communication "A" 4237, companies in which non-Argentine residents participate in and administrators of real estate of non-Argentine residents must comply with the reporting regime.
- Direct investments made abroad by Argentine residents. Argentine investors must comply with the reporting regime if the value of their investments abroad reaches or surpasses the equivalent of US\$1,000,000 – measured in terms of net worth of the company in which they participate or the fiscal value of the real estate they own. If the value of those investments abroad does not exceed the equivalent of US\$5,000,000, the reporting obligation is annual instead of semi-annual. If the investments do not reach the equivalent of US\$1,000,000, the compliance with such regime is optional.

Future and Forward Operations

The Central Bank has significantly amended the foreign exchange regulations in derivatives by eliminating the restriction on the execution of cross-border derivative transactions.

In August 2016, the Central Bank introduced new foreign exchange regulations on derivative transactions which allowed local residents from entering into derivative transactions with foreign residents. Moreover, the regulations now provide that Argentine residents may access the foreign exchange market to pay premiums, post collateral and make payments related to forwards, futures, options and other derivatives entered into in foreign exchanges or with non-resident counterparties.

The foreign exchange regulations now allow Argentine residents to enter into derivative transaction with foreign counterparties without authorization of the Central Bank. They also allow them to purchase foreign currency to make payments under derivative transactions.

Banking institutions must follow specific rules, depending on whether the derivatives transaction are made with a central clearing counterparty or a foreign bank.

Restrictions as from July 1, 2017.

In accordance with Communication "A" 6244, effective as of July 1, 2017, all the rules that regulated the exchange rate, the general position of changes and the provisions adopted by Decree No. 616/05 were replaced by the provisions set forth in Communication "A" 6244. The regulations concerning information regimes, surveys or follow-ups related to such topics remain in force.

- The principle of a single market free of change. In accordance with item 1.1 of the aforementioned communication, "All human or legal persons, assets and other universals may operate freely in the foreign exchange market".
- The obligation to carry out exchange operations through authorized entities (item 1.2) continues in force.
- The operating schedule of the single and free of changes market is no longer in force.

Residents' obligation to complete the "Survey of debt securities and external liabilities issuance" (Communication "A" 3602 and complementary) and the "Survey of direct investments" (Communication "A" 4237 and complementary) is currently in force; even when there has been no entry of funds to the exchange market and / or it is not foreseen to access it in the future due to the transactions that correspond to declare.

For further information about the restrictions and exchange controls for capital inflows currently in force, it is recommended that investors consult with their legal advisors and read the Central Bank's regulations, Decree No. 616/2005, Resolution No. 3/2015 of the former Ministry of Economy and Public Finance, Communications "A" 6037 and "A" 6244 of the Central Bank and the Foreign Exchange Regime Law No. 19,359 and its complementary regulations. Interested parties may consult the website of the Ministry of Justice and Human Rights (www.infoleg.gov.ar) or the Central Bank (www.bcra.gov.ar).

By virtue of Communication “A” 6363 dated November 10, 2017, the BCRA left without effect the rules related to the obligation to negotiate currencies for collections of exports of goods, due to the prior issuance of Decree No. 893/2017 of the National Executive Branch.

As per Communication “A” 6401 of December 26, 2017, the provisions set forth in Communications “A” 3602 and “A” 4237 were replaced by new survey of external assets and liabilities applied to the information to be declared as of December 31, 2017. Statements made on or before September 30, 2017 shall be governed by the rules of the replaced communications.

E. Taxation

The following is a summary of certain Argentine and United States federal income tax consequences of the ownership and disposition of our ADSs or ordinary shares by a U.S. Holder (as defined below). This summary is not a complete analysis or listing of all possible tax considerations that may be relevant to a holder of our ADSs or ordinary shares. Holders of our ADSs or ordinary shares should consult their own tax advisers as to Argentine, United States and other tax consequences of the ownership and disposition of ADSs or ordinary shares.

I. Argentine Taxes

General

The following is a summary of certain Argentine tax matters that may be relevant with respect to the ownership and disposition of ADSs or ordinary shares by U.S. Holders. Such summary is based upon the tax laws of Argentina, and regulations thereunder, in effect as of the date of this annual report and is subject to any subsequent change in Argentine laws and regulations which may come into effect after such date. Investors in ADSs or ordinary shares should consult their own tax advisers as to the Argentine, United States and other tax consequences of the ownership and disposition of ADSs or ordinary shares.

Taxation of Dividends

Pursuant to Law No. 25,063, as enacted into law on December 30, 1998, dividend payments on the ordinary shares (and ADSs), whether in the form of cash, stock, or other types of consideration, are subject to Argentine withholding taxes at a rate of 35% to the extent the aggregate amount distributed exceeds the sum, for the previous year, of: (i) our accumulated taxable earnings and (ii) certain tax-exempt income (such as dividend payments from other corporations) (known as the “equalization tax”).

On September 23, 2013, Law No. 26,893 was published, which imposes an additional 10% withholding tax on dividends, in cash or in kind, that Argentine companies distribute to Argentine individuals as well as foreign individuals and entities. The law describes the 10% withholding tax as a “sole and definitive” payment.

Law No. 26,893 became effective as of September 23, 2013 and applies to taxable events on or after that date.

However, such 10% withholding was abrogated by art. 75 of Law No. 27,260. Consequently, payments of dividends or profits distributions that are verified as from July 23, 2016 are exempted from the 10% income tax withholding.

With respect to the equalization tax, article 83 of fiscal reform Law No. 27,430 states that it shall not be applicable for dividends or profits attributable to accrued earnings in the fiscal years beginning as from 1 January 2018.

On the other hand, for the fiscal years beginning as of 1 January 2018 the issuer will be subject to a 30% tax rate and a withholding tax of 7% will be applicable to the dividends. For the fiscal year beginning in 2020, the issuer will be subject to a 25% tax rate and a withholding tax of 13% will be applicable to the dividends.

The tax must be withheld by the paying entities from the above-mentioned dividends and profits received by natural persons and undivided succession residing in the Republic of Argentina and non-resident beneficiaries. An undivided succession is a legal figure created by the Argentine Civil Code which covers the time elapsed between the date of death of a person and the declaration of heirs. Such withholding shall have the character of a unique and definitive payment, except for those natural persons and undivided successions residing in the Republic of Argentina and registered as payers of the tax.

In the case of distributed profits generated in fiscal periods in respect of which the paying entity was subject to the 35% tax rate, the payment of the tax or withholding shall not apply to such dividends or profits, as the case may be. Nonetheless, if applicable, the equalization tax still applies.

To these effects it shall be considered, without admission of proof to the contrary, that the dividends or profits made available correspond, first and foremost, to the earliest accumulated profits or benefits.

The dividends or profits distributed by subjects under article 69 (capital companies and permanent establishments) and the interest or accruals from securities, bonds, investment fund participations and other financial instruments will be applied to the fiscal year in which they may have been: (i) made available or paid, whichever occurs first; or (ii) capitalized, provided the securities foresee interest or accrual payments within terms of up to one year.

So far these rules have not been subject to regulations by the executive power or authority of application.

Taxation of Capital Gains

The tax reform Law No. 27,430 enacted in December 2017 brought about changes regarding the taxation of capital gains deriving from the trading of shares, representative values and share deposit certificates and other securities, quotas and corporate participations (including quotas in mutual investment funds, certificates of participation in financial trusts and any other rights on trusts and similar agreements) digital coins, securities, bonds and other financial instruments, whoever the subject acquiring them.

The capital gains deriving from the holding and trading of shares will be considered to be of Argentine source whenever the issuer is domiciled, established or residing in the Argentine Republic. The representative securities or share deposit or other certificates, such as our ADSs, will be of Argentine source when the issuer of the shares and other securities is domiciled, established or resident in the Argentine Republic, regardless of the entity issuing the certificates, the place of issue of the latter or the place of deposit of such shares and other securities.

According to the changes made by the amendment to article 20 paragraph w) of the Income Tax Law, the following will be exempted from tax:

- The capital gains from purchase and sale, exchange, swap or disposal transactions of shares, securities representing shares and share deposit certificates, held by natural resident persons and undivided estate established in the Argentine Republic, provided those transactions are not attributable to subjects comprised in paragraphs d) and e) and in the last paragraph of article 49 of the law.

The benefit established in the preceding paragraph may only be applicable to the extent that (a) it is a placement by public offer authorized by the National Securities Commission; (b) the transactions were carried out in markets authorized by such body under segments ensuring price-time priority and interference of offers; and/or (c) they were effected through a public offer of purchase and/or exchange as authorized by the National Securities Commission.

- The capital gains from purchase and sale, exchange, swap or disposal transactions of shares, securities representing shares and share deposit certificates, held by non-resident beneficiaries insofar as such beneficiaries do not reside in non-cooperating jurisdictions. Likewise, the tax exemption shall also be applicable to the interest or yield or results from the purchase and sale, exchange, swap or disposal by the above-mentioned non-resident beneficiaries of representative securities or share deposit certificates issued abroad, such as our ADSs, provided such shares were issued by entities domiciled, established or residing in the Argentine Republic and have an authorization for public offer issued by the National Securities Commission.

If the requirements of paragraph w) article 20 of the law described above are not met, the applicable tax will be fifteen percent (15%).

So far these rules have not been subject to regulations by the executive power or authority of application.

Value Added Tax ("VAT")

Neither the sale, exchange or other disposition of ADSs or ordinary shares nor the payment of dividends thereunder is subject to VAT.

Transfer Taxes

The sale or transfer of ADSs or ordinary shares is not subject to transfer tax.

Personal Property Tax

According to Law No. 23,966, as amended, and Decrees No. 127/96 and 812/96, all individuals and undivided estates are subject in Argentina to a personal property tax on all assets held at December 31 of each fiscal year (the "Personal Property Tax"). This tax applies to our ADSs and ordinary shares held by U.S. Holders. In the case of individuals and undivided estates domiciled or located in Argentina, an exemption is available to taxpayers whose assets included in the tax base for purposes of the Personal Property Tax do not exceed Ps.305,000. Corporations and other legal entities domiciled or located in Argentina are not subject to the Personal Property Tax. Individuals and undivided estates domiciled or located in a foreign country are subject to the Personal Property Tax only with respect to assets located in Argentina.

Pursuant to Law No. 25,585, it is presumed — without the right to rebut such presumption — that shares of stock corporations, such as ADSs (held in book-entry form or evidenced by ADRs), shares of common stock and equity interests in entities governed by the Business Companies Law No. 19,550, as amended, whose holders are corporations or any other entities, companies, permanent establishments or trusts, domiciled, settled or located in a foreign country, belong indirectly to individuals or undivided estates domiciled in a foreign country.

Pursuant to Law No. 25,585, published in the Official Gazette on May 15, 2002, BBVA Francés is responsible for paying the Personal Property Tax on our ADSs or ordinary shares held by individuals or undivided estates domiciled in Argentina or a foreign country, or corporations or any other entities located in a foreign country. The tax rate to be applied is 0.50% and the taxable base is the value of the shareholders' equity arising from the last balance sheet of the company at December 31. The minimum exempted amount of Ps.305,000 is not applicable. The tax so paid is considered a definitive payment.

Companies responsible for the tax payment, such as BBVA Francés, are entitled to obtain refunds of the amounts paid from holders of ADSs or ordinary shares and may retain or foreclose on the property included in the tax base for purposes of the Personal Property Tax that originated the payment.

The Tax Amnesty Regime instituted by Law No. 27,260 established benefits for observant taxpayers and set forth certain conditions for having access to such benefits.

In the case of business entities, the benefit is an exemption from the Personal Property Tax applicable to fiscal years 2016, 2017 and 2018. In this case, even if the entity is the one obligated to pay the tax in its capacity as "substitute responsible", the tax is applicable to the shareholder.

The Treasury, by means of a circular letter (Circular AFIP 2-E 2017), specified that the "substitute responsible" enjoys the above benefit exclusively in its capacity as "substitute" and with respect to the property for which it is obliged in such capacity. This implies that, even if it may have a record of defaults in its own obligations or may have applied for the Tax Amnesty Regime, such circumstances will not make it forfeit its benefit as a compliant taxpayer in its capacity as substitute responsible (for the benefit of its shareholders).

Also, in the case of corporate stocks or shareholdings, the percentage value was reduced from 0.50% to 0.25% by the law indicated above.

In 2018, the Bank does not expect to make payments on account of its shareholders in connection with Personal Property Tax due with respect to assets held as of December 31, 2018.

Other Taxes

There are no Argentine inheritance, succession or gift taxes applicable to the ownership, transfer or disposition of ADSs or ordinary shares. There are no Argentine stamp, issue, registration or similar taxes or duties payable by holders of ADSs or ordinary shares.

Deposit and Withdrawal of Ordinary Shares in Exchange for ADSs

No Argentine tax is imposed on the deposit or withdrawal of ordinary shares in exchange for ADSs.

Income Tax Treaty

There is currently no income tax treaty or convention in effect between Argentina and the United States.

2. U.S. Federal Income Tax Considerations

The following summary describes material U.S. federal income tax consequences to U.S. Holders of owning and disposing of ADSs or ordinary shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to hold such securities. The discussion applies only to the U.S. Holders (described below) that hold ADSs or ordinary shares as capital assets for U.S. federal income tax purposes and it does not describe all of the tax consequences that may be relevant in light of the U.S. Holder's particular circumstances, including alternative minimum tax consequences, the potential application of the provisions of the Code known as the Medicare contribution tax and tax consequences applicable to U.S. Holders subject to special rules, such as:

- certain financial institutions;
- dealers and traders in securities who use a mark-to-market method of tax accounting;
- persons holding ADSs or ordinary shares as part of a hedging transaction, straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to ADSs or the ordinary shares;

- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes;
- tax-exempt entities, “individual retirement accounts” or “Roth IRAs”;
- persons that own or are deemed to own ten percent or more of our stock, by vote or value;
- persons who acquired ADSs or ordinary shares pursuant to the exercise of an employee stock option or otherwise as compensation; or
- persons holding shares in connection with a trade or business conducted outside of the United States

If an entity that is classified as a partnership for U.S. federal income tax purposes holds ADSs or ordinary shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities of the partnership. Partnerships holding ADSs or ordinary shares and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the ADSs or ordinary shares.

This discussion is based on the Internal Revenue Code of 1986, as amended (the “Code”), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis, which may affect the tax consequences described herein. It is also based in part on representations by the depositary and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with its terms. Holders of the ADSs or ordinary shares are urged to consult their own tax advisers as to the United States, Argentine and other tax consequences of the ownership and disposition of ADSs or ordinary shares in their particular circumstances, including the effect of any U.S. state or local tax laws.

As used herein, a “U.S. Holder” is a beneficial owner of ADSs or ordinary shares that is, for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

In general, a U.S. Holder who owns ADSs will be treated as the owner of the underlying shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury has expressed concern that parties to whom American depositary shares are released before shares are delivered to the depositary (“pre-release”), or intermediaries in the chain of ownership between U.S. Holders and the issuer of the security underlying the American depositary shares, may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. Holders of American depositary shares. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the creditability of Argentine taxes, and the availability of the reduced tax rate for dividends received by certain non-corporate holders, each described below, could be affected by actions taken by such parties or intermediaries.

U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and non-U.S. tax consequences of owning and disposing of ADSs or ordinary shares in their own particular circumstances.

This discussion assumes that the Company is not, and will not become, a passive foreign investment company (“PFIC”), as described below.

Taxation of Distributions

Distributions paid on ADSs or ordinary shares, other than certain pro rata distributions of ordinary shares, will generally be treated as dividends to the extent paid out of current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because the Company does not maintain calculations of its earnings and profits under U.S. federal income tax principles, it is expected that distributions will be reported to U.S. Holders as dividends. Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid by qualified foreign corporations to certain non-corporate U.S. Holders are taxable at rates applicable to long-term capital gains. A foreign corporation is treated as a qualified foreign corporation with respect to dividends paid on stock that is readily tradable on a securities market in the United States, such as the New York Stock Exchange where our ADSs are traded. U.S. Holders should consult their tax advisers to determine whether the favorable rate will apply to dividends they receive and whether they are subject to any special rules that limit their ability to be taxed at this favorable rate. The amount of a dividend will include any amounts withheld in respect of Argentine taxes. The amount of the dividend generally will be treated as foreign-source dividend income to U.S. Holders and will not be eligible for the dividends-received deduction generally allowed to U.S. corporations under the Code. Dividends generally will be included in a U.S. Holder’s income on the date of such U.S. Holder’s (or in the case of ADSs, the depositary’s) receipt of the dividend. The amount of any dividend income paid in Argentine pesos will be the U.S. dollar amount calculated by reference to the exchange rate in effect on the date of such receipt regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, U.S. Holders should not be required to recognize foreign currency gain or loss in respect of the dividend income. U.S. Holders may have foreign currency gain or loss if such dividend is not converted into U.S. dollars on the date of its receipt.

Subject to applicable limitations, some of which vary depending upon the U.S. Holder's circumstances and subject to the discussion above regarding concerns expressed by the U.S. Treasury, Argentine income taxes, if any, withheld from payments of dividends on ADSs or ordinary shares generally will be creditable against a U.S. Holder's U.S. federal income tax liability. Amounts paid on account of the Argentine Personal Property Tax, if any, will not be eligible for credit against the U.S. Holder's U.S. federal income tax liability. U.S. Holders should consult their tax advisers to determine the tax consequences applicable to them as result of amounts paid on account of the Argentine Personal Property Tax, including whether such amounts are includible in income or deductible for U.S. federal income tax purposes. The rules governing foreign tax credits are complex and, therefore, U.S. Holders should consult their tax advisers regarding the availability of foreign tax credits in their particular circumstances. Instead of claiming a foreign tax credit, a U.S. Holder may, at its election, deduct such otherwise creditable Argentine taxes in computing its taxable income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all foreign taxes paid or accrued in the taxable year.

Sale or Other Disposition of ADSs or Ordinary Shares

For U.S. federal income tax purposes, gain or loss a U.S. Holder realizes on the sale or other disposition of ADSs or ordinary shares will be capital gain or loss, and will be long-term capital gain or loss if the U.S. Holder held the ADSs or ordinary shares for more than one year. The amount of a U.S. Holder's gain or loss will equal the difference between its tax basis in the ADSs or ordinary shares disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. If an Argentine tax is withheld on the sale or disposition of ADSs or ordinary shares, a U.S. Holder's amount realized will include the gross amount of the proceeds of the sale or disposition before deduction of the Argentine tax. See "*Argentine Taxes—Taxation of Capital Gains*" for a description of when a disposition may be subject to taxation by Argentina. Such gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes. U.S. Holders should consult their tax advisers as to whether the Argentine tax on gains may be creditable against the U.S. Holder's U.S. federal income tax on foreign source income from other sources. The deductibility of capital losses is subject to limitations.

Passive Foreign Investment Company Rules

We believe that we were not a PFIC for U.S. federal income tax purposes for the taxable year 2018. However, because our PFIC status depends upon the composition of our income and assets and the market value of our assets (including, among others, less than 25-percent-owned equity investments) from time to time, and because our analysis of our PFIC status is based upon certain proposed Treasury regulations that are not yet in effect but are generally proposed to become effective for taxable years after December 31, 1994 and may not be finalized in their current form, there can be no assurance that we will not be considered a PFIC for any taxable year. If we are treated as a PFIC for any taxable year during which a U.S. Holder owned ADSs or ordinary shares, gain recognized by such U.S. Holder on a sale or other disposition (including certain pledges) of ADSs or ordinary shares would be allocated ratably over the U.S. Holder's holding period for the ADSs or ordinary shares. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for such taxable year and an interest charge would be imposed on the resulting tax liability for each such taxable year. Further, any distribution in respect of ADSs or ordinary shares in excess of 125 percent of the average of the annual distributions on ADSs or ordinary shares received by the U.S. Holder during the preceding three years or the U.S. Holder's holding period, whichever is shorter, would be subject to taxation in the same manner. Certain elections (including a mark-to-market election) may be available to U.S. Holders that may result in alternative treatments if we were a PFIC for any taxable year. U.S. Holders should consult their tax advisers to determine whether any of these elections would be available and, if so, what the consequences of the alternative treatments would be in their particular circumstances.

In addition, if we were a PFIC or, with respect to a particular U.S. Holder, were treated as a PFIC for a taxable year in which we pay a dividend or the prior taxable year, the favorable tax rates discussed above with respect to dividends paid to certain non-corporate holders would not apply.

If we are a PFIC for any taxable year during which a U.S. Holder owned our ADSs or ordinary shares, such U.S. Holder will generally be required to file IRS Form 8621 with the U.S. Holder's annual U.S. federal income tax return, subject to certain exceptions.

Information Reporting and Backup Withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless (i) the U.S. Holder is an exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

Certain U.S. Holders who are individuals or specified entities may be required to report information relating to securities of non-U.S. companies, or accounts through which they are held, subject to certain exceptions (including an exception for securities held in accounts maintained by U.S. financial institutions). U.S. Holders should consult their tax advisors regarding the effect, if any, of these rules on their ownership or disposition of ordinary shares or ADSs.

F. Dividends and paying agents

Not applicable.

G. Statement by experts

Not applicable.

H. Documents on Display

This annual report and the exhibits thereto and any periodic reports or other information filed pursuant to the Exchange Act may be inspected without charge and copied at prescribed rates at the SEC's public reference room located at 100F Street, N.E., Washington, D.C. 25049. In addition, the SEC maintains a website that contains information filed electronically with the SEC, which can be accessed over the internet at www.sec.gov. The documents concerning BBVA Francés which are referred to in this annual report may also be inspected at our office at Av. Córdoba 111, C1054AAA Buenos Aires, Republic of Argentina.

I. Subsidiary information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Introduction

We have divided this section into three parts:

- Risk management, where we explain the policies and procedures that the Bank has in place to monitor and assess the different risks it is exposed to in the ordinary course of its business, and, in particular, qualitative information about market risk.
- Trading portfolio activities, where we provide quantitative information about market risk as of the end of the latest fiscal year for instruments entered into for trading purposes.
- Non-trading portfolio activities, where we provide quantitative information about market risk as of the end of the latest fiscal year for instruments entered into for purposes other than trading

Risk Management

The risks department of BBVA Francés continues to adjust its comprehensive management model by reconditioning its structures and improving its policies aimed at providing the solution that is best suited to the clients' requirements, the changes of environment, and the requirements of the local regulatory body. It is also oriented to permanently improving the tools and processes, focused on the detection, monitoring and mitigation of each of the risks incurred by the Bank.

This model makes it possible to satisfactorily comply with the guidelines set forth by the BCRA in its communications.

"Risks" comprises four groups:

- **Credit Risk:** The possibility that a counterpart fails to comply with its contractual obligations in relation to a certain transaction.
- **Financial Risk:** The possibility of losses generated by changes in the market rates or the risk quality which determine the value of the Bank's assets and liabilities. It is subdivided into: Market Risk, Liquidity Risk, Interest Rate Risk and Marketplace Credit Risk.
- **Operational Risk:** The risk that losses may result from human errors, inappropriate or defective internal processes, system failures or as a consequence of external events. This definition excludes the strategic and/or business risk and the reputational risk.
- **Internal Control and Reporting:** The control and monitoring areas are in charge of giving cohesion to credit risk management and ensuring that the management of the other critical risk groups is carried out in accordance with standards established by the Bank's.

Risk Appetite

BBVA Francés' risk appetite framework is approved by the Board of Directors and determines the risks and the level of risks that it is willing to assume to achieve the Bank's business objectives. These are expressed in terms of solvency, profitability, liquidity and financing, among other metrics.

The risk appetite statement of BBVA Francés is as follows:

“The risk policy of BBVA Francés is focused on promoting a universal, multi-channel and responsible banking business model, based on principles, with the objectives of sustainable growth, risk-adjusted profitability and the generation of recurring value. To achieve these objectives, the risk model is aimed at maintaining a moderate risk profile, which allows us to maintain a solid financial position to face adverse situations without compromising our strategic goals, prudent management, a comprehensive vision of the risks, diversification of portfolios by asset classes and customer segments and the maintenance of a long-term relationship with the customer.”

Credit Risk Ratios and Performance

At December 31, 2018 the non-performing loan portfolio ratio was 1.8%, while the coverage ratio was 109.2%, compared to 0.65% and 206.8%, respectively, at December 31, 2017. The evolution of these ratios shows a deterioration of the credit risk portfolio due to the macroeconomic situation of the country.

Management Units

The different risk units provide support to the management of commercial banking entities, regarding admission, monitoring and recovery of credits. The model has been configured on the basis of the Bank's business structure.

Retail Risks

Retail risks manage the clients of retail banking, including admission by means of predictive/statistical tools, both reactive and behavioral, admission of special cases, tools and policies management and portfolio monitoring.

With this configuration, the development of methods and tools that facilitate risk management in an automated manner continued, which implies a qualitative change in the proactive offer of services, achieving greater decentralization in credit decision making and allowing admission teams to improve their value contribution.

Currently, a methodology is used by risk groups, which allows a more personalized offer on admission and a better management capacity for problematic recovery. This methodology has also incorporated regional differentiation, both in minimum income and credit assistance by product, as well as differentiated purchasing power.

During 2018 the Bank implemented a reactive scoring for non-clients through the Bank's website, allowing the Bank to continue learning about this sales channel and having more information that translates into a better customer experience. A revenue predictor for clients whose algorithm is based on transactional payment information was also put in place in mid-2018.

The Bank continues to use online evaluations, both on the Bank's website and third-party websites, including in the processing of personal loans. On the other hand, adapting to market needs, the Bank also incorporates assistance in UVAs, both for mortgage loans and for pledge and personal loans.

[Table of Contents](#)

In terms of monitoring and control of the portfolio, the Bank improved reports with early measurements of profiling and non-compliance, reacting quickly in order to take corrective measures if necessary. In this aspect, the Bank manages in a differentiated manner the groups most likely to default, applying a specific admission and monitoring policy.

In this respect, and considering the macroeconomic environment of 2018, the Bank has adapted credit policies with impact on different sales channels and products, with an aim to preserve the credit quality of the portfolio.

Middle Market and Corporate Risk

Focused on resolving the needs of the business, a dynamic structure has been achieved in close relationship with the requirements of the environment, always taking into account the principles of caution, prudence and diversification. Those are necessary conditions in order to maintain a standard of excellence as regards the quality of risks.

In Corporate Banking, the coordination of the commercial and risk teams continued to be prioritized, trying to improve response times and aiming to satisfy business demands, while maintaining risk quality.

With respect to the improvement and innovation of tools for wholesale risk management, during 2018 the Bank migrated the information from the wholesale website to Eureka (the new artificial intelligence tool designed to self-manage general inquiries between different areas of the Bank), unifying in one place all consultations and simplifying access to information. On the other hand, the Bank launched the qualification tool for the small and medium-sized companies segment (BARCO), which allows for speeding up the qualification process and launch of digital products (assignment of checks, agreements and loans without paper coupons).

For large companies and corporations, the Bank continues to use its risk analyzing tool, which provides a specific analysis for the different sectors of activity. On the other hand, the Bank continued to use the business rating model for the entire small and medium-sized companies segment. The use of statistical tools has allowed the Bank to undertake expert analysis to respond in advance to the credit needs of clients.

Recoveries

Recovery activity is part of an integral management process that encompasses both defaulted actions aimed at preventing default as well as those carried out from the moment a default occurs until partial or total recovery of the defaulted principal. Within this continuous process there are different equipment, tools and strategies according to the type and / or situation of the client or asset.

The area's working methodology is to aim for automation and improvements in processes with existing resources, generating shorter response times, reducing recovery times, increasing levels of specialization and increasing profitability measured in collections by resource, as well as improvements in efficiency, taking into consideration the absorption of higher levels of work.

To achieve the optimization of the task based on data, the Bank utilizes a self-management tool that collects the entire recovery process, from the potential delay to full cancellation or subsequent sale.

Financial Risks

BBVA Francés has developed a comprehensive risk management framework in order to identify, measure, monitor and mitigate financial risks, which is in line with the basic principles of the Basel's Banking Supervision Committee and includes:

- market risk (counterparty and valuation risk);
- structural risks (interest rate risk, liquidity and financing risk); and
- economic capital and stress tests.

This framework consists of a set of policies and strategies, organizational structures, measurement tools, limits and alerts, and information and control systems. In addition, the financial risks management framework is in accordance with the risk appetite approved by the Board of Directors.

Market Risks

Market risk is defined as the possibility of suffering losses in the value of a portfolio as a result of adverse changes in market prices. For a description of how BBVA Francés manages market risk and a quantitative analysis of the market risk of the trading portfolio, see "*—Trading Portfolio Activities*" below.

Counterparty Risk

Counterparty Risk is understood as the expected loss that would result from the intrinsic factors of a particular transaction, such as the kind of product being transacted, terms of the transaction, the underlying currencies and the consideration.

The products where such risk exists are:

- derivatives; and
- liquidity-management transactions guaranteed by securities (repos).

The monitoring of the counterparty risk is based on a continuous process of permanent observation, which allows early detection of incidents that may occur in the evolution of risk and operations, in order to undertake actions aimed at mitigating them. This monitoring function is framed within quantitative restrictions at the client, term and product-type level.

At the end of 2018, the gross counterparty risk amounted to Ps.4,623 million. Net counterparty risk reached Ps.15,862 million. The calculation of the net counterparty risk includes the reverse repurchase agreement operations and incorporates the WWR (Wrong Way Risk) generated by the repurchase agreement with the Republic.

Liquidity and Financing Risk

Liquidity risk is defined as the possibility that the entity will not be able to comply with its payment obligations without incurring in significant losses that could affect its daily operations or its financial condition.

BBVA Francés has implemented a management process for the identification, evaluation, measurement, monitoring, control and mitigation of liquidity risk. Within it, the risk appetite framework is configured as a fundamental element, providing BBVA Francés with an integral framework that determines the risks and the level of risks that it is willing to assume to achieve its business objectives.

Among the fundamental metrics used for the measurement, monitoring and control of liquidity risk are:

- LtSCD (Loan to Stable Customers Deposits): measures the relationship between net credit investment and stable customer funds. The objective is to preserve a stable financing structure in the medium and long term.
- LCR (Liquidity Coverage Ratio): measures the ratio between high-quality liquid assets and total net cash outflows over a 30-day period. The objective is to preserve a cushion of assets or buffer management that absorbs liquidity shocks in the short term.

During 2018, both indicators were within the limits approved by the Board of Directors.

On the other hand, the liquidity risk management process at BBVA Francés also includes the management of intraday liquidity risk, for which the Bank has a procedure based on a monitoring and control scheme of its liquidity position.

Interest Rate Risk

Interest rate risk is defined as the possibility of changes in the interest margin and / or in the value of the Bank's equity due to the variation of market interest rates.

Among the main metrics used for the measurement, monitoring and control of this risk are:

- Margin at Risk (MeR): quantifies the maximum loss that could be recorded in the projected financial margin for the next 12 month period under the worst scenario of market interest rate curves for a given level of confidence.
- Economic Capital (EC): quantifies the maximum loss that could be generated in the economic value of the Bank under the worst scenario of market interest rate curves for a given level of confidence.

During 2018, the interest rate risk indicators remained within the limits approved by the Board of Directors.

On the other hand, the entity has introduced the necessary adaptations in its interest rate risk management process to comply with the Communication "A" 6397, including the development of the calculation of the risk measure EVE - economic value of capital - standardized for the presentation of the Informative Regime of Minimum Capitals.

Economic Capital

In accordance with the “Guidelines for Risk management in Financial Institutions” established by the BCRA, BBVA Francés has developed an internal, integrated and global process to assess the adequacy of its economic capital based on its risk profile and elaborates, on an annual basis, the capital self-assessment report (IAC).

Economic capital is the amount of capital considered necessary to cover unexpected losses that the Bank could face due to the risks to which it is exposed.

The methodologies for capital calculation of the following risks are defined following the guidelines established by the Basel Committee:

- credit risk;
- concentration risk;
- market risk;
- interest rate risk;
- operational risk;
- reputational and strategic risk;

The distribution of economic capital for November 2018 consumption by type of risk is as follows:

- credit risk and concentration risk: represent 62% of the total economic capital;
- operational risk: 12%;
- interest rate risk: 16%;
- market risk: 5%; and
- other risks: 5%.

Stress Tests

In compliance with the “Guidelines for Risk Management in Financial Institutions” established by BCRA, BBVA Francés has developed a stress test program which is framed within the comprehensive risk management process of the Bank.

Stress tests are defined as the evaluation of the Bank’s economic and financial situation under a severely adverse but possible scenario, requiring the simulation of scenarios that allow estimating the potential impact on the value of the portfolios, profitability, solvency and liquidity, with the purpose of identifying latent risks and detecting vulnerabilities. The main function of stress tests is to serve as a tool for risk management and capital allocation among the Bank’s businesses.

With a minimum annual frequency, BBVA Francés carries out an integral stress test exercise through which the impact of adverse macroeconomic scenarios on the entity’s solvency, profitability and liquidity position is quantified, taking into account all the relevant risks to which it is exposed and considering the existing interactions between them.

The results of the stress tests carried out in April 2018 corresponding to the 2018/2019 projection period show the solvency and liquidity position of the Bank even under the adverse scenarios such as those analyzed therein.

Non-Financial Risks

The Risk Department, in its Non-Financial Risks unit, has an area specialized in the admission, monitoring and mitigation of operational risk, allowing it to align its management with the risk appetite of BBVA Francés.

The control model of BBVA Francés aims to anticipate the relevant risks during the operational risk life cycle, and has three defense lines, namely control specialists, operational risk managers (GROs) and internal audit units. The governance of the model is overseen by the Board of Directors.

The methodology for the management of non-financial risks is based on the identification of the Bank's operating processes and the operational risks to which they are exposed, assessing their criticality, and managing their mitigation, if applicable. This management process was developed through the use of various tools for the admission of new businesses, products and services, for their qualitative management (process mapping, risks and controls) and quantitative (base of operational losses) and the application for the management of outsourcing.

It is an integral operational risk management model, designed in accordance with international standards, which allows it to adapt to the environment and the internal requirements.

Internal Risk Control

Internal control of risks has as its main functions: to ensure that there is a sufficient internal regulatory framework; to provide a process and defined measures for each type of risk; to control its application and operation; and to ensure that an assessment is made of the existence of a control environment and its proper implementation and operation.

The area contains a model validation team which ensures that the internal statistical risk models of BBVA Francés are suitable for their use, and which is charged with issuing a well-founded and updated opinion on their proper use.

Validation, Internal Control and Management of the Republic's Operational Risk

Finally the Risks Department in accordance with international standards and Central Bank regulations, operates the "Validation, Internal Control and Management of Operational Risk at Country Level" area, whose task is to ensure an updated, homogenous and appropriate control of the environment in all units of the Bank.

Validation is the area in charge of making sure that the internal risk models of BBVA Francés are appropriate for use in the management of risks, and it must issue a thorough, fact-based, and up-to-date opinion on the proper use of internal management models.

BBVA Francés has implemented a model named "Operational Risk and Internal Control" which is based on a scheme of internal control specialists and operational risk managers working on the different business areas and covering the whole life cycle of the operational risk which involves admission, monitoring and mitigation.

Said model identifies the organization's operational processes and all the operational risks they are exposed to. Through this methodology each of the risks are evaluated and assigned a priority and a critical degree so that they can be managed and mitigated, if applicable.

For purposes of monitoring and mitigation, the Bank has an application that permits the mapping and evaluation of all operational risks, as well as the tracking of any detected weaknesses. It contemplates processes, risks, controls, weaknesses and their respective action plans. It also has a database where all cases of loss due to operational risk are registered.

We believe our risk management model is comprehensive, robust, in line with international standards, up-to-date and capable of adaptation to the environment and to any necessary internal requirements.

Trading Portfolio Activities

Market risk is defined as the possibility of suffering losses in the value of a portfolio as a result of adverse changes in market prices. The main market risks can be classified as follows:

- Interest rate risk: This arises as a result of exposure to movements in the different interest rate curves.
- Foreign exchange risk: This is caused by the movements in the different currencies exchange rates in which a position is held. This risk is generated primarily in spot currency positions and in any derivative product whose underlying asset is an exchange rate.

The structure of measurement and control of the market risk includes a scheme of limits and alerts in terms of economic capital, VaR (value at risk), stress VaR, monthly and annual stop loss and internal sub-limits. In order to measure and manage market risk, BBVA Francés uses a parametric Value at Risk ("VaR") model, which estimates the maximum loss that may occur in the trading portfolio at a given confidence interval of 99% and a time horizon of one day.

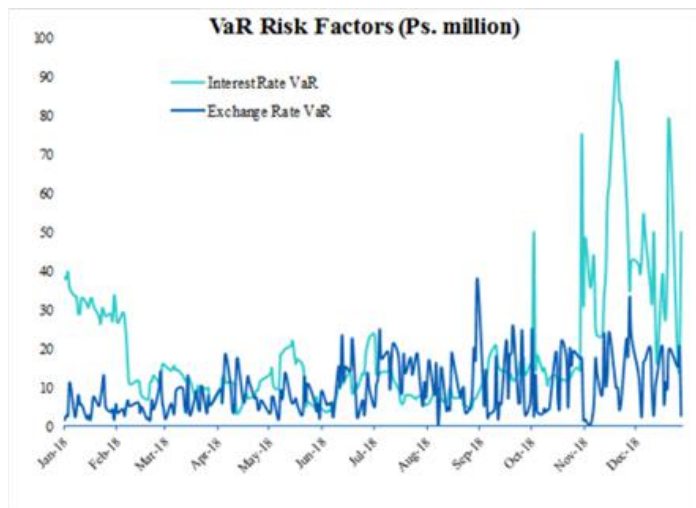
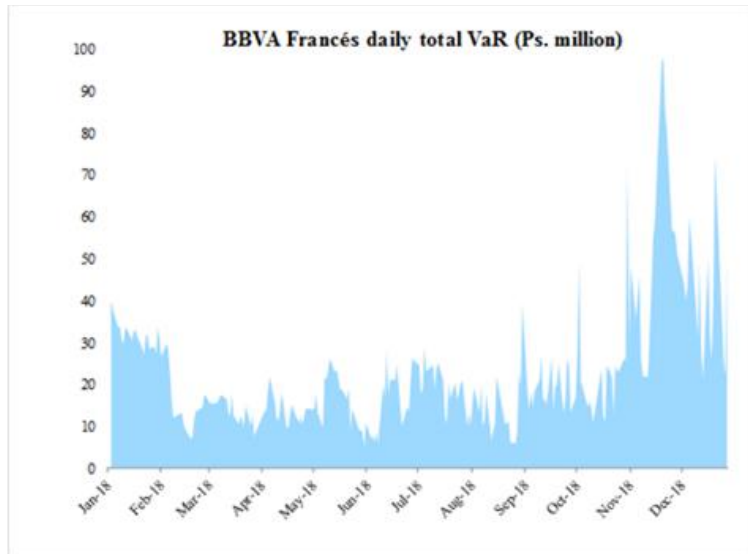
Monitoring and control of market risk is conducted under a scheme of limits that is presented and proposed by the Market Risk unit and approved every year by the Risk Management Committee and the Board.

Market risk management focuses on the Bank's Global Market ("GM") trading portfolio. This portfolio includes:

- fixed income securities (Argentine sovereign bonds and bills, Central Bank bills and corporate bonds);
- spot currency positions; and
- derivative products (foreign exchange futures and forwards, interest rate swaps).

Within the model of market risk management there are specific circuits established for communication and operation in case approved risks levels are exceeded.

The following charts show the Bank's VaR evolution during 2018. In the fourth quarter, the trading portfolio experienced an increase in the ordinary foreign exchange futures and forwards exposure, which led to an increase in the levels of interest rate and total VaR. VaR consumptions were within the defined limits at all times during 2018.



The following tables show the evolution of VaR during the last two years.

Daily Trading VaR at BBVA Francés (in millions of pesos)

| | 2018 | 2017 |
|----------------|-------|-------|
| Average | 22.86 | 48.39 |
| Minimum | 4.97 | 10.29 |
| Maximum | 97.37 | 85.04 |
| At December 31 | 49.36 | 43.33 |

Daily Trading VaR – Categories (in millions of pesos)

| Interest Risk VaR | 2018 | 2017 |
|--------------------------|-------|-------|
| Average | 19.00 | 35.14 |
| Minimum | 3.13 | 9.42 |
| Maximum | 93.76 | 57.36 |
| At December 31 | 49.90 | 43.38 |

| Exchange-rate Risk | 2018 | 2017 |
|---------------------------|-------|-------|
| Average | 9.64 | 30.50 |
| Minimum | 0.28 | 0.99 |
| Maximum | 37.98 | 80.91 |
| At December 31 | 2.65 | 1.66 |

Back testing

In line with Basel recommendations, the market risk model is periodically validated through back testing analysis. The aim of these tests is to determine the quality and precision of the model used to calculate the daily maximum loss of a portfolio, with a 99% of confidence interval and temporal horizon of 250 days, by comparing the trading portfolio results and the risk measurements calculated by the model.

Stress test analysis

As described in “—*Risk Management*” above, a number of stress tests are carried out at the bank, and this is also performed on the Bank’s trading portfolios. The aim is to expose BBVA Francés’ trading portfolios to abnormal market variations, based on stress situations occurred in the past (historical scenarios) or in stress situations that may occur in the future with some probability (simulated scenarios), but outside the predetermined confidence interval of the daily VaR measurement.

- Historical scenarios: The historical scenario used as reference for this stress test is Lehman Brothers. The abrupt bankruptcy in September 2008 resulted in a significant impact on the behavior of global financial markets.
- Simulated scenarios: The scenario used for these exercises of economic stress is based on resampling methodology. This methodology is based on the use of dynamic scenarios that are recalculated periodically depending on the main risks in the trading portfolios. On a data window wide enough to collect different periods of stress (data are taken from January 1, 2008 until today), a simulation is performed by a resampling of historical observations. This generates a distribution of losses and gains that provides an analysis of the most extreme events that occurred within the selected historical window. The advantage of this methodology is that the stress period is not pre-established, but rather a function of the portfolio held at any time.

Valuation

The Market Risk unit is responsible for establishing the fair value of fixed income instruments and derivatives. Automatic systems are used for daily capture and dissemination of prices and market variables that have an impact on the Bank’s portfolio and clients’ holdings in custody.

For price determination, the use of market information is prioritized. If not possible, pricing through internal models is established, considering the availability of data with which to develop inputs that represent the assumptions that markets participants would use when pricing the asset. For instance, fixed income securities in the trading portfolio are priced with the discounted cash flow model using market yield curves.

Derivatives Credit Risk

The Market Risk unit is responsible for monitoring and control of derivatives credit risk. The exposure to derivatives credit risk is measured by the expected loss derived from factors inherent in the operations such as the type of product, the amount traded and the maturity.

Risk exposure is determined using the following formula:

Derivatives credit risk = Market Value (MtM) + Potential Risk (Add On); where:

- The market value of the operation is defined as the difference between agreed price and current market price (mark to market). This market value can be positive or negative depending on which part poses the risk.
- The potential risk is an estimation of the maximum expected increase of market value for a given level of confidence due to future price fluctuations until the operation due date.

Interest Rate Risk

Interest rate sensitivity is the relationship between market interest rates and net portfolio value on one hand, and net interest income on the other, due to the repricing of assets and liabilities. Our interest rate sensitivity analysis measures the sensitivity of the net portfolio value and net interest income to parallel changes in interest rates and to changes in the yield curve.

For the purpose of calculating the net present value, when the interest rate is fixed, the future cash flows of the financial assets and liabilities are calculated on a contractual basis. When the interest rate is variable, cash flows that have a maturity during the repricing interval are included. These amounts are added to the remaining balance of the asset or liability at the end of the interval.

Net interest income is calculated as the difference between interest income earned on interest-earning assets and interest expense from interest-bearing liabilities for each month of the fiscal year.

In general, this calculation is limited to its assumption of a permanent increase or decrease in interest rates and that all of such rates change at the same rate. Accordingly, actual results could differ materially from those projected.

For any given period, the pricing structure is matched when an equal amount of assets and liabilities reprice. Any mismatch of interest-earning assets and interest-bearing liabilities is known as a gap. A positive gap denotes asset sensitivity and normally means that an increase in interest rates would have a negative effect on net portfolio value and a positive effect on interest income, while a decline in interest rates would have a positive effect on net portfolio value and a negative effect on net interest income.

Changes in interest rates could impact our profitability as a result of timing differences on the repricing of the assets and liabilities. One measure of interest rate risk is the change in net portfolio value (defined as the net present value of interest-earning assets and interest-bearing liabilities) and the change in net interest income caused by a change in market interest rates. The table below sets forth the results of the equity value and net interest income under various interest rate scenarios and the percentage changes from amounts generated under a stable interest rate environment.

The following chart includes adjusted assets and liabilities in the 0-3 month interval. In order to measure the effect of a change in interest rates in net portfolio value and net interest income, we are assuming the same change in interest rate as in the adjustment rate. However, as this may not be the case, we are including another column showing the impact of a variation in the adjustment rate with no variation in interest rate.

| December 31, 2018 | | | | | | |
|--|----------------------------|--------------------------|---------------------------------------|--------------------------|---|--------------------------|
| Change in base interest rates and adjust rates (basis points) | Net portfolio value | Percentage change | Net interest and adjust income | Percentage change | Net income of adjustable portfolio | Percentage change |
| (in millions of pesos, except percentages) | | | | | | |
| 500 | 11,683.0 | (14.07)% | 29,390.9 | 8.27% | 1,802.9 | (2.61)% |
| 0 | 13,595.3 | 0.00% | 27,145.2 | 0.00% | 1,851.1 | 0.00% |
| (500) | 16,601.7 | 22.11% | 25,207.4 | (7.14)% | 1,901.1 | 2.70% |

Based on our position at December 31, 2018, and assuming a hypothetical, immediate 500 basis points increase in interest rates affecting all interest rate sensitive assets and liabilities, we estimate our net portfolio value would be reduced by Ps.1.912 million and our net interest income would be increased by approximately Ps.2.246 million.

Foreign Exchange Risk

As of December 31, 2018, as part of our asset and liability management, we aimed to minimize the impact on results of foreign exchange rate fluctuations by maintaining excess balances of assets over liabilities denominated in dollars. The following table shows the estimated effect on net income of a 10% variation in the value of the peso against all other currencies:

| <u>Peso against all other currencies</u> | <u>Effect on net income based on our position as of December 31, 2018</u> | <u>Effect on net income based on our position as of December 31, 2017</u> |
|--|---|---|
| | <u>(in millions of pesos, except percentages)</u> | |
| 10% | (489) | (297) |
| (10)% | 489 | 297 |

For a description of the changes in the exchange rates, see “*Item 3. Key Information—Exchange Rates*”.

Equity and Commodity Price Risk

Equity and commodity risk are the risks associated with adverse movements in the value of equity securities and commodities or related indexes. We do not have any material exposure to either of them.

Non-trading Portfolio Activities

Non-trading instruments consist primarily of loans and deposits. The Bank’s primary market risk exposure in its non-trading instruments is interest rate risk, which arises from the possibility of changes in market interest rates. Such changes in market interest rates affect the Bank’s net interest income due to timing differences on the repricing of their assets and liabilities. The Bank is also affected by gaps in maturity dates and interest rates in the different asset and liability accounts.

The interest rate risks arising from these activities is included in the analysis of the interest rate risk previously showed and managed in aggregated manner.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**A. Debt securities**

Not applicable.

B. Warrants and rights

Not applicable.

C. Other securities

Not applicable.

D. American Depositary Shares***Fees and charges for holders of American Depositary Receipts***

The depositary for our ADRs is the Bank of New York Mellon (BNY).

Holders of our ADRs are generally expected to pay fees to BNY according to the schedule:

| Persons depositing or withdrawing shares must pay: | For: |
|--|---|
| US\$5.00 (or less) per 100 ADRs (or portion of 100 ADRs) | <ul style="list-style-type: none"> ▪ Issuance of ADRs, including issuances resulting from a distribution, sale or exercise of shares or rights or other property ▪ Cancellation of ADRs for the purpose of withdrawal including if the deposit agreement terminates |
| US\$5.00 (or less) per 100 ADRs (or portion thereof) | <ul style="list-style-type: none"> ▪ Any cash distribution made pursuant to the deposit agreement |
| A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADRs | <ul style="list-style-type: none"> ▪ Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADR registered holders |
| US\$0.05 (or less) per ADRs per calendar year | <ul style="list-style-type: none"> ▪ Depositary services |
| Registration or transfer fees | <ul style="list-style-type: none"> ▪ Transfer and registration of shares on the Company's share register to or from the name of the depositary or its agent when you deposit or withdraw shares |
| Expenses of the depositary | <ul style="list-style-type: none"> ▪ Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement) ▪ Converting foreign currency to U.S. dollars |
| Taxes and other governmental charges the depositary or the custodian have to pay on any ADR or share underlying an ADR, for example, stock transfer taxes, stamp duty or withholding taxes | <ul style="list-style-type: none"> ▪ As necessary |
| Any charges incurred by the depositary or its agents for servicing the deposited securities | <ul style="list-style-type: none"> ▪ As necessary |

BNY Mellon collects its fees for delivery and surrender of ADRs directly from investors depositing shares or surrendering ADRs for the purpose of withdrawal or from intermediaries acting for them. It also collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. BNY Mellon may collect its annual fee for depositary services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. BNY Mellon may generally refuse to provide fee-attracting services until its fees for those services are paid.

Fees Paid by Depositary to the Company

BNY Mellon paid US\$39,270.55 to BBVA Francés in 2018.

- PART II -

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Effectiveness of Disclosure Controls and Procedures

As of December 31, 2018, the management of the Bank, including our Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act).

Based on such evaluation, management, including our Chief Executive Officer and Chief Financial Officer, have concluded that as of December 31, 2018, we did not maintain effective disclosure controls and procedures because of the material weaknesses in internal control over financial reporting described below.

In light of the material weaknesses in internal control over financial reporting, management completed certain additional procedures and analysis to validate the accuracy and completeness of the items impacted by the control deficiencies. Notwithstanding the material weaknesses, based on additional analyses and other procedures performed, management concluded that the financial statements included in this report present fairly in all material respects our financial position, results of operations and cash flows for the periods presented, in conformity with IFRS-IASB.

Management's Annual Report on Internal Control Over Financial Reporting

The management of the Bank is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. The Bank's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS-IASB and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS-IASB, and that our receipts and expenditures are being made only in accordance with authorizations of the Bank's management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis.

Under the supervision and with the participation of the Bank's management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria established in "*Internal Control—Integrated Framework (2013)*" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on the assessment, we identified the following deficiencies in our internal control over financial reporting as of December 31, 2018:

Table of Contents

1. Ineffective design and implementation and timely operation of certain process-level controls over the determination of the allowance for loan losses in accordance with International Financial Reporting Standard 9, *Financial Instruments* (“IFRS 9”).
2. Ineffective design of certain controls over the completeness and accuracy of certain financial statement disclosures required under IFRS-IASB, specifically:
 - IFRS 7, *Financial Instruments: Disclosures* (“IFRS 7”).
 - IFRS 9.
 - International Accounting Standard 29, *Financial Reporting in Hyperinflationary Economies* (“IAS 29”).

These control deficiencies were due to ineffective risk assessment and monitoring activities over the Bank’s plan to adopt IFRS 9 and the preparation of financial statement disclosures required under IFRS 7, IFRS 9, and IAS 29 and an insufficient number of appropriately trained personnel regarding the disclosure requirements of IFRS 7, IFRS 9, and IAS 29.

Some of these control deficiencies resulted in immaterial misstatements in the preliminary consolidated financial statements that were corrected prior to the issuance of the consolidated financial statements. These control deficiencies create a reasonable possibility that a material misstatement to the consolidated financial statements would not be prevented or detected on a timely basis, and therefore we concluded that the deficiencies represent material weaknesses in our internal control over financial reporting and our internal control over financial reporting was not effective as of December 31, 2018.

Our independent registered public accounting firm, KPMG, who audited the consolidated financial statements included in this annual report, has expressed an adverse opinion on the operating effectiveness of our internal control over financial reporting. KPMG’s report appears on page 176 of this annual report.

Remediation Status of Reported Material Weaknesses

The material weaknesses described above arose in the context of the Bank’s preparation of its consolidated annual financial statements for inclusion in its annual report on Form 20-F for the year ended December 31, 2018 in accordance with IFRS-IASB for the first time this year. The Consolidated Financial Statements differ significantly from the Bank’s consolidated financial statements prepared to comply with the requirements of the Central Bank, which were prepared in accordance with IFRS-IASB with temporary exceptions from the application of the impairment model in Section 5.5 - *Impairment* of IFRS 9 and IAS 29. Both of these temporary exceptions will no longer apply in respect of fiscal years beginning on or after January 1, 2020.

In the case of the impairment model in Section 5.5 - *Impairment* of IFRS 9, the Bank is working under a convergence plan established by the Central Bank. The Bank prepared and delivered to the Central Bank a qualitative description of the model in December 2018, and an initial calculation in March 2019, which in turn will be updated on a quarterly basis. In addition, in 2019, the Bank is currently developing a plan to comply with IAS 29 for its statutory financial statements on a regular basis, consisting of new processes and controls to ensure the proper preparation and reporting of the hyperinflation adjustment.

To address the material weaknesses identified above, and building on and enhancing the remediation program undertaken in 2018, the Bank is in the process of implementing a program based on the following:

- strengthening the knowledge and training of personnel involved in the financial reporting process, regarding the requirements of IFRS-IASB, specifically IFRS 9, IFRS 7 and IAS 29;
- performing a comprehensive risk assessment process, with a particular focus on the Bank’s determination of its allowance for loan losses to ensure that all critical risks are identified and assessed and appropriate controls are established to address those risks;

- implementing a more comprehensive monitoring plan over the determination of the allowance for loan losses with a specific focus on data and assumptions used to measure the allowance to ensure accuracy in the financial reporting process and an effective execution of the Bank's risk strategy; and
- strengthening process-level controls to ensure the completeness and accuracy of the required disclosures in the consolidated financial statements regarding IFRS 7, IFRS 9, and IAS 29.

The Bank is currently working to remediate the material weaknesses identified above, including assessing the need for additional remediation steps and implementing additional measures to remediate the underlying causes that gave rise to the material weaknesses. The Bank is committed to maintaining a strong internal control environment and to ensure that a proper, consistent tone is communicated throughout the organization.

Changes in Internal Control Over Financial Reporting

The Bank has prepared the Consolidated Financial Statements included herein in accordance with IFRS-IASB, whereas it previously presented in its annual reports on Form 20-F consolidated financial statements prepared under BCRA-GAAP with a U.S. GAAP reconciliation. The Bank revised certain of its existing controls and established additional controls to effect this change in the basis of accounting.

Except for the changes in controls and the material weaknesses described above, there have been no other changes in the Bank's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) in the year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Remediation Status of Previously Reported Material Weaknesses

In the Bank's annual report on Form 20-F for the year ended December 31, 2017 the Bank reported certain material weaknesses in its internal control over financial reporting as of December 31, 2017:

- Preparation and review of the Bank's disclosures under U.S. GAAP as required by Item 18 of Form 20-F.
- Preparation and review of the Consolidated Statement of Cash Flows in accordance with BCRA GAAP and U.S. GAAP requirements.

Management made progress on the implementation of a remediation program based on the items set forth in the Bank's annual report on Form 20-F for the year ended December 31, 2017, the main lines of which were:

- review and improvement of the risk and control evaluation model in order to include more complete documentation of the key issues;
- improvement of training in certain areas relevant to financial reporting;
- changes in the organizational model of the Bank's areas in order to improve governance and analysis; and
- improvement in the Bank's communication on related issues with its senior management, the Risk Committee and the Audit Committee.

As a result of the change in the basis of presentation of the consolidated financial statements from BCRA-GAAP with a U.S. GAAP reconciliation to IFRS-IASB, management concluded that these material weaknesses are no longer applicable to our financial reporting.

Limitations on Effectiveness of Controls and Procedures

Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our Bank have been detected.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
BBVA Banco Francés S.A.:

Opinion on Internal Control Over Financial Reporting

We have audited BBVA Banco Francés S.A. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, because of the effect of the material weaknesses, described below, on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial position of the Company as of December 31, 2018, December 31, 2017 and January 1, 2017, and the related consolidated statements of profit or loss, comprehensive income, changes in shareholders' equity, and cash flows for the years ended December 31, 2018 and 2017, and the related notes (collectively, the consolidated financial statements), and our report dated May 10, 2019, except for the revision to the description of the material weaknesses in internal control over financial reporting as to which the date is May 30, 2019, expressed an unqualified opinion on those consolidated financial statements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Material weaknesses have been identified and included in management's assessment related to ineffective design and implementation and timely operation of certain process-level controls over the determination of the allowance for loan losses in accordance with International Financial Reporting Standard 9, *Financial Instruments* (IFRS 9) and ineffective design of certain controls over the completeness and accuracy of certain financial statement disclosures required under International Financial Reporting Standards as issued by the International Accounting Standards Board, specifically IFRS 7, *Financial Instruments: Disclosures* (IFRS 7), IFRS 9, and IAS 29, *Financial Reporting in Hyperinflationary Economies* (IAS 29). These material weaknesses were due to ineffective risk assessment and monitoring activities over the Company's plan to adopt IFRS 9 and the preparation of financial statement disclosures required under IFRS 7, IFRS 9, and IAS 29 and an insufficient number of appropriately trained personnel regarding the disclosure requirements of IFRS 7, IFRS 9, and IAS 29. The material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2018 consolidated financial statements, and this report does not affect our report on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on

the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Disclaimer on Additional Information in Management's Report

We do not express an opinion or any other form of assurance on management's statements referring to remediation plans, or results thereof, taken relative to the material weaknesses in the Company's internal control over financial reporting.

/s/ KPMG

Buenos Aires, Argentina

May 10, 2019, except for the revision to the description of the material weaknesses in internal control over financial reporting as to which the date is May 30, 2019

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Bank's Board of directors has appointed Mr. Oscar Miguel Castro to serve on its Audit Committees (I and II) and the Disclosure Committee. The Bank's Board of directors has concluded that Mr. Castro is an audit committee financial expert as defined by the SEC based on his extensive audit experience. Mr. Castro qualifies as an independent director according to the independence criteria established by General Resolution No. 622 of the CNV.

ITEM 16B. CODE OF ETHICS

The standards of ethical conduct that BBVA Francés expects from its employees are found within the "Code of Conduct of BBVA Francés and its group of companies in Argentina", or the Code of Conduct, approved by the Board of directors on December 18, 2003.

The Code of Conduct is applicable to all our management and employees, including the Executive Chairman, the Financial Director and other senior financial officers of the Bank. All officers and employees are accountable for adhering to the Code of Conduct. Suspected violations of the Code of Conduct may be reported in accordance with procedures designed to address the reported situation and to protect the reporting employee. The failure to comply with criteria and rules of the Code of Conduct may result in disciplinary action in accordance with applicable Argentine employment laws.

The Code of Conduct is accessible via BBVA Francés' corporate website at: https://www.bbvafrances.com.ar/fbin/mult/Codigo-de-conducta_tcm1303-538711.pdf. The information found at this website is not incorporated by reference into this annual report.

A copy of our Code of Conduct is also available on request, free of charge, by writing or telephoning us at:

BBVA Banco Francés S.A.
Attention: Investor Relations Department
Av Córdoba 111
C1054AAA Buenos Aires
Republic of Argentina
Telephone number: (54 11) 4341 5036
e-mail address: ines.lanusse@bbva.com

During fiscal year 2015, we amended the Code of Conduct to adapt it to the best practices and regulatory requirements.

No waivers from any provisions of the Code of Conduct were expressly or implicitly granted to the Executive Chairman, the Financial Director and any other senior financial officer of the Bank in the fiscal year 2018.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Following is a summary of the fees to our independent external auditors for the years ended December 31, 2018 and 2017:

| | 2018 | 2017 |
|--------------------|-------------------------------|--------------|
| | (in millions of pesos) | |
| Audit fees | 45.06 | 17.08 |
| Audit-related fees | 0.25 | 4.60 |
| Tax fees | — | — |
| All other fees | — | — |
| Total fees | <u>45.31</u> | <u>21.68</u> |

Audit fees are fees for professional services performed by KPMG for 2018 and 2017, respectively, for the audit and limited review of the Bank's annual and quarterly financial statements and services that are normally provided in connection with statutory and regulatory filings.

Audit-related fees consist of fees for assurance and related services performed by KPMG that are reasonably related to the performance of the audit or review of the Bank's financial statements and are not reported as Audit fees.

The Audit Committee (I) has approved policies and procedures for pre-approving all non-audit work that would be performed by the Bank's external auditor. Specifically, the policies and procedures prohibit the Bank's external auditor from performing any services for the Bank or its subsidiaries without the prior approval of the Audit Committee (I). All of the services provided by KPMG in 2018 were approved by the Audit Committee (I) pursuant to these approval policies. None of the hours expended on the principal accountant's engagement to audit our financial statements for 2018 were attributed to work performed by persons other than the principal accountant's full-time, permanent employees. The Audit Committee (I) meets once a month. In each of these meetings, the Internal Audit Director presents the projects undertaken by the Internal Audit Department. The minutes of the meeting are then drawn up detailing the issues discussed as well as those items requiring further discussion. The minutes are transcribed into an internal control book which is sent to the Board for their information. See "Item 6. Directors, Senior Management and Employees—A. Directors and Senior Management—Audit Committee (I)".

ITEM 16D. EXEMPTIONS FROM LISTING REQUIREMENTS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY ONE ISSUER AND AFFILIATED PERSONS

None.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

BBVA Francés' corporate governance practices are governed by the applicable Argentine law (particularly, the General Companies Law, Law No. 26,831 as modified by Law No. 27,440 and the standards of the CNV), as well as by its by-laws. BBVA Francés has securities that are registered with the SEC and are listed on the NYSE, and is therefore subject to corporate governance requirements applicable to NYSE-listed non-U.S. companies.

NYSE-listed non-U.S. companies may, in general, follow their home country corporate governance practices in lieu of most of the new NYSE corporate governance requirements codified in Section 303A of the NYSE's Listed Company Manual. However, NYSE-listed non-U.S. companies must comply with NYSE Sections 303A.06, 303A.11 and 303A.12(b) and (c).

NYSE Section 303A.11 requires that non-U.S. companies disclose any significant ways in which their corporate governance practices differ from U.S. companies under NYSE listing standards. In accordance with NYSE Section 303A.11, we describe below the relevant differences between BBVA Francés' corporate governance practices and NYSE standards for listed companies.

On the other hand, the CNV passed in May 2012 General Resolution No. 606/12 ("GR 606/12") with the corporate governance requirements which companies that publicly offer shares representing their capital stock in Argentina must adopt. Moreover, since December 2012, the Bank has a new corporate governance code (*Código de Gobierno Societario*, hereinafter the "CGS") in accordance with Communication "A" 6111 of the Central Bank and GR 606/12 from the CNV.

Director Independence

Under NYSE Section 303A.01, a NYSE-listed company must have a majority of independent directors on its board of directors.

Under Argentine law, the board is not required to consist of a majority of independent directors. Notwithstanding, when directors are appointed, each shareholder that nominates a director is required to report at the meeting whether or not such director is independent. Since May 28, 2004, Argentine companies are required to have at least two independent directors to appoint the Audit Committee (I and II). Currently, the Board is composed of two independent directors.

Standards for Evaluating Director Independence

NYSE Section 303A.02 establishes general standards to evaluate directors' independence (no director qualifies as "independent" unless the Board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company)), and emphasizes that the concern is independence from management. The board is also required, on a case by case basis, to express an opinion with regard to the independence or lack of independence, of each individual director.

To qualify as an "independent" or "non-independent" director, CNV standards are substantially similar to NYSE standards. CNV standards provide that independence is required with respect to the Bank, and to its controlling shareholders or to shareholders with material holdings (5%), and that, for any person to be appointed as an independent director, such person must not perform executive functions within the Bank. Close relatives of any persons who would not qualify as "independent directors" would also not be considered "independent".

Non-management Directors Meetings

Under NYSE Section 303A.03, non-management directors must meet at regularly scheduled executive meetings not attended by management. Neither Argentine law nor BBVA Francés' by-laws require that any such meetings be held.

Nominations Corporate Governance Committee

Under NYSE Section 303A.04, listed companies shall have a "nominations/corporate governance committee" comprised entirely of independent directors. GR 606/12 requires for companies which publicly offer their securities to have a Nomination Committee. Moreover, pursuant to CNV standards, the person who nominates a director shall report at the shareholders' meeting whether or not the nominee is an "independent person", based on criteria established by CNV (which are substantially similar to NYSE standards).

Compensation Committee

Under NYSE Section 303A.05(a), listed companies had to have a compensations committee comprised entirely of independent directors. Under NYSE Section 303A.05(b), the compensations committee shall have a written charter establishing certain minimum responsibilities as set forth in NYSE Section 303A.05(b)(i). In addition, amendments approved by the NYSE in January 2013 require the charter to specify the rights and responsibilities of the compensation committee regarding the authority to retain advisers and to provide funding for such advisers. Certain specified factors must be considered regarding such advisers' independence from management. GR 606/12 also requires for companies which publicly offer their securities to have a compensation committee.

The CGS sets forth the creation of a nominations and compensations committee, composed of three non-executive directors, most of them independent, whose duties, among others, are to fix the rules and procedures for the selection of key executives and senior staff, to determine the level of remuneration for directors and key executives, to fix policies and practices regarding remunerations and benefits and to approve any relevant changes.

Audit Committee (II)

Under NYSE Section 303A.06, listed companies must have an "audit committee" that complies with SEC requirements. Foreign private issuers must have this audit committee in place prior to July 31, 2005. Law No. 26,831 and CNV's standards required BBVA Francés to have its audit committee in place on or prior to May 28, 2004. The Audit Committee (II) of BBVA Francés currently complies with the standards of Law No. 26,831.

Under NYSE Section 303A.07(a), the audit committee shall consist of at least three members. All of its members shall be financially literate or must acquire such financial knowledge within a reasonable period and at least one of its members shall have experience in accounting or financial administration. Argentine law also requires the audit committee to be comprised of at least three members. Pursuant to CNV's standards, audit committee members are required to be conversant in business, financial, or accounting issues. CNV's rules provide for the training of its members to carry out their duties and BBVA Francés engages in this training.

Under NYSE Section 303A.07(a), if a member of the audit committee is simultaneously a member of the audit committee of more than three public companies, and the listed company does not limit the number of audit committees on which its members may serve, then, in each case the board shall determine whether the simultaneous service would prevent such member from effectively serving on the listed company's audit committee, and shall report its decision in the annual proxy statement of the company or in the company's annual report filed with the SEC. No such provision regarding an audit committee member's simultaneous membership on public companies exists under Argentine law or BBVA Francés' by-laws.

Under NYSE Section 303A.07(a), all members of the audit committee are required to be "independent". In accordance with Law No. 26,831, a majority of the members of Audit Committee (II) are "independent".

Under NYSE Section 303A.07(b), the audit committee shall have a charter establishing the duties and responsibilities of its members, including, at a minimum, some of the duties and responsibilities required by Rule 10A-3 of the Exchange Act and as set forth in NYSE Section 303A.7(b) of the NYSE Manual. The functions and responsibilities of the audit committee in Argentina, established by Law No. 26,831 as modified by the Law No. 27,440 and CNV's standards, are essentially the same as provided for under Rule 10A-3 of the Exchange Act.

NYSE Sections 303A.07(b)(iii) A), (B) and (C) establish the duties and responsibilities of the audit committee, among others: (i) to discuss the annual audited financial statements and the quarterly financial statements of the company with management and the independent auditor, including the information disclosed under the heading "Management's Discussion and Analysis of Financial Conditions and Results of Operations" and (ii) to discuss the company's press releases relating to its earnings, as well as the financial information and guidelines relating to its earnings that are supplied to equity researchers and rating agencies. No such provision is contained in the Argentine law or BBVA Francés' by-laws. However, CNV standards establish similar functions for the audit committee, namely, "to verify the reliability of the administrative-accounting system, and of all financial data, or of any significant data submitted to CNV and to self-regulated exchanges, in compliance with the applicable reporting regime".

NYSE Section 303A.07(b)(iii)(G) provides that the audit committee shall establish clear policies for hiring external auditors' employees. No such provision regarding hiring external auditors' employees is contained in Argentine law or BBVA Francés' by-laws.

NYSE Section 303A.07(c) provides that each company must have an internal audit function in order to provide to the management and to the audit committee permanent assessments on the company's risk management processes and internal control system. BBVA Francés has an Audit Committee according to Central Bank's rules, which provides to the management permanent assessments about management and operating processes, and risks of the company.

Disclosure of Corporate Governance Guidelines

NYSE Section 303A.09 provides that companies must adopt and disclose corporate governance guidelines, including several issues for which such reporting is mandatory, and include such information on the company's website, which should also include the charters of the audit committee, the nominations committee and the compensation committee.

Law No. 26,831 as modified by the Law 27,440 required additional information that companies must include in their annual reports, including information relating to the decision-making organization (corporate governance), the company's internal controls system, rules for director and manager compensation, stock-options, and any other compensation system applicable to Board members and managers. Law No. 26,831 does not address the remaining issues included in NYSE Section 303A.09. However, all relevant information sent by the Bank to the CNV is forwarded to the CNV through the CNV's Financial Reporting Highway and may be viewed on the CNV's website.

Evaluation of Board Performance

Under NYSE Section 303A.09, the Board of Directors must make a self-assessment of its performance at least once a year to determine if it or its committees function effectively and report thereon. Under Argentine law, the board's performance is evaluated at the annual shareholders' meeting.

According to the provisions of the Corporate Governance Code, Regular Directors perform an annual self-assessment of Board performance as the governing body and their individual roles as members thereof, must submit them to the head of the Legal Services of the Bank, in his capacity as Secretary of the Board.

Code of Ethics

NYSE Section 303A.10 provides for the adoption of a Code of Business Conduct and Ethics and sets out the topics that such code must contain. BBVA Francés' Board approved in December 18, 2003 a "Code of Conduct of BBVA Francés and its group of companies in Argentina", which applies to all management and employees, with no exceptions, the English translation of which is available to the public on BBVA Francés' website. See "Item 16B. Code of Ethics" above. BBVA Francés believes that its Code of Conduct complies with the NYSE requirements.

[Table of Contents](#)

Certifications by the CEO

NYSE Section 303A.12(a) provides that the CEO shall on a yearly basis certify to NYSE that he/she knows of no violation by the company of NYSE Sections relating to corporate governance. No such certification is required by Argentine law or by BBVA Francés' by-laws.

Notification of Non-fulfilment

Under NYSE Section 303A.12(b), the CEO shall notify the NYSE in writing whenever any executive officer of the company becomes aware of any substantial non-fulfilment of any applicable provision under NYSE Section 303A.

No such provision regarding notification of non-fulfilment of NYSE Section 303A is contained in Argentine law or BBVA Francés' by-laws, but BBVA Francés' CEO will comply with the notice provisions as set forth under NYSE Section 303A.12(b).

ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of this item.

ITEM 18. FINANCIAL STATEMENTS

Reference is made to Item 19 for a list of the financial statements filed as a part of this annual report.

ITEM 19. EXHIBITS

- Index to Consolidated Financial Statements:

| | Page |
|---|-------------|
| Independent auditors' report | F-1 |
| Consolidated Statements of Financial Position | F-3 |
| Consolidated Statements of Profit or Loss | F-5 |
| Consolidated Statements of Comprehensive Income | F-6 |
| Consolidated Statements of Changes in Shareholders' Equity | F-7 |
| Consolidated Statements of Cash Flows | F-9 |
| Notes to the accompanying Consolidated Financial Statements | F-11 |

- Index to Exhibits:

| Exhibit Number | Description |
|---------------------------|---|
| 1.1 | Amended and Restated By-Laws (Estatutos) of BBVA Francés (*) |
| 1.2 | English translation of the Amended and Restated By-Laws (Estatutos) of BBVA Francés (*) |
| 8.1 | Subsidiaries of the Company |
| 12.1 | Section 302 Certification of Chief Executive Officer |
| 12.2 | Section 302 Certification of Chief Financial Officer |
| 13.1 | Certification by CEO and CFO pursuant to Section 1350, as adapted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002 |
| 15.1 | Consent of KPMG |
| 101 | Interactive Data File |

(*) Incorporated by reference to BBVA Francés' annual report on Form 20-F for the year ended December 31, 2014, filed with the SEC on April 10, 2015
We will furnish to the SEC, upon request, copies of any unfiled instruments that define the rights of holders of long-term debt of BBVA Francés.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this Amendment No. 1 to the annual report on its behalf.

BBVA BANCO FRANCÉS S.A.

By: /s/ Ernesto R. Gallardo Jiménez
Name: Ernesto R. Gallardo Jiménez
Title: Chief Financial Officer

Date: May 30, 2019



**CONSOLIDATED FINANCIAL
STATEMENTS FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017**



TABLE OF CONTENTS

| | <u>Page</u> |
|---|----------------------|
| Independent auditor's report | F-1 |
| Consolidated Statements of Financial Position | F-3 |
| Consolidated Statements of Profit or Loss | F-5 |
| Consolidated Statements of Comprehensive Income | F-6 |
| Consolidated Statements of Changes in Shareholders' Equity | F-7 |
| Consolidated Statements of Cash Flows | F-9 |
| Notes to the accompanying consolidated financial statements | F-11 |



Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
BBVA Banco Francés S.A.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of BBVA Banco Francés S.A. and subsidiaries (the Company) as of December 31, 2018, December 31, 2017 and January 1, 2017, and the related consolidated statements of profit or loss, comprehensive income, changes in shareholders' equity, and cash flows for the years ended December 31, 2018 and 2017, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, December 31, 2017 and January 1, 2017, and the results of its operations and its cash flows for the years ended December 31, 2018 and 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated May 10, 2019, except for the revision to the description of the material weaknesses in internal control over financial reporting as to which the date is May 30, 2019, expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

Changes in Accounting Principles

As discussed in Note 2.3. to the consolidated financial statements, in 2018 the Company has changed its method of accounting for financial instruments due to the adoption of International Financial Reporting Standard 9, *Financial Instruments*.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

[Table of Contents](#)

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2017.

/s/ KPMG

Buenos Aires, Argentina

May 10, 2019, except for the revision to the description of the material weaknesses in internal control over financial reporting as to which the date is May 30, 2019

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018, 2017 AND JANUARY 1, 2017
(in thousands of Argentine pesos)**

| | Notes | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|--|-------|--------------------|--------------------|--------------------|
| ASSETS | | | | |
| CASH AND CASH EQUIVALENTS | 8 | 99,105,461 | 56,453,684 | 88,746,425 |
| FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS | | | | |
| Debt securities | 9.1. | 7,508,099 | 8,588,127 | 6,764,936 |
| Derivatives | 9.2. | 591,418 | 210,756 | 98,987 |
| Equity instruments | 9.3. | 528,026 | 695,664 | 407,664 |
| FINANCIAL ASSETS AT AMORTIZED COST | | | | |
| Other financial assets | 10.1. | 9,237,235 | 3,414,951 | 1,234,350 |
| Loans and advances to government sector | | 206 | 322 | 182,080 |
| Loans and advances to central bank | | 383 | - | - |
| Loans and advances to financial institutions | 10.2. | 9,635,845 | 6,723,692 | 4,918,041 |
| Loans and advances to customers | 10.3. | 171,948,321 | 182,291,244 | 140,923,665 |
| Reverse repurchase agreements | 10.4. | 12,719,131 | 9,345,877 | 107,461 |
| FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME | | | | |
| Debt securities | 15.1. | 24,563,962 | 25,220,479 | 17,232,976 |
| Equity instruments | 15.2. | 13,926 | 18,244 | 18,156 |
| INVESTMENT IN JOINT VENTURES AND ASSOCIATES | 17 | 1,756,254 | 1,394,154 | 1,807,020 |
| TANGIBLE ASSETS | | | | |
| Property and equipment | 18.1. | 16,939,113 | 17,578,496 | 16,142,109 |
| Investment properties | 18.2. | 122,092 | 192,260 | 202,373 |
| GOODWILL AND INTANGIBLE ASSETS | 19 | 633,943 | 592,146 | 516,604 |
| INCOME TAX ASSETS | | | | |
| Current | | 385 | 44,874 | 15,907 |
| Deferred | 16.1. | - | 31,084 | 13,104 |
| OTHER ASSETS | 20 | 5,710,639 | 5,746,421 | 6,275,630 |
| NON-CURRENT ASSETS HELD FOR SALE | 21 | 541,936 | 289,945 | - |
| TOTAL ASSETS | | 361,542,449 | 318,783,092 | 285,576,228 |

The accompanying explanatory notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018, 2017 AND JANUARY 1, 2017
(in thousands of Argentine pesos)**

| | Notes | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|---|-------|----------------------|----------------------|--------------------|
| LIABILITIES | | | | |
| FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS | | | | |
| Derivatives | 22.1. | 1,377,259 | 339,253 | 107,430 |
| Trading liabilities | 22.2. | 692,270 | - | - |
| FINANCIAL LIABILITIES AT AMORTIZED COST | | | | |
| Bank loans | 23.1. | 5,527,525 | 1,020,668 | 1,299,147 |
| Deposits from government sector | | 1,544,761 | 1,538,493 | 4,866,012 |
| Deposits from financial institutions | | 294,122 | 246,523 | 410,841 |
| Deposits from customers | 23.2. | 257,670,178 | 225,492,738 | 205,898,577 |
| Repurchase agreements | 23.3. | 14,321 | 421,395 | 249,000 |
| Other financial liabilities | 23.4. | 28,189,392 | 20,673,857 | 14,345,272 |
| DEBT SECURITIES ISSUED | 24 | 2,473,690 | 3,030,411 | 3,291,323 |
| PROVISIONS | 25 | 1,708,116 | 1,319,780 | 1,583,042 |
| INCOME TAX LIABILITIES | | | | |
| Current | | 3,676,445 | 2,167,873 | 2,035,539 |
| Deferred | 16.1. | 1,876,079 | 1,930,437 | 2,592,730 |
| OTHER LIABILITIES | 26 | 10,956,150 | 11,085,009 | 10,375,581 |
| TOTAL LIABILITIES | | 316,000,308 | 269,266,437 | 247,054,494 |
| EQUITY | | | | |
| Share capital | 27 | 612,660 | 612,660 | 536,878 |
| Share premium | | 12,593,197 | 12,593,197 | 1,982,708 |
| Inflation adjustment to share capital | | 8,580,581 | 8,580,581 | 8,533,648 |
| Reserves | | 30,374,629 | 26,456,104 | 21,712,623 |
| Retained earnings | | (6,679,416) | 761,204 | 5,055,655 |
| Other comprehensive income | | 30,378 | 58,125 | 200,757 |
| Equity attributable to owners of the Bank | | 45,512,029 | 49,061,871 | 38,022,269 |
| Non-controlling interests | | 30,112 | 454,784 | 499,465 |
| TOTAL EQUITY | | 45,542,141 | 49,516,655 | 38,521,734 |
| TOTAL LIABILITIES AND EQUITY | | 361,542,449 | 318,783,092 | 285,576,228 |

The accompanying explanatory notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

| | Notes | December 31, 2018 | December 31, 2017 |
|--|-------|--------------------|-------------------|
| Interest and other income | 29.1. | 56,472,561 | 35,714,188 |
| Interest expenses | 29.2. | (24,738,228) | (11,959,325) |
| NET INTEREST INCOME | | 31,734,333 | 23,754,863 |
| Fee and commission income | 30 | 12,574,698 | 10,772,307 |
| Fee and commission expense | 31 | (5,501,505) | (4,882,374) |
| Gains (losses) on financial assets and liabilities at fair value through profit or loss, net | 32 | 115,843 | 4,361,298 |
| Gains (losses) on derecognition of financial assets not measured at fair value through profit or loss, net | 33 | (136,740) | 11,983 |
| Exchange differences, net | 34 | 6,489,026 | 3,377,178 |
| Other operating income | 35 | 2,106,977 | 1,943,178 |
| Other operating expenses | 36 | (7,984,040) | (7,346,168) |
| NET INTEREST INCOME AND OTHER OPERATING INCOME | | 39,398,592 | 31,992,265 |
| Administration costs | | (19,538,918) | (19,631,612) |
| Personnel benefits | 37 | (10,887,691) | (11,221,860) |
| Administrative expenses | 38 | (8,651,227) | (8,409,752) |
| Depreciation and amortization | 39 | (1,922,260) | (1,429,362) |
| Impairment of financial assets | 13 | (3,834,036) | (2,527,822) |
| Loss on net monetary position | 3.2. | (11,654,234) | (6,159,779) |
| OPERATING INCOME | | 2,449,144 | 2,243,690 |
| Share of profit of equity accounted investees | | 317,523 | 338,313 |
| PROFIT BEFORE TAX | | 2,766,667 | 2,582,003 |
| Income tax expense | 16.3. | (4,336,370) | (722,492) |
| (LOSS) PROFIT FOR THE YEAR | | (1,569,703) | 1,859,511 |
| Attributable to owners of the Bank | | (1,489,732) | 1,903,820 |
| Attributable to non-controlling interest | | (79,971) | (44,309) |
| EARNINGS PER SHARE | | | |
| Basic (losses) earnings per share | 6 | (2.4316) | 3.3406 |
| Diluted (losses) earnings per share | 6 | (2.4316) | 3.3406 |

The accompanying explanatory notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|---|--------------------------|--------------------------|
| (Loss) Profit for the year | (1,569,703) | 1,859,511 |
| Items that are or may be reclassified to profit or loss | | |
| Profit or loss for financial instruments at fair value through Other comprehensive income (FVOCI) | | |
| Profit (loss) for the year for financial instruments at fair value through Other comprehensive income (FVOCI) | (370,487) | (51,668) |
| Adjustment for reclassifications for the year | 146,471 | (151,903) |
| Related income tax (Note 16,1) | 66,891 | 64,582 |
| | <u>(157,125)</u> | <u>(138,989)</u> |
| Items that will not be reclassified to profit or loss | | |
| Share in Other Comprehensive income (OCI) from investees at equity method | | |
| Profit or loss for the year for the share in OCI from associates at equity-method | 129,378 | (3,643) |
| | <u>129,378</u> | <u>(3,643)</u> |
| Other comprehensive loss, net of tax | (27,747) | (142,632) |
| Total comprehensive (loss) income for the year | (1,597,450) | 1,716,879 |
| Total comprehensive (loss) income: | | |
| Attributable to owners of the Bank | (1,517,479) | 1,761,188 |
| Attributable to non-controlling interests | (79,971) | (44,309) |

The accompanying explanatory notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018 (in thousands of Argentine pesos)**

| Transactions | Other comprehensive income | | | | | Reserves | | | Total equity | | Total equity |
|---|----------------------------|-------------------|---------------------------------------|--------------------|---|------------------|-------------------|--------------------|------------------------------------|--------------------------|-------------------|
| | Share capital | Share premium | Inflation adjustment to share capital | Fair value reserve | Share of OCI from associates and joint ventures | Legal reserve | Other reserves | Retained earnings | attributable to owners of the Bank | Non-controlling interest | |
| Balance at December 31, 2017 | 612,660 | 12,593,197 | 8,580,581 | 55,516 | 2,609 | 7,342,654 | 19,113,450 | 761,204 | 49,061,871 | 454,784 | 49,516,655 |
| Adjustment on initial application of IFRS 9, net of tax (Note 2.3) | - | - | - | - | - | - | - | (725,408) | (725,408) | - | (725,408) |
| Restated balance at the beginning of the year | 612,660 | 12,593,197 | 8,580,581 | 55,516 | 2,609 | 7,342,654 | 19,113,450 | 35,796 | 48,336,463 | 454,784 | 48,791,247 |
| Total comprehensive loss for the year | - | - | - | - | - | - | - | (1,489,732) | (1,489,732) | (79,971) | (1,569,703) |
| - Loss for the year | - | - | - | - | - | - | - | - | (1,489,732) | (79,971) | (1,569,703) |
| - Other comprehensive loss for the year | - | - | - | (157,125) | 129,378 | - | - | - | (27,747) | - | (27,747) |
| - Distribution of retained earnings as per the Shareholders' Meeting held on April 10, 2018 | - | - | - | - | - | - | - | - | - | - | - |
| Legal reserve | - | - | - | - | - | 1,045,096 | - | (1,045,096) | - | - | - |
| Cash dividends (1) | - | - | - | - | - | - | - | (1,306,955) | (1,306,955) | - | (1,306,955) |
| Other reserves | - | - | - | - | - | - | 2,873,429 | (2,873,429) | - | - | - |
| - Other net increases | - | - | - | - | - | - | - | - | - | 24,451 | 24,451 |
| - Loss of control of subsidiary (Note 43) | - | - | - | - | - | - | - | - | - | (369,152) | (369,152) |
| Balances at December 31, 2018 | 612,660 | 12,593,197 | 8,580,581 | (101,609) | 131,987 | 8,387,750 | 21,986,879 | (6,679,416) | 45,512,029 | 30,112 | 45,542,141 |

(1) Dividends per share amounts to 3.92877

The accompanying explanatory notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017 (in thousands of Argentine pesos)**

| Transactions | Other comprehensive income | | | | | Reserves | | Retained earnings | Total equity attributable to owners of the Bank | Non-controlling interest | Total equity |
|---|----------------------------|-------------------|---------------------------------------|--------------------|---|------------------|-------------------|-------------------|---|--------------------------|-------------------|
| | Share capital | Share premium | Inflation adjustment to share capital | Fair value reserve | Share of OCI from associates and joint ventures | Legal reserve | Other reserves | | | | |
| Balance at January 1, 2017 | 536,878 | 1,982,708 | 8,533,648 | 194,505 | 6,252 | 6,077,689 | 15,634,934 | 5,055,655 | 38,022,269 | 499,465 | 38,521,734 |
| Total Comprehensive income for the year | | | | | | | | | | | |
| - Profit (Loss) for the year | - | - | - | - | - | - | - | 1,903,820 | 1,903,820 | (44,309) | 1,859,511 |
| - Other comprehensive loss for the year | - | - | - | (138,989) | (3,643) | - | - | - | (142,632) | - | (142,632) |
| - Distribution of retained earnings as per the Shareholders' Meeting held on March 30, 2017 | | | | | | | | | | | |
| Legal reserve | - | - | - | - | - | 1,264,965 | - | (1,264,965) | - | - | - |
| Cash dividends (1) | - | - | - | - | - | - | - | (1,454,790) | (1,454,790) | - | (1,454,790) |
| Other reserves | - | - | - | - | - | - | 3,478,516 | (3,478,516) | - | - | - |
| -Subscription of shares approved by the Shareholders' Meeting held on June 13, 2017 (Note 27) | 75,782 | 10,610,489 | 46,933 | - | - | - | - | - | 10,733,204 | - | 10,733,204 |
| - Other distributions | - | - | - | - | - | - | - | - | - | (372) | (372) |
| Balances at December 31, 2017 | 612,660 | 12,593,197 | 8,580,581 | 55,516 | 2,609 | 7,342,654 | 19,113,450 | 761,204 | 49,061,871 | 454,784 | 49,516,655 |

(1) Dividends per share amounts to 2.29327

The accompanying explanatory notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

| Accounts | December 31, 2018 | December 31, 2017 |
|---|---------------------|---------------------|
| Cash flow from operating activities | | |
| Profit before tax | 2,766,667 | 2,582,003 |
| Adjustments to obtain cash flows from operating activities: | (22,947,628) | (10,913,848) |
| Depreciation and amortization | 1,922,260 | 1,429,362 |
| Net impairment loss of financial assets | 3,834,036 | 2,527,822 |
| Accrued interest | (32,605,647) | (24,278,294) |
| Exchange rate | (17,838,856) | 1,856,483 |
| Inflation effect on cash and cash equivalents balances | 21,872,466 | 7,873,786 |
| Other adjustments | (131,887) | (323,007) |
| Net decreases due to changes in operating assets: | (4,074,168) | (66,884,348) |
| Financial assets at fair value through profit or loss | 867,004 | (2,222,960) |
| Financial assets at amortized cost | | |
| Other financial assets | (5,914,901) | (2,474,754) |
| Loans and advances to financial institutions | (4,142,686) | (1,821,909) |
| Loans and advances to customers | 8,488,300 | (43,114,151) |
| Loans and advances to government sector | 17 | 15,973 |
| Reverse repurchase agreements | (3,503,682) | (9,185,461) |
| Financial assets at fair value through other comprehensive income | 282,671 | (8,126,491) |
| Other assets | (150,891) | 45,405 |
| Net increases due to changes in operating liabilities: | 43,916,303 | 23,088,136 |
| Financial liabilities at amortized cost | | |
| Deposits from financial institutions | 53,843 | (170,033) |
| Deposits from customers | 29,720,286 | 19,508,033 |
| Deposits from government sector | 9,118 | (3,279,041) |
| Repurchase agreements | (407,074) | 172,395 |
| Financial liabilities through FVTPL | 1,730,276 | 231,823 |
| Other financial liabilities | 12,809,854 | 6,624,959 |
| Income tax paid | (1,358,731) | (1,313,652) |
| Interest received | 52,136,061 | 35,366,413 |
| Interest paid | (21,333,384) | (11,416,752) |
| Total cash flows generated by/(used in) operating activities | 49,105,120 | (29,492,048) |

The accompanying explanatory notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

| Accounts | December 31, 2018 | December 31, 2017 |
|--|--------------------|---------------------|
| Cash flows from investing activities | | |
| Payments: | (1,983,986) | (2,494,136) |
| Purchase of property and equipment, intangible assets and other assets | (1,901,966) | (2,494,136) |
| Loss of control of the subsidiary | (82,020) | - |
| Collections: | 1,158,333 | 467,453 |
| Sale of property and equipment, intangible assets and other assets | 655,278 | 10,234 |
| Dividends received | 503,055 | 457,219 |
| Total cash flows used in investing activities | (825,653) | (2,026,683) |
| Cash flows from financing activities | | |
| Payments: | (2,646,692) | (3,395,633) |
| Dividends | (1,306,955) | (1,454,790) |
| Debt securities issued - Capital | (544,261) | (1,330,216) |
| Debt securities issued - Interest | (792,961) | (564,244) |
| BCRA | (2,515) | (46,383) |
| Collections: | 1,052,614 | 12,351,891 |
| Issuance of own equity instruments | - | 10,733,204 |
| Non controlling interest capital contribution | 284,388 | - |
| Debt securities issued - Capital | 768,226 | 1,618,687 |
| Total cash flows (used in)/generated by financing activities | (1,594,078) | 8,956,258 |
| Effect of exchange rate changes on cash and cash equivalents | 17,838,854 | (1,856,482) |
| Inflation effect on cash and cash equivalents balances | (21,872,466) | (7,873,786) |
| Total changes in cash flows | 42,651,777 | (32,292,741) |
| Cash and cash equivalents at the beginning of the year (Note 8) | 56,453,684 | 88,746,425 |
| Cash and cash equivalents at the end of the year (Note 8) | 99,105,461 | 56,453,684 |

The accompanying explanatory notes are an integral part of these consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

1. General information

BBVA Banco Francés S.A. (hereinafter, indistinctly, “BBVA Francés” or the “Bank”) is a corporation (“*sociedad anónima*”) incorporated under the laws of Argentina, operating as a universal bank with a network of 252 national branches.

Since December 1996, BBVA Francés is controlled by Banco Bilbao Vizcaya Argentaria, S.A. (“BBVA”, “BBVA Group” or the “controlling entity”), which directly and indirectly owns 66.55% of the share capital of the Bank as of December 31, 2018.

These Consolidated Financial Statements relate to the Bank and its subsidiaries (collectively, the “Group”). The Bank’s subsidiaries are detailed in Note 43.

Part of the Bank’s share capital is publicly traded and has been registered with the Buenos Aires Stock Exchange, the New York Stock Exchange and the Madrid Stock Exchange.

The ordinary and extraordinary shareholders’ meeting held on April 24, 2019 modified BBVA Francés’ by-laws to change the Bank’s legal name to BBVA Argentina S.A. and make certain modifications regarding public offerings in conformity with Articles 62 bis and 63 of Law 26,831. Such amendments are pending registration with the Public Registry of Commerce (“IGJ”).

2. Basis of preparation

2.1. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as published by the International Accounting Standards Board (“IASB”) (“IFRS-IASB”).

The Bank has adopted IFRS-IASB as of January 1, 2017 as its financial reporting basis of accounting. These are the Bank’s first consolidated financial statements prepared in accordance with IFRS-IASB.

These consolidated financial statements have been approved by the Board of Directors of BBVA Banco Francés S.A. on May 8, 2019.

2.2. Transition to IFRS-IASB

- First-Time adoption of IFRS-IASB

Until December 31, 2017 the Bank prepared its consolidated financial statements in accordance with rules prescribed or permitted by Argentina Central Bank (“BCRA GAAP”).

The Bank followed the provisions of IFRS 1, “First Time Adoption of IFRS”, in preparing its consolidated statement of financial position as of the date of transition, January 1, 2017. Certain of the Bank’s IFRS-IASB accounting policies used for this opening consolidated statement of financial position differed from BCRA GAAP policies applied at the same date. The resulting adjustments arose from events and transactions before the date of transition to IFRS-IASB. Therefore, as required by IFRS 1, those adjustments were recognized directly through retained earnings (or another category of equity where appropriate) as of January 1, 2017. This is the effect of the general rule of IFRS 1 which is to apply IFRS-IASB retrospectively. There are some exceptions required and some exemptions permitted by IFRS 1. The Group applied the following exemptions allowed by IFRS 1:

- a) Considered the fair value of its real estate as of January 1, 2017 as deemed cost at that date;
- b) Decided not to apply IFRS 3 retrospectively to past business combinations. The carrying amount of goodwill as of January 1, 2017 corresponds to the amount at that date in accordance with BCRA GAAP and;
- c) Decided to apply the requirements of IFRS 9 (issued in 2014) as from January 1, 2018. For comparative information, the Group has applied IAS 39. The impact of this change in accounting policy is explained in Note 2.3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

- Effect of Transition to IFRS-IASB

Below is a reconciliation of equity between BCRA GAAP and IFRS-IASB as of December 31, 2017 and January 1, 2017 as well as a reconciliation of profit or loss for the year ended December 31, 2017:

| | Ref | December 31, 2017 | January 1, 2017 |
|---|-----|-------------------|-------------------|
| EQUITY IN ACCORDANCE WITH BCRA GAAP | | 26,056,548 | 16,460,035 |
| Adjustments due to implementation of IFRS-IASB | | | |
| Deemed cost of real estate | (a) | 4,889,491 | 4,960,575 |
| Effective interest rate of loans | (b) | (316,269) | (559,072) |
| Financing facilities granted at a below market interest rate | (c) | (213,540) | - |
| Fair value of government and private securities | (d) | (24,587) | (31,439) |
| Loan impairment methodology differences | (e) | 419,042 | 690,843 |
| Fair value of derivatives | (f) | (37,337) | (34,122) |
| Equity method of investments in associates and joint ventures | (g) | 170,128 | 191,493 |
| Assets and liabilities for contracts with customers | (h) | (131,840) | (138,665) |
| Goodwill | (i) | 360 | - |
| Deferred income tax | (j) | (513,082) | (1,224,825) |
| Financial guarantee contracts | (k) | (5,454) | (3,425) |
| Employee benefits | (l) | (1,562) | (1,683) |
| Uncertain tax positions | (m) | 1,185,800 | - |
| Others | | 666 | 1,203 |
| Non-controlling interests | (n) | 298,126 | 267,737 |
| SUBTOTAL | | 31,776,490 | 20,578,655 |
| Inflation adjustment | (o) | 17,740,165 | 17,943,079 |
| EQUITY IN ACCORDANCE WITH IFRS-IASB | | 49,516,655 | 38,521,734 |
| Equity attributable to owners of the Bank | | 49,061,871 | 38,022,269 |
| Non-controlling interests | | 454,784 | 499,465 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

| | Ref | December 31, 2017 |
|---|------------|--------------------------|
| PROFIT OR LOSS IN ACCORDANCE WITH BCRA GAAP | | 3,878,265 |
| Adjustments due to implementation of IFRS-IASB | | |
| Depreciation of property | (a) | (71,084) |
| Effective interest rate of loans | (b) | 242,803 |
| Financing facilities granted at a below market interest rate | (c) | (213,540) |
| Fair value of government and private securities | (d) | 131,614 |
| Loan impairment methodology differences | (e) | (271,801) |
| Fair value of derivatives | (f) | (3,215) |
| Equity method of investments in associates and joint ventures | (g) | (37,928) |
| Assets and liabilities for contracts with customers | (h) | 6,825 |
| Goodwill | (i) | 360 |
| Deferred income tax | (j) | 554,741 |
| Financial guarantee contracts | (k) | (2,029) |
| Employee benefits | (l) | 121 |
| Uncertain tax positions | (m) | 1,185,800 |
| Others | | 125 |
| Non-controlling interests | (n) | 30,389 |
| SUBTOTAL | | 5,431,446 |
| Inflation adjustment | (o) | (3,571,935) |
| PROFIT OR LOSS IN ACCORDANCE WITH IFRS-IASB | | 1,859,511 |
| <u>Other comprehensive income/(loss)</u> | | |
| Loss for the year from financial instruments at fair value through OCI | | (124,762) |
| Related tax | | 39,567 |
| Loss for the year for the share in OCI from associates at equity-method | | (2,232) |
| SUBTOTAL | | (87,427) |
| Inflation adjustment | | (55,205) |
| Other Comprehensive loss in accordance with IFRS-IASB | | (142,632) |
| Total Comprehensive Income in accordance with IFRS-IASB | | 1,716,879 |
| OCI attributable to owners of the Bank | | 1,761,188 |
| Non-controlling interests | | (44,309) |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

Below, are the main explanations of the affected captions:

| Reference | Explanation | | | | | | | | | | | | | | | | | | |
|--|--|---|---|---|--|---|----------------------|---|---------------------|------------------------|--|-------------------------|------------------------|-----------------------|-----------------------------|---|---|---|---|
| (a) | <p>The Group has applied the exemption of IFRS 1 by which fair value of its real estate as of January 1, 2017 is considered as deemed cost at that date.</p> <p>- Property and equipment</p> <p>Management's estimate of fair value was based on a fair value assessment carried out by Favereau S.A. Tasaciones, an independent valuation specialist.</p> <p>To determine fair value, the market approach was used, which is based on the assumption that a well-informed purchaser shall not pay for an asset more than the purchase price of a similar asset, that is to say, it provides an indication of the value comparing the asset with other similar assets.</p> <p>Significant inputs used, detailed by area and their relation to fair value are set forth below:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Main calculation variables, unobservable</th> <th style="text-align: left;">Interrelation between the main variables and fair value</th> <th style="text-align: left;">City of Buenos Aires</th> <th style="text-align: left;">Provinces of Buenos Aires, Córdoba and Santa Fe</th> <th style="text-align: left;">Rest of the country</th> </tr> </thead> <tbody> <tr> <td>Price per square meter</td> <td>The higher the price per square meter, the higher the fair value</td> <td>Ps.18,452 to Ps.145,631</td> <td>Ps.17,699 to Ps.89,655</td> <td>Ps.4,800 to Ps.57,143</td> </tr> <tr> <td>Age and preservation status</td> <td> <p>The higher the age, the lower the fair value.</p> <p>The better the preservation status, the higher the fair value</p> </td> <td> <p>From 1930 to 2016</p> <p>Status: Good to Excellent</p> </td> <td> <p>From 1920 to 2010</p> <p>Status: Good to Very good</p> </td> <td> <p>From 1935 to 2016</p> <p>Status: Good to Very good</p> </td> </tr> </tbody> </table> | | | | Main calculation variables, unobservable | Interrelation between the main variables and fair value | City of Buenos Aires | Provinces of Buenos Aires, Córdoba and Santa Fe | Rest of the country | Price per square meter | The higher the price per square meter, the higher the fair value | Ps.18,452 to Ps.145,631 | Ps.17,699 to Ps.89,655 | Ps.4,800 to Ps.57,143 | Age and preservation status | <p>The higher the age, the lower the fair value.</p> <p>The better the preservation status, the higher the fair value</p> | <p>From 1930 to 2016</p> <p>Status: Good to Excellent</p> | <p>From 1920 to 2010</p> <p>Status: Good to Very good</p> | <p>From 1935 to 2016</p> <p>Status: Good to Very good</p> |
| Main calculation variables, unobservable | Interrelation between the main variables and fair value | City of Buenos Aires | Provinces of Buenos Aires, Córdoba and Santa Fe | Rest of the country | | | | | | | | | | | | | | | |
| Price per square meter | The higher the price per square meter, the higher the fair value | Ps.18,452 to Ps.145,631 | Ps.17,699 to Ps.89,655 | Ps.4,800 to Ps.57,143 | | | | | | | | | | | | | | | |
| Age and preservation status | <p>The higher the age, the lower the fair value.</p> <p>The better the preservation status, the higher the fair value</p> | <p>From 1930 to 2016</p> <p>Status: Good to Excellent</p> | <p>From 1920 to 2010</p> <p>Status: Good to Very good</p> | <p>From 1935 to 2016</p> <p>Status: Good to Very good</p> | | | | | | | | | | | | | | | |

Ps.: Argentine pesos

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

- Investment properties

Management's estimate of fair value was based on a fair value assessment carried out by Favereau S.A. Tasaciones, an independent valuation specialist.

To determine fair value, the market approach was used, which is based on the assumption that a well-informed purchaser shall not pay for an asset more than the purchase price of a similar asset, that is to say, it provides an indication of the value comparing the asset with other similar assets.

Significant inputs used, detailed by area and their relation to fair value are set forth below:

| Main calculation variables, unobservable | Interrelation between the main variables and fair value | City of Buenos Aires | Provinces of Buenos Aires and Santa Fe | Rest of the country |
|--|--|---|---|---|
| Price per square meter | The higher the price per square meter, the higher the fair value | Ps.8,367 to Ps.46,581 | Ps.8,933 to Ps.20,175 | Ps.8,830 to Ps.14,046 |
| Age and preservation status | The higher the age, the lower the fair value. The better the preservation status, the higher the fair value | From 1900 to 1990 Status: Fair to Good | From 1973 to 1975 Status: Fair to Good | From 1970 to 1984 Status: Fair to Good |

The Group applies the cost model for measuring property and equipment and investment properties. Depreciation charge has increased as a result of deemed cost of real estate being higher than the cost in accordance with BCRA GAAP.

- (b) In accordance with IFRS-IASB, under the effective interest method, for financial assets and financial liabilities valued at amortized cost, the Group identified commissions received (assets) and paid (liabilities) recognized in profit or loss upon origination in accordance with BCRA GAAP that are in fact an integral part of the interest rate. The Group recalculated the effective interest rate of the related financial assets and liabilities considering these commissions.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

- (c) Adjustments to measure the loans portfolio at fair value upon initial recognition, since these financing facilities are granted at a below market interest rate. The Bank offers through marketing activities short-term loans at a below market interest rate, primarily to credit card holders.
- (d) Adjustments correspond to debt securities that were measured at cost plus interest accrued using the instruments' interest rate of return in accordance with BCRA GAAP and which are measured at fair value in accordance with IAS 39.
- (e) Impairment was determined in accordance with BCRA GAAP, which establishes minimum allowance rates based on the Argentine Central Bank ("BCRA") rating system. In accordance with IAS 39, the Bank assessed whether there is objective evidence of impairment and measured impairment as described in Note 5.4.c).
- (f) Adjustment to measure derivative instruments at fair value through profit or loss. In accordance with BCRA GAAP, forwards were measured considering the difference between contractual and forward exchange rates. No present value was determined. Swaps were measured considering the estimated cash flows based on the contractual and prevailing interest rate. No present value was determined.
- (g) Adjustment related to IFRS-IASB adoption in associates and joint ventures.
- (h) Pursuant to IFRS 15, income from contracts with customers is accrued as the Group satisfies the performance obligations. This adjustment mainly relates to services (e.g. annual fees for credit cards) to be provided over the performance period. Under BCRA GAAP these fees were recognized in profit or loss on the date they were billed.
- (i) Pursuant to BCRA GAAP, goodwill generated by business combinations was measured at cost less accumulated amortizations calculated in proportion to the estimated useful life. The Group measures goodwill at the accounting balance at the transition date (see Note 5.9). Consequently, this adjustment shows the reversal of the amortization recognized in 2017 under BCRA GAAP.
- (j) To recognize deferred tax assets and liabilities in accordance with IAS 12 - "Income taxes". Under BCRA GAAP income tax charge only includes current tax.
- (k) Guarantees granted are recognized at the higher of the fair value at the initial recognition less the accumulated amount of income recognized in accordance with IFRS 15 or the provision in accordance with IAS 37. Under previous GAAP fees related to guarantees granted were recognized in profit or loss on the date of grant. A provision was recognized in accordance with BCRA rules.
- (l) Adjustment to recognize annual leave accrued and payable in accordance with IAS 19, determined considering current legal regulations. Under BCRA GAAP, the cost of vacations earned by employees was generally recorded when the absence occurred.
- (m) In accordance with BCRA GAAP the Bank recorded a provision amounting to 1,185,800 in 2017 related the tax inflation adjustment, considered to be an uncertain tax position. As mentioned in Note 16.5, under IFRS-IASB this provision should not have been recorded.
- (n) To consider non-controlling interests as part of consolidated shareholders' equity, instead of a mezzanine caption in accordance with BCRA GAAP.
- (o) See Note 3.2.

Below is a reconciliation of cash flows for the year ended December 31, 2017 between BCRA GAAP and IFRS-IASB:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

| | Cash flows in accordance with BCRA GAAP | Assets considered cash equivalents under BCRA GAAP (a) | PSA deconsolidation (b) | Other (c) | Adjustment to express the amounts in terms of measuring unit current at December 31, 2018 | Cash flows in accordance with IFRS-IASB |
|--|---|---|----------------------------|-----------|---|---|
| Cash and cash equivalents at December 31, 2017 | 48,856,107 | (671,138) | (20,020) | - | 40,581,476 | 88,746,425 |
| Cash and cash equivalents at December 31, 2018 | 39,524,382 | (1,271,767) | (16,673) | - | 18,217,742 | 56,453,684 |
| Change in cash and cash equivalents | (9,331,725) | (600,629) | 3,347 | - | (22,363,734) | (32,292,741) |
| Cash flow from operating activities | (14,948,594) | (600,629) | 223,347 | (133,732) | (14,032,441) | (29,492,049) |
| Cash flow from operating activities | (1,636,340) | - | - | 163,226 | (553,569) | (2,026,683) |
| Cash flow from operating activities | 5,448,732 | - | (220,000) | (29,494) | 3,757,021 | 8,956,259 |
| Effect of exchange rate on cash positions | 1,804,477 | - | - | - | (3,660,959) | (1,856,482) |
| Inflation effect on cash and cash equivalents balances | - | - | - | - | (7,873,786) | (7,873,786) |
| Change in cash and cash equivalents | (9,331,725) | (600,629) | 3,347 | - | (22,363,734) | (32,292,741) |

| Reference | Explanation |
|-----------|--|
| (a) | In accordance with BCRA GAAP, certain short term loans to financial institutions were considered cash equivalents. |
| (b) | PSA Finance Arg. Cía Financiera S.A. was consolidated under BCRA GAAP but considered a joint venture under IFRS-IASB. |
| (c) | It mainly corresponds to a different classification of cash flows related to dividends collected from subsidiaries and bank loans. |

2.3. Changes in accounting policies

- Adoption of IFRS 9

As mentioned in the Note 5.4.b), IFRS 9 replaced IAS 39 for financial statements from January 1, 2018 onwards. The main changes between these two standards relate to the classification of financial assets, the introduction of the expected credit loss model to determine impairment of financial assets.

The application of this standard on January 1, 2018, had a significant impact on the consolidated financial statements of the Bank at that date.

The Group reassessed the classification of its financial assets and liabilities and concluded that:

- Loans and receivables: all instruments under this classification under IAS 39 fulfil the requirements of IFRS 9 to be classified as financial assets at amortized cost.
- Held-to-maturity: all instruments under this classification under IAS 39 fulfil the requirements of IFRS 9 to be classified as financial assets at amortized cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

- Available-for-sale: all instruments under this classification under IAS 39 fulfil the requirements of IFRS 9 to be classified as financial assets at fair value through other comprehensive income.
- At fair value through profit and loss: remains unchanged.

However, regarding impairment, the Group has determined in accordance with IFRS 9, that the allowance for loan losses and provision for financial guarantees and loan commitments are 1,036,297 higher than the allowance determined in accordance with IAS 39 and the provision under IAS 37 as of January 1, 2018. The pertinent adjustment, net of the related income tax effect of 310,889, has been recorded in Equity, in the line Retained earnings. Comparative information was not restated.

3. Functional and presentation currency and unit of account

3.1. Functional and presentation currency

The Argentine Peso is the functional and presentation currency of the Bank and its subsidiaries. All amounts are stated in thousands of Argentine pesos, unless otherwise stated.

3.2. Unit of account

IAS 29 Financial Reporting in Hyperinflationary Economies requires an entity whose functional currency is the currency of a hyperinflationary economy, to state the assets, liabilities, income and expenses in terms of the measuring unit current at the reporting period.

An economy is considered to be a hyperinflationary economy when, among other criteria, it has cumulative inflation of approximately 100% or more over a 3-year period.

The Bank's management took into account the increase in the levels of inflation suffered by the Argentine economy in the first months of 2018, applied the parameters established by IAS 29 and agreed with the consensus reached among local and international accounting standards that the Argentine economy should be considered as hyperinflationary. Consequently, IAS 29 has been applied to financial information prepared as from July 1, 2018.

Additionally, the Bank's management agreed with the basis for conclusions and consequently followed the guidance issued by Argentine accounting standards setters by which the "general price index" for IAS 29 purposes is determined considering the Wholesale price index (WPI) through December 31, 2016 and the Consumer price index (CPI) beginning on January 1, 2017 and onwards. These indexes are published by the National Institute of Statistics and Census (INDEC).

The general price index has increased 47.65% during 2018 and 24.80% during 2017.

Under IAS 29 assets and liabilities not already expressed in terms of the measuring unit current at the end of the reporting period are adjusted by applying a general price index. The adjusted amount of a non-monetary item is reduced, in accordance with IFRS-IASB, when it exceeds its recoverable amount. The impact of implementation of IAS 29 at the beginning of the first period of application is recognized in equity. All items in the statement of comprehensive income are expressed in terms of the measuring unit current at the end of the reporting period. The gain or loss on the net monetary position is included in the Consolidated Statement of profit or loss.

Since the Bank prepares its financial information based on a historical cost approach, it has applied IAS 29 as follows:

- Restated the Consolidated statement of financial position as of January 1, 2017, which is the earliest financial information presented.
- Restated the Consolidated statement of financial position as of December 31, 2017.
- Restated the Consolidated statement of profit or loss, the Consolidated statement of comprehensive income, the Consolidated statement of changes in shareholders' equity and Consolidated statements of cash flow for the year ended December 31, 2017, including the calculation and separate disclosure of the gain or loss on the net monetary position.
- Adjusted the Consolidated statement of financial position as of December 31, 2018.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

- Adjusted the Consolidated statement of profit or loss, the Consolidated statement of comprehensive income, the Consolidated statement of changes in shareholders' equity and Consolidated statements of cash flow for the year ended December 31, 2018, including the calculation and separate disclosure of the gain or loss on the net monetary position.

In order to apply IAS 29 to the Consolidated statement of financial position, the Bank has applied the following methodology and criteria:

- Non-monetary items have been restated by applying the general price index. The restated amounts have been reduced to their recoverable value by applying the pertinent IFRS, if necessary.
- Monetary items have not been restated.
- Assets and liabilities linked by agreement to changes in prices, such as index linked bonds and loans, have been measured in accordance with the pertinent agreement.
- The measurement of Investments accounted for under the equity method, have been determined based on financial information of the associates and joint ventures prepared in accordance with IAS 29.
- Deferred income tax assets and liabilities have been recalculated based on the restated amounts.
- As of January 1, 2017 all equity components, except retained earnings, have been restated by applying the general price index from the dates the components were contributed or otherwise arose. In subsequent periods, all equity components have been restated by applying the general price index from the beginning of the period or the date of contribution, if later.

In order to apply IAS 29 to the Consolidated statement of profit or loss, the Consolidated statement of comprehensive income and the Consolidated statement of cash flows, the Bank has been applied the following methodology and criteria:

- All items in the Consolidated statement of profit or loss, Consolidated statement of comprehensive income and Consolidated statement of cash flows have been expressed in terms of the measuring unit current at December 31, 2018.
- The gain or loss on the net monetary position is included in the Consolidated statement of profit or loss.
- The gain or loss generated by cash and cash equivalents is presented in the Consolidated statement of cash flows separately from cash flows from operating, investing and financing activities as a specific item in the reconciliation between cash and cash equivalents at the beginning and at the end of the period.

Below is a summary of the main adjustments in the application of IAS 29:

| | <u>December 31, 2017</u> | <u>January 1, 2017</u> |
|---|--------------------------|--------------------------|
| Equity before inflation adjustment (Note 2.2) | 31,776,490 | 20,578,655 |
| Impact of IAS 29 adoption: | | |
| · Increase in Non-monetary assets (tangible assets, intangible assets and non-current assets held for sale) | 2,486,482 | 504,728 |
| · Increase Deferred income tax | (725,461) | (176,654) |
| Total impact of IAS 29 adoption | <u>1,761,021</u> | <u>328,074</u> |
| Equity in terms of the measuring unit current at December 31, 2017 / January 1, 2017 | 33,537,511 | 20,906,729 |
| Adjustment of measuring unit | 15,979,144 | 17,615,005 |
| Equity in terms of the measuring unit current at December 31, 2018 | <u>49,516,655</u> | <u>38,521,734</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

| | <u>December 31, 2017</u> |
|---|--------------------------|
| Profit before inflation adjustment (Note 2.2) | 5,431,446 |
| Impact of IAS 29 adoption: | |
| · Increase in Non-monetary assets (tangible assets, intangible assets and non-current assets held for sale) | 1,981,754 |
| · Increase Deferred income tax | (548,807) |
| · Loss on net monetary position | (5,604,951) |
| Total impact of IAS 29 adoption | <u>(4,172,004)</u> |
| Profit or loss at in terms of the measuring unit current at December 31, 2017 | 1,259,442 |
| Adjustment of measuring unit | 600,069 |
| Profit in terms of the measuring unit current at December 31, 2018 | <u>1,859,511</u> |

4. Accounting estimates and judgments

In preparing these consolidated financial statements, the Board of Directors has made judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses.

The related estimates and assumptions are based on expectations and other factors deemed reasonable, the result of which are the basis for the judgments on the value of assets and liabilities, which are not easily obtained from other sources. Actual results may differ from these estimates.

The underlying estimates and assumptions are continuously under review. The effect of the review of accounting estimates is recognized prospectively.

4.1 Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is described in Note 3 “Functional and presentation currency and unit of account” and Note 5 “Significant accounting policies” in the following titles:

- Note 3.2. – “Unit of account”
- Note 5.1. – Determination of the “Basis of consolidation” regarding the existence of control over other entities
- Note 5.4.b) – “Classification of financial assets”
- Note 5.4.b) – “Impairment of financial assets”

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

4.2. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in these consolidated financial statements is included in the following notes:

- Note 12 – “Measurement of expected credit losses” regarding the impairment of financial assets
- Note 16 – “Income tax and deferred tax assets and liabilities”, regarding availability of future taxable profit against which deferred tax assets and the effect of the final resolution of uncertain tax positions.
- Note 25 – “Provisions”, regarding the likelihood, timing and amount of outflow of resources.
- Note 41 b.3 – “Valuation techniques for Levels 2 and 3”.

4.3. Fair value measurement

Fair value is the price that would be received for the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of a financial instrument using the quoted price in an active market. A market is considered active if transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques maximizing the use of relevant market inputs and minimizes the use of unobservable inputs. The selection of a valuation technique considers all factors market participants would take into consideration for the purposes of setting the price of the transaction.

Fair values are categorized into different levels in the fair value hierarchy based on the input data used in the measurement techniques, as follows:

- Level 1: quoted prices in active markets (unadjusted) for identical assets or liabilities.
- Level 2: fair value estimated with observable market inputs.
- Level 3: inputs that are unobservable.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

5. Significant accounting policies

Except as described in Note 2.3. for the adoption of IFRS 9 as of January 1, 2018, the Group has consistently applied the following accounting policies in all periods presented in these consolidated financial statements and in the preparation of the Statement of financial position as of January 1, 2017 for the purposes of the transition to IFRS-IASB.

5.1. Basis of consolidation

a) Subsidiaries

Subsidiaries are all entities (including structured entities, if any) controlled by the Bank. The Bank controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Bank reassesses whether it has control if there are changes to one or more of the elements of control.

The financial statements of subsidiaries are fully consolidated with those of the Bank from the date on which control commences until the date on which control ceases.

b) Non-controlling interests

Non-controlling interests are the proportionate share of income and shareholders' equity of the subsidiaries, which do not belong to the Bank and are included as a separate line in the Consolidated Statements of profit or loss, of Comprehensive Income, of Financial Position and of changes in shareholders' equity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

c) Trusts

The Bank acts as trustee for a number of trusts. The Bank considers the purpose and design of the trust so as to identify its relevant activities, how decisions about such activities are made, who has the current ability to direct those activities, and who receives returns therefrom. In case the Bank has decision-making power over the trust, determines whether it acts as a principal or as an agent of a third party.

The Bank has concluded that it does not have control over any of these trusts.

d) Investment funds

A subsidiary of the Bank acts as fund manager to a number of investment funds. Determining whether the Bank controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Bank in the fund (comprising any carried interests and expected management fees) and considers that investors have no right to remove the fund manager without cause. In cases where the economic interest share is less than 37%, the Bank concludes its subsidiary acts as an agent for the investors and therefore does not consolidate those funds.

e) Loss of control

When the Bank loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, any related non-controlling interest and other components of equity.

Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

f) Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealized income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements.

5.2. Foreign currency

Transactions in foreign currencies are translated into the respective functional currency of Bank entities at the spot exchange rates published by the BCRA at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the reporting date.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising from translation are recognized in profit or loss.

5.3. Cash and cash equivalents

Cash and cash equivalents includes cash and bank deposits, balances with central banks and balances with no restrictions kept with the BCRA and on-demand accounts held at financial institutions that are subject to an insignificant risk of changes in their fair value and are used by the Bank in the management of its short-term commitments.

5.4. Financial assets and liabilities

a) Recognition

The Bank initially recognizes loans, deposits, debt securities issued and liabilities on the date on which they are originated. All other financial instruments (including ordinary course purchases and sales of financial assets) are recognized on the trade date, which is the date when the Bank becomes party to the contractual provisions of the instrument.

The Bank recognizes purchases of financial instruments with the commitment to resell at a certain price as a loan granted in the line "Reverse repurchase agreements" in the Consolidated statement of financial position. The difference between the purchase and sale prices of those instruments is recorded as interest accrued during the term of the transactions using the effective interest method.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

Financial assets and financial liabilities are initially recognized at fair value. Instruments not measured at fair value through profit or loss (FVTPL) are recognized at fair value plus (in the case of assets) or less (in the case of liabilities) the transaction costs directly attributable to the acquisition of the asset or the issuance of the liability.

The transaction price is usually the best evidence of fair value for initial recognition.

However, if the Bank determines that the fair value at initial recognition is different than the consideration received or paid, when the fair value is in hierarchies 1 or 2, the financial instrument is initially recognized at fair value and the difference is recognized in profit or loss. If the fair value at initial recognition is hierarchy 3, the difference between the fair value and the consideration is deferred in the term of the instrument.

b) Policy applicable from January 1, 2018

Classification of financial assets

On initial recognition, financial assets are classified as measured at amortized cost, fair value through Other Comprehensive Income (FVOCI) or fair value through profit or loss (FVTPL).

A financial asset is measured at amortized cost if it meets both of the following conditions:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise to cash flows that are SPPI on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may elect to, for each individual instrument, present subsequent changes in fair value in Other Comprehensive Income (OCI).

All other financial assets are classified as measured at FVTPL. This category includes derivative financial instruments.

Classification of financial liabilities

The Bank classifies its financial liabilities, other than derivatives, financial guarantees and liabilities at fair value through profit or loss as measured at amortized cost.

Financial liabilities held for trading and derivative financial instruments are measured at FVTPL.

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognized at fair value, and subsequently are measured at the higher of this amortized amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice,

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

- How the performance of the portfolio is evaluated and reported to the Bank's management,
- The risks that affect the performance of the business model and how those risks are managed,
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are SPPI

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs as well as profit margin. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Bank considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets; and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rate).

Reclassification

Financial assets are not reclassified after their initial recognition, except for a change in the Bank's business models.

Measurement at amortized cost

The amortized cost of a financial asset or liability is the amount of its initial recognition less the capital reimbursements, plus or less the amortization, using the effective interest method, of any difference between the initial amount and the amount at maturity. In the case of financial assets, it also includes any impairment.

Modifications of financial assets and financial liabilities

i) Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and the derecognition criteria are not usually met in such cases.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

ii) Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Impairment of financial assets

The IFRS 9 impairment model is applied to financial assets valued at amortized cost and to financial assets valued at fair value with changes in other comprehensive income, except for investments in equity instruments. Likewise, all the financial instruments valued at fair value with change through profit and loss are excluded from the impairment model.

The new standard classifies financial instruments into three categories, which depend on the evolution of their credit risk from the moment of initial recognition. The first category includes the transactions initially recognized, with no significant increase in credit risk and not impaired (Stage 1); the second comprises the financial assets for which a significant increase in credit risk has been identified since its initial recognition (Stage 2) and the third one, the impaired financial assets (Stage 3).

The calculation of the allowances for credit risk in each of these three categories are done differently. In this way, expected loss up to 12 months for the financial assets classified in the first of the aforementioned categories are recorded, while expected losses estimated for the remaining life of the financial assets classified in the other two categories are recorded. Thus, IFRS 9 differentiates between the following concepts of expected loss:

- Expected loss at 12 months: expected credit loss that arises from possible default events within 12 months following the presentation date of the financial statements; and
- Expected loss during the life of the transaction: this is the expected credit loss that arises from all possible default events over the remaining life of the financial instrument.

All this requires considerable judgment, both in the modeling for the estimation of the expected losses and in the forecasts, on how the economic factors affect such losses, which must be carried out on a weighted probability basis.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

The Bank has applied the following definitions in accordance with IFRS 9:

Default

BBVA Francés has applied a definition of default for financial instruments that is consistent with that used in internal credit risk management, as well as the indicators under applicable regulation at the date of implementation of IFRS 9. Both qualitative and quantitative indicators have been considered.

In accordance with IFRS 9, the 90-day past-due stipulation may be waived in cases where the Bank considers it appropriate, based on reasonable and documented information that it is appropriate to use a longer term. As of December 31, 2018, the Bank has not considered periods superior to 90 days for any of the significant portfolios.

Credit impaired asset

An asset is credit-impaired according to IFRS 9 if one or more events have occurred and they have a detrimental impact on the estimated future cash flows of the asset. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or the borrower.
- A breach of contract (e.g. a default or past due event).
- A lender having granted a concession to the borrower – for economic or contractual reasons relating to the borrower’s financial difficulty – that the lender would not otherwise consider.
- It becoming probable that the borrower will enter bankruptcy or other financial reorganization.

It may not be possible to identify a single discrete event. Instead, the combined effect of several events may cause financial assets to become credit-impaired.

The definition of impaired financial assets in the Bank is aligned with the definition of default explained in the above paragraphs.

Significant increase in credit risk

The objective of the impairment requirements is to recognize lifetime expected credit losses for financial instruments for which there have been significant increases in credit risk since initial recognition considering all reasonable and supportable information, including that which is forward-looking.

The model developed by the Bank for assessing the significant increase in credit risk has a two-prong approach:

- Quantitative criterion: the Bank uses a quantitative analysis based on comparing the current expected probability of default over the life of the transaction with the original adjusted expected probability of default, so that both values are comparable in terms of expected default probability for their residual life. The thresholds used for considering a significant increase in risk take into account special cases according to geographic areas and portfolios. Depending on how old current operations are, at the time implementation of the standard, some simplification has been made to compare the probabilities of default between the current and the original moment, based on the best information available at that moment.
- Qualitative criterion: most indicators for detecting significant risk increase are included in the Bank's systems through rating/scoring systems or macroeconomic scenarios, so quantitative analysis covers the majority of circumstances. The Bank will use additional qualitative criteria when it considers it necessary to include circumstances that are not reflected in the rating/score systems or macroeconomic scenarios used.

Additionally, instruments under one of the following main circumstances are considered Stage 2 (Qualitative criterion):

- More than 30 days past due. According to IFRS 9, default of more than 30 days is a presumption that can be rebutted in those cases in which the Bank considers, based on reasonable and documented information, that such non-payment does not represent a significant increase in risk. The Bank has not considered periods superior to 30 days for any of the significant portfolios.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

- Watch list: They are subject to special watch by the Risks units because they show negative signs in their credit quality, even though there may be no objective evidence of impairment.
- Refinance or restructuring that does not show evidence of impairment.

Thus the classification of financial instruments subject to impairment under IFRS 9 is as follows:

- Stage 1– without significant increase in credit risk

Financial assets which are not considered to have significantly increased in credit risk since its initial recognition, have the allowances for loan losses measured at an amount equal to 12 months expected credit losses (ECL).

- Stage 2– significant increases in credit risk

When there is a significant increase in credit risk, the financial asset is transferred to this category in which the allowance for loan losses is calculated as the ECL during the entire life of the asset.

- Stage 3 – Impaired

When there is objective evidence that the instrument is credit impaired, the financial asset is transferred to this category in which the allowances for losses of that financial instrument is calculated as the expected credit loss during the entire life of the asset.

Method for calculating ECL under IFRS 9

In accordance with IFRS 9, the measurement of ECL must reflect:

- A considered and unbiased amount, determined by evaluating a range of possible results.
- The time value of money.
- Reasonable and supportable information that is available without undue cost or effort and that reflects current conditions and forecasts of future economic conditions.

The Bank measures the ECL both individually and collectively.

The purpose of the Bank's individual measurement is to estimate expected losses for significant impaired instruments. In these cases, the amount of credit losses is calculated as the difference between expected discounted cash flows at the effective interest rate of the transaction and the carrying amount of the instrument.

To establish which and how many clients need to be analyzed individually, the Bank adopts the criteria defined by the BBVA Group, which is a relative weight in terms of total risk over the defaulted total risk of wholesale exposure and in term of total risk over the Watch List total risk of wholesale exposure. In addition to that calculation, an expert adjustment has been made downwards of these thresholds.

The scope for individual analysis is defined with the following criteria to analyze all clients with at least an asset in default and with total risk above the local threshold (Ps. 3,000,000) or with at least an asset in Watch List (WL) with total risk above the local threshold (Ps. 5,000,000), meaning:

- a) Stage 3 and Total Risk > Ps. 3,000,000;
- b) Stage 2, WL and Total Risk > Ps. 5,000,000

Threshold for Defaulted exposure: The threshold is established in such a way that the clients with total risk above this threshold are assessed individually for at least 40% of the total risk of the defaulted wholesale portfolio.

Threshold for Watch List exposure: The threshold is established in such a way that the clients with total risk above this threshold are assessed individually for at least 20% of the total risk of the Watch List wholesale portfolio.

For the collective measurement of expected losses the instruments are grouped into groups of assets based on their risk characteristics. Exposure within each group is segmented according to the common credit risk characteristics, which are indicative of the payment capacity of the borrower in accordance with their contractual conditions. These risk characteristics have to be relevant in estimating the future flows of each group. The characteristics of credit risk may consider, among others, the following factors:

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

- Type of instrument.
- Rating or scoring tools.
- Type of collateral.
- Period of time at default for stage 3.
- Segment.
- Qualitative criteria which can have a significant increase in risk.

ECL are derived from the following parameters:

- PD: estimate of the probability of default in each period.
- EAD: estimate of the exposure in case of default at each future period, taking into account the changes in exposure after the presentation date of the financial statements.
- LGD: estimate of the loss in case of default, calculated as the difference between the contractual cash flows and receivables, including guarantees.

In the case of debt securities, the LDP (Low Default Portfolio) methodology that is used has parameters based on external ratings.

Use of present, past and future information

IFRS 9 requires incorporation of present, past and future information to detect any significant increase in risk and measure the expected loss.

The standard does not require identification of all possible scenarios for measuring expected loss. However, the probability of a loss event occurring and the probability it will not occur will also have to be considered, even though the possibility of a loss may be very small. Also, when there is no linear relation between the different future economic scenarios and their associated expected losses, more than one future economic scenario must be used for the measurement.

The approach used by the Bank consists of using first the most probable scenario (baseline scenario) consistent with that used in the Bank's internal management processes, and then applying an additional adjustment, calculated by considering the weighted average of expected losses in other economic scenarios (one more positive and the other more negative). The main macroeconomic variable in each of the scenarios is Gross Domestic Product.

c) Policy applicable before January 1, 2018

Classification of financial assets

The Bank classified its financial assets into one of the following categories:

- Loan and receivables;
- Held-to-maturity;
- Available-for-sale; and
- At FVTPL, and within this category as: a) held-for-trading or b) designed as at FVTPL.

Classification of financial liabilities

The Bank classified its financial liabilities, other than derivatives, financial guarantees and liabilities at fair value through profit or loss as measured at amortized cost.

Modifications of financial assets and financial liabilities

a) *Financial assets*

If the terms of a financial asset were modified, then the Bank evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised and a new financial asset was recognised at fair value.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

b) Financial liabilities

The Bank derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Impairment of financial assets

A financial asset was considered impaired – and therefore its carrying amount was adjusted to reflect the effect of impairment – when there were objective evidence that events have occurred, which:

- In the case of debt instruments (loans and accounts receivable and debt securities), reduced the future cash flows that were estimated at the time the instruments when initially recognized. So they were considered impaired when there were reasonable doubts that the carrying amounts would be recovered in full and/or the related interest would be collected for the amounts and on the dates initially agreed.
- In the case of equity instruments, it meant that their carrying amount may not be fully recovered.

As a general rule, the carrying amount of impaired financial assets was adjusted with a charge to the consolidated statement of profit or loss for the year in which the impairment become known. The recoveries of previously recognized impairment losses were reflected, if appropriate, in the consolidated statement of profit or loss for the year in which the impairment was reversed or reduced, with an exception: any recovery of previously recognized impairment losses for an investment in an equity instrument classified as financial assets at fair value through other comprehensive income was not recognized in the consolidated statement of profit or loss, but under the heading "Other comprehensive income - Items that may be reclassified to profit or loss - financial assets at fair value through other comprehensive income " in the Consolidated statement of other comprehensive income.

In general, amounts collected on impaired loans and receivables were used to recognize the related accrued interest and any excess amount was used to reduce the unpaid principal.

When the recovery of any recognized amount was considered remote, such amount was written-off on the consolidated statement of financial position, without prejudice to any actions that may be taken in order to collect the amount until the rights extinguish in full either because it was time-barred debt, the debt was forgiven, or other reasons.

Method for calculating the impairment on financial assets under IAS 39

The impairment on financial assets was determined by type of instrument and other circumstances that could affect it, taking into account the guarantees received to assure (in part or in full) the performance of the financial assets.

Impairment of debt instruments measured at amortized cost

The Bank developed policies, methods and procedures to estimate incurred losses on outstanding credit risk. These policies, methods and procedures applied in the due diligence, approval and execution of debt instruments and commitments and guarantees given; as well as in identifying the impairment and, where appropriate, in calculating the amounts necessary to cover estimated losses.

The amount of impairment losses on debt instruments measured at amortized cost was calculated based on whether the impairment losses are determined individually or collectively. First it was determined whether there was objective evidence of impairment individually for individually significant debt instrument, and collectively for debt instrument that were not individually significant. If the Bank determined that there were no objective evidence of impairment, the assets were classified in groups of debt instrument based on similar risk characteristics and impairment was assessed collectively.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

In determining whether there is objective evidence of impairment the Bank used observable data in the following aspects:

- Significant financial difficulties of the obligors.
- Ongoing delays in the payment of interest or principal.
- Refinancing of credit due to financial difficulties by the counterparty.
- Bankruptcy or reorganization / liquidation are considered likely.
- Disappearance of the active market for a financial asset because of financial difficulties.
- Observable data indicating a reduction in future cash flows from the initial recognition such as adverse changes in the payment status of the counterparty (delays in payments, reaching credit cards limits, etc.).
- National or local economic conditions that are linked to "defaults" in the financial assets (unemployment rate, falling property prices, etc.).

Impairment losses on financial assets individually evaluated for impairment

The amount of the impairment losses incurred on financial assets represented the excess of their respective carrying amounts over the present values of their expected future cash flows. These cash flows were discounted using the original effective interest rate. If a financial asset had a variable interest rate, the discount rate for measuring any impairment loss was the current effective rate determined under the contract.

As an exception to the rule described above, the market value of listed debt instruments was deemed to be a fair estimate of the present value of their expected future cash flows.

The following was to be taken into consideration when estimating the future cash flows of debt instruments:

- All amounts expected to be recovered over the remaining life of the debt instrument; including, where appropriate, those which may result from the collateral and other credit enhancements provided for the debt instrument (after deducting the costs required for foreclosure and subsequent sale). Impairment losses included an estimate for the possibility of collecting accrued, past-due and uncollected interest.
- The various types of risk to which each debt instrument was subject.
- The circumstances in which collections would foreseeably be made.

Impairment losses on financial assets collectively evaluated for impairment

With regard to the collective impairment analysis, financial assets were grouped by risk type considering the debtor's capacity to pay based on the contractual terms. As part of this analysis, the Bank estimated the impairment loan losses that were not individually significant, distinguishing between those that showed objective evidence of impairment, and those that did not show objective evidence of impairment, as well as the impairment of significant loans that the Bank deemed as not showing an objective evidence of impairment.

With respect to financial assets that had no objective evidence of impairment, the Bank applied statistical methods using historical experience and other specific information to estimate the losses that the Bank incurred as a result of events that had occurred as of the date of preparation of the Consolidated Financial Statements but had not been known and would be apparent, individually after the date of submission of the information. This calculation was an intermediate step until these losses were identified on an individual level, at which time these financial instruments would be segregated from the portfolio of financial assets without objective evidence of impairment.

The incurred loss was calculated taking into account three key factors: exposure at default, probability of default and loss given default.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

- Exposure at default (EAD) is the amount of risk exposure at the date of default by the counterparty.
- Probability of default (PD) is the probability of the counterparty failing to meet its principal and/or interest payment obligations. The PD is associated with the rating/scoring of each counterparty/transaction.
- Loss given default (LGD) is the estimate of the loss arising in the event of default. It depends mainly on the characteristics of the counterparty, and the valuation of the guarantees or collateral associated with the asset.

In order to calculate the LGD at each reporting date, the Bank evaluated the whole amount expected to be obtained over the remaining life of the financial asset.

In addition, to identify the possible incurred but not reported losses (IBNR) in the unimpaired portfolio, an additional parameter called "LIP" (loss identification period) had to be introduced. The LIP parameter is the period between the time at which the event that generates a given loss occurs and the time when the loss is identified at an individual level.

When the property right was contractually acquired at the end of the foreclosure process or when the assets of distressed borrowers were purchased, the asset was recognized in the consolidated statements of financial position.

Impairment of other debt instruments classified as available for sale

The impairment losses on other debt instruments classified as "Available-for-sale financial asset" portfolio were equal to the excess of their acquisition cost (net of any principal repayment), after deducting any impairment loss previously recognized in the consolidated statement of profit or loss over their fair value.

When there was objective evidence that the negative differences arising on measurement of these debt instruments were due to impairment, they were no longer considered as "Other comprehensive income - Items that may be reclassified to profit or loss - financial assets at fair value through other comprehensive income" and were recognized in the consolidated statement of profit or loss.

If all, or part of the impairment losses were subsequently recovered, the amount was recognized in the consolidated statement of profit or loss for the year in which the recovery occurred, up to the amount previously recognized in the consolidated statement of profit or loss.

5.5. Investments in joint ventures and associates

An associate is an entity over which the Bank has a significant influence but no control over its financial and operating policies. Significant influence is presumed to exist when the Bank holds between 20 and 50 percent of the voting power of another entity.

A joint venture is an arrangement in which the Group has joint control whereby the Group has rights to the net assets of the arrangement rather than rights to its assets and obligations for its liabilities. They are initially recognized at cost, which includes transaction costs.

Investments in associates and joint ventures are accounted for using the equity method.

The consolidated financial statements include the Bank's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Bank, from the date that significant influence or joint control commences until the date that significant influence ceases. When the Bank's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Bank has an obligation or has made payments on behalf of the investee.

5.6. Property and equipment

Property and equipment items are measured at cost, net of accumulated depreciation and accumulated impairment losses, if any. The cost includes the cash purchase price and expenses directly attributable to the acquisition necessary to take the asset to the location and operate as provided for by the Board of Directors.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

The Bank elected to apply the optional exemption to use fair value of real estate as deemed cost at January 1, 2017, the date of transition (see Note 2.2). Fair value was determined based on the appraisal carried out by an independent valuation specialist, applying a market approach valuation technique.

If significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gains or loss on disposal of an item of property and equipment are recognized net within other income in profit or loss. Subsequent expenses are only capitalized if they are likely to provide future economic benefits for the Bank. Ongoing repairs and maintenance are expensed as incurred.

Depreciation is calculated using the straight line method over the estimated useful lives, and is recognized in profit or loss in the heading "Depreciation and amortization" on the statement of profit or loss.

The estimated useful lives of significant items of property, plant and equipment are as follows:

- Buildings: as informed in the technical appraisal as of January 1, 2017
- Furniture and facilities: 10 years
- Equipment: 3-5 years
- Automobiles: 5 years
- Depreciation methods and useful lives are reviewed at each reporting date and adjusted prospectively, if necessary.

5.7. Investment properties

Investment properties are measured at cost, net of accumulated depreciation and accumulated impairment losses, if any. The cost includes the cash purchase price and expenses directly attributable to the acquisition necessary to take the asset to the location and operate as provided for by the Board of Directors.

The Bank elected to apply the optional exemption to use fair value as deemed cost at January 1, 2017, the date of transition (see Note 2.2). Fair value was determined based on the appraisal carried out by an independent valuation specialist, applying a market approach valuation technique.

Any gains or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

5.8. Intangible assets

Intangible assets include the information systems costs of acquisition and implementation, which are measured at cost less accumulated amortization and impairments, if any.

Subsequent expenses related to information systems are only capitalized if the economic benefits of the related asset increase. All other expenses are recognized as incurred.

Information systems are amortized using the straight line method over their estimated useful life of 5 years and is recognized in profit or loss in the heading "Depreciation and amortization" on the consolidated statement of profit or loss.

Amortization methods and the estimated useful life are reviewed at each reporting date and adjusted prospectively, if necessary.

5.9. Goodwill

As detailed in Note 2.2, the Bank has decided not to apply IFRS 3 retrospectively to past business combinations. Goodwill balance as of January 1, 2017 corresponds to the carrying amount in accordance with BCRA GAAP. No further goodwill has been recognized since the IFRS 1 transition date.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

Goodwill is not amortized but subject to an annual test for impairment. The cash generating unit to which goodwill has been allocated, is tested for impairment (including goodwill) at least annually or more frequently if there is an indication of impairment.

5.10. Other assets

Foreclosed assets

Foreclosed assets are measured at the lower of the fair value of the date on which the Bank receives the ownership of the asset, and the fair value less cost of disposal at the reporting date.

5.11. Non-current assets held-for-sale

Assets are classified as held-for-sale if it is highly likely that they will be recovered, mainly through their sale, which is estimated to occur within the twelve months following the date of their classification as such.

These assets are measured at the lower of their carrying amount and their fair value less the cost of disposal.

Once classified as held-for-sale, property and equipment are no longer depreciated and any equity-accounted investee is no longer equity accounted.

5.12. Impairment of non-financial assets

At each reporting date, the Bank assesses whether there are indications that a non-financial asset may be impaired (except deferred tax assets). If there is such an indication, the asset's recoverable value is estimated.

For the impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows for their continued use that is largely independent of the cash inflows from other assets or other cash generating units (CGU). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The "recoverable value" of an asset or CGU is the greater of its value in use and its fair value less the cost of sale. "Value in use" is based on estimated future cash flows, discounted at their present value using the pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

An impairment loss for goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent the carrying amount of the assets does not exceed the amount they would have been determined if the impairment loss had not been recognized.

5.13. Provisions

The Bank recognizes a provision if and only if the Bank has a present legal or constructive obligation resulting from past events; it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation; and the amount payable can be estimated reliably.

To assess provisions, the existing risks and uncertainties were considered, taking into consideration the opinion of the Bank's external and internal legal advisors. Based on the analysis carried out, the Bank recognizes a provision for the amount considered as the best estimate of the potential expense necessary to settle the present obligation at each reporting date.

The provisions recognized by the Bank are reviewed at each reporting date and are adjusted to reflect the best estimate available.

5.14. Employee benefits

a) Short term personnel benefits

Short-term personnel benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the personnel and the obligation can be estimated reliably.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

b) Other long term personnel benefits

The Bank's obligation in relation to long term personnel benefits is the amount of the future benefit the employees have earned in exchange for services provided during the current and prior periods. The benefit is discounted at present value. Remeasurement is recognized in profit or loss.

c) Termination benefits

Termination benefits are expensed at the earlier of when the Bank can no longer withdraw the offer of those benefits and when the Bank recognizes costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted.

5.15. Share capital

Transaction costs directly attributable to the issuance of ordinary shares are recognized as a reduction of the contributions received, net of the related income tax.

5.16. Interest income and expenses

Interest income and expenses are recognized in profit or loss using the effective interest rate method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments and collections during the expected lifetime of the financial instrument to the gross carrying amount of the financial assets; or the amortized cost of the financial liability.

The calculation of the effective interest rate includes transaction costs, commissions and other items paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition of a financial asset or the issuance of a financial liability.

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Interest income and expenses presented in the consolidated statement of profit or loss mainly include interest on:

- Financial assets and liabilities measured at amortized cost; and
- Financial assets measured at fair value through OCI

5.17. Fee and commission income / expenses

This item contains income from commissions resulting from transactions with customers, mainly related to maintenance and administration fees on current, saving accounts and credit cards, securities custody and foreign exchange transactions.

The breakdown of fee and commission income is presented in Notes 30 and 31 to these financial statements.

Commissions, fees and similar items that are part of a financial asset or liability's effective interest rate are included in the effective interest rate.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

Other commission income is recognized when the related services are performed:

- at a point in time (in relation to fees for services, fees for investment funds management, sales commissions, syndication fees), or
- over the performance obligation period (in relation to annual fee for credit cards, issuance of financial guarantees).

The Bank has a customer loyalty program in place consisting in the accumulation of Latam Airlines miles through credit and/or debit card consumptions that can be exchanged for air tickets, catalog products and hotel accommodation. This program is a separable performance obligation in the contract with the customer. The Bank has concluded that it is acting as an agent in relation to the airline miles and consequently, the allocated transaction price consists only of the commission net of the amounts paid to the principal (Latam Airlines).

Commission expenses are recognized in profit or loss when the related service is received.

5.18. Leases

- a) Arrangements containing a lease

At the inception of the arrangement, the Bank determines if the arrangement contains a lease, in which case lease payments are separated into those related with the lease and those for other elements, based on relative fair values.

- b) Classification of a lease

When the lease substantially transfers the risks and rewards of the ownership of the leased asset, it is classified as a financial lease. Otherwise, the lease is classified as an operating lease.

- c) Leases where the Bank is the lessee

Payments under an operating lease are recognized in profit or loss by applying the straight line method over the term of the lease. Leased assets are not recognized in the Consolidated statement of financial position.

- d) Leases where the Bank is the lessor

Except for real estate, the leased asset in an operating lease is classified as "Other assets" and depreciated over its estimated useful life. Real estate for lease is classified as "Investment Properties" (see Note 5.7). Collections received under an operating lease are recognized in profit or loss by applying the straight line method in the term of the lease.

The leased asset in a financial lease is derecognized and a receivable is recognized for the amount of the net investment in the lease and presented within "Loans and advances to customers".

Collections received under a financial lease are separated into interest and the reduction of the lease's net investment. Interest income is recognized over the lease term applying the interest rate implicit in the lease. Contingent lease payments are not included in the net investment of the lease.

5.19. Current and deferred income tax

Income tax expense includes the current income tax and the deferred income tax and is recognized in profit or loss, except to the extent it relates to an item recognized in OCI or directly in equity.

- a) Current taxes

Current income tax includes the income tax payable, and any adjustment to the tax payable related to previous years. The current amount of tax payable is the best estimate of the amount that is expected to be paid measured at the applicable tax rate enacted or substantially enacted at the reporting date.

- b) Deferred tax

Deferred income tax recognizes the tax effect of temporary differences between the carrying amounts of the assets and liabilities and the related tax bases used for tax purposes.

Deferred tax is not recognized for:

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

- Temporary differences on the initial recognition of assets or liabilities in transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.
- Temporary differences related to investment in subsidiaries to the extent that is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax liabilities are recognized for the tax effect of all taxable temporary differences.

Deferred tax assets are recognized for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for the Bank and each of its subsidiaries. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profit will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

5.20. Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with any of the Bank's other components, whose operating results are regularly reviewed by the Bank's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Bank's CEO (being the CODM) include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Bank's headquarters), head office expenses and tax assets and liabilities.

6. Earnings per share

The Bank presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted-average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

The calculation of the earnings per share is detailed below:

| Accounts | December 31, 2018 | December 31, 2017 |
|---|-------------------|-------------------|
| Numerator: | | |
| (Loss) Profit attributable to owners of the Bank | (1,489,732) | 1,903,820 |
| (Loss) Profit attributable to owners of the Bank adjusted to reflect the effect of dilution | (1,489,732) | 1,903,820 |
| Denominator: | | |
| Weighted average of outstanding ordinary shares for the year | 612,659,638 | 569,909,668 |
| Weighted average of outstanding ordinary shares for the year adjusted to reflect the effect of dilution | 612,659,638 | 569,909,668 |
| Basic (losses) earnings per share (1) | (2.4316) | 3.3406 |
| Diluted (losses) earnings per share (1) | (2.4316) | 3.3406 |

(1) Since BBVA Banco Francés S.A. has not issued financial instruments with a dilutive effect on earnings per share, basic and diluted earnings per share are the same.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

7. IFRS issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2019 and early application is permitted. However, except for IFRIC 23, the Bank has not early adopted them in preparing these consolidated financial statements. Of those standards that are not yet effective, the following new standards and amendments are expected to have a significant impact on the Bank's consolidated financial statements in the period of initial application.

IFRS 16 - "Leases"

On January 13, 2016, the IASB issued IFRS 16 which will replace IAS 17 "Leases" for financial statements from January 1, 2019 onwards. The new standard introduces a single lessee accounting model and will require a lessee to recognize assets and liabilities for all leases. The only exceptions are short-term contracts and those in which the underlying assets have low value. A lessee will be required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

In relation to lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor will continue to classify its leases as operating leases or finance leases, and account for those two types of leases differently.

The Group has carried out a project to implement IFRS 16 with the participation of all affected areas. The standard will mainly affect the accounting of operating leases of the Group.

With regard to the estimated impact on the Consolidated Financial Statements at the transition date, the Group has decided to apply the modified retrospective method that consists of recognizing lease liabilities for an amount equivalent to the present value of the future payments committed as of January 1, 2019. As a result of this approach, the Group expects to recognize assets for right of use and lease liabilities for an approximate amount of 1,857 million pesos, mainly from office leases in its branch network.

The impacts of adopting the standard as of January 1, 2019 may change because:

- The Group has not completed all the tests; and
- The new accounting policies, methodologies and parameters may be subject to modifications until the Group presents its first financial statements that include the definitive impact at the date of initial application.

IFRIC 23 - Uncertainty about treatment of income tax

The Interpretation clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty about the treatment of income taxes.

If the Group considers that the tax authority is likely to accept uncertain tax treatment, the Interpretation requires the Group to determine the fiscal profit (tax loss), the tax bases, the unused fiscal losses, the tax credits not used or the tax rates taxes consistent with the tax treatment used or that the Group plans to use in its income tax return.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

If the Group considers that the tax authority is not likely to accept uncertain tax treatment, the Interpretation requires the Group to use the most probable amount or expected value (sum of possible amounts, weighted by probability) to determine fiscal gain (fiscal loss), tax bases, unused fiscal losses, tax credits not used or tax rates. The method used should be the method that the Group expects to provide the best prediction of the resolution of the uncertainty.

Although the interpretation is effective for annual periods beginning after January 1, 2019, the Group has decided to early adopt this Interpretation.

8. Cash and cash equivalents

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> | <u>January 1, 2017</u> |
|--|--------------------------|--------------------------|------------------------|
| Cash | 15,570,831 | 11,778,171 | 26,121,203 |
| BCRA - Unrestricted current account | 75,503,977 | 43,448,249 | 57,576,161 |
| Balances with other local and foreign institutions | 8,030,653 | 1,227,264 | 5,049,061 |
| TOTAL | <u>99,105,461</u> | <u>56,453,684</u> | <u>88,746,425</u> |

9. Financial assets at fair value through profit or loss

9.1. Debt securities

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> | <u>January 1, 2017</u> |
|---|--------------------------|--------------------------|------------------------|
| Government securities | 952,798 | 2,082,328 | 3,748,047 |
| Government securities - Pledged as collateral | - | 31,124 | - |
| Private securities - Corporate bonds | 167,913 | 197,983 | 325,605 |
| BCRA Bills | 6,387,388 | 6,276,692 | 2,691,284 |
| TOTAL | <u>7,508,099</u> | <u>8,588,127</u> | <u>6,764,936</u> |

9.2. Derivatives

The Bank uses derivatives, not designated in a qualifying hedge relationship, to manage its exposure of foreign currency and interest rate risks. The instruments used include interest rate swaps and forward contracts (both with no physical delivery of the underlying asset).

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> | <u>January 1, 2017</u> |
|---------------------------|--------------------------|--------------------------|------------------------|
| Foreign Currency Forwards | 591,418 | 162,494 | 52,798 |
| Interest Rate Swaps | - | 48,262 | 46,189 |
| TOTAL | <u>591,418</u> | <u>210,756</u> | <u>98,987</u> |

The notional amounts of the term and foreign currency forward transactions, stated in US Dollars (US\$) and in Euros, as the case may be, as well as the notional amounts of interest rate swaps are reported below:

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> | <u>January 1, 2017</u> |
|--|--------------------------|--------------------------|------------------------|
| Foreign Currency Forwards | | | |
| Foreign currency forward purchases - US\$ | 620,651 | 658,575 | 162,156 |
| Foreign currency forward purchases - Euros | - | - | 176 |
| Foreign currency forward sales - US\$ | 760,615 | 645,582 | 183,056 |
| Foreign currency forward sales - Euros | 5,463 | 4,818 | 9,203 |
| Interest rate swaps | | | |
| Fixed rate for floating rate | 3,261,154 | 4,358,645 | 2,227,278 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

9.3. Equity instruments

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> | <u>January 1, 2017</u> |
|---|--------------------------|--------------------------|------------------------|
| Mercado de Valores de Buenos Aires S.A. | 24,722 | 52,292 | 122,345 |
| BYMA-Bolsas y Mercados Argentinos S.A. | 94,600 | 125,499 | - |
| Investment Funds | 408,704 | 517,873 | 285,319 |
| TOTAL | <u>528,026</u> | <u>695,664</u> | <u>407,664</u> |

10. Financial assets at amortized cost**10.1. Other financial assets**

| | <u>December 31, 2018</u> | <u>December 31, 2017 (*)</u> | <u>January 1, 2017 (*)</u> |
|--|--------------------------|------------------------------|----------------------------|
| Financial debtors for spot transactions pending settlement | 6,842,344 | 2,113,679 | - |
| Non-financial debtors for spot transactions pending settlement | 91,052 | 163,080 | 138,238 |
| Other receivables | 1,753,206 | 1,056,219 | 964,751 |
| Other | 550,635 | 81,973 | 131,361 |
| Allowances for loan losses | (2) | - | - |
| TOTAL | <u>9,237,235</u> | <u>3,414,951</u> | <u>1,234,350</u> |

(*) The Bank calculated the allowance for loan losses in accordance with IAS 39.

10.2. Loans and advances to financial institutions

| | <u>December 31, 2018</u> | <u>December 31, 2017 (*)</u> | <u>January 1, 2017 (*)</u> |
|--|--------------------------|------------------------------|----------------------------|
| Loans and advances to financial institutions | 9,669,331 | 6,772,988 | 4,949,295 |
| Allowances for loan losses | (33,486) | (49,296) | (31,254) |
| TOTAL | <u>9,635,845</u> | <u>6,723,692</u> | <u>4,918,041</u> |

(*) The Bank calculated the allowance for loan losses in accordance with IAS 39.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

10.3. Loans and advances to customers

| | <u>December 31, 2018</u> | <u>December 31, 2017 (*)</u> | <u>January 1, 2017 (*)</u> |
|---|---------------------------|------------------------------|----------------------------|
| Overdrafts | 11,789,313 | 17,285,259 | 18,060,456 |
| Commercial papers | 11,575,021 | 16,504,333 | 11,895,831 |
| Notes | 12,739,330 | 10,407,731 | 8,012,683 |
| Real estate mortgage | 10,104,731 | 6,570,691 | 3,532,930 |
| Pledge loans | 1,650,222 | 6,729,439 | 5,480,484 |
| Consumer loans | 23,560,930 | 24,254,887 | 17,627,590 |
| Credit Cards | 41,869,188 | 44,142,402 | 40,658,201 |
| Loans for the prefinancing and financing of exports | 45,088,576 | 34,176,155 | 15,637,186 |
| Receivables from financial leases | 2,377,747 | 3,390,288 | 3,675,178 |
| Loans to personnel | 1,205,501 | 926,209 | 325,627 |
| Other financing | 14,051,828 | 20,614,282 | 17,687,828 |
| Allowances for loan losses | (4,064,066) | (2,710,432) | (1,670,329) |
| TOTAL | <u>171,948,321</u> | <u>182,291,244</u> | <u>140,923,665</u> |

(*) The Bank calculated the allowance for loan losses in accordance with IAS 39.

The Bank holds loans and other financing in a business model for the purpose of collecting contractual cash flows.

10.4. Reverse repurchase agreements

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> | <u>January 1, 2017</u> |
|----------------------------|--------------------------|--------------------------|------------------------|
| Financial institutions | 154,753 | 890,355 | 107,461 |
| BCRA | - | 1,999,110 | - |
| Argentine government | 12,706,363 | 6,456,412 | - |
| Allowances for loan losses | (141,985) | - | - |
| TOTAL | <u>12,719,131</u> | <u>9,345,877</u> | <u>107,461</u> |

The fair value of financial assets accepted as collateral that the Group is permitted to sell or repledge in the absence of default was 26,150,141, 17,201,658 and 119,530 as of December 31, 2018 and 2017 and January 1, 2017, respectively.

11. Allowance for loan losses and Provision for financial guarantees and loan commitments

The balances of allowance for loan losses and provisions for financial guarantees and loan commitments at December 31, 2018 and 2017 are set forth in the table below.

As described in Note 2.3, the Group determined the allowance for loan losses and the provision for financial guarantees and loan commitments in accordance with IFRS 9 for financial periods commenced on January 1, 2018. Previously, IAS 39 and IAS 37 were used, and comparative information was not restated.

Additionally, the table below reconciles the allowances for loan losses in accordance with IAS 39 and provisions for financial guarantees and loan commitments in accordance with IAS 37 at December 31, 2017 and the opening allowances and provisions determined in accordance with IFRS 9 as at January 1, 2018.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

| | December 31, 2018 | December 31, 2017 (in accordance with IAS 39) | Adjustment on initial application of IFRS 9 (Note 2.3) | January 1, 2018 (in accordance with IFRS 9) |
|--|--------------------------|--|---|--|
| Allowances for loan losses | | | | |
| Loans and advances to financial institutions | 33,486 | 49,296 | | |
| Loans and advances to customers | 4,064,066 | 2,710,432 | | |
| Debt securities at FVOCI | 271,574 | 5,664 | | |
| Reverse repurchase agreements | 141,985 | - | | |
| Other financial assets | 2 | - | | |
| | <u>4,511,113</u> | <u>2,765,392</u> | 418,699 | 3,184,091 |
| Provisions for financial guarantees and loan commitments | 358,329 | 1,649 | 617,598 | 619,247 |
| TOTAL | <u><u>4,869,442</u></u> | <u><u>2,767,041</u></u> | <u><u>1,036,297</u></u> | <u><u>3,803,338</u></u> |

12. Measurement of Expected Credit Loss (ECL)

IFRS 9 requires determining the expected credit loss of a financial instrument in a way that reflects an unbiased estimation removing any conservatism or optimism, the time value of money and a forward looking perspective (including the economic forecast).

Therefore the recognition and measurement of expected credit losses (ECL) is highly complex and involves the use of significant analysis and estimation including formulation and incorporation of forward-looking economic conditions into ECL.

Risk Parameters Adjusted by Macroeconomic Scenarios

ECL must include forward-looking macroeconomic information. The Bank uses the classical credit risk parameters PD, LGD and EAD in order to calculate the ECL for the credit portfolios.

The Bank's methodological approach in order to incorporate the forward looking information aims to determine the relation between macroeconomic variables and risk parameters following three main steps:

- Step 1: Analysis and transformation of time series data.
- Step 2: For each dependent variable find conditional forecasting models that are economically consistent.
- Step 3: Select the best conditional forecasting model from the set of candidates defined in Step 2, based on their out of sample forecasting performance.

How economic scenarios are reflected in calculation of ECL

The forward looking component is added through the introduction of macroeconomic scenarios as an input. Inputs would highly depend on the particular combination of portfolio, so inputs are adapted to available data.

Based on economic theory and analysis, the macroeconomic variables most directly relevant for explaining and forecasting the selected risk parameters are:

- The net income of families, corporates or public administrations.
- The payment amounts on the principal and interest on the outstanding loans.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

The Bank approximates these variables by using a proxy indicator from the set included in the macroeconomic scenarios provided by the economic research department.

Only a single specific indicator for each of the two variables can be used and only core macroeconomic indicators should be chosen as first choice: for a) using Real GDP Growth can be seen as the single sufficient “factor” required for capturing the influence of all potentially relevant macro-financial scenario on internal PDs ; for b) using the most representative short term interest rate or exchange rates expressed in real terms.

Real GDP growth is given priority over any other indicator not only because it is the most comprehensive indicator of income and economic activity but also because it is the central variable in the generation of macroeconomic scenarios.

Multiple scenario approach under IFRS 9

IFRS 9 requires calculating an unbiased probability weighted measurement of ECL by evaluating a range of possible outcomes, including forecasts of future economic conditions.

The BBVA Research team produces forecasts of the macroeconomic variables under the baseline scenario, which are used in the rest of the related processes of the bank, such as budgeting, the internal capital adequacy assessment process (ICAAP) and risk appetite framework, stress testing, etc.

Additionally, the BBVA Research team produces alternative scenarios to the baseline scenario so as to meet the requirements under the IFRS 9 standard.

Alternative macroeconomic scenarios

For each of the macro-financial variables (GDP or interest rate or exchange rate), BBVA Research produces three scenarios.

Each of these scenarios corresponds to the expected value of a different area of the probabilistic distribution of the possible projections of the economic variables.

The approach of the Bank consists of using the scenario that is the most likely scenario, which is the baseline scenario, consistent with the rest of internal processes (ICAAP, Budgeting) and then applying an upside and downside scenarios by taking into account the weighted average of the ECL determined by each of the scenarios.

It is important to note that in general, it is expected that the effect of the overlay is to increase the ECL. It is possible to obtain an overlay that does not have that effect, whenever the relationship between macro scenarios and losses is linear. However, the overlay is not expected to reduce the ECL.

13. Impairment losses

Below is a detail of the changes occurred during fiscal 2018 in the impairment allowances booked in the accompanying consolidated statement of financial position or reversal of estimated impairment of financial assets at amortized cost, financial assets at fair value through other comprehensive income, and granted commitments. In addition, the tables for fiscal year 2018 show a reconciliation of the allowances to the gross carrying amount as required by IFRS 7 “Financial instruments: Disclosures”:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

December 31, 2018

| FINANCIAL ASSETS AT AMORTIZED COST AND AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - ALLOWANCES | Not credit-impaired | | | Credit-impaired | | Total |
|--|---------------------|---|---|---|---|------------------|
| | Stage 1 | Stage 2 | | Stage 3 | | |
| | Loss allowances | Loss allowances (collectively assessed) | Loss allowances (individually assessed) | Loss allowances (collectively assessed) | Loss allowances (individually assessed) | |
| Opening balance (under IFRS 9) | 1,548,172 | 642,513 | 52,397 | 855,848 | 85,161 | 3,184,091 |
| Transfers of financial assets(*): | | | | | | |
| Transfers from Stage 1 to Stage 2 (not credit-impaired) | (83,999) | 490,136 | 8,492 | - | - | 414,629 |
| Transfers from Stage 2 (not credit - impaired) to Stage 1 | 36,635 | (157,841) | - | - | - | (121,206) |
| Transfers from Stage 1 or 2 to Stage 3 | (23,074) | (37,473) | (9,147) | 879,782 | 482,730 | 1,292,818 |
| Transfers from Stage 3 to Stage 1 or 2 | 643 | 2,202 | - | (59,016) | - | (56,171) |
| Changes without transfers between Stages | 57,196 | (16,704) | 3,372 | 1,029,499 | (31,846) | 1,041,517 |
| New financial assets originated(*) | 1,214,697 | 273,530 | 75,336 | 641,668 | 222,987 | 2,428,218 |
| Repayments(*) | (493,504) | (95,408) | (21) | (128,738) | (16,048) | (733,719) |
| Write-offs | (18,818) | (64,713) | - | (1,426,230) | - | (1,509,761) |
| Foreign exchange | 156,689 | 6,339 | - | 13,835 | - | 176,863 |
| Loss of control VWFS | (53,033) | (7,815) | - | (11,150) | - | (71,998) |
| Inflation adjustment | (638,588) | (268,731) | (37,698) | (442,117) | (147,034) | (1,534,168) |
| Closing balance | 1,703,016 | 766,035 | 92,731 | 1,353,381 | 595,950 | 4,511,113 |

December 31, 2018

| LOAN COMMITMENTS AND FINANCIAL GUARANTEES | Not credit-impaired | | | Credit-impaired | | Total |
|---|---------------------|---|---|---|---|----------------|
| | Stage 1 | Stage 2 | | Stage 3 | | |
| | Loss allowances | Loss allowances (collectively assessed) | Loss allowances (individually assessed) | Loss allowances (collectively assessed) | Loss allowances (individually assessed) | |
| Opening balance (under IFRS 9) | 498,809 | 113,409 | 31 | 6,957 | 41 | 619,247 |
| Transfers of financial assets(*): | | | | | | |
| Transfers from Stage 1 to Stage 2 (not credit-impaired) | (14,581) | 40,188 | 173 | - | - | 25,780 |
| Transfers from Stage 2 (not credit - impaired) to Stage 1 | 5,130 | (34,466) | - | - | - | (29,336) |
| Transfers from Stage 1 or 2 to Stage 3 | (501) | (425) | - | 9,965 | 924 | 9,963 |
| Transfers from Stage 3 to Stage 1 or 2 | 38 | 23 | - | (1,135) | - | (1,074) |
| Changes without transfers between Stages | (139,174) | (11,962) | (25) | 872 | - | (150,289) |
| New financial assets originated(*) | 158,104 | 24,481 | 16 | 1,278 | 187 | 184,066 |
| Repayments(*) | (76,578) | (32,071) | - | (3,097) | (34) | (111,780) |
| Inflation adjustment | (150,286) | (34,074) | (40) | (3,644) | (204) | (188,248) |
| Closing balance | 280,961 | 65,103 | 155 | 11,196 | 914 | 358,329 |

(*) Impairment of financial assets detailed in the tables above does not include credits recovered for 359,380.

14. Refinancing and restructuring operations

Policies and principles with respect to refinancing and restructuring operations

Refinancing and restructuring transactions are carried out with customers who have requested such an operation in order to meet their current loan payments if they are expected, or may be expected, to experience financial difficulty in making the payments in the future.

The basic aim of a refinancing and restructuring operation is to provide the customer with a situation of financial viability over time by adapting repayment of the loan incurred with the Group to the customer's new situation of fund generation. The use of refinancing and restructuring for other purposes, such as to delay loss recognition, is contrary to the Bank's policies.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

The Bank's refinancing and restructuring policies are based on the following general principles:

Refinancing and restructuring is authorized according to the capacity of customers to pay the new installments. This is done by first identifying the origin of the payment difficulties and then carrying out an analysis of the customers' viability, including an updated analysis of their economic and financial situation and capacity to pay and generate funds. If the customer is a company, the analysis also covers the situation of the industry in which it operates.

With the aim of increasing the solvency of the operation, new guarantees and/or guarantors of demonstrable solvency are obtained where possible. An essential part of this process is an analysis of the effectiveness of both the new and original guarantees.

This analysis is carried out from the overall customer or group perspective.

Refinancing and restructuring operations do not in general increase the amount of the customer's loan, except for the expenses inherent to the operation itself.

The capacity to refinance and restructure loans is not delegated to the branches, but decided on by the risk units.

The decisions made are reviewed from time to time with the aim of evaluating full compliance with refinancing and restructuring policies.

In the case of retail customers (private individuals), the main aim of the Bank's policy on refinancing and restructuring loans is to avoid default arising from a customer's temporary liquidity problems by implementing structural solutions that do not increase the balance of customer's loan. The solution required is adapted to each case and the loan repayment is made easier, in accordance with the following principles:

- Analysis of the viability of operations based on the customer's willingness and ability to pay, which may be reduced, but should nevertheless be present. The customer must therefore repay at least the interest on the operation in all cases. No arrangements may be concluded that involve a grace period for both principal and interest.
- Refinancing and restructuring of operations is only allowed on those loans in which the Bank originally entered into.
- Customers subject to refinancing and restructuring operations are excluded from marketing campaigns of any kind.

Under restructuring or refinancing, the cure period is defined as 1 year from the latter of:

- The moment of extending the restructuring measures
- The moment when the exposure has been classified as defaulted
- The end of grace period included in the restructuring arrangements

Additionally, this period should not be shorter than the period during which material payment has been made by the customer.

During the cure period, facilities will have a PD of 100% assigned and classified in Stage 3.

Once the cure period for Stage 3 is finished, the contract refinancing and restructuring will be transferred to Stage 2 for two additional years.

15. Financial assets at fair value through other comprehensive income

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

15.1. Debt securities

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> | <u>January 1, 2017</u> |
|---|--------------------------|--------------------------|--------------------------|
| Government securities | 9,815,621 | 8,239,068 | 5,750,969 |
| BCRA Bills | - | 15,590,426 | 10,915,862 |
| BCRA Bills - Pledged as collateral | 1,061,766 | 1,141,301 | 270,730 |
| BCRA Liquidity Bills | 13,815,040 | - | - |
| Private securities - Corporate bonds | 113,148 | 237,104 | 276,801 |
| Government securities - Pledged as collateral | 16,035 | - | 1,962 |
| Allowances for loans losses | (271,574) | (5,664) | (1,504) |
| TOTAL | <u>24,550,036</u> | <u>25,202,235</u> | <u>17,214,820</u> |

15.2. Equity instruments

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> | <u>January 1, 2017</u> |
|---|--------------------------|--------------------------|------------------------|
| Banco Latinoamericano de Exportaciones S.A. | 13,226 | 15,078 | 17,386 |
| Others | 700 | 3,166 | 770 |
| TOTAL | <u>13,926</u> | <u>18,244</u> | <u>18,156</u> |

16. Income Tax

16.1. Deferred income tax assets and liabilities

| Account | As of December 31, 2017 | Changes recognized in | | | | As of December 31, 2018 | |
|---|-------------------------|--|--|--|---------------------------------------|-------------------------|--------------------------|
| | | Consolidated statement of profit or loss | Consolidated statement of comprehensive income | Impact of IFRS 9 adoption (see Note 2.3) | Deconsolidation of VWFS (see Note 43) | Deferred tax asset | Deferred tax liabilities |
| Allowance for loan losses | 643,425 | 275,243 | | 310,889 | (24,261) | 1,205,296 | |
| Provisions | 690,403 | (193,637) | | | (2,900) | 493,866 | |
| Loan Commissions | 290,029 | (102,436) | | | | 187,593 | |
| Expenses capitalized for tax purpose | (317,596) | (81,128) | | | | | (398,724) |
| Property and equipment | (3,044,879) | (436,352) | | | | (234) | (3,481,465) |
| Investments in debt securities and equity instruments | (176,944) | 215,426 | 66,891 | | | | 105,373 |
| Derivatives | 16,538 | (5,337) | | | | | 11,201 |
| Others | (329) | 902 | | | | 208 | 781 |
| Balance | <u>(1,899,353)</u> | <u>(327,319)</u> | <u>66,891</u> | <u>310,889</u> | <u>(27,187)</u> | <u>2,004,110</u> | <u>(3,880,189)</u> |
| | | | | | | Offsetting | 2,004,110 |
| | | | | | | Net | (1,876,079) |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

| Account | As of January 1, 2017 | Changes recognized in | | As of December 31, 2017 | |
|--|--------------------------|--|---|-------------------------|-----------------------------|
| | | Consolidated statement of profit or loss | Consolidated statement of comprehensive income | Deferred tax asset | Deferred tax liabilities |
| Allowance for loan losses | 390,334 | 253,091 | | 643,425 | |
| Provisions | 837,500 | (147,097) | | 690,403 | |
| Loan Commissions | 396,422 | (106,393) | | 290,029 | |
| Expenses capitalized for tax purpose | (442,689) | 125,093 | | | (317,596) |
| Property and equipment | (3,666,714) | 621,835 | | | (3,044,879) |
| Investments in debt securities and equity instruments | (118,493) | (123,033) | 64,582 | | (176,944) |
| Derivatives | 22,005 | (5,467) | | 16,538 | |
| Others | 2,009 | (2,338) | | | (329) |
| Balance | (2,579,626) | 615,691 | 64,582 | 1,640,395 | (3,539,748) |
| | | | | Offsetting | |
| | | | | Net | |
| | | | | (1,609,311) | 1,609,311 |
| | | | | 31,084 | (1,930,437) |

In order to fully realize the deferred income tax asset, the Bank will need to generate taxable income. Based upon the level of historical taxable income and projections for future over the years in which the deferred income tax are deductible, Management of the Bank believes that as of December 31, 2018 it is probable that the Bank will realize all of the deferred income tax assets. Taxable profit projections for 2019 take into account the following:

- Taxable income is determined based on the profit or loss without hyperinflationary adjustment. It has to be noted that in 2018 the application of hyperinflationary adjustment resulted in a reduction of 11,654,234 of profit (see Note 3.2).
- Tax inflation adjustment does not apply for 2018 since the required threshold of inflation was not reached. In case tax inflation adjustment should have been applied, its methodology differs significantly from the methodology in accordance with IAS 29, and the loss generated by the tax inflation adjustment would have been lower than the loss as calculated in accordance with accounting purposes.
- Moreover, during February 2019 the Bank sold a portion of its interest in Prisma Medios de Pago, generating a significant tax profit (see Note 50).

16.2. Unrecognised deferred tax liabilities

At December 31, 2018 and 2017 there were deferred tax liabilities of 364,416 and 336,016, respectively, related to investments in subsidiaries and in joint ventures. However this liability was not recognized because the Group controls the dividend policy of its subsidiaries and is able to veto the payment of dividends of its joint ventures. No dividend distribution from subsidiaries and joint ventures is expected in the foreseeable future.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

16.3. Income tax expense

| | December 31, 2018 | December 31, 2017 |
|--------------------------------------|-------------------|-------------------|
| Current Tax | 5,395,932 | 3,396,542 |
| Deferred Tax | 354,506 | (615,691) |
| Inflation adjustment (see Note 16.5) | (1,414,068) | (2,058,359) |
| Income tax expense | 4,336,370 | 722,492 |

The reconciliation of effective tax rate is set forth below:

| | December 31, 2018 | December 31, 2017 |
|--------------------------------------|-------------------|-------------------|
| Profit before income tax | 2,766,667 | 2,582,003 |
| Income tax rate | 30% | 35% |
| Subtotal | 830,000 | 903,701 |
| Tax -exempt income | (196,353) | (258,649) |
| Non-deductible expenses | 69,985 | 35,907 |
| Change in tax rate (see Note 16.4) | (288,426) | (882,320) |
| Other | (17,623) | (27,438) |
| Net monetary inflation adjustment | 5,352,855 | 3,009,650 |
| Subtotal | 5,750,438 | 2,780,851 |
| Inflation adjustment (see Note 16.5) | (1,414,068) | (2,058,359) |
| Income tax expense | 4,336,370 | 722,492 |
| Effective tax rate | 157% | 28% |

16.4. Change in tax rate

Income tax rate was reduced from the 35% applicable in 2017 to 30% for annual periods ended in 2018 and 2019, and to 25% for annual periods ended in 2020 onwards.

16.5. Income tax exposure – inflation adjustment

The tax inflation adjustment prescribed by Law 20,628 allows the tax payers to recognize certain inflation effects on the tax provisions. At December 31, 2016 the Bank recognized and measured its Income tax provision without applying a tax inflation adjustment, since it was suspended by Law 24,073.

On May 10, 2017, after analyzing the effect of the non-application of the tax inflation adjustment and on the basis of related legal precedents, the Bank approved the filing of a petition for the courts to declare such suspension to be unconstitutional based on the non-confiscatory principle set in article 17 of the Argentina National Constitution, in the light of the confiscatory effect that these provisions entail in this specific case.

The Bank therefore filed its Income tax return for the year ended December 31, 2016 having applied the inflation adjustment mechanism in its preparation.

The net impact of this measure is a reduction in the Income Tax Expense for the year ended December 31, 2016 for 1,185,800 in nominal value (corresponding to 2,058,359 in terms of currency as of December 31, 2018) recognized in “Income tax expense” as of December 31, 2017.

On May 10, 2018 using the same position as in prior year, the Bank filed its Income tax return for the year ended December 31, 2017 having applied the inflation adjustment mechanism in its preparation with a net impact of 1,021,518 in nominal values (corresponding to 1,414,068 in terms of currency as of December 31, 2018) in “Income tax expense” as of December 31, 2018.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

As a result of the evaluation conducted, and on the basis of the opinion rendered by its legal and tax advisors, the Bank considers that the chances of obtaining at the ultimate judicial instance a court decision in support of a method to calculate income tax for this fiscal period that includes a deduction for the effects of inflation are much higher than a judgment that disallows such adjustment in view of the confiscation inherent in the tax rate derived from non-application of the inflation adjustment mechanisms. Therefore, the Bank has not recognized any provision related to this matter as of December 31, 2018.

The Bank is currently preparing its income tax return for 2018 and the Board of Directors will decide in the coming days whether to give effect to an adjustment for inflation in such income tax return.

Income tax – motions for refund of amounts paid for fiscal years 2013, 2014 and 2015

In connection with the years 2013, 2014 and 2015, the Bank determined its taxable income without applying the inflation adjustment mechanism for tax purposes, which led to income taxes paid in excess for 264,257, 647,945 and 555,002 in nominal values in those periods.

On the basis of the Bank’s position presented in the preceding paragraphs, on November 19, 2015 a prior administrative claim for the recovery of these overpayments was filed with the administrative authorities in connection with the periods 2013 and 2014. On September 23, 2016 a complaint was filed with the courts for both periods in view of the administrative authorities’ failure to answer.

In addition, on April 4, 2017, a petition was filed for the recovery of the tax paid in excess for year 2015. Likewise, on December 29, 2017, the related complaint was filed with the court for that year.

As of the date of these financial statements, the tax authorities had not yet released a response to the motions lodged.

The Bank has not recognized any asset in relation to these claims.

17. Investment in joint ventures and associates

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> | <u>January 1, 2017</u> |
|--|--------------------------|--------------------------|------------------------|
| Volkswagen Financial Services Compañía Financiera S.A. (1) | 639,598 | - | - |
| PSA Finance Arg. Cía. Financiera S.A. | 438,448 | 543,299 | 713,027 |
| Rombo Cía. Financiera S.A. | 508,521 | 628,250 | 678,160 |
| BBVA Consolidar Seguros S.A. | 135,148 | 193,909 | 201,573 |
| Interbanking S.A. | 33,864 | 27,754 | 19,496 |
| Prisma Medios de Pago S.A. (2) | - | - | 193,809 |
| Other | 675 | 942 | 955 |
| TOTAL | <u>1,756,254</u> | <u>1,394,154</u> | <u>1,807,020</u> |

(1) Reclassified to “Investments in joint ventures and associates” as of December 31, 2018 due to the loss of control of the subsidiary, as described in Note 43.

(2) Reclassified to “Non-current assets held for sale” as of December 31, 2017, based on the divestment agreement mentioned in Note 21.

The following table summarises the information related to the most significant investment in joint ventures and associates:

| | <u>PSA Finance Arg. Cía. Financiera S.A.</u> | | <u>Rombo Cía. Financiera S.A.</u> | | <u>Volkswagen Financial Services Compañía Financiera S.A.</u> |
|--------------------|--|--------------------------|-----------------------------------|--------------------------|---|
| | <u>December 31, 2018</u> | <u>December 31, 2017</u> | <u>December 31, 2018</u> | <u>December 31, 2017</u> | <u>December 31, 2018</u> |
| Total Assets | 4,109,138 | 6,710,630 | 9,020,095 | 12,049,566 | 8,046,175 |
| Total Liabilities | 3,232,242 | 5,624,032 | 7,748,790 | 10,478,936 | 6,792,061 |
| Profit | 149,307 | 303,796 | 66,967 | 309,452 | 246,576 |
| Equity | 876,896 | 1,086,598 | 1,271,305 | 1,570,630 | 1,254,114 |
| Ownership interest | 50% | 50% | 40% | 40% | 51% |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

18. Tangible assets

18.1. Property and equipment

| | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|---------------------------|-------------------|-------------------|-------------------|
| Real estate | 12,361,299 | 13,239,922 | 13,182,164 |
| Furniture and facilities | 2,799,195 | 2,529,735 | 1,705,837 |
| Machinery and equipment | 1,288,117 | 1,267,945 | 965,177 |
| Automobiles | 20,983 | 23,668 | 28,945 |
| Constructions in progress | 469,519 | 517,226 | 259,986 |
| TOTAL | 16,939,113 | 17,578,496 | 16,142,109 |

Changes in the item for fiscal year 2018 and 2017 are included below:

| | Cost as of December 31, 2017 | Deconsolidation of VWFS (see Note 43) | Accumulated | | | | Depreciation | | Deconsolidation of VWFS (see Note 43) | Accumulated as of December 31, 2018 | Carrying amount as of December 31, 2018 |
|--------------------------|------------------------------|---------------------------------------|-------------|---------------------------------------|---------------|----------------|--------------|---------|---------------------------------------|-------------------------------------|---|
| | | | Additions | Disposals (*) as of December 31, 2017 | Disposals (*) | For the period | | | | | |
| Real estate | 14,380,525 | - | 289,808 | 779,380 | 1,140,603 | 147,753 | 536,804 | - | 1,529,654 | 12,361,299 | |
| Furniture and facilities | 3,825,951 | (11,219) | 718,664 | 30,300 | 1,296,216 | 30,278 | 440,021 | (2,058) | 1,703,901 | 2,799,195 | |
| Equipment | 2,205,549 | (6,452) | 797,174 | 237,833 | 937,604 | 237,833 | 772,666 | (2,116) | 1,470,321 | 1,288,117 | |
| Automobiles | 83,867 | (5,836) | 17,884 | 46 | 60,199 | - | 16,430 | (1,743) | 74,886 | 20,983 | |
| Construction in progress | 517,226 | - | 450,812 | 498,519 | - | - | - | - | - | 469,519 | |
| Total | 21,013,118 | (23,507) | 2,274,342 | 1,546,078 | 3,434,622 | 415,864 | 1,765,921 | (5,917) | 4,778,762 | 16,939,113 | |

| | Cost as of January 1, 2017 | Additions | Disposals (*) | Accumulated | | Depreciation | | Accumulated as of December 31, 2017 | Carrying amount as of December 31, 2017 |
|--------------------------|----------------------------|-----------|---------------|-----------------------|---------------|----------------|-----------|-------------------------------------|---|
| | | | | as of January 1, 2017 | Disposals (*) | For the period | | | |
| Real estate | 13,996,859 | 510,497 | 126,831 | 814,695 | 91,058 | 416,966 | 1,140,603 | 13,239,922 | |
| Furniture and facilities | 2,728,652 | 1,118,893 | 21,594 | 1,022,815 | 21,594 | 294,995 | 1,296,216 | 2,529,735 | |
| Equipment | 1,592,100 | 868,462 | 255,013 | 626,923 | 255,013 | 565,694 | 937,604 | 1,267,945 | |
| Automobiles | 79,702 | 5,484 | 1,319 | 50,757 | 1,319 | 10,761 | 60,199 | 23,668 | |
| Construction in progress | 259,986 | 564,722 | 307,482 | - | - | - | - | 517,226 | |
| Total | 18,657,299 | 3,068,058 | 712,239 | 2,515,190 | 368,984 | 1,288,416 | 3,434,622 | 17,578,496 | |

(*) Includes write-off of fully depreciated items and finalized constructions.

As mentioned in Note 5.6, the Bank considers the fair value of all its real estate as the deemed cost, based on their fair values as of January 1, 2017.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

18.2. Investment properties

Below are the changes in investment properties:

| | Cost as of December 31, 2017 | Additions | Disposals | Depreciation | | | Accumulated as of December 31, 2018 | Carrying amount as of December 31, 2018 |
|--------------|------------------------------|-----------|---------------|-------------------------------------|--------------|----------------|-------------------------------------|---|
| | | | | Accumulated as of December 31, 2017 | Disposals | For the period | | |
| Real estate | 203,048 | — | 73,129 | 10,788 | 7,381 | 4,420 | 7,827 | 122,092 |
| Total | 203,048 | — | 73,129 | 10,788 | 7,381 | 4,420 | 7,827 | 122,092 |

| | Cost as of January 1, 2017 | Additions | Disposals | Depreciation | | | Accumulated as of December 31, 2017 | Carrying amount as of December 31, 2017 |
|--------------|----------------------------|--------------|---------------|-----------------------------------|------------|----------------|-------------------------------------|---|
| | | | | Accumulated as of January 1, 2017 | Disposals | For the period | | |
| Real estate | 210,151 | 3,958 | 11,061 | 7,778 | 298 | 3,308 | 10,788 | 192,260 |
| Total | 210,151 | 3,958 | 11,061 | 7,778 | 298 | 3,308 | 10,788 | 192,260 |

19. Goodwill and intangible assets

Below are the changes in the item:

| | Cost as of December 31, 2017 | Deconsolidation of VWFS (see Note 43) | Additions | Disposals (*) | Amortization | | | | Carrying amount as of December 31, 2018 | |
|-------------------|------------------------------|---------------------------------------|----------------|----------------|-------------------------------------|----------------|----------------|---------------------------------------|---|-------------------------------------|
| | | | | | Accumulated as of December 31, 2017 | Disposals (*) | For the period | Deconsolidation of VWFS (see Note 43) | | Accumulated as of December 31, 2018 |
| Software licenses | 1,214,634 | (2,286) | 201,446 | 266,117 | 628,893 | 266,117 | 151,583 | (625) | 513,734 | 633,943 |
| Goodwill | 6,405 | (6,405) | - | - | - | - | - | - | - | - |
| Total | 1,221,039 | (8,691) | 201,446 | 266,117 | 628,893 | 266,117 | 151,583 | (625) | 513,734 | 633,943 |

(*) Includes write-off of fully amortized items

| | Cost as of January 1, 2017 | Additions | Disposals (*) | Amortization | | | | Carrying amount as of December 31, 2017 |
|-------------------|----------------------------|----------------|----------------|-----------------------------------|----------------|----------------|-------------------------------------|---|
| | | | | Accumulated as of January 1, 2017 | Disposals (*) | For the period | Accumulated as of December 31, 2017 | |
| Software licenses | 1,168,921 | 211,766 | 166,053 | 658,722 | 166,053 | 136,224 | 628,893 | 585,741 |
| Goodwill | 6,405 | - | - | - | - | - | - | 6,405 |
| Total | 1,175,326 | 211,766 | 166,053 | 658,722 | 166,053 | 136,224 | 628,893 | 592,146 |

(*) Includes write-off of fully amortized items

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

20. Other assets

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> | <u>January 1, 2017</u> |
|--|--------------------------|--------------------------|------------------------|
| Financial assets pledged as collateral | 3,625,263 | 3,626,742 | 3,751,799 |
| Tax advances | 388,733 | 97,799 | 120,005 |
| Prepayments | 1,160,403 | 1,128,342 | 825,244 |
| Advances to suppliers of goods | 152,848 | 393,695 | 876,625 |
| Other miscellaneous assets | 327,504 | 288,194 | 378,786 |
| Advances to personnel | 8,155 | 66,907 | 218,423 |
| Foreclosed assets | 8,600 | 6,941 | 13,809 |
| Other | 39,133 | 137,801 | 90,939 |
| TOTAL | <u>5,710,639</u> | <u>5,746,421</u> | <u>6,275,630</u> |

21. Non-current assets held for sale

On December 19, 2018, the Board of Directors agreed to a plan to sell a group of real property assets located in Argentina. Therefore, these assets, the value of which, as of December 31, 2018 amounts to 108,339, were classified as “Non-current assets held for sale”, after the efforts to sell that group of assets began.

During November 2017, the Board of Directors agreed to a plan to sell its ownership interest in Prisma Medios de Pago S.A., and therefore the accounting balance of that ownership interest is presented as “Assets held for sale”, for an amount of 433,597 and 289,945 as of December 31, 2018 and 2017, respectively. The sale of 51% of the Bank’s shareholding in such company was completed on February 1, 2019.

22. Financial liabilities at fair value through profit or loss**22.1. Derivatives**

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> | <u>January 1, 2017</u> |
|---------------------------|--------------------------|--------------------------|------------------------|
| Foreign Currency Forwards | 889,731 | 203,218 | 9,342 |
| Interest Rate Swaps | 487,528 | 136,035 | 98,088 |
| TOTAL | <u>1,377,259</u> | <u>339,253</u> | <u>107,430</u> |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

22.2. Trading liabilities

| | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|----------------------|--------------------------|--------------------------|------------------------|
| Short sold positions | 692,270 | - | - |
| TOTAL | 692,270 | - | - |

23. Financial liabilities at amortized cost

23.1. Banks loans

| | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|--------------------------------|--------------------------|--------------------------|------------------------|
| Central Bank | 10,007 | 12,524 | 58,907 |
| Local financial institutions | - | 571,553 | 68,095 |
| Foreign financial institutions | 5,517,518 | 436,591 | 1,172,145 |
| TOTAL | 5,527,525 | 1,020,668 | 1,299,147 |

23.2. Deposits from customers

| | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|-------------------|--------------------------|--------------------------|------------------------|
| Checking accounts | 28,574,950 | 35,842,193 | 36,629,799 |
| Savings Accounts | 140,956,173 | 116,710,529 | 78,476,417 |
| Term deposits | 83,804,407 | 66,182,775 | 66,023,791 |
| Other | 4,334,648 | 6,757,241 | 24,768,570 |
| TOTAL | 257,670,178 | 225,492,738 | 205,898,577 |

23.3. Repurchase agreements

| | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|------------------------|--------------------------|--------------------------|------------------------|
| Financial institutions | 14,321 | 421,395 | 249,000 |
| TOTAL | 14,321 | 421,395 | 249,000 |

23.4. Other financial liabilities

| | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|---|--------------------------|--------------------------|------------------------|
| Creditors for spot transactions pending settlement | 7,031,105 | 3,084,831 | 349,869 |
| Obligations for financing of purchases | 13,105,616 | 11,286,045 | 8,837,060 |
| Accrued commissions payable | 5,893 | 24,097 | 29,986 |
| Collections and other transactions on behalf of third parties | 3,374,476 | 2,382,634 | 2,894,222 |
| Interest accrued payable | 89,774 | 25,269 | 14,300 |
| Other | 4,582,528 | 3,870,981 | 2,219,835 |
| TOTAL | 28,189,392 | 20,673,857 | 14,345,272 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

24. Debt securities issued

| Detail | Issuance date | Nominal Value (in thousands pesos) | Maturity date | Annual Nominal Rate (*) | Carrying amount as of | | |
|------------------------------------|---------------|---------------------------------------|---------------|----------------------------|-----------------------|-------------------|------------------|
| | | | | | December 31, 2018 | December 31, 2017 | January 1, 2017 |
| Class 9 | 02/11/2014 | 145,116 | 02/11/2017 | Badlar Private + 4.70% | - | - | 263,699 |
| Class 11 | 07/18/2014 | 165,900 | 07/18/2017 | Badlar Private + 3.75% | - | - | 305,679 |
| Class 13 | 11/13/2014 | 107,500 | 11/13/2017 | Badlar Private + 3.75% | - | - | 198,074 |
| Class 16 | 07/30/2015 | 204,375 | 07/30/2017 | Badlar Private + 3.75% | - | - | 376,572 |
| Class 17 | 12/28/2015 | 199,722 | 06/28/2017 | Badlar Private + 3.50% | - | - | 349,624 |
| Class 18 | 12/28/2015 | 152,500 | 12/28/2018 | Badlar Private + 4.08% | - | 225,160 | 280,989 |
| Class 19 | 08/08/2016 | 207,500 | 02/08/2018 | Badlar Private + 2.40% | - | 306,365 | 382,330 |
| Class 20 | 08/08/2016 | 292,500 | 08/08/2019 | Badlar Private + 3.23% | 289,000 | 428,910 | 538,946 |
| Class 21 | 11/18/2016 | 90,000 | 05/18/2018 | Badlar Private + 2.75% | - | 132,881 | 165,830 |
| Class 22 | 11/18/2016 | 181,053 | 11/18/2019 | Badlar Private + 3.50% | 181,053 | 265,840 | 333,600 |
| Class 23 | 12/27/2017 | 553,125 | 12/27/2019 | TM20 + 3.20% | 551,125 | 816,665 | - |
| Class 24 | 12/27/2017 | 546,500 | 12/27/2020 | Badlar Private + 4.25% | 541,500 | 806,883 | - |
| Class 25 | 11/08/2018 | 784,334 | 08/11/2020 | UVA + 9.50% | 856,473 | - | - |
| Total Capital | | | | | 2,419,151 | 2,982,704 | 3,195,343 |
| Interest accrued | | | | | 54,539 | 47,707 | 95,980 |
| Total capital and interest accrued | | | | | <u>2,473,690</u> | <u>3,030,411</u> | <u>3,291,323</u> |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

(*) Definitions:

BADLAR: Interest rate for time deposits of an amount superior than 1 (one) million pesos, from 30 to 35 days.

TM20: is the single arithmetic mean of interest rates for term deposits of twenty million pesos or more and thirty to thirty five day terms.

UVA: It is a unit of measure that is updated daily according to CER, based on the consumer price index.

For all classes, interest is paid on a quarterly basis.

On February 28, 2019, the Bank issued Class 26 and 27 Corporate Bonds. Class 26 Corporate Bonds were fully subscribed and paid in for 529,400, at 9-month and fully payable upon maturity, with an annual nominal applicable rate of 43% and payment of interest upon maturity of the Corporate Bond.

Additionally, Class 27 Corporate Bonds were fully subscribed and paid in for 1,090,000, at 18 months and fully payable upon maturity, at private Badlar and an annual nominal applicable margin of 6.25% and quarterly interest payments.

25. Provisions

- Financial guarantees and loan commitments: reflects the expected credit loss arising from financial guarantees issued, unused balances of checking account overdrafts, credit cards and other loan commitments.
- Other provisions: reflects the estimated amounts to pay class actions, labour, tax and commercial claims as well as other miscellaneous complaints.

| | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|---|-------------------|-------------------|------------------|
| Financial guarantees and loan commitments | 358,329 | 1,649 | 1,071 |
| Other provisions | 1,349,787 | 1,318,131 | 1,581,971 |
| TOTAL | 1,708,116 | 1,319,780 | 1,583,042 |

Changes in the item for fiscal year 2018 and 2017 are included below:

| Accounts | Balances as of December 31, 2017 | Adoption of IFRS 9 (Note 11) | Increases | Reversals | Uses | Balances as of December 31, 2018 |
|---|--|------------------------------------|----------------|-----------|------------------|--|
| - Financial guarantees and loan commitments | 1,649 | 617,597 | 37,274 | - | (298,191) | 358,329 |
| - Other provisions | 1,318,131 | - | 621,222 | - | (589,566) | 1,349,787 |
| TOTAL PROVISIONS | 1,319,780 | 617,597 | 658,496 | - | (887,757) | 1,708,116 |

| Accounts | Balances as of January 1, 2017 | Increases | Reversals | Uses | Balances as of December 31, 2017 |
|--|--------------------------------------|----------------|------------------|------------------|--|
| - Financial guarantees and loan commitments issued | 1,071 | 791 | - | (213) | 1,649 |
| - Other provisions | 1,581,971 | 401,954 | (195,171) | (470,623) | 1,318,131 |
| TOTAL PROVISIONS | 1,583,042 | 402,745 | (195,171) | (470,836) | 1,319,780 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

The expected terms to settle these obligations are as follows:

| December 31, 2018 | | Provisions | Within 12 months | After 12 months |
|---|--|------------|------------------|-----------------|
| For financial guarantees and loan commitments | | | 350,789 | 7,540 |
| Other | | | 611,997 | 737,790 |
| December 31, 2017 | | Provisions | Within 12 months | After 12 months |
| For financial guarantees and loan commitments | | | 1,649 | - |
| Other | | | 1,016,044 | 302,087 |
| January 1, 2017 | | Provisions | Within 12 months | After 12 months |
| For financial guarantees and loan commitments | | | 1,071 | - |
| Other | | | 1,167,800 | 414,171 |

In the opinion of the Bank's Board of Directors and its legal advisors, there are no other significant effects other than those stated in these financial statements, the amounts and repayment terms of which have been recorded based on the actual value of those estimates, considering the probable date of their final resolution.

26. Other liabilities

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> | <u>January 1, 2017</u> |
|------------------------------------|--------------------------|--------------------------|------------------------|
| Short term personnel benefits | 2,538,893 | 2,564,617 | 2,499,411 |
| Long term personnel benefits | 180,757 | 202,849 | 201,280 |
| Other collections and withholdings | 2,015,263 | 2,221,732 | 2,434,966 |
| Social security payable | 68,967 | 29,596 | 27,537 |
| Advance collections | 1,653,586 | 1,222,284 | 1,746,037 |
| Miscellaneous creditors | 3,440,929 | 3,710,324 | 2,377,927 |
| For contract liabilities | 189,140 | 313,042 | 291,403 |
| Other taxes payable | 777,085 | 702,849 | 642,971 |
| Termination benefits payable | 62,135 | 71,125 | 78,054 |
| Other | 29,395 | 46,591 | 75,995 |
| TOTAL | 10,956,150 | 11,085,009 | 10,375,581 |

27. Capital and Reserves

- Share capital

| Shares | | | | Share capital | | |
|----------|-------------|-------------------------|-----------------|--------------------|----------------------------------|---------|
| Class | Quantity | Nominal value per share | Votes per share | Shares outstanding | Pending issuance or distribution | Paid-in |
| Ordinary | 612,659,638 | 1 | 1 | 612,615 | 45 | 612,660 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

The Shareholders' Meeting held on June 13, 2017 approved the issuance of ordinary shares up to 145,000,000 ordinary shares entitled to one vote with a nominal value of Ps.1 per share.

On July 18, 2017, the issuance of 66,000,000 ordinary shares was approved, with a nominal value of Ps.1 per share, at a subscription price of US\$5.28 per share and US\$15.85 per each American Depositary Share (ADS), at the reference exchange rate published by the BCRA as of that date (17.0267) for the purposes of paying the shares in pesos. On July 24, 2017, the shares subscribed for were paid in.

Pursuant to the terms of the Shares Subscription Agreement, on July 26, 2017 International Underwriters opted to acquire 9,781,788 new shares (equivalent to 3,260,596 ADS) at the same issue price. On July 31, 2017 those shares were paid in, using the spot exchange rate stated.

The following table shows the reconciliation of the number of shares at opening date to closing date:

| | |
|---|-------------|
| Quantity of shares in issue at January 1, 2017 | 536,877,850 |
| Issuance of shares | 75,781,788 |
| Quantity of shares in issue at December 31, 2017 and 2018 | 612,659,638 |

- Share premium

The share premium account represents the difference between the par value of the shares issued and the subscription price.

- Inflation adjustment to share capital

It comprises the cumulative monetary inflation adjustment on the share capital.

- Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of financial assets measured at FVOCI, net of the related income tax.

- Legal reserve

BCRA regulations establish that 20% of net income as determined in accordance with BCRA accounting standards, should be allocated to the legal reserve.

- Other reserve

Set up to fulfil the requirement of Argentine Securities Commission (CNV) where the entire balance of retained earnings determined in accordance with BCRA GAAP needs to be allocated by the Shareholders' meeting to cash dividends, dividends in shares, set up reserves other than the legal reserve, or a combination of all of them.

- Restrictions to the payment of dividends

BCRA GAAP financial statements are the base for dividend distribution.

Pursuant to the provisions in the regulation in force issued by the BCRA, financial institutions shall apply an annual 20% of the year's profits determined in accordance with BCRA GAAP to increase legal reserves.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

Furthermore, pursuant to the requirements in General Resolution No. 622 issued by the CNV, the Shareholders' Meeting considering the financial statements with positive accumulated results determined in accordance with BCRA GAAP shall specifically provide for the allocation of those results.

Specifically, the mechanism to be followed by financial institutions to assess distributable amounts is defined by the BCRA through the regulations in force on the "Distribution of earnings", provided certain conditions are not met, such as the registration for financial assistance for lack of liquidity granted by that entity, deficiencies in capital or minimum cash contributions and the existence of a certain type of penalty set forth by various regulators and weighted as significant and/or failure to implement corrective measures, among other conditions.

On September 20, 2017, BCRA issued Communication "A" 6327, which establishes that financial entities will not be able to make profit distributions with the profit that is originated by the first application of the International Financial Reporting Standards (IFRS), and must constitute a special reserve that can only be used for capitalization or to absorb eventual negative balances of the item "Retained earnings".

In addition, the Bank shall maintain a minimum capital after the proposed distribution of profits.

On April 26, 2019 the Shareholders' Meeting approved the distribution of dividends for an amount of 2,407,000 in nominal value. On April 10, 2018 the Shareholders' Meeting approved the distribution of cash dividends for an amount of 970,000 in nominal values (corresponding to 1,306,955 in terms of currency as of December 31, 2018), which were paid on May 9, 2018. Furthermore, on March 30, 2017, the Shareholders' Meeting approved the distribution of dividends for an amount of 911,000 in nominal value (corresponding to 1,454,790 in terms of currency as of December 31, 2018), which were paid on August 10, 2017.

28. Analysis of changes in financing during the year

The following chart provides a reconciliation between the opening and closing balances for liabilities arising from financing activities:

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--|--------------------------|--------------------------|
| Debt securities issued | | |
| Opening balance | 3,030,411 | 3,291,323 |
| Capital inflows | 804,490 | 1,623,548 |
| Capital outflows | (580,525) | (1,335,076) |
| Interests and adjustments accrued | 883,589 | 538,291 |
| Interests paid | (796,607) | (564,244) |
| Inflation effect on debt securities issued | (867,668) | (523,431) |
| Closing balance | 2,473,690 | 3,030,411 |

29. Net interest income

29.1. Interest and other income

Interest revenue calculated using the effective interest method.

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|---|--------------------------|--------------------------|
| Interest on loans to the financial institutions | 2,280,074 | 1,132,461 |
| Interest from overdrafts | 7,188,105 | 5,031,740 |
| Interest from commercial papers | 6,507,940 | 3,562,354 |
| Interest from mortgage loans | 927,648 | 643,231 |
| Interest from car loans | 1,486,518 | 1,552,982 |
| Interest from credit card loans | 9,368,007 | 9,736,979 |
| Interest from financial leases | 645,301 | 656,847 |
| Interest from consumer loans | 7,612,122 | 6,477,835 |
| Interest from other loans | 3,671,918 | 3,181,390 |
| Premium for reverse repurchase agreements | 673,440 | 760,091 |
| Interest from government securities | 9,876,503 | 1,354,630 |
| Interest from private securities | 41,876 | 101,831 |
| Interest from loans for the prefinancing and financing of exports | 1,749,417 | 617,100 |
| Stabilization Coefficient (CER) clause adjustment (1) | 112,024 | 671,755 |
| UVA clause adjustment (1) | 4,331,628 | 231,040 |
| Other financial income | 40 | 1,922 |
| TOTAL | 56,472,561 | 35,714,188 |

(1) Adjustment clauses based on the variation of the consumer price index.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

29.2. Interest expenses

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|---|--------------------------|--------------------------|
| Savings accounts deposits | 4,386,444 | 892,507 |
| Time deposits | 16,986,001 | 10,009,766 |
| Bank loans | 183,209 | 54,636 |
| Other liabilities | 1,777,276 | 739,176 |
| Premium for reverse repurchase agreements | 110,197 | 195,477 |
| UVA clause adjustment (1) | 1,283,502 | 65,655 |
| Other | 11,599 | 2,108 |
| TOTAL | <u>24,738,228</u> | <u>11,959,325</u> |

(1) Adjustment clause based on the variation of the consumer price index.

30. Fee and commission income

Fee and commission income is disaggregated below by fee types that reflect the nature of the services offered across the Bank, in accordance with IFRS 15. It includes a total for fees within the scope of IFRS 15. Refer to Note 42 for more detailed information about operating segments.

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|------------------------------------|--------------------------|--------------------------|
| Linked to deposits | 7,315,614 | 5,066,749 |
| Linked to credit cards | 6,303,208 | 5,938,331 |
| Latam Pass Commissions | (2,790,108) | (2,083,877) |
| Linked to securities | 156,044 | 140,914 |
| From guarantees granted | 3,099 | 1,640 |
| Insurance agent fee | 867,957 | 1,075,334 |
| Transportation of values | 56,217 | 80,021 |
| Custody | 79,637 | 81,224 |
| From foreign currency transactions | 583,030 | 471,971 |
| TOTAL | <u>12,574,698</u> | <u>10,772,307</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

31. Fee and commission expense

| | December 31, 2018 | December 31, 2017 |
|--|--------------------------|--------------------------|
| For credit and debit cards | 3,433,679 | 2,778,335 |
| Linked to transactions with securities | 1,863 | 1,738 |
| For foreign trade transactions | 156,826 | 142,815 |
| For promotions | 1,300,964 | 975,732 |
| Other commission expenses | 608,173 | 983,754 |
| TOTAL | 5,501,505 | 4,882,374 |

32. Gains (losses) on financial assets and liabilities at fair value through profit or loss, net

| | December 31, 2018 | December 31, 2017 |
|--|--------------------------|--------------------------|
| (Loss) / Gain from foreign currency forward transactions | (296,182) | 84,561 |
| Gains from debt and equity instruments | 1,429,211 | 4,286,558 |
| Interest rate swaps | (1,017,186) | (9,821) |
| TOTAL | 115,843 | 4,361,298 |

33. Net income (loss) from derecognition of financial assets not measured at fair value through profit or loss

| | December 31, 2018 | December 31, 2017 |
|--|--------------------------|--------------------------|
| (Loss) Income from sale of government securities | (135,835) | 11,983 |
| Loss from sale of private securities | (905) | - |
| TOTAL | (136,740) | 11,983 |

34. Exchange differences, net

| | December 31, 2018 | December 31, 2017 |
|--|--------------------------|--------------------------|
| Conversion of foreign currency assets and liabilities into pesos | 1,406,769 | 118,456 |
| Income from purchase-sale of foreign currency | 5,082,257 | 3,258,722 |
| TOTAL | 6,489,026 | 3,377,178 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

35. Other operating income

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|---|--------------------------|--------------------------|
| Rental of safe deposit boxes | 537,072 | 555,549 |
| Adjustments and interest on miscellaneous receivables | 496,144 | 195,316 |
| Proceeds from electronic transactions | 122,026 | 87,462 |
| Income related to foreign trade | 220,897 | 80,804 |
| Services rendered | 154,422 | 183,966 |
| Other operating income | 576,416 | 840,081 |
| TOTAL | 2,106,977 | 1,943,178 |

36. Other operating expenses

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|---|--------------------------|--------------------------|
| Contributions to the Deposits Guarantee Fund (Note 47) | 394,431 | 348,836 |
| Turnover tax | 4,980,485 | 3,772,285 |
| Provision for contingencies | 621,222 | 402,745 |
| Provision for financial guarantee and loan commitments | 37,274 | - |
| Damage claims | 193,821 | 206,714 |
| Loss on initial recognition of loans bearing below market interest rate | 640,829 | 337,696 |
| Loss on sale of non-current assets held for sale | 256,005 | - |
| Other operating expenses | 859,973 | 2,277,892 |
| TOTAL | 7,984,040 | 7,346,168 |

37. Personnel benefits

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--|--------------------------|--------------------------|
| Salaries | 6,224,799 | 6,730,474 |
| Social security charges | 1,838,875 | 1,942,070 |
| Personnel compensations and rewards | 876,749 | 759,730 |
| Personnel services | 228,629 | 260,821 |
| Other short term personnel benefits | 1,635,207 | 1,458,747 |
| Termination benefits | 15,907 | 9,464 |
| Fees to Bank Directors and Supervisory Committee | 20,004 | 16,022 |
| Other long term benefits | 47,521 | 44,532 |
| TOTAL | 10,887,691 | 11,221,860 |

38. Administrative expenses

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|---------------------------------|--------------------------|--------------------------|
| Travel expenses | 108,333 | 104,830 |
| Administrative expenses | 644,421 | 570,631 |
| Security services | 362,799 | 499,667 |
| Other fees | 352,361 | 335,488 |
| Insurance | 86,530 | 88,918 |
| Rent | 939,607 | 771,473 |
| Stationery and supplies | 45,114 | 62,206 |
| Electricity and communications | 393,556 | 325,774 |
| Advertising | 495,336 | 663,827 |
| Taxes | 2,018,210 | 1,934,474 |
| Maintenance costs | 922,100 | 886,699 |
| Armored transportation services | 1,289,761 | 1,115,168 |
| Other administrative expenses | 993,099 | 1,050,597 |
| TOTAL | 8,651,227 | 8,409,752 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

39. Depreciation and amortization

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--|--------------------------|--------------------------|
| Depreciation of property and equipment | 1,765,921 | 1,288,416 |
| Depreciation of investment properties | 4,420 | 3,308 |
| Amortization of intangible assets | 151,583 | 136,224 |
| Depreciation of other assets | 336 | 1,414 |
| TOTAL | <u>1,922,260</u> | <u>1,429,362</u> |

40. Financial instruments risks**Presentation of Risk Management and Risk-Weighted Assets (RWA)****Strategies and processes**

The purpose of the organization is based on assuming a prudent level of risks in order to generate yields and keep acceptable levels of capital and funding, and generate benefits on a recurring basis. Therefore, it is vital that the teams assigned to risk management are highly trained professionals.

The General Risks Policy of BBVA Francés expresses the levels and types of risk the Bank is willing to take to carry out its strategic plan, with no relevant deviations, even under stress conditions. Along this line, the process for risks management is comprehensive and proportional to the economic size and importance of the financial institution.

To achieve its goals, BBVA Francés uses a management model with two principles for the decision-making process:

- Caution: Materialized in relation to the management of the various risks acknowledged by the Bank.
- Anticipation: Makes reference to the capacity of making decisions foreseeing relevant changes in the environment, the competition and customers, having effects on a medium-term.

This process aims to be adequate, sufficiently proven, duly documented and periodically reviewed based on the changes to the Bank's risk profile and the market.

Along this line, the Board of Directors and the Senior Management are highly committed to the identification, evaluation, follow-up, control and mitigation of significant risks. These organizations periodically review credit, financial and operational risks which may potentially affect the success of BBVA Francés' activities, as well as with a special emphasis on strategic, reputation and concentration risks.

Structure and organization

The Bank has a formal organizational structure, with a set of roles, responsibilities and powers, organized in a pyramidal structure, generating control instances from lower to higher levels, up to the highest decision-making bodies. Below are the areas in each structure and a list of their functions:

- Risks Management
- Committees

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

- Control and Reporting Units
- Cross-Control Areas

Risks Management:

This is an area that is independent from business units, in charge of implementing the criteria, policies and procedures defined by the organization within the scope of credit (retail and wholesale), operational and market risk management, with a follow-up and control of proper application and proposing the actions necessary to the keep quality of risks within the defined goals. Some of its main functions are to manage proper information for the decision-making process at all levels, including relevant risk factors, such as:

- Active management throughout the life of the risk.
- Clear processes and procedures.
- Integrated management of all risks through identification and quantification.
- Generation, implementation and dissemination of advanced decision-making support tools.

Committees:

Committees are the instances through which risks are treated. This implies knowledge, assessment, weighting and potential mitigation. BBVA Francés has an agile and proper structure of committees for the management of the various risks.

Control and Reporting Units:

Control and monitoring areas are in charge of giving cohesion to credit risk management and ensure that management of the rest of risks that are critical to the Bank is in accordance with the established standards.

The main responsibilities of Internal Risks Control are: monitor there is a proper internal regulatory framework; a process and measures defined for each type of risks; control its application and operation; and, manage an assessment of the existence of a control environment and its proper implementation and operation.

The area has a Models Validation team managing that BBVA Francés' internal risk statistical models are adequate for use, which issues a grounded and updated opinion on proper use of such models.

The Reporting Units are in charge of control procedures for risk rating and fractioning, provisioning, determining the risk quota for each segment of economic activity and type of financing, preparing fundamental metrics setting forth the principles and general risk profile in the statement of Appetite for Risk in quantitative terms. In addition, it is in charge of generating reports for the Risks Management for the decision-making process in accordance with internal credit policies and control organizations' policies, reviewing processes and proposing alternatives.

Cross-Control Areas

The Bank also has cross-control areas for business and support units, such as: Internal Audit, Regulatory Compliance and Internal Control.

Risk Appetite Framework

Risk Appetite is a key element in the management of financial institutions, providing the Bank with a comprehensive framework to determine the risks and level of risks, willing to intervene to reach its business goals, expressed in terms of capital, liquidity, profitability, income recurrence, risks costs or other metrics.

Risk Appetite is expressed through a Statement containing the general principles for the Bank's strategy and quantitative metrics.

Stress Testing

Stress test means the evaluation of the Bank's financial position under a severe but plausible scenario, which requires the simulation of scenarios to estimate the potential impact on the value of portfolios, profitability, solvency and liquidity for the purposes of identifying latent risks or detecting vulnerabilities.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

Credit risk

Credit risk arises from the probability that one party to a financial instrument will fail to meet its contractual obligations for reasons of insolvency or inability to pay and cause a financial loss for the other party.

It is the most important risk for the Bank and includes counterparty risk, issuer risk, settlement risk and country risk management.

The principles underpinning credit risk management are as follows:

- Availability of basic information for the study and proposal of risk, and supporting documentation for approval, which sets out the conditions required by the internal relevant body.
- Sufficient generation of funds and asset solvency of the customer to assume principal and interest repayments of loans owed.
- Establishment of adequate and sufficient guarantees that allow effective recovery of the transaction, this being considered a secondary and exceptional method of recovery when the first has failed.

As for country risk BBVA Francés defines it as the risk of sustaining losses generated in investments and loans to individuals, companies and governments due to the incidence of economic, political and social events occurring in a foreign country.

Strategy and processes

BBVA Francés develops the credit risk strategy defining the goals that will guide its granting activities, the policies to be adopted and the necessary practices and procedures to carry out those activities.

Additionally, annually the Risks Management develops, together with the rest of the Bank's management departments, a budget process, including the main variables of credit risk:

- Expected growth per portfolio and product.
- Evolution of the default ratio.
- Evolution of write-off portfolios.

This way, the expected standard credit risk values for a term of one year are set. Afterwards, the real values obtained are compared with that budget, to assess both the growth of the portfolio and its quality.

Also, maximum limits or exposures per economic activity are formalized, pursuant to the Bank's placement strategy, which are used to follow up credit portfolios. In the event of deviations from the limits set, these are analyzed by the Risks Follow-Up Committees to take the necessary measures.

Admission

BBVA Francés has credit risk admission policies, to define the criteria to obtain quality assets, establish risk tolerance levels and alignment of the credit activities with the strategy of BBVA Francés and in accordance with the Group. The policy of accepting risks is therefore organized into three different levels in the Group:

- Analysis of the financial risk of the transaction, based on the debtor's capacity for repayment or generation of funds.
- The constitution of guarantees that are adequate, or at any rate generally accepted, for the risk assumed, in any of the generally accepted forms: monetary, secured, personal or hedge guarantees; and finally.
- Assessment of the repayment risk (asset liquidity) of the guarantees received.

Follow-up

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

The Bank establishes certain follow-up procedures based on the banking area involved, since the admission stage is not the end of the process. Follow-up is as important as deciding, since the risk is dynamic and customers rely on themselves and the environment.

The main follow-up procedures carried out for the various Banking areas are:

- Follow-up of the limit granted: Since customer profiles vary over time, the limits of products hired are periodically reviewed for the purpose of broadening, reducing or suspending the limit assigned, based on the risk situation.
- Maintenance of proactive limits: Customers' characteristics, and therefore the characteristics of the data originating certain limits, vary over time. Therefore, there is periodical maintenance of the proactive limits, taking into consideration the changes in a customer's situation (position of asset and liability and relationship). Likewise, there is a periodic follow-up of the evolution of proactive limits for the purpose of controlling and ensuring the risk assigned is in accordance with the desired risk levels.
- Follow-up of rating tools: Rating tools are a reflection of the internal inputs and show the characteristics and biases of such inputs. Therefore, they need a long period of use to soften or eliminate those biases through the inclusion of new information, correction of existing information and periodic reviews optimizing the results of back-tests.
- Portfolio analysis: The portfolio analysis consists of a follow-up process and study of the complete cycle of the risk of portfolios for the purpose of analyzing the status of the portfolio, identifying potential paths towards improvements in management and forecasting future behavior.

Additionally, the following functions shall be carried out:

- Follow-up of specific customers.
- Follow-up of products.
- Follow-up of units (branches, areas, channels).
- Other follow-up actions (samples, control of admission process and risk management, campaigns).

The priority in credit risk follow-up processes is focused mainly on problematic or potentially problematic customers, for preventive purposes. The remaining aspects, the follow-up of products, units and other follow-up actions are supplementary to the specific follow-up of customers.

Recovery

BBVA Francés has also a Recoveries Area within Risks Management, to mitigate the severity of credit portfolios, both from the Bank and from companies related to the Bank, as well as to provide the results from the Bank directly, through collections of Write-Off portfolios and indirectly through collections of active portfolios, which imply a reduction of allowances.

Structure and organization

The credit risk management model at BBVA Francés has a formal organizational structure, with a set of roles, responsibilities and powers, organized in a pyramidal structure, generating control instances from lower to higher levels, up to the highest decision-making bodies. Management Committee Board of Directors.

For the purpose of having a continuous and integrated management process with coordination between all areas involved, the Risks Management has admissions areas, follow-up areas, recoveries areas and policies and tools areas.

That management model is completed with an agile and proper structure of committees for credit risk management to treat risks, which implies knowledge, assessment, weighting and potential mitigation.

Scope and nature of information and/or risk measurement systems

BBVA Frances has several tools to be used in credit risk management for effective risk control and facilitating the entire process. Along this line, the Bank prepares, among others, the following periodic reports:

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

- Progress of Risks.
- Payment Schedules.
- Ratings.
- Dashboard.
- Early Alerts System.
- Quarterly tools follow-up sheet.

Exposure to credit risk

The Bank's maximum credit risk exposure (see definition below) by line items in the consolidated statements of financial position as of December 31, 2018 is provided below. It does not consider the availability of collateral or other credit enhancements to guarantee compliance with payment obligations. The details are broken down by financial instruments and counterparties.

The maximum amount of credit risk of the Bank's financial assets is reported below:

| Detail | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|--|--------------------|--------------------|--------------------|
| Financial assets at amortized cost | | | |
| Cash and cash equivalents | 99,105,461 | 56,453,684 | 88,746,425 |
| Reverse repurchase agreements | 12,861,116 | 9,345,877 | 107,461 |
| Other financial assets | 9,237,237 | 3,414,951 | 1,234,350 |
| Loans and advances | 185,682,307 | 191,774,986 | 147,725,369 |
| Financial assets at fair value through profit or loss | | | |
| Debt securities | 7,508,099 | 8,588,127 | 6,764,936 |
| Derivatives | 591,418 | 210,756 | 98,987 |
| Financial assets at fair value through other comprehensive income | | | |
| Debt securities | 24,821,610 | 25,207,899 | 17,216,324 |
| Total | 339,807,248 | 294,996,280 | 261,893,852 |
| Financial guarantees and loan commitments | | | |
| Advances and loans agreed not used | 140,535,333 | 162,099,880 | 127,401,476 |
| Guarantees granted | 1,889,557 | 1,164,947 | 729,939 |
| Liabilities from foreign trade transactions | 141,321 | 158,598 | 179,588 |
| Letters of credit | 462,080 | 519,399 | 461,670 |
| Total | 143,028,291 | 163,942,824 | 128,772,673 |

The maximum credit exposure presented in the table above is determined by type of financial asset as explained below:

- In the case of financial assets recognized in the consolidated statements of financial position, exposure to credit risk is considered equal to its carrying amount (not including impairment losses), with the sole exception of derivatives.
- The maximum credit risk exposure on financial guarantees granted is the maximum that the Bank would be liable for if these guarantees were called in, and that is their amount.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

- The calculation of risk exposure for derivatives is based on the sum of two factors: the derivatives fair value and their potential risk (or "add-on").
- The first factor, fair value, reflects the difference between original commitments and fair values on the reporting date (mark-to-market).
- The second factor, potential risk ('add-on'), is an estimate of the maximum increase to be expected on risk exposure over a derivative fair value (at a given statistical confidence level) as a result of future changes in the fair value over the remaining term of the derivatives.
- The consideration of the potential risk ("add-on") relates the risk exposure to the exposure level at the time of a customer's default. The exposure level will depend on the customer's credit quality and the type of transaction with such customer. Given the fact that default is an uncertain event which might occur any time during the life of a contract, the Bank has to consider not only the credit exposure of the derivatives on the reporting date, but also the potential changes in exposure during the life of the contract. This is especially important for derivatives, whose valuation changes substantially throughout their terms, depending on the fluctuation of market prices.

Information on the credit quality of assets

The Bank's credit risk quality of loans and advances with stage allocation by asset classification as of December 31, 2018 is provided below. Carrying amounts are broken down by financial instruments and counterparties.

| | Notes | December 31, 2018 | | | |
|--|-----------|--------------------|--------------------|-------------------|------------------|
| | | | Stage 1 | Stage 2 | Stage 3 |
| Financial assets at fair value through other comprehensive income | | 24,563,962 | 24,563,962 | - | - |
| Debt securities | 15.1 | 24,550,036 | 24,550,036 | - | - |
| Equity instruments | 15.2 | 13,926 | 13,926 | - | - |
| Financial assets at amortized cost | | 203,541,121 | 189,775,619 | 11,961,349 | 1,804,152 |
| Other financial assets | 10.1 | 9,237,235 | 9,237,235 | - | - |
| Loans and advances to government sector | | 206 | 206 | - | - |
| Loans and advances to central banks | | 383 | 383 | - | - |
| Loans and advances to financial institutions | 10.2 | 9,635,845 | 9,635,845 | - | - |
| Loans and advances to customers | 10.3 | 171,948,321 | 158,182,820 | 11,961,349 | 1,804,152 |
| Reverse repurchase agreements | 10.4 | 12,719,131 | 12,719,131 | - | - |
| Total financial assets risk | | 228,105,083 | 214,339,581 | 11,961,349 | 1,804,152 |
| Total loan commitments and financial guarantees | 40 | 142,669,962 | 135,838,603 | 6,758,808 | 72,551 |
| Total credit exposure | | 370,775,045 | | | |

Impaired financial assets – Comparative information under IAS 39

The following tables show a breakdown by counterparty and by product of past-due financial assets not deemed impaired, impaired assets and allowances for loan losses as of December 31, 2017 and January 1, 2017:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

December 31, 2017

| | Past due but not impaired | | | Impaired assets | Carrying amount of the impaired assets | Specific allowances for financial assets, individually and collectively estimated | Accumulated write-offs |
|--|---------------------------|---------------------|---------------------|------------------|--|---|------------------------|
| | ≤ 30 days | > 30 days ≤ 60 days | > 60 days ≤ 90 days | | | | |
| Loans and advances | 13,102,816 | 830,629 | 449,583 | 1,329,332 | 605,250 | (724,082) | 1,237,638 |
| Other financial corporations | 24,411 | 18 | 41 | 2,825 | 539 | (2,286) | - |
| Non-financial corporations | 9,113,109 | 169,483 | 118,323 | 245,692 | 65,390 | (180,302) | 283,463 |
| Households | 3,965,296 | 661,128 | 331,219 | 1,080,815 | 539,321 | (541,494) | 954,175 |
| TOTAL | 13,102,816 | 830,629 | 449,583 | 1,329,332 | 605,250 | (724,082) | 1,237,638 |
| Loans and advances by product, by collateral and by subordination | | | | | | | |
| On demand (call) and short notice (current account) | 885,702 | 34,177 | 20,279 | 180,675 | 70,655 | (110,020) | |
| Credit card debt | 1,893,593 | 392,728 | 229,444 | 576,860 | 273,746 | (303,114) | |
| Trade receivables | - | 894 | 438 | 660 | 314 | (346) | |
| Finance leases | 355,127 | 46,686 | 16,893 | 27,981 | 6,153 | (21,828) | |
| Other term loans | 9,968,394 | 356,144 | 182,529 | 543,156 | 254,382 | (288,774) | |

January 1, 2017

| | Past due but not impaired | | | Impaired assets | Carrying amount of the impaired assets | Specific allowances for financial assets, individually and collectively estimated | Accumulated write-offs |
|--|---------------------------|---------------------|---------------------|------------------|--|---|------------------------|
| | ≤ 30 days | > 30 days ≤ 60 days | > 60 days ≤ 90 days | | | | |
| Loans and advances | 6,127,201 | 765,035 | 377,786 | 1,098,446 | 467,656 | (630,790) | 1,523,729 |
| Other financial corporations | 1,491 | 159 | 33 | 188 | 66 | (122) | - |
| Non-financial corporations | 3,619,090 | 172,968 | 77,929 | 109,572 | 37,070 | (72,502) | 364,954 |
| Households | 2,506,620 | 591,908 | 299,824 | 988,686 | 430,520 | (558,166) | 1,158,775 |
| TOTAL | 6,127,201 | 765,035 | 377,786 | 1,098,446 | 467,656 | (630,790) | 1,523,729 |
| Loans and advances by product, by collateral and by subordination | | | | | | | |
| On demand (call) and short notice (current account) | 821,481 | 31,110 | 34,190 | 389,279 | 149,572 | (239,707) | |
| Credit card debt | 1,353,988 | 346,850 | 211,800 | 194,460 | 76,884 | (117,576) | |
| Trade receivables | - | 859 | 744 | 273 | 233 | (40) | |
| Finance leases | 282,119 | 32,665 | 5,465 | 17,217 | 9,382 | (7,835) | |
| Other term loans | 3,669,613 | 353,551 | 125,587 | 497,217 | 231,585 | (265,632) | |

Mitigation of credit risk, collateralized credit risk and other credit enhancements

In most cases, maximum credit risk exposure is reduced by collateral, credit enhancements and other actions which mitigate the Bank's exposure. The Bank applies a credit risk hedging and mitigation policy deriving from a banking approach focused on relationship banking. The existence of guarantees could be a necessary but not sufficient instrument for accepting risks, as the assumption of risks by the Bank requires prior evaluation of the debtor's capacity for repayment, or that the debtor can generate sufficient resources to allow the amortization of the risk incurred under the agreed terms.

The procedures for the management and valuation of collateral following the Corporate Policies (retail and wholesale), which establish the basic principles for credit risk management, including the management of collaterals assigned in transactions with customers.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

The methods used to value the collateral are in line with the best market practices and imply the use of appraisal of real-estate collateral, the market price in market securities, the trading price of shares in investment funds, etc. All the collaterals received must be correctly assigned and entered in the corresponding register.

Regarding the types of collateral managed by BBVA Francés, the following stand out:

- Guarantees: It includes sureties or unsecured instruments.
- Joint and several guarantee: upon default on payment, the creditor may collect the unpaid amount from either the debtor or the surety.
- Joint guarantee: in this case the guarantors and debt-holders are liable in proportion to their interest in the company / transaction and restricted to such amount or percentage.
- Security Interest: it includes guarantees based on tangible assets, which are classified as follows:
 - Mortgages: a mortgage does not change the debtor's unlimited liability, who is fully liable. They are documented pursuant to the Bank's internal regulations for such purposes and are duly registered. Also, there is an independent appraisal, at market value, which enables a prompt sale.
 - Pledges: this includes chattel mortgages of motor vehicles or machinery, as well as liens on time deposits and investment funds. To be accepted, they shall be effective upon realization accordingly, they are properly documented and shall be approved by the Legal Services area. Finally, the Bank hedges against the variation in the value of the pledge.

The disclosure of impaired financial assets at amortized cost covered by collateral, by type of collateral, at December 31, 2018, is the following:

| December 31, 2018 | Maximum exposure to credit risk | Of which secured by collateral | | | | |
|---|---------------------------------|--------------------------------|-----------------------|----------|---------------|-----------|
| | | Residential properties | Commercial Properties | Cash | Others | Financial |
| Impaired financial assets at amortized cost | 3,753,483 | 6,955 | - | - | 29,790 | - |
| Total | 3,753,483 | 6,955 | - | - | 29,790 | - |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

Financial guarantees, other contingent risks and drawable by third parties: These have the counterparty's personal guarantee.

The maximum credit risk exposure of impaired financial guarantees and other commitments at December 31, 2018 amounts to 84,661.

Foreclosed assets are recognized when the Bank receives the ownership of the asset, which are mainly real estate. The Bank intends to sell these assets taking into account market conditions.

Loan commitments

To meet the specific financial needs of customers, the Bank's credit policy also includes, among others, the granting of financial guarantees, letters of credit and lines of credit through checking accounts overdrafts and credit cards. Although these transactions are not recognized in the Consolidated Statement of Financial Position, because they imply a potential liability for the Bank, they expose the Bank to credit risks in addition to those recognized in the Consolidated Statement of Financial Position and are, therefore, an integral part of the Bank's total risk.

Main types of guarantors and counterparties of credit derivatives

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

The Bank defines that the collateral (or credit derivative) shall be direct, explicit, irrevocable and unconditional in order to be accepted as risk mitigation. Furthermore, regarding admissible guarantors, BBVA Francés accepts financial institutions (local or foreign), public entities, stock exchange companies, resident and non-resident companies, including insurance companies.

Credit quality of financial assets that are neither past due nor impaired

The Bank has tools (“scoring” and “rating”) that enable it to rank the credit quality of its transactions and customers based on an assessment and its correspondence with the probability of default (“PD”) scales. To analyze the performance of PD, the Bank has a series of tracking tools and historical databases that collect the pertinent internally generated information. These tools can be grouped together into scoring and rating models, being the main difference between ratings and scorings is that the latter are used to assess retail products, while ratings use a wholesale banking customer approach.

These different levels and their probability of default were calculated by using as a reference the rating scales and default rates. These calculations establish the levels of probability of default for the Bank’s Master Rating Scale. Although this scale is common to the entire Group, the calibrations (mapping scores to PD sections/Master Rating Scale levels) are carried out at tool level for each country in which the Group has tools available.

Market risk

BBVA Francés considers market risk as the likelihood of losses of value of the trading portfolio as a consequence of adverse changes in market variables affecting the valuation of financial products and instruments.

The main market risk factors the Bank is exposed to are as follows:

- Interest rate risk: From exposure to changes in the various interest rate curves.
- Foreign exchange risk: From changes in the various foreign exchange rates. All positions in a currency other than the currency of the consolidated statements of financial position create foreign exchange risk.

The Financial Risks Management of the Risks Management area applies the criteria, policies and procedures defined by the Board of Directors within the management of that risk, with a follow-up and control of its proper application, and proposing the necessary actions to maintain the quality of risk within the defined appetite for risk.

The financial risks management model of BBVA Francés consists of the Market Risks and Structural Risks and Economic Capital Areas, which are coordinated for control and follow-up of risks.

The management of these risks is in line with the basic principles of the Basel Committee on Banking Supervision, with a comprehensive process to identify, measure, monitor and control risks.

The organization of financial risks is completed with a scheme of committees in which it participates, for the purpose of having an agile management process integrated into the treatment of the various risks.

Among others:

- Assets and liabilities committee (ALCO)
- Risk Management Committee (RMC)
- Financial Risks Committee (FRC)

BBVA Francés has many tools and systems to manage and follow-up market risk, to achieve effective risk control and treatment.

The main market risk metric is VaR (“Value at Risk”), a parameter to estimate the maximum loss expected for the trading portfolio positions with a 99% confidence level and a time horizon of 1 day.

Current management structure and procedures in force include follow-up of a limits and alerts scheme in terms of VaR, economic capital, stress and stop loss.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

The market risk measurement model is periodically validated through Back-Testing to determine the quality and precision of the VaR estimate.

The Market Risk management model contemplates procedures for communication in the event the risks levels defined are exceeded, establishing specific communication and acting circuits based on the exceeded threshold.

The market risk measurement perimeter is the trading portfolio (trading book) managed by the Global Markets unit. This portfolio mainly consists of:

- Argentine Government Securities.
- Argentine Central Bank Bills
- Provincial debt securities.
- Corporate Bonds.
- Foreign exchange spot.
- Derivatives (Exchange rate Futures and Forwards and Interest rate swaps).

The following tables show the evolution of trading portfolio total VaR and VaR per risk factors.

VaR (in millions of pesos)

| | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|---------|--------------------------|--------------------------|------------------------|
| Average | 22.86 | 48.39 | 15.63 |
| Minimum | 4.97 | 10.29 | 2.55 |
| Maximum | 97.37 | 85.04 | 39.60 |
| Closing | 49.36 | 43.33 | 27.35 |

VaR per risk factors – (in millions of pesos)

| VaR interest rate | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|-------------------|--------------------------|--------------------------|------------------------|
| Average | 19.00 | 35.14 | 10.63 |
| Minimum | 3.13 | 9.42 | 0.38 |
| Maximum | 93.76 | 57.36 | 24.95 |
| Closing | 49.90 | 43.38 | 13.35 |

| VaR foreign exchange rate | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|---------------------------|--------------------------|--------------------------|------------------------|
| Average | 9.64 | 30.50 | 9.91 |
| Minimum | 0.28 | 0.99 | 0.41 |
| Maximum | 37.98 | 80.91 | 41.17 |
| Closing | 2.65 | 1.66 | 24.70 |

Currency risk

The position in foreign currency is shown below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

| ASSETS | Total as of December 31, 2018 | As of December 31, 2018 (per currency) | | | | Total as of December 31, 2017 |
|---|----------------------------------|--|------------------|--------------|---------------|----------------------------------|
| | | US Dollar | Euro | Real | Other | |
| Cash and cash equivalents | 52,490,186 | 49,802,789 | 2,620,362 | 9,561 | 57,474 | 31,387,948 |
| Financial assets at fair value through profit or loss - Debt securities | 6,968 | 6,968 | - | - | - | 1,029,268 |
| Reverse repurchase agreements | 12,706,363 | 12,706,363 | - | - | - | 6,456,412 |
| Other financial assets | 1,679,077 | 1,674,896 | 4,181 | - | - | 1,140,519 |
| Loans and advances | 60,635,907 | 60,393,438 | 242,469 | - | - | 41,610,971 |
| Financial assets at fair value through other comprehensive income - Debt securities | 3,342,069 | 3,342,069 | - | - | - | 6,057,488 |
| Other assets | 220,615 | 220,615 | - | - | - | 161,384 |
| Equity instruments | 13,701 | 13,701 | - | - | - | 15,426 |
| TOTAL ASSETS | 131,094,886 | 128,160,839 | 2,867,012 | 9,561 | 57,474 | 87,859,416 |
| LIABILITIES | | | | | | |
| Deposits | 114,494,962 | 112,293,972 | 2,200,990 | - | - | 80,244,448 |
| Trading liabilities | 34,797 | 34,797 | - | - | - | - |
| Other financial liabilities | 5,323,354 | 5,122,087 | 172,140 | - | 29,127 | 3,159,481 |
| Bank loans | 5,400,682 | 5,162,530 | 238,152 | - | - | 440,837 |
| Other liabilities | 946,530 | 931,543 | 14,987 | - | - | 495,837 |
| TOTAL LIABILITIES | 126,200,325 | 123,544,929 | 2,626,269 | - | 29,127 | 84,340,603 |

The notional amounts of the foreign currency term and forward transactions are reported below:

| | December 31, 2018 | December 31, 2017 |
|---|--------------------------|--------------------------|
| Foreign Currency Forwards | | |
| Foreign currency forward purchases - US\$ | 620,651 | 658,575 |
| Foreign currency forward sales - US\$ | 760,615 | 645,582 |
| Foreign currency forward sales - Euros | 5,463 | 4,818 |

Interest rate risk

Structural interest risk (SIR) gathers the potential impact of market interest rate variations on the margin of interest and the equity value of BBVA Francés.

The process to manage this risk has a limits and alerts structure to keep the exposure to this risk within levels that are consistent with the appetite for risk and the business strategy defined and approved by the Board of Directors.

Within the core metrics used for measurement, follow-up and control, the following stand out:

- Margin at Risk (MaR): quantifies the maximum loss which may be recorded in the financial margin projected for 12 months under the worst case scenario of rate curves for a certain level of confidence.
- Economic Capital (EC): quantifies the maximum loss which may be recorded in the economic value of the Bank under the worst case scenario of rate curves for a certain level of confidence.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

The Bank additionally carries out an analysis of sensitivity of the economic value and the financial margin for parallel variations by +/- 100 basis points over interest rates.

The following table shows the progress of the sensitivity of the economic value (SEV), given a variation of +100 basis points in relation to the Core Capital:

SEV +100 bps

| | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|---------|--------------------------|--------------------------|------------------------|
| Closing | 1.43% | 1.53% | 1.03% |
| Minimum | 1.01% | 0.80% | 0.68% |
| Maximum | 2.05 % | 1.65% | 1.33% |
| Average | 1.61% | 1.13% | 0.94% |

The following table shows the progress of the sensitivity of the financial margin (SFM), given a variation of -100 basis points in relation to the 12-month projected margin:

SFM -100 bps

| | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|---------|--------------------------|--------------------------|------------------------|
| Closing | 2.14% | 2.18% | 0.03% |
| Minimum | 1.98% | 0.03% | 0.02% |
| Maximum | 2.73% | 2.18% | 0.37% |
| Average | 2.26% | 0.34% | 0.17% |

Liquidity and financing risk

The liquidity risk is defined as the possibility of the Bank not efficiently meeting its payment obligations without incurring significant losses which may affect its daily operations or its financial standing.

The short-term purpose of the liquidity and financing risk management process at BBVA Francés is to timely and duly address payment commitments agreed, without resorting to additional funding deteriorating the Bank's reputation or significantly affecting its financial position, keeping the exposure to this risk within levels that are consistent with the appetite for risk and the business strategy defined and approved by the Board of Directors. In the medium and long term, to watch for the suitability of the financial structure of the Bank and its evolution, according to the economic situation, the markets and regulatory changes.

Within the core metrics used for measurement, follow-up and control of this risk, the following stand out:

LtSCD: (Loan to Stable Customers Deposits), measures the relationship between the net credit investment and the customers' stable resources, and is set forth as the key metric of appetite for risk. The goal is to preserve a stable financing structure in the medium and long term.

LCR: (Liquidity Coverage Ratio), which measures the relation between high quality liquid assets and total net cash outflows during a 30-day period. BBVA Francés, as established in the regulations issued by the BCRA, "A" 5693, calculates the liquidity coverage coefficient daily.

Below is the progress of LCR ratios:

| | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|-----|--------------------------|--------------------------|------------------------|
| LCR | 291% | 289% | 519% |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

The following charts show the concentration of deposits as of December 31, 2018, 2017 and January 1, 2017:

| Number of customers | December 31, 2018 | | December 31, 2017 | | January 1, 2017 | |
|---------------------------------|--------------------|------------------------|--------------------|------------------------|--------------------|------------------------|
| | Debt balance | % over total portfolio | Debt balance | % over total portfolio | Debt balance | % over total portfolio |
| 10 largest customers | 15,293,060 | 5.89% | 8,292,309 | 3.65% | 7,458,824 | 3.53% |
| 50 following largest customers | 15,553,822 | 5.99% | 12,694,213 | 5.59% | 11,983,068 | 5.67% |
| 100 following largest customers | 10,544,960 | 4.06% | 9,108,019 | 4.01% | 8,306,965 | 3.93% |
| Rest of customers | 218,117,219 | 84.06% | 197,183,213 | 86.75% | 183,426,573 | 86.87% |
| TOTAL | 259,509,061 | 100.00% | 227,277,754 | 100.00% | 211,175,430 | 100.00% |

The following charts show the breakdown by contractual maturity of financial liabilities considering the total amounts to their due date, as of December 31, 2018, 2017 and January 1, 2017:

| | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|---------------------|--------------------|--------------------|--------------------|
| Up to 1 month | 266,884,948 | 232,125,851 | 209,749,986 |
| Up to 3 months | 22,849,556 | 20,593,707 | 19,258,225 |
| Up to 6 months | 8,841,997 | 4,885,994 | 7,219,098 |
| Up to 12 months | 3,328,772 | 3,015,744 | 2,338,617 |
| Up to 24 months | 1,809,415 | 2,621,721 | 1,497,820 |
| More than 24 months | 37,788 | 995,031 | 1,075,223 |
| TOTAL | 303,752,476 | 264,238,048 | 241,138,969 |

Additionally, the Bank has issued financial guarantees and loan commitments amounting to 143,028,291, 163,942,824 and 128,772,673, which may derived in outflows on demand.

The amounts of the Bank's financial assets and liabilities, which are expected to be collected or paid twelve months after the closing date are set forth below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

| | <u>December 31, 2018</u> | <u>December 31, 2017</u> | <u>January 1, 2017</u> |
|-------------------------------|--------------------------|--------------------------|------------------------|
| Financial assets | | | |
| Reverse repurchase agreements | 9,452,831 | - | - |
| Loans and advances | 45,949,271 | 46,934,159 | 27,339,160 |
| Debt securities | 7,282,999 | 3,411,973 | 7,035,790 |
| Total | <u>62,685,101</u> | <u>50,346,132</u> | <u>34,374,950</u> |
| Financial liabilities | | | |
| Deposits | 39,393 | 582,141 | 327,768 |
| Other financial liabilities | 854,162 | - | 41,159 |
| Bank loans | 168,972 | 191,040 | 2,436 |
| Debt securities issued | 507,780 | 2,318,299 | 1,701,694 |
| Total | <u>1,570,307</u> | <u>3,091,480</u> | <u>2,073,057</u> |

41. Fair values of financial instruments

a) Assets and liabilities measured at fair value

The fair value hierarchy of assets and liabilities measured at fair value as of December 31, 2018 is detailed below:

| | <u>Accounting balance</u> | <u>Total fair value</u> | <u>Level 1 Fair value</u> | <u>Level 2 Fair value</u> |
|--|---------------------------|-------------------------|---------------------------|---------------------------|
| <u>Financial assets</u> | | | | |
| Financial assets at fair value through profit or loss - Debt securities | 7,508,099 | 7,508,099 | 54,011 | 7,454,088 |
| Derivatives | 591,418 | 591,418 | - | 591,418 |
| Financial assets at fair value through profit or loss - Equity instruments | 528,026 | 528,026 | 528,026 | - |
| Financial assets at fair value through other comprehensive income - Debt securities | 24,821,610 | 24,821,610 | 100,166 | 24,721,444 |
| Financial assets at fair value through other comprehensive income - Equity instruments | 13,926 | 13,926 | 13,226 | 700 |
| <u>Financial liabilities</u> | | | | |
| Trading liabilities | 692,270 | 692,270 | 162,696 | 529,574 |
| Derivatives | 1,377,259 | 1,377,259 | - | 1,377,259 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

The fair value hierarchy of assets and liabilities measured at fair value as of December 31, 2017 is detailed below:

| | <u>Accounting balance</u> | <u>Total fair value</u> | <u>Level 1 Fair value</u> | <u>Level 2 Fair value</u> |
|--|-------------------------------|-------------------------|-------------------------------|-------------------------------|
| Financial assets | | | | |
| Financial assets at fair value through profit or loss - Debt securities | 8,588,127 | 8,588,127 | 6,277,865 | 2,310,262 |
| Derivatives | 210,756 | 210,756 | - | 210,756 |
| Financial assets at fair value through profit or loss - Equity instruments | 695,664 | 695,664 | 695,664 | - |
| Financial assets at fair value through other comprehensive income - Equity instruments | 18,244 | 18,244 | 17,567 | 677 |
| Financial assets at fair value through other comprehensive income - Debt securities | 25,207,899 | 25,207,899 | 16,203,297 | 9,004,602 |
| Financial liabilities | | | | |
| Derivatives | 339,253 | 339,253 | - | 339,253 |

The fair value hierarchy of assets and liabilities measured at fair value as of January 1, 2017 is detailed below:

| | <u>Accounting balance</u> | <u>Total fair value</u> | <u>Level 1 Fair value</u> | <u>Level 2 Fair value</u> |
|--|-------------------------------|-------------------------|-------------------------------|---------------------------|
| Financial assets | | | | |
| Financial assets at fair value through profit or loss - Debt securities | 6,764,936 | 6,764,936 | 2,359,335 | 4,405,601 |
| Derivatives | 98,987 | 98,987 | - | 98,987 |
| Financial assets at fair value through profit or loss - Equity instruments | 407,664 | 407,664 | 407,664 | - |
| Financial assets at fair value through other comprehensive income - Equity instruments | 18,156 | 18,156 | - | 18,156 |
| Financial assets at fair value through other comprehensive income - Debt Securities | 17,214,820 | 17,214,820 | 1,197,145 | 16,017,675 |
| Financial liabilities | | | | |
| Derivatives | 107,430 | 107,430 | - | 107,430 |

The fair value of a financial asset or liability is the price that would be received for the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date.

The most objective and usual reference of the fair value of a financial asset or liability is the price that would be paid in an orderly, transparent and deep market, that is to say its quoting or market price.

If it is not possible to obtain a market price, a fair value is determined using best market practice quoting techniques, such as cash flows discount based on a yields curve for the same class and type of instrument, or if there is no market curve with the same characteristics of the bond, the technical value is calculated considering the latest market price plus interest accrued until the valuation date (whichever is more representative for the species).

In line with the accounting standard, a three-level classification of financial instruments is established. This classification is mainly made based on the observability of the necessary inputs to calculate that fair value, defining the following levels:

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

- Level 1: Financial instruments valued with quoted prices in an active market. Active market means a market that allows the observation of representative prices with sufficient frequency and daily volume.
- Level 2: Financial instruments that do not have an active market, but that may be valued through market observable data.
- Level 3: Valuation using models where variables not obtained from observable market information are used.

Financial assets at fair value mainly consist of BCRA Liquidity Bills and Argentine Treasury Bills (Letes), together with a minor share in Argentine Government Bonds and Corporate Bonds. Likewise, financial derivatives are classified at fair value, which includes foreign currency forward transactions and interest rate swaps with settlement at maturity. There are no Level 3 financial assets.

b) Transfers between hierarchy levels

b.1) Transfers from Level 1 to Level 2

The following instruments measured at fair value were transferred from Level 1 to Level 2 of the fair value hierarchy:

| | December 31, 2018 | December 31, 2017 |
|----------------------------------|-------------------|-------------------|
| Argentine Bond in Pesos due 2038 | 1,615 | - |

The transfer is due to the fact that the bond was not traded in the market the number of days necessary to be considered Level 1.

No transfers have occurred from Level 1 to Level 2 as of December 31, 2017.

b.2) Transfers from Level 2 to Level 1

No transfers have occurred from Level 2 to Level 1 as of December 31, 2018 and 2017.

b.3) Valuation techniques for Levels 2 and 3

The determination of fair value prices set forth by the bank for fixed income consists of considering reference market prices for active markets MAE (“Mercado Abierto Electrónico”) and BYMA (“Bolsas y Mercados Argentinos”). If there are no quotations for the last 10 business days, a theoretical assessment is made.

The valuation allocated to financial assets that were not listed in the last 10 business days is determined by considering the latest quoted market price, plus interest accrued until the valuation date or technical value, whichever is more representative.

The theoretical assessment carried out for swaps and non-delivery forwards consists in discounting the future flows of the investment applying the interest rate as per the proper spot rates curve.

The estimate of future cash flows for swaps is made considering the spot rates in pesos and the BADLAR rate curve as input. In the case of non-delivery forwards, future cash flows are estimated considering the fair values of Rofex futures as inputs.

For Level 2 Calculations, input data observable in the market is required: the last quoted market price (MAE or BYMA), the terms of the bond issue as detailed in the respective offering memorandum or, in the particular case of BADLAR-adjustable bonds, the terms published in the BCRA's web site, the spot discount curve.

b.4) Reconciliation of opening and closing balances of Level 3 assets and liabilities at fair value

No Level 3 fair value balances exist.

c) Fair value of Assets and Liabilities not measured at fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

Below is a description of methodologies and assumptions used to assess the fair value of the main financial instruments not measured at fair value, when the instrument does not have a quoting value in an active market.

- Assets and liabilities with fair value similar to their accounting balance

For financial assets and financial liabilities maturing in less than one year, it is considered that the accounting balance is similar to fair value. This assumption also applies for demand deposits, because a significant portion thereof (more than 99% considering contractual terms) have a residual maturity of less than one year.

- Fixed rate financial instruments

The fair value of financial assets was assessed by discounting future cash flows from market rates at each measurement date for financial instruments with similar characteristics.

- Variable rate financial instruments

For financial assets and financial liabilities accruing a variable rate, it is considered that the accounting balance is similar to the fair value.

The fair value hierarchy of assets and liabilities not measured at fair value as of December 31, 2018 is detailed below:

| | <u>Accounting balance</u> | <u>Total fair value</u> | <u>Level 1 Fair value</u> | <u>Level 2 Fair value</u> |
|--|-------------------------------|-------------------------|-------------------------------|-------------------------------|
| Financial assets | | | | |
| Cash and cash equivalents | 99,105,461 | (1) | - | - |
| Reverse repurchase agreements | 12,719,131 | (1) | - | - |
| Other financial assets | 9,237,235 | (1) | - | - |
| Loans and advances | 181,584,755 | 176,801,211 | - | 176,801,211 |
| Financial assets pledged as collateral | 3,625,263 | (1) | - | - |
| Financial liabilities | | | | |
| Deposits | 259,509,061 | 256,910,027 | - | 256,910,027 |
| Repurchase agreements | 14,321 | (1) | - | - |
| Other financial liabilities | 28,189,392 | (1) | - | - |
| Bank loans | 5,527,525 | (1) | - | - |
| Debt securities issued | 2,473,690 | 2,412,051 | - | 2,412,051 |

(1) The Bank does not report the fair value as it considers it to be similar to its accounting value.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

The fair value hierarchy of assets and liabilities not measured at fair value as of December 31, 2017 is detailed below:

| | <u>Accounting balance</u> | <u>Total fair value</u> | <u>Level 1 Fair value</u> | <u>Level 2 Fair value</u> |
|--|-------------------------------|-------------------------|-------------------------------|-------------------------------|
| Financial assets | | | | |
| Cash and cash equivalents | 56,453,684 | (1) | - | - |
| Reverse repurchase agreements | 9,345,877 | (1) | - | - |
| Other financial assets | 3,414,951 | (1) | - | - |
| Loans and advances | 189,015,258 | 229,463,444 | - | 229,463,444 |
| Financial assets pledged as collateral | 3,626,742 | (1) | - | - |
| Financial liabilities | | | | |
| Deposits | 227,277,754 | 226,964,133 | - | 226,964,133 |
| Repurchase agreements | 421,395 | (1) | - | - |
| Other financial liabilities | 20,673,857 | (1) | - | - |
| Bank loans | 1,020,668 | (1) | - | - |
| Debt securities issued | 3,030,411 | 3,034,840 | - | 3,034,840 |

(1) The Bank does not report the fair value as it considers it to be similar to its accounting value.

The fair value hierarchy of assets and liabilities not measured at fair value as of January 1, 2017 is detailed below:

| | <u>Accounting balance</u> | <u>Total fair value</u> | <u>Level 1 Fair value</u> | <u>Level 2 Fair value</u> |
|--|-------------------------------|-------------------------|-------------------------------|-------------------------------|
| Financial assets | | | | |
| Cash and cash equivalents | 88,746,425 | (1) | - | - |
| Reverse repurchase agreements | 107,461 | (1) | - | - |
| Other financial assets | 1,234,350 | (1) | - | - |
| Loans and advances | 146,023,786 | 141,010,700 | - | 141,010,700 |
| Financial assets pledged as collateral | 3,751,799 | (1) | - | - |
| Financial liabilities | | | | |
| Deposits | 211,175,430 | 210,424,310 | - | 210,424,310 |
| Repurchase agreements | 249,000 | (1) | - | - |
| Other financial liabilities | 14,345,272 | (1) | - | - |
| Bank loans | 1,299,147 | (1) | - | - |
| Debt securities issued | 3,291,323 | 3,313,382 | - | 3,313,382 |

(1) The Bank does not report the fair value as it considers it to be similar to its accounting value.

42. Segment reporting

Basis for segmentation

The Bank identified the operating segments based on the management information reviewed by the chief operating decision maker:

- As of December 31, 2018, the Bank has determined that it has only one reporting segment related to banking activities; and
- As of December 31, 2017 and January 1, 2017, the information presented to the chief operating decision maker was prepared based on the following operating segments: (i) BBVA Banco Francés S.A. (banking), and (ii) Volkswagen Financial Services Compañía Financiera S.A. (financial services), each considered by the Bank as a single reportable segment.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

As a consequence of the Bank loss of control in Volkswagen Financial Services Compañía Financiera S.A., it was no longer considered a separate segment as of December 31, 2018.

Reportable segments are strategic business units offering different products and services. They are managed separately because each segment is aimed at different markets and consequently requires different commercialization technologies and strategies.

During 2017, the Bank updated its internal business segment information adding the analysis of loans and deposits per lines of business (corporate banking, small and medium enterprises and retail).

Most of the Bank's operations, property and customers are located in Argentina. No customer has generated 10% or more of the Bank's total income.

The following tables present information regarding business segments:

| BBVA Banco Francés S.A. (bank) (1) | Total as of December 31, 2018 | | |
|---|--|--|--------------------|
| Financial assets at amortized cost - Loans and advances | | | 181,584,755 |
| Corporate banking | | | 52,196,585 |
| Small and medium companies | | | 52,444,965 |
| Retail | | | 76,943,205 |
| Other assets | | | 179,957,694 |
| TOTAL ASSETS | | | 361,542,449 |
| Financial liabilities at amortized cost – Deposits | | | 259,509,061 |
| Corporate banking | | | 29,668,066 |
| Small and medium companies | | | 49,240,049 |
| Retail | | | 180,600,946 |
| Other liabilities | | | 56,491,247 |
| TOTAL LIABILITIES | | | 316,000,308 |

| | BBVA Banco Francés S.A. (bank) (1) | VWFS (financial services) | Total as of December 31, 2017 |
|---|---|--------------------------------------|--|
| Financial assets at amortized cost - Loans and advances | 182,103,050 | 6,912,208 | 189,015,258 |
| Corporate banking | 45,101,039 | - | 45,101,039 |
| Small and medium companies | 60,485,186 | 2,968,823 | 63,454,009 |
| Retail | 76,516,825 | 3,943,385 | 80,460,210 |
| Other assets | 129,564,626 | 203,208 | 129,767,834 |
| TOTAL ASSETS | 311,667,676 | 7,115,416 | 318,783,092 |
| Financial liabilities at amortized cost - Deposits | 227,277,754 | - | 227,277,754 |
| Corporate banking | 19,489,209 | - | 19,489,209 |
| Small and medium companies | 46,547,108 | - | 46,547,108 |
| Retail | 161,241,437 | - | 161,241,437 |
| Other liabilities | 41,360,393 | 628,290 | 41,988,683 |
| TOTAL LIABILITIES | 268,638,147 | 628,290 | 269,266,437 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

| | BBVA Banco Francés S.A. (bank) (1) | VWFS (financial services) | Total as of January 1, 2017 |
|---|---|--------------------------------------|--|
| Financial assets at amortized cost - Loans and advances | 143,102,464 | 2,921,322 | 146,023,786 |
| Other assets | 139,197,347 | 355,095 | 139,552,442 |
| TOTAL ASSETS | 282,299,811 | 3,276,417 | 285,576,228 |
| Financial liabilities at amortized cost - Deposits | 211,175,430 | - | 211,175,430 |
| Other liabilities | 35,405,968 | 473,096 | 35,879,064 |
| TOTAL LIABILITIES | 246,581,398 | 473,096 | 247,054,494 |

The information by segment showed in the following table includes Volkswagen Financial Services Compañía Financiera S.A. up to the date of loss of control (see Note 43).

| | BBVA Banco Francés S.A. (bank) (1) | VWFS (financial services) | Total as of December 31, 2018 |
|---|---|--------------------------------------|--|
| Net interest income | 29,846,394 | 1,887,939 | 31,734,333 |
| Net fee and commission income | 7,099,610 | (26,417) | 7,073,193 |
| Gains (losses) on financial assets and liabilities at fair value through profit or loss, net | 115,843 | - | 115,843 |
| Gains (losses) on derecognition of financial assets not measured at fair value through profit or loss | (136,740) | - | (136,740) |
| Exchange differences, net | 6,483,514 | 5,512 | 6,489,026 |
| Other operating income | 2,104,700 | 2,277 | 2,106,977 |
| TOTAL OPERATING INCOME BEFORE FINANCIAL ASSETS IMPAIRMENT LOSS | 45,513,321 | 1,869,311 | 47,382,632 |
| Impairment of financial assets | (3,807,779) | (26,257) | (3,834,036) |
| SUBTOTAL | 41,705,542 | 1,843,054 | 43,548,596 |
| Total operating expenses | (29,091,845) | (353,373) | (29,445,218) |
| Share of profit of equity accounted investees | 317,523 | - | 317,523 |
| PROFIT BEFORE TAX | 12,931,220 | 1,489,681 | 14,420,901 |
| Income tax expense | (4,196,023) | (140,347) | (4,336,370) |
| Loss on net monetary position | (11,316,187) | (338,047) | (11,654,234) |
| (LOSS) PROFIT FOR THE YEAR | (2,580,990) | 1,011,287 | (1,569,703) |
| Attributable to: | | | |
| Shareholders of the Controlling Entity | | | (1,489,732) |
| Non-controlling interest | | | (79,971) |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

| | BBVA Banco Francés S.A. (bank) (1) | VWFS (financial services) | Total as of December 31, 2017 |
|---|---|--------------------------------------|--|
| Net interest income | 22,295,327 | 1,459,536 | 23,754,863 |
| Net fee and commission income | 5,925,477 | (35,544) | 5,889,933 |
| Gains (losses) on financial assets and liabilities at fair value through profit or loss, net | 4,361,298 | - | 4,361,298 |
| Gains (losses) on derecognition of financial assets not measured at fair value through profit or loss | 11,983 | - | 11,983 |
| Exchange differences, net | 3,377,003 | 175 | 3,377,178 |
| Other operating income | 1,942,635 | 543 | 1,943,178 |
| TOTAL OPERATING INCOME BEFORE FINANCIAL ASSETS IMPAIRMENT LOSS | 37,913,723 | 1,424,710 | 39,338,433 |
| Impairment of financial assets | (2,471,956) | (55,866) | (2,527,822) |
| SUBTOTAL | 35,441,767 | 1,368,844 | 36,810,611 |
| Total operating expenses | (28,075,884) | (331,258) | (28,407,142) |
| Share of profit of equity accounted investees | 338,313 | - | 338,313 |
| PROFIT BEFORE TAX | 7,704,196 | 1,037,586 | 8,741,782 |
| Income tax expense | (651,974) | (70,518) | (722,492) |
| Loss on net monetary position | (5,955,743) | (204,036) | (6,159,779) |
| PROFIT FOR THE YEAR | 1,096,479 | 763,032 | 1,859,511 |
| Attributable to: | | | |
| Shareholders of the Controlling Entity | | | 1,903,820 |
| Non-controlling interest | | | (44,309) |

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

43. Subsidiaries

Below is the information on the Bank's subsidiaries:

| Name | Registered Office (country) | Ownership interest as of | | |
|--|-----------------------------|--------------------------|-------------------|-----------------|
| | | December 31, 2018 | December 31, 2017 | January 1, 2017 |
| BBVA Francés Valores S.A. | Argentina | 96.9953 % | 96.9953 % | 96.9953 % |
| Consolidar A.F.J.P. S.A. (undergoing liquidation proceedings) | Argentina | 53.8892 % | 53.8892 % | 53.8892 % |
| Volkswagen Financial Services Compañía Financiera S.A. | Argentina | (2) | 51.0000 % | 51.0000 % |
| BBVA Francés Asset Management S.A. Sociedad Gerente de Fondos Comunes de Inversión (1) | Argentina | 95.0000 % | 95.0000 % | 95.0000 % |

- (1) The Bank owns a direct 95% interest in the Company's capital stock and an indirect 4.8498% interest through BBVA Francés Valores S.A.

- (2) On September 25, 2018, the Bank deconsolidated Volkswagen Financial Services Compañía Financiera S.A. as a result of the loss of control due to the termination of the two-year term committed by the Bank to provide financing to the company if it would fail to diversify its sources of funding.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

- BBVA Francés Valores S.A.: corporation incorporated under the laws of Argentina as a comprehensive clearing and settlement agent;
- BBVA Francés Asset Management S.A. Sociedad Gerente de Fondos Comunes de Inversión: corporation incorporated under the laws of Argentina as an agent for the management of investment products;
- Consolidar Administradora de Fondos de Jubilaciones y Pensiones S.A. (undergoing liquidation proceedings): corporation incorporated under the laws of Argentina undergoing liquidation proceedings;
- Volkswagen Financial Services Compañía Financiera S.A. (“VWFS”): A financial company incorporated under the laws of Argentina. On September 25, 2018, BBVA Francés lost control over the company due to the termination of the two-year term committed by the Bank to provide financing to the company if it would fail to diversify its sources of funding. According to IAS 28, VWFS qualifies as an associate and, as such, it has been deconsolidated effective since the date of loss of control.

44. Related parties

a) Parent

The Bank's direct controlling entity is Banco Bilbao Vizcaya Argentaria, S.A.

b) Key Management personnel

Key management personnel are those having the authority and responsibility for planning, managing and controlling the Bank's activities, whether directly or indirectly.

Based on that definition, the Bank considers the members of the Board of Directors as key personnel.

b.1) Remuneration of key management personnel

The key personnel of the Board of Directors received the following compensations:

| | December 31, 2018 | December 31, 2017 |
|-------|-------------------|-------------------|
| Fees | 18,388 | 8,841 |
| Total | 18,388 | 8,841 |

b.2) Balances and results arising from transactions with key management personnel

| | Balances as of | | | Results | |
|------------------|-------------------|-------------------|-----------------|-------------------|-------------------|
| | December 31, 2018 | December 31, 2017 | January 1, 2017 | December 31, 2018 | December 31, 2017 |
| Loans | | | | | |
| Credit cards | 2,907 | 3,595 | 3,514 | 984 | 678 |
| Overdrafts | 19 | 30 | - | 10 | 15 |
| Consumer loans | - | 15 | - | - | 10 |
| Mortgage loans | 1,316 | 2,017 | - | 289 | 275 |
| Financial leases | - | - | 158 | - | 1 |
| Deposits | | | | | |
| Checking account | 8 | 18 | 6 | - | - |
| Savings account | 30,306 | 15,602 | 8,312 | 120 | 75 |
| Time deposits | - | - | 11,619 | 41 | 25 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

Loans are granted on an arm's length basis. All loans to related parties were classified in Stage 1.

b.3) Balances and results arising from transactions with related parties (except key management personnel)

| Parent | Balances as of | | | Results | |
|--|-------------------|-------------------|-----------------|-------------------|-------------------|
| | December 31, 2018 | December 31, 2017 | January 1, 2017 | December 31, 2018 | December 31, 2017 |
| Cash and other demand deposits | 259,503 | 628,607 | 451,589 | - | - |
| Derivatives (Assets) | 23,177 | - | - | - | - |
| Other financial assets | 310,034 | - | - | - | - |
| Trading liabilities | 315,396 | - | - | - | - |
| Other liabilities | 51,296 | 80,763 | 209,990 | 111,858 | 63,529 |
| Derivatives (Liabilities) | 51,198 | - | - | 100,273 | - |
| Securities in custody | 56,994,610 | 92,071,713 | 69,037,964 | - | - |
| Derivative instruments (Notional amount) | 5,172,413 | - | - | - | - |
| Securities granted | 593,593 | 437,626 | 232,689 | 2,182 | 1,278 |
| Guarantees received | 717,641 | 4,598 | 4,680 | - | - |

| Associates | Balances as of | | | Results | |
|--|-------------------|-------------------|-----------------|-------------------|-------------------|
| | December 31, 2018 | December 31, 2017 | January 1, 2017 | December 31, 2018 | December 31, 2017 |
| Cash and other demand deposits | 70 | 112 | 15 | - | - |
| Loans and advances | 5,723,637 | 3,052,595 | 2,148,283 | 1,675,337 | 710,579 |
| Debt securities at fair value through profit or loss | 50,398 | 6,170 | 10,777 | 40,713 | - |
| Derivatives (Assets) | - | 1,097 | 5,699 | - | 1,223 |
| Other financial assets | 161,622 | - | - | - | - |
| Deposits | 149,338 | 53,899 | 47,875 | 35,992 | 160 |
| Trading liabilities | 223,833 | - | - | - | - |
| Other financial liabilities | 37,390 | - | - | - | - |
| Other liabilities | - | 4,612 | 750 | 4,320 | 7,106 |
| Financing received | - | 121,328 | - | 6,509 | 2,308 |
| Derivatives (Liabilities) | 381,998 | 17,756 | 1,061 | 758,798 | 3,574 |
| Debt securities issued | 115,263 | 140,816 | 54,794 | 40,312 | 7,573 |
| Other operating income | - | - | - | 18,270 | 10,184 |
| Interest rate swaps (Notional amount) | 2,364,460 | 4,004,089 | 2,003,368 | - | - |
| Securities in custody | 506,076 | 329,951 | 701,679 | 481 | - |
| Guarantees received | 284 | - | - | - | - |
| Sureties granted | 23,864 | 8,462 | - | 288 | 323 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

Transactions have been agreed upon on an arm's length basis. All loans to related parties were classified in Stage 1.

45. Leases

a) The Bank is the lessor in the following lease contracts:

a.1) Financial leases

The Bank entered into financial lease contracts related to real estate, vehicles, machinery and equipment.

The following table shows the total gross investment of financial leases and the present value of minimum payments to be received thereunder (recognized under Loans and advances to customers caption):

| Term | December 31, 2018 | | December 31, 2017 | | January 1, 2017 | |
|-------------------|-------------------|---|-------------------|---|------------------|---|
| | Total investment | Present value of minimum lease payments | Total investment | Present value of minimum lease payments | Total investment | Present value of minimum lease payments |
| Up to 1 year | 977,272 | 972,981 | 1,577,462 | 1,318,636 | 1,813,110 | 1,526,497 |
| From 1 to 5 years | 1,414,800 | 1,404,766 | 2,464,558 | 2,071,652 | 2,593,971 | 2,148,635 |
| More than 5 years | - | - | - | - | 53 | 46 |
| TOTAL | 2,392,072 | 2,377,747 | 4,042,020 | 3,390,288 | 4,407,134 | 3,675,178 |
| Principal | | 2,343,180 | | 3,371,602 | | 3,629,768 |
| Interest accrued | | 34,567 | | 18,686 | | 45,410 |
| TOTAL | | 2,377,747 | | 3,390,288 | | 3,675,178 |

As of December 31, 2018, 2017 and January 1, 2017, non-accrued interest amount to 14,325, 651,732 and 731,956, respectively, and accumulated allowances for loan losses amount to 41,622, 89,575 and 67,076, respectively.

a.2) Operating Leases

The Bank acts as a lessor for its investment properties. The average terms of those leases not subject to cancellation are from three to five years. All leases include a clause providing for an annual update of leases, taking into consideration market conditions.

Minimum future payments for operating lease contracts not subject to cancellation are as follows:

| | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|-------------------|-------------------|-------------------|-----------------|
| Up to 1 year | 23,991 | - | - |
| From 1 to 5 years | 184,222 | 76,850 | 98,787 |
| TOTAL | 208,213 | 76,850 | 98,787 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

b) Bank acting as lessee

b.1) Operating Leases

The Bank leases branches under operating lease contracts. Leases are typically for a term of 5 years, with the option to renew after that date. Payments for leases are increased annually to reflect the market conditions.

Below are the minimum future payments of leases under operating lease contracts not subject to cancellation as of December 31, 2018, 2017 and January 1, 2017:

| | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|-------------------|-------------------|-------------------|------------------|
| Up to 1 year | 46,977 | 59,954 | 138,759 |
| From 1 to 5 years | 1,460,593 | 1,139,174 | 1,710,356 |
| More than 5 years | 1,249,534 | 707,320 | 958,531 |
| TOTAL | 2,757,104 | 1,906,448 | 2,807,646 |

The amount of operating lease expenses recognized in results was 939,607 and 771,473 as of December 31, 2018 and 2017, respectively.

46. Restricted assets

As of December 31, 2018, December 31, 2017 and January 1, 2017, the Bank has the following restricted assets:

- The Bank applied Argentine Treasury Bonds adjusted by CER in pesos maturing in 2021 in the amount of 79,285 and Treasury Bonds in US dollars maturing on May 10, 2019 in the amount of 56,145 as of December 31, 2018, Argentine Treasury Bonds adjusted by CER in pesos maturing in 2021 in the amount of 60,694 as of December 31, 2017, and Secured Bonds maturing in 2020 in the amount of 77,382 as of January 1, 2017, as security for loans agreed under the Global Credit Program for micro, small and medium enterprises granted by the Inter-American Development Bank (IDB).
- The Bank applied Argentine Treasury Bonds adjusted by CER in pesos maturing in 2021 in the amount of 11,561 as of December 31, 2017, and Secured Bonds maturing in 2020 in the amount of 84,236 as of January 1, 2017, as guarantee for funding granted by the Bicentennial Fund.
- Also, the Bank has accounts, deposits, repo transactions and trusts applied as guarantee for activities related to credit card transactions, with automated clearing houses, transactions settled at maturity, foreign currency futures, court proceedings and leases in the amount of 4,703,064, 4,799,167 and 4,024,491, as of December 31, 2018, 2017 and January 1, 2017, respectively.
- The Bank applied Argentine Treasury Bonds adjusted by CER in pesos maturing in 2021 in the amount of 420,002 as of January 1, 2017, as security for its role in the custody safekeeping on behalf of the Guarantee Fund for the Sustainability of the Argentine Retirement and Pension Regime and custody of Registered Bills.
- BBVA Francés Valores S.A. has shares in Mercado de Valores de Buenos Aires S.A. (VALO) in the amounts of 24,722 and 52,292, and BYMA, in the amounts of 94,600 and 125,499 as of December 31, 2018 and 2017, respectively. Those shares are subject to a lien over credit rights in favor of "Crédito and Caucción Compañía de Seguros S.A." under the insurance contract signed by the company issuing such shares, to secure noncompliance with the company's obligations.
- That company registered the shares in Mercado de Valores de Buenos Aires S.A. (MERVAL), in the amount of 122,345 as of January 1, 2017. These shares were subject to a lien over credit rights in favor of "CHUBB Argentina de Seguros S.A." under the insurance contract executed by the company issuing those shares, to secure noncompliance with the company's obligations.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

47. Deposits guarantee regime

The Bank is included in the Deposits Guarantee Fund Insurance System of Law No. 24,485, Regulatory Decrees No. 540/95, No. 1292/96, No. 1127/98 and No. 30/18 and Communication "A" 5943 issued by the BCRA

That law provided for the incorporation of the company "Seguros de Depósitos Sociedad Anónima" (SEDESA) for the purpose of managing the Deposits Guarantee Fund (DGF), the shareholders of which, pursuant to the changes introduced by Decree No. 1292/96, will be the BCRA with at least one share and the trustees of the trust with financial institutions in the proportion determined by the BCRA for each, based on their contributions to the DGF.

In August 1995 that company was incorporated, and the Bank has a 10.038% share of the corporate stock.

The Deposits Guarantee Insurance System, which is limited, mandatory and for valuable consideration, has been created for the purpose of covering bank deposit risks as a supplement of the deposits privileges and protection system set forth by the Law on Financial Institutions.

The guarantee covers the refund of the principal paid plus interest accrued up to the date of revocation of the authorization to operate or until the date of suspension of the Bank by application of Section 49 of the Articles of Organization of the BCRA, if this measure had been adopted previously, without exceeding the amount of four hundred and fifty thousand pesos. For transactions in the name of two or more people, the guarantee shall be distributed on a pro-rata basis among them. In no case shall the total guarantee per person exceed the aforementioned amount, regardless of the number of accounts and/or deposits.

In addition, it is set forth that financial institutions shall make a monthly contribution to the DGF an amount equivalent to 0.015% of the monthly average of daily balances of the items listed in the related regulations.

As of December 31, 2018 and 2017 the contributions to the Fund have been recorded in the item "Other operating expenses - Contributions to the deposits guarantee fund" in the amounts of 394,431 and 348,836, respectively.

On February 28, 2019, BCRA issued Communication "A" 6654 setting forth an increase in the guarantee from pesos four hundred and fifty thousand to pesos one million, effective March 1, 2019.

48. Minimum cash and minimum capital

48.1. Minimum cash

The BCRA establishes different cautious regulations to be observed by financial institutions, mainly regarding solvency levels, liquidity and credit assistance levels.

Minimum cash regulations set forth an obligation to keep liquid assets in relation to deposits and other obligations recorded for each period. The items included for the purpose of meeting that requirement are detailed below:

| Accounts | December 31, 2018 | December 31, 2017 | January 1, 2017 |
|---|-------------------|-------------------|-----------------|
| Balances at the BCRA | | | |
| BCRA – current account - not restricted | 82,119,608 | 41,507,590 | 57,576,161 |
| BCRA – special guarantee accounts – restricted | 1,238,252 | 1,443,333 | 1,685,174 |
| | 83,357,860 | 42,950,923 | 59,261,335 |
| Argentine Treasury Bonds in pesos at fixed rate due November 2020 | 6,936,000 | - | - |
| Liquidity Bills – BCRA | 20,202,428 | - | - |
| TOTAL | 110,496,288 | 42,950,923 | 59,261,335 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

48.2. Minimum capital

Minimum capital requirements are determined on the basis of the implicit risks to which the bank is exposed (credit risk, market risk and operational risk). The minimum capital will be the higher of the minimum capital fixed by BCRA and the capital requirements for credit risk, market risk — requirement for daily positions in eligible instruments — and operational risk. These requirements must be complied with on both an individual and a consolidated basis.

For the purposes of calculating capital requirements, there is recognition of certain risk mitigation techniques such as collateralization, personal guarantees and credit derivatives, provided that certain criteria are met financial institutions may opt for either the simple approach (or risk weighting substitution) or for the comprehensive approach, which allows reducing the exposure amount up to the value ascribed to the collateral. Off-balance sheet transactions (including loan commitments) must be converted into credit exposure equivalents through the use of credit conversion factors (CCF). The higher the chance of financing an off-balance sheet transaction, the higher the conversion factor will be. Then, the credit exposure equivalent is weighted based on counterparty risk.

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

- Minimum basic capital, and
- The sum of minimum capital required for credit risk, market risk and operational risk.

Differential requirements were established for banks and other financial institutions, mainly based on the area where their head offices are located, in order to benefit those areas with smaller banking coverage according to BCRA criteria, which now enjoy less stringent requirements with respect to minimum basic capital.

Minimum capital requirement for credit risk will be determined as the sum of:

- a) 8% of the sum of credit-risk-weighted asset transactions without delivery against payment;
- b) failed delivery-against-payment transactions; and
- c) requirement for counterparty credit risk in transactions with over-the-counter derivatives.

The sum of (a), (b) and (c) is multiplied by a coefficient which varies from 1 to 1.19 based on the rating the Bank is granted by BCRA.

Minimum Capital Requirement for Market Risk: BCRA imposes additional minimum capital requirements in relation to market risk associated with positions held by financial institutions in "local assets", "foreign assets", "foreign currency" and "gold", including derivatives bought or sold on such positions.

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

Minimum Capital Requirement for Operational Risk: Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk but excludes strategic and reputational risk. Financial institutions must establish a system for the management of operational risk that includes policies, processes, procedures and the structure for their adequate management.

Any defects of application derived from the requirement of additional capital will not make the financial institution fall into noncompliance with the Minimum Capital Regulations, even if they will not be allowed to distribute cash dividends and pay fees, ownership interest or bonuses originated in the bank's distribution of results.

The breakdown of minimum capital is detailed below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)

| Minimum capital requirements | December 31, 2018 | December 31, 2017 |
|------------------------------|-------------------|-------------------|
| Credit risk | 18,087,597 | 18,790,435 |
| Operational risk | 3,594,744 | 3,776,621 |
| Market risk | 92,786 | 545,113 |
| Paid-in | 36,274,163 | 40,321,634 |
| Surplus | 14,499,036 | 17,209,465 |

49. Investment funds

As of December 31, 2018, 2017 and January 1, 2017, the Bank holds in custody, as Custodian Agent of Investment Funds managed by BBVA Francés Asset Management S.A. Sociedad Gerente de Fondos Comunes de Inversión, term deposit certificates, shares, corporate bonds, government securities, mutual investments, deferred payment checks, BCRA instruments, Buenos Aires City Government Bills, ADRs, Buenos Aires Province Government Bills and repos in the amounts of 17,026,024, 31,533,051 and 16,665,210, which are part of the Funds' portfolio and are recorded in debit accounts "Control – Others".

Investment Funds equities are as follows:

| INVESTMENT FUNDS | EQUITY AS OF | | |
|--|-------------------|-------------------|-------------------|
| | December 31, 2018 | December 31, 2017 | January 1, 2017 |
| FBA Renta Pesos | 15,883,270 | 7,330,714 | 4,808,996 |
| FBA Ahorro Pesos | 6,302,409 | 22,453,715 | 20,765,298 |
| FBA Bonos Argentina | 4,011,931 | 8,271,505 | 5,146,478 |
| FBA Renta Fija Dólar | 3,747,771 | 5,273,063 | - |
| FBA Renta Fija Dólar Plus | 1,582,891 | 5,361,984 | - |
| FBA Horizonte | 1,309,573 | 468,276 | 465,064 |
| FBA Calificado | 381,258 | 911,912 | 725,427 |
| FBA Acciones Argentinas | 371,680 | 908,803 | 65,584 |
| FBA Acciones Latinoamericanas | 363,493 | 286,236 | 186,835 |
| FBA Renta Fija Plus (ex FBA Commodities) | 219,981 | 350,968 | - |
| FBA Horizonte Plus | 94,620 | 116,599 | - |
| FBA Renta Mixta | 83,995 | 483,948 | 16,684 |
| FBA Retorno Total II | 65,690 | 50,973 | - |
| FBA Retorno Total I | 57,549 | 13,442 | - |
| FBA Bonos Latam | 36,718 | 48,045 | - |
| FBA Bonos Globales | 34,199 | 10,095 | 520 |
| FBA Bonos Pesos Plus | 15,974 | 17,561 | 18,578 |
| FBA Renta Pública I | 1,060 | - | - |
| FBA Renta Fija Local | 1,060 | - | - |
| FBA Brasil I | 1,059 | - | - |
| FBA Renta Pública II | 377 | - | - |
| TOTAL | 34,566,558 | 52,357,839 | 32,199,464 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of Argentine pesos)**

The subsidiary BBVA Francés Asset Management S.A. acts as investment funds manager, authorized by the CNV, which registered that company as investment funds management agent under No. 3 under Provision 2002 issued by the CNV on August 7, 2014.

50. Subsequent events

- 1) During November 2017, the Board of Directors agreed to a plan to sell its ownership interest in Prisma Medios de Pago S.A., and therefore the accounting balance of that ownership interest is presented as “Assets held for sale”, for an amount of 433,597 and 289,945 as of December 31, 2018 and 2017, respectively. The sale of 51% of the Bank’s shareholding in such Company was completed on February 1, 2019.

That day was completed the transfer of 2,344,064 common book-entry shares with a par value of Ps. 1 each and one vote per share, owned by the Bank in Prisma Medios de Pago S.A. in favor of AI ZENITH (Netherlands) B.V. (company associated with Advent International Global Private Equity), equivalent to 51% of the Bank’s shareholding in the company.

According to the offer for the sale of the referred actions carried out by AI ZENITH (Netherlands) B.V., and accepted by the Bank, the estimated total price adjusted at the Closing date is USD 78,265, of which the Bank received on February 1, 2019 USD 46,457 and the payment of difference that is the amount of USD 31,808 will be deferred during the next 5 (five) years. It will be paid (i) 30% of said amount in Pesos at a UVA rate plus 15% nominal annual and (ii) 70% in USD at a nominal annual rate of 10%.

The final price of the shares will be determined according to the mechanisms established in the Offer within a period of up to 60 days from closing, if it does not merit comments from the buyer.

Subsidiaries of the Company

| <u>Subsidiary</u> | <u>Jurisdiction of Incorporation</u> | <u>Principal Activity</u> |
|--|---|--|
| BBVA Francés Asset Management S.A. Sociedad Gerente de Fondos Comunes de Inversión | Republic of Argentina | Mutual funds |
| BBVA Francés Valores S.A. | Republic of Argentina | Stock exchange brokerage |
| Consolidar AFJP S.A. (undergoing liquidation proceedings) | Republic of Argentina | Pension and retirement fund administrators |

Certification of Chief Executive Officer

I, Martín Ezequiel Zarich, certify that:

1. I have reviewed this annual report on Form 20-F/A of BBVA Banco Francés S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 30, 2019

/s/ Martín Ezequiel Zarich
Name: Martín Ezequiel Zarich
Title: Chief Executive Officer

Certification of Chief Financial Officer

I, Ernesto R. Gallardo Jimenez, certify that:

1. I have reviewed this annual report on Form 20-F/A of BBVA Banco Francés S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 30, 2019

/s/ Ernesto R. Gallardo Jimenez

Name: Ernesto R. Gallardo Jimenez

Title: Chief Financial Officer

**Certification by CEO and CFO pursuant to Section
1350, as adopted pursuant to Section 906 of the
Sarbanes – Oxley Act of 2002**

The certification set forth below is being submitted in connection with BBVA Banco Francés S.A.'s Annual Report on Form 20-F/A for the year ended December 31, 2018 (the "Annual Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002.

Martín Ezequiel Zarich, the Chief Executive Officer and Ernesto R. Gallardo Jimenez, the Chief Financial Officer of BBVA Banco Francés S.A., each certifies that, to the best of his knowledge:

1. the Annual Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of BBVA Banco Francés S.A.

Date: May 30, 2019

/s/ Martín Ezequiel Zarich
Name: Martín Ezequiel Zarich
Title: Chief Executive Officer

/s/ Ernesto R. Gallardo Jimenez
Name: Ernesto R. Gallardo Jimenez
Title: Chief Financial Officer

Consent of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors
BBVA Banco Francés S.A.:

We consent to the incorporation by reference in the registration statement No. 333-219100 on Form F-3 of BBVA Banco Francés S.A. of our reports dated May 10, 2019, except for the revision to the description of the material weaknesses in internal control over financial reporting as to which the date is May 30, 2019, with respect to the consolidated statements of financial position of BBVA Banco Francés S.A. and its subsidiaries (the Company) as of December 31, 2018, December 31, 2017 and January 1, 2017, and the related consolidated statements of profit or loss, comprehensive income, changes in shareholders' equity, and cash flows for the years ended December 31, 2018 and 2017, and the related notes (collectively, the consolidated financial statements), and the effectiveness of internal control over financial reporting as of December 31, 2018, which reports appear in the December 31, 2018 annual report on Form 20-F as amended of the Company.

Our report dated May 10, 2019, except for the revision to the description of the material weaknesses in internal control over financial reporting as to which the date is May 30, 2019, on the consolidated financial statements refers to a change in accounting for financial instruments due to the adoption of International Financial Reporting Standard 9, *Financial Instruments* (IFRS 9).

Our report dated May 10, 2019, except for the revision to the description of the material weaknesses in internal control over financial reporting as to which the date is May 30, 2019, on the effectiveness of internal control over financial reporting as of December 31, 2018, expresses our opinion that the Company did not maintain effective internal control over financial reporting as of December 31, 2018 because of the effect of material weaknesses on the achievement of the objectives of the control criteria and contains an explanatory paragraph that states that such material weaknesses related to ineffective design and implementation and timely operation of certain process-level controls over the determination of the allowance for loan losses in accordance IFRS 9 and ineffective design of certain controls over the completeness and accuracy of certain financial statement disclosures required under International Financial Reporting Standards as issued by the International Accounting Standards Board, specifically IFRS 7, *Financial Instruments: Disclosures* (IFRS 7), IFRS 9, and IAS 29, *Financial Reporting in Hyperinflationary Economies* (IAS 29) and were due to ineffective risk assessment and monitoring activities over the Company's plan to adopt IFRS 9 and the preparation of financial statement disclosures required under IFRS 7, IFRS 9, and IAS 29 and an insufficient number of appropriately trained personnel regarding the disclosure requirements of IFRS 7, IFRS 9, and IAS 29.

/s/ KPMG

Buenos Aires, Argentina
May 30, 2019
