

GRUPO FINANCIERO GALICIA SA

Form 20-F

June 28, 2006

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 28, 2006

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20 F

(Mark One)

- Registration Statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934
or**
- Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the
fiscal year ended December 31, 2005
or**
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
or**
- Shell Company Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number 0-30852**

GRUPO FINANCIERO GALICIA S.A.

(Exact name of Registrant as specified in its charter)

GALICIA FINANCIAL GROUP

(Translation of Registrant's name into English)

REPUBLIC OF ARGENTINA

(Jurisdiction of incorporation or organization)

Grupo Financiero Galicia S.A.

Tte. Gral. Juan D. Perón 456

C1038 AAJ-Buenos Aires, Argentina

(Address of principal executive offices)

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

None

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

Class B Ordinary Shares, Ps.1.00 par value, ten shares of which are represented by American
Depositary Shares

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:

Class A Ordinary Shares, Ps.1.00 par value	281,221,650
Class B Ordinary Shares, Ps.1.00 par value	960,185,367

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

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and larger accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

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PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements consolidate the accounts of Grupo Financiero Galicia S.A. and its subsidiaries. Therefore, our consolidated financial statements include the accounts of:

- Grupo Financiero Galicia S.A. (Grupo Galicia);
- Sudamericana Holding S.A. and its subsidiaries;
- Galicia Warrants S.A.;
- Net Investments S.A. and its subsidiaries;
- Galval Agente de Valores S.A. and
- Banco de Galicia y Buenos Aires S.A., its wholly-owned subsidiary, Banco Galicia Uruguay S.A (Galicia Uruguay) and its subsidiaries and other subsidiaries and affiliated companies required to be consolidated under Argentine Banking GAAP (collectively, the Bank or Banco Galicia).

In this annual report, references to we, our, and us are to Grupo Financiero Galicia S.A. and its consolidated subsidiaries.

We were formed on September 14, 1999, as a financial services holding company to hold all of the shares of capital stock of Banco Galicia held by members of the Escasany, Ayerza and Braun families. Our most significant asset is our ownership in Banco Galicia. As of December 31, 2003, and December 31, 2004, our interest in Banco Galicia was 93.59%. As of December 31, 2005, our interest was 93.6%.

We (and Banco Galicia) maintain our financial books and records in Argentine pesos and prepare our financial statements to conform to the accounting rules of the Argentine Central Bank, which prescribes the generally accepted accounting principles for all financial institutions in Argentina. This annual report refers to those accounting principles as Argentine Banking GAAP. Argentine Banking GAAP differs in certain relevant respects from generally accepted accounting principles in Argentina (Argentine GAAP). Argentine Banking GAAP also differs in certain significant respects from generally accepted accounting principles in the United States (U.S. GAAP). See Item 5.

Operating and Financial Review and Prospects Item 5A. Operating Results U.S. GAAP and Argentine Banking GAAP Reconciliation and note 40 to our consolidated audited financial statements included in this annual report for a description of the principal differences between Argentine GAAP and Argentine Banking GAAP and note 41 to our financial statements for reconciliation of the principal differences between Argentine Banking GAAP and U.S. GAAP for the periods up to December 31, 2005. A reconciliation to U.S. GAAP of our net income and total shareholders equity is presented for the three fiscal years ending December 31, 2005.

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. Unless this annual report states otherwise, through December 31, 2001, the exchange rate used to convert foreign currency amounts into pesos on our balance sheets and income statements (as well as those of Banco Galicia) was the exchange rate quoted as of each relevant date or period end by Banco de la Nación Argentina (Banco Nación). In the case of dollars, until December 31, 2001, the Banco Nación quotes for such exchange rates had been Ps.1.0 per US\$1.00, the peso-dollar parity introduced in 1991 by Law No. 23,928 (the Convertibility Law).

On January 7, 2002, Argentina abandoned the fixed peso-dollar parity. After devaluing the peso and setting the official exchange rate at Ps.1.4 per US\$1.0, on February 11, 2002, the Argentine Government allowed the peso to float. Argentine Central Bank Communiqué A 3671, dated July 25, 2002, required that the published reference exchange rate of the Argentine Central Bank be used by banks to value all foreign currency accounts instead of the exchange rate quoted by Banco Nación. We began to use the reference exchange rate quoted by the Argentine Central Bank to value our foreign currency assets and liabilities in July 2002. Unless stated otherwise, in this annual report, references to the exchange rate since that time are to the reference exchange rate published by the Argentine Central Bank.

The exchange rates used in the December 2005, December 31, 2004 and December 2003, consolidated financial statements were Ps.3.0315, Ps.2.9738, and Ps.2.9330 per US\$1.00, respectively, as quoted by the Argentine Central Bank.

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Mainly as a result of the abandonment in 2002 of the fixed exchange rate, Argentina experienced a high rate of inflation. Wholesale prices, as measured by the wholesale price index (the WPI) published by the *Instituto Nacional de Estadística y Censos* (National Institute of Statistics and Census or INDEC), increased approximately 118.44% in 2002. On July 17, 2002, the Argentine Government published Decree No. 1269/02, repealing Decree No. 316/95 and reestablishing the policy of restating financial information to account for inflation for periods beginning on or after January 1, 2002. Consequently, inflation accounting was reintroduced in accordance with Argentine Central Bank Communiqué A 3702, Resolution No. 415/02 of the CNV and Resolution No. 240/02 of the Argentine Federation of Professional Councils of Economic Sciences (FACPCE), the body that establishes Argentine GAAP and, starting January 1, 2002, we began to adjust our financial statements and those of Banco Galicia for inflation based on changes in the WPI.

Primarily as a result of the stabilization of the WPI during the first half of 2003, the Argentine Government published Decree No. 664/03 and the Argentine Central Bank issued Communiqué A 3921, dated April 8, 2003, which eliminated the requirement that financial statements be prepared in constant currency. These rules became effective for financial periods ending on or after March 1, 2003. Likewise, on April 8, 2003, the CNV issued Resolution No. 441/03 discontinuing inflation accounting as of March 1, 2003. Under professional accounting standards, application of that method remained in effect until September 30, 2003, when the Professional Council of Economic Sciences of the Autonomous City of Buenos Aires (C.P.C.E.C.A.B.A.) discontinued the recognition of changes in the purchasing power of currency effective October 1, 2003. From March 2003 to September 2003, prices fell on average approximately 2%.

Therefore, in this annual report and in the financial statements included herein as of and for the fiscal year ended December 31, 2004 and subsequent periods, our figures and Banco Galicia's figures do not include any inflation accounting effect and our figures and Banco Galicia's figures as of and for the fiscal year ended December 31, 2003, include the effects of inflation accounting through February 28, 2003. The WPI increased 0.87% between January 1, 2003 and February 28, 2003. Figures for periods prior to December 31, 2002, have been restated in constant Argentine pesos as of February 28, 2003, applying the approximately 120.35% change in the WPI for the period from January 1, 2002, to February 28, 2003. In addition, for comparison purposes and unless stated otherwise, we have restated in constant pesos of February 28, 2003, all other financial data as of and for periods prior to February 28, 2003, included in this annual report.

Throughout this annual report, asymmetric pesification refers to the compulsory conversion in January 2002 of most dollar-denominated assets and certain liabilities of Argentine financial institutions into peso-denominated assets and liabilities at different exchange rates. In addition, Compensatory Bond and Hedge Bond refer to the bonds that the Argentine Government has issued and will issue to the Bank (as well as other financial institutions), as compensation for the negative effects on its financial condition of the asymmetric pesification. This is more fully described in Item 4. Information on the Company Main Regulatory Changes since 2002.

In accordance with Argentine Central Bank rules, the effects of certain regulatory changes that occurred in 2004 have been recorded under the equity account Adjustments to Prior Fiscal Years Results. As a result of these regulatory changes, and for comparison purposes, previous fiscal years' figures in this annual report have been restated, when corresponding, to reflect these adjustments. For further information, please see note 38 to our financial statements.

As of December 31, 2004, and December 31, 2005, the Bank's Bogar, secured bonds issued by the *Fondo Fiduciario para el Desarrollo Provincial* (Fiduciary Fund for Provincial Development or FFDP) in the provincial governments' debt exchange established by Decree No.1579/02, were recorded under Government Securities, while in previous years they were recorded under Loans. For comparative purposes, throughout this annual report (except as noted) the holdings of Bogar were reclassified as government securities as of December 31, 2003. For more information see Item 4. Information on the Company Selected Statistical Information Loan Portfolio.

Unless otherwise indicated, we have derived all deposit and loan market shares and other financial industry information from information published by the Argentine Central Bank.

This annual report contains forward-looking statements that involve substantial risks and uncertainties, including, in particular, statements about our plans, strategies and prospects under the captions Item 4. Information

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on the Company Business Overview, Item 5. Operating and Financial Review and Prospects Item 5A. Operating Results and Item 5. Operating and Financial Review and Prospects Item 5B. Liquidity and Capital Resources. All statements other than statements of historical facts contained in this annual report (including statements regarding our future financial position, business strategy, budgets, projected costs and management's plans and objectives for future operations) are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of such words as may, will, expect, intend, estimate, anticipate, believe or continue or similar terms. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we do not provide any assurance with respect to these statements. Because these statements are subject to risks and uncertainties, actual results may differ materially and adversely from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially and adversely include but are not limited to:

changes in general economic, business, political, legal, social or other conditions in Argentina or elsewhere in Latin America;

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

our inability to obtain additional debt or equity financing on attractive conditions, which may limit our ability to fund existing operations and to finance new activities; and

the other factors discussed under Item 3. Key Information Risk Factors in this annual report.

You should not place undue reliance on forward-looking statements, which speak only as of the date that they were made. Moreover, you should consider these cautionary statements in connection with any written or oral forward-looking statements that we may issue in the future. We do not undertake any obligation to release publicly any revisions to forward-looking statements after completion of this annual report to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

In light of the risks and uncertainties described above, the forward-looking events and circumstances discussed in this annual report might not occur and are not guarantees of future performance.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

§ The following table presents summary historical financial and other information about us as of the dates and for the periods indicated.

§ The financial statements for the fiscal years ended December 31, 2004 and December 31, 2005 do not include any effect for inflation accounting. The financial statements for the fiscal year ended December 31, 2003 include the effects of inflation accounting through February 28, 2003. The financial statements as of and for the fiscal year ended December 31, 2002, and the financial data for prior periods have been restated in constant pesos of February 28, 2003.

§ The selected consolidated financial information as of December 31, 2005 and December 31, 2004, and for the fiscal years ending December 31, 2005, 2004 and 2003 has been derived from our audited consolidated financial statements included in this annual report.

§ The selected consolidated financial information as of December 31, 2003, 2002 and 2001 has been derived from our audited consolidated financial statements not included in this annual report.

§ We prepare our financial statements in accordance with Argentine Banking GAAP, which differs from Argentine GAAP and U.S. GAAP. Our audited consolidated financial statements contain a description of the principal differences between Argentine GAAP and Argentine Banking GAAP and a reconciliation to U.S. GAAP of our shareholders' equity as of December 31, 2005, 2004 and 2003, and our net income for the three years ended December 31, 2005. See notes 40 and 41 to our audited consolidated financial statements included in this annual report.

§ You should read this data in conjunction with Item 5. Operating and Financial Review and Prospects and our audited consolidated financial statements.

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	Fiscal Year Ended December 31,					
	2005	2005	2004	2003	2002	2001
	<i>(in millions of U.S. dollars, except as noted)⁽¹⁾</i>	<i>(in millions of pesos, except as noted)⁽¹⁾</i>			<i>(in millions of February 28, 2003, constant pesos, except as noted)⁽¹⁾</i>	
Consolidated Income Statement in Accordance with Argentine Banking GAAP						
Financial Income	791.2	2,398.6	1,391.6	1,452.1	5,757.3	3,586.8
Financial Expenses	608.9	1,845.9	1,167.4	1,304.8	4,560.4	2,126.1
Net Financial Income ⁽²⁾	182.3	552.7	224.2	147.3	1,196.9	1,460.7
Provision for Losses on Loans and Other Receivables	25.3	76.7	190.2	286.4	1,648.6	1,008.5
Income / (Loss) before Taxes	41.8	126.5	(66.1)	(221.6)	(2,812.9)	423.7
Income Tax	(6.4)	(19.3)	(43.8)	(0.6)	(66.4)	(159.1)
Net Income / (Loss) before the Absorption	35.4	107.2	(109.9)	(222.2)	(2,879.3)	264.6
Absorption Approved in the Annual Shareholders Meeting					1,370.0	
Net Income / (Loss) after the Absorption	35.4	107.2	(109.9)	(222.2)	(1,509.3)	264.6
Net Income / (Loss) after the Absorption per Share (in Pesos) ^(*)	0.028	0.086	(0.093)	(0.203)	(1.382)	0.242
Cash Dividends per Share (in Pesos)						
Book Value per Share (in Pesos)	0.432	1.310	1.224	1.299	1.465	2.841
Stock Dividends per Share (in Pesos)						
Amounts in Accordance with U.S. GAAP						
Net Income / (Loss)	241.1	731.0	(1.1)	731.3	422.5	(8,638.4)
Adjusted Net Income (Loss) per Share (in Pesos)	0.194	0.589	(0.001)	0.669	0.386	(7.907)
Book Value / (Deficit) per Share (in Pesos)	(0.565)	(1.714)	(2.574)	4.077	(4.964)	(5.390)
Financial Income	976.0	2,958.7	1,448.7	2,752.0	2,613.1	3,569.3
Financial Expenses	608.9	1,845.9	1,167.4	1,502.9	4,560.4	2,125.1
Net Financial Income / (Loss)	367.1	1,112.8	281.3	1,249.1	(1,947.3)	1,444.2

Provision for Losses on Loans and Other Receivables	37.4	113.5	210.0	274.6	928.8	4,731.0
Income Tax	6.4	19.3	35.4	(38.4)	66.5	212.9
Consolidated Balance Sheet in Accordance with Argentine Banking GAAP						
Cash and Due from Banks	343.5	1,041.2	988.7	826.2	576.8	1,139.9
Government Securities, Net	1,968.5	5,967.4	5,518.0	6,407.1	1,786.5	273.3
Loans, Net	3,481.8	10,555.2	8,438.2	7,506.5	10,682.1	20,107.2
Total Assets	8,456.4	25,635.7	23,650.6	22,822.9	23,864.1	27,877.6
Deposits	2,778.1	8,421.7	6,756.9	5,584.0	5,209.4	13,502.8
Other Funds ⁽³⁾	5,141.7	15,587.2	15,374.2	15,819.5	17,053.9	11,271.3
Total Shareholders' Equity	536.6	1,626.8	1,519.5	1,419.4	1,600.8	3,103.5
Average Total Assets ⁽⁴⁾	7,995.4	24,238.1	22,725.9	22,530.3	29,500.9	31,967.4
Percentage of Period-end Balance Sheet Items Denominated in Dollars:						
Loans, Net of Allowances		9.84	10.43	9.36	9.11	86.34
Total Assets		26.55	32.92	36.39	43.20	80.05
Deposits		15.55	20.89	29.67	40.08	81.15
Total Liabilities		25.81	29.57	36.87	43.98	74.07
Amounts in Accordance with U.S. GAAP						
Trading Securities	251.5	762.4	564.7	328.8	35.5	141.9
Available-for-Sale Securities	1,526.4	4,627.3	3,923.1	3,727.9	1,380.6	2,914.3
Total Assets	6,580.7	19,949.3	17,007.3	14,835.2	14,821.9	21,061.8
Total Liabilities	7,282.7	22,077.6	20,203.0	19,288.5	20,244.2	26,949.6
Shareholders' Equity (Deficit)	(702.1)	(2,128.3)	(3,195.7)	(4,453.3)	(5,422.3)	(5,887.8)

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	Fiscal Year Ended December 31,				
	2005	2004	2003	2002	2001
	<i>(in millions of pesos, except as noted)⁽¹⁾</i>			<i>(in millions of February 28, 2003, constant pesos, except as noted)⁽¹⁾</i>	
Selected Ratios					
Ratios in Accordance with Argentine Banking GAAP					
<i>Profitability and Efficiency</i>					
Net Yield on Interest Earning Assets ⁽⁵⁾	2.38%	1.02%	0.89%	3.66%	6.54%
Financial Margin ⁽⁶⁾	2.53	1.08	0.71	4.44	5.36
Return on Average Assets ⁽⁷⁾	0.59	(0.42)	(0.95)	(6.04)	0.90
Return on Average Shareholders Equity ⁽⁸⁾	6.83	(7.32)	(14.53)	(62.06)	8.67
Net Income from Services as a Percentage of Operating Income ⁽⁹⁾	48.65	66.06	73.08	24.95	39.22
Efficiency ratio ⁽¹⁰⁾	72.56	94.46	113.91	61.58	57.00
<i>Capital</i>					
Shareholders Equity as a Percentage of Total Assets	6.35%	6.42%	6.22%	6.71%	11.13%
Total Liabilities as a Multiple of Shareholders Equity	14.76x	14.56x	15.08x	13.91x	7.98x
Total Capital Ratio ⁽¹¹⁾	20.78%	25.11%			17.18%
<i>Liquidity</i>					
Cash and Due from Banks as a Percentage of Total Deposits	12.36%	14.63%	14.80%	11.07%	8.44%
Loans, Net as a Percentage of Total Assets	41.17	35.68	32.89	44.76	72.13
<i>Credit Quality</i>					
Past Due Loans ⁽¹²⁾ as a Percentage of Total Loans	2.34%	4.97%	11.70%	9.93%	4.96%
Non-Accrual Loans ⁽¹³⁾ as a Percentage of Total Loans	3.50	7.74	15.04	13.08	6.74
Allowance for Loan Losses as a Percentage of Non-accrual Loans ⁽¹³⁾	111.90	90.51	90.61	104.45	73.93
Net Charge-Offs ⁽¹⁴⁾ as a Percentage of Average Loans	1.49	3.77	1.98	1.89	2.20
Ratios in Accordance with U.S. GAAP					
<i>Capital</i>					
Shareholders Equity (deficit) as a Percentage of Total Assets	(10.67)%	(18.79)%	(30.02)%	(36.58)%	(27.96)%
Total Liabilities as a Multiple of Total Shareholders Equity	(10.37)x	(6.32)x	(4.33)x	(3.73)x	(4.58)x
<i>Liquidity</i>					

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Loans, Net as a Percentage of Total Assets	50.15%	43.91%	43.32%	55.03%	61.11%
<i>Credit Quality</i>					
Allowance for Loan Losses as a Percentage of Non-Accrual Loans	139.49%	84.75%	85.98%	101.48%	136.89%
<i>Inflation and Exchange Rate</i>					
Inflation (Deflation) ⁽¹⁵⁾ ⁽¹⁶⁾	10.69%	7.84%	2.03%	118.44%	(4.30)%
Currency Devaluation Rate ⁽¹⁶⁾ (%)	1.94	1.39	(12.79)	236.30	
CER ⁽¹⁷⁾	11.75	5.48	3.66	40.53	
CVS ⁽¹⁸⁾		5.32	15.85	0.83	

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(*) *Before the loss absorption mechanism established by Argentine Central Bank Communiqué A 3800, net loss per share for fiscal year 2002 was Ps.(2.636).*

(1) *The exchange rate used to convert the December 31, 2005 amounts into U.S. dollars was Ps.3.0315 per US\$1.00. All amounts are stated in millions of pesos, except inflation, percentages, ratios, multiples and per-share data.*

(2) *Net financial income represents mainly income from interest on loans and other receivables from financial brokerage plus net income from government and corporate debt securities, including gains and losses, less interest on deposits and other liabilities from financial intermediation and monetary loss from financial brokerage. For fiscal years 2002, 2003, 2004 and 2005, it also includes the CER adjustment.*

(3) *Includes mainly liabilities with the Argentine Central Bank, other banks and international entities.*

(4)

The average balances of assets and liabilities, including the related interest receivable and payable are calculated on a daily basis for Banco Galicia and for Galicia Uruguay, as well as for Tarjetas Regionales S.A consolidated with its operating subsidiaries, and on a monthly basis for Grupo Galicia and its non-banking subsidiaries.

- (5) *Net interest earned divided by interest-earning assets. For a description of net interest earned, see Item 4. Information on the Company Selected Statistical Information Interest-Earning Assets Net Yield on Interest-Earning Assets.*
- (6) *Financial margin represents net financial income divided by average interest-earning assets.*
- (7) *Net income plus minority interest plus unrealized valuation difference as a percentage of average total assets. Before the loss absorption mechanism allowed by Argentine Central Bank Communiqué A 3800, this ratio was (10.68)% for fiscal year 2002.*
- (8) *Net income plus unrealized valuation difference as a*

*percentage of average
shareholders equity.
Before the loss
absorption mechanism
allowed by Argentine
Central Bank
Communiqué A 3800,
this ratio was (118.40)
% for fiscal year 2002.*

*(9) Operating income is
defined as net financial
income plus net income
from services plus
monetary loss from
financial intermediation
plus the unrealized
valuation difference.
Excluding from the
calculation the
unrealized valuation
difference (in
accordance with
Argentine Central Bank
Communiqué A
3703), this ratio was
278.90% for fiscal year
2002.*

*(10) Administrative expenses
net of the monetary gain
(loss) from operating
expenses as a percentage
of operating income as
defined above. Excluding
from the calculation the
unrealized valuation
difference (in
accordance with
Argentine Central Bank
Communiqué A
3703), this ratio was
688.34% for fiscal year
2002.*

*(11) Compliance with the
capital adequacy rules of
the Argentine Central
Bank was suspended
during 2002 and 2003
(including December 31,*

2002, and December 31, 2003). See

Item 4. Information on the Company Selected Statistical

Information Regulatory Capital.

(12) Past-due loans consist of amounts of entire loan principal and interest receivable for those loans for which either the principal or any interest payment is 91 days or more past due.

(13) Non-Accrual loans are defined as those loans falling into the following categories under the Argentine Central Bank's classification system: (a) consumer: defective fulfillment, difficulty in recovery, uncollectible or uncollectible for technical reasons and (b) commercial: with problems, high risk of insolvency, uncollectible or uncollectible for technical reasons.

(14) Charge-offs plus direct charge-offs minus bad debts recovered.

(15) As measured by changes in the WPI in Argentina.

(16) Source: INDEC.

(17) The CER is the Coeficiente de Estabilización de Referencia, an adjustment coefficient based on changes in the

consumer price index, which became effective February 3, 2002. See Item 4. Information on the Company Main Regulatory Changes since 2002.

(18) The CVS is the Coeficiente de Variación Salarial, an adjustment coefficient based on the variation of salaries, which was effective between October 1, 2002 and March 31, 2004. See Item 4. Information on the Company Main Regulatory Changes since 2002. The percentage disclosed for FY 2004 corresponds to the variation between January 1, 2004 and March 31, 2004.

Exchange Rate Information

On January 6, 2002, the Argentine Congress enacted Law No. 25,561 (the Public Emergency and Foreign Exchange System Reform Law, the Public Emergency Law), abandoning over 10 years of fixed U.S. dollar peso parity. After devaluing the peso and setting the official exchange rate at Ps.1.4 per US\$1.0, on February 11, 2002, the Argentine Government allowed the peso to float. The shortage of dollars and their heightened demand caused the peso to devalue significantly in the first half of 2002. Since mid 2002, the peso appreciated versus the dollar. There can be no assurance that the peso will not depreciate in the future.

The following table sets forth the annual high, low, average and period-end exchange rates for U.S. dollars for the periods indicated, expressed in pesos per dollar and not adjusted for inflation.

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	Exchange Rate ⁽¹⁾			Period-End
	High	Low	Average ⁽²⁾	
2000	1.0000	1.0000	1.0000 ⁽³⁾	1.0000
2001	1.0000	1.0000	1.0000 ⁽³⁾	1.0000
2002	3.9000	1.0000	3.0724 ⁽³⁾	3.3630
2003	3.3625	2.7485	2.9491 ⁽³⁾	2.9330
2004	3.0718	2.8037	2.9415 ⁽³⁾	2.9738
2005	3.0523	2.8592	2.9233 ⁽³⁾	3.0315
November 2005	2.9952	2.9405	2.9672	2.9735
December 2005	3.0523	2.9700	3.0145	3.0315
January 2006	3.0637	3.0305	3.0460	3.0637
February 2006	3.0757	3.0625	3.0689	3.0728
March 2006	3.0845	3.0650	3.0763	3.0808
April 2006	3.0828	3.0367	3.0663	3.0438
May 2006	3.0868	3.0367	3.0535	3.0868

(1) *Until June 2002, asked closing quotations as quoted by Banco Nación. Since July 2002, closing reference exchange rate as published by the Argentine Central Bank.*

(2) *Daily average of closing quotations, unless otherwise noted.*

(3) *Based on monthly averages.*

As of June 22, 2006, the exchange rate was Ps.3.0753 for US\$1.

Risk Factors

You should carefully consider the risks described below in addition to the other information contained in this annual report. We also may face risks and uncertainties that are not presently known to us or that we currently deem immaterial, which may impair our business.

Risk Factors Relating to Argentina

Substantially all of our operations, property and customers are located in Argentina. Accordingly, the quality of our loan portfolio and our financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing from time to time in Argentina. In general, you take more risk when you invest in

the securities of issuers in emerging markets such as Argentina than when you invest in the securities of issuers in the United States and certain other markets.

The current growth and stabilization may not be sustainable, which could adversely affect the economy, the financial system and our financial condition and prospects

During 2001 and 2002, Argentina went through a period of great political, economic and social instability, which led to a significant decline in economic activity, a banking crisis, the default on part of Argentina's sovereign debt, the devaluation of the Argentine peso in January 2002 and high inflation during that year. In the second half of 2002, the Argentine Government managed to stabilize the economy, which began to grow at high rates. This growth with macroeconomic stability has continued to date.

If the current administration is not capable of implementing economic policies needed to turn the economic growth Argentina is experiencing into a sustainable development process in the long run, or if it is not capable of keeping inflation under control, there is a considerable risk that political and economic instability could reemerge. This would likely have a negative impact on the Argentine economy and on the financial system, including our operations and financial condition.

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Inflation may rise from current levels and undermine the economy and our financial condition

In 2005, inflation as measured by the variation in consumer prices was 12.3%, while in 2004 and 2003 it had been 6.1% and 3.5%, respectively. This implies that, during 2005, inflation practically doubled that of the prior year, and the same occurred in 2004 as compared to 2003.

Inflation may keep on increasing in Argentina, due to the fact that the country's economy is growing at very high rates, which implies strong aggregate demand increases, in a context in which relative prices still require certain adjustments, as not all economic sectors have been able to pass through the impact of the devaluation of the peso into prices to the same extent. In addition, the strong post-crisis growth, for more than three years, has led to an increasing use of installed capacity and to a progressive reduction of the output gap existing immediately after the crisis. Finally, even though aggregate investment has been growing, the effects of such growth on the aggregate supply are not immediate.

In the past, inflation has materially undermined the Argentine economy and the Government's ability to create conditions that favor economic growth. In addition, high inflation or high volatility in inflation rates would negatively and materially affect the business volume of the financial system and preclude the development of financial intermediation activities. This could negatively affect the overall level of economic activity and employment. High inflation would also undermine Argentina's foreign competitiveness by diluting the positive effects of the peso devaluation, with the same negative effects on the level of economic activity and employment. All these factors would also have a negative impact on our business and financial condition.

Argentina's ability to obtain financing from international markets and direct-foreign investment is actually limited, which may have negative effects on the level of economic activity

In the first half of 2005, Argentina offered an exchange to restructure its sovereign debt that had been in default since early 2002. As reported by the Government, the exchange offer was accepted by holders of 76% of the debt subject to the restructuring. However, holders of approximately US\$20 billion of debt, mainly from the United States, Italy and Germany, did not participate in the exchange offer and initiated legal actions against Argentina. New lawsuits could be brought in the future. Additionally, foreign shareholders of certain Argentine companies have initiated legal actions for significant amounts before the International Centre for Settlement of Investment Disputes (ICSID), alleging that certain measures implemented by the Government during and in respect of the 2001-2002 crisis are inconsistent with the fair and equitable treatment standards set forth in various bilateral treaties to which Argentina is a party.

Argentina's default, the delay to complete the restructuring of its defaulted debt, including the existence of holdout creditors who did not accept the exchange offer, and the above mentioned litigation initiated against Argentina, could prevent the Argentine Government and the country's private sector from obtaining fluid access to financing from the international capital markets and direct-foreign investment. Additionally, as of the date of this annual report, ICSID has ordered Argentina to pay certain small amounts in connection with certain claims brought before such organization. However, the claims initiated before this organization and the lawsuits initiated by holders who did not participate in the exchange offer may result in material judgments against Argentina, as well as in attachments of or injunctions against assets of Argentina that the Government intended for other purposes. Therefore, the government may not have the financial resources necessary to promote growth and a better income distribution, and investment from the private sector required for the same purposes could materialize in amounts lower than those necessary due to the lack of financing.

If Argentina does not fully recover its ability to access financing from international markets and direct-foreign investment, there is a risk that it may not dispose of sufficient capital in order to reinstate an investment cycle and to maintain a high pace of economic growth. The country's fiscal situation could be affected, which could lead to higher inflation and could negatively affect the Government's ability to implement economic policies that would foster economic growth and a better income distribution. If a sustained growth cycle is not achieved, political, economic and social instability could occur again in the near future. All of these events could have a material adverse effect on the Argentine economy's and our financial condition and prospects.

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Significant devaluation of the peso may adversely affect the Argentine economy and our operations

Despite the positive effects of the real depreciation of the peso on the competitiveness of certain sectors of the Argentine economy, it has also resulted in far-reaching negative impacts on the Argentine economy and on businesses and individuals' financial condition. As an example, the peso devaluation had a negative impact on the ability of the Argentine Government and Argentine companies and financial institutions to repay their foreign currency-denominated debt, led to very high inflation in 2002 and significantly reduced real wages. It also had a negative impact on economic sectors whose business is predominantly dependent on domestic demand, such as public services and financial institutions, and made necessary a series of measures to compensate the financial system for the effects of the asymmetric pesification.

A further significant devaluation of the peso, would have the same negative effects on the Argentine Government, the financial system, companies and individuals, and would have a negative impact on us.

Argentina's economy and its real, financial and securities market remain vulnerable to external shocks which could have an adverse effect on the country's economic growth and on our prospects

Financial and securities markets in Argentina are influenced, to varying degrees, by economic and market conditions in other emerging market countries. Although economic conditions vary from country to country, investors' reactions to the events occurring in one country may substantially affect capital flows into and securities of issuers in other similar countries, including Argentina. Lower capital inflows and declining securities prices negatively affect the real economy through higher interest rates or currency volatility.

In the past, Argentina's economy has been adversely affected by economic developments in other emerging market countries. Among others, the political and economic events that occurred in Mexico in 1994 and the collapse of several Asian economies between 1997 and 1998, to cite two well-known emerging market downturns of the 1990s, adversely impacted the Argentine economy. Similar developments can be expected to affect the Argentine economy in the future. Argentina's economy may be adversely impacted by events affecting other emerging markets.

In addition, Argentina may also be affected by economic conditions of major trade partners, such as Brazil, or countries with developed economies, such as the United States, that are significant trade partners and/or have influence over world economic cycles. For instance, if interest rates rise significantly in developed economies, including the United States, Argentina and other emerging market economies could find it more difficult and expensive to borrow capital and refinance existing debt, which would negatively affect their economic growth. If these countries were also Argentina's trade partners, the negative effect would be increased through a decrease in Argentine exports.

A decline in international prices for Argentina's main commodity exports could have an adverse effect on Argentina's economic growth and on our prospects

Argentina's financial recovery from the 2001-2002 crisis has been significantly assisted by the increase in prices for Argentina's main commodity exports, such as soy. These high commodity prices have contributed to the increase in Argentine exports since the third quarter of 2002 and to high Government revenues from taxes on exports. Even though the prices of the primary goods that Argentina exports decreased from those of 2002 and 2003, they are still at historically high levels. If international commodity prices decrease significantly, the growth of the Argentine economy, as well as its exports, could be adversely affected. Such occurrence would have a negative impact on the levels of Government revenues and the Government's ability to service its debt, and could either generate recessionary or inflationary pressures, depending on the Government's reaction. Either of these results would negatively impact our financial condition and prospects.

The foreign exchange market is subject to controls and the Argentine Central Bank could implement more restrictive measures that could prevent Argentine debtors from repaying their debt with foreign creditors

At the end of 2001 and in 2002, the Government and the Argentine Central Bank established controls over the foreign exchange market and over transfers of funds abroad, substantially limiting the ability of the companies to retain foreign currency or make debt payments abroad. The existence of such controls and the prevailing significant

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surplus in the country's trade balance (which resulted in greater availability of foreign currency) contributed to the appreciation of the peso and to the increased availability of foreign currency, which resulted in the easing of many of these restrictions.

However, restrictions still exist that limit access to the foreign exchange market by residents and non-residents and their ability to make transfers of foreign currency and payments abroad. In addition, the Government issued a decree in June 2005 that established new controls and restricts capital inflows. For more information, see Item 4. Information on the Company Main Regulatory Changes since 2002 Foreign Exchange Market.

If imposed in an economic environment where access to local capital is substantially constrained, these controls could have a negative effect on the economy, and on our business, by limiting economic agents' ability to obtain financing. Moreover, Argentina could again establish restrictions on the foreign exchange market and on transfers abroad, among others, in the future, in response to significant capital outflows or to a significant depreciation of the peso. These restrictions may hamper foreign investors' ability to receive payments in connection with debt or equity securities of Argentine issuers such as us or Banco Galicia.

Volatility of the regulatory environment in Argentina could continue to be high and future Argentine governmental policies could adversely affect the Argentine economy as a whole as well as financial institutions including us

The Argentine Government has historically exercised significant influence over the country's economy, and financial institutions in particular have operated in a highly regulated environment for extended periods of time. Since December 2001, the Argentine Government has promulgated numerous far-reaching laws and regulations affecting the economy in general and financial institutions in particular. Laws and regulations currently governing the economy or the financial sector may change in the future. Any future changes in the regulatory environment and government policies may adversely affect financial institutions in Argentina, including us, as well as their business, financial condition or results of operations or their ability to service their foreign currency debt obligations. The lack of a clear and stable regulatory environment imposes significant limitations on the operation of the banking system, and creates uncertainties as to our future financial condition and results of operations.

Government measures may adversely affect the Argentine economy as a whole, as well as different economic agents, including us

During the 2001-2002 crisis, Argentina experienced social and political turmoil, including civilian unrest, riots, looting, nationwide protests, strikes and street demonstrations. Despite Argentina's ongoing economic recovery and relative stabilization, the social and political tensions and high levels of poverty and unemployment continue. Future government policies to preempt or in response to social unrest may include nationalization, forced renegotiation or modification of existing contracts, suspension of the enforcement of creditors' rights, new taxation policies, including royalty and tax increases and retroactive tax claims, and changes in laws and policies affecting foreign trade and investment. Such policies could destabilize the country and adversely and materially affect the economy and thereby our business.

Risk Factors Relating to the Argentine Financial System

The recovery of the financial system, of which we are a part, is dependent upon the ability of financial institutions to maintain and increase depositors' confidence

The measures implemented by the Argentine Government in the last quarter of 2001 and during the first half of 2002, mainly the limitation on the right of depositors to freely withdraw their money from banks and the pesification and restructuring of their deposits, undermined the confidence of depositors and investors in the Argentine financial system and in all financial institutions, and generated significant opposition among depositors, frustrated by losses incurred with respect to their savings.

Although the financial system as a whole has seen a substantial recovery in deposits (mostly transactional deposits) since 2002, this trend may not continue or the deposit base of the Argentine financial system, including the

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Bank s, may be affected in the future by adverse economic, social and political events. If depositors' confidence in the financial system was adversely affected again, the manner in which financial institutions within the financial system, including us, conduct their business would be adversely impacted, mainly as the reduced depositor confidence would hamper their ability to operate as financial intermediaries.

The negative consequences of the 2001-2002 crisis on the profile and activities of the financial system could not be overcome

Immediately after the 2001 and 2002 crisis, the financial system practically ceased acting as an intermediary between savings and credit. Private sector deposits resumed growth on the second half of 2002, increasing 24.1% in 2003, 13.6% in 2004, and 21.4% in 2005. Loans to the private sector began to increase in 2004, increasing 24.9% in that year and 38.5% in 2005. Although financial penetration in Argentina, measured in terms of total financial system's private-sector deposits and loans as a percentage of the Gross Domestic Product (GDP), has increased after the crisis, it is still low when compared with international levels. It is also still lower than that recorded in the country before the crisis, mainly in the case of loans to the private sector, which represented approximately 8.7% of the GDP at the end of 2005, compared to approximately 23.0% at the end of 1999.

The depth of the crisis and its effects on depositors' confidence in the financial system create significant uncertainties as to the likelihood that the financial system will fully recover its ability to act as an intermediary between savings and credit. Despite the fact that loan origination has resumed since 2004, the period of time necessary for the Argentine financial system's credit activity to return to its pre-crisis levels remains uncertain. Even though deposits in the financial system and with us resumed growth in mid-2002, most new deposits are either sight or very short-term time deposits. The sources of medium and long-term funding for financial institutions are currently limited, and mainly arise from loan portfolio securitization, especially since 2004, which implies a growing commercial banking disintermediation. Due to these reasons, and also to the characteristics of credit demand, loan expansion since 2004 was based on short-term loans to individuals and companies.

For the financial system to be able to reach an adequate intermediation level and, at the same time, develop a medium and long-term credit business without assuming excessive risks in terms of maturity gaps, the growth in deposits and loans should persist over time, the terms of assets and liabilities in the financial system should extend, the public's confidence in the Argentine financial system should recover levels enabling a substantial part of the country's savings to be channeled to the financial system, and a process of sustained growth with macroeconomic stability should consolidate. These trends may not materialize and, even if they do, financial intermediation activities may not develop to the extent needed nor attain the necessary volume so as to allow the income generation capacity of Argentine financial institutions, including us, to improve.

Under these circumstances, for an undetermined period of time, the scale of operations of Argentine-based financial institutions, including us, their business volume, the amount of their assets and liabilities and their income generation capacity, could remain lower than pre-crisis levels.

Financial institutions' asset quality deteriorated significantly after the 2001-2002 economic crisis, and the current improvement could be interrupted if the Argentine economy stops growing

The capacity of Argentine private-sector debtors to repay their loans, already impaired by the deep and persistent recession that began in the second half of 1998, deteriorated significantly in 2001 and in 2002, as a result of the economic crisis and the virtual paralysis in economic activity in late 2001 and early 2002. Although since 2003 and up to the date of this annual report, the private sector has recovered and the quality of bank loan portfolios improved significantly, as a result of the country's high economic growth and of a better overall economic environment together with the restructuring of many private sector companies' local or foreign debt, certain sectors of activity were more favored by the post-crisis relative prices structure than others. The current improvement of the quality of the financial system's private-sector loan portfolio may not continue and the Argentine private sector may not fully recover from the crisis.

In addition, as a result of the crisis and in spite of the Argentine Central Bank's measures to limit the financial system's exposure to the public sector, certain financial institutions' assets, as well as ours, currently include a substantial exposure to debt instruments of the Argentine public sector. Thus, the value of a large portion

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of the assets held by certain Argentine banks, as well as those banks' income generation capacity, is currently dependent on the Argentine public sector's repayment capacity, which is tied, among others, to the continuity of economic growth, both of which could be undermined in the future.

An increasing number of judgments against financial institutions, in connection with the corralón, may result in further deterioration of financial institutions' deposit base and liquidity, including ours

As a consequence of measures adopted by the Argentine Government in connection with the pesification of deposits originally denominated in dollars and the restructuring of bank deposits, since the beginning of 2002, individuals and entities have initiated a significant number of legal actions against financial institutions, including us, mainly requesting court protection from such measures, on the basis that these measures violated constitutional and other rights (*amparo* claims). These actions have resulted in lower and appeals courts rulings that have ordered financial institutions to reimburse dollar denominated deposits, or their equivalent in pesos, at the then current free market exchange rate. These rulings have resulted in a significant withdrawal of deposits from the financial system and the Bank. In addition, *amparo* claims also resulted in significant losses for financial institutions, including us, because we had to reimburse the restructured deposits (mostly dollar-denominated deposits before pesification, referred to herein as Reprogrammed Deposits) at market exchange rates rather than at the rate at which deposits were pesified and booked. These losses have been deferred, but the Argentine Central Bank has established that the deferred asset must be amortized beginning in April 2003. The Argentine Government has not provided compensation for these losses and has expressed that it does not intend to do so.

The emergency measures implemented by the Government during and in respect of the crisis have been declared unconstitutional by most upper and lower courts. As of the date of this annual report, the Argentine Supreme Court has ruled on particular cases in connection with the pesification of deposits, declaring in one case in favor of the constitutionality of the pesification measures taken by the Argentine Government. The final resolution of similar cases is uncertain given the fact that, under Argentine law, Supreme Court rulings are not mandatory for lower courts.

If there was an increasing number of judgments against financial institutions like us, or if the Argentine Supreme Court resolved, changing its current criterion, against the constitutionality of the pesification measures, the financial system's liquidity could be adversely impacted and financial institutions, including us, could incur further significant losses.

New limitations to creditors' rights in Argentina and to the ability to foreclose on certain guarantees and collateral may adversely impact financial institutions

In order to protect debtors, which were affected by the 2001-2002 crisis, the Argentine Government passed various laws and regulations temporarily suspending the ability of creditors to foreclose on collateral and to exercise their rights pursuant to guarantees and similar instruments upon the occurrence of a default by a debtor under a financing agreement. Such regulations have restricted Argentine creditors, such as us, from initiating collection actions or lawsuits to recover on defaulted loans. Even though many of these rules have ceased to be applicable, on November 2, 2005, the Argentine Congress established a new suspension of foreclosure proceedings on certain mortgages. Under an adverse economic environment or other circumstances, the Argentine Government may pass new rules and regulations affecting the ability of creditors to enforce their rights pursuant to debt agreements, guarantees and similar instruments, which new rules and regulations may have a negative effect on the financial system's and our business.

Risk Factors Relating to us

We are a holding company, and our ability to pay cash dividends depends on the ability of our subsidiaries to pay dividends to us

We are a holding company, and as such we conduct all of our operations through our subsidiaries. As a holding company, we expect dividends or other intercompany transfers of funds from our subsidiaries to be our primary source of funds to pay our expenses and dividends. Banco Galicia is our most significant subsidiary. As of

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December 31, 2005, Banco Galicia consolidated assets represented 99.3% of our consolidated assets. While we do not anticipate conducting operations at our level, any expenses we incur, in excess of minimum levels, will reduce amounts available to be distributed to our shareholders. The ability of our subsidiaries to pay dividends and make other payments to us will depend on their results of operations and financial condition and may be restricted by, among other things, applicable corporate and other laws and regulations and agreements of our subsidiaries. In addition, our ability to pay dividends will be subject to legal and other requirements at our level.

We have not received dividends from the Bank since October 2001. In addition, Banco Galicia is restricted from paying dividends as, among others, under Argentine Central Bank regulations it must reduce its retained earnings available to be distributed as cash dividends by the difference between the market value and the carrying value of the Compensatory Bond and the Hedge Bond, after netting the legal reserve and other reserves established by Banco Galicia's bylaws. Also, the loan agreements entered into by Banco Galicia as part of its foreign debt restructuring limit its ability to pay dividends on its capital stock. See Item 8. Financial Information Dividend Policy and Dividends Dividend Policy.

We may operate finance-related businesses that have little or no regulatory supervision

We may operate finance-related businesses outside of Banco Galicia that are not regulated by the Argentine Central Bank. These businesses will be subject only to those regulatory limitations that may be applicable to them. We may enter into businesses that have little or no regulatory supervision or that entail greater risks than our existing businesses.

We are subject to corporate disclosure and accounting standards that may limit the information available to our shareholders

A principal objective of the securities laws of the United States, Argentina and other countries is to promote full and fair disclosure of all material information of companies issuing securities. However, there may be less publicly available information about us than is regularly published by or about listed companies in certain countries with highly developed capital markets, such as the United States. While we are subject to the periodic reporting requirements of the U.S. Securities Exchange Act of 1934, as amended (the Exchange Act), the periodic disclosure required of non-U.S. issuers under the Exchange Act is more limited than the periodic disclosure required of U.S. issuers. Furthermore, we are not required to comply with the U.S. Securities and Exchange Commission (SEC) proxy rules in connection with shareholders' meetings.

In addition, we maintain our financial books and records in pesos and prepare our financial statements in conformity with Argentine Banking GAAP, which differs in certain respects from Argentine GAAP and U.S. GAAP. See Item 5. Operating and Financial Review and Prospects Item 5A. Operating Results U.S. GAAP and Argentine Banking GAAP Reconciliation and note 41 to our consolidated audited financial statements included in this annual report for a description of the principal differences between Argentine Banking GAAP and U.S. GAAP.

Also, for a description of the differences between Argentine and Nasdaq corporate governance requirements, see Item 6. Directors, Senior Management and Employees Nasdaq Corporate Governance Standards.

Our shareholders may be subject to liability for certain votes of their securities

Shareholders who have a conflict of interest with us and who do not abstain from voting may be held liable for damages to us. Also, shareholders who willfully or negligently vote in favor of a resolution that is subsequently declared void by a court as contrary to Argentine law or our bylaws may be held liable for damages to us or to other third parties, including other shareholders.

U.S. holders of our class B shares may not be able to exercise preemptive and accretion rights

Under Argentine law, holders of our class B shares (including shares underlying our ADSs) have preemptive and accretion rights with respect to future issuances of class B shares. United States holders of our class

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B shares may not be able to exercise such preemptive and accretion rights unless a registration statement under the Securities Act of 1933 is effective with respect to such rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to such rights or the shares related thereto. Therefore, if we elect not to file a registration statement with respect to such rights or if an exemption from registration is not otherwise available, a United States holder of class B shares (including those underlying our ADSs) may not be able to exercise such rights. In addition, the depositary may not be able to sell such rights and distribute the proceeds thereof to a United States holder of class B shares (including those underlying our ADSs) as contemplated in the Depositary agreement, in which case such rights may lapse.

Our net position in CER-adjusted assets exposes us to increases of the real interest rate

In the course of implementing the asymmetric pesification of certain bank assets and liabilities, the Argentine Government modified the yields of the assets and the cost of the liabilities that were pesified. Fixed maximum and minimum interest rates were established for pesified assets and liabilities, respectively. In addition, the principal of those assets and liabilities was tied to the CER variation (and in certain cases to the CVS variation, which was latter discontinued) and, in most cases, maturities were extended. The terms and conditions of peso-denominated assets with the public sector and certain peso-denominated deposits were also modified.

The amendments and modifications of our assets and liabilities resulting from the Argentine Government's measures to address the economic crisis have created mismatches between our assets and liabilities in terms of currency, yield and terms. Mainly, we currently carry a net position in long-term CER adjusted assets (a coefficient based on the variation of consumer prices) bearing fixed interest rates over adjusted principal, which is funded by peso-denominated liabilities (with no principal adjustment linked to inflation), bearing market interest rates that mainly reprice in the short term. See Item 5. Operating and Financial Review and Prospects Item 5A. Operating Results Currency Composition of Our Balance Sheet. This mismatch exposes us to the fluctuations in the real interest rate, with an adverse impact on income resulting from a significant increase in the real interest rate.

Our assets are concentrated in Argentine public-sector debt instruments making our future financial condition strongly dependent on the Argentine Government's credit quality

As of December 31, 2005, our exposure to the Argentine public sector, including our position in Boden 2012 (our holdings of Boden 2012 corresponding to the Compensatory Bond, plus our right to receive Boden 2012 corresponding to the Hedge Bond, plus the Boden 2012 corresponding to the Compensatory Bond sold under repurchase agreements), amounted to Ps.16,414.5 million, representing 64.0% of our total assets. As of the same date, our net exposure to the public sector (excluding liabilities with the Argentine Central Bank and without taking into account the Bank's deposits in the Argentine Central Bank), amounted to Ps.7,802.6 million, representing 30.4% of our total assets.

The value of our assets, our income and cash flow generation capacity and our future financial condition strongly depend on the Argentine Government's ability to comply with its payment obligations. In turn, the ability of the Argentine Government to comply with its payment obligations with respect to such public-sector instruments is dependent on, among other things, its ability to establish an economic policy that is successful in promoting sustainable economic growth in the long run, generating tax revenues and controlling public expenses.

We carry a significant portion of our public-sector assets at values that do not reflect their market value, which is substantially lower than their respective book value

We carry our public-sector assets under Argentine Banking GAAP, in accordance with Argentine Central Bank valuation rules, as explained under Item 4. Information on the Company Selected Financial Information Government and Corporate Securities Valuation, and Item 5A. Operating Results Critical Accounting Policies Government Securities and Other Accounts Receivable with the Government. The book values of our holdings of Bogar and Discount Bonds and of our position in Boden 2012 are greater than their respective quoted market values.

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The estimated difference between the aggregate book value of the above mentioned assets and their respective aggregate market value as of December 31, 2005, amounted to Ps.1,338.9 million, as explained under Item 4.

Information on the Company Selected Financial Information Government and Corporate Securities.

As market conditions change, adjustments to the market value of the above mentioned assets are not reflected in our financial condition. Future sales or settlements of these assets will reflect the market conditions at the time and may result in losses, representing the difference between the settlement amount and the then carrying value.

We have recorded our right to receive the Hedge Bond and our right to receive the advance from the Argentine Central Bank to purchase such Bond, as if we had already received such Bond and if we had already executed the debt agreement with the Argentine Central Bank

As described in more detail under Item 4. Information on the Company Main Regulatory Changes since 2002 Compensation to Financial Institutions For the Asymmetric Pesification and its Consequences, through several Executive Branch decrees and Argentine Central Bank regulations, in 2002, the Argentine Government established: (i) that financial institutions were entitled to receive a Compensatory Bond and a Hedge Bond as compensation for the negative impact caused on their financial condition by the asymmetric pesification carried out by the Government to face the 2001-2002 crisis, and (ii) financial institutions right to request an advance from the Argentine Central Bank to acquire the Hedge Bond. Based on such rules, we recorded our right to receive the Boden 2012 corresponding to the Hedge Bond and our right to receive the advance from the Argentine Central Bank to purchase the Hedge Bond, as if we had had the Boden 2012 in our possession and if the associated liability had been received from the Argentine Central Bank.

Even though (i) the total amount of the compensation to the Bank for the asymmetric pesification has been determined by the Argentine Central Bank and agreed upon by the Bank in early 2005, (ii) we have received the remaining Boden 2012 corresponding to the Compensatory Bond during that year, and (iii) in early 2006, we have requested from the Argentine Central Bank the advance for the purchase of most of the Boden 2012 corresponding to the Hedge Bond, such Boden 2012 is pending receipt and the advance to purchase such bond is pending execution.

Not having executed the debt agreement has had a negative economic and financial impact on our financial condition insofar as: (i) we have carried the amortization and interest payments due August 2005 of a dollar-denominated asset (the Boden 2012) and a CER adjusted liability (the associated advance from the Argentine Central Bank), with the CER adjustment having exceeded the variation of the exchange rate, and (ii) the proceeds from the August 2005 amortization and interest payments on the Boden 2012 exceeding the abovementioned advance s August 2005 amortization and interest payments, we have incurred an opportunity cost in connection with the cash difference not perceived. In addition, not having obtained the possession of the Boden 2012 has precluded us from applying the proceeds that could have been generated from a sale or a repo of these securities, to more profitable investments and from freely managing our assets and liabilities.

Further delays in the delivery of the Boden 2012 corresponding to the Hedge Bond to us and in the execution of the associated debt agreement with the Argentine Central Bank with respect to the corresponding advance are likely to cause continuing negative effects on our financial condition.

A breach of any of the covenants under the Bank s debt agreements entered into by the Bank as part of its foreign debt restructuring could result in a default in respect of the related indebtedness

The loan agreements and indenture entered into by the Bank as part of its foreign debt restructuring, include certain covenants that, among other things, restrict the Bank s ability to pay dividends on stock or purchase its stock or the stock of its subsidiaries or use the proceeds of the sale of certain assets or from the issuance of debt

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or equity securities. Some of these agreements also require that the Bank maintain specified financial ratios. A breach of any of these covenants or the Bank's inability to maintain the required ratios could result in a default in respect of the related indebtedness. In the event of a default, the relevant lenders could elect, among other options, to declare the indebtedness, together with accrued interest and other fees, to be immediately due and payable. For more information see Item 10. Additional Information Material Contracts.

It may be difficult for us to fully overcome all of the residual negative effects of the 2001-2002 crisis

It is difficult to predict whether we will be able to increase fee income and loan origination to the private sector so as to generate sufficient increased financial revenue and income from services in order for operating results to more than offset losses from the valuation of public sector assets in accordance with Argentine Central Bank rules, the amortization of *amparo* claims and the negative yield on our matched position in foreign currency resulting from the low yield of the Boden 2012 corresponding to the Compensatory Bond and the Hedge Bond. Demand for fee-related products and services as well as for credit is increasing in Argentina, together with the improved situation of the economy and the Argentine private sector, and we have an aggressive business strategy aimed at expanding our operations. However, the demand for financial products may not continue to grow or may not grow to the extent or at the pace necessary. In addition, we may not be able to increase our business volume in the necessary proportion or margins between lending and borrowing interest rates could decrease or be insufficient for our operating income to exceed the above mentioned losses.

We may not be able to increase our operating results in the required amount or at the required pace in order to more than offset the above mentioned losses, and new events in Argentina may adversely affect the Argentine economy so as to call into question our ability to continue to improve our financial condition and results of operations.

Increased competition and consolidation in the banking industry may adversely affect our operations

Although the financial system's situation has substantially improved since the 2001-2002 crisis, several consequences from the crisis persist such as a lower overall business volume as compared to pre-crisis levels, lower profits and lower internal capital generation capacity. In addition, the losses recorded in the past have reduced the financial system's shareholders' equity and the regulations in force impose increasing capital requirements, which are in addition to increasing capital requirements arising from a growing exposure to the private sector. Also there are cost pressures from growth and inflation. On the other hand, certain domestic banks, that suffered the effects of the 2001-2002 crisis to a lesser extent than large retail banks such as the Bank, have grown aggressively through acquisitions. In addition, the financial system's large retail banks, most of which are subsidiaries or branches of foreign banks that operate globally, have significantly increased their businesses and some have made important acquisitions. Considering the above, the financial system's consolidation is likely to continue. In addition, the financial system's recent growth and its current growth prospects have generated high competition from all of the banks mentioned.

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The increase in competition and consolidation may adversely affect our results of operations and our income generation capacity by reducing margins and prices and/or by generating a growing difficulty to increase our volume of operations and increase or maintain our market shares.

Item 4. Information on the Company

Organization

We were incorporated on September 14, 1999, as a stock corporation (a *sociedad anónima*) under the laws of Argentina. Our domicile is in Buenos Aires, Argentina. Under our bylaws, our corporate duration is until June 30, 2100. Our duration can be extended by resolution taken at a general extraordinary shareholders meeting. Our principal executive offices are located at Teniente General Juan D. Perón 456, Second Floor, (1038) Buenos Aires, Argentina. Our telephone number is (54-11) 4343-7528.

Our agent for service of process in the United States is CT Corporation System, presently located at 111 Eighth Avenue, 13th Floor, New York, New York 10011.

Organizational Structure

The following table illustrates our organizational structure as of December 31, 2005. Percentages indicate the ownership interests held. All of the companies shown in the chart are incorporated in Argentina, except for:

- § Galicia Uruguay, incorporated in Uruguay and currently not an operating financial institution;
- § Galval Agente de Valores S.A. (Galval), incorporated in Uruguay;
- § Galicia Pension Fund Ltd. and Galicia (Cayman) Ltd. (Galicia Cayman), incorporated in the Cayman Islands;
- § Net Investment BV (in liquidation), incorporated in the Netherlands; and
- § Tradecom International N.V. (in liquidation), incorporated in the Netherlands.

Since February 13, 2002, Galicia Uruguay's activities have been suspended and in June 2004, the Uruguayan authorities resolved to maintain the authorization to operate granted by the Executive Branch of Uruguay and to revoke the authorization to operate as a commercial bank granted by the Central Bank of Uruguay. See Business Overview Banco Galicia Banco Galicia Uruguay S.A. and Galicia (Cayman) Ltd.

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- (1) Aguas
Provinciales de
Santa Fe S.A.
12.5%; Inversora
Diamante S. A.
12.5%; Electrigal
S.A. 12.5%;
Inversora
Nihuiles S.A.
12.4991%;
Correo Argentino
S.A. 11.77%;
Aguas
Cordobesas S.A.
10.833%; Aguas
Argentinas S.A.
8.26%; A.E.C.
S.A. 7.059%;
Banelco S.A.
18.95%; Galicia
Inmobiliaria S.A.
12.5%; Alfer
S.A. (in
liquidation)
9.8024%;
Interbanking
S.A. 9.09%;
Finanban S.A.
6.67%;
Compensadora
Electrónica S.A.
6.2797%;
Seguros de
Depósitos S.A. ()
Sedesa)
6.1992%;
Argencontrol
S.A. 5.766%;
Visa S.A. 5.0%;
Garbin S.A.
4.9085%;
Corporación
Interamericana
para el
Financiamiento
de Infraestructura
S.A. 1.79%;
Mercado Abierto
Electrónico S.A.

1.4851%; Banco
Latinoamericano
de Exportaciones
S.A. 0.10%;
S.W.I.F.T. S.C.
0.02%.

When we refer to our business we mean the businesses of Grupo Galicia, Galicia Warrants S.A., Sudamericana Holding S.A. (Sudamericana) and its subsidiaries, Net Investments S.A. and its subsidiaries, Galval, and Banco Galicia consolidated with Galicia Uruguay and its subsidiaries, Tarjetas Regionales S.A. and its subsidiaries, Galicia Valores S.A. Sociedad de Bolsa, and Galicia Factoring y Leasing S.A. (collectively, the Bank or Banco Galicia).

After the end of the fiscal year, the Bank agreed to sell its interests in Inversora Nihuiles S.A. and Inversora Diamante S.A. See Capital Investments and Divestitures.

In addition, after the end of the fiscal year, Tradecom Brazil S.A. ceased to be a subsidiary. See Business Overview Net Investment S.A.

History

We were formed as a financial services holding company to hold all of the shares of capital stock of Banco Galicia held by members of the Escasany, Ayerza and Braun families. We were formed with an initial nominal capital of 24,000 common shares, 12,516 of which were designated class A shares and 11,484 of which were designated as class B shares. Following our formation, the holding companies which held the shares in Banco

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Galicia on behalf of the Escasany, Ayerza and Braun families were merged into us. Following the merger, we held 46.34% of the outstanding shares of Banco Galicia. Simultaneously with the merger, we increased our capital from 24,000 to 543,000,000 common shares, 281,221,650 of which were designated as class A shares and 261,778,350 of which were designated as class B shares. Following this capital increase, all of our class A shares were held by EBA Holding S.A., an Argentine corporation that is 100% owned by our controlling shareholders, and our class B shares were held directly by our controlling shareholders in an amount equal to their ownership interests in the holding companies that were merged into us.

On May 16, 2000, we held an extraordinary shareholders meeting during which our shareholders unanimously approved a capital increase of up to Ps.628,704,540 and the public offering and listings of our class B shares. All of the new common shares were designated as class B shares, with a par value of Ps.1.00. During this extraordinary shareholders meeting, all of our existing shareholders waived their preemptive rights in order to establish the basis for the exchange offer of our shares for Banco Galicia shares. At the same shareholders meeting, the shareholders determined that the exchange ratio for the exchange offer would be one class B share of Banco Galicia for 2.5 of our class B shares and one ADS of Banco Galicia for one of our ADSs. We completed the exchange offer in July 2000 with a capital increase of Ps.549,407,017. At the completion of the exchange offer, our only significant asset was our 93.23% interest in Banco Galicia. By the end of 2005, our interest was 93.60% as a result of open-market purchases.

On January 2, 2004, we held an extraordinary shareholders meeting during which our shareholders approved a capital increase through the issuance of up to 149,000,000 preferred shares, each of them mandatorily convertible into one of our class B shares on the first anniversary of the date of issuance, or cash from a preemptive and accretion rights offering to our shareholders. On May 13, 2004, we issued 149,000,000 preferred non-voting shares, with preference over the ordinary shares in the event of our liquidation, each with a face value of one peso. The preferred shares were converted into class B shares on May 13, 2005. With this capital increase, our capital grew to Ps.1,241,407,017. This capital increase was implemented due to the restructuring of the Bank's foreign debt. See

Restructuring of our Subsidiaries Debt Banco Galicia Restructuring of the Foreign Debt of the Bank's Head Office in Argentina and its Cayman Branch Terms of the Foreign Debt Restructuring.

We are a holding company whose corporate purpose is exclusively related to financial services and investment activities. Under our bylaws, we may not carry out transactions described in the Financial Entities Law (*Ley de Entidades Financieras*). Therefore, it is not our intention to compete with Banco Galicia. Rather, we seek to broaden and complement Banco Galicia's operations and businesses through holdings in companies and undertakings whose objectives are related to financial activities. Consequently, we operate in financial and related activities that Banco Galicia cannot carry out or in which it can only participate in a limited way or in those activities that would not be profitable for the Bank due to current regulations.

In September 2000, we acquired 87.5% of the capital stock and voting rights of Net Investment S.A., a company in which Banco Galicia holds the remaining 12.5% interest.

In December 2000, we acquired 37.5% of the capital stock and voting rights of Sudamericana, and Banco Galicia purchased a 12.5% interest in that company.

In August 2001, we acquired 87.5% of the capital stock and voting rights of Galicia Warrants S.A., a company in which Banco Galicia holds the remaining 12.5% interest.

In September 2001, we made a new investment in the insurance business by acquiring from Hartford Life International Ltd. (U.S.A.) and Hartford Life Ltd. (Bermuda) 50% of the capital stock and voting rights of Sudamericana. As a result of this transaction, we increased our interest in that company to 87.5%, while the remaining 12.5% continues to belong to Banco Galicia.

In January 2005, we created Galval, a securities broker based in Uruguay, with the purpose of providing trading and custody services. We own 100% of the capital and voting rights of this subsidiary.

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Restructuring of our Subsidiaries Debt

Banco Galicia

As a result of the liquidity crisis experienced by the Argentine financial system and the Bank in late 2001 and early 2002, the Bank defaulted on its foreign debt in June 2002, which debt was restructured in May 2004. In 2004, the Bank also restructured debt with the Argentine Central Bank acquired during the 2001-2002 crisis. The Argentine crisis also affected the Bank's New York Branch and its subsidiaries Galicia Uruguay and Galicia Cayman, the debt of which was also restructured between 2002 and 2003.

Approval of the Bank's Foreign Debt Restructuring and Argentine Central Bank Debt Restructuring

In accordance with Argentine Central Bank Communiqué A 3940, in order for a bank to be eligible to restructure the financial assistance received from the Argentine Central Bank during the 2001-2002 crisis for liquidity support into long-term debt under the terms established by Decree No. 739/03 and No. 1262/03, the Argentine Central Bank had to approve the terms and conditions of such bank's foreign debt restructuring proposal before December 5, 2003.

On December 3, 2003, the Argentine Central Bank informed the Bank that its board of directors had approved the terms and conditions of the proposed restructuring of the foreign debt of the Bank's Head Office and the Bank's Cayman Branch.

On February 3, 2004, the Argentine Central Bank informed the Bank that it had approved the Bank's request to adhere to the regime (established by Decree No. 739/03 and modified by Decree No. 1262/03) for the repayment of the financial assistance owed to the Argentine Central Bank, as well as the amortization schedule for that debt proposed by the Bank. The schedule was based on the minimum amortization set up by the above-mentioned applicable rules and on the proceeds of the assets eligible as collateral for such debt pursuant to these rules. Therefore, the schedule contemplated repayment of the restructured debt in 92 monthly installments beginning in March 2004. After the end of the 2005 fiscal year (during the first quarter of 2006 and the first days of April 2006), the Bank cancelled in advance a substantial amount of the financial assistance from the Argentine Central Bank, using the proceeds of sales of public-sector assets granted as collateral for such liability, which proceeds continued to constitute collateral for such liability until applied for repayment. Given that the sales modified the cash flow of the assets granted as collateral and that the payments modified the amounts due, the repayment schedule of this liability was also modified, with the number of monthly installments becoming 65, as from the same date. See Item 5. Operating and Financial Review and Prospects Item 5A. Operating Results Funding and Item 8. Financial Information-Significant Changes.

By Resolution No. 152/04, dated May 14, 2004, the Argentine Central Bank approved the economic terms of the restructuring of the foreign debt of the Bank's Head Office in Argentina and its Cayman Branch.

Restructuring of the Foreign Debt of the Bank's Head Office in Argentina and its Cayman Branch

On May 18, 2004, the Bank successfully closed the restructuring of US\$1,320.9 million of the foreign debt of its Head Office in Argentina and its Cayman Branch, which consisted of both bank debt (including debt with multilateral credit agencies) and bonds. This amount represented 98.2% of the foreign debt eligible for restructuring.

Since July 1, 2004, the Bank made all of the scheduled semiannual interest payments on the debt instruments issued as a result of the restructuring of its foreign debt closed in May 2004 and fully repaid all of the restructured trade debt.

After the end of the 2005 fiscal year, the Cayman Branch was closed.

Terms of the Foreign Debt Restructuring

In the Bank's foreign debt restructuring, the Bank offered its bondholders and bank creditors the ability to exchange their existing debt for units comprised of a new long-term debt instrument maturing in 2014 and a new subordinated debt instrument maturing in 2019 in a par-for-par first step exchange offer. The bondholders and bank

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creditors were then given the option to participate in a second step to the exchange, in which they could receive for their units:

cash (at a discount) (the cash offer);

Boden 2012 (at a discount) (the Boden offer);

new long-term debt instruments (at par); or

new medium-term debt instruments (at par) and up to 149 million preferred shares of our preferred shares (or, instead of such shares, cash, if any, paid to us by existing shareholders electing to subscribe for our preferred shares in a preemptive rights offering) (the equity participation option).

In addition, creditors that agreed to sign firm commitments for new trade facilities in an aggregate principal amount up to US\$35 million were permitted to elect to receive new medium-term debt instruments maturing in 2010 (at par) (the new money option).

Each of the optional second-step offers was subject to proration.

By offering the units, which contained a subordinated component, in the par-for-par first step exchange offer, the Bank's main objective was to generate complementary regulatory capital for an extended period. The second step was intended to satisfy creditors' varying investment preferences.

To make the Bank's foreign debt restructuring possible:

- We approved a capital increase through the issuance of up to 149 million preferred shares, each of them mandatorily convertible into one of our class B shares on May 13, 2005, the first anniversary date of issuance (or, if earlier, on the occurrence of a change of control of Grupo Galicia). As a result of the exercises made by the existing shareholders in our preemptive rights offering, creditors opting for the equity participation offer received 87.8 million preferred shares and US\$30 million in cash and we received US\$100 million of subordinated bonds in exchange for those shares and cash. We issued the 149 million preferred shares on May 13, 2004, which were converted into ordinary class B shares on May 12, 2005.
- Our controlling shareholders assigned part of their preemptive and accretion rights to a trust established for the benefit of the Bank's creditors.
- We entered into a registration rights agreement for the benefit of the holders of our preferred shares in the United States in which we agreed to (1) file a shelf registration statement with the SEC covering the resale of those restricted preferred shares within 180 days of the issue date of the preferred shares; (2) use our reasonable best efforts to cause the shelf registration statement to become effective no later than June 1, 2005; and (3) use our reasonable best efforts to keep the shelf registration statement effective from on or before June 1, 2005, until the earlier of the date on which all of the restricted preferred shares have been sold under the shelf registration statement or September 30, 2005.
- We entered into an agreement with the Bank's bank creditors in which we agreed to maintain certain corporate governance standards and to provide them with certain financial information and reports on a quarterly and annual basis.

In addition, in accordance with the terms of the Bank's foreign debt restructuring, the Bank made a US\$15.5 million cash payment for interest accrued until April 30, 2002, and applied US\$42.4 million not used in the cash offer to prepay at par (plus capitalized interest) long-term instruments to be delivered to creditors participating in the restructuring.

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Based on the final amounts validly tendered, on May 18, 2004, the Bank:
paid US\$13.6 million to creditors participating in the cash offer;

transferred US\$36.9 million of nominal value of Boden 2012 to creditors participating in the Boden offer; and

issued the following new debt instruments:

- US\$648.5 million of long-term dollar-denominated debt instruments, of which US\$464.8 million were dollar-denominated negotiable obligations due 2014 issued under an indenture.
- US\$399.8 million of medium-term dollar-denominated debt instruments, of which US\$352.8 million were dollar-denominated negotiable obligations due 2010 issued under an indenture.
- US\$230.0 million of subordinated dollar-denominated debt instruments, of which US\$218.2 million were dollar-denominated negotiable obligations due 2019 issued under an indenture.

The Bank also restructured trade debt for a principal amount of US\$25.3 million in exchange for US\$26.6 million of new trade debt to be repaid in 12 equal, consecutive monthly installments beginning in June 2004 and ending in May 2005.

The following table shows certain information on the Bank's debt restructuring:

Principal amount of:	In US\$ millions
a) Old debt to be restructured as of December 31, 2003	US\$ 1,349.6
b) Old debt to be restructured as of April 27, 2004 ⁽¹⁾	1,344.7 ⁽²⁾
c) Old debt participating in the restructuring as of April 27, 2004 ⁽¹⁾	1,320.9
d) New debt, including past due interest capitalized ⁽³⁾ ⁽⁴⁾	1,399.6
e) New debt issued ⁽⁴⁾ ⁽⁵⁾	1,278.3
f) Old debt not restructured as of May 18, 2004 ⁽⁶⁾	22.9 ⁽⁷⁾
g) Old debt not restructured as of December 31, 2005	7.3

(1) *Expiration date of the exchange offer.*

(2) *The decrease in the principal amount of debt to be restructured as compared to December 31, 2003, resulted from the fact that, in accordance with Argentine law, borrowers that*

were also holders of certain of the Bank's debt instruments under restructuring used such holdings to repay past-due loans granted to them by the Bank.

(3) Interest past due between May 1, 2002, and December 31, 2003, was capitalized at 4.75% per annum, except for trade debt for a principal amount of US\$25.3 million for which interest was capitalized at Libor plus 1%. Interest past due until April 30, 2002, was paid in cash.

(4) Excludes trade debt.

(5) After having applied US\$42.4 million not used in the cash offer to prepay long-term debt instruments included in (d).

(6) Settlement date of the exchange offer.

(7) *Between the expiration date and the settlement date, the amount of debt not restructured decreased by US\$0.9 million as a result of the repayment by borrowers that were also holders of debt subject to restructuring of past-due loans made to them by the Bank by using their holdings of such debt and, to a lesser extent, as a result of the renegotiation of debt not restructured under the terms of the restructuring.*

For a description of the debt instruments issued in the restructuring, see Item 5. Operating and Financial Review and Prospects Item 5A. Operating Results Contractual Obligations.

Restructuring of the Bank's New York Branch Debt

In mid 2002, the Bank restructured the liabilities of its New York Branch, which then totaled US\$328 million. This step was necessary to ensure the orderly winding down of the affairs of the New York Branch, which was closed on January 30, 2003. As of the date of this annual report, US\$116 million in aggregate principal amount

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of two negotiable obligations issued by the Bank's Head Office in Argentina to restructure the New York Branch debt are outstanding.

Capitalization

As a result of the restructuring of the foreign debt of the Bank's Head Office in Argentina and its Cayman Branch, the Bank increased its regulatory capital by US\$278.9 million. Specifically, this capital increase resulted from:

the exchange of debt subject to restructuring for cash and Boden 2012 at a discount and the capitalization of interest at a rate lower than the contractual rate recorded in the Bank's books, which generated in aggregate a US\$48.9 million increase in shareholders' equity; and

the issuance of US\$230.0 million of subordinated debt computable as supplemental capital in accordance with the Argentine Central Bank's capital adequacy rules.

As a result of the earlier restructuring of the debt of the Bank's New York Branch in 2002, the Bank had increased its capitalization by US\$42.6 million by exchanging the old debt for new debt or cash at a discount. In addition, our forgiveness of subordinated negotiable obligations issued by Galicia Uruguay for US\$43 million, increased the Bank's capitalization for the same amount.

In November 2004, the Argentine Central Bank released the Bank from its regulatory restructuring status that had been established in 2002. In addition, on April 29, 2005, the Financial Superintendency removed, effective on such date, the oversight of the Bank's management that had been exercised since February 2002 by two officers from the Argentine Central Bank.

Banco Galicia Uruguay S.A. and Galicia (Cayman) Ltd.

Galicia Uruguay

The Central Bank of Uruguay intervened within Galicia Uruguay and suspended its activities in early 2002 as a result of the effects of the Argentine crisis on Galicia Uruguay, and postponed its effect until May 31, 2004. On June 1, 2004, Galicia Uruguay's license to operate as a domestic commercial bank was revoked by the Central Bank of Uruguay. However, Galicia Uruguay retained the authorization to operate that had been granted to it by the Executive Branch of the Uruguayan Government. As of December 31, 2005, the intervention of the Central Bank of Uruguay continued in effect as well as the suspension of Galicia Uruguay's activities.

The Boden 2012 received or to be received as compensation for the asymmetric pesification were recorded in the books of the Bank's Head Office in Argentina, including the amounts corresponding to the compensation for Galicia Uruguay's pesified loans. See *Main Regulatory Changes since 2002 Compensation to Financial Institutions*.

On December 23, 2002, Galicia Uruguay restructured its deposits with a high degree of participation by its depositors, exceeding the legal majority required under Uruguayan law. The restructuring became binding on all creditors once approved by a court in Montevideo on that date. The restructuring provided for an initial cash payment in dollars equivalent to 3% of the credit balance of each creditor. The remaining balances were to be paid, at the particular creditor's election, in time deposits or negotiable obligations issued by Galicia Uruguay, both maturing in September 2011, with principal amortization in nine annual installments in September of each year (each of the first two installments representing 15% of the remaining balance, with each of the other seven installments 10% of the balance) at a 2% fixed annual interest rate, payable annually each September. On June 20, 2002, the Bank offered a pledge of Galicia Uruguay's commercial loan portfolio as guarantee of payment of the restructured deposits. As of the date hereof, all scheduled payments have been made.

Between June 17, 2003 and July 24, 2003, Galicia Uruguay carried out an exchange of restructured deposits for an aggregate amount of US\$185 million for cash, Boden 2012 and new negotiable obligations issued by Galicia Uruguay. The objective of this exchange, and of the following ones, was to reprofile on a voluntary basis

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the already restructured deposit base, both to satisfy differing depositors' liquidity-return preferences and to improve the distribution of cash flows over time. As part of the exchanges, the Argentine Central Bank authorized the transfer of Boden 2012 to Galicia Uruguay. These bonds were used by Galicia Uruguay to settle the above-mentioned exchange offers.

On December 9, 2003, Galicia Uruguay launched a second voluntary exchange of all restructured deposits and negotiable obligations or certificates issued by Galicia Uruguay or its subsidiary Galicia Cayman, to restructure deposits. Consideration offered consisted of a cash payment and Boden 2012 at par. On March 15, 2004, the exchange offer was settled for an aggregate amount of US\$206 million.

As of December 31, 2004, Galicia Uruguay's liabilities included subordinated negotiable obligations held by us for US\$43 million and its shareholders' equity was a negative US\$189.4 million.

Between April 15, 2005 and May 27, 2005, Galicia Uruguay carried out an exchange of its restructured obligations for cash and Boden 2012. Between the same dates, Galicia Uruguay also commenced a period for the reception of expressions of interest from holders of certificates issued by Galicia Cayman as a result of the restructuring of its deposits in 2003 to sell such certificates. Consideration offered to such holders was similar to that offered to Galicia Uruguay's creditors. In June 2005, Galicia Uruguay accepted expressions of interest from its creditors for US\$243 million.

On July 13, 2005, we announced that, in order to strengthen the financial condition of our subsidiaries, we had resolved to forgive the US\$43 million of subordinated negotiable obligations issued by Galicia Uruguay. Such debt forgiveness increased Galicia Uruguay's shareholders' equity and that of the Bank, since it involved an increase of US\$43 million in Galicia Uruguay's shareholders' equity, which translated in the Bank as an equivalent 100% rise of its share value in Galicia Uruguay.

The exchange offer together with the forgiveness of Galicia Uruguay's debt held by us, generated an increase in the Bank's and Galicia Uruguay's shareholders' equity and also a significant reduction in their consolidated liabilities. As of December 31, 2005, the consolidated principal amount of Galicia Uruguay's restructured liabilities (time deposits and negotiable obligations) had decreased to US\$140.7 million, which represented approximately 12% of the original restructured amount, in three years. As of December 31, 2005, the shareholders' equity of Galicia Uruguay was US\$46.9 million.

Galicia (Cayman) Ltd.

Galicia Uruguay's situation also affected its subsidiary Galicia Cayman. Galicia Cayman commenced voluntary liquidation and surrendered its banking license effective December 31, 2002. By late May 2003, Galicia Cayman together with the provisional liquidators designated by the Grand Cayman Islands Court, completed a debt restructuring plan (the Plan) and, with the authorization of such Court, presented it to all Galicia Cayman creditors for their consideration. The Plan was approved, in whole, by the vote of 99.7% of creditors, exceeding the legal majority required, on July 10, 2003, and on July 16, 2003, it became effective and mandatory for all creditors.

After the end of the fiscal year, on February 2, 2006, and as a consequence of the presentation filed by the Administrators of the Plan, the Grand Court of the Cayman Islands declared the Plan as terminated, thus returning the company to its legal authorities beginning on February 23, 2006.

Capital Investments and Divestitures

Our main capital investments and divestitures are those of the Bank.

During 2005, the Bank's capital expenditures amounted to Ps.88.3 million, distributed as follows:

Ps.29.9 million in fixed assets;

Ps.38.1 million in construction in progress; and

Ps.20.3 million in organizational and IT system development expenses.

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During 2004, the Bank's capital expenditures amounted to Ps.42.2 million, distributed as follows:

Ps.14.9 million in fixed assets;

Ps.9.7 million in construction in progress; and

Ps.17.6 million in organizational and IT system development expenses.

During 2003, the Bank's capital expenditures amounted to Ps.21.2 million, distributed as follows:

Ps.2.6 million in fixed assets;

Ps.10.3 million in construction in progress; and

Ps.8.3 million in organizational and IT system development expenses.

During 2005, 2004 and 2003, the Bank did not make any significant investments or divestitures.

We made capital contributions to Net Investment S.A. for Ps.0.03 million in 2005, Ps.0.7 million in 2004, and Ps.3.6 million in 2003. Additionally, in 2005, we made capital contributions to Galval for Ps.1.9 million and we invested Ps.0.2 million in aggregate in Banco Galicia through open-market purchases of the Bank's common shares. During 2004, the amount invested for the same concept was Ps.0.1 million.

In April 2005, after having obtained the necessary authorizations, Sudamericana sold 100% of the shares it held in Instituto de Salta Compañía de Seguros de Vida S.A. for Ps.6.8 million.

After the end of the 2005 fiscal year, the Bank entered into an agreement to sell its shares in Inversora Nihuales S.A. and Inversora Diamante S.A., representing 12.5% of the total votes and shares of Inversora Nihuales S.A. and 12.5% of the votes and shares of Inversora Diamante S.A., for an aggregate amount of US\$9.3 million.

The Bank has budgeted capital expenditures for the fiscal year ended December 31, 2006, for the following purposes and amounts:

Construction of the new corporate tower	Ps. 81.0 million
Hardware, software and system maintenance	35.8 million
Other fixed assets	35.5 million
Total	Ps.152.3 million

In addition, we have budgeted investments amounting to Ps.1 million to be applied to Galval.

We expect to finance our capital expenditures from the cash flow derived from operations.

Business Overview

Banco Galicia's Operations

The Bank is principally engaged in commercial banking and provides a wide variety of banking products and services to large corporations, medium- and small-sized companies and individuals. Depending on the type of customer, these services include personal and corporate loans, deposit-taking, credit and debit cards, residential mortgage loans, fiduciary and custodial services and electronic banking. The Bank is also involved in other finance-related businesses, such as investment banking, insurance distribution and asset management. During 2003, the Bank's lending activity was limited, but in 2004 and 2005 the Bank increased its origination of new individual and commercial loans.

The Bank provides services through one of the most extensive and diversified distribution platforms of all private-sector banks in Argentina, with 224 full-service branches in Argentina, 563 automated teller machines (ATMs) and 527 self-service terminals as of December 31, 2005, along with other electronic banking facilities such as phone banking and e-banking. As of December 31, 2005, our branch network covered all of the Argentine provinces, except for Tierra del Fuego, and all of the main cities of Argentina.

Table of Contents*Retail Banking*

Banco Galicia provides a wide range of financial products and services to individuals, covering both transactions, loans and investments. On the transactions side, Banco Galicia offers customers checking and savings accounts, credit and debit cards, foreign exchange brokerage and payroll direct deposit. On the investments side, its products and services include certificates of deposit, mutual funds and insurance products. In addition, Banco Galicia provides credit for the acquisition of consumer goods and housing mainly through personal loans, residential mortgages, pledge and credit-card loans.

The Retail Banking Division manages the Bank's business with individuals and distribution channels. It is made up of the following departments: Retail Marketing and Quality, Traditional Channels, Alternative Channels, Consumer Banking, and Private Banking. The latter provides services to the high net-worth customers. Retail Marketing and Quality is in charge of maintaining and creating a wide range of financial products and services aimed at meeting the needs of the Bank's customers, with optimum quality standards. These products and services are marketed through the Bank's distribution platform, made up of the branch network (managed by the Traditional Channels Department) and through the self-service channels (electronic banking and internet banking, managed by the Alternative Channels Department). The Consumer Banking Department is responsible for the consumer finance business the Bank conducts in Argentina's provinces through the subsidiaries of Tarjetas Regionales S.A., (the regional credit-card companies).

The Bank's working philosophy consists of two basic strategies: first, to think constantly of the customer through one-to-one marketing, and second, to work on the cultural change that this generates throughout the organization.

During 2005, the Bank launched more than 600 campaigns with customized offers to more than 80% of its customer base. Cross-selling, up-selling, customer retention and loyalty actions are all examples of efforts the response to which improves as we improve our customer knowledge. The Bank's effort in this direction is backed up by continuous technical and technological advances (the corporate data warehouse, marketing data marts, analytical tools and data mining) and by all of the tools that form part of the Customer Relationship Management strategy initiated by the Bank years ago.

Information is one of the basic pillars of this strategy. Therefore, the Bank focuses on the enrichment and exploitation of its corporate data warehouse and the Division's data mart, which has allowed it to increase its knowledge of its customers, in order to guarantee them the best service based on their needs, on time and through the most appropriate contact channels.

Individual Banking

The Bank's retail deposit base has grown significantly since 2002, which growth has surpassed that of the financial system as a whole. In 2005, peso-denominated retail deposits grew by more than Ps.700 million, which represents an increase of 34%. The Bank's performance was also notable in terms of dollar-denominated retail-deposits, which grew by 60%. The Bank's superior performance compared to the market in terms of deposits is attributable to its sales and marketing policies, including a large media campaign, its new products and the efforts aimed at retaining funds released by the payment of post-default government bonds. During fiscal year 2004, the Bank's retail deposits increased 17.7%. During May and October of 2004, interest and principal amortization payments on the post-default Argentine Government bonds were made, with the Bank attaining a high level of reinvestment of released funds.

The portfolio of individual's current accounts increased 15% in 2005, with monthly sales reaching 2,500 new accounts per month. As regards savings accounts, there was an increase of 9% in the number of accounts and an increase of 19% in the average balances per account. During 2004, the stock of current accounts increased 14% compared to the end of the previous fiscal year. Likewise, the number of savings accounts showed an 11% increase during that year, and the average balances per account increased 19%. These increases were mainly due to the cross-selling campaigns aimed at specific groups of customers. Beginning in June 2003, the number of current accounts reversed the decreasing trend present in the early part of 2003, ending the fiscal year with a reduction of only 1.9% compared to December 2002. The number of account closings dropped 60%, while sales progressively recovered.

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As regards loans, the credit market began to show a slightly increasing demand in 2003, while the supply of credit started to recover. Consistent with this trend, the Bank launched new credit lines aimed at meeting the needs of its existing customer base and also resumed its practice of prequalifying customers for personal loans.

In 2004 and 2005, the Bank focused on its customer base in order to grow its portfolio of personal loans, while at the same time preserving the quality of its portfolio, limiting credit risk and improving customer loyalty. The Bank put emphasis on the granting of loans according to customer behavior, by assigning a credit limit to all customers having risk products outstanding with the Bank or whose salaries are directly deposited in the Bank. Expectations were fulfilled, with the monthly average origination reaching an amount that represented a 230% growth in 2004. In 2005, the Bank continued to develop and improve the assignment of a credit limit to customers and response times were shortened. Likewise, the Bank developed the granting of personal loans through a telephone system. Through the year, this new product showed great acceptance by customers and a significant increase (110%). The personal loans goals and expectations for 2005 were extensively fulfilled, with a 130% growth in origination and a 267% growth in the portfolio (unconsolidated), as compared to December 2004.

The mortgage loan market reported no significant growth, since there is still a wide gap between real estate values and the purchasing power of salaries, which limits the number of individuals that can afford the installments on mortgage loans. Despite the trends in the market, in June of 2005, the Bank relaunched its mortgage credit lines. These lines were newly designed so that the offer could cover the existing needs of mortgage loan borrowers, while incorporating a wide variety of loan purposes, terms of up to 240 months, and fixed, floating, and combined interest rates. Expectations were met, with the portfolio recording growth by the end of 2005 and a 300% increase in the average monthly origination as compared to 2004. During 2004, the Bank's strategy was to offer the product to those customers who requested it.

The transactional credit and debit card business has also evolved positively, favored by the performance of the overall economy and, in particular, the Bank managed to increase its market share and consolidate its leadership position. In 2005 and 2004, the credit-card and debit-card business reported significant growth and not only did the Bank's portfolio of cards managed experienced a positive increase, but, also, new products were launched. During 2003, the Bank maintained its leadership in the credit card business.

In 2005, the amount of purchases made using the credit and debit cards managed by the Bank (Visa, Visa Electrón, American Express and MasterCard, excluding those managed by the regional credit-card companies) reached approximately Ps.3,000 million, and the corresponding number of transactions amounted to 34.5 million. At the same time, the number of credit cards managed by the Bank (excluding those managed by the regional credit-card companies) increased by 17% during 2005. During 2004, as a result of the several actions aimed at increasing credit card use, purchases made with Visa cards managed by the Bank increased 37% compared to a 24% increase for the financial system as a whole. The purchases made with American Express cards also experienced a significant increase, and the purchases made with the credit cards managed by the Bank were 18.8% higher than in 2003. Moreover, the total number of such credit cards increased 20%.

These figures are attributable to aggressive promotional campaigns at different stores, along with special offers of non-interest installment financing plans promoted by the credit-card companies, within an economy showing great expansion. Another factor of success was the Bank's ongoing analysis of the customer base in order to raise customers purchase limits without neglecting the risks. As a result, today, the Bank's active customers show an average of purchases 70% above the market average. Delayed payments and defaults were kept significantly low.

During 2005, the MasterCard card was re-launched with a very good response by customers. Halfway through fiscal year 2004, the new Visa Mini was launched, an innovative product mainly aimed at young people. In December, the Felices Compras (Happy Shopping) card was launched, a prepaid card that can be charged by phone against a debit or credit card.

The Bank markets Sudamericana's life, life-related and other insurance products through its own distribution network and also sells property and casualty insurance from other companies. The Bank offers a wide range of products, having consolidated in the last few years its position as an integral provider of financial services. The Bank's network of branches continued to lead in the sale of insurance products, while non-traditional channels

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reported significant growth. During 2005, the product Protección Hogar (Home Protection), insurance for residential units, strengthened its position and car insurance products from the companies Zurich and Mapfre were successfully marketed. In this line of business, the Bank's portfolio experienced a 30% increase during the year. Additionally, the Bank reached 265,000 PG24 insurance policies (an insurance to cover robberies at ATM's). At the end of fiscal year 2005, the Bank managed approximately 420,000 insurance policies (excluding credit related ones), 16% higher than in the previous year. This increase was 22% in 2004 and 30% in 2003.

Another business that reported a large increase was payroll direct deposit. The number of individuals with direct deposit of their salary at the Bank increased more than 25% and the amounts deposited more than 45%. The latter is attributable to the progressive salary increases recorded during 2005.

Consumer Finance

The Bank pursues the consumer finance business aimed at the non-bancarized segment of the population through the operating subsidiaries of Tarjetas Regionales S.A. Tarjeta Naranja S.A., Tarjetas Cuyanas S.A. and Tarjetas del Mar S.A. issue credit cards with proprietary brands which are marketed in certain regions of Argentina and provide consumer financing through these credit cards. As of December 31, 2005, Banco Galicia held 68.22% of Tarjetas Regionales S.A. while Galicia Cayman held the remaining 31.78%. The Bank held directly or indirectly (through Tarjetas Regionales S.A.):

80.0% in Tarjeta Naranja S.A., a company operating in northern, central and southern Argentina. In March 2001, Tarjetas del Sur S.A., a regional credit-card company that operated in the southern part of Argentina that was directly and indirectly controlled by the Bank, was merged into Tarjeta Naranja. In January 2004, Tarjeta Comfiar S.A., a company that operated mostly in the province of Santa Fe, was merged into Tarjeta Naranja S.A.

60.0% in Tarjetas Cuyanas S.A., a company operating mainly in the provinces of the Cuyo region.

99.99% in Tarjetas del Mar S.A., a company operating mainly in the city of Mar del Plata and the surrounding area and other locations of the Province of Buenos Aires (excluding the Greater Buenos Aires area).

The regional economies of the provinces were the main drivers and also beneficiaries of the recent growth experienced by Argentina. Since 2003, within an environment of growing regional economies, the regional credit-card companies have experienced high growth, gained market share and increased business in their respective areas of influence. This growth was boosted by a strong demand for the services provided by these companies, based on the prestige gained by their brands, and on strong and creative sales activity. On the other hand, this was possible due to the use of technology and a continuous improvement in processes and organization, leading to efficiency gains and economies of scale.

Since mid 2004, Tarjeta Naranja S.A. resumed its territorial expansion project which contemplated the addition of a target market with a population of approximately 2 million people. This expansion continued during 2005 and will continue during 2006.

During 2005, the aggregate number of credit card statements issued by the regional credit-card companies increased 22%, their aggregate gross loan portfolio (including the portfolio that was securitized) exceeded Ps.1,200 million, a 53% increase, and the aggregate number of cards managed grew by 19% to 1.8 million. Twenty-two new service centers and branches were opened and staff increased by 370 employees, which represented a growth of 16% and 17%, respectively. In addition, operations were started in two new provinces, La Pampa and Buenos Aires. New products were also designed, such as insurance packs. Campaigns for the placement of Tarjeta Visa-Nevada cards and the Tarjeta Naranja MasterCard cards were carried out. A new credit line was developed and the usual promotions were maintained. The latter being essential for the public and retailers to prefer these companies cards over others.

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In 2004, the aggregate number of credit card statements issued by the regional credit-card companies increased by 22% and the aggregate number of cards managed increased 28%. Their aggregate loan portfolio, before allowances for loan losses, charge-offs against such allowances and the securitization of loan portfolios, grew by 50.8% in 2004 as compared to the previous year-end.

The card users' payment behavior was excellent, which, along with the daily collection efforts made, permitted to keep delinquency at minimum historical levels. At the end of 2005, these companies' aggregate non-accrual to total portfolio ratio was 2.9%, with minimums of 2.7% in certain months. At the end of 2004, such ratio represented 3.26% of the aggregate portfolio at year-end, a ratio that is lower than in the previous years.

The Credit Cards Law amendment in January 2005, reduced the average fee collected from retailers, leading to a significant decrease in the regional credit-card companies' income from that item during 2005. In addition, during 2005, there was an increase of competition in the socioeconomic segments that these companies target, partly from the banking system, in search for new business niches, and partly from other players, both domestic and foreign.

The higher volume of business counteracted the factors that adversely impacted profitability. Thus, the strong level of net operating income for 2004 was maintained. In 2005, Tarjetas Regionales S.A. recorded net income for Ps.63.1 million.

In terms of funding, these companies have access to the capital markets as well as to the financial system, which financing sources allow them to maintain the portfolio's growth pace and the previously mentioned expansion plans. During 2005, the capital markets contributed resources amounting to more than Ps.378 million, absorbing all of the paper issued, i.e., five series of negotiable obligations for Ps.160 million, and the notes of five financial trusts for Ps.218 million. All of the debt instruments obtained the best ratings in the local market for paper issued by similar companies, which made them attractive to institutional investors and individuals alike. The banking sector contributed short- and long-term resources, especially through overdrafts and structured loans. Finally, also worth mentioning, is the profit reinvestment made by shareholders, who continue to show their commitment to the business. During 2004, two series of negotiable obligations for Ps.25.5 million and the notes from four financial trusts, with an aggregate amount of securitized portfolio of Ps.121 million, were successfully placed.

Traditional Distribution Channels

The size and the wide geographical coverage of the Bank's branch network contribute to make the Bank's distribution network one of its more important competitive advantages. These aspects are strengthened by a unified management system through the use of the Bank's Intranet, state-of-the-art systems and communications technology, a consistent incentive plan and a continuous follow-up of the quality of service.

As of December 31, 2005, the Bank's branch network in Argentina totaled 224 branches, including the Bank's Head Office. These branches are established in all of the Argentine provinces with the exception of Tierra del Fuego. During 2005, the network increased in one branch. In 2004, the branch network was reduced by three branches that were merged with another three nearby branches.

During 2005 and in order to increase commercial effectiveness, achieve a higher integration among distribution channels and improve the service quality to customers, the Bank redefined the service model at the branch level. In furtherance of the specified goals, the Bank worked on improving the service to the mid-and-high income individuals segments and corporate customers (with a focus on the agribusiness segment and all the range of small- and medium-sized businesses). Personnel specialized in the first two segments were sent to 92 branches and officers specialized in corporate customers were assigned to 150 branches. In addition, the Bank reinforced the retail sales force and created an exclusive sales force for the development of the payroll direct deposit business for small- and medium-sized businesses.

On the other hand, during 2005, the Bank continued with its schedule for the incorporation of branches into the Sales Coaching program, launched in 2003. This program's purpose is to train branch managers as sale

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coaches for their staff. Eighty branches were added, and there are only 50 branches left to finish the implementation of the program in the whole network.

Automated Banking

The Alternative Channels Department is responsible for managing those customer service, transactions and sales channels that differ from traditional branches. Its operations cover both individual and corporate customers and are mainly carried out through the Customer Contact Center (the Bank's call center), e-galicia.com (the Bank's internet banking facility) and Red Galicia 24 (the Bank's network of ATMs and self-service terminals). As in prior fiscal years, the use of these channels by the Bank's customers maintained an upward trend. As of December 31, 2005, 76.9% of customer transactions were carried through the Bank's alternative channels, representing an increase compared to 74.5% as of December 31, 2004, thus showing an 8.9% percentage points improvement in comparison to the same month of the prior year.

The Customer Contact Center consists of the following sectors: Fonobanco (the Bank's phone-banking service), Fonobanco Seguros (the phone-banking unit specializing in insurance products), Foreign Trade, Galicia Responde (the unit that receives and answers customer complaints), Telemarketing, the Investment Center, the Collection Center and the switchboard. These units also have support areas for ongoing improvement in service quality. During 2005, the Customer Contact Center handled over 12 million incoming and outgoing calls. This volume was similar to that recorded during the previous fiscal year.

Through e-galicia.com, the Bank aims at putting the Bank into the PC and offers a wide range of transactional capabilities, as the differentiating feature of the service. e-galicia.com provides a wide range of services and financial and non-financial content. Through alliances with different companies, customers have access to certain benefits that at the same time promote the use of the channel. e-galicia.com has operating segments for both individuals (Home Banking) and companies (Galicia Office), enabling its customers to operate as if they were carrying out their transactions over the telephone, at an ATM or in a traditional branch. Furthermore, through e-galicia.com, visitors have access to information about the products and benefits offered by the Bank, as well as specific sections that advise users on issues of interest to them: foreign trade, insurance, taxes, up-to-the-minute news on the financial market and several current topics. Through Home Banking, Banco Galicia's individual customers can make inquiries and requests and conduct transactions from any computer with access to the Internet.

In line with the boom of the Internet worldwide, e-galicia.com has shown an exponential growth since it was launched and at present receives more than 2 million visits a month. In 2005, the channel focused on the sale of products through the web and the incorporation of value-adding services for Internet users, which led to a high rating among customers and the market in general.

Three million queries and transactions per month are carried out through Home Banking. This represents a growth of approximately 40% as compared to the 2.3 million inquiries received in 2004, which represented a 30% growth compared to the end of 2003. The upward trend in the number of customers has also continued, with an 18% growth as of December 31, 2005 as compared to December 31, 2004 and a 15% increase compared to December 2003. Among the large variety of transactions available, the payment of taxes and bills through the direct connection to the web site Pagomiscuentas.com as well as the transfer of funds to third party accounts continued showing a sustained growth, with increases of 34% and 40%, respectively, compared to 2004 (which increased 48% and 25%, respectively, compared to 2003).

Red Galicia 24 is one of the largest electronic banking networks in Argentina. At the end of 2005, Red Galicia 24 was made up of 1,090 terminals (563 ATM's and 527 self-service terminals) located throughout the country in traditional branches as well as in neutral positions (gas stations and supermarkets), in line with the Bank's strategy to be close to its customers and provide them with the means to solve their transactional requirements in a dynamic, simple and safe way 24-hour a day.

The ATM network, one of the most extensive in the country, recorded an increase in the volume of transactions of 9% as compared to 2004 and a 12% growth compared to 2003.

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In order to continue improving the service level recorded in 2005, during the last quarter of the year, the Bank started to renovate approximately 48% of its ATMs, a process that will continue throughout 2006. A technical improvement is also planned for all terminals with the main purpose of increasing the terminal capabilities and functions.

Private Banking

Galicia Private Banking provides differentiated and professional financial services for medium-and-high-net worth customers, managing their investment portfolios and providing financial advice.

During the first quarter of 2005, Galicia Private Banking reorganized its customer base, selecting those customers that complied with the segment's profile and, following the Bank's strategy of differentiating from the competition based on quality of service, it conducted a series of efforts aimed to improve customer loyalty. Although after the customer reassignment the absolute number of portfolios fell, with the new goals, deposits increased significantly, which resulted, at the same time, in an important growth in the total average deposits per customer. Also, during 2005, Galicia Private Banking managed to achieve significant placement of trust notes and negotiable obligations, mainly issued by the regional credit-card companies.

During 2004, total deposits from private banking customers grew substantially, with this growth being to a large extent the result of the activities put into practice in 2003 to attract former customers.

Wholesale Banking

The Wholesale Banking Division is in charge of conducting business with corporate customers, and it encompasses the areas that provide those customers commercial and investment banking services, as well as capital-markets and foreign trade services.

Commercial Banking

Banco Galicia provides commercial banking services to all types of businesses in all economic sectors. With the purpose of attaining an organization that is functional to the different kinds of customers, services rendered are divided between the Corporate Banking Department and the Middle-Market Banking Department. Corporate Banking specializes in the large economic groups of companies, while Middle-Market Banking is responsible for rendering services to all other companies (large, medium-large and small- and medium-sized companies) and those pertaining to the agriculture and livestock sector. The Wholesale Marketing Department provides support to the other departments of this Division and is responsible for the development and implementation of financial and non-financial products and services, as well as the coordination of distribution channels.

The Bank's goal is to support its corporate customers during this period of growth of the Argentine economy, providing those customers, through the different business, with financial and non-financial services that optimize their daily operations and improve their business turnover. As in 2004, during 2005, the Bank continued strengthening its relationship with its corporate customers and, based on the knowledge on the particular needs of each company, it developed products and services that translated into solutions for their daily activities and provided advice and support tools. Therefore, the Bank's goals were met, and its customer loyalty strategy was reinforced.

The Bank was the first bank to provide customer support in the implementation of the AFIP's (Argentine Tax Authority) new on-line tax-payment system, thereby becoming a leader in terms of the number of related transactions and increasing its market share.

Likewise, there were innovative developments in Galicia Office, the e-banking channel for corporate customers aimed at offering technological solutions. The foreign-trade section is especially worth mentioning, through which customers may submit on-line inquiries and transactions. Since the end of the year, this system added the ability to request transfers abroad. As in previous years, Galicia Office continued to grow and exceed the levels reached since its launch, both in terms of users, queries and transactions, thereby remaining a leader in electronic corporate banking.

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The offering of collection and payment products was increased thanks to improvements that added value to the customer and let the Bank sustain competitive market levels. At the same time, Visa Business Banco Galicia reached first place in market share over the total of Visa commercial cards, both in number of active accounts and cards and amount of purchases. Likewise, Galicia Rural consolidated its place as the first card for the agribusiness sector.

In terms of financial intermediation, the Wholesale Banking loan portfolio continued to grow with an increase of over Ps.800 million compared to the previous year. The Bank kept its leadership position in the purchase of checks and leasing transactions. There was also an important expansion of the portfolio of peso-denominated loans, both at floating, as well as fixed interest rates. In terms of dollar-denominated loans, the Bank entered into an agreement with the International Finance Corporation (IFC) to finance investment projects of export-oriented enterprises, the Bank being the first bank to achieve such an agreement with the IFC after the crisis.

During 2004, relating to the offer of transactional products and services, new functionalities were developed in connection with collection and payment products for companies, which involved payments with checks under the Cobranzas Integradas Galicia (Galicia Integrated Collections) system and access to information on the collection and automatic debit services, through Galicia Office. The following products, among others, were developed: Infopagos, which improves the management of payments; and Infomail, an effective tool for the communication between customer companies and their suppliers.

Corporate Banking In terms of asset-side transactions, in 2005 syndicated loans with other banks in the market were granted again, with the Bank participating as arranger. Furthermore, the Bank, along with other banks signed an agreement to issue a credit card for a company that sells consumer goods, and trusts for financing semi-durable goods were structured. Moreover, a higher market share of the financing of foreign-trade operations was achieved. On the liability-side, deposits, both time and transactional, continued to grow beyond budgeted guidelines.

Likewise, during 2005, the Bank was able to increase its share of the treasury business of large corporations, especially through the offering of collection and payment services. The use of Visa Business cards and supplier payment services also increased, and efforts led towards the offering of the direct deposit of salaries service led to a significant capita increase during the fiscal year.

In 2004, the Corporate Banking Department normalized the relationship with the companies within its segment, thus increasing financial and non-financial services and credit assistance above the budgets for such period. Also, both transactional and time deposits showed a sustained increase, and the Bank gained a higher share in the treasury business of its customers. The renegotiation of loans, the implementation of debt restructurings and the resulting collections exceeded the goals set.

Middle-Market Banking During 2005, the Bank consolidated its leadership in the small- and medium-sized businesses and agribusiness segments and increased its presence in the large middle-market corporations sector, due to its active participation in the financing of working capital as well as investment projects and to its leasing activity.

Likewise, the Galicia Rural card consolidated its position as the most functional method of payment and credit in the agribusiness sector. During 2005, not only new agreements were entered into with suppliers of intermediate goods used by the agribusiness sector, for financing at preferential rates and terms through the Galicia Rural card, incorporating new items (such as seeds, fuels and lubricants, dairy farm and liquefied gas in bulk), but its use was extended and generalized in areas such as Santiago del Estero, Salta and Jujuy, outside the main agriculture regions.

As in previous years, the Bank's participation in the National Government subsidies programs was very active, providing benefits to our customers and contributing to the increase in investment in capital goods.

During 2004, the Bank reinforced its leading position in the agribusiness and small- and medium-sized businesses segments through particular actions and attracted significant demand for capital goods financing through its leasing product. In addition, the Bank obtained the highest share of the credit line to finance the purchase of these

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goods at a subsidized interest rate granted by the Sepyme (Undersecretaryship of Small- and Medium-sized Companies and Regional Development of the Ministry of Economy).

During 2003, given that credit activity was limited, the Corporate Banking and Middle-market Banking departments mainly focused on rebuilding relationships with customers and generating income from services by means of the integral management of the treasury of corporate customers. Services were adapted to the post-crisis business scenario, covering the transactional needs of customers and providing them with financial solutions to increase their working capital and thereby improve their business activity.

Credit activity resumed in 2003, initially through 90-day loans, mainly by means of the purchase of checks and deferred checks. In mid-2003, financial loans in pesos and prefinancing of exports in dollars were added. With the improvement in the Bank's liquidity position, the economy's growth and the improvement in the overall economic conditions, the terms for peso- and dollar-denominated loans were extended to two and three years.

Galicia Office

Galicia Office is e-galicia.com's exclusive section for corporations. Through Galicia Office, companies may, at no cost, review the statements of all their bank products (such as accounts, loans, investments and receivables from Visa and Galicia Rural transactions). They may also access a range of information about their entire portfolio of checks and checks returned, request and confirm checkbooks, make transfers between their accounts and to those of third parties within or outside the Bank, make investments, inquire about their foreign trade transactions, pay their employees salaries safely, renew their digital signature online and pay their suppliers.

As in previous years, Galicia Office continued to grow and exceed the levels reached since its launch, both in terms of users, queries and transactions, thereby remaining a leader in electronic corporate banking.

Innovative developments are permanently being added to Galicia Office. In this sense, during 2005, the foreign-trade section is especially worth mentioning, through which customers may submit on-line inquiries and transactions. Since the end of the year, this system added the ability to request transfers abroad.

Investment Banking

The Investment Banking and the Capital Markets Departments contribute to the achievement of the long-term strategic goals of the Bank's Wholesale Banking customers as well as of the Bank itself, through the integral development of complex capital market products and services.

Since 2004, the Investment Banking Department and the Capital Markets Department are responsible for providing the services previously provided by the Bank's subsidiary Galicia Capital Markets S.A. (in liquidation). This company ceased rendering services during fiscal year 2004 and its shareholder's meeting held on May 26, 2005 decided on its early dissolution and latter liquidation.

During 2005, the Bank provided its customers with investment banking services in the areas of mergers and acquisitions, syndicated loans, swaps, debt restructurings, investment projects and securitizations and actively worked to optimize its own financing strategy. Four trusts the underlying assets of which were Bank assets were structured and placed, thus generating funding for Ps.258 million in aggregate, to support the creation of new assets. Similarly, the total volume of negotiable obligations and trust structuring and placement for customers, among them the regional credit-card companies that are the Bank's subsidiaries, amounted to Ps.432 million in 2005, thus again positioning the Bank as an active player in the local capital markets.

During 2004, these departments worked with the Bank's Wholesale and Retail Banking divisions and with Galicia Uruguay in the renegotiation of past due portfolios, and provided customers with investment banking services. Approximately a dozen loan agreements with companies mainly from the utilities sector were renegotiated for more than US\$130 million and recoveries were generated from collections, swaps and sales of assets. Also, these departments worked with the Bank in the sale of a portfolio of off-balance sheet loans, a process that was completed at the end of the year.

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During 2003, the environment for this type of activity was complex and characterized by the restriction, for both the Argentine private and public sectors, of access to mid- and long-term financing. Therefore, in 2003, activity was limited to the development of products such as trusts, which were expected to have an increasing presence in the financial market, the provision of advice for the restructuring of the Bank's commercial loan portfolio and, to a lesser extent, on mergers and acquisitions.

Regarding the advice provided to the Bank on its funding strategy, in 2004 and in 2003, efforts were mostly directed to the restructuring of the Bank's foreign debt. During these years, advice was also provided to Galicia Uruguay on the exchange offers made by this subsidiary to its customers.

As of December 31, 2005, the industrial investments that resulted from the Bank's participation in the privatization process that took place during the 1990s, which investments are managed by the Capital Markets Department, amounted after valuation reserves to a total of Ps.65.3 million. The largest investments were an 8.26% interest in Aguas Argentinas S.A. with a Ps.22.7 million net book value, and interests, both of 12.5%, in Inversora Nihuiles S.A. and Inversora Diamante S.A. (two holding companies in the electricity generation business) with a net book value of Ps.15.7 million and Ps.12.9 million, respectively. As of the date of this annual report, the equity investment in Aguas Argentinas S.A. has been fully provisioned.

After the end of the 2005 fiscal year, the Bank entered into an agreement to sell its shares in Inversora Nihuiles S.A. and Inversora Diamante S.A., representing 12.5% of the total votes and shares of Inversora Nihuiles S.A. and 12.5% of the votes and shares of Inversora Diamante S.A., for an aggregate amount of US\$9.3 million.

Foreign Trade

During 2004, the Foreign Trade Department ceased reporting to the International Division and became part of the Wholesale Banking Division. Foreign trade activities continued to benefit from the sustained release of the foreign exchange regulations that began in late 2002 and continued during the following years, despite the introduction of certain controls and deposit requirements on capital inflows established in 2005. These changes made trading transactions easier for exporters and importers, diminished their operating burden and that of banks, and increased trade and working capital financing alternatives.

Within this environment, the volume of foreign-trade transactions channeled through the Bank increased by 46.7% as compared to 2004, to US\$3,675 million. Considering exclusively commercial transactions (i.e., imports and exports), the increase was of 63.8%, higher than the increase in the total amount of foreign-trade transactions for the country as a whole, which was 20.6%. The amount of these transactions for the Bank was US\$3,219 million, equivalent to 4.7% of Argentina's foreign trade during 2005, higher than the 3.4% for 2004.

This positive result was due to the strengthening of the Relationship Banking concept, specific actions implemented and, in general, the efforts made by the Bank in order to be recognized by its customers as an important player in this business. This allowed the Bank to increase its involvement in its customers' businesses and expand its client base, incorporating companies that were already customers of the Bank but did not perform foreign-trade operations through it, as well as new customers. Likewise, the Bank continued to invest in developing and perfecting flexible technology tools and products that allow customers to operate on-line, which, apart from differentiating us from the competition, simplified companies' transactions and contributed to their efficacy.

Galicia Factoring y Leasing S.A. ended its tenth fiscal year. The company maintained its international factoring offering and recorded a volume of transactions more than three times higher than in the previous year, for a total of US\$27.9 million. With this company, the Bank is able to complement the services it offers and allow customers access to all the necessary tools in order to conduct their foreign-trade business. In 2003, the company adapted its international factoring services to the new regulations and incorporated forfaiting (a method of trade financing that allows exporters to obtain cash and eliminate risk by selling their medium-term receivables on a non-recourse basis).

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The Treasury Division is responsible for the management of the Bank's treasury operations and its liquidity, foreign exchange and securities positions, and participates in the management of market, liquidity, interest-rate and currency risks. To this end, it develops the necessary data and strategies to keep such risks within the limits established by the Bank's Board of Directors. Similarly, it is responsible for the administration of third-party assets, mainly the FIMA mutual fund portfolios, and, among others, provides services and distributes financial products to corporations, financial institutions, mutual funds, pension/retirement funds and insurance companies. Intermediation services in various markets are carried out by the Bank, sometimes in its capacity as agent of the Mercado Abierto Electrónico, the Argentine over-the-counter market (the MAE), and through Galicia Valores S.A., a brokerage firm 99.99%-owned by the Bank that operates on the Buenos Aires Stock Exchange (the BASE). Galicia Valores provides equity securities trading and custodial services to Banco Galicia customers. Galicia Valores is a shareholder of the Buenos Aires Stock Market, affiliated with the BASE. Galicia Valores does not make investment decisions for its customers. Finally, the Division is responsible for managing commercial relations with correspondent banks, international credit agencies and international mutual funds and also provides support to the foreign units since the incorporation of the Office of International Banking and Financing Relations in 2005.

Financial Operations

During 2005, the positive trend of the previous year continued and the capital markets reported a significant improvement, since the restructuring of the Argentine Government's foreign debt. This led to a significant contraction in the sovereign risk, due to the reduced risk aversion and a favorable foreign environment, given the high liquidity level in the international market. This improvement continued from that observed during 2003 and 2004. In addition, since 2003, there was a positive trend in the corporate sector, supported on the one hand by the strong ongoing growth in the country's economic activity and on the other hand by the progressive completion of the debt restructuring of many of this sector's companies and, during 2004 and 2005 the corporate sector showed sustained growth. In 2004, a sharp contraction in sovereign risk was recorded in the domestic bond market, mainly due to reduced risk aversion and a high liquidity level in the international market.

In 2005, volumes traded in the domestic capital markets continued to increase significantly. The volume of government securities traded on the MAE reached a total of US\$73,112 million in 2005, as compared to US\$35.485 million in 2004 and US\$19,949 in 2003. This represented a 106% increase in 2005 and a 77.9% increase in 2004. Total volume traded by the Bank during 2005 reported a significant increase, to US\$1,585 million, which amounted to a 366% increase as compared to 2004, year in which it had already increased 81%. In turn, in the equity market, the total volume traded during 2005 was Ps.85,952 million, to which Galicia Valores S.A. contributed with a total of Ps.1,524 million, a share of 1.77%. In 2004, the total volume traded was Ps.49,366 million, to which Galicia Valores S.A. contributed with a total of Ps.1,312 million.

In terms of the foreign-exchange market, the Bank significantly increased the volume traded with corporate and institutional customers. As in 2004, during 2005, the Bank kept focused especially on foreign-exchange transactions related to foreign trade, reaching a 47% increase in the volume traded as compared to 2004. In the foreign-exchange wholesale market, the Bank's activity through the MAE amounted to US\$5,089 million, ranking as one of the three leading private-sector banks this last December. In addition, during 2005, the Bank successfully placed 20 issuances (its own and of third parties) of financial trust securities and negotiable obligations, for a total of Ps.630 million, and was positioned as one of the primary players in this market.

Asset Management

This business unit is responsible for managing third-party funds, mainly the FIMA mutual funds, for which the Bank acts as distributor and custodian. Galicia Administradora de Fondos S.A. is the fund manager for the FIMA mutual funds. These funds are invested in different assets, such as government securities, shares or bank deposits, depending on the investment objective of each mutual fund.

After the difficult climate created for investors by the economic and financial crisis of 2001 and 2002 interest in these products returned in 2003. Investor interest in this kind of products continued growing in 2004 and

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2005, mainly in time-deposit funds in 2004, and to a lesser extent, in equity and fixed-income funds and during 2005, mainly in fixed-income funds (bonds) and money-market funds (basically, investing in remunerated bank accounts and time deposits), which totaled Ps.296.7 million as of December 31, 2005 compared to Ps.230 million as of December 31, 2004, and Ps.170 million as of December 31, 2003.

International

The Office of International Banking and Financing Relations, which reports to the Treasury Division since 2005, is responsible for managing the Bank's business relations with correspondent banks, international credit agencies and international mutual funds.

As a result of the successful sovereign foreign-debt restructuring, the improved position of Argentina in the international economic community and the Bank's good image in the international markets, a gradual increase in trade facilities from our correspondent banks was recorded, with a gradual reduction of spreads and extension of terms, which allowed the Bank to attend to all of the foreign-trade transactions of its customers. In May 2005, the IFC granted the Bank a US\$40 million loan, with a tenor of up to 7 years, for the financing of investment projects of small- and medium-sized companies active in the agribusiness sector or export oriented.

Internet

The Bank carries out its internet businesses primarily through Net Investment S.A. Banco Galicia's stake in the company is 12.5%, while the remaining 87.5% is held by Grupo Galicia. See Net Investment S.A.

Sudamericana Holding S.A.

Sudamericana is a group of life, retirement and property insurance companies. We own an 87.5% stake in Sudamericana. Banco Galicia holds the remaining 12.5%. This investment represents another step in our plan to consolidate our leadership as a financial service provider and supplement those businesses that Banco Galicia may only conduct to a limited extent in line with prevailing regulations.

Total insurance production of life, retirement and property insurance companies controlled by Sudamericana amounted to Ps.37.9 million during 2005. As of December 31, 2005, Sudamericana's subsidiaries had more than 1.5 million insureds taking into account all the insurance sectors in which it conducts business, through both individual and group policies. The volume of premiums written in 2005 was 48.5% higher than that of the previous year (without taking into account Instituto de Salta Compañía de Seguros de Vida S.A.'s turnover during 2004 due to the sale of this company in April 2005).

In 2005, the focus was placed on continuing to increase the company's turnover by increasing sales and improving the insurance policy laps ratio, strengthening distribution through the bankassurance model and improving customer service quality. Ps.25.8 million of annualized premiums were sold, 31% higher than in the prior year. Tarjeta Naranja S.A. stood out as regards the sale of life insurance and home insurance policies (the latter product having been launched at the end of 2004).

The measures implemented with the purpose of improving the portfolio laps ratio started to show positive results. Among them, the following stand out: to strengthen controls and provide incentives that favor the quality of sales, to achieve a higher percentage of credit cards as means of payment and to take early procedures for the collection of products in arrears.

Medigap Salud S.A., a company dedicated to the provision of welfare services controlled by Sudamericana, was dissolved and liquidated during 2005. In April 2005, after having obtained the necessary authorizations, Sudamericana sold 100% of the shares it held in Instituto de Salta Compañía de Seguros de Vida S.A.

The business plan for the short-term aims at expanding the turnover volume, which, together with advances regarding efficiency, will allow for a better profitability of the global business. The priorities are as follows: to generate profitable businesses/ products highly appreciated by our customers; to convert channels into

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differentiation factors at the advisory level so as to establish long-term relationships with insureds; to improve insurance policy periods; to limit the loss experience level by carrying out a sensible underwriting of risks and settlement of claims as well as fighting against illegitimate practices; and to look for higher productivity, limiting the levels of expenditures, making processes more efficient and developing systems while improving the technological base.

Net Investment S.A.

Net Investment S.A. is a holding company whose initial purpose was to invest and develop businesses related with technology, communications, the internet, connectivity, and contents, in projects with positive cash flows and profits. Our stake in the company is 87.5%, while the remaining 12.5% is held by Banco Galicia. As of the date of this annual report, the only operating subsidiary of Net Investment S.A. is Tradecom Argentina S.A., which provides B2B e-commerce support services and virtual markets for transactions between companies and suppliers.

As of December 31, 2005, Net Investment S.A., through its subsidiary Net Investment B.V. (il), had a stake in Tradecom International N.V. (il) (Grupo Tradecom), a company based in The Netherlands that conducted its business activities through its subsidiaries, Tradecom Brasil S.A. and Tradecom Argentina S.A. In 2005, the shareholders of Grupo Tradecom decided to dissolve and liquidate Tradecom International N.V. (il), move the corporate structure from The Netherlands to Brazil and regroup the holding in Tradecom Brasil S.A. Given that the business volume expected at the beginning of fiscal year 2005 was not reached, among other factors, the majority shareholder of Grupo Tradecom (Unibanco Uniao de Bancos Brasileiros S.A.) decided to concentrate some B2B transactions through its own structure in Brazil. Therefore, the partners agreed to transfer Tradecom Brasil S.A.'s shares to Unibanco and Tradecom Argentina S.A.'s shares to Net Investment S.A.

During 2005, Tradecom Argentina S.A. made additional efforts to improve the services offered to its customers and to create new tools to meet their needs. Due to the interruption of Tradecom Brasil S.A.'s activities, Tradecom Argentina S.A. incorporated part of its customer base which will favor the expansion of the e-procurement services offered by the company.

Our objective is to continue participating in a business where the increasing interest of companies for the use of e-procurement services is significant and in activities that contribute to our comprehensive business and that of Banco Galicia.

As regards B2agro S.A., in 2004, the scarce use of internet technology by agriculture and livestock producers prevented the generation of sufficient cash flow to cover the company's operating expenses, which led to the board of directors' decision to discontinue the company's operations. The company did not operate during 2005 and did not require any capital inflows.

Galicia Warrants S.A.

We own 87.5% of Galicia Warrants S.A (Galicia Warrants), a company dedicated to the issuance of deposit certificates and warrants, and the remaining 12.5% stake is owned by Banco Galicia. Founded in 1993, Galicia Warrants is a leading company in its market, in which it has conducted transactions since 1994. Through the custody of goods, Galicia Warrants supports the business of its customers, medium- and large-sized companies, and enables such customers access to credit and financing guaranteed by the property kept in custody and evidenced by the corresponding certificates it issues. Galicia Warrants owns premises at San Salvador, Province of Entre Ríos, for the conditioning and storage of 40,000 tons of paddy rice, which since it began operations in 1998, has provided high quality services.

Both, the production increase of export-related sectors -among which the agriculture and livestock sector had an outstanding performance-, favored by high commodity prices, and the increase in credit demand caused Galicia Warrants to increase its activity level, mainly in the agro-industry and commodity sectors, which allowed it to improve its results of operations while maintaining a selected customer base.

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As of December 31, 2005, Galicia Warrants had assets for Ps.6.7 million, liabilities for Ps.1.7 million, and a shareholders' equity of Ps.5.0 million. During the fiscal year ended December 31, 2005, it issued deposit certificates for US\$74.3 million, which implied revenues of Ps.5.2 million and a Ps.0.5 million net income. The sustained growth of Argentina's real economy and of its financial system will be determining factors for the success of Galicia Warrants. In the present context, Galicia Warrants is expected to increase its activity level.

Galval Agente de Valores S.A.

We hold a 100% interest in Galval and have made contributions to it in an amount equal to Ps.1.9 million during 2005. As of September 2005, Galval started to conduct operations gradually and, at year-end, it held customer securities in custody for US\$11.8 million.

Competition

Due to our financial holding structure, competition is experienced at the level of our operating subsidiaries. We face strong competition in most of the areas in which we are active. For a breakdown of total revenues, for each of the past three fiscal years, for the three activities discussed below (i.e. banking, credit-cards and insurance), please see Item 5. Operating and Financial Review and Prospects Item 5A. Operating Results Results by Segments.

Banking

Banco Galicia faces significant competition in all of its principal areas of operation.

The Bank faces competition from foreign banks operating in Argentina, mainly large retail banks which are subsidiaries or branches of global banks, Argentine national and provincial government-owned banks, private-sector domestic banks and to a lesser extent from cooperative banks, as well as from non-bank financial institutions. As regards private-sector customers, the relevant segment for the Bank, competition is increasing from the large foreign retail banks and from certain domestically-owned private-sector banks, which prior to the crisis operated in merchant or private banking and that after the crisis acquired the retail operations of banks that left the business as a result of the crisis. Competition from public-sector banks has decreased from the immediate post-crisis period, as the public initially attracted to such institutions as a safe harbor began to search for better service with private-sector financial institutions.

The Bank's estimated deposit market share of private-sector deposits in the Argentine financial system only, based on daily information published by the Argentine Central Bank, increased to 7.97% as of December 31, 2005, compared to 7.07% as of December 31, 2004, and 5.62% as of December 31, 2003. Prior to the crisis, the Bank's deposit market share was approximately 10%.

The Bank has consistently increased its deposit market share in the last years and is one of the leading banks in Argentina and the largest domestically owned private-sector bank. As of December 31, 2005, measured by its deposits in Argentina only, the Bank was ranked fifth in the whole financial system and third among private-sector banks (including foreign banks).

For information on the Argentine banking system, please see Argentine Banking System and Regulation Argentine Banking System.

Regional Credit-Card Companies

No official data is available about the consumer finance market of the different regions of the interior of Argentina in which the regional credit-card companies operate. Mainly beginning in 2005, the regional credit-card companies have faced increased competition in the segments they operate, partly from the banking system in search for new market niches and partly from other players, both local and foreign. From the 2001-2002 economic crisis, which significantly affected these companies' competitors and led many of them to cease operations, and until 2004, competition had been relatively low.

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The insurance sector is gradually resuming the pace of growth it had experienced before the 2001-2002 economic crisis. During 2005, the sector showed a favorable trend and total insurance production increased 11.7%, reaching, pursuant to official estimations, Ps.13,413 million. Expectations are that the moderate trend in the growth of premiums will continue in 2006.

The growth recorded during the year was mainly driven by the following sectors: worker's compensation (39.4%) and life insurance (26.7%). The automobile sector grew 12.8% while retirement insurance dropped 25.1% when compared to 2004, as the extraordinary positive effect pension-linked life annuities (*rentas vitalicias previsionales*) had in 2004 ended. Not taking the latter effect into consideration, pension-linked life annuities recorded a 14.9% annual average growth between 2003 and 2005.

The property insurance sector's volume of premiums was Ps.9,394 million during 2005. The main segment of this sector is automobile insurance (47%), followed by workers' compensation (20%) and, finally, homeowners and office package insurance (5%). Even though automobile insurance is the most important segment in terms of volume of premiums written, the other two main segments recorded higher growth rates.

The volume of premiums of the individual insurance sector was Ps.4,019 million in 2005. Non-pension-linked life insurance was again the most important sector (41%), pushing pension-linked retirement insurance (27%) to the second position, followed by pension-linked life insurance (24%) and retirement insurance (6%).

During 2005, the industry concentration process continued. The number of insurance companies authorized by the Argentine Superintendency of Insurance decreased from 189 at the end of 2004 to 175 at the end of 2005, thus reflecting a 7.5% decrease. The decrease in the number of insurance companies was equal to 39%, when compared to the 288 insurance companies that operated in 1996.

Sales and Marketing

Banco Galicia's distribution capabilities are our principal marketing channel.

Banco Galicia operates one of the most extensive and diversified distribution networks among private-sector banks in Argentina. Although the Bank reduced its distribution platform during 2002 as a result of the crisis and subsequently did not expand it in the same proportion, the Bank's distribution network is one of the largest and most flexible distribution platforms in the country and the Bank has kept nationwide coverage.

The Bank markets all of its financial products and services to high-, medium- and medium-low-income individuals, including loans, insurance and FIMA family of mutual funds, through its branch network. Within the branches, the sales force is specialized by segment. The Bank's sales policy encourages tellers to perform sales functions also. Wealthy individuals who are private banking customers are served by specialized officers through a special network of service centers and a head office facility. The Bank's distribution channel for the non-bancarized segment of the population is the network of offices of the regional credit-card companies. Until mid-2002, the Bank also served this segment through the Galicia Ahora network, which was merged into the branch network in that year.

Commercial banking services to large corporations (including medium to large companies) and banks are provided in a centralized manner. Branch officers are responsible for the Bank's relationship with middle-market and small businesses and most of the agriculture/livestock sector customers.

All of the Bank's individual and corporate customers have access to the Bank's electronic distribution channels, including the ATM network and self-service terminals, a multifunction call center and the e-banking website. The Bank's call center includes the telephone-banking service and performs sales and post-sale service, provides advice, receives complaints and performs credit recovery functions. In December 2005, 76.9% of customer transactions were made through the Bank's alternative channels.

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Special mobile sales forces are maintained to market various products and services to individuals and employees of client corporations.

In 2005, a new sales and service model was designed and implemented, with the purpose of increasing commercial efficacy, establishing an integrated strategy among the different distribution channels and improving the quality of service. In order to achieve these goals, the Bank made progress in the specialization of the distribution channels (readjusting the product offering by segment/channel), the development of the payroll direct deposit business, the redesign of the customer service model at the branches, and the attraction of new open-market customers. A plan for the migration of cash operations to automatic means in order to reduce the operating burden and waiting at the branches was also added. In June 2005, based on the importance that customers assign to this aspect of the service, the Bank launched a survey on waiting times at cashiers, more specifically, to monitor customer satisfaction in connection with this issue. This led to the development of a plan for the improvement of waiting times that started in the low-scoring branches and that will be gradually extended to the whole network of branches.

Finally, in November 2005, the Bank adhered to the Code of Banking Practice established by the four bank associations of Argentina, which will further contribute to the improvement of the quality of service offered by the Bank.

The Bank uses a data warehouse, to perform segmentation and profitability analyses, estimate performance patterns and cross-selling indices and forecast client response based on historical information and data-mining. The Bank has a customer oriented service approach and a segmented marketing approach. In the late 1990s, the data warehouse capabilities began to be used to design marketing campaigns focused on specific segments of the Bank's customer base. The Bank's marketing strategy is focused on the development of long-term relationships with customers based on its knowledge of those customers. As part of this client-oriented strategy, in the late 1990s, the Bank began to implement customer relationship management technology to support continuous improvement of its relationship with customers.

In 2002, the economic crisis and the measures taken by the Argentine Government to deal with the crisis had a strong negative impact on financial institutions' relations with their customers. After the first half of 2002, the Bank implemented several initiatives to retain and recover customers by focusing on quality of service and on those attributes of the Bank that were most valued by customers according to surveys. In addition, the Bank worked to continue offering its customers transactional banking services and to provide concrete benefits originating from the use of these services.

The Bank's media presence remained low until the third quarter of 2002, when a promotional campaign with strong advertising was launched. This campaign had great acceptance and implied an important investment in communication media. On the other hand, since 2003, the Bank implemented several programs mainly aimed at improving customer focus among Bank team members. As a consequence, Banco Galicia's image and top of mind (immediate brand recollection) improved significantly.

The Bank's investment in advertisement continued to grow since then, accompanying the general market's trend and particularly, the financial system's increase in investment and number of advertisers. These actions, along with massive events in shopping centers across the country and many direct-marketing actions have reinforced the perception of the Bank as a close and friendly bank and have strengthened the image of the brand, allowing the Bank to regain the top of mind leadership in its category.

The Bank considers quality of service as an element capable of distinguishing it from competitors. In order to measure this indicator, the Bank performs various surveys. The customer satisfaction surveys for the last quarter of 2003 and 2004 showed a significant upturn in customers satisfaction rates, which regained the pre-crisis levels. During 2005, the Bank implemented new measures and activities, especially at the branch level while continuing with the assessment of service quality at the branches. This assessment is part of an incentive program and is based on the ongoing monitoring of the following indicators: customer satisfaction, service quality and the response to claims. The general score received by the branches in terms of quality of service averaged 9.08 points (over 10), its highest level since 2001. In terms of the customer's satisfaction survey, the general average was 8.70 points.

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The development of constant promotional and loyalty campaigns that highlighted the attributes of the Bank's brand, the Bank's focus on customer relationships, the increase in its overall business activity and the resumption of credit granting contributed to the rebuilding of the Bank's relations with its customers. The Bank has a leadership position in the individual market and in the commercial banking business and a leadership position in the middle-market and agribusiness sectors.

Property

We own 146 square meters of office space at Tte. Gral. Juan D. Perón 456, 2nd floor, in Buenos Aires, Argentina, which houses our management, accounting, administrative and investor relations functions. We also own a building containing eight units, equivalent to 1,619 square meters, located at Maipú 241, in Buenos Aires. Currently, we lease seven of these units to the Bank, equivalent to 1,373 square meters, for Ps.14,800 per month, and hold a 45 square meters unit vacant for storage. The remaining unit is occupied by Galicia Vida Compañía de Seguros S.A.

Galicia Retiro Compañía de Seguros S.A. and Galicia Vida Compañía de Seguros S.A. own one unit each, equivalent to 723 and 915 square meters, respectively, of the building mentioned above and located at Maipú 241, in Buenos Aires.

Net Investment S.A. owns 45 square meters at Tte. Gral. Juan D. Perón 456, 2nd floor, in Buenos Aires, where its administrative activities are conducted.

Galicia Warrants owns four units which house its administrative activities, equivalent to 118 square meters at Tte. Gral Juan D. Perón 456, 6th floor, in Buenos Aires. Additionally, the company owns a 47,917 square meters warehouse with a storage capacity of 40,000 tons of rice located at Ruta Nacional 18, Km. 209, San Salvador, Province of Entre Ríos, Argentina. In addition, Galicia Warrants rents warehouse space at Alto Verde, Chicligasta, and at Alsina 3450, San Miguel de Tucumán, Argentina, both in the Province of Tucumán, which consist of 2,000 and 6,000 square meters, respectively, and office space at San Martín 784, in San Miguel de Tucumán, which consists of 85 square meters.

Banco Galicia's principal executive offices consist of approximately 17,270 square meters at Tte. Gral. Juan D. Perón 407, in Buenos Aires. In addition, Banco Galicia owns approximately 7,340 square meters at Florida 361, in Buenos Aires, and rents approximately 9,325 square meters of space at Tte. Gral. Juan D. Perón 525, in Buenos Aires and approximately 3,630 square meters of space at San Martín 178/200, in Buenos Aires. All spaces serve as annexes to the Bank's principal executive offices.

In 1994, Banco Galicia purchased the building located at Reconquista 188/200, in Buenos Aires and, between 1992 and 2000, it purchased the building located at Tte. Gral. Juan D. Perón 444, in Buenos Aires. In these locations, construction of a new corporate tower commenced. The Bank plans to centralize a significant portion of its offices that are currently in the vicinity in this new corporate tower. The new corporate tower will consist of approximately 42,000 square meters and the construction works are expected to be completed during the last quarter of 2006. As of December 31, 2005, the Bank had invested Ps.169.3 million in constructing the new tower and the estimated remaining investment is approximately Ps.81.0 million.

As of December 31, 2005, Banco Galicia's branch network consisted of 224 branches located in Argentina, 137 of which were owned and 87 of which were rented by Banco Galicia. The Argentine branches were located in 22 of Argentina's 23 provinces.

As of December 31, 2005, Galicia Uruguay owned two buildings: its Head Office and the former Punta del Este branch. The Head Office of Galicia Uruguay is located at Luis Alberto Herrera 1248, 21st and 22nd floors, Edificio World Trade Center, Montevideo, Uruguay, and consists of approximately 880 square meters. Galicia Uruguay also rents a warehouse in Montevideo, where it stores documents. Galicia Cayman and the Cayman Branch are located in the Cayman Islands and The Bank of Nova Scotia Trust Co. acts as its registered office.

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Tarjeta Naranja S.A. owns two buildings at Sucre 152 and Sucre 154, in Córdoba, Province of Córdoba, Argentina, which house part of its management and administrative functions. These buildings contain approximately 1,390 square meters. It also owns a third building at Sucre 541, in Córdoba, which is under remodeling in order to house new office space. This building consists of approximately 1,800 square meters. In addition, Tarjeta Naranja S.A. owns two buildings at San Jerónimo 2348 and San Jerónimo 2350, in Santa Fe, Province of Santa Fe, Argentina. One of them serves as administrative offices and the other as a sales office. These buildings contain approximately 1,475 square meters. Tarjeta Naranja S.A. rents office space at Sucre 145/151 and La Rioja 375, in Córdoba, which, in aggregate is approximately 3,670 square meters. These locations serve as annexes to its principal executive offices. It also rents warehouse space at Humberto 1° 2165, in Córdoba, which consists of approximately 1,115 square meters, at La Rioja 364, in Córdoba, which is approximately 350 square meters and serves as a printing center for credit-card statements, and at Los Andes 197, in Córdoba, which is approximately 1,765 square meters. As of December 31, 2005, Tarjeta Naranja S.A. operated 85 sales points located in 21 of the 23 Argentine provinces, 83 of which were rented by the company.

Tarjetas Cuyanas S.A.'s principal executive offices are rented. They consist of approximately 1,160 square meters of space at Belgrano 1415, in Mendoza, Province of Mendoza, Argentina. It also rents warehouse space at Olascoaga 348, San José, in Mendoza which consists of approximately 580 square meters. As of December 31, 2005, its distribution network consisted of 15 sales points located in the provinces of Mendoza, San Juan, San Luis, La Pampa, La Rioja and Catamarca. All of them were rented.

Tarjetas del Mar S.A.'s principal executive offices are located at Luro 3001, Mar del Plata, Province of Buenos Aires, Argentina. They contain approximately 240 square meters of space. As of December 31, 2005, its distribution network consisted of three sales points located in the Province of Buenos Aires. Both the Head Office and the branches were rented.

Selected Statistical Information

You should read this information in conjunction with the other information provided in this annual report, including our audited consolidated financial statements and Item 5. Operating and Financial Review and Prospects. We prepared this information from our financial records, which are maintained under accounting methods established by the Argentine Central Bank under Argentine Banking GAAP, and do not reflect adjustments necessary to reflect the information in accordance with U.S. GAAP. We have expressed all amounts in millions of pesos, except percentages, ratios, multiples and per-share data.

Unless otherwise stated, in this section the exchange rate used to convert foreign currency amounts into pesos was the exchange rate as of each relevant date or period end that Banco Nación or the Argentine Central Bank quoted. In the case of dollars, until December 31, 2001, the Banco Nación quotes for such exchange rates were Ps.1.0 per US\$1.0. The exchange rate used for the preparation of the financial statements as of December 31, 2002 and December 31, 2003 was Ps.3.3630 per US\$1.0 and Ps.2.9330 per US\$1.0 respectively. For the preparation of the financial statements as of December 31, 2004 and December 2005 the exchange rates used were Ps.2.9738 per US\$1.0 and Ps.3.0315 per US\$1.0 respectively. See Item 3. Key Information Exchange Rate Information.

In 2002, Argentina experienced a high rate of inflation. The WPI increased approximately 118.44% between January 1, 2002 and December 31, 2002. Between January 1, 2003 and February 28, 2003, the WPI increased 0.87%. Between January 1, 2002 and February 28, 2003, the WPI increased 120.35%. In accordance with the then applicable accounting rules, starting January 1, 2002, our financial statements and those of the Bank began to be adjusted for inflation. Subsequently, as a result of the stabilization of the WPI during the first half of 2003, the requirement that financial statements be prepared in constant currency was eliminated for financial periods ending on or after March 1, 2003.

Accordingly, information included in this section as of and for the fiscal year ended December 31, 2004 and December 31, 2005 does not include any effect of inflation accounting and information included in this section as of and for the fiscal year ended December 31, 2003 includes the effects of inflation accounting through February 28, 2003, with the WPI increasing 0.87% between January 1, 2003 and February 28, 2003, while the information for periods prior to February 28, 2003 has been restated in constant pesos as of February 28, 2003 applying the approximately 120.35% change in the WPI for the period from January 1, 2002 to February 28, 2003.

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High rates of inflation affect the comparability of financial performance on a period-to-period basis. Although inflation accounting improves the comparability of the financial information, it does not eliminate or correct many of the distortions created by inflation that will affect period-to-period comparisons of financial information.

Average Balance Sheet and Income from Interest-Earning Assets and Expenses from Interest-Bearing Liabilities

The average balances of interest-earning assets and interest-bearing liabilities, including the related interest receivable and payable, are calculated on a daily basis for Banco Galicia, Galicia Uruguay and Tarjetas Regionales S.A. consolidated. The average balances of interest-earning assets and interest bearing liabilities are calculated on a monthly basis for Grupo Galicia and its other non-banking subsidiaries.

Average balances have been separated between those denominated in pesos and those denominated in dollars. The nominal interest rate is the amount of interest earned or paid during the period divided by the related average balance.

Net gains/losses on government securities and related differences in market quotations are included in interest earned. Banco Galicia manages its trading activities in government securities as an integral part of its business. Banco Galicia does not distinguish between interest income and market gains or losses on its government securities portfolio. The non-accrual loans balance is included in the average loan balance calculation.

The following table shows our consolidated average balances, interest earned or paid and nominal interest rates for interest-earning assets and interest-bearing liabilities for the fiscal year ended December 31, 2005.

	Fiscal Year Ended December 31, 2005 (*)									
	Pesos			Dollars			Total			
	Average Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Balance	Interest Earned/ Paid	Average Yield/ Rate	
	<i>(in millions of pesos, except rates)</i>									
Assets										
Government Securities	Ps .4,945.8	Ps .660.9	13.36	Ps .801.9	Ps .16.4	2.05	Ps .5,747.7	Ps .677.3	11.78	
Loans										
Private Sector	3,917.2	610.3	15.58	989.9	39.6	4.00	4,907.1	649.9	13.24	
Public Sector	4,839.8	714.9	14.77				4,839.8	714.9	14.77	
Total Loans	8,757.0	1,325.2	15.13	989.9	39.6	4.00	9,746.9	1,364.8	14.00	
Other ⁽¹⁾	1,584.4	134.6	8.50	4,765.2	138.7	2.91	6,349.6	273.3	4.30	
Total Interest-Earning Assets										
	15,287.2	2,120.7	13.87%	6,557.0	194.7	2.97%	21,844.2	2,315.4	10.60%	
Cash and Gold	357.1			184.2			541.3			
Equity in Other Companies	446.7			43.5			490.2			
Other Assets	1,901.2			89.3			1,990.5			
Allowances	(555.7)			(72.4)			(628.1)			
Total Assets	Ps .17,436.5			Ps .6,801.6			Ps .24,238.1			
Liabilities and Equity										
Deposits										
Current Accounts	536.8	15.3	2.85	78.2			615.0	15.3	2.49	

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Saving Accounts	1,023.9	4.7	0.46	364.1			1,388.0	4.7	0.34
Time Deposits	3,351.3	238.9	7.13	767.8	7.9	1.03	4,119.1	246.8	5.99
Total Interest-Bearing Deposits	4,912.0	258.9	5.27	1,210.1	7.9	0.65	6,122.1	266.8	4.36
Argentine Central Bank	8,341.3	1,177.2	14.11	0.3			8,341.6	1,177.2	14.11
Other Financial Entities	206.6	36.8	17.81	152.0	9.8	6.45	358.6	46.6	12.99
Debt Securities	101.3	9.7	9.58	3,427.3	224.4	6.55	3,528.6	234.1	6.63
Other	41.2	6.4	15.53	1,045.7	65.0	6.22	1,086.9	71.4	6.57
Total Interest-Bearing	13,602.4	1,489.0	10.95	5,835.4	307.1	5.26	19,437.8	1,796.1	9.24

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	Fiscal Year Ended December 31, 2005 (*)					
	Pesos			Dollars		
	Average	Interest	Average	Interest	Average	Total
	Balance	Earned/ Paid	Balance	Earned/ Paid	Balance	Average
	Rate	Rate	Rate	Rate	Rate	Yield/ Rate
	<i>(in millions of pesos, except rates)</i>					
Liabilities						
Demand deposits	1,414.3		20.8		1,435.1	
Other Liabilities	1,358.0		310.0		1,668.0	
Minority Interests	127.9				127.9	
Shareholders						
Equity	1,569.3				1,569.3	
Total Liabilities and Equity	Ps .18,071.9		Ps .6,166.2		Ps .24,238.1	
Spread and Net Yield						
Interest Rate Spread		2.92%		(2.29)%		1.36%
Cost of Funds Supporting Interest-Earning Assets		9.74		4.68		8.22
Net Yield on Interest-Earning Assets		4.13		(1.71)		2.38

(*) Rates include the CER adjustment.

(1) Includes the amounts corresponding to the Compensatory Bond and the Hedge Bond to be received, among others.

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The following table shows our consolidated average balances, interest earned or paid and nominal interest rates for interest-earning assets and interest-bearing liabilities for the fiscal year ended December 31, 2004.

	Fiscal Year Ended December 31, 2004 (*)									
	Pesos			Dollars			Total			
	Average Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Balance	Interest Earned/ Paid	Average Yield/ Rate	
	<i>(in millions of pesos, except rates)</i>									
Assets										
Government Securities	Ps. 1,226.7	Ps. 78.5	6.40	Ps. 2,012.0	Ps. (87.8)	(4.36)	Ps. 3,238.7	Ps. (9.3)	(0.29)	
Loans										
Private Sector	3,213.9	490.9	15.27	907.3	44.1	4.86	4,121.2	535.0	12.98	
Public Sector	7,016.7	564.6	8.05				7,016.7	564.6	8.05	
Total Loans	10,230.6	1,055.5	10.32	907.3	44.1	4.86	11,137.9	1,099.6	9.87	
Other ⁽¹⁾	1,385.8	92.5	6.67	4,973.0	73.3	1.47	6,358.8	165.8	2.61	
Total Interest-Earning Assets	12,843.1	1,226.5	9.55%	7,892.3	29.6	0.38%	20,735.4	1,256.1	6.06%	
Cash and Gold	290.2			150.0			440.2			
Equity in Other Companies	339.2			88.5			427.7			
Other Assets	2,142.9			104.0			2,246.9			
Allowances	(840.2)			(284.1)			(1,124.3)			
Total Assets	Ps. 14,775.2			Ps. 7,950.7			Ps. 22,725.9			
Liabilities and Equity										
Deposits										
Current Accounts	364.5	4.8	1.32%	69.5			434.0	4.8	1.11%	
Saving Accounts	767.1	4.2	0.55	267.4			1,034.5	4.2	0.41	
Time Deposits	2,228.9	116.3	5.22	1,088.6	Ps. 18.2	1.67%	3,317.5	134.5	4.05	
Total Interest-Bearing Deposits	3,360.5	125.3	3.73	1,425.5	18.2	1.28	4,786.0	143.5	3.00	
Argentine Central Bank	8,165.6	698.9	8.56				8,165.6	698.9	8.56	
Other Financial Entities	168.2	47.9	28.48	815.4	66.8	8.19	983.6	114.7	11.66	
Debt Securities	10.7			3,179.9	27.6	0.87	3,190.6	27.6	0.87	
Other	95.7	7.9	8.25	1,072.5	52.5	4.90	1,168.2	60.4	5.17	
Total Interest-Bearing	11,800.7	880.0	7.46%	6,493.3	165.1	2.54%	18,294.0	1,045.1	5.71%	

Liabilities

Demand deposits	1,038.2	34.0	1,072.2
Other Liabilities	1,197.4	558.2	1,755.6
Minority Interests	103.2		103.2
Shareholders			
Equity	1,500.9		1,500.9

Total Liabilities

and Equity	Ps. 15,640.4	Ps. 7,085.5	Ps. 22,725.9
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Spread and Net Yield

Interest Rate Spread			
Cost of Funds Supporting Interest-Earning Assets	2.09%	(2.16)%	0.35%
Net Yield on Interest-Earning Assets	6.85	2.09	5.04
	2.70	(1.72)	1.02

(*) Rates include the CER adjustment.

(1) Includes the amounts corresponding to the Compensatory Bond and the Hedge Bond to be received, among others.

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The following table shows our consolidated average balances, interest earned or paid and nominal interest rates for interest-earning assets and interest-bearing liabilities for the fiscal year ended December 31, 2003. In the table below, the Bank's holdings of Bogar were not reclassified as government securities, being included under Loans- Public Sector in pesos.

	Fiscal Year Ended December 31, 2003 (*)									
	Pesos			Dollars			Total			
	Average	Interest	Average	Average	Interest	Average	Average	Interest	Average	
	Balance	Earned/ Paid	Yield/ Rate	Balance	Earned/ Paid	Yield/ Rate	Balance	Earned/ Paid	Yield/ Rate	
	<i>(in millions of pesos, except rates)</i>									
Assets										
Government Securities	Ps. 250.5	Ps. 23.3	9.30%	Ps. 1,832.3	Ps. 48.2	2.63%	Ps. 2,082.8	Ps. 71.5	3.43%	
Loans										
Private Sector	2,981.0	705.6	23.67	986.2	89.2	9.04	3,967.2	794.8	20.03	
Public Sector	7,589.5	342.6	4.51				7,589.5	342.6	4.51	
Total Loans	10,570.5	1,048.2	9.92	986.2	89.2	9.04	11,556.7	1,137.4	9.84	
Other ⁽¹⁾	1,309.3	61.1	4.67	5,776.3	64.4	1.11	7,085.6	125.5	1.77	
Total Interest-Earning Assets	12,130.3	1,132.6	9.34%	8,594.8	201.8	2.35%	20,725.1	1,334.4	6.44%	
Cash and Gold	207.0			135.5			342.5			
Equity in Other Companies	462.1			140.4			602.5			
Other Assets	2,275.1			128.2			2,403.3			
Allowances	(1,291.7)			(251.4)			(1,543.1)			
Total Assets	Ps. 13,782.8			Ps. 8,747.5			Ps. 22,530.3			-
Liabilities and Equity										
Deposits										
Current Accounts	Ps. 185.1	Ps. 3.0	1.62%	Ps. 30.5			Ps. 215.6	Ps. 3.0	1.39%	
Saving Accounts	434.6	3.4	0.78	178.5			613.1	3.4	0.55	
Time Deposits	2,185.4	230.6	10.55	1,422.9	Ps. 26.8	1.88%	3,608.3	257.4	7.13	
Total Interest-Bearing Deposits	2,805.1	237.0	8.45	1,631.9	26.8	1.64	4,437.0	263.8	5.95	
Argentine Central Bank	8,062.0	473.1	5.87	0.7			8,062.7	473.1	5.87	
Other Financial Entities	174.4	69.9	40.08	1,900.0	121.0	6.37	2,074.4	190.9	9.20	
Debt Securities				2,710.5	154.2	5.69	2,710.5	154.2	5.69	
Other	45.7	9.6	21.01	1,307.4	58.4	4.47	1,353.1	68.0	5.03	

Total Interest-Bearing Liabilities	11,087.2	789.6	7.12%	7,550.5	360.4	4.77%	18,637.7	1,150.0	6.17%
Demand deposits	700.6			72.2			772.8		
Other Liabilities	939.4			561.5			1,500.9		
Minority Interests	89.5			0.0			89.5		
Shareholders Equity	1,529.4						1,529.4		
Total Liabilities and Equity	Ps. 14,346.1			Ps. 8,184.2			Ps. 22,530.3		-
Spread and Net Yield									
Interest Rate Spread			2.22%			(2.42)%			0.27%
Cost of Funds Supporting Interest-Earning Assets			6.51			4.19			5.55
Net Yield on Interest-Earning Assets			2.83			(1.85)			0.89

(*) Rates include the CER adjustment.

(1) Includes the amounts corresponding to the Compensatory Bond and the Hedge Bond to be received, among others.

Changes in Net Interest Income Volume and Rate Analysis

The following table allocates, by currency, changes in our consolidated interest income and interest expenses between changes in the average volume of interest-earning assets and interest-bearing liabilities and changes in their respective nominal interest rates for (i) the fiscal year ended December 31, 2005 compared with the

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fiscal year ended December 31, 2004; and (ii) the fiscal year ended December 31, 2004, compared with the fiscal year ended December 31, 2003. Differences related to rate or volume are allocated proportionally to the rate variance and the volume variance, respectively.

	Fiscal Year 2005/ Fiscal Year 2004, Increase (Decrease) due to changes in			Fiscal Year 2004/ Fiscal Year 2003, Increase (Decrease) due to changes in Net Change		
	Volume	Rate	Net Change <i>(in millions of pesos)</i>	Volume	Rate	Net Change
Interest Earning Assets						
Government Securities						
Pesos	Ps.428.5	Ps.153.9	Ps. 582.4	Ps. 60.0	Ps. (4.8)	Ps. 55.2
Dollars	30.3	73.9	104.2	5.2	(141.2)	(136.0)
Total	458.8	227.8	686.6	65.2	(146.0)	(80.8)
Loans						
Private Sector						
Pesos	109.4	10.0	119.4	60.7	(275.4)	(214.7)
Dollars	4.8	(9.3)	(4.5)	(6.7)	(38.4)	(45.1)
Total	114.2	0.7	114.9	54.0	(313.8)	(259.8)
Public Sector						
Pesos	(88.7)	239.0	150.3	(23.7)	245.7	222.0
Dollars						
Total	(88.7)	239.0	150.3	(23.7)	245.7	222.0
Other						
Pesos	14.5	27.6	42.1	3.8	27.6	31.4
Dollars	(2.9)	68.3	65.4	(6.8)	15.7	8.9
Total	11.6	95.9	107.5	(3.0)	43.3	40.3
Total Interest-Earning Assets						
Pesos	463.7	430.5	894.2	100.8	(6.9)	93.9
Dollars	32.2	132.9	165.1	(8.3)	(163.9)	(172.2)
Total	Ps.495.9	Ps.563.4	Ps.1,059.3	Ps. 92.5	Ps.(170.8)	Ps. (78.3)
Interest Bearing Liabilities						
Demand Account						
Pesos	3.1	7.4	10.5	2.3	(0.5)	1.8
Dollars						
Total	3.1	7.4	10.5	2.3	(0.5)	1.8
Saving Account						
Pesos	1.0	(0.5)	0.5	1.4	(0.6)	0.8
Dollars						

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Total	1.0	(0.5)	0.5	1.4	(0.6)	0.8
Time Deposits						
Pesos	71.0	51.6	122.6	4.7	(119.0)	(114.3)
Dollars	(4.5)	(5.8)	(10.3)	(5.8)	(2.8)	(8.6)
Total	66.5	45.8	112.3	(1.1)	(121.8)	(122.9)
With the Argentine Central Bank						
Pesos	15.3	463.0	478.3	6.2	219.6	225.8
Dollars						
Total	15.3	463.0	478.3	6.2	219.6	225.8
With Other Financial Entities						
Pesos	17.4	(28.5)	(11.1)	(2.4)	(19.6)	(22.0)
Dollars	(45.2)	(11.8)	(57.0)	(108.8)	54.6	(54.2)
Total	(27.8)	(40.3)	(68.1)	(111.2)	35.0	(76.2)
Negotiable Obligations						
Pesos	2.5	7.2	9.7			
Dollars	2.3	194.5	196.8	33.9	(160.5)	(126.6)
Total	4.8	201.7	206.5	33.9	(160.5)	(126.6)
Other liabilities						
Pesos	2.5	(4.0)	(1.5)	6.4	(8.1)	(1.7)
Dollars	(1.3)	13.8	12.5	(12.6)	6.7	(5.9)
Total	1.2	9.8	11.0	(6.2)	(1.4)	(7.6)
Total Interest Bearing Liabilities						
Pesos	112.8	496.2	609.0	18.6	71.8	90.4
Dollars	(48.7)	190.7	142.0	(93.3)	(102.0)	(195.3)
Total	Ps. 64.1	Ps.686.9	Ps. 751.0	Ps. (74.7)	Ps. (30.2)	Ps.(104.9)

In the table above, the Bank's holdings of Bogar were not reclassified as government securities in 2003, being included under Loans- Public Sector in pesos.

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The following table analyzes, by currency of denomination, the levels of our average interest-earning assets and net interest earned, and illustrates the net yields and spreads obtained, for each of the periods indicated.

	Fiscal Year Ended December 31,		
	2005	2004	2003
Total Average Interest-Earning Assets			
Pesos	Ps.15,287.2	Ps.12,843.1	Ps.12,130.3
Dollars	6,557.0	7,892.3	8,594.8
Total	21,844.2	20,735.4	20,725.1
Net Interest Earned (1)			
Pesos	631.7	346.5	343.0
Dollars	(112.4)	(135.5)	(158.6)
Total	519.3	211.0	184.4
Net Yield on Interest-Earning Assets (2) (%)			
Pesos	4.13	2.70	2.83
Dollars	(1.71)	(1.72)	(1.85)
Weighted-Average Yield	2.38	1.02	0.89
Interest Spread, Nominal Basis (3) (%)			
Pesos	2.92	2.09	2.22
Dollars	(2.29)	(2.16)	(2.42)
Weighted-Average Yield	1.36	0.35	0.27
Credit Related Fees Included in Net Interest Earned			
Pesos	26.4	20.7	15.7
Dollars	0.0		
Total	26.4	20.7	15.7

(1) *Net interest earned corresponds to our net financial income plus:*

Credit related fees (included in Income from Services In Relation to Lending Transactions in the Income Statement)

Contributions to the deposit insurance system, and contributions and taxes on financial income included in the income statement line Financial Expenses Other, minus:

Net income from corporate securities included under Financial Income/Expenses- Interest Income and Holdings Gains/Losses from Government and Corporate Securities, in the income statement, and

Differences in quotation of gold and foreign currency and premiums on foreign currency transactions, included in Financial Income/Expenses Other, in the income statement.

(2)

Net interest earned, divided by average interest-earning assets.

- (3) *Interest spread, nominal basis is the difference between the average nominal interest rate on interest-earning assets and the average nominal interest rate on interest-bearing deposits.*

Government and Corporate Securities

The following table shows our holdings of government and corporate securities at the balance sheet dates, and the breakdown of the portfolio in accordance with the Argentine Central Bank classification system and by the securities currency of denomination.

	As of December 31,	
	2005	2004
	<i>(in millions of pesos)</i>	
Government Securities		
Pesos		
Trading	Ps.14.6	Ps.5.7
Investments		
Available for Sale		

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	2005	As of December 31, 2004
	<i>(in millions of pesos)</i>	
Government Securities		
Issued by the Argentine Central Bank	704.5	508.5
Without Quotation	4,591.1	3,621.7
Total Government Securities in Pesos	Ps.5,310.2	Ps.4,135.9
Dollars ⁽¹⁾		
Trading	6.3	31.1
Investments	650.9	601.3
Without Quotation		749.7
Total Government Securities in Dollars	Ps. 657.2	Ps.1,382.1
Total Government Securities	Ps.5,967.4	Ps.5,518.0
Corporate Equity Securities (Quoted)		
Pesos		
Dollars		
Total Corporate Equity Securities		
Total Government and Corporate Equity Securities	Ps.5,967.4	Ps.5,518.0
Mutual Funds		
Corporate Debt Securities		
Pesos	Ps. 3.9	Ps. 0.8
Dollars	0.5	15.3
Total Corporate Debt Securities	Ps. 4.4	Ps. 16.1
Total Government and Corporate Securities	Ps.5,971.8	Ps.5,534.1

As of December 31, 2005, our portfolio of government securities amounted to Ps.5,967.4 million. Of such total, Ps.5,959.8 million corresponded to the Bank on a consolidated basis and Ps.7.6 million to Sudamericana. The Bank's total mainly comprised:

- (i) under In pesos Without Quotation, peso-denominated Bogar for Ps.3,823.3 million, peso-denominated Fiscal Credit Certificates for Ps.34.5 million and Discount Bonds in Pesos for Ps.733.3 million;
- (ii) under In pesos Issued by the Argentine Central Bank, peso-denominated Lebac for Ps.702.0 million; and
- (iii) under In dollars Investments, Boden 2012 for Ps.650.9 million (held for investment in the Argentine Central Bank classification system),

All of these securities were recorded by the Bank in Argentina and, except for the Lebac, all of them were issued by the Argentine Government.

As of December 31, 2005 and based on quoted market prices:

The market value of the Boden 2012 recorded as government securities held for investment (face value US\$241.4 million) was Ps.577.5 million. This amount represents the Boden 2012 corresponding to the

Compensatory Bond received by the Bank, net of the amounts transferred to Galicia Uruguay and used by the latter to settle the exchange offer made to its depositors in early 2004, the amounts used to settle the restructuring of the Bank's foreign debt completed in May 2004 and the amounts sold under repurchase agreements (the latter being recorded under Other Receivables from Financial Brokerage as explained below).

The total amount of compensation in Boden 2012 (Compensatory Bond and Hedge Bond) recorded in the Bank's books was Ps.5,142.9 million (face value US\$1,638.1 million). In addition to the Boden 2012 recorded as government securities held for investment, this total comprises the Boden 2012 to be acquired corresponding to the Hedge Bond, for Ps.4,155.0 million (recorded under Other Receivables

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for Financial Intermediation), and Boden 2012 sold under repurchase agreements, for Ps.337.3 million. The market value of the Bank's position in such Boden 2012, as of December 31, 2005, was Ps.4,644.5 million. Of this amount, Ps.876.6 million corresponded to the Compensatory Bond (including interest accrued) and Ps.3,767.9 million corresponded to the Hedge Bond to be acquired, which amount includes the amortization and interest coupons accrued and not perceived.

The market value of the Bogar was Ps.3,366.8 million. It should be noted that all of the Bank's Bogar have either been granted as collateral for the financial assistance from the Argentine Central Bank or assigned as collateral for the advance to be granted by the Argentine Central Bank to purchase the Hedge Bond.

The Bank's holdings of Lebac were marked to market.

The market value of the Discount Bonds in pesos (and the GDP-Linked Units) was Ps.349.3 million.

In March 2005, after a thorough analysis of the adjustments requested by the Argentine Central Bank and of the consequences of keeping undefined the final amount of Boden 2012 corresponding to the Bank as compensation for the asymmetric pesification, as established by Decree No.905/02 (Compensatory Bond and Hedge Bond), the Bank decided to accept the amount determined by the Argentine Central Bank. The total compensation to the Bank for the asymmetric pesification determined was US\$2,178.0 million of face value of Boden 2012. The difference arising from the adjustments required by the Argentine Central Bank and accepted by the Bank was offset during 2005 against provisions previously established for such purpose. In November 2005, the Bank received Boden 2012 for a face value of US\$236.9 million. Having received such bonds, the receipt by the Bank of the Boden 2012 corresponding to the Compensatory Bond (face value US\$906.3 million) was completed. The balance of the Boden 2012 corresponding to the Hedge Bond (face value US\$1,271.7 million) is recorded under Other Receivables Resulting from Financial Brokerage In Foreign Currency Bonds to be Received from the National Government, for Ps.4,155.0 million.

To date, the settlement of the Hedge Bond, as well as the settlement of the advance for its acquisition and the acceptance by the Argentine Central Bank of the assets offered as collateral for such advance, are pending. In early 2006, a formal request was made to the Argentine Central Bank of the advance for the partial subscription of the Hedge Bond, for Ps.1,616.9 million, equivalent to US\$1,154.9 million of face value of Boden 2012. The request of the advance for the difference (US\$116.8 million of face value of Boden 2012) to reach the total amount of the Hedge Bond will be made in the future.

The Bank has the option set in Decree No. 905/02 to either purchase the Hedge Bond with public-sector assets granted as collateral for the above mentioned advance or netting the assets granted as collateral for such advance against such liability. See Main Regulatory Changes since 2002 Compensation to Financial Institutions For the Asymmetric Pesification and its Consequences.

As of December 31, 2004, our portfolio of government securities amounted to Ps.5,518.0 million. Of such total, Ps.5,497.5 million corresponded to the Bank on a consolidated basis, Ps.17.6 million to Sudamericana, Ps.2.2 million to Grupo Galicia, and the remaining Ps.0.7 million to Galicia Warrants. The Bank's total mainly comprised: (i) under In pesos- Securities Without Quotation, peso-denominated Bogar for Ps.3,540.3 million and peso-denominated Fiscal Credit Certificates for Ps.78.2 million; (ii) under In pesos Issued by the Argentine Central Bank, peso-denominated Lebac for Ps.496.5 million; (iii) under In dollars- Securities Without Quotation, dollar-denominated External Notes for Ps.749.7 million; and (iv) under In dollars-Investments, Boden 2012 for Ps.601.3 million (held for investment in the Argentine Central Bank classification system), all of them recorded by the Bank in Argentina and, except the Lebac, all of them issued by the Argentine Government.

Valuation

In accordance with Argentine Central Bank rules, quoted government securities held-for-trading purposes are carried at their Argentine closing market quotation less estimated selling costs.

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Beginning on March 1, 2000, quoted government securities classified as investments began to be carried at their acquisition cost increased at the end of each service period by the corresponding coupon.

Through its Communiqué A 3278, the Argentine Central Bank established that effective June 1, 2001, quoted government securities in investment accounts had to be valued at their acquisition cost increased by accruing their internal rate of return over the period elapsed since the date of inclusion of the securities in the investment account category. This was also applicable to the securities incorporated in investment accounts prior to June 1, 2001. In this case, the acquisition cost was established as their book value as of May 31, 2001, resulting from the previous valuation rules. The change in valuation rules was not meant to be retroactive nor should it generate any accounting adjustments. For government securities previously included in trading accounts, the cost value is their closing market value as of the day before their transfer to an investment account. In accordance with Argentine Central Bank rules, the carrying value of investment-account securities must be reduced at each month end for the positive difference between their book value and their market value increased by 20%.

For the securities received by financial institutions as compensation for the effects of the asymmetric pesification under the provisions of Decrees No. 905/02 and No. 2167/02 carried at their face value (in the Bank's case, Boden 2012), the reduction mentioned in the preceding paragraph for the difference between book value and market value increased by 20.0% is not applicable. However, on October 29, 2002, Argentine Central Bank Communiqué A 3785 restricted the distribution of cash dividends by establishing that banks should adjust their earnings to be distributed as cash dividends with the difference between the market value and the carrying value of these bonds.

Argentine Central Bank Communiqué A 3857, dated January 7, 2003, established that financial institutions could record as investments, only those securities incorporated to their balance sheets through December 31, 2002. After that date, the value of any securities (except the Compensatory Bond and the Hedge Bond received and to be received according to applicable compensation rules or other compensation to be received) incorporated into a bank's position will be marked-to-market.

In accordance with Argentine Central Bank accounting rules, the Bank recorded the Boden 2012 already received and its right to acquire Boden 2012 in the future as assets having equal value to 100% of the face value of such Boden 2012. The face value of a financial instrument is the balance of principal outstanding plus accrued interest of such instrument, in accordance with the relevant contractual terms. The estimated market value of these assets is lower. As of June 22, 2006, the Boden 2012 were trading at approximately 93.5% of face value.

As of December 31, 2005, the Tax Credit Certificates were subject to a payment default. The Tax Credit Certificates can be used for tax payments.

By means of Communiqué A 3911, dated March 28, 2003, the Argentine Central Bank established a new method for the valuation of secured loans (Decree No.1387/01), government securities not subject to capital requirements to cover market risks (government securities without quotation), secured promissory notes or bonds (Bogar) issued by the FFDP (Decree No.1579/02), and other loans to the non-financial public sector, except for, among others, government securities accounted in investment accounts, the Compensatory Bond and the Hedge Bond and securities issued by the Argentine Central Bank (Lebac).

Beginning with the financial statements for March 2003, included assets had to be valued at the lowest between their face and their present values. In order to determine the present value, the Argentine Central Bank established a discount rate that increased gradually over time. Its initial value was 3.0% per annum, to be applied until December 2003, thereafter, increasing gradually (every six months or annually) in accordance with a pre-determined schedule. The difference between the present and face values (the lowest of both), and the book value must be reflected in an asset regularizing account, in case of a positive difference, or be charged to income in case the difference is negative.

Subsequently, Communiqué A 4084, dated January 30, 2004, introduced certain changes to the provisions set forth by Communiqué A 3911:

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It excluded from valuation at present value those public-sector assets granted as collateral for advances from the Argentine Central Bank to purchase Boden (both for banks' customers and held by banks) set forth in sections 10, 11 and 12 of Decree No.905/02. These assets may be recorded at the value determined by the Argentine Central Bank for their use as collateral;

It established the valuation method for past-due and unpaid public-sector assets. In this case, in order to calculate the present value thereof, the cash flow of the Bogar must be used; except if these assets are applied to the payment of taxes; and

It provided for the reversal of interest accrued on past-due and unpaid public-sector assets included in the exchange offer to restructure Argentina's sovereign debt after December 31, 2001, if applicable.

In addition, Communiqué A 4095, dated February 10, 2004, provided that adjustments resulting from the application of Communiqué A 4084 should be recorded as adjustments to prior fiscal years' results.

By means of Communiqué A 4163, published on July 2, 2004, and related rules, the Argentine Central Bank modified the schedule of discount rates applicable to determine the present value of the cash flows of public-sector assets. The main changes introduced were the following: (i) the reduction in discount rates, mainly in 2005; (ii) the monthly increase in the applicable discount rates, which under the previous regulation (Communiqué A 3911) increased at the beginning of semi-annual or annual periods, depending on the year; and (iii) the postponement of the date for the application of the average market rate as discount rate, from January 2008 to June 2008. The applicable discount rates are shown in the following table:

	January	February	March	April	May	June	July	August	Sept.	October	Nov.	Dec.
2003			3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
2004	3.25	3.25	3.25	3.25	3.25	3.25	3.29	3.33	3.37	3.41	3.46	3.50
2005	3.54	3.58	3.62	3.66	3.71	3.75	3.79	3.83	3.87	3.91	3.96	4.00
2006	4.08	4.15	4.23	4.31	4.39	4.47	4.56	4.64	4.73	4.82	4.91	5.00
	5% +	5% +	5% +	5% +	5% +	5% +	5% +	5% +	5% +	5% +	5% +	5% +
2007	0.04xTMC	0.04xTMC	0.13xTMC	0.17xTMC	0.21xTMC	0.25xTMC	0.29xTMC	0.33xTMC	0.38xTMC	0.42xTMC	0.46xTMC	0.50xTMC
	5% +	5% +	5% +	5% +	5% +							
2008	0.58xTMC	0.66xTMC	0.75xTMC	0.83xTMC	0.92xTMC	TM (as from June 2008)						

Where:

TM = average market rate informed by the Argentine Central Bank based on the internal rates of return of National Government Securities with similar modified duration.

TMC = average market rate corrected = TM - 5%.

Bogar granted as collateral for the financial assistance from the Argentine Central Bank were valued pursuant to the guidelines established by Communiqué A 3911 as supplemented, i.e., at their present value calculated by using the increasing discount rate established by this rule; and Bogar to be granted as collateral for the advance to be received from the Argentine Central Bank for the purchase of the Hedge Bond were recorded at the value admitted by the Argentine Central Bank for assets used as collateral, which in the case of the Bogar is the face value. As of June 22, 2006, the Bogar were trading at approximately 75.4% of face value.

With respect to the External Notes, on January 14, 2005, the Argentine Government launched an exchange offer to restructure Argentina's defaulted foreign debt, including such External Notes. The exchange offer expired on February 25. During January 2005, the Bank opted to exchange its External Notes for Peso-Denominated Discount Bonds and GDP-Linked Units, in an offer not subject to proration, the terms and conditions of which were established by Decree No.1735/04. As a result, as of December 31, 2004, the External Notes were valued at the present value of the cash flow of the Bogar and past due interest accrued on such Notes after December 31, 2001, was reversed, as specified in section 1 v) and section 5 of Communiqué A 4084. This valuation resulted in a Ps.106 million reduction

in the balance of the Government Securities account in 2004, partially compensated by the increase in the exchange rate. As of December 31, 2003, the External Notes were held for investment and carried at their face value.

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The chosen option implied receiving new debt instruments for a principal amount equal to 33.7% of the eligible debt, the latter being equal to the non-amortized principal amount as of December 31, 2001, plus unpaid past-due interest up to that date.

As regards the registration of the new securities, in order to reduce the impact on bank balance sheets of participating in the exchange offer, the Argentine Central Bank, through Communiqué A 4270, allowed the aforementioned Peso-denominated Discount Bonds and the GDP-Linked Units to be recorded at the lowest of: (i) the carrying value of the old securities in accordance with the prevailing valuation rules (Communiqués A 4084 and complementary ones); and (ii) the total future nominal cash payments up to maturity specified by the terms and conditions of the new securities. The new securities were recorded at the carrying value of the old securities. This valuation will be reduced in the amount of the perceived service payments and accrued interest will not be recognized. As of June 22, 2006, the Discount Bonds were trading at approximately 87.1% of face value.

Before Communiqué A 3911 became effective, unquoted government securities were carried at the lower of cost or net realizable value plus any applicable contractual adjustments for movements in price indices, or at their technical values, which are government-published schedules of value that increase over the term of the security.

We also own, manage and trade a portfolio of corporate securities. Unquoted corporate debt securities are carried at cost plus their internal rate of return. Quoted corporate debt and equity securities are considered as held for trading and, therefore, are carried at market value.

Remaining Maturity and Weighted-Average Yield

The following table analyzes the remaining maturity and weighted-average yield of our holdings of investment and trading government and corporate securities as of December 31, 2005. Our government securities portfolio yields do not contain any tax equivalency adjustments.

	Past Due/ Callable Total Book Value	Maturity Yield		Maturity Yield		Maturity Yield		Maturity Yield	
		Maturing within 1 Year Book Value	Yield (1)	Maturing after 1 Year but within 5 Years Book Value	Yield (1)	Maturing after 5 Years but within 10 Years Book Value	Yield (1)	Maturing after 10 Years Book Value	Yield (1)
Government Securities Held for Trading and Brokerage Purposes (carried at market value)									
Pesos	Ps. 14.6	Ps. 0.7	4.3%	Ps. 2.7	4.8%	Ps. 5.6	4.8%	Ps. 5.6	5.4%
Dollars	6.3	0.9	9.0%	3.6	9.0%	1.8	9.0%		
Held for Investment (carried at amortized cost)									

Pesos									
Dollars	650.9	93.0	9.0%	371.9	9.0%	186.0	9.0%		
Instrument									
Issued by									
Argentine									
Central Bank									
Pesos	704.5	524.2	5.9%	180.3	10.2%				
Dollars									
Securities									
Without									
Quotation									
Pesos	4,591.1	225.6	4.4%	844.3	4.8%	1,766.7	4.8%	1,754.5	5.4%
Dollars									
Total									
Government									
Securities	5,967.4	844.4	5.8%	1,402.8	6.6%	1,960.1	5.2%	1,760.1	
Corporate									
Debt									
Securities	4.4	3.3	11.5%	0.6	8.0%			0.5	10.4%
Mutual									
Funds									
Total									
Portfolio	Ps. 5,971.8	Ps. 847.7	5.9%	Ps. 1,403.4	6.6%	Ps. 1,960.1	5.2%	Ps. 1,760.6	

(1) *Effective yield based on December 31, 2005 quoted market values.*

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The following table shows our net position in government and corporate securities at the balance sheet date, and the breakdown of the portfolio in accordance with the Argentine Central Bank classification system and by the securities' currency of denomination. The net position is defined as holdings plus forward purchases and spot purchases pending settlement, minus forward sales and spot sales pending settlement. As of December 31, 2005, our position in government securities amounted to Ps.6,041.0 million, and the difference between our holdings of government securities and our net position was mainly due to forward purchases of Boden 2012 in connection with repurchase agreements, for Ps.337.0 million, and to forward sales of Lebac, in connection with reverse repurchase agreements, for Ps.293.4 million.

<i>In millions of pesos</i>	As of December 31, 2005					Net Position
	Holdings	Forward Purchases	Forward Sales	Spot purchases to be settled	Spot sales to be settled	
Government Securities						
Held for investment purposes						
Pesos						
Dollar	650.9	337.0				987.9
Held for trading purposes						
Pesos	14.6			0.4	0.3	14.7
Dollar	6.3			1.6	1.4	6.5
Other ⁽¹⁾						0.9
Securities without Quotation						
Pesos	4,591.1					4,591.1
Dollar						
Instruments issued by the Argentine Central Bank						
Pesos	704.5		293.4			411.1
Dollar						
Other ⁽¹⁾						28.8
Total Government Securities	5,967.4	337.0	293.4	2.0	1.7	6,041.0
Corporate Equity Securities (Quoted)	4.4					4.4
Total Government and Corporate Securities	5,971.8	337.0	293.4	2.0	1.7	6,045.4

(1) *Delivered as collateral.*

Loan Portfolio

The following table analyzes Banco Galicia's loan portfolio by type of loan and total loans with guarantees. Total loans reflect the Bank's loan portfolio including past due principal amounts.

As of December 31,				
2005	2004	2003	2002	2001

*(in millions of February 28, 2003,
constant pesos)*

(in millions of pesos)

Principal and Interest					
Non-Financial Public Sector	Ps. 5,187.5	Ps. 4,513.7	Ps. 4,277.7	Ps. 7,634.7	Ps. 8,669.7
Local Financial Sector	128.2	150.5	194.7	134.8	190.8
Non-Financial Private Sector and Residents Abroad ⁽¹⁾					
Advances	223.6	199.8	219.1	227.0	811.1
Notes	1,836.9	1,099.2	1,280.1	1,544.3	3,888.9
Mortgage Loans	503.4	623.9	719.6	864.0	3,298.2
Pledge Loans	121.1	92.9	54.6	191.5	841.8
Personal Loans	258.0	58.2	55.2	120.0	583.4
Credit-Card Loans	1,732.1	1,105.4	818.8	585.0	1,875.3
Placements in Correspondent Banks	212.9	379.2	172.4	158.3	377.5

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	As of December 31,				
	2005	2004	2003	2002	2001
	<i>(in millions of pesos)</i>		<i>(in millions of February 28, 2003, constant pesos)</i>		
Other Loans	599.8	393.9	325.7	251.4	196.0
Accrued Interest, Adjustment and Quotation Differences Receivable	146.8	414.4	523.1	608.5	392.1
Documented Interest	(14.7)	(5.3)	(2.5)	(10.8)	(55.1)
Total Non-Financial Private-Sector and Residents Abroad	Ps. 5,619.9	Ps. 4,361.6	Ps. 4,166.1	Ps. 4,539.2	Ps. 12,209.2
Total Gross Loans	Ps. 10,935.6	Ps. 9,025.8	Ps. 8,638.5	Ps. 12,308.7	Ps. 21,069.7
Allowance for Loan Losses	(427.9)	(632.6)	(1,177.3)	(1,681.8)	(1,050.3)
Total Loans	Ps. 10,507.7	Ps. 8,393.2	Ps. 7,461.2	Ps. 10,626.9	Ps. 20,019.4
Loans with Guarantees With Preferred Guarantees ⁽²⁾	Ps. 838.5	Ps. 1,190.0	Ps. 1,228.8	Ps. 9,280.5	Ps. 13,389.8
⁽³⁾ Other Guarantees ⁽³⁾	6,317.3	5,235.8	5,163.0	523.0	1,689.8
Total Loans with Guarantees	Ps. 7,155.8	Ps. 6,425.8	Ps. 6,391.8	Ps. 9,803.5	Ps. 15,079.6

(1) *Categories of above loans include:*

Advances: short-term obligations drawn on by customers through overdrafts.

Notes: endorsed promissory notes, negotiable obligations and other promises to pay signed by one borrower or group of borrowers and factored loans.

Mortgage loans: loans granted to purchase or improve real estate and collateralized by such real estate and commercial loans secured by a real estate mortgage.

Pledge loans: loans secured by collateral (such as cars or machinery) other than real estate, where such collateral is an integral part of the loan documents.

Personal loans: loans to individuals.

Credit Cards Loans: loans granted through credit cards to credit card holders.

Placements in correspondent banks: short-term loans to other banks and short-term loans from Galicia Uruguay to major international banks outside of Uruguay.

Other loans: loans not included in other categories.

Documented interest-discount on notes and bills.

(2) *Preferred guarantees include mortgages on real estate property or pledges on movable property, such as cars or machinery, where the Bank has the priority right, endorsements of the Federal Office of the Secretary of Finance, pledges of Argentine Government Securities, or gold or cash collateral.*

(3) *Pursuant to Argentine Central Bank Communiqué A 3918, beginning in April 2003, tax revenues shared by the National Government and the provinces ceased to be considered Preferred Guarantees.*

In 2005, the Bank's loans to the non-financial private sector exceeded its loans to the non-financial public sector, while they had recorded similar amounts as of December 31, 2004 and December 31, 2003. The portfolio of loans to the non-financial private sector grew 21.3% in 2005 and 11.2% in 2004.

The nominal and relative decrease of the portfolio of loans to the non-financial private sector in 2002 and 2003, as compared to pre-crisis periods, is mainly a consequence of: (i) their pesification at the Ps.1.0 per U.S. dollar parity (while principal of public-sector loans was adjusted by the CER); (ii) the exceptions provided for by the regulations in connection with the applicability of principal adjustment by the CER and to their adjustment mostly by the CVS, between September 2003 and March 2004, only, which meant that most loans to the private sector were not adjusted by an index (except for a short period); (iii) the payments and prepayments made by private-sector debtors; and (iv) the write offs made by the Bank. In addition, this decrease reflects the fact that while most loans to the private sector were not adjusted by an index after their pesification, the figures for periods prior to and including December 31, 2001 were restated by using the WPI variation. See Presentation of Financial Information .

Regarding loans to the public sector, in November 2001, through Decree No. 1387/03, the Argentine Government offered to swap voluntarily debt instruments (bonds and loans) held by local investors representing an exposure to the Argentine national and provincial governments for secured loans. The Bank decided to swap all of its eligible portfolio of government securities and loans made to the national and provincial public sectors in exchange for secured loans. The swap of debt instruments originally representing an exposure to the national public sector was completed on November 6, 2001. Beginning in November 2001, the Bank recorded the Secured Loans to the Argentine National Government and those loans to the Argentine provinces tendered in the exchange (which swap was not completed until 2003) in accordance with the terms and conditions of the new Secured Loans. This swap reduced the yields of public-sector debt instruments and extended their maturity but did not modify their

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currency of denomination. After the Argentine currency was devaluated in January 2002, the Secured Loans were pesified and restructured into CER adjusted assets bearing a fixed interest rate ranging from 3.0% to 5.5% depending on their average life over adjusted principal.

The swap of eligible debt instruments originally representing an exposure to the provinces was not completed until late 2003.

For secured loans representing in origin an exposure to the provinces and other Argentine provincial government debt, Decree No. 1579/02 dated August 28, 2002, introduced an additional restructuring. The restructuring consisted of a voluntary exchange of Argentine provincial government debt for bonds (Bogar) or secured loans (promissory notes). These were debt instruments issued by the FFDP and secured by the Argentine National Government's tax receipts shared with the Argentine provinces, with a 16-year term, a 2% fixed annual interest rate over CER adjusted principal and amortization in 156 monthly and consecutive installments beginning on March 4, 2005. The Bank tendered to this exchange all of its portfolio of loans to Argentine provincial governments and pursuant to the option provided by the abovementioned Decree, opted to exchange all of the Bogar to be received in the exchange for promissory notes. In 2003 the Bank received Bogar and recorded them as loans. Given that, the Bank decided not to make use of this option, the Bogar were recorded as government securities as of December 31, 2004 and, for comparison purposes, as of December 31, 2003, the Bogar were reclassified and recorded as government securities. This reclassification is the reason for the decrease in public-sector loans in fiscal year 2003 as compared to December 31, 2002.

Loans by Type of Borrower

The following table shows the breakdown of Banco Galicia's total loan portfolio, by type of borrower at December 31, 2005, 2004, and 2003.

	2005		As of December 31, 2004		2003	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	<i>(in millions of pesos)</i>					
Corporate Middle-Market Companies	Ps. 1,412.9	12.92%	Ps. 1,271.9	14.09%	Ps. 1,820.4	21.07%
	1,899.9	17.37	1,195.2	13.24	850.3	9.84
Commercial Loans	3,312.8	30.29	2,467.1	27.33	2,670.7	30.91
Individuals	2,091.6	19.13	1,512.6	16.76	1,324.7	15.33
Financial Sector ⁽¹⁾	343.7	3.14	532.4	5.90	357.4	4.14
Non-Financial Public Sector	5,187.5	47.44	4,513.7	50.01	4,277.7	49.52
Other Loans					8.0	0.10
Total ⁽²⁾	Ps. 10,935.6	100.00%	Ps. 9,025.8	100.00%	Ps. 8,638.5	100.00%

(1) Includes local and international financial sector. Financial Sector loans are primarily composed of

*interbank loans
(call money
loans),
overnight
deposit at
international
money center
banks and loans
to provincial
banks.*

(2) *Before the
allowance for
loan losses.*

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The following table sets forth at the dates indicated an analysis of Banco Galicia's loan portfolio according to the borrowers' main economic activity. Figures include principal and interest.

	2005		As of December 31, 2004		2003	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	<i>(in millions of pesos, except percentages)</i>				<i>(in millions of February 28, 2003, constant pesos, except percentages)</i>	
Financial Sector ⁽¹⁾	Ps. 343.7	3.14%	Ps. 532.4	5.90%	Ps. 357.4	4.14%
Services						
Non-Financial Public Sector	5,187.5	47.44	4,513.7	50.01	4,277.7	49.52
Comunic., Transportation						
Health and Others	409.7	3.75	339.0	3.76	320.2	3.71
Electricity, Gas, Water Supply						
and Sewage Services	154.2	1.41	134.3	1.49	239.0	2.77
Other Financial Services	83.5	0.76	46.9	0.52	362.2	4.19
Total	5,834.9	53.36	5,033.9	55.78	5,199.1	60.19
Primary Products						
Agriculture and Livestock	768.3	7.02	518.6	5.75	389.6	4.51
Fishing, Forestry and Mining	11.9	0.11	69.3	0.77	93.0	1.08
Total	780.2	7.13	587.9	6.52	482.6	5.59
Consumer	1,959.4	17.92	1,435.4	15.90	1,258.5	14.57
Retail Trade	435.8	3.99	287.7	3.19	278.5	3.22
Wholesale Trade	189.0	1.73	97.5	1.08	67.7	0.78
Construction	388.3	3.55	372.8	4.13	404.2	4.68
Manufacturing						
Foodstuffs	386.0	3.53	233.9	2.59	166.7	1.93
Transportation Materials	68.3	0.62	41.2	0.46	18.6	0.22
Chemicals and Oil	24.8	0.23	124.6	1.38	109.5	1.27
Manufacturing Industries	492.0	4.50	229.7	2.54	235.0	2.71
Total	971.1	8.88	629.4	6.97	529.8	6.13
Other Loans ⁽²⁾	33.2	0.30	48.8	0.53	60.7	0.70
Total ⁽³⁾	Ps. 10,935.6	100.00%	Ps. 9,025.8	100.00%	Ps. 8,638.5	100.00%

(1) Includes local and international financial sector. Financial Sector loans are

primarily composed of interbank loans (call money loans), overnight deposit at international money center banks and loans to provincial banks.

- (2) Other loans is an Argentine Central Bank classification that primarily includes loans in judicial proceedings.

- (3) Before the allowance for loan losses.

In the table above, those loans identified as consumer loans are classified as consumer loans for purposes of the Argentine Central Bank classification and provisioning system. All of the other loans represent commercial loans for the purpose of the Argentine Central Bank's classification and provisioning system. See Argentine Central Bank's Loan Classification and Loan Loss Provisions.

Maturity Composition of the Loan Portfolio

The following table sets forth an analysis by type of loan and time remaining to maturity of Banco Galicia's loan portfolio before deducting the allowance for loan losses as of December 31, 2005.

	Within 1 Month	After 1 Month but within 6 Months	After 6 Months but within 12 Months	After 1 Year but within 3 Years	After 3 Years but within 5 Years	After 5 Years	Total at December 31, 2005
	<i>(in millions of pesos)</i>						
Non-Financial Public Sector ⁽¹⁾	Ps. 0.4	Ps. 3.0	Ps. 3.6	Ps. 103.2	Ps. 3,445.3	Ps. 1,632.0	Ps. 5,187.5
Financial Sector ⁽¹⁾	109.3	5.6	6.7	6.7			128.3
Private Sector and Residents							
Abroad	3,283.4	926.1	272.2	585.7	364.5	187.9	5,619.8
- Advances	174.3	48.3	0.5	0.5			223.6
- Promissory Notes	399.2	751.2	136.8	248.6	225.3	75.8	1,836.9
- Mortgage Loans	22.0	35.9	46.5	165.6	121.6	111.8	503.4
- Pledge Loans	14.3	16.2	23.6	62.7	4.2	0.1	121.1
- Personal Loans	14.4	72.6	63.8	100.6	6.6		258.0
- Credit-Card Loans	1,732.1						1,732.1
- Other Loans	795.0	1.9	1.0	7.7	6.8	0.2	812.6

- Accrued Interest and Quotation Differences Receivable ⁽¹⁾	146.8						146.8
- (Documented Interest)	(14.7)						(14.7)
Allowance for Loan Losses ⁽²⁾	(427.9)						(427.9)
Total Loans, Net	Ps.2,965.2	Ps.934.7	Ps.282.5	Ps.695.6	Ps.3,809.8	Ps.1,819.9	Ps.10,507.7

(1) *Interest and the CER adjustment were assigned to the first month.*

(2) *Allowances were assigned to the first month as well as past due loans and loans in judicial proceedings.*

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In the table above, consumer loans as classified by the Argentine Central Bank consist of personal loans, credit card loans, as well as certain portions of advances, mortgage loans and pledge loans.

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

The following table presents the interest rate sensitivity of Banco Galicia's outstanding loans as of December 31, 2005.

	<i>(in millions of pesos)</i>	As a % of Total Loans
Variable Rate ⁽¹⁾⁽²⁾		
Pesos	6,198.2	71.90%
Dollars	547.0	6.35%
Total	6,745.2	78.25%
Fixed Rate ⁽²⁾⁽³⁾		
Pesos	1,356.1	15.73%
Dollars	519.0	6.02%
Total	1,875.1	21.75%
Past Due Loans		
Pesos	239.3	2.78%
Dollars	7.9	0.09%
Total	247.2	2.87%

(1) *Includes overdraft loans.*

(2) *Includes past due loans and excludes interest receivable, differences in quotations and the CER adjustment.*

(3) *Includes short-term and long-term loans whose rates are determined at the beginning of the loans' life.*

Credit Review Process

Credit risk is the potential for financial loss resulting from the failure of a borrower to honor its financial contractual obligations. Our credit risk arises mainly from Banco Galicia's lending activities and from the fact that, in the normal course of its business, the Bank is a party to certain financial transactions with off-balance sheet risk, mainly commitments to extend credit and guarantees granted. See also Item 5. Operating and Financial Review and

Prospects Item 5A. Operating Results Off-Balance Sheet Arrangements.

The Bank's credit approval and credit risk analysis is a centralized process based on the concept of opposition of interests. This is achieved through the existing division between the credit and the origination functions both in the retail and the wholesale businesses, thus enabling the Bank to achieve an ongoing and efficient control of asset quality, a proactive management of problem loans, aggressive write-offs of uncollectible loans, and an adequate loan loss provisioning. The process also includes credit-quality monitoring by borrower, as well as monitoring of problem loans and related losses. The process facilitates early detection of situations that could entail some degree of portfolio impairment and provides appropriate protection of the Bank's assets.

The Credit Division is in charge of defining, subject to the approval of the Board of Directors, the Bank's credit risk policies and procedures, the continuous assessment of credit risk and the development of credit assessment models applied to risk products. It is also responsible for loan approval, classification of the loan portfolio and recovery of past due loans.

To perform its tasks, the Credit Division is made up of the Corporate Credit Department, in charge of approving, supervising, classifying and provisioning the commercial and financial institutions' loan portfolio, the Corporate Recovery Department in charge of the follow-up and recovery of the past due commercial portfolio, and

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the Retail Credit Department in charge of approving consumer loans as well as following up and recovering past due consumer loans.

The Internal Audit Division is in charge of overseeing the classification of the loan portfolio, in accordance with the regulations established by the Argentine Central Bank.

Retail Portfolio

In the case of loans to individuals, the Bank assesses applications for different types of loans including credit card loans, current account loans, personal loans with or without guarantees, and mortgage loans.

Applications for these products are assessed through computerized credit-scoring systems that take into account different variables to determine the customer's profile and repayment capacity. Analysis of the information required from applicants and the credit approval or refusal decision is made in a centralized manner. Applicants' previous credit performance, both at Banco Galicia or in the financial system as a whole, is verified through the information provided by Organización Veraz S.A., a company that provides credit information services.

As regards, credit approval, the Retail Credit Department is responsible for approving loans to customers for amounts up to Ps.1 million. Loans exceeding such amount have to be approved by the Board of Directors Committee. The Retail Credit Department also defines and approves credit policies for the retail banking business, together with the originating sectors. The Retail Credit Department monitors the classification of the loan portfolio pursuant to the Argentine Central Bank regulations and the Bank's internal policies. Accordingly to the rules in force, classification of the retail loan portfolio is based on the borrower's performance.

As regards the recovery of past-due loans, the Retail Credit Department manages individual past-due loans from the early stages until the portfolio returns to a normal status or the recovery procedures are abandoned in the case of loans deemed uncollectible. Recovery procedures throughout Argentina are carried out either directly or through third parties.

When a consumer loan is more than three days past due, recovery procedures are undertaken through the Collection Center (a specialized area of the Bank's Customer Contact Center), or through letters or visits to the borrower's residence. A follow-up system that performs automated telephone calls is also used for loans in early stages of delinquency. For a better coverage of the locations in the provinces, the Retail Credit Department also coordinates actions with the Bank's branch network staff. When these procedures are exhausted, recovery of these loans is turned to collection agencies hired by the Bank to handle recovery through litigation or out-of-court proceedings. The Retail Credit Department oversees the performance of these agencies.

Banco Galicia does not classify, nor does it provide for recovery procedures of certain small balance loans, including credit card balances from membership fees and other administrative costs charged to customers on unsolicited credit cards, small residual balances from lending operations where the cost of recovery and legal costs are prohibitive. These small balance loans are charged-off directly to the income statement.

Commercial Portfolio

Prior to the approval of a loan, the Bank performs an evaluation of the corporate borrower and its financial status. For credits above certain amounts, the Bank carries out a standard analysis of each credit line and of each corporate borrower. For credits below certain amounts, automated risk evaluation systems that provide financial and non-financial information on the borrower are used.

The Bank's information systems provide both financial and non-financial data about customers. They can also perform automated risk evaluations and financial-statements projections and have the capacity to generate automatic warnings when certain situations are verified that may indicate an increase in risk.

The Bank bases the risk assessment on the following factors:

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Qualitative analysis	assessment of the quality of the corporate borrower by the line officer to which the account has been assigned on the basis of personal knowledge.
Economic and financial risk	quantitative analysis of the borrower's financial statements.
Economic sector risk	measurement of the general risk of the sector in which the borrower operates (based on statistical information gathered from internal and external sources).

The primary responsibility of the Corporate Credit Department is to approve loans to corporate customers with a credit limit not exceeding Ps.3.5 million. In such process, the primary objective is to maintain high credit-quality standards, in accordance with the Bank's policies and procedures. The Department also classifies the performing and non-performing commercial portfolios, in accordance with the Argentine Central Bank regulations and with the Bank's own internal policies, and coordinates the Credit Division's relations with the Argentine Central Bank, the independent auditors, and the rating agencies. Moreover, it reviews all those corporate customers whose total credit exceeds Ps.500,000 in accordance with a review schedule determined by the level of credit risk.

The Corporate Recovery Department is responsible for monitoring and controlling past-due commercial portfolios and for recovery of the entire commercial portfolio. It establishes procedures, acts proactively, and designs action plans on a case-by-case basis to recover any amounts that exceed the credit limits that are assigned to the different corporate customers. This Department also oversees recovery of problem loans in the corporate portfolio, managing them efficiently and working to regularize the status of those customers that are most attractive to the Bank. Furthermore, this Department manages problem loans for which recovery is being settled through litigation or out-of-court agreements. This includes overseeing lawsuits carried out in various jurisdictions by outside law firms hired to handle these matters.

The Corporate Banking and Middle-Market Banking Departments are responsible for the business relations with the Bank's corporate customers as regards both the management of the various lines of business and credit origination.

The Corporate Restructuring Department, that had been created in 2002 to restructure the debt of certain customers within the large corporations sector, was dissolved in 2004. This decision was taken upon the Bank's restructuring during 2004 of a substantial portion of the portfolio managed by that Department.

All credit extensions must be approved by an officer of the Credit Division. Approval of commercial credits is structured based on the credit limit assigned to each customer, as follows:

Under Ps.2.0 million: credit extensions are proposed by the business officers and must be approved by officers of the Corporate Credit Department in accordance with pre-established credit authority levels.

More than Ps.2.0 million and up to Ps.3.5 million: credit proposals are jointly approved by the manager of the Credit Division and the manager of the business department to which the account belongs.

Over Ps.3.5 million: credit extensions must be approved by the Board of Directors Committee, with the participation of: (i) one or more directors; (ii) the manager of the Credit Division; and (iii) the manager of the Wholesale Banking Division. The participation of the managers of the business departments depends on which of these departments manages de account subject to approval.

The Bank's information systems provide both financial and non-financial data about customers. They can also perform automated risk evaluations and financial-statements projections and have the capacity to generate automatic warnings about situations that may indicate an increase in risk.

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Policy for Requiring Collateral

The credit review process of Banco Galicia is unaffected by the collateral underlying the loan. The Bank's credit review process and the Argentine Central Bank's loan classification system is based on a borrower's capacity to repay or on the past due status of the loan rather than on the structure of the loan. However, once a loan is classified, the level of the reserve that should be made against the loan is determined by whether the loan is secured or unsecured.

Although the procedures for assessing a borrower's credit worthiness are unaffected by the collateral for the loan, Banco Galicia performs additional procedures to review the existence and valuation of the collateral on all major loans on an annual basis. For non-performing commercial loans, this review is performed every six months. Banco Galicia reviews the existence and valuation of collateral on consumer loans on a sample basis.

Argentine Central Bank's Loan Classification and Loan Loss Provisions

General

Although the aggregate amount of credit operations conducted with companies, individuals or economic groups by the Bank, measured for each one of those customers, is limited by Argentine Central Bank rules, pursuant to Communiqué A 2140 and subsequent ones, the Bank applies significantly stricter parameters.

Independently of its internal policies and procedures designed to minimize credit risk, the Bank complies with the applicable regulations of the Argentine Central Bank, which are summarized below.

In 1994, the Argentine Central Bank introduced the current loan classification system and the corresponding minimum loan loss provision requirements, applicable to loans and other types of credit (together referred to as loans in this section) to private-sector borrowers.

The current loan classification system is a bifurcated system, applying certain criteria to classify loans in a bank's consumer portfolio, and another set of criteria to classify loans in its commercial portfolio. The classification system is independent of the currency in which the loan is denominated.

The loan classification criteria applied to loans in the consumer portfolio are based on delinquency. For the purposes of the Argentine Central Bank, consumer loans are defined as residential mortgage loans, personal loans, pledge loans, credit-card loans and other types of installment credits to individuals. All other loans are considered as commercial loans. In addition, as permitted by the Argentine Central Bank, the Bank classified as consumer loans all commercial loans that are for an amount less than Ps.200,000 until April 2005, and all loans for an amount of less than Ps.500,000 since May 2005 (pursuant to Communiqué A 4310 of the Argentine Central Bank which increased this amount to Ps.500,000, effective May 2005), for purposes of applying the Argentine Central Bank's provisioning requirements. As a result, the Bank classifies such loans based on the delinquency aging system rather than on the borrower's ability to repay.

The principal criterion of classification of loans in the commercial portfolio is each borrower's ability to pay, as measured mainly by such borrower's future cash flow. In the loan classification system, all customers of an economic group (all corporate and financial entities, both domestic and foreign, which are controlled, directly or indirectly, by a customer) are considered as one borrower. For example, if one or more loans in a group of loans to an economic group become classified, all loans to that group are reclassified in the most severe classification. Banks may opt to apply the consumer loan classification criteria to commercial loans of up to Ps.500,000. If a customer has both commercial and consumer loans, consumer loans will be added to commercial loans to determine eligibility for classification in the consumer portfolio. Loans backed with preferred guarantees will be considered at 50.0% of their nominal value.

Regulations on loan classification allow financial institutions to classify commercial loans of up to Ps.500,000 (on May 1, 2005, through Communiqué A 4310, the Argentine Central Bank changed said limit from Ps.200,000 to Ps.500,000), by applying the same parameters described for the consumer portfolio, that is,

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automatically, according to the number of days the debt is past due. Pursuant to Communiqué A 3918 from the Argentine Central Bank, between March 31, 2003 and December 31, 2003, customers with a total debt in the whole financial system of up to Ps.5 million have been classified in the same manner as consumer loans. In order to determine the arrear, this rule established that one day was to be computed for each three days the loan had been past due in the period between December 1, 2001 and March 31, 2003. This treatment was also applied to the portfolio of commercial loans considered as consumer loans which, under the previous rules, was already automatically classified.

In applying the Argentine Central Bank's classification to commercial loans, banks must assess the following factors: management and operating history and present and projected financial situation of the borrower capability of the borrower's internal information and control systems to provide accurate and timely financial information, as well as the general risk of the sector in which the borrower operates and the borrower's relative position within that sector. In this analysis, special consideration must be given to the assessment of the customer's exposure to currency risk.

An evaluation team independent of banks' loan origination sectors must carry out a periodic review of the commercial portfolio. The evaluation must be carried out on each borrower with outstanding credit equal to the lesser of the following amounts: Ps.1.0 million or 1% of the Bank's Computable Capital (regulatory capital or RPC, but, in all cases, this amount shall at least cover 20% of the total loan portfolio).

The Argentine Central Bank requires that the larger the exposure is, the more frequent the review should be. Said review must be conducted every calendar quarter when credit exposure to that borrower is equal to or in excess of 5% of the Bank's RPC on the last day of the month prior to the review, or every six months when exposure equals or exceeds the lesser of the following amounts: Ps.1.0 million or 1% of the Bank's RPC on the last day prior to the review. In any case, at least 50% of the commercial portfolio must be reviewed by the end of each six months, and all other borrowers in the commercial portfolio must be reviewed during the Bank's fiscal year, so that the entire commercial portfolio is reviewed every fiscal year.

Reviews must be reevaluated and documented in a borrower's file upon a negative change in objective criteria such as an increase in days past due, filing for bankruptcy or protection from creditors, or a judicial proceeding initiated against a borrower. In addition, a reevaluation is triggered when, based on information made available by the Argentine Central Bank, any other financial institution holding at least 10.0% of a borrower's total outstanding credit downgrades its classification of that borrower, or when an independent rating agency downgrades the rating it grants to a borrower's debt securities.

Only one level of discrepancy is permitted between the classification assigned by a bank assigns and the lowest classification assigned by at least two other banks whose combined credit to the borrower represents 20.0% or more of the total credit of the borrower considering all banks. If a bank's classification differs by more than one level from the lowest of such classification, it must immediately downgrade its classification of the borrower to the same classification, or within one classification level. This mandatory reclassification was discontinued for commercial debtors (including those with debts of up to Ps.200,000 treated as consumer loans for the purposes of classification) pursuant to the provisions of the Argentine Central Bank's Communiqué A 3918 for the period between March 31 and December 31, 2003. However, said mandatory reclassification started to be effective again in 2004, pursuant to the provisions of Communiqué A 4070.

Argentine Central Bank Communiqué A 3418, issued on January 3, 2002, also allowed for increased flexibility of the rules for classification of borrowers for December 2001 and January 2002, by temporarily extending the late-payment period admitted for borrowers in categories 1 and 2 by 31 additional days, both for the commercial and consumer portfolios. On February 7, 2002, through its Communiqué A 3463, the Argentine Central Bank further extended the late-payment periods established by Communiqué A 3418 by 31 additional days. Subsequently, no additional extension was provided.

With the purpose of facilitating customers access to credit after the 2001-2002 crisis, the Argentine Central Bank resolved, mainly through Communiqués A 4070 and A 4254, dated January 9, and December 2, 2004, respectively, to make some modifications that aimed at making the effects of said crisis neutral on customers classification. The most important modifications made were as follows:

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- the possibility to classify as normal, at the financial institutions' option, those customers having reached a restructuring agreement, without repayment percentages being required, and having enough cash flows to repay the new debt (this option will be effective until June 2006).
- the reduction in the requirements for loan amortization necessary to improve the customer's classification.
- the possibility to provide customers with new financial assistance and classify as normal customers classified in a non-accrual status in the financial system, thereby restricting this financing assistance to pre-established percentages according to the worst situation a customer registers in the financial system.

Loan Classification

The following tables set forth the Argentine Central Bank's six loan classifications corresponding to levels of risk. Banco Galicia's total exposure to a private sector customer must be classified in the riskiest classification that corresponds to any part of such exposure.

Loan Classification	Description
	(a) Commercial Portfolio
1. Normal	Borrower can easily service all financial obligations; shows strong cash flow, liquid current financial situation, adequate financial structure, punctual payment record, capable management, timely and precise available information and satisfactory internal controls. Borrower is determined to be in the top 50.0% of an industry that is performing well and has a good outlook.
2. With Special Follow-Up	Cash flow analysis indicates debt can be serviced, with the possibility that if not closely observed, future payment capacity could be impaired. This category is divided into two subcategories: (2.a). Under observation; (2.b). Under negotiation or under agreements to refinance.
3. With Problems	Cash flow analysis evidences problems in normal servicing of existing debt, such that if the problems are not solved, they may result in some loss.
4. High Risk of Insolvency	Cash flow analysis demonstrates that full repayment of the borrower's obligations is highly improbable.
5. Uncollectible	Debts in this category are considered total losses. Although these assets could have a possibility of recovery under certain future circumstances, lack of collectibility is evident as of the date of analysis. Includes loans to insolvent or bankrupt borrowers.
6. Uncollectible due to Technical Reasons	Loans to borrowers indicated by the Argentine Central Bank to be in arrears to any liquidated or bankrupt financial entity. Also includes loans to foreign banks and other financial institutions which are not:

(i) classified as normal,

(ii) subject to the supervision of the Argentine Central Bank or other similar authority of the country of origin, and

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Loan Classification	Description
	(iii) classified as investment grade by any of the rating agencies admitted to the Argentine Central Bank pursuant to Communiqué A 2729.
(b) Consumer Portfolio	
1. Normal Performance	Current Loans and Loans that are up to 31 days past due on principal and/or interest, including loans that are current.
2. Inadequate Performance	Debt payment is occasionally delinquent, with arrears from 32 to 90 days.
3. Deficient Performance	Debt is in arrears at least 91 days and up to 180 days.
4. Difficult Collection	Judicial proceedings demanding payment have been initiated against the borrower, or the borrower is delinquent with arrears greater than 180 days and up to one year past due.
5. Uncollectible	Loans to insolvent or bankrupt borrowers, or borrowers subject to judicial proceedings, with little or no possibility of collection, or in arrears in excess of one year.
6. Uncollectible due to Technical Reasons	Loans to borrowers who fall within the conditions described above under Commercial Portfolio Uncollectible due to Technical Reasons.

*Loan Loss Provision Requirements*Allocated Provisions

The minimum loan loss provisions required by the Argentine Central Bank relate to the above loan classification and are described in the following table, where the percentages are applicable to the borrower's total credit outstanding, including contingencies.

Loan Classification	With Self- Liquidating Preferred Guarantees	With Other Preferred Guarantees	Without Preferred Guarantees or Security
With Special Follow Up and Inadequate Performance			
Inadequate Performance Under Observation	1.0%	3.0%	5.0%
Inadequate Performance Under Negotiation or Agreement to Refinance	1.0	6.0	12.0
With Problems and Deficient Performance	1.0%	12.0%	25.0%
High Risk of Insolvency and Difficult Collection	1.0	25.0	50.0
Uncollectible	1.0	50.0	100.0
Uncollectible Due to Technical Reasons	100.0	100.0	100.0

Banks are required to cease the accrual of interest or to establish provisions of 100.0% of the interest accrued on loans to borrowers classified as with problems, deficient performance or under higher risk categories.

Pursuant to Argentine Central Bank regulation, these minimum provisions are not required for interbank financial transactions of less than thirty days, or loans to Argentine provincial governments or to financial institutions

majority-owned by the Argentine national, provincial or city governments with governmental guarantees.

Table of Contents**General Provisions**

In addition to the specific loan loss allowances described above, the Argentine Central Bank established in November 1992 a mandatory general allowance requirement of 1.0% for all loans in its normal and normal performance categories. This general allowance is not required for interbank financial transactions of less than thirty days, or loans to the non-financial public sector or to financial institutions majority-owned by the Argentine national, provincial or city governments with governmental guarantees. This general allowance is determined based on the Bank's judgment of the entire loan portfolio risk at each reporting period.

As of December 31, 2005, December 31, 2004, and December 31, 2003, the Bank maintained a general loan loss allowance of Ps.175.1 million, Ps.191 million, and Ps.313.6 million, respectively, which exceeded by Ps.130.3 million, Ps.161.8 million, and Ps.293.0 million, respectively, the 1.0% minimum general allowance required by the Argentine Central Bank. The decreases compared to prior years were due to the charge offs made and to the improvement of the loan portfolio quality, related to a large extent to the progress in the restructuring of commercial loans. An excess over the minimum requirement was maintained at each date, in connection with commercial loans under a restructuring process.

Classification of the Loan Portfolio based on Argentine Central Bank Regulations

The following tables set forth the amounts of Banco Galicia's loans past due and the amounts not yet due of the loan portfolio, applying the Argentine Central Bank's loan classification criteria in effect at the dates indicated below.

For December 31, 2001, the Bank applied the 30-day flexibility for the classification of borrowers in categories 1 and 2, which was allowed by Argentine Central Bank Communiqué A 3418, only to the classification of the portfolio that is automatically classified according to the delinquency aging system (consumer loans and all commercial loans for an amount of less than Ps.200,000). Commercial loans continued to be classified according to the borrower's ability to repay. Beginning in March 2002, this criterion was no longer applicable. As a consequence, the classification of consumer loans in the categories 1, 2, and 3 of the classification of the loan portfolio as of December 31, 2001 followed a different criterion than in previous and subsequent periods.

As of December 31, 2005, loans classified as category 2.b pursuant to the Argentine Central Bank's classification, which correspond to loans under a restructuring process but that do not constitute non-performing portfolios, amounted to Ps.19.3 million, with a 84.6% decrease from Ps.125.6 million as of December 31, 2004. The amount at the end of 2004 was 40.9% lower than the Ps.212.6 million recorded at the end of fiscal year 2003. This portfolio consists of commercial loans only.

Loan Portfolio Classification	As of December 31, 2005					
	Amounts Not Yet Due ⁽¹⁾		Amounts Past Due		Total Loans	
	<i>(in millions of pesos, except percentages)</i>					
Normal and Normal Performance	Ps. 10,168.8	95.22%			Ps. 10,168.8	92.99%
With Special Follow up and Inadequate Performance	384.4	3.60			384.4	3.51
With Problems and Deficient Performance	120.4	1.13	206.9	80.82	327.3	2.99
High Risk of Insolvency and Difficult Collection.	6.0	0.05	23.0	8.98	29.0	0.27
Uncollectible			22.8	8.91	22.8	0.21
Uncollectible Due to Technical Reasons			3.3	1.29	3.3	0.03
Total	Ps. 10,679.6	100.00%	Ps. 256.0	100.00%	Ps. 10,935.6	100.00%

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Loan Portfolio Classification	As of December 31, 2004					
	Amounts Not Yet Due⁽¹⁾		Amounts Past Due		Total Loans	
	<i>(in millions of pesos, except percentages)</i>					
Normal and Normal Performance	Ps. 7,764.4	90.53%			Ps. 7,764.4	86.02%
With Special Follow up and Inadequate Performance	562.5	6.56			562.5	6.23
With Problems and Deficient Performance	197.1	2.30	Ps. 251.7	56.06%	448.8	4.97
High Risk of Insolvency and Difficult Collection	52.8	0.61	105.8	23.56	158.6	1.76
Uncollectible			85.5	19.04	85.5	0.95
Uncollectible Due to Technical Reasons			6.0	1.34	6.0	0.07
Total	Ps. 8,576.8	100.00%	Ps. 449.0	100.00%	Ps. 9,025.8	100.00%

Loan Portfolio Classification	As of December 31, 2003					
	Amounts Not Yet Due⁽¹⁾		Amounts Past Due		Total Loans	
	<i>(in millions of pesos, except percentages)</i>					
Normal and Normal Performance	Ps. 6,531.3	85.63%			Ps. 6,531.3	75.61%
With Special Follow up and Inadequate Performance	807.9	10.59			807.9	9.35
With Problems and Deficient Performance	237.9	3.12	Ps. 426.5	42.19%	664.4	7.69
High Risk of Insolvency and Difficult Collection	50.4	0.66	245.4	24.27	295.8	3.42
Uncollectible			324.9	32.14	324.9	3.76
Uncollectible Due to Technical Reasons			14.2	1.40	14.2	0.17
Total	Ps. 7,627.5	100.00%	Ps. 1,011.0	100.00%	Ps. 8,638.5	100.00%

Loan Portfolio Classification	As of December 31, 2002					
	Amounts Not Yet Due⁽¹⁾		Amounts Past Due		Total Loans	
	<i>(in millions of February 28, 2003 constant pesos, except percentages)</i>					
Normal and Normal Performance	Ps. 9,758.0	88.02%			Ps. 9,758.0	79.28%

Normal and Normal Performance						
With Special Follow up and Inadequate Performance	940.5	8.48			940.5	7.64
With Problems and Deficient Performance	321.5	2.90	556.3	45.50%	877.8	7.13
High Risk of Insolvency and Difficult Collection	66.1	0.60	453.4	37.09	519.5	4.22
Uncollectible			198.2	16.21	198.2	1.61
Uncollectible Due to Technical Reasons			14.7	1.20	14.7	0.12
Total	Ps.11,086.1	100.00%	Ps.1,222.6	100.00%	Ps.12,308.7	100.00%

Loan Portfolio Classification	As of December 31, 2001					
	Amounts Not Yet Due ⁽¹⁾		Amounts Past Due		Total Loans	
	<i>(in millions of February 28, 2003 constant pesos, except percentages)</i>					
Normal and Normal Performance	Ps.19,287.1	96.32%			Ps.19,287.1	91.54%
With Special Follow up and Inadequate Performance	362.0	1.81			362.0	1.72
With Problems and Deficient Performance	198.9	0.99	Ps. 157.4	15.05%	356.3	1.69
High Risk of Insolvency and Difficult Collection	175.8	0.88	624.7	59.73	800.5	3.80
Uncollectible			217.5	20.79	217.5	1.03
Uncollectible Due to Technical Reasons			46.3	4.43	46.3	0.22
Total	Ps.20,023.8	100.00%	Ps.1,045.9	100.00%	Ps.21,069.7	100.00%

(1) Amounts not yet due represent the portion of a loan that has not yet become due, such as the future installments of a consumer loan.

Analysis of Amounts Past Due and Non-Accrual Loans

The following table analyzes amounts past due 90 days or more in Banco Galicia's loan portfolio, by type of loan and by type of guarantee at the dates indicated, as well as the Bank's non-accrual loan portfolio, by type of guarantee, the Bank's allowance for loan losses and its main asset quality ratios at the dates indicated.

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	As of December 31,				
	2005	2004	2003	2002	2001
	<i>(in millions of pesos, except ratios)</i>			<i>(in millions of February 28, 2003, constant pesos, except ratios)</i>	
Total Loans (1)	Ps. 10,935.6	Ps. 9,025.8	Ps. 8,638.5	Ps. 12,308.7	Ps. 21,069.7
Non Accrual Loans⁽²⁾					
With Preferred Guarantees	58.4	383.7	496.5	610.8	578.4
With Other Guarantees	6.5	67.4	275.8	282.9	198.5
Without Guarantees	317.5	247.8	527.0	716.5	643.7
Total Non Accrual Loans⁽²⁾	Ps. 382.4	Ps. 698.9	Ps. 1,299.3	Ps. 1,610.2	Ps. 1,420.6
Past Due Loan Portfolio					
Non Financial Public Sector					
Local Financial Sector					
Non-Financial Private Sector and Residents Abroad					
Advances	14.1	29.9	93.9	64.9	79.8
Notes	191.6	253.1	528.2	741.0	307.6
Mortgage Loans	14.6	115.1	211.7	217.2	313.6
Pledge Loans	0.5	4.2	28.3	35.7	74.0
Personal Loans	0.8	4.2	110.2	58.6	94.5
Credit Card Loans	33.4	24.9	30.6	100.4	174.5
Placements with Correspondent Banks					
Other Loans	1.0	17.6	8.1	4.8	1.9
Total Past Due Loans	Ps. 256.0	Ps. 449.0	Ps. 1,011.0	Ps. 1,222.6	Ps. 1,045.9
Past Due Loans					
With Preferred Guarantees	16.1	308.0	415.7	449.3	388.3
With Other Guarantees	4.9	11.4	235.6	172.5	76.1
Without Guarantees	235.0	129.6	359.7	600.8	581.5
Total Past Due Loans	Ps. 256.0	Ps. 449.0	Ps. 1,011.0	Ps. 1,222.6	Ps. 1,045.9
Allowance for Loan Losses	Ps. 427.9	Ps. 632.6	Ps. 1,177.3	Ps. 1,681.8	Ps. 1,050.3
Ratios (%)					
As a % of Total Loans:					
Total Past Due Loans	2.34	4.97	11.70	9.93	4.96
Past Due Loans with Preferred Guarantees	0.15	3.40	4.81	3.65	1.84
Past Due Loans with Other Guarantees	0.04	0.13	2.73	1.40	0.36
Past Due Unsecured Amounts	2.15	1.44	4.16	4.88	2.76
Non Accrual Loans ⁽²⁾	3.50	7.74	15.04	13.08	6.74
Non Accrual Loans ⁽²⁾ (Excluding Interbank Loans)	3.57	8.10	15.35	13.25	6.87
Allowance for Loan Losses as a % of:					

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Total Loans	3.91	7.01	13.63	13.66	4.98
Total Loans Excluding Interbank Loans	4.00	7.33	13.91	13.84	5.08
Total Non-Accrual Loans ⁽²⁾	111.90	90.51	90.61	104.45	73.93
Non-Accrual Loans with Guarantees as a Percentage of Non-Accrual Loans (2)	16.97	64.54	59.44	55.50	54.69
Non-Accrual Loans as a Percentage of Total Past Due Loans	149.38	155.66	128.52	131.70	135.83

(1) *Before the allowance for loan losses.*

(2) *Non-Accrual loans are defined as those loans in the categories of:*
(a) consumer portfolio: defective fulfillment, difficulty in recovery, uncollectible and uncollectible due to technical reasons;
(b) commercial portfolio: with problems, high risk of insolvency, uncollectible and uncollectible due to technical reasons.

As a result of the Argentine economic situation in 2002 and of the measures taken by the Argentine Government that modified the terms and conditions of the Bank's private-sector loan portfolio, substantially all of the Bank's loan portfolio underwent a restructuring process beginning in 2002. Significant progress was made in this process during 2003, 2004 and 2005, with this process having been substantially completed in 2005. See Main Regulatory Changes since 2002 - Loans to the Private Sector and Asymmetric Indexation.

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Under Argentine Central Bank rules, banks are required to cease the accrual of interest or to establish provisions of 100.0% of the interest accrued on all loans pertaining to the non-accrual loan portfolio, that is, all loans to borrowers in the categories of:

in the consumer portfolio: defective fulfillment, difficulty in recovery, uncollectible and uncollectible due to technical reasons.

in the commercial portfolio: with problems, high risk of insolvency, uncollectible and uncollectible due to technical reasons.

The table below shows the interest income that would have been recorded on non-accrual loans on which the accrual of interest was discontinued and the recoveries of interest on loans classified as non-accrual on which the accrual of interest had been discontinued:

	As of December 31,				
	2005	2004	2003	2002	2001
	<i>(in millions of pesos)</i>				
Interest Income that would have been recorded on non-accrual loans on which the accrual of interest was discontinued	45.9	32.5	39.9	40.4	119.6
Recoveries of interest on loans classified as non-accrual on which the accrual of interest had been discontinued ⁽¹⁾	2.3	1.6	2.0	2.0	6.0

(1) *Recorded under Miscellaneous Income.*

In 2005, 2004 and 2003, the improvement in the overall Argentine economy, the progress made by the Bank in the restructuring of its commercial portfolio and the significant charge offs made generated an improvement in the quality of the Bank's loan portfolio. In addition, in 2005 the Bank sold Ps.200.4 million of on-balance sheet non-accrual loans to the BG Financial Trust. See note 34 to our financial statement.

At the end of fiscal years 2005, 2004 and 2003, the Bank's non-accrual loan portfolio represented 6.78%, 15.93% and 31.19%, respectively, of its total private-sector loan portfolio, as compared to 35.47% at the end of 2002. As of December 31, 2003, the non-accrual portfolio as a percentage of total loans was 15.04%, compared to 13.08% at the end of fiscal year 2002. This increase was due to the reclassification of Bogar as government securities for 2003, while at the end of 2002 they were recorded under loans (see Government and Corporate Securities). If such reclassification is not considered, the Bank's non-accrual to total loans ratio as of December 31, 2003, was 10.73% substantially lower than the 13.08% ratio at the end of 2002.

As a result of the significant worsening throughout 2001 of Argentina's overall economic situation, which turned into an unprecedented political and economic crisis at the end of 2001, which disrupted Argentina's financial system and real economy, the quality of the Bank's loan portfolio deteriorated significantly. Also, the quality of the Bank's loan portfolio had been deteriorating since 2000 as a result of the recession that Argentina was undergoing at the time, which had begun in the second half of 1998.

Coverage of the Bank's non-accrual portfolio with allowances reached 111.90%, 90.51% and 90.61% at the end of fiscal years 2005, 2004 and 2003, respectively and allowances as a percentage of total loans amounted to 3.91%, 7.01% and 13.63%, respectively. This high coverage was due to the significant allowances set up in 2002, when the Bank made a substantial effort to increase its allowances for loan losses and the coverage with allowances for loan losses of its non-accrual loan portfolio, which had increased significantly as a result of the crisis. In addition, the increase in 2005 was also due to the above-mentioned sale of on-balance sheet non-accrual loans to the BG Financial Trust.

Coverage with allowances for loan losses of the non-accrual loan portfolio plus loans classified as category 2.b pursuant to the Argentine Central Bank's classification (amounting to Ps.19.3, Ps.125.6 million and 212.6 million as of December 31, 2005, December 31, 2004 and December 31, 2003) was 107.08%, 76.73% and 77.87% at the end of fiscal years 2005, 2004 and 2003, respectively.

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Table of Contents**Analysis of the Allowance for Loan Losses**

The following table presents an analysis of the Bank's allowance for loan losses at the dates indicated. Certain loans are charged off directly to the income statement and, therefore, are not reflected in the allowance.

	Fiscal Year Ended				
	December 31,				
	2005	2004	2003	2002	2001
	<i>(in millions of pesos, except ratios)</i>			<i>(in millions of February 28, 2003, constant pesos, except ratios)</i>	
Total Loans, Average ⁽¹⁾	Ps. 9,746.9	Ps. 11,137.9	Ps. 11,556.7	Ps. 15,262.4	Ps. 20,002.3
Allowance for Loan Losses at Beginning of Period ⁽⁴⁾	632.6	1,177.3	1,681.8	1,050.3	596.0
Changes in the Allowance for Loan Losses during the Period ⁽⁴⁾					
Provisions Charged to Income	61.1	179.3	217.1	1,599.5	922.0
Prior Allowances Reversed	(96.2)	(210.3)	(402.1)		(2.0)
Charge Offs (A)	(174.5)	(521.3)	(267.3)	(305.7)	(465.7)
Inflation and Foreign Exchange Effect and Other Adjustments	4.9	7.6	(52.2)	(662.3)	
Allowance for Loan Losses at End of Period	Ps. 427.9	Ps. 632.6	Ps. 1,177.3	Ps. 1,681.8	Ps. 1,050.3
Charge to the Income Statement during the Period					
Provisions Charged to Income ⁽⁴⁾	61.1	179.3	217.1	1,599.5	922.0
Direct Charge Offs, Net of Recoveries (B)	(28.9)	(101.6)	(38.6)	(17.2)	(25.8)
Recoveries of Provisions	(96.2)	(210.3)	(402.1)		(2.0)
Net Charge (Benefit) to the Income Statement Ratios (%)	Ps. (64.0)	Ps. (132.6)	Ps. (223.6)	Ps. 1,582.3	Ps. 894.2
Charge Offs (A+B) to Average Loans ⁽²⁾	1.49	3.77%	1.98%	1.89%	2.20%
Net Charge to the Income Statement to Average Loans ⁽³⁾	(0.66)	(1.19)	(1.93)	10.37	4.47

(1) Before the allowance for loan losses.

(2) Charge-offs plus direct charge-offs minus bad debts recovered.

(3) Income statement charges consist of net provisions plus net direct charge-offs

*(direct
charge-offs
minus bad debts
recovered)*

*(4) Includes
quotation
difference for
Galicia
Uruguay and
Cayman
Branch.*

The lower loan loss allowance reported at the end of fiscal years 2005, 2004 and 2003, as compared to the prior fiscal years, respectively, mainly reflects the reduced overall risk faced by the Bank in connection with its loan portfolio as a result of the credit quality improvement that accompanied the improvement in the overall Argentine economic environment, the charge offs made by the Bank during these years, and the progress made by the Bank in the restructuring of its loan portfolio.

The increase in the allowance for loan losses as of December 31, 2002, when compared to December 31, 2001, reflects the continuous worsening of the economic conditions in Argentina between late 1998 and mid 2002, which caused a significant deterioration of credit quality. This increase can also be attributed to the increase in the unallocated reserve (to Ps.822.3 million as of year end), which was due to the judgment that the consequences of the 2001-2002 crisis on the loan portfolio had not unfolded completely at the balance sheet date, and that the risk that loans that were impaired had not been identified as of such date was still high.

In 2005, 2004 and 2003, the net effect on the income statement (provisions and direct charges related to the loan portfolio net of loan loss provisions reversed and loan recoveries) was a benefit of Ps.64 million, Ps.132.6 million and Ps.223.6 million, respectively, representing 0.66%, 1.19% and 1.93% of the average loan balance for the fiscal year, respectively. In 2005, this gain was the consequence of a Ps.96.2 million reversal of loan loss provisions, and of net loan recoveries for Ps.28.9 million. In 2004, this gain was the consequence of a Ps.210.3 million reversal of loan loss provisions, and of net loan recoveries for Ps.110.1 million, which include Ps.39.5 million from the sale of a portfolio of off-balance sheet loans. In 2003, this gain was mainly the consequence of the Ps.402.1 million reversal of allowances.

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The net charge to the income statement as a percentage of average loans was 10.37% in fiscal year 2002 and 4.47% during fiscal year 2001. This reflects the fact that the Bank assigned an increased portion of its income, both to charge offs and to provide for a higher coverage of the non-accrual portfolio with allowances, when the quality of such portfolio deteriorated.

Allocation of the Allowance for Loan Losses

The following table presents the allocation of the Bank's allowance for loan losses among the various loan categories and shows such allowances as a percentage of the Bank's total loan portfolio before deducting the allowance for loan losses, in each case for the periods indicated. The table also shows each loan category as a percentage of the Bank's total loan portfolio before deducting the allowance for loan losses at the dates indicated.

	As of December 31,									
	2005			2004			2003			
	Amount	Loan Category	Loan % of	Amount	Loan Category	Loan % of	Amount	Loan Category	Loan % of	
		%	%			%		%		%
<i>(in millions of pesos, except percentages)</i>										
Non Financial Public Sector		47.44%			50.01%			49.51%		
Local Financial Sector		1.17			1.67			2.25		
Non Financial Private Sector and Residents Abroad										
Advances	Ps. 12.3	0.11%	2.04%	Ps. 22.7	0.25%	2.21	Ps. 78.8	0.91%	2.54	
Notes	186.4	1.70	16.80	270.9	3.00	12.18	441.9	5.12	14.82	
Mortgage Loans	21.6	0.20	4.60	97.6	1.08	6.91	142.6	1.65	8.33	
Pledge Loans	0.5		1.11	3.5	0.04	1.03	22.7	0.27	0.63	
Personal Loans	0.9	0.01	2.36	4.0	0.04	0.64	157.6	1.82	0.64	
Credit Card Loans	14.0	0.13	15.84	10.8	0.12	12.25	14.5	0.17	9.48	
Placements in Correspondent Banks			1.95			4.20			2.00	
Other	17.1	0.16	6.69	32.1	0.36	8.90	5.6	0.06	9.80	
Unallocated ⁽¹⁾	175.1	1.60		191.0	2.12		313.6	3.63		
Total	Ps.427.9	3.91%	100.00%	Ps.632.6	7.01%	100.00%	Ps.1,177.3	13.63%	100.00%	

	As of December 31,							
	2002				2001			
	Amount	Loan Category	Loan % of	Amount	Loan Category	Loan % of	Amount	Loan Category
		%	%			%		%
<i>(in millions of February 28, 2003, constant pesos, except percentages)</i>								
Non Financial Public Sector				62.03%				41.15%
Local Financial Sector				1.09				0.91
Non Financial Private Sector and Residents Abroad								
Advances	Ps. 40.1	0.33%	1.84	Ps. 46.1	0.22%	3.85		

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Notes	569.0	4.62	12.55	219.2	1.04	18.46
Mortgage Loans	122.1	0.99	7.02	154.5	0.73	15.65
Pledge Loans	24.3	0.20	1.56	33.5	0.16	4.00
Personal Loans	48.4	0.39	0.97	64.8	0.31	2.77
Credit Card Loans	55.6	0.45	4.75	83.7	0.40	8.90
Placements in Correspondent Banks			1.29			1.79
Other			6.90	3.7	0.02	2.52
Unallocated ⁽¹⁾	822.3	6.68		444.8	2.10	
Total	Ps. 1,681.8	13.66%	100.00%	Ps. 1,050.3	4.98%	100.00%

(1) The unallocated reserve consists of the allowances established on the portfolio classified in the normal and normal performance categories and includes additional reserves in excess of Argentine Central Bank minimum requirements.

Table of Contents**Charge-Offs**

The following table sets forth the allocation of the main charge-offs made by the Bank during the years ended December 31, 2005, 2004 and 2003.

Charge offs by Type	Fiscal Year Ended		
	2005	December 31, 2004	2003
	<i>(in millions of pesos)</i>		
Advances	Ps. 12.5	Ps. 20.0	Ps. 31.3
Notes			
Promissory Notes	47.7	331.3	65.0
Discounted and Purchased Bills	2.9		
Documentary Credits			
Mortgage Loans	57.6	60.5	34.4
Pledge Loans	3.5	20.4	18.8
Personal Loans	1.1	12.5	36.9
Credit Card Loans			
Banco Galicia	8.8	5.5	27.9
Regional Credit Card Companies	22.0	9.3	52.9
Other Loans	18.4	61.8	0.1
Total	Ps.174.5	Ps.521.3	Ps.267.3

During fiscal year 2005, the overall level of charge offs decreased to Ps.174.5 million from Ps.521.3 million reported for the prior fiscal year, due to lower charge offs related to loans granted by the Bank on a non-consolidated basis. This decrease was in turn due to the significant charge-offs made in 2004, the good performance of the loan portfolio given the favorable overall economic conditions, and the fact that growth in the Bank's loan portfolio is recent. The amount of charge offs related to loans granted by the Bank is mainly explained by the Ps.109 million write off of provisions established on the loan portfolio transferred to the BG Financial Trust, which was transferred at its net book value. For more information, please see note 34 to our financial statements. The increase in the charge offs related to the loans granted by the regional credit-card companies is attributable to such loan portfolio aging.

During fiscal year 2004, the overall level of charge offs increased from the level reported for the prior fiscal year, as a result of the Bank's decision to charge off all loans to customers with loans under a restructuring process in which negotiations had reached a stagnating point or no agreement was deemed possible.

Foreign Outstandings

Cross-border or foreign outstandings for a particular country are defined as the sum of all claims on third parties domiciled in that country and comprise loans (including accrued interest), acceptances, interest-bearing deposits with other banks, other interest-bearing investments and any other monetary assets that are denominated in dollars or other non-local currency.

As of December 31, 2005, we had the following foreign outstandings representing 0.75% or more of our total assets:

- a Ps.349.5 million claim against a United Kingdom financial institution (1.36% of our total assets), of which Ps.347.8 represented the right to receive Boden 2012 in connection with agreements to repurchase such bonds entered into with such bank; and
- Ps.238.6 million of placements with United States financial institutions (0.93% of our total assets), of which Ps.212.9 million represented an overnight placement and the remaining amount several short-term placements.

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There were no other foreign outstandings representing 0.75% or more of our total assets as of December 31, 2005.

As of December 31, 2004, we had the following foreign outstandings representing 0.75% or more of our total assets:

- a Ps.394.4 million claim against a United Kingdom financial institution (1.67% of our total assets), corresponding to the right to receive Boden 2012 in connection with agreements to repurchase such bonds entered into with such bank; and
- Ps.196.4 million of placements with United States financial institutions (0.83% of our total assets), of which Ps.157.4 million represented an overnight placement and the remaining amount several short-term placements.

There were no other foreign outstandings representing 0.75% or more of our total assets as of December 31, 2004. At the end of fiscal year 2003, we did not have any foreign outstandings that represented 0.75% or more of our total assets.

Deposits

The following table sets out the composition of our deposits as of December 31, 2005, 2004, and 2003. Our deposits mainly represent Banco Galicia's deposits.

	2005	As of December 31, 2004	2003
			<i>(in millions of February 28, 2003, constant pesos)</i>
	<i>(in millions of pesos)</i>		
Current Accounts and Other Demand Deposits	Ps.1.657,6	Ps.1,210.3	Ps .917.5
Savings Accounts ⁽¹⁾	2.213,4	1,639.5	1,080.2
Time Deposits	4.261,9	3,527.6	2,838.4
Reprogrammed Deposits (Cedros)		107.3	381.9
Other Deposits	192,9	191.0	168.7
Plus: Interest Payable and Differences in Quotations ⁽²⁾	95,9	81.2	197.3
Total Deposits	Ps.8.421,7	Ps.6,756.9	Ps .5,584.0

(1) *Includes remunerated current accounts.*

(2) *Includes the CER adjustment.*

In 2005, our consolidated deposits increased 24.6%, mainly as a result of a Ps.1,021.2 million increase in deposits in current and savings accounts and a Ps.734.3 million increase in time deposits. Both increases were due to private sector deposits raised by the Bank's Argentine operation. This increase is net of the repayment of Galicia Uruguay restructured deposits (both due to the payment of the installment scheduled in the restructuring agreement reached in December 2002 and to the participation of depositors in the exchange offered by Galicia Uruguay at the beginning of 2005). As of December 31, 2005, time deposits included Ps.994.6 million of CER adjusted time deposits. The item Other Deposits, included Ps.34,9 million of Reprogrammed Deposits with *amparo* claims and other demand deposits.

The repayment by the Bank in Argentina of Reprogrammed Deposits (Cedros) finalized in August 2005, as established by the repayment schedule laid down by the Argentine Government.

In 2004, our consolidated deposits increased 21.0%, mainly as a result of a Ps.852.1 million increase in deposits in current and savings accounts and a Ps.689.2 million increase in time deposits. Both increases were due to private sector deposits raised by the Bank's Argentine operation. The increase in time deposits was mainly due to the return of the Bank to the local institutional market after it was rated BBB- by Standard&Poors in its local ratings scale, following the completion of the restructuring of the Bank's foreign debt. This increase is net of the repayment of Galicia Uruguay restructured deposits (both due to the payment by Galicia Uruguay of the installment scheduled in the restructuring agreement reached in December 2002 and to the participation of depositors in the exchange offered by Galicia Uruguay at the beginning of 2004). As of December 31, 2004, time deposits included Ps.511.3 million of CER adjusted time deposits. The repayment by the Bank in Argentina of Reprogrammed Deposits caused the amount of these deposits to decrease during 2004.

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For more information, see Item 5. Operating and Financial Review and Prospects Item 5A. Operating Results Funding.

The following table provides a breakdown of our consolidated deposits as of December 31, 2005, by contractual maturity date and currency of denomination.

	Peso-Denominated		Dollar-Denominated		Total	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
<i>(in millions of pesos, except percentages)</i>						
Current Accounts and Demand Deposits	Ps. 1,657.6	23.6%			Ps. 1,657.6	19.9%
Savings Accounts	1,664.9	23.7	Ps. 548.5	42.0%	2,213.4	26.6
Time Deposits	3,563.4	50.8	698.5	53.4	4,261.9	51.2
Maturing within 30 Days	436.7	6.2	123.8	9.5	560.5	6.7
Maturing after 31 Days but within 59 Days	811.1	11.6	116.5	8.9	927.6	11.1
Maturing after 60 Days but within 89 Days	489.7	7.0	70.4	5.4	560.1	6.7
Maturing after 90 Days but within 179 Days	537.6	7.7	74.1	5.7	611.7	7.3
Maturing after 180 Days but within 365 Days	898.9	12.8	66.6	5.1	965.5	11.6
Maturing after 365 Days	389.4	5.5	247.1	18.8	636.5	7.8
Reprogrammed Deposits with <i>amparo</i> claims	34.9	0.5			34.9	0.4
Other Deposits	98.4	1.4	59.6	4.6	158.0	1.9
Maturing within 30 Days	98.0	1.4	58.9	4.5	156.9	1.9
Maturing after 31 Days but within 59 Days						
Maturing after 60 Days but within 89 Days						
Maturing after 90 Days but within 179 Days						
Maturing after 180 Days but within 365 Days						
Maturing after 365 Days	0.4		0.7	0.1	1.1	
Total Deposits ⁽¹⁾	Ps. 7,019.2	100.0%	Ps. 1,306.6	100.0%	Ps. 8,325.8	100.0%

(1) Only principal.
Excludes the
CER adjustment

The categories with the highest concentration of maturities per original term are those within the following segments: (i) after 31 days but within 59 days pesos and dollars, amounting to 11.1% of the total, which mainly corresponds to peso-denominated time deposits; (ii) after 180 days but within 365 days pesos, amounting to 11.6% of the total, which mainly corresponds to time deposits adjusted by CER, and (iii) after 365 days, amounting to 7.8% of the total, of which approximately 39% corresponded to Galicia Uruguay's time deposits resulting from the restructuring of its deposits, and the rest corresponded to time deposits adjusted by CER.

Dollar-denominated deposits, for Ps.1,306.6 million, represented 15.7% of total deposits, of which 31.5% (Ps.411.0 million, only principal) corresponded to Galicia Uruguay (consolidated).

Through Communiqué A 4032, effective November 1, 2003, the Argentine Central Bank reestablished the 30-day minimum term for time deposits while the minimum term for CER-adjusted time deposits was set at 90 days. Such minimum term was extended to 270 days in February 2005 and to 365 days in April 2005. The average maturity of our time deposits in Argentina both peso- and dollar-denominated (excluding Reprogrammed Deposits with *amparo* claims) was approximately 60 days as of December 31, 2005. The average maturity of our CER-adjusted time deposits as of the same date, was approximately 422 days.

The following table provides information about the maturity of our outstanding time deposits exceeding Ps.100,000, according to whether they were made at domestic or foreign branches, as of December 31, 2005.

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	Domestic Offices	Foreign Offices
	<i>(in millions of pesos)</i>	
Time Deposits		
Within 30 Days	Ps. 231,2	
After 31 Days but within 59 Days	617,2	
After 60 Days but within 89 Days	222,9	
After 90 Days but within 179 Days	355,2	
After 180 Days but within 365 Days	767,7	
After 365 Days	357,4	202,0
Total Time Deposits	Ps.2.551,6	Ps .202,0
Other Deposits		
After 365 Days		0,6
Total Other Deposits		0,6
Total Deposits ⁽¹⁾	Ps.2.551,6	Ps .202,6

(1) *Only principal.
Excludes the
CER
adjustment.*

Return on Equity and Assets

The following table presents certain selected financial information and ratios for the periods indicated.

	Fiscal Year Ended December 31,		
	2005	2004	2003
	<i>(in millions of pesos, except percentages)</i>		
Net Income / (Loss)	Ps. 107.2	Ps. (109.9)	Ps. (222.2)
Average Total Assets	24,238.1	22,725.9	22,530.3
Average Shareholders' Equity	1,569.3	1,500.9	1,529.4
Shareholders' Equity at End of the Period	1,626.8	1,519.5	1,419.4
Net Income / (Loss) as a Percentage of:			
Average Total Assets	0.59%	(0.42)%	(0.95)%
Average Shareholders' Equity	6.83	(7.32)	(14.53)
Declared Cash Dividends			
Dividend Payout Ratio			
Average Shareholders' Equity as a Percentage of Average Total Assets	6.47%	6.60%	6.79
Shareholders' Equity at the End of the Period as a Percentage of Average Total Assets	6.71	6.69	6.30

Short-term Borrowings

Our short-term borrowings include all of our borrowings (including repos and debt securities or negotiable obligations) with a contractual maturity of less than one year, owed to the Argentine Central Bank, foreign and

domestic financial institutions and negotiable obligations holders.

	2005	As of December 31,		2003
		2004		
		<i>(in millions of pesos)</i>		
Short-Term Borrowings				
Argentine Central Bank		Ps. 1.0	Ps.	0.8
Other Banks and International Entities ⁽¹⁾				
Lines of Credit from Domestic Banks	60.8	115.2		25.1
Lines of Credit from Foreign Banks				1,231.8
Repos with Domestic Banks				
Repos with Foreign Banks	220.5	223.7		
Debt Securities ⁽¹⁾	89.7	13.4		9.5
Total	Ps.371.0	Ps.353.3		Ps.1,267.2

*(1) For 2003,
includes
short-term
borrowings
under
restructuring.*

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Our short-term borrowings totaled Ps.371.0 million as of December 31, 2005, compared to Ps.353.3 million as of December 31, 2004 and Ps.1,267.2 million as of December 31, 2003. In 2005, short-term borrowings remained similar to those of 2004, with a decrease in lines of credit from domestic banks that was more than compensated by an increase in short-term debt securities, issued by the regional credit-card companies. The decrease in 2004 was the result of the restructuring, in May 2004, of the foreign debt of the Bank's Head Office in Argentina and that of its Cayman Branch into long-term debt. Foreign debt under restructuring as of December 31, 2003, with a contractual maturity of less than one year, was included under short-term borrowings.

The following table shows for our significant short-term borrowings for the fiscal years ended December 31, 2005, 2004 and 2003:

- the weighted-average interest rate at year-end,
- the maximum balance recorded at the monthly closing dates of the periods,
- the average balances for each period, and
- the weighted-average interest rate for the periods.

	2005	As of December 31,	
		2004	2003
		<i>(in millions of pesos)</i>	
Argentine Central Bank			
Weighted-average interest rate at end of period		7.00%	9.00%
Maximum balance recorded at the monthly closing dates		Ps. 1.0	Ps. 0.8
Average balances for each period		0.9	0.3
Weighted-average interest rate for the period		7.00%	9.00%
Lines of Credit from Domestic Banks			
Weighted-average interest rate at end of period	7.0%	5.2%	6.8%
Maximum balance recorded at the monthly closing dates	Ps. 164.1	Ps. 185.6	Ps. 43.4
Average balances for each period	96.3	104.2	35.4
Weighted-average interest rate for the period	5.5%	5.0%	3.9%
Lines of Credit from Foreign Banks			
Weighted average interest rate at end of period			7.1%
Maximum balance recorded at the monthly closing dates		Ps. 1,231.6	Ps. 1,344.4
Average balances for each period		456.1	1,239.0
Weighted average interest rate for the period		7.1%	7.1%
Repos with Domestic Banks			
Weighted-average interest rate at end of period			
Maximum balance recorded at the monthly closing dates	Ps. 165.6	Ps. 150.1	
Average balances for each period	15.8	37.9	
Weighted-average interest rate for the period	4.9%	2.8%	
Repos with Foreign Banks			
Weighted-average interest rate at end of period	7.5%	5.6%	
Maximum balance recorded at the monthly closing dates	Ps. 220.6	Ps. 224.3	
Average balances for each period	216.7	66.5	
Weighted-average interest rate for the period	6.6%	5.6%	
Negotiable Obligations			
Weighted-average interest rate at end of period	7.4%	8.0%	16.1%
Maximum balance recorded at the monthly closing dates	Ps. 123.2	Ps. 13.4	Ps. 128.0
Average balances for each period	79.5	11.5	50.9

Weighted-average interest rate for the period	6.1%	8.0%	16.1%
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Table of Contents**Regulatory Capital**

The capital adequacy of Grupo Galicia is not under the supervision of the Argentine Central Bank. Grupo Galicia has a minimum capital requirement established by the Corporations Law (*Ley de Sociedades Comerciales*) of Ps.0.012 million.

Banco Galicia

Our main subsidiary, Banco Galicia is subject to the capital adequacy rules of the Argentine Central Bank. Banks have to comply with capital requirements both on an individual basis and on a consolidated basis with its significant subsidiaries. Banco Galicia's significant subsidiaries are Galicia Uruguay and the regional credit-card companies that Banco Galicia indirectly controls.

Due to the significant changes suffered during 2002 by the economy and the financial system's operations, which significantly affected the variables to determine the minimum capital requirements, through its Communiqués A 3599 and A 3604 dated May 3 and 9, 2002, respectively, the Argentine Central Bank suspended the submission of capital adequacy information by financial institutions. On June 2, 2003 and July 25, 2003, through its Communiqués A 3959 and A 3986, respectively, the Argentine Central Bank laid down new capital adequacy rules and established that compliance with such rules by financial institutions would be required beginning on January 1, 2004.

The current and the previous capital adequacy rules established by the Argentine Central Bank are based on the methodology of the Basel Committee on Banking Supervision of the Bank for International Settlements. The main changes introduced by the new rule, as compared to the former one were:

- The setting of an 8.0% minimum capital requirement on risk-weighted assets consistent with the international standard set forth by the Basel Committee, which is lower than the former requirement but is applied to the public-sector exposure as well as to private-sector assets, while the former requirement was applicable to private-sector assets only.
- The establishment of a 100.0% risk-weighting for public-sector assets, the same applicable to loans to the private sector, while under the prior rules no capital was required on public-sector assets.
- The discontinuation of the requirement of an increasing capital as a function of loans' interest rates;
- The incorporation of US dollar as well as the CER-adjusted positions in the determination of the capital required to cover market and interest-rate risks, which were not considered under the prior rules;
- The discontinuation of the increase or decrease of the capital requirement depending on the rating granted to each institution by the Financial Superintendency;

Comunicado A 3986 also established that, beginning in January 2004, two coefficients known as Alfa 1 and Alfa 2 should be applied in order to temporarily reduce the minimum capital requirement to cover credit risk and the minimum capital requirement to cover interest-rate risk, respectively. Alfa 1 is applied to government securities held in investment accounts, loans granted to the non-financial public sector until May 31, 2003, government securities in connection with the asymmetric pesification (sections 28 and 29 of Decree No.905/02), and debt instruments issued by the FFDP (Decree No.1579/02). Alfa 1 will increase progressively on an annual basis until reaching 1.00 on January 1, 2009, and Alfa 2 will increase in the same manner until reaching 1.00 on January 1, 2007, as shown in the table below:

January 1st/ December 31st	Alfa 1	Alfa 2
2004	0.05	0.20
2005	0.15	0.40
2006	0.30	0.70
2007	0.50	1.00
2008	0.75	
2009	1.00	

The table below shows Banco Galicia's capital requirement and computable capital consolidated with its significant subsidiaries (Galicia Uruguay and Tarjetas Regionales S.A. and its subsidiaries) for the dates indicated.

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	As of December 31,		
	2005	2004	2003(*)
	<i>(in millions of pesos, except percentages)</i>		
Shareholders Equity	Ps.1,389.2	Ps.1,198.2	Ps.1,306.8
Argentine Central Bank Minimum Capital Requirements			
Allocated to Financial Assets	477.2	329.9	
Allocated to Fixed Assets, intangible and unquoted equity investments	138.0	142.0	
Allocated to Market Risk	16.8	62.6	
Allocated to Interest-Rate Risk	87.1	20.2	
Lending to the Non-Financial Public Sector	162.4	58.6	
Minimum Capital Required by the Argentine Central Bank (A)	Ps. 881.5	Ps. 613.3	
Capital Calculated Under Argentine Banking GAAP			
Core Capital	1,207.1	1,339.9	
Supplemental Capital	807.5	580.8	
Deductions			
Investments in Financial Entities	(1.5)	(1.5)	
Organization Expenses	(55.6)	(71.6)	
Goodwill Recorded from June 30, 1997	(85.9)	(111.7)	
Real Estate Properties for Banco Galicia's Own Use and Miscellaneous, for which no title deed has been made	(3.5)	(4.0)	
Other	(5.6)	(5.9)	
Total	(152.1)	(194.7)	
Additional Capital Market Variation	22.7	20.5	
Capital Calculated Under Argentine Banking GAAP Excess Capital	Ps.1,885.2	Ps.1,746.5	
Excess over required Capital (B)-(A)	Ps.1,003.7	Ps.1,133.2	
Excess over Required Capital as a % of Required Capital	113.86%	184.77%	
Total Capital Ratio	20.78	25.11	

(*) *Submission of information on capital adequacy was suspended by Argentine Central Bank rules.*

As of December 31, 2005 the Bank's computable capital amounted to Ps.1,885.2 million, which exceeded by Ps.1,003.7 million the minimum capital requirement in accordance with Argentine Central Bank's regulations effective as of that date. This excess was Ps.1,133.2 million as of December 31, 2004. The drop in the excess was due to an increase in the minimum capital requirement that was higher than the increase in computable capital.

The greater minimum capital requirement was mainly due to: i) a Ps.147.3 million increase in the minimum capital requirement to cover credit risk, as a consequence of the significant growth thereof during the fiscal year, ii) a

Ps.103.8 million increase in the minimum capital requirement related to the exposure to the non-financial public sector, mainly due to the increase in the Alfa 1 coefficient on January 1, 2005, since it rose from 0.05 to 0.15, and iii) a Ps.66.9 million increase in the minimum capital requirement to cover interest-rate risk, mainly due to the increase of the Alfa 2 coefficient, on January 1, 2005, which rose from 0.20 to 0.40.

The computable capital increase was mainly due to a higher supplemental capital of Ps.226.7 million, resulting mainly from the fiscal year profits. This effect was partially offset by a Ps.132.8 million decrease in core capital, mainly due to the loss recorded in fiscal year 2004.

As of December 31, 2004 the Bank's computable capital amounted to Ps.1,746.5 million, which exceeded by Ps.1,133.2 million the minimum capital requirement in accordance with Argentine Central Bank's regulations effective as of that date. The core capital mainly corresponds to the Bank's shareholders' equity at the beginning of the fiscal year and the supplemental capital includes the fiscal year's losses and the subordinated negotiable obligations issued as a result of the restructuring of the Bank's foreign debt and that of its Cayman Branch. Pursuant to Argentine Central Bank regulations on this respect, subordinated debt computable as supplemental capital is limited to 50% of core capital and supplemental capital cannot exceed the latter.

For more information regarding Banco Galicia's capital, see Item 5. Operating and Financial Review and Prospects Item 5B. Liquidity and Capital Resources Capital.

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Minimum Capital Requirements of Insurance Companies

The insurance companies controlled by Sudamericana must meet the minimum capital requirements set by General Resolution No. 25,804 of the National Insurance Superintendency. The abovementioned resolution requires insurance companies to maintain a minimum capital level equivalent to the highest of the amounts calculated as follows:

- a) By line of insurance: This method establishes a fixed amount by line of insurance. For life insurance companies, it is Ps.750,000, rising to Ps.3 million for companies that offer pension-linked life insurance. For annuity providers that do not offer life annuities, or annuities covering disability and other work-related risks, the requirement is Ps.2 million. For property insurance companies, the requirement is Ps.5 million, excluding the auto insurance line of business.
- b) By premiums and additional fees: To use this method, the company must calculate the sum of the premiums written and additional fees earned in the last 12 months. Of the total, the company must calculate 18% of any result up to Ps.5 million, and 16% of any result over Ps.5 million. Finally, it must add the resulting figures and adjust the total by the ratio of net paid claims to gross paid claims for the last 36 months. This ratio must be at least 50%.
- c) By claims: To use this method, the company must calculate the sum of gross claims paid during the 36 months prior to the end of the period under analysis. To that amount, it must add the difference between the balance of unpaid claims as of the end of the period under analysis and the balance of unpaid claims as of the 36th month prior to the end of the period under analysis. The resulting figure must be divided by three. Then the company must calculate 26% of any result up to Ps.3.5 million, and 23% of any result over Ps.3.5 million. The resulting figure must be adjusted by the ratio of net paid claims to gross paid claims for the last 36 months. This ratio must be at least 50%.
- d) For life insurance companies that offer policies with an investment component, the figures obtained in b) and c) must be increased by an amount equal to 4% of the technical reserves. The latter total must be adjusted by the ratio of net claims reserves to gross claims reserves (at least 85%), plus 0.03% of at-risk capital adjusted by the ratio of net claims reserves to gross claims reserves (at least 50%).

The minimum required capital must then be compared to computable capital, defined as shareholder's equity less non-computable assets. Non-computable assets consist mainly of deferred charges, pending capital contributions, and excess investments in authorized instruments. As of September 30, 2005, the computable capital of the companies held by Sudamericana exceeded the minimum requirement of Ps.10.0 million by Ps.30.7 million.

Government Regulation

As a financial services holding company, we do not have a specific institution controlling our activities as a holding entity. Our subsidiaries have different regulatory entities regulating their activities.

In the case of Banco Galicia, the Argentine Central Bank is the regulatory entity. For a description of the main regulatory changes introduced by the Argentine Government and Argentine banking regulations, see [Main Regulatory Changes since 2002](#) and [Argentine Banking System and Regulation](#) [Argentine Banking Regulation](#) below.

With respect to the insurance business, Sudamericana's insurance subsidiaries are regulated by the National Insurance Superintendency and Laws No. 17,418, No. 20,091 and No. 22,400. The insurance companies held by Sudamericana are Galicia Vida Compañía de Seguros S.A., Galicia Retiro Compañía de Seguros S.A., and Galicia Patrimoniales S.A. Sudamericana also holds Sudamericana Asesores de Seguros S.A., which is regulated by the Corporations Law. Sudamericana Asesores de Seguros S.A. is also regulated by the National Insurance Superintendency through Law No. 22,400.

Net Investment S.A., and its controlled companies are regulated by the Corporations Law and do not have a specific regulating agency.

Galicia Warrants is regulated by Law No. 9,643.

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Main Regulatory Changes since 2002

General

In order to deal with the 2001 and 2002 crisis, on January 6, 2002, the Argentine Congress enacted the Public Emergency Law (No. 25,561), which together with various decrees and Argentine Central Bank rules, provided for the following principal measures:

ratifying the suspension of payments of Argentina's sovereign debt except for debt with multilateral credit agencies;

repealing the articles of the Convertibility Law that had established in 1991 the fixed one-to-one peso-dollar parity, devaluing the peso and subsequently allowing the peso to float, which resulted in an increase in such parity of approximately 240% during 2002;

tightening foreign-exchange controls and restrictions on transfers abroad, which began to be loosened at the end of 2002;

ratifying and tightening the restrictions to cash withdrawals from bank deposits established in December 2001 (the *corralito*), which restrictions were lifted in December 2002;

establishing a compulsory asymmetric conversion of certain dollar-denominated assets and liabilities into peso-denominated assets and liabilities at different exchange rates (the asymmetric pesification), as follows:

- private sector debt (individual and corporate dollar-denominated debt) with financial institutions, and other creditors, was converted into peso-denominated debt at a one-to-one exchange rate;
- dollar-denominated public sector debt instruments in financial institutions' portfolios, both national and provincial, were converted into peso-denominated instruments at an exchange rate of Ps.1.4 per US\$1.0; and
- dollar-denominated bank deposits were converted into peso-denominated bank deposits at an exchange rate of Ps.1.4 per US\$1.0, while public-sector, bank and corporate debt governed by foreign law remained dollar-denominated;

modifying the yields of assets and the cost of liabilities pesified at the Ps.1.4 per US\$1.0 exchange rate, establishing fixed maximum and minimum interest rates, respectively, and establishing the adjustment of the principal of those assets and liabilities by the variation of indexes based on the variation of prices or salaries;

restructuring bank peso-denominated time deposits and dollar-denominated deposits, above certain amounts, and establishing a repayment schedule ending in 2003 and 2005 depending on whether the deposit was originally peso or dollar-denominated (this restructuring was known as the *corralón*);

establishing a series of voluntary swaps of deposits in the *corralito* or of Reprogrammed Deposits for government bonds, as a response to the inability of the financial system to return deposits in accordance with their original terms and conditions. Through Decree No. 739/03 of April 1, 2003, the *corralón* was eliminated;

amending the charter of the Argentine Central Bank; and

allocating Argentine Government bonds to financial institutions in compensation for the losses that would otherwise arise from the asymmetric pesification. As of the date of this annual report, the Argentine Government and the Argentine Central Bank have provided a series of rules to determine the amount of compensation in connection with the asymmetric pesification to which each financial institution is entitled. However, certain situations remain that have not been contemplated by such rules, such as the provision of

compensation for the difference between the amounts paid by banks to reimburse Reprogrammed Deposits, as a result of judicial actions from depositors (*amparo* claims), and the amounts established by the regulations.

In 2005, as in the previous year, the period of effectiveness of the Public Emergency Law was extended again until December 2006.

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Some of these measures are described in more detail below and under Argentine Banking System and Regulation Argentine Banking Regulation.

Foreign Exchange Market

In late 2001 and early 2002, restrictions were imposed on access to the Argentine foreign exchange market and on capital movements, which were tightened by the middle of 2002. The Public Emergency Law granted the Executive Branch the power to set the exchange rate between the peso and foreign currencies and to regulate the local foreign exchange market.

In order to prevent the appreciation of the peso that took place principally in the fourth quarter of 2002, the Argentine Central Bank began to ease some of these restrictions. During 2003 and 2004, the Argentine Central Bank further enhanced access to the local foreign exchange market.

On June 30, 2003, Decree No. 285/03, regulated by Argentine Central Bank Communiqué A 3972, established effective July 1, 2003, a system for the registration of funds entering into Argentina and a 180-day restriction on the remittance of such registered funds abroad, which term was extended to 365 days in May 2005. This restriction does not apply to foreign trade transactions or to foreign direct investment.

On June 9, 2005, the Government issued Decree No. 616/05, which established new rules for capital movements into and from Argentina. This Decree, as regulated, mainly established that: (i) flows of foreign exchange into and from the local foreign exchange market and all resident new debt transactions that may imply future foreign exchange payments to non-residents must be registered with the Argentine Central Bank; (ii) all new debt of the private sector with non-residents must be for a minimum term of 365 days, except for foreign trade financing and primary issuances of debt securities, which public offering has been duly authorized and which are listed in self-regulated markets in Argentina; (iii) all inflows of foreign exchange resulting from such indebtedness, with the exceptions mentioned in clause (ii), and all inflows of foreign exchange by non-residents, excluding direct foreign investments and certain portfolio investments (subscriptions of primary issuances of debt and equity securities, which public offering has been duly authorized and which are listed in self-regulated markets in Argentina, and government securities acquired in the secondary market), must be for a term of at least 365 days and 30% of the funds involved will be required to remain as an unremunerated dollar-denominated deposit maturing in at least 365 days in a local financial institution; (iv) the proceeds of sales of foreign assets brought into the country by residents (capital repatriation) will be subject to the 30% deposit requirement, which will apply to amounts exceeding US\$2 million per month; and (v) debt with multilateral and bilateral credit agencies is exempt from the 30% deposit requirement.

Complementary to Decree No. 616/05, the Ministry of Economy issued Resolution 637/05, dated November 16, 2005, which established that, beginning on November 17, 2005, the restrictions established in said Decree will be applicable also to all inflows of funds to the local foreign exchange market for the subscription of primary issuances of debt securities or certificates of participation by financial trusts, if such restrictions were applicable to capital inflows destined to the acquisition of any of the trusts' assets.

In addition, the main restrictions prevailing in the local foreign exchange market that would affect us or the holders of our securities are as follows:

- Access to the local foreign exchange market is permitted in order to repay interest and principal on foreign debt of a financial nature by the financial and non-financial private sectors but such debt can only be repaid after 180 days from the entry and conversion into pesos in the local foreign exchange market of the related proceeds.
- Anticipated payment of principal on such debt by the financial and non-financial private sectors is permitted if made within a certain period from maturity and after 180 days from the entry and conversion into pesos in the local foreign exchange market of the related proceeds.
- Transfers of funds abroad by financial institutions with outstanding indebtedness for financial assistance with the Argentine Central Bank, such as the Bank, is subject to the prior authorization of

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the Argentine Central Bank. Such prior authorization does not apply to payments in connection with the foreign debt of the Bank's Head Office and Cayman Branch, given that such restructuring was approved by the Argentine Central Bank.

- Access to the foreign exchange local market for the transfer of profits and dividends is permitted when corresponding to audited and final balance sheets.
- Access to the local foreign exchange market by non-residents (both individuals and entities) to transfer funds abroad is permitted:
 - with no limit in the case of proceedings from the principal amortization of Argentine Government Securities, recoveries from local bankruptcies and certain other specific cases.
 - with a US\$2.0 million monthly limit in the case of the aggregate proceeds from the sale of: (i) direct investments in the private non-financial sector in Argentina or the final disposition of such investments; and (ii) the sale of portfolio investments made with foreign exchange having entered the local foreign exchange market no less than 180 days before. However, access to the local foreign exchange market for the reason mentioned in clause (i) for a monthly amount exceeding US\$500,000 or for the reasons mentioned in clauses (i) and (ii) for an aggregate monthly amount exceeding US\$2.0 million, requires the prior authorization of the Argentine Central Bank.
 - with a US\$5,000 monthly limit in the cases not contemplated above, unless authorization of the Argentine Central Bank is obtained.
- Access to the local foreign exchange market by residents (both individuals and entities) to make foreign real estate, direct or portfolio investments or buy foreign exchange or traveler checks is allowed but limited to US\$2.0 million per month, with such limit increased in certain cases.

Loans to the Private Sector and Asymmetric Indexation

Pursuant to Decree No. 214/02, dated February 3, 2002, as amended, loans to the private sector were pesified at the Ps.1 per dollar parity. The principal of such loans was to be adjusted by the CER. A maximum interest rate was to be applied. The adjustment by the CER coefficient was to be retroactively applied beginning 180 days as from February 4, 2002. Subsequently, most of the loans to individuals were excluded from this adjustment, which was replaced by the adjustment by the CVS. In addition, several laws and decrees enacted between mid 2002 and 2003, provided for the following measures, among others:

certain types of loans originally made in U.S. dollars and then pesified were excluded from the application of the CER: certain loans secured by residential mortgages on property representing the borrower's sole family residence made for up to US\$250,000; personal loans originally made for up to Ps.12,000 or US\$12,000 or the equivalent amount in foreign currency; and personal loans secured by a pledge originally made for up to Ps.30,000 or US\$30,000 or the equivalent amount in foreign currency.

the adjustment by the CVS was applicable from October 1, 2002 up to March 31, 2004. The Bank began to apply the adjustment by the CVS to the principal of eligible loans on November 2003.

loans to be adjusted by the CER would bear an interest rate ranging from 3.5% to 8%, depending on the type of debtor, the existence of collateral and the type of loan. Loans to be adjusted by the CVS would bear an interest rate that would be the lower of the loan's contractual rate and the following maximum interest rates: 12.38% for mortgage loans, 16.41% for loans secured by a pledge and 25.48% for personal loans.

those debtors with obligations not included in the above-mentioned exceptions and with a total indebtedness in the financial system, as of February 3, 2002, of up to Ps.400,000, would be able to capitalize the CER adjustment accrued up to September 30, 2002, and to restructure such loans and the accumulated CER amounts.

To allow this restructuring, on July 25, 2003, the Argentine Central Bank, through its Communiqué A 3987, authorized financial institutions to grant loans to be adjusted by the CER.

During most of 2002, several regulations were in force that restricted creditors' ability to exercise their rights, including foreclosure proceedings on mortgages and pledges and all preliminary measures such as

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attachments and preliminary injunctions on those goods and/or facilities owned by debtors. The suspension of foreclosure proceedings was extended several times through regulations or by means of banks' voluntary commitment to not commence foreclosure actions against debtors until the enactment of Law No. 26,062, on November 3, 2005, which suspended for 120 days, beginning on November 5, 2005, foreclosure proceedings on mortgages on real property constituting the debtor's sole family residence, for loans the original amounts of which were under Ps.100,000. Subsequently, the suspension period was extended several times and is currently extended until December 2006.

Through Law No. 25,798 enacted on November 6, 2003, the Mortgage Refinancing System (*Sistema de Refinanciación Hipotecaria*) was created in order to refinance non-performing loans secured by real property constituting the debtor's sole family residence. In 2004, the Bank informed the Argentine Central Bank of its decision not to participate in the aforementioned system.

Deposits

On December 3, 2001, Decree No. 1570/01 established restrictions on depositors' ability to make cash withdrawals from bank accounts known as the *corralito*. The *corralito* did not prevent transfers of deposits among banks. On January 10, 2002, Resolution No. 6/02 of the Ministry of Economy established the restructuring of time deposits in pesos and of most deposits originally denominated in U.S. dollars, above certain amounts. Restructured deposits (referred to herein as Reprogrammed Deposits) were known as deposits subject to the *corralón* and were not allowed to be transferred among banks. After Resolution No. 6/02, the *corralito* referred to the restrictions applicable to transactional deposits only.

On February 3, 2002, Decree No. 214/02 established the mandatory conversion of all deposits in U.S. dollars or other foreign currencies in the Argentine financial system into pesos at the exchange rate of Ps.1.4 per US dollar. Decree No. 214/02 also allowed for the entire withdrawal of salaries and pensions in cash and other exceptions.

The *corralito* and the *corralón* were meant to shield banks from massive withdrawals of deposits. However, the financial system's deposits continued to diminish. One of the main reasons for this, that became increasingly important beginning in March of 2002, was the increase in the number of *amparo* claims that resulted in favorable decisions from courts which mandated banks to release deposits. In order to restrict fund outflows from the financial system, Law No. 25,587 was passed on April 25, 2002 that required banks to release deposits only when court orders in connection with *amparo* claims had been issued pursuant to final non-appealable judicial decisions. Enforcement of this law limited bank losses of deposits due to *amparo* claims, but did not eliminate them.

In an attempt to solve the problem represented by the *corralito* and the *corralón*, on various occasions, the Executive Branch proposed voluntary exchanges of deposits (known as *Canje I* and *Canje II*) for new Argentine Government bonds. Reprogrammed Deposits for which no option had been exercised became listed negotiable securities (known as *Cedros*) registered with the Caja de Valores S.A. (the Argentine equivalent of The Depository Trust Company in the U.S.) (Caja de Valores) and maturing in August 2005.

Given the favorable trend of deposits in the financial system during the second half of 2002, effective December 2, 2002, the Ministry of Economy eliminated the restrictions still in force on the amounts that depositors were allowed to withdraw in cash from transactional deposit accounts. These measures meant the lifting of the *corralito*. In addition, since April 1, 2003, the Argentine Government allowed holders of Reprogrammed Deposits to request from financial institutions and the Argentine Government the reimbursement of such deposits on conditions (a mix of cash and dollar-denominated Boden 2013) that varied depending on the amount of the deposit and its original currency of denomination. This process, which meant the elimination of the *corralón*, was completed in August 2003.

As of the date of this annual report, the Argentine Supreme Court has ruled on particular cases in connection with the pesification of deposits, resolving one case in favor of the constitutionality of the pesification measures taken by the Argentine Government. Notwithstanding the fact that under Argentine law Supreme Court

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rulings are not mandatory for lower courts, this ruling is expected to set a precedent in similar cases to be heard by such courts.

Compensation to Financial Institutions*For the Asymmetric Pesification and its Consequences*

Decree No. 214/02 provided for the compensation to financial institutions, of:

- the losses caused by the mandatory conversion into pesos of certain liabilities at the Ps.1.4 per US\$1.0 exchange rate, greater than the Ps.1.0 per US\$1.0 exchange rate established for the conversion into pesos of certain dollar-denominated assets. This was to be achieved through the delivery of a peso-denominated compensatory bond issued by the Argentine Government (Boden 2007).
- the currency mismatch left in financial institutions' balance sheets after the compulsory pesification of certain of their assets and liabilities. This was to be achieved through the conversion of the peso-denominated compensatory bond into a dollar-denominated compensatory bond and, if necessary, through the purchase by financial institutions of a dollar-denominated hedge bond. For such purpose, the Argentine Government established the issuance of a dollar-denominated bond bearing Libor and maturing in 2012 (Boden 2012).

Among other measures, Decree No. 905/02 replaced the provisions of Decree No. 494/02 in connection with the methodology for calculating the compensation to be received by financial institutions. Financial institutions had to inform the Argentine Central Bank of the amounts of compensation to which they were entitled under the new rules no later than December 23, 2002. The Argentine Central Bank had to confirm the amounts after a review.

In March 2005, the Bank's Board of Directors accepted the calculation of the Compensatory Bond and the Hedge Bond made by the Argentine Central Bank, given that it had established, on the basis of a thorough analysis, the convenience of agreeing on the final compensation figures with the Argentine Central Bank. Therefore, in March 2005, the Bank agreed to receive US\$2,178.0 million of face value of Boden 2012, comprised of US\$906.3 million of face value of Boden 2012 corresponding to the Compensatory Bond (totally received in November 2005) and US\$1,271.7 million of face value of Boden 2012 corresponding to the Hedge Bond (pending receipt in full at the date hereof), and agreed to terminate any legal or administrative action to modify the above mentioned amounts or refrain from engaging in new actions for such purpose. The difference arising from the adjustments required by the Argentine Central Bank and accepted by the Bank was offset against provisions previously established for such purpose.

Pursuant to Decree No. 905/02, the Bank was given the option to purchase the Hedge Bond using certain public sector assets, as described below, or the proceeds of an advance to be granted for this purpose by the Argentine Central Bank. If the Hedge Bond is purchased through an advance from the Argentine Central Bank, pursuant to article 15 of Decree No. 905/02, such advance has to be collateralized by the following assets in the following priority: (i) Secured Loans (representing in origin an exposure to the Argentine Government), beginning with those with the shorter average life; (ii) Bogar or secured loans representing in origin an exposure to the provinces, beginning with those with the shorter average life; and (iii) other assets with the public sector at the criteria of the Ministry of Economy and the Argentine Central Bank. If a bank does not have the required assets, it must give as collateral loans to the private sector classified in the first two categories of the Argentine Central Bank loan classification, beginning with mortgage loans, or if necessary such bank's shareholders shall pledge their shares in such bank. The value of the collateral required must be equal to 100.0% of the amount of the borrowings. No assets have been given as collateral by the Bank as of the date of this annual report because the Hedge Bond has not yet been received by the Bank. In addition, article 17 of Decree No. 905/02 established that such borrowings from the Argentine Central Bank to purchase the Hedge Bond may be repaid with the assets pledged as collateral thereto at any time following: (i) a default by the Argentine Government on the new debt issued pursuant to Decree No. 1387/01 (secured loans and Bogar), and (ii) the date on which the Argentine Government shall have completed the restructuring of its foreign debt. After the end of the fiscal year the Bank requested to the Argentine Central Bank the advance for the purchase of most of the Hedge Bond. See Selected Statistical Information Government Securities and Item 5A. Operating Results Funding.

Table of Contents*For the Asymmetric Indexation and for Differences Related to Amparo Claims*

Law No. 25,796, published in the Official Gazette on November 17, 2003, set forth the compensation to financial institutions by the Argentine Government for the negative effects of the asymmetric indexation. Subsequently, through the issuance of different rules, the Ministry of Economy and the Argentine Central Bank further regulated Law No. 25,796, in a way that, in the Bank's opinion, is contrary to the provisions of Law No. 25,796. The Bank did not request to participate in the compensation regime laid down by such rules and restated its right to be compensated for the negative effects of the asymmetric indexation and formally challenged the new rules. Based on the provisions of Law No. 25,799, the Bank had recorded Ps.102.7 million under Other Receivables Resulting from Financial Intermediation as of December 31, 2003, on account of its right to receive compensation from the Argentine Government for the asymmetric indexation. As of December 31, 2004, in view of the lack of resolution on this issue, the above-mentioned asset was written off. The Bank maintains its claims, on which no resolution has been issued so far.

With respect to the differences generated by the payments made by the Bank pursuant to *amparo* claims, the Bank recorded an intangible asset, as established by Argentine Central Bank rules, which had to be amortized pursuant to such rules. The amount of this asset as of December 31, 2005, was Ps.347.8 million, net of the amortization mandated by the Argentine Central Bank (of Ps.332.4 million between April 2003 and December 2005). For more information, see Argentine Banking System and Regulation Argentine Banking Regulation Treatment of Losses in Connection with *Amparo* Claims. As of the date of this annual report, the Argentine Government has not provided compensation for these losses and has expressed that it does not intend to do so. The Bank has reserved its rights to claim for such compensation. The method of recording for such right set forth by the Argentine Central Bank does not affect the legitimacy of such rights.

Inflation Accounting

The Banks' financial statements have been restated for inflation for periods ended in 2002 and up to February 28, 2003. For a description of the applicable regulations, see Presentation of Financial Information at the beginning of this annual report.

Argentine Banking System and Regulation***Argentine Banking System***

As of December 31, 2005, the Argentine financial system consisted of 89 financial institutions, of which 71 were banks and 18 were financial non-bank institutions (including finance companies, credit unions, savings and loan associations). Of the 71 banks, 13 were Argentine national and provincial government-owned or related banks. Of the 58 private-sector banks: 34 were private-sector domestically-owned banks (*i.e.*, *sociedades anónimas*); 23 were foreign-owned banks (*i.e.*, local branches or subsidiaries of foreign banks); and one was a cooperative bank (*bancos cooperativos limitados*), also domestically-owned.

As of that date, the largest private-sector banks, in terms of total deposits, were: BBVA Banco Francés, Banco Río Santander, Banco Galicia, Banco Macro Bausud, HSBC Bank, Grupo San Juan and BankBoston. Three were private sector banks and four were foreign-owned banks. According to information published by the Argentine Central Bank as of December 31, 2005, private-sector banks accounted for 54.5% of total deposits and approximately 67.8% of total net loans in the Argentine financial system. Argentine financial industry regulations do not raise any entry or exit barriers, nor do they make any differentiation between locally or foreign-owned institutions. The only cooperative bank is active principally in consumer and middle-market banking, with a special emphasis on the lower end of the market. As of December 31, 2005, financial entities (other than banks) accounted for approximately 0.2% of deposits and 1.8% of net loans in the Argentine financial system.

As of December 31, 2005, the largest Argentine national and provincial government-owned or related banks, in terms of total deposits, were Banco Nación and Banco de la Provincia de Buenos Aires. Under the provisions of the Financial Institutions Law, public banks have comparable rights and obligations as private banks, except that public banks are usually chosen as depositaries of public revenues and promote regional development

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and certain public banks have preferential tax treatment. The bylaws of some government-owned banks provide that the governments that own them (national and provincial) guarantee their commitments. Under current law, Banco de la Provincia de Buenos Aires is not subject to taxes, levies or assessments that the Argentine Government may impose. According to information published by the Argentine Central Bank, as of December 31, 2005, government-owned banks and banks in which the National, provincial and municipal governments had an ownership interest accounted for 45.3% of deposits and 30.4% of loans in the Argentine financial system.

Consolidation has been a dominant theme in the Argentine banking sector since the 1990 s, with the total number of financial institutions declining from 214 in 1991 to 89 at December 31, 2005, with the ten largest banks holding 77.5% of the system s deposits and 73.2% of the system s loans as of December 31, 2005.

During the decade of the 1990s, foreign banks significantly increased their presence in the Argentine financial system. Since the last quarter of 1996, control of many of the largest Argentine private-sector domestically-owned commercial banks has been transferred to foreign banks, which ended up controlling the largest private sector financial institutions except the Bank. This foreign presence grew both in the universal bank sector and among financial institutions specializing in specific products or markets. This situation has not changed despite the fact that the number of foreign banks decreased by 14 through December 2005, as compared with the number at the end of 2001, and that foreign banks share of total deposits has decreased since the 2001-2002 crisis while the share of domestic private-sector banks has increased.

Argentine Banking Regulation

The following is a summary of certain matters relating to the Argentine banking system, including provisions of Argentine law and regulations applicable to financial institutions in Argentina. This summary is not intended to constitute a complete analysis of all laws and regulations applicable to financial institutions in Argentina.

General

Since 1977, banking activities in Argentina have been regulated under the Financial Institutions Law which places the supervision and control of the Argentine banking system in the hands of the Argentine Central Bank, which is an autonomous institution. The Argentine Central Bank has vested the *Superintendencia de Entidades Financieras y Cambiarias* (Superintendency of Financial and Exchange Institutions, the Financial Superintendency) with most of the Argentine Central Bank s supervisory powers. In this section, unless the context otherwise requires, references to the Argentine Central Bank shall be understood as references to the Argentine Central Bank acting through the Financial Superintendency. The Financial Institutions Law provides the Argentine Central Bank with broad access to the accounting systems, books, correspondence, and other documents of banking institutions. The Argentine Central Bank regulates the supply of credit and monitors the liquidity of, and generally supervises the operation of, the Argentine banking system. The Argentine Central Bank enforces the Financial Institutions Law and grants authorization for banks to operate in Argentina. The Financial Institutions Law confers numerous powers to the Argentine Central Bank, including the ability to grant and revoke bank licenses, to authorize the establishment of branches outside Argentina, to approve bank mergers, capital increases and certain transfers of stock, to fix minimum capital, liquidity and solvency requirements and lending limits, to grant certain credit facilities to financial institutions in cases of temporary liquidity problems and to promulgate other regulations that further the intent of the Financial Institutions Law.

Current regulations place the operations of local and foreign owned banks on equal regulatory grounds.

The Public Emergency Law, sanctioned on January 6, 2002, introduced substantial amendments to the Argentine Central Bank s charter which, among others, released certain restrictions on its ability to act as a lender of last resort, allowed the Argentine Central Bank to make advances to the Argentine Government for up to 10.0% of the cash funds obtained during the preceding 12 months (which before could only be effected by purchasing at market prices negotiable securities issued by the National Treasury) and released the restriction whereby up to one third of the freely available international reserves could be composed of government securities considered at market values.

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The Financial Institutions Law and the Argentine Central Bank charter were recently amended by Law No. 25,780, published in the Official Gazette on September 8, 2003. The main provisions established by such law are the following: (i) authorization was given to the Argentine Central Bank to make temporary loans to the Argentine Government for up to 12.0% of the monetary base, and to make loans for an amount of up to 10.0% of the total annual amount raised by the Argentine Government in cash during the last 12 months, both of which shall be reimbursed within 12 months from the relevant date of disbursement. Such temporary loans cannot not exceed 12.0% of the monetary base, except those destined exclusively to the payment of outstanding obligations to multilateral agencies; (ii) indemnity for Argentine Central Bank officers was provided for, by stating that the opportunity, merits or convenience of certain of their decisions (mostly related to the liquidation and restructuring of financial institutions) must be reviewed by the courts only when such decisions have been clearly made in an unreasonable and arbitrary manner; (iii) authorization was given to the Argentine Central Bank to exclude assets and liabilities of financial institutions with liquidity and solvency problems and establish the rules for their valuation, and assign the transfer of excluded assets and liabilities to other financial entities, or transfer assets to financial trusts (see Financial Institutions with Economic Difficulties); (iv) amendment in the degree of payment preferences in favor of creditors (see Priority Rights of Depositors); and (v) authorization was given to the Argentine Central Bank to disburse rediscounts (short term loans for liquidity support) to financial institutions with liquidity or solvency problems, during the term of the Public Emergency Law.

Supervision

As supervisor of the Argentine financial system, the Argentine Central Bank requires financial institutions to submit information on a daily, monthly, quarterly, semiannual and annual basis. These reports that include balance sheets and income statements, information relating to reserve funds, use of deposits, portfolio quality (including details on debtors and any loan loss provisions established) and other pertinent information, allow the Argentine Central Bank to monitor financial institutions' financial condition and business practices.

The Argentine Central Bank carries out formal inspections from time to time of all banking institutions for purposes of monitoring compliance by banks with legal and regulatory requirements. If the Argentine Central Bank rules are breached, it may impose various sanctions depending on the gravity of the violation. These sanctions range from calling attention to the infraction to the imposition of fines or even the revocation of the financial institution's operating license. Moreover, non-compliance with certain rules may result in the obligatory presentation to the Argentine Central Bank of specific adequacy or regularization plans. The Argentine Central Bank must approve these plans in order for the financial institution to remain in business.

Financial institutions have been subject to the supervision of the Argentine Central Bank on a consolidated basis since 1994. The Argentine Central Bank requires financial entities (i) to consolidate their quarterly and annual financial statements with all corporate and financial entities in its economic group; and (ii) to prepare consolidated semiannual financial statements for its economic group, unless the company or financial entity controlling the economic group is required to prepare audited consolidated financial statements in the country in which it is incorporated. Information set out in Limitations on Types of Business, Capital Adequacy Requirements, Lending Limits, and Loan Classification System and Loan Loss Provisions below, relating to a bank's loan portfolio, is calculated on a consolidated basis. However, regulations relating to a bank's deposits are not based on consolidated information, but on such bank's deposits in Argentina (for example, liquidity requirements and contributions to the deposit insurance system).

Financial System's Restructuring Unit (Unidad de Reestructuración del Sistema Financiero or URSF)

Decree No. 1262/03 of April 1, 2003, created the Financial System's Restructuring Unit, comprised of three members appointed by the Ministry of Economy and three members appointed by the Argentine Central Bank to decide on the strategy to be followed and the measures to be taken in order to restructure the Argentine financial system, including the conditions under which financial institutions would repay the financial assistance granted by the Argentine Central Bank. See Financial Assistance from the Argentine Central Bank Financial Assistance for Liquidity Support Granted Before April 1, 2003.

Table of Contents*Examination by the Argentine Central Bank*

The Argentine Central Bank began to rate financial institutions based on the CAMEL quality rating system in 1994. The system is based on weighing a financial institution's creditworthiness, compliance with the Financial Institutions Law, administrative order and general operating solvency. Each letter of the CAMEL system corresponds to the following areas of the operations of each bank 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 entity can receive. By combining the individual factors that are under evaluation, a combined index can be obtained that represents the final rating for the financial institution.

After the 2001-2002 crisis, the Argentine Central Bank reinitiated the examination process, which was interrupted due to that crisis. In relation to the Bank, the examination was based on information as of June 30, 2005, and the examination activities ended on November 4, 2005. The report with observations from the Argentine Central Bank was received by the Bank on November 28, 2005, and was answered on December 19, 2005, with the required explanations. As of the date of this annual report, the Bank has not yet received a quality rating from the examination process.

On October 6, 2003, the Argentine Central Bank issued Comunicado A 4027 requiring financial institutions to provide information regarding their business plan and their projections. This information had to be filed with the Argentine Central Bank on or prior to October 31, 2003, and the Argentine Central Bank has required updates.

BASIC System

The Argentine Central Bank established a control system (BASIC) which requires all financial entities to comply with a set of procedures concerning the operations of such financial entities with the purpose of allowing the public access to a greater level of information and safety with respect to their holdings in the Argentine financial system. Each letter of the BASIC system corresponds to one of the following procedures:

- *B (Bonos or Bonds)*. On an annual basis, all financial institutions in Argentina were required to engage in certain debt issuing transactions in order to expose them to scrutiny and analysis by third parties with high standards. The Bank was always in compliance with this requirement, which was repealed through Argentine Central Bank Comunicado A 3498, effective March 1, 2002.

- *A (Auditoría or Audit)*. The Argentine Central Bank requires a set of audit procedures that include: (a) the creation of a registry of auditors; (b) the implementation of strict accounting procedures to be complied with by auditors; (c) the payment of a performance guarantee by those auditors to induce their compliance with the procedures, and (d) the creation of a department within the Argentine Central Bank liable for verifying that the procedures are followed. The purpose of this requirement is to assure accurate disclosures by the financial institutions to both the Financial Superintendency and the public.

- *S (Supervisión or Supervision)*. The Argentine Central Bank has the right to inspect financial institutions from time to time.

- *I (Información or Information)*. Financial institutions are required to file on a monthly basis certain daily, weekly, monthly and quarterly statistical information.

- *C (Calificación or Rating)*. The Argentine Central Bank established a system requiring periodic credit evaluation by internationally recognized rating agencies, which was suspended by Comunicado A 3601 in May 2002.

Legal Reserve

The Argentine Central Bank requires that each year banks allocate to a legal reserve a percentage of net income set by the Argentine Central Bank, which is currently 20.0%. Such reserve can only be used during periods in which a bank has incurred losses and has exhausted all allowances and other provisions. Dividends may not be paid if the legal reserve has been impaired.

Table of Contents*Limitations on Types of Business and Computable Capital*

As provided by the Financial Institutions Law, commercial banks are authorized to conduct all activities and operations that are not specifically prohibited by law or by regulations of the Argentine Central Bank. Some of the activities which are permitted include the ability to make and receive loans, to receive deposits from the public in both local and foreign currency, to guarantee customers' debts, to acquire, place or negotiate stock or debt securities in the Argentine OTC Market, subject to the approval of the CNV, to conduct transactions in foreign currency, to act as fiduciary and to issue credit cards.

Banks are not permitted to own commercial, industrial, agricultural and other types of businesses, except with prior authorization from the Argentine Central Bank. Under Argentine Central Bank regulations, the aggregate amount of equity investments of a commercial bank (including participations in domestic mutual funds called *fondos comunes de inversión*) may not exceed 50.0% of such bank's Adjusted Shareholders' Equity or Computable Regulatory Capital (as defined below). In addition, investments in:

- equity shares without quotation excluding (a) stock of companies which provide services complementary to the services offered by the bank, and (b) certain stock participations which are necessary in order to obtain the rendering of public services, if any,
- listed stock and participations in mutual funds which are not included in order to determine the capital requirements related to market risk; and
- listed stock that does not have a largely publicly available market price (when daily quotes of relevant transactions are available, which quotes would not be significantly affected by the disposition of the bank's holdings of such stock)

may not exceed, in the aggregate, 15.0% of a bank's Adjusted Shareholders' Equity.

Adjusted Shareholders' Equity or Computable Regulatory Capital is defined under the Argentine Central Bank's regulations as: i) the core capital, which includes permanent capital, non-equity contributions, net worth adjustments, surplus reserves and retained earnings; ii) the supplementary capital, which may not exceed the core capital, consisting of retained earnings (50% of profits and 100% of losses) without an audit opinion (those corresponding to the last fiscal year can be included only when they have been audited), 50% of the reserves on the loan portfolio classified as normal (general reserves), and subordinated debt, not exceeding 50% of core capital, with a maturity of at least 5 years. In addition, the following items must be deducted from the calculated capital defined above: (i) sight deposits with foreign banks abroad not rated as investment grade; (ii) securities not deposited with the authorized custodian; (iii) sovereign bonds issued by a foreign government with a rating lower than that assigned to the Argentine sovereign bonds; (iv) share holdings in other financial institutions; (v) real estate not yet registered; (vi) goodwill; (vii) research and development expenses; (viii) provisioning deficiencies as determined by the Financial Superintendency.

Nevertheless, for purposes of calculating the limits described both above and in Lending Limits, it is not necessary to deduct the capital assigned to offshore branches from a bank's shareholders' equity.

Under Argentine Central Bank regulations, financial institutions are typically precluded from engaging directly in insurance activities and from holding an equity interest in excess of 12.5% of the outstanding capital of a company that does not provide services complementary to those provided by financial institutions or which exceeds specified percentages of the respective financial institution's Adjusted Shareholders' Equity as described above. The Argentine Central Bank determines which services are complementary to the services provided by financial institutions.

Due to the 2001-2002 crisis, through Communiqué A 3918, the Argentine Central Bank established that beginning on April 1, 2003 and until December 31, 2003, financial institutions will be allowed to receive in payment of credits granted shares or equity participations in the capital of a company that engages in activities other than complementary activities, not exceeding 20.0% of the capital stock or of voting rights, subject to certain conditions. Subsequently, the Argentine Central Bank postponed the expiration date of this authorization until December 31, 2004, and finally eliminated it, as long as the received assets were liquidated within the year, until reaching the admitted limit of holdings of 12.5% (Communiqué A 4402 and A 4439).

Table of Contents*Treatment of Losses in Connection with Amparo Claims*

Through Communiqué A 3916 dated April 3, 2003, the Argentine Central Bank provided for the recording of an intangible asset on account of the difference between the amount paid by financial institutions pursuant to legal actions and the amount resulting from the conversion into pesos of the balance of the U.S. dollar deposits reimbursed, at the exchange rate of Ps.1.4 per US\$1.0 (adjusted by the CER plus interests accrued up to the payment date). In addition, it established that the corresponding amount shall be amortized in 60 monthly equal and consecutive installments as from April 2003.

On November 17, 2005, through Communiqué A 4439, the Argentine Central Bank established that, beginning in December 2005, financial institutions having granted, as from that date, new commercial loans with an average life of more than two years could defer the losses related to the amortization of *amparo* claims. The maximum amount to be deferred cannot exceed 10% of financial institutions' computable regulatory capital (RPC) nor 50% of the new commercial loans. Likewise, financial institutions will not be able to reduce the rest of their commercial loan portfolio. This methodology will be applied until December 2008, when the balance recorded as of that date will begin to be amortized in up to 36 monthly equal and consecutive installments. The application of this rule by the Bank resulted in the deferral of losses related to *amparo* claims for Ps.11.3 million in 2005.

As of December 31, 2005, this intangible asset, net of amortizations, amounted to Ps.347.8 million, and the accumulated amortization between April 2003 and December 2005 amounted to Ps.332.4 million.

The Bank has reserved its right to file any legal actions, at suitable times, in view of the negative effect caused on its financial condition by the reimbursement of originally dollar-denominated deposits, pursuant to legal orders or final judgments, either in dollars or in pesos for the equivalent amount at the market exchange rate, since compensation of this effect was not included into the calculation of the compensation to financial institutions. The method of recording a deferred loss set forth by the Argentine Central Bank in the above-mentioned Communiqué does not affect the legitimacy of such rights.

Legal Reserve Requirements for Liquidity Purposes

Beginning in March 2002, after the liquidity crisis of late 2001 and early 2002, the Argentine Central Bank progressively introduced the minimum reserve requirements system that is currently in force.

In March 2002, the Argentine Central Bank introduced the minimum cash requirements. These are established as a percentage of the balances of the different type of bank deposits and for time deposits balances (including deposits restructured as Cedros) the percentage varies with the remaining maturity. The Argentine Central Bank modifies from time to time the percentages of the minimum cash requirements depending on monetary policy considerations. Between May 2002 and November 2003 a fund placement requirement was in force. Compliance with the latter was accomplished through holdings of certain assets. In case a bank did not have the necessary assets, the minimum fund placement requirements turned into greater minimum cash requirements. In November 2003, the minimum fund placement requirements were discontinued.

Compliance with the minimum cash requirements must be accomplished with cash in bank vaults and bank deposits at the Argentine Central Bank (including the balances of escrow accounts held by banks at the Argentine Central Bank in favor of clearing houses), in the same currency as the deposit that originates it. Compliance with the minimum cash requirements was and continues to be determined in averages, for monthly periods. The Argentine Central Bank can modify from time to time this practice, depending on monetary policy considerations.

Through Communiqué A 3486, dated March 22, 2002, and Communiqué A 3528, dated March 25, 2002, the Argentine Central Bank established that the amount of foreign currency denominated deposits could only be applied to foreign trade financing, interbank loans and Lebac, and that those applied to other purposes would constitute a greater cash minimum requirement in pesos, for the same amount. Subsequently, other purposes were added to those previously mentioned, such as the granting of loans to finance imports of capital goods to be used to increase the production for the local market, i.e., that do not generate cash flows in the same currency.

Pursuant to Communiqué A 4449, dated December 2, 2005, the Argentine Central Bank established that, effective December 2005, the minimum cash requirement in pesos is to be applied over the monthly average of the

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daily balances of the obligations comprised, except for the period December-February of the following year, for which the quarterly average will be used.

At the end of fiscal year 2005, the percentages of minimum cash requirements applicable in accordance with Argentine Central Bank rules were as follows:

	In Pesos	In Dollars
Demand deposits:		
Current accounts (only in pesos)	15%	
Savings accounts	15%	30%
Time deposits (by remaining maturity):		
up to 29 days	14%	35%
from 30 to 59 days	11%	28%
60 to 89 days	7%	20%
90 to 179 days	2%	10%
180 to 365 days	1%	6%
more than 365 days	0%	0%

After the end of fiscal year 2005, the Argentine Central Bank, through its Communiqué A 4509, issued on March 14, 2006 and effective April 1, 2006, increased from 15% to 17% the minimum cash requirement applicable to deposits and other demand obligations in pesos and to unused portions of overdraft facilities granted. In addition, Communiqué A 4473, dated January 9, 2006, established that beginning on February 1, 2006, deposits and other demand obligations in pesos, with a return greater than 75% of the private banks' average BADLAR rate of the previous month, will be subject to a minimum cash requirement of 100%. Subsequently, through Communiqué A 4518, dated March 28, 2006, this rate went from 75% to 50%.

In addition, through Communiqué A 4393, issued on July 25, 2005, the Argentine Central Bank established that the amounts corresponding to the 30% deposit requirement mentioned in Main Regulatory Changes since 2002 Foreign Exchange Market, would be excluded for the purpose of determining the remuneration of the accounts held by banks at the Argentine Central Bank, and through its Communiqué A 4509, issued on March 14, 2006 and effective on April 1, 2006, it also excluded the minimum cash requirements on demand deposits and other demand obligations in pesos for computing the above mentioned remuneration.

As of December 31, 2005, the Bank was in compliance with its legal reserve requirements.

Capital Adequacy Requirements

See Selected Statistical Information Regulatory Capital.

Lending Limits

The aggregate amount of equity participations and credit (i.e., loans, certain accounts under the balance sheet heading Other Receivables from Financial Brokerage that represent credit transactions -such as holdings of debt securities or certificates of participation of financial trusts, the assets of which are composed of loans to the public or private sectors, and negotiable obligations without quotation- assets under financial leases, and the off-balance sheet accounts Guarantees Granted and Unused Balances of Loans Granted), together referred herein as financial assistance, a bank can grant to any credit customer at any time is based on the bank's Adjusted Shareholders' Equity on the last day of the immediately preceding month and on the customer's net worth.

i) Limits that refer to the borrowers' capital: as a general rule, financial assistance to a customer cannot exceed 100% of such customer's capital. This limit may be raised up to 300% with the approval of the financial institution's board of directors and if additional credit does not exceed 2.5% of a bank's Adjusted Shareholders' Equity. For forward transactions, different percentages are considered, depending on the transaction's characteristics.

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Until June 2006 (Communiqué A 4467), new financial assistance can be granted (up to a total limit of 15% of a bank's Adjusted Shareholders' Equity) exceeding the 300% limit of the customer's capital. Such additional financial assistance cannot exceed 2.5% of a bank's Adjusted Shareholders' Equity.

ii) Limits that refer to the Adjusted Shareholders' Equity of financial institutions: the limits to the financial assistance a bank can provide are (as a percentage of a bank's Adjusted Shareholders' Equity):

	Without Collateral	With Collateral
Non-related Customers	15%	25%
Domestic Financial Institutions (*)	25%	25%
Foreign Financial Institutions (Investment grade)	25%	25%
Foreign Financial Institutions (Other)	5%	5%
Reciprocal Guarantee Entities authorized by the Argentine Central Bank (**)		25%
Public sector (***):		
i) National	50%	50%
ii) City of Buenos Aires and Provinces (each)	10%	10%
iii) Municipalities (each)	3%	3%

(*) *For bankers banks, the limit is 100%.*

(**) *Law 24,467: associations of companies authorized by the Argentine Central Bank to guarantee loans. In case one of the companies fails to pay, the other takes responsibility.*

(***) *Excess over the new limits set in March 2003 will not be computed if arising from loans granted before March 2003, if determined or increased by the*

*reception of
bonds or
promissory
notes as
compensation
for the
asymmetric
pesification, or
if arising from
the rolling over
of preexisting
loans.*

Communiqué A 3911 issued on March 28, 2003, established the applicable limits above to a financial institution's new exposure to the Argentine public sector (granted after April 1, 2003). These limits exclude the exposure outstanding as of March 31, 2003, the government securities received as compensation in accordance with Decree No. 905/02 or those to be received pursuant to other regulations, and the roll over of principal payments. Total exposure to the public sector, described in items (i), (ii) and (iii) in the table above, must not exceed 75.0%.

In addition, according to item 12 of this Communiqué, beginning on January 1, 2006, a bank's total financial assistance, without any exemption, to all the public sector, must not exceed 40.0% of a bank's total assets as of the end of the previous month. Any excess over this limit will require an equal increase in the minimum capital requirement of the bank. The Bank has submitted a plan in order to comply with item 12 of Communiqué A 3911, as amended, over time, which has been approved by the Argentine Central Bank on February 28, 2006. The Bank is currently in compliance with this plan, with no additional capital requirements arising from the excess carried.

iii) The limits on equity interests in other companies are the following:

	Limit on a Bank's Adjusted Shareholders Equity	Limit on a Company's Net Worth
Companies with non-complementary activities	(*)	12.5% (***)
Companies with complementary activities	(*)	100%
Total shares	50%	
Shares without quotation (**)	15%	

(*) *See previous table.*

(**) *Includes shares that do not quote frequently and therefore are not subject capital requirements to cover market risk.*

(***) *Until December 2004*

*shares or equity
interests could
be taken in
payment of
credits, up to
20% of the
firm's capital,
without
exceeding 20%
of the votes.
They had to be
sold within one
year so as to
reach the
regulatory limit.*

Financial assistance is also limited in order to prevent portfolio concentration. To that end, the aggregate of all financial assistance that, taken alone, exceeds 10% of a bank's Adjusted Shareholders' Equity, must not exceed: three times and five times a bank's Adjusted Shareholders' Equity, excluding and including, respectively, the financial assistance to local banks. For a bank's bank the latter limit is 10 times.

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Financial assistance exceeding 2.5% of a bank's Adjusted Shareholders' Equity, except interbank loans, must be approved by a bank's board of directors.

The Argentine Central Bank regulates financial assistance to a bank's related parties, defined as a bank's affiliates and related individuals. For purposes of these lending limits, affiliate means any entity over which a bank, directly or indirectly, has control, is controlled by, or is under common control with, or any entity over which a bank has, directly or indirectly, significant influence with respect to such entity's corporate decisions. Related individuals means a bank's directors, senior management, syndics and such persons' direct relatives.

The Argentine Central Bank limits the amount banks can lend to their related parties depending on the rating granted to each bank by the Financial Superintendency. Banks rated 4 or 5 are forbidden to lend to their related parties. Banks ranked between 1 and 3 cannot extend financial assistance to their related parties in an amount which exceeds, together with any equity participation held by the bank in its affiliates, 5.0% of such bank's Adjusted Shareholders' Equity. However, a bank may grant additional financial assistance to such related parties up to an amount equal to 10.0% of such bank's Adjusted Shareholders' Equity: (i) if the affiliate provides complementary services (defined as services in connection with stock brokerage, issuance of credit or debit or similar cards, financial intermediation in leasing and factoring transactions) (ii) in the case of temporary acquisition of shareholdings in companies to facilitate their development in order to sell such holdings afterwards, (iii) if the affiliate is a local financial institution rated other than 1 or 2 by the Argentine Central Bank, or (iv) if such additional financial assistance is secured with certain liquid assets, including public or private debt securities. If the affiliate is a financial institution rated 1, the amount of financial assistance can reach 100.0% of a bank's Adjusted Shareholders' Equity. If the receiving affiliate financial institution is rated 2, the amount of financial assistance can reach 10.0% without limitations and an additional 90.0% should the term for the loans and other credit facilities not exceed 180 days.

In addition, the aggregate amount of a bank's equity participation in, and non-exempt financial assistance to, its related parties may not exceed 20.0% of such bank's Adjusted Shareholders' Equity.

In addition, with respect to related persons who are individuals, the total amount of loans to those related persons cannot exceed Ps.50,000, which must be used exclusively for personal or family purposes. Failure to properly observe these requirements can result in an increase of the minimum capital requirements for credit risk in an amount equal to 100.0% of the daily excess amounts over the requirements beginning on the month when the excess amounts appear and continuing while the excess amounts remain.

Notwithstanding the limitations described above, the aggregate amount of non-exempt financial assistance (including equity participations) independently of whether customers qualify as related parties or not of a bank, in the case in which such financial assistance and participation exceeds 10.0% of such bank's Adjusted Shareholders' Equity, may not exceed three times the bank's Adjusted Shareholders' Equity excluding financial assistance to domestic financial institutions, or five times the bank's Adjusted Shareholders' Equity including financial assistance to domestic financial institutions.

The Bank has historically complied with such rules. On February 11, 2002, through its Resolution No. 81/02, the board of directors of the Argentine Central Bank prohibited the Bank from granting any further financing to related parties.

Loan Classification System and Loan Loss Provisions

For a description of the Argentine Central Bank's loan classification system and the Argentine Central Bank's minimum loan provision requirements, see Selected Statistical Information Argentine Central Bank's Loan Classification and Loan Loss Provisions.

Valuation of Public Sector Assets

For a description of the rules governing the valuation of public sector assets, see Selected Statistical Information Government and Corporate Securities and Selected Statistical Information Loan Portfolio.

Table of Contents*Financial Assistance from the Argentine Central Bank*Financial Assistance Granted for Liquidity Support Granted After March 10, 2003

Communiqué A 3901, issued on March 19, 2003, established an automatic mechanism to regulate the provision by the Argentine Central Bank to financial institutions of assistance for liquidity support. This mechanism does not apply to the financial assistance granted for such reasons during the 2001-2002 crisis.

Financial Assistance for Liquidity Support Granted Before April 1, 2003

Through Decree No. 739/03, dated April 1, 2003, the Argentine Government established a voluntary procedure for the restructuring of the financial assistance granted by the Argentine Central Bank to financial institutions during the 2001-2002 crisis. The basic purpose was to harmonize the cash flows of those financial institutions that were simultaneously debtors (for having received financial assistance from the Argentine Central Bank) and creditors (for their holdings of debt instruments) of the public sector.

Section 9 of this Decree established that balances due must be amortized in pesos, with the proceeds of the assets provided as collateral for the financial assistance received, but without exceeding 70 monthly installments. Argentine Central Bank Communiqué A 3941 established a minimum cumulative amortization schedule and monthly repayment and that all amortization and interest payments must be automatically withdrawn from the accounts financial institutions hold with the Argentine Central Bank. Voluntary prepayment was also made available. This Decree also established that the restructured financial assistance must be secured by Secured Loans and, in the absence of the latter, promissory notes or Bogar issued under Decree No. 1579/02, or bonds issued under Decrees No. 905/02, 1836/02 and 739/03. Pursuant to Argentine Central Bank Communiqué A 3941, all instruments to be delivered as collateral must be adjustable by the CER. These securities are to be kept with no decrease until the restructuring of the Argentine Government's foreign debt is concluded under Decree No. 1387/01 or December 31, 2004, whichever occurs first (except for prepayments, in which case the securities are to be returned on a pro rata basis in the inverse order of their granting).

Decree No. 1262/03, dated May 26, 2003, provided that the Argentine Central Bank could modify the above mentioned repayment conditions, when the URSF established so, if, among others, the average life of the assets granted as collateral for the financial assistance received exceeded 70 months. In this case, repayment would occur in the same number of installments as that of the assets granted as collateral for the financial assistance received, with a maximum number of 120 monthly installments and a monthly amortization of not less than 0.4% of the outstanding balance.

In accordance with Argentine Central Bank Communiqué A 3940, for a bank to be eligible to restructure financial assistance for liquidity support provided to it by the Argentine Central Bank, under the terms of Decrees No. 739/03 and No. 1262/03, it must have received the Argentine Central Bank's approval of the terms and conditions for restructuring its foreign debt before December 5, 2003.

Through its Resolution No. 1 dated November 27, 2003, the URSF authorized the Argentine Central Bank to extend the maturity of the Bank's debt for liquidity support with said entity, within the provisions of Decree No. 739/03, in accordance with the repayment schedule submitted by the Bank to the Argentine Central Bank and under the terms of Decree No. 1262/03. On February 3, 2004, the Argentine Central Bank informed the Bank that it had approved the Bank's request to adhere to the restructuring of the debt owed to said entity under the provisions of the abovementioned Decrees, and that it had authorized such debt's amortization schedule submitted by the Bank, which was the result of the minimum amortization defined by the applicable regulations and of the cash flows of the assets eligible as collateral pursuant to such regulations. Consequently, this schedule established the debt repayment in 92 monthly installments as from March 2004, when the first installment was paid.

Until May 2006, the Bank has paid 26 installments of this schedule, and at the end of 2005 and mainly in 2006, it applied significant amounts to payment in advance on such liability, derived from the sale of Bogar and Secured Loans granted as collateral for such liability, which proceeds continued to serve as collateral until the application thereof. Given that these sales modified the cash flow of the assets granted as collateral and that the payments modified the amounts due, the repayment schedule was also modified, with the number of monthly

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installments having been reduced to 65 (as from March 2004). For additional information, please see Item 8. Financial Information Significant Changes.

Foreign Currency Position

Through Communiqué A 3889, the Argentine Central Bank limited financial institutions' foreign currency exposure based on such institutions' Global Foreign Currency Net Position (assets and liabilities from financial brokerage and securities denominated in foreign currencies). Beginning on May 1, 2003, the absolute value of the Global Foreign Currency Net Position could not exceed 30.0% of a bank's computable capital or Adjusted Shareholders' Equity as of the end of the previous month. In the case of short positions, the limit was set at the lower of 30.0% of computable capital or liquid shareholders' equity. Through Communiqué A 4350, dated on May 12, 2005, the Argentine Central Bank suspended, effective May 1, 2005, the limit on the positive Global Foreign Currency Net Position. The limit on the negative Global Foreign Currency Net Position was maintained at 30.0% of computable capital.

Deposit Insurance System

In 1995, Argentine Law No. 24,485 and Decree No. 540/95, as amended by Decree No. 1292/96 and Decree No. 1127/98, created a deposit insurance system for bank deposits and delegated to the Argentine Central Bank the organization and start-up of the deposit insurance system. The deposit insurance system was implemented through the creation of a fund named *Fondo de Garantía de los Depósitos* (FGD) which is administered by Seguros de Depósitos S.A. (Sedesa). The shareholders of Sedesa are the Argentine Government through the Argentine Central Bank, which holds at least one share, and a trust constituted by the financial institutions authorized as such by the Argentine Central Bank which participate in the fund. The Argentine Central Bank establishes the extent of participation by each institution proportionally to the resources contributed by each such institution to the FGD (Communiqué A 2337). Banks' contribution to the FGD is monthly and mandatory and it currently amounts to 0.015% of the daily average of a financial institution's deposits (both pesos and foreign currency denominated).

The deposit insurance system covers all peso and foreign currency deposits held in demand deposit accounts, savings accounts and time deposits for an amount up to Ps.30,000. Deposits made after July 1, 1995, with an interest rate 200 basis points above the interest rate quoted by Banco Nación for deposits with equivalent maturities are not covered by this system. This guarantee shall be made effective within 30 days from the revocation of the license of a financial institution, subject to the outcome of the exercise by depositors of their priority rights described under

Priority Rights of Depositors below. The Argentine Central Bank may modify, at any time, and with general scope, the amount of the mandatory deposit guarantee insurance.

Decree No. 1292/96, enhanced Sedesa's functions to allow it to provide equity capital or make loans to Argentine financial entities experiencing difficulties and to institutions which buy such Argentine financial entities or buy the deposits of such Argentine financial entities. As a result of such decree, Sedesa has the flexibility to intervene in the restructuring of a financial institution experiencing difficulties prior to bankruptcy.

Priority Rights of Depositors

According to section 49 e) of the Financial Institutions Law, as amended by Law No. 25,780 dated September 8, 2003, in case of judicial liquidation or bankruptcy of a financial entity, the holders of deposits in pesos and foreign currency benefit from a general priority right to obtain repayment of their deposits up to the amount set forth below, with priority rank over all other creditors, with the exception of the following: (i) credits secured by a mortgage or pledge, (ii) rediscounts and overdrafts granted to financial entities by the Argentine Central Bank, according to section 17 subsections b), c) and f) of the Argentine Central Bank Charter, (iii) credits granted by the Banking Liquidity Fund created by Decree No. 32 of December 26, 2001, secured by a mortgage and pledge and (iv) certain labor credits, including accrued interests until its total cancellation. Pursuant to section 16 of Law No. 25,780 during the term of emergency set forth under the Public Emergency Law (No. 25,561) the Argentine Central Bank can grant rediscounts and overdrafts to financial entities with liquidity and solvency problems, included those entities under a restructuring process as contemplated in section 35 bis of the Financial Institutions Law.

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The holders of the following deposits are entitled to the general preferential right established by the Financial Institutions Law (following this order of preference),
deposits of individuals or entities up to Ps.50,000 or the equivalent thereof in foreign currency, enjoying this preference only one person per deposit. For the determination of this preference, all deposits of the same person registered by the entity shall be computed;

deposits in excess of Ps.50,000 or the equivalent thereof in foreign currency, referred to above;

liabilities originated on commercial credit lines granted to the financial entity, which are directly in connection with international trade.

According to the Financial Institutions Law, the preferences set forth in previous paragraphs (i) and (ii) above, are not applicable to deposits held by persons who are affiliates of the financial entity, either directly or indirectly as determined by procedures that the Argentine Central Bank will establish in the future.

In addition, under section 53 of the Financial Institutions Law, the Argentine Central Bank has an absolute priority over all other creditors of the entity except as provided by the Financial Institutions Law.

Financial Institutions with Economic Difficulties

The Financial Institutions Law establishes that financial institutions, including commercial banks such as the Bank, which evidence a cash reserve deficiency, have not abided by certain technical standards, have not maintained minimum net worth standards, or which solvency or liquidity is deemed to be impaired by the Argentine Central Bank must submit a restructuring plan (a Restructuring Plan) to the Argentine Central Bank. Such Restructuring Plan must be presented to the Argentine Central Bank on the date specified by the Argentine Central Bank, which should not be later than 30 calendar days from the date on which the request is made by the Argentine Central Bank. In order to facilitate the implementation of a Restructuring Plan, the Argentine Central Bank is authorized to provide a temporary exemption from compliance with technical regulations and/or the payment of charges and fines which arise from such non-compliance.

The Argentine Central Bank may also, in relation to a Restructuring Plan presented by a financial institution, require such financial institution to provide guarantees or limit the distribution of profits, and appoint a supervisor, to oversee such financial institutions' management, with the power to veto decisions taken by the financial institution's corporate authorities.

In addition, the Argentine Central Bank's charter authorizes the Financial Superintendency within the Argentine Central Bank, subject only to the prior approval of the president of the Argentine Central Bank, to suspend for up to 30 days, in whole or in part, the operations of a financial entity if its liquidity or solvency has been adversely affected. Notice of this decision must be given to the board of directors of the Argentine Central Bank. In case at the end of such suspension period the Financial Superintendency considers it is necessary to renew it, it can only be authorized by the board of directors of the Argentine Central Bank, for an additional period not to exceed 90 days. During the suspension: (i) there is an automatic stay of claims, enforcement actions and precautionary measures; (ii) any commitment increasing the financial institution's liabilities is void, and (iii) acceleration of indebtedness and interest accrual is suspended.

If, in the judgment of the Argentine Central Bank, a financial institution is in a situation which, under the Financial Institutions Law, would authorize the Argentine Central Bank to revoke the financial institution's license to operate as such, the Argentine Central Bank may, prior to considering such revocation, order a variety of measures, including (1) taking steps to reduce, increase or sell the financial institution's capital; (2) revoking the approval granted to the shareholders of the financial institution to own an interest therein, giving a term for the transfer of such shares; (3) exclusion and transfer of assets and liabilities; (4) constituting trusts with part or all the financial institution's assets (5) granting of temporary exemptions to comply with technical regulations and/or pay charges and fines arising from such defective compliance; or (6) appointing a bankruptcy trustee and removing statutory authorities.

Furthermore, it is provided that, those acts which are authorized, commissioned or decided by the Argentine Central Bank under section 35*bis* of the Financial Institutions Law, involving the transfer of assets and

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liabilities, or which complement it, or are necessary to execute the restructuring of a financial institution, as well as those related to the reduction, increase and sale of equity, are not subject to any court authorization and cannot be deemed inefficient in respect of the creditors of the financial institution which was the owner of the excluded assets, even though its insolvency preceded such exclusion.

Dissolution and Liquidation of Financial Institutions

The Argentine Central Bank must be notified of any decision to dissolve a financial institution pursuant to the Financial Institutions Law. The Argentine Central Bank, in turn, must then notify a court of competent jurisdiction which will determine who will liquidate the entity (the corporate authorities or an appointed, independent liquidator). This determination is based on whether or not sufficient assurances exist which indicate that such corporate authorities are able to carry out the liquidation properly.

Pursuant to the Financial Institutions Law, the Argentine Central Bank no longer acts as liquidator of financial institutions. However, when a Restructuring Plan has failed or is not considered viable, local and regulatory violations exist, or substantial changes have occurred in the financial institution's condition since the original authorization was granted, the Argentine Central Bank may decide to revoke the license to operate as a financial institution. In this case, the law allows judicial or extrajudicial liquidation as in the case of voluntary liquidation described in the preceding paragraph.

Bankruptcy of a financial institution cannot be adjudicated until the license is revoked by the Argentine Central Bank. No creditor, with the exception of the Argentine Central Bank, may request the bankruptcy of the former financial entity until 60 days have elapsed since the revocation of the license.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects**Item 5A. Operating Results****General**

The following discussion and analysis is intended to help understand and assess the significant changes and trends in our historical results of operations and the factors affecting our resources. You should read this section in conjunction with our audited consolidated financial statements and their related notes included elsewhere in this annual report.

Inflation Accounting Adjustments

As a result of the adoption of various regulations since 2002, in addition to adjusting our financial statements for inflation until February 28, 2003, using the variation of the WPI, as described in Presentation of Financial Information at the beginning of this annual report, we have also been required to adjust the principal of certain of our assets and liabilities according to changes in certain indexes. The following table shows the rate of inflation, as measured by the WPI and the consumer price index (the CPI), and the evolution of the indexes (the CER and the CVS) used to adjust the principal of certain of our assets and liabilities, for the periods indicated.

	For the 12-month period ended December		
		31,	
	2005	2004	2003
Inflation ⁽¹⁾			
Wholesale Price Index	10.69%	7.84%	2.03%
Consumer Price Index	12.33%	6,10%	3.66%
Adjustment Indexes			
CER	11.75%	5.48%	3.66%
CVS (through March 31, 2004)		5.32%	15.85%

(1) Source: INDEC.

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In the first five months of 2006, the WPI increased 4.16% and the CPI increased 4.39%. Over the same period, the CER increased 5.10%. The CVS was discontinued on April 1, 2004, having increased 5.32% in the first quarter of 2004.

Main Developments Since the 2001-2002 Crisis

During 2001 and 2002, Argentina went through a period of great political, economic and social instability, which led to a significant decline in economic activity, a banking crisis that followed massive runs on the financial system's deposits during most of 2001, the default on part of Argentina's sovereign foreign debt, the devaluation of the Argentine peso in January 2002 and high inflation. In early 2002, the Argentine Government undertook a number of far-reaching initiatives that radically changed the monetary and foreign exchange regime of the country and the regulatory environment for doing business in Argentina for all sectors of activity, including the financial sector. The negative impact of the crisis and these measures on the Argentine economy and on us was significant. See Item 4.

Information on the Company Main Regulatory Changes since 2002 and Results of Operations for the Fiscal Years Ending December 31, 2005, December 31, 2004 and December 31, 2003.

The following are the main changes in our assets that resulted from the 2001-2002 crisis and the Argentine Government's measures to deal with such crisis:

- § In late 2001, we tendered most of our predominantly dollar-denominated Argentine National Government debt instruments, which were mainly held by the Bank, into the exchange to implement the restructuring of such instruments which we exchanged for Secured Loans, under the provisions of Decree No.1387/01, which loans were subsequently pesified in 2002. The exchange of those assets representing an exposure to the provincial governments was not completed until mid 2003 (and under different economic terms). As a result, as of December 31, 2005, we held Ps.5,187.5 million of Secured Loans. After the end of the 2005 fiscal year, the balance of these loans decreased due to sales. See Item 4. Information on the Company Selected Statistical Information Loan Portfolio, Consolidated Assets and Item 8. Financial Information Significant Changes.
- § All of our portfolio of dollar-denominated loans to the Argentine provincial governments, which were mainly held by the Bank, was restructured into Bogar, a process that began in late 2001 and ended in mid 2003, including the pesification of such loan portfolio in 2002, under the provisions of Decree No. 1579/02. As a result, as of December 31, 2005, we held Ps.3,823.3 million of Bogar. After the end of the 2005 fiscal year, the balance of these loans was significantly reduced due to sales. See Item 4. Information on the Company Selected Statistical Information Loan Portfolio, Consolidated Assets and Item 8. Financial Information Significant Changes.
- § The Bank became entitled to receive and acquire Boden 2012 as compensation for the negative effects of the asymmetric pesification. As a result, the total amount of Boden 2012 recorded in our books as of December 31, 2005, net of Boden 2012 already used, was Ps.5,142.9 million. See Item 4. Information on the Company Selected Statistical Information Government and Corporate Securities and Item 4. Information on the Company Main Regulatory Changes since 2002 Compensation to Financial Institutions.
- § In January 2005, the Bank tendered in the restructuring of the Argentine sovereign debt its US\$281 million holdings of External Notes and opted to receive Peso-denominated Discount Bonds and GDP-Linked Units. We recorded those bonds for Ps.733.3 million as of December 31, 2005. See Item 4. Information on the Company Selected Statistical Information Government and Corporate Securities.

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- § In addition, the Bank restructured most of its portfolio of commercial loans, after loans to the private sector were pesified, as explained under Item 4. Information on the Company Main Regulatory Changes since 2002 Loans. This process began in 2002, advanced significantly in 2003 and 2004 and was substantially finalized in 2005.
- § As a result of having reimbursed deposits, pursuant to *amparo* claims, for amounts greater than those specified by the Argentine Government's pesification rules, the Bank incurred losses that have not been compensated by the Argentine Government and recorded such losses as an asset which, net of accumulated amortization, amounted to Ps.347.8 million as of December 31, 2005. See Argentine Banking System and Regulation Argentine Banking Regulation Treatment of Losses in Connection with *Amparo* Claims.
- In addition, beginning in May 2002, we implemented a plan in order to restore the Bank's liquidity and financial condition which had been affected by the crisis. Among others, as part of this plan:
- § In 2002, the Bank significantly streamlined its operational structure and reduced its administrative expenses in order to adapt to the new economic and regulatory context that resulted from the 2001-2002 crisis. Subsequently, a strict cost-control policy was applied. In 2004 and 2005, the expansion of the Bank's business led to an increase in our administrative expenses consistent with such expansion. See Results of Operations for the Fiscal Years Ending December 31, 2005, December 31, 2004 and December 31, 2003.
- § In mid 2002, the Bank restructured the liabilities of its New York Branch, prior to the orderly winding down of its affairs, which concluded in January 2003. As of December 31, 2005, US\$77 million in aggregate principal amount of two negotiable obligations issued by the Bank's Head Office in Argentina to restructure the New York Branch debt were outstanding. See Item 4. Information on the Company History Restructuring of Our Subsidiaries Debt Banco Galicia Restructuring of the Bank's New York Branch Debt.
- § During 2002 and 2003, deposits at Galicia Uruguay and Galicia Cayman amounting in aggregate to US\$1.1 billion were restructured. As of December 31, 2005, such debt had decreased to approximately 12% of its original aggregate amount, as a result of payments and offers to exchange restructured debt for, mainly, Boden 2012 and cash. See Item 4. Information on the Company History Restructuring of Our Subsidiaries Debt Banco Galicia Uruguay S.A. and Galicia (Cayman) Ltd.
- § The Bank's representative offices in São Paulo and London, as well as the Bank's securities business incorporated in the United Kingdom, Galicia y Buenos Aires Securities (UK) Ltd., were closed on September 30, 2002. After the end of fiscal year 2005, the Cayman Branch was closed.
- § On November 25, 2003, the Bank launched the exchange offer to restructure US\$1,476 million in principal and past due capitalized interest of foreign debt of its Head Office in Argentina and its Cayman Branch. This restructuring was successfully concluded on May 18, 2004, with the participation of creditors holding 98.2% of the principal amount of the debt subject to restructuring. See Item 4. Information on the Company History Restructuring of Our Subsidiaries Debt Banco Galicia Restructuring of the Foreign Debt of the Bank's Head Office in Argentina and its Cayman Branch.
- In addition:
- § In 2002, the Argentine Government restructured banks' dollar-denominated deposits and peso time deposits, including Banco Galicia's dollar-denominated deposits and peso time deposits, and subsequently issued regulations providing for several exchanges of Reprogrammed Deposits for government bonds. These deposits decreased also by virtue of the payments made by the Bank in accordance with the schedule established by the Government, which finalized in August 2005. As of December 31, 2005, the Bank had only a non-material amount of Reprogrammed Deposits with *amparo* claims. See Item 4. Information on the Company Main Regulatory Changes since 2002 Deposits.

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§ In 2003, the Bank began to restructure the financial assistance from the Argentine Central Bank, received during the 2001-2002 crisis, from a one-month revolving facility into a long-term CER adjusted facility as explained herein, a process that concluded in February 2004. As of December 31, 2005, this financial assistance amounted to Ps.5,314.9 million. During the first quarter of 2006 and in the first days of April, this liability had been reduced by Ps.2,678.2 million, mainly as a result of anticipated payments made using the proceeds of public-sector assets granted as collateral for such liability and also as a result of the scheduled monthly payments. See Funding, and Item 8. Financial Information Significant Changes.

§ As a result of the measures undertaken by the Argentine Government to compensate financial institutions for the asymmetric pesification, as of December 31, 2005, our balance sheet included Ps.3,296.6 million on account of the advance to be granted to the Bank by the Argentine Central Bank to fund the acquisition of the Boden 2012 corresponding to the Hedge Bond. See Funding.

In the restructuring of our liabilities, we sought and managed to create a new debt profile consistent with the expected cash flow of our assets and to prevent the servicing of the restructured debt from affecting the growth prospects of our business.

Since the second half of 2002, our financial condition and level of activity have improved along with an improved overall economic situation in Argentina and as a result of the implementation of the above mentioned plan.

Within the framework of an expanding economy, our operations expanded significantly. We were able to continuously increase our customer base and our services and financial intermediation activities with the private sector. At the same time, our loans and deposits grew at a rate higher than that of the financial system as a whole (except for loans in 2004), strengthening our position as a leading domestic private-sector financial institution. All of this resulted in an increase of our net financial income (before adjustments from the valuation of public-sector assets in accordance with Argentine Central Bank rules and the profits from the restructuring of our foreign debt in 2004) and net income from services, in the three years ended December 31, 2005. See Results of Operations for the Fiscal Years Ending December 31, 2005, December 31, 2004 and December 31, 2003.

Our total deposits began to grow in the second half of 2002 and increased 24.6% in 2005, 21.0% in 2004 and 6.5% in 2003, with the increase being attributable to the raising of private-sector deposits. The Bank's market share of the financial system's private-sector deposits, considering only private-sector deposits raised by the Bank's Argentine operations, increased to 7.97% at the end of fiscal year 2005 from 5.62% at the end of fiscal year 2003. Loan origination began to increase gradually in 2003, and the Bank's loans to the private sector increased 11.2% in 2004 and 21.3% in 2005. The Bank's private-sector loan portfolio market share increased to 7.31% at the end of fiscal year 2005 from 6.43% at the end of the prior fiscal year.

In addition, our asset quality also recorded a significant improvement. The ratio of non-accrual loans to total private-sector loans decreased from 31.19% at the end of fiscal year 2003 to 6.78% at the end of fiscal year 2005, which also contributed to the increase of our net income (before adjustments from the valuation of public-sector assets in accordance with Argentine Central Bank rules, the profits from the restructuring of our foreign debt in 2004, and the amortization of the losses from *amparo* claims).

Currency Composition of Our Balance Sheet

In 2002, together with the asymmetric pesification and the measures taken to compensate for it, the Argentine Government modified the yields of assets and the cost of liabilities that had been pesified. In general, maximum and minimum fixed interest rates were established for pesified assets and liabilities, respectively. In addition, the principal of those assets and liabilities was adjusted by the change in the CER or the CVS, with the latter adjustment being applicable up to March 31, 2004. In addition, in most cases, but especially in the case of public-sector assets, maturities were extended. The terms and conditions of peso-denominated loans to the public sector and of certain peso-denominated deposits were also modified. See Item 4. Information on the Company Main Regulatory Changes since 2002.

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As a result of these measures, as of December 31, 2005, December 31, 2004, and December 31, 2003, our balance sheet showed the following currency mismatches:

CER mismatch: The Bank's peso-denominated assets subject to adjustment by the CER (mainly Secured Loans and Bogar) exceeded its CER-adjusted peso-denominated liabilities (mainly the financial assistance from the Argentine Central Bank, the advance to be provided by the Argentine Central Bank to purchase the Hedge Bond and CER-adjusted deposits). See **Funding** below.

Foreign-currency mismatch: The Bank's dollar-denominated assets (mainly Boden 2012) exceeded its dollar-denominated liabilities (debt securities, borrowings from foreign banks and deposits in foreign branches and subsidiaries). See Item 11. **Quantitative and Qualitative Disclosures About Market Risk-Foreign Exchange Rate Risk.**

Peso mismatch: The Bank's peso-denominated liabilities (mainly voluntary deposits) exceeded its assets (mainly liquidity reserves and loans to the private sector), in each case, bearing market interest rates.

The net portfolios in CER-adjusted and foreign currency-denominated assets are funded by peso-denominated liabilities and by the Bank's shareholders' equity.

The following table sets forth our assets and liabilities denominated in foreign currency, in pesos and adjustable by the CER, at the dates indicated.

	As of December 31,		
	2005	2004	2003
	<i>(In millions of pesos)</i>		
Assets			
In pesos, unadjusted	Ps. 7,977.3	Ps. 5,666.0	Ps. 3,898.5
In pesos, adjusted by the CER	10,671.5	10,198.4	10,302.8
In pesos, adjusted by the CVS ⁽¹⁾			317.1
In foreign currency ⁽²⁾	6,807.4	7,786.2	8,304.5
Total Assets	Ps. 25,456.2	Ps. 23,650.6	Ps. 22,822.9
Liabilities and Shareholders' Equity			
In pesos, unadjusted, including shareholders' equity	9,350.0	Ps. 7,871.1	Ps. 5,951.6
In pesos, adjusted by the CER	9,909.4	9,236.0	8,979.3
In foreign currency ⁽²⁾	6,196.8	6,543.5	7,892.0
Total Liabilities and Shareholders' Equity	Ps. 25,456.2	Ps. 23,650.6	Ps. 22,822.9

(1) The Bank began to apply the CVS adjustment to the principal of certain loans, as applicable according to the regulations, in November 2003. The CVS adjustment was

*applicable until
March 31, 2004.
There were no
liabilities
adjustable by the
CVS.*

- (2) *If adjusted to
reflect forward
sales and
purchases of
foreign exchange
made by the Bank
and recorded
off-balance sheet,
assets amounted to
Ps.6,819.6 million
and liabilities
Ps.6,457.3 million.*

Funding of our long position in CER-adjusted assets through peso-denominated liabilities bearing a market interest rate (and no principal adjustment linked to inflation) exposes us to differential fluctuations in the inflation rate and in market interest rates, with a significant increase in market interest rates vis-à-vis the inflation rate (which is reflected in the CER variation) having a negative impact on our net financial income.

The Argentine Economy in 2005

During 2005, the Argentine economy continued to grow, after three years of significant growth. The Argentine GDP grew 9.2% in 2005, 9.0% in 2004 and 8.8% in 2003. Market estimates for GDP growth published by the Argentine Central Bank place GDP growth in 2006 in the 7-8 % range.

In 2005, the increase in the economy's level of activity was accompanied by a moderate but increasing inflation. The CPI increased 12.3% in 2005. This upward trend in the price level is mainly attributable to a progressive reduction in the idle installed capacity of the economy, together with a moderate relative prices adjustment between the tradable and non-tradable sectors. An accommodating monetary policy and a less

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contractive fiscal policy had also an inflationary bias. Inflation exceeded both the upper ceiling set by the Argentine Central Bank's monetary program and the rate estimated by the Government's 2005 Budget. Consequently, in the second half of the year, the Government implemented a series of measures aimed to restrain the increase in prices, which mainly consisted of sector-specific agreements to limit such increases, most of which were in the food and beverage sectors.

The significant foreign-currency surplus -favored by higher export prices and also an upward trend in the physical volumes of exports-, together with a still robust Argentine Government's fiscal position, allowed the exchange rate to remain relatively stable and interest rates to remain low but showing an increasing path at the end of the year. Furthermore, growth and institutional and macroeconomic stability led to an improvement in economic agents' expectations, which was reflected in a continued strong domestic demand. This allowed the industrial sector to grow considerably. In fact, this sector was one of the most dynamic ones, together with the construction sector.

The recovery of the real economy was also reflected in the monetary variables, with total credit to the private sector and total deposits experiencing sustained growth during the year.

In January 2005, the Argentine Government launched the exchange offer to restructure Argentina's defaulted foreign debt, a process that ended on February 25 of that year, with a high degree of creditor participation. The completion of this process implied a strong reduction of sovereign indebtedness, both with international and domestic creditors. Of a US\$81.8 billion of debt subject to restructuring, the Government's offer was accepted by holders of 76.24% of such debt. The total stock of public debt was therefore reduced by US\$67,300 million, which implied a substantial improvement in the sovereign debt-to-GDP ratio, which fell from 113% to 73% after the debt exchange (not including holdouts which represent approximately 13% of GDP). In addition, interest accrual on such debt was significantly reduced, from 8% of GDP to 2% after the restructuring.

As part of the Government's debt reduction policy, the Ministry of Economy announced, in December 2005, the decision to pay in advance the entire debt with the International Monetary Fund (IMF). The total payment, approximately US\$9.5 billion, was made using Argentine Central Bank's international reserves. In return, the Government issued a 10-year term peso-denominated non-transferable note, to restore the assets of the Argentine Central Bank. In this way, the Government was able to ease the financial program for upcoming years.

The Argentine Financial System in 2005

During 2005, the financial system developed well, particularly in terms of intermediation activity. In fact, a significant increase in private-sector deposits and a sustained recovery of loans to the private sector were recorded, within an environment of high liquidity of the system as a whole. The ratios of deposits and loans as a percentage of GDP reached in 2004 were surpassed, even though they remained below international levels and the domestic levels observed in the past, especially for loans.

Total deposits in the financial system increased 18.0% to Ps.134,955 million by the end of 2005. Private-sector deposits experienced the highest increase, reaching Ps.99,383 million, up 22.2% from December 31, 2004, although real interest rates remained negative throughout the year. Time deposits from the private sector increased 23.1%, to Ps.43,276 million at the end of 2005, and transactional deposits (deposits held in current accounts and savings accounts) increased by 26.5%, to Ps.49,171 million. Deposits from the public sector grew 8.0%, reaching Ps.34,304 million, mainly due to the fiscal surplus experienced in 2005. Deposits from the financial sector and from residents abroad increased 45.6% to Ps.1,265 million. Payment of Reprogrammed Deposits or Cedros, originated in the restructuring of deposits ordered by the Government in 2002, ended in August 2005. As a result, only Reprogrammed Deposits with *amparo* claims remained at the end of 2005, representing less than 0.5% of total deposits as of that date.

Private-sector deposits above one million pesos grew 24.7% and private-sector time deposits adjusted by the CER increased 35.3% during 2005. This growth meant a certain extension of placement terms, as the latter deposits have a minimum term of 365 days, even though they only accounted for 4.9% of total deposits by year-end.

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At the end of 2005, total deposits accounted for 25.4% of GDP, compared to 25.2% at the end of 2004 and a maximum of 29.8% in 2000. Private-sector deposits represented 18.7% of GDP at the end of 2005, higher than the 18.2% reported for 2004.

As of December 31, 2005, total loans to the private sector amounted to Ps.53,614 million, equivalent to 10.1% of GDP. This percentage is higher than the 8.7% reported in 2004, but it is still far from the peak of 23.3% reached in 1999. Total loans to the private sector steadily diminished between 1999 and 2003, but grew 24.9% in 2004 and continued growing at high rates in 2005 (38.4%).

All credit lines, except for mortgages, reported annual growth rates of over double digits. Commercial loans to the private sector (advances in current accounts and promissory notes) grew 39.9% to Ps.16,802 million at year-end, and consumer credit lines (personal loans and credit-card loans) increased 69.5%, to Ps.13,026 million. The credit line that grew the most, for the second consecutive year, was personal loans, which reached Ps.7,382 million, an outstanding increase of 73.1%, reflecting the third year of high and sustained growth in both domestic consumption and GDP. Mortgage loans were the sole product that reported low growth rates (0.4% during the year), partially because of the increased origination of new financial trusts notes backed by mortgage loans.

In 2005, the reduction of the financial system's exposure to public-sector loans continued due to the decrease of loans to that sector (26.5%), due to a large extent to the incentives from the Argentine Central Bank to reduce banks' public-sector assets. Loans to the public sector represented 33.9% of total loans as of December 2004, and 21.5% at the end of 2005.

As in the previous year, in 2005, banks increasingly turned to the securitization of loans as an alternate source of funding, transferring loan portfolios to financial trusts. This was done as part of a general trend in the market, which recorded a significant expansion in the demand and offer of financial trust securities. The placement of these instruments (including bank and non-bank trustors) increased by 214.8%, from Ps.1,628 million in 2004, to Ps.5,125 million in 2005.

After the sovereign foreign debt restructuring carried out in mid 2005, financial markets reported a strong expansion. The fixed-income market reported favorable developments, both in terms of prices and volume of trades. The EMBI+ index of Argentina fell 4,155 basis points during the year to 499 b.p. at the end of 2005 and, during the twelve months until December 2005, the volume of transactions in fixed-income securities at the MAE (the Argentine OTC Market) grew by 88.6%. The repo market, excluding the Argentine Central Bank, also reported significant activity and growth, with a trading volume in December 2005 that was 80.1% higher than that of December 2004, while funds managed by mutual funds increased by 67.6%.

Despite the significant increase in loans to the private sector, the financial system's liquidity remained high, but decreased somewhat as a result of the higher growth rate of loans vis-à-vis that of deposits, which also put pressure on market interest rates. Financial institutions' liquid assets (cash and due from banks plus repo agreements) accounted for 19.4% of total deposits as of December 31, 2005, as compared to 29.2% as of December 31, 2004. If holdings of Argentine Central Bank bills and notes are included, the financial system's liquidity amounted to 39.5% of deposits as of December 31, 2004 and 34.6% as of December 31, 2005.

With respect to reference market interest rates, the cut-off rates of the primary market of peso-denominated one-year Lebac increased from 5.9% as of December 31, 2004 to 8.9% as of December 31, 2005. For 30-day Lebac, at the end of December 2005, the rate was 6.8%, which represented a significant increase from the 2.9% rate of placements carried at the beginning of 2005. The rate paid by the Argentine Central Bank in repo transactions with financial institutions increased to 5.0% as of December 31, 2005 from 2.5% as of December 31, 2004, while the corresponding rates for reverse repo transactions increased from 3.0% to 6.0% during the same period. The upward trend in reference rates had an impact on the yields of other financial instruments. For example, the rate of peso-denominated 30-day time deposits, which averaged 3.9% during the year, increased from an average of 3.1% in December 2004 to an average of 5.2% for the same month of 2005. Despite the increase in nominal interest rates, borrowing rates reached negative yields of more than 10% in real terms during certain months of the year.

Table of Contents**Results of Operations for the Fiscal Years Ending December 31, 2005, December 31, 2004 and December 31, 2003****General**

We discuss below our results of operations for our fiscal year ended December 31, 2005, as compared with our results of operations for the fiscal year ended December 31, 2004. We also discuss our results of operations for our fiscal year ended December 31, 2004 as compared with our results of operations for our fiscal year ended December 31, 2003.

Net Income/Loss

	Fiscal Year Ended		
	December 31,		
	2005	2004	2003
	<i>(in millions of pesos, except percentages)</i>		
Consolidated Income Statement			
Financial income	Ps. 2,398.6	Ps. 1,391.6	Ps. 1,452.1
Financial expenses	1,845.9	1,167.4	1,304.8
Net financial income	552.7	224.2	147.3
Provision for losses on loans and other receivables	76.7	190.2	286.4
Net income from services	523.7	436.3	361.4
Monetary loss from financial intermediation			(14.2)
Administrative expenses	781.0	623.9	563.4
Monetary gain / (loss) from operating expenses			0.1
Minority interest	(34.6)	(14.3)	(9.2)
Income / (loss) from equity investments	6.7	3.0	(22.6)
Miscellaneous income / (loss), net	(64.3)	98.8	168.9
Monetary loss from other transactions	.		(3.5)
Income tax	(19.3)	(43.8)	(0.6)
Net income / (loss)	Ps. 107.2	Ps. (109.9)	Ps. (222.2)
Return on average assets	0.59%	(0.42)%	(0.95)%
Return on average shareholders equity	6.83	(7.32)	(14.53)

Fiscal Year 2005 Compared to Fiscal Year 2004

During fiscal year 2005, we recorded Ps.107.2 million of net income, compared with a net loss of Ps.109.9 million in the prior fiscal year. This significant improvement can be attributed mainly to:

a 72.4% increase in financial income, from Ps.1,391.6 million to Ps.2,398.6 million,

a 59.7% reduction in loan loss provisions, from Ps.190.2 million to Ps.76.7 million,

a 20.0% increase in net income for services, to Ps.523.7 million from Ps.436.3 million, and

an income tax charge for Ps.19.3 million, 55.9% less than the Ps.43.8 million corresponding to the prior fiscal year.

These factors were partially offset by:

a 58.1% increase in financial expenses, from Ps.1,167.4 million to Ps.1,845.9 million,

a reduction in net miscellaneous income, from Ps.98.8 million to Ps.(64.3) million, and

a 25.2% increase in administrative expenses, from Ps.623.9 million to Ps.781.0 million.

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Net income per share was Ps.0.086 during fiscal year 2005, while in the prior fiscal year we recorded a net loss per share of Ps.0.093. Return on average assets was 0.59% and return on average shareholders' equity was 6.83%, compared with a 0.42% negative return on average assets and an 7.32% negative return on shareholders' equity in the prior fiscal year.

The following table shows, for the three fiscal years ended December 31, 2005, our net income before the results from the adjustment of the valuation of public-sector assets in accordance with Communiqué A 3911, as supplemented, of the Argentine Central Bank, net profits from the Bank's foreign debt restructuring completed in 2004 and the amortization of the losses from *amparo* claims.

	Fiscal Year Ended December 31,		
	2005	2004	2003
	<i>(in millions of pesos)</i>		
Net Income	Ps. 107.2	Ps. (109.9)	Ps. (222.2)
Adjustment to the Valuation of Public-Sector Assets (A)	92.3	(193.3)	(132.3)
Profit from the Restructuring of the Bank's Foreign Debt (B)		119.7	
Amortization of Losses from <i>Amparo</i> claims (C)	(122.3)	(121.0)	(77.9)
Net Income Before (A), (B) and (C)	Ps. 137.2	Ps. 84.7	Ps. (12.0)

The increase during fiscal year 2005 of our net income before (A), (B) and (C), as shown in the table above, was mainly attributable to higher net financial income before the adjustment to the valuation of public-sector assets and higher net income from services, and lower loan loss provisions, partially offset by higher administrative expenses, and lower net miscellaneous income.

Our net financial income before the above mentioned profit from the valuation of public-sector assets plus net income from services, amounted to Ps.984.1 million during fiscal year 2005, with a 34.1% increase in comparison with the Ps.734.1 million recorded the prior year, considering our net financial income before the above mentioned losses from the valuation of public sector assets and the Ps.119.7 million net profits from the Bank's foreign debt restructuring. As shown in the table below, this increase was due both to an increase of the net financial income before the above-mentioned profit from the valuation of public-sector assets (which recorded a Ps.162.6 million increase, to Ps.460.4 million from Ps.297.8 million) and to a higher net income for services (with an increase of Ps.87.4 million).

	Fiscal Year Ended December 31,		
	2005	2004	2003
	<i>(in millions of pesos)</i>		
Net Financial Income	Ps. 552.7	Ps. 224.2	Ps. 147.3
Adjustment to the Valuation of Public-Sector Assets (A)	92.3	(193.3)	(132.3)
Profit from the Restructuring of the Bank's Foreign Debt (B)		119.7	
Net Financial Income Before (A) and (B)	Ps. 460.4	Ps. 297.8	Ps. 279.6
Net Income From Services	Ps. 523.7	Ps. 436.3	Ps. 361.4
Total	Ps. 984.1	Ps. 734.1	Ps. 641.0

Fiscal Year 2004 Compared to Fiscal Year 2003

For fiscal year 2004, we recorded a net loss of Ps.109.9 million compared to a net loss of Ps.222.2 million for fiscal year 2003. The lower net loss in 2004 was primarily attributable to the following factors:

A 52.2% increase in net financial income mainly due to the 10.5% decrease in financial expenses. Net financial income includes a Ps.193.3 million loss due to the valuation of public-sector assets in

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accordance with Argentine Central Bank rules and a Ps.119.7 million net gain from the restructuring of the Bank's foreign debt closed in May 2004.

A 20.7% increase in net income from services, as a result of the Bank's higher level of activity in 2004.

A 33.6% decrease in provisions for loan losses and other receivables, which decreased from Ps.286.4 million in fiscal year 2003 to Ps.190.2 million in 2004.

A 10.7% increase in administrative expenses (Ps.60.5 million), to Ps.623.9 million in 2004 from Ps.563.4 million in the prior fiscal year.

A 41.5% decrease in miscellaneous net income (Ps.70.1 million), mainly as a result of an increase in the amortization of the difference recorded for *amparo* claims.

A Ps.43.2 million increase in the income tax charge.

Net loss per share amounted to Ps.0.093 in fiscal year 2004, while it amounted to Ps.0.203 in fiscal year 2003. For fiscal year 2004, return on average assets was a negative 0.42% and return on average shareholders' equity was a negative 7.32%, compared with a 0.95% negative return on average assets and a 14.53% negative return on shareholders' equity in fiscal year 2003.

In 2004, our net income before the loss from the adjustment of public-sector assets in accordance with Argentine Central Bank rules, the profit from the restructuring of the Bank's foreign debt and the amortization of the losses from *amparo* claims, amounted to Ps.84.7 million, compared with a Ps.12.0 million loss for fiscal year 2003. This increase was mainly due to higher net income from services and lower loan loss provisions, partially offset by higher administrative expenses, lower miscellaneous net income and a higher income tax expense.

Financial Income

Our financial income was composed of the following:

	2005	Fiscal Year Ended December 31, 2004	2003
		<i>(in millions of pesos)</i>	
Income on loans and other receivables resulting from financial intermediation and premiums earned on reverse repos	Ps. 899.8	Ps. 746.3	Ps. 880.7
Income from government and corporate securities, net	333.1		46.2
CER adjustment	1,091.8	559.7	474.1
Other ⁽¹⁾	73.9	85.6	51.1
Total	Ps. 2,398.6	Ps. 1,391.6	Ps. 1,452.1

(1) Reflects income from financial leases, net, and differences in the quotation of gold and foreign currency as well as premiums on

*forward sales of
foreign
exchange. Also
includes CVS
adjustment in
the amount of
Ps.28.9 million
and
Ps.35.0 million
for fiscal years
2004 and 2003,
respectively.*

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The following table shows our yields on interest-earning assets and cost of funds:

	2005		As of December 31, 2004		2003	
	Average Balance	Rate	Average Balance	Rate	Average Balance	Rate
<i>(in millions of pesos, except rates)</i>						
Interest-Earning						
Assets	Ps. 21,844.2	10.60%	Ps. 20,735.4	6.06%	Ps. 20,725.1	6.44%
Government Securities	5,747.7	11.78	3,238.7	(0.29)	2,082.8	3.43
Loans	9,746.9	14.00	11,137.9	9.87	11,556.7	9.84
Other ⁽¹⁾	6,349.6	4.30	6,358.8	2.61	7,085.6	1.77
Interest-Bearing						
Liabilities	Ps. 19,437.8	9.24%	Ps. 18,294.0	5.71%	Ps. 18,637.7	6.17%
Current accounts	615.0	2.49	434.0	1.11	215.6	1.39
Saving accounts	1,388.0	0.34	1,034.5	0.41	613.1	0.55
Time deposits	4,119.1	5.99	3,317.5	4.05	3,608.3	7.13
Argentine Central Bank ⁽²⁾	8,341.6	14.11	8,165.6	8.56	8,062.7	5.87
Debt securities	3,528.6	6.63	3,190.6	0.87	2,710.5	5.69
Other interest-bearing liabilities	1,445.5	8.16	2,151.8	8.14	3,427.5	7.55
Spread and Net Yield						
Interest spread, nominal basis ⁽³⁾		1.36%		0.35%		0.27%
Net yield on interest-earning assets ⁽⁴⁾		2.38		1.02		0.89
Financial margin ⁽⁵⁾		2.53		1.08		0.71

(1) Includes amounts corresponding to the Compensatory Bond and the Hedge Bond.

(2) Includes the financial assistance from the Argentine Central Bank and the advance to be granted by the Argentine Central Bank for the subscription

*of the Hedge
Bond.*

(3) *Reflects the
difference
between the
average nominal
interest rate on
interest-earning
assets and the
average nominal
interest rate on
interest-bearing
liabilities.
Interest rates
include the CER
adjustment.*

(4) *Net interest
earned divided
by average
interest-earning
assets. Interest
rates include the
CER adjustment.*

(5) *Represents net
financial
income, divided
by average
interest-earning
assets.*

In the preceding table, the Bank's holdings of Bogar were not reclassified as government securities for fiscal year 2003, being included under Loans for that year.

Fiscal Year 2005 Compared to Fiscal Year 2004

Financial income amounted to Ps.2,398.6 million, showing a 72.4% increase compared to the Ps.1,391.6 million recorded in fiscal year 2004.

The increase in financial income was the result of a higher average yield on interest-earning assets as well as of the higher average volume of such assets. The average yield on interest-earning assets was 10.60%, with a 454 basis point (b.p.) increase from 6.06% in fiscal year 2004, which can be explained by: i) a 1,207 b.p. increase in the average yield on government securities, ii) a 413 b.p. increase in average yield on loans, and iii) a 169 b.p. increase in the yield on other interest-earning assets. Average interest-earning assets increased by 5.3%, up from Ps.20,735.4 million to Ps.21,844.2 million, mainly as a consequence of a 77.5% increase in the net position in government securities and a 12.5% decrease in the average total loan portfolio.

The average total loan portfolio amounted to Ps.9,746.9 million, 12.5% lower than the Ps.11,137.9 million for fiscal year 2004. This decline was due to a Ps.2,176.9 million decrease in average loans to the public sector, partially offset by a Ps.785.9 million increase in average loans to the private sector. The decrease in average loans to the public sector was mainly due to the reclassification of the holdings of Bogar from Loans to Government Securities, in the last quarter of 2004.

In respect of the private sector, there was a significant increase in the volume of loans granted during the 2005 fiscal year, which implied a 19.1% increase in the average balance for the fiscal year when compared to that of the

prior fiscal year. This increase is net of the portfolio transferred to financial trusts and of the fiscal year write offs.

Based on the daily information published by the Argentine Central Bank, the estimated loan market share in the Argentine financial system of the Bank (on an unconsolidated basis and excluding the regional credit-card companies loan portfolio) was 9.71% as of December 31, 2005 and 9.16% as of December 31, 2004. Also, if we take

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into consideration only the loans to the private sector, the Bank's market share reached 7.31%, with an increase of 0.88 percentage points from December 31, 2004.

The average yield on total loans, including the CER adjustment, was 14.00% compared to 9.87% in fiscal year 2004. The private-sector loan portfolio accrued a 13.24% average interest rate and the public-sector loan portfolio accrued a 14.77% average interest rate. The yield on public-sector loans, mostly Secured Loans, increased due to the increase in the CER adjustment, which went from 5.48% in 2004 to 11.75% in 2005.

The average interest rate on peso-denominated private-sector loans increased by 31 b.p., from 15.27% to 15.58%. This variation was mainly due to the increase in the average yield on CER adjusted operations, since this index increased 5.48% in fiscal year 2004 and 11.75% in fiscal year 2005. This effect was partially offset, mainly, by the decrease in the average interest rate accrued during fiscal year 2005 on the peso-denominated portfolio of the regional credit-card companies, which stemmed, mainly, from the trend of the reference interest rate to be applied to these transactions published by the Argentine Central Bank.

The average position in government securities was Ps.5,747.7 million, 77.5% higher than the Ps.3,238.7 million for fiscal year 2004. This variation is composed of a Ps.3,719.1 million increase (from Ps.1,226.7 million in 2004 to Ps.4,945.8 million in 2005) in the average balance of the government securities position in pesos and a Ps.1,210.1 million decrease (from Ps.2,012.0 million to Ps.801.9 million) in the average balance of the government securities position in US dollars. The higher position in pesos was mainly due to: i) the above-mentioned reclassification of Bogar and ii) the option by the Bank, in January 2005, to receive Discount Bonds in Pesos and GDP-Linked Units in exchange for External Notes, which were denominated in US dollars, which implied a decrease in US dollar-denominated assets and the corresponding increase in peso-denominated assets. The lower position in US dollars was mainly due to the above and to a lower balance of Boden 2012, essentially due to the use of US\$196 million of face value of said securities, in the debt exchange offer carried out by Galicia Uruguay during May 2005.

The average yield of the government securities position increased by 1,207 b.p., from a negative rate of 0.29% in 2004 to 11.78% in fiscal year 2005. This variation is composed by a 696 b.p. increase in the average interest rate on government securities in pesos and a 641 b.p. increase in the average interest rate on government securities in US dollars. The increase in the average interest rate on peso-denominated government securities was mainly due to: i) the Bogar valuation, since they are adjusted by the CER, which increased 5.48% during fiscal year 2004 and 11.75% in fiscal year 2005, and ii) to the adjustment to the valuation of peso-denominated securities pursuant to Communiqué A 3911, as supplemented, which yielded a positive result for fiscal year 2005 of Ps.92.3 million, while in the previous fiscal year it had represented a Ps.87.3 million loss. This was the result of the fact that, during 2005, Bogar delivered as collateral for the financial assistance of the Argentine Central Bank were released (as a result of the payments made and the replacement thereof by Secured Loans) and used as collateral for the advance for the subscription of the Hedge Bond. The assets used as collateral for the above-mentioned advance are excluded from the valuation at present value, pursuant to Communiqué A 3911, as supplemented. The application of said regulations resulted in a Ps.92.3 million net profit from the valuation of public sector assets.

Given the valuation rules established by the Argentine Central Bank, the exchange of External Notes for Discount Bonds in Pesos did not have a significant effect on our income statement. For more information, see Item 4. Information on the Company Selected Statistical Information Government Securities.

The increase in the average yield on the government securities position in US dollars was mainly due to: i) the adjustment to the valuation of the External Notes during fiscal year 2004, pursuant to the provisions of Communiqué A 4084 and supplementary regulations by the Argentine Central Bank, which entailed a Ps.106 million loss during said fiscal year, and ii) the increase of the Libo rate, related to the Boden 2012 yield, during 2005.

The Other Interest-Earning Assets item is mainly comprised of the Compensatory Bond and Hedge Bond to be received, as compensation for the asymmetric pesification, and recorded under Other Receivables from Financial Brokerage.

The average yield on the item Other Interest-Earning Assets increased 169 b.p., mainly due to: i) a 183 b.p. increase in the average yield of other assets denominated in pesos, mainly as a consequence of the higher variation of the CER during the twelve months of fiscal year 2005 (as was discussed in previous paragraphs), which influenced the

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yield of the securities issued by the Galtrust I Financial Trust, the principal of which is adjusted by such coefficient and which are recorded under this item, among others; and ii) a 143 b.p. increase in the average yield of other assets denominated in dollars, mainly due to the increase in the Libo rate during fiscal year 2005, at which rate the Compensatory Bond and the Hedge Bond accrue interest.

Financial income for fiscal year 2005 included a Ps.58.7 million profit from foreign-exchange quotation differences, which included a Ps.54.3 million profit from foreign exchange brokerage.

Fiscal Year 2004 Compared to Fiscal Year 2003

Financial income amounted to Ps.1,391.6 million, a 4.2% decrease compared to the Ps.1,452.1 million recorded in fiscal year 2003. The slight decrease in financial income was the result of a lower average yield on interest-earning assets.

The average yield on interest-earning assets decreased 38 b.p. to 6.06%. This decline is mainly attributable to a 372 b.p. decrease in the average yield on government securities. This decrease was mainly due to the adjustment to the valuation of the External Notes held by the Bank, in accordance with the guidelines of Argentine Central Bank's Communiqué A 4084. The decrease in the aforementioned yield was partially offset by an 84 b.p. increase in the average yield of the item Other Interest-Earning Assets, mainly as a consequence of the increase of the Libo rate during the fiscal year, at which rate the Compensatory Bond and the Hedge Bond accrue interest. These two bonds represent the main portion of the balance of this item.

Average interest-earning assets remained at levels similar to those of the previous fiscal year as a consequence of: i) a 55.5% increase in the net position in government securities; ii) a 10.3% decrease in the item Other Interest-Earning Assets; and iii) a 3.6% decrease in the average loan portfolio.

The average loan portfolio amounted to Ps.11,137.9 million, 3.6% lower than the Ps.11,556.7 million for fiscal year 2003. This reduction was due to a Ps.572.8 million decrease in average loans to the public sector, partially offset by a Ps.154.0 million increase in average loans to the private sector. The decrease in average loans to the public sector was mainly due to the reclassification of the holdings of Bogar from Loans to Government Securities in the last quarter of 2004, in the tables regarding yields in this section. See Item 4. Information on the Company Selected Statistical Information Government and Corporate Securities.

With respect to the private sector, there was an improvement in the volume of loans granted during the 2004 fiscal year, which implied a 3.9% increase in the average balance for the fiscal year when compared to that of the prior fiscal year. It is worth noting that this increase would have been significantly higher if considered before the securitizations and portfolio sale, as well as the significant charge-offs against allowances for loan losses that took place during 2004. See Item 4. Information on the Company Selected Statistical Information Loan Portfolio and Item 4. Information on the Company Selected Statistical Information Charge offs.

Based on daily information published by the Argentine Central Bank, the estimated loan market share in the Argentine financial system of the Bank (on an unconsolidated basis and excluding the regional credit-card companies loan portfolio), was 9.16% as of December 31, 2004 and 13.18% as of December 31, 2003. The decrease in the Bank's loan market share during this fiscal year was mainly due to the already mentioned reclassification of the holdings of Bogar under the item Government Securities.

The average yield on total loans, including the CER adjustment, was 9.87% compared to 9.84% in fiscal year 2003, with the private-sector loan portfolio accruing a 12.98% average interest rate and the public-sector loan portfolio accruing an 8.05% average interest rate. It is worth noting that the yield on public-sector loans, mostly Secured Loans, increased due to: i) the increase in the CER adjustment, which grew from 3.66% in 2003 to 5.48% in 2004, and ii) the reclassification of Bogar, already discussed, as a consequence of which the loss due to the adjustment to the valuation of public-sector assets provided for in Argentine Central Bank's Communiqué A 3911 as supplemented (valuation at present value) was recorded under Government Securities, while in the previous fiscal year it had been recorded as reducing the yield of the item Loans. The amount of the adjustment of Bogar was Ps.87.3 million in 2004. The

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increase in the yield of public-sector loans was partially offset by the decrease in the interest-rate on private sector loans. This decrease reflected the decrease in market interest rates.

The average interest rate on peso-denominated private-sector loans decreased by 840 b.p., from 23.67% to 15.27%. This decrease was mainly due to the drop in interest rates experienced by the market as a whole, partially offset by the increase in the CER.

The average position in government securities was Ps.3,238.7 million, 55.5% higher than the Ps.2,082.8 million for fiscal year 2003. This higher position was mainly due to the above-mentioned Bogar reclassification. It should be noted that, even though the effect is almost none on average balances, in 2004 the amount of the Compensatory Bond decreased as a consequence of the transfer of Boden 2012 for a face value of US\$170 million to Galicia Uruguay, which were used by Galicia Uruguay for the settlement of the second exchange offer made to its customers, and of the completion of the restructuring of the foreign debt of the Bank's Head Office in Argentina and that of its Cayman Branch, which implied transferring Boden 2012 for a face value of US\$36.9 million to those creditors who chose to receive such securities. This decrease was more than offset by a partial crediting of Boden 2012 corresponding to the Compensatory Bond, which took place in the third quarter of 2003.

The average yield of the position in government securities decreased 372 b.p., from 3.43% in fiscal year 2003 to a negative yield of 0.29% in fiscal year 2004. This decrease was mainly due to: (i) a 290 b.p. decrease in the average rate of peso-denominated government securities, mainly as a consequence of the adjustment to the Bogar valuation for Ps.87.3 million, adjustment that was recorded under Loans in the previous fiscal year; and (ii) a 699 b.p. decrease in the rate of dollar-denominated government securities, due to the recording of the adjustment to the valuation of the External Notes in accordance with the provisions of Communiqué A 4084 of the Argentine Central Bank and supplemental communiqués. This valuation implied a Ps.106 million reduction in net income for fiscal year 2004.

The aggregate losses from the valuation of public sector assets (Bogar, External Notes and Secured Loans) in accordance with the Argentine Central Bank rules (Communiqués A 3911 as supplemented) amounted to Ps.193.3 million in 2004, with a 46.1% increase (Ps.61.0 million) from the Ps.132.3 million recorded for the same concept in 2003.

The Ps.726.8 million decrease in the average balance of Other Interest-Earning Assets is mainly due to the partial crediting of the Compensatory Bond during the third quarter of fiscal year 2003, recorded from that moment on under the item Government Securities.

The average yield on Other Interest-Earning Assets increased 84 b.p., mainly due to: i) a 200 b.p. increase in the average yield of other assets denominated in pesos, mainly as a consequence of the higher variation of the CER during the twelve months of fiscal year 2004 (as was discussed in previous paragraphs), and given that the Galtrust I Financial Trust, among others, is recorded under this item, the principal of which is adjusted by such coefficient; and ii) a 36 b.p. increase in the average yield of other assets denominated in dollars, mainly due to the increase in the Libo rate during fiscal year 2004, at which rate the Compensatory Bond and the Hedge Bond accrue interest.

Financial income for fiscal year 2004 included a Ps.51.4 million profit from foreign-exchange quotation differences, which included a Ps.54.0 million gain from foreign exchange brokerage transactions.

Table of Contents**Financial Expenses**

Our financial expenses were composed of the following:

	Fiscal Year Ended		
	December 31,		
	2005	2004	2003
	<i>(in millions of pesos)</i>		
Interest on deposits	Ps. 172.3	Ps. 115.7	Ps. 228.6
Debt securities	234.1	122.3	155.6
Expenses from Government and Corporate Securities, Net	0.0	7.0	0.0
Contributions and taxes	48.8	48.8	31.7
CER adjustment	1,006.8	501.8	187.5
Other ⁽¹⁾	383.9	371.8	701.4
Total	Ps. 1,845.9	Ps. 1,167.4	Ps. 1,304.8

(1) *Includes accrued interest on liabilities resulting from financial brokerage with banks and international entities and premiums payable on repos.*

Fiscal Year 2005 Compared to Fiscal Year 2004

Financial expenses for fiscal year 2005 amounted to Ps.1,845.9 million, thus increasing 58.1% in comparison with the Ps.1,167.4 million of 2004. This variation stemmed from an increase of 353 b.p. in the average cost of funds and a 6.3% increase in the average balance of interest-bearing liabilities.

Average interest-bearing liabilities amounted to Ps.19,437.8 million, compared to Ps.18,294.0 million for fiscal year 2004. This increase is mainly explained by a 27.9% increase in interest-bearing deposits, which grew from Ps.4,786.0 million to Ps.6,122.1 million.

The increase in the average balance of interest-bearing deposits was mainly the result of the strong growth in the Bank's deposits in Argentina, in current accounts, savings accounts and time deposits. Taking into account the final balances of the Bank's total deposits, said increase was of Ps.2,138.7 million for the year, equivalent to a 35.9% increase compared to the prior fiscal year-end total. This increase was partially offset by: (i) the exchange of US dollar-denominated restructured liabilities (deposits and negotiable obligations) for cash and Boden 2012, carried out by Galicia Uruguay and finalized in May 2005, and (ii) the payment by said entity, in September 2005, of the installment established in the restructuring schedule of said liabilities.

Of the total fiscal year 2005 average interest-bearing deposits, Ps.1,210.1 million were dollar-denominated and Ps.4,912.0 million were peso-denominated, compared with Ps.1,425.5 million and Ps.3,360.5 million, respectively, in fiscal year 2004.

Considering only private-sector deposits raised by the Bank in Argentina only, the estimated deposit market share of the Bank in the Argentine financial system increased to 7.97% as of December 31, 2005, compared to 7.07% as of December 31, 2004.

The average cost of interest-bearing deposits in fiscal year 2005 was 4.36%, 136 b.p. greater than the 3.00% average cost for the prior fiscal year. Peso-denominated deposits (including those adjusted by CER) accrued a 5.27% average interest rate, compared to a 3.73% average interest rate in fiscal year 2004. This growth was a result, mainly, of the increase in the peso borrowing interest rates experienced by the market as a whole during 2005, together with the higher CER adjustment in fiscal year 2005 compared to 2004 (as already mentioned above), which is applied to adjustable deposits. Likewise, the cost of US dollar-denominated deposits was 0.65%, 63 b.p. lower than the 1.28% rate corresponding to fiscal year 2004, as a consequence, mainly, of the lower share of Galicia Uruguay's deposits throughout the year.

The item Argentine Central Bank recorded an average balance that was Ps.176.0 million higher than the Ps.8,165.6 million of fiscal year 2004, and an average cost of 14.11%, 555 b.p. higher than the 8.56% interest rate for fiscal year 2004. This item shows the average balances of the financial assistance of the Argentine Central Bank and of the advance from the Argentine Central Bank to be granted to the Bank for the purchase of the Hedge Bond.

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End-of-period balances, as of December 31, 2005, amounted to Ps.5,314.9 million and Ps.3,296.6 million, respectively, compared to Ps.5,707.0 million and Ps.2,720.7 million, respectively, at the end of the previous fiscal year. The Ps.392.1 million decrease in the balance of the financial assistance of the Argentine Central Bank was a consequence of the payments made during the period on such liability, partially offset by its principal's CER adjustment. The Ps.575.9 million increase in the balance of the advance for the subscription of the Hedge Bond was due to the CER adjustment during the year and to the determination, during the first quarter of 2005, of the final amount of the compensation due to the Bank for the asymmetric pesification.

The average balance of debt securities in fiscal year 2005 was Ps.3,528.6 million, higher than the Ps.3,190.6 million corresponding to the prior fiscal year. The increase in the average balance of debt securities is basically related to the decisions made by creditors in the restructuring of the Bank's and the Cayman Branch's foreign debt carried out in 2004. Given the fact that bank creditors chose to receive bonds, the average balance of debt securities in 2004 was higher than that of 2003 but did not reflect the whole impact of such elections, which was indeed recorded in 2005, since the restructuring took place by mid 2004. This effect was partially offset, mainly, by: i) the exchange of liabilities restructured as negotiable obligations for cash and Boden 2012 carried out by Galicia Uruguay during the second quarter of fiscal year 2005, and iii) the payment of the first amortization installment of the debt instruments issued in the restructuring of the former New York Branch's debt. The average cost was 6.63% in 2005, while for the prior fiscal year it had been 0.87%. It is worth mentioning that the average cost for fiscal year 2004 was strongly influenced by the reduction in principal and interest that resulted from the restructuring of the Bank's foreign debt completed in May 2004, which generated a Ps.142.5 million profit, partially offset by taxes in the amount of Ps.22.8 million.

The average balance of the caption *Other Interest-Bearing Liabilities* was Ps.1,445.5 million in fiscal year 2005, with an average rate of 8.16% while, for fiscal year 2004, the average balance amounted to Ps.2,151.8 million and the average rate was 8.14%. This caption includes, among others, the loans from international banks and credit agencies, which balance decreased in 2005 mainly due to the same reason explaining the increase in the average balance of debt securities, which is mentioned in the previous paragraph. Also, the caption includes obligations in connection with repo transactions of Boden 2012. These liabilities accrue a variable rate based on the Libo rate.

Fiscal Year 2004 Compared to Fiscal Year 2003

Financial expenses decreased 10.5% to Ps.1,167.4 million, from the Ps.1,304.8 million recorded in fiscal year 2003. This reduction was the result of a 46 b.p. decrease in the average cost of funds and of a 1.8% decrease in the average balance of interest-bearing liabilities.

Average interest-bearing liabilities amounted to Ps.18,294.0 million for fiscal year 2004 compared to Ps.18,637.7 million for fiscal year 2003. The slight decrease was mainly the result of a 7.9% increase in interest-bearing deposits (which grew from Ps.4,437.0 million to Ps.4,786.0 million), which was more than offset by a Ps.610.7 million decrease in the aggregate balance of the items *Other Financial Institutions and Debt Securities*.

The increase in the average balance of interest-bearing deposits was mainly the result of the strong increase in the Bank's deposits in Argentina in current accounts, savings accounts and time deposits (excluding Reprogrammed Deposits), which, taking into account end-of-period balances, was of Ps.1,896.5 million during fiscal year 2004, equivalent to 52.4% as compared to the figure recorded at the end of the previous fiscal year.

The increase in the average balance of interest-bearing deposits was partially offset by:

The exchange offer made by Galicia Uruguay, carried out during the first quarter of 2004, of restructured deposits and negotiable obligations for cash and Boden 2012;

The payment by Galicia Uruguay, in September 2004, of the installment set up in its deposit restructuring schedule.

The completion, in the third quarter of 2004, of the *Canje II* set forth by Decree No.1836/02, in which Reprogrammed Deposits were exchanged for Argentine Government Securities.

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Of the total fiscal year 2004 average interest-bearing deposits, Ps.1,425.5 million were dollar-denominated deposits and Ps.3,360.5 million were peso-denominated, compared with Ps.1,631.9 million and Ps.2,805.1 million, respectively, in fiscal year 2003.

Considering only private-sector deposits raised by the Bank in Argentina only, the estimated deposit market share of the Bank in the Argentine financial system increased to 7.07% as of December 31, 2004, compared to 5.62% as of December 31, 2003.

The average cost of interest-bearing deposits in fiscal year 2004 was 3.00%, 295 b.p. lower than the 5.95% average cost for the previous fiscal year. Peso-denominated deposits accrued a 3.73% average interest rate (including those adjusted by CER), compared to an 8.45% average interest rate in fiscal year 2003. This decrease was mainly the consequence of the decrease in peso borrowing interest rates experienced by the market as a whole in 2004. Likewise, the cost of dollar-denominated deposits was 1.28%, 36 b.p. lower than the 1.64% for fiscal year 2003. This reduction was also attributable to the decrease in borrowing interest rates in the Argentine market and to the lower share of Galicia Uruguay's deposits that accrue interests at a fixed rate through the year.

The item Argentine Central Bank recorded an average balance that was Ps.102.9 million higher than the Ps.8,062.7 million of fiscal year 2003, and an average cost of 8.56%, 269 b.p. higher than the 5.87% interest rate for fiscal year 2003. This item mainly shows the average balances of the financial assistance from the Argentine Central Bank and of the advance to be granted by the Argentine Central Bank for the purchase of the Hedge Bond. End-of-period balances, as of December 31, 2004, amounted to Ps.5,707.0 million and Ps.2,720.7 million, respectively, compared to Ps.5,663.1 million and Ps.2,536.1 million, respectively, at the end of the previous fiscal year. Both liabilities are adjusted by CER, which explains the increase in the average interest rate for the fiscal year.

The average balance of debt securities was Ps.3,190.6 million in fiscal year 2004, higher than the Ps.2,710.5 million for fiscal year 2003. The increase between both fiscal years was mainly the consequence of the decisions made by the creditors that participated in the restructuring of the foreign debt of the Bank and its Cayman Branch, concluded in May 2004, as many bank creditors chose to receive bonds. The average cost of these debt securities was 0.87% for the twelve months of 2004. For the prior fiscal year, this cost was 7.21%. The decrease in the average cost for fiscal year 2004 was due to the reduction in principal and interest that resulted from the restructuring of the foreign debt of the Bank completed in May 2004. The profit resulting from the Bank's debt restructuring in 2004 amounted to Ps.142.5 million (being offset by Ps.22.8 million on account of taxes), with the whole effect impacting on the 2004 debt securities cost.

Other Interest Bearing Liabilities amounted to Ps.2,151.8 million, down from Ps.3,427.5 million for fiscal year 2004. This caption includes, among others, the loans from international banks and credit agencies, which balance decreased in 2004 mainly due to the same reason explaining the increase in the average balance of debt securities, which is mentioned in the prior paragraph.

Net Financial Income

Net financial income for fiscal year 2005 was Ps.552.7 million and the financial margin was 2.53%. For fiscal year 2004 net financial income was Ps.224.2 million, and the net financial margin was 1.08%. In fiscal year 2003, net financial income was Ps.147.3 million and the net financial margin was 0.71%.

Net financial income increased in 2005 as compared with 2004, as a result of a 101 b.p. increase in the average spread, from 0.35% in fiscal year 2004 to 1.36% in fiscal year 2005, accompanied by an increase in average interest-earning assets. The increase in the spread for fiscal year 2005 reflects a greater increase in the average yield of interest-earning assets than in the cost of funds (454 b.p. compared to 353 b.p.). The latter was mainly due to (i) an increase in the average yield on interest-earning assets and (ii) to the greater participation of deposits in our total average funding (from 26.2% in fiscal year 2004 to 31.5% in fiscal year 2005), with an increase in the average cost of deposits of only 136 b.p. in fiscal year 2005. In addition, the 2005 yield on interest-earning assets includes a Ps.92.3 million gain from the valuation of public-sector assets in accordance with Argentine Central Bank rules.

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Excluding from our yield on interest-earning assets the public-sector assets valuation gain in fiscal year 2005 and the public-sector assets valuation loss in fiscal year 2004, and excluding from our cost of funds the gain from the restructuring of the Bank's foreign debt in fiscal year 2004, the yield on average interest-earning assets increased 319 b.p. in 2005, from 6.99% for 2004 to 10.18% in 2005, and the cost of funds increased 275 b.p. from 6.49% in 2004 to 9.24% in 2005. The greater increase in the former as compared to the latter is explained by the same factors mentioned in the previous paragraph.

Net financial income increased in 2004 as compared with 2003 due to the decrease in net financial expenses, which was mainly due to the lower cost of deposits, which accompanied the trend in the Argentine market, and to the lower cost of the Bank's foreign debt which includes the Ps.119.7 million gain from the restructuring completed in May 2004.

Before the gain/loss from the valuation of public-sector assets in accordance with Argentine Central Bank regulations and before the gain from the restructuring of the Bank's foreign debt, our net financial income, in 2005, 2004 and 2003, mainly reflects the gains generated by the matched portfolios denominated in pesos and in pesos adjusted by CER. The dollar-denominated matched portfolio recorded a loss due to the fact that the Compensatory Bond and the Hedge Bond, which represent most of the Bank's dollar-denominated assets, accrue the Libo rate. Therefore, the yield on interest-earning assets denominated in foreign-currency was lower than the cost of liabilities denominated in foreign currency. In 2005 and 2004, the funding with non-adjusted peso-denominated liabilities of the net position in assets adjusted by CER recorded a profit, while the funding of the net position in dollar-denominated assets with pesos showed a gain or a break-even situation.

In fiscal year 2003, the appreciation of the peso from Ps.3.36 per US\$1.00 as of December 31, 2002, to Ps.2.93 per US\$1.00 as of December 31, 2003, resulted in a significant loss given the Bank's net asset position in foreign currency and the net position in CER-adjusted assets also recorded a loss that was significantly reduced in the second quarter of fiscal year 2003 by the restructuring of the Bank's debt with the Argentine Central Bank for liquidity support into a long-term CER-adjusted liability.

Provision for Losses on Loans and Other Receivables*Fiscal Year 2005 Compared to Fiscal Year 2004*

The provision for losses on loans and other receivables amounted to Ps.76.7 million in fiscal year 2005, down 59.7% from the Ps.190.2 million recorded in the prior fiscal year, thus reflecting the improvement in the quality of the Bank's loan portfolio. This improvement reflects the favorable trends in the Argentine economy in the last three years, the restructuring of the Bank's commercial loan portfolio and the write offs made.

The provision for losses on loans and other receivables for fiscal year 2004 amounted to Ps.190.2 million, 33.6% lower than the Ps.286.4 million recorded in fiscal year 2003, thus reflecting an improvement in the quality of the Bank's loan portfolio. This improvement evidences the favorable developments in the Argentine economy in the last two years, the achievement of significant restructurings of the Bank's commercial portfolio and the significant charge-offs against allowances for loan losses.

For more information on asset quality, see Selected Statistical Information- Analysis of Amounts Past Due and Non-Accrual Loans and Selected Statistical Information- Analysis of the Allowance for Loan Losses

Table of Contents**Net Income from Services**

Our net income from services consisted of:

	Fiscal Year Ended December 31,		
	2005	2004	2003
	<i>(in millions of pesos)</i>		
Income from			
Credit cards	Ps. 361.5	Ps. 315.1	Ps. 260.9
Deposits accounts	102.7	80.3	66.6
Credit-related fees	19.6	21.6	12.9
Check collection	12.4	10.1	7.5
Collection services (taxes and utility bills)	9.5	8.3	6.6
Foreign trade	24.5	19.9	13.6
Insurance	34.4	27.3	22.0
Other ⁽¹⁾	81.1	46.5	41.7
Total Income	Ps. 645.7	Ps. 529.1	Ps. 431.8
Total Expenses	Ps. 122.0	Ps. 92.8	Ps. 70.4
Net Income from Services	Ps. 523.7	Ps. 436.3	Ps. 361.4

(1) *Includes fees from market making in government securities, investment banking activities, asset management, safe deposit boxes and cash management.*

Fiscal Year 2005 Compared to Fiscal Year 2004

Net income from services amounted to Ps.523.7 million, 20.0% higher than the Ps.436.3 million recorded in the previous fiscal year. Nearly all categories grew, mainly as a consequence of a significant increase in the volume of operations together with an increase, in the third quarter of 2005 and the third quarter of 2004, in the price of certain services.

Income from credit and debit cards of Ps.361.5 million contains Ps.233.4 million of income from the regional credit-card companies. These companies managed 2.4 million cards as of December 31, 2005, a 28.3% increase from December 31, 2004. Income from services of the regional credit-card companies increased 14.8% from the prior fiscal year, due to the increase in the average number of cards managed and to the fact that the purchases made with these cards increased significantly in the fiscal year.

The Bank's income from credit and debit card operations not related to the regional credit-card companies was Ps.128.1 million, with a 14.6% increase over the Ps.111.8 million recorded in the prior fiscal year. This higher income was attributable not only to the higher number of credit cards but also to the higher average use of such cards recorded during the year. The number of cards managed by the Bank (excluding those managed by the regional credit-card companies) increased 17.4%, reaching 687,100 as of December 31, 2005, compared to 585,500 as of December 31,

2004.

The Bank's total deposit accounts amounted to 1.1 million as of December 31, 2005, 11.0% higher than as of December 31, 2004.

Reflecting the expansion of credit activity, the increase in deposit volume and in the number of deposit accounts, the higher sales of products, and the increase in the price of certain services, significant growth was achieved in income from services from the following items: deposit accounts (27.9%), insurance (26.0%), foreign trade (23.1%), collections (22.8%) and utility bills collection services (14.5%).

Expenses from services increased 31.5%, from Ps.92.8 million in fiscal year 2004 to Ps.122.0 million.

Fiscal Year 2004 Compared to Fiscal Year 2003

Net income from services amounted to Ps.436.3 million for fiscal year 2004, 20.7% higher than the Ps.361.4 million recorded in the previous fiscal year. All categories grew, mainly as a consequence of a significant

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increase in the volume of transactions together with an increase, in the third quarter of 2004, in the price of certain services.

Income from credit and debit cards of Ps.315.1 million contains Ps.203.3 million of income from the regional credit-card companies. These companies managed 1.9 million cards as of December 31, 2004, a 23.2% increase from December 31, 2003. Income from services of the regional credit-card companies increased 16.8% from the previous fiscal year, due to the increase in the average number of cards managed and to the fact that the use of these cards increased significantly in fiscal year 2004.

The Bank's income from credit and debit card operations not related to the regional credit-card companies was Ps.111.8 million. The number of cards managed by the Bank (excluding those managed by the regional credit-card companies) increased 20.3%, reaching 585,500 as of December 31, 2004, compared to 486,900 as of December 31, 2003. Income from services of the Bank's credit and debit card operations (excluding those managed by the regional credit-card companies) increased 28.8%, from Ps.86.8 million to Ps.111.8 million. This higher income was attributable to both the higher number of credit cards and the higher average use of such cards shown during the year.

The Bank's total deposit accounts amounted to 1.0 million as of December 31, 2004, 4.8% higher than as of December 31, 2003.

Reflecting the higher credit activity, the increase in the volume of deposits and the higher sales of products and the increase in the price of certain services during the last quarter, significant growth was achieved in income from services from the following items: financial fees (67.4%), foreign trade (46.3%), collection (34.7%), utility bills collection services (25.8%), insurance (24.1%) and deposit accounts (20.6%).

Expenses from services increased 31.8%, from Ps.70.4 million in fiscal year 2003 to Ps.92.8 million.

The following table sets forth the number of credit cards outstanding on the dates indicated:

Credit Cards ⁽¹⁾	2005	December 31,		% Change	
		2004	2003	2005/2004	2004/2003
Visa	578,211	492,918	413,972	17.3	19.1
Gold	102,669	81,445	63,984	26.1	27.3
International	299,269	278,298	219,549	7.5	26.8
Domestic	169,434	131,106	129,199	29.2	1.5
Business	6,839	2,069	1,240	230.5	66.9
American Express	94,869	89,307	68,489	6.2	30.4
Gold	43,834	37,781	31,858	16.0	18.6
International	51,035	51,526	36,631	(1.0)	40.7
MasterCard	13,993	3,231	4,420	333.1	(26.9)
Gold	2,987	474	682	530.2	(30.5)
MasterCard	10,817	2,704	3,738	300.0	(27.7)
Argencard	189	53	0	256.6	100.0
Regional Credit-Card Companies ⁽²⁾	2,444,526	1,905,423	1,547,280	28.3	23.1
Visa	594,802	394,619	368,088	50.7	7.2
Local Brands	1,849,724	1,510,804	1,179,192	22.4	28.1
Total	3,131,599	2,490,879	2,034,161	25.7	22.5
Amount of Purchases	Ps. 4,943.6	Ps. 3,720.1	Ps. 2,925.7	32.9	27.2

(1) Issued by Banco Galicia and

subsidiaries.

- (2) *Tarjeta Naranja,
Tarjeta Comfiar,
Tarjetas
Cuyanas and
Tarjetas del
Mar. Tarjeta
Naranja and
Tarjeta Comfiar
merged on
November 2003.*

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Table of Contents***Monetary Loss from Financial Intermediation***

No monetary loss was recorded in fiscal years 2005 and 2004, as the adjustment of financial statements for inflation was not applicable.

The monetary loss from financial intermediation amounted to Ps.14.2 million in fiscal year 2003 compared to Ps.1,437.7 million in fiscal year 2002. This decrease was the result of a lower increase in the WPI in fiscal year 2003 (2.03%), as compared with fiscal year 2002 (118.4%). In addition, it was the result of the fact that financial statements for fiscal year 2003 were adjusted for inflation from January 1, 2003, through February 28, 2003, only. Therefore, in addition to reflecting the substantial decrease in inflation between both periods, monetary loss from financial intermediation for year 2003 included only two months of adjustment.

The monetary loss from financial intermediation represents the net effect of inflation on financial income and expenses, income and expenses from services and loan loss provisions. Monetary loss from financial intermediation plus the monetary effect on administrative expenses and on other income and expenses, represents the loss caused by the exposure of the Bank's liquid shareholders' equity (shareholders' equity less fixed assets and equity investments) to inflation, measured by the variation of the WPI.

Administrative Expenses

The following table sets forth the components of our administrative expenses:

	Fiscal Year Ended		
	December 31,		
	2005	2004	2003
	<i>(in millions of pesos)</i>		
Salaries and social security contributions	Ps. 330.5	Ps. 242.0	Ps. 198.3
Property-related expenses	57.7	55.6	70.1
Personnel services	30.0	27.0	15.7
Advertising and publicity	68.2	37.8	20.0
Amount accrued in relation to directors' and syndics' compensation	5.8	4.1	1.9
Electricity and communications	31.1	27.0	27.2
Taxes	37.4	40.9	29.8
Other	220.3	189.5	200.4
Total	781.0	623.9	563.4

Fiscal Year 2005 Compared to Fiscal Year 2004

Administrative expenses amounted to Ps.781.0 million, 25.2% higher than the Ps.623.9 million recorded in the prior fiscal year.

Personnel expenses (salaries and social security contributions and expenses due to personnel services) increased 34.0% in aggregate, from Ps.269.0 million in fiscal year 2004 to Ps.360.5 million in fiscal year 2005. This increase was mainly due to higher salaries and to an increase in staff. The Bank's staff, including the staff of Galicia Uruguay and the regional credit-card companies, grew 8.8%, from 6,181 to 6,722 employees, as a consequence of the higher level of activity. The remaining administrative expenses amounted in aggregate to Ps.420.5 million, thus reflecting an 18.5% increase from the Ps.354.9 million recorded in the prior fiscal year. This increase was due to higher advertising and publicity expenses (80.4%). The other remaining administrative expenses increased 11.1%, a growth that is related to a higher activity level and an increase in inflation during the year.

Table of Contents*Fiscal Year 2004 Compared to Fiscal Year 2003*

Administrative expenses amounted to Ps.623.9 million, 10.7% higher than the Ps.563.4 million recorded in the previous fiscal year. Personnel expenses increased 25.7% in aggregate, from Ps.214.0 million in fiscal year 2003 to Ps.269.0 million in fiscal year 2004. This increase was mainly due to higher salaries, which included a one-time payment at the end of the year. The Bank's staff, including the staff of Galicia Uruguay and the regional credit-card companies, grew 6.2%, from 5,822 to 6,181 employees, as a consequence of the higher overall level of activity.

The remaining administrative expenses totaling Ps.354.9 million in fiscal year 2004, were 1.6% higher than the Ps.349.4 million recorded the previous fiscal year. The decreases in expenses related to property-related expenses (Ps.14.5 million) and in other expenses (Ps.10.9 million) were more than compensated by the increases in expenses related to advertising and publicity (Ps.17.8 million), taxes (Ps.11.1 million) and payments to directors and syndics (Ps.2.2 million). The taxes charge includes the provision for the personal assets tax of our shareholders of fiscal years 2002, 2003 and 2004, which is paid by Grupo Galicia in accordance with the resolution of its shareholders meeting held on April 22, 2004.

Income/(Loss) from Equity Investments

Income from equity investments amounted to Ps.6.7 million in fiscal year 2005. This profit was mainly due to the Ps.2.2 million profit from our interest in Banelco S.A. and the Ps.2.2 million profit from the sale by Sudamericana of its 100% interest in Instituto de Salta Compañía de Seguros de Vida S.A.

In fiscal year 2004, we recorded Ps.3.0 million in income from equity investments. Fiscal year 2004 profit was mainly due to the Ps.1.9 million profit from our interest in Banelco S.A.

In fiscal year 2003, we recorded a Ps.22.6 million loss from equity investments. The loss in fiscal year 2003 was mainly due to losses recorded from our investments in Aguas Argentinas S.A. (Ps.8.8 million), Tradecom International N.V. (il) (Ps.6.5 million), Camino de las Sierras S.A. (Ps.2.3 million) and Aguas Cordobesas S.A. (Ps.0.9 million).

Miscellaneous Income/(Loss), Net

In fiscal year 2005, we recorded a miscellaneous net loss of Ps.64.3 million, while in fiscal year 2004, our miscellaneous net income amounted to Ps.98.8 million. The loss in 2005 was mainly due to the Ps.122.3 million loss from the amortization of the deferred losses from *amparo* claims. It should be mentioned that, beginning in December 2005, the Argentine Central Bank authorized financial institutions that have granted after such date new commercial loans with average lives exceeding 2 years, to defer the amortization of the deferred losses from *amparo* claims. As a consequence, the Bank deferred Ps.11.3 million during the last month of the year. The loss from the amortization of *amparo* claims was partially offset by loan recoveries for Ps.35 million and the net reversal of allowances for loan losses and other contingencies for Ps.28.5 million.

Miscellaneous net income for fiscal year 2004 amounted to Ps.98.8 million, 41.5% lower than the Ps.168.9 million recorded in the previous year. The amount recorded in fiscal year 2004 was mainly due to the net reversal of allowances, mainly for loan losses, in the amount of Ps.123.6 million, and to loan recoveries for Ps.110.1 million. The latter amount includes Ps.56.8 million from the sale of part of the Bank's loan portfolio recorded off-balance sheet. These gains were partially offset by the loss from the amortization of *amparo* claims in the amount of Ps.121.0 million.

During fiscal year 2003, miscellaneous income, net (excluding the associated monetary loss), amounted to Ps.168.9 million. The gain recorded in fiscal year 2003 was mainly due to a net reversal of allowances, mainly for loan losses, in the amount of Ps.185.4 million and to loan recoveries for Ps.40 million. This income was partially offset by the amortization of the deferred losses from *amparo* claims, which totaled Ps.77.9 million for the period from April 2003 to December 2003.

Table of Contents***Income Tax***

The income tax charge for fiscal year 2005 was Ps.19.3 million. This amount is made up of: (i) income tax charges of Ps.50.5 million corresponding to Tarjetas Regionales S.A. consolidated with its operating subsidiaries, and Ps.0.3 million, Ps.0.6 million and Ps.0.3 million corresponding to Sudamericana, Galicia Warrants, and Galicia Valores S.A., respectively, and (ii) a Ps.32.4 million profit corresponding to Grupo Galicia, mainly resulting from the forgiveness of the negotiable obligations issued by Galicia Uruguay, which reduced our deferred tax liability.

In fiscal year 2004, a charge of Ps.43.8 million was recorded on account of income tax, of which Ps.29.6 million corresponded to Tarjetas Regionales S.A. consolidated with its operating subsidiaries, Ps.12.9 million corresponded to Grupo Galicia on non-consolidated basis, Ps.0.6 million to Sudamericana, Ps.0.5 million to Galicia Warrants, and Ps.0.2 million to Galicia Valores S.A.

In fiscal year 2003, our income tax expense amounted to Ps.0.6 million.

U.S. GAAP and Argentine Banking GAAP Reconciliation***General***

We prepare our financial statements in accordance with Argentine Banking GAAP. The more significant differences between Argentine Banking GAAP and U.S. GAAP relate to the determination of the allowance for loan losses, the carrying value of certain government securities and receivables for government securities, the accounting of the Bank's foreign debt restructuring and recognition of deferred income taxes. For more detail on differences in accounting treatment between Argentine Banking GAAP and U.S. GAAP as of December 31, 2005, see note 41 to our consolidated financial statements.

Allowances for Loan Losses

With respect to the determination of the allowance for loan losses, we follow the rules of the Argentine Central Bank. Under these rules, reserves are based on minimum reserve requirements established by the Argentine Central Bank. U.S. GAAP requires that an impaired loan be generally valued at the present value of expected future cash flows discounted at the loan's effective rate or at the fair value of the collateral if the loan is collateral dependent.

For the purposes of analyzing our loan loss reserve under U.S. GAAP, we divide our loan portfolio into performing and non-performing commercial and consumer loans.

Performing Commercial and Consumer Loans

Performing loans are considered to be loans that are classified under the Argentine Central Bank classification guidelines as:

Normal and Normal Performance

Potential Risk and Improper Fulfillment

We perform analyses of historical losses from our performing commercial and consumer loan portfolios in order to estimate losses for U.S. GAAP purposes resulting from loan losses that had been incurred in the performing loan portfolio at the balance sheet date but which had not been individually identified.

We estimate that, on average, it takes a period of up to one year between the trigger of an impairment event and the identification of a loan as being a probable loss. Therefore, we have concluded that the losses incurred by the performing loan portfolio over the next year give a basis for estimating the amount of loss at the balance sheet date. We have collected data on the amounts of losses that had been incurred on commercial loans and consumer loans that were performing one year before. Using this data, the range of estimated default probabilities and estimated losses given default yield the following estimated SFAS 5 reserve for the performing commercial and consumer loan portfolio:

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	December 31, 2005		December 31, 2004		December 31, 2003	
	High	Low	High	Low	High	Low
Performing Commercial Loans	Ps. 193.1	2.1	159.7	1.7	215.2	24.4
Performing Consumer Loans	30.3	22.2	15.4	11.1	23.2	20.0

Non-performing Consumer Loan Portfolio

The non-performing consumer loan portfolio is comprised of loans falling into the following classifications of the Argentine Central Bank:

Defective Fulfillment

Difficulty in Recovery

Uncollectible

For these loans, we have developed a range of loss projections based on the default experience of non-performing loans. Based on this data, we have calculated a range of estimated loan losses for non-performing consumer loans:

	December 31, 2005		December 31, 2004		December 31, 2003	
	High	Low	High	Low	High	Low
Non-Performing Consumer Loans	Ps. 48.6	36.3	Ps. 45.3	Ps. 37.0	Ps. 84.6	Ps. 74.4

Non-performing Commercial Loans

The non-performing commercial loan portfolio is comprised of loans falling into the following classifications of the Argentine Central Bank:

With Problems

High Risk of Insolvency

Uncollectible

For such non-performing commercial loans, we applied the procedures required by SFAS 114.

For loans that were not collateral dependent, the expected future cash flows to be received from the loans were discounted using the interest rate at each balance sheet date for variable loans. Loans that were collateral dependent, and for which there was an expectation that the loan balance would be recovered via the exercise of collateral, were valued using the fair value of the collateral. In addition, in order to assess the fair value of collateral, we discounted collateral valuations due to the extended period of time that it can take to foreclose on assets in Argentina.

Summary

The following table identifies the high and low of loan loss reserves for the periods indicated.

	December 31, 2005		December 31, 2004		December 31, 2003	
	High	Low	High	Low	High	Low
Performing Commercial Loans	Ps. 193.1	Ps. 2.1	Ps. 159.7	Ps. 1.7	Ps. 215.2	Ps. 24.4

Performing Consumer Loans	30.3	22.2	15.4	11.1	23.2	20.0
Non-Performing Consumer Loans	48.6	36.3	45.3	37.0	84.6	74.4

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	December 31, 2005		December 31, 2004		December 31, 2003	
	High	Low	High	Low	High	Low
Non-Performing Commercial Loans	397.9	397.9	379.5	379.5	953.7	953.7
Total	Ps. 669.9	Ps. 458.5	Ps. 599.9	Ps. 429.3	Ps. 1,276.7	Ps. 1,072.5
Loan Loss Reserve under U.S. GAAP	Ps.533.4		Ps.592.3		Ps.1,117.2	

As of December 31, 2003, and December 31, 2004, we expected that the loan loss reserve under U.S. GAAP would fall more toward the midpoint and the high end of the range, respectively, due to the continuing clean up of our loan portfolio through charge-offs, after the 2001-2002 crisis. As of December 31, 2005, we expected that the loan loss reserve under U.S. GAAP would fall more toward the midpoint of the range, due to the substantial completion of the Bank's loan portfolio restructuring (caused by the situation in Argentina after the 2001-2002 crisis) and the fact that a deterioration of the loan portfolio quality is not expected in 2006.

In addition to assessing the reasonableness of the loan loss reserve as described above, Banco Galicia makes an overall determination of adequacy of each period's reserve based on such ratios as:

Loan loss reserves as a percentage of non-accrual loans,

Loan loss reserves as a percentage of total amounts past due, and

Loan loss reserves as a percentage of past-due unsecured amounts.

	December 31, 2005	December 31, 2004	December 31, 2003
Loan loss reserves as a percentage of non-accrual loans	139.49%	84.75%	85.98%
Loan loss reserves as a percentage of total amounts past due	208.36	131.09	110.50
Loan loss reserves as a percentage of past-due unsecured amounts	226.98	454.17	310.59

Carrying Value of Secured Loans, Certain Government Securities and Receivables for Government Securities

Under Argentine Banking GAAP, our holdings of Secured Loans, Bogar, Boden 2012 corresponding to the Compensatory Bond, and Discount Bonds are carried in accordance with Argentine Central Bank valuation rules for public-sector assets, as explained hereunder in Item 4. Information on the Company Selected Financial Information Government and Corporate Securities Valuation.

Under U.S. GAAP, except for the Secured Loans, all of these assets are carried at fair value as fully explained in note 41 to our financial statements and U.S. GAAP Critical Accounting Policies. Secured Loans are recorded at amortized cost, which cost is the fair value at the date of exchange (December 2001).

Government securities under investment accounts or classified as government securities without quotation under Argentine Central Bank rules (Boden 2012 corresponding to the Compensatory Bond) as well as Bogar and Discount Bonds, are considered as available for sale under U.S. GAAP. Unrealized gains or losses on these securities are reflected in other comprehensive income. Declines other than temporary in the value of these securities are reflected in the income statement.

In connection with the Bank's right to purchase the Hedge Bond, under Argentine Banking GAAP, the Bank has recognized the right to purchase the corresponding Boden 2012 at its equivalent value as if the Bank had the associated bond in its possession, and recognized the associated liability to fund the Hedge Bond as if the Bank had executed the debt agreement with the Argentine Central Bank. The receivable is denominated in U.S. dollars and bears interest at Libor, while the liability to the Argentine Central Bank is denominated in pesos and accrues interest at CER plus 2.0%, each retroactive to February 3, 2002.

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Under U.S. GAAP, the right to purchase the Hedge Bond is not considered an asset under Financial Accounting Standards Board Statement of Financial Accounting Concepts No. 6, *Elements of Financial Statements*. Under this concepts statement, assets are defined as ... probable future economic benefits obtained or controlled by an entity as a result of past transactions or events. In addition, one of the three essential characteristics of an asset is that an entity can obtain the benefit and can control others' access to it. As of December 31, 2005, December 31, 2004, and December 31, 2003, the Bank could not obtain the benefit of the Hedge Bond until the transaction is approved by the Argentine Central Bank and the Bank remits funds to the Argentine Central Bank. Similarly, the liability under U.S. GAAP will be recognized when the Bank actually enters into the relevant financing arrangement.

In addition, as of December 31, 2005, 2004 and 2003, under Argentine Banking GAAP, the Bank had recorded under Intangible Assets the difference arising from the reimbursement of Reprogrammed Deposits at the market exchange rate pursuant to *amparo* claims and the carrying value of these deposits. The receivable for differences related to *amparo* claims does not represent an asset under U.S. GAAP.

Adjustment to Prior Year Results

As fully described in note 38 to our financial statements, under Argentine Banking GAAP, in accordance with Argentine Central Bank rules, in fiscal year 2004 we recorded adjustments to prior year results as contra equity adjustments. Under U.S. GAAP, APB 20 generally prohibits retroactive restatement of prior year financial statements to reflect accounting changes. As a result, we recorded through our year results the amounts reflected as restatement on our prior year results.

Foreign Debt Restructuring

On May 18, 2004, the Bank completed the restructuring of its foreign debt. As a result of this restructuring, we recorded a Ps.119.7 million net gain under Argentine Banking GAAP.

For U.S. GAAP purposes, we accounted the restructuring in two steps. The first step of the debt restructuring required the holders of the Bank's debt to exchange its old debt with the Bank for new debt in two tranches. Pursuant to EITF 02-04, the Bank did not receive any concession from the holders of its debt and therefore, we did not consider the first step of the Bank's debt restructuring as a troubled debt restructuring. Pursuant to EITF 96-19 we accounted the first step restructuring as modification of the old debt and therefore we did not recognize any gain or loss. The second step restructuring required the holders of the Bank's debt to forgive it a certain amount of debt based on different options that the Bank offered to exchange its debt. Pursuant to U.S. GAAP we accounted for this second step of the Bank's debt restructuring in accordance with FAS 15, as the holders of the Bank's debt granted it certain concessions. FAS 15 requires the comparison of the future cash flows of the restructured debt and the carrying value of the old debt at the restructuring date.

We did not record any gain on the Bank's troubled debt restructuring since a gain can only be recognized when the carrying value of the old debt at the date of the restructuring exceeds the total future cash payments of the restructured debt reduced by the fair value of the assets and equity given by the Bank as payment of the debt. As a result, under U.S. GAAP, the carrying amount of the Bank's restructured debt is greater than the amount recorded under Argentine Banking GAAP. Therefore, under U.S. GAAP we calculated a new effective interest rate to reflect the present value of the future cash payments of the Bank's restructured debt.

Securitizations

Under Argentine Banking GAAP, transfers of financial assets to a financial trust are recorded as sales. The financial trust's debt securities retained are recorded at face value plus accrued interest, while certificates of participation retained are recorded under the equity method.

Under U.S. GAAP, transfers of financial assets can be recorded as sales, if control of such assets is surrendered. If control is not surrendered, they are recorded as secured borrowings. Additionally, even if the transfers are considered sales, an analysis must be made in order to determine if the securitization entity is under the scope of FIN 46 and its assets should still be consolidated if the transferor is the primary beneficiary. The retained interests in a transfer recorded as a sale are initially recorded based on their allocated book value using the fair value allocation method. Then, the securities are considered available for sale securities and recorded at their fair value with changes in unrealized gains and losses charged to equity through other comprehensive income. If the transfers are considered secured borrowings, the assets are retained in the books of the transferor and a liability is recognized for the fair value

of the consideration received.

Income Tax

Argentine Central Bank regulations do not require the recognition of deferred tax assets and liabilities and therefore income taxes are recognized on the basis of amounts due in accordance with Argentine tax regulations. This method was applied to Banco Galicia. However, Grupo Galicia and its non-bank subsidiaries applied the deferred income tax method. As a result, these companies recognized a deferred tax.

For the purposes of U.S. GAAP reporting, we apply SFAS No. 109 Accounting for Income Taxes. Under this method, income taxes are recognized based on the liability method whereby deferred tax assets and liabilities

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are established for temporary differences between the financial reporting and tax bases of our assets and liabilities. Deferred tax assets are recognized if it is more likely than not that such assets will be realized.

Summary

As a result of the above and other differences, our net income and shareholders' equity under Argentine Banking GAAP and U.S. GAAP for the periods indicated were as follows:

	Net Income (Loss)		Shareholders' Equity (Deficit)	
	Argentine Banking GAAP	U.S. GAAP	Argentine Banking GAAP	U.S. GAAP
	<i>(in millions of pesos)</i>			
Fiscal Year 2005	Ps. 107.2	Ps. 731.0	Ps. 1,626.8	Ps. (2,128.3)
Fiscal Year 2004	(109.9)	(1.1)	1,519.5	(3,195.7)
Fiscal year 2003	(222.2)	731.3	1,419.4	(4,453.3)

The significant differences that result between net income and other comprehensive income under U.S. GAAP and net income under Argentine Banking GAAP primarily reflect that under U.S. GAAP:

Significant losses were recognized in 2001 from the effects of several Argentine Government actions reflected at the end of that year. With the improvement in the Argentine economy and business environment, changes in estimated losses are reflected in the income statement and under other comprehensive income in 2003, 2004 and 2005.

The Hedge Bond and the liability with the Argentine Central Bank for its purchase are not recognized, the net effect of which varies significantly in 2003, 2004 and 2005.

The Compensatory Bond in 2005 and the amounts receivable for this Bond in 2003 and 2004 are reflected at market values, with changes in values being recognized in the income statement in 2003 and under other comprehensive income since the Compensatory Bond was received, the effect of which varies significantly in 2003, 2004 and 2005.

Much of the Argentine public-sector debt balances reflect market-value adjustments recognized from exchange transactions. Accretion of the discount, considering the amounts estimated to be collected, are recognized as income after the exchange transaction occurred.

Bogar and Discount Bonds are reflected at market values, with changes from market values at the time of exchange being recognized as other comprehensive income. With the improvement in the Argentine economy, market values have varied significantly.

The Bank's foreign debt restructuring completed in 2004 was accounted as a troubled debt restructuring. Therefore the carrying value of such debt is higher under U.S. GAAP and no gain was recognized at the time of the restructuring.

Results by Segments**General**

Banco Galicia is our most significant subsidiary, in which we have 93.6% participation. We also have an 87.5% direct interest in Sudamericana (in which Banco Galicia holds a 12.5% stake), an 87.5% direct participation in Net Investment S.A. (Banco Galicia owns the remaining 12.5% stake) and an 87.5% direct interest in Galicia Warrants (where Banco Galicia holds the other 12.5%), and a 100% direct participation in Galval.

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Our main segments are:

- the Grupo Galicia segment showing Grupo Galicia's unconsolidated specific income and expenses not attributable to its investments in subsidiaries, except for goodwill amortization;
- the Insurance segment, corresponding to Sudamericana's consolidated results of operations (including the 12.5% interest owned by the Bank);
- the Other Grupo Businesses segment representing the results of operations of Net Investment S.A. consolidated and Galicia Warrants (in both cases, including the results of the 12.5% interests of the Bank), and Galval; and
- Banco Galicia's operating segments (see below).

The operating segments employed by Banco Galicia's management are based on the following criteria: the geographical location of each branch or business, or unit;

the similarity of the businesses conducted with or the services provided to Banco Galicia's customers; and

the existence of homogeneous groups of customers to which products and services are provided.

Banco Galicia's operating segments are:

Buenos Aires Metropolitan Branches corresponds to business conducted with customers in branches located in the Federal Capital and the greater Buenos Aires area.

Rest of the Country Branches corresponds to business conducted with customers in branches located in Argentina but outside the Federal Capital and the greater Buenos Aires area.

Head Office corresponds to business conducted with customers in Banco Galicia's Head Office and with the national and provincial public sectors.

Regional Credit Cards corresponds to the results of Tarjetas Regionales S.A and the regional credit-card companies.

International corresponds to the business of Galicia Uruguay, Banco Galicia's foreign branches and other international subsidiaries (excluding the results from Galicia Cayman's interest in Tarjetas Regionales S.A.)

Other Financial Businesses corresponds to the business of Galicia Valores S.A. Sociedad de Bolsa and Galicia Factoring y Leasing S.A. In addition, this segment includes the results of the equity investments of the Bank in financial-related companies not required to be consolidated in which the Bank holds minority interests. Until 2004, it included Galicia Capital Markets S.A. (in liquidation) and Agro Galicia S.A. (liquidated in 2005).

Other Equity Investments corresponds to Banco Galicia's participation in various infrastructure and public utility services companies.

The column *Corporate Adjustments* comprises intercompany transactions between Grupo Galicia and its consolidated subsidiaries and among these companies, if corresponding, that are eliminated in our consolidated income statement and the results corresponding to minority interests in Banco Galicia.

With respect to the segments *Buenos Aires Metropolitan Branches*, *Rest of the Country Branches* and *Head Office*, the net financial income of each unit, for fiscal year 2005, was determined based on the margin generated by each operation at the moment it was settled. This margin arises from comparing the interest rate of the operation with an equivalent interest rate in the wholesale financial market, in terms of currency, tenor and type of rate. For prior fiscal years, the net financial income of each unit was determined based on the financial income and financial expenses generated by the assets and liabilities located in each unit, calculated compensating the lending unit and charging the borrowing unit a transfer price equal to Banco Galicia's average margin by currency for the same period. In addition, each unit is also allocated its income from services, provisions for loan losses and other income generated by the assets managed by such unit. The distribution of administrative expenses is made based on the information arising from the Bank's cost system, which gathers the allocation of the unit's own expenses from the accounting system and appropriates to each unit the cost of the support provided by the rest of the organization.

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Our results by segment are shown in note 36 to our audited consolidated financial statements.

Below is a discussion of our results of operations by segment for the years ended December 31, 2005, December 31, 2004 and December 31, 2003, based on our existing segments.

Results by Segments for the Fiscal Year Ending December 31, 2005

Grupo Galicia This segment posted a net loss of Ps.108.3 million in fiscal year 2005, mainly due to the forgiveness of US\$43 million of subordinated negotiable obligations issued by Galicia Uruguay, included under other losses (Ps.137.7 million). Operating expenses offset the net financial income (Ps.12.9 million and Ps.9.9 million respectively) but there was a Ps.32.4 million income tax recovery. This recovery was the result of the write-off of the deferred tax liability related to the income tax payable on the subordinated negotiable obligations issued by Galicia Uruguay. Once the negotiable obligations were forgiven, the liability was also written-off. The main items of operating expenses were Ps.3.7 million corresponding to the provision of personal assets tax, Ps.2.8 million of fees for services received and Ps.2.4 for personnel expenses.

Insurance The insurance segment showed a consolidated net income of Ps.11.2 million for the twelve-month period ended September 30, 2005. Galicia Vida Compañía de Seguros S.A. recorded a Ps.9.3 million profit. The consolidated net income of Sudamericana is mainly made up of the following: (i) collection of premiums and accrual of claims for Ps.12.5 million, (ii) net financial income for Ps.17.2 million, (iii) administrative expenses amounting to Ps.11.6 million, approximately 61% of which corresponds to personnel expenses and (iv) net expenses from services for Ps.6.8 million, mainly generated by acquisition fees paid to the Bank and to producers.

Other Grupo Businesses This segment, showing the results of Net Investment S.A., Galicia Warrants and Galval, posted a Ps.1.6 million net loss. The negative results of this segment are attributable to Net Investment S.A., which recorded a Ps.1.8 million loss. This was mainly due to the performance of its operating subsidiaries, which generated a Ps.1.5 million loss from equity investments. Galicia Warrants net income amounted to Ps.0.5 million, while Galval's net loss amounted to Ps.0.3 million.

The results of the segments relating to the breakdown of the Bank's operations were as follows:

Buenos Aires Metropolitan Branches and Rest of the Country Branches These two segments recorded similar behaviors, with Ps.84.0 million and Ps.45.1 million profits, respectively. These segments' net income was due to an increase in operating income, as a result of greater net financial income and net income from services, partially offset by the establishment of loan loss provisions and greater administrative expenses.

Net financial income amounted to Ps.158.2 million for the Buenos Aires Metropolitan Branches segment and to Ps.106.4 million for the Rest of the Country Branches segment, due to an increase in both cases of their average loans and deposits. These increases were of 35.2% and 32.1%, respectively, in the case of loans and 24.8% and 17.4%, respectively, in the case of deposits.

Net income from services was 19.4% and 28.4% higher than in 2004, for the Buenos Aires Metropolitan Branches and the Rest of the Country Branches segments, respectively. This was mainly the consequence, for both segments, of an increase in the volume of operations and in the fees of the main transactional products, and of a greater number of deposit accounts.

Loan loss provisions of the Buenos Aires Metropolitan Branches and Rest of the Country Branches segments amounted to Ps.14.0 million and Ps.1.2 million, respectively. Administrative expenses were 12.2% and 13.5% higher than in 2004, respectively, mainly as a consequence of higher own and indirect personnel expenses, due to higher salaries and to staff increases. These segments' staff grew 4.6% and 5.8%, to 1,149 and 818 employees, respectively. Most of the remaining administrative expenses components grew due to a higher level of activity and to the increase in inflation during the year. The number of branches practically did not vary.

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Head Office This segment recorded a Ps.149.6 million net loss during 2005, mainly as a consequence of net other losses, higher administrative expenses, and lower profits from reversals of loan loss provisions, which were partially offset by higher net income from services and a positive net financial income.

Net financial income, for Ps.11.3 million, was mainly due to the valuation of Bogar holdings in accordance with Communiqué A 3911 of the Argentine Central Bank, as supplemented, together with the higher net financial income due to the net CER adjustment related to interest-earning assets and interest-bearing liabilities, given that all principal adjustment by the CER is assigned to this segment. This income was partially offset by the increase of the Bank's debt securities cost and by the cost of other interest-bearing liabilities. See Item 5. Results of Operations for the Fiscal Years Ending December 31, 2005, December 31, 2004 and December 31, 2003 Financial Income and Results of Operations for the Fiscal Years Ending December 31, 2005, December 31, 2004 and December 31, 2003 Financial Expenses.

Net income from services amounted to Ps.69.7 million, up 28.8% from the Ps.54.2 million of 2004, mainly due to the increase of fees on deposit accounts and to the greater volume of operations in general. The segment's administrative expenses increased 86.8%, as compared to 2004, mainly due to an 80.6% increase in advertising and publicity expenses, which amounted to Ps.67.9 million in 2005, and to Ps.37.6 million in 2004. This added to the impact on the remaining administrative expenses of a higher activity level and an increase in inflation during the year. The segment's loan loss provisions line recorded a Ps.80.9 million profit, as a consequence of the reversal of allowances for loan losses from prior years (the reversal of loan loss provisions is shown in the loan loss provisions line). This profit was lower than in 2004, because as a result of the progress made during 2004 in the loan portfolio restructuring process, a lower amount of loans to be restructured remained in 2005. Net other losses amounted to Ps.172.0 million, mainly attributable to the Ps.122.3 million loss from the amortization of *amparo* claims.

Regional Credit Cards The segment's net income amounted to Ps.63.1 million, lower than the Ps.96.1 million recorded in the prior fiscal year, mainly as a consequence of the greater operating income of Tarjetas Regionales S.A.'s operating subsidiaries, which reflects the effect of the expansion of their business, which was partially offset by higher administrative expenses and by a higher income tax.

During 2005, the aggregate number of credit-card statements issued by the regional credit-card companies increased 22%, and their average loan portfolio grew 39.6% from fiscal year 2004 average. The segment's net income was 20.7% higher than in 2004, as a result of greater net financial income and net income from services. It should be mentioned that income from services was affected by the reduction in the fees charged to retailers, beginning in January 2005, that was provided by law, which was offset by a greater business volume and by an increased net financial income. Administrative expenses increased 42.9%, due to the opening of 22 new service centers and branches and the expansion of operations to provinces in which the regional credit-card companies did not have a presence before. Loan loss provisions remained low due to an improved asset quality performance. The greater income tax was due to the full use of tax credits by these companies in 2004.

International This segment recorded a Ps.278.1 million profit, as a result, mainly, of net other income for Ps.195.4 million. This was mainly attributable to the Ps.124.3 million profit resulting from our forgiveness of the subordinated negotiable obligations issued by Galicia Uruguay.

Other Financial Businesses This segment recorded a Ps.3.5 million net profit, mainly attributable to the Ps.2.2 million profit from the Bank's interest in Banelco S.A.

Other Equity Investments This segment recorded a Ps.0.02 million profit, reflecting a Ps.0.02 million income from equity investments included under the line Other income/(Loss). This amount mainly reflects losses for Ps.0.6 million and Ps.0.4 million, from the Bank's interest in Aguas Argentinas S.A. and Aguas Cordobesas S.A., and profits for Ps.0.6 million and Ps.0.3 million from the Bank's interest in Inversora Diamante SA. and Inversora Nihuiles S.A., respectively.

Table of Contents***Results by Segments for the Fiscal Year Ending December 31, 2004***

Grupo Galicia This segment posted a net loss of Ps.16.3 million in fiscal year 2004, mainly due to a Ps.13.0 million income tax provision. This income tax provision was the result of the appreciation of the value of the subordinated bond issued by the Bank and held by Grupo Galicia. Operating expenses offset the net financial income (Ps.13.5 million and Ps.13.1 million respectively) and the rest of the negative result was due to other losses corresponding mainly to the depreciation of intangible assets. The net financial income is explained by Ps.6.6 million that is the return on Grupo Galicia's financial holdings, and Ps.6.5 due to a 1.4% increase in the exchange rate that affected our dollar-denominated assets. The main items of the operating expenses were Ps.9.4 million corresponding to the provision of personal assets tax, Ps.1.1 million of fees for services received and Ps.0.9 million for personnel expenses.

Insurance The insurance segment showed a consolidated income of Ps.4.2 million for the twelve-month period ended September 30, 2004. Galicia Vida Compañía de Seguros S.A. recorded a Ps.6.8 million profit, which was partially offset by the Ps.2.0 million loss recorded by Instituto de Salta Compañía de Seguros de Vida S.A. The consolidated income of Sudamericana is mainly made up of the following: (i) collection of premiums and accrual of claims for Ps.11.7 million, (ii) net financial income for Ps.11.9 million attributable to gains resulting from CER adjustments and interest earned on deposits, government securities and Secured Loans, (iii) administrative expenses amounting to Ps.13.5 million, approximately 50% of which corresponds to personnel expenses, and (iv) net expenses from services for Ps.4.7 million, mainly generated by acquisition fees paid to the Bank and to producers.

Other Grupo Businesses This segment, showing the results of Net Investment S.A. and Galicia Warrants, posted a Ps.2.1 million net loss. This negative result was attributable to Net Investment S.A. Galicia Warrants S.A.'s net income amounted to Ps.0.5 million, while Net Investment S.A. showed a Ps.2.6 million loss, mainly due to the performance of its operating subsidiaries, which generated a Ps.2.1 million loss from equity investments.

The results of the segments relating to the breakdown of the Bank's operations were as follows:

Buenos Aires Metropolitan Branches and Rest of the Country Branches In aggregate, these two segments, which recorded similar behaviors, showed a Ps.93.9 million profit (Ps.57.6 million and Ps.36.3 million, respectively). These segments' net profits were the consequence of greater net financial income and net fee income, and income from reversals of loan loss provisions, which were partially offset by an increase in administrative expenses.

These segments' net financial income reflects a recovery in average loans (the branches' loan portfolio is mainly comprised of loans to the private sector, which increased in average from Ps.1,917.3 million to Ps.2,010.4 million for the two segments in aggregate in 2004); and an increase in average deposits from Ps.3,092.5 million to Ps.4,041.5 million. In addition, there was an increase in the lending rates on the branches' loan portfolio and a decrease in their cost of funds (deposit interest rates).

As a consequence of the improvement in the quality of their loan portfolios, in 2004, the branches reversed loan loss provisions established in prior fiscal years. Given that these reversals are included in the loan loss provisions line, and that they were for amounts greater than loan loss provisions, a profit was recorded in this line. This mainly reflects the improved performance of the Argentine economy as a whole in the last two years.

Fee income increased 17.4% when compared with the prior fiscal year, mainly due to a greater volume of transactions and an increase in the prices of certain products during the last quarter of 2004.

Administrative expenses were up 15.0% from the prior fiscal year, mainly due to higher personnel expenses. The majority of the remaining administrative expenses items decreased. The number of branches at the end of fiscal year 2004 was 223 (compared to 226 in December 2003), which had 1,871 employees (compared to 1,837 in December 2003).

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Head Office This segment showed a Ps.252.1 million net loss in 2004, as a consequence of significant net other losses and of a negative net financial income, partially offset by a significant reversal of loan loss provisions, and to a lesser extent by an increase in net fee income and a decrease in administrative expenses.

The Ps.158.6 million net financial loss was mainly attributable to the valuation of the Bank's portfolio of Bogar, External Notes and Secured Loans (recorded at the Head Office) in accordance with the requirements of Argentine Central Bank's Communiqué A 3911 as supplemented. See Item 4. Information on the Company Selected Statistical Information Government and Corporate Securities Valuation. Application of these valuation rules resulted in a Ps.193.3 million loss for the Bank, recorded as a lower financial income. This loss was partially offset by the increase in the Libo rate accrued by the Bank's position in Boden 2012, also recorded in full at the Head Office. Although deposit cost decreased, this was not sufficient to offset the increased cost of Argentine Central Bank borrowings (also recorded in whole at the Head Office) of 269 b.p. See Results of Operations for the Fiscal Years Ending December 31, 2005, December 31, 2004 and December 31, 2003 Financial Expenses.

In 2004, this segment's net income from services amounted to Ps.54.2 million, 11.7% higher than in 2003. Head Office administrative expenses decreased 8.1% from the prior year as a consequence of the Bank's efforts to keep costs under control.

The Head Office provisions for loan losses recorded a Ps.169.4 million profit, as a result of the reversal of loan loss reserves established in prior years. This reversal reflects the progress made by the Bank in the restructuring of its commercial loan portfolio and the overall improvement in loan portfolio quality.

The net other loss amounted to Ps.242.4 million, mainly attributable to the Ps.121.0 million amortization of the deferred loss in connection with *amparo* claims and the establishment of reserves for other contingencies.

Regional Credit Cards This segment recorded net income of Ps.96.1 million, reflecting the favorable effect on their results of operations of the sustained recovery of the Argentine economy's activity level together with an improvement in operating efficiency and credit quality.

In 2004, the aggregate number of credit card statements issued by the regional credit-card companies increased by 22% and their loan portfolio grew by 33.7%, both as compared to the previous year-end. Operating income of the regional credit-card companies increased by 78.1% as compared to fiscal year 2003, mainly attributable to a 69.1% increase in net financial income, while administrative expenses grew by 22.6%, to keep up with both the rising business volumes and quality standards. This was possible due to the use of technology and a continuous improvement in processes and organization, leading to efficiency gains and economies of scale.

The daily collection efforts made allowed keeping delinquency at minimum historical levels. In fact, arrears of more than 90 days represented 3.26% of the aggregate portfolio at year-end, a ratio that is lower than in the previous years.

International This segment showed a Ps.126.3 million profit. This result is mainly attributable to: (i) a Ps.190.4 million net financial income, which mainly reflects the gain at the level of Galicia Uruguay generated by the repayment of restructured deposits with Boden 2012 at par, in the exchange offered to its depositors in early 2004 (this gain was eliminated in the Overhead and Corporate Adjustments column, given that this transaction did not generate a profit at the consolidated level) and (ii) a Ps.58.4 million net other income, mainly attributable to the reversal of loan loss provisions. These profits were partially offset by Ps.86.7 million loan loss provisions and Ps.20.5 million administrative expenses.

Other Financial Businesses This segment showed a Ps.7.4 million net profit mainly attributable to the Ps.3.7 million net profit of Galicia Capital Markets S.A. (in liquidation) and the Ps.1.8 million profit from our interest in Banelco S.A.

Other Equity Investments This segment showed a Ps.0.2 million profit reflecting net other income. The Other Income line shows the aggregate results generated by the Bank's interests in infrastructure and utility companies, mainly Aguas Cordobesas S.A., Caminos de las Sierras S.A. and Inversora Nihuales S.A.

Table of Contents**Results by Segments for the Fiscal Year Ending December 31, 2003**

Grupo Galicia This segment posted a net loss of Ps.22.1 million in fiscal year 2003, mainly due to a Ps.18.1 million net financial loss mainly attributable to the revaluation of Grupo Galicia's US\$43 million holdings of dollar-denominated Galicia Uruguay subordinated negotiable obligations, from Ps.3.36 per U.S. dollar as of December 31, 2002, to Ps.2.93 per U.S. dollar as of December 31, 2003.

Insurance The insurance segment showed a Ps.7.9 million net loss, mainly due to: (i) the recording of earnings for Ps.16.5 million from premiums earned and other net charges; (ii) the payment of claims in the amount of Ps.12.8 million; (iii) a Ps.14 million loss from other income, which was in turn mainly due to a Ps.12.9 million increase in the amounts to be paid to Galicia Retiro's customers in accordance with the plan previously agreed with its customers to restructure its dollar-denominated annuities, (iv) administrative expenses of Ps.15.6 million; (v) a Ps.3.1 million net loss from services mainly reflecting acquisition costs and (vi) a Ps.11.7 million loss from inflation adjustment. These losses were partially offset by a Ps.33.2 million net financial income attributable to gains resulting from the pesification of liabilities, CER adjustments and interest earned on deposits, government securities and Secured Loans, net of interest on negotiable obligations.

Other Grupo Businesses This segment posted a Ps.5.5 million net loss. The negative results of this segment were attributable to Net Investment S.A. Galicia Warrants' net income amounted to Ps.0.5 million in the fiscal year ended December 31, 2003, due to a Ps.0.4 million loss resulting from the appreciation of the exchange rate during 2003. Net Investment S.A. showed a Ps.6.1 million loss in fiscal year 2003, mainly due to the performance of its operating subsidiaries, which generated a Ps.3.0 million loss from equity investments, and due to the establishment by the company of a Ps.3.3 million valuation reserve on its interest in Tradecom International N.V. (il).

The results of the segments relating to the breakdown of the Bank's operations were as follows:

Buenos Aires Metropolitan Branches and Rest of the Country Branches In aggregate, these two segments which recorded similar behaviors, showed a Ps.84.1 million net loss (Ps.39.3 million and Ps.44.8 million, respectively). These segments' net losses were the consequence of a low net financial income, as in the previous fiscal year, and lower net fee income, which were not offset by lower administrative expenses.

These segments' net financial income was affected by a significant decrease in average loans (the branches' loan portfolio is mainly comprised of loans to the private sector, which decreased in average from Ps.3,524.8 million to Ps.1,917.3 million for the two segments in aggregate in 2003); and a decrease in average deposits from Ps.3,468.1 million to Ps.3,092.5 million. The decrease in average deposits was attributable to the same reasons that accounted for the strong decrease in the Bank's deposits, which was experienced in 2002, including the restructuring of Galicia Uruguay's deposits (which are included in these segments to the extent that the depositor is a client of a metropolitan or rest of the country branch) and to the reduction in the interest-rate spread for the Bank as a whole, which was mainly due to the decrease in the lending rate (which was due, in turn, to the decrease in the CER variation).

As a consequence of the improvement in the quality of their loan portfolios, in 2003, the branches' loan loss provisions were 78.8% lower than in the previous fiscal year. This reflects the improved overall conditions of the Argentine economy in 2003.

Fee income decreased 10.5% when compared with the prior fiscal year, mainly due to the effect of the restatement in real terms of the net fee income of the prior fiscal year.

Administrative expenses were 4.0% lower than in the prior fiscal year, reflecting the Bank's cost containment policy. At the end of fiscal year 2003 there were 226 branches (compared to 227 in December 2002), with 1,837 employees (compared to 1,888 in December 2002).

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Head Office This segment showed a Ps.76.5 million net loss in 2003, as a consequence of a significant net financial loss, partially offset by significant net other income, an increase in net fee income and a decrease in loan loss provisions and administrative expenses.

The Ps.373.2 million net financial loss was mainly attributable to the valuation of the Bank's portfolio of Bogar and Secured Loans (recorded at the Head Office) in accordance with the requirements of Argentine Central Bank's Communiqué A 3911. See Item 4. Information on the Company Selected Statistical Information Government and Corporate Securities Valuation. Application of this valuation rule resulted in a Ps.132.3 million loss for the Bank (recorded as a lower financial income). In addition, the yield on Bogar and Secured Loans decreased as a consequence of the decrease in the CER variation, the Compensatory Bond and the Hedge Bond (dollar-denominated Boden 2012 also recorded at the Head Office) were revalued from Ps.3.36 per U.S. dollar at December 31, 2002, to Ps.2.93 at December 31, 2003, and the net yield on the Bank's dollar-denominated assets was negative due to the fact that the Boden 2012 accrue Libor. These effects were not offset by a lower deposit cost and by the significant (2,544 b.p.) decrease in the cost of Argentine Central Bank borrowings.

This segment's net income from services recovered its pre-crisis level, amounting to Ps.48.5 million in 2003, compared to a net loss of Ps.3.3 million in 2002.

Head Office administrative expenses decreased 78.6% from the prior year reflecting the Bank's efforts to cut costs and streamline operations in 2002, as a result of the 2001-2002 crisis.

Both the Ps.40.4 million gain from provisions for loan losses and the Ps.292.9 million net other income were attributable to the net reversal of loan loss reserves as a result of the improvement in the Argentine economy as a whole and the progress made by the Bank in the restructuring of its commercial loan portfolio, both leading to an asset quality improvement from the prior year. The increase in net other income was also due to the net reversal of reserves for other contingencies, partially offset by the Ps.77.9 million amortization of the deferred loss in connection with *amparo* claims, in accordance with Argentine Central Bank Communiqué A 3916.

Regional Credit Cards This segment recorded net income of Ps.49.4 million, reflecting the favorable effect on the results of operations of the regional credit-card companies of the recovery of the Argentine economy's activity levels and of the appreciation of the peso against the dollar during 2003.

The appreciation of the peso during the year had a positive effect on these companies' net financial income, which amounted to Ps.55.5 million (compared to a Ps.17.2 million net financial loss in 2002) given their short foreign-currency position.

As a result of the improvement in the general economic environment and of the resulting decrease in loan delinquency, loan loss provisions decreased 66.0% from the prior year level. The non-accrual-to-total loans ratio for these companies reached 3.6% at the end of fiscal year 2003 from 19.1% a year before.

Growing economic activity resulted in an increase of these companies' loan origination (which reduced the decrease in average loans when compared to that observed in 2002) and in the volume of average credit cards managed by them. In addition, the improvement in the general economic environment resulted in an increase of these companies' customers' consumption and use of the cards managed by the regional credit-card companies. These positive developments were partially offset by the failure of service prices to increase as much as the general level of prices. As a result of the above, these companies' net income from services increased 11.5% from the prior fiscal year.

In addition, administrative expenses decreased 9.9% reflecting these companies' continuing cost containment efforts after the significant downsizing of operations carried out in 2002.

International This segment showed a Ps.36.8 million profit. This result is mainly attributable to the Ps.186.5 million net financial income, which mainly reflects the gain generated by the appreciation of the peso during 2003, since Galicia Uruguay was left, after the asymmetric pesification, with a short foreign-currency position for which the Argentine Government compensated Banco Galicia in Argentina. In addition, loan loss

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provisions decreased and net other income showed a Ps.65.7 million profit, mainly due to the net reversal of loan loss reserves, both as a consequence of the improvement in the quality of Galicia Uruguay's loan portfolio generated by the overall improvement in the Argentine economy and by the progress in the restructuring of the Galicia Uruguay loan portfolio achieved during 2003. Administrative expenses for this segment decreased 58.6%, reflecting a decrease in all expense components but particularly in taxes.

Other Financial Businesses This segment showed a Ps.31.0 million net loss mainly attributable to the Ps.23.4 million net other loss reflecting the establishment of a valuation reserve by Galicia Capital Markets S.A. (in liquidation) on its holdings of subordinated notes issued by a trust whose assets were shares of an Argentine private-sector company.

Other Equity Investments This segment showed a Ps.12.0 million loss as a result of net other losses. The Other Income line shows the aggregate losses generated by the Bank's interests in infrastructure and utility companies, mainly Aguas Argentinas S.A., Caminos de las Sierras S.A. and Aguas Cordobesas S.A. These companies were significantly affected by the changes that occurred in the Argentine economy since 2002.

Consolidated Assets

The structure and main components of our consolidated assets as of December 31, 2005, were as follows:

	2005		As of December 31, 2004		2003	
		%		%		%
<i>(In millions of pesos, except percentages)</i>						
Cash and due from banks	Ps. 1,041.2	4.1%	Ps. 988.7	4.2%	Ps. 826.2	3.6%
Government and corporate securities	5,971.8	23.3	5,534.1	23.4	6,408.3 ⁽¹⁾	28.1
Loans	10,555.2	41.2	8,438.2	35.7	7,506.5	32.9
Hedge Bond to be acquired	4,155.0	16.2	4,732.3	20.0	4,629.6	20.3
Other assets	3,912.5	15.2	3,957.3	16.7	3,452.3	15.1
Total	Ps. 25,635.7	100.0%	Ps. 23,650.6	100.0%	Ps. 22,822.9	100.0%

(1) *Includes Ps.3,539.6 million of Bogar, that were previously recorded as Loans.*

Of our Ps.25,635.7 million total assets as of December 31, 2005, Ps.25,456.2 million, equivalent to 99.3%, corresponded to the Bank. The remaining 0.7% is attributable mainly to Sudamericana on a consolidated basis (Ps.113.8 million). The composition of our assets shows an increase in the participation of total loans to the detriment of government and corporate securities, including under this concept the Hedge Bond pending receipt (Boden 2012)

The item Cash and Due from Banks mainly includes Ps.552.5 million of cash and Ps.413.6 million held at the Argentine Central Bank. The cash and the balance held at the Argentine Central Bank are computable for meeting the minimum cash requirements set by the Argentine Central Bank and explained under Item 5. Operating and Financial Review and Prospects Item 5B. Liquidity and Capital Resources Liquidity.

Our holdings of government and corporate securities as of December 31, 2005 amounted to Ps.5,971.8 million, of which Ps.5,967.4 million were government securities. Our holdings of government and corporate securities are shown under Item 4. Information on the Company Selected Statistical Information Government and Corporate Securities.

Our total net loans amounted to Ps.10,555.2 million, of which Ps.10,507.7 million corresponded to the Bank and the remaining amount to Secured Loans held by Sudamericana. For more information on the Bank's loan portfolio, see Item 4. Information on the Company Selected Statistical Information Loan Portfolio.

In addition, as of December 21, 2005, we recorded under Other Receivables for Financial Intermediation, the Hedge Bond pending receipt by the Bank corresponding to the Boden 2012 to be acquired, and representing compensation for the asymmetric pesification the Bank is entitled to, for Ps.4,155.0 million. See Item 4.

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Information on the Company Selected Statistical Information Government and Corporate Securities and Item 4. Information on the Company Main Regulatory Changes since 2002 Compensation to Financial Institutions.

As of December 31, 2005, Other Assets mainly comprised:

Ps.825.9 million corresponding to bank premises and equipment, miscellaneous assets and intangible assets (excluding the deferred losses from *amparo* claims).

Ps.536.5 million of the Bank's holdings of debt securities and subordinated notes issued by the Galtrust I Financial Trust, as a result of the securitization of loans to the provincial public sector in late 2000, recorded in our balance sheet under the caption Other Receivables from Financial Brokerage.

Ps.347.8 million recorded as an intangible asset pursuant to Argentine Central Bank Communiqué A 3916, corresponding to the difference between the amount paid to depositors who filed legal actions (*amparo* claims) and collected their deposits as originally denominated in U.S. dollars or at the free market exchange rate, and the amount established by the pesification rules, net of accumulated amortization, plus the deferred amortization (pursuant to Argentine Central Bank's Communiqué A 4439). The accumulated amortization between April 2003 and December 31, 2005, was Ps.332.4 million. See Item 4. Information on the Company Argentine Banking System and Regulation Argentine Banking Regulation Treatment of Losses in Connection with *Amparo* Claims.

Ps.337.0 million of Boden 2012 sold under repurchase agreements, recorded under the balance sheet item Other Receivables from Financial Brokerage.

Ps.289.5 million (recorded under the balance sheet item Other Receivables from Financial Brokerage) corresponding to the Bank's interest in the fund jointly formed by the Bank with other private-sector banks in order to facilitate the recovery of the assets of former Almafuerde Bank in which restructuring Banco Galicia took part. The fund's assets, made up of Argentine Government Securities, were exchanged for Secured Loans in late 2001.

Ps.262.1 million, recorded under Other Receivables Resulting from Financial Brokerage, corresponding to forward purchases of Lebac in connection with reverse repo transactions.

Ps.203.1 million, recorded under the balance sheet item Other Receivables from Financial Brokerage, corresponding to the Bank's holdings of participation certificates in, and debt securities of, different financial trusts. See Off-Balance Sheet Arrangements.

Ps.191.2 million corresponding to Assets under Financial Leases.

Ps.102.8 million corresponding to balances deposited at the Argentine Central Bank in favor of clearing houses, which are recorded under the caption Other Receivables from Financial Brokerage.

Ps.85.2 million of equity investments.

Ps.50.8 million, recorded under the balance sheet item Other Receivables from Financial Brokerage, corresponding to the Bank's holdings of participation certificates issued by the Galicia Financial Trust created in May 2002. See Off-Balance Sheet Arrangements.

Ps.47.6 million, recorded under item Other Receivables from Financial Brokerage, of debt securities and participation certificates issued by the Galtrust II and V Financial Trusts created in late 2001 as a result of the securitization of part of the Bank's mortgage loan portfolio, held by the Bank in Argentina and by Galicia

Uruguay. See Off-Balance Sheet Arrangements.

Exposure to the Argentine Public Sector

The following table shows our total net exposure to the Argentine public sector, both national and provincial as of December 31, 2005. This exposure mainly consists of exposure of the Bank.

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	As of December 31, 2005
	<i>(in millions of pesos)</i>
Net Position in Government Securities	Ps. 6,041.0
Trading and Investment Accounts	462.0
Fiscal Credit Certificates	34.5
Boden 2012 (Compensatory Bond)	987.9
Bogar	3,823.3
Discount Bonds and GDP-Linked Units	733.3
Loans	Ps. 5,341.7
Financial Sector	105.9
Secured Loans	5,235.8
Other Receivables Resulting from Financial Brokerage	Ps. 5,031.8
Boden 2012 (Hedge Bond)	4,155.0
Trusts Certificates of Participation and Securities	876.8
Total Assets (2)	Ps. 16,414.5
Liabilities with the Argentine Central Bank	Ps. 8,611.9
Net Exposure	Ps. 7,802.6

(1) *Net of
amortization.*

(2) *Does not
include deposits
with the
Argentine
Central Bank,
which constitute
one of the items
by which the
Bank complies
with the
Argentine
Central Bank's
minimum cash
requirements.*

As of December 31, 2005, our total exposure to the public sector amounted to Ps.16,414.5 million, similar in absolute terms to that of the prior fiscal year, which meant a decrease in relative terms, as a percentage of total assets, from 71.3% as of December 31, 2004 to 64.0% as of the fiscal-year end. This decrease was mainly due to the use of Boden 2012 for the payment of Galicia Uruguay liabilities in the exchange offered by said entity in mid 2005, and the sale of debt securities issued by the Galtrust I Financial Trust during the fourth quarter of 2005. At the fiscal-year end, the Boden 2012 held by the Bank or pending receipt, corresponding to the compensation for the asymmetric pesification (Compensatory Bond and Hedge Bond) accounted for 21.8% of our assets.

As of December 31, 2005, we had granted public-sector assets for Ps.5,484.0 million as collateral for the financial assistance from the Argentine Central Bank. In addition, the advance for the subscription of the Hedge Bond shall be secured with public-sector assets, as explained under Item 4. Information on the Company Main Regulatory

Changes since 2002 Compensation to Financial Institutions For the Asymmetric Pesification and its Consequences.

Pursuant to item 12 of Comunicado A 3911 of the Argentine Central Bank, as supplemented, beginning in January 2006, a financial institutions total exposure to the non-financial public sector cannot exceed 40% of the respective total assets. The Bank submitted a plan in order to comply with said rule, which was approved by the Argentine Central Bank on February 28, 2006.

During the first four months of 2006, the Bank sold Secured Loans and Bogar granted as collateral for the financial assistance of the Argentine Central Bank, thus reducing its exposure to the public sector. The proceeds of these sales were used to make payments in advance on the financial assistance from the Argentine Central Bank, which also decreased significantly. See Item 8. Financial Information Significant Changes.

Off-Balance Sheet Arrangements

Our off-balance sheet risk mainly arises from the Bank s activities.

In the normal course of its business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the financing needs of its customers. These instruments expose us to credit risk in addition to amounts recognized in our consolidated balance sheets. These financial instruments include commitments to extend credit, standby letters of credit, guarantees granted and acceptances.

Table of Contents***Commitments to Extend Credit, Stand-By Letters of Credit and Guarantees Granted***

Guarantees granted are surety guarantees in connection with transactions between two parties. Standby letters of credit and guarantees granted are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Acceptances are conditional commitments for foreign trade transactions.

Commitments to extend credit are agreements to lend to a customer at a future date, subject to meeting certain contractual terms. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, total commitment amounts do not necessarily represent actual future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis.

We use the same credit policies in making commitments, conditional obligations and guarantees as it does for granting loans. In the opinion of management, our outstanding commitments and guarantees do not represent unusual credit risk.

Our exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, guarantees granted and acceptances is represented by the contractual notional amount of those investments.

Our credit exposure related to these items as of December 31, 2005, is summarized below:

	December 31, 2005
	<i>(In millions of pesos)</i>
Commitments to extend credit	Ps. 397.7
Standby letters of credit	54.3
Guarantees granted	223.1
Acceptances	23.9

In addition to the above commitments, as of December 31, 2005, purchase limits available for credit-card holders amounted to Ps.5,140.8 million.

The credit risk involved in issuing letters of credit and granting guarantees is essentially the same as that involved in extending loan facilities to customers. In order to grant guarantees to its customers, we may require counter guarantees. As of December 31, 2005, these counter guarantees, classified by type, were as follows:

	December 31, 2005
	<i>(In millions of pesos)</i>
Preferred counter guarantees	Ps. 32.8
Other counter guarantees	15.7

See note 29 to our audited consolidated financial statements.

Other

We account for checks drawn on us and other financial institutions, as well as other items in the process of collection, such as notes, bills and miscellaneous items, in memorandum accounts until the related item clears or is accepted. In management's opinion, the risk of loss on these clearing transactions is not significant. The amounts of clearing items in process as of December 31, 2005, were as follows:

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	December 31, 2005
	<i>(In millions of pesos)</i>
Checks drawn on the Bank	Ps. 110.2
Checks drawn on other banks	193.3
Bills and other items for collection	896.8

With respect to fiduciary risk, we act as trustee of trust agreements to guarantee obligations arising from various contracts between the parties. As of December 31, 2005, the trust funds amounted to Ps.144.6 million.

In addition, we hold securities in custody, which as of December 31, 2005 amounted to Ps.5,522.5 million.

See note 29 to our audited consolidated financial statements.

Securitization of Assets

In the normal course of business, our operating subsidiaries (the Bank and the regional credit-card companies) use the securitization of assets as a source of funding. The securitization of assets basically involves a company transferring assets to a trust and the trust funding the purchase by issuing securities that are sold to third parties. A trust is a special-purpose entity, not an operating entity; typically, a trust is set up for the single purpose of completing the securitization transaction, has a limited life and no employees. Trust securities can be publicly offered, which is the case in those financial trusts in which the Bank or the regional credit-card companies acted as trustor.

See notes 34 to our audited financial statements for a description of the outstanding trusts as of December 31, 2005.

After the end of fiscal year 2005, the Bank and the regional credit-card companies publicly offered the securities issued by the following financial trusts:

	<i>In millions of pesos</i>			
		Tarjeta	Tarjetas	
	Galicia	Naranja	Cuyanas	Galicia
	Personales II	Trust II	Trust II	Personales III
Issue date	02.07.06	03.03.06	04.12.06	05.24.06
Due date	01.07.10	12.20.07	02.15.08	03.15.11
Underlying assets	Ps. 97.3	Ps. 80.0	Ps. 37.7	Ps. 100.0
Debt Securities Issued	87.6	74.0	33.9	92.5
Certificates of Participation	9.7	6.0	3.8	7.5

In addition, as part of the plan to restore the Bank's capitalization and liquidity, the Galicia Mortgage Loans Financial Trust was created in May 2002. The Bank transferred Ps.312.8 million of mortgage loans to the trust and received in exchange Ps.234.6 million in cash and Ps.78.2 million in certificates of participation (in May 2002 currency). The trustee was ABN AMRO Bank Argentine Branch. Thirteen domestic financial institutions subscribed for the trust's debt securities. In January 2005, the Galicia Mortgage Loans Financial Trust was terminated in advance. The Bank canceled the debt securities outstanding and received back the loans in the trust's assets for Ps.172.2 million.

Also as part of the abovementioned plan, the Galicia Financial Trust was created. The parties to the trust are Banco de la Provincia de Buenos Aires as beneficiary and BAPRO Mandatos y Negocios S.A. as trustee. The Bank transferred Ps.108 million of Secured Loans to the trust and received in exchange Ps.81 million in cash and Ps.27 million in certificates of participation. As of December 31, 2005, the Bank held certificates of participation totaling Ps.50.8 million.

Table of Contents**Funding**

Below is a breakdown of our funding as of the dates indicated:

	2005	2004 <i>(In millions of pesos)</i>	December 31, 2003
Deposits ⁽¹⁾	Ps. 8.421,7	Ps. 6.756,9	Ps. 5.584,0
Reprogrammed Deposits ⁽²⁾	63,9	169,1	561,4
Credit Lines ⁽¹⁾	13.414,1	13.442,4	13.917,0
Argentine Central Bank			
Financial assistance	5.314,9	5.707,0	5.663,1
Advance to purchase the Hedge Bond	3.296,6	2.720,7	2.536,1
International banks and credit agencies	784,6	789,3	3.017,1
Domestic financial institutions	227,9	199,2	135,2
Repos	220,5	223,7	
Debt securities ⁽¹⁾	3.569,6	3.802,5	2.565,5
Shareholders equity	1.626,8	1.519,5	1.462,3
Total Funding	Ps. 23,462.6	Ps. 21,718.8	Ps. 20,963.3

(1) Includes accrued interest and exchange differences payable, as well as the CER adjustment where applicable.

(2) In 2005, only Reprogrammed Deposits with amparo claims. In 2004 and 2003, also includes Cedros.

Traditionally, we have had three main funding sources: customer deposits (consisting of current accounts, savings accounts and time deposits), credit lines from international banks and credit agencies and funds obtained through issuance of medium- and long-term securities in the international financial market. The 2001-2002 crisis changed the composition of our funding, with its main consequences being the recording of liabilities with the Argentine Central Bank and the reduction of the participation of deposits in our total liabilities. In 2005, the relative weight of the liabilities with the Argentine Central Bank decreased and that of deposits increased.

As of December 31, 2005, the financial assistance from the Argentine Central Bank decreased in relative and absolute terms from the levels as of the end of the prior years, representing 22.7% of our funding, down 26.5% as of December 31, 2004 and 24.7% as of December 31, 2003.

The financial assistance from the Argentine Central Bank, for Ps.5,314.9 million (principal plus CER adjustment and interest), reflects debt with this entity due to financial assistance. This liability was restructured in 2004 in accordance with the reimbursement schedule submitted by the Bank to the Argentine Central Bank pursuant to the provisions of Decree No.739/03 and Decree No.1262/03. In accordance to said decrees, the financial assistance from the Argentine Central Bank was restructured as a liability to be amortized in 92 monthly installments of principal and interest beginning in March 2004, with the principal thereof adjusted by CER and with an annual interest rate of 3.5% on the adjusted principal.

In December 2004, through Communiqué A 4268, as supplemented, the Argentine Central Bank set forth a system through which financial institutions can make advance payments in order to settle debt related to financial assistance, for which banks bid the amount they are willing to advance, in terms of installments of the respective repayment schedule, and the nominal rate they are willing to pay. Funds are applied to the settlement of installments at the contractual maturity date thereof. During 2005, the Bank made payments under this system for Ps.211.9 million, equivalent to 6 future installments, of which Ps.153.6 million were pending application as of year-end. On the other hand, since March 2004, the Bank has made all of the monthly payments set forth in the repayment schedule it submitted and, in October 2005, an additional Ps.450 million were cancelled.

During the first quarter of 2006 and the first days of April 2006, the Bank made payments on this liability for Ps.2,678.2 million, by which it further reduced this debt to Ps.2,768.8 million as of April 30, 2006. The payment amounts include mainly payments made in advance on such liability (Ps.2,550.4 million, which were made mainly using the proceeds from the sales of public-sector assets granted as collateral for such liability, which proceeds continued to serve as collateral until the application thereof), as well as the installments paid in accordance with the amortization schedule. Given that the sales modified the cash flow of the assets granted as collateral and that the

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payments modified the amounts due, the repayment schedule of this liability was also modified, with the number of monthly installments becoming 65, from March 2004.

The advance for the purchase of the Hedge Bond, for Ps.3,296.6 million (principal, CER adjustment and interest) corresponds to the advance to be granted by the Argentine Central Bank for the purchase of the Boden 2012 relating to the Hedge Bond. After the end of the fiscal year, the Bank made the formal request of said advance for the partial subscription of most of the Hedge Bond. The request of the remaining advance will be made in the future. The increase in the advance's amount in 2004 and 2005 was due to the principal adjustment by the CER. In 2005, the final determination of the amount of the compensation for the asymmetric pesification was another reason for the increase.

The liabilities with the Argentine Central Bank in aggregate represented 37.1% of our funding at the end of 2005, down from 39.2% and 39.4% as of December 31, 2004 and December 31, 2003.

Until 2001, deposits had been our most important funding source. As of December 31, 2005, deposits represented 36.2% of our funding, up from 31.4% as of December 31, 2004, and 26.9% at the end of 2003. Our deposit base, like that of all other banks in Argentina, was significantly affected by the systemic run on deposits throughout 2001 and early 2002, and by various regulations implemented by the Argentine Government in recent years, as explained in this annual report. However, our deposit base has grown 24.6% in 2005, 21.0% in 2004 and 6.5% in 2003. Most of this increase occurred in transactional deposits (deposits in current and savings accounts), short-term time deposits and CER adjusted time deposits and all of it was due to private-sector deposits raised by the Bank's Argentine operation. For more information on deposits, see Item 4. Information on the Company Selected Statistical Information Deposits.

In the past, we have also funded our operations through the issuance of debt securities, mainly dollar-denominated debt securities issued in the international capital markets. Funds raised in the capital markets are an important part of our liabilities. Our debt securities amounted to Ps.3,569.3 million as of December 31, 2005, compared to Ps.3,802.5 million and Ps.2,565.5 million outstanding as of December 31, 2004 and December 31, 2003, respectively. Of our total debt securities for Ps.3,569.6 million at the end of fiscal year 2005, Ps.3,423.0 million corresponded to US dollar-denominated debt pursuant to the following breakdown (principal only):

- Ps.234.0 million in negotiable obligations issued by the Bank in Argentina as part of the restructuring of the liabilities of its former New York Branch, a process that took place in 2002.
- Ps.172.9 million in negotiable obligations issued by Galicia Uruguay to restructure its deposits, securities that were issued either in connection with the original restructuring or the exchange offers subsequently made by Galicia Uruguay to its customers.
- Ps.1,059.9 million and Ps.1,391.7 million in negotiable obligations maturing in 2010 and 2014, respectively, and Ps.431.0 million in subordinated negotiable obligations maturing in 2019, all of them issued in 2004 and corresponding to new debt of the Bank resulting from the foreign debt restructuring completed in May of said year.
- Ps.27.0 million in negotiable obligations maturing in 2006, issued by Tarjeta Naranja S.A. (IV Class) in 2005.
- Ps.22.1 million in foreign debt past due, including with respect to the restructuring process completed in May 2004, the holders of which did not participate in such restructuring.

The difference with the total, for Ps.146.6 million, corresponds to debt in pesos for negotiable obligations of the regional credit-card companies.

The decrease in the debt securities outstanding as of December 31, 2005, compared to the amount as of December 31, 2004, mainly reflects: (i) payments made in accordance with the restructuring schedule on the negotiable obligations issued by Galicia Uruguay to restructure its deposits, (ii) the exchange of such negotiable obligations for cash and Boden 2012 in the offer carried out by Galicia Uruguay in 2005, and (iii) payments on the negotiable obligations maturing in 2007 issued by the Bank, in Argentina, to restructure the debt of its former New York Branch. The increase in 2004 mainly reflects creditor decisions in the restructuring of the Bank's foreign debt

completed in May 2004, as many bank creditors chose to receive negotiable obligations for their bank loans tendered in the exchange, and is the counterpart of the decrease mentioned below in credit lines from banks and

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international agencies. In 2004 and 2005, issuances of new debt securities, not related to a restructuring, have been carried out by these companies.

As of December 31, 2003, Ps.1,242.3 million (principal only), including the negotiable obligations issued pursuant to the restructuring of our former New York Branch in 2002 and the negotiable obligations issued to settle the restructuring of Galicia Uruguay's deposits agreed to in 2002, was current and not included in the Bank's foreign debt restructuring. The remainder of our debt securities outstanding as of December 31, 2003, was in payment default and subject to restructuring. The restructuring of the Bank's foreign debt, not including any of the securities mentioned or negotiable obligations issued by the regional credit-card companies, was completed on May 18, 2004. See Item 4.

Information on the Company History Restructuring of our subsidiaries debt.

For more information on our debt securities outstanding, see Contractual Obligations below.

We also traditionally funded our operations with credit lines from international banks and credit agencies. As of December 31, 2005, such borrowings amounted to Ps.784.6 million, representing dollar-denominated debt subject to foreign law. Of this total, considering principal only, Ps.727.3 million represented debt of the Bank in Argentina (and its Cayman Branch) which restructuring was completed in May 2004, Ps.19.6 million corresponded to debt of the former New York Branch restructured in 2002, and Ps.15.2 million corresponded to an IFC loan granted in 2005.

Credit lines from banks and international agencies decreased to Ps.784.6 at the end of 2005, compared to Ps.789.3 million as of December 31, 2004 and Ps.3,017.1 million as of December 31, 2003. The decrease in 2004 mainly reflects creditor decisions in the restructuring of the Bank's foreign debt completed in May 2004, as many bank creditors chose to receive negotiable obligations for their bank loans tendered in the exchange. For more information on our outstanding credit lines from international banks and credit entities, see Contractual Obligations below.

In 2004, the Bank entered into repurchase agreements of Boden 2012 increasing its funding by Ps.223.7 million, of which Ps.21.6 million were premiums. As of December 31, 2005, this liability amounted to Ps.220.5 million, of which Ps.15.5 million were premiums.

In addition, in 2005 and 2004, the Bank generated funds through the securitization and sale of on-balance sheet and off-balance sheet loans, for an aggregate amount of Ps.478.1 million in 2005 and Ps.246.6 million in 2004. The Bank expects this source of funding to become increasingly significant in the future.

Ratings

On May 31, 2004, the Bank's short-term obligations received the raA3 rating from Standard&Poor's (local ratings scale). In accordance with applicable rules, this rating enabled the Bank, after a period of more than two years, to raise deposits from local pension funds. This rating also facilitated deposit raising among other domestic institutional investors. On June 28, 2004, the Bank's long-term debt received the raBBB- rating from Standard & Poor's (local ratings scale).

On May 18, 2005, Standard&Poor's raised the Bank's local long-term debt rating to raA and the Bank's local short-term rating to raA2, as part of a general improvement of the local ratings of Argentine financial institutions, as a result of an improved operating environment due to the completion of the Argentine sovereign debt restructuring, and due to the greater value of the Bank's public-sector assets and the Bank's improved recent performance.

After the end of fiscal year 2005, based on the progress achieved by the Bank in strengthening its balance sheet, increasing financial intermediation with the private sector, improving the quality of assets and recovering its operating and bottom-line profitability, the Bank's short-term rating was raised to raA1 (local scale rating).

Our debt obligations do not have an international rating.

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The Bank's annual shareholders meeting held on April 28, 2005, approved the creation of a Global Program (the Program) for the issuance and re-issuance of non-convertible negotiable obligations, subordinated or non-subordinated, adjustable or non-adjustable, secured or unsecured, for a maximum outstanding face value during the period the Program, of up to Ps.1.0 billion or its equivalent in any other currency. The Program shall have a maximum term of five years beginning on the date the Program is authorized by the CNV, or any other longer term authorized by the regulations. The negotiable obligations may be issued in several series and/or classes during the period the Program will be outstanding, with the possibility to re-issue the amortized series without exceeding the Program's total amount, and with the possibility that the maturity dates of the different series and/or classes issued occur after the Program's expiration date. The negotiable obligations' tenor will range from the minimum (currently 30 days) and the maximum (currently 30 years) permitted by the CNV and the Argentine Central Bank regulations. The shareholders' meeting delegated to the Bank's Board of Directors (and/or to one or more of its members, and/or to one or more members of the Bank's management, if so decided by the Bank's Board of Directors), in accordance with the applicable rules in force, the authority to carry out the issuance and placement of the negotiable obligations under the Program, with broad powers to establish, within the maximum Program amount, all the remaining terms and conditions of the Program and those of each issuance and re-issuance thereof, including to file for the public offering in foreign markets.

Contractual Obligations

In connection with our operating activities, we enter into certain contractual obligations. The following table shows the principal amounts of our contractual obligations and their contractual interest rates as of December 31, 2005.

	Maturity	Annual Interest Rate	Total	Past Due	Less than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
Banco Galicia:								
Bonds								
Floating Rate Notes Due 2010 ^{(1) (3) (4)}	2010	Libor + 350 b.p.	Ps. 1,059.9		Ps. 132.5	Ps. 530.0	Ps. 397.4	
Step-Up Notes Due 2014 ^{(1) (3) (5)}	2014	4.0%	1,391.7				309.3	1,082.4
Subordinated Notes Due 2019 ^{(1) (6) (8)}	2019	11.0%	431.0					431.0
9% Notes Due 2003 ⁽⁷⁾	2003	9.0%	19.4	19.4 ⁽⁷⁾				
4 th Series Floating Rate Notes Due 2005 ⁽⁷⁾	2005	4.0%	2.7	2.7 ⁽⁷⁾				
7.875% Notes Due 2007 ^{(2) (9)}	2007	7.9%	146.8		Ps. 73.4	73.4		
7 th Series Floating Rate Notes Due 2007 ^{(2) (9)}	2007	Libor + 400 b.p.	87.2		43.6	43.6		
Loans								
Floating Rate Loans Due 2010 ^{(1) (3) (4)}	2010	Libor + 350 b.p.	140.7		17.6	70.3	52.8	
Floating Rate Loans Due 2014 ^{(1) (3) (5)}	2014	Libor + 85 b.p.	261.9				58.2	203.7
	2019	Libor+578 b.p.	37.9					37.9

Floating Rate Loans
Due 2019 ⁽¹⁾ ⁽¹⁰⁾
Step-Up Loans Due
2014 ⁽¹⁾ ⁽³⁾ ⁽⁵⁾