GRUPO FINANCIERO GALICIA SA
Form 20-F
June 29, 2007

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 28, 2007

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

FORM 20 F

(Mark One)

o **Registration Statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934**

or

þ **Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006**

or

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

or

o **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:
Class B Ordinary Shares, Ps.1.00 par value, ten shares of which are represented by American Depositary Shares
Securities registered or to be registered pursuant to Section 12(g) of the Act:
None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

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 o No þ

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 o No þ

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 þ No o

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 o Accelerated filer þ Non-accelerated filer o

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

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 o No þ

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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 our accounts and the accounts of:

- Sudamericana Holding S.A., or Sudamericana, and its subsidiaries;

- Galicia Warrants S.A.;

- Net Investment 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., which we refer to as Galicia Uruguay , and its subsidiaries and other subsidiaries and affiliated companies required to be consolidated under Argentine Banking GAAP, which we refer to collectively as 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. References to Grupo Financiero Galicia are on a non-consolidated basis.

We were formed on September 14, 1999, as a financial services holding company to hold all of the shares of the 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, 2004, our ownership interest in Banco Galicia was 93.59% and, as of December 31, 2005, and December 31, 2006, our ownership interest was 93.60%.

We 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, which we refer to as Argentine GAAP . Argentine Banking GAAP also differs in certain significant respects from generally accepted accounting principles in the United States, which we refer to as 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 38 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 39 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, 2006. A reconciliation to U.S. GAAP of our net income and total shareholders equity is presented for the three fiscal years ended December 31, 2006.

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. 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. 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 31, 2006, December 31, 2005 and December 31, 2004 consolidated financial statements were Ps.3.0695, Ps.3.0315 and Ps.2.9738 per US$ 1.00, respectively, as quoted by the Argentine Central Bank.

Argentina experienced a high rate of inflation in 2002. Therefore, on July 17, 2002, through Decree No. 1269/02, the Argentine Government reestablished the practice of restating financial information to account for inflation for periods beginning on or after January 1, 2002. This was regulated by Communiqué A 3702 of the Argentine Central Bank, Resolution No. 415/02 of the National Securities Commission, which we refer to as the CNV . Starting on January 1, 2002, we began to adjust our financial statements for inflation based on changes in the wholesale price index (which we refer to as the WPI) published by the National Institute of Statistics and Census, or INDEC . Through Decree No. 664/03, Argentine Central Bank s Communiqué A 3921 and Resolution No. 441/03 of the CNV, dated April 8, 2003, the Government eliminated the requirement that financial statements be prepared in constant currency, effective for financial periods ending on or after March 1, 2003.

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Accordingly, information included in this annual report as of and for the three fiscal years ended December 31, 2006 does not include any effect of inflation accounting. Information included in this annual report as of and for the fiscal year ended December 31, 2003 includes the effects of inflation accounting through February 28, 2003, with the WPI having increased 0.87% between January 1, 2003 and February 28, 2003. Information included in this annual report as of and for the fiscal year ended December 31, 2002 includes the effects of inflation, with the WPI having increased 118.44% between January 1, 2002 and December 31, 2002, and was restated in constant currency of February 2003 by applying the 0.87% increase in the WPI between January 1, 2003 and February 28, 2003. The information included in this annual report as of and for periods prior to January 1, 2002 has been restated in constant pesos as of February 28, 2003 by applying the approximately 120.35% increase in the WPI for the period from January 1, 2002 to February 28, 2003.

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 Government has issued to the Bank (as well as to other financial institutions), as compensation for the negative effects on its financial condition as a result of the asymmetric pesification. This is more fully described in Item 4. Information on the Company Government Regulation Main Regulatory Changes since 2002.

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.

We have expressed all amounts in millions of pesos, except percentages, ratios, multiples and per-share data.

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 on the CompanyCapital Investments and Divestitures, Item 5. Operating and Financial Review and Prospects Item 5A. Operating Results Main Trends 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, believ continue or similar terminology. 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 or at all, 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, December 31, 2005 and December 31, 2006 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, 2006 and December 31, 2005, and for the fiscal years ended December 31, 2006, 2005 and 2004 has been derived from our audited consolidated financial statements included in this annual report.

The selected consolidated financial information as of December 31, 2003 and 2002 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, 2006 and December 31, 2005, and our net income for the three years ended December 31, 2006. See notes 38 and 39 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,					
	2006	2006	2005	2004	2003	2002
	(in millions of U.S. dollars, except as noted)[1]	*(in millions of pesos, except as noted)*[1]				*(in millions of February 28, 2003, constant pesos, except as noted)*[1]
Consolidated Income Statement in Accordance with Argentine Banking GAAP						
Financial Income	733.0	2,249.8	2,398.6	1,391.6	1,452.1	5,757.3
Financial Expenses	609.7	1,871.6	1,845.9	1,167.4	1,304.8	4,560.4
Net Financial Income [2]	123.3	378.2	552.7	224.2	147.3	1,196.9
Provision for Losses on Loans and Other Receivables	36.1	110.9	76.7	190.2	286.4	1,648.6
Income / (Loss) before Taxes	24.5	75.3	126.5	(66.1)	(221.6)	(2,812.9)
Income Tax	(30.7)	(94.2)	(19.3)	(43.8)	(0.6)	(66.4)
Net Income / (Loss) before the Absorption	(6.2)	(18.9)	107.2	(109.9)	(222.2)	(2,879.3)
Absorption Approved in the Annual Shareholders Meeting						1,370.0
Net Income / (Loss) after the Absorption	(6.2)	(18.9)	107.2	(109.9)	(222.2)	(1,509.3)
Net Income / (Loss) after the Absorption per Share (in Pesos) [*]		(0.015)	0.086	(0.093)	(0.203)	(1.382)
Cash Dividends per Share (in Pesos)						
Book Value per Share (in Pesos)		1.296	1.310	1.224	1.299	1.465
Stock Dividends per Share (in Pesos)						
Amounts in Accordance with U.S. GAAP						
Net Income / (Loss)	1,148.4	3,524.9	731.0	(1.1)	731.3	422.5
Adjusted Net Income (Loss) per Share (in Pesos)		2.841	0.589	(0.001)	0.669	0.386
Book Value / (Deficit) per Share (in Pesos)		0.117	(1.714)	(2.574)	4.077	(4.964)
Financial Income	1,771.1	5,436.3	2,958.7	1,448.7	2,752.0	2,613.1

Financial Expenses	600.6	1,843.6	1,845.9	1,167.4	1,502.9	4,560.4
Net Financial Income / (Loss)	1,170.5	3,592.7	1,112.8	281.3	1,249.1	(1,947.3)
Provision for Losses on Loans and Other Receivables	52.2	160.3	113.5	210.0	274.6	928.8
Income Tax	(90.3)	(277.1)	19.3	35.4	(38.4)	66.5
Consolidated Balance Sheet in Accordance with Argentine Banking GAAP						
Cash and Due from Banks	747.6	2,294.8	1,041.2	988.7	826.2	576.8
Government Securities, Net	1,038.7	3,188.3	5,967.4	5,518.0	6,407.1	1,786.5
Loans, Net	3,425.5	10,514.6	10,555.2	8,438.2	7,506.5	10,682.1
Total Assets	7,699.7	23,634.2	25,635.7	23,650.6	22,822.9	23,864.1
Deposits	3,511.8	10,779.4	8,421.7	6,756.9	5,584.0	5,209.4
Other Funds [(3)]	3,663.9	11,246.3	15,587.2	15,374.2	15,819.5	17,053.9
Total Shareholders Equity	524.0	1,608.5	1,626.8	1,519.5	1,419.4	1,600.8
Average Total Assets [(4)]	8,019.1	24,614.5	24,238.1	22,725.9	22,530.3	29,500.9
Percentage of Period-end Balance Sheet Items Denominated in Dollars:						
Loans, Net of Allowances	16.68	16.68	9.84	10.43	9.36	9.11
Total Assets	28.91	28.91	26.55	32.92	36.39	43.20
Deposits	14.13	14.13	15.55	20.89	29.67	40.08
Total Liabilities	30.39	30.39	25.81	29.57	36.87	43.98
Amounts in Accordance with U.S. GAAP						
Trading Securities	67.8	208.2	790.0	564.7	328.8	35.5
Available-for-Sale Securities	1,698.8	5,214.6	5,350.3	3,923.1	3,727.9	1,380.6
Total Assets	7,859.8	24,125.8	19,949.3	17,007.3	14,835.2	14,821.9
Total Liabilities	7812.3	23,980.0	22,077.6	20,203.0	19,288.5	20,244.2
Shareholders Equity (Deficit)	47.5	145.8	(2,128.3)	(3,195.7)	(4,453.3)	(5,422.3)

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	Fiscal Year Ended December 31,				
	2006	2005	2004	2003	2002
	(in millions of pesos, except as noted)[1]				*(in millions of February 28, 2003, constant pesos, except as noted)*[1]
Selected Ratios					
Ratios in Accordance with Argentine Banking GAAP					
Profitability and Efficiency					
Net Yield on Interest Earning Assets [5]	1.21%	2.38%	1.02%	0.89%	3.66%
Financial Margin [6]	1.74	2.53	1.08	0.71	4.44
Return on Average Assets [7]	0.0004	0.59	(0.42)	(0.95)	(6.04)
Return on Average Shareholders Equity [8]	(1.15)	6.83	(7.32)	(14.53)	(62.06)
Net Income from Services as a Percentage of Operating Income [9]	63.99	48.65	66.06	73.08	24.95
Efficiency ratio [10]	92.80	72.56	94.46	113.91	61.58
Capital					
Shareholders Equity as a Percentage of Total Assets	6.81%	6.35%	6.42%	6.22%	6.71%
Total Liabilities as a Multiple of Shareholders Equity	13.69x	14.76x	14.56x	15.08x	13.91x
Total Capital Ratio [11]	15.03%	20.78%	25.11%		
Liquidity					
Cash and Due from Banks as a Percentage of Total Deposits	21.29%	12.36%	14.63%	14.80%	11.07%
Loans, Net as a Percentage of Total Assets	44.49	41.17	35.68	32.89	44.76
Credit Quality					
Past Due Loans [12] as a Percentage of Total Loans	2.38%	2.34%	4.97%	11.70%	9.93%
Non-Accrual Loans [13] as a Percentage of Total Loans	2.59	3.50	7.74	15.04	13.08
Allowance for Loan Losses as a Percentage of Non-accrual Loans[13]	117.16	111.90	90.51	90.61	104.45
Net Charge-Offs [14] as a Percentage of Average Loans	1.42	1.49	3.77	1.98	1.89
Ratios in Accordance with U.S. GAAP					
Capital					
	0.60%	(10.67)%	(18.79)%	(30.02)%	(36.58)%

Shareholders Equity (deficit) as a Percentage of Total Assets					
Total Liabilities as a Multiple of Total Shareholders Equity	164.46x	(10.37)x	(6.32)x	(4.33)x	(3.73)x
Liquidity					
Loans, Net as a Percentage of Total Assets	40.05%	50.15%	43.91%	43.32%	55.03%
Credit Quality					
Allowance for Loan Losses as a Percentage of Non-Accrual Loans	168.58%	139.49%	84.75%	85.98%	101.48%
Inflation and Exchange Rate					
Inflation (Deflation) (15) (16)	7.01%	10.69%	7.84%	2.03%	118.44%
Currency Devaluation Rate (16) (%)	1.25	1.94	1.39	(12.79)	236.30
CER (17)	10.08	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, 2006 amounts into U.S. dollars was Ps.3.0695 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 resulting 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. 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*

Financiero Galicia and our 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 excluding minority interest (plus unrealized valuation difference for fiscal year 2002) 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 for fiscal year 2002) 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 for fiscal year 2002). 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 for fiscal year 2002) 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 Government Regulation 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 Government Regulation 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

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.

	Exchange Rate (1)			
	High	**Low**	**Average (2)**	**Period-End**
	(in pesos per US dollar)			
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

2006	3.1072	3.0305	3.0740(3)	3.0695
December 2006	3.0792	3.0492	3.0603	3.0695

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	Exchange Rate (1)			
	High	Low	Average (2)	Period-End
		(in pesos per US dollar)		
January 2007	3.1068	3.0553	3.0850	3.1063
February 2007	3.1058	3.0975	3.1026	3.1010
March 2007	3.1060	3.0963	3.1010	3.1007
April 2007	3.1008	3.0808	3.0891	3.0898
May 2007	3.0852	3.0727	3.0800	3.0785

(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, 2007, the exchange rate was Ps.3.0825 for US$ 1.00.

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. 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.

Risk Factors Relating to Argentina

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. If the current administration is not capable of implementing economic policies needed to turn the economic growth Argentina is experiencing since late 2002 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.

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. In 2006, inflation as measured by the variation in consumer prices was 9.8%, and although it was lower than that registered during the previous year, we cannot guarantee that it will not increase again.

Inflation may continue increasing in Argentina, due to the following facts: (i) the country s economy is growing at very high rates, which implies strong aggregate demand increases, (ii) the current growth is occurring in a context in which relative prices still require certain adjustments, as not all of the economic sectors have been able to pass through into prices, to the same extent, the impact of the 2002 devaluation of the peso, (iii) the strong post- crisis growth, for more than four years, has led to an increasing use of installed capacity and to a progressive reduction of the output gap existing immediately following the crisis; and (iv) even though aggregate investment has been growing, the effects of such growth on aggregate supply are not immediate.

In the past, inflation has materially undermined the Argentine economy and the Government s ability to create conditions that foster 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

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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 of these factors would also have a negative impact on our business and financial condition.

A 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 Government and Argentine companies and financial institutions to repay their foreign currency-denominated debt, led to very high inflation and significantly reduced real wages. It also had a negative impact on economic sectors whose business is predominantly dependent on domestic demand. A further significant devaluation of the peso, would likely have the same negative effects on the Government, the financial system, companies and individuals, and would have a negative impact on us and our operations.

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 operations and 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, adversely impacted the Argentine economy. Similar developments can be expected to affect the Argentine economy in the future.

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 rose 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. All of these factors could negatively impact our prospects and operations.

A decline in international prices for Argentina s main commodity exports could have an adverse effect on Argentina s economic growth and on our financial condition and 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. The prices of the primary goods that Argentina exports are at historically high levels. If international commodity prices decreased 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 in the future that could adversely affect our business operations

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

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retain foreign currency or make debt payments abroad. The existence of such controls and the prevailing significant 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 restrictions in connection with capital inflows. For more information, see Item 4. Information on the Company Government Regulation 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.

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 like us

The 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. 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 stable regulatory environment would impose significant limitations on the operation of the banking system and would affect our future financial condition and results of operations.

Government measures may adversely affect the Argentine economy as a whole, as well as our business operations

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.

Elections for the executive and legislative branches of the Government in 2007 may generate uncertainty with respect to the economic policies to be adopted and could cause volatility in the Argentine market and thus affect us and our operations and/or cause volatility in the market price of our securities

From March 2007 through October 2007, elections will be held for the executive and legislative branches of the Government, both on a national and provincial level. During past elections, the Argentine market has suffered from excess volatility due to uncertainty regarding the economic policies that will be adopted by the new Government. The elections to be held in 2007, and in particular the presidential election to be held in October of this year, may cause uncertainty regarding the economic policy to be adopted (both if a new president is chosen and if the incumbent president is re-elected), which could affect us and our operations and/or cause volatility in of the market price of our securities.

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Risk Factors Relating to the Argentine Financial System

The negative consequences of the 2001-2002 crisis on the profile and activities of the financial system may not be overcome in the short term or at all

Immediately after the 2001 and 2002 crisis, the financial system practically ceased acting as an intermediary between savings and credit. Even though the financial system s private sector deposits and loans increased substantially from the 2002 levels, 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, or GDP, remains low when compared with international levels and with past levels recorded in the country, especially in the case of loans to the private sector. These loans represented approximately 11.4% of the GDP at the end of 2006, as compared to approximately 23.3% at the end of 1999. The period of time necessary for the Argentine financial system s credit activity to return to pre-crisis levels remains uncertain. In addition, even though deposits in the financial system are increasing, most new deposits are either sight or short-term time deposits. The sources of medium and long-term funding for financial institutions are currently limited, and have consisted to a large extent, mainly since 2004, of the securitization of loan portfolios, which implies a growing commercial banking disintermediation. Due to these reasons, and to the characteristics of credit demand, the loan expansion recorded since 2004 was largely 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 will need to continue over time, the maturities of assets and liabilities in the financial system will need to extend, the public s confidence in the Argentine financial system will need to recover to 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 will need to 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.

The post-crisis improvement in financial institutions asset quality could be interrupted if the Argentine economy stops growing

The current improvement of the quality of the financial system s private-sector loan portfolio may not continue as such improvement depends on the continuity of economic growth in Argentina. In addition, certain financial institutions assets, such as ours, currently include a substantial exposure to debt instruments issued by the Argentine public sector. Thus, the value of a large portion 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 also tied to, among other things, 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 pesification and restructuring of deposits in 2002 may result in a deterioration of financial institutions deposit base and liquidity, including ours

As a consequence of the pesification of deposits originally denominated in dollars and the restructuring of such deposits, in 2002 individuals and entities initiated a significant number of legal actions against financial institutions, including us, on the basis that these measures violated constitutional and other rights (these legal actions were known as *amparo* claims). The emergency measures implemented by the Government during and in respect of the 2001-2002 crisis have been declared unconstitutional by most appellate and lower courts and, as a result, financial institutions have been required to reimburse the relevant 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 2002, and in significant losses for financial institutions up to date, including us, as a result of having to reimburse the restructured deposits (mostly dollar-denominated deposits before pesification, referred to herein as the Reprogrammed Deposits) at market exchange rates rather than at the rate at which deposits were pesified and booked. The Government has not provided compensation for these losses and has expressed that it does not intend to do so.

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The recent rulings pronounced by the Argentine Supreme Court of Justice, or the Supreme Court , in connection with the pesification of deposits refer to particular cases and, under Argentine law, Supreme Court rulings are not precedent setting for lower courts. Whether these rulings will be followed in similar cases to be heard by lower courts is uncertain as is the final resolution of such similar cases. If there was an increasing number of judgments against financial institutions like us, 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 such as us

In order to protect debtors, which were affected by the 2001-2002 crisis, the 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. Such regulations have restricted Argentine creditors, such as us, from initiating collection actions or lawsuits to recover on defaulted loans. Even though these rules have ceased to be applicable, we cannot assure you that under an adverse economic environment or other circumstances, the Government may not 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 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 December 31, 2006, Banco Galicia s 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 contractual limitations. In addition, our ability to pay dividends will be subject to legal and other requirements.

We have not received dividends from Banco Galicia since October 2001. In addition, Banco Galicia is restricted from paying dividends as, among other things, 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 all of its public-sector assets, 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 the restructuring of its debt denominated in foreign currency and subject to foreign law, limit its ability to pay dividends. 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, and which may adversely impact our business and financial condition.

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

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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, or 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 SEC s 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 39 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 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 assets are concentrated in Argentine public-sector debt instruments making our future financial condition strongly dependent on the Government s credit quality and ability and willingness to comply with its repayment obligations

As of December 31, 2006, our exposure to the Argentine public sector (as shown under Item 5A. Operating Results Exposure to the Argentine Public Sector), amounted to approximately Ps.8,898.0 million, representing 37.7% 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 approximately Ps.5,872.0 million, representing 24.9% 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 Government s ability to comply with its payment obligations in respect of these public-sector assets. In turn, the ability of the Government to comply with its payment obligations with respect to such public-sector assets 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, all or some of which may not occur.

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 position in Bogar Bonds, Boden 2012 Bonds and Discount Bonds and GDP Linked Negotiable Units are greater than their respective quoted market values.

The estimated difference between the aggregate book value of the above mentioned assets and their respective aggregate market value as of December 31, 2006, amounted to Ps.531.0 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, thereby adversely affecting our financial results.

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

The actions taken by the Government to address the crisis in 2001-2002 economic crisis have created mismatches between our assets and liabilities in terms of currency, yield and maturities. Currently, we carry a net position in CER-adjusted assets (the CER is a coefficient based on the variation of consumer prices) bearing fixed interest rates over adjusted principal. This position 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 (which occurs when the nominal interest rate increases more than the inflation rate).

A breach of any of the covenants under the Bank s debt agreements and the agreement entered into by the Bank and us as part of the restructuring of the Bank s foreign debt in 2004 could result in the occurrence of an event of default under these agreements

The loan agreements and indenture entered into by the Bank as part of its foreign debt restructuring in May 2004, 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 or equity securities. Some of these agreements also require that the Bank maintain specified financial ratios. We agreed to maintain certain corporate governance standards and to provide the Bank s creditors with certain financial information and reports on a quarterly and annual basis. A breach of any of these covenants or the Bank s inability to maintain the required ratios could result in an event of default under these agreements. 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 amortization of *amparo* claims and the negative margin on our matched position in foreign currency resulting from the low yield of the Boden 2012 Bonds corresponding to the Compensatory Bond and the Hedge Bond. Although demand for fee-related products and services as well as for credit is increasing in Argentina, together with the growth of the economy, the demand for financial products may not continue to increase or may not increase to the extent or at the necessary pace. In addition, we may not be able to sufficiently increase our business volume or margins between lending and borrowing 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 offset these losses.

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

As a result of and following the crisis, there has been significant consolidation in the Argentine financial/banking market. This consolidation is likely to continue in the near future. In addition, the financial system s recent growth and its current growth prospects have generated increased competition from all of the banks operating in Argentina. 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 potentially reducing our volume of operations and market share.

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 under the name Grupo Financiero Galicia S.A. 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, 2006. 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 (See History Banco Galicia Uruguay S.A. and Galicia (Cayman) Ltd.);

- Galval Agente de Valores S.A. or Galval , incorporated in Uruguay;

- Galicia Pension Fund Ltd. and Galicia (Cayman) Ltd. or Galicia Cayman , incorporated in the Cayman Islands (See History Banco Galicia Uruguay S.A. and Galicia (Cayman) Ltd.);

- Net Investment BV (in liquidation), incorporated in the Netherlands; and

- Ancud Comercial S.A., incorporated in the Dominican Republic.

(1) Banelco S.A. 17.15%; Aguas Provinciales de Santa Fe S.A. 12.5%; Electrigal S.A. 12.5%; Galicia Inmobiliaria S.A. 12.5%; Correo Argentino S.A. 11.77%; Aguas Cordobesas S.A. 10.83%; Alfer S.A. (in liquidation) 9.80%; Interbanking S.A. 9.09%; Seguros de Depósitos S.A. (Sedesa) 8.71%; Aguas Argentinas S.A. 8.26%; Compensadora Electrónica S.A. 8.22%; A.E.C. S.A. 6.97%; Finanban S.A. 6.67%; Argencontrol S.A. 5.766%; Visa S.A. 5.0%; Garbin S.A. 4.10%; Mercado Abierto Electrónico S.A. 1.49%; Corporación Interamericana para el Financiamiento de Infraestructura S.A. 1.39%; Banco Latinoamericano de Exportaciones S.A. 0.10%; S.W.I.F.T. S. C.

0.02%.

History

We were formed as a financial services holding company to hold all of the shares of the 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 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 was increased 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 Institutions Law (*Ley de Entidades Financieras,* Law No.21,526). 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 undertake 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 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.

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, and of the economic policy measures implemented by the Government in order to address the crisis, the Bank restructured its foreign currency denominated debt that was subject to foreign law (which we refer to as the foreign debt) of the Head Office in Argentina and its former Cayman Branch. This restructuring was completed in May 2004. The Argentine crisis also affected the Bank s former New York Branch and its subsidiaries Galicia Uruguay and Galicia Cayman, the debt of which was also restructured between 2002 and 2003. In 2004, the Bank also restructured debt with the Argentine Central Bank acquired during the 2001-2002 crisis.

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

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 system 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, which began on March 2004 and originally ended on October 2011. The schedule was based on the minimum amortization set up by the applicable rules and on the proceeds of the assets eligible as collateral for such debt pursuant to these rules.

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Through 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.

The Bank repaid in advance the financial assistance received from the Argentine Central Bank, the last payment having been made on March 2, 2007. See Item 5 Operating and Financial Review and Prospects Item 5A. Operating Results Funding and Item 8. Financial Information Significant Changes.

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

On May 18, 2004, the Bank successfully completed 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 as of mid-2005, it had fully repaid all of the restructured trade debt.

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 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 Bonds (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).

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

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 issued 149 million preferred shares on May 13, 2004, each of them mandatorily convertible into one of our class B shares a year later, which occurred on May 12, 2005. 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 the above-mentioned shares and cash.
- 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 Bonds 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 (referred to as the Step Up Notes Due 2014 or the 2014 Notes) 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 (referred to as the Floating Rate Notes Due 2010 or the 2010 Notes) 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 (referred to as the Subordinated Notes Due 2019 or the 2019 Notes) 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	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, 2006	4.4

(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.*

During February 2007, we repurchased part of the restructured debt that was instrumented as loans maturing in 2010 and in 2014 for an aggregate residual amount of US$ 178.8 million. These transactions were carried at market value thus generating a US$ 6.9 million profit with respect to the book value of the loans. The repurchase was funded from the proceeds of the sale of Boden 2012 Bonds in the market, which generated a loss of approximately US$ 8.9 million due to the difference between the market price and the book value of such bonds. See Item 8. Financial Information Significant Changes.

For more information on 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, and constituted a necessary step to ensure the orderly winding down of the affairs of this Branch, which was closed on January 30, 2003. As December 31, 2006, US$ 38.6 million in aggregate principal amount of two negotiable obligations issued by the Bank s Head Office in Argentina maturing in 2007 (referred to as the 2007 Notes) to restructure the New York Branch debt are outstanding.

Capitalization as a Result of the Restructuring of the Foreign Debt

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 Bonds 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.

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

Galicia Uruguay

As a result of the effects that the Argentine crisis had on Galicia Uruguay, in early 2002, the Central Bank of Uruguay suspended its activities and assumed control and management of Galicia Uruguay, which control and management by the Central Bank of Uruguay ended on February 22, 2007. In December 2002, Galicia Uruguay restructured its deposits into debt maturing in 2011. On June 1, 2004, Galicia Uruguay s license to operate as a domestic commercial bank was revoked by the Central Bank of Uruguay. At the date of this annual report, Galicia Uruguay is not engaged in any active business and its activities are limited to repaying its existing restructured debt. Between 2003 and 2005, Galicia Uruguay carried out several exchanges of restructured liabilities for cash, Boden 2012 Bonds and new negotiable obligations issued by Galicia Uruguay. The objective of these exchanges was to reprofile on a voluntary basis the already restructured deposit base, both to satisfy differing depositors liquidity-return preferences and to improve the distribution of cash flows over time. All payments in accordance with the restructuring agreement have been made.

On July 13, 2005, we forgave US$ 43 million of subordinated negotiable obligations issued by Galicia Uruguay.

During the third quarter of 2006, Galicia Uruguay established a program for the issuance of negotiable obligations for an amount of up to US$ 108.1 million, in order to convert its privately issued negotiable obligations due on 2011 into public securities and offer the holders of transferable time-deposit certificates the possibility to exchange these certificates for such public securities. On October 17, 2006, Galicia Uruguay issued its Series I Negotiable Obligations under the program for US$ 48.5 million.

The payments made, the exchange offers effected and 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 Galicia Uruguay s consolidated liabilities. As of December 31, 2006, the consolidated principal amount of Galicia Uruguay s restructured liabilities (time deposits and negotiable obligations) had decreased to US$ 117.2 million, which represented approximately 10% of the original restructured amount, in only four years. As of December 31, 2006, the shareholders equity of Galicia Uruguay was Ps.107.3 million.

Galicia (Cayman) Ltd.

Galicia Uruguay s situation also adversely affected its subsidiary Galicia Cayman. Galicia Cayman commenced voluntary liquidation and surrendered its banking license effective as of 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 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.

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, and ended the involvement of any third parties in the company s management beginning on February 23, 2006.

Capital Increase of the Bank Approved by the Shareholder s Meeting held on October 11, 2006

The Ordinary and Extraordinary Shareholder s Meeting held on October 11, 2006 resolved to increase the capital stock of the Bank in up to 100 million ordinary (common) book-entry, class B shares, with one vote per share and a nominal value of Ps.1 per share. The new shares can be subscribed, at the option of the subscriber, in cash or in 2010 Notes, 2014 Notes and 2019 Notes issued by the Bank in 2004. The offer is scheduled to be made to the shareholders of the Bank and not to third parties.

The purpose of the capital increase is to guarantee the Bank s compliance with Argentine Central Bank s capital adequacy rules, in view of increasing capital requirements. These are due not only to the current and projected growth of the Bank s business volume with the private sector but also to the Argentine Central Bank s regulations that establish increasing capital requirements on public-sector assets.

On December 14, 2006, through its Resolution N° 15,534, the CNV authorized the public offering of the new shares and approved the principal values at which the 2010 Notes, 2014 Notes and 2019 Notes would be capitalized. On December 18, 2006, the BASE granted the final authorization for listing of the new shares. The authorization from the *Superintendencia de Entidades Financieras y Cambiarias* of the Argentine Central Bank (referred to as the Financial Superintendency) was granted on May 11, 2007.

On May 23, 2007, the terms and conditions of the capital increase were published. Among others: the values at which the 2010 Notes, 2014 Notes and 2019 Notes would be accepted and the date of commencement and expiration of the subscription period for the offering. On May 30, 2007, the subscription price was published. On that date, the Bank was notified of two court orders issued at the request of a minority shareholder and issued on that date, one of which ordered the suspension of the capital increase process, the reason why the subscription period has not commenced. The Bank has appealed both court orders. As a result, the suspension order was lifted on June 12, 2007 and the other order is still pending resolution. The capital increase is expected to take place in the third quarter of 2007.

Capital Investments and Divestitures

During 2006, our capital expenditures amounted to Ps.136.5 million, distributed as follows:

- Ps.41.7 million in fixed assets;
- Ps.46.7 million in construction in progress; and
- Ps.48.1 million in organizational and IT system development expenses.

During 2005, our capital expenditures amounted to Ps.88.9 million, distributed as follows:

- Ps.30.5 million in fixed assets;
- Ps.38.1 million in construction in progress; and
- Ps.20.3 million in organizational and IT system development expenses.

During 2004, our capital expenditures amounted to Ps.42.4 million, distributed as follows:

- Ps.15.1 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 2006, 2005 and 2004, we invested Ps.0.007 million, Ps.0.2 million and Ps.0.1 million in the aggregate in Banco Galicia through open-market purchases of the Bank s common shares.

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.

During 2006, the Bank sold 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, representing the book value for such shares.

On December 19, 2006, Tarjeta Naranja S.A. acquired a 99.4% ownership interest in Ancud Comercial S.A., a company incorporated in the Dominican Republic for Ps.0.009 million. On the same date, a US$ 4.0 million capital contribution was made by Tarjeta Naranja S.A. to such company. The total amount of the investment in such company was Ps.12.1 million.

We have budgeted capital expenditures for the fiscal year ending December 31, 2007, for the following purposes and amounts:

(in millions of pesos)	
Construction of the new corporate tower (construction, furniture, equipment, phones, etc.)	Ps .44.6
Fixed Assets	62.2
Organizational and IT System Development	79.2
Total	**Ps.186.0**

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

Business Overview

We are principally engaged in commercial banking and provide a wide variety of banking products and services to large corporations, small- and medium-sized enterprises, or SMEs, 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. We are also involved in other finance-related businesses, such as investment banking, insurance distribution and asset management.

We provide financial services through one of the most extensive and diversified distribution platforms of all private-sector financial institutions in Argentina, through 232 full-service banking branches in Argentina, 584 automated teller machines, or ATMs, and 530 self-service terminals as of December 31, 2006, along with other electronic banking facilities such as phone banking and e-banking. In addition, we provide financial services to consumers through regional credit-card companies which had 113 service centers as of the same date. As of December 31, 2006, our banking distribution network covered all of the Argentine provinces and all of the main cities of Argentina.

In addition, we provide our own insurance products through Sudamericana and B2B and other Internet based services through Net Investment S.A.

Retail Banking Business

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

The Bank s Retail Banking Division manages our banking business with individuals and small retailers. It is made up of the following departments: i) the Retail Marketing Department, which is in charge of maintaining and

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creating a wide range of financial products and services marketed through the branch network and self-service and electronic banking channels and the Internet; ii) the Consumer Banking Department, which is responsible for the consumer-finance business that we conduct through the regional credit-card companies and iii) Private Banking, which is in charge of service to high net worth customers.

The working philosophy of the Retail Banking Division 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 provokes throughout the organization. During 2006, we launched an ambitious plan of segmented efforts meant to strengthen customer relations and to foster a more intense use of retail banking products. The different efforts, the response to which improves as we improve our customer knowledge, are based on continuous technical and technological advances and on all the tools that are part of the CRM (Customer Relationship Management) strategy we have implemented for over 15 years.

Information is one of the basic pillars of this strategy. We therefore focus on the enrichment and exploitation of our corporate data warehouse and on the Retail Banking Division s data mart. This has allowed us to increase our knowledge of our customers and our portfolio segmentation, working in micro-segmentation and the identification of even more precise targets.

With regards to communications through mass media, during 2006, the Bank maintained a constant and consistent presence in the City of Buenos Aires as well as in the provinces, with specific actions for each market. This brought about a clear leadership with respect to advertising awareness and top of mind of the Galicia brand, which strengthened its position.

Retail Banking (this section figures are not consolidated with the regional credit-card companies)

Our retail deposit base has grown significantly during the last few years, recording a 25% growth during fiscal year 2006. The products that boosted this significant addition of new clients were mainly consumer loans and credit cards.

In fiscal year 2006, peso-denominated retail deposits grew by more than Ps.1,095 million, which represents an increase of 37%, thus exceeding the increase experienced by this segment within the financial system as a whole, as occurred during prior years. During 2005, peso-denominated retail deposits grew 34%.

The number of deposit accounts also grew significantly. In 2006, our portfolio of individual current accounts increased by 25%, with the monthly average of new accounts reaching a peak of 4,000, while this increase was 15% during 2005. In respect of savings accounts, there was an increase of 5% in the number of such accounts and an 11% increase in the average balances per account, compared to a 9% and a 19% respectively in 2005.

The credit- and debit-card business has experienced high growth in the last few years, in the context of a growing economy and sustained commercial efforts. During 2006, the amount in pesos corresponding to purchases made during the year with Visa, Visa Electron, American Express and MasterCard cards issued by the Bank only (excluding those issued by the regional credit-card companies) exceeded Ps.4,200 million and over 57 million transactions were made. In turn, the number of managed accounts rose 31%. These increases were achieved by means of important campaigns focused on new clients and by encouraging consumption by existing customers through promotions in different stores and campaigns promoting the financing of purchases in installments.

During 2005, the MasterCard card was re-launched with a very good response by customers. The amount of purchases made using the credit and debit cards managed by the Bank only was 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 only increased by 17% during 2005.

With respect to consumer loans, in 2006, we continued to focus on our client base, with the purpose of continuing its growth while minimizing risk, but have also focused on the placement of such loans among non-customers. We reached out to this market through mass communication and direct marketing actions. This allowed us to attain our goals and expectations for the period by reaching a 171% annual increase in origination and a 140%

increase in the consumer loan portfolio, as compared to 2005, where we achieved a 130% increase in origination and a 267% increase in the portfolio (unconsolidated), as compared to 2004.

As in prior years, the mortgage loan market reported no significant growth, since there is still a very wide gap between real-estate values and the purchasing power of salaries that limits the capacity of potential borrowers to afford the installments on a mortgage loan. Despite the market s characteristics, we launched the Zero Expenses campaign with a strong presence in mass media. Furthermore, mortgage credit lines were modified in order to broaden and improve the available offering and allow for a greater access to such loans. We currently offer a broad range of loan purposes, maturities (up to 240 months) and rates (fixed, variable and combined). During fiscal year 2006, our mortgage loan portfolio increased by 15% as compared to 2005 and the average monthly origination increased by 225% from the previous fiscal year level.

We market Sudamericana s life, life-related and other insurance products through the Bank s distribution network and the Bank also sells property and casualty insurance from other companies. Through the Bank, we offer a wide range of products, having consolidated in the last few years our position as an integral provider of financial services. Beginning in September 2006, the Bank added the insurance coverage Integral de Comercio (Comprehensive Insurance for Retailers). Also, during fiscal year 2006, the Bank improved the sale of home insurance policies, exceeding the goal of 100,000 policies through a 29% growth. With respect to the marketing of auto insurance policies, the Bank achieved a 15% increase, thus exceeding 30,700 policies. As for insurance for ATM robbery, PG24 , 360,000 policies were outstanding at the end of 2006. Also, the Bank strengthened its position within the life insurance segment, achieving a 60% increase in coverage of personal injuries.

During 2005, the product Protección Hogar (Home Protection), insurance for residential units, launched in 2004 by Galicia Patrimoniales Compañía de Seguros S.A. (referred to as Galicia Patrimoniales), a subsidiary of Sudamericana, and car insurance products from other companies 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 outstanding 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.

As in prior years, 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 by more than 25% and the amounts deposited increased by more than 42%, a portion of which was attributable to the increases in salaries recorded during 2006.

Consumer Banking

We pursue the consumer finance business aimed at the non-bancarized segment of the population through the operating subsidiaries of Tarjetas Regionales S.A., a wholly owned subsidiary of the Bank. 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.

Tarjeta Naranja S.A. operates mainly in northern, central and southern Argentina. In December 2003, Tarjeta Comfiar S.A., a company that operated mostly in the province of Santa Fe, was merged into Tarjeta Naranja S.A. Tarjetas Cuyanas S.A. operates mainly in the provinces of the Cuyo region and Tarjetas del Mar S.A. operates mainly in the city of Mar del Plata and the surrounding area and other locations of the Province of Buenos Aires.

All three companies are currently expanding their geographical reach.

During 2006 and for the fourth consecutive year, boosted by the high growth of the economy as a whole and of consumption in particular, the regional credit-card companies continued to grow, increasing their customer base, the loans granted to its customers and their network of branches, thus generating very good economic results.

The number of credit-card statements issued by these companies during fiscal year 2006 increased by 22%, annual retailer invoicing exceeded Ps.4,300 million (or 29%) and the companies gross loan portfolio, before provisions and including the portfolio transferred to financial trusts, amounted to nearly Ps.1,900 million (or 36%) at the end of 2006. In addition, ten service centers were added to the distribution network of these companies (or 6%, totaling 167 service centers) and staff increased by 672 people (or 26%), thus exceeding 3,200 employees. Tarjeta Naranja expanded into the Greater Buenos Aires area where it opened its largest premises in the country, located at Morón. Also, during 2006, the sale of insurance products especially designed for these companies customer profiles continued to increase and credit cards Mira-VISA and Naranja-Master, new credit lines and financing plans for the purchase of home appliances in large stores were launched.

In turn, the quality of the loan portfolio maintained the strong levels of 2005, with these companies aggregate non-accrual to total portfolio ratio at the end of fiscal year 2006 being 2.95%, with values, in certain months that were very close to the minimum historical value (2.48% at the end of 2005). At the end of 2004, this ratio was 3,26%, being lower than in prior years.

As a consequence of growth, during fiscal year 2006, the regional credit-card companies focused on increasing their sources of funds to finance such growth. It is worth mentioning the increase in the credit lines available from banks, the extension to the companies of syndicated loans, the six issuances of financial trusts securities for Ps.353.5 million (almost Ps.139.4 million more than in 2005) and the three issuances of negotiable obligations for Ps.453.5 million, which almost doubled the amounts issued in the previous year. Among them, it is important to highlight the successful placement abroad of the Class IV Series of Tarjeta Naranja, for Ps.307 million, a 4-year term and an innovative structure, which was unique in the country at the time. It is also worth mentioning that, in all public offerings, the demand from investors, institutions and individuals, extensively exceeded the amounts issued and that the securities issued by these companies were issued at low interest rates.

In 2006, the Board of Directors of Tarjetas Regionales S.A. decided to capitalize Tarjetas del Mar S.A. and Tarjetas Cuyanas S.A., proportionally to its stock holdings, thus these companies increased their capital by Ps.72 million and Ps.12 million, respectively.

As a result of combining the ability to leverage market opportunities, the resourcefulness and strength in selling quality products and services, highly appreciated by customers, a good risk management and the efforts to improve efficiency and competitiveness and to obtain the necessary funding, net income of the regional credit-card companies for fiscal year 2006 was Ps.104.5 million, of which Ps.70.9 million corresponded to the Bank through Tarjetas Regionales S.A.

In mid 2004, Tarjeta Naranja S.A. reinitiated a geographical expansion plan, contemplating to reach a target market with a population of approximately 2 million people. This expansion continued in 2005 and 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 increased by 28.3%. These companies opened twenty-two new service centers and branches and staff increased by 370 employees, which represented a growth of 16% and 17%, respectively. In addition, these companies started operations in two new provinces, La Pampa and Buenos Aires, designed new products, such as insurance packs, launched campaigns for the placement of Tarjeta Visa-Nevada cards and the Tarjeta Naranja MasterCard cards, developed a new credit line and maintained the usual promotions.

Private Banking

Through Galicia Private Banking, we offer premium, professional financial services to medium- to high- net worth individuals. This is performed through the management of their portfolio of investments and the provision of financial advising. Galicia Private Banking offers its customers a wide range of domestic financial investment alternatives, giving priority to the Bank s products (deposits, FIMA mutual funds, among others) and financial trust debt instruments and negotiable obligations where the Bank acts as book runner.

During fiscal year 2006, Galicia Private Banking increased the number of its customers and its managed portfolio. During 2006 and 2005, placement of trust notes and negotiable obligations, including those issued by the regional credit-card companies was significant. In line with our strategy to stand out from our competitors through

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service quality, as in 2005, Galicia Private Banking implemented a client loyalty program and, during the last quarter of fiscal year 2006, it put into practice a customer satisfaction measurement program. A high index was attained with regards to the general perception of services rendered, exceeding the general levels in the market.

Distribution

The Bank s Distribution Division defines and monitors policies, action plans, and sales goals for the different channels of the Bank in order to ensure the fulfillment of the Bank s volume and profitability goals, sales efficiency, the integration of the different distribution channels and customer satisfaction. The departments managing the traditional channels and the Alternative Channels Department report to this Division.

Traditional Channels

The size and the wide geographical coverage of the Bank s branch network contribute to making our distribution network one of our 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.

During fiscal year 2006, we opened eight bank branches, one in each of the following districts: Jesús María (Córdoba), Trenque Lauquen and Zárate (Buenos Aires), Reconquista (Santa Fe), Río Grande and Ushuaia (Tierra del Fuego), Trelew (Chubut), and Cipolletti (Río Negro). As a result, at the end of 2006, our network of banking branches amounted to 232 and covered all of the Argentine provinces. At the close of 2006, our network s geographical distribution was the following:

Geographical Area	**Number of Branches**
City of Buenos Aires	76
Greater Buenos Aires (GBA)	59
Rest of the Province of Buenos Aires	31
Santa Fe	14
Córdoba	13
Mendoza	9
Entre Ríos	4
Chubut	3
Río Negro	3
Corrientes	2
La Pampa	2
Misiones	2
Tierra del Fuego	2
Catamarca	1
Chaco	1
Formosa	1
Jujuy	1
La Rioja	1
Neuquén	1
Salta	1
Santa Cruz	1
Santiago del Estero	1
San Juan	1
San Luis	1
Tucumán	1
Total	**232**

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In 2006, in order to increase business efficiency, achieve a better integration among sales channels and improve service quality, we reinforced the new customer service model that was implemented in all branches during 2005. To this end, we redefined customer service for a larger number of branches through the assignment of business officers for medium- and high-income individuals as well as for companies. In the latter case, emphasis was placed on the development of the agricultural and livestock sector and the whole range of the on SMEs segment.

Alternative Channels

Service, transactions and sales channels (other than traditional branches) that service both individual and corporate customers, consist of the Customer Contact Center, e-galicia.com, Red Galicia 24, Galicia Móvil, the Retail Sales Unit and the Real Estate Center. The last three sectors have been added during the fiscal year. As in previous fiscal years, the level of use of alternative channels by the Bank s customers recorded an upward trend. As of December 31, 2006, 77.8% of customer transactions were carried out through these channels, representing an increase from the 76.9% and 74.5% ratios corresponding to December 31, 2005 and 2004, respectively.

For 2007, expectations are of an increase in the level of use of these channels in line with the business goals defined by the Bank.

Customer Contact Center, or CCC: The CCC consists of the following sectors: Fonobanco (our phone-banking service), Fonobanco Seguros (the phone-banking unit specializing in aftermarket service for insurance policies marketed among Bank customers), Foreign Trade (responsible for assisting individuals and customer companies about the whole range of foreign-trade transactions and providing advice on the regulations in force), Galicia Responde (the unit that receives and answers customer suggestions and complaints), Telemarketing (the Bank s sales and telephone advice facility), the Investments Center, the Collection Center and the switchboard. These units also have support areas for ongoing improvement in service quality. During fiscal year 2006, the CCC managed over 18 million incoming and outgoing contacts, which implied a 57% increase compared to the previous fiscal year. 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.

Red Galicia 24: By the end of 2006, Red Galicia 24 had 588 ATMs and 530 self-service terminals installed in the Bank s branch network and other locations throughout the country, mainly in gas stations and supermarkets. This network of state-of-the-art technology terminals, one of the largest in Argentina, is the means to solve transactional needs for our customers and users of interconnection networks in a dynamic, simple, safe, and affordable way, on a 24-7 basis. The volume of transactions through this network has experienced a sustained increase in the last couple of years. Transactions through the Bank s ATM network increased by 12% from the previous year, while transactions through its self-service terminals increased by 14%. Following with the plan for the improvement of service quality and the increase of capabilities and functions, the Bank continued to replace ATMs and initiated the technical upgrade of self-service terminals. These actions will continue during 2007.

e-galicia.com: Through e-galicia.com, we aim at putting the Bank into the PC and offer a wide range of transactional capabilities, the differentiating feature of the e-galicia.com service. 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 banking transactions over the telephone, at an ATM or in a traditional branch.

Every year, the number of Internet users increases substantially and our customers demand new services to help them operate on line as they would in a traditional branch. During the past few years, e-galicia.com has shown an exponential evolution. In 2006, through Home Banking alone, 4 million monthly enquiries and transactions were made, which represents almost a 35% increase from the level as of the end of 2005. During 2005, the corresponding increase was of 40% up from the 2.3 million transactions at the end of 2004. As to the number of users, the increasing trend also continued, with a 25% increase in 2006.

Galicia Móvil: Galicia Móvil was launched during fiscal year 2006 as a new service channel available through cellular phones. In its initial stage, it is meant for small payments, as well as balances and credit-cards due date alarms, time deposits, and automatic debits. We were the first financial institution in Argentina to offer small payment services through cellular phones.

Retail Sales Unit: During 2006, we developed this unit which constitutes a specialized sales force in retail banking products. At the end of fiscal year 2006, this unit had a team of 100 sales representatives in the country s main markets and accounted for a significant portion of credit cards and current accounts sold.

Real Estate Center: Also during fiscal year 2006, we created the Real Estate Center, which strengthens and encourages placement of mortgage loans through the interaction with the loan-originating realtors. In order to do so, the center has trained personnel specialized in these credit lines who provide constant advice to realtors and customized service to each referred customer.

Wholesale Banking Business

Through the Bank s Wholesale Banking Division we carry our banking business with the corporate sector and other public- and private-sector entities. We provide these customers commercial banking services as well as investment banking, capital markets, foreign trade, corporate and real-estate business development services and non-financial public sector services. The Wholesale Banking Division is dedicated to the development of solutions meant to satisfy the needs of customers pertaining to the different sectors of the economy. One of its main objectives is to continuously strengthen the ability to create close, lasting relationships between the Bank and companies.

During fiscal year 2006, we continued to increase lending to the different sectors of activity. In 2006, the Division s loan portfolio increased by Ps.980 million, up 35% from the 2005 fiscal year-end balance. Loan origination was more than Ps.11,500 million, including the purchase of checks and negotiable instruments for Ps.7,200 million, an area in which we have maintained a leading position for several years. For the third consecutive year, we have been leaders in the leasing market, with an 18% market share. Also, deposits raised within Wholesale Banking Division s customers recorded an increase of 32.3%.

In 2005, there was 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, or IFC, to finance investment projects of export-oriented enterprises, the Bank being the first bank to reach such an agreement with the IFC after the crisis.

With regards to collection and payment services, the product offering was broadened through the launch of new products and services and the implementation of improvements meant to make businesses operations easier. Our income from this activity increased by 29.7% in 2006 as compared to fiscal year 2005. For example, in order to make collections more efficient and faster, Cobranzas con Tarjetas was launched, a new service that allows companies to receive their customers payments directly at self-service terminals and ATMs that are part of the Banelco network, by means of a magnetic card. In the same line, in 2005, we were the first financial institution to provide our customers support in connection with the Argentine Tax Authority s new on-line tax-payment system, thereby becoming a leader in terms of the number of related transactions and increasing our market share in such area.

Also, there were innovative developments in Galicia Office, the leading e-banking channel for corporations. Since the end of 2005, this system added the ability to request transfers abroad.

In order to continue to develop geographical areas and customers, in September 2006 we opened a new Corporate Banking Center in San Miguel de Tucumán, which was an addition to those located at Rosario, Mar del Plata, Mendoza and Córdoba. Each of these centers offer specialized counseling on SMEs, agribusiness, corporate and foreign trade services. Furthermore, in line with the strategy of providing more and better services to companies and their staff, during 2006, we installed a significant number of ATMs on various companies premises.

With regards to commercial cards, in 2006, we launched VISA Corporate Aerolíneas Plus, a credit card exclusively for the corporate sector. The Visa Business Banco Galicia card was in first place in terms of market share over the total of Commercial Cards Visa, both in terms of amount of purchases and number of accounts and active cards, a position it had attained in 2005, and Tarjeta Galicia Rural (Galicia Rural Card) also increased its leadership.

The wholesale Banking Division continued to promote activities focused on agro-industrial training, among the most important of which was the subscription of an agreement with the Austral University in order to foster the education on agribusiness an agreement that included special discounts for customers willing to take part in the Executive Master in Agribusiness as well as in seminars and special programs and the sponsorship of the educations programs of CEIDA (Agro-industrial Leadership Educational Center) and EGEA (distance learning for agro-industrial business management), both of the Argentine Rural Society.

Corporate Banking

The Bank s Corporate Banking unit specializes in services to large economic groups. We have strengthened our position in this segment in the last few years, having recorded an important increase in activity levels, mainly with respect to collection, payment and foreign trade services. In 2006, we achieved again closer relationships with companies within this segment, through the supply of custom-made products and services, mainly related to collections and value-added technological solutions.

The increase in the number of customers required the hiring of new personnel in order to maintain the personalized, specialized service the Bank always provided these customers.

Middle-Market Banking

Through the Bank s Middle-Market Banking department, we provide services to SMEs and agribusiness segments, in which we are leaders and which constitute strategic objectives where the challenge is in maintaining the leading position we have had for so many years. Likewise, based on customer knowledge and relations, we have established ourselves as an important player in the large middle-market corporate sector, due to our active role in the financing of working capital and investment projects and our leasing business.

Through Galicia Convenios (Galicia Agreements), in 2006, new financing agreements were executed with prime companies and institutions in order to offer special benefits with regards to interest rates and maturities. The goal of Galicia Convenios is to achieve synergies stemming from the relationship between the Bank and large corporations, SMEs and agribusinesses, offering each of them the financial support that benefit both parties.

As in prior years, we maintained an active involvement in programs fostered by the SePyME (Small- and Medium-Size Enterprises Secretariat) for the financing of investment projects and capital goods and also used the second tranche of the credit line granted by the IFC in order to fund export-oriented investment projects. We have also signed an agreement with the *Fondo Tecnológico Argentino* (Argentine Technological Fund or FONTAR) to finance technological innovation projects.

In order to continue to support the growth of SMEs, in December 2006, we launched SMEs Transformation Program, with the involvement of Banco Galicia, Fundes, Imes, Intel, Microsoft, and Telecom. This program is a strategic alliance between technological and financial industries intended for SMEs located in the greater Buenos Aires area and is aimed at strengthening these companies competitiveness through the implementation of technological improvements such as more efficient software, hardware and communications. Banco Galicia participates by channeling and financing these transactions.

During 2006, we strengthened the customer service model through the creation of units specialized in micro companies and small companies and the addition of a specialized officer, exclusively for the service of Middle-Market Banking customers within the branch network.

In addition, we have a close, long-standing relationship with the agribusiness sector, having always been very close to producers and to the entire value chain. Our Agribusiness Department, made up of professional agronomists specialized in finance and using state-of-the-art technology, seeks to understand the producers needs and contribute to their development through the provision of custom-made financial solutions.

Tarjeta Galicia Rural is the most functional method of payment and credit in the agribusiness sector. In 2006, Tarjeta Galicia Rural bolstered its continuous growth and confirmed its leadership in the agricultural cards market with a 60% market share and a significant increase in its active portfolio and points of sale. In 2006, there was a 65% increase in the amount of purchases made as compared to the previous fiscal year. During 2006, as in prior years, new financing agreements were entered into and existing ones were renewed, which included preferential terms and special rates. These agreements involve the different value chains of the industry as well as different economic sectors, such as the fuel, spare parts, machinery, seeds, fertilizer, and agrochemical sectors, among others. Likewise, we carried out successful marketing activities in order to attract users and dealers. During 2005, these agreements had been extended to suppliers of additional intermediate goods used by the agribusiness sector, and the use of Tarjeta Galicia Rural was expanded and generalized in areas outside of the main agriculture regions, such as Santiago del Estero, Salta and Jujuy.

Investment Banking and Capital Markets

Through the Bank s Investment Banking and the Capital Markets Departments, we contribute to the achievement of the long-term strategic goals of our Wholesale Banking customers and those of the Bank itself, through the integral development of complex capital market products and services. Since 2004, and following the dissolution of Galicia Capital Markets S.A., these Departments are responsible for providing the services previously provided by this subsidiary.

During 2006, we implemented several highly complex financial transactions. We completed the last debt restructuring and liability swap transactions still pending in connection with the Bank s Wholesale Banking customers and organized several long-term structured products for corporate customers, including syndicated loans. With regards to mergers and acquisitions, we advised the Bank regarding the sale of its interests in Inversora Nihuiles S.A. and Inversora Diamante S.A. Also, during 2006, we strengthened our leading position in the structuring of financial trusts through our participation in 19 transactions, accounting for Ps.1,490 million in trust assets. During 2006, we structured and placed eight financial trusts for a total amount of Ps.114 million. In addition, we structured four financial trusts with the Bank s own portfolio, for Ps.434 million, apart from six financial trusts and two series of negotiable obligations corresponding to the regional credit-card companies, which amounted to Ps.354 million and Ps.65 million, respectively.

During 2005, we structured and placed four trusts the underlying assets of which were Bank assets, thus generating funding for Ps.258 million in the 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, amounted to Ps.432 million in 2005.

During 2004, these departments worked on the renegotiation of our past due commercial customers portfolios, and provided customers with investment banking services.

Corporate and Real-Estate Business Development

Through this unit, which reports to the Bank s Wholesale Banking Business Division, we develop business transactions with the corporate sector and leverage and channel the opportunities for commercial development, structuring and financing of real-estate projects within the residential, corporate, commercial and tourism-related segments. During 2006, we completed several financing transactions for hotel undertakings, urban residential projects, and commercial premises belonging to our customer companies, thus leveraging the development recorded in the Argentine real-estate industry during this period. Also, during 2006, we closed important real-estate leasing transactions for business and industrial companies throughout the country, which allowed us to be considered a financial system s leader in this kind of activity.

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Non-Financial Public Sector

During 2006, we completed the development stage of the Management Tools for Electronic Government project, having worked in pilot districts, and a final proposal, which was approved by the Argentine Municipal Federation last November. Initiatives were started in order to implement such tools in the above-mentioned districts and in the City of Mendoza.

Foreign Trade

The Argentine market has been adapting to the exchange system enforced by the Argentine Central Bank in the past years, which is relatively flexible in some aspects and more stringent in others. Foreign trade activities have progressively benefited from the sustained release of foreign exchange regulations that began in late 2002, despite the introduction of certain controls and deposit requirements on capital inflows established in 2005.

The volume of foreign-trade transactions routed through us increased to US$ 5,525 million, up 25.5% from 2005. Considering exclusively commercial transactions (i.e., imports and exports), the increase in 2006 was of 24%, a growth that is higher than that of the total amount of foreign-trade transactions for the country as a whole, which was 17.8%. In our case, these two items amounted to US$ 4.1 billion, equivalent to 4.96% of Argentina s foreign trade during 2006. This increase stems from over 170,000 transactions processed during the year, up 15% from the number of transactions processed in 2005. During 2005, the volume of foreign-trade transactions channeled through us was US$ 3,675 million, 46.7% higher than in 2004. Considering exclusively commercial transactions (i.e., imports and exports), the increase was of 63.8%, higher than the increase in the country as a whole, which was 20.6%. In our case, the amount of these transactions was US$ 3,219 million, equivalent to 4.7% of Argentina s foreign trade during 2005, higher than the 3.4% achieved in 2004.

These results were the consequence of a series of actions which, in line with our relationship banking concept, were meant to make us a clear benchmark for customers with respect to foreign trade. All these actions allowed us to increase penetration in customers business transactions and to add 390 new SMEs as foreign-trade customers during 2006, representing an 8% increase from the previous year-end level. Also, investments continued to be made on the development and perfecting of versatile IT tools and products that allow customers to operate on line. All of the above, apart from helping us stand out from our competitors, made companies transactions easier and contributed to their efficiency.

Through Galicia Factoring y Leasing S.A. we offer international factoring services, supplementing the Bank s services offering and making available to customers all alternatives for their foreign-trade transactions.

Galicia Office

Galicia Office is e-galicia.com s exclusive section for corporations. Through Galicia Office, companies may, at no cost, review on line 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 it was launched, both in terms of users, queries and transactions, thereby remaining a leader in electronic corporate banking. Galicia Office, closed fiscal year 2006 with 23,000 active customers, accounting for 60% of the client base, and an increase in the number of transactions of 64% and in their volume of 78% as compared to the prior year.

In order to offer more and better technological solutions that optimize operational processes, we carried out new developments during 2006. Among those developments was the new functionality of the Payroll Module, which allows for the management of the payroll and direct deposit of salaries and the control of each transaction s status. With respect to payroll direct deposit, the increase in the aggregate amount of transactions recorded was of approximately 230% between January and December 2006. Like in previous years, the Foreign-Trade Module recorded an increase in the number of users, inquiries and transactions, carrying out transfers abroad and processing payment orders in the amount of Ps.933 million.

In 2006, a foreign consulting firm was hired to assess Galicia Office s IT security processes. The evaluation concluded successfully.

Through Galicia Compras, Galicia Office s SMEs customers may access products and services, from supplies and commonly used materials to specialized services rendered by world-class suppliers. Through Red de Campo, Galicia Office s customers can find updated information about the industry, the weather and the marketplace.

Treasury and Asset Management

Through the Bank s Treasury Division we provide services and distribute financial products, among others, to corporations, financial entities, mutual funds, pension and retirement funds (AFJPs), insurance companies, and others. This Division is responsible for the centralized management of the Bank s treasury operations and its liquidity, as well as the Bank s foreign-exchange and securities portfolio. We undertake securities trading in the different markets, sometimes in our capacity as agent of the Argentine Over-The-Counter Market, or MAE, and others through Galicia Valores S.A., a brokerage firm that operates on the BASE. Finally, this Division is responsible for our international business relations.

Financial Operations

During 2006, highly favorable economic indicators continued to prevail in general. The low yields registered by assets of mature economies, as well as the significant improvement in the fundamentals of emerging economies made the emerging markets an attractive destination for international financial investments. The significant capital inflow recorded during 2006 was evidenced, among others, in a substantial decrease in Argentina s country risk levels, which reached an historical low and allowed the spread to other economies in the region to decrease. During 2005, the capital markets reported a significant improvement, as a result of the restructuring of the Government s foreign debt. This led to a significant reduction in the sovereign risk. This improvement continued from that observed during 2003 and 2004.

This context brought about the expansion of traded volumes within the domestic capital market. With regards to fixed-income instruments, during 2006, the market s traded volume exceeded that of the previous fiscal year by 11.6%, up from the US$ 73,103 million traded in 2005 to US$ 81,624 million in 2006. This increase was of 106% in 2005 as compared with 2004. In turn, in 2006, the total amount traded by us reached US$ 2,046 million, with a 33% increase compared to the previous year, which allowed us to continue increasing our market share. The increase during 2005 amounted to 366% from 2004 levels. In the equity market, the total traded volume amounted to Ps.80,929 million in 2006, Ps.85,952 million in 2005 and Ps.49,366 million in 2004. Galicia Valores S.A. contributed with a total of Ps.1,515 million in 2006, accounting for a 1.87% share, Ps.1,524 million in 2005 and Ps.1,312 million in 2004.

During 2006, we successfully placed 25 issuances of financial trust securities and negotiable obligations, both the Bank s and that of third parties, for a total amount of Ps.1,526 million, thus leading the market. Also, we took part, in our capacity as book runner in the issuance of securities for Ps.588 million by the Gas I Financial Trust. This financial trust was the first instrument in the Argentine capital markets developed in order to finance infrastructure works. During 2005, we successfully placed 20 issuances (our own and that of third parties) of financial trust securities and negotiable obligations, for a total of Ps.630 million, and were positioned as one of the primary participants in this market.

With regard to the foreign-exchange market, during 2006, we achieved a new increase in traded volumes related to foreign-trade operations, thus exceeding the figures recorded in the previous fiscal year by 20%. In the wholesale foreign-exchange market, the total amount corresponding to transactions executed by us through the MAE amounted to US$ 5,485 million, which accounted for a 7.99% share. During 2005, as in 2004, we focused especially on foreign-exchange transactions related to foreign trade, reaching a 47% increase in the volume traded in 2005 as compared to 2004. In the foreign-exchange wholesale market, our activity through the MAE amounted to US$ 5,089 million, ranking as one of the three leading private-sector financial institutions in December 2005.

Asset Management

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

During 2006, assets under management increased by 62%, varying from Ps.296.7 million as of December 30, 2005, to Ps.480.0 million as of December 29, 2006, distributed in a product family composed of 12 funds. This sound growth was reflected mainly in money market and fixed income funds, two products with a strong demand from individuals and companies. Market expectations for 2007 are mainly focused on the mutual fund industry continuing growth, in respect of managed volume as well as product competitiveness.

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 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.170 million as of December 31, 2003.

International

The Office of International Banking and Financing Relations is responsible for managing our business relations with correspondent banks, international credit agencies and international mutual funds.

In 2006, the improved perception of Argentina within the international economic community and our positive image supported by constant presence in international events brought about a larger offering of commercial lines by correspondents, together with new improvements in terms offered, both maturities and costs, which allowed us to comfortably attend to all foreign-trade transactions by our customers. Also, with resources provided by the IFC, we continued to finance environmentally-friendly medium- and long-term investment projects by SMEs active in the agribusiness and export sectors.

In 2005, we recorded a gradual increase in trade facilities from our correspondent banks, with a gradual reduction of spreads and extension of terms, which allowed us to attend to all of the foreign-trade transactions of our customers. The IFC line was approved in May 2005 for US$ 40 million and a seven year tenor.

Until the first half of 2004, this unit s activities mainly concentrated on its participation our foreign debt restructuring process and the winding down of our operating units abroad. See History Restructuring of Our Subsidiaries Debt Banco Galicia. In the second half of 2004, this sector s activities focused on resuming international relations with the purpose of reestablishing foreign financing sources for the development of our business.

Sudamericana Holding S.A.

Sudamericana is a group of life, retirement and property and casualty, or P&C, insurance companies. We own an 87.5% ownership interest in Sudamericana. Banco Galicia holds the remaining 12.5%. In line with our strategy, this investment allows us to implement our plan to consolidate our leadership as a financial services provider and supplement those businesses that Banco Galicia may only conduct to a limited extent due to prevailing regulations.

Total insurance production (amount of premiums written) of life, retirement and P&C insurance companies controlled by Sudamericana amounted to Ps.54.9 million during 2006. As of December 31, 2006, Sudamericana s subsidiaries had more than 2.2 million insured taking into account all of the insurance sectors in which it conducts business, both through individual and group policies. The amount of premiums written in 2006 was 45.0% higher than in the previous year (excluding Instituto de Salta Compañía de Seguros de Vida S.A. s turnover in 2005 due to the sale of this company in April 2005).

In 2006, 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 bank assurance model and improving customer service quality. In 2006, Ps.30.9 million of annualized premiums were sold, 20% higher than in the prior year. In June 2006, in order to continue improving operating efficiency, Galicia Vida Compañía de Seguros S.A. (the group s life company, referred to as Galicia Vida) and Galicia Patrimoniales (the group s P&C company) were merged into Galicia Seguros, which allowed for a reduction in administrative expenses and the simplification of a large number of processes.

The business plan for the short-term is targeted at expanding the turnover volume, which, together with improvements in operating efficiency, will allow for greater profitability.

Net Investment S.A.

Net Investment S.A., or Net Investment, provides B2B e-commerce support services and virtual markets for transactions between companies and suppliers. Our ownership interest in the company is 87.5%, while the remaining 12.5% is held by Banco Galicia. Net Investment was a holding company whose initial purpose was to invest and develop businesses related to technology, communications, the internet, connectivity, and contents, in projects with positive cash flows and profits. On February 1, 2007 Tradecom Argentina -the only operating subsidiary of Net Investment- was merged into Net Investment and the merger was registered with the *Inspección General de Justicia*, the Argentine Superintendency of Companies, or IGJ.

During 2006, Tradecom Argentina S.A. continued with its commercial policy aimed at improving its products, such as the Current Account Viewer and the Suppliers Portal . It also developed new products such as invoice preloading , the retention certificates module and the delivery activation service . In addition, we carried out constant research and development of products. Sales increased considerably from those recorded for fiscal year 2005 due to the incorporation of major customers from Brazil that had been previously serviced by Tradecom Brasil S.A. Our objective is to continue participating in this 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.

Galicia Warrants S.A.

We own 87.5% of the capital stock of Galicia Warrants S.A., or Galicia Warrants, a company dedicated to the issuance of deposit certificates and warrants, and the remaining 12.5% interest is owned by Banco Galicia. Founded in 1993, Galicia Warrants is a leading company in its market. Through the custody of goods, Galicia Warrants supports the business of its customers, medium and large companies, and enables such customers access to credit and financing guaranteed by the property kept in its custody and evidenced by the corresponding certificates it issues.

Both the production increase of export-related sectors, among which the agriculture and livestock sector had an outstanding performance, which was 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. 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, a company that provides brokerage services in Uruguay. As of September 2005, Galval started to operate gradually and, as of December 31, 2006, it held securities in custody in the amount of US$ 156.0 million, an amount considerably higher than the US$ 11.8 million at the end of the previous fiscal year.

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 banks with global operations, 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.

In respect of 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 8.43% as of December 31, 2006, compared to 7.96% as of December 31, 2005 and 7.07% as of December 31, 2004.

The Bank has consistently increased its deposit market share following the 2001-2002 crisis and is one of the leading banks in Argentina and the largest domestically owned private-sector bank measured by its assets. As of December 31, 2006, 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).

In terms of the overall business, the Bank has a leadership position in the retail market, is one of the leading providers of commercial banking services and has a leadership position in the middle-market and agribusiness sectors.

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. However, the operation of the regional credit-card companies is estimated to be the largest in its kind in Argentina. Since 2005, and especially during 2006, the regional credit-card companies have faced increased competition in the segments in which they operate, partly from the banking system in search for new market niches and partly from other players, both local and foreign. After 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.

Insurance Industry

During 2006, the industry consolidation continued. The number of insurance companies authorized by the National Insurance Superintendency decreased from 175 at the end of 2005 to 170 at the end of 2006.

Total insurance is gradually resuming the growth pace it had experienced before the economic crisis that took place in 2001, reaching in 2006, and pursuant to official estimates, Ps.17,236 million in premiums written expressed in current values, 28.1% higher than in the previous year. This growth was mainly driven by workers compensation (50.1%) and life insurance (33.6%) sectors. Meanwhile, retirement insurance recovered from the decrease of the previous year and increased 24.9% when compared to 2005.

The property insurance sector reached Ps.11,994 million (70% of total insurance for 2006). Automotive insurance continues to be the most important segment in terms of volume of premiums written (it represents 44.6% of the property insurance sector) and, even though it increased 20.6% when compared to the previous year, it increased at a lower rate in comparison to the other sectors.

In turn, the individual insurance sector reached Ps.5,242 million (30% of total insurance for 2006, 20% corresponding to life insurance and 10% to retirement insurance). In 2006, non-pension-linked life insurance represented 41.4% of the individual insurance sector, followed by pension-linked retirement insurance (26.0%), pension-linked life insurance (25.3%), and the rest of the retirement insurance sector (7.3%).

Sales and Marketing

Banco Galicia s distribution capabilities are our principal marketing channel.

Through Banco Galicia, we operate one of the most extensive and diversified distribution networks among private-sector financial institutions in Argentina. The Bank s distribution network is one of the largest and most flexible distribution platforms in the country and has a 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 as well. 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.

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, the e-banking website and to banking services through the cell phone. 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. During the month of December 2006, 77.8% of customer transactions were made through the Bank s alternative channels.

In addition, the Bank has a special sales unit specializing in marketing various retail banking products and services, and a centralized unit specializing in the marketing of mortgage loans, which works together with realtors.

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 time at the branches was also added. In 2006, the new customer service model implemented in all branches during the previous year was reinforced. To this end, customer service was redefined for a larger number of branches through the assignment of business officers for medium- and high-income individuals as well as for companies. In the latter case, emphasis was placed on the development of the agricultural and livestock sector and the whole range of the SMEs segment.

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.

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 increase 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, and during 2006, started the implementation of a three-year plan for the purpose of strengthening the organizational culture through certain values such as commitment, kindness, and accuracy, 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 8.96 points (from 10), and 127 branches exceeded the goal set up for the fiscal year, which was 8.80 points. Also, as done every year since 2001, a benchmarking survey was jointly carried out with the main competitor banks. The survey results awarded the Bank first place with respect to customer satisfaction.

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

Property

The following are our main principal assets:

Property	Address	Square Meters	Main Uses
Grupo Financiero Galicia			
- Owned	-Tte. Gral. Juan D. Perón 456, 2nd floor, Buenos Aires, Argentina	146	Administrative activities
	-Maipú 241, Buenos Aires, Argentina (1)	1,619	Administrative activities
Galicia Retiro Compañía de Seguros S.A.			
- Owned	-Maipú 241, Buenos Aires, Argentina	723	Administrative activities

Galicia Vida Compañía de Seguros S.A.			
- Owned	-Maipú 241, Buenos Aires, Argentina	915	Administrative activities
Net Investment S.A.			
- Owned	-Tte. Gral. Juan D. Perón 456, 2nd floor, Buenos Aires, Argentina	45	Administrative activities

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Property	Address	Square Meters	Main Uses
- Rented	-25 de Mayo 702, 3rd floor, Buenos Aires, Argentina	290	Administrative activities
Galicia Warrants S.A.			
- Owned	-Tte. Gral. Juan D. Perón 456, 6th floor, Buenos Aires, Argentina	118	Administrative activities
	-Ruta Nacional 18, Km. 209, San Salvador, Entre Ríos, Argentina	47,917	Storage
- Rented	-Alto Verde, Chicligasta, Tucumán, Argentina	2,000	Storage
	-Alsina 3450, San Miguel de Tucumán, Tucumán, Argentina	12,800	Storage
	-Pasaje 1° de Mayo Esquina 25 de Mayo, Barrio el Corte Alderete, Tucumán, Argentina	2,000	Storage
	-Ruta Prov. 316 km. 14, Obispo Colombres, Depto. Alta Cruz, Tucumán, Argentina	3,000	Storage
	-San Martín 784, San Miguel de Tucumán, Tucumán, Argentina	85	Administrative activities
Banco de Galicia y Buenos Aires S.A.			
- Owned	-Tte. Gral. Juan D. Perón 407, Buenos Aires, Argentina	17,270	Administrative activities
	-Florida 361, Buenos Aires, Argentina	7,340	Administrative activities
- Rented	-Tte. Gral. Juan D. Perón 525, Buenos Aires, Argentina	9,325	Administrative activities
	-San Martín 178/200, Buenos Aires, Argentina	3,630	Administrative activities
Banco Galicia Uruguay S.A.			
- Owned	-Luis Alberto Herrera 1248, 21st and 22nd floors, Edificio World Trade Center, Montevideo, Uruguay	880	Administrative activities
	-Punta del Este, Uruguay		Former Branch
- Rented	-Montevideo, Uruguay		Storage
Tarjeta Naranja S.A.			
- Owned	-Sucre 152, 154 and 541, Córdoba, Argentina	6,500	Administrative activities
	-San Jerónimo 2348, 2350, Santa Fe, Argentina	1,500	Administrative activities
- Rented	-Sucre 145/151, La Rioja 364 and 375, and Los Andes 197, Córdoba, Argentina	6,100	Administrative activities, printing centre and storage
Tarjetas Cuyanas S.A.			
- Rented	-Belgrano 1415, Mendoza, Argentina	1,160	Administrative activities
	-Olascoaga 348, San José, Mendoza, Argentina	580	Storage

Tarjetas del Mar S.A.

- Rented	-Luro 3001, Mar del Plata, Buenos Aires, Argentina	240	Administrative Activities
	-Luro 2943, Mar del Plata, Buenos Aires, Argentina	765	Administrative Activities

(1) We lease seven 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.

In addition, 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, the Bank is constructing a new corporate tower. The Bank will centralize a significant portion of its offices that are currently in the vicinity in this new corporate tower. The new corporate tower consists of approximately 42,000 square meters. The construction works are expected to be completed during 2007 and the estimated investment for 2007 is of approximately Ps.44.6 million.

As of December 31, 2006, our distribution network consisted of:

-Banco Galicia: 232 branches located in Argentina, 137 of which were owned and 95 of which were rented by Banco Galicia, located in all of Argentina s 23 provinces.

-Tarjeta Naranja S.A.: 92 sales points located in 21 of the 23 Argentine provinces, 91 of which were rented by the company.

-Tarjetas Cuyanas S.A.: 19 sales points located in the provinces of Mendoza, San Juan, San Luis, La Pampa, La Rioja, Catamarca, Neuquén and Tucumán. All of them were rented.

-Tarjetas del Mar S.A.: 3 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.

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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 the Argentine Central Bank quoted. For the preparation of the financial statements as of December 31, 2004, December 2005 and 2006, the exchange rates used were Ps.2.9738, Ps.3.0315 and Ps.3.0695 per US$ 1.00, respectively. See Item 3. Key Information Exchange Rate Information.

Information included in this section as of and for the three fiscal years ended December 31, 2006 does not include any effect of inflation accounting. Information included in this section as of and for the fiscal year ended December 31, 2002 and 2003 include the effects of inflation accounting through February 28, 2003. See Presentation of Financial Information .

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. on a consolidated basis. The average balances of interest-earning assets and interest bearing liabilities are calculated on a monthly basis for Grupo Financiero 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. We manage our trading activities in government securities as an integral part of our business. We do 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, 2006.

	Fiscal Year Ended December 31, 2006 (*)								
	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**
	(in millions of pesos, except rates)								
Assets									
Government Securities	Ps. 3,501.5	Ps. 252.5	7.21	Ps. 1,174.3	Ps. 60.0	5.11	Ps. 4,675.8	Ps. 312.5	6.68
Loans									
Private Sector	5,148.2	754.0	14.65	1,333.3	75.1	5.63	6,481.5	829.1	12.79
Public Sector	4,369.5	496.3	11.36				4,369.5	496.3	11.36
Total Loans	9,517.7	1,250.3	13.14	1,333.3	75.1	5.63	10,851.0	1,325.4	12.21
Other(1)	1,778.4	125.5	7.06	4,447.4	158.8	3.57	6,225.8	284.3	4.57
Total Interest-Earning Assets	**14,797.6**	**1,628.3**	**11.00%**	**6,955.0**	**293.9**	**4.23%**	**21,752.6**	**1,922.2**	**8.84%**
Cash and Gold	432.7			210.0			642.7		
Equity in Other Companies	561.1			44.2			605.3		

Other Assets	1,970.2	80.8	2,051.0
Allowances	(348.8)	(88.3)	(437.1)
Total Assets	**Ps. 17,412.8**	**Ps. 7,201.7**	**Ps. 24,614.5**

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	Fiscal Year Ended December 31, 2006 (*)								
			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**
	(in millions of pesos, except rates)								
Liabilities and Equity									
Deposits									
Current Accounts	536.8	21.0	3.91	122.0			658.8	21.0	3.19
Saving Accounts	1,283.0	4.4	0.34	506.3			1,789.3	4.4	0.25
Time Deposits	4,556.3	405.8	8.91	741.6	9.6	1.29	5,297.9	415.4	7.84
Total Interest-Bearing Deposits	6,376.1	431.2	6.76	1,369.9	9.6	0.70	7,746.0	440.8	5.69
Argentine Central Bank	6,083.0	769.5	12.65	0.1			6,083.1	769.5	12.65
Other Financial Entities	265.9	35.1	13.20	172.9	11.3	6.54	438.8	46.4	10.57
Debt Securities	170.7	24.4	14.29	3,261.7	270.5	8.29	3,432.4	294.9	8.59
Other	108.8	12.2	11.21	1,084.9	96.2	8.87	1,193.7	108.4	9.08
Total Interest-Bearing Liabilities	**13,004.5**	**1,272.4**	**9.78**	**5,889.5**	**387.6**	**6.58**	**18,894.0**	**1,660.0**	**8.79**
Demand deposits	1,735.8			20.6			1,756.4		
Other Liabilities	1,651.9			518.8			2,170.7		
Minority Interests	144.1						144.1		
Shareholders Equity	1,649.3						1,649.3		
Total Liabilities and Equity	**Ps. 18,185.6**			**Ps. 6,428.9**			**Ps. 24,614.5**		
Spread and Net Yield									
Interest Rate Spread			1.22%			(2.35)%			0.05%
Cost of Funds Supporting Interest-Earning Assets			8.60			5.57			7.63
Net Yield on Interest-Earning Assets			2.41			(1.35)			1.21

(*) Rates include the CER adjustment.

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

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
	(in millions of pesos, except rates)								
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
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

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	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
	(in millions of pesos, except rates)								
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 Liabilities	**13,602.4**	**1,489.0**	**10.95**	**5,835.4**	**307.1**	**5.26**	**19,437.8**	**1,796.1**	**9.24**
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.

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**
	(in millions of pesos, except rates)								
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 Liabilities	**11,800.7**	**880.0**	**7.46%**	**6,493.3**	**165.1**	**2.54%**	**18,294.0**	**1,045.1**	**5.71%**

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	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
	(in millions of pesos, except rates)								
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**		
Spread and Net Yield									
Interest Rate Spread			2.09%			(2.16)%			0.35%
Cost of Funds Supporting Interest-Earning Assets			6.85			2.09			5.04
Net Yield on Interest-Earning Assets			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.

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, 2006 compared with the fiscal year ended December 31, 2005; and (ii) the fiscal year ended December 31, 2005, compared with the fiscal year ended December 31, 2004. Differences related to rate or volume are allocated proportionally to the rate variance and the volume variance, respectively.

	Fiscal Year 2006/ Fiscal Year 2005, Increase (Decrease) due to changes in			Fiscal Year 2005/ Fiscal Year 2004, Increase (Decrease) due to changes in		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	(in millions of pesos)					
Interest Earning Assets						
Government Securities						
Pesos	(158.5)	(249.9)	(408.4)	428.5	153.9	582.4
Dollars	10.3	33.3	43.6	30.3	73.9	104.2
Total	(148.2)	(216.6)	(364.8)	458.8	227.8	686.6
Loans						
Private Sector						
Pesos	177.6	(33.9)	143.7	109.4	10.0	119.4
Dollars	16.3	19.2	35.5	4.8	(9.3)	(4.5)
Total	193.9	(14.7)	179.2	114.2	0.7	114.9
Public Sector						
Pesos	(64.7)	(153.9)	(218.6)	(88.7)	239.0	150.3
Dollars						
Total	(64.7)	(153.9)	(218.6)	(88.7)	239.0	150.3
Other						
Pesos	23.7	(32.8)	(9.1)	14.5	27.6	42.1
Dollars	(8.4)	28.5	20.1	(2.9)	68.3	65.4
Total	15.3	(4.3)	11.0	11.6	95.9	107.5
Total Interest-Earning Assets						
Pesos	(21.9)	(470.5)	(492.4)	463.7	430.5	894.2
Dollars	18.2	81.0	99.2	32.2	132.9	165.1
Total	**(3.7)**	**(389.5)**	**(393.2)**	**495.9**	**563.4**	**1,059.3**
Interest Bearing Liabilities						
Demand Account						
Pesos		5.7	5.7	3.1	7.4	10.5
Dollars						
Total		5.7	5.7	3.1	7.4	10.5
Saving Account						
Pesos	1.0	(1.3)	(0.3)	1.0	(0.5)	0.5
Dollars						
Total	1.0	(1.3)	(0.3)	1.0	(0.5)	0.5
Time Deposits						
Pesos	98.5	68.4	166.9	71.0	51.6	122.6
Dollars	(0.3)	2.0	1.7	(4.5)	(5.8)	(10.3)
Total	98.2	70.4	168.6	66.5	45.8	112.3

With the Argentine Central Bank						
Pesos	(294.8)	(112.9)	(407.7)	15.3	463.0	478.3

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	Fiscal Year 2006/ Fiscal Year 2005, Increase (Decrease) due to changes in			Fiscal Year 2005/ Fiscal Year 2004, Increase (Decrease) due to changes in		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	(in millions of pesos)					
Dollars						
Total	(294.8)	(112.9)	(407.7)	15.3	463.0	478.3
With Other Financial Entities						
Pesos	9.1	(10.8)	(1.7)	17.4	(28.5)	(11.1)
Dollars	1.4	0.1	1.5	(45.2)	(11.8)	(57.0)
Total	10.5	(10.7)	(0.2)	(27.8)	(40.3)	(68.1)
Negotiable Obligations						
Pesos	8.5	6.2	14.7	2.5	7.2	9.7
Dollars	(10.2)	56.3	46.1	2.3	194.5	196.8
Total	(1.7)	62.5	60.8	4.8	201.7	206.5
Other liabilities						
Pesos	7.0	(1.2)	5.8	2.5	(4.0)	(1.5)
Dollars	2.5	28.7	31.2	(1.3)	13.8	12.5
Total	9.5	27.5	37.0	1.2	9.8	11.0
Total Interest Bearing Liabilities						
Pesos	(170.7)	(45.9)	(216.6)	112.8	496.2	609.0
Dollars	(6.6)	87.1	80.5	(48.7)	190.7	142.0
Total	**(177.3)**	**41.2**	**(136.1)**	**64.1**	**686.9**	**751.0**

Interest-Earning Assets Net Yield on Interest-Earning Assets

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,		
	2006	2005	2004
	(in millions of pesos)		
Total Average Interest-Earning Assets			
Pesos	Ps. 14,797.6	Ps. 15,287.2	Ps. 12,843.1
Dollars	6,955.0	6,557.0	7,892.3
Total	**21,752.6**	**21,844.2**	**20,735.4**
Net Interest Earned [(1)]			
Pesos	355.9	631.7	346.5
Dollars	(93.7)	(112.4)	(135.5)
Total	**262.2**	**519.3**	**211.0**

Net Yield on Interest-Earning Assets (2)(%)			
Pesos	2.41	4.13	2.70
Dollars	(1.35)	(1.71)	(1.72)
Weighted-Average Yield	**1.21**	**2.38**	**1.02**
Interest Spread, Nominal Basis (3) (%)			
Pesos	1.22	2.92	2.09
Dollars	(2.35)	(2.29)	(2.16)
Weighted-Average Yield	**0.05**	**1.36**	**0.35**
Credit Related Fees Included in Net Interest Earned			
Pesos	26.4	26.4	20.7
Dollars			
Total	**26.4**	**26.4**	**20.7**

(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.*

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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, 2006	2005
	(in millions of pesos)	
Government Securities		
Pesos		
Trading	Ps. 0.1	Ps. 14.6
Issued by the Argentine Central Bank	119.5	704.5
Without Quotation	433.5	4,591.1
Total Government Securities in Pesos	**Ps. 553.1**	**Ps. 5,310.2**
Dollars		
Trading	26.4	6.3
Investment	2,608.8	650.9
Total Government Securities in Dollars	**Ps. 2,635.2**	**Ps. 657.2**
Total Government Securities	**Ps. 3,188.3**	**Ps. 5,967.4**
Total Government and Corporate Equity Securities.	**Ps. 3,188.3**	**Ps. 5,967.4**
Corporate Debt Securities		
Pesos		3.9
Dollars	0.3	0.5
Total Corporate Debt Securities	**Ps. 0.3**	**Ps. 4.4**
Total Government and Corporate Securities	**Ps. 3,188.6**	**Ps. 5,971.8**

As of December 31, 2006, our portfolio of government securities was mainly comprised of:

(i) Under Dollars Investment , the holdings of Boden 2012 Bonds corresponding to the 90.8% of the Hedge Bond (face value US$ 1,155.0 million) credited to the Bank on December 1, 2006. At the end of the previous fiscal year, the total amount of the Hedge Bond (face value US$ 1,271.7 million) was recorded under the item Other Receivables Resulting from Financial Brokerage In Foreign Currency Bonds to be Received from the Government . All of the total holdings of Boden 2012 Bonds as well as the balances to be received were carried at their face value adjusted by contractual terms (the technical value), in accordance with Argentine Central Bank valuation regulations (See Valuation).

(ii) Under Pesos Without Quotation :

Bogar Bonds for Ps.196.7 million, granted as collateral for the advance from the Argentine Central Bank for the acquisition of the remaining Hedge Bond. As of December 31, 2006, these bonds were recorded at their technical value, which is the value accepted by the regulations of the Argentine Central Bank for assets granted as collateral for such advance.

Bogar Bonds for Ps.169.8 million, recorded at present value as established by Communiqué A 3911 and complementary rules,

Bogar Bonds for Ps.60.3 million, corresponding to an unsettled forward sale of such bonds recorded at market value; and

Discount Bonds in Pesos and GDP-Linked Units for Ps.4.9 million. Through Communiqué A 4270, the Argentine Central Bank allowed these securities, resulting from the debt exchange offered to restructure the defaulted sovereign foreign debt, to be recorded at the lowest of (a) the carrying value of the tendered securities in accordance with the prevailing valuation rules (Communiqué A 4084 item 1 v) and item 5, and complementary rules); and (b) the total future nominal cash payments up to maturity specified by the terms and conditions of said securities. The Bank s holdings of Discount Bonds in Pesos and GDP-Linked Units were recorded as per the first value. This valuation will be reduced in the amount of the perceived service payments and accrued interest will not be recognized.

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(iii) Under Pesos Securities Issued by the Argentine Central Bank , Lebac for Ps.17.7 million and Nobac for Ps.101.8 million corresponding to the Bank s own portfolio. Like the securities held for trading, the securities issued by the Argentine Central Bank are recorded at their market value.

(iv) Under Dollars Trading , mainly Boden 2012 Bonds.

The decrease of the Bogar Bonds portfolio during 2006 to Ps.426.9 million from Ps..3,823.3 million as of the end of fiscal year 2005 was due to sales of such instruments, the proceeds of which were applied to the settlement of the financial assistance from the Argentine Central Bank during 2006 and to the use of said bonds in the partial settlement of the advance from the Argentine Central Bank for the acquisition of the Hedge Bond.

All of these securities, except for the Lebac and Nobac, were issued by the Government.

Government Securities Net Position

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, 2006, our position in government securities amounted to Ps.4,832.6 million, and the difference between our holdings of government securities and our net position was mainly due to forward purchases of Boden 2012 Bonds and Discount Bonds in connection with repurchase agreements, for Ps.974.0 million and Ps.714.1 million, respectively, and to forward sales of Bogar Bonds pending settlement for Ps.60.3 million.

					As of December 31, 2006	
In millions of pesos	**Holdings**	**Forward Purchases**	**Forward Sales**	**Spot purchases to be settled**	**Spot sales to be settled**	**Net Position**
Government Securities						
Held for investment purposes						
Dollar	2,608.8	974.0				3,582.8
Other						1.0(1)
Held for trading purposes						
Pesos	0.1			0.1		0.2
Dollar	26.4			0.2	15.6	11.0
Securities without Quotation						
Pesos	433.5	714.1			60.3	1,087.3
Instruments issued by the Argentine Central Bank						
Pesos	119.5					119.5
Other						30.8(1)
Total Government Securities	**3,188.3**	**1,688.1**		**0.3**	**75.9**	**4,832.6**
Corporate Equity Securities (Quoted)	**0.3**					**0.3**
Total Government and Corporate Securities	**3,188.6**	**1,688.1**		**0.3**	**75.9**	**4,832.9**

(1)

Delivered as collateral.

As of December 31, 2006 and based on quoted market prices:

The total amount of Boden 2012 Bonds (net position in Boden 2012 Bonds including the Boden 2012 Bonds to be acquired), was Ps.3,984.2 million (face value US$ 1,638.2 million). This total comprises, holdings of Boden 2012 Bonds recorded as government securities held for investment purposes, for Ps.2,608.8 million (face value US$ 1,107.8 million), Boden 2012 Bonds held for investment purposes, but sold under repurchase agreements, for Ps.974.0 million (face value US$ 413.6 million), and Boden 2012 Bonds to be acquired corresponding to the Hedge Bond, for Ps.401.4 million (face value US$ 116.8 million), recorded under Other Receivables Resulting from Financial Intermediation . The market value of our position in Boden 2012 Bonds (face value US$ 1,638.2 million) was Ps.3,781.9 million. Of this amount, Ps.3,395.0 million corresponded to the received Compensatory Bond (including interest accrued) and the difference corresponded to the Hedge Bond to be acquired, which amount includes the amortization and interest coupons accrued and not perceived.

The market value of our position in Bogar Bonds was Ps.337.3 million.

Our holdings of Lebac and Nobac were marked to market.

The market value of our position in Discount Bonds in pesos (and GDP-Linked Units) was Ps.479.7 million.

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.

In accordance with such rules, quoted government securities in investment accounts are 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. In addition, 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%.

The securities received by financial institutions as compensation for the effects of the asymmetric pesification established by Decrees No. 905/02 and complementary rules, in the Bank s case, Boden 2012 Bonds, are carried at their technical value, in accordance with Argentine Central Bank Communiqué A 3785 issued on October 29, 2002. The reduction mentioned in the preceding paragraph is not applicable for these bonds. However, the Argentine Central Bank restricts the distribution of cash dividends by establishing, among other things, that banks must adjust their earnings to be distributed as cash dividends by 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 in 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 is required to be marked-to-market.

In accordance with Argentine Central Bank accounting rules, the Bank recorded the Boden 2012 Bonds already received and those pending receipt, at 100% of their technical value. As of December 31, 2006, the Boden 2012 Bonds were trading at approximately 95% of such value.

By means of Communiqué A 3911, dated March 28, 2003, the Argentine Central Bank established a new method for the valuation of public sector assets. This rule applies to Secured Loans, secured promissory notes or bonds (Bogar Bonds) issued by the FFDP, other loans to the non-financial public sector, and government securities without quotation, except for, among others, government securities accounted in investment accounts, securities issued by the Argentine Central Bank (Lebac and others) and the government securities received or pending receipt as compensation for government policy measures.

According to Argentine Central Bank s Communiqué A 3911, beginning with the financial statements for March 2003, assets within the scope of such Communiqué had to be valued at the lowest of their technical value and their present value. 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 lowest of the present value and the technical value, 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, principally:

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(i) it excluded from valuation at present value those public-sector assets granted as collateral for advances from the Argentine Central Bank to acquire Boden Bonds (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; and

(ii) 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 Bonds must be used, except if these assets are applied to the payment of taxes.

By means of Communiqué A 4163, published on July 2, 2004, 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 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
2007	5% + 0.04xTMC	5% + 0.08xTMC	5% + 0.13xTMC	5% + 0.17xTMC	5% + 0.21xTMC	5% + 0.25xTMC	5% + 0.29xTMC	5% + 0.33xTMC	5% + 0.38xTMC	5% + 0.42xTMC	5% + 0.46xTMC	5% + 0.50xTMC
2008	5% + 0.58xTMC	5% + 0.66xTMC	5% + 0.75xTMC	5% + 0.83xTMC	5% + 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 government securities with similar modified duration.

TMC = average market rate corrected = TM 5%.

By means of Communiqué A 4414, dated September 8, 2005, among others, the Argentine Central Bank modified the valuation criteria of government and corporate securities without quotation, effective for information as of August 2005. The securities without quotation within the scope of such Communiqué (Argentine Central Bank bills and notes, subordinated and non-subordinated negotiable obligations and financial trust securities) must be carried at cost plus their internal rate of return, at period-end.

We also own, manage and trade a portfolio of quoted corporate debt and equity securities. These 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, 2006. Our government securities portfolio yields does not contain any tax equivalency adjustments.

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		Maturity Yield							
		Maturing within 1 Year		Maturing after 1 Year but within 5 Years		Maturing after 5 Years but within 10 Years		Maturing after 10 Years	
	Total Book Value	Book Value	Yield (1)	Book Value	Yield (1)	Book Value	Yield (1)	Book Value	Yield (1)
	(in millions of pesos)								
Government Securities									
Held for Trading and Brokerage Purposes (carried at market value)									
Pesos	0.1		3.4%	0.1	5.9%		7.4%		
Dollars	26.4	4.4	7.6%	17.6	7.6%	4.4	7.6%		
Held for Investment (carried at amortized cost)									
Dollars	2,608.8	434.8	7.6%	1,739.2	7.6%	434.8	7.6%		
Instrument Issued by Argentine Central Bank									
Pesos	119.5	92.8	12.1%	26.7	12.3%				
Securities Without Quotation									
Pesos	433.5	22.6	5.0%	110.9	5.0%	229.9	5.0%	70.1	5.0%
Total Government Securities	**3,188.3**	**554.6**	**8.2%**	**1,894.5**	**7.5%**	**669.1**	**6.7%**	**70.1**	
Corporate Debt Securities	**0.3**							**0.3**	**10.4%**
Total Portfolio	**Ps. 3,188.6**	**Ps. 554.6**	**8.2%**	**Ps. 1,894.5**	**7.5%**	**Ps. 669.1**	**6.7%**	**Ps. 70.4**	**0.1%**

(1) Effective yield based on

December 31, 2006 quoted market values.

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,
	2006	**2005**	**2004**	**2003**	**2002**
		(in millions of pesos)			*(in millions of February 28, 2003, constant pesos)*
Principal and Interest					
Non-Financial Public Sector	Ps. 2,690.6	Ps. 5,187.5	Ps. 4,513.7	Ps. 4,277.7	Ps. 7,634.7
Local Financial Sector	311.6	128.2	150.5	194.7	134.8
Non-Financial Private Sector and Residents Abroad (1)					
Advances	346.3	223.6	199.8	219.1	227.0
Notes	2,143.7	1,836.9	1,099.2	1,280.1	1,544.3
Mortgage Loans	688.0	503.4	623.9	719.6	864.0
Pledge Loans	67.1	121.1	92.9	54.6	191.5
Personal Loans	563.2	258.0	58.2	55.2	120.0
Credit-Card Loans	2,458.6	1,732.1	1,105.4	818.8	585.0
Placements in Correspondent Banks	608.0	212.9	379.2	172.4	158.3
Other Loans	794.8	599.8	393.9	325.7	251.4
Accrued Interest, Adjustment and Quotation Differences Receivable	155.0	146.8	414.4	523.1	608.5
Documented Interest	(33.7)	(14.7)	(5.3)	(2.5)	(10.8)
Total Non-Financial Private-Sector and Residents Abroad	**Ps. 7,791.0**	**Ps. 5,619.9**	**Ps. 4,361.6**	**Ps. 4,166.1**	**Ps. 4,539.2**
Total Gross Loans	**Ps. 10,793.2**	**Ps. 10,935.6**	**Ps. 9,025.8**	**Ps. 8,638.5**	**Ps. 12,308.7**
Allowance for Loan Losses	(327.0)	(427.9)	(632.6)	(1,177.3)	(1,681.8)

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	As of December 31,				
	2006	2005	2004	2003	2002
		(in millions of pesos)			*(in millions of February 28, 2003, constant pesos)*
Total Loans	**Ps. 10,466.2**	**Ps. 10,507.7**	**Ps. 8,393.2**	**Ps. 7,461.2**	**Ps. 10,626.9**
Loans with Guarantees					
With Preferred Guarantees (2) (3)	Ps. 1,076.2	Ps. 838.5	Ps. 1,190.0	Ps. 1,228.8	Ps. 9,280.5
Other Guarantees (3)	4,103.6	6,317.3	5,235.8	5,163.0	523.0
Total Loans with Guarantees	**Ps. 5,179.8**	**Ps. 7,155.8**	**Ps. 6,425.8**	**Ps. 6,391.8**	**Ps. 9,803.5**

(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 banks abroad.

- 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 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 Government and the provinces ceased to be considered Preferred Guarantees.*

As of December 31, 2006, the Bank s loan portfolio before the allowance for loan losses totaled Ps.10,793.2 million, with a 1.3% decrease with respect to the end of the previous year, as a consequence of a substantial decrease in the public-sector loan portfolio, which was practically offset by the strong growth of the private-sector loan portfolio. The substantial decrease in the Bank s loans to the public sector was mainly due to the sale of Secured Loans (which decreased from to Ps.2,690.6 million at the end of fiscal year 2006 from Ps.5,187.5 million as of December 31, 2005), the proceeds of which were used to settle financial assistance from the Argentine Central Bank.

As of December 31, 2006, loans to the financial sector included Ps.107.4 million of loans to the public financial sector.

As of December 31, 2006, loans to the non-financial private sector before the allowance for loan losses amounted to Ps.7,995.2 million, up 41.7% from the Ps.5,642.2 million recorded as of the close of the previous fiscal year, and a 74.1% share of the total portfolio compared with 51.6% for the prior year. Loans to businesses and individuals increased from 49.4% of the total portfolio at the close of the prior year to 66.5% as of December 31, 2006. Except for pledge loans, all types of loans experienced growth in fiscal year 2006. Short-term lending to individuals, through credit-card lending and personal loans, recorded very high growth rates, with credit-card loans having recorded the greatest increase in absolute terms. This line includes the loan portfolio of the regional-credit card companies. Loans instrumented as notes purchased also increased significantly, mainly representing short-term loans to businesses. In fiscal year 2006, the balance of mortgage loans increased for the first time since the 2001-2002 crisis. The increase of loans to correspondent banks in 2006 represented a temporary increase in the Bank s liquidity to face the payments made in 2007 on Argentine Central Bank liabilities.

As of December 31, 2005, the Bank s loan portfolio before the allowance for loan losses totaled Ps.10,935.6 million, 21.2% higher than the Ps.9,025.8 million of 2004 the first year of growth since the crisis and

26.6% higher than the Ps.8,638.5 million recorded in 2003.

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The increase in the non-financial public-sector loan portfolio during 2004 and 2005 was due to the CER adjustment of principal. The decrease in this portfolio in fiscal year 2003 as compared to December 31, 2002. was due to the reclassification of the Bogar Bonds as Government Securities .

Personal loans, credit-card loans, as well as certain amounts of advances, notes, mortgage loans and pledge loans are extended to individuals. Loans to individuals comprise both consumer loans and commercial loans extended to individuals with a commercial activity.

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, 2006, 2005 and 2004.

	As of December 31,					
	2006		**2005**		**2004**	
	Amount	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
			(in millions of pesos)			
Corporate	Ps. 1,534.7	14.22%	Ps. 1,412.9	12.92%	Ps. 1,271.9	14.09%
Middle-Market Companies	2,521.9	23.37	1,899.9	17.37	1,195.2	13.24
Commercial Loans	4,056.6	37.59	3,312.8	30.29	2,467.1	27.33
Individuals	3,120.6	28.91	2,091.6	19.13	1,512.6	16.76
Financial Sector (1)	925.4	8.57	343.7	3.14	532.4	5.90
Non-Financial Public Sector	2,690.6	24.93	5,187.5	47.44	4,513.7	50.01
Other Loans						
Total (2)	**Ps. 10,793.2**	**100.00%**	**Ps. 10,935.6**	**100.00%**	**Ps. 9,025.8**	**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.

During 2006, 2005 and 2004, the growth in loans to SMEs and individuals stands out.

Loans by Economic Activity

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.

	As of December 31,					
	2006		2005		2004	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(in millions of pesos, except percentages)					
Financial Sector (1)	**Ps. 925.4**	**8.57%**	**Ps. 343.7**	**3.14%**	**Ps. 532.4**	**5.90%**
Services						
Non-Financial Public Sector	2,690.6	24.93	5,187.5	47.44	4,513.7	50.01
Comunic., Transportation Health and Others	517.2	4.79	409.7	3.75	339.0	3.76
Electricity, Gas, Water Supply and Sewage Services	234.8	2.18	154.2	1.41	134.3	1.49
Other Financial Services	35.7	0.33	83.5	0.76	46.9	0.52
Total	**3,478.3**	**32.23**	**5,834.9**	**53.36**	**5,033.9**	**55.78**
Primary Products						
Agriculture and Livestock	971.8	9.00	768.3	7.02	518.6	5.75
Fishing, Forestry and Mining	29.8	0.28	11.9	0.11	69.3	0.77
Total	**1001.6**	**9.28**	**780.2**	**7.13**	**587.9**	**6.52**
Consumer	**2,977.6**	**27.59**	**1,959.4**	**17.92**	**1,435.4**	**15.90**
Retail Trade	**524.1**	**4.86**	**435.8**	**3.99**	**287.7**	**3.19**

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					As of December 31,	
	2006		2005		2004	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(in millions of pesos, except percentages)					
Wholesale Trade	**333.7**	**3.09**	**189.0**	**1.73**	**97.5**	**1.08**
Construction	**309.7**	**2.87**	**388.3**	**3.55**	**372.8**	**4.13**
Manufacturing						
Foodstuffs	406.1	3.76	386.0	3.53	233.9	2.59
Transportation Materials	100.2	0.93	68.3	0.62	41.2	0.46
Chemicals and Oil	177.4	1.64	24.8	0.23	124.6	1.38
Manufacturing Industries	545.7	5.06	492.0	4.50	229.7	2.54
Total	**1229.4**	**11.39**	**971.1**	**8.88**	**629.4**	**6.97**
Other Loans	**13.4**	**0.12**	**33.2**	**0.30**	**48.8**	**0.53**
Total (2)	**Ps. 10,793.2**	**100.00%**	**Ps. 10,935.6**	**100.00%**	**Ps. 9,025.8**	**100.00%**

(1) Includes local and international financial sectors.

(2) Before the allowance for loan losses.

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 a description of their treatment under Argentine Central Bank s classification and provisioning system, see Argentine Central Bank s Loan Classification and Loan Loss Provisions.

By sector of economic activity, while Services (including loans to the non-financial public sector) remains the most significant item as in prior years, in 2006, its share of the total loan portfolio shows a decrease with respect to the existing one at the close of the prior fiscal year while the other sectors of activity increased their participation. The Services sector share declined from 53.4% as of December 31, 2005 to 32.2% as of December 31, 2006.

Regarding the remaining sectors, the most significant categories are: loans to consumers (27.6%), to the manufacturing industry (11.4%) and to the primary sector (9.3%). This last category mainly comprises loans to the agriculture and livestock sector.

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, 2006.

	After 1 Month but	After 6 Months but	After 1 Year	After 3 Years but	Total at

	Within 1 Month	within 6 Months	within 12 Months	but within 3 Years	within 5 Years	After 5 Years	December 31, 2006
				(in millions of pesos)			
Non-Financial Public Sector (1)	**1.4**	**106.0**	**2.7**	**2,163.6**	**415.3**	**1.6**	**2,690.6**
Financial Sector (1)	**306.1**	**4.5**	**1.1**				**311.7**
Private Sector and Residents Abroad	**4,887.0**	**1,114.4**	**389.7**	**800.0**	**364.1**	**235.7**	**7,790.9**
- Advances	246.2	97.2	2.6	0.4			346.4
- Promissory Notes	623.1	795.4	184.7	289.8	179.8	70.9	2,143.7
- Mortgage Loans	23.1	52.3	68.2	226.8	153.0	164.6	688.0
- Pledge Loans	3.6	10.0	12.1	35.9	5.5		67.1
- Personal Loans	34.3	147.1	120.0	238.9	22.9		563.2
- Credit-Card Loans	2,458.6						2,458.6
- Other Loans	1,377.4	12.4	2.1	8.2	2.9	0.2	1,403.2
- Accrued Interest and Quotation Differences Receivable (1)	155.0						155.0
- (Documented Interest)	(33.7)						(33.7)
- (Unallocated Colletions)	(0.6)						(0.6)
Allowance for Loan Losses (2)	**(327.0)**						**(327.0)**
Total Loans, Net	**Ps.4,867.5**	**Ps.1,224.9**	**Ps.393.5**	**Ps.2,963.6**	**Ps.779.4**	**Ps.237.3**	**Ps.10,466.2**

(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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Interest Rate Sensitivity of Outstanding Loans as of December 31, 2006

The following table presents the interest rate sensitivity of Banco Galicia s outstanding loans as of December 31, 2006.

	(in millions of pesos)	**As a % of Total Loans**
Variable Rate (1)(2)		
Pesos	Ps. 5,625.7	59.66%
Dollars	907.3	9.62
Total	**Ps. 6,533.0**	**69.28%**
Fixed Rate (2)(3)		
Pesos	Ps. 1,966.7	20.86%
Dollars	929.4	9.86
Total	**Ps. 2,896.1**	**30.72%**
Past Due Loans		
Pesos	Ps. 428.5	4.54%
Dollars	52.4	0.56
Total	**Ps. 480.9**	**5.10%**

(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.

Our credit approval and credit risk analysis is a centralized process based on the concept of opposition of interests. This is achieved through the existing separation between the credit and the origination functions both in the Bank s retail and the wholesale business divisions, thus enabling us 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 Bank s Credit Division is responsible for defining, subject to the approval of the Bank s Board of Directors, our credit risk policies and procedures, for the continuous assessment of credit risk and for 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 and Legal Proceedings Department, in charge of the follow-up and recovery of the past due commercial portfolio and consumer portfolio; and the Retail Credit Department, in charge of approving consumer loans as well as following up and recovering past due consumer loans.

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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 Credit

In connection with consumer loans, the Bank assesses applications for different products such as credit card loans, cash advances in current accounts and secured and unsecured personal 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.

In connection with credit approval, the Retail Credit Department is responsible for approving loans for amounts up to Ps.1.0 million. Loans exceeding such amount have to be approved by the Board of Directors Committee. This 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.

In connection with 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. 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 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; whereas court proceedings are the responsibility of the Judicial Proceedings sector, which reports to the Corporate Recovery and Legal Proceedings Department. 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.

Corporate Credit

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-statement 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:

Qualitative analysis	assessment of the quality of the corporate borrower performed 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.5.0 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 regulations set by the Argentine Central Bank 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 and Legal Proceedings 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. Finally, this Department manages court and out-of-court proceedings aimed at recovering commercial loans and court proceedings involving the consumer portfolio. 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, which 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.

An officer of the Credit Division must approve all credit extensions. Approval of commercial credits is structured based on the credit limit assigned to each customer, as follows:

- Up to Ps.3.0 million: credit granting is proposed by the line business officers and must be approved by officers of the Corporate Credit Department in accordance with pre-established credit authority levels.

- Over Ps.3.0 million and up to Ps.5.0 million: credit granting 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.5.0 million: credit granting operations 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 the 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.

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.

In order to protect its assets, the Bank performs reviews of the collateral received in various opportunities during the duration of the loan, whether it is upon the initial granting of the loan, or due to the portfolio s periodic reviews or with the updating of the credit margins.

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 rules, the Bank applies significantly stricter parameters of credit concentration.

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, banks can classify as consumer loans all commercial loans that are for an amount less than Ps.500,000 (since May 1, 2005, through Communiqué A 4310 dated March 6, 2005, the Argentine Central Bank increased this amount from Ps.200,000 to Ps.500,000). Given that the Bank makes use of this option, it classifies commercial loans of up to Ps.500,000 based on the delinquency aging method.

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. 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.

In applying the Argentine Central Bank s classification to commercial loans, banks must assess the following factors: present and projected financial situation of the borrower, management and operating history and 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.

Argentine Central Bank rules establish that an evaluation team independent of banks loan origination sectors must carry out a periodic review of the commercial portfolio. The Bank s Credit Division is in charge of these reviews, being independent of the business units that generate the operations.

The review 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 a the Bank s computable regulatory capital (RPC or Adjusted Shareholders Equity), but, in all cases, this amount shall at least cover 20% of the total loan portfolio. The frequency of the review of each borrower will depend of the Bank s exposure to it.

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 Banks 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 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 40.0% 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 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 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:

- 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 have enough cash flows to repay the new debt (this option was 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.

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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 (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

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Loan Classification	Description
	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. The rates vary by category and by whether the loans are secured or not. The percentages apply to the total obligations of the customer, considering both principal and interest. Groups of related companies are deemed to be a single customer, and the Bank s total exposure to one customer must be classified in the highest risk category applicable to any part of such exposure. The allowance for loan losses on the performing portfolio is unallocated, while the allowances for the other categories are individually allocated. The regulations suspend accrual of interest or require allowances equivalent to 100% of interest for customers classified as With Problems, Deficient Performance, or lower. The allowances required are as follows:

Minimum Allowances for Loan Losses	**Secured**	**Unsecured**
Category		
Normal/ Normal Performance	1.0%	1.0%
With Special Follow Up and Inadequate Performance		
Inadequate Performance Under Observation	3.0	5.0
Inadequate Performance Under Negotiation or Agreement to Refinance	6.0	12.0
With Problems and Deficient Performance	12.0%	25.0%
High Risk of Insolvency and Difficult Collection	25.0	50.0
Uncollectible	50.0	100.0
Uncollectible Due to Technical Reasons	100.0	100.0

Pursuant to Argentine Central Bank regulations, 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.

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, 2006, December 31, 2005 and December 31, 2004, the Bank maintained a general loan loss allowance of Ps.101.0 million, Ps.175.1 million and Ps.191.0 million, respectively, which exceeded by Ps.35.2 million, Ps.130.3 million and Ps.161.8 million, respectively, the 1.0% minimum general allowance required by the Argentine Central Bank. The excess over the minimum requirement was maintained at each date, in connection with commercial loans under a restructuring process. The decreases in the level and the excess over the general loan loss allowance reflect the charge offs made and the improvement of the loan portfolio quality, related to a large extent to the progress in the restructuring of commercial loans.

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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.

	As of December 31, 2006					
	Amounts Not Yet Due(1)		**Amounts Past Due**		**Total Loans**	
	(in millions of pesos, except percentages)					
Loan Portfolio Classification						
Normal and Normal Performance	Ps. 10,139.5	96.23%			Ps. 10,139.5	93.94%
With Special Follow-up and Inadequate Performance	374.6	3.55			374.6	3.47
With Problems and Deficient Performance	12.2	0.12	30.0	11.69	42.2	0.39
High Risk of Insolvency and Difficult Collection	10.2	0.10	192.7	75.07	202.9	1.88
Uncollectible			28.8	11.22	28.8	0.27
Uncollectible Due to Technical Reasons			5.2	2.02	5.2	0.05
Total	**Ps. 10,536.5**	**100.00%**	**Ps. 256.7**	**100.00%**	**Ps. 10,793.2**	**100.00%**

	As of December 31, 2005					
	Amounts Not Yet Due(1)		**Amounts Past Due**		**Total Loans**	
	(in millions of pesos, except percentages)					
Loan Portfolio Classification						
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%**

	As of December 31, 2004					
	Amounts Not Yet Due[(1)]		**Amounts Past Due**		**Total Loans**	
	(in millions of pesos, except percentages)					
Loan Portfolio Classification						
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%**

	As of December 31, 2003					
	Amounts Not Yet Due[(1)]		**Amounts Past Due**		**Total Loans**	
	(in millions of pesos, except percentages)					
Loan Portfolio Classification						
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%**

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

As of December 31, 2006, there were no loans classified as category 2.b pursuant to the Argentine Central Bank s classification. Such category corresponds to loans under a restructuring process but that do not constitute non-performing portfolios. As of December 31, 2005, these loans 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.

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.

	As of December 31,				
	2006	2005	2004	2003	2002
	(in millions of pesos, except ratios)				*(in millions of February 28, 2003, constant pesos, except ratios)*
Total Loans (1)	**Ps.10,793.2**	**Ps. 10,935.6**	**Ps.9,025.8**	**Ps.8,638.5**	**Ps.12,308.7**
Non-Accrual Loans (2)					
With Preferred Guarantees	40.2	58.4	383.7	496.5	610.8
With Other Guarantees	5.1	6.5	67.4	275.8	282.9
Without Guarantees	233.8	317.5	247.8	527.0	716.5
	Ps. 279.1	**Ps. 382.4**	**Ps. 698.9**	**Ps.1,299.3**	**Ps. 1,610.2**

Total Non-Accrual Loans **(2)**					
Past Due Loan Portfolio					
Non-Financial Public Sector					
Local Financial Sector					
Non-Financial Private Sector and Residents Abroad					
Advances	20.9	14.1	29.9	93.9	64.9
Notes	135.2	191.6	253.1	528.2	741.0
Mortgage Loans	28.4	14.6	115.1	211.7	217.2
Pledge Loans	0.3	0.5	4.2	28.3	35.7
Personal Loans	4.1	0.8	4.2	110.2	58.6
Credit-Card Loans	62.7	33.4	24.9	30.6	100.4
Placements with Correspondent Banks					

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	As of December 31,				
	2006	2005	2004	2003	2002
	(in millions of pesos, except ratios)				*(in millions of February 28, 2003, constant pesos, except ratios)*
Other Loans	5.1	1.0	17.6	8.1	4.8
Total Past Due Loans	**Ps. 256.7**	**Ps. 256.0**	**Ps. 449.0**	**Ps. 1,011.0**	**Ps. 1,222.6**
Past Due Loans					
With Preferred Guarantees	28.9	16.1	308.0	415.7	449.3
With Other Guarantees	4.3	4.9	11.4	235.6	172.5
Without Guarantees	223.5	235.0	129.6	359.7	600.8
Total Past Due Loans	**Ps. 256.7**	**Ps. 256.0**	**Ps. 449.0**	**Ps. 1,011.0**	**Ps. 1,222.6**
Allowance for Loan Losses	**Ps. 327.0**	**Ps. 427.9**	**Ps. 632.6**	**Ps. 1,177.3**	**Ps. 1,681.8**
Ratios (%)					
As a % of Total Loans:					
- Total Past Due Loans	2.38	2.34	4.97	11.70	9.93
- Past Due Loans with Preferred Guarantees	0.27	0.15	3.40	4.81	3.65
- Past Due Loans with Other Guarantees	0.04	0.04	0.13	2.73	1.40
- Past Due Unsecured Amounts	2.07	2.15	1.44	4.16	4.88
- Non-Accrual Loans (2)	2.59	3.50	7.74	15.04	13.08
- Non-Accrual Loans (2) (Excluding Interbank Loans)	2.80	3.57	8.10	15.35	13.25
Non-Accrual Loans (2) as a Percentage of Loans to the Private Sector	3.49	6.78	15.93	31.16	35.47
Allowance for Loan Losses as a % of:					
- Total Loans	3.03	3.91	7.01	13.63	13.66
- Total Loans Excluding Interbank Loans	3.27	4.00	7.33	13.91	13.84
- Total Non-Accrual Loans (2)	117.16	111.90	90.51	90.61	104.45
Non-Accrual Loans with Guarantees as a Percentage of Non-Accrual Loans (2)	16.23	16.97	64.54	59.44	55.50
Non-Accrual Loans as a Percentage of Total Past Due Loans	108.73	149.38	155.66	128.52	131.70

(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.*

Under Argentine Central Bank rules, banks are required to cease the accrual of interest or to establish provisions equal to 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,				
	2006	**2005**	**2004**	**2003**	**2002**
					(in millions of February 28, 2003, constant

			(in millions of pesos)		*pesos, except ratios)*
Interest Income that would have been recorded on non-accrual loans on which the accrual of interest was discontinued	23.7	45.9	32.5	39.9	40.4
Recoveries of interest on loans classified as non-accrual on which the accrual of interest had been discontinued [1]	1.2	2.3	1.6	2.0	2.0

(1) Recorded under Miscellaneous Income.

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The quality of the loan portfolio continued to improve during fiscal year 2006, maintaining the trend observed in the last three years. The non-accrual loan portfolio as a percentage of total loans decreased from 3.50% as of the end of fiscal year 2005, to 2.59% at the end of fiscal year 2006. Considering only loans to the private sector, the non-accrual loan portfolio as a percentage of this portfolio decreased from 6.78% as of December 31, 2005 to 3.49% as of December 31, 2006.

Between 2003 and 2006, the growth of the loan portfolio, 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 33 to our financial statement.

As a result of the Argentine economic situation in 2002 and of the measures taken by the 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. See Government Regulation Loans to the Private Sector and Asymmetric Indexation. Significant progress was made in our loan portfolio restructuring process since 2003, with this process having been substantially completed in 2005. In addition, significant charge offs have been made in the years after the 2001-2002 crisis, with Ps.200.8 million of charge offs made in 2006. With these charge offs, the Bank has substantially finished accounting for the consequences of the 2001-2002 crisis on its loan portfolio.

Coverage of the Bank s non-accrual portfolio with allowances reached 117.16%, 111.90%, 90.51% and 90.61% at the end of fiscal years 2006, 2005, 2004 and 2003, 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 such allowances 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.

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,				
	2006	2005	2004	2003	2002
	(in millions of pesos, except ratios)				*(in millions of February 28, 2003, constant pesos, except ratios)*
Total Loans, Average [1]	**Ps. 10,851.0**	**Ps. 9,746.9**	**Ps. 11,137.9**	**Ps. 11,556.7**	**Ps. 15,262.4**
Allowance for Loan Losses at Beginning of Period [2]	**427.9**	**632.6**	**1,177.3**	**1,681.8**	**1,050.3**
Changes in the Allowance for Loan Losses during the Period [2]					
Provisions Charged to Income	105.3	61.1	179.3	217.1	1,599.5
Prior Allowances Reversed	(32.5)	(96.2)	(210.3)	(402.1)	0
Charge-Offs (A)	(200.8)	(174.5)	(521.3)	(267.3)	(305.7)
Inflation and Foreign Exchange Effect and Other Adjustments	27.1	4.9	7.6	(52.2)	(662.3)
Allowance for Loan Losses at End of Period	**Ps. 327.0**	**Ps. 427.9**	**Ps. 632.6**	**Ps. 1,177.3**	**Ps. 1,681.8**
Charge to the Income Statement during the Period					
Provisions Charged to Income [2]	105.3	61.1	179.3	217.1	1,599.5
Direct Charge-Offs, Net of Recoveries (B)	(46.4)	(28.9)	(101.6)	(38.6)	(17.2)
Recoveries of Provisions	(32.5)	(96.2)	(210.3)	(402.1)	0
Net Charge (Benefit) to the Income Statement	**Ps. 26.4**	**Ps. (64.0)**	**Ps. (132.6)**	**Ps. (223.6)**	**Ps. 1,582.3**
Ratios (%)					
Charge-Offs (A+B) to Average Loans [3]	1.42%	1.49%	3.77%	1.98%	1.89%
Net Charge to the Income Statement to Average Loans)	0.24	(0.66)	(1.19)	(1.93)	10.37

(1) Before the allowance for loan losses.

(2) Includes quotation differences for Galicia Uruguay and Cayman Branch.

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

During 2006, provisions for loan losses amounted to Ps.132.4 million (including the inflation and foreign exchange effects and other adjustments), of which Ps.48.9 million were related to one customer s debt restructuring, and Ps.20.3 million, to the growth of the normal portfolio. The lower loan loss allowance reported at the end of fiscal years 2006, 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 overall improvement in the 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 level of the allowance for loan losses as of December 31, 2002 reflects the continuous worsening of the economic conditions in Argentina between late 1998 and mid 2002, which caused a significant deterioration of credit quality.

The net charge to the income statement (provisions and direct charges related to the loan portfolio net of loan loss provisions reversed and loan recoveries) for fiscal year 2006 was Ps.26.4 million, representing 0.24% of the average loan portfolio of the fiscal year. In 2005, 2004 and 2003, the net effect on the income statement 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, which was attributable to the reversal of provisions and credit recoveries associated to the sustained improvement in the quality of the Bank s loan portfolio from the levels reached during the crisis.

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.

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	As of December 31,								
	2006			2005			2004		
	Amount	% of Loans	Loan Category %	Amount	% of Loans	Loan Category %	Amount	% of Loans	Loan Category %
	(in millions of pesos, except percentages)								
Non-Financial Public Sector			24.93%			47.44%			50.01%
Local Financial Sector			2.89			1.17			1.67
Non-Financial Private Sector and Residents Abroad									
Advances	Ps. 16.3	0.15%	3.21%	Ps. 12.3	0.11%	2.04%	Ps. 22.7	0.25%	2.21%
Notes	151.1	1.40	19.86	186.4	1.70	16.80	270.9	3.00	12.18
Mortgage Loans	25.0	0.23	6.37	21.6	0.20	4.60	97.6	1.08	6.91
Pledge Loans	0.4		0.62	0.5		1.11	3.5	0.04	1.03
Personal Loans	3.7	0.03	5.22	0.9	0.01	2.36	4.0	0.04	0.64
Credit-Card Loans	28.5	0.26	22.78	14.0	0.13	15.84	10.8	0.12	12.25
Placements in Correspondent Banks			5.63			1.95			4.20
Other	1.0	0.01	8.49	17.1	0.16	6.69	32.1	0.36	8.90
Unallocated (1)	101.0	0.95		175.1	1.60		191.0	2.12	
Total	**Ps.327.0**	**3.03%**	**100.00%**	**Ps.427.9**	**3.91%**	**100.00%**	**Ps.632.6**	**7.01%**	**100.00%**

	As of December 31,					
	2003			2002		
	Amount	% of Loans	Loan Category %	Amount	% of Loans	Loan Category %
	(in millions of pesos, except percentages)			(in millions of February 28, 2003, constant pesos, except percentages)		
Non-Financial Public Sector			49.51%			62.03%
Local Financial Sector			2.25			1.09
Non-Financial Private Sector and Residents Abroad						
Advances	Ps. 78.8	0.91%	2.54	Ps. 40.1	0.33%	1.84
Notes	441.9	5.12	14.82	569.0	4.62	12.55
Mortgage Loans	142.6	1.65	8.33	122.1	0.99	7.02
Pledge Loans	22.7	0.27	0.63	24.3	0.20	1.56
Personal Loans	157.6	1.82	0.64	48.4	0.39	0.97

Credit-Card Loans	14.5	0.17	9.48	55.6	0.45	4.75
Placements in Correspondent Banks			2.00			1.29
Other	5.6	0.06	9.80			6.90
Unallocated (1)	313.6	3.63		822.3	6.68	
Total	**Ps. 1,177.3**	**13.63%**	**100.00%**	**Ps. 1,681.8**	**13.66%**	**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.

Charge-Offs

The following table sets forth the allocation of the main charge-offs made by the Bank during the years ended December 31, 2006, 2005 and 2004.

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	2006	Fiscal Year Ended December 31, 2005	2004
		(in millions of pesos)	
Charge-offs by Type			
Advances	Ps. 2.1	Ps. 12.5	Ps. 20.0
Notes			
Promissory Notes	155.2	47.7	331.3
Discounted and Purchased Bills		2.9	
Mortgage Loans	6.4	57.6	60.5
Pledge Loans	0.2	3.5	20.4
Personal Loans	1.5	1.1	12.5
Credit-Card Loans			
Banco Galicia	3.0	8.8	5.5
Regional Credit-Card Companies	31.9	22.0	9.3
Other Loans	0.5	18.4	61.8
Total	**Ps.200.8**	**Ps.174.5**	**Ps.521.3**

During 2006, Ps.200.8 million were written off against allowances for loan losses. This amount includes Ps.160.0 million in connection with the finalization of negotiations with customers under a debt restructuring process.

During fiscal year 2005, the overall level of charge offs decreased to Ps.174.5 million from Ps.521.3 million reported for the fiscal year 2004, due to lower charge offs related to loans granted by the Bank on a stand-alone 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 33 to our financial statements.

The increase in the charge offs related to the loans granted by the regional credit-card companies is attributable to the aging of this loan portfolio.

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, 2006, we had the following foreign outstandings representing 0.75% or more of our total assets:

- a Ps.1,079.7 million claim against a United Kingdom financial institution (4.57% of our total assets), of which Ps.723.9 million represented the right to receive Discount Bonds in connection with agreements to repurchase such bonds entered into with such bank; and

- Ps.842.1 million of placements with United States financial institutions (3.56% of our total assets), of which Ps.608.1 million represented an overnight placement and the remaining amount several short-term placements.

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 million represented the right to receive Boden 2012 Bonds 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.

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 Bonds 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, 2006, 2005 and 2004.

Deposits

The following table sets out the composition of our deposits as of December 31, 2006, 2005 and 2004. Our deposits represent deposits with Banco Galicia.

	As of December 31,		
	2006	2005	2004
	(in millions of pesos)		
Current Accounts and Other Demand Deposits	Ps. 2,011.4	Ps. 1,657.6	Ps. 1,210.3
Savings Accounts	2,589.5	2,213.4	1,639.5
Time Deposits	5,831.5	4,261.9	3,527.6
Other Deposits (1)	215.6	192.9	298.3
Plus: Interest Payable and Differences in Quotations (2)	131.4	95.9	81.2
Total Deposits	**Ps. 10,779.4**	**Ps. 8,421.7**	**Ps. 6,756.9**

(1) Includes among other, Reprogrammed Deposits instrumented as Cedros as well as Reprogrammed Deposits under judicial proceedings.

(2) Includes the CER adjustment.

In 2006, our consolidated deposits increased 28,0% mainly as a result of Ps.1,569.6 million increase in time deposits and a Ps.729.9 million increase in deposits in current and savings accounts. As in prior years, these increases were mainly due to private sector deposits raised by the Bank s Argentine operation. As of December 31, 2006, time deposits included Ps.629.2 million of CER-adjusted time deposits. The item Other Deposits, included Ps.47.6 million of Reprogrammed Deposits with *amparo* claims and other demand deposits.

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. 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 instrumented as Cedros finalized in August 2005, as established by the repayment schedule laid down by the Government.

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, 2006, by contractual maturity date and currency of denomination.

	Peso-Denominated		Dollar-Denominated		Total	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(in millions of pesos, except percentages)					
Current Accounts and Demand Deposits	Ps. 2,011.4	22.0%			Ps. 2,011.4	18.9%
Savings Accounts	1,941.4	21.3	Ps. 648.1	42.6%	2,589.5	24.3
Time Deposits	5,038.9	55.2	792.6	52.1	5,831.5	54.8
Maturing within 30 Days	736.9	8.1	133.1	8.8	870.0	8.2

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	Peso-Denominated		Dollar-Denominated		Total	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(in millions of pesos, except percentages)					
Maturing after 31 Days but within 59 Days	1,354.2	14.8	146.2	9.6	1,500.4	14.1
Maturing after 60 Days but within 89 Days	825.2	9.0	81.9	5.4	907.1	8.5
Maturing after 90 Days but within 179 Days	894.8	9.8	139.4	9.2	1,034.2	9.7
Maturing after 180 Days but within 365 Days	822.5	9.0	101.3	6.7	923.8	8.7
Maturing after 365 Days	405.3	4.5	190.7	12.4	596.0	5.6
Other Deposits	135.4	1.5	80.2	5.3	215.6	2.0
Maturing within 30 Days	110.2	1.2	79.9	5.3	190.1	1.8
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	25.2	0.3	0.3		25.5	0.2
Total Deposits (1)	**Ps. 9,127.1**	**100.0%**	**Ps. 1,520.9**	**100.0%**	**Ps. 10,648.0**	**100.0%**

(1) Only principal. Excludes the CER adjustment

The categories with the highest concentration of maturities per original term are those within the segment after 31 days but within 59 days (pesos and dollars), which accounted for 14.1% of the total and mainly corresponded to peso-denominated time deposits. The rest of the terms have a homogeneous participation. At fiscal year end 2006, the average original term of non-adjusted peso and US dollar-denominated time deposits (excluding Reprogrammed Deposits with *amparo* claims) was approximately 90 days, and the term of CER-adjusted time deposits as of the same date was approximately 500 days.

Dollar-denominated deposits, for Ps.1,520.9 million (only principal), represented 14.3% of total deposits, of which 20.4% (Ps.309.7 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. The minimum term for CER-adjusted time deposits was extended several times until it was set at 365 days in April 2005.

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, 2006.

	Domestic Offices	**Foreign Offices**
	(in millions of pesos)	
Time Deposits		
Within 30 Days	Ps. 424.8	
After 31 Days but within 59 Days	1,017.7	
After 60 Days but within 89 Days	519.2	
After 90 Days but within 179 Days	664.9	
After 180 Days but within 365 Days	689.3	
After 365 Days	362.6	Ps. 139.5
Total Time Deposits	**Ps.3,678.5**	**Ps. 139.5**
Other Deposits		
After 365 Days		0.2
Total Other Deposits		**0.2**
Total Deposits (1)	**Ps.3,678.5**	**Ps. 139.7**

(1) Only principal. Excludes the CER adjustment.

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Return on Equity and Assets

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

	Fiscal Year Ended December 31, 2006	2005	2004
	(in millions of pesos, except percentages)		
Net Income / (Loss)	Ps. (18.9)	Ps. 107.2	Ps. (109.9)
Average Total Assets	24,614.5	24,238.1	22,725.9
Average Shareholders Equity	1,649.3	1,569.3	1,500.9
Shareholders Equity at End of the Period	1,608.5	1,626.8	1,519.5
Net Income / (Loss) as a Percentage of:			
Average Total Assets		0.59%	(0.42)%
Average Shareholders Equity	(1.15)%	6.83	(7.32)
Declared Cash Dividends			
Dividend Payout Ratio			
Average Shareholders Equity as a Percentage of Average Total Assets	6.70%	6.47%	6.60%
Shareholders Equity at the End of the Period as a Percentage of Average Total Assets	6.53	6.71	6.69

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.

	As of December 31, 2006	2005	2004
	(in millions of pesos)		
Short-Term Borrowings			
Argentine Central Bank	Ps. 0.4	Ps. 0.3	Ps. 1.0
Other Banks and International Entities [(1)]			
Lines of Credit from Domestic Banks	Ps. 134.5	Ps. 60.8	Ps. 115.2
Lines of Credit from Foreign Banks	45.4		
Repos with Domestic Banks	522.9		
Repos with Foreign Banks		220.5	223.7
Negotiable Obligations	65.1	89.7	13.4
Total	**Ps. 768.3**	**Ps. 371.3**	**Ps. 353.3**

The following table shows for our significant short-term borrowings for the fiscal years ended December 31, 2006, 2005 and 2004:

- 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.

	As of December 31,		
	2006	2005	2004
	(in millions of pesos, except percentages)		
Argentine Central Bank			
Weighted-average interest rate at end of period			7.0%
Maximum balance recorded at the monthly closing dates	Ps. 0.9	Ps. 1.2	Ps. 1.0
Average balances for each period	0.5	0.5	0.9
Weighted-average interest rate for the period			7.0%
Lines of Credit from Domestic Banks			
Weighted-average interest rate at end of period	9.1%	7.0%	5.2%
Maximum balance recorded at the monthly closing dates	Ps. 378.7	Ps. 164.1	185.6
Average balances for each period	142.0	96.3	104.2
Weighted-average interest rate for the period	8.0%	5.5%	5.0%
Lines of Credit from Foreign Banks			
Weighted average interest rate at end of period	6.1%		
Maximum balance recorded at the monthly closing dates	Ps. 45.4		Ps. 1,231.6
Average balances for each period	9.7		456.1
Weighted average interest rate for the period	6.1%		7.1%
Repos with Domestic Banks			
Weighted-average interest rate at end of period	9.3%		
Maximum balance recorded at the monthly closing dates	Ps. 525.9	Ps. 165.6	Ps. 150.1
Average balances for each period	101.6	15.8	37.9
Weighted-average interest rate for the period	7.6%	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. 223.5	Ps. 220.6	Ps. 224.3
Average balances for each period	145.7	216.7	66.5
Weighted-average interest rate for the period	8.3%	6.6%	5.6%
Negotiable Obligations			
Weighted-average interest rate at end of period	9.9%	7.4%	8.0%
Maximum balance recorded at the monthly closing dates	Ps. 65.1	Ps. 123.2	Ps. 13.4
Average balances for each period	49.6	79.5	11.5
Weighted-average interest rate for the period	7.5%	6.1%	8.0%

Regulatory Capital

The capital adequacy of Grupo Financiero Galicia is not under the supervision of the Argentine Central Bank. Grupo Financiero Galicia has a minimum capital requirement established by the Corporations Law (*Ley de Sociedades Comerciales*, No.19,550) of Ps.0.012 million.

Banco Galicia

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 their significant subsidiaries. Banco Galicia s significant subsidiaries are Galicia Uruguay and the regional credit-card companies.

On June 2, 2003 and July 25, 2003, through its Communiqués A 3959 and A 3986, respectively, the Argentine Central Bank established a new capital adequacy rule effective as from January 1, 2004.

The new capital adequacy rule is based on the Basel Committee methodology, like the previous one, and establishes the minimum capital a financial institution is required to maintain in order to cover the different risks inherent in its business activity and incorporated into its assets. Such risks include mainly: credit risk, generated both by the exposure to the private sector and by the exposure to the public sector; market risk, generated by foreign-currency, securities and CER positions; and interest-rate risk, generated by the mismatches between assets and liabilities in terms of interest rate repricing. The minimum capital requirement stated by the new rule is 8% of risk-weighted assets, with a 100% risk weighting for public-sector assets (within the previous rule, this risk-weighting was nil), the same is applicable to loans to the private sector; with said requirement being lower depending on the existence of certain guarantees in the case of private-sector assets and for certain liquid assets.

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The Argentine Central Bank established a schedule for the gradual increase of the regulatory capital requirement on public-sector assets until it reaches 100% of the requirement imposed by the regulation. For this, it established the application, beginning on January 2004, of two coefficients known as Alfa 1 and Alfa 2 , which temporarily reduce the minimum capital requirement to cover the credit risk of public-sector assets and interest-rate risk, respectively. The Alfa 1 coefficient value increases progressively, in January of each year, until it reaches 1.00 on January 1, 2009, and the value of the Alfa 2 coefficient increased in the same manner until it reached 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	

In the table below, information on the Bank s computable regulatory capital, or RPC or Adjusted Shareholders Equity, and minimum capital requirements is consolidated with the Bank s significant subsidiaries.

	As of December 31,		
	2006	2005	2004
	(in millions of pesos, except percentages)		
Shareholders Equity	**Ps. 1,263.0**	**Ps. 1,389.2**	**Ps. 1,198.2**
Argentine Central Bank Minimum Capital Requirements			
Allocated to Financial Assets	597.1	477.2	329.9
Allocated to Fixed Assets, intangible and unquoted equity investments	143.5	138.0	142.0
Allocated to Market Risk	12.3	16.8	62.6
Allocated to Interest-Rate Risk	61.6	87.1	20.2
Lending to the Non-Financial Public Sector	269.8	162.4	58.6
Total (A)	**Ps. 1,084.3**	**Ps. 881.5**	**Ps. 613.3**
Computable Regulatory Capital Calculated Under Argentine Banking GAAP			
Core Capital	1,395.0	1,207.1	1,339.9
Supplemental Capital	608.4	807.5	580.8
Deductions			
Investments in Financial Entities	(1.5)	(1.5)	(1.5)
Organization Expenses	(64.2)	(55.6)	(71.6)
Goodwill Recorded from June 30, 1997	(66.8)	(85.9)	(111.7)
Real Estate Properties for Banco Galicia s Own Use and Miscellaneous, for which no title deed has been made	(5.2)	(3.5)	(4.0)
Other	(6.1)	(5.6)	(5.9)
Total	(143.8)	(152.1)	(194.7)

Additional Capital Market Variation	2.0	22.7	20.5
Total (B)	**Ps. 1,861.6**	**Ps. 1,885.2**	**Ps. 1,746.5**
Excess Capital			
Excess over required Capital (B)-(A)	Ps. 777.3	Ps. 1,003.7	Ps. 1,133.2
Excess over Required Capital as a % of Required Capital	71.69%	113.86%	184.77%
Total Capital Ratio	**15.03**	**20.78**	**25.11**

As of December 31, 2006, the Bank s computable regulatory capital amounted to Ps.1,861.6 million, which exceeded by Ps.777.3 million the minimum capital requirement in accordance with the Argentine Central Bank s regulations effective as of that date. Said excess amounted to Ps.1,003.7 million as of December 31, 2005. The decrease in the excess was due to a Ps.202.8 million increase in the minimum capital requirement, accompanied by a Ps.23.6 million decrease in computable capital.

As in prior years, in 2006, the greater minimum capital requirement was mainly due to an increase in the minimum capital requirement to cover credit risk, as a consequence of the significant growth of the Bank s exposure to the private sector during the year, and to an increase in the minimum capital requirement on the exposure to the non-financial public sector, mainly due to the increase in the Alfa 1 coefficient on January 1, of each year.

In 2005, the increase in the Bank s computable regulatory capital was mainly due to an increase in supplemental capital of Ps.226.7 million, resulting mainly from the profits in such year. This effect was partially offset by a Ps.132.8 million decrease in core capital, manly due to the losses recorded in fiscal year 2004.

Core capital mainly corresponds to the Bank s shareholders equity at the beginning of the fiscal year and supplemental capital includes the fiscal year s profits/losses and the subordinated negotiable obligations issued as a result of the restructuring of the Bank s foreign debt. 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.

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. This 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. Our subsidiaries have different regulatory entities regulating their activities.

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In the case of the Bank, the Argentine Central Bank is the relevant regulatory entity. For a description of the main regulatory changes introduced by the Government and of 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, Galicia Retiro Compañía de Seguros S.A., and Galicia Patrimoniales. 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 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.

Main Regulatory Changes since 2002

In order to deal with the 2001 and 2002 crisis, on January 6, 2002, the Argentine Congress enacted Law No. 25,561, or the Public Emergency Law, 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;

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amending the charter of the Argentine Central Bank; and

allocating 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 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.

The period of effectiveness of the Public Emergency Law was extended again until December 31, 2007.

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 of the Government the power 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. This regime was subject to various modifications. Only the principal features currently in force are detailed below.

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. This term was extended to 365 days through Resolution No. 292/05 issued by the Ministry of Economy on May 24, 2005. This restriction did not apply to foreign trade transactions or to foreign direct investment.

On June 9, 2005, the executive branch of the Government issued Decree No. 616/05, which established new rules for capital movements into and from Argentina. This Decree was enforced as from June 10, 2005 and, as regulated, established a system where:

(a) foreign exchange flows into and from the local foreign exchange market and all resident new debt transactions that may imply future foreign exchange payments to nonresidents must be registered with the Argentine Central Bank.

(b) 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, if such securities public offering and listing in self-regulated markets in Argentina has been duly authorized.

(c) All inflows of foreign exchange resulting from such indebtedness, with the exceptions mentioned in the previous item and those regulated by the Argentine Central Bank which are detailed below, 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 and listing in self-regulated markets in Argentina has been duly authorized, and government securities acquired in the secondary market), must be for a term of at least 365 days and will be subject to a 30% deposit requirement.

(d) Such deposit requirement will be constituted in a local financial institution as an unremunerated dollar-denominated deposit maturing in at least 365 days; such funds will not be available as a guarantee for any kind of debt and, upon the deposit maturity date, such funds will become available within the country and, therefore, will be subject to certain restrictions on foreign exchange transfers abroad.

(e) The 30% deposit requirement is not required, among other, for inflows of foreign currency:

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(i) resulting from loans granted to residents by local financial institutions in foreign currency;

(ii) resulting from capital contributions to local institutions, when the contributor owns, previously or as a result of such contributions, 10% or more of the company s capital or votes, subject to compliance with certain requirements;

(iii) resulting from sales of interests in local entities to direct investors;

(iv) to be applied to real estate acquisitions;

(v) resulting from an indebtedness with multilateral and bilateral credit agencies and with official credit agencies;

(vi) resulting from other foreign indebtedness of the local non-financial private sector, with an average life of no less than two years, the proceeds of which will be applied to non-financial investments (as defined by the Argentine Central Bank);

(vii) resulting from other foreign indebtedness where the proceeds will be applied to settlement of foreign debt principal amortization or long term investments in foreign assets;

(viii) resulting from the sale of foreign assets of residents in order to subscribe primary issuances of public debt issued by the Government; and

(f) 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 any amounts exceeding US$ 2.0 million per month.

The Ministry of Economy is entitled to modify the percentages and terms detailed above, when a change in the macroeconomic situation so requires it. It is also entitled to modify the rest of the requirements established by Decree No.616/05, and/or establish new ones, and/or extend the types of foreign currency inflows included. The Argentine Central Bank is entitled to regulate and control compliance with the regime established by Decree No.616/05, and to enforce the applicable penalties.

Complementarily 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 to be used to acquire any of the trusts assets. The corresponding criminal regime will be applicable in the case any of these rules are disobeyed.

In addition, currently:

- 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 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 currency 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.

- Access to the foreign exchange local market for the transfer of profits and dividends abroad is permitted when corresponding to audited and final balance sheets.

Lastly, pursuant to Decree No.260/02, all foreign exchange transactions in Argentina must be executed only through the *mercado libre y único de cambios* (free and single foreign exchange market) in which the Argentine Central Bank buys and sells currency.

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 and a maximum interest rate was to be applied. However, most of the loans to individuals were excluded from this adjustment, which was replaced by the adjustment by the CVS (referred to as the asymmetric indexation). The adjustment by the CVS was applicable up to March 31, 2004. Loans adjusted by the CER were assigned an interest rate ranging from 3.5% to 8%, and loans adjusted by the CVS an interest rate equal to the lower of the loan s contractual rate and the following maximum interest rates of 12.38%, 16.41% and 25.48%, depending on the type of loan. Those debtors with obligations not included in the above-mentioned exceptions would be able to restructure such loans and the accumulated CER amounts.

During most of 2002 and as from the enactment of Law No. 25,563, several regulations were in force that restricted creditors ability to exercise their rights, including the restriction of foreclosure proceedings on mortgages and pledges. The suspension of foreclosure proceedings was extended several times through regulations or by means of banks voluntary commitment not to commence foreclosure actions against debtors until the enactment of Law No. 26,062, on November 3, 2005, which temporarily suspended 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.

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. This law was optional for financial creditors, and making use of this option, we decided not to participate and informed the Argentine Central Bank of our decision. We have reached individual agreements with certain debtors, and in case of non-fulfillment of the agreements or impossibility of reaching an agreement, we have applied the corresponding foreclosure actions.

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.

On February 3, 2002, Decree No. 214/02 established the mandatory conversion of all obligations to give sums of money, of any cause or origin judicial or extra-judicial denominated in U.S. dollars or other foreign currencies, existing as of the date of the Public Emergency Law and that had not already been converted into pesos, including all deposits in U.S. dollars or other foreign currencies with the Argentine financial system at the exchange rate of Ps.1.4 per US dollar and the application of the CER to the comprised deposits and loans, plus a minimum interest rate to deposits and a maximum interest rate to loans.

The *corralito* and the *corralón* were meant to shield banks from new massive withdrawals of deposits, after the withdrawal experienced by the financial system during 2001. However, the financial system s deposits continued to diminish, particularly, due to the increase in the number of *amparo* claims that resulted in court orders mandating banks to release deposits. See Compensation to Financial Institutions For Differences Related to *Amparo* Claims.

The executive branch of the Government proposed voluntary exchanges of deposits (known as *Canje I* and *Canje II*) for new Argentine Government bonds (Boden 2007 Bonds in pesos and two dollar-denominated bonds: Boden 2005 Bonds and Boden 2012 Bonds). Reprogrammed Deposits for which no exchange option had been exercised (known as Cedros) matured in August 2005. The Ministry of Economy lifted, effective December 2, 2002, the *corralito*. In addition, since April 1, 2003, holders of Reprogrammed Deposits were allowed to request from financial institutions the total or partial reimbursement of such deposits on conditions (a mix of cash and dollar-denominated Boden 2013 Bonds) that varied depending on the amount of the deposit and its original currency of denomination. The process to eliminate the *corralón* was completed in August 2003.

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 Government (Boden 2007 Bonds).

- 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 Government established the issuance of a dollar-denominated bond bearing Libor and maturing in 2012 (Boden 2012 Bonds).

Among other measures, Decree No. 905/02 established the methodology for calculating the compensation to be received by financial institutions. We recorded the compensation for the amounts we had determined according to the regulations. Financial institutions had to inform the Argentine Central Bank of the amounts of compensation to which they were entitled under these rules no later than December 23, 2002 and the Argentine Central Bank had to confirm the amounts after a review.

In March 2005, we agreed to receive US$ 2,178.0 million of face value of Boden 2012 Bonds, comprised of US$ 906.3 million of face value of Boden 2012 Bonds corresponding to the Compensatory Bond (fully delivered to us in November 2005) and US$ 1,271.7 million of face value of Boden 2012 Bonds corresponding to the Hedge Bond (pending receipt in full until December 1, 2006).

On December 1, 2006, the Argentine Central Bank credited to us Boden 2012 Bonds for a face value of US$ 1,155.0 million, at their 75% residual value and US$ 406.8 million for pass due amortization and interest coupons, corresponding to 90.8% of the Hedge Bond. As of December 31, 2006, delivery of the remaining Hedge Bond for US$ 116.8 million of face value of Boden 2012 Bonds was pending.

Since 2002, the Boden 2012 Bonds pending delivery were recorded in our balance sheet under the item Other Receivables Resulting from Financial Brokerage, as they represented a right to receive Boden 2012 Bonds for the amount recorded under that item as the above-mentioned compensation. The delivery to us of 90.8% of the Boden 2012 Bonds corresponding to the Hedge Bond implied the availability of such bonds, thus the bonds were recorded as securities under Government Securities.

We recorded in our balance sheet the advance for the acquisition of the Hedge Bond and the compensation simultaneously. During the first quarter of 2006, we requested from the Argentine Central Bank the advance for the acquisition of 90.8% of the Hedge Bond. On December 1, 2006, we executed such portion of the aforementioned advance and simultaneously settled this liability using Bogar Bonds and Secured Loans granted as collateral, for Ps.1,111.6 million and Ps.0.07 million of face value, respectively, and cash for Ps.1,369.7 million. As a result of the foregoing, both our assets and liabilities decreased by Ps.3,302.6 million, due to the decrease by such amount of both the advance for the acquisition of the Hedge Bond and the assets used in the settlement of such liability.

Due to the settlement in cash noted above, Bogar Bonds previously granted as collateral for said liability for a face value of Ps.392.8 million were released. The valuation of such securities in accordance with Argentine Central Bank regulations, at their present value calculated by using the discount rate set forth in those regulations, generated a reduction in the book value thereof of Ps.109.1 million.

On December 13, 2006, we requested from the Argentine Central Bank the advance for the acquisition of the remainder of the Hedge Bond, i.e., Boden 2012 Bonds for US$ 116.8 million of face value, and the simultaneous settlement of such liability on the date of execution, through the application of Ps.163.5 million of face value of Bogar Bonds granted as collateral. In February 2007, given that no resolution had been taken on such request, the we requested the acquisition of the remainder of the Hedge Bond in cash as well as the release of the Bogar Bonds granted as collateral. In accordance with Argentine Central Bank rules on the valuation of public-sector assets not granted as collateral, this decision generated a Ps.32.0 million loss, which was recorded in February 2007.

In March 2007, the Argentine Central Bank notified us that the remaining Hedge Bond had to be acquired by using Secured Loans, in accordance with the direct swap alternative set forth in Decree No. 905/02. On April 9, 2007, we requested from the Argentine Central Bank the acquisition of such Bond with Secured Loans for Ps.115.9 million of face value. The swap for public sector assets, instead of the aforementioned advance caused a Ps.32.8 million increase in the acquisition cost of the remaining Hedge Bond. This loss was recognized in our Financial Statements in March 2007. As of March 31, 2007, the balance of the Hedge Bond pending settlement was recorded under Other Receivables Resulting from Financial Brokerage for Ps.409.1 million. The swap was completed on April 24, 2007.

Through the actions described, the process of compensation to us for the effects of the asymmetric pesification established by Decree No. 905/02 was completed. In addition, these actions have strengthened our balance sheet by reducing risk concentration in public-sector assets and increasing our structural liquidity. In addition, these actions have increased our ability to generate business because of the possibility to apply a substantial amount of public sector assets to the business.

For Differences Related to Amparo Claims

As a result of the provisions of Decree No. 1,570/01, the Public Emergency Law, Decree No. 214/02 and concurrent regulations, and as a result of the restrictions on cash withdrawals and of the measures that established the pesification and restructuring of foreign-currency deposits, since December 2001, a significant number of claims have been filed against the Government and/or financial institutions, formally challenging the emergency regulations and requesting prompt payment of deposits in their original currency. Most lower and upper courts have declared the emergency regulations unconstitutional. As of December 31, 2006, court orders received by the Bank requiring the reimbursement of deposits in foreign or Argentine currency, at the free-market exchange rate, amounted to Ps.12.8 million and US$ 644.5 million. In compliance with those court orders, as of the same date, the Bank had paid the amounts of Ps.1,163.9 million and US$ 111.2 million to reimburse deposits, in pesos and in foreign currency.

The difference between the amounts paid as a result of these court orders and the amount resulting from converting deposits at the Ps.1.40 per US dollar exchange rate, adjusted by the CER and interest accrued up to the payment date, which amounted to Ps.688.4 million as of December 31, 2006, was recorded under Intangible Assets . The residual value as of said date was Ps.367.2 million. We have repeatedly reserved our right to make claims, at suitable time, in view of the negative effect caused on our financial condition by the reimbursement of deposits originally denominated in dollars, pursuant to orders issued by the Judicial Branch, either in US dollars or in pesos for the equivalent amount at the market exchange rate, since compensation of this effect was not included by the Government in the calculation of the compensation to financial institutions. The method of accounting for such right as a deferred loss, set forth by Argentine Central Bank regulations, does not affect the existence or legitimacy of such right. To such effect, we have reserved all of the corresponding rights.

On December 30, 2003, we formally requested to the executive branch of the Government with a copy to the Ministry of Economy and to the Argentine Central Bank, the payment of the due compensation for the losses incurred that were generated by the asymmetric pesification and, especially, for the negative effect on its financial condition caused by final court decisions. We have reserved our right to further extend such request in order to encompass losses made definitive by new final judgments.

On December 27, 2006, the Supreme Court ruled in the case of Massa vs. National State and BankBoston , that the defendant bank must fulfill its obligation to reimburse a dollar-denominated deposit subject to the emergency regulations by paying the original amount deposited converted into pesos at an exchange rate of Ps.1.40 per US dollar, adjusted by CER until the effective payment date, together with a 4% annual interest payment and computing amounts paid in order to comply with preliminary injunctions or other measures as payments on account of any such amount owed. On March 20, 2007, the Supreme Court ruled, in the case of EMM S.R.L. c/ Tía S.A. that Decree No. 214/2002 does not apply to judicial deposits, and that such deposits must be reimbursed to the depositors in their original currency. Management continuously monitors and analyses the implications of such ruling to similarly situated cases.

During fiscal year 2006 and in the previous fiscal years, the number of legal actions filed by customers requesting the reimbursement of deposits in their original currency has decreased significantly.

Argentine Banking System and Regulation

Argentine Banking System

As of December 31, 2006, the Argentine financial system consisted of 90 financial institutions, of which 72 were banks and 18 were financial non-bank institutions (including finance companies, credit unions, savings and loan associations). Of the 72 banks, 12 were Argentine national and provincial government-owned or related banks. Of the 60 private-sector banks: 35 were private-sector domestically-owned banks (*i.e.*, *sociedades anónimas*); 24 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, Citibank, BankBoston, Credicoop, Banco Macro Bansud and HSBC Bank. Of these, three were domestically-owned banks and five were foreign-owned banks. According to information published by the Argentine Central Bank as of December 31, 2006, private-sector banks accounted for 55.05% of total deposits and approximately 67.3% 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, 2006, financial entities (other than banks) accounted for approximately 0.3% of deposits and 2.7% of net loans in the Argentine financial system.

As of December 31, 2006, 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 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 Government may impose. According to information published by the Argentine Central Bank, as of December 31, 2006, government-owned banks and banks in which the national, provincial and municipal governments had an ownership interest accounted for 44.7% of deposits and 30.0% 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 90 at December 31, 2006, with the ten largest banks holding 73.7% of the system s deposits and 66.8% of the system s loans as of December 31, 2006.

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 15 through December 2006, 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 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 and allowed the Argentine Central Bank to make advances to the Government.

The Financial Institutions Law and the Argentine Central Bank charter were amended by Law No. 25,780, published in the Official Gazette on September 8, 2003. The main provisions established by such law were the following: (i) authorization was given to the Argentine Central Bank to make temporary loans to the 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 Government in cash during the last 12 months, both of which have to 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.

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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. 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).

Examination by the Argentine Central Bank

The Argentine Central Bank began to rate financial institutions based on the CAMEL quality rating system in 1994. Each letter of the CAMEL system corresponds to an area of the operations of each bank being rated, with: C standing for capital, A for assets, M for management, E for earnings, and L for liquidity. Each factor is evaluated a rated on a scale from 1 to 5, 1 being the highest rating an entity can receive. The Argentine Central Bank modified the supervision system effective on September 2000. The new rating system, the objective and basic methodology of which do not differ substantially from the CAMEL system, is denominated CAMELBIG . The components were redefined in order to evaluate business risks separately from management risks. The components used to rate the business risks are: capital, assets, market, earnings, liquidity and business. The components to rate management risks are: internal control and the quality of management. 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 resumed the examination process, which was interrupted due to such crisis. In the Bank s case, the first examination was based on information as of June 30, 2005, and the examination activities ended on November 4, 2005. A new examination was started based on information as of September 30, 2006.

BASIC System

The Argentine Central Bank established a control system (BASIC) 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 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. This requirement was eliminated by the Argentine Central Bank effective March 1, 2002.
- *A (Auditoría or* Audit*).* The Argentine Central Bank requires a set of external audit procedures that include: (a) the creation of a registry of auditors; (b) the implementation of strict accounting procedures to be complied with by external 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

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Central Bank liable for verifying that the procedures are followed. The purpose of this requirement is to assure accurate disclosure 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 which required periodic credit evaluation of financial entities by internationally recognized rating agencies, which was suspended by Communiqué A 3601 in May 2002. A rating by such agencies is still required for financial institutions to be able to receive deposits from local pension funds (AFJPs).

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.

Limitations on Types of Business and Computable Regulatory 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 MAE, 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 interests in domestic mutual funds called *fondos comunes de inversión*) may not exceed 50.0% of such bank s 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 computable regulatory capital.

A bank s computable regulatory capital or RPC or Adjusted Shareholders Equity 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, audited retained earnings and, effective October 1, 2006, long-term debt instruments, as long as such instruments fulfill certain requirements (maturity of more than 30 years, accrual of recognized return per year not exceeding issuer financial entity s profits, with unpaid services not being cumulative, so that they cannot be deferred and accumulated to be paid after its maturity date) and cannot exceed a certain core capital percentages, equal to 30% until December 31, 2008, subject to a schedule that converges to the 15% international standard on January 1, 2013; plus

ii)

the supplemental capital, which may not exceed the core capital, consisting of unaudited retained earnings (50% of profits and 100% of losses; 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), subordinated debt not exceeding 50% of core capital and with a maturity of at least 5 years, and, effective October 1, 2006, debt instruments which fulfill the requirements to be considered as core capital but exceed the above mentioned limits, debt instruments with residual time to maturity of less than 10 years and those for which unpaid services are cumulative. In this case, the limit is 50% of the core capital.

iii) In addition, the following items must be deducted: (i) sight deposits with foreign banks abroad not rated as investment grade; (ii) securities deposited with custodians not having been authorized by the Argentine Central Bank; (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) unregistered real estate; (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.

Financial institutions must comply with capital adequacy requirements both on individual and consolidated basis.

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 defined as complementary to those provided by financial institutions or which exceeds specified percentages of the respective financial institution s RPC as described above. The Argentine Central Bank determines which services are complementary to the services provided by financial institutions, mainly services in connection with stock brokerage, issuance of credit or debit or similar cards, financial intermediation in leasing and factoring transactions.

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 would be allowed to receive in payment of credits granted shares or equity interests in the capital of a company that engages in activities other than complementary activities, 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).

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 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 amortize in up to 36 monthly equal and consecutive installments. Our application of this rule has resulted in the deferral of losses related to *amparo* claims since December 2005. No losses for this concept were recorded in December 2005 and during fiscal year 2006.

As of December 31, 2006, this intangible asset, net of amortizations and including deferred losses, amounted to Ps.367.2 million. We have repeatedly reserved our right to make claims, at suitable time, in view of the negative effect caused on our financial condition by the reimbursement of deposits originally denominated in

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dollars, pursuant to orders issued by the Judicial Branch, either in US dollars or in pesos for the equivalent amount at the market exchange rate, since compensation of this effect was not included by the Government in the calculation of the compensation to financial institutions. The method of accounting for such right as a deferred loss, set forth by Argentine Central Bank regulations, does not affect the existence or legitimacy of such right. To such effect, we have reserved the corresponding rights.

Legal Reserve Requirements for Liquidity Purposes

The minimum cash requirements that banks are required to carry are established as a percentage of the balances of the different type of bank deposits and, for time deposits (including Cedros and Reprogrammed Deposits with *amparo* claims, when corresponding), 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. Compliance with the minimum cash requirements must be accomplished with certain assets (*see below*), in the same currency as the deposit that originates it. Compliance with the minimum cash requirements is determined in averages, for monthly periods. The Argentine Central Bank can modify 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 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 2006, the percentages of minimum cash requirements applicable in accordance with Argentine Central Bank Communiqué A 4549, dated July 21, 2006, were as follows:

Demand deposits:

- peso-denominated current accounts and savings accounts: 19%.

- dollar-denominated savings accounts: 30%.

Time deposits, including those adjusted by CER (by remaining maturity):

- denominated in pesos: up to 29 days: 14%; from 30 to 59 days: 11%; from 60 to 89 days: 7%; from 90 to 179 days: 2%; from 180 to 365 days: 0%.

- denominated in dollars: up to 29 days: 35%; from 30 to 59 days: 28%; from 60 to 89 days: 20%; from 90 to 179 days: 10%; from 180 to 365 days: 6%; and more than 365 days: 0%.

The assets computable for compliance with this requirement are the technical cash, which comprises bills and coins (up to a 67% maximum beginning on October 1, 2006, as established by the Argentine Central Bank s Communiqué A 4580 dated September 29, 2006), the balances of the peso- and dollar-denominated accounts at the Argentine Central Bank and that of the escrow accounts held at the Argentine Central Bank in favor of clearing houses.

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 Foreign Exchange Market, would not be computed 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 the above mentioned purpose.

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By means of Communiqué A 4549, the Argentine Central Bank also eliminated the possibility of computing cash (in local and foreign currency) for compliance with minimum cash requirements. Such measure implied that cash in vaults, in transportation and in armored truck companies, ATMs and branches would not be computable for compliance with minimum cash requirements. This measure, which was going to be gradually phased in, was subsequently suspended, thus 67% of these items amounts remained computable for such purpose.

As of December 31, 2006, the Bank was in compliance with its legal reserve requirements, and has continued to be to date.

Capital Adequacy Requirements

See Selected Statistical Information Regulatory Capital.

Capitalization of Debt Instruments

Through Communiqué A 4652, dated April 25, 2007, the Argentine Central Bank modified Item 7.3 Capital Contributions of Chapter VI. Capital Adequacy- Section 7. Regulatory Capital of its LISOL 1 rule. Through such Communiqué, the Argentine Central Bank broadened the set of financial instruments different from cash that it will expressly admit to be contributed as capital for the purposes of all regulations related to capital, capital computing and capital increases. Besides cash, in which case no special authorization from the Argentine Central Bank is required, the regulation establishes that subject to the prior authorization by the Financial Superintendency, the following instruments will be admitted as capital contributions: (i) securities issued by the Government, (ii) debt instruments issued by the Argentine Central Bank, and (iii) a financial institution s deposits and other liabilities resulting from financial brokerage, including subordinated obligations. In cases (i) and (ii), the contributions must be recorded at market value. It will be understood that an instrument has a market value when it has regular quotations in stock markets and regulated local and foreign markets. In case (iii), contributions must be recorded at market value, as defined in the previous cases or, in the case of financial institutions that publicly offer their stock, at the price determined by the regulatory authority. When the previous situation is not verified, contributions will be admitted at their accounting value, pursuant to Argentine Central Bank rules.

Profit Distribution

See Item8. Financial Information Dividend Policy and Dividends.

Lending Limits

According to Argentine Central Bank rules, the aggregate amount of loans and other receivables (including guarantees granted), together referred herein as financial assistance or credit , a bank can grant to any customer at any time is based on the bank s RPC on the last day of the immediately preceding month and on the customer s net worth.

<u>i) Limits to financial assistance that refer to the borrowers capital</u>: 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 the bank s RPC. For forward transactions, different percentages are considered, depending on the transaction s characteristics. Until June 2006 (Communiqué A 4467), new financial assistance could be granted (up to a total limit of 15% of a bank s RPC) exceeding the 300% limit of the customer s capital, with the board of directors approval. Such additional financial assistance could not exceed 2.5% of a bank s RPC.

<u>ii) Limits that refer to the financial institution s RPC</u>: the limits to the financial assistance a bank can provide are (as a percentage of a bank s RPC):

	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%

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	Without Collateral	With Collateral
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 shown in the table above to a financial institution s new exposure (granted after April 1, 2003) to the Argentine non-financial public sector. These limits exclude the exposure outstanding as of March 31, 2003, 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, with the exclusions mentioned, 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 non-financial 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 add an equal amount to the minimum capital requirement of the bank. The Bank submitted a plan in order to comply with item 12 of Communiqué A 3911, as amended, over time, which was approved by the Argentine Central Bank on February 28, 2006. The Bank is currently in compliance with this plan, with no capital requirements arising from the excess carried.

By means of Communiqué A 4546, the Argentine Central Bank reduced the cap to financial institutions permitted total exposure to the public non-financial sector from 40% of total assets to 35% of total assets, effective July 1, 2007.

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

	Limit based on a Bank s RPC	**Limit based on Customers Net Worth**
Companies with non-complementary activities		12.5%(**)
Companies with complementary activities		100%
Total shares	50%	
Shares without quotation (*)	15%	

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

(**) *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 risk concentration. To that end, the aggregate of all financial assistance that, taken alone, exceeds 10% of a bank s RPC, must not exceed three times and five times a bank s RPC, excluding and including, respectively, the financial assistance to local banks. For a bankers bank the latter limit is 10 times.

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

The Argentine Central Bank also regulates the amount of total financial exposure (defined as financial assistance or credit plus equity participations) of bank to a related party (defined as a bank s affiliates and related individuals). For purposes of these 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.

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The Argentine Central Bank limits the amount of total financial exposure that a bank can have outstanding to its related parties, depending on the rating granted to each bank by the Financial Superintendency. Banks rated 4 or 5 are forbidden to extend financial assistance to their related parties, except for related persons who are individuals, in which case a bank s total financial assistance cannot exceed Ps.50,000, and must have been granted exclusively for personal or family purposes. For banks ranked between 1 and 3, the financial assistance to their related parties cannot exceed, together with any equity participation held by the bank in its affiliates, 5.0% of such bank s RPC. However, a bank may increase its total financial exposure to such related parties up to an amount equal to 10.0% of such bank s RPC: (i) if the affiliate provides complementary services, (ii) in the case of temporary acquisition of shares in companies to facilitate their development in order to sell such shares afterwards, (iii) if the affiliate is a local financial institution rated other than 1 or 2 by the Argentine Central Bank, or (iv) if the 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 total financial exposure can reach 100.0% of a bank s RPC. If the receiving affiliate financial institution is rated 2, the amount of total financial exposure can reach 10.0% 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 total financial exposure assistance to its related parties may not exceed 20.0% of such bank s RPC.

Failure to observe these requirements may 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 limits established, beginning on the month when the excess amounts appear and continuing for as long as the excess amounts remain.

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

The Bank has historically complied with such rules.

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.

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 of assistance for liquidity support to financial institutions. 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 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.

The above mentioned Decree, together with Decree No.1,262/03, established that balances due had to be amortized in pesos, with the proceeds of the assets provided as collateral for the financial assistance received, but without exceeding 70 or 120 monthly installments, depending on the type of assets granted as collateral, and Argentine Central Bank Communiqué A 3941 established a minimum cumulative amortization schedule and monthly repayment for such assistance. Voluntary prepayment in advance was made available. Decree No.739/03 also established that the restructured financial assistance had to be secured by Secured Loans or, in the absence of the latter, by promissory notes or Bogar Bonds, or bonds issued under Decrees No. 905/02, 1836/02 and 739/03, or other bonds.

On February 3, 2004, the Argentine Central Bank informed us that it had approved the debt s amortization schedule submitted by us. This schedule established repayment in 92 monthly installments starting in March 2004 and ending in October 2011.

In 2006 and in the first months of 2007, we made significant payments in advance on this debt and on March 2, 2007, settled the total outstanding balance of the financial assistance from the Argentine Central Bank incurred as a consequence of the 2001-2002 crisis. For more information, see Item 5A. Operating Results Funding .

Foreign Currency Position

Through Communiqué A 4350, dated May 12, 2005, the Argentine Central Bank suspended, effective May 1, 2005, the limit on the positive Global Foreign Currency Net Position (defined as assets and liabilities from financial brokerage and securities denominated in foreign currencies) established at the lowest of 30.0% of a bank s RPC or a bank s liquid shareholder equity as of the end of the previous month. Although, at that moment the Argentine Central Bank kept the limit on the negative foreign currency net position at 30% of a bank s RPC, through Communiqué A 4577, issued on September 28, 2006, and effective January 1, 2007, it established that this position should not exceed 15% of the RPC of the preceding month. Subsequently, through Communiqué A 4598, dated November 17, 2006, the Argentine Central Bank allowed, in certain cases, the limit to increase by 15 percentage points. Communiqué A 4577 also clarified that participation certificates or debt securities issued by financial trusts and credit rights on ordinary trusts, in the corresponding proportion, should be computed when the trust s underlying assets are foreign currency denominated.

Deposit Insurance System

In 1995, 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 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.

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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 the Argentine Central Bank can grant rediscounts and overdrafts to financial institutions with liquidity and solvency problems, including those institutions under a restructuring process as contemplated in section 35 bis of the Financial Institutions Law.

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 the Argentine Central Bank.

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 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, 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 institution if its liquidity or solvency have 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 period: (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, any actions authorized, commissioned or decided by the Argentine Central Bank under section 35 bis of the Financial Institutions Law, involving the transfer of assets and liabilities, or complementing it, or 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 any of such actions.

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 regarding the ability of such corporate authorities 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 of the financial institution to operate as such. 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 institution before 60 days have elapsed since the revocation of its license.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

Item 5A. Operating Results

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.

Overview

During the 2001-2002 crisis, Argentina underwent a period of great political, economic and social instability. The crisis led to a significant decline in economic activity, a banking crisis that followed massive runs on the financial system s deposits, the default on part of Argentina s sovereign foreign debt, the devaluation of the Argentine peso in January 2002 and to high inflation. Mostly in the first months of 2002, the Government took 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 Government Regulation Main Regulatory Changes since 2002.

After an initial streamlining of our operations, we restored our liquidity, restructured substantially all of our commercial loan portfolio, restructured our liabilities with the Argentine Central Bank incurred as a consequence of the crisis, completing this process in early 2004, and restructured the foreign debt of our subsidiaries for an aggregate amount of approximately US$ 3,000 million, completing this process in May 2004. In the process of restructuring our foreign debt, we generated capital for approximately US$ 322 million. The restructured foreign debt began to amortize and, in the case of Galicia Uruguay, the scheduled payments and the exchanges for Boden 2012 Bonds and cash reduced the restructured debt, which originally matured mostly in 2011, to approximately 10% of its original amount as of December 31, 2006. As of that date, the total restructured debt was approximately 50% of its original amount.

Mainly in 2006 and in the first months of 2007, we made significant payments in advance on the financial assistance from the Argentine Central Bank received as a consequence of the crisis, to a large extent using the proceeds of the sale of public-sector assets granted as collateral for such financial assistance. This debt, which originally matured in 2011, was settled in advance on March 2, 2007. As of December 31, 2005, this debt amounted to Ps.5,314.9 million and as of December 31, 2006, it amounted to Ps.2,688.7 million.

We received the Boden 2012 Bonds corresponding to the Compensatory Bond in 2005 and, on December 1, 2006, we acquired 90.8% of the Hedge Bond (Boden 2012 Bonds for US$ 1,155.0 million of face value) with the proceeds of the execution of the same proportion of the advance from the Argentine Central Bank for the acquisition of such bond. This liability was simultaneously settled with public-sector assets granted as collateral for such liability and cash.

Substantially as a result of all the above, we reduced our exposure to the public sector from Ps.16,414.5 million to Ps.8,898.0 million between December 31, 2005 and December 31, 2006, representing a reduction of more than Ps.7,500 million.

In addition, during the first quarter of 2007, we further reduced our exposure to the public sector in additional approximately Ps.895 million, mainly as a result of the sale of holdings of Bogar Bonds and of the use of the proceeds of Boden 2012 Bonds in the repurchase of restructured foreign debt instrumented as loans. Moreover, after the close of the first quarter, we further reduced such exposure, through the sale of Secured Loans for approximately Ps.1,094 million, and also acquired the Boden 2012 Bonds corresponding to the remaining Hedge Bond (US$ 116.8 million of face value) through a swap for Secured Loans (Ps.115.9 million of face value).

Although the acquisition of the Hedge Bond implied significant losses from the valuation of public-sector assets (recorded at the end of fiscal year 2006 and in the first quarter of 2007; for more information see below Results of Operations for the Fiscal Years Ended December 31, 2006, December 31, 2005 and December 31, 2004 and Item 8. Financial Information Significant Changes), the process of compensating us for the effects of the asymmetric pesification measures of 2002 has finalized, and we have repaid all of the expensive liabilities with the Argentine Central Bank, which we incurred as a consequence of the 2001-2002 crisis. To date, we have settled all of such debt with the Argentine Central Bank, having reduced such debt in Ps.8,612 million between December 31, 2005 and March 31, 2007. Also as a result of the aforementioned actions, since December 31, 2005, we have reduced our exposure to the public sector in approximately Ps.9,500 million. These actions have not only

strengthened our balance sheet, but have also increased our ability to generate new business, due to the possibility to gradually apply a very significant amount of resources tied in public-sector assets to the business, namely assets that were released from their status as collateral for debt with the Argentine Central Bank, in addition to the full availability of the Boden 2012 Bonds corresponding to the Hedge Bond.

Within the framework of a growing economy, our operations expanded significantly since mid 2002. 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, strengthening our position as a leading domestic private-sector financial institution. All of this resulted in an increase of our recurrent operating income (net financial income before adjustments to 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, plus net income from services), in the three years ended December 31, 2006. See Results of Operations for the Fiscal Years Ended December 31, 2006, December 31, 2005 and December 31, 2004. In addition, also contributing to our operating profitability, our asset quality recorded a significant improvement after the 2001-2002 crisis. The ratio of non-accrual loans to total private-sector loans decreased from 31.16% at the end of fiscal year 2003 to 3.49% at the end of fiscal year 2006.

Our total deposits began to grow in the second half of 2002, having increased 93.0% between December 31, 2006 and December 31, 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 8.43%% at the end of fiscal year 2006 from 5.62% at the end of fiscal year 2003. Loan origination began to increase gradually in 2003, and the Bank s unconsolidated loans in Argentina to the private sector increased 142.2% between December 31, 2006 and December 31, 2003, while the regional credit card companies increased their loan portfolio by 159.9% during the same period.

The significant increase in our activity levels in the last four years has had a positive impact on our financial income and on our net income from services, before the losses from the valuation of public sector assets. However, our net financial income was significantly affected by such losses and, in 2005 and to a larger extent in 2006, was also affected by the negative effects of the postponement in the delivery of the Hedge Bond to us. This meant that we had to carry an increasing non-accrual dollar-denominated asset (equal to the past due coupons of the corresponding Boden 2012 Bonds, one in 2005, two in 2006) which principal was valued at the period-end peso/US dollar exchange rate (which experienced very low change), while the liability (equal to the corresponding installments of the advance from the Argentine Central Bank to finance the acquisition of such Boden Bonds), on which interest accrual was also suspended, had its principal adjusted by the CER (which experienced a greater increase than the exchange rate). Our net financial income was also reduced by the losses on our matched foreign currency position, as a result of the lower yield of our main foreign-currency asset (the Boden 2012 Bonds) relative to our foreign currency debt cost.

In turn, the current risk profile of the loan portfolio reduced the need to establish loan loss allowances, and the improvement in the quality of the loan portfolio allowed for reversal of provisions and strong loan recoveries, which have been reducing their impact on our bottom line which represents a normalization of operating conditions relative to the post-crisis situation.

The strong expansion of the volume of business led to a geographical expansion and such expansion and the increased number of transactions demanded greater staff and a greater use of resources in general, as well as considerable expenses on advertising and publicity, a strategic item given the high competitiveness of the market. The administrative expenses of the last couple of fiscal years also reflect an inflationary context and the adjustment of real salaries that has taken place, especially in the last two years.

Excluding non-recurring gains, our miscellaneous net income was favored by the reversal of loan loss provisions and the loan recoveries. However in 2004 and 2005, we have experienced significant losses from the amortization of *amparo* claims, which were deferred in 2006.

In summary, in the last years, our results of operations were strongly influenced by the negative effect on our net financial income of having carried on our balance sheet certain public-sector assets resulting from the 2001-2002 crisis, together with their valuation in accordance with Argentine Central Bank regulations. In addition since

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2005, our results of operations have been impacted by the cost of the postponement of the delivery to us of the compensation for the asymmetric pesification until the end of the fiscal year.

Currency Composition of Our Balance Sheet

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,		
	2006	**2005**	**2004**
	(In millions of pesos)		
Assets			
In pesos, unadjusted	12,529.2	7,977.3	5,666.0
In pesos, adjusted by the CER	4,271.5	10,671.5	10,198.4
In foreign currency (1)	6,833.5	6,807.4	7,786.2
Total Assets	**23,634.2**	**25,456.2**	**23,650.6**
Liabilities and Shareholders Equity			
In pesos, unadjusted, including shareholders equity	13,115.2	9,350.0	7,871.1
In pesos, adjusted by the CER	3,826.2	9,909.4	9,236.0
In foreign currency (1)	6,692.8	6,196.8	6,543.5
Total Liabilities and Shareholders Equity	**23,634.2**	**25,456.2**	**23,650.6**

(1) If adjusted to reflect forward sales and purchases of foreign exchange made by the Bank and recorded off-balance sheet, assets amounted to Ps.7,308.8 million and liabilities Ps.6,841.7 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 and Financial System in 2006

The Argentine economy continued to show signs of improvement during 2006, for the fourth consecutive year. The Argentine GDP grew 8.5% in 2006, 9.2% in 2005 and 9.0% in 2004.

Domestic demand continued to be one of the main drivers of economic activity. Within domestic demand, fixed gross investment, although having slowed down its growth towards the end of 2006, had a good performance during the fiscal year, increasing 18.7% as compared to fiscal year 2005. Likewise, private consumption also had a significant expansion of approximately 7.7% for the same period, slowing down in comparison to fiscal year 2005. The good performance was once again influenced by the improvement in real salaries, which increased 8.1% in comparison to the previous year.

Exports of goods and services recorded a 7.4% increase during the year, below the 13.5% increase recorded during fiscal year 2005. However, exports regained strength towards the fourth quarter of the year. As for imports, although sizable increases continued (imports increased by 15.2% year over year for the same period), their rate of increase was also lower than in 2005.

In respect of aggregate supply, during the 2006, the goods producing sector was considerably dynamic, increasing 8.8% year over year. In turn, the services sector increased 8.0% during the same period. In the goods sector, the construction industry stood out, recording a 18.6% increase year over year during 2006. In turn, industrial production, showed an excellent performance, increasing 8.9% during 2006, even more than in the previous year (an increase of 7.5%). Within the services sector, the financial sector stood out again, with a growth of 22.0%, exceeding the growth recorded the previous year.

The strong performance of the economy had a positive impact on the labor market, which has been improving significantly since the previous year. The unemployment rate for the fourth quarter of 2006 decreased to 8.7% of the economically active population from 10.1% in the same quarter of 2005.

The inflation rate in 2006 was slightly lower than in 2005 and the nominal exchange rate remained relatively stable, in spite of important inflows of foreign currency from exports as well as from portfolio investments, encouraged by a generally favorable international economic environment.

The renewed strength of domestic demand in an environment of high capacity utilization was one of the main factors behind inflation in 2006. Measured by the Consumer Price Index, or CPI, inflation in 2006 was 9.8%, less than the 12.3% rate of the previous fiscal year. This decrease was partially attributable to the measures taken by the Government in order to restrain the increase in prices, which mainly consisted of encouraging specific sectors to limit price increases, mainly sectors with high weightings in the index, such as the foodstuffs and beverage sectors. In turn, the Internal Wholesale Price Index, or WPI, recorded an increase of 7.1% in 2006.

The reference exchange rate of the Argentine Central Bank varied from Ps.3.032 per US dollar to Ps.3.070, between December 31, 2005 and December 31, 2006, while the average exchange rate varied from Ps.2.923 in 2005 to Ps.3.074 in 2006.

The economic situation was also supported by the sound surpluses recorded both in the fiscal balance and the current account of the balance of payments. This translated into a significant decrease in the EMBI+ index for Argentina, which measures the difference between the yields of the country s securities and those of the United States. This index closed the year at 216 basis points, thus decreasing 283 basis points from December 2005. In 2006, the Merval stock market index increased 35.5%.

On the fiscal front, as in the previous years, tax revenues continued to increase, mainly as a result of the strength of economic activity, the increase in prices and the significant contribution of taxes related to the labor market and to foreign trade. During 2006, primary spending increased by 26.7%, surpassing the increase of 25.4% in total revenues. The Government achieved a primary surplus of Ps.23,158 million, equivalent to 3.5% of GDP. After interest payments for Ps.11,542 million, the overall fiscal result was a surplus of Ps.11,616 million.

The current account of the balance of payments recorded a surplus again, as a result of the still high trade-balance surplus and the low amounts of interest payments that followed the restructuring of the Argentine foreign debt. The current account to GDP ratio was 3.8% for 2006, compared to 3.1% in 2005. The trade balance, based on Argentine foreign trade official data from INDEC, reported a surplus of US$ 12,409 million during 2006, compared to US$ 11,663 million in the previous year.

Maintaining the trend observed in 2005, the financial system evolved favorably during 2006, especially in respect of financial intermediation with the private sector. In deed, there was a strong increase in loans to the private sector and private sector deposits continued to expand.

At the end of 2006, total deposits in the financial system exceeded those of the previous year-end by 25.4%, reaching Ps.169,284 million. Deposits of the non-financial private sector increased 22.3% in 2006, reaching Ps.121,529 million and representing 18.6% of the GDP at December 31, 2006. Public-sector deposits amounted to Ps.45,317 million (an increase of 32.1%), while deposits of the financial sector and residents abroad totaled Ps.2,436 million (an increase of 92.5%).

With respect to private-sector deposits, time deposits recorded the highest growth rate. This trend can be explained, basically, by the increase of nominal interest rates within a context in which the Argentine Central Bank is implementing a policy of monetary sterilization and, at the same time, credit origination is expanding at a high rate. However, borrowing rates continued to be negative in real terms. Time deposits amounted to Ps.55,110 million, growing by 27.4% in 2006. Transactional deposits (current accounts and savings accounts) amounted to Ps.58,693 million, growing to a lesser extent (19.4%).

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Total loans of the financial system to the private sector increased by 40.1% from the level at the end of 2005, reaching Ps.75,091 million. While these loans continued to account for a low percentage of the GDP in comparison with similar economies or previous periods ratios in Argentina, the ratio between loans to the private sector and the GDP was 11.5% at fiscal year end 2006, exceeding the 10.1% ratio recorded at the end of 2005, but still far from the 23.3% level reached in 1999.

The types of loans with the highest expansion rates were loans to consumers, consisting of loans granted through credit cards and personal loans, which amounted to Ps.7,797 million and Ps.13,067 million, respectively, as of the end of 2006. Consumer loans rose by 60.2% during 2006, thus reaching Ps.20,864 million, with the 77.0% growth experienced by personal loans being particularly remarkable. Commercial loans, mainly short-term, i.e. advances on current accounts and promissory notes, increased to Ps.9,275 million and Ps.13,096 million, respectively. The aggregate increase amounted to 38.0%, with both components growing at a similar rate. Credits collateralized with real goods had a satisfactory performance, especially pledge loans, which rose by 61.0%, attaining a year-end balance of Ps.3,823 million, while mortgage loans increased by 15.6%.

Interest rates continued to show an increasing trend as in 2005. The cut-off rates of the primary market of peso-denominated one-year Lebac (Argentine Central Bank s bills) increased from 8.9% as of December 31, 2005, to 11.15% as of December 31, 2006. The rate paid by the Argentine Central Bank in seven-day repo transactions with financial institutions increased from 5% as of the end of fiscal year 2005 to 5.75% at the end of the third quarter of 2006, to 6.25% at the end of 2006, while the corresponding rates for reverse repo transactions increased from 6.0% to 8.25% during the year. 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 6.7% during 2006, increased from an average of 5.2% in December 2005 to an average of 6.9% in September 2006, to 7.4% for December 2006.

Inflation

The following table shows the rate of inflation, as measured by the WPI and the CPI, and the evolution of the CER and CVS indexes used to adjust the principal of certain of our assets and liabilities, for the periods indicated.

	For the 12-month period ended December 31,		
(in percentages)	**2006**	**2005**	**2004**
Inflation [1]			
Wholesale Price Index	7.14%	10.67%	7.87%
Consumer Price Index	9.84%	12.33%	6.10%
Adjustment Indexes			
CER	10.04%	11.75%	5.48%
CVS (through March 31, 2004)			5.32%

(1) *Source: INDEC.*

In the first five months of 2007, the WPI increased 5.08% and the CPI increased 3.42%. Over the same period, the CER increased 3.98%.

Results of Operations for the Fiscal Years Ended December 31, 2006, December 31, 2005 and December 31, 2004

We discuss below our results of operations for our fiscal year ended December 31, 2006, as compared with our results of operations for the fiscal year ended December 31, 2005. We also discuss our results of operations for our fiscal year ended December 31, 2005 as compared with our results of operations for our fiscal year ended December 31, 2004.

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Net Income/Loss

	Fiscal Year Ended December 31,			Change December 31,	
	2006	2005	2004	2006/2005	2005/2004
	(in millions of pesos, except percentages)				
Consolidated Income Statement					
Financial income	Ps .2,249.8	Ps .2,398.6	Ps .1,391.6	Ps .(148.8)	Ps .1,007.0
Financial expenses	1,871.6	1,845.9	1,167.4	25.7	678.5
Net financial income	378.2	552.7	224.2	(174.5)	328.5
Provision for losses on loans and other receivables	110.9	76.7	190.2	34.2	(113.5)
Net income from services	672.0	523.7	436.3	148.3	87.4
Administrative expenses	974.6	781.0	623.9	193.6	157.1
Minority interest	(19.0)	(34.6)	(14.3)	15.6	(20.3)
Income / (loss) from equity investments	(14.4)	6.7	3.0	(21.1)	3.7
Miscellaneous income / (loss), net	144.0	(64.3)	98.8	208.3	(163.1)
Income tax	(94.2)	(19.3)	(43.8)	(74.9)	24.5
Net income / (loss)	**Ps. (18.9)**	**Ps. 107.2**	**Ps. (109.9)**	**Ps. (126.1)**	**Ps. 217.1**
Return on average assets [1]	0.0004%	0.59%	(0.42)%	(0.6)%	1.0%
Return on average shareholders equity	(1.15)	6.83	(7.32)	(8.0)	14.2

(1) For the calculation of the return on average assets, profits or losses corresponding to minority interests are excluded from net income.

During fiscal year 2006, we recorded a net loss of Ps.18.9 million compared with a net income of Ps.107.2 million in the prior fiscal year and a Ps.109.9 million net loss in fiscal year 2004.

The net loss per share was Ps.0.015 during fiscal year 2006, while, in the prior fiscal year, we recorded a net profit per share of Ps.0.086. The return on average assets and the return on average shareholders equity were 0.0004% and (1.15)%, respectively in 2006, whereas, in fiscal year 2005, the return on average assets was a positive 0.59% return and the return on average shareholders equity reached 6.83%.

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 in 2005 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.

Fiscal Year 2006 Compared to Fiscal Year 2005

During fiscal year 2006, we recorded a net loss of Ps.18.9 million compared with a net income of Ps.107.2 million in the prior fiscal year. The decrease was attributable, mainly, to:

- a 31.6% reduction in net financial income, from Ps.552.7 million to Ps.378.2 million. Net financial income in 2006 included a Ps.198.4 million loss due to the valuation of public-sector assets in accordance with Argentine Central Bank rules;

- a 24.8% increase in administrative expenses, from Ps.781.0 million to Ps.974.6 million;

- a 44.6% increase in loan loss provisions, from Ps.76.7 million to Ps.110.9 million; and

- a Ps.74.9 million increase in income tax charges.

These factors were partially offset by:

- a Ps.208.3 million increase in net miscellaneous income, from Ps.(64.3) million to Ps.144.0 million, and

- a 28.3% increase in net income from services, to Ps.672.0 million from Ps.523.7 million.

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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 was 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 from services, to Ps.523.7 million from Ps.436.3 million; and

income tax charges 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.

Financial Income

Our financial income was composed of the following:

		Fiscal Year Ended December 31,	
	2006	**2005**	**2004**
		(in millions of pesos)	
Income on loans and other receivables resulting from financial brokerage and premiums earned on reverse repos	Ps. 1,149.1	Ps. 899.8	Ps. 746.3
Income from government and corporate securities, net	261.2	333.1	
CER adjustment	730.1	1,091.8	559.7
Other (1)	109.4	73.9	85.6
Total	**Ps. 2,249.8**	**Ps. 2,398.6**	**Ps. 1,391.6**

(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*

for fiscal year 2004.

The following table shows our yields on interest-earning assets and cost of funds:

	As of December 31,					
	2006		2005		2004	
	Average Balance	Rate	Average Balance	Rate	Average Balance	Rate
	(in millions of pesos, except rates)					
Interest-Earning Assets	**Ps. 21,752.6**	**8.84%**	**Ps. 21,844.2**	**10.60%**	**Ps. 20,735.4**	**6.06%**
Government Securities	4,675.8	6.68	5,747.7	11.78	3,238.7	(0.29)
Loans	10,851.0	12.21	9,746.9	14.00	11,137.9	9.87
Other (1)	6,225.8	4.57	6,349.6	4.30	6,358.8	2.61
Interest-Bearing Liabilities	**Ps. 18,894.0**	**8.79%**	**Ps. 19,437.8**	**9.24%**	**Ps. 18,294.0**	**5.71%**
Current accounts	658.8	3.19	615.0	2.49	434.0	1.11
Saving accounts	1,789.3	0.25	1,388.0	0.34	1,034.5	0.41
Time deposits	5,297.9	7.84	4,119.1	5.99	3,317.5	4.05
Argentine Central Bank (2)	6,083.1	12.65	8,341.6	14.11	8,165.6	8.56
Debt securities	3,432.4	8.59	3,528.6	6.63	3,190.6	0.87
Other interest-bearing liabilities	1,632.5	9.48	1,445.5	8.16	2,151.8	8.14

	As of December 31,					
	2006		2005		2004	
	Average Balance	Rate	Average Balance	Rate	Average Balance	Rate
	(in millions of pesos, except rates)					
Spread and Net Yield						
Interest spread, nominal basis (3)		0.05%		1.36%		0.35%
Net yield on interest-earning assets (4)		1.21		2.38		1.02
Financial margin (5)		1.74		2.53		1.08

(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.

Fiscal Year 2006 Compared to Fiscal Year 2005

Financial income amounted to Ps.2,249.8 million, showing a 6.2% decrease from the Ps.2,398.6 million recorded in fiscal year 2005. The decrease in financial income was the result, mainly, of a lower average yield on interest-earning assets, since the total average volume remained at levels similar to those of the previous fiscal year.

The average yield on interest-earning assets was 8.84% in 2006, with a 176 basis points decrease, which can be explained by: i) a 510 basis points decrease in the average interest rate payable on government securities and ii) a 179 basis points decrease in the average interest rate payable on loans. The 27 basis points increase in the average rate on other interest-earning assets slightly offset those effects. As regards average interest-earning assets, they decreased slightly (0.4%) from Ps.21,844.2 million to Ps.21,752.6 million. This decrease was due to: i) an 18.6% decrease in the average balance of the net position in government securities, from Ps.5,747.7 million in the prior fiscal year to Ps.4,675.8 million in 2006, and ii) a 1.9% decrease in the average balance of other interest-earning assets, from Ps.6,349.6 million to Ps.6,225.8 million. These decreases were partially offset by the 11.3% increase in the average total loan portfolio.

The average total loan portfolio amounted to Ps.10,851.0 million, 11.3% higher than the Ps.9,746.9 million for fiscal year 2005. This increase was due to a Ps.1,574.4 million increase in average loans to the private sector, partially offset by a Ps.470.3 million decrease in average loans to the public sector. The decrease in average loans to the public sector was mainly due to the sales of Secured Loans undertaken in 2006.

In respect of loans to the private sector, there was a significant increase in the volume of such loans granted during 2006, which implied a 32.1% increase in the fiscal year s average balance when compared to that of the prior fiscal year. It is worth mentioning that this increase is net of the portfolio transferred to financial trusts during the fiscal year and of the fiscal year write offs.

The estimated market share of the Bank (on an individual basis and excluding the regional credit-card companies loan portfolios) in the Argentine financial system s total loans to the private sector was 7.21% as of December 31, 2006, whereas said market share was 7.33% as of December 31, 2005. The transfer of loan portfolios to financial trusts has had an impact on these figures. The following table shows our market shares:

	Fiscal Year Ended December 31,		
	2006	**2005**	**2004**
		(in percentages)	
Total Deposits	6.18%	5.93%	5.18%
Private-Sector Deposits			
Total	8.43	7.96	7.07
Deposits in Current and Savings Accounts and Non-Restructured Time Deposits	8.86	8.39	7.45
Total Loans	8.13	9.80	9.16
Private-Sector Loans	7.21%	7.33%	6.43%

(*) *Banco de Galicia y Buenos Aires S.A., only, within the Argentine financial system. Based on daily information on deposits and loans prepared by the Argentine Central Bank using-end of month balances.*

The average yield on total loans, including the CER adjustment, was 12.21% in 2006 compared to 14.00% in 2005. The private-sector loan portfolio accrued at a 12.79% average interest rate and the public-sector loan portfolio accrued at a 11.36% average interest rate.

The yield on loans to the public sector, mostly Secured Loans, was affected mainly by: i) the reduction in the CER adjustment, which decreased from 11.75% in 2005 to 10.08% in 2006, and ii) the adjustment to the valuation of such loans, pursuant to Communiqué A 3911 and complementary rules, which yielded a Ps.122.3 million loss in 2006. This resulted from the fact that the discount rate set forth by the Argentine Central Bank to determine the present value of the public-sector portfolio was higher in 2006 than the average yield on Secured Loans, a situation that did not occur in 2005.

The average interest rate on peso-denominated loans to the private sector decreased by 93 basis points, from 15.58% in 2005 to 14.65% in 2006. This variation was mainly due to the decrease in the average yield on CER-adjusted operations, as discussed in the previous paragraph, and also due to the fact that the average yield on these operations in fiscal year 2005 included certain non-recurring financial income related to the restructuring of certain loan portfolios. This effect was partially offset, mainly, by the increase in the average interest rate accrued on peso-denominated loans.

The average interest rate on foreign-currency denominated loans to the private sector increased by 163 basis points, from 4.00% in 2005 to 5.63% in 2006, in line with the increase in international rates since early 2005.

The average position in government securities was Ps.4,675.8 million in 2006, 18.6% lower than the Ps.5,747.7 million in 2005. This variation was composed of a Ps.1,444.3 million decrease in 2006 (from

Ps.4,945.8 million in 2005 to Ps.3,501.5 million in 2006) in the average balance of the government securities position in pesos and a Ps.372.4 million increase in 2006 (from Ps.801.9 million in 2005 to Ps.1,174.3 million in 2006) in the average balance of the government securities position in US dollars. The lower position in pesos was mainly due to: i) the settlement, on December 1, 2006, of 90.8% of the advance for the acquisition of the Hedge Bond using Bogar Bonds allocated as collateral for a face value of Ps.1,111.6 million, and ii) the sales of Bogar Bonds undertaken in 2006. The higher position in US dollars mainly reflects the delivery to the Bank, on December 1, 2006, of the Boden 2012 Bonds corresponding to the 90.8% of the Hedge Bond. Until November 30, 2006, those bonds were recorded under the Other Receivables Resulting from Financial Brokerage item, since they represented a right; once delivered, these bonds were recorded under Government Securities .

The average yield on the government securities position declined by 510 basis points in 2006, from 11.78% in 2005 to 6.68% in 2006. This variation was composed by a 615 basis points decrease in 2006 in the average interest rate on government securities in pesos and a 306 basis points increase in the average interest rate on government securities in US dollars. The decrease in the average interest rate on government securities in pesos was mainly due to: i) the lower yield on the Bogar Bonds portfolio, since these bonds were adjusted by the CER, and ii) to the adjustment to their valuation pursuant to Communiqué A 3911 and complementary rules, which yielded a Ps.76.1 million loss in 2006; while, in the previous fiscal year, it had represented a Ps.92.3 million profit. On the contrary, during 2005, Bogar Bonds delivered as collateral for the financial assistance of the Argentine Central Bank were released as a result of the payments made on such liability and these Bogar Bonds were allocated as collateral for the advance for the acquisition of the Hedge Bond. It is worth mentioning that, according to Argentine Central Bank regulations, the assets applied as collateral for this advance are excluded from the valuation at present value, whereas those assets used as collateral for the financial assistance are included. Consequently, in 2005, the release of Bogar Bonds and its allocation as collateral for the advance resulted in a net profit from the valuation of public-sector assets of Ps.92.3 million.

The Ps. 76.1 million loss in fiscal year 2006 due to the adjustment to the valuation of the Bogar Bonds portfolio was a consequence of the Ps.109.1 million loss related to the settlement of the advance for the acquisition of 90.8% of the Hedge Bond on December 1, 2006, which was partially offset in the first quarter by the profit generated by the release of Bogar Bonds granted as collateral for the financial assistance of the Argentine Central Bank and its allocation as collateral for this advance.

The increase of the average interest rate on government securities in US dollars in 2006 was mainly due to the increase of the Libo rate, related to yield on the Boden 2012 Bonds.

The Other Interest-Earning Assets item was mainly comprised of the Compensatory and Hedge Bonds to be received, as compensation for the asymmetric pesification, and recorded under Other Receivables Resulting from Financial Brokerage . By the end of 2005, the Argentine Central Bank delivered to the Bank the Boden 2012 Bonds corresponding to the Compensatory Bond and, on December 1, 2006, the Argentine Central Bank delivered to the Bank the Boden 2012 Bonds corresponding to 90.8% of the Hedge Bond. The delivery of these bonds implied that they became freely available to the Bank and, thus, their recording under the Government Securities item, as mentioned above. Since the delivery of said bonds took place by the end of 2006, it did not have a significant impact on the average balance of the Other Interest-Earning Assets item for the fiscal year. The average yield on the Other Interest-Earning Assets increased 27 basis points, mainly due to: i) a 66 basis points increase in the average yield on the other assets denominated in US dollars, mainly due to the increase, during the fiscal year, in the average Libo rate related to the yield of the Boden 2012 Bonds pending delivery and recorded under this item, and ii) a 144 basis points decrease in the average yield on other assets denominated in pesos, mainly as a consequence of the lower variation of the CER during 2006 (as discussed in previous paragraphs), which influenced mainly the yield of the securities issued by the Galtrust I Financial Trust, the principal of which was adjusted by such coefficient and which was recorded under this item, among others.

Financial income for fiscal year 2006 included a Ps.79.2 million profit due to the difference between the market price and the book value of 2019 Notes that were sold and a Ps.33.8 million profit due to the increase in the market value of the 2014 Notes acquired with the proceeds of such sale.

Financial income for fiscal year 2006 also included a Ps.76.2 million profit from foreign-exchange quotation differences, which included a Ps.60.5 million profit from foreign-exchange brokerage activities.

Fiscal Year 2005 Compared to Fiscal Year 2004

Financial income amounted to Ps.2,398.6 million in 2005, 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 in 2005 as well as of the higher average volume of these assets. The average yield on interest-earning assets was 10.60% in 2005, with a 454 basis points increase from 6.06% in fiscal year 2004, which can be explained by: i) a Ps.1,207 basis points increase in the average yield on government securities, ii) a 413 basis points increase in average yield on loans, and iii) a 169 basis points increase in the yield on other interest-earning assets. Average interest-earning assets increased by 5.3%, up from Ps.20.7 million in 2004 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.9,746.9.8 million in 2005, 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 in 2005 was mainly due to the reclassification of the holdings of Bogar Bonds from Loans to Government Securities, in the last quarter of 2004.

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In respect of the private sector, there was a significant increase in the volume of loans granted during 2005, which implied a 19.1% increase in the average balance for 2005 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 2005 write offs.

Based on the daily information published by the Argentine Central Bank, the Bank s estimated loan market share in the Argentine financial system (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 into consideration only the loans to the private sector, the Bank s market share reached 7.31% in 2005, 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% in 2005 compared to 9.87% in 2004. In 2005, the private-sector loan portfolio accrued at a 13.24% average interest rate and the public-sector loan portfolio accrued at a 14.77% average interest rate. The yield on public-sector loans, mostly Secured Loans, increased in 2005 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 basis points, from 15.27% in 2004 to 15.58% in 2005. This variation was mainly due to the increase in the average yield on CER-adjusted operations, since this index increased 5.48% in 2004 and 11.75% in 2005. This effect was partially offset, mainly, by the decrease in the average interest rate accrued during 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 in 2005, 77.5% higher than the Ps.3,238.7 million for 2004. This variation was 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 in 2004 to Ps.801.9 million in 2005) 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 Bonds 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 Bonds, essentially due to the use of US$ 196 million of face value of these 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 basis points, from a negative rate of 0.29% in 2004 to 11.78% in 2005. This variation was composed of a 696 basis points increase in 2005 in the average interest rate on government securities in pesos and a 641 basis points increase in 2005 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 Bonds valuation, since they were adjusted by the CER, which increased 5.48% during 2004 and 11.75% in 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 Bonds 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 this advance were 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 in 2005 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 of the Argentine Central Bank and supplementary regulations, which entailed a Ps.106 million loss during 2004, and ii) the increase of the Libo rate, related to the Boden 2012 Bonds yield, during 2005.

The Other Interest-Earning Assets item was mainly comprised of the Compensatory Bond and Hedge Bond to be received, as compensation for the asymmetric pesification, and recorded under Other Receivables Resulting from Financial Brokerage.

The average yield on the item Other Interest-Earning Assets increased 169 basis points in 2005, mainly due to: i) a 183 basis points increase in the average yield of other assets denominated in pesos, mainly as a consequence of the higher variation of the CER during 2005, which influenced the yield of the securities issued by the Galtrust I Financial Trust, the principal of which is adjusted by such coefficient and which were recorded under this item, among others; and ii) a 144 basis points increase in the average yield of other assets denominated in dollars, mainly due to the increase in the Libo rate during 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 activities.

Financial Expenses

Our financial expenses were composed of the following:

	Fiscal Year Ended December 31,		
	2006	**2005**	**2004**
		(in millions of pesos)	
Interest on deposits	Ps. 346.1	Ps. 172.3	Ps. 115.7
Negotiable Obligations	314.8	234.1	122.3
Expenses from Government and Corporate Securities, Net			7.0
Contributions and taxes	68.6	48.8	48.8
CER adjustment	697.7	1,006.8	501.8
Other [(1)]	444.4	383.9	371.8
Total	**Ps.1,871.6**	**Ps.1,845.9**	**Ps.1,167.4**

(1) Includes accrued interest on liabilities resulting from financial brokerage with banks and international entities and premiums payable on repos.

Fiscal Year 2006 Compared to Fiscal Year 2005

Financial expenses for 2006 amounted to Ps.1,871.6 million, 1.4% higher than the Ps.1,845.9 million recorded in 2005.

It should be pointed out that the loss from the valuation of Secured Loans (Ps.122.3 million in 2006), pursuant to the rules set forth in Communiqué A 3911 and complementary rules, is recorded under Other in the table above, whereas in the table named Yield on Interest-Earning Assets and Cost of Funds, it is recorded netting the average yield on loans to the public sector. Adjusted for this effect, financial expenses in fiscal year 2006 amounted to Ps.1,749.3 million, Ps.96.6 million (5.2%) lower than those of the previous fiscal year. This decrease stemmed from a 45 basis points decrease in the average cost of funds and a 2.8% decrease in the average balance of interest-bearing liabilities.

Average interest-bearing liabilities amounted to Ps.18,894.0 million in 2006, compared to Ps.19,437.8 million in 2005. This decline was attributable, mainly, to a 27.1% decrease in liabilities with the Argentine Central Bank that amounted, on average, to Ps.2,258.5 million in 2006, which decrease was partially offset by a Ps.1,623.9 million increase in 2006 in the average balance of interest-bearing deposits, which increased from Ps.6,122.1 million to Ps.7,746.0 million.

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. Considering the final balances of the Bank s total deposits in Argentina, this increase totaled Ps.2,487.8 million in 2006, equivalent to a 30.7% increase from the prior fiscal year-end total.

Of the total average interest-bearing deposits in 2006, Ps.1,369.9 million were dollar-denominated and Ps.6,376.1 million were peso-denominated, compared with Ps.1,210.1 million and Ps.4,912.0 million, respectively, in 2005.

Considering only private-sector deposits in current and savings accounts and time deposits (excluding restructured deposits), raised only by the Bank in Argentina, the estimated deposit market share of the Bank in the Argentine financial system increased to 8.86% as of December 31, 2006, compared to 8.39% as of December 31, 2005.

The average rate on interest-bearing deposits was 5.69% in 2006, 133 basis points higher than the 4.36% average rate for 2005. Peso-denominated deposits (including those adjusted by CER) in 2006 accrued at a 6.76% average interest rate, compared to a 5.27% average interest rate in 2005. This increase was a result, mainly, of the increase in the peso borrowing interest rates experienced by the market as a whole during 2006. Likewise, the cost of US dollar-denominated deposits was 0.70% in 2006, 5 basis points higher than the 0.65% average cost for fiscal year 2005. The interest rate increase recorded was in line with the one experienced by the market as a whole.

The Argentine Central Bank item recorded an average balance in 2006 that was Ps.2,258.5 million lower than the Ps.8,341.6 million of fiscal year 2005, and an average cost of 12.65%, 146 basis points lower than the 14.11% average cost for fiscal year 2005. This item shows the average balance of the financial assistance from the Argentine Central Bank and of the advance for the acquisition of the Hedge Bond. End-of-period balances, as of December 31, 2006, amounted to Ps.2,688.7 million and Ps.336.8 million, respectively, compared to Ps.5,314.9 million and Ps.3,296.6 million, respectively, at the close of the previous fiscal year. The Ps.2,626.2 million decrease in the balance of the financial assistance from the Argentine Central Bank was a consequence of the payments made during the period on such liability, partially offset by the CER adjustment of its principal. The Ps.2,959.8 million decrease in the balance of the advance for the acquisition of the Hedge Bond was due to the settlement of 90.8% of such advance.

The average balance of debt securities was Ps.3,432.4 million in 2006, Ps.96.2 million lower than the Ps.3,528.6 million for 2005. This decrease was related, mainly, to the payment of principal amortization installments on 2007 Notes and 2010 Notes of the Bank and negotiable obligations issued by Galicia Uruguay. The average cost was 8.59% in 2006, while, for the prior fiscal year, it had been 6.63%. The increase was mainly due to the increase in the Libo rate and to the 1% step up in the interest rate on the 2014 Notes, which rose from 4% per annum to 5% per annum beginning January 1, 2006 as per contractual terms.

The average balance of the Other Interest-Bearing Liabilities item was Ps.1,632.5 million in 2006, with an average rate of 9.48% while, for 2005, the average balance amounted to Ps.1,445.5 million and the average rate was 8.16%. This item records, mainly, US dollar-denominated debt with banks and international credit agencies, and US dollar-denominated obligations in connection with repo transactions of government securities. These liabilities accrue a variable rate based on the Libo rate, which was higher in 2006 than in 2005. The increase in the balance can be attributed, mainly, to the increase in the balance of obligations in connection with repo transactions.

Fiscal Year 2005 Compared to Fiscal Year 2004

Financial expenses for fiscal year 2005 amounted to Ps.1,845.9 million, increasing 58.1% in comparison with the Ps.1,167.4 million of 2004. This increase stemmed from an increase of 353 basis points 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 in 2005, compared to Ps.18,294.0 million for 2004. This increase was mainly explained by a 27.9% increase in the volume of interest-bearing deposits, which increased from Ps.4,786.0 million in 2004 to Ps.6,122.1 million in 2005.

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. Considering the final balances of the Bank s total deposits, this increase was of Ps.2,138.7 million in 2005, 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 Bonds undertaken by Galicia Uruguay and finalized in May 2005, and (ii) the payment by Galicia Uruguay, in September 2005, of the installment established in the restructuring schedule of its 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. million and Ps.3,360.5 million, respectively, in 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 basis points higher than the 3.00% average cost for the prior fiscal year. Peso-denominated deposits (including those adjusted by CER) accrued at a 5.27% average interest rate in 2005, as compared to a 3.73% average interest rate in 2004. This increase 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 2005 compared to 2004, which was applied to adjustable deposits. Likewise, the cost of US dollar-denominated deposits was 0.65%, 63 basis points 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.

In 2005, the item Argentine Central Bank recorded an average balance that was Ps.176.0 million higher than the Ps.8,165.6 million of 2004, and an average cost of 14.11%, 555 basis points higher than the 8.56% interest rate for 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 for the acquisition of the Hedge Bond. 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 2004. The Ps.392.1 million decrease in the balance of the financial assistance of the Argentine Central Bank in 2005 was a consequence of the payments made during such year on this liability, partially offset by its principal s adjustment by the CER. The Ps.575.9 million increase in 2005 in the balance of the advance for the acquisition 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 undertaken in 2004. Given 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 the middle of 2004. This effect was partially offset, mainly, by: i) the exchange of liabilities restructured as negotiable obligations for cash and Boden 2012 Bonds undertaken 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 debt of the former New York Branch. 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 2004 was significantly 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 item Other Interest-Bearing Liabilities was Ps.1,445.5 million in 2005, with an average rate of 8.16% while, for 2004, the average balance amounted to Ps.2,151.8 million and the average rate was 8.14%. This item included, among other things, 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 noted in the previous paragraph. Also, this item included obligations in connection with repo transactions of Boden 2012 Bonds. These liabilities accrued a variable rate based on the Libo rate.

Net Financial Income

Like in the prior fiscal year, but more significantly in 2006, the net financial income was influenced by the negative effect of the postponement of the execution of the advance for the acquisition of the Hedge Bond, which took place only in December 2006. This postponement implied carrying an asset denominated in US dollars (two past due Boden 2012 Bonds coupons corresponding to the Hedge Bond) and a CER-adjusted liability (two past due installments of the advance for the acquisition of the Hedge Bond). The past due amounts stopped accruing the Libo rate and the 2% per annum interest rate, respectively. In addition, in 2006, the net financial income was negatively impacted by the losses from the matched foreign-currency position and from the valuation of public-sector assets in accordance with Argentine Central Bank rules.

Net financial income for fiscal year 2006 amounted to Ps.378.2 million and the corresponding financial margin was 1.74%. In 2005, the corresponding figures were Ps.552.7 million and 2.53%, respectively. In 2004, the net financial income amounted to Ps.224.2 million and the financial margin was 1.08%.

Net financial income increased in 2005 as compared with 2004 as a result of a 101 basis points 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 basis points compared to 353 basis points). 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 basis points in fiscal year 2005. In addition, the 2005 yield on interest-earning assets included a Ps.92.3 million gain from the valuation of public-sector assets in accordance with Argentine Central Bank rules.

The decrease in net financial income for fiscal year 2006 was attributable to greater losses from the valuation of public-sector assets in 2006, and to the postponement of the delivery of the Hedge Bond.

Provision for Losses on Loans and Other Receivables

Provisions for losses on loans and other receivables amounted to Ps.110.9 million in fiscal year 2006, up 44.6% from the Ps.76.7 million recorded in the prior fiscal year. Of the provisions of fiscal year 2006, the amount of Ps.20.3 million corresponded to the establishment of the reserve on normal portfolios required by applicable regulations.

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.

For more information on asset quality, see Item 4. Information on the Company Selected Statistical Information Analysis of Amounts Past Due and Non-Accrual Loans and Selected Statistical Information Analysis of the Allowance for Loan Losses .

Net Income from Services

Our net income from services consisted of:

	Fiscal Year Ended December 31,			% Change December 31,	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
	(in millions of pesos)			*(in percentages)*	
Income from					
Credit cards	Ps. 473.6	Ps. 361.5	Ps. 315.1	31.0%	14.7%
Deposits accounts	125.7	102.7	80.3	22.4	27.9
Credit-related fees	19.4	19.6	21.6	(1.0)	(9.3)
Check collection	18.3	12.4	10.1	47.6	22.8
Collection services (taxes and utility bills)	11.2	9.5	8.3	17.9	14.5
Foreign trade	31.9	24.5	19.9	30.2	23.1
Insurance	48.9	34.4	27.3	42.2	26.0
Other (1)	124.1	81.1	46.5	53.0	74.4
Total Income	**Ps. 853.1**	**Ps. 645.7**	**Ps. 529.1**	**32.1%**	**22.0%**
Total Expenses	**Ps. 181.1**	**Ps. 122.0**	**Ps. 92.8**	**48.4%**	**31.5%**
Net Income from Services	**Ps. 672.0**	**Ps. 523.7**	**Ps. 436.3**	**28.3%**	**20.0%**

(1) Includes fees from market making in government securities, investment banking activities, asset management, safe deposit boxes and cash management.

Fiscal Year 2006 Compared to Fiscal Year 2005

Net income from services in 2006 amounted to Ps.672.0 million, up 28.3% from the Ps.523.7 million recorded in the previous fiscal year. Nearly all categories increased, mainly as a consequence of a significant increase in the volume of transactions together with an increase, in the third and fourth quarter of 2006, in the price of certain services.

The Bank s individual income from credit and debit card operations in 2006 was Ps.170.7 million, up 33.3% from the Ps.128.1 million recorded in the prior fiscal year. This higher income was attributable not only to the greater number of credit cards, but also to the greater average purchases made with such cards recorded during the year. The total number of cards managed by the Bank (excluding those managed by the regional credit-card companies) increased 30.1% in 2006, reaching 894,036 as of December 31, 2006, as compared to 687,073 as of December 31, 2005.

Income from services corresponding to the regional credit-card companies was Ps.302.9 million in 2006, 29.8% higher than the Ps.233.4 million recorded in 2005. This increase was mainly due to the increase in the average number of managed credit cards and to the significant increase in the purchases made with these credit cards in 2006. These companies managed 3.4 million cards as of December 31, 2006, a 39.1% increase from December 31, 2005.

Fiscal Year 2005 Compared to Fiscal Year 2004

Net income from services in 2005 amounted to Ps.523.7 million, 20.0% higher than the Ps.436.3 million recorded in the previous fiscal year. Nearly all categories increased, 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 in 2005 contained 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 in 2005 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.

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The Bank s income from credit and debit card operations not related to the regional credit-card companies in 2005 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 687,073 as of December 31, 2005, compared to 585,456 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% in 2005, from Ps.92.8 million in fiscal year 2004 to Ps.122.0 million.

The following table sets forth the number of credit cards outstanding on the dates indicated:

	December 31,			% Change December 31,	
Credit Cards	**2006**	**2005**	**2004**	**2006/2005**	**2005/2004**
	(number of credit cards, except purchases in millions of pesos)			*(percentages)*	
Visa	**721,105**	**578,211**	**492,918**	**24.7**	**17.3**
Gold	124,287	102,669	81,445	21.1	26.1
International	387,485	299,269	278,298	29.5	7.5
Domestic	198,409	169,434	131,106	17.1	29.2
Business	10,877	6,839	2,069	59.0	230.5
Corporate	47				
American Express	**131,660**	**94,869**	**89,307**	**38.8**	**6.2**
Gold	56,563	43,834	37,781	29.0	16.0
International	75,097	51,035	51,526	47.1	(1.0)
MasterCard	**41,271**	**13,993**	**3,231**	**194.9**	**333.1**
Gold	10,437	2,987	474	249.4	530.2
MasterCard	29,765	10,817	2,704	175.2	300.0
Argencard	1,069	189	53	465.6	256.6
Regional Credit-Card Companies	**3,399,375**	**2,444,526**	**1,905,423**	**39.1**	**28.3**
Visa	1,068,702	594,802	394,619	79.7	50.7
Mastercard	122,683				
Local Brands	2,207,990	1,849,724	1,510,804	19.4	22.4
Total	**4,293,411**	**3,131,599**	**2,490,879**	**37.1**	**25.7**
Amount of Purchases *(in millions of pesos)*	8,029.7	4,943.6	3,720.1	62.4	32.9

Administrative Expenses

The following table sets forth the components of our administrative expenses:

	Fiscal Year Ended December 31,			% Change December 31,	
	2006	2005	2004	2006/2005	2005/2004
		(in millions of pesos)		*(in percentages)*	
Salaries and social security contributions	Ps.415.4	Ps.330.5	Ps.242.0	25.7%	36.6%
Property-related expenses	65.1	57.7	55.6	12.8	3.8
Personnel services	46.6	30.0	27.0	55.3	11.1
Advertising and publicity	84.5	68.2	37.8	23.9	80.4
Amount accrued in relation to directors and syndics compensation	6.0	5.8	4.1	3.4	41.5
Electricity and communications	41.1	31.1	27.0	32.2	15.2
Taxes	50.5	37.4	40.9	35.0	(8.6)
Other	265.4	220.3	189.5	20.5	16.3
Total	**Ps.974.6**	**Ps.781.0**	**Ps.623.9**	**24.8%**	**25.2%**

Fiscal Year 2006 Compared to Fiscal Year 2005

In 2006, administrative expenses amounted to Ps.974.6 million, up 24.8% from the Ps.781.0 million recorded in the prior fiscal year.

Personnel expenses (salaries and social security contributions together with expenses due to personnel services) increased 28.2% in the aggregate in 2006, from Ps.360.5 million in 2005 to Ps.462.0 million in 2006. This increase was mainly due to higher salaries and to an increase in staff. The Bank s staff (including the consolidated companies staff) grew 17.0%, from 6,735 employees in 2005 to 7,878 employees in 2006, as a consequence of the higher level in the Bank s activity and due to the resulting expansion in the distribution network, comprising both bank branches and offices of the regional credit-card companies.

The remaining administrative expenses amounted to Ps.512.6 million in 2006, reflecting a 21.9% increase in comparison with the Ps.420.5 million for the prior fiscal year, with increases recorded in all components. These increases were associated with the higher level of activity and to the higher inflation over the year. Among the remaining administrative expenses, a significant item was advertising and publicity, which increased 23.9% in 2006.

Fiscal Year 2005 Compared to Fiscal Year 2004

Administrative expenses in 2005 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 the aggregate, from Ps.269.0 million in 2004 to Ps.360.5 million in 2005. This increase was mainly due to higher salaries and to an increase in staff. The Bank s staff grew 8.7%, from 6,195 employees in 2004 to 6,735 employees in 2005, as a consequence of the higher level of activity. The remaining administrative expenses in 2005 amounted in the aggregate to Ps.420.5 million, 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% in 2005, a growth that is related to a higher activity level and an increase in inflation during the year.

Income/(Loss) from Equity Investments

In fiscal year 2006, the loss from equity investments amounted to Ps.14.4 million. The loss in this fiscal year was due to the valuation allowance established to fully cover the investment in Aguas Argentinas S.A.

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.

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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.

Miscellaneous Income/(Loss), Net

Miscellaneous net income amounted to Ps.144.0 million in fiscal year 2006, while in fiscal year 2005 we recorded a miscellaneous net loss of Ps.64.3 million. Excluding the profits on security margins of repo transactions (for Ps.52.5 million), which are of a financial nature, miscellaneous net income in 2006 totaled Ps.91.5 million, while we recorded a miscellaneous net loss of Ps.73.7 million in 2005 (excluding also said financial income for Ps.9.4 million). The income of fiscal year 2006 was mainly due to loan recoveries, in an amount of Ps.49.7 million, and to the net reversal of allowances for loan losses and for other contingencies, in an amount of Ps.30.6 million.

In fiscal year 2005, we recorded a miscellaneous net loss of Ps.64.3 million. Excluding the profits on security margins of repo transactions (for Ps.9.4 million), our miscellaneous net loss in 2005 totaled Ps.73.7 million., up from the Ps.90.7 million for the prior fiscal year (excluding also said financial income for Ps.8.1 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 2005. The loss from the amortization of *amparo* claims was partially offset by loan recoveries in the amount of Ps.35 million and the net reversal of allowances for loan losses and other contingencies in the amount of Ps.28.5 million.

Miscellaneous net income for fiscal year 2004 amounted to Ps.98.8 million. Excluding the profits on security margins of repo transactions (for Ps.8.1 million), miscellaneous net income in 2004 totaled Ps.90.7 million. The amount recorded in 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 included 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.

Income Tax

The income tax charge for fiscal year 2006 was Ps.94.2 million. This amount consisted of: (i) an income tax charge of Ps.44.2 million corresponding to Tarjetas Regionales S.A. consolidated with its operating subsidiaries and of income tax charges of Ps.3.7 million, Ps.0.9 million , Ps.0.2 million and Ps.(0.4) million corresponding to Sudamericana, Galicia Warrants, Galicia Factoring y Leasing S.A. and Galicia Valores S.A., respectively, and (ii) an income tax charge for Ps.45.6 million corresponding to us on an individual basis, mainly resulting from the profits on our holdings of 2014 and 2019 Notes issued by the Bank in 2004.

The income tax charge for fiscal year 2005 was Ps.19.3 million. This amount consisted of: (i) an income tax charge of Ps.50.5 million corresponding to Tarjetas Regionales S.A. consolidated and of income tax charges of 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 us on a stand alone basis, mainly resulting from a reduction in our deferred tax liability due to our forgiveness of the negotiable obligations issued by Galicia Uruguay.

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, Ps.12.9 million corresponded to us on a stand-alone basis, Ps.0.6 million to Sudamericana, Ps.0.5 million to Galicia Warrants, and Ps.0.2 million to Galicia Valores S.A.

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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, 2006, see note 38 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:

	December 31, 2006		**December 31, 2005**		**December 31, 2004**	
	High	**Low**	**High**	**Low**	**High**	**Low**
			(in millions of pesos)			
Performing Commercial Loans	Ps. 174.9	Ps. 2.3	Ps. 193.1	Ps. 2.1	Ps. 159.7	Ps. 1.7
Performing Consumer Loans	57.9	46.7	30.3	22.2	15.4	11.1

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, 2006		December 31, 2005		December 31, 2004	
	High	**Low**	**High**	**Low**	**High**	**Low**
			(in millions of pesos)			
Non-Performing Consumer Loans	Ps. 58.9	Ps. 47.5	Ps. 48.6	Ps. 36.3	Ps. 45.3	Ps. 37.0

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, 2006		December 31, 2005		December 31, 2004	
	High	**Low**	**High**	**Low**	**High**	**Low**
			(in millions of pesos)			
Performing Commercial Loans	Ps. 174.9	Ps. 2.3	Ps. 193.1	Ps. 2.1	Ps. 159.7	Ps. 1.7
Performing Consumer Loans	57.9	46.7	30.3	22.2	15.4	11.1
Non-Performing Consumer Loans	Ps. 58.9	Ps. 47.5	Ps. 48.6	Ps. 36.3	Ps. 45.3	Ps. 37.0
Non-Performing Commercial Loans	291.9	291.9	397.9	397.9	379.5	379.5
Total	**Ps. 583.7**	**Ps. 388.4**	**Ps. 669.9**	**Ps. 458.5**	**Ps. 599.9**	**Ps. 429.3**
Loan Loss Reserve under U.S. GAAP	**Ps.470.5**		**Ps.533.4**		**Ps.592.3**	

As of 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 we did not expect a deterioration of the loan portfolio quality in 2006.

As of December 31, 2006, we expected that the loan loss reserve under U.S. GAAP would fall more toward the midpoint of the range, this being the result of maintaining an appropriate level of coverage for the non performing loans and the fact that no additional deterioration in portfolio quality is expected for 2007.

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, 2006	December 31, 2005	December 31, 2004
Loan loss reserves as a percentage of non-accrual loans	168.58%	139.49%	84.75%
Loan loss reserves as a percentage of total amounts past due	183.29	208.36	131.92
Loan loss reserves as a percentage of past-due unsecured amounts	210.51	226.98	457.02

Carrying Value of Secured Loans, Certain Government Securities and Receivables for Government Securities

Under Argentine Banking GAAP, our holdings of Secured Loans, Bogar Bonds, Boden 2012 Bonds, 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 39 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 Bonds corresponding to the Compensatory Bond or Hedge Bond received as well as Bogar Bonds 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 Hedge Bond receivable, under Argentine Banking GAAP, the Bank has recognized the right to purchase the corresponding Boden 2012 Bonds 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 was denominated in U.S. dollars and accrued interest at Libor, while the liability to the Argentine Central Bank was denominated in pesos and accrued interest at CER plus 2.0%, each retroactive to February 3, 2002.

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 concept 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 and December 31, 2004, the Bank could not obtain the benefit of the Hedge Bond because the transaction had not been approved by the Argentine Central Bank and the Bank had not remitted funds to the Argentine Central Bank. Similarly, the liability under U.S. GAAP could not be recognized until the Bank actually entered into the relevant financing arrangement. As of December 31, 2006, the Hedge Bond pending receipt and the related advance was accounted for at fair value, as an option contract in accordance with SFAS 133.

In addition, as of December 31, 2006, 2005 and 2004, 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.

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.

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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 by Banco Galicia. However, we and our non-banking subsidiaries applied the deferred income tax method. As a result, these companies recognized a deferred tax asset.

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 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:

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	Net Income (Loss)		Shareholders Equity (Deficit)	
	Argentine Banking GAAP	U.S. GAAP	Argentine Banking GAAP	U.S. GAAP
	(in millions of pesos)			
Fiscal Year 2006	(18.9)	3,524.9	1,608.5	145.8
Fiscal Year 2005	107.2	731.0	1,626.8	(2,128.3)
Fiscal year 2004	(109.9)	(1.1)	1,519.5	(3,195.7)

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 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 2004, 2005 and 2006.

The Hedge Bond and the liability with the Argentine Central Bank for its purchase are not recognized under US GAAP in 2004 and 2005, the net effect of which varies significantly in such years, while they were recognized in 2006.

The Compensatory Bond in 2005 (since this Bond was received in full in that year) and the amounts receivable for this Bond in 2004 are reflected at market values, with changes in values being recognized under other comprehensive income, the effect of which varies significantly in 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, is recognized as income after the exchange transaction occurred.

Bogar Bonds 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. In addition, during 2006, we sold a significant amount of Bogar Bonds, realizing all the gains related to changes in the market value of these bonds in prior years that were recorded in other comprehensive income.

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% ownership interest. We also have an 87.5% direct ownership interest in Sudamericana, Net Investment and Galicia Warrants. Banco Galicia holds the remaining 12.5% ownership interest in these companies. We also have a 100% direct ownership interest in Galval.

Our main segments are:

the Grupo Financiero Galicia segment showing our specific income and expenses on a stand-alone basis, not attributable to our 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 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 City of Buenos Aires 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 City of Buenos Aires 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 and all of the liabilities related to the restructured foreign debt of the Bank in Argentina (and its former Cayman Branch) and to the Argentine Central Bank.

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 us and our consolidated subsidiaries and among these companies, if corresponding, which are eliminated in our consolidated income statement. This column also comprises the results corresponding to minority interests in the Bank.

With respect to the segments Buenos Aires Metropolitan Branches, Rest of the Country Branches and Head Office, the net financial income of each unit, as from 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.

Our results by segment are shown in note 34 to our audited consolidated financial statements.

Below is a discussion of our results of operations by segment for the years ended December 31, 2006, December 31, 2005 and December 31, 2004, based on our existing segments.

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Results by Segments for the Fiscal Year Ended December 31, 2006

Grupo Financiero Galicia This segment posted a net income of Ps.61.2 million in fiscal year 2006, mainly due to the financial income recorded from the sale and holding of negotiable obligations issued by the Bank. The sale of 2019 Notes resulted in a Ps.79.2 million profit on account of the difference between their market price and book value. The 2019 Notes book value was equal to their acquisition cost plus the accrual of their internal rate of return. The proceeds from the sale of these notes were applied to the purchase of 2014 Notes and loans due in 2014. The increase in the market value of the 2014 Notes held by us generated a Ps.34 million positive result.

Operating expenses in 2006 were Ps.10.5 million, of which the main items were: Ps.3.5 million corresponding to the provision of the personal assets tax, Ps.2.2 of personnel expenses, and Ps.2.0 million of fees for services received.

During 2006, there was a reduction in the amortization of intangible assets, as in July and August, goodwill generated by the acquisition of the equity interest in Galicia Warrants and Sudamericana respectively, was fully amortized.

Insurance The insurance segment showed a consolidated net income of Ps.9.0 million for the twelve-month period ended September 30, 2006. Galicia Seguros (merger of Galicia Vida and Galicia Patrimoniales) recorded gains of Ps.11.8 million during that period. The consolidated net income of Sudamericana mainly consisted of the following: (i) collection of premiums and additional fees for Ps.23.5 million, (ii) net financial income for Ps.17.1 million, among which the income recorded on account of Secured Loans for Ps.12.4 million stands out, and (iii) administrative expenses amounting to Ps.11.2 million, of which approximately 61% corresponded to personnel expenses.

Other Grupo Businesses This segment, showing the results of Net Investment, Galicia Warrants and Galval, posted a Ps.0.9 million net income. The results of this segment were attributable to the positive net income of Galval (Ps.1.0 million) and Galicia Warrants (Ps.0.7 million), which was partially offset by the Ps.0.8 million loss recorded by Net Investment. The positive result of Galval was mainly generated by brokerage and custodial services fees.

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.144.2 million and Ps.66.1 million of 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 in 2006 amounted to Ps.263.5 million for the Buenos Aires Metropolitan Branches segment and to Ps.176.5 million for the Rest of the Country Branches segment, due to an increase, in both cases, in their volume of operations. These increases were of 46.5% and 43.1%, respectively, in the case of loans and 35.9% and 33.2%, respectively, in the case of deposits.

Net income from services in 2006 was Ps.231.0 for the Buenos Aires Metropolitan Branches segment and Ps.147.8 million for the Rest of the Country Branches segment, 21.7% and 34.4% higher than in 2005, respectively. For the segment of Buenos Aires Metropolitan Branches, the increases in fees related to current accounts, collections, insurance (especially those associated to loans and foreign trade) and credit cards. For the Rest of the Country Branches segment the most important increases were in fees related to insurance, current accounts and to a lesser extent, to credit cards and utility-bills and other collections.

Loan loss provisions in 2006 of the Buenos Aires Metropolitan Branches and Rest of the Country Branches segments amounted to Ps.18.1 million and Ps.19.9 million, respectively.

Administrative expenses in 2006 were 31.2% and 39.2% higher than in 2005, respectively. Personnel expenses in 2006 were 38.9% and 45.5% higher than in 2005, respectively, mainly as a consequence of staff increases and the adjustment of salaries due to collective bargaining agreements. The staff of these segments increased to 1,295 employees and 943 employees, respectively. Most of the remaining administrative expenses components increased due to a higher level of activity and to the increase in inflation during the year. The number of branches also increased.

Head Office This segment recorded a Ps.430.9 million net loss during 2006, mainly as a consequence of a net financial loss partially offset by lower administrative expenses.

The Ps.436.7 million net financial loss in 2006 was mainly due to the valuation of public-sector assets in accordance with Communiqué A 3911 of the Argentine Central Bank, as supplemented, to the negative net position in foreign currency and to the postponement of the delivery of the Hedge Bond. It should be noted that this segment comprises substantially all of our public-sector assets and liabilities along with all of the liabilities related to the Bank s restructured foreign debt and all of our liabilities with the Argentine Central Bank. As mentioned in other parts of this document: (i) the foreign-currency matched portfolio generates a loss, since the Boden 2012 Bonds accrues Libor while the cost of the restructured debt is higher, (ii) the valuation of public-sector assets in accordance with Communiqué A 3911 implied a loss of Ps.198.4 million during 2006, thus being the main cause of the Bank s loss for the year, and (iii) the postponement of the delivery of the Hedge Bond implied carrying an asset denominated in US dollars (two past due Boden 2012 Bonds coupons corresponding to the Hedge Bond) and a CER-adjusted liability (two past due installments of the advance for the acquisition of the Hedge Bond). The past due amount of the assets continued to be adjusted by the exchange rate fluctuations while the past due amount of the liabilities continued to be adjusted by the CER (at a faster rate) and stopped accruing the Libo rate and the 2% per annum interest rate, respectively, with the corresponding prejudice. See Item 5. Results of Operations for the Fiscal Years Ended December 31, 2006, December 31, 2005 and December 31, 2004 Financial Income and Results of Operations for the Fiscal Years Ended December 31, 2006, December 31, 2005 and December 31, 2004 Financial Expenses and Results of Operations for the Fiscal Years Ended December 31, 2006, December 31, 2005 and December 31, 2004 Net Financial Income.

Net income from services in 2006 amounted to Ps.89.6 million, up 28.4% from 2005, mainly due to the greater volume of operations. The segment s operating expenses decreased 26.4%, as compared to 2005, mainly due to the evolution of a variety of concepts, including, among others, amortization of organization and development expenses and depreciation of premises and equipment.

The segment s loan loss provisions in 2006 recorded a Ps.21.3 million profit, as a consequence of the reversal of allowances for loan losses established in prior years. This profit was lower than in 2005, as a result of the progress made during 2005 in the restructuring of our loan portfolio and the remainder of a smaller amount of loans to be restructured in 2006.

Net other losses in 2006 amounted to Ps.2.8 million, mainly attributable to the deferral of the amortization of *amparo* claims, as determined by the Argentine Central Bank and to loan recoveries and net reversal of allowances for loan losses and for other contingencies.

Regional Credit Cards The segment s net income in 2006 amounted to Ps.70.9 million, mainly as a consequence of the greater operating income of the regional credit-card companies, which reflected the effect of the expansion of their business, which was partially offset by higher administrative expenses and by higher income taxes.

For the fourth consecutive year and boosted by the high growth of the economy as a whole and of consumption in particular, during 2006, the regional credit-card companies continued to grow, increasing their customer base, the loans granted to its customers and their network of branches, thus generating very good economic results and exceeding all forecasts. In turn, the loan portfolio quality maintained the strong levels of 2005, which resulted in an increase in allowances for loan losses that reached Ps.53.2 million. As a result, net operating income in 2006 reached Ps.394.0 million, up 26.0% from the previous fiscal year.

Administrative expenses in 2006 amounted to Ps.263.8 million, 47.1% higher than in the previous year, due to the opening of 10 new service centers and the expansion of operations with the corresponding increase in staff, apart from the year s inflation. Miscellaneous net income was higher than that of the previous fiscal year, mainly due to the higher loan loss recoveries and the slightly lower charge for income taxes, all of which implied a 12.3% increase in net income.

International This segment recorded a Ps.42.5 million profit in 2006, as a result, mainly, of loan loss recoveries and miscellaneous income for Ps.28.2 million, attributable to Galicia Uruguay.

Other Financial Businesses This segment recorded a Ps.2.2 million net profit in 2006, mainly attributable to the Ps.2.5 million profit from the Bank s interest in Banelco S.A.

Other Equity Investments This segment recorded a Ps.16.8 million loss in 2006, mainly attributable to the valuation allowance established to fully cover the investment in Aguas Argentinas S.A., partly offset by profit generated by the sale of the Bank s minority interests in Inversora Nihuiles S.A. and Inversora Diamante S.A.

Results by Segments for the Fiscal Year Ended December 31, 2005

Grupo Financiero Galicia This segment posted a net loss of Ps.108.3 million in 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 in 2005 were: Ps.3.7 million corresponding to the provision of the personal assets tax, Ps.2.8 million of fees for services received and Ps.2.4 million of 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 recorded a Ps.9.3 million profit. The consolidated net income of Sudamericana mainly consisted 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, of which approximately 61% corresponded 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, Galicia Warrants and Galval, posted a Ps.1.6 million net loss in 2005. The negative results of this segment were attributable to Net Investment, 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 recorded a Ps.0.3 million net loss.

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 in 2005, with Ps.84.0 million and Ps.45.1 million profits, respectively. These segments net income in 2005 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 in 2005 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, in 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 in 2005 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, in both cases, 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 in 2005 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 in 2005 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. The staff of these segments increased 4.6% and 5.8% in 2005, to 1,149 employees and 818 employees, respectively. Most of the remaining administrative expenses components increased due to a higher level of activity and to the increase in inflation during 2005. The number of branches practically did not vary.

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 in 2005, for Ps.11.3 million, was mainly due to the valuation of Bogar Bonds 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 was 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 Ended December 31, 2005, December 31, 2004 and December 31, 2003 Financial Income and Results of Operations for the Fiscal Years Ended December 31, 2005, December 31, 2004 and December 31, 2003 Financial Expenses.

Net income from services amounted to Ps.69.7 million in 2005, up 28.8% from the Ps.54.2 million of 2004, mainly due to the increase in fees on deposit accounts and to the greater volume of operations in general. The segment s administrative expenses increased 86.8% in 2005 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 recorded a Ps.80.9 million profit in 2005, as a consequence of the reversal of allowances for loan losses established in prior years (the reversal of loan loss provisions is shown in the loan loss provisions line). This profit was lower than in 2004, as a result of the progress made during 2004 in the restructuring of the loan portfolio and the remainder of a smaller amount of loans to be restructured in 2005. Net other losses in 2005 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 in 2005, lower than the Ps.96.1 million recorded in the prior fiscal year, mainly as a consequence of the greater operating income of the regional credit-card companies, which reflected the effect of the expansion of their business, which was partially offset by higher administrative expenses and by higher income taxes.

During 2005, the aggregate number of credit-card statements issued by the regional credit-card companies increased 22%, and their average loan portfolio increased by 39.6% from 2004 average. The segment s net income in 2005 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 for by law, which was offset by 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. Increased income taxes were due to the full use of tax credits by these companies in 2004.

International This segment recorded a Ps.278.1 million profit in 2005, 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 equity interest in Banelco S.A.

Other Equity Investments This segment recorded a Ps.0.02 million profit in 2005, reflecting a Ps.0.02 million income from equity investments included under the item Other income/(Loss). This amount mainly reflected losses for Ps.0.6 million and Ps.0.4 million, from the Bank s equity 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 equity interest in Inversora Diamante SA. and Inversora Nihuiles S.A., respectively.

Results by Segments for the Fiscal Year Ended December 31, 2004

Grupo Financiero Galicia This segment posted a net loss of Ps.16.3 million in 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 2019 Notes issued by the Bank and held by us. 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 in 2004 was attributable to a Ps.6.6 million profit corresponding to the return on our financial holdings, and a Ps.6.5 million profit due to a 1.4% increase in the exchange rate, that affected our dollar-denominated assets. The main items of operating expenses were: Ps.9.4 million corresponding to the provision of the personal assets tax, Ps.1.1 million of fees for services received, and Ps.0.9 million of 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 recorded a Ps.6.8 million profit in 2004, 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 mainly consisted 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, of which approximately 50% corresponded 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 and Galicia Warrants, posted a Ps.2.1 million net loss in 2004. This negative result was attributable to Net Investment. Galicia Warrants net income amounted to Ps.0.5 million, while Net Investment recorded 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 in 2004 (Ps.57.6 million and Ps.36.3 million, respectively). These segments net profits were the consequence of higher net financial income, net fee income and income from reversals of loan loss provisions, which were partially offset by higher administrative expenses.

These segments net financial income reflected 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 the 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 item, and that they were for amounts greater than loan loss provisions, a profit was recorded in this item. This mainly reflected the improved performance of the Argentine economy as a whole in the preceding two years.

Fee income in 2004 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 in 2004 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 as of December 31, 2003), which had 1,871 employees (compared to 1,837 employees as of December 31, 2003).

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 in 2004 was mainly attributable to the valuation of the Bank s portfolio of Bogar Bonds, 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 in 2004, recorded as lower financial income. This loss was partially offset by the increase in the Libo rate accrued by the Bank s position in Boden 2012 Bonds, 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 basis points See Results of Operations for the Fiscal Years Ended 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 in 2004, 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.

Net other losses in 2004 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 in 2004, reflecting the favorable effect on their results of operations of the sustained recovery of the Argentine economy 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 increased by 33.7%, both as compared to the previous year-end. Operating income of the regional credit-card companies in 2004 increased by 78.1% as compared to 2003, mainly attributable to a 69.1% increase in net financial income. Administrative expenses in 2004 increased by 22.6%, to keep up with both the rising business volumes and quality standards. This was achieved through the use of technology and a continuous improvement in processes and organization, leading to efficiency gains and economies of scale.

Collection efforts in 2004 resulted in keeping delinquency rates at minimum historical levels. In fact, arrears of more than 90 days represented only 3.26% of the aggregate portfolio at year-end, a ratio that is lower than in prior years.

International This segment showed a Ps.126.3 million profit in 2004. This result was mainly attributable to: (i) a Ps.190.4 million net financial income, which mainly reflected the gain at the level of Galicia Uruguay generated by the repayment of restructured deposits with Boden 2012 Bonds 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 in 2004.

Other Financial Businesses This segment showed a Ps.7.4 million net profit in 2004 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 in 2004 reflecting net other income. The Other Income item showed 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 Nihuiles S.A.

Consolidated Assets

The structure and main components of our consolidated assets as of December 31, 2006, were as follows:

	As of December 31,					
	2006	**%**	**2005**	**%**	**2004**	**%**
	(in millions of pesos, except percentages)					
Cash and due from banks	Ps. 2,294.8	9.7	Ps. 1041.2	4.1	Ps. 988.7	4.2
Government and corporate securities	3,188.6	13.5	5,971.8	23.3	5,534.1	23.4
Loans	10,514.6	44.5	10,555.2	41.2	8,438.2	35.7
Hedge Bond to be acquired	401.3	1.7	4,155.0	16.2	4,732.3	20.0
Other receivables Argentine Central Bank	1,733.3	7.3				
Other assets	5,501.6	23.3	3,912.5	15.2	3,957.3	16.7
Total	**Ps. 23,634.2**	**100.0%**	**Ps. 25,635.7**	**100.0%**	**Ps. 23,650.6**	**100.0%**

Of our Ps.23,634.2 million total assets as of December 31, 2006, Ps.23.464,9 million, equivalent to 99.3%, corresponded to the Bank. The remaining 0.7% was attributable mainly to Sudamericana on a consolidated basis (Ps.121.9 million). The composition of our assets shows an increase in the participation of Cash and due from banks and of Loans to the detriment of Government and corporate securities , and Hedge Bond to be acquired (Boden 2012 Bonds).

The item Cash and due from banks mainly included Ps.550.9 million of cash , Ps.1,494.7 million held at the Argentine Central Bank and Ps.247.8 held in correspondent banks. The balance held at the Argentine Central Bank and a portion of cash, 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, 2006 amounted to Ps.3,188.6 million, of which Ps.3,188.3 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.10,514.6 million, of which Ps.10,466.2 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, 2006, we recorded under Other Receivables Resulting from Financial Brokerage , the Boden 2012 Bonds corresponding to the Hedge Bond pending receipt, representing compensation for the asymmetric pesification, for Ps.401.3 million. See Item 4. Information on the Company Selected Statistical Information Government and Corporate Securities and Item 4. Information on the Company Government Regulation Compensation to Financial Institutions.

The item Other receivables Argentine Central Bank , recorded in the balance sheet under Other Receivables Resulting from Financial Brokerage caption, corresponded to the proceeds from the sale of Secured Loans made during December 2006, which were applied to the advanced settlement of part of the financial assistance from the Argentine Central Bank on January 3, 2007.

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The Other assets item mainly corresponded to the following items recorded in the balance sheet under Other Receivables Resulting from Financial Brokerage, unless otherwise noted:

Ps.974.0 million of forward purchases of Boden 2012 Bonds in connection with repo transactions.

Ps.896.8 million recorded under Bank Premises and Equipment, Miscellaneous Assets and Intangible Assets, excluding from the latter the deferred losses from *amparo* claims.

Ps.714.1 million of forward purchases of Discount Bonds in Pesos in connection with repo transactions.

Ps.571.6 million corresponding to our holdings of debt securities and participation certificates issued by the Galtrust I Financial Trust, resulting from the securitization of loans to the provincial public sector in late 2000.

Ps.367.3 million recorded as an intangible asset, which reflected losses due to the difference between the amount paid to depositors (the deposit s original contractual amount, collected by depositors in US dollars or at the free market exchange rate) as a consequence of *amparo* claims, and the amount established by the pesification rules (conversion at the Ps.1.40 per US dollar exchange rate, plus CER adjustment and interest), net of the accumulated amortization, plus the amount of deferred amortization.

Ps.357.1 million corresponding to holdings of the participation certificate in and debt securities of the special fund (referred to as the Special Fund Former Almafuerte Bank) jointly formed by the Bank with other private-sector banks in order to facilitate the recovery of the assets of former Almafuerte Bank.

Ps.236.7 million corresponding to participation certificates in and debt securities of different financial trusts.

Ps.206.2 million corresponding to Assets under Financial Leases .

Ps.138.2 million corresponding to balances deposited at the Argentine Central Bank as guarantees in favor of clearing houses.

Exposure to the Argentine Public Sector

The following table shows our total net exposure to the Argentine public sector as of December 31, 2006. This exposure mainly consisted of exposure of the Bank.

	As of December 31,	
	2006	**2005**
	(in millions of pesos)	
Net Position in Government Securities	**Ps. 4,832.7**	**Ps. 6,041.0**
Trading and Investment Accounts	164.3	462.0
Fiscal Credit Certificates		34.5
Boden 2012 Bonds (Compensatory Bond)	3,582.9	987.9
Bogar Bonds	366.5	3,823.3
Discount Bonds and GDP-Linked Units	719.0	733.3
Loans	**Ps. 2,846.7**	**Ps. 5,341.7**
Financial Sector	107.4	105.9
Secured Loans	2,739.3	5,235.8
Other Receivables Resulting from Financial Brokerage	**Ps. 1,218.6**	**Ps. 5,031.8**

Boden 2012 Bonds (Hedge Bond)	401.3	4,155.0
Trusts Certificates of Participation and Securities	817.3	876.8
Total Assets (1)	**Ps. 8,898.0**	**Ps. 16,414.5**
Liabilities with the Argentine Central Bank	**Ps. 3,026.0**	**Ps. 8,611.9**
Net Exposure	**Ps. 5,872.0**	**Ps. 7,802.6**

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, 2006, our total exposure to the public sector amounted to Ps.8,898.0 million compared to Ps.16,414.5 million at the close of the previous fiscal year, which represented a 45.8% decrease during the year. This decrease was mainly due to the sale of Bogar Bonds and Secured Loans, and to the use of the proceeds of those sales and of Bogar Bonds to settle debt with the Argentine Central Bank.

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Our net exposure to the public sector amounted to Ps.5,872.0 million at fiscal year end, compared to Ps.7,802.6 million at the end of the previous year, with a 24.7% decrease.

Pursuant to item 12 of Communiqué A 3911 of the Argentine Central Bank and supplementary regulations, as from January 2006, a financial institutions total exposure to the non-financial public sector cannot exceed 40% of the respective total assets and, as from July 2007, it cannot exceed 35% of said assets. We submitted a plan in order to comply with said rule, which was approved by the Argentine Central Bank on February 26, 2006. As of this date, we are in compliance with the guidelines committed in said plan.

Off-Balance Sheet Arrangements

Our off-balance sheet risk mainly arises from the Bank s activities.

In the normal course of 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.

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 we do 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, 2006, is summarized below:

	December 31, 2006 *(in millions of pesos)*
Commitments to extend credit	Ps. 624.8
Standby letters of credit	129.0
Guarantees granted	123.8
Acceptances	35.4

In addition to the above commitments, as of December 31, 2006, purchase limits available for credit-card holders amounted to Ps.8,316.3 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, 2006, these counter guarantees, classified by type, were as follows:

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	December 31, 2006 *(in millions of pesos)*
Preferred counter guarantees	Ps. 32.8
Other counter guarantees	21.6

See note 28 to our audited consolidated financial statements.

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, 2006, were as follows:

	December 31, 2006 *(in millions of pesos)*
Checks drawn on the Bank	Ps. 163.0
Checks drawn on other banks	187.4
Bills and other items for collection	1,184.4

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, 2006, the trust funds amounted to Ps.715.0 million.

In addition, we hold securities in custody, which as of December 31, 2006 amounted to Ps.6,109.3 million.

See note 28 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 33 to our audited financial statements for a description of the outstanding trusts as of December 31, 2006.

In addition, as part of the plan to restore our capitalization and liquidity, the Galicia Mortgage Loans Financial Trust and the Galicia Financial Trust were created in May 2002. In January 2005, the Galicia Mortgage Loans Financial Trust was terminated in advance. In respect of the Galicia Financial Trust, Banco de la Provincia de Buenos Aires is the beneficiary and BAPRO Mandatos y Negocios S.A. is the trustee. We transferred to the trust Ps.108 million of Secured Loans originated from loans granted to provincial governments and received in exchange Ps.81 million in cash and Ps.27 million in certificates of participation. As of December 31, 2006, we held certificates of participation totaling Ps.58.2 million.

On January 17, 2007, an agreement for the establishment of the Galicia Personales IV financial trust was entered into, by the Bank, acting as trustor and administrator, and Deutsche Bank S.A. acting as financial trustee. We transferred to the trust a portfolio of personal loans in the amount of Ps100.0 million. On January 30, 2007, the trust issued debt securities for a face value of Ps.93.0 million and participation certificates for a face value of Ps.7.0 million.

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On April 13, 2007, an agreement for the establishment of the Galicia Personales V financial trust was entered into by the Bank, acting as trustor and administrator, and Deutsche Bank S.A. acting as financial trustee. We transferred to the trust a portfolio of personal loans in the amount of Ps.150.0 million. On April 24, 2007, the trust issued debt securities for a face value of Ps.139.5 million and participation certificates for a face value of Ps.10.5 million..

Funding

Traditionally, we have had three main sources of funding, besides net collected income (mostly financial and from services): private-sector deposits, loans from international banks and multilateral credit agencies, and medium and long-term debt securities placed in the international capital market. Another source of funding stemmed from repo transactions, mainly with government securities.

In 2006, our main source of funding was proceeds from the sale of public-sector assets (Ps.4,309.5 million, including principal, interest and CER adjustment). Apart from net collected income (financial and from services), our other main sources of funds were the net increase in deposits (Ps.2,357.7 million, including principal, interest and CER adjustment) and repo transactions of government securities (Ps.813.0 million, including principal, interest and CER adjustment). The securitization of loans has been a growing source of funding in comparison with previous fiscal years. During fiscal year 2006, funds for Ps.369.7 million were generated by the securitization of loans granted by the Bank on an individual basis, and funds for Ps.315.4 million were generated by the securitization of regional credit-card companies loan portfolios.

Funds from the sale of public-sector assets were applied mostly to the settlement of liabilities owed to the Argentine Central Bank.

Below is a breakdown of our funding as of the dates indicated:

			December 31,
	2006	**2005**	**2004**
		(in millions of pesos)	
Deposits (1) (2)	**Ps. 10,779.4**	**Ps. 8,421.7**	**Ps. 6,756.9**
Debt (1)			
Argentine Central Bank			
Financial assistance	2,688.7	5,314.9	5,707.0
Advance for the acquisition of the Hedge Bond	336.8	3,296.6	2,720.7
International banks and credit agencies	870.5	784.6	789.3
Repos	1,033.5	220.5	223.7
Domestic financial institutions	287.7	227.9	199.2
Debt securities (1)	3,676.0	3,569.6	3,802.5
Total (1)	**8,893.2**	**13,414.1**	**13,442.4**
Shareholders Equity	**1,608.5**	**1,626.8**	**1,519.5**
Total Funding	**Ps. 21,281.1**	**Ps. 23,462.6**	**Ps. 21,718.8**

(1) Includes accrued interest and exchange differences payable, as well as the CER adjustment where

applicable.

(2) *Includes Reprogrammed Deposits with amparo claims. In 2004, also includes Cedros.*

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 2006, deposits again became the main component of our funding. In 2005, the relative weight of the liabilities with the Argentine Central Bank decreased and that of deposits increased.

As of December 31, 2006, deposits represented 50.7% of our funding, up from 35.9% as of December 31, 2005, and 31.1% at the end of 2004. Our deposit base increased 28.0 % in 2006 and 24.6% in 2005. The increase in 2006 was the result of an increase in time deposits and in transactional deposits (deposits in current and savings accounts). In 2005, most of the increase was due to the increase in transactional deposits. All of the growth 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.

As of December 31, 2006, 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 12.6% of our funding, down from 22.6% as of December 31, 2005 and 26.3% as of December 31, 2004. On March 2, 2007, the Bank settled all of its debt for financial assistance with the Argentine Central Bank and currently has no debt with such entity.

The financial assistance from the Argentine Central Bank, for Ps.2,688.7 million as of December 31, 2006 (principal plus CER adjustment and interest), reflects debt with this entity due to financial assistance incurred as a consequence of the 2001-2002 crisis. This liability was restructured in 2004 in accordance with Decree No.739/03 and Decree No.1262/03, as a liability to be amortized in 92 monthly installments of principal and interest beginning in March 2004, with principal adjusted by CER and an annual interest rate of 3.5% on adjusted principal.

In December 2004, the Argentine Central Bank set forth a system through which financial institutions could make advance payments on Argentine Central Bank s financial assistance, in which funds were applied to the settlement of future installments at their contractual maturity date. During 2005, we made payments under this system for Ps.211.9 million, equivalent to 6 future installments, of which Ps.153.6 million were pending application at the end of fiscal 2005. In addition, since March 2004, we made all of the monthly payments set forth in the repayment schedule we had submitted and, in October 2005, an additional Ps.450 million were settled. During 2006, the monthly payments established by such schedule, totaled Ps.480.4 million, and, during such year and using the proceeds of the sale of public-sector assets, we settled in advance Ps.2,550.4 million of this financial assistance.

The Advance for the acquisition of the Hedge Bond item, for Ps.336.8 million (principal, CER adjustment and interest) as of December 31, 2006, refers to the advance from the Argentine Central Bank for the acquisition of the remaining Hedge Bond (Boden 2012 Bonds for US$116.8 million of face value). The decrease in 2006 in the balance of this liability as compared to the amount outstanding as of the close of the prior fiscal year was due to the partial settlement carried out on December 1, 2006, in cash and by using public sector assets (mainly Bogar Bonds) granted as collateral for the settled portion of such advance.

Due to the above-mentioned settlements, in 2006, the balance of our debt with the Argentine Central Bank decreased by Ps.5,586.0 million. This explains the reduction in the percentage of that debt in our total liabilities.

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 (principal and interests) to Ps.3,676.0 million as of December 31, 2006, compared to Ps.3,569.6 million and Ps.3,802.5 million outstanding as of December 31, 2005 and December 31, 2004, respectively. Of our debt securities for (only principal) Ps.3,587.0 million at the end of fiscal year 2006, Ps.3,123.5 million corresponded to US dollar-denominated debt pursuant to the following breakdown (principal only):

Ps.118.4 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.157.7 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.942.0 million and Ps.1,083.8 million in 2010 and 2014 Notes, respectively, and Ps.777.6 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.30.5 million in negotiable obligations maturing in 2007, issued by Tarjeta Naranja S.A. (III Class) in 2006.

Ps.13.5 million in foreign debt past due, included in our 2004 debt restructuring, the holders of which did not participate in such restructuring.

The difference with the total, for Ps.463.5 million, corresponds to debt in pesos for negotiable obligations of the regional credit-card companies.

The net increase in the debt securities outstanding as of December 31, 2006, compared to the amount as of December 31, 2005, mainly reflects payments made on the 2007 Notes and the 2010 Notes. In addition, the Ps.318.7 million increase in the balance of peso-denominated negotiable obligations from the balance as of the close of the prior fiscal year is attributable, mainly, to the issuance of the Clase IV Negotiable Obligations by Tarjeta Naranja S.A.

The decrease in the debt securities outstanding as of December 31, 2005, compared to the amount as of December 31, 2004, mainly reflected: (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 Bonds in the offer carried out by Galicia Uruguay in 2005, and (iii) payments on the 2007 Notes issued by the Bank, in Argentina, to restructure the debt of its former New York Branch.

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, 2006, such borrowings amounted to Ps.870.5 million, representing dollar-denominated debt subject to foreign law. Of this total, considering principal only, Ps.706.0 million represented debt of the Bank in Argentina which restructuring was completed in May 2004, Ps.9.9 million corresponded to debt of the former New York Branch restructured in 2002, Ps.79.2 million corresponded to an IFC loan granted in 2005, and Ps.49.1 million corresponded to trade loans.

Credit lines from banks and international agencies increased to Ps.870.5 million at the end of 2006, from Ps.784.6 million as of December 31, 2005 and Ps.789.3 million as of December 31, 2004.

In addition, in 2006, 2005 and 2004, we generated funds through the securitization and sale of on-balance sheet and off-balance sheet loans, for an aggregate amount (included credit cards companies) of Ps.684.8 million, Ps.478.1 million, and Ps.246.6 million, respectively.

Ratings

On February 6, 2006, 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 debt rating was raised to raA1 from raA2 by Standard & Poor s. The medium and long term debt rating remained at raA .

In addition, after the close of the fiscal year, on February 5, 2007, Standard & Poor s reviewed the Bank s rating outlook from stable to positive . In its report, the rating agency said that the change in the outlook reflects our expectations of a potential upgrade of the Bank s ratings as a consequence of the improvement in the Bank s medium term operating results, following the significant repayment of debt with the Argentine Central Bank and the subsequent reduction in the cost of funding and that it also incorporates Standard & Poors expectations of an increase of the Bank s capitalization as a result of the forthcoming stock offering .

On March 27, 2007, Standard & Poor s upgraded the Bank s long-term debt rating to raA+ from raA , and the Bank subordinated debt rating to raA from raA- , with a stable trend. The short-term debt rating remained at raA1 .

Our debt obligations do not have an international rating.

Program for Debt Issuance

The Bank has a Global Program outstanding for the issuance and re-issuance of non-convertible negotiable obligations, subordinated or non-subordinated, adjustable or non-adjustable, secured or unsecured, with a tenor from 30 days to up to the current permitted maximum (30 years), for a maximum outstanding face value during the period of the Program, of up to Ps.1.0 billion or US$342,500. The term of the program is for five years commencing on the

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date of approval by the CNV. The program was approved by the CNV through Resolution No. 15,228 dated November 4, 2005. As of the date of this annual report, no debt had been issued under the program.

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, 2006.

	Maturity	Annual Interest Rate	Total	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. 986.3	Ps. 313.4	Ps. 538.3	Ps. 134.6	
Step-Up Notes Due 2014 (1) (3) (5)	2014	5.0%	1,111.3	27.5		481.7	602.1
Subordinated Notes Due 2019 (1) (6)	2019	11.0%	777.6	39.4			738.2
9% Notes Due 2003 (7)	2003	9.0%	19.8	19.8			
7.875% Notes Due 2007 (2) (8)	2007	7.9%	76.7	76.7			
7th Series Floating Rate Notes Due 2007 (2) (8)	2007	Libor + 400 b.p.	45.9	45.9			
Loans							
Floating Rate Loans Due 2010 (1) (3) (4)	2010	Libor + 350 b.p.	130.8	41.5	71.4	17.9	
Floating Rate Loans Due 2014 (1) (3) (5)	2014	Libor + 85 b.p.	258.2	8.3		111.1	138.8
Floating Rate Loans Due 2019 (1) (9)	2019	Libor + 578 b.p.	42.8	2.4			40.4
Step-Up Loans Due 2014 (1) (3) (5)	2014	5.0%	298.3	7.5		129.2	161.6
Other Financial Loans	Various	Various	60.2	46.6	10.6	3.0	
IFC Financial Loan	Various	Libor + 350 b.p.	79.8	58.9	15.3	2.8	2.8
BICE Loans (Pesos)	Various	CER + 4.0%	30.8	22.9	7.9		
BICE Loans (Dollars) (10)	Various	7.2%	15.5	6.3	9.2		
Short-Term Interbank Loans	2007	8.7%	100.0	100.0			
	2011		2,688.7	468.6	2,220.1		

Argentine Central Bank Financial Assistance [11]		CER + 2.0%					
Argentine Central Bank Advance for the Acquisition of the Hedge Bond [12]	2012	CER + 2.0%	336.8	144.3	77.0	77.0	38.5
Loan from Sedesa [13]	2007	Libor + 300 b.p.	198.8	198.8			
Peso-Denominated Loan from FFRE [14]	2008	CER + 8.0%	8.7	4.4	4.3		
Dollar-Denominated Loan from FFRE [14]	2008	8.1%	14.2	7.1	7.1		
Repos (Pesos) [15]	2007	Various	524.5	524.5			
Repos (Dollars) [15]	2007	Various	509.0	509.0			
Galicia Uruguay:							
Negotiable Obligations [16]	Various	Various	158.6	27.5	60.7	70.4	
Tarjetas Regionales S.A.:							
Financial Loans with Local Banks	Various	Various	142.2	120.2	22.0		
Negotiable Obligations	Various	Various	499.9	151.9	194.0	154.0	
Total			**Ps.9,115.4**	**Ps.2,973.4**	**Ps.3,237.9**	**Ps.1,181.7**	**Ps.1,722.4**

Principal and interest. Includes the CER adjustment, where applicable.

(1) *Issued in 2004 as part of the restructuring of the foreign debt of the Bank s Head Office and its Cayman Branch.*

(2) *Issued in 2002 as part of the restructuring of the debt of the Bank s former New York Branch.*

(3) *Interest payable in cash, semiannually, on January 1 and July 1 of each year, beginning on July 1, 2004.*

(4) *Principal amortizes semiannually, on January 1 and July 1 of each year, beginning on July 1, 2006, in eight equal installments of 12.5% of principal at issuance or incurrence, until maturity on January 1,2010, when the remaining 12.5% is due.*

(5) *Principal amortizes semiannually, on January 1 and July 1 of each year, beginning on January 1, 2010, in eight equal installments of 11.11% of principal at issuance or incurrence, until maturity, when the remaining 11.12% is due. The rate increases 1% on January 1 of each year, until reaching 7% on January 1, 2008.*

(6) *Interest paid in cash: 6% per annum from January 1, 2004 until (but not including) January 1, 2014, payable semiannually, on January 1 and July 1 of each year, beginning on July 1, 2004. Unless the notes are previously redeemed, the annual interest rate will increase to 11% per annum from that date until (but not including) January 1, 2019. Interest paid in additional subordinated negotiable obligations due 2019: 5% per annum from January 1, 2004, to be paid on January 1, 2014 and January 1, 2019. Principal amortizes in full on January 1, 2019, unless the notes are previously redeemed at par plus accrued but unpaid interest, in whole or in part, at the Bank s option, at any time after the 2010 Notes and the 2014 Notes have been*

repaid in full and, otherwise, in accordance with the terms of the agreements governing such notes.

(7) *The balance represents debt not tendered by its holders to the exchange offered by the Bank to restructure its foreign debt, which was completed in May 2004.*

(8) *Interest payable in cash, semiannually, in February and August of each year, beginning in February 2003. Principal amortizes in three equal annual installments, beginning on August 3, 2005, until maturity.*

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(9) *Interest payable in cash: Libor+78 basis points, per annum from January 1, 2004, until (but not including) January 1, 2014, payable semiannually, on January 1 and July 1 of each year, beginning on July 1, 2004. Unless the loans are previously redeemed, the annual interest rate will increase to Libor+578 basis points per annum from that date until (but not including) January 1, 2019. Also pays interest in additional subordinated loans, due 2019: 5% per annum from January 1, 2004, to be paid on January 1, 2014 and January 1, 2019. Principal amortizes in full on January 1, 2019 unless the loans are previously redeemed at part plus accrued interest and additional amounts, if any,*

in whole or in part at the Bank s option, in accordance with the terms of the agreements governing such loans.

(10) Includes: US$2.0 million of principal at incurrence that accrue Libor+400 basis points, with principal and interests payable in 48 equal installments on the 5th of every month, beginning in November 2003 until October 2007, and US$10.0 million of principal at incurrence accruing Libor+550 basis points, with interests payable semiannually, in May and November of each year, and. principal amortizing in 9 semiannual installments, beginning in May 2005 until May 2009.

(11) Amortization of principal adjusted by the CER. This liability was

paid in full as of March 2, 2007.

(12) *The terms and conditions of the advance from the Argentine Central Bank to acquire the Hedge Bond were established by Decree No. 905/02. Principal adjusted by the CER amortized in 8 equal and annual installments in August of each year, beginning in 2005, until August 2012. Interest was payable in August and February of each year, beginning in August 2002. This liability was extinguished after the close of fiscal year 2006 with the acquisition of the Hedge Bond through a swap for Secured Loans..*

(13) *Granted in 2002 as part of the Galicia capitalization and liquidity plan.*

(14) *FFRE : Fondo Fiduciario para la*

Reconstrucción de Empresas .

(15) *Includes premiums.*

(16) *Issued in 2002 as part of the restructuring of Galicia Uruguay s deposits. Includes:*

2% Negotiable Obligations Due 2011: principal amortizes in 9 equal annual installments in September of each year, beginning in September 2003, the first 2 installments of 15% of principal, and the remaining 7 of 10% of principal. Interest payable annually in September of each year, beginning in September 2003.

Floating Rate (Libor+300 basis points, and a 7% cap) Negotiable Obligations Due 2011: principal amortizes in 3 annual installments in December of each year, beginning in December 2009, the first 2 installments of 30% of principal, and the remaining one of 40% of principal. Interest payable semiannually in June and December of each year, beginning in December 2003.

2% Negotiable Obligations Due 2008: principal amortizes in 3 annual installments in December of each year, beginning in December 2006, the first 2 installments of 30% of principal, and the remaining one of 40% of principal. Interest payable semiannually in June and December of each year, beginning in December 2003.

Other Commitments

As a shareholder of the water-supply concessionaires in Argentina, the Bank had guaranteed their compliance with certain obligations arising from the concession contracts signed by Aguas Argentinas S.A., Aguas Provinciales de Santa Fe S.A (in liquidation) and Aguas Cordobesas S.A. In addition, the Bank and the other shareholders had committed, in certain circumstances, to provide financial support to these companies if they were unable to fulfill the commitments they had undertaken with various international financial institutions. As of December 31, 2006, only the commitment related to Aguas Cordobesas S.A. was outstanding.

With respect to Aguas Cordobesas S.A., the Bank, as a shareholder and proportionally to its 10.833% interest, is jointly responsible, before the Province of Córdoba, for contractual obligations under the concession contract during the entire term. Should any of the other shareholders fail to comply with the commitments arising from their joint responsibility, the province may force the Bank to assume the unfulfilled commitment, but only in the proportion and to the extent of the interest held by the Bank.

In the case of Aguas Provinciales de Santa Fe S.A. (which is currently in liquidation), it is worth noting that in its meeting held on January 13, 2006, the shareholders approved the early dissolution and liquidation of the company. The Bank voted against this decision because it deemed it contrary to the corporate interests of the company, and requested the calling of a new meeting to reactivate and capitalize the company thus allowing its continuity. On January 31, 2006, Decree No. 243 issued by the government of the Province of Santa Fe terminated the concession contract alleging a concessionaire s default, derived from the dissolution of the company decided by the majority shareholders during the above-mentioned shareholders meeting. As from March 2006, the Bank has fully provisioned its exposure to this company.

In connection with Aguas Argentinas S.A., after a long negotiation process, on March 21, 2006, the Government decided to rescind the concession contract with this company alleging a concessionaire s default. As a result of this measure, Aguas Argentinas S.A. defaulted and requested the commencement of a reorganization process under the provisions of Section 5 and subsequent sections of Law No. 24,522 (analogous to a Chapter 11 reorganization under the U.S. Bankruptcy Code) before the Argentine commercial courts. On March 9, 2006, the Bank cancelled the commitments undertaken with international financial institutions by purchasing the credits these institutions held against Aguas Argentinas S.A., thus extinguishing the guarantees granted in connection with those loans. The acquisition price was approximately 25% lower than the guaranteed amount. As from June 2006, the investment in said company has been fully provisioned. See note 3 to our audited consolidated financial statements.

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Other Commitments Operating Leases

As of December 31, 2006, we leased certain properties used as a part of our distribution network. The estimated future lease payments in connection with these properties is as follows:

	In millions of pesos (1)
2007	21.0
2008	25.7
2009	28.6
2010	31.1
2011	33.9
2012 and after	37.0
Total	**Ps. 177.3**

(1) Future lease payments include the CER adjustment until December 31, 2006, only.

Critical Accounting Policies

We believe that the following are our critical accounting policies, as they are important to the portrayal of our financial condition and results of operations and require our most difficult, subjective and complex judgment and the need to make estimates about the effect of matters that are inherently uncertain.

Allowance for Loan Losses

Banco Galicia s allowance for loan losses is maintained in accordance with Argentine Central Bank rules. Under such rules, a minimum allowance for loan losses is calculated primarily based upon the classification of Banco Galicia s commercial loan borrowers and upon delinquency aging (or the number of days the loan is past due) for Banco Galicia s individual loan borrowers (including commercial loans of less than Ps.500,000). Although we are required to follow the methodology and guidelines for determining the minimum loan loss allowance as set forth by the Argentine Central Bank, we are allowed to establish additional allowances for loan losses. The determination of the allowance for loan losses requires a significant degree of judgment.

For commercial loans, we are required to classify all of Banco Galicia s commercial loan borrowers. In order to perform the classification, we must consider the management and operating history of the borrower, the present and projected financial situation of the borrower, the borrower s payment history and ability to service the debt, the capability of the borrower s internal information and control systems and the risk in the sector in which the borrower operates. We apply the minimum loss percentages required by the Argentine Central Bank to Banco Galicia s commercial loan borrowers based on the loan classification and the nature of the collateral, or guarantee in respect of the loan. In addition, based on the overall risk of the portfolio, we consider whether or not additional loan loss reserves in excess of the minimum required are warranted.

For Banco Galicia s consumer loan portfolio, we classify loans based upon delinquency aging, consistent with the requirements of the Argentine Central Bank. Minimum loss percentages required by the Argentine Central Bank are also applied to the totals in each loan classification.

Other Receivables Resulting from Financial Brokerage and Miscellaneous Receivables

We carry other receivables resulting from financial brokerage and miscellaneous receivables net of allowances for uncollectible amounts. Our judgment regarding the ultimate collectibility is performed on an account-by-account basis and considers our assessment of the borrower s ability to pay based on factors such as the borrower s financial condition, past payment history, guarantees and past-due status.

Minimum Presumed Income Tax

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The Bank has recognized the minimum presumed income tax accrued as of December 31, 2006 and December 31, 2005 and paid in prior years as an asset as of December 31, 2006, December 31, 2005, and December 31, 2004, respectively, because we expect to be able to compute it as a payment on account of income tax in future years. Recognition of this asset arises from the ability to generate sufficient taxable income in future years to absorb the asset before it expires. Management s determination of the likelihood that deferred tax assets can be realized is subjective, and involves estimates and assumptions about matters that are inherently uncertain. The realization of deferred tax assets arises from levels of future taxable income and the achievement of tax planning strategies. Underlying estimates and assumptions can change over time, influencing our overall tax positions, as a result of unanticipated events or circumstances.

Goodwill

Goodwill is carried at cost less accumulated amortization. The carrying amount of goodwill is analyzed for impairment based on estimates of future undiscounted cash flows generated by the business acquired. The estimate of future cash flows requires complex management judgment.

U.S. GAAP Critical Accounting Policies

Additional information in connection with critical accounting policies for U.S. GAAP purposes follows.

Allowance for Loan Losses

The allowance for loan losses represents the estimate of probable losses in the loan portfolio. Determining the allowance for loan losses requires significant management judgments and estimates including, among others, identifying impaired loans, determining customers ability to pay and estimating the fair value of underlying collateral or the expected future cash flows to be received. Actual events are likely to differ from the estimates and assumptions used in determining the allowance for loan losses. Additional provisions for loan losses could be required in the future.

Fair Value Estimates

A portion of our assets is carried at fair value, including trading and available for sale securities. As of December 31, 2006, approximately Ps.5,479.4 million of our assets were recorded at fair value and mainly included available-for-sale securities and retained interests in assets transferred to financial trusts.

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The majority of our assets reported at fair value are based on quoted market prices, which provide the best indication of fair value. If quoted market prices are not available, we discount the expected cash flows using market interest rates which take into account the credit quality and duration of the investment.

The degree of management s judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices. When observable market prices and parameters do not exist, management s judgment is necessary to estimate fair value, in terms of estimating the future cash flows, based on variable terms of the instruments and the credit risk and in defining the applicable interest rate to discount those cash flows.

As of December 31, 2006, our assets fair valued using discounted cash flows techniques amounted to Ps.1,028.2 million and mainly included retained interests in financial trusts.

Impairment of Assets Other Than Loans

Certain assets, such as goodwill and equity investments are subject to an impairment review. Asset impairment charges require considerable judgment and are recorded when market value declines below the carrying value, for declines other than temporary, or where the cost of the asset is deemed to not be recoverable.

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Goodwill impairment exists when the fair value of the reporting unit to which the goodwill is allocated is not enough to cover the book value of its assets and liabilities and the goodwill. The fair value of the reporting units is estimated using discounted cash flow techniques. The sustained value of the majority of the goodwill is supported ultimately by revenue from our banking and credit-card businesses. A decline in earnings as a result of a lack of growth, or our inability to deliver cost-effective services over sustained periods, could lead to a perceived impairment of goodwill, which would be evaluated and, if necessary, recorded as a write-down in our consolidated income statement. On an annual basis, or as circumstances dictate, management reviews goodwill and evaluates events or other developments that may indicate impairment in the carrying amount. The evaluation methodology for potential impairment is inherently complex and involves significant management judgment in the use of estimates and assumptions. These estimates involve many assumptions, including the expected results of the reporting unit, an assumed discount rate and an assumed growth rate for the reporting unit.

The fair value of equity investments is determined using discounted cash flow techniques. This technique involves complex management judgment in terms of estimating the future cash flows of the companies and in defining the applicable interest rate to discount those cash flows.

Deferred Tax Asset Valuation Allowance

Deferred tax assets and liabilities are recorded for the estimated future tax effects of temporary differences between the carrying amounts of assets and liabilities recorded for accounting and tax reporting purposes and for the future tax effects of net operating loss carryforwards. We had a significant amount of deferred tax assets as of December 31, 2006, 2005 and 2004. Recognition of those deferred tax assets is subject to management s judgment based on available evidence that realization is more likely than not and they are reduced, if necessary, by a valuation reserve. Management s judgment on the likelihood that deferred tax assets can be realized is subjective and involves estimates and assumptions about matters that are inherently uncertain. This judgment involves estimating future taxable income and the timing at which the temporary differences between book and taxable income will be reversed. Underlying estimates and assumptions can change over time, influencing our overall tax positions, as a result of unanticipated events or circumstances.

Based on the generation of significant tax losses until fiscal year 2004, and the uncertainty with respect to the generation of taxable income in the near term, a valuation reserve on the net deferred tax assets, except those associated with certain of our subsidiaries for which realization is more certain than not, was recognized in 2004 and 2005.

During 2006, the Bank received 90.8% of the Hedge Bond and settled the related advance granted by the Argentine Central Bank in cash and with government securities. Additionally, the Bank prepaid financial assistance granted by the Argentine Central Bank mainly using the proceeds of the sale of Secured Loans and government securities. As a result, the Bank substantially reduced the differences between Argentine Banking GAAP and U.S. GAAP and its corresponding deferred tax effect.

We had significant accumulated tax loss carryforwards as of December 31, 2006. Based on the analysis performed on the realizability of the tax loss carryforwards, it seems that we will recover only a portion of the future net operating tax loss carryforwards with future taxable income. Therefore, the remaining portion of the net operating tax loss carryforwards and presumed minimum income tax is more likely than not to be recovered in the carryforward period and hence a valuation allowance was provided against this amount.

In the event that all of our net deferred tax assets in the future become realizable under U.S. GAAP, an adjustment to our deferred tax assets would be credited to income tax expense in the period the determination was made.

Assets Not Recognized Under U.S. GAAP

Under Financial Accounting Standards Board Statement of Financial Accounting Concepts No. 6, *Elements of Financial Statements*, 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. Determining if a company has control of an asset involves in certain cases some judgment.

The right to purchase the Hedge Bond as of December 31, 2005 and 2004, was not considered an asset, as the Bank could not obtain the benefit of the Hedge Bond given that the transaction had not been approved by the Argentine Central Bank and the Bank had not remitted funds to the Argentine Central Bank. The liability under U.S. GAAP was not recognized until the Bank actually entered into the financing arrangement. As of December 31, 2006, the Hedge Bond pending receipt and the related advance was accounted for at fair value, as an option contract in accordance with SFAS 133.

As of December 31, 2006, 2005 and 2004, 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.

Financial Guarantees

Pursuant to Decree No.1836/02 and the Argentine Central Bank Communiqué A 3828, the Bank entered into the exchange offer to exchange Reprogrammed Deposits certificates, or Cedros, for Boden 2005, 2006, 2012 and 2013 Bonds. The Boden Bonds offered to the holders of the Cedros were dollar-denominated unsecured Argentine Government bonds. As part of the restructuring, the Bank was required to guarantee the payment of the Boden Bonds to the holders of the Cedros at a price equal to Ps.1.40 per US$1.00 adjusted by applying the accumulated CER from February 3, 2002 to the expiration date of the Boden Bonds. The price cannot exceed the Argentine peso per US$ free exchange rate at the expiration date of the Boden Bonds.

Under U.S. GAAP, effective January 1, 2003, we adopted FAS Interpretation No. 45. As a result, we recognized a liability for the fair value of the obligations assumed. If the fair value of the obligations assumed changes, we might have a significant impact in our results.

Securitizations

Under U.S. GAAP, there are two key accounting determinations that must be made relating to securitizations. A decision must be made as to whether a transfer would be considered a sale under U.S. GAAP, resulting in the transferred assets being removed from our consolidated balance sheet with a gain or loss recognized. Alternatively, the transfer would be considered a secured borrowing, resulting in recognition of a liability in our consolidated balance sheet. The second key determination to be made is whether the securitization entity must be consolidated and be included in our consolidated balance sheet or whether such entity is sufficiently independent that it does not need to be consolidated.

If the securitization entity s activities are sufficiently restricted to meet certain accounting requirements in order to be considered a qualifying special-purpose entity (QSPE), the securitization entity is not consolidated by the seller of the transferred assets. Additionally, under FASB Interpretation No. 46, if securitization entities other than QSPEs meet the definition of a variable interest entity (VIE), we must evaluate whether it is the primary beneficiary of the entity and, if so, must consolidate it. Most of our securitization transactions meet the criteria for sale accounting and non-consolidation.

During 2006, 2005 and 2004, we participated in securitization transactions for Ps.787.5 million, Ps.575.4 million and Ps.162.5 million, respectively, of which Ps.91.3 million in 2005 and Ps.90.0 million in 2004 were not considered sales and consolidated in the consolidated financial statements.

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Principal Trends

Related to the Argentine Economy and Financial System

In the last four years, the Argentine economy has grown at rates exceeding 8%. We expect such high growth to continue in the near future. This expectation is based on a favorable international economic context in general and on the strong fundamentals of the Argentine economy, together with the performance recorded by the economy in 2007 up to the date of this annual report. We also expect economic activity in Argentina to expand at a rate exceeding 7% in 2007 and, for 2008, we expect certain deceleration in the pace of economic growth, although this growth would continue to be high.

High economic growth across all sectors of the economy has favored financial activity, both financial intermediation and the provision of financial services, based on increasing demand. This higher demand was a result of the greater level of economic activity but, also, of the improvement in real salaries experienced in the last two years and the decrease in unemployment that has been recorded since the economy resumed growth in the middle of 2002. We expect these trends to continue in the near future, although a greater than expected inflation would have the opposite effect.

With respect to the Argentine economy s fundamentals, we expect the Government to continue to show a primary surplus, which we believe will be of between 3.5% and 3.8% of GDP in 2007. It should be noted, however, that the recent reform of the pension system which allowed pensioneers to migrate from the private pension funds (AFJPs) system to the public system accounts for approximately 1% of such surplus.

After the devaluation in 2002, there was an overshooting of the exchange rate, which has subsequently tended to decrease in real terms. We expect this trend to continue through the increase in domestic prices, as has happened in the last two years. This relative prices trend, together with a strong aggregate demand, explains the increasing trend recorded by domestic prices. We expect inflation in 2007 and in 2008 to be substantially similar to that recorded in 2006. It should be noted that, even though inflation has increased in the last few years, it has remained substantially steady.

With respect to the financial industry, as noted, after the 2001-2002 crisis, economic growth has translated into a sustained significant increase in levels of activity, with total private-sector deposits in the financial system having increased more than 130% between March 31, 2007 and September 30, 2002, and total loans of the financial system to the private sector having increased more than 160% between the same dates. However, financial penetration in Argentina, measured in terms of total financial system s private-sector deposits and loans as a percentage of the GDP, remains low when compared with international levels and with past levels recorded in Argentina, especially in the case of loans to the private sector. These loans represented approximately 11.4% of the GDP at the end of 2006, as compared to approximately 23.3% at the end of 1999. In turn private-sector deposits represented approximately 18.6% of GDP at the end of 2006, compared to 25.9% in 2000. We believe that the financial system s activity levels will continue increasing at high rates, based on the trend for overall high economic growth and, also, on the increase in the degree of financial penetration in Argentina, which should tend to levels more similar to those experienced before the 2001-2002 crisis. In this context, in 2007, total private-sector deposits in the Argentine financial system and total loans of the financial system to the private sector could increase at rates similar to those recorded in 2006.

The Argentine financial system has experienced significant consolidation after the 2001-2002 crisis and, as a long-term trend, since the 1980s. In addition, the financial system s recent growth and its current growth prospects have generated increased competition from all of the banks operating in Argentina. Consolidation and high competition are likely to continue in the near future.

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Related to Us

After the 2001- 2002 crisis, the financial system as a whole was left with a low yielding high exposure to the public sector, and a very low exposure to the private sector, both in absolute terms and relative to historical levels.

As explained herein under Results of Operations for the Fiscal Years Ended December 31, 2006, December 31, 2005 ad December 31, 2004 Financial Income Fiscal Year 2006 compared to Fiscal Year 2005 , and under Results of Operations for the Fiscal Years Ended December 31, 2006, December 31, 2005 and December 31, 2004 Net Financial Income , our net financial income has been negatively impacted by the adjustments to the valuation of our exposure to the public sector mandated by Argentine Central Bank s valuation rules, as well as by the delay in the delivery to the Bank of the Boden 2012 Bonds corresponding to the Hedge Bond, and the negative margin on our matched foreign currency position generated by the low yield of the Boden 2012 Bonds. As a result, our net financial income continues to be historically low, both in absolute terms and relative to our other main source of income (net income from services), although it has recorded a growing trend if considered without giving effect to the adjustments noted.

Our strategy for increasing our recurring operating profitability is to achieve a significant and sustained increase in the volume of our intermediation business with the private sector. Being able to maintain a high growth rate in lending to the private sector depends, among other things but to a large extent, on the continuity of the current environment of sustained and high overall growth of the Argentine economy, as well as on the availability of funding and capital.

In 2006 and in the first months of 2007, we have taken significant steps towards the strengthening of our financial condition by reducing our exposure to the public sector and repaying in advance all of the Bank s debt for financial assistance received from the Argentine Central Bank. After the full delivery to us, in April 2007, of the Boden 2012 Bonds corresponding to the Hedge Bond and having fully repaid the financial assistance from the Argentine Central Bank in the first quarter of 2007, the Boden 2012 Bonds have become fully available to us, and the public-sector assets granted as collateral for such assistance (Secured Loans) have been released and have also become fully available. As a result, a significant amount of public-sector assets are currently available to be applied to the business. This, together with the repurchase of foreign-currency restructured loans maturing in 2010 and in 2014, enhances our earnings generation capacity going forward.

Also, the Bank has announced a capital increase of up to 100 million shares as described under Item 4. Information on the Company History Capital Increase Approved by the Shareholders Meeting Held on October 11, 2006 . The completion of this step will provide the necessary capital for the Bank to continue to expand its financial intermediation business at a competitive rate.

In addition, we have experienced significant across-the-board expansion in activity levels, a growing funding availability, mainly derived from a growing deposit base, as well as increased exposure to the private sector and greater market shares, all of which is expected to continue in the context of a growing economy.

In such a context, we expect that our financial income will increase, mainly tied to significant increases in the volume of intermediation with the private sector.

We also expect that our net income from services will continue to benefit from the current growth environment and continue to increase in the short term.

Our administrative expenses should also grow, corresponding to a greater level of activity, geographical expansion and inflation. However, the increase should remain below that of operating income.

Non-recurring financial losses could be incurred from the realization or from the mark-to-marking of certain of our public-sector assets. However, we do not expect to incur further losses from the valuation of public-sector assets in accordance with Argentine Central Bank valuation rules (Communiqué A 3911 and complementary rules), beyond those experienced in the first quarter of 2007, unless there is a substantial increase in market interest rates (which would reduce the present value at which we carry our portfolio of Secured Loans, in accordance to applicable valuation rules).

We expect, however, to resume experiencing losses in 2007 from the amortization of deferred losses from *amparo* claims, which amortization had been suspended and deferred in 2006, in accordance with Argentine Central Bank rules issued in December 2005.

Item 5B. Liquidity and Capital Resources

Liquidity

We generate our net earnings/losses from our operating subsidiaries, including Banco Galicia, our main operating subsidiary. Until 2001, the Bank was the primary source of funds available to us in the form of dividends.

The Bank s dividend-paying ability was impaired since late 2001 by the effects of the Argentine economic crisis on its liquidity and income-generation capacity. In addition, there are other restrictions on the Bank s ability to pay dividends resulting from applicable Argentine Central Bank rules and the loan agreements entered into by the Bank as part of its foreign debt restructuring. See Item 8. Financial Information Dividend Policy and Dividends Dividend Policy.

We have not received dividends from the Bank since October 2001. See Item 8. Financial Information Dividend Policy and Dividends Dividends.

The extent to which a banking subsidiary may extend credit or otherwise provide funds to a holding company is limited by Argentine Central Bank rules. For a description of these rules, see Item 4. Information on the Company Argentine Banking System and Regulation Argentine Banking Regulation Lending Limits.

Our current policy is to retain earnings to pay for our operating expenses, on a stand-alone basis, and to support the growth of certain of our businesses. As of December 31, 2006, on a non-consolidated basis, we had cash and due from banks in the amount of Ps.0.13 million and short-term investments for Ps.338.4 million.

As of December 31, 2006, we held US$107.0 million of face value of 2014 Notes and US$4.3 million of face value of 2019 Notes, both issued by the Bank in 2004. As of December 31, 2005 we held US$97.4 million of face value of subordinated negotiable obligations maturing 2019 issued by the Bank in exchange for the 149 million preferred shares issued by us in connection with the Bank s foreign debt restructuring. During May 2006, we sold in the market most of our holdings of those securities and used the proceeds to purchase 2014 Notes.

On a stand-alone basis, we do not have any financial debt outstanding.

Each of our subsidiaries is responsible for its own liquidity management. For a discussion of the Bank s liquidity management, see Banco Galicia (Unconsolidated) Liquidity Management below.

As of December 31, 2006, on a consolidated basis, we had Ps.2,294.8 million in available cash (defined as total cash on hand and cash equivalents).

Management believes that in 2007 we will fund our cash needs arising from capital expenditures and financial commitments with the cash derived from our operations.

Consolidated Cash Flows

Our consolidated statements of cash flows were prepared using the measurement methods prescribed by the Argentine Central Bank, but in accordance with the presentation requirements of SFAS No. 95, *Statement of Cash Flows*. See our consolidated cash flow statements as of and for the fiscal years ended December 31, 2006, December 31, 2005, and December 31, 2004, included in this annual report.

At the end of fiscal year 2006, our available cash (and cash equivalents) had increased in the amount of Ps.1,253.7 million from the Ps.1,041.2 million of available cash (and cash equivalents) at the end of the prior fiscal year, representing an increase of 120.4%. At the end of fiscal year 2005, our available cash (and cash equivalents) had increased in the amount of Ps.52.5 million from the Ps.988.7 million of available cash (and cash equivalents) at the end of the prior fiscal year, representing an increase of 5.3%.

Our cash generation increased significantly in fiscal years 2006 and 2005, as compared with the prior years, respectively. Funds provided by operating activities and among financing activities, principally deposit taking, increased significantly in the two fiscal years, as compared with the prior years, respectively. In 2006 and 2005, we generated increasing amounts of cash from operating activities and from financing activities, through the sale of public-sector assets or from proceeds on such assets.

With respect to the use of cash, in both years, the funds generated as mentioned above were used to make payments on liabilities for increasing amounts, especially on debt with the Argentine Central Bank, which payments reached Ps.4,034.7 million in 2006 and allowed the full repayment of such debt in early 2007. We have also made increasing payments on our restructured foreign debt.

Both in 2006 and 2005, funds were also used to extend more credit to the private sector than in the prior years, even though in 2006 there was a net decrease in loans. This was mainly the result of the fact that the increase in loans to the private sector was more than offset by the decrease in loans to the public sector.

The table below summarizes the information of our consolidated statements of cash flows for the three fiscal years ended December 31, 2006, which is also discussed in more detail below.

			December 31,
	2006	**2005**	**2004**
		(in millions of pesos)	
Funds at the beginning of the fiscal year	**Ps. 1,041.2**	**Ps. 988.7**	**Ps. 826.2**
Funds provided (used) by operating activities	**4,190.3**	**856.0**	**(221.1)**
- Funds provided by the sale of or proceeds from government securities	2,962.8	907.0	91.6
- CER adjustment	891.9	(484.8)	(26.5)
- Other	335.6	433.8	(286.2)
Funds provided (used) by investment activities	**(1,640.6)**	**(767.5)**	**(240.2)**
- Funds to repay debt with the Argentine Central Bank [(1)]	(1,733.3)		
- Net increase/decrease in loans	297.6	(628.3)	(112.4)
Loans to the private sector	(623.8)	(634.9)	(112.4)
Loans to the public sector	921.4	6.6	
- Other	(204.9)	(139.2)	(127.8)
Funds provided (used) by financing activities	**(1,302.4)**	**(41.4)**	**618.3**
- Net increase in deposits	1,894.3	1,696.3	1,415.0
- Funds provided/used by repos	934.4	(259.1)	261.7
- Funds raised by the regional credit card companies	418.0	179.2	(107.2)
- Payments on long-term debt	(656.5)	(301.5)	(207.6)
- Payments on long-term debt by Galicia Uruguay	(30.5)	(117.0)	(183.0)
- Payments on debt with the Argentine Central Bank	(4,034.7)	(1,170.0)	(453.8)
- Other	172.6	(69.3)	(106.8)

Effect of exchange rate on cash and cash equivalents	**6.4**	**5.4**	**5.3**
Funds at the end of the fiscal year	**Ps. 2,294.9**	**Ps. 1,041.2**	**Ps. 988.7**

(1) Recorded under Other Receivables Resulting from Financial Brokerage as of Dec.31, 2006.

Fiscal Year 2006

To explain the variation in our available cash, we first determine the amount of funds provided/used by operating activities, and then the amount of funds provided/used by investing activities and by financing activities:

Funds provided (used) by Operating Activities: To determine the amount of funds provided/used by operating activities, all income statement items that did not imply a use of funds (decrease of cash) and all income statement items not representing an origin of funds (increase of cash) were added and subtracted, respectively, from the Ps.18.9 million net loss for fiscal year 2006. Items not representing a decrease in cash were: i) depreciation of bank premises and equipment and miscellaneous assets and amortization of intangibles assets, for Ps.92.9 million, and ii) loan loss provisions, net of reversals, for Ps.80.9 million.

In addition, net income had to be adjusted for items generating cash movements. Therefore, the following amounts were added: (i) a Ps.1,902.8 million increase in cash in connection with government securities, which mainly represented proceeds from sales of Bogar Bonds and monthly coupons of principal and interest on those bonds (excluding the CER adjustment) for Ps.1,254.1 million, and a Ps.582.5 million decrease in the Bank s holdings of Lebac and Nobac from the prior year, (ii) a Ps.1,071.3 million increase in cash from other assets, mainly attributable to proceeds from Boden 2012 Bonds, for Ps.1,126.2 million (past due amortization and interest coupons of Boden 2012 Bonds recorded under Other Receivables Resulting from Financial Brokerage as of the end of fiscal year 2005, corresponding to the portion of the Hedge Boden 2012 Bonds that was pending receipt as of that date and was delivered to us in late 2006, and therefore began to be recorded under Government Securities as of December 31, 2006, plus amortization and interest coupons of Boden 2012 Bonds sold under agreements to repurchase), (iii) a Ps.891.9 million increase in cash associated to the net CER adjustment, mainly corresponding to the principal adjustment of public-sector assets that were sold, (iv) a Ps.162.3 million increase in cash in connection with debt with retailers of the regional credit-card companies, and (v) Ps.7.2 million of other results.

All of these adjustments to the Ps.18.9 million net loss for fiscal year 2006 add up to a total of Ps.4,190.3 million of cash generated by operating activities.

Funds provided (used) by investing activities: In fiscal year 2006 investing activities meant the net use of cash in the amount of Ps.1,640.6 million, mainly attributable to the effect of:

(i) a Ps.1,769.3 million net use of cash resulting mainly from an increase in the item Other Receivables Resulting from Financial Brokerage-Argentine Central Bank , of which Ps.1,733.3 million was used in January 2007 to settle debt with the Argentine Central Bank,

(ii) a Ps.297.6 million net increase in cash as a result of the net decrease in the Bank s loan portfolio resulting from the sale of Secured Loans, which more than offset the net increase in loans to the private sector, and

(iii) a Ps.196.3 million net use of cash applied to bank premises and equipment, miscellaneous and intangible assets (mainly representing payments of deposits pursuant to *amparo* claims).

Funds provided (used) by financing activities: In fiscal year 2006 financing activities meant the net use of cash in the amount of Ps.1,302.4 million, mainly attributable to:

(i) a Ps.1,894.3 million increase in cash generated by the increase in deposits,

(ii) a Ps.934.4 million increase in cash generated by repo transactions (repurchase agreements),

(iii) a Ps.418.0 million increase in long term credit facilities, representing funds obtained by the regional credit-card companies,

(iv) a Ps.687.0 million net use of cash applied to payments on long-term liabilities, mainly corresponding to: (a) payments of interest on restructured debt for Ps.326.2 million, (b) payments of principal amortization on the 2007 Notes for Ps.118.5 million, (c) payments by the regional credit-card companies on their negotiable obligations for Ps.178.9 million, and (d) settlement by Galicia Uruguay of restructured debt, for Ps.30.5 million, and

(v)

a Ps.3,856.8 million net use of cash mainly attributable to: (a) payments on short-term borrowings, mainly on the financial assistance from the Argentine Central Bank, for Ps.2,665.0 million (including both scheduled payments and amounts settled in advance), and on the advance from such entity for the acquisition of the Hedge Bond for Ps.1,369.7 million, (b) an increased extension of short-term call loans to local banks for Ps.75.5 million and (c) an increase in financing from the IFC for Ps.64.0 million.

Of the total Ps.4,190.3 million of cash generated by operating activities, Ps.1,640.6 million were used by investing activities, Ps.1,302.4 million were used by financing activities, and Ps.1,247.3 million were left. Adding this amount, plus Ps.6.4 million for quotation differences, to the Ps.1,041.2 million of cash available at the end of fiscal year 2005, the Ps.2,294.8 million amount of cash available at the end of fiscal year 2006 is obtained.

Fiscal Year 2005

Funds provided (used) by Operating Activities: To determine the amount of funds provided/used by operating activities, all income statement items that did not imply a use of funds (decrease of cash) and all income statement items not representing an origin of funds (increase of cash) were added and subtracted, respectively, from the Ps.107.2 million net income for fiscal year 2005.

Items not representing a decrease in cash were: i) depreciation of bank premises and equipment and miscellaneous assets and amortization of intangibles assets, for Ps.219.7 million, and ii) loan loss provisions, net of reversals, for Ps.48.2 million. Items not representing an increase in cash corresponded to the net CER adjustment of all assets and liabilities, accrued but not realized, which amounted to Ps.484.8 million in 2005.

In addition, net income was adjusted for items generating cash movements. Therefore, the following amounts must be added: (i) a Ps.490.0 million increase in cash in connection with government securities, which represented mainly proceeds from Bogar Bonds (monthly coupons of principal and interest) and with a decrease in the Bank s holdings of Lebac and Nobac, as compared to the prior year, (ii) a Ps.476.9 million increase in cash from other assets, mainly attributable to proceeds from Boden 2012 Bonds, for Ps.178.0 million (past due amortization and interest coupons on Boden 2012 Bonds recorded under Other Receivables Resulting from Financial Brokerage, representing the portion of the Compensatory Boden 2012 Bonds that was pending receipt at the end of 2004, and therefore was recorded in such account as of that date, and which was received by the Bank in late 2005 and therefore were recorded under Government Securities , and amortization and interest coupons of Boden 2012 Bonds sold under agreements to repurchase), and Galtrust I securities, for Ps.239 million (associated to a partial sale and to interest), and (iii) Ps.1.3 million for all other items taken as a whole.

All of these adjustments to the Ps.107.2 million net income for fiscal year 2005 add up to a total of Ps.856.0 million of cash generated by operating activities.

Funds provided (used) by investing activities: In fiscal year 2005, investing activities meant the net use of cash in the amount of Ps.767.5 million, mainly attributable to the effect of:

(i) a Ps.628.3 million decrease in cash as a result of the net increase in the Bank s loan portfolio,

(ii) a Ps.108.9 million net use of cash applied to bank premises and equipment, miscellaneous and intangible assets (mainly representing payments of deposits pursuant to *amparo* claims), and

(iii) a Ps.30.3 million net use of cash resulting from the net decrease in deposits at the Argentine Central Bank, reflecting an increase in deposits held in favor of clearing houses.

Funds provided (used) by financing activities: In fiscal year 2005, financing activities meant the net use of cash in the amount of Ps.41.4 million, mainly attributable to:

(i) a Ps.1,696.3 million increase in cash generated by the increase in deposits,

(ii) a Ps.179.2 million increase in long term credit facilities, representing funds obtained by the regional credit-card companies,

(iii) a Ps.418.5 million net use of cash applied to payments on long-term liabilities, of which Ps.117.0 million were paid by Galicia Uruguay under the repayment schedule of its restructured deposits, Ps.190.0 million were payments of principal and interest on the 2007 Notes, Ps.71.0 million were paid by the Bank to a local bank, and Ps.36.0 million were payments made by the regional credit-card companies on their debt.

(iv) a Ps.1,239.2 million net use of cash applied to payments on short-term borrowings, mainly on the financial assistance from the Argentine Central Bank, for Ps.1,170 million (including both scheduled payments and amounts cancelled in advance). In addition, Ps.15.0 million payments were made to cancel the Trade A facility and the regional credit-card companies settled bank debt and negotiable obligations, for Ps.54.0 million, and (v) a Ps.259.1 million net use of cash from the net decrease in repurchase agreements, mainly attributable to forward sales of Lebac acquired in connection with reverse repurchase agreements.

Of the total Ps.856.0 million of cash generated by operating activities, Ps.767.5 million were used by investing activities, Ps.41.4 million were used by financing activities, and Ps.47.1 million were left. Adding this amount, plus Ps.5.4 million for quotation differences, to the Ps.988.7 million of cash available at the end of fiscal year 2004, the Ps.1,041.2 million amount of cash available at the end of fiscal year 2005 is obtained.

Fiscal year 2004

The 19.7% increase in our available cash in fiscal year 2004 is explained by the following changes, classified by type of cash-providing or cash-using activity:

Funds provided by Operating Activities: To determine the amount of funds provided/used by operating activities, all income statement items that did not imply a use of funds (decrease of cash) and all income statement items not representing an origin of funds (increase of cash) were added and subtracted, respectively, from the Ps.109.9 million net loss for fiscal year 2004. In 2004, operating activities used funds in the amount of Ps.221.1 million.

During 2004, the items that did not represent a decrease in cash available and that therefore must be added to the fiscal year net loss were: (i) depreciation and amortization of fixed assets and intangible assets for Ps.235.3 million and (ii) an increase in allowances for loans and other losses, net of reversals, for Ps.69.1 million. The items that did not represent an increase in cash and that therefore must be subtracted to the fiscal year s net loss were the Ps.142.5 million increase in income from the restructuring of the Bank s foreign debt completed in May 2004.

In addition, the following items generated cash movements: (i) a Ps.273.3 million decrease in other liabilities, mainly comprised of lower interest on foreign debt subject to restructuring (for Ps.77.0 million), payments on restructured trade loans (for Ps.41.6 million), payments on the loan with the FFRE (for Ps.54.5 million), and lower other contingencies (for Ps.50.0 million), (ii) Ps.91.6 million decrease in government securities, generated by proceeds from Bogar Bonds (monthly interest payments) and Boden 2012 Bonds (semiannual interest payments), and (iii) a Ps.74.8 million increase in other assets mainly attributable to greater leasing activity.

Funds provided (used) by investing activities: in fiscal year 2004, investing activities meant the net use of cash in the amount of Ps.240.2 million, mainly attributable to the net effect of:

(i) a Ps.112.4 million decrease in cash as a result of a net increase in the Bank s loan portfolio and

(ii) a Ps.131.8 million net use of cash applied to intangible assets (mainly in connection with the payment of deposits pursuant to *amparo* claims).

Funds provided (used) by financing activities: in fiscal year 2004, financing activities generated cash in the amount of Ps.618.3 million, mainly attributable to:

(i) a Ps.1,415.0 million increase in cash generated by the increase in deposits, which is net of scheduled payments by Galicia Uruguay and Galicia Cayman, during 2004, on restructured deposits and of the settlement of the exchange offer made to its depositors in early 2004,

(ii) the amortization of long term indebtedness, for Ps.289.7 million, reflecting mainly payments on negotiable obligations (Ps.183 million) issued by Galicia Uruguay to restructure its deposits, with the remaining amount corresponding to payments on a credit line from a domestic bank,

(iii) payments of principal and interest on the financial assistance from the Argentine Central Bank, for Ps.453.8 million, with the remaining Ps.107.2 million corresponding to payments on debt of the regional credit-card companies,

(iv) a Ps.261.7 million increase in cash generated by a repo transaction with Boden 2012 Bonds, and

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(v) Ps.207.6 million of principal and interest payments on the debt subject to restructuring, made to settle the exchange offered to restructure such debt in May 2004,.

Banco Galicia Consolidated Liquidity Gaps

Liquidity risk is the risk that liquid assets are not available for the Bank to meet financial commitments at contractual maturity, take advantage of potential investment opportunities and meet demand for credit.

To monitor and control liquidity risk, the Bank monitors and systematically calculates the gaps between financial assets and liabilities maturing within set time intervals based on contractual maturity. All of the deposits in current accounts and other demand deposits and deposits in savings accounts are included in the first time interval. These figures are used to simulate different liquidity crisis scenarios based on assumptions stemming from historical experience.

As of December 31, 2006, the gaps between maturities of the Bank s financial assets and liabilities based on contractual maturity were as follows:

	As of December 31, 2006 (1)				
	Less than one Year	**1-5 Years**	**5-10 Years**	**Over 10 Years**	**Total**
	(in millions of pesos, except ratios)				
Assets					
Cash and Due from Banks	799.0				799.0
Argentine Central Bank Escrow Accounts	1,632.9				1,632.9
Overnight Placements	608.0				608.0
Loans Public Sector	173.6	2,578.9	1.7		2,754.2
Loans Private Sector	5,607.0	1,169.5	191.4	19.8	6,987.7
Government Securities	1,272.8	2,339.0	779.1	64.9	4,455.8
Negotiable Obligations and Corporate Securities	3.1	12.2	8.7		24.0
Financial Trusts	104.7	266.8	457.8	161.9	991.2
Special Fund Former Almafuerte Bank	143.9	208.2			352.1
Assets under Financial Lease	67.4	137.0	1.8		206.2
Other Argentine Central Bank (1)	1,733.3				1,733.3
Total Assets	**12,145.7**	**6,711.6**	**1,440.5**	**246.6**	**20,544.4**
Liabilities					
Saving Accounts	2,585.9				2,585.9
Demand Deposits	2,183.5				2,183.5
Time Deposits	5,666.7	231.2	0.1		5,898.0
Argentine Central Bank	2,310.4	640.8	38.5		2,989.7
Negotiable Obligations	563.6	1,792.9	784.6	749.8	3,890.9
International Banks and Credit Agencies	149.3	358.3	311.8	40.4	859.8
Domestic Banks	251.4	39.2			290.6
Other Liabilities (2)	2,398.8	13.7	0.2		2,412.7
Total Liabilities	**16,109.6**	**3,076.1**	**1,135.2**	**790.2**	**21,111.1**

Asset / Liability Gap	(3,963.9)	3,635.5	305.3	(543.6)	(566.7)
Cumulative Gap	(3,963.9)	(328.4)	(23.1)	(566.7)	(566.7)
Ratio of Cumulative Gap to Cumulative Liabilities	(24.6)%	(1.7)%	(0.1)%	(2.7)%	
Ratio of Cumulative Gap to Total Liabilities	(18.8)%	(1.6)%	(0.1)%	(2.7)%	

Principal plus CER adjustment. Does not include interest.

(1) Corresponds to the proceeds from the sale of Secured Loans made in December 2006, which were applied, on January 3, 2007, to the settlement of the same amount of financial assistance from the Argentine Central Bank. It is shown in the first bucket (as well as the liability settled with those funds on January 3, 2007) even though the bucket that would have corresponded contractually, as of December 31, 2006, to the asset and the liability settled is the second bucket, because these funds were actually used to settle the liability on January 3.

(2) *Includes, mainly, debt with retailers due to credit-card operations, liabilities in connection with repo transactions, debt with domestic credit agencies and collections for third parties. The Less than One Year bucket also includes Ps.13.5 million corresponding to the Bank s foreign debt not tendered by its holders in the exchange offered to restructure such foreign debt, which was completed in May 2004.*

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An exception to the contractual criterion was made in the case of the Ps.1,733.3 million proceeds from the sale of Secured Loans made on December, 2006, which were applied, on January 3, 2007, to the settlement of the same amount of financial assistance from the Argentine Central Bank, as well as in the case of the liability settled. Because the asset was actually used to settle the liability on January 3, 2007, these amounts were included in the first bucket, even though the bucket that would have corresponded contractually, as of December 31, 2006, to the asset and the liability settled on that date is the second bucket.

The Bank s Board of Directors has defined a limit for liquidity mismatches. This limit has been established at -25% (minus 25%) for the ratio of cumulative gap to total liabilities within the first year. As shown in the table above, the Bank complies with the established policy, since such gap was -18.8% (minus 18.8%) at the close of the fiscal year.

Banco Galicia (Unconsolidated) Liquidity Management

The following is a discussion of the Bank s liquidity management, excluding the consolidated companies.

Banco Galicia s policy is to maintain a level of liquid assets that allows it to meet financial commitments at contractual maturity, to take advantage of potential investment opportunities and to meet demand for credit. To set the appropriate level, forecasts are made based on historical experience and analysis of possible scenarios. This enables management to project funding needs and alternative funding sources, as well as excess liquidity and placement strategies for such funds.

As of December 31, 2006, the Bank s liquidity structure was as follows:

	As of December 31, 2006
	(in millions of pesos)
Legal Requirement	Ps. 1,856.9
Excess Liquidity	1,045.2
Total Liquidity (1)	**Ps. 2,902.1**

(1) *Excludes cash of Galicia Uruguay, the Cayman Branch, and other related companies.*

Legal liquidity refers to the Minimum Cash Requirements set by regulations of the Argentine Central Bank, minus the permitted reduction in the requirement in the amount of the balance of the Special Fund Former Almafuerte Bank (Resolution No.408/03 of the Argentine Central Bank).

Excess liquidity consists of the following items: (i) 100% of the balance of overnight placements in banks abroad, (ii) 80% of short-term loans (call loans) to prime companies, (iii) 90% of the Lebac balance, (iv) 100% of available government securities, at market value, due to the potential liquidity that might be obtained through sales or repo transactions, and (v) net short-term interbank loans (call loans), (vi) 100% of the balance at the Argentine Central Bank (including escrow accounts in favor of clearing houses) in excess of the necessary items to cover the Minimum Cash Requirements, and (vii) the amount of the technical cash non-computable for compliance with such requirements.

In connection with legal requirements, such requirements correspond to the Minimum Cash Requirements for peso- and dollar-denominated assets and liabilities, established by the Argentine Central Bank. For more information on the Argentine Central bank rules regarding reserve requirements for liquidity purposes, see Item 4. Information on the Company Argentine Banking System and Regulation Argentine Banking Regulation Legal Reserve Requirements for Liquidity Purposes.

The assets computable for compliance with this requirement are the technical cash, which comprises bills and coins (up to a 67% maximum beginning on October 1, 2006, as established by the Argentine Central Bank s Communiqué A 4580 dated September 29, 2006), the balances of the peso- and dollar-denominated accounts at the Argentine Central Bank and that of the escrow accounts held at the Argentine Central Bank in favor of clearing houses.

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The Bank s Board of Directors defines a total liquidity objective, which is determined based on the analysis of the behavior of the Bank s deposits during the 2001-2002 crisis (considered as the worst-case scenario). Two liquidity levels are defined: operational liquidity (to address the Bank s daily operations) and additional liquidity (excess amount available). Deposits are classified into wholesale deposits and retail deposits .

For the fiscal year, operational liquidity was established at 5% of retail demand deposits and time deposits maturing in less than 10 days, plus the balance in the escrow accounts held at the Argentine Central Bank and the balances in correspondent banks needed to address foreign-trade operations.

Additional liquidity varies according to the remaining maturity of the different types of deposits and to the currency in which said deposits are denominated. As a result of the analysis performed, the Bank defined a floor for additional liquidity in pesos at 50% of the necessary funds to bear the worst case scenario and for the additional liquidity in US dollars the floor was set at 70% of the liquid funds necessary in order to bear the worst case scenario. Simultaneously, a margin must be kept in order to face a potential drop in deposits, of 5% in pesos and 15% in US dollars, without failing to meet the Minimum Cash Requirements. At fiscal-year end, the additional liquidity included in the above table amounted to Ps.1,510.4 million and US$313.4 million, equivalent to 51.6% and to 332.3% of the worst case scenario, respectively, with both percentages exceeding the policy established by the Bank.

Capital

Our capital adequacy is not under the supervision of the Argentine Central Bank.

Our capital management policy is designed to ensure prudent levels of capital.

We, as well as our controlled companies, except for Banco Galicia and the affiliates of Sudamericana mentioned in the paragraph below, are regulated by the Corporations Law. In section No. 186, the law establishes that the capital of a corporation cannot be less than Ps.12,000.

The insurance companies held by Sudamericana are Galicia Seguros S.A. and Galicia Retiro Compañía de Seguros S.A. These companies meet the minimum capital requirements set by General Resolution No. 31,134 of the National Insurance Superintendency. See Item 4. Information on the Company Selected Statistical Information Regulatory Capital Minimum Capital Requirements of Insurance Companies.

As of December 31, 2006, the computable capital of the companies held by Sudamericana exceeded the minimum requirement of Ps.9.6 million by Ps.38.7 million.

Sudamericana also holds Sudamericana Asesores de Seguros S.A., company dedicated to the brokerage in different lines of insurance that is regulated by the guidelines of the Corporations Law, which governs commercial companies.

The following table analyzes our capital resources as of the dates indicated.

			As of December 31,
	2006	**2005**	**2004**
	(in millions of pesos, except ratios, multiples and percentages)		
Shareholders Equity	Ps. 1,608.5	Ps. 1,626.8	Ps. 1,519.5
Shareholders Equity as a Percentage of Total Assets	6.81%	6.35%	6.42%
Total Liabilities as a Multiple of Total Shareholders Equity	13.69x	14.76x	14.56x
Tangible Shareholders Equity[1] as a Percentage of Total Assets	4.68%	4.43%	3.73%
Total Capital Ratio	na[2]	na	na
Excess Capital over Required Minimum Capital	na	na	na

(1) Tangible shareholders equity represents shareholders

equity minus intangible assets.

(2) *Not applicable.*

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The Argentine Central Bank supervises the capital adequacy of Banco Galicia on an unconsolidated basis and consolidated with its significant subsidiaries, Galicia Uruguay and Tarjetas Regionales S.A. and its subsidiaries. Compliance with the Argentine Central Bank s minimum capital requirement rule was suspended during the whole of 2002 and 2003. In June 2003, the Argentine Central Bank issued a new minimum capital requirement rule, which became effective on January 1, 2004. The Bank has been in compliance with this new capital adequacy regime. For more information on Banco Galicia s capital adequacy, see Item 4. Information on the Company Selected Statistical Information Regulatory Capital Banco Galicia.

Capital Expenditures

For a description of our capital expenditures in 2006 and our capital commitments for 2007, see Item 4. Information on the Company Capital Investments and Divestitures.

For a description of financing of our capital expenditures, see Liquidity.

Item 6. Directors, Senior Management and Employees

Our Board of Directors

Our ordinary shareholders meeting took place on April 26, 2007. The following table sets out the members of our Board of Directors as of that date (all of whom are resident in Buenos Aires, Argentina), the positions they hold within Grupo Financiero Galicia, their dates of birth, their principal occupations and the expiry dates of their current terms.

Name	Position	Date of Birth	Principal Occupation	Member Since	Current Term Ends
Antonio Garcés	Chairman of the Board and Chief Executive Officer	May 30, 1942	Banker	April 2002	December 2007
Federico Braun	Vice Chairman	February 4, 1948	Businessman	September 1999	December 2007
Abel Ayerza	Director	May 27, 1939	Businessman	September 1999	December 2008
Eduardo Escasany	Director	June 30, 1950	Businessman	April 2005	December 2009
Enrique Martin	Director	October 19, 1945	Businessman	April 2006	December 2008
Luis Oddone	Director	May 11, 1938	Businessman	April 2005	December 2009
Pedro Richards	Director	November 14, 1952	Businessman	April 2005	December 2009
Silvestre Vila Moret	Director	April 26, 1971	Businessman	June 2002	December 2007
Eduardo Zimmermann	Director	January 3, 1931	Businessman	April 2000	December 2008
Pablo Gutierrez	Alternate Director	December 9, 1959	Banker	April 2003	December 2008
María Ofelia Hordeñana de Escasany	Alternate Director	December 30, 1920	Businesswoman	April 2000	December 2007
Sergio Grinenco	Alternate Director	May 26, 1948	Banker	April 2003	December 2008
Alejandro Rojas Lagarde	Alternate Director	July 17, 1937	Lawyer	April 2000	