

**BANCO DE GALICIA Y BUENOS AIRES S.A.**

**ANNUAL REPORT**  
**102<sup>ND</sup> FISCAL YEAR: JANUARY 2006 / DECEMBER 2006**

## **Banco Galicia**

*Founded in 1905, Banco Galicia is one of the largest private-sector banks in the Argentine financial system and a leading financial services provider in the country. As a universal bank, through affiliated companies and a variety of distribution channels, Banco Galicia offers a full spectrum of financial services to over 3.7 million customers, both individual and corporate.*

*Banco Galicia operates one of the most extensive and diversified distribution networks among private sector banks in Argentina, offering more than 390 points of contact with customers through its branches and electronic banking facilities. The Bank's customers also have access to telephone banking services and e-galicia.com, the first financial Internet portal and the first mobile payment service, respectively, established by a Bank in Argentina.*

*The Bank's main shareholder is Grupo Financiero Galicia S.A., a financial services holding company.*

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*Banco Galicia does not abide by the Optional System for the Mandatory Acquisition of Shares in a Public Offering under Argentine law.*

*Shareholders and any other readers of this Annual Report and these Financial Statements must note that this is a translation made from an original version written and expressed in Spanish; therefore, any matters of interpretation should be referred to the original version in Spanish.*

## CONSOLIDATED FINANCIAL HIGHLIGHTS <sup>(\*)</sup>

	December 31,		
	2006	2005	2004
	<i>In millions of pesos</i>		
	<i>(except per share data, ratios, and market shares)</i>		
<b>For the Year</b>			
Net Income	(126.2)	191.0	(108.6)
Adjusted Net Income <sup>(1)</sup>	72.2	221.0	205.7
Average Shares Outstanding (in millions) <sup>(2)</sup>	468.7	468.7	468.7
Earnings per Share <sup>(2) (3)</sup>	(0.269)	0.407	(0.232)
<b>At Year-End</b>			
Total Assets	23,464.9	25,456.2	23,465.3
Loans, Net	10,466.2	10,507.7	8,393.2
Deposits	10,792.8	8,437.7	6,777.4
Shareholders' Equity	1,263.0	1,389.2	1,198.2
Primary Shares Outstanding (in millions) <sup>(2)</sup>	468.7	468.7	468.7
Book Value per Share <sup>(2)</sup>	2.69	2.96	2.56
<b>Selected (%)</b>			
Return on Average Shareholders' Equity <sup>(3)</sup>	(9.26)	14.77	(8.47)
Return on Average Assets <sup>(3)</sup>	(0.42)	0.88	(0.38)
Financial Margin <sup>(4)</sup>	1.02	2.26	0.81
Efficiency Ratio <sup>(5)</sup>	106.16	73.82	97.72
Shareholders' Equity as a Percentage of Total Assets	5.38	5.46	5.11
<b>Market Share <sup>(6)</sup> (%)</b>			
Total Deposits	6.18	5.93	5.18
Private Sector Deposits	8.43	7.96	7.07
Total Loans	8.13	9.80	9.16
Private Sector Loans	7.21	7.33	6.43
<b>Exchange Rate</b> (pesos per US dollar)	<b>3.070</b>	<b>3.032</b>	<b>2.974</b>

(\*) Banco de Galicia y Buenos Aires S.A., Banco Galicia Uruguay S.A. and its subsidiaries, Tarjetas Regionales S.A. and its subsidiaries, Galicia Factoring y Leasing S.A. and Galicia Valores S.A. Sociedad de Bolsa. Until the first quarter of 2005, includes Galicia Capital Markets S.A. (in liquidation) and Agro Galicia S.A. (in liquidation).

(1) Adjusted Net Income = Net Income excluding losses from the valuation of public-sector assets, in accordance with Argentine Central Bank Communiqué "A" 3911 and complementary ones, and the losses related to the amortization of "amparo" claims. In 2004, these items accounted for losses of Ps. 193.3 million and Ps. 121.0 million, respectively. In 2005, the adjustment to the valuation of public-sector assets, pursuant to the abovementioned regulations, was a profit of Ps. 92.3 million and the loss from the amortization of "amparo" claims amounted to Ps. 122.3 million. In 2006, the result from the valuation of public sector assets in accordance with the Argentine Central Bank regulations was a loss of Ps. 198.4 millions. No losses related to the amortization of "amparo" claims were recorded.

(2) Banco Galicia has a simple capital structure and, therefore, does not present fully diluted earnings per share.

(3) Calculated by using Net Income.

(4) Financial Income minus Financial Expenses, divided by Average Interest-earning Assets.

(5) Administrative expenses as a percentage of Net Operating Income (Financial Income minus Financial Expenses plus Net income for services).

(6) The market share corresponds to deposits and loans in the Argentine market and is calculated based on daily information on deposits and loans prepared by the Argentine Central Bank using end of month balances.

## LETTER FROM THE CHAIRMAN

To our Shareholders,

I am pleased to address this letter to you in order to comment on the Bank's performance during 2006. This has been, once more, a very good fiscal year for the Bank, due to the significant progress in two fundamental aspects for its future. These are, on one hand, the strengthening of our financial condition and, on the other hand, the significant business expansion.

With regards to the first aspect, during 2006 and the first quarter of the new fiscal year, the Bank settled the total amount owed to the Argentine Central Bank relating to the financial assistance received during the economic crisis of late 2001 and early 2002 and that, originally, was due on October 2011.

On the other hand, in early December, the Bank acquired most of the Hedge Bond corresponding to the compensation for the negative net position in foreign currency as of December 31, 2001, which resulted from the regulations governing asymmetric pesification. Also, in late February, the Bank requested before the Argentine Central Bank the subscription of the remaining Hedge Bond. Once this transaction is closed, the Bank will have acquired all Boden 2012 corresponding to the Hedge Bond.

Said transactions, as a whole, allowed for the total settlement of liabilities with the Argentine Central Bank which, at the prior fiscal year's end, amounted to Ps. 8,000 million and the availability of assets in foreign currency of more than US\$ 1,200 million and in local currency of approximately Ps. 3,000 million. Said transactions also allowed for the reduction of the Bank's exposure to the public sector for more than Ps. 7,500 million.

These actions have not only strengthened the Bank's balance sheet, but have also increased its capacity to generate business. This is a result of the reduction in risk concentration and the increase in the Bank's structural liquidity stemming from the improvement in the matching of assets and liabilities in terms of maturity and the possibility of allocating a very significant amount of public-sector assets to the business.

Also during the fiscal year and as part of the strengthening of its financial condition, the Bank began preparing for the issuance of 100 million ordinary shares, which may be paid, at the subscriber's option, in cash or negotiable obligations issued by the Bank. The capital increase is meant to guarantee compliance with the capital adequacy rules of the Argentine Central Bank, 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 the increase of capital requirements on public-sector assets. Given the offer conditions, the capital increase implies an increase in the Bank's shareholder's equity of about Ps. 300 million.

With regards to business expansion, as in the last fiscal years, the Bank's favorable performance was within the framework of an expanding economy and financial system. Against this backdrop, during 2006 the Bank's business expansion continued to be extremely dynamic and satisfactory, not only in quantitative terms but also in qualitative terms. This translated into an important increase in the volume of transactions, an improvement in the quality of the loan portfolio and a new advance in the Bank's relative position within the market. The increase in the volume of transactions reflected a greater financial intermediation with the private sector and a greater provision of all of the services to this sector, the growth of these activities being the factor currently allowing for the improvement of income generation by the financial institutions doing business in our financial system. This has brought about a strong competition as well as the deployment of aggressive business

strategies. The Bank is no exception and has shown a very good relative performance, which has strengthened its franchise and business base and, therefore, its recurrent sources of income, as well as its future income generation capacity.

The Bank's customer base, comprised of both corporate customers and individuals including customers of the regional credit card companies that are the Bank's subsidiaries through Tarjetas Regionales S.A, exceeded 3.7 million at the end of the fiscal year. These individuals alone accounted for about 20.3% of Argentina's economically active population.

The Bank's private-sector deposits, sourced in Argentina, increased by 29.5% and exceeded, once more, the increase recorded by the financial system as a whole. As a result, the Bank's estimated market share of the total private-sector deposits in the Argentine financial system (the relevant segment for the Bank) increased 0.47 percentage points to 8.43%, compared to the 7.96% market share reached by the end of the previous fiscal year.

In connection with the loan portfolio, the Bank's portfolio of private-sector loans, in Argentina, grew by 50.1% and loans of the regional credit-card companies increased by 36.2%. It is important to mention that these amounts do not include certain portfolios that were securitized during the fiscal year. Including these portfolios and certain credit items, as of December 31, 2006, the Bank's exposure to the private sector amounted to Ps. 10,164.3 million compared to Ps. 7,119.9 million as of the same date of the previous fiscal year, thus implying a 42.8% growth for the year.

With regards to loan portfolio quality, important improvements were recorded. The ratio of non-accrual loans to the private sector as of fiscal year end decreased to 3.49% from 6.78% as of the previous fiscal year end and the coverage of the non-accrual loan portfolio with allowances increased by 117.16%. Such increase was a result of the growth recorded in the loan portfolio, the continuing improvement in clients' payment performance and the Bank's efforts with regards to credit risk management.

With regards to the results for the fiscal year, the significant increase in the activity level stemming from the success in achieving business goals by the sales departments with the support of efficient systems and processes in the back office, had a favorable impact on net financial income and net income for services. The result of these two items (net operating revenue) before the losses due to the valuation of assets with the public sector pursuant to Argentine Central Bank's regulations, increased by 21.9%. In turn, the portfolio's low risk level determined a limited need to set up allowances for loan losses.

The strong expansion of volume and increase in transactions required an increase in staff and branches and a higher use of resources in general, as well as significant advertising and publicity expenses, a strategic item given the market's high competitiveness levels. Administrative expenses during the fiscal year also reflected the inflation levels and the adjustment of real salaries recorded during the period.

Finally, the Bank recorded a Ps. 126.2 million loss in the fiscal year. Such loss can be attributed to the negative effect on the Bank's net financial income of having carried on its balance sheet certain public-sector assets that resulted from the 2001-2002 economic crisis, which valuation had to be adjusted pursuant to Argentine Central Bank's regulations. This loss is also attributable to the cost associated to the postponement of the delivery to the Bank of the compensation for the asymmetric pesification, which occurred only at fiscal year end. As of December 31, 2006, the Bank's shareholders' equity amounted to Ps. 1,263.0 million.

The Bank's progress during 2006 was acknowledged by the rating agency Standard & Poor's, which, as of February 5, 2007, reviewed the Bank's rating outlook from "stable" to "positive". In its report, the agency stated that "the change in the outlook reflects the

expectation of a potential upgrade of the Bank's ratings as a result 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" together with "the expectation of an increase in the Bank's capitalization as a result of the forthcoming stock offering".

In short, the Bank closes fiscal year 2006 in a better position within the market than in the previous fiscal year as well as having significantly consolidated its financial condition and its income generation capacity.

Within the framework of the current economic growth and financial reintermediation cycle, which nonetheless implies strong competition among financial institutions, the Bank expects to meet its goals by significantly growing its business activities with the private sector, with an emphasis on credit origination to said sector, and increasing both products and services volumes as well as the number of customers. We expect to achieve a significant expansion rate during 2007 and to continue to further consolidate our market share as we have done in the last years. With regards to earnings, our goal is to achieve a significant increase, mainly based on an increase in net operating income. While these goals entail important challenges, the Bank's financial and competitive situation at the end of 2006, as well as its strengths regarding personnel, systems, and organization allow the Bank to achieve them.

On behalf of the Board or Directors, which I am honored to preside, I would like to thank the Bank's personnel for their support and dedication, our clients for their support, and the shareholders for their commitment and support, all of which have been essential for the Bank to succeed during over one hundred years of history.

Antonio R. Garcés  
Chairman of the Board of Directors

## **BOARD OF DIRECTORS**

**Antonio Garcés**

*Chairman of the Board of Directors*

**Sergio Grinenco**

*Vice Chairman*

**Enrique M. Garda Olaciregui**

*Secretary Director*

**Daniel Llambías**

**Luis Ribaya**

**Guillermo Pando**

**Pablo Gutierrez**

**Eduardo O. Del Piano**

**Pablo M. Garat**

*Directors*

**Eduardo A. Fanciulli**

**Juan C. Fossatti**

**Raúl H. Seoane**

**Osvaldo H. Canova**

**Julio P. Naveyra**

*Alternate Directors*

## **Banco Galicia's Supervisory Syndics Committee**

**Adolfo Melián**

**Norberto Corizzo**

**Raúl Estévez**

*Syndics*

**Fernando Noetinger**

**Miguel Armando**

**Ricardo Bertoglio**

*Alternate Syndics*

## Executive Officers

<b>Daniel Llambías</b> (in charge)	Retail Banking
<b>Miguel Woodyatt</b>	Wholesale Banking
<b>Pablo Gutierrez</b>	Treasury
<b>Juan L'Afflitto</b>	Credit
<b>Miguel Peña</b>	Corporate Services
<b>Juan Sarquis</b>	Distribution
<b>Enrique M. Garda Olaciregui</b>	Legal Counseling
<b>Raúl Seoane</b>	Planning and Management Control
<b>Enrique Behrends</b>	Human Resources and Organizational Development
<b>Luis Díaz</b>	Internal Audit
<b>Nicolás Dujovne</b>	Chief Economist
<b>Diego Videla</b>	Institutional Affairs

## **ANNUAL REPORT**

The Board of Directors submits to the shareholders for their consideration this Annual Report of the Board of Directors, the Financial Statements and the Report of the Supervisory Syndics Committee for the 102nd fiscal year of Banco de Galicia y Buenos Aires S.A., ended December 31, 2006.

## The Argentine Economy and Financial System

The Argentine economy continued to show signs of improvement during 2006, for the fourth consecutive year. The outstanding performance of the economy took place within the context of an inflation rate slightly lower than in 2005 and a relatively stable nominal exchange rate, in spite of important inflows of foreign currency from exports as well as from investment portfolios, encouraged by a generally favorable international environment. 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 ("b.p."), thus decreasing 283 b.p. from December 2005. With respect to the stock market, the Merval index increased 35.5% during the year.

### The Economy

In the first quarter of 2006, the GDP recorded a seasonally adjusted increase of 1.5% as compared to the previous quarter, which accelerated during the second and third quarters of the year, reaching 2.2% and 2.6%, respectively. As a result, during the first nine months of the year, the economy grew 8.4% as compared with the same period of 2005. Taking this into account and the leading indicators for economic activity in the fourth quarter, the annual GDP growth in 2006 would have been of approximately 8.5%.

Domestic demand continued to be one of the main drivers of economic activity. Within domestic demand, fixed gross investment repeated the excellent performance of the previous year, growing 20.5% during the first nine months of 2006 as compared to the same period in 2005. Likewise, private consumption also had a significant expansion of approximately 7.8% 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 5.4% increase during the first three quarters of the year, one third of the growth recorded during the same period of 2005. However, exports regained strength towards the fourth quarter of the year, which allowed exports growth in 2006 to approach 8%. As for imports, although sizable increases continued (imports increased by 14.8% year on year for the same period), their rate of growth was lower than in 2005.

With regards to aggregate supply, during the first nine months of the year, the goods producing sector was considerably dynamic, increasing 8.8% year on year. In turn, the services sector grew 7.9% during the same period. In the goods sector, the construction industry stood out, recording a 20% year on year average expansion during the first nine months of 2006, thus exceeding the expansion of the previous year. Nevertheless, advanced indicators point to a considerable slow down of the construction sector towards the fourth quarter of the year. In turn, industrial production, as measured by the *Estimador Mensual de Actividad Industrial* (Monthly Industrial Appraiser), grew more than in the previous year (+8.3%). Within the services sector, the financial sector stood out again, with a growth of 21.9%, widely exceeding the growth recorded during the same period of 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 the 10.1% level registered during the same quarter of 2005. The growth in employment recorded during the last quarter of 2006 implied an increase of the output elasticity of employment.

During December 2006, the monetary base amounted to Ps. 76,755 million, with an annual growth of 37.5%. The Argentine Central Bank's policy of foreign-exchange market intervention, aimed at strengthening the country's international reserves and keeping the nominal exchange rate unchanged, resulted in significant sterilization efforts being called for in order to comply with the monetary program. The placement of Argentine Central Bank bills and notes –whose stock increased from Ps. 26,081 million to Ps. 39,610 million during 2006–, the repayment of liabilities owed to the Argentine Central Bank by financial institutions and the repurchase (“repo”) agreements entered into by the Argentine Central Bank, contributed to reduce the expansion of the monetary supply. The placement of Argentine Central Bank's bills and notes was the main sterilization instrument of the monetary policy during 2006. Due to the increasing trend shown by interest rates in general and, in particular, the Badlar rate, the Nobac (Argentine Central Bank's notes) adjustable by said rate recorded an increasing demand throughout the year.

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. For 30-day Lebac, at the end of December 2006, the rate was 7.75%, which represents an increase from the 6.76% rate of placements carried at the beginning of the year. The rate paid by the Argentine Central Bank in seven-day repo transactions with financial institutions increased to 5% as of the end of fiscal year 2005, from 6.25% as of the end of 2006 while the corresponding rates for reverse repo transactions increased from 6.0% to 8.25% during the same period. The upward trend in reference rates had an impact on the yields of other financial instruments. For example, the rate of peso-denominated 30-day time deposits, which averaged 6.7% during the year, increased from an average of 5.2% in December 2005 to an average of 7.4% for the same month of 2006.

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 (“CPI”), inflation in 2006 amounted to 9.8%, less than the 12.3% rate of the previous fiscal year. This decrease can be partially explained by the measures taken by the Government in order to restrain the rise in prices and which mainly consisted in encouraging specific-sector agreements to limit price increases, mainly in sectors with high weightings in the index, such as foodstuffs and beverages. In turn, the Internal Wholesale Price Index (“WPI” or “IPIM” by its initials in Spanish) recorded an increase of 7.1%.

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 the same date in 2006, while the average exchange rate varied from Ps. 2.923 in 2005 to Ps. 3.074 in 2006.

In the fiscal front, tax revenues continued to increase, recording a 25.8% growth from the 2005 level, thus exceeding the growth rate for said year (+21.3%). As in the previous years, the improvement in tax revenues was attributable, mainly, to the strength of economic activity, the increase in prices and the significant contribution of taxes related to the labor market and to foreign trade. The contribution of the tax on credits and debits on bank accounts and other transactions, in line with the strong growth experienced by the financial system during the year, also stood out. During 2006, primary spending increased by 26.7%, surpassing the increase of 25.4% in total revenue. The National 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, which for 2006 is estimated to be 3.5%, exceeded that of the previous year, which was 3%. The trade balance, based on Argentine foreign trade official data from INDEC (*Instituto Nacional de*

*Estadística y Censos*, National Institute of Statistic and Census), reported a surplus of US\$ 12,409 million during the year, as compared to US\$ 11,663 million in the previous year, thus ending the path of gradual reduction observed since 2003.

Exports recorded an excellent performance, growing by 15.4% compared to those of 2005, and reaching US\$ 46,569 million. On the other hand, even if imports reduced their expansion rate in comparison with 2005, they recorded a 19.1% growth. In both cases, the increase was caused by the joint effect of the increase in prices and quantities. Agriculture and livestock exports continue to be the ones with the highest share in the country's total exports (33%), followed by industrial goods (32%), which increased their share in comparison with 2005. In terms of imports, intermediate goods represented 35% of total imports, followed in importance by capital goods (25%).

With regards to the capital account, net inflows of foreign currency amounted to US\$ 2,343 million in the first nine months of 2006. The interest of foreign investors in local sovereign-debt instruments, together with the favorable international context for emerging markets are among the main drivers.

As of December 31, 2006, the Argentine Central Bank's international reserves amounted to US\$ 32,037 million, compared to US\$ 28,077 million as of the end of 2005, in spite of the settlement in advance of all of the country's debt with the International Monetary fund for US\$ 9,500 million, carried out during the first few days of 2006.

### **The Financial System**

Within a favorable national and international macroeconomic environment, in 2006, the financial system continued to grow and to make progress towards the consolidation of its financial condition.

Total loans of the financial system to the private sector increased by 40.1% from the level at the end of 2005, thus 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, 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 the year, 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 account and promissory notes, increased to Ps. 9,275 million and Ps. 13,096 millions, 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%.

In turn, the volume of public-sector loans decreased by 19.3% in 2006 and the exposure of the financial system to this sector amounted to 22.9% of the system's total assets by fiscal year end, thus decreasing 9.9 percentage points ("pp"). Furthermore, the Argentine Central Bank established a new reduction to the admitted participation of public-sector exposure in the total assets of financial institutions, as from July 2007.

In line with the improvement in its asset structure and quality, the financial system brought about a significant improvement in its liabilities' structure, through the settlement of rediscounts and a strong and continuing growth of private-sector deposits.

At the end of 2006, total deposits in the financial system exceeded by 25.4% those of the previous year-end, thus reaching Ps. 169,284 million, equivalent to 25.9% of the GDP. Deposits of the non-financial private sector increased 22.3%, reaching Ps. 121,529 million and representing 18.6% of the GDP at the fiscal year end. Public-sector deposits amounted to Ps. 45,317 million (+32.1%), while deposits of the financial sector and residents abroad totaled Ps. 2,436 million (+92.5%).

With respect to private-sector deposits, time deposits recorded the highest growth rate. This trend can be explained, basically, through 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%. Transactional deposits (current accounts and savings accounts) amounted to Ps. 58,693 million, growing to a lesser extent (19.4%).

Risk concentration in the financial system has continued to improve in comparison to that inherited from the economic crisis of 2001-2002, which left the financial system with a very low exposure to the private sector and a very high exposure to the public sector. In addition, the expansion of business with the private sector (in financial intermediation as well as in services provision) has translated into a gradual recovery of profitability by the financial system as a whole, mainly through the recovery of financial income but also through the recovery of income from services. The improvement in the loan portfolio's quality also contributed to the profitability increase.

Likewise, there was a sustained development of the capital market that allowed financial institutions to obtain additional funding for terms longer than those of deposits through the securitization of loans. In 2006, placements of financial trust securities exceeded by 42% the number of transactions carried out in 2005, and reached an aggregate amount of Ps. 7,615 million (49% higher than the amount corresponding to 2005). Out of this total, over Ps. 4,500 million corresponded to securitizations of consumer loans.

With regards to mutual funds, assets under management totaled Ps. 18,834 million as of the end of 2006, which represents an increase of 71.4% for the year.

As to the financial system's structure, at the end of 2006, there were 90 financial institution between banking and non-banking institutions, one more than at the prior year end. Out of this total, 72 were banks, 60 of which were private-sector banks (concentrating 55.0% of total deposits), which comprised:

- 35 domestically-owned banks (23.6% of deposits)
- 24 foreign-owned banks (28.2% of deposits) and
- 1 cooperative bank (3.2% of deposits).

Public-sector banks were 12 (44.7% of deposits) and non-banking institutions were 18 (0.3% of deposits).

The financial system's concentration, as measured by the deposit market share of the ten leading financial institutions, reached 73.7%. This percentage exceeded by 1.3 pp the figure recorded at the end of 2005.

With regards to personnel, the financial system's banks employed 86,571 people at the end of 2006, 1,366 higher than the previous year, which represents a 1.6% increase. Said variation is attributable to an increase in the staff of private-sector banks, which increase was of 2,712 people and which totaled 49,475 employees, and to the cut off of 1,346 people in the public-sector banks' payroll, which totaled 37,096 employees.

## **Outlook**

The outlook for this year in terms of growth of the real economy is positive, taking into account that based on the strong GDP growth recorded in 2006, 2007 begins with a year on year growth rate due exclusively to a statistical effect of approximately 3.4%. If the good performance in domestic demand persists as expected, it is estimated that in 2007, GDP will grow at an annual rate higher than 7%.

For 2007, given continuing economic growth within a context of stability, the financial system is expected to continue to display a favorable performance, with a significant increase in financial intermediation levels, which should gradually tend to converge, as a percentage of the GDP, to values similar to those of comparable economies.

## **Regulatory changes**

Below are some regulatory developments relevant to the Bank. The information on regulations applicable to the Bank not included in this section, such as minimum cash requirements, capital adequacy and credit, are included in other sections of this Annual Report, mainly under "Management's Discussion and Analysis of Financial Condition and Results of Operations".

### ***Public Emergency Law and Others***

Law No.26,204, promulgated on December 19, 2006, extended the period of effectiveness of Law No.25,561, the Public Emergency and Foreign-Exchange System Reform Law as amended, thus extending the national emergency in terms of social, economic, financial, and foreign exchange issues until December 31, 2006. Also, the value added tax refund on purchases made with credit and/or debit cards and Law No. 25413 as amended, on the tax on credits and debits on bank accounts and other transactions, were extended until December 31, 2007.

### ***Deposits with the Financial System – Legal Actions Requesting Protection of Constitutional Guarantees ("Amparo Claims")***

On December 27, 2006, the Argentine Supreme Court of Justice pronounced its ruling with respect to the case "*Massa c/ Estado Nacional y BankBoston*" resolving 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 dollar, adjusted by CER until the effective date of payment, together with an annual interest rate of 4% per annum, and computing amounts paid in order to comply with preliminary injunctions or other measures as payments on account. The consequences of this ruling are currently being analyzed. Even though the ruling refers to a particular case and, under Argentine Law, Supreme Court rulings are not precedent setting for lower courts, expectations are that this ruling will be strongly followed in similar cases to be heard by such lower courts.

### ***Exposure to the Public Sector***

Pursuant to item 12 of Communiqué "A" 3911 of the Argentine Central Bank as amended, as of January 2006, financial institutions' total exposure to the non-financial public sector could

not exceed 40% of the respective total assets. Through Communiqué "A" 4546, the Argentine Central Bank reduced the maximum financial institutions permitted total exposure to the public sector, from 40% of total assets (currently in force) to 35% of total assets, effective July 1, 2007.

### ***Foreign Currency Net Position***

Through communiqué "A" 4577, issued on September 28, 2006, and effective January 1, 2007, the Argentine Central Bank established that the negative foreign currency net position, in monthly averages of daily balances, converted into pesos at the reference exchange rate, should not exceed 15% of the computable regulatory capital of the preceding month. Until the end of 2006, the applicable limit was 30%. This Communiqué 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. Later on, through Communiqué "A" 4598, dated November 17, 2006, the Argentine Central Bank allowed, in certain cases, to increase by 15 percentage points the limit to a financial institution's permitted negative net position in foreign currency.

### ***Distribution of Profits***

By means of Communiqués "A" 4589 and "A" 4591, issued on October 29 and November 8, 2006, the Argentine Central Bank modified the criteria by which a financial institution determines if it can distribute profits, by establishing that profits can be distributed up to the positive amount that results from deducting from retained earnings, the reserves that may be legally and statutory required, as well as the following items: i) the difference between the book value and the market value of a financial institution's portfolio of public-sector assets; ii) the amount of the asset representing the losses from amparo claims and iii) any adjustment required by the external auditors or the Argentine Central Bank that has not been recognized.

In addition, to be able to distribute profits, a financial institution must comply with the capital adequacy rules also when deducting, to the only purpose of determining its ability to distribute profits, from its assets and retained earnings all the items mentioned in the paragraph above, as well as the asset recorded in connection with the minimum presumed income tax and the amounts allocated to the repayment of long-term debt instruments computable as core capital. In addition, in the same calculation, a financial institution will not be able to compute: (i) the temporary reductions in the minimum capital required to cover the exposure to the public sector and interest-rate risk (governed by the "alfa 1" and "alfa 2" coefficients) that are currently in effect, as well as any other regulatory forbearance that the Argentine Central Bank may provide, affecting minimum capital requirements, computable regulatory capital or a financial institution's capital adequacy and (ii) the amount of profits that it wishes to distribute.

Profit distribution will require the prior authorization of the Argentine Central Bank, which intervenes with the purpose of verifying that the aforementioned requirements have been fulfilled.

## **Description of Operations**

**Capital Increase**

**Wholesale Banking**

**Retail Banking**

**Distribution**

**Quality Assurance**

**Treasury and Asset Management**

**Corporate Services**

**Human Resources and Organizational Development**

**Banco de Galicia y Buenos Aires Foundation**

**Corporate Social Responsibility Program**

## Capital Increase

The Ordinary and Extraordinary Shareholder's Meeting held on October 11, 2006 (the "Shareholder's Meeting") resolved to increase the capital stock of the Bank in an amount of up to Ps. 100,000 nominal value, through the issuance of 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 subscription for the new shares can be made, at the option of the subscriber, in cash or by exchange of negotiable obligations due on 2010, 2014, and 2019.

The Shareholders' meeting approved the principal values at which negotiable obligations shall be received by the Bank and granted to the Board of Directors, among others, the power to update the above mentioned values to the closest date possible to the beginning of the subscription period, taking into account that these values must be approved by the National Securities Commission (the "CNV") and may not exceed the values set forth by Resolution No. 466/04 ("Resolution 466") of said entity. The updated values as of November 10, 2006, expressed in US dollars for each 100 dollars of nominal value of the principal at origin and taking into account the abovementioned limits, are the following:

- Negotiable Obligations 2010: US\$ 87,500
- Negotiable Obligations 2014: US\$ 92,603
- Negotiable Obligations 2019: US\$ 115,184

In the case of the Negotiable Obligations 2019, principal includes capitalized interests. In the case of the Negotiable Obligations 2010, should there be any amortization, the corresponding amount should be subtracted from the value set for principal. Accrued interest payable in cash from the maturity date of the last coupon until the end of the preemptive rights subscription period, or any other period that may be determined by the regulators, will be added to the values resulting in each case. The Shareholders' Meeting fixed the exchange rate at Ps. 3.0670 for each US dollar to be applied, pursuant to the provisions of Resolution No. 466 for the conversion into pesos of the foreign currency in which the negotiable obligations are denominated.

The issuance premium was established at the Shareholders' Meeting in an amount that, added to the nominal value of the Bank's share, will represent a subscription price equal to the weighted average of the quotation value of the Bank's share on the Buenos Aires Stock Exchange for the twenty business days prior to the date of determination of the subscription price, in which there has been a quotation of the Bank's share. The subscription price will be informed on the business day before the beginning of the subscription period. The Shareholders' Meeting granted the Board of Directors the power to determine a reference price and the exact subscription price, and established that the cash received will be used to increase working capital and the negotiable obligations received will be used for the partial reduction of the liabilities reflected by such instruments.

At the Shareholders' Meeting the shareholders established a ten-day period for the exercise of preemptive and accretion rights, starting and ending on a business day, and that those shares not subscribed through the exercise of preemptive and accretion rights shall not be offered to third parties.

As to date, the final authorization from the relevant agencies is pending.

## Wholesale Banking Business

The Wholesale Banking Division is in charge of the Bank's business with the corporate sector and other public- and private-sector entities, comprising areas that provide corporate customers with commercial banking services as well as the following areas: investment

banking, capital markets, foreign trade, corporate and real-estate business development and non-financial public sector services. In turn, it includes the Wholesale Marketing Department, which is in charge of the development and implementation of financial and non-financial products and services, the definition of the business model as well as the coordination of distribution channels. The Wholesale Banking Division is dedicated to the development of solutions meant to satisfy the needs of customers pertaining to the different sectors of economy activity. One of its main objectives is to continuously strengthen the ability to create close, lasting relationships between the Bank and businesses.

During the fiscal year, the Bank continued to increasingly lend to the different sectors of economic activity. The Division's loan portfolio rose by Ps. 980 million during the fiscal year, up 35% from the 2005 year-end balance. Loan origination amounted to more than Ps. 11,500 million, including the financing through the purchase of checks and negotiable instruments for Ps. 7,200 million, an area in which the Bank maintained its leading position. It is also worth mentioning that, for the third consecutive year, the Bank was a leader in the leasing market, with an 18% market share. Also, deposits by the Wholesale Banking Division recorded an increase of 32.3% while its income for services rose by 37.4%.

With regards to collection and payment services, the product offer was broadened through the launch of new products and services and the implementation of improvements meant to make businesses operations easier. Income resulting from this activity recorded a 29.7% growth from the level of fiscal year 2005. For example, in order to make collections swifter, *Cobranzas con Tarjetas* ("Collection with Cards") 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 order to continue to develop geographical areas and customers, in September 2006 a new Corporate Banking Center was opened 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 small- and medium-sized enterprises (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, the Bank installed a significant number of ATMs in companies' premises.

With regards to commercial cards, VISA Corporate Aerolíneas Plus was launched, a credit card exclusively for the corporate sector, meant to be used to cover representation expenses of large companies under the highest quality, service and functionality standards. The Visa Business Banco Galicia card strengthened its growth, and held its first place in terms of market share over the total of Commercial Cards Visa, both as measured by amount of purchases, and number of accounts and active cards.

Moreover, Tarjeta Galicia Rural (Galicia Rural Card) strengthened 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. An historical record of purchases was recorded, with a 65% increase from the previous fiscal year level.

The wholesale Banking Division continued to promote actions focused on agro-industrial training, among the most important of which is the subscription of an agreement with *Universidad Austral* (Austral University) in order to foster the education on agribusiness –an agreement that includes 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.

For 2007, favorable economic perspectives are expected to continue to translate into new challenges for customer companies the Bank shall continue to support, thus contributing to their development and to the country's productive growth.

### ***Corporate Banking***

During 2006, the Bank's Corporate Banking unit, which specializes in services to large economic groups, strengthened its position within the market and recorded an important increase in activity levels, mainly with respect to collection, payment, and foreign trade services. Closer relations with companies within the target segment in general were achieved, through the supply of custom-made products and services, mainly related to collections and value-added technological solutions. Also, thanks to initiatives carried out together with other departments, more dynamic relations were established with the treasury departments of customer companies, which allowed the closing of a commercial agreement for the comprehensive management of the treasury of an important company of the automotive industry.

The increase in the number of customers brought about the need to hire more people in order to maintain the personalized, specialized service the Bank always provided companies.

The Corporate Banking's assets at the end of the year exceeded Ps. 1,000 million and expectations are that they shall continue increasing during 2007, given the good expectations of growth in the energy, construction, iron and steel, and automotive industries, among others.

### ***Middle-Market Banking***

The Bank, a leader in the SMEs and agribusiness segments, continued to support companies and agribusiness producers. Both segments constitute strategic objectives where the challenge lies in maintaining the leading position held for so many years. Likewise, continuing with the model based on customer knowledge and relations, the Bank established itself as an important player in the large middle-market corporate sector, due to its active role in the financing of working capital and investment projects, and to its leasing activity.

Through *Galicia Convenios* (Galicia Agreements), new financing agreements were subscribed with prime companies and institutions in order to offer special benefits with regards to interest rates and tenors. 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.

The Bank maintained its 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 placed the second tranche of the credit line granted by the International Finance Corporation (IFC) in order to fund export-oriented investment projects. In turn, the Bank subscribed an agreement with the *Fondo Tecnológico Argentino* (Argentine Technological Fund or FONTAR) to finance projects that entail technological innovation.

In order to continue to support the growth of SMEs, in December 2006 the SMEs Transformation Program was launched, with the involvement of Banco Galicia, Fundes, Imes, Intel, Microsoft, and Telecom. This program is a strategic alliance between the technological and financial industries. The Program, intended for SMEs located in the Greater Buenos Aires area 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, the structure of the customer service model was strengthened through the creation of the "Micro" (micro companies) and "Pes" (small companies) units and the addition of a specialized officer, exclusively for the service of Middle-Market Banking customers within the branch network.

The Bank has a close, long-standing relationship with the agribusiness sector: it has always been very close to producers and the entire value chain. The Agribusiness Department, made up by professional agronomists specialized in finance and with state-of-the-art technological support seeks to understand the producers' needs and provide custom-made financial tools in order to solve their problems and contribute to the growth of their companies.

During 2006, through *Tarjeta Galicia Rural* (Galicia Rural Card), new financing agreements were entered into and outstanding ones were reendorsed, which include preferential terms and special rates. Said 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, successful marketing actions in order to attract users and dealers were carried out.

In order to offer more benefits to the agribusiness sector, the Bank entered into an agreement with AACREA (Argentine Association of Regional Consortiums for Agricultural Experimentation) through which CREA (Regional Consortiums for Agricultural Experimentation) affiliates have access to a special package of products and services. In turn, the Bank continued to actively manage the agreements subscribed with the Argentine Rural Society and the CRA (Argentine Rural Confederation).

The Bank's close relationship with this economic sector is evidenced by its presence in over 200 events throughout the country, of which the most important are *ExpoChacra*, *Feriagro*, *La Rural*, *Agroactiva*, *Mercosoja*, and the AAPRESID congress. It is also very important to highlight the launch of the "Banco Galicia-Chacra Magazine award to socially responsible management" –which seeks to foster the spread of successful rural communities' social undertakings and the involvement in the "4th *La Nación*-Banco Galicia award to Agricultural Excellence 2006".

### ***Investment Banking and Capital Markets***

The purpose of these business units is to contribute to the achievement of the long-term strategic goals of the Wholesale Banking Division's customers as well as of the Bank itself, through the integral development of complex capital market products and services.

Investment Banking had a very intense, effective year with regards to the implementation of highly complex financial transactions. It completed the last debt restructuring and liability swap transactions still pending in connection with Wholesale Banking customers, and organized several long-term structured products for corporate customers, including syndicated loans. With regards to mergers and acquisitions, this unit advised the Bank regarding the sale of minority interests in Inversora Nihuiles S.A. and Inversora Diamante S.A. In October 2006, the Bank sold and transferred all of its shares in Inversora Nihuiles S.A. and Inversora Diamante S.A., which represented 12.5% of the total votes and shares of said companies, for a total amount of US\$ 9.3 million.

With regards to capital markets activities during 2006, the Bank strengthened its leading position in the structuring of financial trusts as a result of its participation in 19 transactions, accounting for Ps. 1,490 million in trust assets. The Bank's leadership was evidenced in the number of financial trust created, but above all in the diversity thereof, since the range of transactions went from the securitization of bank loans (in connection with the sale of durable

goods and the price balance in land sale transactions) to the structuring of financial trusts intended to finance agricultural activities and also infrastructure works.

Among other transactions, it is worth mentioning the Gas I Financial Trust, in which the Bank acted as sole fiduciary and as book runner and co-arranger. This trust, which issued Ps. 588 million of which 52% was placed among foreign investors, was the first financial trust for the financing of infrastructure works to be launched in the country's capital market.

Also, during 2006, eight financial trusts were structured and placed in the market for a total amount of Ps. 114 million.

Like in the previous fiscal year, the Capital Markets unit continued to actively work on the optimization of the funding strategy of the Bank and its subsidiaries. In view of said goal, this unit 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.

### ***Corporate and Real-Estate Business Development***

This unit's mission is to develop business transactions with the corporate sector and to leverage and channel the opportunities for commercial development, structuring and financing of real-estate projects within the residential, corporate, commercial and tourism-related segments.

Among corporate business transactions, it is worth mentioning the subscription of a framework agreement with Nación Fideicomisos S.A. in order to assess trust structures for the financing of infrastructure works related to utilities and/or public-service companies. With regards to real-estate projects, the Bank involvement comprises the financing of works, real-estate leaseings, financial trusts and other financial instruments available in the capital market that allow for the provision of long-term financial support to current and potential customers of the Wholesale Banking Division. During the fiscal year, several financing transactions for hotel undertakings, urban residential projects, and commercial premises belonging to our customer companies were completed, thus leveraging the development recorded in the Argentine real-estate industry during said period. Also, it is worth highlighting that, during the fiscal year, the Bank has closed important real-estate leasing transactions for business and industrial companies throughout the country, which allows the Bank to be considered a financial system's leader in this kind of activity.

### ***Non-Financial Public Sector***

During 2006, this unit completed the development stage of the "Management Tools for Electronic Government" project, having worked in pilot districts such as San Nicolás and Chascomús (Province of Buenos Aires) and Guaymallén (Mendoza). Based on the results obtained, a final proposal was designed, which was approved by the Argentine Municipal Federation ("FAM") last November. Eighteen districts were visited, which showed a good response, and initiatives were started in order to implement such tools in the abovementioned districts and in Mendoza Capital City. In 2007, the new marketing and launch stages shall be developed. During said stages, the Bank shall work together with the FAM and its branches located at the provinces.

### ***Foreign Trade***

The Argentine market has adapted 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. Such system still maintains in force controls over collections and payments, as well as deposit requirements on capital inflows.

In order to reduce the gap between the customer and this business unit's back office, in July 2006 the latter unit was decentralized and relocated in the same division as the business unit, thus creating the Foreign Trade Department, which reports directly to the Head of the Wholesale Banking Division. In line with this restructuring process, a training process for the Department started, which shall make the customer-employee interaction easier.

The volume of foreign-trade transactions routed through the Bank increased by 25.5% from the prior fiscal year amount, to US\$ 5,525 million. 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%. The amount of these two items for the Bank was US\$ 4,096 million, equivalent to 4.96% of Argentina's foreign trade during 2006. This growth stems from over 170 thousand transactions processed during the year, up 15% from the number of transactions processed in 2005.

These results were the consequence of a series of actions which, in line with the Bank's "relationship banking" concept, are meant to make the Bank a clear benchmark for customers with respect to foreign trade. The most important actions were: the strengthening of the decentralized back-office units located in the provinces, which were incorporated to the corporate service centers, thus improving efficiency and closeness to the customer; the second cycle of the "Foreign Trade Executive Diploma Program" which contributes to the growth of the regional economies through the expansion of their foreign trade, thus leveraging companies' skills and strengthening the Bank's relations with its customers; the training provided to the Bank's credit officers in foreign-trade matters and the continuity of the client base expansion campaign. All these actions allowed the Bank to increase penetration in customers' business transactions and to add 390 new SMEs as foreign-trade customers, representing an 8% rise 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 the customer to operate on line. All of the above, apart from helping the Bank stand out from its competitors, made companies' transactions easier and contributed to their efficiency.

Galicia Factoring y Leasing S.A. closed the fiscal year with a volume of transactions exceeding that of the previous year by 43%, thus reaching a factored total of US\$ 39.6 million. This company, which offers international factoring services, supplements the Bank's services offer, for the customer to have available all alternatives for its foreign-trade transactions.

### ***Galicia Office***

Galicia Office, the corporate electronic-banking service, closed the fiscal year with 23,000 active customers accounting for 60% of the client base. Like in previous years, this channel continued to grow and exceed the performance recorded since its launching; the number of transactions rose by 64% and their volume increased by 78%.

In order to offer more and better technological solutions that optimize operational processes, during 2006 new developments were carried out. Among those developments, 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 was of approximately 230% between January and December.

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.

By means of the operational CRM (Customer Relationship Management), several actions were carried among our customers; one of the most significant is *Galicia Office + Firma Digital* (Galicia Office + Digital Signature), which boosted the growth of digital signatures by 7,200, as a result of renewals and new signatures throughout the year.

It is important to highlight that a foreign consulting firm was hired to assess Galicia Office's IT security processes. The evaluation concluded successfully.

*Galicia Compras* (Galicia Purchases) and *Red de Campo* (Rural Network) continued to increase the number of enquiries received. In *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. In *Red de Campo*, Galicia Office's customers can find updated information about the industry, the weather and the marketplace.

### **Retail Banking Business**

The Retail Banking Division manages the Bank's 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 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 the Bank conducts through the regional credit-card companies and iii) Private Banking, which is in charge of the service to customers in the high end of the socio-economic scale.

Year after year, the Bank renews its commitment of working in the best interest of its customers. Its working philosophy consists of two basic strategies: first, "to think" constantly of the customer through one-to-one marketing and, second, to work on the cultural change that this provokes throughout the organization.

During 2006, an ambitious plan of segmented efforts meant to strengthen customer relations and to foster a more intense use of the Bank's products was launched. Over 800 campaigns with customized offers were launched covering over 90% of the customer base. The different efforts (cross selling, up selling, customer retention and loyalty), 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 strategy the Bank has been implementing 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 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 the year the Bank maintained a constant and consistent presence in the Federal Capital as well as in the provinces, with specific efforts for each market. This brought about a clear leadership with respect to advertising awareness and "top of mind" of the brand, which strengthened its position.

## **Retail Banking <sup>(1)</sup>**

The Retail Banking customer base increased significantly during the fiscal year, recording a 25% rise. The products that boosted this significant addition of new clients were mainly consumer loans and credit cards.

Retail deposits in pesos rose by over Ps.1,095 million, representing a 37% increase, thus exceeding the increase underwent by this segment within the financial system as a whole. Taking into account only retail time deposits, the Bank recorded a 47% growth, which also exceeded the financial system's performance. The Bank's performance was also outstanding as regards retail deposits in US dollars, which increased by 35%.

With regards to the number of deposit accounts, the portfolio of current accounts increased by 25%, with the monthly average of new accounts reaching peaks of 4,000. With regards to savings accounts, there was a 5% increase in the stock and an 11% increase in the average balance per account.

The credit- and debit-card business continued to experience high growth in 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 (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. Also, the Bank continued to offer the additional benefit of the Aerolíneas Plus program, which represents a differential advantage over our competitors, through which over 50,000 customers were able to travel using the points accumulated through the use of credit cards issued by the Bank. Delinquency was kept at significantly low levels.

With respect to consumer loans, the Bank continued to work on two fronts. On the one hand, the Bank worked on the client base with the purpose of continuing to grow and keep risk low. On this basis, the Bank continued to develop and improve the assignment of a credit limit (amount authorized for granting) to those customers whose salaries are directly deposited at the Bank or those that already possessed an outstanding risk product. In addition, response times were shortened. Also, the Bank introduced telemarketing of consumer loans, which together with the granting by Home Banking, grew by 1,020% from the amount originated in 2005. Also, the Bank worked hard on the placement among non-customers, reaching said market through mass communication and direct marketing actions, including the preassignment of a credit limit. In the open market, a 600% increase was recorded. All of the above allowed the Bank to attain its goals and expectations for the period by reaching a 171% annual growth in origination and a 140% increase in the consumer loan portfolio, as compared to December 2005.

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 mortgage loans. Despite the market's characteristics, the Bank committed to mortgage lending and launched the "Zero Expenses" campaign with a strong presence in mass media. Furthermore, mortgage credit lines were amended in order to broaden and improve the offer and allow for a greater access to such loans. The Bank's current offer includes a broad range of loan purposes, terms (up to 240

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*(1) The figures included in this section correspond only to the Bank, without consolidation or regional credit-card companies.*

months) and rates (fixed, variable and combined). During the fiscal year, the portfolio grew by 15% compared to December 2005 and the average monthly origination increased by 225% from the previous fiscal year level.

In insurance distribution, the Bank continued to offer a wide range of products, strengthening its position within the bankassurance market and its role as a comprehensive financial services provider. Beginning in September 2006, the insurance policy *Integral de Comercio* (Comprehensive Insurance for Retailers) was added to the Bank's offer. Also, during the fiscal year, the Bank strengthened the sale of home insurance policies, exceeding the goal of reaching 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 reached. Also, the Bank strengthened its position within the life insurance segment, achieving a 60% increase in personal injuries coverage.

Another business that reported a large increase was payroll direct deposit. The number of individuals with direct deposit of their salary at the Bank grew more than 25% and the amounts deposited increased more than 42%. This latter increase was also a result of the increases in salaries recorded during 2006.

### ***Consumer Banking***

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 issuing companies that are subsidiaries of the Bank through Tarjetas Regionales S.A. (Tarjeta Naranja S.A., Tarjetas Cuyanas S.A. and Tarjetas del Mar S.A., jointly referred to as "the 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.

The number of credit-card statements issued by the Companies during the fiscal year increased by 22%, annual retailer invoicing exceeded Ps.4,300 million (+29%) and the gross loan portfolio, before provisions and including the portfolio transferred to financial trusts, amounted to nearly Ps.1,900 million (+36%) at fiscal year-end. In addition, ten service centers were added to the distribution network (+6%, totaling 167 service centers) and staff increased by 672 people (+26%), thus exceeding 3,200 employees. It is also worth mentioning the expansion of Tarjeta Naranja into the Greater Buenos Aires area where it opened its largest premises in the country, located at Morón.

In spite of the sustained increase in the number of transactions and operations across all the Companies sectors, the quality standards were maintained. This, together with a permanent effort towards excellence in management and service provision, made the Companies and the brands thereof recipients of important public mentions and recognition. Likewise, and as another of its main values, it is also important to highlight the quality of the work environment at the Companies, which translated into Tarjeta Naranja winning the first place in the "Great Place to Work" contest. This has created a virtuous circle that explains the high customer satisfaction levels and the strong demand for the Companies' products.

Also, during the fiscal year, the sale of insurance products especially designed for the 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 loan portfolio quality maintained the strong levels of 2005, with the Companies' aggregate non-accrual to total portfolio ratio at fiscal year end being 2.95%, with values, in

certain months that were very close to the minimum historical value (2.48% in December 2005).

An unavoidable outcome of growth is the constant need for funds to finance such growth. Given this essential and strategic challenge, the Companies worked on a wide range of funding alternatives that increased the sources and the magnitude of funding. Among said alternatives, it is important to mention the increase in the credit lines available from banks, the granting of syndicated loans, the six issuances of financial trust securities for Ps.360.9 million (almost Ps.70 million more than in 2005) and the three issuances of negotiable obligations for Ps.493.9 million, which almost tripled the amounts issued 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 is unique in the country. It is also worth mentioning that, in all public offerings, the demand from investors, institutions and individuals, extensively exceeded the amounts issued and that there low interest rates were attained.

The increase in liabilities, in line with the portfolio's growth, lead the Board of Directors of Tarjetas Regionales S.A. to decide the capitalization of Tarjetas del Mar S.A. and Tarjetas Cuyanas S.A., proportionally to its stock holdings, thus showing a strong commitment with the business activity of its controlled companies. These 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, the Companies' net income for fiscal year 2006 amounted to Ps.104.5 million, of which Ps.70.9 million corresponded to the Bank through Tarjetas Regionales S.A.

Fiscal year 2007 is expected to reflect a context generally similar to that of the previous year, with high GDP and aggregate consumption growth rates. Within this environment, the Companies shall seek to maintain the leading position and competitiveness achieved and to keep growing. The Companies expectations are of an important increase in the number of customers, in districts where new service centers have been opened as well as in districts not yet covered where openings are foreseen, districts of great importance in terms of population due to its location in the Greater Buenos Aires or cities in the interior of the Buenos Aires Province.

### ***Private Banking***

Galicia Private Banking offers premium, professional financial services to medium- to high-sized 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 the fiscal year, Galicia Private Banking focused on three main goals: (i) to increase the number of customers, (ii) to increase the managed portfolio, and (iii) to place financial trust securities and negotiable obligations among its customers. These goals were met as reflected in the 44% increase in the number of customers whose portfolio is managed by the sector and the increase of the managed portfolio amounts, which was 47% for demand deposits and 79% for time deposits. Also, during the year, the placement of negotiable obligations and financial trust securities was very successful. The amount thereof exceeded Ps.120 million with a significant degree of atomization.

In line with the Bank's strategy to stand out from its competitors through service quality, Galicia Private Banking implemented a client loyalty program and, during the last quarter of the fiscal year, it put into practice a customer satisfaction measurement program. It is worth mentioning the high index attained with regards to the general perception of services rendered, which exceeded the general market levels.

## **Distribution**

In June 2006, the Distribution Division was created. Its main goal is to develop the most suitable channels for the different customer segments within the Bank's business strategy. This 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***

In response to the growing demand by both the retail and the wholesale customer segments, which requires a greater focus on business issues by the branch network in order to fulfill the Banks' sales and profitability objectives, in June 2006 an organizational change was carried out in the management of the branch network which consisted mainly in the creation of two regional departments to support a higher number of local managers.

During the fiscal year, eight branches were opened, 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). The Bank is now present in all of the Argentine provinces. At the close of 2006, the branch network's geographical distribution was the following:

<b>Geographical Area</b>	<b>Number of Branches</b>
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
<b>Total</b>	<b>232</b>

During 2006, deposits in the branch network rose by 34.3% and total loans grew by 61.7%, while the branch network's total staff increased by 144 people, totaling 2,180 employees as of December 31, 2006.

In order to increase business efficiency, achieve a better integration among sales channels and improve service quality, 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. Also, the Bank continued the implementation of the Business Coaching Program, through the addition of 57 branches; therefore, at fiscal year-end, only 40 branches remained for completion of the program implementation in the whole network.

### ***Alternative Channels***

Service, transactions and sales channels other than traditional branches, that service both individual and corporate customers, encompass 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% ratio corresponding to December 31, 2005. 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 ("CCC")

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.

After market and technical or regulatory support services increased their activity level, with incoming contacts which increased by approximately 30%. Among others, Fonobanco, the telephone-banking facility, grew by 26.5% in new users and transactions, the technical support sector of the Bank's Internet service for individuals and companies received 15.3% more calls and 120% more *e-mail* messages from customers than in 2005. Fonobanco *Seguros* (Fonobanco Insurance), the aftermarket service for insurance policies marketed among customers also grew during the year. Foreign Trade increased its activity by 29.4% assisting individuals and customer companies about the whole range of foreign-trade transactions and providing advice on the regulations in force, which underwent substantial changes in 2006. Galicia Responde, the service for suggestions, complaints and claims, recorded a 46% increase in its activities in comparison with the previous fiscal year, due to both to the increase in the Bank's activity and customer retention initiatives.

Also, in 2006, Telemarketing, the sales and telephone advice facility for clients and non-clients, received 35% more calls and made 52% more calls than in the previous fiscal year. Through this channel, the Bank has been able to reach customers in a fast, efficient fashion, closing sales immediately and without further intervention, which translated into a premium service. The telemarketing of loans with crediting in the customer's account in 48 hours stood out, reaching Ps.57 million during the fiscal year.

The Investments Centers marketed and managed assets for amounts 40% higher than in the previous fiscal year. Through this channel, The Bank not only closed new businesses but also did so at a high level of quality and accuracy. The broad range of investment products, the highly specialized resources, and the extended business hours made the Bank a leader within its segment.

The Collections Center managed over 1,200,000 contacts during the fiscal year, conducted follow-up of customers with loans up to 150 days past due and obtained good collection results in the different segments. Also, the Center made customized collections from Prefer customers and managed individual collections of the first installments past due from new customers, obtaining good results.

### Red Galicia 24

By the end of 2006, Red Galicia 24 had 588 ATMs and 530 self-service terminals installed in its branch network and other locations throughout the country, mainly in gas stations and supermarkets. This network of state-of-the-art technology terminals 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 Bank's ATM network, one of the most extensive in the country, recorded an increase in the volume of transactions of 12% as compared to the previous year, while the amounts of transactions carried at self-service terminals recorded a 14% increase. Following 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 shall continue during 2007.

### e-galicia.com

Every year, the number of Internet users increases at a fast rate and the Bank's customers demand new services to help them operate on line as they would in a traditional branch. During the past years, e-galicia.com has shown an exponential evolution. Through Home Banking alone, 4 million monthly enquiries and transactions are made, which represents almost a 35% increase from the level as of the end of 2005. As to the number of subscribed customers, the increasing trend also continued, with a 25% rise for the fiscal year.

e-galicia.com contains a specific segment for individuals ("Home Banking") as well as for companies ("Galicia Office"). These allow customers to operate with the Bank's products anywhere all year long. This website stands out for the quality and transactional capabilities of its channels. In 2006, the Bank launched a renewed web site, both in terms of design and access to data, focused on service rendering by segment, with sections specially designed for private banking, the Prefer segment, professionals and stores, companies and agribusiness customers.

In 2006, the sale of consumer loans through this channel accelerated and stood out as one of the year's innovations. Moreover, the Bank's customers can buy insurance coverage for their cars and houses and against robberies in ATMs, request additional credit cards and more. Among the wide range of available transactions, tax and services payments and transfers to third parties continued to reflect a sustained growth, with increases of 36% and 34%, respectively, compared to the previous year.

### Galicia Móvil

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

### Retail Sales Unit

Developed during 2006, this unit's goal is to constitute a specialized sales force in retail banking products. At fiscal-year end 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 account sold.

### Real State Center

Created during the fiscal year, this unit's main goal is to strengthen and encourage the 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 for each referred customer.

## **Quality Assurance**

The Bank considers service quality to be an essential element to promote continuing improvements throughout the organization and to create added value by providing customers a unique service through which they can meet their needs in an easy, efficient way every time they contact the Bank through any of its channels. In turn, this allows the Bank to create competitive advantages and to differentiate itself from its competitors.

During the fiscal year, the Bank 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. On the other hand, the customers' voice was made

known to the whole organization through polls and indicators established in order to measure customer satisfaction. Listening to and understanding these comments not only allows us to adjust our services, but are also an essential training tool for our personnel, a basic aspect of the Bank's strategy.

In order to assess the quality of service, the "Quality of Service Level" ("NCS") index continued to be measured in all branches. The NCS, which is published quarterly and which is included in the personnel incentives program, is based on the measurement of three aspects:

- The customer's perception with regards to services, which is obtained by means of 28,000 phone polls a year and displayed an average score of 8.70 points for 2006.
- The degree of compliance with the standards of customer service by cashiers and throughout the commercial platform and of premises maintenance, which is obtained from undercover controls (or "mystery shopper") and which indicated that the branch's personnel complied with these standards over 94% of the time in annual terms.
- The response time for claims, which is obtained through the continuing follow-up of the processing thereof and which showed that 94% of the claims recorded during the fiscal year by the branch network have been duly answered.

In 2006, the annual NCS average was 8.96 points of a maximum score of 10 and 127 branches exceeded the goal set up for the fiscal year, which was 8.80 points. Also, as every year since 2001, a benchmarking survey was jointly carried out with the main competitor banks. The survey results awarded the Bank the first place as regards customer satisfaction.

Also, the implementation of a plan aimed at reducing waiting times in customer-service locations progressed satisfactorily. Measurements taken reflect that actions carried out in branches that needed improvements allowed to reduce the average waiting time by half.

Since 2005, the Bank adheres to the Code of Banking Practices prepared by the Argentine banks and financial institutions associations, as a self-regulatory initiative meant to safeguard customers' rights and guarantee transparency in the data provided by the Bank. The Quality Assurance Division is in charge of compliance with the Code. Procedures were developed in order to review practices, assess potential process improvement, and adjust processes that need to be amended.

### **Treasury and Asset Management**

The Treasury 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 positions, and it participates in the management of market, liquidity, interest-rate and currency risks. To this end, it develops the necessary data and strategies to keep such risks within the limits established by the Board of Directors. Similarly, it provides services and distributes financial products, among others, to corporations, financial entities, mutual funds, pension/retirement funds (AFJPs), insurance companies, etc. The Bank carries out securities trading services in the different markets, sometimes in its capacity as agent of the *Mercado Abierto Electrónico* (Argentine Over-The-Counter Market, "MAE") and through Galicia Valores S.A., a brokerage firm that operates on the Buenos Aires Stock Exchange. Finally, the Division is responsible for the international business relations and, at the same time, provides support to the units abroad.

### **Financial Operations**

During 2006, a highly favorable international context for emerging countries in general continued to prevail. The low yields registered by assets of mature economies, as well as the significant improvement in the fundamentals of emerging economies made the latter 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.

This context brought about the expansion of traded volumes within the domestic capital market during the year. With regards to fixed-income instruments, the market's traded amount 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. In turn, the total amount traded by the Bank reached US\$ 2,046 million, with a 33% increase compared to the previous fiscal year, which allowed the Bank to continue to increase its market share. In the equity market, the total traded volume amounted to Ps.80,929 million, to which Galicia Valores S.A. contributed with a total of Ps. 1,515 million, accounting for a 1.87% share.

During the fiscal year, the Bank successfully placed 25 issuances of financial trust securities and negotiable obligations, both its own and third parties', for a total amount of Ps.1,526 million, thus leading the market. Also, the Bank took part, in its capacity as book runner in the issuance of securities for Ps.588 million by the Gas I Financial Trust, which had a high demand by local and international institutional investors. It is worth mentioning, as stated before, that this financial trust was the first instrument of the Argentine capital markets developed in order to finance infrastructure works.

With regards to the foreign-exchange market, during the fiscal year a new increase in traded volumes related to foreign-trade operations was achieved, thus exceeding the figures recorded in the previous fiscal year by 20%. In the wholesale foreign-exchange market, the total amount corresponding to transactions closed by the Bank through the MAE amounted to US\$ 5,485 million, which accounts for a 7.99% share.

### ***Asset Management***

With regards to FIMA mutual funds, Galicia Administradora de Fondos S.A. is the fund manager and the Bank acts as distributor and custodian. The mutual funds invest in a variety of assets, such as government and corporate debt securities, equity or deposits in financial institutions, depending on each mutual fund risk profile.

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 by individuals and companies.

Among managed funds, the most important in terms of profitability, which makes them some of the most competitive funds in the system, are the following:

- "FIMA *Ahorro Pesos*", launched on August 24, 2006 and where the investment policy is to preserve principal and achieve stable returns. Its assets include short-term securities issued by the Argentine Central Bank (Lebac and Nobac), financial trust securities and time deposits.
- "FIMA *Renta Pesos*", composed mainly of bonds issued by the National Government adjusted by CER, Lebac and Nobac, time deposits and financial trust securities. The average life of this fund's portfolio is one year.
- "FIMA *Premium*", where the portfolio is composed of peso-denominated time deposits and remunerated accounts in financial institutions operating within the local marketplace.
- "FIMA *Obligaciones Negociables*", dollar-denominated and composed of corporate fixed-income securities issued by world-class companies.

On the other hand, the variable income funds “FIMA Acciones”, “FIMA PB Acciones”, and “FIMA Global Assets”, closed the fiscal year with a 6% increase in their aggregate assets under management.

Market expectations for 2007 are mainly focused on the mutual fund industry continuing growth, as regards managed volume as well as product competitiveness.

### **International**

The International Banking and Financing Relations Department is responsible for managing the Bank’s business relations with correspondent banks, international credit agencies and international investment funds.

The improved perception of Argentina within the international economic community and the Bank’s positive image supported by its constant presence in international events brought about a larger offer of commercial lines by correspondents, together with new improvements in financial costs and terms offered, which allowed the Bank to comfortably attend to all foreign-trade transactions by its customers. Also, with resources provided by the International Finance Corporation, the Bank continued to finance medium- and long-term investment projects, within an environment-friendly framework, by SMEs active in the agribusiness and export sectors.

As for Banco Galicia Uruguay S.A. (“Galicia Uruguay”), on February 22, through Resolution D/74/2007, the Board of Directors of the Uruguayan Central Bank decided to lift the intervention of Galicia Uruguay, thus reinstating its authorities.

As of December 31, 2006, the principal amount of Galicia Uruguay’s restructured liabilities (time deposits and negotiable obligations) was US\$ 117.2 million. As of that date, the first four installments of the repayment schedule agreed upon with creditors on December 2002 had been amortized (corresponding to September 2006, 2005, 2004 and 2003), as well as the Negotiable Obligations due December 2005. During the third quarter of 2006, Galicia Uruguay created a Negotiable Obligations Program for an amount of up to US\$ 108.1 million, in order to convert privately issued Negotiable Obligations due in 2011 into public negotiable obligations and, also, to offer holders of Transferable Time-Deposit Certificates the option to exchange said certificates for the abovementioned negotiable obligations. On October 17, 2006, the Series I Negotiable Obligations for an amount of US\$ 48.5 million was issued under the Program. As of December 31, 2006, Galicia Uruguay’s shareholders’ equity amounted to Ps.107.3 million.

As regards Galicia Cayman, even though it was in provisional liquidation, on February 2, 2006, as a consequence to the presentation made by the Administrators of the Restructuring Plan of Galicia Cayman, the Grand Court of the Cayman Islands declared the plan terminated, thus reinstating the company’s legal authorities as from February 23, 2006.

### **Corporate Services**

During 2006, the Corporate Services Division coordinated and strengthened the relationship between its member departments as from the previous fiscal year. A proof of the above was their joint work in several complex projects such as *Torre Galicia* (Galicia Tower) (Administrative Division, IT Division and Organization Division) and the new structure of the Operations Center (Operations Division, Organization Division and IT Division), and multiple projects for the improvement of processes and automation (Organization Division and IT Division). Also, during the fiscal year, the Division assumed most of the tasks of the former Corporate Programs Division.

## ***IT***

As in previous fiscal years, the IT Department focused on the implementation of projects that allow the Bank to reaffirm its leading position within the market, emphasizing those projects that strengthen quality and innovation.

With regards to the departmental strategy, a three-year strategic plan (2007-2009) was prepared. This Plan defines the strategic direction in the near future, sets forth the necessary projects to do so, and constitutes a guideline for all decisions and projects initiated by the IT Department. Within this context, special work was dedicated to the definition of service-oriented architecture (SOA) strategies for the IT Department. Among the projects implemented in order to support business areas in the fulfillment of their commercial goals and strategies, it is worth mentioning, due to their importance, the projects for the definition of CRM strategies for retail banking and middle-market banking and the new transfer system by cellular phone, which made the Bank the first financial institution to implement such functionality in our country.

In order to bear the increase in transactions and accounts stemming from business activities, the Bank purchased hardware and increased the capacity of the central processing equipment. Besides, during the fiscal year, the Department started the update and reconditioning of self-service terminals, a task that shall continue during this fiscal year, and renewed nearly all PCs in the organization. As for data communication infrastructure, a project for the expansion of the branches' communication bandwidth was initiated, and the communications equipment of Torre Galicia was purchased and installed.

From the regulatory point of view, the IT Department worked on process verification and control in order to comply with the US Sarbanes-Oxley Act. Also, the Department worked on the reconfiguration and update of all the Bank's regulations and documentation of processes and applications.

Finally, the Department focused on the implementation of service quality programs (also known as CMM and ITIL) started during the previous fiscal year, which imply the incorporation of international or market best practices.

## ***Organization***

The Organization Department continued to strengthen its strategy of efficiency and innovation within an appropriate risk management. The focus was placed on the Bank achieving external differentiation, internal simplification, and excellence in the execution.

In order to achieve better efficiency levels, the Bank's Processes Model was finished and the implementation process thereof was initiated. Said model represents, with a high abstraction level, all processes within an "ideal" financial institution pursuant to the market's best practices, and represents the goal of the Bank.

In addition to the support to business areas with respect to their commercial strategies, their product launches and the improvement in quality of service, the Organization Department also worked on the following significant projects:

- The completion of the strategy and design of a Comprehensive Plan for the CRM project related to a substantial improvement in the Bank's relationship with its customers.
- The redesign of the retail banking risk products sales process, aimed at attaining the sales effectiveness required by the marketplace, and the implementation during the

first week of January 2007, of instant sales (on-line) to customers and non-customers on a behavior basis.

- The completion of the restructuring of the Operations Department, which proved to be successful since it allowed to absorb the significant increase in transactions in 2006, without the need to increase the Department's personnel.
- The implementation of the first self-management tools for the Bank's employees, together with the Human Resources and Organizational Development departments.
- The design of new supply management internal processes and the suppliers web portal. Both initiatives shall be implemented during the first quarter of 2007.

It is also worth mentioning the continuing work with international consultants for the implementation of global best practices on IT security issues, especially regarding electronic channels.

### ***Operations***

At the end of 2006, the Bank's operations were approximately 3 million per month, which accounts for a 26% increase compared to the previous fiscal year end. This growth was borne without any increases in the Operations Department staff.

As stated in the previous Annual Report, in order to support the Bank's strong activity growth and a higher number of transactions with a better level of service, in 2006 the Operations Department initiated an internal reorganization called "*Operando el Cambio*" (Executing change). Said reorganization was focused on achieving a significant rapprochement to the business and customers and a better leveraging of employees' knowledge and skills, based on process optimization, the efficient control of documentation flow and the migration thereof to electronic format. Also, management control was developed, which shall leverage the gathering of timely, accurate information for the Department's planning and management.

Some of the most important projects initiated during the fiscal year are:

- The capture of images of checks from other banks deposited by customers in branches located in the provinces, a necessary step for the implementation of the same project in the branches located in the Federal Capital and the Greater Buenos Aires area, which shall be carried out in 2007.
- The implementation of the *Cámara Federal Uniforme* (Federal Uniform Clearinghouse), a project of the whole system that entails the benefit of setting a sole term (48 hours) for the crediting of checks deposited at any location in the country, regardless of the geographical location of the issuing bank.
- The merging into one department of all logistics processes related to documentation received and sent, a necessary step for the development of the documentation digitalization program to be implemented during this fiscal year.

### ***Administrative Services***

With regards to infrastructure and maintenance, the upgrade of the branches' image continued, which was implemented in 120 locations. Redesigns and expansions of branches were carried out as well as four transfers and eight inaugurations. Safety boxes were installed in 23 branches and safety systems and measures were improved. General maintenance activities were carried out with layout changes in different areas, involving the transfer of 1,395 workstations in corporate buildings.

Also, the construction of *Torre Galicia* –the Bank's new corporate building– continued to progress. The building start-up phase has started and the plan to move the personnel was

developed, which is expected to be fully implemented during this year and which, to date, has already started.

The processes involved for supply management are under evaluation in order to increase its efficiency and also to improve controls. Also, the Code of Suppliers' Conduct is under preparation as well as a suppliers' web portal. Finally, and continuing with the initiative of 2005, a significant number of rental contracts for the Bank's branches have been renegotiated and renewed.

### **Human Resources and Organizational Development**

During 2006, the Human Resources and Organizational Development Division strengthened its training programs, by launching an innovative self-management on line system and continued with their employees' benefits program.

In order to integrate and improve communications among staff members, an internal web portal ("e-Company") has been developed and is used as an information exchange channel between the different business units and as a work tool for most of the personnel daily tasks. Within the framework of this web portal, human resources processes have been automated through the implementation of an innovative system called "*Recursos Humanos On Line*" (RHOL) (Human Resources On Line), which allows for faster administrative procedures, ensuring its safety and reliability.

Still within the e-Company portal, under the name "*Oportunidades Galicia*" (Galicia Opportunities) openings for internal position are automatically posted, giving employees the chance to grow and develop within the company. This year 184 positions were posted and 107 have been filled internally. Also, during this year the first "Managers School" was opened for managers of the Bank's network of branches, making the Bank a "Teaching Bank".

Likewise, a project was launched focusing on employees' general skills and on the strategic management of human resources development. Finally, job descriptions for all areas were updated, and the positions within the organizational structure were reviewed.

The Internal benefits program (BIP) continued their sports, cultural and entertainment activities in order to integrate all employees and promote personal development outside the work environment. As a closing to the year, "family days" were organized in eight provinces, thus covering the 16 areas into which the Bank is divided. Finally, the Bank organized a year-end party with over 3,500 guests.

### **Banco de Galicia y Buenos Aires Foundation**

As has been continuously done since the beginning of its activities, during the fiscal year, the Foundation provided priority assistance to the Bank's employees and retired employees, as well as to their respective families, without prejudice of the assistance to other people in need and the help to different entities and non-profit organizations. As a brief summary, we include the main components of the aid provided by the Foundation:

- Medical assistance: continues to be provided to employees, retired employees and their family members, with its usual level of excellence in all medical specialties and under a sole plan through Santiago Salud S.A., an entity in which the Foundation has a majority interest.
- Student's Plan: consists of the distribution of a complete set of school supplies that cover students' needs throughout the school year, delivering over 2,400 boxes. Also,

the Foundation is in charge of the supply and distribution of school overalls, delivering over 1,000 units.

- Vacation camps: during summer and winter times activities are successfully carried out in the facilities of the Banco Galicia's Employees Club, located in Pilar (Province of Buenos Aires).
- School grants: it started during the second quarter of 2004, due to the Foundation's 40th anniversary. Thanks to the Bank's support, the Foundation has been able to continue this work during the following fiscal years, thus benefiting over 100 grantees.

Likewise, the Foundation continued with the distribution of layettes to the newly born babies of Bank employees and with the approval of non-interest loans for emergencies, as well as monthly subsidies, of different amounts, to mitigate serious problems or deficiencies in housing, health, feeding, medication, and education.

Apart from the aforementioned, the Foundation made contributions to various welfare institutions, such as churches, schools, hospitals, institutional homes, community kitchens for children, etc. throughout the country. Especially noteworthy among the latter is the support provided by the Foundation to the PRIAR (Region-based Interactive Assistance Program), an organization formed and managed by employees and former employees of the Bank who provide assistance for welfare projects in impoverished districts and areas of the country. Finally, the Foundation also provides monthly contributions to the *Plaza San Martín* Foundation and *Producir Conservando* Foundation.

### **Corporate Social Responsibility Program**

2006 has been a year of significant progress in our practice of Corporate Social Responsibility (RSC). After the creation, in 2005, of the RSC Department and after the issuance of our first report on the subject, with excellent results, we continued to increase our efforts to implement the RSC concept within the organization and to maximize the creation of social value. Thus, during the year, the RSC Department worked closely with the different Bank's areas, identifying opportunities for the creation of social benefits and the implementation of initiatives.

Together with this Annual report, the second RSC shall be issued, which shall reflect the work carried out throughout the year, the Bank's profile as a social actor and the value created for our main target groups. Through said document, the Bank also responds to the commitment assumed upon joining the United Nations Global Compact to inform its non-financial performance, seeking to increase year after year the alignment of its initiatives as a financial institution with the sustainable development principles.

As regards the community, we have taken part in different projects within three main areas:

- Within the educational area, we have contributed to projects focused on fostering the access to education - by means of alliances with the *Cimientos*, *SRA*, *Manos Abiertas* and *Conciencia* Foundations and agreements with universities- and on improving education quality by joining efforts with the *Escolares*, CIPPEC and Amartya foundations.
- With regards to the labor environment, we have supported projects that promote the placement of at risk groups through the implementation of training and skill development programs for job hunting, working closely with the *Impulsar* Foundation, AMIA, *Responde* Association and *Par* Foundation, among other civil society organizations.

- As to public health and social integration, we support the Juan A. Fernández Foundation, COAS, EMA and CILSA, among others, making contributions through the purchase of supplies, the renewal of premises and the provision of medical assistance.

### ***Corporate Volunteer Work Program***

On the other hand, the Bank continues to support PRIAR, its employees' assistance program, whose aim is to provide specific answers, through sustainable social projects, to the people with fewer resources and more needs.

PRIAR achievements have been increasing since its creation in 2003. Until 2006, 78 projects were carried out, of which 57 ended successfully and 21 are still in progress. Over 13,000 people, children, young, elderly, men and women have benefited from joint, selfless work of more than 2,900 PRIAR volunteers.

In 2006 the projects carried out in different non-profit organizations and schools included: furnishing libraries, community kitchens, classrooms and workshops devoted to typing, cinema, IT and bakery teaching; the opening of a sports space, the progress in the construction of a multiple use lounge, a classroom for workshops and study room, the building and furnishing of sanitary premises and medical offices with all the necessary elements for its operation, the start up of a vegetable garden and a henhouse, and the painting of classrooms. Additionally, micro enterprises were supported and significant quantity of furniture was given to day centers and clothes, supplies, books and foodstuffs were donated.

## Corporate Organization, Decision-Making, Internal Control, and Compensation of the Board of Directors and Officers

### Composition and Functions of the Board of Directors

The Ordinary and Extraordinary Shareholder's Meeting held on April 27, 2006, established the size of the Board of Directors at nine directors and five alternate directors and appointed Messrs. Antonio Roberto Garcés, Sergio Grinenco and Pablo Gutierrez, as directors and Messrs. Raúl Héctor Seoane, Eduardo Antonio Fanciulli and Juan Carlos Fossatti, as alternate directors.

The composition of the Board of Directors is as follows:

Name	Position	Expiration of Term
Antonio R. Garcés	Chairman of the Board of Directors	12/31/2008
Sergio Grinenco	Vice Chairman	12/31/2008
Enrique M. Garda Olaciregui	Secretary Director	12/31/2007
Daniel A. Llambías	Director	12/31/2006
Luis M. Ribaya	Director	12/31/2007
Guillermo J. Pando	Director	12/31/2007
Pablo Gutierrez <sup>(1)</sup>	Director	12/31/2008
Eduardo O. Del Piano <sup>(2)</sup>	Director	12/31/2006
Pablo M. Garat <sup>(2)</sup>	Director	12/31/2006
Eduardo A. Fanciulli	Alternate Director	12/31/2008
Juan C. Fossatti <sup>(3)</sup>	Alternate Director	12/31/2008
Raúl H. Seoane <sup>(1)</sup>	Alternate Director	12/31/2008
Oswaldo H. Canova <sup>(3)</sup>	Alternate Director	12/31/2006
Julio P. Naveyra <sup>(3)</sup>	Alternate Director	12/31/2006

*(1) Authorization from the Argentine Central Bank required by Communiqué "A" 2794 is pending.*

*(2) In accordance with the rules of the National Securities Commission (the "CNV"), and pursuant to the criteria adopted by the CNV, Messrs. Eduardo O. Del Piano and Pablo M. Garat are independent directors who were elected at the Ordinary Shareholders' Meeting held on April 29, 2004 and appointed by the Board of Directors' minutes dated April 30, 2004, as members of the Audit Committee.*

*(3) In accordance with the rules of the CNV, and pursuant to the criteria adopted by the CNV, Messrs. Fossatti, Canova and Naveyra are independent alternate directors. They shall replace the independent directors in case of vacancy.*

The Bank's Board of Directors meets formally twice each week and informally on a daily basis, and is responsible for all major decisions, including those related to credit, the Bank's securities portfolio, and the design of the network of branches, or entering into new businesses.

Members of the Bank's Board of Directors serve in the following commissions or committees:

**RISK MANAGEMENT COMMITTEE:** Six Directors, the Wholesale Banking Division manager, the Retail Banking Division manager, the Treasury Division manager and the Risk Management Department manager, are members of this Committee. The Committee is responsible for establishing general limits (both in accordance with regulatory requirements and with the

Bank's internal guidelines) and verifying compliance with such limits with respect to the following risks: credit, cross border, currency, interest rate, liquidity, market, securities holding, operational, etc. The Committee meets at least once every two months. The Committee acts formally by written resolutions.

**CREDIT COMMITTEE:** This Committee is composed of four Directors and the Credit Division manager. The Wholesale Banking Division manager, the Retail Banking Division manager and the Treasury Division manager may be present in case the account subject to the Committee's approval belongs to any of those departments. The Committee meets at least four times a week with a quorum of at least one director. This Committee's function is to decide on loans greater than Ps. 5 million in the case of corporate customers, on loans greater than Ps. 1 million in the case of individuals, and on all loans to be granted to financial institutions (local or foreign) and related companies. Approved operations are recorded in signed and dated documents.

**FINANCIAL RISK POLICY COMMITTEE:** This Committee is made up of six Directors, the Retail Banking Division manager, the Treasury Division manager, and the Risk Management Department manager. It is responsible for analyzing the evolution of the Bank's business from a financial point of view, as regards fund-raising and placement of assets. Moreover, this Committee is in charge of the follow-up and control of liquidity, interest-rate and currency mismatches. In all cases, it is responsible for the establishment of the Bank's policies related to each of these areas. The Committee meets at least once every fifteen days. The Committee acts formally by written resolutions.

**SYSTEMS COMMITTEE:** This Committee is composed of six Directors, the Treasury and Corporate Services Division managers and the IT Department Manager. This Committee is in charge of supervising and approving new systems' developments plans and budgets, as well as supervising these systems' budget controls. It is also responsible for approving the general design of the systems' structure implemented and for supervising the quality of the Bank's systems. The Committee meets at least once every three months. The Committee acts formally by written resolutions.

**AUDIT COMMITTEE:** In accordance with the requirements set forth by the Argentine Central Bank, the Bank has an Audit Committee composed of two Directors, one of which is an independent director, and the Internal Audit manager. In addition, in its capacity as a publicly listed company (in Argentina), the Bank must comply with the transparency regime for public companies set forth by Decree No.677/2001 and by the rules established by the CNV in its resolutions No.400, 402 and supplementary regulations. In order to comply with the CNV rules regarding the composition of the audit committee, that require such committee to be composed of at least three directors with a majority of independent directors, the Ordinary Shareholders' Meeting held on April 29, 2004, appointed Messrs. Eduardo O. Del Piano and Pablo M. Garat as independent directors, and through the Board of Directors minutes dated April 30, 2004, they were appointed as members of the Audit Committee. The third member, Daniel A. Llambías, a non-independent director, was appointed by the Board of Directors as member of the Audit Committee.

**COMMITTEE FOR THE CONTROL AND PREVENTION OF MONEY LAUNDERING AND FUNDING OF TERRORIST ACTIVITIES:** This Committee is responsible for planning, coordinating, and promoting compliance with the policies for the prevention and control of money laundering established and agreed by the Board of Directors, based on current regulations. Furthermore, as regards funding of terrorist activities this committee is in charge of the design of internal controls, personnel training plans and the control of the fulfillment thereof by the internal audit. It is composed of three Directors, the Treasury Division manager, the Corporate Services Division manager, the Wholesale Banking Division manager, the Risk Management Department manager, the Human Resources and Organizational Development

Manager, the Internal Audit manager, a representative of the Syndics Committee, and the head of the Anti-laundering Unit. The Anti-laundering Unit reports directly to the Board of Directors. In addition, in accordance with the regulations set forth by the Argentine Central Bank, Director Dr. Enrique M. Garda Olaciregui was appointed as the Bank's officer responsible for the control and prevention of money laundering. The Committee is scheduled to meet at least once every two months. Resolutions must be registered in a minutes' book bearing folios and seals.

**DISCLOSURE COMMITTEE:** This Committee was created to comply with the provisions of the US Sarbanes-Oxley Act of the United States of America issued in 2002. This Committee is composed of three Directors, the Wholesale Banking Division manager, the Retail Banking Division manager, the Treasury Division manager, the manager of the Planning and Management Control Division, the Internal Audit manager, and the Accounting Department manager, the Financial Analysis and Planning Department manager, the Relations with Investors and Rating Agencies Department manager, as well as of a representative of the Bank's Supervisory Syndics Committee. A member of the committee that was created for the same purpose by Grupo Financiero Galicia S.A. ("Grupo Financiero Galicia") also attends the meetings held by this committee.

**HUMAN RESOURCES COMMITTEE:** The Human Resources Committee is in charge of the appointment and assignment of personnel, transfers, rotation, and development of personnel and headcount. This Committee works at two levels: (i) the Restricted Human Resources Committee which deals with the issues of personnel included in the 1 to 6 salary levels, is scheduled to meet at least every two weeks and acts formally by written resolutions; and; (ii) the Human Resources Committee which deals with the issues of personnel included in salary levels 7, 8 and 9, and also deals with the issues of personnel included in level 10 and above, in which case it submits its recommendations to the Board of Directors. The Committee meets whenever there are issues that require consideration, and acts with a quorum of at least one director. The Committee acts formally by written resolutions.

**ASSETS AND LIABILITIES COMMITTEE (ALCO):** This Committee is in charge of analyzing and making recommendations to the business divisions in connection with the management of interest-rate, currency, and maturity mismatches, with the goal of maximizing financial and foreign-exchange results within acceptable parameters of risk and capital use. This Committee is also responsible for suggesting changes of these parameters, if necessary, to the Board of Directors. Two Directors, the manager of the Planning and Management Control Division (this Division being the Funding Unit manager), the Wholesale Banking Division manager, the Retail Banking Division manager, and the Treasury Division manager are members of this Committee. This Committee appointed a permanent staff composed of the Credit Division manager, and the Risk Management, Planning and Budget Control, Profitability and Resource Allocation, Financial Operations and the Financial Analysis and Planning departmental managers. The Committee meets once every two weeks. Its meetings are recorded in a minutes of meeting signed by all the members of this Committee.

**CUSTOMER ASSISTANCE COMMITTEE:** This Committee is in charge of the general supervision of the activities related to the attention, follow-up and resolution of customer complaints. The Committee establishes the standards for customer service, with the purpose of implementing improvements to minimize the number of complaints and shorten response times. This Committee is composed of two Directors and the division and department managers and other officers whose participation is deemed relevant. The Committee is scheduled to meet at least once every two months. The Committee acts formally by written resolutions.

Periodically, the Board of Directors is informed of the actions taken by the Commissions and Committees, which are written down in the minutes.

## **Corporate Organizational Structure**

The following divisions report to the Board of Directors:

**WHOLESALE BANKING:** This Division is responsible for managing the Bank's business related to corporate customers. The departments reporting to Wholesale Banking are: Corporate Banking, Middle-market Banking, Investment Banking, Capital Markets, Wholesale Marketing and Foreign Trade.

**RETAIL BANKING:** This Division is responsible for managing the Bank's business relating to individuals. The areas reporting to Retail Banking are: Consumer Banking, Retail Marketing and Private Banking.

**TREASURY:** This Division is responsible for planning and managing the correct use of financial resources and providing the appropriate funding for the Bank's businesses, establishing and applying the Bank's deposit-raising and funding policies within the parameters established by the Bank's risk policies. It also manages short-term funds and the investment portfolio, ensuring the correct execution of transactions. The following departments report to this Division: Financial Analysis and Planning, Asset Management, Financial Operations, and International Banking and Financing Relations.

**CREDIT:** This Division is responsible for defining credit-risk management policies, verifying compliance with these policies, and developing the credit assessment models to be applied to the different risk products. It is also responsible for approving credit extensions to the Bank's customers while ensuring that the credit quality of the Bank's portfolio is preserved and generating the information on credit risk required by the Bank's Board of Directors and by the regulatory authorities. The following departments report to this Division: Corporate Credit, Retail Credit and Corporate Recovery.

**CORPORATE SERVICES:** This Division is responsible for providing logistic support for all the organization's operations. The following departments report to this Division: IT, Operations, Administrative Services, and Organization.

**DISTRIBUTION:** This division is in charge of the suitable coordination of the different channels focused on each of the customer segments as well as the coordination of the offer of the different products and services offered by the Bank. Two regional branch supervision departments and the Alternative Channels Department report to the Distribution Division.

The Legal Counsel, Planning and Management Control, Internal Audit, Human Resources and Organizational Development, Institutional Affairs and Chief Economist offices report to the Board of Directors. Likewise, during the fiscal year 2005, the hierarchy of the Anti-Laundering Unit was increased to that of a department that began to report to the Board of Directors.

## **Banco Galicia's Supervisory Syndics Committee**

The Bank's Bylaws provide for a Supervisory Syndics Committee consisting of three regular members (syndics) and three alternate members (alternate syndics). The following chart shows the composition of the Supervisory Syndics Committee as appointed by the Ordinary and Extraordinary Shareholders' Meeting held on April 27, 2006.

<b>Name</b>	<b>Position</b>	<b>Expiration of Term</b>
Adolfo H. Melián	Syndic	12/31/2006
Norberto D. Corizzo	Syndic	12/31/2006
Raúl Estévez	Syndic	12/31/2006
Fernando Noetinger	Alternate Syndic	12/31/2006
Miguel N. Armando	Alternate Syndic	12/31/2006
Ricardo A. Bertoglio	Alternate Syndic	12/31/2006

Pursuant to the Corporations Law and the regulations of the Argentine Central Bank, among others, the regular and alternate members of the Supervisory Syndics Committee are responsible for the controlling that the Bank's actions are in accordance with applicable regulations. The syndics and the alternate syndics do not partake in business management and cannot have managerial functions of any kind. Syndics are in charge, among other tasks, of the preparation of a report to the shareholders regarding the financial statements for each fiscal year. The syndics and the alternate syndics are elected at the annual ordinary shareholders' meeting for a one-year term and they can be reelected. The alternate syndics act in the temporary or permanent absence of one or more syndics.

#### **Policy for Compensation of Directors and Officers of Banco Galicia**

Article 25, section 2 of the Bank's Bylaws establishes that among the powers and duties of the Board of Directors, the Board may determine, whenever it so deems convenient to corporate interests, whether its members shall perform technical or administrative duties within the Company and receive remuneration for such activities, with such remuneration having to be reported at the Shareholders' Meeting. In such cases, compensation for the relevant directors set by the Shareholders' Meeting shall be charged to general expenses.

The Bank's Bylaws also provide that the Board of Directors will receive incentive compensation in an amount approved by the Shareholders' Meeting. Such amount cannot exceed six per cent (6%) of the Bank's net income before income tax or any other tax that may replace it.

The Board of Directors sets the policy for compensation of the Bank's personnel. Managers receive a fixed compensation and they may also receive a variable compensation based on their performance.

Seven of the directors and two of the alternate directors are employees of the Bank and, therefore, receive fixed compensation and are entitled to variable compensation based on their performance, provided that these additional payments do not exceed the standard payments made by similar entities in the Argentine financial system, a provision that is applicable to managers as well.

The compensation regime includes the possibility of acquiring a retirement insurance policy. The Bank does not maintain any options plan.

The Shareholders' Meeting must approve the compensation of the Board of Directors after the close of the fiscal year.

During 2005, provisions were established to cover the variable compensation of the Board of Directors and managers for the fiscal year.

As a consequence to the finalization of the negotiations for the restructuring of the Bank's foreign debt in 2004, a limit per fiscal year to the aggregate amount that the Board of Directors can perceive as honorarium was established. Those members of the Board of Directors who hold executive offices may receive additional payments as compensation for performing said functions, provided that these additional payments do not exceed the standard levels of Argentina's financial market. Under the terms of the agreements subscribed as part of its foreign debt restructuring process, the Bank has agreed not to make payments to its managers exceeding the standard levels of the domestic financial market.

In March 2006, the Bank's Board of Directors decided to pay the variable compensation corresponding to fiscal year 2005, based on the compensation for similar or equivalent positions in the labor market, in recognition of the performance and professional development of the respective beneficiaries during said fiscal year. The corresponding amount was funded with reserves established during said fiscal year.

The Bank had a bonus program with Grupo Financiero Galicia's shares and ADSs, for the benefit of certain individuals who held managerial positions at the Bank and at its controlled or related companies. To this effect, in 2000, the 2004 Galicia Trust was created which purchased Grupo Financiero Galicia's shares and ADSs. In 2001, the beneficiaries were named and 157,669.40 Grupo Galicia's ADSs that were part of the 2004 Galicia Trust were transferred to the 2005 Galicia Trust. In 2003, the 2004 Galicia Trust was early terminated and the Grupo Financiero Galicia's shares and ADSs were distributed to the appointed beneficiaries. The 2005 Galicia Trust matured on May 31, 2006. Grupo Galicia's shares and ADSs returned to the Bank and were subsequently sold before the fiscal year's end. The beneficiaries of said trust were never appointed.