

Grupo Financiero | **Galicia**

# **ANNUAL REPORT**

**7<sup>TH</sup>. FISCAL YEAR**

**JANUARY - DECEMBER 2005**

## **OVERVIEW OF THE COMPANY**

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GRUPO FINANCIERO GALICIA S.A. (hereinafter “Grupo Financiero Galicia”) was constituted on September 14, 1999, as a financial services holding company subject to and organized under the laws of Argentina. As of December 31, 2005, its most important asset was Banco de Galicia y Buenos Aires S.A. (hereinafter “Banco Galicia” or “the Bank”), in which it held a 93.6% interest.

Founded in 1905, Banco Galicia is one of the largest private-sector banks in the Argentine financial system in terms of assets and shareholders’ equity, and one of the leading providers of financial services in the country. In its capacity as a universal bank, and through affiliated companies operating in specific businesses or markets and various distribution channels, Banco Galicia offers, both directly and indirectly, a full spectrum of financial and transaction services to more than 2.9 million customers, both individual and corporate.

Grupo Financiero Galicia’s objective is to establish itself as one of Argentina’s leading comprehensive financial services companies. At the same time, it plans to continue strengthening Banco Galicia’s position as one of the country’s major banks.

## **CONTENTS**

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- Financial Highlights
- Letter from the Chairman
- Annual Report
  - The Argentine Economy in 2005
  - The Financial System
  - The Insurance Industry
  - Review of Operations
  - Composition and Functions of the Board of Directors, Corporate Organization and Internal Control
  - Management’s Discussion and Analysis
- Annual Financial Statements
- Board of Directors, Supervisory Syndic's Committee and Senior Executives
- Notice of Meeting
- Additional Information for Shareholders

## FINANCIAL HIGHLIGHTS

	<b>Grupo Financiero Galicia S.A. Consolidated</b>	
	<b>December 31,</b>	
<i>In millions of Pesos, except for ratios, per share/ADS data and exchange rates (in pesos)</i>	<b>2005</b>	<b>2004</b>
<b>For the year</b>		
Net income (Loss)	107.24	(109.87)
Average shares outstanding (in millions)	1,241.40	1,185.2
<b>Earnings</b>		
per share	0.086	(0.093)
per ADS <sup>(1)</sup>	0.860	(0.930)
<b>At year-end</b>		
Total assets	25,635.72	23,650.55
Loans, net	10,555.18	8,438.18
Deposits	8,421.66	6,756.91
Negotiable obligations	3,483.45	3,728.73
Shareholders' equity	1,626.78	1,519.54
Shares outstanding (in millions)	1,241.40	1,241.40
<b>Book value</b>		
per share	1.310	1.224
per ADS <sup>(1)</sup>	13.10	12.24
<b>Selected ratios (%)</b>		
Return on average shareholders' equity	6.83	(7.32)
Return on average assets	0.59	(0.42)
Shareholders' equity to total assets	6.35	6.42
Exchange rate – BCRA	3.0315	2.9738

(1) One ADS represents 10 shares.

## **LETTER FROM THE CHAIRMAN**

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To our Shareholders:

Income for the fiscal year ended December 31, 2005 amounted to Ps.107.2 million, what, compared to the Ps.109.9 million loss recorded for the previous fiscal year, shows a significant improvement in Grupo Galicia's results. This was mainly due to the general increase in the level of activity of its main subsidiaries, with an improvement in their market positioning and the quality of their assets.

This recovery took place within a favorable macroeconomic environment where, for the third consecutive year, the economy grew around 9% amidst the framework of a high fiscal surplus and surplus on current account. This strong economic growth had a positive impact on the creation of jobs, what led the unemployment rate to drop to 10.1% at the end of 2005, from 12.1% at the end of 2004.

An event worth to be mentioned was the ending of the swap for the restructuring of Argentina's public foreign debt during 2005, what allowed for the regularization of most of such debt and the improvement in the perception of foreign investors. It is also worth noting the decision taken by the National Government to repay in advance the debt with the International Monetary Fund, what was achieved in January 2006.

In turn, the financial system consolidated its recovery and attained, as a whole, annual profits for the first time since the crisis took place. Deposits from the private sector grew 21.4% and loans to the private sector increased 38.5%, which clearly show the level of improvement reached during the fiscal year.

Banco Galicia, main subsidiary of Grupo Financiero Galicia, grew more than the financial system as a whole. The Bank's deposits from the private sector raised only in Argentina increased 34.9%, what resulted in an increase in the Bank's market share in the total deposits from the private sector, which reached 7.97% at year-end. The Bank's loans to the private sector in Argentina also grew more than the market average, showing a 48.1% increase. This increase in loans to the private sector was shown both in the consumer and the corporate sectors.

The Bank recorded profits for Ps.191.0 million. Among the factors that contributed to such profits, the following are worth noting: the increase in the financial brokerage business, the improvement in the asset quality of the loan portfolio and the increase in income from services, partially offset by an increase in administrative expenses. Furthermore, such gain includes the favorable effect of the debt relief that Banco Galicia Uruguay owed to Grupo Financiero Galicia, as discussed below. The Bank's adjusted net income for the fiscal year amounted to Ps.221.0 million. This adjusted net income does not consider the accounting adjustments resulting from the crisis that took place in

2002 which have an impact on the net income, that is to say, the amortization of legal actions filed by depositors (*amparos*) and the adjustment to the valuation of public-sector assets (pursuant to the regulations of the Argentine Central Bank).

With the purpose of strengthening the financial condition of Banco Galicia Uruguay, Grupo Financiero Galicia waived the rights arising from the subordinated negotiable obligations for US\$43 million issued by said institution. As a consequence of this waiver, Banco Galicia Uruguay's liabilities decreased, with the resulting effect on its financial condition and that of its controlling company, Banco Galicia. What is more, even though Grupo Financiero Galicia had to record a loss, it also recognized a positive effect on its financial condition in the proportion corresponding to its 93.6% share in the Bank.

With respect to the insurance business conducted by Grupo Financiero Galicia through its subsidiary Sudamericana Holding S.A., I would like to point out this company increased its net income from Ps.4.25 million to Ps.11.25 million during this fiscal year, mainly due to an increase in sales higher than 30%. In turn, the measures implemented with the purpose of improving the portfolio laps ratio started to show positive results, the same as the redefinition of distribution channels and the redesign of products.

The fiscal year ended was very important, not only because of the results achieved, but also due to the fact that, in 2005, Banco Galicia celebrated its first 100 years in business, what is a reason of special satisfaction and pride. To celebrate this occasion, the Bank organized several activities as tribute and celebration.

For 2006, Grupo Financiero Galicia and its controlled companies plan to continue consolidating the relationship with its customers, being close to them in this period of development and growth of Argentina, collaborating with the progress of the society in its entirety and contributing and committing all their responsibility and experience.

On behalf of the Board of Directors, I would like to especially thank the customers for their loyalty and confidence, our staff for their constant cooperation and commitment, and our shareholders for their continuous support

**Antonio R. Garcés**

Chairman of the Board of Directors

Buenos Aires, March 10, 2006

## **ANNUAL REPORT**

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The Board of Directors submits to the shareholders for their consideration the Board of Directors' Report, the Financial Statements and the Supervisory Syndics' Committee Report for the 7<sup>th</sup> fiscal year of Grupo Financiero Galicia S.A. ended December 31, 2005.

### **THE ARGENTINE ECONOMY IN 2005**

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Taking into consideration the real information for the three first quarters of 2005 and the result of the main indicators of economic activity for the fourth quarter, the annual growth of Argentina's GDP has been higher than 9% during 2005. This way, three consecutive years of growth were achieved, with rates close to 9%.

The unemployment rate decreased from 12.1% for the fourth quarter of 2004 to 10.1% for the fourth quarter of 2005; therefore, the growth pace of the employment rate was lower than that of the economic activity.

The excellent performance of the Argentine economy was attained within an environment of a growing increase in prices: the retail inflation ratio, as measured by the Consumer Price Index (I.P.C.), amounted to 12.3% in 2005 when compared to the 6.1% in 2004. At the same time, the increase in wholesale prices pursuant to the Wholesale Domestic Price Index (I.P.I.M.) was 10.7%. One of the main reasons for this increase in inflation is the strong expansion of aggregate demand within an environment of a high level of installed capacity.

In spite of the upward trend in prices, the nominal exchange rate remained relatively stable during 2005, showing a slight increase towards the end of the year. The reference exchange rate established by the Argentine Central Bank increased from Ps.2.97 to Ps.3.03 per US dollar between December 31, 2004 and December 31, 2005.

As regards monetary variables, both deposits from the private sector and credit to the private sector within the financial system showed a strong dynamism. Pursuant to information provided by the Argentine Central Bank, during 2005 the balance of loans to the private sector increased 38.5%, and that of deposits from the private sector increased 21.4%. Even though most of the credit lines showed a significant recovery, credit as a percentage of GDP is much lower than the ratios observed internationally, and even those observed in Argentina in the past.

Domestic demand continued to be one of the main driving engines of the economic activity and, within it, fixed gross investments grew 20.9% during the first three quarters of 2005, when

compared to the same period of 2004. Private consumption also showed a significant increase of 9.4% for the same period, mainly driven by an improvement in the labor market, as real salaries grew 7.1% in 2005, when compared to the previous year.

During the first three quarters of the year, the goods manufacturing sector was highly dynamic, growing 9.7% inter-annually. On the other hand, the service sector grew 8.3% during the first three quarters, being worth noting the recovery of the financial sector, which grew 16.4%.

As regards aggregate supply, the most dynamic sector was again the construction sector, which grew, on average, 18.2% inter-annually during the first three quarters of the year. The construction sector was followed by the agriculture and livestock sector, which showed a 15.2% increase, mainly due to the favorable international environment in terms of prices. The industrial sector grew at a 7.7% rate, where automotive, non-metallic mineral products, rubber and plastic, and editing and printing were the leading sectors.

In December 2005, the monetary base amounted to Ps.55,827 million, showing a 10.5% increase in comparison to 2004. The Argentine Central Bank maintained the expansionary monetary policy pursued the previous year through the intervention in the foreign exchange market, which was aimed at strengthening the position in international reserves. The payment of rediscounts by financial institutions, the repo transactions and the bidding on the Central Bank Bills (Lebacs) contributed to the maintenance of a relatively low expansion pace.

Interest rates of peso-denominated one-year Lebacs increased from 5.9% as of December 31, 2004 to 8.9% as of December 31, 2005. As regards placement of 30-day Lebacs, as of December 31, 2005 the interest rate was 6.76%, what implied a significant increase in comparison to placements made at the beginning of the year, at a 2.85% rate.

This trend in benchmark rates had an impact on the returns of time-deposit placements. The interest rate for peso-denominated 30-day time deposits increased, on average, from 3.1% in December 2004 to 5.2% in December 2005.

In the fiscal area, the good performance of tax revenues continued, which grew 21.3% in 2005, in comparison to the previous year. Primary expenditures increased at a 21.8% rate during the same period. The improvement in tax revenues is mainly attributable to the higher level of economic activity, the increase in prices and the significant contribution of taxes on foreign trade transactions and the tax on bank debits and credits. The National Government managed to achieve a primary surplus of Ps.19,626 million, equivalent to 3.7% of GDP. After interest payments for Ps.10,247 million, the global fiscal result was a surplus of Ps.9,379 million.

The external sector showed once more a balance of payments surplus on current account that was the result of a high trade surplus and the payment of interests, which were reduced due to the public debt restructuring. The trade balance surplus accrued during the year amounted to US\$11,322 million: exports showed a variation close to 16%, an increase that was mainly the result of higher volumes; while imports increased around 28%, mainly due to the joint effect of prices and volume. Agriculture and livestock exports continue to be the ones with the highest share in the total exports of Argentina (33%), followed by industrial goods (30%). As regards imports, products imported as intermediate goods represented 36% of total imports, followed by the purchases of capital goods (25%).

In turn, the capital account recorded a net foreign currency inflow of US\$2,324 million for the first nine months of 2005, thus reverting the negative trend of the last years. The public debt swap resulted in a significant reduction in public-sector liabilities, both to foreign and domestic creditors. This led the stock of total public debt to represent 73% of GDP (compared to the 113% before the swap), not including those holders of debt securities who did not take part in the swap and who represent, approximately, 13% of GDP. What is more, interests accrued yearly were strongly reduced, which, after the restructuring process, decreased from 8% in terms of GDP to 2%.

Likewise, and within the framework of the policy aimed at the reduction of public debt, in December the Ministry of Economy announced the decision to repay in advance the total debt with the International Monetary Fund. The full payment, which amounted to approximately US\$9,500 million, was made using international reserves held by the Argentine Central Bank. In exchange, the National Government issued a non-transferable peso-denominated 10-year bill to compensate the Argentine Central Bank's assets. It is important to note that, in this way, the Government managed to ease the financial program for the years to come.

As of December 31, 2005, the Argentine Central Bank's international reserves amounted to US\$28,077 million, compared to US\$19,646 million at the end of 2004. A few days after the beginning of 2006, such stock was reduced as a consequence of the aforementioned advance payment made to the IMF, thus amounting to US\$18,580 million as of January 3, 2006.

## **THE FINANCIAL SYSTEM**

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During 2005, the financial system also showed a favorable behavior: the financial system's total deposits increased 17.7%, reaching Ps.134,669 million at the end of 2005, despite the fact that real interest rates were negative during the year as a consequence of the high liquidity level in the financial system as a whole. This growth in deposits made it possible to continue carrying out financial brokerage activities. Deposits from the private sector experienced the highest growth, increasing 21.4% and reaching Ps.99,292 million. Deposits from the public sector amounted to Ps.34,200 million. Deposits from the financial sector and those of residents abroad reached Ps.1,175 million, and the rest corresponds to rescheduled deposits subject to judicial proceedings, which only represented 0.5% of total deposits in the system.

Time deposits represented 47% of deposits from the private sector, while transactional deposits (deposits in current and saving accounts) represented 53% of deposits from such sector.

Even though time deposits adjusted by CER grew more than 35%, the Ps.6,610 million they reached does not even represent 4.9% of total deposits in the system.

The ratio between deposits from the private sector and GDP at the end of 2005 is estimated at 18.7%, higher than the 18.2% reached the previous year, but lower than the ratio shown in the past decade.

As of December 31, 2005, the stock of total loans to the private sector amounted to Ps.53,648 million, equivalent to 10.1% of GDP. This figure was higher than the 8.7% recorded at the end of 2004, but much lower than the 23.3% reached in 1999. The stock of total loans to the private sector diminished constantly between 1999 and 2003. However, such stock increased to 24.9% in 2004 and continued growing during 2005 at high rates, what resulted in a 38.5% growth.

Commercial loans to the private sector (cash advances in current account and promissory notes) grew 40.0%, reaching Ps.16,817 million at the end of 2005, while consumer credit lines (personal loans and loans through credit cards) increased 69.4% to Ps.13,015 million.

The same as the previous year, in 2005 banks increasingly resorted to the securitization of their loan portfolios as an alternative source of financing, transferring loan portfolios to financial trusts. The placement of such instruments, both by banks and non-banking companies, increased 214.8%, from Ps.1,628 million in 2004 to Ps.5,125 million in 2005.

Financial markets showed a strong expansion, mainly after the foreign debt restructuring carried out by Argentina in mid-2005: the fixed-income market grew both in respect to prices and trading volume, and the EMBI+ index for Argentina dropped to 499 basis points at the end of 2005. The

repos and reverse repos market and the future currency market (FOREX) also showed a significant growth during 2005, the same as funds managed by mutual funds.

Even though real interest rates were negative, nominal interest rates grew as a result of the decrease in excess liquidity and due to the significant increase in loans to the private sector. The interest rate for average time deposits up to 59 days paid by private banks was, on average, 6.39% in December 2005, compared to 3.25% in January 2005. The spread between borrowing and lending rates dropped during 2005, thus evidencing the strong competition among the different institutions as regards the granting of loans. An increase in interest rates was also evidenced internationally: for instance, 180-day LIBO increased 202 basis points during the year.

At the end of 2005, the financial system was composed of 13 government-owned banks (which represented 44.4% of total deposits in the financial system) and 58 private-sector banks (which accounted for 55.4% of total deposits). Of the private-sector banks, 23 were foreign-owned institutions (which accounted for 28.6% of total deposits) and 35 were domestic banks (which represented 26.8% of total deposits).

The concentration of the financial system, measured by the deposit-market share of the ten leading banks, reached 77.1%.

## **THE INSURANCE INDUSTRY**

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Total insurance is gradually resuming the growth pace it had before the economic crisis that took place in 2001. During 2005, it showed a favorable trend, increasing 11.7% and reaching, pursuant to official estimations, Ps.13,413 million. Expectations are that the moderate trend in the growth of premiums, of approximately 14% expressed in current values, will continue in 2006.

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

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

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

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

## **OUTLOOK**

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The economic outlook for this year is favorable, taking into consideration that the strong growth showed during 2005 leaves for 2006 an inter-annual growth rate of the GDP, due to a statistical drag, of approximately 3.9%. This growth rate would be higher if, as expected, the positive growth pace of domestic demand observed in 2005 continues, reaching an annual growth higher than 6%. This way, at the end of 2006, Argentina will have attained four consecutive years of strong economic expansion.

As regards the financial system, during 2006 no changes are expected in the main trends observed in 2005. It is estimated that the level of activity of the financial system will continue growing at significant rates, mainly as regards intermediation activities. The low levels of loans as a percentage of GDP and, to a lesser extent those of deposits, allow for the expectation of a strong growth in the future, thus replacing the high level of money in circulation existing in the economy, when compared to the levels before the crisis. Furthermore, credit to the private sector would continue growing at a higher pace than that of deposits from the private sector. In addition to this, it is also expected that the trend as regards the disintermediation of commercial banks will continue, with an increase in financing through financial instruments such as securities from financial trusts and short- and long-term negotiable obligations.

With respect to the financial system's profitability, the growth in the volume of intermediation business would be the main factor for the increase in the financial institutions' operating income. The outlook for nominal interest rates indicates a moderate increase, while real interest rates would continue being negative with a decrease in spreads. Within this environment and a framework of increasing capital requirements and a strong competition, the concentration trend is also expected to continue.

## **REVIEW OF OPERATIONS**

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Grupo Financiero Galicia's strategy is to establish itself as one of Argentina's leading comprehensive financial services companies while continuing to strengthen Banco Galicia's position as one of Argentina's leading banks. Its main objective is to create value for its shareholders.

Grupo Financiero Galicia's corporate purpose is exclusively related to financial services and investment and which, pursuant to its bylaws, may not carry out transactions included in the Financial Institutions Act (*Ley de Entidades Financieras*). The policy that Grupo Financiero Galicia proposes is that, insofar as it is appropriate, the Bank maintains its participation in various businesses and that, regarding future opportunities, it participates to the measure and the degree authorized by the regulations in force.

The following is a description of the subsidiary companies' operations during the fiscal year 2005.

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

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Founded in 1905, Banco Galicia is one of the largest private-sector banks in the Argentine financial system. It operates one of the most extensive and diversified distribution networks in Argentina, offering 381 points of contact with customers, including traditional branches and electronic banking facilities. Banco Galicia customers also have access to telephone-banking services and "e-galicia.com", the first financial Internet portal established by a bank in Argentina.

As a universal bank, Banco Galicia and its subsidiaries have a broad customer base that includes all individual, corporate, and institutional market segments, reaching 2.9 million customers.

As of December 31, 2005, Banco Galicia's total assets, on a consolidated basis, were Ps.25,456.2 million, its net loan portfolio was of Ps.10,507.7 million and its total deposits were of Ps.8,437.7 million.

The Bank's deposits from the private sector raised only in Argentina increased 34.9% during 2005. Said growth was higher than that one registered for the financial system as a whole. Consequently, this resulted in an increase in the Bank's estimated market share in the total deposits from the private sector in the Argentine financial system, which reached 7.97% at the end of 2005 in comparison with 7.07% as of December 31, 2004.

The Bank's loans to the private sector granted in Argentina grew 48.1%. The Bank's estimated market share in the total loans to the private sector in the Argentine financial system (on an unconsolidated basis and excluding the loan portfolio of the regional credit-card companies) was 7.31% as of

December 31, 2005; thus showing an increase of 0.88 percentage points when compared to December 31, 2004.

The non-accrual loan portfolio as a percentage of total loans to the private sector decreased from 15.93% as of December 31, 2004 to 6.78% as of December 31, 2005. The coverage of the non-accrual portfolio with allowances increased to 111.90% as of December 31, 2005, from 90.51% as of December 31, 2004.

In fiscal year 2005, the Bank recorded a Ps.191.0 million profit, compared to a loss of Ps.108.6 million for the previous fiscal year. The Bank's adjusted net income for the fiscal year amounted to Ps.221.0 million (excluding the Ps.92.3 million profit for the adjustment to the valuation of public-sector assets and the Ps.122.3 million loss for the amortization of legal actions filed by depositors [*amparos*]), compared to Ps.205.7 million in 2004, what shows a 7.5% increase. This result includes the favorable effect of the debt relief that Banco Galicia Uruguay owed to Grupo Financiero Galicia for US\$43 million.

This higher net income for the fiscal year is mainly attributable to higher adjusted net financial income (excluding the adjustment to the valuation of public-sector assets) and net income from services, as well as lower provisions for loan losses, mainly offset by higher administrative expenses and lower reversals of allowances for loan losses.

Net financial income amounted to Ps.493.9 million, while adjusted net financial income amounted to Ps.401.6 million, showing a 65.9% increase when compared to the previous year (adjusted by the Ps.119.7 million profit corresponding to the results of the Bank's foreign debt restructuring process, ended in May, 2004).

Net income from services rose 20.2% due to the significant increase in the Bank's volume of operations and the increase in the prices of certain services in the third quarter of 2005.

The provision for losses on loans was 59.7% less than the one recorded for the previous fiscal year, thus reflecting the improvement in the asset quality of the loan portfolio due to the positive evolution of the Argentine economy, the fulfillment of the Bank's commercial portfolio restructuring and the charge-offs against allowances for loan losses.

Administrative expenses increased 27.2%, from which personnel expenses grew 35.6% due to higher compensation amounts and an increase in staff in order to adjust to the higher level of activity. Advertising and publicity expenses also increased, as well as the rest of the administrative expenses, due to the higher level of activity and the increase in the inflation rate.

Miscellaneous net income, although positive, decreased by 37.7%. This includes the Ps.124.3 million profit from Grupo Financiero Galicia's waiver of rights to collect the subordinated negotiable obligations issued by Banco Galicia Uruguay, the recovery of loans for Ps.35 million and the net reversal of allowances for loan losses for Ps.28.5 million. These profits were offset by the Ps.122.3 million loss due to the amortization of legal actions filed by depositors (*amparos*).

The income tax charge was 91.6% higher than that recorded for the previous fiscal year, and it corresponds, almost completely, to Tarjetas Regionales S.A. consolidated with its operating subsidiaries. This increase was due to the fact that such subsidiaries absorbed the tax loss in fiscal year 2004.

A more detailed explanation can be found in Banco Galicia's Annual Report at [www.e-galicia.com.ar](http://www.e-galicia.com.ar).

### **SUDAMERICANA HOLDING S.A.**

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Grupo Financiero Galicia's stake in the company is 87.5%. Banco Galicia holds the remaining 12.5%.

This investment represents another step forward in Grupo Financiero Galicia's plan to consolidate its leadership as a financial services provider.

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

As regards business transactions, the focus was placed on continuing to increase the company's turnover by increasing sales and improving the insurance policy laps ratio, strengthening distribution through the bankassurance model and improving customer service quality. Ps.25.8 million of annualized premiums were sold, said figure was 31% higher than that of the previous year. Tarjeta Naranja stood out as regards the sale of life insurance through credit cards and the consolidation of home insurance sales (product launched at the end of 2004).

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

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

The business plan for the short-term aims at the strategic guideline of expanding the turnover volume, what, together with advances regarding efficiency, will allow for a better profitability of the global business. The priorities are as follows: to generate profitable businesses/ products highly appreciated by our customers; to convert channels into differentiation factors at the advisory level so as to establish long-term relationships with insureds; to improve insurance policy periods; to limit the loss experience level by carrying out a sensible underwriting of risks and settlement of claims as well as fighting against illegitimate practices; and to look for higher productivity, limiting the levels of expenditure, making processes more efficient and developing systems while improving the technological base.

## **OTHER COMPANIES**

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Net Investment S.A., through its subsidiary Net Investment B.V., has a stake in Tradecom International N.V. (“Grupo Tradecom”), company based in The Netherlands that conducted its business activities through its subsidiaries Tradecom Brasil S.A. and Tradecom Argentina S.A. In 2005, the shareholders of Grupo Tradecom decided to dissolve and liquidate Tradecom International N.V., move the corporate structure from The Netherlands to Brazil and regroup the holding in Tradecom Brasil S.A.

However, as a result of the fact that the business volume expected at the beginning of fiscal year 2005 had not been reached, among other factors, the majority shareholder of “Grupo Tradecom” (Unibanco - Uniao de Bancos Brasileiros S.A.) decided to concentrate some BtoB transactions in Brazil through its own structure. Therefore, the partners are currently negotiating agreements with the purpose of transferring Tradecom Brasil S.A.’s shares to Unibanco and Tradecom Argentina S.A.’s shares to Net Investment S.A.

During 2005, Tradecom Argentina made additional efforts to improve the services offered to its customers and to create new tools to meet all their needs. As a consequence of the interruption of the activities carried out by Tradecom Brasil, Tradecom Argentina incorporated part of its customer base, what will expand the e-procurement services offered by the company and, consequently, will lead to an increase in the company’s turnover.

Galicia Warrants S.A., company dedicated to the issuance of deposit certificates and warrants, has closely followed the expansion of Argentina’s industrial and agriculture and livestock sectors, meeting its customers’ requirements and rendering services throughout Argentina, in the regional economies that so required. As of December 31, 2005, the company had assets for Ps.6.7 million, with liabilities for Ps.1.7 million and a shareholders’ equity of Ps.5.0 million. During the fiscal year, the company

issued deposit certificates for US\$74.3 million, what implied revenues for Ps.5.2 million, thus recording a net income of Ps.0.5 million

Grupo Financiero Galicia, holder of a 100% interest in Galval Agente de Valores S.A., has made contributions for US\$650,000 during fiscal year 2005. As of September 2005, Galval Agente de Valores started to conduct operations gradually and, at year-end, it had customers' securities held in custody for US\$11.8 million.

## **COMPOSITION AND FUNCTIONS OF THE BOARD OF DIRECTORS, CORPORATE ORGANIZATION AND INTERNAL CONTROL**

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Grupo Financiero Galicia's Board of Directors is made up of nine directors and five alternate directors.

Grupo Financiero Galicia's Board of Directors meets formally between two and four times per month, and each time circumstances so require it. They are responsible for the establishment of general guidelines related to asset and liability management, the approval of business plans, economic and financial budgets, investments plans, and proposals for development of new businesses.

Grupo Financiero Galicia is directed by three management divisions.

The General Division's main function consists in the implementation of policies defined by Grupo Financiero Galicia's Board of Directors. This general division coordinates the Financial & Accounting Division and the Investor Relations Division.

The Financial & Accounting Division is mainly responsible for the assessment of investment alternatives, thus suggesting whether to invest or withdraw the company's positions in different companies or businesses. It also plans and coordinates the company's administrative services and financial resources in order to guarantee its proper management. This division also aims at meeting requirements set by several controlling bodies, complying with information and internal control needs and budgeting purposes.

The Investor Relations Division is mainly responsible for planning, preparing, coordinating and controlling the financial information that it provides to the stock exchanges where the Company's shares are listed, regulatory bodies and both domestic and international investors and analysts. Apart from considering the materials published by analysts, it is important that the division carries out the follow-up of their opinions, as well as those of shareholders and investors in general.

## DISCLOSURE COMMITTEE

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The “Disclosure Committee” was created during fiscal year 2002 with the purpose of complying with what is recommended by the “Sarbanes-Oxley Act of 2002”, since Grupo Financiero Galicia is a listed company at the NASDAQ Stock Market. The above-referred Act was passed to provide a stricter regulatory framework regarding information and corporate responsibilities, both for companies in the United States of America as well as foreign companies that act or participate in US markets. The Committee is made up of Grupo Financiero Galicia's President and Chief Executive Officer, the Managing Director and the Chief Accounting Officer and an administrative supervisor. Additionally, it has the authority to invite the executives in charge of other areas of the Company and/ or affiliated companies, as it deems convenient, to attend the meetings held by the Committee. At least one of the members of this Committee takes part in the meetings held by the "Disclosure Committee", created for the same purposes at the main subsidiaries.

During the fiscal year under analysis, the Committee developed a large schedule of activities, among which the following stand out:

- Monitor the Company’s internal control.
- Review the financial statements and other information published.
- Prepare the reports for the Board of Directors on the activities carried out by the Committee.
- Control the activities performed by internal audit.
- Execute and implement the necessary measures to comply with the certifications required by sections 906, 302 and 404 provided by the Sarbanes-Oxley Act.
- Monitoring over the modifications introduced in order to extent the application of the provisions of the Act to the Company’s main affiliated companies.
- Interact with the Company’s Audit Committee.

Over and above the different analyses and opinions the implementation of this Committee generated in the companies that conduct transactions in the US markets, the Company has intended to turn this committee into a body for the support of management-related activities. Additionally, the Committee has been working so that part of its operation also fulfills what is requested by domestic laws, represented by Decree No. 677/01 and Resolution No. 400/02 issued by the National Securities Commission (CNV) and, in that way, provide support regarding functions that it should carry out. At present, this Committee performs significant activities on the administrative and information areas that serve the Board of Directors and the Company’s Audit Committee in the development of its functions.

As discussed before, the Company continues to turn its approach of making all efforts necessary to comply with regulations into an opportunity to add value to the Company through an increased perception of transparency that the Company wishes to show in the markets where its shares are listed.

## **AUDIT COMMITTEE**

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During fiscal year 2003, Grupo Financiero Galicia complied with the provisions set forth by Decree 677/2001 in its section 15 and General Resolution No. 400/2002 enacted by the National Securities Commission (Decree No. 677/2001's regulations), which require that companies that make a public offering of shares should form an Audit Committee, and develop a charter with regulations for its operation. Such Committee was created as a body with no executive functions, which purpose is to provide the Company's Board of Directors with assistance in overseeing the financial statements, as well as in the task of controlling Grupo Financiero Galicia and its subsidiaries and companies it owns a stake in. Likewise, it is important to emphasize that the creation of the aforementioned Committee complies with the requirements of the Sarbanes-Oxley Act of the United States of America, which are applicable to all companies that participate in US markets regarding what is set forth for Audit Committees.

The Audit Committee performed a number of activities throughout fiscal year 2005, from which the following can be pointed out:

- Preparation of the "Audit Committee's annual planning and means for its operation" for fiscal year 2005.
- Evaluation on the independence, working plans and performance of External Audit.
- Assessment of plans and performance of Internal Audit.
- Evaluation of the internal controls in force at the Company and its main subsidiaries and, therefore, evaluation of the accounting and administrative system's operation.
- Assessment on the use of information policies on risk management at the Company's main subsidiaries.
- Assessment on the reliability of financial information submitted to the regulators and markets where the Company lists its shares.
- Evaluation of standards of conduct through the analysis of legal and regulatory provisions being in force and set forth in the Code of Ethics established by the Company. These standards are basically those related to transparency, conflict of interests, reliability and the appropriate disclosure of accounting information and other significant events as well as the protection of the Company's net worth.

## **SUPERVISORY SYNDICS' COMMITTEE**

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In line with what is set forth in the Law Governing Commercial Companies, corporate bylaws provide for a Supervisory Syndics' Committee consisting of three regular members (syndics) and three alternate members (alternate syndics). In accordance with the applicable Argentine law, the Supervisory Syndics' Committee is responsible for controlling the Company's management, for which its members examine books and documentation when they deem it convenient and at least every three months. At least one of the members attends the meetings of the Board of Directors. Unlike directors, syndics and alternate syndics have no management functions and they cannot have them. The syndics are responsible for, among other things, preparation of a report to shareholders analyzing the Company's financial statements and Annual Report for each fiscal year. Alternate syndics act in the temporary or permanent absence of a syndic. The syndics and the alternate syndics are elected for one-year term by the shareholders at their annual general meeting.

## **COMPENSATION POLICY FOR DIRECTORS AND OFFICERS**

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The policy for compensation applied by Grupo Financiero Galicia and its controlled companies is, essentially, the same, and it consists in arranging salary levels in order of importance based on a system that describes and assesses tasks by factors (Hay System). The purpose is to pay compensation amounts similar to those observed in the domestic market for functions with the same hierarchy and responsibilities. Managers and directors who are employees of the Company or its controlled companies receive a fixed compensation and may receive a variable fee based on individual performance. This policy for compensation envisages the possibility of having access to retirement insurance.

Independent directors are paid a fix fee based on the functions they carry out. Compensation for the members of the Board of Directors shall be considered by the Shareholders' Meeting once the fiscal year has ended.

There are no option plans.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CONSOLIDATED INFORMATION

*In millions of Pesos*

	Fiscal Year 2005	Fiscal Year 2004
<b>Consolidated Income (Loss) Statement</b>		
Financial Income	2,398.63	1,391.59
Financial Expenses	1,845.93	1,167.45
<b>Gross Brokerage Margin</b>	<b>552.70</b>	<b>224.14</b>
Provision for Losses on Loans and Other Receivables	76.73	190.23
Net Income from Services	523.77	436.29
Administrative Expenses	780.97	623.94
<b>Net Income (Loss) from Financial Brokerage</b>	<b>218.77</b>	<b>(153.74)</b>
Minority Interest	(34.61)	(14.30)
Income (Loss) from Equity Investments	6.66	2.99
Miscellaneous Income (Loss), Net	(64.28)	98.99
<b>Net Income (Loss) before Income Tax</b>	<b>126.54</b>	<b>(66.06)</b>
Income Tax	19.30	43.81
<b>Net Income (Loss)</b>	<b>107.24</b>	<b>(109.87)</b>
<b>Consolidated Balance Sheet</b>		
	<b>Dec. 31, 2005</b>	<b>Dec. 31, 2004</b>
<b>Assets</b>		
Cash and Due from Banks	1,041.16	988.67
Government Securities	5,971.76	5,534.10
Loans	10,555.18	8,438.18
Other Receivables from Financial Brokerage	6,162.38	6,697.69
Equity in Other Companies	85.12	82.82
Bank Premises and Equipment, Miscellaneous Assets and Intangible Assets	1,173.70	1,287.22
Other Assets	646.42	621.87
<b>Total Assets</b>	<b>25,635.72</b>	<b>23,650.55</b>
<b>Liabilities</b>		
Deposits	8,421.66	6,756.91
Financial Institutions and Local and International Agencies	982.48	963.59
Negotiable Obligations	3,483.45	3,728.73
Other Liabilities	10,975.85	10,568.31
Minority Interest	145.50	113.47
<b>Total Liabilities</b>	<b>24,008.94</b>	<b>22,131.01</b>
<b>Equity</b>	<b>1,626.78</b>	<b>1,519.54</b>
<b>Inflation and Exchange Rate</b>		
Inflation (1)	10.64%	7.92%
Exchange rate fluctuation	1.94%	1.39%
C.E.R.	11.75%	5.48%

1) Pursuant to the variation of the Argentine General Level Wholesale Price Index. Source: INDEC.

## Income Statement

*In millions of Pesos*

<b>December 31</b>	<b>2005</b>	<b>2004</b>
Income (Loss) from equity investments	215.53	(94.20)
Administrative Expenses	(16.81)	(17.53)
Other income and expenses	(133.83)	1.52
Financial income (Loss)	9.97	13.22
Income Tax	32.38	(12.88)
<b>Fiscal year Net Income (Loss)</b>	<b>107.24</b>	<b>(109.87)</b>

Note: Balances net of deletions, if any, correspond to transactions conducted with companies included within section 33 of Act 19,550.

The net income for the fiscal year ended December 31, 2005 amounted to Ps.107.24 million. Income has been mainly generated due to the recording of our interest in the controlled companies and, in particular, in Banco Galicia. What is more, during fiscal year 2005 the “Other Income and Expenses” caption included Ps.121.99 million that correspond to the waiver of rights to collect Negotiable Obligations issued by Banco Galicia Uruguay S.A. for US\$43 million, and an expense of Ps.12 million in recognition of the performance of Banco de Galicia’s Board of Directors during the period between July 2001 and December 2004.

Earnings per share was Ps.0.086, equivalent to Ps.0.860 for ADS, taking into account the average shares outstanding during the fiscal year.

The net income as of December 31, 2005, represented a return on average shareholders’ equity of 6.83% and a return on average assets of 0.59%, while for the fiscal year ended December 31, 2004, such returns were (7.32)% and (0.42)%, respectively.

## Income from Equity Investment

*In millions of Pesos*

<b>December 31</b>	<b>2005</b>	<b>2004</b>
Income (loss) from the Interest in Banco de Galicia y Buenos Aires S.A.	178.29	(101.64)
Income (loss) from the Interest in Sudamericana Holding S.A.	7.49	1.19
Income (loss) from the Interest in Net Investment S.A.	(1.01)	(2.84)
Income (loss) from the Interest in Galicia Warrants S.A.	(0.23)	(0.25)
Income (loss) from the Interest in Galval Agente de Bolsa S.A.	(0.28)	-
Other Income (loss)	(109.40)	6.55
Income Tax	32.38	(12.88)
<b>Income (Loss) for the fiscal year</b>	<b>107.24</b>	<b>(109.87)</b>

Due to the fact that Net Investment S.A. and Sudamericana Holding S.A. are companies whose main activity is equity investments, the income (loss) they recorded are mainly because of the interest held in the companies controlled by them.

The income recorded by Grupo Financiero Galicia for Sudamericana Holding S.A. includes Ps.9.85 million on account of its 87.50% direct interest on the gains corresponding to the twelve-month period ended September 30, 2005, and Ps.2.36 million due to the charge on account of the proportional amortization of goodwill arisen from the acquisition thereof. As regards Sudamericana Holding, the company recorded a consolidated income of Ps.11.25 million for the twelve-month period ended September 30, 2005. During that period, it is worth mentioning the gain recorded by Galicia Vida S.A., which amounted to Ps.9.30 million. Likewise, the consolidated income of Sudamericana Holding is mainly made up of the following: collection of premiums and accrual of claims for Ps.12.51 million, net financial income for Ps.17.32 million, administrative expenses amounting to Ps.11.64 million, net expenses from services of Ps.6.85 million, mainly generated by commissions paid.

Net Investment recorded a loss of Ps.1.83 million for fiscal year 2005. This loss was mainly due to the establishment of an allowance for impairment of value of equity investments for Ps.1.29 million, corresponding to its interest in Tradecom Brasil S.A. The income (loss) recorded by Grupo Financiero Galicia S.A. for Net Investment encompasses a loss of Ps.1.60 million for the 87.5% direct interest on the loss corresponding to the fiscal year ended December 31, 2005, and a Ps.0.59 million gain due to the reversal of the allowance for impairment of value of goodwill arisen from the acquisition thereof.

Income (loss) recorded by the Grupo Financiero Galicia's interest in Galicia Warrants S.A. encompasses a gain of Ps.0.47 million for the 87.50% direct interest on the gains corresponding to fiscal year ended December 31, 2005, and Ps.0.70 million due to the amortization of goodwill generated by the acquisition thereof.

In its first fiscal year, Galval Agente de Valores S.A. recorded a loss of Ps.0.28 million as of December 31, 2005, arising mainly from the administrative expenses inherent to the commencement of its operations of custodial services.

## Administrative Expenses

In millions of Pesos		
December 31	2005	2004
Salaries and Social Security Contributions	1.86	0.89
Personnel Services	0.59	0.11
Amount paid to Directors and Syndics	0.66	0.25
Service Fees	2.76	1.06
Property-Related Expenses	0.25	0.30
Taxes	4.58	9.43
Amortization of Intangible Assets	3.86	4.01
Other	2.25	1.48
<b>Total</b>	<b>16.81</b>	<b>17.53</b>

Note: Balances net of deletions, if any, correspond to transactions conducted with companies included within section 33 of Act 19,550.

The category "Service Fees" comprises fees paid on account of legal, accounting and technical advice. The category "Taxes" mainly includes the charge for the Tax on Personal Assets. The category "Other" includes other necessary expenses to maintain the organizational structure.

## Financial Income

In millions of Pesos		
December 31	2005	2004
Interests on time deposits	0.12	0.15
Interests on negotiable instruments	2.54	3.35
Income from valuation of negotiable obligations	1.77	1.59
Income from sale of negotiable obligations	5.17	1.80
Income (loss) from purchase and sale of government securities	0.10	(0.30)
Exchange-rate difference	0.28	6.55
Other Interests	(0.01)	0.08
<b>Total</b>	<b>9.97</b>	<b>13.22</b>

Note: Balances net of deletions, if any, correspond to transactions conducted with companies included within section 33 of Act 19,550.

The abovementioned chart shows how financial income for fiscal year is composed. It was mainly generated by the income from the sale of negotiable obligations for Ps.5.17 million, and the interests on and the adjustment to the valuation of such negotiable obligations, which in the aggregate amounted to Ps.4.31 million.

## Income Tax

As of December 31, 2005, the Income Tax recovery amounted to Ps.32.38 million. The aforementioned was recorded pursuant to the Deferred Tax method, established by Technical Resolution No. 17 of the Argentine Federation of Professional Councils of Economic Sciences, approved by Resolution No. 243/01 of the Professional Council of Economic Sciences of the City of Buenos Aires, being of mandatory application on fiscal years started as of July 1, 2002.

## DESCRIPTION OF ASSETS AND LIABILITIES

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ASSETS. The structure and main components of Grupo Financiero Galicia's assets as of December 31, 2005, in comparison to the previous fiscal year, were as follows:

### ASSETS

*In millions of Pesos*

<b>December 31</b>	<b>2005</b>	<b>2004</b>
Cash and due from banks	0.65	0.54
Investments	246.13	396.07
Interest in other companies	1,358.72	1,170.72
Other assets	32.97	11.90
<b>Total</b>	<b>1,638.47</b>	<b>1,579.23</b>

The category "Interest in other companies" constitutes the main asset of the Company. As of December 31, 2005, it amounted to Ps.1,358.72 million, from which Ps.1,316.60 million corresponded to the interest in Banco Galicia.

The main components of the category "Investments" as of December 31, 2005, were as follows: Subordinated negotiable obligations issued by Banco Galicia for Ps.237.20 million, time deposits for Ps.7.22 million and investments in mutual funds for Ps.1.63 million.

The subordinated negotiable obligations had a face value of US\$90.5 million, valued at the original asset value and the internal rate of return calculated at the time of the initial valuation, net of collections made.

The most significant figures of the category "Other assets" mainly correspond to the recording of a deferred tax net asset for Ps.27.34 million, premises and equipment for Ps.3.09 million, sundry receivables for Ps.1.75 million, intangible assets for Ps.0.68 million and tax credits for Ps.0.11 million.

**LIABILITIES.** The structure and main components of Grupo Financiero Galicia's liabilities as of December 31, 2005, in comparison to the previous fiscal year, were as follows:

**LIABILITIES.**

*In millions of Pesos*

<b>December 31</b>	<b>2005</b>	<b>2004</b>
Social security debts	0.69	0.16
Tax debts	9.65	58.41
Other liabilities	1.35	1.12
<b>Total</b>	<b>11.69</b>	<b>59.69</b>

As of December 31, 2005, the category "Tax debts" represented the main liability of the Company and was made up of the following: an income tax provision of Ps.5.94 million (remaining after the payment of advances) and a provision for the tax on personal assets for Ps.3.67 million.

The most significant figure in the category "Other Debts" corresponds to the provision for expenses, which amounted to Ps.1.31 million as of December 31, 2005.

## **REGULATORY CAPITAL**

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Grupo Financiero Galicia, as well as the companies it controls, is regulated by the Law Governing Commercial Companies. In section No. 186, the law establishes that the capital of a corporation (*sociedad anónima*) cannot be less than Ps.12,000 (twelve thousand pesos).

**Banks:** Banco Galicia must also comply with the regulations set forth by the Argentine Central Bank. In June 2003, the Argentine Central Bank introduced some modifications to the regulations on minimum capital requirements for the financial institutions: it set forth an 8.0% requirement on risk-weighted assets pursuant to the international standards provided by the Basle Committee, to be applied to public-sector exposure as well as to private-sector assets and new capital requirements were provided for to cover market and interest-rate risks, which shall include fluctuations of the Peso exchange-rate against the US dollar as well as the adjustments by the CER..

In July 2003, compliance of the minimum capital requirements was determined to be effective as from January 2004, and thus two coefficients known as "*Alfa 1*" (Alpha 1) and "*Alfa 2*" (Alpha 2) were included into the above requirements. *Alfa 1* temporarily reduces the minimum capital requirement to cover credit risk. During 2005, its value was 0.15 and will gradually increase, each year in January, to reach 1 in 2009. This coefficient is only to be applied to certain exposure to the public-sector (securities held in investment accounts, secured loans and Boden 2012). *Alfa 2* temporarily reduces the minimum capital requirement to cover risk on interest rates. During 2005, its value was 0.40 and will gradually increase to reach 1 in 2007.

As of December 31, 2005, the Bank's computable capital amounted to Ps.1,885.2 million, exceeding the minimum capital requirement in Ps.1,003.7 million pursuant to the regulations provided for by the Argentine Central Bank effective at that date.

**Insurance Companies:** The insurance companies controlled by Sudamericana Holding S.A. must meet the minimum capital requirements set by General Resolution No. 25,804 of Argentina's Superintendency of Insurance.

The abovementioned resolution requires insurance companies to maintain a minimum capital level based on: a) line of insurance (life insurance, pension-linked life insurance, life insurance that offers policies with an investment component, retirement insurance companies [annuity providers] that do not offer life annuities or annuities covering disability and other work-related risks, property insurance companies, etc.); b) premiums and additional fees and c) claims. The minimum required capital must then be compared to computable capital, defined as shareholder's equity less noncomputable assets. Noncomputable assets consist mainly of deferred charges, pending capital contributions, and excess investments in authorized instruments. As of September 30, 2005, the

computable capital of the companies held by Sudamericana Holding S.A. exceeded the minimum requirement of Ps.10 million by Ps.30.7 million.

Sudamericana Holding S.A. also holds Sudamericana Asesores de Seguros S.A., company dedicated to the brokerage in different lines of insurance that is regulated by the guidelines of the Law Governing Commercial Companies.

## **CAPITAL, LEGAL RESERVES AND PROPOSED DISTRIBUTION OF PROFITS**

*(Figures expressed in thousand of Pesos)*

The Shareholders' Meeting held on April 28, 2005 approved the absorption of the negative balance in the "Retained earnings" account, which, as of December 31, 2004, amounted to Ps.1,301,687, pursuant to the following breakdown:

• Additional paid-in capital	Ps.	235,652
• Legal Reserve	Ps.	29,493
• Capital Adjustment	Ps.	1,036,542

As of the close of the fiscal year ended December 31, 2005, balances corresponding to capital and capital adjustment totaled Ps.1,519,538.

The gain recorded in fiscal year 2005 amounted to Ps.107,238, which the Board of Directors proposes to distribute as follows:

• Reestablishment of Legal Reserve	Ps.	29,493
• Legal Reserve	Ps.	5,362
• Optional Reserve	Ps.	72,383

In case that the abovementioned project is approved by the Shareholders' Meeting, Grupo Financiero Galicia's shareholders' equity shall be composed as follows:

• Capital Stock	Ps.	1,241,407
• Capital Adjustment	Ps.	278,131
• Legal Reserve	Ps.	34,855
• Optional Reserve	Ps.	72,383
• Retained Earnings	Ps.	-
• Total Shareholder's Equity	Ps.	<u>1,626,776</u>

### **Antonio R. Garcés**

Chairman of the Board of Directors

City of Buenos Aires, March 10, 2006.

*This Annual Report contains statements regarding events which are currently anticipated to occur in the future, or forward-looking statements. These forward-looking statements or projections reflect Grupo Financiero Galicia S.A.'s opinions and expectations with respect to future events and their occurrence in general, as well as with respect to particular events. As a result of factors not considered, which are unforeseen at the time of making such forward-looking statements or which are out of the Grupo Financiero Galicia S.A.'s control, actual results or their consequences could differ significantly from those contemplated or estimated to occur in the future. Shareholders and other readers of this Annual Report are cautioned not to place undue reliance on such forward-looking statements or projections, which speak only as of their dates. Grupo Financiero Galicia S.A. assumes no obligation to publicly update or revise any forward-looking statements or projections, whether as a result of new information, future events or otherwise. Finally, shareholders and any other reader of this Annual Report must note that this translation has been made from the original version written and expressed in Spanish, therefore, any matters of interpretations should be referred to the original version in Spanish.*

## **BOARD OF DIRECTORS, SUPERVISORY SYNDICS' COMMITTEE AND SENIOR EXECUTIVES**

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### **Board of Directors**

**Antonio R. Garcés**

Chairman

**Federico Braun**

Vice-Chairman

**Abel Ayerza**

Director

**Eduardo J. Escasany**

Director

**Eduardo J. Zimmermann**

Director

**Silvestre Vila Moret**

Director

**Marcelo L. S. Tonini**

Director

**Luis O. Oddone**

Director

**Pedro A. Richards**

Director

**Pablo Gutiérrez**

Alternate Director

**María Ofelia Hordeñana de Escasany**

Alternate Director

**Luis Sila Monsegur**

Alternate Director

**Alejandro María Rojas Lagarde**

Alternate Director

**Sergio Grinenco**

Alternate Director

### **Supervisory Syndics' Committee**

**Adolfo H. Melián**

Syndic

**Norberto Corizzo**

Syndic

**Alejandro H. Massa**

Syndic

**Miguel N. Armando**

Alternate Syndic

**Luis A. Curuchaga**

Alternate Syndic

**Miguel C. Maxwell**

Alternate Syndic

### **Audit Committee**

**Marcelo L. S. Tonini**

Director

**Eduardo J. Zimmermann**

Director

**Luis O. Oddone**

Director

### **Executive Officers**

**Pedro A. Richards**

Managing Director

**José Luis Gentile**

Chief Accounting Officer

**Pablo E. Firvida**

Investor Relations Officer

**NOTICE OF ORDINARY AND EXTRAORDINARY MEETING OF  
SHAREHOLDERS OF**

**GRUPO FINANCIERO GALICIA S.A.**

Notice is hereby given to all shareholders of Grupo Financiero Galicia S.A. that an ordinary and extraordinary meeting of shareholders will be held on April 27, 2006 at 10.00 a.m., at Tte. General Juan D. Perón 525, 10<sup>th</sup> floor, Buenos Aires City (NOTE: not the corporation's registered office) to consider and act upon the following **AGENDA**:

- 1° Appointment of two shareholders to sign the meeting minutes.
- 2° Consideration of the business state of affairs of Banco de Galicia y Buenos Aires S.A., and of the position to be adopted by Grupo Financiero Galicia S.A. on some matters to be considered at the next shareholders meeting of this controlled company.
- 3° Consideration of the Balance Sheet, financial statements, Income Statement, and other documents foreseen in section 234, subsection 1, of the Argentine Commercial Companies Law, Annual Report and the Supervisory Syndic Committee Report, corresponding to the 7<sup>th</sup> fiscal year ended December 31, 2005.
- 4° Evaluation and approval of the Board of Directors and Supervisory Syndic Committee's performance.
- 5° Determination of the Supervisory Syndic Committee's compensation.
- 6° Consideration of the Board of Directors' compensation.
- 7° Granting of authorization to the Board of Directors to make advance payments of directors fees to directors who, during the fiscal year started January 1<sup>st</sup>, 2006, qualify as "independent directors", ad-referendum of the resolution adopted at the shareholder meeting when considering the documentation corresponding to such fiscal year.
- 8° Consideration of the corporation's financial results for the fiscal year ended December 31, 2005. Establishment of an optional reserve for an amount not exceeding Ps. 72,383,429.74.
- 9° Determination of the number of directors and alternate directors and, if appropriate, election of such directors for the term set forth in the corporation's bylaws, until the total number of directors determined at the shareholders meeting is met.
- 10° Election of three syndics and three alternate syndics for a period of one year.

- 11° Determination of the compensation corresponding to the independent auditors certifying the financial statements of the 2005 fiscal year.
- 12° Appointment of independent accountants –both permanent and substitute- to certify the financial statements of the fiscal year ending December 31, 2006.
- 13° Amendment of article 24, point d. 6°) of the corporation’s bylaws.

**NOTES:**

- 1. When considering the thirteenth point of the Agenda, the meeting shall be held as an extraordinary shareholders’ meeting. With regard all the other points of the agenda the shareholders meeting will be an ordinary meeting.
- 2. It is hereby informed that in order to be able to attend to the meeting, the shareholders must deposit their certificates evidencing their book-entry shares as issued by Caja de Valores S. A., by April 21, 2006 (from 10:00 a.m. to 4:00 p.m.), at Tte. General Juan D. Perón 456, 2<sup>nd</sup> floor, Buenos Aires City, so that the shares can be registered in the meeting attendance registry book.
- 3. Additionally, it is hereby informed with regard companies incorporated outside the Republic of Argentina which participate in shareholders meetings that the National Securities Commission (*Comisión Nacional de Valores*) requests about their fulfillment with Resolution No. 7/03 issued by the Public Registry of Commerce of the city of Buenos Aires (*Inspección General de Justicia* or IGJ).

**This constitutes an unofficial English translation of the original Spanish document. The Spanish document shall govern all respects, including interpretation matters.**

## ADDITIONAL INFORMATION FOR SHAREHOLDERS

### STOCK AND EPS EVOLUTION

Fiscal Year	2005				2004				2003
	4 <sup>th</sup> Q	3 <sup>rd</sup> Q	2 <sup>nd</sup> Q	1 <sup>st</sup> Q	4 <sup>th</sup> Q	3 <sup>rd</sup> Q	2 <sup>nd</sup> Q	1 <sup>st</sup> Q	4 <sup>th</sup> Q
<b>Market Price</b>									
Class B shares (in Pesos) (1) (2) BCBA									
High	2.490	2.530	2.600	2.810	2.570	1.960	2.390	2.610	2.020
Low	2.060	2.190	2.060	2.130	1.940	1.420	1.420	1.960	1.450
Close	2.110	2.450	2.240	2.260	2.520	1.960	1.620	2.360	2.020
Preferred Shares (in Pesos) (1) (3) BASE									
High	-	-	2.340	2.720	2.480	1.870	1.590	-	-
Low	-	-	2.030	2.100	1.880	1.330	1.290	-	-
Close	-	-	2.240	2.220	2.480	1.870	1.500	-	-
ADSS (in Dollars) (4) Nasdaq									
High	8.720	8.900	9.050	9.620	8.780	6.590	8.510	8.850	6.730
Low	6.870	7.700	6.990	7.280	6.520	4.650	4.830	6.810	5.000
Close	6.910	8.670	8.070	7.540	8.570	6.590	5.280	8.520	6.730
<b>Trading Volume</b> (in Thousands)									
BASE (5)	219,752	263,262	330,054	392,657	431,247	308,064	365,034	333,094	294,690
Preferred Shares BASE	-	-	2,350	14,319	24,071	42,927	11,403	-	-
NASDAQ (6) (7)	210,702	168,207	180,102	316,289	271,026	175,098	188,239	182,658	170,698
Total	430,454	431,469	512,506	723,265	726,344	526,089	564,676	515,752	465,388
<b>Average Shares Outstanding</b> (In Thousands)									
Primary	1,241,407	1,241,407	1,241,407	1,241,407	1,241,407	1,241,407	1,164,451	1,092,407	1,092,407
<b>Earnings per Share</b> (in Pesos)									
Primary	0.022	0.021	0.027	0.016	(0.029)	(0.027)	0.039	(0.079)	(0.087)
<b>Earnings per ADS</b> (in Pesos)									
Primary	0.220	0.210	0.270	0.160	(0.290)	(0.270)	0.390	(0.790)	(0.870)

(1), (5) Source: Buenos Aires Stock Exchange. Prices: Floor, 72 hs term

Volume data corresponds to floor trades and trades carried through the "Computer Assisted Integrated Trading System" (*Sistema Integrado de Negociación Asistida por Computadora*).

2) On April 28, 2004, Grupo Financiero Galicia's Class B shares began to be listed ex coupon. This coupon was associated with the Preferred Shares' subscription rights as part of the preemptive rights. Value of these Class B shares was reduced by the coupon value of Ps.0.101 per each Class B share.

(3) Preferred Shares started to be listed only on the BASE on May 13, 2004 and were automatically transformed into Class B shares upon one-year term from issuance.

(4), (6) Source: Nasdaq Stock Market

(7) Expressed in equivalent shares (1 ADS = 10 shares)

## Offices

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#### Listing

Grupo Financiero Galicia's Class "B" ordinary shares are listed on the Buenos Aires Stock Exchange, the Córdoba Stock Exchange and, under the form of ADRs (American Depositary Receipts), on the Nasdaq Capital Market of the United States of America, under the ticker symbol GGAL.

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