

Risk Factors

You should carefully consider the risks described below in addition to the other information contained in this annual report. We also may face risks and uncertainties that are not presently known to us or that we currently deem immaterial, which may impair our business. Substantially all of our operations, property and customers are located in Argentina. Accordingly, our financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing in Argentina. In general, you take more risk when you invest in the securities of issuers from emerging markets such as Argentina than when you invest in the securities of issuers from the United States and certain other markets.

Risk Factors Relating to Argentina

The current economic growth and favorable fundamentals may not be sustainable, which could adversely affect the economy, the financial system and us

Since the second half of 2002, Argentina has experienced several years of high growth of its gross domestic product ("GDP"), based on increasing domestic and external aggregate demand. This high economic growth together with significant increases in international commodity prices, however, have generated pressures on the domestic price system, resulting in increased inflation and excess demand in certain markets including, among others, the energy market and the labor market. This situation has intensified the need for an increase in aggregate investment, in order to expand aggregate domestic supply and support growth, given that capacity utilization is reaching a ceiling. It also points to the need for macroeconomic policy rebalancing, in order to moderate aggregate demand and help keep inflation under control. If the current administration is not capable of implementing the appropriate policies, the economic growth Argentina has experienced since late 2002 may not translate into a sustainable growth process in the long run. Inflation could continue to increase while growth could slow down, with the risk of a "stagflation" scenario and its negative consequences on, among others, employment and real salaries. This would likely have a negative impact on the Argentine economy and on the financial system, including us, our business, financial condition, results of operations and prospects.

Inflation may rise and undermine the economy and our business

During 2005, consumer inflation as measured by the increase in the CPI as published by INDEC was 12.3%, practically doubling that of the prior year, as was also the case in 2004 as compared to 2003. As measured by the variation in the CPI published by INDEC, consumer inflation was 8.5% in 2007 and 9.8% in 2006. However, wholesale inflation in 2007, as measured by the IPIM published by INDEC, doubled that of 2006, reaching 14.6% from 7.1% in the previous year. Other price indices such as those reflecting construction prices and producers' prices demonstrated similar upward trends in 2007. These rates denote that inflation has been increasing in the last two years despite the decrease in consumer inflation as measured by INDEC, which has generated a significant debate over the correct measurement and the possible understatement of the CPI by INDEC. Inflation may continue to increase or significantly accelerate going forward.

Inflation has risen and may continue to increase in Argentina due to a combination of factors including that: (i) the country's economy is growing at very high rates, implying strong aggregate demand increases, (ii) growth has been accompanied by a set of relative prices that still requires certain adjustments, given that certain sectors lag significantly behind others with respect to the passing through into prices of the impact of the approximately 71% nominal depreciation of the Peso that occurred in 2002, (iii) the strong economic growth of the last five years has led to an increasing utilization of the country's available capacity and to the progressive elimination of the "output gap" existing immediately following the 2001-2002 crisis, and (iv) even though aggregate investment has been growing, its effects on aggregate supply generally are not immediate.

In the past, inflation has materially undermined the Argentine economy and the Government's ability to create conditions that promote economic growth. Also, in the past, high and accelerating inflation has negatively and materially affected the size of the financial business in Argentina and its volume of deposits and loans, weakening the development of financial intermediation activities. High and accelerating inflation rates would again negatively affect aggregate demand and the overall economy's level of activity and employment, by affecting Argentina's foreign competitiveness, weakening the Government's financial condition as well as real wages and weakening aggregate investment and consumption, among others. In addition, inflation would again trigger a flight from the Peso and a decrease in the public's demand for money, including deposits, and would weaken credit supply, impairing financial intermediation activities. High volatility in economic variables in real terms, high uncertainty and a significant shortening of contract horizons would be other byproducts of high inflation, which would erode economic agents' planning and decision making capacity and the overall economy's functioning. All of these factors would adversely affect us, our business, financial condition, results of operations and prospects.

An ongoing dispute over agricultural export taxes could reduce the Argentine economy's growth rate, which would adversely affect our business

A dispute between the Government and Argentina's principal farmers' organizations over recent agricultural export tax increases adopted by the Government has generated uncertainty and lower demand and activity across all of the agribusiness value chain, which has especially affected economic activity in the Interior of the country. This dispute, which has not been resolved yet and the resolution of which is still uncertain, is adversely affecting the overall level of economic activity and is postponing economic agents spending and investment decisions until the dispute is resolved and its final consequences are clarified. It is also reducing Argentina's commodity exports, which could compromise the Government's fiscal outlook and has prompted a scenario of financial tightening triggered by capital flight and some reduction in real terms of private-sector deposits and loans in the Argentine financial system as a whole. The outcome of this dispute and its impact on the Argentine economy as a whole in 2008 are not clear yet, but it could result in a slowdown in GDP growth, especially if coupled with rising inflation. This scenario would adversely affect us, our business, financial condition, results of operations and prospects.

In addition, we have a significant credit exposure to the agribusiness and livestock sectors that amounted to approximately Ps. 1,450 million as of March 31, 2008. The scenario described above could lead to a deterioration of our agribusiness customers' ability to repay the loans that we have granted to them and it could also adversely affect the repayment capacity of our individual customers that reside in agricultural areas or in the Interior of the country in communities that derive their income from providing products and services to agricultural or livestock producers. Any of these scenarios would adversely affect us, our business, financial condition, results of operations and prospects.

A significant devaluation of the Peso may adversely affect the Argentine economy and us

Despite the positive effects on the competitiveness of certain sectors of the Argentine economy of the depreciation of the Peso that occurred in 2002, such depreciation has also resulted in far-reaching negative impacts on the Argentine economy and on businesses and individuals' financial condition. As an example, the Peso devaluation had a negative impact on the ability of the Government and Argentine companies and financial institutions to repay their foreign currency-denominated debt, led to very high inflation and significantly reduced real wages. A further significant devaluation of the Peso, would likely have similar negative effects on the Government, the financial system, companies and individuals, and would adversely impact us, our business, financial condition, results of operations and prospects.

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

Financial and securities markets in Argentina are influenced, to varying degrees, by economic and market conditions in other emerging market countries. Although economic conditions vary from country to country, investor reactions to events occurring in one country may substantially affect capital flows into other similar countries, including Argentina and the availability of funds for issuers in such countries. Lower capital inflows and declining securities prices negatively affect the real economy of a country through higher interest rates or currency volatility. In the past, Argentina's economy has been adversely affected by developments in other emerging market countries, such as events that occurred in Mexico in 1994 and the financial crises of several Asian economies between 1997 and 1998, which triggered the above mentioned effects in Argentina. Similar developments are likely to affect the Argentine economy in the future.

In addition, Argentina may also be affected by the economic conditions of major trade partners, such as Brazil, or countries such as the United States, that are significant trade partners and/or have influence over world economic cycles. If interest rates rose significantly in developed economies, including the United States, Argentina and other emerging market economies could find it more difficult and expensive to borrow capital and refinance existing debt, which would negatively affect their economic growth. In addition, if these countries, which are also Argentina's trade partners, fell into a recession as a result of higher interest rates or other reasons, the negative effect on the Argentine economy would stem from a decrease in Argentine exports, which would reduce the country's economic growth. All of these factors would have a negative impact on us, our business, operations, financial condition and prospects.

Currently, the world's economy is experiencing the effects of the crisis that unfolded in mid 2007 as a result of the disruption of the United States' subprime mortgage market, which has triggered liquidity issues for United States' and European financial institutions, a tightening credit context and a slowdown of industrial economies, high volatility and uncertainty in the international financial and capital markets, and the reversal of portfolio capital flows into certain emerging markets, including Argentina. As a result, certain emerging markets' sovereign risk premiums have increased significantly since mid 2007, including Argentina. The final impact of this crisis on the liquidity of international markets and interest rates, the growth of the world's economy and trade, international commodity prices, and capital flows into emerging markets, among others, and the manner in which these outcomes affect the Argentine economy are difficult to predict. However, this crisis could trigger a less favorable or an unfavorable international environment for Argentina, forcing domestic policy adjustments, which could trigger lower growth and adversely affect us, our business, financial condition, results of operations and prospects.

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

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

Argentina's ability to obtain financing from international markets and direct-foreign investment is limited, which may have negative effects on the Argentine economy and on us

Argentina's default on most of its foreign debt in late 2001, its delay in restructuring its defaulted foreign debt, which was only completed in the first half of 2005, the existence of holdout creditors who did not accept the Government's restructuring offer (holders of approximately US\$ 20 billion of debt, mainly from the United States, Italy and Germany), litigation initiated against Argentina by such holdout creditors and by foreign shareholders of certain Argentine companies for significant amounts before the International Centre for Settlement of Investment Disputes ("ICSID"), as well as Argentina's delay in engaging in conversations in order to reach an agreement on the terms and conditions for the repayment of its approximately US\$ 6 billion unpaid debt with the Paris Club (an informal group of countries, among which are the main European countries, that lend to certain other countries and of which financial officials meet in Paris), could prevent the Argentine Government and the country's private sector from obtaining fluid access to financing from the international capital markets and direct-foreign investment. The claims initiated before ICSID and lawsuits initiated by holdout creditors may result in material judgments against Argentina, as well as in attachments of or injunctions against assets of Argentina. As a result of all of the above, the Government could lack the financial resources necessary to promote growth and a better income distribution, and direct foreign investment and domestic investment from the private sector required for the same purposes could be lower than that required, due to the lack of financing.

If Argentina does not fully recover its ability to access financing from international markets and attract direct foreign investment, there is a risk that it may lack sufficient capital in order to sustain an investment rate capable to support sustained high economic growth with low inflation. The country's fiscal balance could be affected, which could lead to higher inflation and could negatively affect the Government's ability to implement economic policies that would foster economic growth and a better income distribution. If a sustained growth cycle is not achieved, economic instability could resume. All of these events would have an adverse effect on the Argentine economy and financial system, as well as on us, our business, financial condition, results of operations and prospects.

The foreign exchange market is subject to controls that restrict our access to foreign currency and our access to foreign funds and more restrictive measures could be implemented in the future that would adversely affect our business operations

At the end of 2001 and in 2002, the Government and the Argentine Central Bank established controls over the foreign exchange market and over capital transfers abroad, substantially limiting the ability of companies operating in Argentina to retain foreign currency or make debt payments abroad. The existence of such controls and the then and currently prevailing significant surplus in the country's trade balance contributed to an appreciation of the Peso and to the increased availability of foreign currency, which in turn resulted in the easing of many of these restrictions. However, restrictions still exist that limit access to the foreign exchange market by residents and non-residents, including us, to certain monthly amounts and their and our ability to make transfers of foreign currency and payments abroad. In addition, the Government issued a decree in June 2005 that established new controls and restrictions in connection with capital inflows, including the requirement that 30% of funds remitted to Argentina remain deposited in a domestic financial institution for one year without earning any interest. This measure increases the cost of obtaining foreign funds and limits access to these funds. For more information, see Item 4. "Information on the Company-Government Regulation-Foreign Exchange Market."

In an economic environment where access to local capital is substantially constrained, these controls could have a negative effect on the Argentine economy and on our business, by limiting the ability of economic agents operating in Argentina to obtain foreign financing. Moreover, the Argentine authorities could again establish more severe restrictions on the foreign exchange market and on capital movements from and into Argentina, among others, in the future, in response to significant capital outflows or to a significant depreciation of the Peso. These restrictions may hamper foreign investors' ability to receive payments in connection with debt or equity securities of Argentine issuers, such as us, or more severely restrict our access to the foreign capital markets, both of which could adversely impact us, our business, financial condition, results of operations and prospects.

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

The Government has historically exercised significant influence over the country's economy and financial institutions in particular have operated in a highly regulated environment for extended periods of time. In addition, Argentina's regulatory environment has been volatile. The lack of a stable regulatory environment has imposed limitations on the operation of the economy as a whole, including the financial system. During the 2001-2002 crisis, Argentina experienced a deep economic and financial crisis, social unrest and political turmoil. As a result, the Government took a series of far reaching measures that produced radical structural changes in the Argentine economy and legal framework. Laws and regulations currently governing the economy or the financial sector may change in the future. Future Government policies may include nationalization, forced renegotiation or modification of existing contracts and debt obligations, suspension of the enforcement of creditors' rights, new taxation policies, including royalty and tax increases and retroactive tax claims, and changes in laws and policies affecting international trade and investment. Future changes in the regulatory environment and Government policies may adversely affect the economy and financial institutions in Argentina, including us, as well as our business, financial condition, results of operations and prospects.

Risk Factors Relating to the Argentine Financial System

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

Immediately after the 2001 and 2002 crisis, the financial system temporarily practically ceased acting as an intermediary between savings and credit. Even though the financial system's private sector deposits and loans have increased substantially from the low levels of 2002, financial depth in Argentina (measured by the ratio of the total financial system's private-sector deposits and loans to GDP), remains low when compared to the levels displayed by comparable countries, such as other Latin American countries, and with past levels recorded in Argentina itself, especially in the case of loans to the private sector. Such loans represented approximately 13% of the Argentine GDP at the end of 2007, as compared to approximately 23% at the end of 1999. The time period necessary for the Argentine financial system's credit activity to return to pre-crisis relative levels remains uncertain.

In addition, even though deposits in the financial system are increasing at high rates, most new deposits are either sight or short-term time deposits. The sources of medium and long-term funding for financial institutions are currently limited, and have consisted, to a large extent, in the securitization of loan portfolios, which implies a growing commercial banking disintermediation. Due to these reasons, and to the characteristics of credit demand, the loan expansion recorded since 2004 was largely based on short-term loans to individuals and companies.

For the financial system to be able to reach an adequate financial depth level and, at the same time, develop a medium and long-term credit business without having to assume excessive risks in terms of maturity gaps several developments should materialize, including, principally: (i) growth in deposits and loans would need to continue over time, (ii) the terms of assets and liabilities in the Argentine financial system would need to be extended, (iii) the public's confidence in the Argentine financial system would need to increase to levels enabling the country's savings to be channeled to the financial system to a greater extent than at present, and (iv) a process of sustained growth with macroeconomic and legal stability would be needed. These trends may not materialize and, even if they do, financial intermediation activities may not develop to the extent needed nor attain the necessary volume so as to allow the recurrent income generation capacity of Argentine financial institutions, including us, to improve substantially or the expansion of the credit business beyond short-term lending.

The current low credit risk environment could deteriorate, which would have a negative impact on financial institutions' profitability as well as on ours

After the 2001-2002 crisis, the asset quality ratios of Argentine financial institutions in general improved and in the last years the Argentine financial system enjoyed a period of very low credit risk in historical terms. The continuity of such scenario depends on the continuity of the Argentine economy's growth. Should growth significantly slow down or if economic activity experiences a downturn, borrowers' performance could deteriorate, as would several of the factors behind the positive credit environment, such as improving employment levels and real wages and low interest rates, among others. Also, even if the Argentine economy continues to grow, if inflation continues to rise it could also affect real wages and employment levels and trigger nominal interest rates increases, all of which would weaken credit demand and borrowers' repayment capacity. In addition, individuals' indebtedness has increased significantly in the past years, which could trigger a deterioration in their repayment ability, especially if coupled with a tightening financial scenario. Also, legacy loans from the 2001-2002 crisis have reached a very low level and, therefore, no material further positive effect on credit quality ratios would be derived from further improvement thereof.

Improvement in the credit risk environment after the 2001-2002 crisis and the low credit risk environment of the recent years have had a positive impact on financial institutions' profitability as they have translated into low loan loss provisions as well as above average income from loan recoveries and reversal of loan loss provisions in connection with legacy loans. As a result, credit losses, both consumer and wholesale, have been among the lowest in Argentina's recent history. In a tougher credit environment, coupled with the fact that above average income from the recovery of legacy loans and the reversal of loan loss reserves on such loans is reaching an end, credit losses could rise, which may require increases in loan loss reserves, which would most likely have a negative impact on financial institutions' profitability as well as on ours.

Judgments against financial institutions in connection with the pesification and restructuring of deposits in 2002 may result in a deterioration of financial institutions' deposit base and liquidity, including ours

As a consequence of the application by financial institutions of emergency measures implemented by the executive branch of the Government during and in respect of the 2001-2002 crisis, which mandated the pesification of deposits originally denominated in Dollars and the restructuring of such deposits, in 2002 individuals and entities initiated a significant number of legal actions (known as "amparo claims") against financial institutions, including the Bank, on the basis that these measures violated their constitutional and other rights. Most appellate and lower courts have declared the above-mentioned emergency measures unconstitutional and, as a result, financial institutions have been required to reimburse the relevant Dollar-denominated deposits, or their equivalent in Pesos, at the then current free market exchange rate.

These rulings resulted in a significant withdrawal of deposits from the financial system and the Bank in 2002 and in significant losses for financial institutions to date, including us, as these institutions have had to reimburse the restructured deposits (mostly Dollar-denominated deposits before pesification, referred to herein as the "Reprogrammed Deposits") at market exchange rates rather than at the rate at which the deposits were pesified and booked in accordance with the applicable regulations. Pursuant to Argentine Central Bank rules, the losses from the above-mentioned court rulings were deferred and began to be amortized over a five-year period. The negative impact of these losses on financial institutions' capital has been significant. The Government has not provided compensation for these losses and has expressed that it does not intend to do so.

The Argentine Supreme Court of Justice, or the "Argentine Supreme Court", has issued several rulings in connection with the pesification of deposits, which referred to particular cases, with different implications. Also, under Argentine law, Argentine Supreme Court rulings are not precedent setting for lower courts and, therefore, whether these rulings will be followed in similar cases to be heard by lower courts is uncertain. As a consequence of the foregoing, the final resolution of such cases is uncertain. However, if an increasing number of new adverse judgments against financial institutions such as us would materialize, financial institutions, including us, could incur further significant losses and their and our financial condition could be adversely impacted.

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

In order to protect debtors, who were affected by the 2001-2002 crisis, the Government passed various laws and regulations temporarily suspending the ability of creditors to foreclose on collateral and to exercise their rights pursuant to guarantees and similar instruments. Such regulations have restricted Argentine creditors, such as us, from initiating collection actions or lawsuits to recover on defaulted loans. Even though these rules have ceased to be applicable, under an adverse economic environment or other circumstances, the Government may pass new rules and regulations affecting the ability of creditors to enforce their rights pursuant to debt agreements, guarantees and similar instruments, which new rules and regulations may have an adverse effect on the financial system and our business.

Certain administrative proceedings being initiated by Argentine provincial tax authorities against financial institutions could generate losses for such institutions, including us

Certain provincial authorities have initiated administrative proceedings against financial institutions in order to collect certain local taxes levied on financial institutions' gross income obtained in 2002 and thereafter. The amounts that provincial tax authorities seek to collect in these administrative proceedings in relation to the gross income generated in 2002 by financial institutions are significant, as such authorities are including in the taxable income those gains obtained by financial institutions in connection with the compensatory bonds that the Government made available to them in order to compensate them for the losses that they would otherwise have incurred as a consequence of the policies implemented by the Government to deal with the 2001-2002 crisis, particularly the asymmetric pesification. Although if the final outcome of these administrative proceedings is still highly uncertain, as is the number of provincial authorities that will initiate such proceedings and when, these proceedings could generate losses for financial institutions, including us, during fiscal year 2008.

Risk Factors Relating to us

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

We are a holding company and, as such, we conduct all of our operations through our subsidiaries. As such, dividends or other intercompany transfers of funds from subsidiaries are expected to be our primary source of funds to pay for expenses and dividends. Banco Galicia is our most significant subsidiary. As of December 31, 2007, Banco Galicia's consolidated assets represented 98.7% of our consolidated assets. While we do not anticipate that we will conduct operations at the level of the holding company, any expenses we incur at such level, in excess of certain minimum amounts, will reduce amounts available to be distributed to our shareholders. The ability of our subsidiaries to pay dividends and make other payments to our holding company will depend on their results of operations and financial condition and may be restricted by, among other things, applicable corporate and other laws and regulations and contractual limitations. In addition, our ability to pay dividends will be subject to legal and other requirements.

We have not received dividends from Banco Galicia since October 2001. In addition, Banco Galicia is restricted from paying dividends as, among other things, under Argentine Central Bank regulations it must reduce its retained earnings available to be distributed as cash dividends, among others, by the difference between the market value and the carrying value of all of its public-sector assets, after netting the legal reserve and other reserves established by Banco Galicia's bylaws. Also, the loan agreements entered into by Banco Galicia, as part of the restructuring of its debt denominated in foreign currency and subject to foreign law (the Bank's "foreign debt"), limit its ability to pay dividends. See Item 8. "Financial Information–Dividend Policy and Dividends–Dividend Policy."

Our ability to repay indebtedness at the holding company level may be impaired due to the lack of liquidity at such level

We conduct our business through our subsidiaries and, therefore, at the holding company level we do not have significant operations or material assets of our own other than the capital stock of our subsidiaries, a mandatory deposit of 30% of the principal amount of our outstanding bank loan, which matures at the same time as the due date for the first payment on such bank loan, and subordinated debt issued by the Bank in a principal amount of US\$ 10.2 million. Excluding such assets, our ability to repay our indebtedness, at the level of the holding company, is dependent on the cash flows generated by our subsidiaries and their ability to make cash distributions. In the absence of such dividend payments, we may need to seek other funding sources in respect of such indebtedness, which may not be available to us or at reasonable prices.

Our subsidiaries do not have any obligation to pay amounts to us so that our indebtedness at the holding company level can be repaid or to make funds available for that purpose. Each of our subsidiaries is a distinct legal entity and, under certain circumstances, legal and contractual restrictions, as well as our subsidiaries' financial condition and operating requirements may limit our ability to obtain cash from our subsidiaries. Furthermore, the Bank's ability to pay dividends or make other intercompany payments is limited by Argentine Central Bank's rules and certain financial covenants. See "–A breach of any of the covenants under the Bank's debt agreements entered into by the Bank and us as part of the restructuring of the Bank's foreign debt in 2004 could result in the occurrence of an event of default under these agreements" and Item 8. "Financial Information–Dividend Policy and Dividends." In the absence of dividend payments, we may not have sufficient liquidity to repay our outstanding indebtedness.

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

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

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

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

In addition, we maintain our financial books and records in Pesos and prepare our financial statements in conformity with Argentine Banking GAAP, which differs in certain respects from Argentine GAAP and U.S. GAAP. See Item 5A. Operating Results—U.S. GAAP and Argentine Banking GAAP Reconciliation” and note 34 to our consolidated audited financial statements included in this annual report for a description of the principal differences between Argentine Banking GAAP and U.S. GAAP.

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

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

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

United States’ holders of our class B shares may not be able to exercise preemptive and accretion rights

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

The concentration of our assets in Argentine public-sector debt instruments is high, which makes our future financial condition strongly dependent on the Government’s credit quality and ability and willingness to comply with its repayment obligations

As of December 31, 2007, our exposure to the Argentine public sector (as shown under Item 5A. “Operating Results—Exposure to the Argentine Public Sector”), amounted to approximately Ps. 6,120.8 million, representing 26.8% of our total assets. Therefore, the value of our assets, our income and cash flow generation capacity and our future financial condition is strongly dependent on the Government’s ability to comply with its payment obligations in respect of these public-sector assets. In turn, the ability of the Government to comply with its payment obligations with respect to such public-sector assets is dependent on, among other things, its ability to establish an economic policy that is successful in promoting sustainable economic growth in the long run, generating tax revenues and controlling public expenses, all or some of which may not occur.

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

We carry our public-sector assets under Argentine Banking GAAP, in accordance with Argentine Central Bank valuation rules, as explained under Item 4. “Information on the Company—Selected Financial Information—Government and Corporate Securities—Valuation,” and Item 5A. “Operating Results—Critical Accounting Policies—Government Securities and Other Accounts Receivable with the Government.” The book values of our positions in *Préstamos Garantizados Nacionales* (loans issued by the Government or “Secured Loans” to restructure bank loans during and after the 2001-2002 crisis), *Boden 2012 Bonds* (bonds issued by the Government as compensation for the asymmetric pesification), and *Discount Bonds in Pesos and GDP-Linked Negotiable Securities* (issued by the Government as part of the restructuring of its foreign debt in 2005) are greater than their respective quoted market values.

The difference between the aggregate book value of the above-mentioned assets and their respective aggregate market value as of December 31, 2007, amounted to Ps. 670.0 million, as explained under Item 4. "Information on the Company—Selected Financial Information—Government and Corporate Securities." As market conditions change, adjustments to the market value of the above-mentioned assets are not reflected in our financial condition. Future sales or settlements of these assets will reflect the market conditions at the time and may result in losses, representing the difference between the settlement amount and the then carrying value, thereby adversely affecting our financial results.

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

The policies implemented by the Government to address the 2001-2002 crisis created mismatches between our assets and liabilities in terms of currency, yield and maturities. Currently, we carry a net position in CER-adjusted assets (the CER is a coefficient based on the variation of consumer prices), which bear fixed interest rates over CER-adjusted principal. This position is funded by Peso-denominated liabilities (with no principal adjustment linked to inflation), bearing market interest rates and repricing, mainly, in the short term. See Item 5A. "Operating Results—Currency Composition of Our Balance Sheet." This mismatch exposes us to the fluctuations in real interest rates, with an adverse impact on income resulting from a significant increase in real interest rates paid on our Peso-denominated liabilities, which occurs when nominal interest rates increase more than the consumer inflation rate published by INDEC.

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

The loan agreements and indenture entered into by the Bank as part of its foreign debt restructuring in May 2004, include certain covenants that, among other things, restrict the Bank's ability to pay dividends on stock or purchase its stock or the stock of its subsidiaries or use the proceeds of the sale of certain assets or from the issuance of debt or equity securities. Some of these agreements also require that the Bank maintain specified financial ratios. We agreed to maintain certain corporate governance standards and to provide the Bank's creditors with certain financial information and reports on a quarterly and annual basis. A breach of any of these covenants or the Bank's inability to maintain the required ratios could result in an event of default under these agreements. In the event of a default, the relevant lenders could elect, among other options, to declare the Bank's indebtedness, together with accrued interest and other fees, to be immediately due and payable. For more information see Item 10. "Additional Information—Material Contracts."

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

Our income generation capacity was negatively affected by the 2001-2002 crisis, especially our capacity to generate financial income. It is difficult to predict whether we will be able to increase our level of activity and loan origination to the private sector so as to generate sufficient increased financial revenue and income from services in order for our operating results to more than offset losses from the amortization of *amparo* claims, the negative margin on our matched position in foreign currency resulting from the low yield of our Boden 2012 Bonds and the losses from the valuation of public-sector assets in accordance with Argentine Central Bank rules, which establish a progressive convergence to market values. Demand for fee-related products and services as well as for credit is increasing in Argentina, together with the growth of the economy. However, demand for financial products and credit may not continue to increase or may not increase to the extent or at the necessary pace. In addition, we may not be able to sufficiently increase our business volume or margins between lending and borrowing could decrease or be insufficient for our operating income to exceed the above-mentioned losses. Also, lower economic growth would have a negative impact on credit quality and credit losses. Therefore, we may not be able to increase our operating results in the required amount or at the required pace in order to offset these losses.

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

As a result of and following the 2001-2002 crisis, there has been significant consolidation in the Argentine financial/banking market. Consolidation is likely to continue in the near future creating stronger and larger competitors capable of providing better products at more competitive prices. In addition, the financial system's recent growth and growth prospects have generated increased competition from all banks operating in Argentina. If competition and consolidation intensify our results of operations and our income generation capacity could be adversely affected through lower margins and prices and/or by a reduction of our volume of operations and market share.

Item 4. Information on the Company

Overview

Grupo Financiero Galicia is a financial services holding company incorporated on September 14, 1999, as a "sociedad anónima" ("a stock corporation") under the laws of Argentina. As a holding company we do not have operations of our own and conduct our business through our subsidiaries. Banco Galicia is our main subsidiary and one of Argentina's largest full-service banks. Through the operating subsidiaries of Tarjetas Regionales S.A., a holding company wholly owned by the Bank, we provide proprietary brand credit cards and consumer finance services throughout Argentina. Through Sudamericana Holding S.A. and its subsidiaries or "Sudamericana" we provide insurance products in Argentina. We directly or indirectly own other companies providing financial related products as explained herein. We are one of Argentina's largest financial services groups with consolidated assets for Ps. 22,828.7 million as of December 31, 2007.

Our objective is to consolidate our position as one of Argentina's leading comprehensive financial services providers while continuing to strengthen Banco Galicia's position as one of Argentina's leading banks. We seek to broaden and complement the operations and businesses of Banco Galicia, through holdings in companies and undertakings whose objectives are related to and/or can produce synergies with financial activities. Our non-banking subsidiaries operate in financial and related activities that Banco Galicia cannot undertake or in which it is limited to invest in due to restrictive banking regulations.

Our domicile is in Buenos Aires, Argentina. Under our bylaws, our corporate duration is until June 30, 2100. Our duration can be extended by resolution taken at a general extraordinary shareholders' meeting. Our principal executive offices are located at Teniente General Juan D. Perón 456, Second Floor, (1038) Buenos Aires, Argentina. Our telephone number is (54-11) 4343-7528.

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

Organizational Structure

The following table illustrates our organizational structure as of December 31, 2007. Percentages indicate the ownership interests held. All of the companies shown in the chart are incorporated in Argentina, except for:

- Galicia Uruguay, incorporated in Uruguay and currently not an operating financial institution;
- Galval Agente de Valores S.A. or "Galval", incorporated in Uruguay;
- Galicia Pension Fund Ltd. and Galicia (Cayman) Ltd. or "Galicia Cayman", incorporated in the Cayman Islands;
- Net Investment BV (in liquidation), incorporated in the Netherlands; and
- Tarjeta Naranja Dominicana S.A., incorporated in the Dominican Republic.